PROSPECTUS DATED

September 9, 2014

Telefónica

Deutschland

This prospectus (the "**Prospectus**") relates to (i) the public offering of 1,116,945,400 new ordinary non-par value registered shares in Telefónica Deutschland Holding AG (the "**Company**"), a stock corporation (*Aktiengesellschaft*) organized under the laws of the Federal Republic of Germany, from the capital increase against contribution in cash resolved by the ordinary general shareholders' meeting on May 20, 2014 with subscription rights for existing shareholders (the "**Offer Shares**"), each Offer Share entitled to full dividend rights for the year starting January 1, 2014, as well as (ii) the admission to trading of 1,857,609,593 new ordinary non-par value registered shares of the Company (the "**New Shares**"), including (a) the Offer Shares and (b) 740,664,193 new ordinary non-par value registered shares from the capital increase against contribution in kind entitled to full dividend rights for the year starting January 1, 2014 to be resolved by the management board of the Company on or about September 23, 2014, to be approved by the supervisory board on the same day, utilizing a portion of the authorized capital resolved by the extraordinary general shareholders' meeting on September 18, 2012 ("**Authorized Capital 2012/I**") and the authorized capital resolved by the extraordinary general shareholders' meeting on February 11, 2014 ("**Authorized Capital 2014/I**") (the "**Consideration Shares**"), on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange and on the sub-segment of the regulated market with additional post-admission obligations (Prime Standard).

The Subscription Rights (as defined below) and the Offer Shares will be offered via a public rights offering in the Federal Republic of Germany ("**Germany**") and the Grand Duchy of Luxembourg ("**Luxembourg**") and via a private placement in the United States of America (the "**United States**") to qualified institutional buyers ("**QIBs**") in reliance on the exemption from the registration requirements provided by Rule 144A ("**Rule 144A**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and outside the United States in offshore transactions in reliance on Regulation S under the Securities Act (the "**Rights Offering**").

The Offer Shares remaining after completion of the Rights Offering for which Subscription Rights (as defined below) have not been exercised (the "**Rump Shares**") will either: (i) be offered by the underwriters to institutional investors in certain jurisdictions at a price which shall be not less than the Subscription Price (as defined below) in the Rights Offering (the "**International Offering**" and together with the Rights Offering, the "**Offering**"); or (ii) be dribbled-out via sales through stock exchange transactions or otherwise by the underwriters (the "**Dribble-Out**"). The International Offering will take place outside the United States pursuant to Regulation S under the Securities Act and inside the United States only to QIBs in reliance on the exemption from the registration requirements provided by Rule 144A under the Securities Act. The Dribble-Out will take place solely outside the United States pursuant to Regulation S under the Securities Act.

Telefónica, S.A. has irrevocably committed to fully subscribe through its wholly-owned subsidiary Telefónica Germany Holdings Limited for issued Offer Shares attributable to its indirect shareholding in the Company. Any Offer Shares not purchased after the completion of the Offering will be purchased by the underwriters at the Subscription Price in accordance with an underwriting agreement.

The record date for the Rights Offering is September 9, 2014, in the evening (the "**Record Date**"). The subscription rights under the existing shares of the Company (the "**Existing Shares**"), which are held in collective custody, will be automatically booked to the accounts of the custodian banks on September 10, 2014 based on the number of shares held or purchased in the evening of the Record Date by Clearstream Banking AG. Shareholders will receive one (1) subscription right ("**Subscription Right**") for each Existing Share held at the Record Date. One (1) Subscription Right will entitle the holder to subscribe for one new Offer Share at the Subscription Price. The subscription price is €3.24 per Offer Share (the "**Subscription Price**").

Both holders of Subscription Rights and investors who do not hold Subscription Rights may submit orders to subscribe for any Offer Shares that have not been subscribed for pursuant to the exercise of the Subscription Rights. The Subscription Rights are freely transferable and are expected to be traded on the Frankfurt Stock Exchange from September 10, 2014 to September 19, 2014. The subscription period for the Offer Shares will commence on September 10, 2014 and expire on September 23, 2014 (the "**Subscription Period**"). For instructions for the exercise of Subscription Rights and the subscription of Offer Shares, see "*The Offering – The Subscription Offer*".

Any unexercised Subscription Rights will expire without value upon expiration of the Subscription Period on September 23, 2014. See "*The Offering – The Subscription Offer*".

An investment in the Subscription Rights or the New Shares involves risks. Shareholders and prospective investors should read this entire Prospectus and, in particular, "*Risk Factors*" beginning on page 62, when considering an investment in the Company.

The Subscription Rights and the Offer Shares have not been, and will not be, registered under the Securities Act, or under the securities laws of any state of the United States and, accordingly, may not be offered or sold, directly or indirectly, in or into the United States other than pursuant to an exemption from the registration requirements of the Securities Act and in compliance with any applicable state securities law of the United States. Consequently, the Subscription Rights and the Offer Shares may only be exercised, offered or sold: (i) outside the United States of America in reliance on Regulation S; or (ii) in the United States by or to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A. Prospective investors are hereby notified that sellers of the Offer Shares may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfer, see "*Underwriting*" and "*Selling and Transfer Restrictions*".

Joint Global Coordinators and Joint Bookrunners

Citigroup **HSBC** **Morgan Stanley** **UBS Investment Bank**

Joint Bookrunners

BofA Merrill Lynch **J.P. Morgan**

Co-Lead Managers

Bayern LB **Société Générale Corporate & Investment Banking** **BBVA** **COMMERZBANK** **BNP PARIBAS** **UniCredit Bank AG**

Banco Santander **Mediobanca**

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SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These elements are numbered in Sections A – E (A.1 – E.7).

This summary (the "**Summary**") contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the Summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the Summary with the mention of "not applicable".

<table>
<tr><th colspan="3">SECTION A – INTRODUCTION AND WARNINGS</th></tr>
<tr><td>A.1</td><td>Warnings</td><td>Warning that:
this Summary should be read as an introduction to this prospectus ("Prospectus");
any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor;
where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Economic Area (the "Member States"), have to bear the costs of translating the Prospectus, before the legal proceedings are initiated.
Telefónica Deutschland Holding AG, Munich (the "Company" or the "Issuer", and collectively with its direct and indirect subsidiaries and joint operations, "Telefónica Deutschland" or "we"), along with Citigroup Global Markets Limited, London ("Citigroup"), HSBC Trinkaus & Burkhardt AG, Duesseldorf ("HSBC"), Morgan Stanley & Co. International plc., London ("Morgan Stanley"), and UBS Limited, London ("UBS Investment Bank") (each a "Joint Global Coordinator" and, collectively, the "Joint Global Coordinators"), Merrill Lynch International, London (acting under the marketing name BofA Merrill Lynch) ("BofA Merrill Lynch"), and J.P. Morgan Securities plc, London ("J.P. Morgan") (the Joint Global Coordinators, BofA Merrill Lynch and J.P. Morgan each a "Joint Bookrunner" and, collectively, the "Joint Bookrunners"), as well as Bayerische Landesbank, Munich ("Bayern LB"), Société Générale, Paris ("Société Générale Corporate & Investment Banking"), Banco Bilbao Vizcaya Argentaria S.A., Bilbao ("BBVA"), COMMERZBANK Aktiengesellschaft, Frankfurt ("COMMERZBANK"), BNP Paribas, Paris ("BNP Paribas"), UniCredit Bank AG, Munich ("UniCredit Bank AG"), Banco Santander, S.A., Santander ("Banco Santander"), Mediobanca – Banca di Credito Finanziario S.p.A., Milan ("Mediobanca") (Bayern LB, Société Générale Corporate & Investment Banking, BBVA, COMMERZBANK, BNP Paribas, UniCredit Bank AG, Banco Santander and Mediobanca each a "Co-Lead Manager" and collectively the "Co-Lead Managers"; the Co-Lead Managers together with the Joint Bookrunners, the "Underwriters"), assume responsibility for the content of this Summary, including its German translation, in accordance with Section 5(2b) No. 4 of the German Securities Prospectus Act (Wertpapierprospektgesetz). With regard to the content of this Summary including its German translation, civil liability attaches to those persons who are responsible for the preparation of the Summary or for the issuance, but only if the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or if it does not provide, when read together with the other parts of the Prospectus, all necessary key information.</td></tr>
<tr><td>A.2</td><td>Consent to use the prospectus for a subsequent resale or final placement of shares by financial intermediaries</td><td>Not applicable (consent of the Company regarding the use of the Prospectus for a subsequent resale or final placement of securities by financial intermediaries has not been granted).</td></tr>
</table>

SECTION B – ISSUER		
B.1	**Legal and commercial name**	Legal and commercial name of the Issuer is Telefónica Deutschland Holding AG.
B.2	**Domicile, legal form, legislation, country of incorporation**	Telefónica Deutschland Holding AG is a German stock corporation (*Aktiengesellschaft*) incorporated under the laws of and domiciled in the Federal Republic of Germany. Its business address is Georg-Brauchle-Ring 23-25, 80992 Munich, Germany.
B.3	**Description of, and key factors relating to, the nature of the issuer's current operations and principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the issuer competes**	Telefónica Deutschland is the third largest integrated telecommunications services provider in Germany based on 2013 revenues (*Source: financial information published by German network operators Deutsche Telekom, Vodafone and Telefónica Deutschland*), serving approximately 25.1 million customer accesses as of June 30, 2014. We offer mobile and fixed-line services providing voice, data and value-added services to consumer and business customers. In addition, we are one of the leading wholesale telecommunications services providers in Germany, offering access to our mobile and fixed-line infrastructure and service capabilities to our wholesale partners. 76.83% of the shares in the Company are indirectly held by Telefónica, S.A. (together with its direct and indirect subsidiaries, but excluding Telefónica Deutschland, the "**Telefónica Group**"), one of the largest telecommunications companies in the world. We operate a nationwide mobile network with Global System for Mobile Communications ("**GSM**" or "**2G**") coverage exceeding 99% of the German population, with Universal Mobile Telecommunications System ("**UMTS**" or "**3G**") coverage of approximately 76% of the German population (both as of June 30, 2014) as well as with Long Term Evolution ("**LTE**" or "**4G**") coverage of more than 50% of the German population (as of June 30, 2014). In addition, we operate a nationwide fixed-line network. Our strategic cooperation with Telekom Deutschland GmbH has expanded the Digital Subscriber Line ("**DSL**") access coverage of our fixed-line network to 98% of German households. Based on our agreement with Telekom Deutschland GmbH with regard to the very-high-bit-rate DSL ("**VDSL**") contingency model, we are able to serve approximately 15 million households with data transfer rates up to 50 MBit/s, and in selected regions with data transfer rates up to 100 MBit/s with VDSL vectoring. Our mobile network operates on the technology standards GSM or 2G, UMTS or 3G and, more recently, LTE or 4G. We market our products under a multi-brand strategy. We offer the majority of our post-paid and pre-paid mobile and fixed-line products and services as well as converged product offerings and value added services through our core premium O_2 brand. We access additional customer groups through our secondary and partner brands as well as our wholesale distribution channels. Secondary brands include our own brands FONIC and netzclub, or brands held through joint ventures and strategic partnerships such as Tchibo mobil. We market high-speed internet access and fixed-line telephony via DSL (under the standards Asymmetric Digital Subscriber Line 2+ ("**ADSL2+**") and VDSL). In our wholesale service business, we offer mobile, fixed-line and value-added services to customers such as 1&1, mobilcom/debitel, Drillisch and the two major German cable operators. We target our small and home office ("**SoHo**"), small and medium-sized enterprise ("**SME**") and large national businesses through our O_2 brand, and large international businesses through our Telefónica Multinational Solutions brand. We offer our products through a diversified distribution platform comprising direct (nationwide network of self-operated shops and O_2 partner shops, premium partners, online and telesales) and indirect (retail/e-retail partnerships and dealers/cooperations) sales channels. In 2013, we recorded revenues of €4.9 billion and an operating income before depreciation and amortization ("**OIBDA**") of €1.2 billion, corresponding to year-on-year decreases in revenues of 5.7% and OIBDA of 3.3%, respectively. In a sale and purchase agreement dated July 23, 2013, as amended on August 26, 2013, August 28, 2013, December 5, 2013, March 24, 2014 and August 7, 2014, among Koninklijke KPN N.V. ("**KPN**" and, together with its direct and indirect subsidiaries, the "**KPN Group**"), Telefónica, S.A. and the

		Company (the "**SPA**"), the Company agreed to purchase E-Plus Mobilfunk GmbH & Co. KG ("**New E-Plus KG**", formerly E-Plus Transition GmbH & Co. KG) following the transfer of all assets, business activities and certain liabilities of KPN Mobile Germany GmbH & Co. KG ("**KPN Mobile Germany**", formerly E-Plus Mobilfunk GmbH & Co. KG) into New E-Plus KG (the "**Transaction**"). Since this transfer, which became effective on June 23, 2014, New E-Plus KG, including its direct and indirect subsidiaries (the "**E-Plus Group**", also referred to as the "**New E-Plus Group**", and upon integration of the E-Plus Group into Telefónica Deutschland, collectively referred to as the "**New Group**") has conducted the business activities of KPN Group on the German mobile telecommunications market. The E-Plus Group, headquartered in Duesseldorf, Germany, provides customers in Germany with multi-brand mobile telecommunications services, offering post-paid and pre-paid services targeted at multiple market segments. The E-Plus Group is the third largest mobile services provider in Germany by number of subscribers as of June 30, 2014, and by mobile service revenues for the six months ended June 30, 2014 (*Source: financial information published by German mobile network operators Deutsche Telekom, Vodafone, Telefónica Deutschland and E-Plus*). Total revenues of the E-Plus Group amounted to €3,143 million for 2013. Operating profit/(loss) before depreciation, amortization and impairments ("**EBITDA**") in the E-Plus Group amounted to €916 million for 2013. The E-Plus Group's multi-brand portfolio includes E-Plus and BASE as well as various other brands such as a youth-focused brand (yourfone) and a no-frills brand (Blau). Wholesale partners of the E-Plus Group include MedionMobile (AldiTalk), ADAC, MTV and the Nature and Biodiversity Conservation Union of Germany (NABU). Assuming the closing of the acquisition of the E-Plus Group had taken place as of January 1, 2013, Telefónica Deutschland would have served approximately 46.9 million customer accesses[1] and recorded pro forma revenues of €7,942 million as of and for the year ended December 31, 2013. We believe that the following strengths will enable us to execute our strategy: • We are a consumer market leader in one of Europe's most attractive telecommunications markets. • We are combining two successful and agile innovators. • We cover numerous segments with a broad brand offering. • We have built a competitive network infrastructure with a strong spectrum position. • We are present across all distribution channels underpinning an extensive retail distribution network. • Upon the integration of the E-Plus Group, we will benefit from significant synergy value creation opportunities. • We generate strong cash flows and are committed to maintaining a conservative capital structure. Our vision to create a leading digital telecommunications company while retaining our mindset as a "challenger" has led us to the following strategic priorities: • We aim to monetize mobile data opportunities and a rising demand for LTE. • We aim to cross-sell fixed-line products and seize opportunities in the business-to-business segment. • We intend to capitalize on a multi-brand portfolio, multi-channel distribution and an increasingly digital approach. • We aim to further improve the perception of our network quality and accelerate our nationwide LTE deployment.

[1] The number of customer accesses of the E-Plus Group determined on the basis of the definitions and calculation policies applied by Telefónica Deutschland in this regard.

		• We intend to develop a new operating model with the characteristics "lean" and "digital" at its core. • We aim to achieve a significant synergy realization. Germany is one of the largest telecommunications markets in Europe both in terms of accesses and revenues. The German telecommunications sector generated retail revenues of approximately €40.1 billion during 2013. Of these retail revenues, approximately €19.6 billion (48.8%) were derived from mobile services and approximately €20.5 billion (51.2%) from fixed-line services. Germany is the largest mobile market by subscriber numbers in the EU with 115.2 million accesses (*i.e.*, SIM cards) and a penetration rate of approximately 143% in 2013. In 2013, there were 59.4 million pre-paid accesses in Germany, representing 51.6% of total accesses. The number of post-paid accesses in 2013 was 55.8 million, representing 48.4% of the total accesses. In terms of mobile service revenues, voice services are estimated to have accounted for the majority of the total mobile services revenues in 2013 with €11.8 billion (or 55.5%), while data services are estimated to have accounted for €9.4 billion. Data revenues are forecasted to exceed voice revenues by 2015. The portion of voice service revenues in total mobile services revenues is expected to decrease to 47.0% by 2016. Our primary competitors in the German mobile market include the three other mobile network operators (namely, Deutsche Telekom, Vodafone and E-Plus) and a well-developed wholesale market including service providers and over 100 mobile brands. The German fixed-line market generated total service revenues (including retail revenues and interconnect revenues, *i.e.*, operator's revenues from other operators and service providers for fixed-line telecommunication services) of approximately €27.3 billion in 2013. The main broadband access line technologies are DSL and cable. DSL continues to be the dominant technology in the broadband market, with 23.2 million of the total 28.6 million subscribers in 2013 using DSL, generating retail revenues of approximately €6.6 billion. The use of cable technology is increasingly popular in urban areas and increased from 3.6 million subscribers in 2011 to 5.2 million subscribers in 2013. Alternative means of connection, such as direct fiber connection, are becoming more prevalent. 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. *(Sources: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014; Analysys Mason, Telecoms Market Matrix Western Europe 1Q 2014, July 2014; published information by mobile network operators)*
B.4a	**Description of the most significant recent trends affecting the issuer and the industries in which it operates**	Telefónica Deutschland expects the German telecommunication market to remain active and competitive in the medium term, with significant impacts from mobile termination rate cuts, changing customers' communication behaviors, and the variability of device launches and replacement cycles. Telefónica Deutschland expects to be impacted by the variability of these diverging trends. Telefónica Deutschland has observed an increasing pressure on revenues throughout the year 2013 and the first half of 2014 from competition, changing customers' communication behavior and regulations and has further noticed a significant level of competition around smartphone tariffs and device bundles (bundled offers of tariff and device). Telefónica Deutschland believes that additional levers, such as the introduction of the LTE technology and convergent fixed-mobile data services will be key factors for its medium-term profitability as standalone business, with the acquisition of the E-Plus Group, amplifying this opportunity.

B.5	**Description of the Group and the Issuer's position within the Group**	Telefónica Germany Holdings Limited holds 76.83% of the shares in the Company. Telefónica Germany Holdings Limited is indirectly wholly-owned by Telefónica, S.A. The Company is the holding company of Telefónica Deutschland and directly or indirectly holds a 100% interest in: • Telefónica Germany Management GmbH; • Telefónica Germany GmbH & Co. OHG; • Wayra Deutschland GmbH; • FONIC GmbH; • O2 Telefónica Deutschland Finanzierungs GmbH; • Telefónica Germany 1. Beteiligungsgesellschaft mbH; and • Telefónica Germany Customer Services GmbH. The Company indirectly holds a 50% interest in: • TCHIBO Mobilfunk Beteiligungs GmbH; and • TCHIBO Mobilfunk GmbH & Co. KG.
B.6	**Persons who, directly or indirectly, have a (notifiable) interest in the issuer's capital or voting rights**	Telefónica, S.A. indirectly holds 76.83% of the shares in the Company.
	Different voting rights for the issuer's major shareholder	Not applicable (there are no different voting rights).
	Whether the issuer is directly or indirectly owned or controlled and by whom and description of the nature of control	Telefónica, S.A. has controlling influence over the Company.
B.7	**Selected financial information**	*The following tables set forth our consolidated income statement, consolidated statement of financial position, consolidated statement of cash flows and certain other operational and financial data for the periods indicated. The selected key financial information of the Company below as of and for the years ended December 31, 2012 and ended December 31, 2011 was taken or derived from the Company's audited consolidated financial statements as of and for the year ended December 31, 2012, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, ("**IFRS**") and the additional requirements of German commercial law pursuant to Section 315a(1) German Commercial Code (Handelsgesetzbuch, "**HGB**") (the "**Consolidated Financial Statements 2012**"), the selected key financial information as of and for the year ended December 31, 2013 from the Company's audited consolidated financial statements as of and for the year ended December 31, 2013, prepared in accordance with IFRS and the additional requirements of German commercial law pursuant to Section 315a(1) HGB (the "**Consolidated Financial Statements 2013**"), and the selected key financial information as of June 30, 2014 and for the six months ended June 30, 2014 and 2013 from the Company's unaudited interim condensed consolidated financial statements as of and for the six months ended June 30, 2014, prepared in accordance with IFRS on interim financial reporting (International Accounting Standard ("**IAS**") 34) (the "**Unaudited Interim Condensed Consolidated Financial Statements**"), as well as for each of these periods from the Company's accounting records or internal management reporting systems.* *The Consolidated Financial Statements 2012 include the assets and liabilities, and the Consolidated Financial Statements 2013 as well as the Consolidated Financial Statements 2012 include the income and expenses and cash flows of the entities Group 3G UMTS Holding GmbH, Quam GmbH and Telefónica Global Services GmbH, together with its subsidiaries Telefónica Global*

		Roaming GmbH, Telefónica Compras Electronicas S.L. and its indirectly held 40% interest in Adquira España S.A., until October 1, 2012, when these entities ceased to be direct and indirect subsidiaries or associates of the Company as part of our pre-IPO restructuring. According to IFRS 5 "Non-current assets held for sale and discontinued operations", the income and expenses and cash flows of these sold entities including the gain on the disposal of these sold entities are separately disclosed in the consolidated income statement of the Consolidated Financial Statements 2013 as well as the Consolidated Financial Statements 2012 as profit after tax for the year from discontinued operations and in the consolidated statement of cash flows of the Consolidated Financial Statements 2013 as well as the Consolidated Financial Statements 2012 as cash flow from operating activities from discontinued operations, cash flow from investing activities from discontinued operations and cash flows from financing activities from discontinued operations, respectively. According to IFRS 5 "Non-current assets held for sale and discontinued operations", the assets and liabilities of these sold entities are not separately disclosed in the comparative financial information as of December 31, 2011 in the consolidated statement of financial position of the Consolidated Financial Statements 2012. *In the Consolidated Financial Statements 2013, we reclassified expenses for external personnel services and adjusted the prior year comparative figures for the year ended December 31, 2012 and reported expenses for external personnel services in Other Expenses whereas these expenses were reported in the Consolidated Financial Statements 2012 in the Personnel Expenses in the short-term employee benefits.* *Where financial information in this section is labelled "audited", this means that it was taken from the Consolidated Financial Statements 2012 or from the Consolidated Financial Statements 2013. The label "unaudited" is used in this section to indicate financial information that was derived from the Consolidated Financial Statements 2012 or from the Consolidated Financial Statements 2013, or taken or derived from the Unaudited Interim Condensed Consolidated Financial Statements as well as from the Company's accounting records or internal management reporting systems.* *The figures in the following have been rounded in accordance with established commercial practice. Figures or additions within a table may therefore result in sums different from those shown in the same table and do not always add up to 100%.*

CONSOLIDATED INCOME STATEMENT AND OTHER CONSOLIDATED FINANCIAL INFORMATION

The table below sets forth our consolidated income statement and other consolidated financial information for the years ended December 31, 2013, 2012 and 2011 and for the six months ended June 30, 2014 and 2013:

	For the year ended December 31,			For the six months ended June 30,	
	2013	**2012**	**2011**	**2014**	**2013**
	(in €thousands, unless otherwise indicated)				
	(audited, unless otherwise indicated)			*(unaudited)*	
Revenues	**4,913,881**	**5,212,838**	**5,035,552**	**2,283,663**	**2,445,419**
Wireless Business	3,673,043	3,845,053	3,605,747	1,699,203	1,816,290
Wireless Service Revenues[1]	2,989,294	3,151,838	2,946,465	1,434,751	1,481,230
Handset Revenues	683,749	693,215	659,282	264,452	335,060
Wireline Business	1,234,958	1,363,203	1,425,740	580,775	626,429
Other Revenues	5,880	4,582	4,065	3,686	2,700
Other Income	169,022	60,806	60,991	43,022	38,192
Supplies	(1,957,980)	(2,130,869)	(2,047,139)	(882,649)	(974,483)
Personnel Expenses[6]	(418,647)	(421,764)	(437,756)	(213,284)	(207,589)
Other Expenses[2, 6]	(1,469,176)	(1,441,938)	(1,462,411)	(744,959)	(729,111)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)[3, 4]	**1,237,100**	**1,279,074**	**1,149,237**	**485,792**	**572,428**
Depreciation and Amortization	(1,131,749)	(1,133,183)	(1,082,189)	(533,988)	(566,387)
OPERATING INCOME	**105,351**	**145,891**	**67,048**	**(48,195)**	**6,040**
Finance Income	6,349	15,678	14,271	3,953	3,391
Exchange Gains	635	715	707	161	296
Finance Costs	(33,409)	(21,385)	(8,389)	(19,660)	(19,744)
Exchange Losses	(548)	(1,132)	(559)	(474)	(175)
Net Financial Income/(Expense)	**(26,972)**	**(6,123)**	**6,030**	**(16,020)**	**(16,232)**
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS/(LOSS) BEFORE TAX	**78,379**	**139,768**	**73,078**	**(64,215)**	**(10,191)**
Income Tax	(567)	167,756	(1,732)	14	17
PROFIT AFTER TAXES FOR THE YEAR FROM CONTINUING OPERATIONS	**77,813**	**307,523**	**71,346**	**–**	**–**
PROFIT AFTER TAXES FOR THE YEAR FROM DISCONTINUED OPERATIONS	**–**	**1,027,030**	**482,557**	**–**	**–**
TOTAL PROFIT/(LOSS) FOR THE YEAR/PERIOD	**77,813**	**1,334,553**	**553,904**	**(64,201)**	**(10,174)**
PROFIT/(LOSS) FOR THE YEAR/PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	**77,813**	**1,334,553**	**553,904**	**(64,201)**	**(10,174)**
PROFIT/(LOSS) FOR THE YEAR/PERIOD	**77,813**	**1,334,553**	**553,904**	**(64,201)**	**(10,174)**
Reconciliation from Operating Income to Operating Income before Depreciation and Amortization (OIBDA) and before Group Fees and OIBDA before Group Fees Margin[3]					
OPERATING INCOME	**105,351**	**145,891**	**67,048**	**(48,195)**	**6,040**
Depreciation and Amortization	(1,131,749)	(1,133,183)	(1,082,189)	(533,988)	(566,387)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)[4]	**1,237,100**	**1,279,074**	**1,149,237**	**485,792**	**572,428**
Group Fees	(70,929)	(72,311)	(70,232)	(29,687)	(31,047)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA) AND BEFORE GROUP FEES (unaudited)[3]	**1,308,029**	**1,351,385**	**1,219,469**	**515,480**	**603,475**
Revenues	4,913,881	5,212,838	5,035,552	2,283,663	2,445,419
OIBDA margin[5] (unaudited)	**25.2%**	**24.5%**	**22.8%**	**21.3%**	**23.4%**
OIBDA before Group Fees margin[5] (unaudited)	**26.6%**	**25.9%**	**24.2%**	**22.6%**	**24.7%**

1 Adjusted for the effect of decreases in mobile termination rates ("**MTR**") in December 2010, 2012 and 2013, Wireless Service Revenues would have been €194.8 million, €9.0 million and €114.7 million higher in the years ended December 31, 2011, 2012 and 2013, respectively. Adjusted for the effect of the decrease in MTR in December 2013, Wireless Service Revenues would have been €2.7 million higher in the six months ended June 30, 2014.

[2] Other Expenses includes certain fees paid to the Telefónica Group ("**Group Fees**") under a range of agreements, including management and consulting services, licenses, cost sharing and other such services.

[3] We have provided OIBDA, OIBDA margin, OIBDA before Group Fees and OIBDA before Group Fees margin and other information because we believe they provide investors with additional information to measure our performance. Our use of the terms OIBDA, OIBDA margin, OIBDA before Group Fees and OIBDA before Group Fees margin varies from others in our industry and should not be considered as an alternative result for the year or period, cash flow from operating activities, revenues or any other performance measures derived in accordance with IFRS as measures of operating performance or to cash flows as measures of liquidity. OIBDA, OIBDA margin, OIBDA before Group Fees and OIBDA before Group Fees margin have important limitations as analytical tools and investors should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS. We believe OIBDA, OIBDA margin, OIBDA before Group Fees and OIBDA before Group Fees margin facilitate operating performance comparisons from period to period and company to company by eliminating potential differences caused by variations in tax positions (such as the impact of changes in effective tax rates or deferred taxes on periods or companies), depreciation and amortization and certain other items. OIBDA and OIBDA margin are commonly used terms to compare the operating activities of telecommunications operators, however, because other companies may not calculate OIBDA and OIBDA margin identically to us, our presentation of OIBDA and OIBDA margin may not be comparable to that of other companies.

[4] OIBDA as reported in our consolidated financial statements contains the Group Fees as described in footnote 2 above.

[5] OIBDA margin and OIBDA before Group Fees margin are calculated as percentage of total Revenues, respectively.

[6] In the Consolidated Financial Statements 2013, we reclassified expenses for external personnel services and adjusted the prior year comparative figures for the year ended December 31, 2012 and reported expenses for external personnel services in Other Expenses, whereas these expenses were reported in the Consolidated Financial Statements 2012 in the Personnel Expenses in the short-term employee benefits. We believe that the presentation used in our Consolidated Financial Statements 2013 improves the clarity of the information provided in our consolidated financial statements. Expenses for external personnel services amounted to €46.4 million for the year ended December 31, 2013 and €42.8 million for the year ended December 31, 2012 and €38.9 million for the year ended December 31, 2011.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The table below sets forth our consolidated statement of financial position as of December 31, 2013, 2012 and 2011 and as of June 30, 2014:

	As at December 31,			As at June 30,
	2013	2012	2011[1]	2014
	(in €thousands)			
	(audited)			*(unaudited)*
ASSETS				
A) NON-CURRENT ASSETS	**7,167,703**	**7,652,337**	**7,996,891**	**6,935,334**
Goodwill	705,576	705,576	705,576	705,576
Intangible assets	2,884,200	3,277,456	3,662,491	2,717,326
Property, plant and equipment	2,895,617	2,973,440	3,119,370	2,818,161
Investment in associates	–	–	1,972	–
Other non-current financial assets	98,787	114,675	95,449	110,748
Deferred tax assets	583,523	581,191	412,033	583,523
B) CURRENT ASSETS	**1,853,716**	**1,417,469**	**5,657,420**	**2,313,167**
Inventories	89,185	84,671	70,428	110,369
Trade and other receivables	1,035,234	1,009,031	1,349,290	1,171,811
Other current financial assets	20,751	101	2,887,051	24,713
Cash and cash equivalents	708,545	323,666	1,350,651	1,006,275
TOTAL ASSETS (A+B)	**9,021,419**	**9,069,807**	**13,654,311**	**9,248,502**
EQUITY AND LIABILITIES				
A) EQUITY	**5,998,973**	**6,428,793**	**12,282,644**	**5,399,166**
Common stock	1,116,946	1,116,946	1,116,946	1,116,946
Additional paid-in capital	430	430	–	430
Retained earnings	4,879,914	5,309,936	11,164,353	4,280,108
Other components of equity	1,683	1,481	1,345	1,683
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT / COMPANY	**5,998,973**	**6,428,793**	**12,282,644**	**5,399,166**
B) NON-CURRENT LIABILITIES	**1,451,739**	**1,091,576**	**75,289**	**2,262,739**
Non-current interest-bearing debt	1,342,584	1,000,000	–	1,812,596
Other payables	4,809	9,193	6,342	47,013
Non-current provisions	104,346	82,382	68,947	138,819
Deferred income	–	–	–	264,311
C) CURRENT LIABILITIES	**1,570,707**	**1,549,438**	**1,296,378**	**1,586,596**
Current interest-bearing debt	102,059	250,878	–	12,687
Trade payables	1,074,038	918,458	891,321	1,098,617
Other payables	221,532	219,130	188,747	289,143
Other current financial liabilities	–	–	4,836	–
Current provisions	3,513	7,000	41,609	3,155
Deferred income	169,565	153,972	169,866	182,995
TOTAL EQUITY AND LIABILITIES (A+B+C)	**9,021,419**	**9,069,807**	**13,654,311**	**9,248,502**

[1] According to IFRS 5 "Non-current assets held for sale and discontinued operations", the assets and liabilities of the entities Group 3G UMTS Holding GmbH, Quam GmbH and Telefónica Global Services GmbH, together with its subsidiaries Telefónica Global Roaming GmbH, Telefónica Compras Electronicas S.L. and its indirectly held 40% interest in Adquira España S.A., sold by us with effect as of October 1, 2012, are not separately disclosed in our consolidated statement of financial position information as of December 31, 2011. Therefore, the consolidated statement of financial position information as of December 31, 2011 is not directly comparable to the consolidated statement of financial position information as of December 31, 2012 and 2013, respectively.

CONSOLIDATED STATEMENT OF CASH FLOWS

The table below sets forth our consolidated statement of cash flows for the years ended December 31, 2013, 2012 and 2011 and for the six months ended June 30, 2014 and 2013:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2012	2011	2014	2013
	(in €thousands)				
	(audited)			*(unaudited)*	
Profit/(Loss) for the Year/Period	**77,813**	**1,334,553**	**553,904**	**(64,201)**	**(10,174)**
Adjustments to Profit/(Loss)					
Net Financial Result	26,972	5,707	(5,882)	16,020	16,353
Gains on Disposal of Assets	(76,149)	(492,121)	(272)	(333)	(6)
Net Income Tax Expense	567	(167,756)	1,732	(14)	(17)
Depreciation and Amortization	1,131,749	1,135,751	1,086,997	533,988	566,387
Change in Working Capital					
Trade and Other Receivables	(36,334)	(40,172)	45,172	(61,151)	3,312
Inventories	(4,514)	(14,272)	13,889	(21,184)	13,586
Other Current Assets	–	(5,594)	(7,855)	(320)	(6,306)
Trade and Other Payables	168,818	(105,573)	42,243	44,566	56,998
Other Current Liabilities and Provisions	16,471	(25,126)	(103,038)	13,510	7,147
Other Non-Current Assets and Liabilities	(13,950)	4,681	(44,766)	253,493	27,490
Interest Received	7,005	15,615	13,934	3,827	2,237
Interest Paid	(28,196)	(13,871)	(1,351)	(11,006)	(12,535)
Total Cash Flow from Operating Activities/Cash Flow from Operating Activities	**1,270,252**	**1,631,823**	**1,594,707**	**707,194**	**664,472**
Cash Flow from Operating Activities from discontinued operations	**–**	**349,070**	**355,006**	**–**	**–**
Cash Flow from Operating Activities from continuing operations	**1,270,252**	**1,282,754**	**1,239,701**	**–**	**–**
Proceeds on Disposals of Property, Plant and Equipment and Intangible Assets	69,088	1,978	3,185	632	12
Payments on Investments in Property, Plant and Equipment and Intangible Assets	(664,153)	(594,120)	(548,240)	(304,194)	(307,753)
Proceeds on Disposals of Companies, Net of Cash and Cash Equivalents Disposed	37,596	557,446	–	–	–
Payments Made on Financial Investments not Included under Cash Equivalents	(14,252)	(14,930)	–	(7,043)	(12,147)
Total Cash Flow from Investing Activities/Cash Flow from Investing Activities	**(571,721)**	**(49,626)**	**(545,055)**	**(310,605)**	**(319,888)**
Cash Flow from Investing Activities from discontinued operations	**–**	**557,170**	**(952)**	**–**	**–**
Cash Flow from Investing Activities from continuing operations	**(571,721)**	**(606,797)**	**(544,104)**	**–**	**–**
Acquisition of non-controlling interests	–	–	(3,006)	–	–
Repayment of capital reserves	–	(251)	(237)	–	–
Payments made on future capital increase	(2,143)	–	–	(3,195)	–
Proceeds from borrowing/debt	594,972	2,398,060	–	570,220	–
Repayment of borrowing/debt	(403,856)	(706,991)	(3,752)	(140,921)	(2,186)
Dividends paid	(502,625)	(4,300,000)	–	(524,964)	(502,625)
Total Cash Flow from Financing Activities/Cash Flow from Financing Activities	**(313,652)**	**(2,609,182)**	**(6,995)**	**(98,860)**	**(504,811)**
Cash Flow from Financing Activities from Discontinued Operations	**–**	**445,060**	**(3,006)**	**–**	**–**
Cash Flow from Financing Activities from Continuing Operations	**(313,652)**	**(3,054,242)**	**(3,989)**	**–**	**–**
Net Increase/(Decrease) in Cash and Cash Equivalents	**384,879**	**(1,026,985)**	**1,042,656**	**297,729**	**(160,226)**
Cash and Cash Equivalents at the Beginning of the Period	**323,666**	**1,350,651**	**307,995**	**708,545**	**323,666**
Cash and Cash Equivalents at the End of the Period	**708,545**	**323,666**	**1,350,651**	**1,006,275**	**163,440**

SELECTED OPERATIONAL INFORMATION

The tables below set forth certain selected operational information as of and for the years ended December 31, 2013, 2012 and 2011 and as of and for the six months ended June 30, 2014 and 2013:

	As of December 31,			As of June 30,	
	2013	2012	2011	2014	2013
	(accesses in thousands, except as otherwise indicated)				
	(unaudited)				
Mobile Accesses:					
Post-paid	10,286.1	10,108.5	9,235.7	10,516.1	10,260.5
Pre-paid	9,114.9	9,191.3	9,144.5	8,919.7	9,150.6
Total	**19,401.0**	**19,299.9**	**18,380.1**	**19,435.9**	**19,441.1**
Fixed Accesses:					
Retail DSL	2,244.3	2,376.3	2,587.7	2,191.4	2,295.1
Wholesale ULL	1,125.0	1,087.9	1,042.4	1,151.8	1,127.2
Fixed Telephony	2,124.9	2,249.0	2,055.1	2,078.2	2,176.0
Narrowband and other	271.7	359.8	417.9	258.8	334.0
Total	**5,765.9**	**6,072.9**	**6,103.1**	**5,680.2**	**5,932.2**

	For the year ended December 31,			For the six months ended June 30,	
	2013	2012	2011	2014	2013
	(unaudited)				
Mobile ARPU (in €):					
Blended[1]	12.7	13.8	13.6	12.3	12.6
Pre-paid[2]	5.1	5.5	5.7	5.1	5.0
Post-paid[3]	19.4	21.5	21.9	18.5	19.4
Data[4]	6.2	6.2	5.6	6.1	6.2
Non-SMS over Data Revenues (%)[5]	66.5	56.7	50.4	72.3	64.4
Data Contribution to blended ARPU (%)[6]	48.9	44.7	41.3	49.4	48.8
Blended churn (%)[7]	2.4	2.2	2.2	2.1	2.2
Post-paid churn (%)[8]	1.6	1.5	1.7	1.4	1.4

1 Calculated by dividing total service revenues from sales to customers for the period by the weighted average number of mobile accesses for all contract types (post- and pre-paid) for the period.

2 Calculated by dividing mobile service revenues attributable to accesses operated on a pre-paid basis (excluding inbound roaming) by the weighted average number of mobile accesses operated on a pre-paid basis for the period.

3 Calculated by dividing mobile service revenues attributable to accesses operated on a post-paid basis (excluding inbound roaming) by the weighted average number of mobile accesses operated on a post-paid basis for the period.

4 Calculated by dividing mobile service revenues generated through data usage (SMS, MMS, other) under mobile accesses by the weighted average number of mobile accesses for the period.

5 Portion of data revenues generated other than through SMS in total data revenues for the period in percent.

6 Contribution of data revenues to blended ARPU for the period in percent.

7 Calculated as the percentage of the number of mobile access disconnections of the total weighted average number of mobile accesses for all contract types (post- and pre-paid) for the period.

8 Calculated as the percentage of the number of disconnections of mobile accesses operated on a post-paid basis of the total weighted average number of mobile accesses operated on a post-paid basis for the period.

SELECTED ADDITIONAL ILLUSTRATIVE FINANCIAL INFORMATION FOR THE NEW GROUP FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE SIX MONTH PERIOD ENDED JUNE, 2014

Aggregated capital expenditures of the New Group (defined as additions to property, plant and equipment and to intangible assets) applying the accounting policies of the Company amounted to €1,298 million for the year ended December 31, 2013, of which €666 million were attributable to Telefónica Deutschland and €632 million to the E-Plus Group.

Aggregated capital expenditures of the New Group (defined as additions to property, plant and equipment and to intangible assets) applying the accounting policies of the Company amounted to €438 million for the six month period ended June 30, 2014, of which €266 million were attributable to Telefónica Deutschland and €172 million to the E-Plus Group.

CERTAIN SELECTED OPERATIONAL INFORMATION OF THE E-PLUS GROUP AND SELECTED ILLUSTRATIVE OPERATIONAL INFORMATION OF THE NEW GROUP

The tables below set forth certain selected operational information of the E-Plus Group as of and for the year ended December 31, 2013 and as of and for the six months ended June 30, 2014. The selected operational information of the E-Plus Group shown below was collected and calculated in accordance with the definitions and calculation policies applied by Telefónica Deutschland in this regard and may therefore differ from respective information reported by KPN or the E-Plus Group. Furthermore, the tables below set forth certain selected illustrative operational information of the New Group as of and for the year ended December 31, 2013 and as of and for the six months ended June 30, 2014, collected and calculated in accordance with the definitions and calculation policies applied by Telefónica Deutschland and assuming the Transaction had already been closed as of January 1, 2013.

E-Plus Group	As of December 31,	As of June 30,
	2013	**2014**
	(accesses in thousands, except as otherwise indicated)	
	(unaudited)	
Mobile Accesses:		
Post-paid	7,971	8,167
Pre-paid	13,762	14,020
Total	**21,732**	**22,187**

E-Plus Group	For the year ended December 31,	For the six month period ended June 30,
	2013	**2014**
	(unaudited)	
Mobile ARPU (in €):		
Blended[1]	10.8	10.1
Post-paid[2]	18.8	16.9
Pre-paid[3]	6.3	6.1
Data[4]	5.3	5.4
Non-SMS over Data Revenues (%)[5]	50.1	58.1
Post-paid churn (%)[6]	1.9	2.0

1 Calculated by dividing total service revenues from sales to customers for the period by the weighted average number of mobile accesses for all contract types (post- and pre-paid) for the period.

2 Calculated by dividing mobile service revenues attributable to accesses operated on a post-paid basis (excluding inbound roaming) by the weighted average number of mobile accesses operated on a post-paid basis for the period.

3 Calculated by dividing mobile service revenues attributable to accesses operated on a pre-paid basis (excluding inbound roaming) by the weighted average number of mobile accesses operated on a pre-paid basis for the period.

4 Calculated by dividing mobile service revenues generated through data usage (SMS, MMS, other) under mobile accesses by the weighted average number of mobile accesses for the period.

5 Portion of data revenues generated other than through SMS in total data revenues for the period in percent.

6 Calculated as the percentage of the number of disconnections of mobile accesses operated on a post-paid basis of the total weighted average number of mobile accesses operated on a post-paid basis for the period.

New Group	As of December 31,	As of June 30,
	2013	**2014**
	(accesses in thousands, except as otherwise indicated)	
	illustrative *(unaudited)*	
Mobile Accesses:		
Post-paid	18,257	18,683
Pre-paid	22,876	22,940
Total	**41,133**	**41,623**

New Group	For the year ended December 31,	For the six month period ended June 30,
	2013	2014
	illustrative *(unaudited)*	
Mobile ARPU (in €):		
Blended[1]	11.2	10.7
Post-paid[2]	18.4	17.2
Pre-paid[3]	5.5	5.4
Data[4]	5.7	5.7

1 Calculated by dividing total service revenues from sales to customers for the period by the weighted average number of mobile accesses for all contract types (post- and pre-paid) for the period.

2 Calculated by dividing mobile service revenues attributable to accesses operated on a post-paid basis (excluding inbound roaming) by the weighted average number of mobile accesses operated on a post-paid basis for the period.

3 Calculated by dividing mobile service revenues attributable to accesses operated on a pre-paid basis (excluding inbound roaming) by the weighted average number of mobile accesses operated on a pre-paid basis for the period.

4 Calculated by dividing mobile service revenues generated through data usage (SMS, MMS, other) under mobile accesses by the weighted average number of mobile accesses for the period.

	Description of significant changes to the issuer's financial condition and operating results during or subsequent to the period covered by the historical financial information	The dividends paid during the period covered by the historical financial information reduced equity, cash and cash equivalents and other current financial assets and increased non-current interest-bearing debt. The change in total profit for the period covered by the historical financial information was impacted by the sale of the companies in the global services reportable segment in October 2012. These companies sold in the transaction were classified in our respective consolidated financial statements as discontinued operations. Since June 30, 2014 until the date of this Prospectus, there have been no significant changes to the financial condition and operating results of the Company. The following changes in the Company's financial condition and results of operations, as shown on the basis of Revenues and OIBDA, occurred in the six months ended June 30, 2014 and 2013 and in the years ended December 31, 2013, 2012 and 2011: *Six months ended June 30, 2014 and 2013* Our total Revenues were €2,283.7 million for the six months ended June 30, 2014, a decrease of €161.8 million, or 6.6%, from €2,445.4 million for the six months ended June 30, 2013. The decline in Wireless Business revenues resulted, in particular, from lower Handset Revenues as well as a change in customer behavior for wireless telephony services (*e.g.*, the ongoing substitution of text messaging by over-the-top ("**OTT**") messaging applications). The reduction of MTR impacted the decline in Revenues to a lower extent than in previous periods. Lower revenues in our Wireline Business were realized as a result of a reduced DSL customer base. Revenues continued to be positively influenced by strong growth in the wireless data business. Our OIBDA was €485.8 million for the six months ended June 30, 2014, a decrease of €86.6 million, or 15.1%, from €572.4 million for the six months ended June 30, 2013. The decline in OIBDA was primarily due to the decrease in Revenues as well as increased costs for focused commercial activities to gain trading momentum, such as selected offers with discounted devices. *Years ended December 31, 2013 and 2012* Our total Revenues were €4,913.9 million for the year ended December 31, 2013, a decrease of €299.0 million, or 5.7%, from €5,212.8 million for the year ended December 31, 2012. The decrease in Revenues was primarily due to a decrease in Wireless Service Revenues, driven by the reduction of MTR, as well as through the generally changed utilization of wireless

		telephony services, such as the increasing adoption of OTT messaging applications. The reduction in Revenues was also partly explained by a decrease in Wireline Business revenues due to a reduced DSL customer base. Without the reduction in the MTR, the decrease in total Revenues for the year ended December 31, 2013 as compared to the year ended December 31, 2012 would have been 3.5%. Our OIBDA was €1,237.1 million for the year ended December 31, 2013, a decrease of €42.0 million, or 3.3%, from €1,279.1 million for the year ended December 31, 2012. OIBDA for the year ended December 31, 2012 was impacted by increasing Wireless Service Revenues whereas OIBDA for the year ended December 31, 2013 was impacted by lower Revenues the effect of which on OIBDA was partly offset by the corresponding savings in Supplies as well as gains on the disposal of Telefónica Germany Online Services GmbH and GKHH Fibre Optic GmbH in the last quarter of the year ended December 31, 2013, amounting to €76.2 million. *Years ended December 31, 2012 and 2011* Our total Revenues were €5,212.8 million for the year ended December 31, 2012, an increase of €177.3 million, or 3.5%, from €5,035.6 million for the year ended December 31, 2011. Revenues for the year ended December 31, 2012 were driven primarily by our wireless business, which benefited from our focus on the data opportunity reflected by an integrated tariff portfolio and attractive smartphone offers through the "O_2 My Handy" model and continued strong demand for smartphones. Our OIBDA was €1,279.1 million for the year ended December 31, 2012, an increase of €129.8 million, or 11.3%, from €1,149.2 million for the year ended December 31, 2011. OIBDA for the year ended December 31, 2011 benefitted from certain business restructuring measures as well as growth in Revenues, along with the increased scale and further efficiencies. OIBDA for the year ended December 31, 2012 was impacted by increasing Wireless Service Revenues with a shift towards the more valuable post-paid segment and the trends towards data monetization.
B.8	**Selected key pro forma financial information**	*The following selected key pro forma consolidated financial information was taken from the pro forma consolidated financial information prepared by the Company for the purpose of this Prospectus, comprising pro forma consolidated income statements for the year ended December 31, 2013 and the six months ended June 30, 2014, a pro forma consolidated statement of financial position as of June 30, 2014 and pro forma notes (together, the "**Pro Forma Consolidated Financial Information**").* *The purpose of the Pro Forma Consolidated Financial Information is to show the material effects that the closing of the Transaction would have had on the historical consolidated financial statements of the Company if Telefónica Deutschland had already existed in the structure created by the closing of the Transaction as of January 1, 2013 with respect to the pro forma consolidated income statements and as of June 30, 2014 with respect to the pro forma consolidated statement of financial position.* *The presentation of the Pro Forma Consolidated Financial Information is based on certain pro forma assumptions and is intended for illustrative purposes only. Therefore, the Pro Forma Consolidated Financial Information describes only a hypothetical situation and thus, due to its nature, the presentation does not reflect the actual net assets, financial position and results of operations of the Company after closing of the Transaction. In addition, the Pro Forma Consolidated Financial Information does not represent a forecast of the net assets, financial position and results of operations of the Company at a future time. Furthermore, the Pro Forma Consolidated Financial Information is only meaningful in conjunction with the Consolidated Financial Statements 2013 and the Unaudited Interim Condensed Consolidated Financial Statements.*

PRO FORMA CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1, 2013 TO DECEMBER 31, 2013

The table below sets forth the pro forma adjustments (fifth column ("*Pro forma adjustments*")) made to the aggregate of (i) the historical IFRS consolidated income statement of the Company (second column ("*Telefónica Deutschland*")) and (ii) the historical IFRS consolidated income statement of E-Plus Mobilfunk GmbH & Co. KG adjusted for the effects of the pre-closing restructuring and presentation, accounting and valuation adjustments (third column ("*New E-Plus Group*")) on the basis of the assumption that the Transaction had already been closed as of January 1, 2013.

January 1 to December 31, 2013	Historical Financial Information				
	Telefónica Deutschland	New E-Plus Group	Total	Pro forma adjustments[1]	Pro forma consolidated income statement
	(in €thousands)				
Revenues	4,913,881	3,252,166[2]	8,166,047	(223,867)	7,942,180[3]
Other income	169,022	56,695	225,717	–	225,717
Supplies	(1,957,980)	(1,027,359)	(2,985,339)	230,796	(2,754,543)
Personnel expenses	(418,647)	(254,376)	(673,023)	(11,856)	(684,879)
Other expenses	(1,469,176)	(1,339,501)	(2,808,677)	(21,983)	(2,830,660)
Operating income before depreciation and amortization (OIBDA)	**1,237,100**	**687,625**	**1,924,725**	**(26,910)**	**1,897,815**
Depreciation and amortization	(1,131,749)	(838,585)	(1,970,334)	(164,396)	(2,134,730)
Operating income	**105,351**	**(150,960)**	**(45,609)**	**(191,306)**	**(236,915)**
Finance income	6,349	8,578	14,927	–	14,927
Exchange gains	635	108	743	–	743
Finance costs	(33,409)	(48,675)	(82,084)	–	(82,084)
Exchange losses	(548)	(72)	(620)	–	(620)
Net financial income/(expense)	**(26,972)**	**(40,061)**	**(67,033)**	**–**	**(67,033)**
Profit/(loss) before tax from continuing operations	**78,379**	**(191,021)**	**(112,642)**	**(191,306)**	**(303,948)**
Income tax	(567)	–	(567)	95,766	95,199
Profit/(loss) after taxes for the year from continuing operations	**77,813**	**(191,021)**	**(113,209)**	**(95,540)**	**(208,749)**
Total profit/(loss) for the year	**77,813**	**(191,021)**	**(113,209)**	**(95,540)**	**(208,749)**
Profit/(loss) for the year attributable to owners of the parent	**77,813**	**(191,021)**	**(113,209)**	**(95,540)**	**(208,749)**
Profit/(loss) for the year	**77,813**	**(191,021)**	**(113,209)**	**(95,540)**	**(208,749)**
Earnings per share					
Basic earnings per share (in €)	0.07				(0.07)
Diluted earnings per share (in €)	0.07				(0.07)

1 The pro forma adjustments presented in this column relate to pro forma effects on revenues, supplies and other expenses from the elimination of supply and service relationships between Telefónica Deutschland and the New E-Plus Group, on depreciation and amortization in connection with a provisional purchase price allocation performed for the acquisition of the New E-Plus Group, on other expenses for acquisition-related costs assumed in connection with the Transaction and on personnel expenses through certain management bonus agreements in connection with the Transaction. The column furthermore reflects pro forma effects on income tax as a result of the aforementioned pro forma adjustments, the assumption that the Company would benefit from tax benefits arising at the New E-Plus Group level as well as the difference in statutory tax rates of the Company and the New E-Plus Group. Each pro forma adjustment is presented as if the Transaction had already closed on January 1, 2013.

2 Contains wireless business revenues €3,245,362 thousand comprising of wireless service revenues of €2,726,809 thousand and handset revenues of €518,553 thousand.

3 Contains pro forma wireless business revenues €6,694,538 thousand comprising of pro forma wireless service revenues of €5,492,236 thousand and pro forma handset revenues of €1,202,302 thousand.

PRO FORMA CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1, 2014 TO JUNE 30, 2014

The table below sets forth the pro forma adjustments (fifth column ("*Pro forma adjustments*")) made to the aggregate of (i) the historical IFRS consolidated income statement of the Company (second column ("*Telefónica Deutschland*")) and (ii) the historical IFRS consolidated income statement of KPN Mobile Germany GmbH & Co. KG adjusted for the effects of the pre-closing restructuring and presentation, accounting and valuation adjustments (third column ("*New E-Plus Group*")) on the basis of the assumption that the Transaction had already been closed as of January 1, 2013.

January 1 to June 30, 2014	Historical Financial Information				Pro forma consolidated income statement
	Telefónica Deutschland	New E-Plus Group	Total	Pro forma adjustments[1]	
	(in €thousands)				
Revenues	2,283,663	1,578,903[2]	3,862,556	(93,695)	3,768,871[3]
Other income	43,022	24,708	67,730	–	67,730
Supplies	(882,649)	(507,660)	(1,390,309)	99,070	(1,291,239)
Personnel expenses	(213,284)	(145,661)	(358,945)	6,135	(352,810)
Other expenses	(744,959)	(672,289)	(1,417,248)	(854)	(1,418,102)
Operating income before depreciation and amortization (OIBDA)	**485,792**	**278,001**	**763,793**	**10,656**	**774,449**
Depreciation and amortization	(533,988)	(361,130)	(895,118)	(82,222)	(977,340)
Operating income	**(48,195)**	**(83,129)**	**(131,324)**	**(71,566)**	**(202,890)**
Finance income	3,953	4,445	8,398	–	8,398
Exchange gains	161	18	179	–	179
Finance costs	(19,660)	(27,488)	(47,148)	–	(47,148)
Exchange losses	(474)	(33)	(507)	–	(507)
Net financial income/(expense)	**(16,020)**	**(23,058)**	**(39,078)**	**–**	**(39,078)**
Profit/(loss) before tax	**(64,215)**	**(106,187)**	**(170,402)**	**(71,566)**	**(241,968)**
Income tax	14	–	14	124,305	124,319
Total profit/(loss) for the period	**(64,201)**	**(106,187)**	**(170,388)**	**52,739**	**(117,649)**
Profit/(loss) for the period attributable to owners of the parent	**(64,201)**	**(106,187)**	**(170,388)**	**52,739**	**(117,649)**
Profit/(loss) for the period	**(64,201)**	**(106,187)**	**(170,388)**	**52,739**	**(117,649)**
Earnings per share					
Basic earnings per share (in €)	(0.06)				(0.04)
Diluted earnings per share (in €)	(0.06)				(0.04)

1 The pro forma adjustments presented in this column relate to pro forma effects on revenues, supplies and other expenses from the elimination of supply and service relationships between Telefónica Deutschland and the New E-Plus Group, on depreciation and amortization in connection with a provisional purchase price allocation performed for the acquisition of the New E-Plus Group, on other expenses for acquisition-related costs assumed in connection with the Transaction and on personnel expenses through certain management bonus agreements in connection with the Transaction. The column furthermore reflects pro forma effects on income tax as a result of the aforementioned pro forma adjustments, the assumption that the Company would benefit from tax benefits arising at the New E-Plus Group level as well as the difference in statutory tax rates of the Company and the New E-Plus Group. Each pro forma adjustment is presented as if the Transaction had already closed on January 1, 2013.

2 Contains wireless business revenues €1,571,793 thousand comprising of wireless service revenues of €1,333,402 thousand and handset revenues of €238,391 thousand.

3 Contains pro forma wireless business revenues €3,177,301 thousand comprising of pro forma wireless service revenues of €2,674,458 thousand and pro forma handset revenues of €502,843 thousand.

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2014

The table below sets forth the pro forma adjustments (fifth column ("*Pro forma adjustments*")) made to the aggregate of (i) the historical IFRS consolidated statement of financial position of the Company (second column ("*Telefónica Deutschland*")) and (ii) the historical IFRS consolidated statement of financial position of KPN Mobile Germany GmbH & Co. KG adjusted for the effects of the pre-closing restructuring and presentation, accounting and valuation adjustments (third column ("*New E-Plus Group*")) on the basis of the assumption that the Transaction had already been closed as of June 30, 2014.

As of June 30, 2014	Historical Financial Information				
	Telefónica Deutschland	New E-Plus Group	Total	Pro forma adjustments[1]	Pro forma consolidated statement of financial position
	(in €thousands)				
Assets					
A) Non-current assets	**6,935,334**	**4,371,969**	**11,307,304**	**3,107,649**	**14,414,953**
Goodwill	705,576	151,305	856,881	901,427	1,758,308
Intangible assets	2,717,326	1,732,092	4,449,418	2,832,148	7,281,566
Property, plant and equipment	2,818,161	2,298,921	5,117,082	(421,210)	4,695,872
Other non-current financial assets	110,748	173,516	284,264	–	284,264
Deferred tax assets	583,523	16,135	599,659	(204,716)	394,942
B) Current assets	**2,313,167**	**1,092,660**	**3,405,827**	**(38,755)**	**3,367,072**
Inventories	110,369	25,159	135,528	–	135,528
Trade and other receivables	1,171,811	712,748	1,884,559	(25,089)	1,859,470
Other current financial assets	24,713	–	24,713	–	24,713
Cash and cash equivalents	1,006,275	354,753	1,361,028	(13,666)	1,347,362
Total assets (A+B)	**9,248,502**	**5,464,629**	**14,713,131**	**3,068,894**	**17,782,025**
Equity and liabilities					
A) Equity	**5,399,166**	**4,010,297**	**9,409,464**	**3,043,083**	**12,452,547**
Common stock	1,116,946	10,102	1,127,048	1,660,330	2,787,378
Additional paid-in capital	430	1,434,630	1,435,060	3,922,130	5,357,190
Retained earnings	4,280,108	2,568,047	6,848,155	(2,541,859)	4,306,296
Other components of equity	1,683	(2,482)	(799)	2,482	1,683
Equity attributable to owners of the parent	**5,399,166**	**4,010,297**	**9,409,464**	**3,043,083**	**12,452,547**
B) Non-current liabilities	**2,262,739**	**349,524**	**2,612,263**	**15,374**	**2,627,637**
Non-current interest-bearing debt	1,812,596	–	1,812,596	–	1,812,596
Other payables	47,013	143,255	190,268	–	190,268
Non-current provisions	138,819	202,470	341,289	19,173	360,462
Deferred income	264,311	3,799	268,111	(3,799)	264,312
Deferred tax liabilities	–	–	–	–	–
C) Current liabilities	**1,586,596**	**1,104,808**	**2,691,404**	**10,436**	**2,701,840**
Current interest-bearing debt	12,687	5,271	17,958	–	17,958
Trade payables	1,098,617	550,368	1,648,985	(17,726)	1,631,259
Other payables	289,143	339,036	628,179	40,251	668,430
Current provisions	3,155	13,669	16,824	(149)	16,675
Deferred Income	182,995	196,464	379,459	(11,940)	367,519
Total equity and liabilities (A+B+C)	**9,248,502**	**5,464,629**	**14,713,131**	**3,068,894**	**17,782,025**

[1] The pro forma adjustments presented in this column relate to pro forma effects related to the rights offering, the capital increase against contribution in kind and the payment of the cash contribution as part of the Transaction, pro forma adjustments to property, plant and equipment, intangible assets and goodwill in connection with a provisional purchase price allocation performed for the acquisition of the New E-Plus Group, the equity elimination of the New E-Plus Group, the recognition of acquisition-related costs assumed in connection with the Transaction, the elimination of supply and service relationships between Telefónica Deutschland and the New E-Plus Group, as well as the consideration of certain management bonus agreements in connection with the Transaction. The column furthermore reflects pro forma effects on deferred tax assets and deferred tax liabilities as a result of the aforementioned pro forma adjustments as well as the difference in statutory tax rates of the Company and the New E-Plus Group. Each pro forma adjustment is presented as if the Transaction had already closed on June 30, 2014.

B.9	**Profit forecast or estimate**	Not applicable (the Company has not published a profit forecast or estimate).
B.10	**Qualifications in the audit report on the historical financial information**	Not applicable (there are no qualifications).
B.11	**Insufficiency of the issuer's working capital for its present requirements**	Not applicable (the Company believes that its working capital is sufficient for the present requirements of Telefónica Deutschland, that is, for at least 12 months following the date of this Prospectus).

	SECTION C – SECURITIES	
C.1	**A description of the type and the class of the securities being offered and/or admitted to trading**	The offering relates to 1,116,945,400 new ordinary non-par value registered shares (*Namensstückaktien*) in the Company from the capital increase against contribution in cash resolved by the ordinary general shareholders' meeting on May 20, 2014 with subscription rights for existing shareholders (the "**Offer Shares**"), each Offer Share entitled to full dividend rights for the year starting January 1, 2014. The admission to trading relates to the Offer Shares and 740,664,193 new ordinary non-par value registered shares (*Namensstückaktien*) from the capital increase against contribution in kind entitled to full dividend rights for the year starting January 1, 2014 to be resolved by the management board of the Company on or about September 23, 2014, to be approved by the supervisory board on the same day, utilizing a portion of the authorized capital resolved by the extraordinary general shareholders' meeting on September 18, 2012 ("**Authorized Capital 2012/I**") and the authorized capital resolved by the extraordinary general shareholders' meeting on February 11, 2014 ("**Authorized Capital 2014/I**") (the "**Consideration Shares**") (the Offer Shares and the Consideration Shares together referred to as the "**New Shares**").
	Security identification number	Ticker Symbol: O2D International Securities Identification Number ("**ISIN**"): DE000A1J5RX9 German Securities Code ("**WKN**"): A1J5RX
C.2	**Currency of the securities issue**	Euro.
C.3	**The number of shares issued and fully paid and issued but not fully paid. The par value per share, or that the shares have not par value**	At the date of this Prospectus, 1,116,945,400 ordinary shares with no par value have been issued and are all fully paid up.
C.4	**A description of the rights attached to the securities**	Each share of the Company entitles the shareholder to one vote at the Company's general shareholders' meeting. The New Shares carry full dividend rights for the year starting January 1, 2014 and for all subsequent financial years.
C.5	**A description of any restrictions on the free transferability of the securities**	Not applicable (there are no restrictions on the free transferability of the shares of the Company).
C.6	**An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded**	The Company intends to apply for admission of the New Shares to the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange and to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) on September 18, 2014 at the latest. The Company expects the admission decision regarding the Offer Shares on or about September 22, 2014 and inclusion of the Offer Shares in the existing quotation for the shares of the Company on September 25, 2014. The Company expects the admission decision regarding the Consideration Shares on or about October 8, 2014 and the inclusion of the Consideration Shares in the existing quotation for the shares of the Company on October 10, 2014.

C.7	**A description of dividend policy**	On May 20, 2014, the Company's general shareholders' meeting resolved upon the distribution of a dividend in the total amount of €525 million in cash to its shareholders for the year ended December 31, 2013, which was paid on May 21, 2014. For the year ending December 31, 2014, the management board currently intends to suggest to the general shareholders' meeting a cash dividend of at least €700 million, payable in 2015. The management board intends to maintain a high payout ratio in relation to free cash flow. With regards to the planned acquisition of the E-Plus Group, the management board and the supervisory board might also consider synergies expected to be realized in the near future when making a dividend proposal. The Company's management board and the supervisory board intend to make suggestions for the distribution of dividends to the general shareholders' meeting taking into account: (i) the profit for the year; (ii) historical and forecasted free cash flow and liquidity; (iii) distributable reserves available; (iv) benchmarking against other telecommunications companies; (v) the current and expected leverage and financial condition of the Company; (vi) the general economic and business conditions; (vii) any applicable legal and regulatory requirements; and (viii) any other factors the management board and supervisory board may deem relevant. Our management board and supervisory board intend to maintain the Company's leverage ratio (calculated by dividing net financial debt by OIBDA) below 1.0x over the medium term (the "**Target Leverage**"). In order to assess compliance with the Target Leverage, net financial debt will be measured as interest-bearing financial liabilities less interest-bearing financial assets, cash and cash equivalents, taking into account the value of financial derivatives and hedge arrangements. According to its financing policy, the Company aims to: (i) refrain from paying dividends, distributing capital or capital reserves in cash or buying back shares, if the ratio of net financial debt/OIBDA materially and consistently exceeds the Target Leverage; and (ii) restrict the use of new debt to pay dividends, allowing it only if the ratio of net financial debt/OIBDA complies with the Target Leverage.

SECTION D – RISKS

Investors should carefully consider the risks described below, in addition to the other information contained in this Prospectus, when deciding whether to invest in the Subscription Rights and/or the New Shares. The market price of the New Shares could fall if any of these risks were to materialize, in which case investors could lose all or part of their investments. The following risks, alone or together with additional risks and uncertainties which we currently do not know of or which we might currently deem immaterial, could materially adversely affect our business, financial condition and results of operations.

The order in which the risks are presented is not an indication of the likelihood of occurrence, the degree or significance of the individual risks or the scope of any potential adverse effects on our business. The risks mentioned could materialize individually or cumulatively.

D.1	**Key information on the key risks that are specific to the issuer or its industry**	**Risks Related to Our Business and Our Industry** • Recessionary conditions in the Eurozone, in particular in Germany, could adversely affect our business, financial condition and results of operations. • Our business activities are subject to extensive regulation and supervision by the Federal Network Agency ("**FNA**", *Bundesnetzagentur*) in Germany and other regulation authorities in Europe, such as the European Commission. If we fail to comply with applicable regulations or obligations imposed by the FNA, we may be subject to sanctions, which may have an adverse effect on our business. We could also be affected by regulatory actions carried out by antitrust or competition bodies which

		could prohibit certain actions, such as new acquisitions or specific practices. We expect this extensive regulation to continue to impact our business, financial condition and results of operations. • Increased transparency requirements for online and telesales and for the avoidance of so-called "bill shocks" (such as price caps or warning short messages) and on the performance capability of mobile and fixed-line broadband connections, could lead to customer churn and reduced revenues, which could have a material adverse effect on our business, financial condition and results of operations. • We are exposed to decreases in mobile and fixed-line termination rates and other rates such as roaming tariffs. Any future decreases of such rates, tariffs and charges could have a material adverse effect on our business, financial condition and results of operations. • The European Commission's "digital single market" initiative, which relates to different measures intended to improve the framework for investments into modern broadband networks and create favorable parameters for a strong European telecommunications sector, could adversely affect our business operations. • Our business depends on the expansion and upgrade of our existing network as an essential part of our business. Delayed regulatory approvals of microwave frequency usage rights (*Richtfunkfrequenzen*) applications could materially adversely affect the coverage, competitiveness and expansion of our mobile network, as such approvals are required to maintain existing network sites and to establish new sites. • Our licenses and assigned frequency usage rights have finite terms. We could be unable to renew or obtain our licenses and frequency usage rights necessary for our business upon expiration of their terms or we may have to make significant investments to maintain our licenses, both of which could materially adversely affect our operations and financial position. • The German telecommunications market is characterized by high levels of competition from existing and potential new mobile network operators, fixed-line wholesale providers and factors beyond our control such as consumer trends for using new technology. Our inability to compete effectively in this competitive environment could have a material adverse effect on our business, financial condition and results of operations. • We face significant levels of competition from mobile virtual network operators ("**MVNO**") and branded resellers. • We face increasing competition from alternative telecommunications providers, such as cable network companies and consumer electronics companies as well as from providers of alternative telecommunications services, such as OTT applications. • We may acquire or sell assets or enter into joint ventures or other business relationships which may generate lower revenues, cash flows and earnings than anticipated. We may experience difficulties integrating acquired assets in a timely manner and we may be unable to realize anticipated synergies. • The telecommunications industry has been, and will continue to be, affected by rapid technological change and we may not be able to effectively anticipate or react to these changes. • Cooperation agreements or joint ventures with other market participants may not be approved by the competent authorities due to regulatory or competition reasons which could lead to higher investment costs and limited product offers. • We may not realize the expected level of demand for our products and services, or the expected level or timing of revenues generated by those products and services, as a result of lack of market acceptance or technological change.

		• Constraints or prohibitions to source or sell handsets could impair our business. Devices could have limited access to or be incompatible with our network. • The success of our business operations depends on our ability to attract and retain customers. In addition, we may not be able to meet the contractual obligations of our larger business customers due to external circumstances, which could lead to the termination of business customer contracts. • 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. • Any failure to maintain or further develop our direct and indirect distribution channels or any failure to anticipate the distribution channels customers prefer to use to purchase our products could adversely affect our ability to sustain and further grow our customer base. • Our business is capital intensive. We may not have sufficient liquidity or financing options available to fund or support our working capital or capital expenditures. • We rely heavily on certain providers, including Deutsche Telekom for network infrastructure, BT Germany for equipment, services related to our sites and in connection with the installation and operation of our IT and communications equipment and supporting infrastructure as well as with housing of our core sites and access sites, and network operators for roaming services. Any failure to find suitable alternative providers in case of a termination of the respective service agreements could materially adversely affect our business, financial condition and results of operations. • Over recent years, we have outsourced parts of our operations, including most of our technical services, the maintenance of our networks and significant parts of our call centers and we intend to continue with this strategy. Our reliance on outsourcing makes us vulnerable to failures and a lack of availability of certain essential operations and services. • A termination or failure to renew existing agreements or partnerships with MVNOs, branded resellers and service providers could negatively impact our ability to diversify and grow our customer base and revenues. • Competition for the type of qualified employees that we need to successfully run and develop our business is intense. The loss of qualified employees or an inability to attract, retain and motivate highly skilled employees required for the operation of our business may have an adverse effect on our business. • We use technologies that are possibly protected by third parties' rights. Increasing dependence of the telecommunications equipment industry on proprietary technology may increase the possibility that we will be exposed to litigation or other proceedings to defend against alleged infringements of, or disputes in relation to, the intellectual property rights of others. We may be unable to adequately protect our own intellectual property rights. • We could infringe data, consumer protection and unfair trade laws which could result in regulatory investigations, fines, loss of reputation and customer churn. • We may be adversely affected by the mandatory implementation of new payment formats and procedures under the Single Euro Payments Area, in particular in connection with directly debiting customers. • We may be adversely affected by public perception of alleged health risks associated with electromagnetic radio emissions and wireless communications devices and base stations.

		• Our insurance policies may be inadequate to cover damages from unexpected events. • We could be obligated to pay additional taxes as a result of tax audits. Changes in tax laws or in the interpretation of tax laws by courts or tax authorities may also have a material adverse effect on our business, financial condition and results of operations. • We may not be in a position to use the full amount of our tax losses carried forward. The potential forfeiture of losses carried forward could result in a higher tax burden in future tax assessment periods (once the Company generates taxable profits). **Risks Related to Our Acquisition of the E-Plus Group** • Pursuant to the SPA, KPN, Telefónica, S.A. and the Company agreed on the Transaction. The closing of the Transaction is subject to the occurrence or waiving of conditions precedent, some of which cannot be waived. Should any of the conditions precedent of the SPA not be satisfied or waived on or before March 1, 2015, each of KPN, Telefónica, S.A. and the Company may terminate the SPA and consequently, the Transaction will fail. For Telefónica Deutschland, a failure of the Transaction may entail reputational damage as well as financial hardships caused, *inter alia*, by the efforts and the costs incurred in connection with the Transaction. • The Transaction is subject to additional restrictions and conditions imposed by the competent competition or regulatory authority, which could lead to increased competition for the New Group and could have a material adverse effect on Telefónica Deutschland's and the New Group's business, financial condition and results of operations. • Warranty claims and claims for damages and indemnification included in the SPA made by KPN are limited in scope and amount and are subject to time limits. • The pro forma consolidated financial information of the Company describes only a hypothetical situation and thus, due to its nature, the presentation does not reflect the actual net assets, financial position and results of operations of Telefónica Deutschland upon the closing of the Transaction. • The historical consolidated financial information of the E-Plus Group contained in the Prospectus may not be considered indicative of the E-Plus Group's future performance as part of the New Group. While being largely neutral with regard to free cash flow, the profit for the period shown in the audited consolidated financial statements as of and for the year ended December 31, 2013 and the unaudited interim condensed consolidated financial statements as of and for the six months ended June 30, 2014 of KPN Mobile Germany would have been significantly lower had the accounting policies of the Company been applied with the main differences resulting from the different accounting treatment of arrangements for leasing mobile devices to customers, of dismantling obligations with regard to network sites and of the capitalization of own work. • The E-Plus Group's business activities are exposed to risks that are comparable to the aforementioned risks related to our business and our industry and could be exposed to additional risks. • The E-Plus Group depends on certain large wholesale partners and on certain service providers and suppliers for network infrastructure and its IT systems. • The E-Plus Group will remain dependent on KPN for the provision of essential services and also as a counterpart to a number of material agreements after the closing of the Transaction. • The New Group might be subject to claims for payments resulting from pension obligations towards employees of the E-Plus Group.

		• The New Group might have limited influence on maintaining and improving E-Plus Group's networks, systems and operations and may face additional costs resulting from contractual obligations subsisting after the closing of the Transaction. • Telefónica Deutschland may not be successful in integrating the E-Plus Group into its existing business in the manner, or within the time frame, as currently anticipated or only at higher costs. • Telefónica Deutschland is exposed to further risks related to the Transaction, *inter alia*, that the Transaction might prove less successful than anticipated, the combination of both businesses might not develop as expected and revenues and earnings goals may not be achieved. We may also be exposed to risks or problems of the E-Plus Group that were not detected during the due diligence process preceding the Transaction and that could not have been derived from available financial information on the E-Plus Group. In addition, the combination process of both businesses could negatively impact our operational business should this task divert our management from other responsibilities or could lead to the possible loss of key employees. Estimated synergy effects may not be realized to the extent planned or at all or could prove to be incorrectly forecasted. • The Transaction could entitle customers, suppliers, service providers or other contractual partners to terminate their contracts with the E-Plus-Group or result in contractually agreed restrictions for the New Group. • The structure of the Transaction could lead to the liability of the Company for tax liabilities of KPN Mobile Germany and liabilities under shareholder loans between KPN Mobile Germany on the one hand and KPN and/or companies affiliated with KPN on the other hand. **Risks Related to Our Relationship with Telefónica, S.A.** • Our majority shareholder, Telefónica, S.A., continues to exercise considerable influence over us and our operations, and the interests of Telefónica, S.A. may conflict with those of other shareholders of the Company. • We may have conflicts of interests with Telefónica Group companies. • We are dependent on Telefónica Group for essential services, *inter alia*, the licenses of the Telefónica and the O_2 brand. Failure to renew existing service agreements with our parent company, Telefónica, S.A., at all or under mutually favorable terms, or a default of Telefónica Group in performing its obligations under these agreements could adversely affect our business, financial condition and results of operations. • We license the use of our primary brand O_2 from Telefónica Group. Although the term of the license is indefinite, it may be terminated for good cause, including if we experience a hostile take-over. If we were unable to continue to use the O_2 brand due to a termination of the license or for any other reason, significant time, effort and resources would be required to establish a new brand identity. • Our relationship with Telefónica Group could limit our ability to work with Telefónica Group's competitors. • Our market image is influenced by Telefónica Group's image. Negative publicity or problems associated with Telefónica Group could be detrimental to our image.
D.3	**Key information on the key risks that are specific to the securities**	• Sales of a large volume of shares in the Company by major shareholders could cause significant downward pressure on the Company's share price.

		• Future capitalization measures could lead to substantial dilution, *i.e.*, a reduction in the value of the shares and the control rights, of existing shareholders' interests in the Company or adversely affect our share price. • The market price for the Company's shares is volatile and the subscription price could exceed the market price. • Trading of subscription rights might not develop, and subscription rights could be subject to stronger price fluctuations than the Company's shares. • The investments of shareholders who fail to participate in this Offering will be diluted considerably. • Foreign legal provisions could prevent certain shareholders in foreign jurisdictions from subscribing to the shares. • The rights of shareholders in a German company may differ from the rights of shareholders in companies organized under the laws of other jurisdictions. • Investors whose reference currency is not the euro may be exposed to exchange rate risks when investing in the Company's shares. • Our ability to pay dividends in the future depends on several factors. • Should the Underwriters be unable to place the Offer Shares pursuant to the Offering, this may exert pressure on the Company's share price. • The Underwriters involved in this Offering have the right to withdraw from the underwriting agreement under certain circumstances. Should the Offering not be conducted due to such a withdrawal, the subscription rights will expire and be rendered worthless.

SECTION E – OFFER		
E.1	**The total net proceeds and an estimate of the total expenses of the issue/ offer**	The Company expects that the Offering will raise net proceeds of approximately €3.59 billion (gross proceeds of approximately €3.62 billion less the estimated expenses, commissions and taxes related to the Offering of approximately €33 million).
	Estimated expenses charged to the investor by the issuer or the offeror	Not applicable (the Issuer or the Underwriters will not charge any expenses or taxes).
E.2a	**Reasons for the offer, use of proceeds, estimated net amount of the proceeds**	The reason for the Offering is the acquisition of the E-Plus Group by the Company. The Company will use the net proceeds of the Offering in the expected amount of approximately €3.59 billion to partially finance the Transaction. Upon the closing of the Transaction, KPN Mobile Germany will receive (i) approximately €3.64 billion (€3.7 billion minus €64 million preliminary net debt and working capital adjustment) in cash from the Company (this cash component being partially financed via the Offering); and (ii) the Consideration Shares in such number as will represent 24.9% of the Company's total share capital issued and outstanding following the consummation of the Offering and the issuance of the Consideration Shares. The Company will finance the difference of approximately €50 million between the cash component of approximately €3.64 billion and the expected net proceeds of approximately €3.59 billion by using available cash and cash equivalents.
E.3	**A description of the terms and conditions of the offer**	This Offering relates to 1,116,945,400 Offer Shares of Telefónica Deutschland Holding AG, each Offer Share with a notional value of €1.00 and entitled to full dividend rights for the year starting January 1, 2014 to be offered to the Company's shareholders for subscription by way of an indirect subscription right at a ratio of 1 to 1. The Offer Shares derive from the capital increase

		resolved by the ordinary general shareholders' meeting on May 20, 2014, pursuant to which the Company's share capital is to be increased by up to €3,700,000,000.00 against contribution in cash through the issuance of up to 3,700,000,000 new shares with subscription rights for existing shareholders. The resolution was registered in the commercial register at the local court (*Amtsgericht*) of Munich on July 10, 2014. On September 9, 2014, the Underwriters executed an underwriting agreement with the Company (the "**Underwriting Agreement**"), pursuant to which the Underwriters have undertaken to underwrite the Offer Shares and offer them to the Company's existing shareholders and holders of subscription rights via a public rights offering in Germany and Luxembourg and via a private placement in the United States to qualified institutional buyers ("**QIBs**") in reliance on the exemption from the registration requirements provided by Rule 144A under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and outside the United States in offshore transactions in reliance on Regulation S under the Securities Act at the Subscription Price for each Offer Share in accordance with the subscription ratio (the "**Rights Offering**"). The Offer Shares remaining after completion of the Rights Offering for which Subscription Rights have not been exercised (the "**Rump Shares**") will either: (i) be offered by the Underwriters to institutional investors in certain jurisdictions at a price which shall be not less than the Subscription Price (the "**International Offering**" and together with the Rights Offering, the "**Offering**"); or (ii) be dribbled-out via sales through stock exchange transactions or otherwise by the Underwriters (the "**Dribble-Out**"). The International Offering will take place outside the United States pursuant to Regulation S under the Securities Act and inside the United States only to QIBs in reliance on the exemption from the registration requirements provided by Rule 144A under the Securities Act. The Dribble-Out will take place solely outside the United States pursuant to Regulation S under the Securities Act. Telefónica, S.A. has irrevocably committed to fully subscribe through its wholly-owned subsidiary Telefónica Germany Holdings Limited for issued Offer Shares attributable to its indirect shareholding in the Company. Offer Shares not purchased after completion of the Offering shall be purchased by the Underwriters at the Subscription Price. The completion of the Offering is subject to conditions, including the registration of the implementation of the capital increase against contribution in cash in the commercial register of the local court (*Amtsgericht*) of Munich, Germany, which is expected to occur on or about September 19, 2014. Under certain circumstances, the Rights Offering and the International Offering may be cancelled.
	Exercise of subscription rights	Shareholders may exercise their subscription rights to purchase Offer Shares through their custodian bank at HSBC as the subscription agent during regular business hours from September 10, 2014 through September 23, 2014. Subscription rights lapse if they are not exercised within the stipulated period.
	Subscription price	The subscription price ("**Subscription Price**") per Offer Share will be €3,24. The Subscription Price must be paid no later than September 24, 2014, to be received by HSBC as the subscription agent at the latest by 10:00 a.m. CEST.
	Subscription rights trading	The subscription rights with respect to the Offer Shares (ISIN DE000A12UKL4 / WKN A12UKL) are expected to be traded on the regulated market (XETRA / XETRA Frankfurt Specialist) of the Frankfurt Stock Exchange from September 10, 2014 through September 19, 2014 (both inclusive). No application will be made for the subscription rights to be traded on any other stock exchange. No consideration will be paid for unexercised subscription rights. Once the Subscription Period has ended, subscription rights that have not been exercised will lapse and lose all value. Beginning on September 10, 2014, the Company's existing shares will be quoted on the regulated market (Prime Standard) of the Frankfurt Stock Exchange ex-subscription rights (*ex Bezugsrecht*).

	Delivery of the Offer Shares	The Offer Shares subscribed for in the Rights Offering are expected to be credited to a collective securities deposit account and made available to the shareholders on or about September 25, 2014, unless the Subscription Period has been extended. Delivery of the unsubscribed Offer Shares to be sold in the International Offering is expected to occur on or about September 25, 2014, unless the Subscription Period has been extended.
	Stabilization Measures	In connection with the offering of the Offer Shares, UBS Investment Bank, acting as the stabilization manager (the "**Stabilization Manager**"), may, including through companies affiliated with it, at its discretion, effect transactions with a view to relieving selling pressure by supporting the market price of the Company's shares at a level higher than that which might otherwise prevail in the open market ("**Stabilization Measures**"). The Stabilization Manager is under no obligation to undertake Stabilization Measures. No guarantee is therefore given that Stabilization Measures will actually be taken. If Stabilization Measures are taken, they may be discontinued at any time without prior notice. Stabilization Measures may be commenced at any time following the publication of the Subscription Price and must be terminated no later than the 30th calendar day following the expiration of the Subscription Period (expected to be on October 23, 2014) (the "**Stabilization Period**"). Stabilization Measures may lead to a higher trading or market price of the Company's shares than would otherwise prevail. The trading or market price may temporarily attain a level that is not sustainable in the long term. Within a week following the expiration of the Stabilization Period, a press release containing the following information will be published in various media distributed across the entire European Economic Area: (1) whether Stabilization Measures were actually implemented; (2) the date on which a Stabilization Measure was commenced; (3) the date the last Stabilization Measure was taken; and (4) the price range within which Stabilization Measures were implemented. This information will be provided with respect to each date on which a Stabilization Measure was taken.
E.4	**A description of any interest that is material to the issue/ offer including conflicting interests**	The Company has an interest in the Offering as it will use the net proceeds of the Offering to partially finance the Transaction. The Underwriters have a contractual relationship with the Company in connection with the Offering and admission to trading of the Offer Shares on the Frankfurt Stock Exchange. The Underwriters have been mandated by the Company to act as underwriters of the Offering. Upon completion of the Offering, the Underwriters will receive a commission. The Underwriters also are obligated under the Underwriting Agreement to purchase Offer Shares not subscribed for by shareholders or either (i) placed with investors at the Subscription Price or (ii) purchased in the market via the Dribble-Out. The Underwriters may from time to time enter into business relationships with the Company or render services to it in connection with ordinary business activities. The Underwriters have the following other business relationships with the Company or its subsidiaries: – BofA Merrill Lynch and UBS Investment Bank are engaged by the Company as M&A advisors in connection with the Transaction; – Citigroup, HSBC and Morgan Stanley are engaged by Telefónica, S.A. as M&A advisors in connection with the Transaction; and – J.P. Morgan is engaged by KPN as M&A advisor in connection with the Transaction. Telefónica, S.A. has an interest in the success of the Offering as it is obligated under the SPA to procure the subscription of all Offer Shares. KPN Mobile Germany has an interest in the Offering as the net proceeds from the Offering will be used to finance the cash component of the purchase price for the Transaction.

E.5	**Name of the person or entity offering to sell the security**	The Offer Shares are being offered for sale by the Underwriters.
	Lock-up agreements: the parties involved; and indication of the period of the lock up	The Company has committed itself to the Underwriters, commencing on the date of the Underwriting Agreement and ending 180 calendar days after September 25, 2014 without the prior written consent of the Underwriters: (i) not to announce to issue or effect a capital increase from authorized capital; (ii) not to submit a proposal for a capital increase to any meeting of the shareholders for resolution; (iii) not to announce to issue, effect or submit a proposal for the issuance of any securities convertible into shares of the Company; and (iv) not to enter into a transaction or perform any action economically similar to those described in (i) through (iii). This lock-up provision does, however, not apply to (i) the issuance or sale, as applicable, of shares or other securities issued under employee participation programs or stock option plans to (present or future) employees of the Company or its subsidiaries as well as (ii) the issuance of shares against contributions in kind in connection with any acquisition, equity investment or joint venture directly to the partner in any such acquisition, equity investment or joint venture. Telefónica, S.A. has committed to the Underwriters for a period ending 90 calendar days after admission of the Offer Shares to the regulated market (*regulierter Markt*) segment of the Frankfurt Stock Exchange and the sub-segment thereof with additional post-admission obligations (Prime Standard), except with the prior written consent of the Joint Global Coordinators (such consent not to be unreasonably withheld or delayed), not to: i. offer, pledge, allot, sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of the Company or any other securities of the Company, excluding securities which are not convertible into or exercisable or exchangeable for shares of the Company; ii. conclude any swap agreements that would transfer the economic risk of ownership of the shares of the Company to a third party; iii. make any demand for, or exercise any right with respect to registration under U.S. securities laws of any shares of the Company or any security convertible into or exercisable or exchangeable for shares of the Company; iv. propose any increase in the share capital to the general shareholders' meeting of the Company, vote in favor of such a proposed increase or otherwise support any proposal for the issuance of any security convertible into shares of the Company, with option rights for shares of the Company, whether directly or indirectly; or v. enter into a transaction or perform any action economically similar to those described under i. through iv. above. This does not apply to (a) the issuance or sale, as applicable, of shares or other securities issued under employee participation programs or stock option plans to (present or future) employees of the Company or its subsidiaries as well as (b) the issuance of shares against contributions in kind in connection with any acquisition, equity investment or joint venture directly to the partner in any such acquisition, equity investment or joint venture. Telefónica, S.A.'s undertakings under i. through v. above do not apply to disposals within the framework of a public takeover bid or purchase offer made by a third-party or pursuant to private sales (*i.e.*, other than through stock exchange trades or transactions similar to stock exchange trades, such as accelerated book-building offerings) to third parties provided that such party or parties assume *vis-à-vis* the Joint Global Coordinators the aforementioned selling restrictions. Further excluded from Telefónica, S.A.'s undertakings under i. through v. above are transactions with companies affiliated with Telefónica, S.A., provided that any such affiliate assumes *vis-à-vis* the Joint Global Coordinators the aforementioned selling restrictions.

E.6	**The amount and percentage of immediate dilution resulting from the offer. In case of a subscription offer to the existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer**	***Dilutive Effect of the Issuance of the Offer Shares*** The Company's share capital currently amounts to €1,116,945,400.00. It is divided into 1,116,945,400 ordinary registered shares with no par value, each such share with a notional value of €1.00. Under the assumption that (i) all Offer Shares are subscribed and/or placed; and (ii) the implementation of the capital increase by €1,116,945,400 through the issuance of 1,116,945,400 Offer Shares against cash contributions as part of the Offering is registered with the commercial register of the Company, the Company's share capital will amount to €2,233,890,800. Accordingly, the proportionate holdings of the Company's existing shareholders who do not participate in the Offering would be diluted by 50.0%. The consolidated equity less goodwill, intangible assets and deferred tax assets under IFRS (the "**Net Book Value**") of the Company as of June 30, 2014 amounted to €1,393 million (based on the Unaudited Interim Condensed Consolidated Financial Statements), or €1.25 per share (calculated on the basis of 1,116,945,400 shares of the Company outstanding as of June 30, 2014). Assuming an implementation of the Offering at the Subscription Price of €3.24 per Offer Share and corresponding net proceeds from the Offering of approximately €3,586 million, the Net Book Value of the Company as of June 30, 2014 would have amounted to €4,979 million, or €2.23 per share (calculated on the basis of 2,233,890,800 shares of the Company outstanding after implementation of the capital increase in connection with the Offering). This would correspond to a direct increase in the Net Book Value of the Company by €0.98, or 78.4%, per share for the existing shareholders not participating in the Offering. Investors purchasing Offer Shares at the Subscription Price of €3.24 per Offer Share would be directly diluted by €1.01, or 31.2%, per share upon the full implementation of the Offering at the Subscription Price. ***Dilutive Effect of the Issuance of the Consideration Shares*** Assuming the full implementation of the Offering and registration of the corresponding capital increase with the commercial register, 740,664,193 Consideration Shares (or 24.9% of the Company's total number of shares upon implementation of both the capital increase against cash contribution and the capital increase against contribution in kind) will be issued to KPN, taking the total number of shares in the Company to 2,974,554,993. The capital increase against contribution in kind with regard to which subscription rights of existing shareholders are excluded would, on the basis of the preceding assumptions, lead to a dilution of the proportionate holdings of the Company's shareholders by 24.9%. Assuming the full implementation of the Offering and that 740,664,193 Consideration Shares would be issued from the capital increase against contribution in kind valued on the basis of €4.52 per Consideration Share estimated on the basis of the XETRA closing price of the Company's shares as at September 8, 2014 and estimated expenses of the capital increase against contribution in kind of approximately €2 million, the Net Book Value of the Company as of June 30, 2014 would have amounted to €8,325 million, or €2.80 per share (calculated on the basis of 2,974,554,993 shares of the Company outstanding after implementation of the capital increase against cash contribution in connection with the Offering and the capital increase against contribution in kind). This would correspond to a direct increase in the Net Book Value of the Company by €0.57 per share, or 25.6%, for the existing shareholders.
E.7	**Estimated expenses charged to the investor by the issuer or the offeror**	Not applicable (the Issuer or the Underwriters will not charge any expenses or taxes).

GERMAN TRANSLATION OF THE SUMMARY

ZUSAMMENFASSUNG

Zusammenfassungen setzen sich aus Offenlegungspflichten zusammen, die als "Elemente" bekannt sind. Diese Elemente sind in die Abschnitte A – E (A.1 – E.7) nummeriert.

Diese Zusammenfassung (die "**Zusammenfassung**") enthält alle Elemente, die in eine Zusammenfassung für diese Art von Wertpapieren und Emittenten aufzunehmen sind. Da einige Elemente nicht zu berücksichtigen sind, kann die Nummerierung Lücken aufweisen.

Auch wenn ein Element wegen der Art der Wertpapiere und des Emittenten in die Zusammenfassung aufgenommen werden muss, ist es möglich, dass bezüglich dieses Elements keine relevante Information gegeben werden kann. In einem solchen Fall ist in der Zusammenfassung eine kurze Beschreibung des Elements unter Bezeichnung als "entfällt" enthalten.

ABSCHNITT A – EINLEITUNG UND WARNHINWEISE		
A.1	**Warnhinweise**	**Warnhinweise, dass:** • diese Zusammenfassung als Einleitung zum Prospekt ("**Prospekt**") verstanden werden sollte; • sich der Anleger bei jeder Entscheidung, in die betreffenden Wertpapiere zu investieren, auf den Prospekt als Ganzen stützen sollte; und • ein Anleger, der wegen der in dem Prospekt enthaltenen Angaben Klage einreichen will, nach den nationalen Rechtsvorschriften seines Mitgliedstaats des Europäischen Wirtschaftsraums (die "**Mitgliedstaaten**") möglicherweise für die Übersetzung des Prospekts aufkommen muss, bevor das Verfahren eingeleitet werden kann. • Telefónica Deutschland Holding AG, München (die "**Gesellschaft**" oder die "**Emittentin**", gemeinsam mit ihren direkten und indirekten Tochtergesellschaften und gemeinschaftlichen Tätigkeiten (Joint Operations) "**Telefónica Deutschland**" oder "**wir**"), zusammen mit Citigroup Global Markets Limited, London ("**Citigroup**"), HSBC Trinkaus & Burkhardt AG, Düsseldorf ("**HSBC**"), Morgan Stanley & Co. International plc, London ("**Morgan Stanley**"), und UBS Limited, London ("**UBS Investment Bank**") (jeweils ein "**Joint Global Coordinator**" und, gemeinsam, die "**Joint Global Coordinators**"), Merrill Lynch International, London (handelnd unter dem Marketingnamen BofA Merrill Lynch) ("**BofA Merrill Lynch**"), und J.P. Morgan Securities plc, London ("**J.P. Morgan**") (die Joint Global Coordinators, BofA Merrill Lynch und J.P. Morgan jeweils ein "**Joint Bookrunner**" und, gemeinsam, die "**Joint Bookrunners**"), sowie Bayerische Landesbank, München ("**Bayern LB**"), Société Générale, Paris ("**Société Générale Corporate & Investment Banking**"), Banco Bilbao Vizcaya Argentaria S.A., Bilbao ("**BBVA**"), COMMERZBANK Aktiengesellschaft, Frankfurt ("**COMMERZBANK**"), BNP Paribas, Paris ("**BNP Paribas**"), UniCredit Bank AG, München ("**UniCredit Bank AG**"), Banco Santander, S.A., Santander ("**Banco Santander**"), Mediobanca – Banca di Credito Finanziario S.p.A., Mailand ("**Mediobanca**") (Bayern LB, Société Générale Corporate & Investment Banking, BBVA, COMMERZBANK, BNP Paribas, UniCredit Bank AG, Banco Santander und Mediobanca jeweils ein "**Co-Lead Manager**" und, gemeinsam, die "**Co-Lead Managers**"; die Co-Lead Managers gemeinsam mit den Joint Bookrunners, die "**Konsortialbanken**"), übernehmen die Verantwortung für den Inhalt dieser Zusammenfassung einschließlich der deutschen Übersetzung gemäß § 5 Absatz 2b Ziff. 4 des Wertpapierprospektgesetzes. Diejenigen Personen, die für die Erstellung der Zusammenfassung verantwortlich sind oder von denen der Erlass ausgeht, können für den Inhalt der Zusammenfassung einschließlich ihrer deutschen Übersetzung haftbar gemacht werden, jedoch nur für den Fall, dass die Zusammenfassung irreführend, unrichtig oder widersprüchlich ist, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, oder sie, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, nicht alle erforderlichen Schlüsselinformationen vermittelt.

A.2	**Zustimmung zur Verwendung des Prospekts für die spätere Weiterveräußerung oder endgültige Platzierung von Aktien durch Finanzintermediäre**	Entfällt (die Emittentin hat keine Zustimmung zur Verwendung des Prospekts für die spätere Weiterveräußerung oder endgültige Platzierung von Aktien durch Finanzintermediäre erteilt).

ABSCHNITT B – EMITTENTIN		
B.1	**Juristische und kommerzielle Bezeichnung des Emittenten**	Der juristische und kommerzielle Name der Emittentin ist Telefónica Deutschland Holding AG.
B.2	**Sitz / Rechtsform / geltendes Recht/ Land der Gründung**	Telefónica Deutschland Holding AG ist eine nach dem Recht der Bundesrepublik Deutschland gegründete deutsche Aktiengesellschaft. Sie hat ihren Sitz unter der Adresse Georg-Brauchle-Ring 23-25, 80992 München, Deutschland.
B.3	**Art der derzeitigen Geschäftstätigkeit und Haupttätigkeiten des Emittenten samt der hierfür wesentlichen Faktoren, Hauptprodukt und/ oder -dienstleistungskategorien, Hauptmärkte, auf denen der Emittent vertreten ist**	Telefónica Deutschland ist der drittgrößte integrierte Telekommunikationsanbieter in Deutschland gemessen an den Umsatzerlösen von 2013 (*Quelle: von den deutschen Netzbetreibern Deutsche Telekom, Vodafone und Telefónica Deutschland veröffentlichte Finanzinformationen*), mit ungefähr 25,1 Millionen Kundenanschlüssen zum 30. Juni 2014. Wir bieten Privat- und Geschäftskunden Mobilfunk- und Festnetzprodukte einschließlich Telefonie, Datendiensten sowie Mehrwertdiensten (*Value Added Services*) an. Darüber hinaus sind wir einer der führenden Großhandelsdienstleistungsanbieter, oder auch Wholesale-Service-Provider, im Bereich Telekommunikation in Deutschland und bieten unseren Großhandelspartnern, oder auch Wholesale-Partnern, Zugang zu unserer Mobil- und Festnetzinfrastruktur und unseren Dienstleistungen. Telefónica, S.A., eines der größten Telekommunikationsunternehmen der Welt, hält indirekt 76,83% der Aktien der Gesellschaft (Telefónica, S.A. gemeinsam mit ihren direkten und indirekten Tochtergesellschaften, unter Ausschluss von Telefónica Deutschland, die "**Telefónica Gruppe**"). Wir betreiben ein deutschlandweites Mobilfunknetz mit einer Global System for Mobile Communications ("**GSM**" oder "**2G**")-Netzabdeckung von mehr als 99% der deutschen Bevölkerung, mit einer Universal Mobile Telecommunications System ("**UMTS**" oder "**3G**")-Netzabdeckung von ungefähr 76% der deutschen Bevölkerung (beides jeweils zum 30. Juni 2014) und mit Long Term Evolution ("**LTE**" oder "**4G**")-Netzabdeckung von mehr als 50% der deutschen Bevölkerung (zum 30. Juni 2014). Darüber hinaus betreiben wir ein deutschlandweites Festnetz. Unsere strategische Kooperation mit der Telekom Deutschland GmbH hat die Digital Subscriber Line ("**DSL**")-Abdeckung unseres Festnetzes auf 98% der deutschen Haushalte ausgeweitet. Aufgrund unserer Vereinbarung mit der Telekom Deutschland GmbH hinsichtlich eines very-high-bit-rate DSL ("**VDSL**")-Kontingentmodells können wir ungefähr 15 Millionen Haushalten Datenübertragungsraten von bis zu 50 MBit/s und in ausgewählten Regionen Datenübertragungsraten von bis zu 100 MBit/s mit VDSL-Vectoring anbieten. Unser Mobilfunknetz wird auf Basis der Technologie-Standards GSM oder 2G, UMTS oder 3G und, seit neuestem, LTE oder 4G betrieben. Wir vertreiben unsere Produkte im Rahmen einer Mehrmarken-, oder auch Multi-Brand-Strategie. Den Großteil unserer post-paid und pre-paid Mobilfunk- und Festnetz-Produkte und -Services sowie konvergierten Produktangebote und Mehrwertdienste (*Value Added Services*) bieten wir unter unserer Premium-Hauptmarke O_2 an. Wir erreichen weitere Kundengruppen durch unsere Zweit- und Partnermarken sowie durch unsere Wholesale-Vertriebskanäle. Zweitmarken umfassen unsere eigenen Marken FONIC und netzclub oder Marken, die durch Joint-Ventures und strategische Partnerschaften gehalten werden, wie Tchibo mobil. Wir vertreiben ebenfalls Hochgeschwindigkeits-Internetanschlüsse und Festnetztelefonie über DSL (unter den Standards Asymmetric Digital Subscriber Line 2+ ("**ADSL2+**") und VDSL). Im Rahmen unseres Wholesale-Geschäfts bieten wir Mobilfunk-, Festnetz- und Mehrwertdienste (*Value Added Services*) für Kunden wie 1&1, mobilcom/debitel, Drillisch und die zwei großen deutschen Kabelanbieter an.

Wir adressieren unsere Small office/Home office ("**SoHo**"), kleinen und mittelständischen Geschäftskunden ("**SME**") und großen nationalen Unternehmen über unsere O_2-Marke sowie große internationale Unternehmen über unsere Marke Telefónica Multinational Solutions. Wir bieten unsere Produkte über eine diversifizierte Vertriebsplattform an, die direkte (landesweites Netzwerk selbst betriebener Shops und O_2 Partnershops, Premium Partner, Online und Telesales) und indirekte (Einzelhandel/ Partnerschaften mit Internethändlern und Händler/Kooperationen) Vertriebskanäle umfasst.

Im Geschäftsjahr 2013 konnten wir Umsatzerlöse von €4,9 Milliarden und ein Betriebsergebnis vor Abschreibungen (*Operating Income Before Depreciation and Amortization*, "**OIBDA**") von €1,2 Milliarden verzeichnen, was einer Abnahme der Umsatzerlöse von 5,7% und des OIBDA von 3,3% gegenüber dem Vorjahr entspricht.

Aufgrund eines Kaufvertrags vom 23. Juli 2013, geändert am 26. August 2013, 28. August 2013, 5. Dezember 2013, 24. März 2014 und 7. August 2014, zwischen Koninklijke KPN N.V. ("**KPN**", gemeinsam mit ihren direkten und indirekten Tochtergesellschaften, die "**KPN Gruppe**"), Telefónica, S.A. und der Gesellschaft (das "**SPA**") wird die Gesellschaft die E-Plus Mobilfunk GmbH & Co. KG ("**Neue E-Plus KG**", vormals E-Plus Transition GmbH & Co. KG) nach Übertragung sämtlicher Vermögenswerte, Geschäftsaktivitäten und bestimmter Verbindlichkeiten der KPN Mobile Germany GmbH & Co. KG ("**KPN Mobile Germany**", vormals E-Plus Mobilfunk GmbH & Co. KG) auf die Neue E-Plus KG erwerben (die "**Transaktion**"). Seit der Übertragung auf die Neue E-Plus KG, die am 23. Juni 2014 wirksam wurde, übt die Neue E-Plus KG gemeinsam mit ihren direkten und indirekten Tochtergesellschaften (die "**E-Plus Gruppe**", weiterhin auch als die "**Neue E-Plus Gruppe**" bezeichnet und nach der Integration der E-Plus Gruppe in Telefónica Deutschland gemeinsam die "**Neue Gruppe**") die Geschäftstätigkeiten der KPN Gruppe auf dem deutschen Mobilfunk-Telekommunikationsmarkt aus. Die E-Plus Gruppe mit Sitz in Düsseldorf, Deutschland, bietet ihren Kunden in Deutschland Multi-Brand-Mobilfunkdienstleistungen an, die auf unterschiedliche Marktsegmente gerichtete post-paid und pre-paid Dienstleistungen umfassen. Die E-Plus Gruppe ist, basierend auf der Kundenzahl zum 30. Juni 2014, sowie basierend auf Umsatzerlösen aus Mobilfunkdienstleistungen für den zum 30. Juni 2014 endenden Sechsmonatszeitraum der drittgrößte Mobilfunkanbieter in Deutschland (*Quelle: von den deutschen Mobilfunknetzbetreibern Deutsche Telekom, Vodafone, Telefónica Deutschland und E-Plus veröffentlichte Finanzinformationen*). Die gesamten Umsatzerlöse der E-Plus Gruppe beliefen sich auf €3.143 Millionen für das Geschäftsjahr 2013. Der Betriebsgewinn vor Abschreibungen ("**EBITDA**") der E-Plus Gruppe betrug für das Geschäftsjahr 2013 €916 Millionen. Das Multi-Brand-Portfolio der E-Plus Gruppe umfasst die Marken E-Plus und BASE sowie verschiedene andere Marken wie eine auf Jugendliche ausgerichtete Marke (yourfone) und eine no-frills (Discount-)Marke (Blau). Wholesale-Partner der E-Plus Gruppe beinhalten MedionMobile (AldiTalk), ADAC, MTV und den Naturschutzbund Deutschland (NABU).

Unter der Annahme, dass der Vollzug des Erwerbs der E-Plus Gruppe bereits am 1. Januar 2013 stattgefunden hätte, würde Telefónica Deutschland ungefähr 46,9 Millionen Kundenanschlüssen[1] ihre Dienstleistungen anbieten und Pro-Forma-Umsatzerlöse von €7.942 Millionen für das zum 31. Dezember 2013 endende Geschäftsjahr erzielen.

Wir glauben, dass die folgenden Stärken es uns ermöglichen werden, unsere Strategie umzusetzen:

- Wir sind einer der führenden Anbieter im Konsumentensegment in einem der attraktivsten Telekommunikationsmärkte Europas.
- Wir stellen eine Kombination von zwei erfolgreichen und agilen Innovatoren dar.
- Wir decken eine Vielzahl von Segmenten mit einem breiten Markenangebot ab.

1 Die Anzahl der Kundenanschlüsse der E-Plus Gruppe basierend auf den diesbezüglichen Definitionen und Berechnungsgrundsätzen von Telefónica Deutschland.

		• Wir haben eine wettbewerbsfähige Netzinfrastruktur mit einer starken Frequenzposition aufgebaut. • Wir sind in allen Vertriebskanälen präsent und unterstreichen damit, dass wir über ein umfangreiches Retail-Vertriebsnetzwerk verfügen. • Nach Integration der E-Plus Gruppe werden wir von erheblichen Synergie-Wertschöpfungsmöglichkeiten profitieren. • Wir generieren starke Cashflows und haben uns dazu verpflichtet, eine konservative Kapitalstruktur beizubehalten. Unsere Vision, ein führendes digitales Telekommunikationsunternehmen unter Beibehaltung unserer "Herausforderer-Mentalität" aufzubauen, hat uns zu den folgenden strategischen Prioritäten geführt: • Wir beabsichtigen, Möglichkeiten im Bereich der mobilen Datennutzung und die steigende Nachfrage nach LTE zu monentarisieren. • Wir beabsichtigen, das Cross-Selling unserer Festnetzprodukte auszubauen und Opportunitäten im Firmenkundengeschäft zu ergreifen. • Wir beabsichtigen, unser Multi-Brand-Portfolio, unsere Multi-Vertriebskanäle und unseren zunehmend digitalen Ansatz zu nutzen. • Wir beabsichtigen, die Wahrnehmung unserer Netzwerkqualität weiter zu verbessern und den landesweiten Einsatz von LTE zu beschleunigen. • Wir beabsichtigen, ein neues Geschäftsmodell zu entwickeln, das in seinem Kern "schlank" und "digital" ist. • Wir haben uns zum Ziel gesetzt, erhebliche Synergien zu realisieren. Der Telekommunikationsmarkt in Deutschland ist einer der größten in Europa, sowohl hinsichtlich der Zahl von Anschlüssen als auch nach Umsätzen. In 2013 generierte der deutsche Telekommunikationssektor Einzelhandelsumsätze in Höhe von ungefähr €40,1 Milliarden. Von diesen Einzelhandelsumsätzen entfielen ungefähr €19,6 Milliarden bzw. 48,8% auf Mobilfunk-Dienstleistungen sowie ungefähr €20,5 Milliarden bzw. 51,2% auf Festnetz-Dienstleistungen. Der deutsche Mobilfunk-Markt ist basierend auf der Kundenzahl mit 115,2 Millionen SIM-Karten und einer Penetrationsrate von rund 143% zum Ende des Jahres 2013 der größte in der Europäischen Union ("**EU**"). In 2013 gab es 59,4 Millionen pre-paid-Anschlüsse in Deutschland (51,6% der gesamten Anschlüsse), während sich post-paid-Anschlüsse auf 55,8 Millionen beliefen (48,4% der gesamten Anschlüsse). Bei Umsätzen aus Mobilfunkdienstleistungen trugen Sprachdienste mit €11,8 Milliarden (55,5%) in 2013 schätzungsweise die Mehrheit der gesamten Umsätze bei, während Umsätze mit Datendienstleistungen €9,4 Milliarden betrugen. Daten-Umsätze werden Sprach-Umsätze voraussichtlich in 2015 übersteigen. Es wird erwartet, dass der Anteil der Sprachdienste am Gesamtumsatz aus Mobilfunkdienstleistungen in 2016 auf 47,0% absinken wird. Unsere wesentlichen Wettbewerber im deutschen Mobilfunk-Markt sind die weiteren drei Mobilfunknetzbetreiber (Deutsche Telekom, Vodafone und E-Plus) sowie Serviceprovider und mehr als 100 Mobilfunk-Marken im etablierten Wholesale-Markt. Der deutsche Festnetz-Markt generierte in 2013 einen Gesamtumsatz (einschließlich Einzelhandelsumsätze sowie Interconnect-Umsätze, d.h., Umsätze des Netzbetreibers von anderen Netzbetreibern oder Dienstleistern für Festnetz-Telekommunikationsdienstleistungen) von ungefähr €27,3 Milliarden. Die wesentlichen Breitbandzugänge sind DSL und Kabel. DSL ist auch weiterhin mit 23,2 Millionen von insgesamt 28,6 Millionen Kunden und einem Umsatz von ungefähr €6,6 Milliarden in 2013 die vorherrschende Technologie im Breitband-Markt. Die Verwendung von Kabel-Technologie ist zunehmend in Stadtgebieten beliebt und ist von 3,6 Millionen Kunden in 2011 auf 5,2 Millionen Kunden in 2013 angestiegen. Alternative Verbindungsmöglichkeiten, wie direkte Glasfaserverbindungen, verbreiten sich zunehmend. Der Hauptanbieter von DSL-Dienstleistungen in Deutschland ist die Deutsche Telekom. Unsere weiteren wesentlichen Wettbewerber im Breitband-Internet-Markt sind beispielsweise United Internet sowie alternative Netzwerkbetreiber wie Vodafone.

		(Quellen: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014; Analysys Mason, Telecoms Market Matrix Western Europe 1Q 2014, July 2014; veröffentlichte Informationen der Mobilfunknetzbetreiber)
B.4a	**Wichtigste jüngste Trends, die sich auf den Emittenten und die Branchen, in denen er tätig ist, auswirken**	Telefónica Deutschland erwartet, dass der deutsche Telekommunikationsmarkt mittelfristig weiterhin von hoher Aktivität und Wettbewerb gekennzeichnet sein wird, mit wesentlichen Einflüssen durch Reduzierungen der Mobilfunkterminierungsentgelte, sich verändernden Kommunikationsverhaltens der Kunden und der Variabilität von Markteinführungen neuer Geräte und Austauschzyklen. Telefónica Deutschland erwartet, von der Variabilität dieser divergierenden Trends beeinflusst zu werden. Telefónica Deutschland hat weiterhin während des Jahres 2013 und des ersten Halbjahres 2014 einen zunehmenden Druck auf Umsatzerlöse durch Wettbewerb, sich veränderndes Kundenverhalten und Regulierung beobachtet und starken Wettbewerb um Smartphone-Tarife und gebündelte Angebote von Tarifen und Geräten festgestellt. Telefónica Deutschland nimmt an, dass zusätzliche Hebel wie die Einführung der LTE Technologie und konvergente Festnetz-Mobile Daten-Dienstleistungen wesentliche Faktoren für ihre mittelfristige Profitabilität als Stand-Alone-Unternehmen sein werden, wobei der Erwerb der E-Plus Gruppe diese Möglichkeit verstärken wird.
B.5	**Beschreibung der Gruppe und der Stellung des Emittenten innerhalb dieser Gruppe**	76,83% der Aktien der Gesellschaft werden von Telefónica Germany Holdings Limited gehalten, einer indirekten Tochtergesellschaft der Telefónica, S.A. Die Gesellschaft ist die Holdinggesellschaft von Telefónica Deutschland und hält direkt oder indirekt 100% der Anteile an: • Telefónica Germany Management GmbH; • Telefónica Germany GmbH & Co. OHG; • Wayra Deutschland GmbH; • FONIC GmbH; • O2 Telefónica Deutschland Finanzierungs GmbH; • Telefónica Germany 1. Beteiligungsgesellschaft mbH; und • Telefónica Germany Customer Services GmbH. Die Gesellschaft hält indirekt 50% der Anteile an: • TCHIBO Mobilfunk Beteiligungs GmbH; und • TCHIBO Mobilfunk GmbH & Co. KG.
B.6	**Personen, die eine (meldepflichtige) direkte oder indirekte Beteiligung am Eigenkapital des Emittenten oder einen Teil der Stimmrechte halten**	Telefónica, S.A. hält indirekt 76,83% der Aktien der Gesellschaft.
	Unterschiedliche Stimmrechte der Hauptanteilseigner	Entfällt (es bestehen keine unterschiedlichen Stimmrechte).
	Unmittelbare oder mittelbare Beteiligungen oder Beherrschungsverhältnisse am Emittenten und Beschreibung der Natur der Beherrschung	Telefónica, S.A. hat einen beherrschenden Einfluss auf die Gesellschaft.
B.7	**Ausgewählte wesentliche Finanz- und Geschäftsinformationen**	*Die nachfolgenden Tabellen stellen unsere Konzerngewinn- und Verlustrechnung, die Konzernbilanz, die Konzernkapitalflussrechnung und bestimmte weitere Betriebs- und Finanzdaten zu den angegebenen Zeiträumen dar. Die ausgewählten wesentlichen Finanzinformationen der Gesellschaft für*

		*die zum 31. Dezember 2012 und 31. Dezember 2011 endenden Geschäftsjahre wurden dem geprüften Konzernabschluss der Gesellschaft für das zum 31. Dezember 2012 endende Geschäftsjahr, der gemäß den International Financial Reporting Standards, wie sie in der Europäischen Union anzuwenden sind (“**IFRS**”), und den ergänzend nach § 315a Abs. 1 HGB anzuwendenden handelsrechtlichen Vorschriften aufgestellt wurde (der “**Konzernabschluss 2012**”), entnommen oder aus diesem abgeleitet, die ausgewählten wesentlichen Finanzinformationen für das zum 31. Dezember 2013 endende Geschäftsjahr wurden dem geprüften Konzernabschluss der Gesellschaft für das zum 31. Dezember 2013 endende Geschäftsjahr, der gemäß IFRS und den ergänzend nach § 315a Abs. 1 HGB anzuwendenden handelsrechtlichen Vorschriften aufgestellt wurde (der “**Konzernabschluss 2013**”) entnommen oder aus diesem abgeleitet, die ausgewählten wesentlichen Finanzinformationen der Gesellschaft zum 30. Juni 2014 und für die zum 30. Juni 2014 und 2013 endenden Sechsmonatszeiträume wurden dem ungeprüften verkürzten Konzernzwischenabschluss der Gesellschaft für den zum 30. Juni 2014 endenden Sechsmonatszeitraum, der in Übereinstimmung mit IFRS für Zwischenberichterstattung (International Accounting Standard (“**IAS**”) 34) aufgestellt wurde (der “**Ungeprüfte Verkürzte Konzernzwischenabschluss**”), sowie dem Rechnungswesen oder der internen Managementberichterstattung der Gesellschaft jeweils für die angegebenen Zeiträume entnommen oder aus diesen bzw. dieser abgeleitet.* *Der Konzernabschluss 2012 enthält die Vermögenswerte und Schulden, der Konzernabschluss 2013 sowie der Konzernabschluss 2012 enthalten die Erträge und Aufwendungen sowie Cashflows der Gesellschaften Group 3G UMTS Holding GmbH, Quam GmbH und Telefónica Global Services GmbH, gemeinsam mit ihren Tochtergesellschaften Telefónica Global Roaming GmbH, Telefónica Compras Electronicas S.L. und ihrer indirekt gehaltenen 40% der Anteile in Adquira España S.A. bis zum 1. Oktober 2012, ab dem diese Gesellschaften insgesamt im Rahmen unserer Restrukturierung vor unserem Börsengang keine direkten oder indirekten Tochtergesellschaften bzw. assoziierte Unternehmen der Gesellschaft mehr waren. Die Erträge und Aufwendungen und Cashflows dieser veräußerten Gesellschaften einschließlich des Gewinns aus dem Verkauf dieser veräußerten Gesellschaften sind entsprechend IFRS 5 “Zur Veräußerung gehaltene langfristige Vermögenswerte und aufgegebene Geschäftsbereiche” in der Konzerngewinn- und Verlustrechnung des Konzernabschlusses 2013 und des Konzernabschlusses 2012 als Ergebnis bzw. Gewinn nach Steuern aus aufgegebenen Geschäftsbereichen und in der Konzernkapitalflussrechnung des Konzernabschlusses 2013 und des Konzernabschlusses 2012 als Cashflow aus der betrieblichen Tätigkeit aus aufgegebenen Geschäftsbereichen, Cashflow aus der Investitionstätigkeit aus aufgegebenen Geschäftsbereichen und Cashflow aus der Finanzierungstätigkeit aus aufgegebenen Geschäftsbereichen jeweils gesondert ausgewiesen. In den Vergleichsangaben zum 31. Dezember 2011 der Konzernbilanz des Konzernabschlusses 2012 sind die Vermögenswerte und Schulden dieser veräußerten Gesellschaften entsprechend IFRS 5 “Zur Veräußerung gehaltene langfristige Vermögenswerte und aufgegebene Geschäftsbereiche” nicht gesondert ausgewiesen.* *Wir haben in unserem Konzernabschluss 2013 die Aufwendungen für externe Personaldienstleistungen umgegliedert und die Vorjahresvergleichsangaben für das zum 31. Dezember 2012 endende Geschäftsjahr entsprechend angepasst und weisen die Aufwendungen für externe Personaldienstleistungen in den sonstigen Aufwendungen aus, während diese Aufwendungen in unserem Konzernabschluss 2012 im Personalaufwand in den kurzfristig fälligen Leistungen an Arbeitnehmer ausgewiesen wurden.* *Sind Finanzinformationen in diesem Abschnitt als “geprüft” gekennzeichnet, so bedeutet dies, dass sie dem Konzernabschluss 2012 oder dem Konzernabschluss 2013 entnommen wurden. Die Kennzeichnung “ungeprüft” wird in diesem Abschnitt zur Kenntlichmachung von Finanzinformationen verwendet, die aus dem Konzernabschluss 2012 oder dem Konzernabschluss 2013 abgeleitet oder dem Ungeprüften Verkürzten Konzernzwischenabschluss*

		sowie dem Rechnungswesen oder der internen Managementberichterstattung der Gesellschaft entnommen oder aus diesen bzw. dieser abgeleitet wurden. *Die nachfolgenden Zahlen wurden gemäß etablierter kaufmännischer Praxis gerundet. Zahlen oder Additionen innerhalb einer Tabelle können daher zu anderen Summen als denen in derselben Tabelle gezeigten führen und ergeben nicht immer 100%.*

KONZERNGEWINN- UND VERLUSTRECHNUNG UND SONSTIGE KONZERNFINANZINFORMATION

Die nachfolgende Tabelle stellt unsere Konzerngewinn- und Verlustrechnung und sonstige Konzernfinanzinformationen für die zum 31. Dezember 2013, 2012 und 2011 endenden Geschäftsjahre und die zum 30. Juni 2014 und 2013 endenden Sechsmonatszeiträume dar:

	Für das zum 31. Dezember endende Geschäftsjahr			**Für den zum 30. Juni endenden Sechsmonatszeitraum**	
	2013	**2012**	**2011**	**2014**	**2013**
	(in Tausend €, sofern nicht anders angegeben)				
	(geprüft, sofern nicht anders angegeben)			*(ungeprüft)*	
Umsatzerlöse	**4.913.881**	**5.212.838**	**5.035.552**	**2.283.663**	**2.445.419**
Umsatzerlöse aus Mobilfunk	3.673.043	3.845.053	3.605.747	1.699.203	1.816.290
Umsatzerlöse aus Mobilfunkdienstleistungen[1]	2.989.294	3.151.838	2.946.465	1.434.751	1.481.230
Umsatzerlöse aus Mobilfunk-Hardware	683.749	693.215	659.282	264.452	335.060
Umsatzerlöse aus Festnetz/DSL	1.234.958	1.363.203	1.425.740	580.775	626.429
Sonstige Umsatzerlöse	5.880	4.582	4.065	3.686	2.700
Sonstige Erträge	169.022	60.806	60.991	43.022	38.192
Materialaufwand und bezogene Leistungen	(1.957.980)	(2.130.869)	(2.047.139)	(882.649)	(974.483)
Personalaufwand[6]	(418.647)	(421.764)	(437.756)	(213.284)	(207.589)
Sonstige Aufwendungen[2, 6]	(1.469.176)	(1.441.938)	(1.462.411)	(744.959)	(729.111)
BETRIEBSERGEBNIS VOR ABSCHREIBUNGEN (OIBDA)[3, 4]	**1.237.100**	**1.279.074**	**1.149.237**	**485.792**	**572.428**
Abschreibungen	(1.131.749)	(1.133.183)	(1.082.189)	(533.988)	(566.387)
BETRIEBSERGEBNIS	**105.351**	**145.891**	**67.048**	**(48.195)**	**6.040**
Finanzerträge	6.349	15.678	14.271	3.953	3.391
Währungsgewinne	635	715	707	161	296
Finanzaufwendungen	(33.409)	(21.385)	(8.389)	(19.660)	(19.744)
Währungsverluste	(548)	(1.132)	(559)	(474)	(175)
Finanzergebnis	**(26.972)**	**(6.123)**	**6.030**	**(16.020)**	**(16.232)**
ERGEBNIS VOR STEUERN AUS FORTZUFÜHRENDEN GESCHÄFTSBEREICHEN / ERGEBNIS VOR STEUERN	**78.379**	**139.768**	**73.078**	**(64.215)**	**(10.191)**
Ertragsteuern	(567)	167.756	(1.732)	14	17
ERGEBNIS NACH STEUERN / ERGEBNIS AUS FORTZUFÜHRENDEN GESCHÄFTSBEREICHEN	**77.813**	**307.523**	**71.346**	**–**	**–**
ERGEBNIS / GEWINN NACH STEUERN AUS AUFGEGEBENEN GESCHÄFTSBEREICHEN	**–**	**1.027.030**	**482.557**	–	–
PERIODENERGEBNIS / JAHRESÜBERSCHUSS	**77.813**	**1.334.553**	**553.904**	**(64.201)**	**(10.174)**
DEN EIGENTÜMERN DES MUTTERUNTERNEHMENS ZUZURECHNENDES PERIODENERGEBNIS / DEN INHABERN VON STAMMAKTIEN DES MUTTERUNTERNEHMENS ZUZURECHNENDES ERGEBNIS	**77.813**	**1.334.553**	**553.904**	**(64.201)**	**(10.174)**
PERIODENERGEBNIS / JAHRESÜBERSCHUSS	**77.813**	**1.334.553**	**553.904**	**(64.201)**	**(10.174)**
Überleitung vom Betriebsergebnis zum Betriebsergebnis vor Abschreibungen (OIBDA) und vor Gruppengebühren und OIBDA vor Gruppengebühren-Marge[3]					
BETRIEBSERGEBNIS	**105.351**	**145.891**	**67.048**	**(48.195)**	**6.040**
Abschreibungen	(1.131.749)	(1.133.183)	(1.082.189)	(533.988)	(566.387)
BETRIEBSERGEBNIS VOR ABSCHREIBUNGEN (OIBDA)[4]	**1.237.100**	**1.279.074**	**1.149.237**	**485.792**	**572.428**
Gruppengebühren	(70.929)	(72.311)	(70.232)	(29.687)	(31.047)
BETRIEBSERGEBNIS VOR ABSCHREIBUNGEN (OIBDA) UND VOR GRUPPENGEBÜHREN (ungeprüft)[3]	**1.308.029**	**1.351.385**	**1.219.469**	**515.480**	**603.475**
Umsatzerlöse	4.913.881	5.212.838	5.035.552	2.283.663	2.445.419
OIBDA-Marge[5] (ungeprüft)	**25,2%**	**24,5%**	**22,8%**	**21,3%**	**23,4%**
OIBDA vor Gruppengebühren-Marge (ungeprüft)	**26,6%**	**25,9%**	**24,2%**	**22,6%**	**24,7%**

1 Bereinigt um den Effekt der Senkungen der Mobilfunkterminierungsentgelte (*mobile termination rates*, "**MTR**") im Dezember 2010, 2012 und 2013 hätten die Umsatzerlöse aus Mobilfunkdienstleistungen jeweils €194,8 Millionen, €9,0 Millionen bzw. €114,7 Millionen mehr in den zum 31. Dezember 2011, 2012 bzw. 2013 endenden Geschäftsjahren betragen. Bereinigt um den Effekt der Senkung der MTR im Dezember 2013, hätten die Umsatzerlöse aus Mobilfunkdienstleistungen €2,7 Millionen mehr in dem zum 30. Juni 2014 endenden Sechsmonatszeitraum betragen.

[2] In den sonstigen Aufwendungen sind bestimmte Gebühren enthalten, die an die Telefónica Gruppe ("**Gruppengebühren**") im Rahmen einer Vielzahl von Vereinbarungen gezahlt wurden, einschließlich Management- und Beratungsdienstleistungen, Lizenzgebühren, Kostenumlagen und anderer solcher Dienstleistungen.

[3] Wir haben OIBDA, die OIBDA-Marge, OIBDA vor Gruppengebühren und die OIBDA vor Gruppengebühren-Marge und andere Informationen zur Verfügung gestellt, weil wir glauben, dass sie Investoren zusätzliche Informationen zur Bewertung unserer Leistung bieten. Unsere Verwendung der Begriffe OIBDA, die OIBDA-Marge, OIBDA vor Gruppengebühren und die OIBDA vor Gruppegebühren-Marge weicht von derjenigen anderer Unternehmen in unserem Industrieumfeld ab und sollte nicht als Alternative zu Betriebsergebnis, Cashflow aus der betrieblichen Tätigkeit, Umsatzerlöse oder etwaiger anderer Leistungsindikatoren, die gemäß IFRS zur Bewertung der operativen Leistung aufgestellt wurden, oder zu Cashflows zur Bewertung der Liquidität, angesehen werden. OIBDA, die OIBDA-Marge, OIBDA vor Gruppengebühren und die OIBDA vor Gruppengebühren-Marge sind nur begrenzt tauglich als analytische Instrumente, und Investoren sollten diese nicht isoliert oder als Ersatz für die Analyse unserer nach IFRS berichteten Ergebnisse sehen. Wir sind jedoch der Auffassung, dass OIBDA, die OBIDA-Marge, OIBDA vor Gruppengebühren und die OIBDA vor Gruppengebühren-Marge den Vergleich der operativen Leistung von Periode zu Periode und Gesellschaft zu Gesellschaft durch die Eliminierung möglicher Unterschiede aufgrund von abweichenden Steuerpositionen (wie die Auswirkungen von Änderungen der effektiven Steuersätze oder der latenten Steuern auf Perioden oder Gesellschaften), Abschreibungen und Wertminderung und bestimmter anderer Sachverhalte erleichtert. OIBDA und die OIBDA-Marge sind allgemein verwendete Begriffe, um die Geschäftstätigkeit von Telekommunikationsanbietern zu vergleichen; weil jedoch andere Gesellschaften OIBDA und die OBIDA-Marge möglicherweise nicht in identischer Weise berechnen, ist unsere Darstellung von OIBDA und der OIBDA-Marge unter Umständen nicht mit der von anderen Gesellschaften vergleichbar.

[4] Im OIBDA, wie in unseren Konzernabschlüssen berichtet, sind die oben in Fußnote 2 beschriebenen Gruppengebühren enthalten.

[5] Die OIBDA-Marge und die OIBDA vor Gruppengebühren-Marge werden jeweils als Prozentsatz der gesamten Umsatzerlöse berechnet.

[6] Wir haben in unserem Konzernabschluss 2013 die Aufwendungen für externe Personaldienstleistungen umgegliedert und die Vorjahresvergleichsangaben für das zum 31. Dezember 2012 endende Geschäftsjahr entsprechend angepasst und weisen die Aufwendungen für externe Personaldienstleistungen in den sonstigen Aufwendungen aus, während diese Aufwendungen in unserem Konzernabschluss 2012 im Personalaufwand in den kurzfristig fälligen Leistungen an Arbeitnehmer ausgewiesen wurden. Wir sind der Auffassung, dass die in unserem Konzernabschluss 2013 gewählte Darstellungsform der Verbesserung der Klarheit der im Konzernabschluss vermittelten Informationen dient. Im zum 31. Dezember 2013 endenden Geschäftsjahr sind Aufwendungen für externe Personaldienstleistungen in Höhe von €46,4 Millionen, im zum 31. Dezember 2012 endenden Geschäftsjahr in Höhe von €42,8 Millionen und im zum 31. Dezember 2011 endenden Geschäftsjahr in Höhe von €38,9 Millionen angefallen.

KONZERNBILANZ

Die folgende Tabelle stellt unsere Konzernbilanz zum 31. Dezember 2013, 2012 und 2011 und zum 30. Juni 2014 dar:

	31. Dezember			30. Juni
	2013	**2012**	**2011[1]**	**2014**
	(in Tausend €)			
	(geprüft)			*(ungeprüft)*
AKTIVA				
A) LANGFRISTIGE VERMÖGENSWERTE	**7.167.703**	**7.652.337**	**7.996.891**	**6.935.334**
Geschäfts- oder Firmenwerte	705.576	705.576	705.576	705.576
Immaterielle Vermögenswerte	2.884.200	3.277.456	3.662.491	2.717.326
Sachanlagen	2.895.617	2.973.440	3.119.370	2.818.161
Anteile an assoziierten Unternehmen	–	–	1.972	–
Sonstige langfristige finanzielle Vermögenswerte	98.787	114.675	95.449	110.748
Latente Steueransprüche	583.523	581.191	412.033	583.523
B) KURZFRISTIGE VERMÖGENSWERTE	**1.853.716**	**1.417.469**	**5.657.420**	**2.313.167**
Vorräte	89.185	84.671	70.428	110.369
Forderungen aus Lieferungen und Leistungen und sonstige Forderungen	1.035.234	1.009.031	1.349.290	1.171.811
Sonstige kurzfristige finanzielle Vermögenswerte	20.751	101	2.887.051	24.713
Zahlungsmittel und Zahlungsmitteläquivalente	708.545	323.666	1.350.651	1.006.275
BILANZSUMME (A+B)	**9.021.419**	**9.069.807**	**13.654.311**	**9.248.502**
PASSIVA				
A) EIGENKAPITAL	**5.998.973**	**6.428.793**	**12.282.644**	**5.399.166**
Gezeichnetes Kapital	1.116.946	1.116.946	1.116.946	1.116.946
Kapitalrücklagen	430	430	–	430
Gewinnrücklagen	4.879.914	5.309.936	11.164.353	4.280.108
Sonstige Eigenkapitalbestandteile	1.683	1.481	1.345	1.683
GESAMTES DEN EIGENTÜMERN DER MUTTERGESELLSCHAFT ZUZUORDNENDES EIGENKAPITAL / GESAMTES AUF DIE TELEFÓNICA DEUTSCHLAND GROUP ENTFALLENDES EIGENKAPITAL	**5.998.973**	**6.428.793**	**12.282.644**	**5.399.166**
B) LANGFRISTIGE SCHULDEN	**1.451.739**	**1.091.576**	**75.289**	**2.262.739**
Langfristige verzinsliche Schulden	1.342.584	1.000.000	–	1.812.596
Sonstige langfristige Verbindlichkeiten	4.809	9.193	6.342	47.013
Langfristige Rückstellungen	104.346	82.382	68.947	138.819
Rechnungsabgrenzungsposten	–	–	–	264.311
C) KURZFRISTIGE SCHULDEN	**1.570.707**	**1.549.438**	**1.296.378**	**1.586.596**
Kurzfristige verzinsliche Schulden	102.059	250.878	–	12.687
Verbindlichkeiten aus Lieferungen und Leistungen	1.074.038	918.458	891.321	1.098.617
Sonstige kurzfristige Verbindlichkeiten	221.532	219.130	188.747	289.143
Sonstige kurzfristige finanzielle Verbindlichkeiten	–	–	4.836	–
Kurzfristige Rückstellungen	3.513	7.000	41.609	3.155
Rechnungsabgrenzungsposten	169.565	153.972	169.866	182.995
BILANZSUMME (A+B+C)	**9.021.419**	**9.069.807**	**13.654.311**	**9.248.502**

[1] Gemäß IFRS 5 "Zur Veräußerung gehaltene langfristige Vermögenswerte und aufgegebene Geschäftsbereiche" sind die Vermögenswerte und Schulden der Gesellschaften Group 3G UMTS Holding GmbH, Quam GmbH und Telefónica Global Services GmbH, gemeinsam mit ihren Tochtergesellschaften Telefónica Global Roaming GmbH, Telefónica Compras Electronicas S.L. und ihren indirekt gehaltenen 40% der Anteile in Adquira España S.A., die von uns mit Wirkung zum 1. Oktober 2012 verkauft wurden, in den Konzernbilanzangaben zum 31. Dezember 2011 nicht gesondert ausgewiesen. Die Konzernbilanzangaben zum 31. Dezember 2011 sind demnach nur eingeschränkt mit den Konzernbilanzangaben jeweils zum 31. Dezember 2012 und 2013 vergleichbar.

KONZERNKAPITALFLUSSRECHNUNG

Die nachfolgende Tabelle stellt unsere Konzernkapitalflussrechnung für die zum 31. Dezember 2013, 2012 und 2011 endenden Geschäftsjahre und die zum 30. Juni 2014 und 2013 endenden Sechsmonatszeiträume dar:

	Für das zum 31. Dezember endende Geschäftsjahr			Für den zum 30. Juni endenden Sechsmonatszeitraum	
	2013	**2012**	**2011**	**2014**	**2013**
	(in Tausend €)				
	(geprüft)			*(ungeprüft)*	
Periodenergebnis / Jahresüberschuss	**77.813**	**1.334.553**	**553.904**	**(64.201)**	**(10.174)**
Überleitung vom Periodenergebnis					
Finanzergebnis	26.972	5.707	(5.882)	16.020	16.353
Gewinne aus dem Verkauf von Vermögenswerten	(76.149)	(492.121)	(272)	(333)	(6)
Ertragsteuerergebnis	567	(167.756)	1.732	(14)	(17)
Abschreibungen	1.131.749	1.135.751	1.086.997	533.988	566.387
Veränderung des Working Capital					
Forderungen aus Lieferungen und Leistungen und sonstige Forderungen	(36.334)	(40.172)	45.172	(61.151)	3.312
Vorräte	(4.514)	(14.272)	13.889	(21.184)	13.586
Sonstige kurzfristige Vermögenswerte	–	(5.594)	(7.855)	(320)	(6.306)
Verbindlichkeiten aus Lieferungen und Leistungen und sonstige Verbindlichkeiten	168.818	(105.573)	42.243	44.566	56.998
Sonstige kurzfristige Verbindlichkeiten und Rückstellungen	16.471	(25.126)	(103.038)	13.510	7.147
Sonstige langfristige Vermögenswerte und Schulden	(13.950)	4.681	(44.766)	253.493	27.490
Erhaltene Zinsen	7.005	15.615	13.934	3.827	2.237
Gezahlte Zinsen	(28.196)	(13.871)	(1.351)	(11.006)	(12.535)
Cashflow aus der betrieblichen Tätigkeit	**1.270.252**	**1.631.823**	**1.594.707**	**707.194**	**664.472**
Cashflow aus der betrieblichen Tätigkeit aus aufgegebenen Geschäftsbereichen	**–**	**349.070**	**355.006**	**–**	**–**
Cashflow aus der betrieblichen Tätigkeit aus fortzuführenden Geschäftsbereichen	**1.270.252**	**1.282.754**	**1.239.701**	**–**	**–**
Erlöse aus der Veräußerung von Sachanlagen und immateriellen Vermögenswerten	69.088	1.978	3.185	632	12
Investitionen in Sachanlagen und immaterielle Vermögenswerte	(664.153)	(594.120)	(548.240)	(304.194)	(307.753)
Erlöse aus der Veräußerung von Unternehmen abzüglich veräußerter Zahlungsmittel und Zahlungsmitteläquivalente	37.596	557.446	–	–	–
Investitionen in nicht in den Zahlungsmitteläquivalenten enthaltenen Finanzinvestitionen	(14.252)	(14.930)	–	(7.043)	(12.147)
Cashflow aus der Investitionstätigkeit	**(571.721)**	**(49.626)**	**(545.055)**	**(310.605)**	**(319.888)**
Cashflow aus der Investitionstätigkeit aus aufgegebenen Geschäftsbereichen	**–**	**557.170**	**(952)**	**–**	**–**
Cashflow aus der Investitionstätigkeit aus fortzuführenden Geschäftsbereichen	**(571.721)**	**(606.797)**	**(544.104)**	**–**	**–**
Erwerb von Minderheitsanteilen	–	–	(3.006)	–	–
Rückzahlung aus dem Eigenkapital	–	(251)	(237)	–	–
Zahlungen für zukünftige Kapitalerhöhung	(2.143)	–	–	(3.195)	–
Aufnahme von Darlehen/Schulden	594.972	2.398.060	–	570.220	–
Tilgung von Darlehen/Schulden	(403.856)	(706.991)	(3.752)	(140.921)	(2.186)
Dividendenzahlungen	(502.625)	(4.300.000)	–	(524.964)	(502.625)
Cashflow aus der Finanzierungstätigkeit	**(313.652)**	**(2.609.182)**	**(6.995)**	**(98.860)**	**(504.811)**
Cashflow aus der Finanzierungstätigkeit aus aufgegebenen Geschäftsbereichen	**–**	**445.060**	**(3.006)**	**–**	**–**
Cashflow aus der Finanzierungstätigkeit aus fortzuführenden Geschäftsbereichen	**(313.652)**	**(3.054.242)**	**(3.989)**	**–**	**–**
Nettozunahme / (-abnahme) von Zahlungsmitteln und Zahlungsmitteläquivalenten	**384.879**	**(1.026.985)**	**1.042.656**	**297.729**	**(160.226)**
Zahlungsmittel und Zahlungsmitteläquivalente zu Beginn des Berichtszeitraums	**323.666**	**1.350.651**	**307.995**	**708.545**	**323.666**
Zahlungsmittel und Zahlungsmitteläquivalente am Ende des Berichtszeitraums	**708.545**	**323.666**	**1.350.651**	**1.006.275**	**163.440**

AUSGEWÄHLTE OPERATIVE INFORMATIONEN

Die folgenden Tabellen stellen ausgewählte operative Informationen für die zum 31. Dezember 2013, 2012 und 2011 endenden Geschäftsjahre und die Sechsmonatszeiträume zum 30. Juni 2014 und 2013 dar:

	31. Dezember			30. Juni	
	2013	**2012**	**2011**	**2014**	**2013**
	(Anschlüsse in Tausend, sofern nicht anders angegeben)				
	(ungeprüft)				
Mobilfunkanschlüsse:					
Post-paid	10.286,1	10.108,5	9.235,7	10.516,1	10.260,5
Pre-paid	9.114,9	9.191,3	9.144,5	8.919,7	9.150,6
Gesamt	**19.401,0**	**19.299,9**	**18.380,1**	**19.435,9**	**19.441,1**
Festnetzanschlüsse:					
Retail DSL	2.244,3	2.376,3	2.587,7	2.191,4	2.295,1
Wholesale ULL	1.125,0	1.087,9	1.042,4	1.151,8	1.127,2
Festnetztelefonie	2.124,9	2.249,0	2.055,1	2.078,2	2.176,0
Schmalband und andere	271,7	359,8	417,9	258,8	334,0
Gesamt	**5.765,9**	**6.072,9**	**6.103,1**	**5.680,2**	**5.932,2**

	Für das zum 31. Dezember endende Geschäftsjahr			Für den zum 30. Juni endenden Sechsmonatszeitraum	
	2013	**2012**	**2011**	**2014**	**2013**
	(ungeprüft)				
Mobilfunk ARPU (in €)[1]:					
Blended	12,7	13,8	13,6	12,3	12,6
Pre-paid[2]	5,1	5,5	5,7	5,1	5,0
Post-paid[3]	19,4	21,5	21,9	18,5	19,4
Datentransfer[4]	6,2	6,2	5,6	6,1	6,2
Anteil Datenumsatz ohne SMS am gesamten Datenumsatz (%)[5]	66,5	56,7	50,4	72,3	64,4
Anteil Datentransfer am durchschnittlichen ARPU (%)[6]	48,9	44,7	41,3	49,4	48,8
Churn Blended (%)[7]	2,4	2,2	2,2	2,1	2,2
Post-paid Churn (%)[8]	1,6	1,5	1,7	1,4	1,4

1 Berechnet durch Division der gesamten Umsatzerlöse aus Dienstleistungen mit Kunden durch die gewichtete durchschnittliche Anzahl an Mobilfunkanschlüssen für alle Vertragsarten (post- und pre-paid) für den angegebenen Zeitraum.

2 Berechnet durch Division der Umsatzerlöse aus Mobilfunkdienstleistungen aus Anschlüssen auf pre-paid Basis (exklusive inbound roaming) durch die gewichtete durchschnittliche Anzahl an Mobilfunkanschlüssen auf pre-paid Basis für den angegebenen Zeitraum.

3 Berechnet durch Division der Umsatzerlöse aus Mobilfunkdienstleistungen aus Anschlüssen auf post-paid Basis (exklusive inbound roaming) durch die gewichtete durchschnittliche Anzahl an Mobilfunkanschlüssen auf post-paid Basis für den angegebenen Zeitraum.

4 Berechnet durch Division der Umsatzerlöse aus Mobilfunkdienstleistungen aus Datenübertragung (SMS, MMS, andere) durch die gewichtete durchschnittliche Anzahl an Mobilfunkanschlüssen für den angegebenen Zeitraum.

5 Anteil des Datenumsatzes ohne SMS am Gesamtdatenumsatz für den angegebenen Zeitraum in Prozent.

6 Beitrag der mit Datenübertragung generierten Umsatzerlöse zum blended ARPU für den angegebenen Zeitraum in Prozent.

7 Prozentangabe der Anzahl der beendeten Mobilfunkanschlüsse im Verhältnis zu der Anzahl aller gewichteten durchschnittlichen Mobilfunkanschlüsse für alle Vertragsarten (post- und pre-paid) für den angegebenen Zeitraum.

8 Prozentangabe der Anzahl der beendeten Mobilfunkanschlüsse auf post-paid Basis im Verhältnis zu der gewichteten durchschnittlichen Gesamtanzahl an Mobilfunkanschlüssen für den angegebenen Zeitraum.

AUSGEWÄHLTE ZUSÄTZLICHE ILLUSTRATIVE FINANZINFORMATIONEN DER NEUEN GRUPPE FÜR DAS ZUM 31. DEZEMBER 2013 ENDENDE GESCHÄFTSJAHR UND DEN ZUM 30. JUNI 2014 ENDENDEN SECHSMONATSZEITRAUM

Die aggregierten Investitionen der Neuen Gruppe (definiert als Zugänge zu Sachanlagen und immateriellen Vermögenswerten) betrugen unter Anwendung der Bilanzierungs- und Bewertungsgrundsätze der Gesellschaft in dem zum 31. Dezember 2013 endenden Geschäftsjahr €1.298 Millionen, wovon €666 Millionen Telefónica Deutschland und €632 Millionen der E-Plus Gruppe zuzurechnen waren.

Die aggregierten Investitionen der Neuen Gruppe (definiert als Zugänge zu Sachanlagen und immateriellen Vermögenswerten) betrugen unter Anwendung der Bilanzierungs- und Bewertungsgrundsätze der Gesellschaft in dem zum 30. Juni 2014 endenden Sechsmonatszeitraum €438 Millionen, wovon €266 Millionen Telefónica Deutschland und €172 Millionen der E-Plus Gruppe zuzurechnen waren.

AUSGEWÄHLTE OPERATIVE INFORMATIONEN DER E-PLUS GRUPPE UND AUSGEWÄHLTE ILLUSTRATIVE OPERATIVE INFORMATIONEN DER NEUEN GRUPPE

Die folgenden Tabellen stellen ausgewählte operative Informationen der E-Plus Gruppe für das zum 31. Dezember 2013 endende Geschäftsjahr und den zum 30. Juni 2014 endenden Sechsmonatszeitraum dar. Die unten aufgeführten ausgewählten operativen Informationen der E-Plus Gruppe wurden gemäß den Definitionen und Berechnungsgrundsätzen von Telefónica Deutschland ermittelt und berechnet und können sich von entsprechenden Informationen unterscheiden, die von KPN oder der E-Plus Gruppe berichtet wurden. Die folgenden Tabellen stellen ferner ausgewählte illustrative operative Informationen der Neuen Gruppe für das zum 31. Dezember 2013 endende Geschäftsjahr und den zum 30. Juni 2014 endenden Sechsmonatszeitraum dar, die gemäß den Definitionen und Berechnungsgrundsätzen von Telefónica Deutschland ermittelt und berechnet wurden und auf der Annahme basieren, dass die Transaktion bereits zum 1. Januar 2013 vollzogen gewesen wäre.

E-Plus Gruppe	**31. Dezember**	**30. Juni**
	2013	**2014**
	(Anschlüsse in Tausend, sofern nicht anders angegeben)	
	(ungeprüft)	
Mobilfunkanschlüsse:		
Post-paid	7.971	8.167
Pre-paid	13.762	14.020
Gesamt	**21.732**	**22.187**

E-Plus Gruppe	**Für das zum 31. Dezember endende Geschäftsjahr**	**Für den zum 30. Juni endenden Sechsmonatszeitraum**
	2013	**2014**
	(ungeprüft)	
Mobilfunk ARPU (in €):		
Blended[1]	10,8	10,1
Post-paid[2]	18,8	16,9
Pre-paid[3]	6,3	6,1
Datentransfer[4]	5,3	5,4
Anteil Datenumsatz ohne SMS am gesamten Datenumsatz (%)[5]	50,1	58,1
Post-paid Churn (%)[6]	1,9	2,0

1 Berechnet durch Division der gesamten Umsatzerlöse aus Dienstleistungen mit Kunden durch die gewichtete durchschnittliche Anzahl an Mobilfunkanschlüssen für alle Vertragsarten (post- und pre-paid) für den angegebenen Zeitraum.

2 Berechnet durch Division der Umsatzerlöse aus Mobilfunkdienstleistungen aus Anschlüssen auf post-paid Basis (exklusive inbound roaming) durch die gewichtete durchschnittliche Anzahl an Mobilfunkanschlüssen auf post-paid Basis für den angegebenen Zeitraum.

3 Berechnet durch Division der Umsatzerlöse aus Mobilfunkdienstleistungen aus Anschlüssen auf pre-paid Basis (exklusive inbound roaming) durch die gewichtete durchschnittliche Anzahl an Mobilfunkanschlüssen auf pre-paid Basis für den angegebenen Zeitraum.

4 Berechnet durch Division der Umsatzerlöse aus Mobilfunkdienstleistungen aus Datenübertragung (SMS, MMS, andere) durch die gewichtete durchschnittliche Anzahl an Mobilfunkanschlüssen für den angegebenen Zeitraum.

5 Anteil des Datenumsatzes ohne SMS am Gesamtdatenumsatz für den angegebenen Zeitraum in Prozent.

6 Prozentangabe der Anzahl der beendeten Mobilfunkanschlüsse auf post-paid Basis im Verhältnis zu der Anzahl aller gewichteten durchschnittlichen Mobilfunkanschlüsse auf post-paid Basis für den angegebenen Zeitraum.

Neue Gruppe	**31. Dezember**	**30. Juni**
	2013	**2014**
	(Anschlüsse in Tausend, sofern nicht anders angegeben)	
	illustrativ *(ungeprüft)*	
Mobilfunkanschlüsse:		
Post-paid	18.257	18.683
Pre-paid	22.876	22.940
Gesamt	**41.133**	**41.623**

Neue Gruppe	Für das zum 31. Dezember endende Geschäftsjahr	Für den zum 30. Juni endenden Sechsmonatszeitraum
	2013	2014
	illustrativ	
	(ungeprüft)	
Mobilfunk ARPU (in €):		
Blended[1]	11,2	10,7
Post-paid[2]	18,4	17,2
Pre-paid[3]	5,5	5,4
Datentransfer[4]	5,7	5,7

1 Berechnet durch Division der gesamten Umsatzerlöse aus Dienstleistungen mit Kunden durch die gewichtete durchschnittliche Anzahl an Mobilfunkanschlüssen für alle Vertragsarten (post- und pre-paid) für den angegebenen Zeitraum.

2 Berechnet durch Division der Umsatzerlöse aus Mobilfunkdienstleistungen aus Anschlüssen auf post-paid Basis (exklusive inbound roaming) durch die gewichtete durschnittliche Anzahl an Mobilfunkanschlüssen auf post-paid Basis für den angegebenen Zeitraum.

3 Berechnet durch Division der Umsatzerlöse aus Mobilfunkdienstleistungen aus Anschlüssen auf pre-paid Basis (exklusive inbound roaming) durch die gewichtete durschnittliche Anzahl an Mobilfunkanschlüssen auf pre-paid Basis für den angegebenen Zeitraum.

4 Berechnet durch Division der Umsatzerlöse aus Mobilfunkdienstleistungen aus Datenübertragung (SMS, MMS, andere) durch die gewichtete durchschnittliche Anzahl an Mobilfunkanschlüssen für den angegebenen Zeitraum.

	Beschreibung der wesentlichen Veränderungen der Finanzlage und des Betriebsergebnisses des Emittenten in oder nach dem von den historischen Finanzinformationen abgedeckten Zeitraum	Die in dem von den historischen Finanzinformationen abgedeckten Zeitraum gezahlten Dividenden reduzierten das Eigenkapital, den Bestand der Zahlungsmittel und Zahlungsmitteläquivalente sowie der sonstigen kurzfristigen finanziellen Vermögenswerte und führten zu einem Anstieg der langfristigen verzinslichen Schulden. Die Veränderung des Periodenergebnisses bzw. Jahresüberschusses in dem von den historischen Finanzinformationen abgedeckten Zeitraum wurde durch den Verkauf der Unternehmen des berichtspflichtigen Segments Global Services im Oktober 2012 beeinflusst. Diese in der Transaktion verkauften Unternehmen wurden in unseren jeweiligen Konzernabschlüssen als aufgegebene Geschäftsbereiche klassifiziert. Seit dem 30. Juni 2014 bis zum Datum dieses Prospekts gab es keine wesentlichen Veränderungen der Finanzlage und des Betriebsergebnisses der Gesellschaft. In den zum 30. Juni 2014 und 2013 endenden Sechsmonatszeiträumen sowie in den zum 31. Dezember 2013, 2012 und 2011 endenden Geschäftsjahren sind die folgenden Änderungen der Finanz- und Ertragslage der Gesellschaft, aufgezeigt anhand der Umsatzerlöse und OIBDA, eingetreten: *Zum 30. Juni 2014 und 2013 endende Sechsmonatszeiträume* Unsere Gesamtumsatzerlöse betrugen in dem zum 30. Juni 2014 endenden Sechsmonatszeitraum €2.283,7 Millionen, ein Rückgang von €161,8 Millionen bzw. 6,6% im Vergleich zu €2.445,4 Millionen in dem zum 30. Juni 2013 endenden Sechsmonatszeitraum. Dieser Rückgang von Umsatzerlösen aus Mobilfunk war hauptsächlich durch eine Abnahme der Umsatzerlöse aus Mobilfunk-Hardware sowie eine Änderung im Kundenverhalten in Bezug auf Mobilfunkdienste (z.B. die fortdauernde Verdrängung von Textnachrichten durch internetbasierte Nachrichtendienste) bedingt. Eine Senkung der MTR trug zu dem Umsatzrückgang in geringerem Maße als in vorangegangenen Zeiträumen bei. Geringere Umsatzerlöse aus dem Festnetzgeschäft fielen als Folge der rückläufigen DSL Kundenbasis an. Die Umsatzerlöse wurden weiterhin durch ein starkes Wachstum im Mobilfunkdatengeschäft positiv beeinflusst. Unser OIBDA betrug €485,8 Millionen in dem zum 30. Juni 2014 endenden Sechsmonatszeitraum, ein Rückgang von €86,6 Millionen bzw. 15,1% im Vergleich zu €572,4 Millionen in dem zum 30. Juni 2013 endenden Sechsmonatszeitraum. Der OIBDA Rückgang beruhte im Wesentlichen auf sinkenden Umsatzerlösen sowie steigenden Kosten für zielgerichtete

		Marketingaktivitäten zur Steigerung des Handelsvolumens, wie ausgewählte Angebote preisreduzierter Geräte. *Zum 31. Dezember 2013 und 2012 endende Geschäftsjahre* Unsere Gesamtumsatzerlöse betrugen in dem zum 31. Dezember 2013 endenden Geschäftsjahr €4.913,9 Millionen, ein Rückgang von €299,0 Millionen bzw. 5,7% verglichen mit €5.212,8 Millionen in dem zum 31. Dezember 2012 endenden Geschäftsjahr. Dieser Rückgang der Umsatzerlöse war hauptsächlich bedingt durch einen Rückgang der Umsatzerlöse aus Mobilfunkdienstleistungen, welche aus der Senkung der MTR resultierte, und einen allgemein veränderten Umgang mit Mobilfunkdienstleistungen, wie die steigende Verwendung von internetbasierten Nachrichtendiensten. Der Rückgang der Umsatzerlöse erklärt sich teilweise auch durch eine Abnahme der Umsatzerlöse aus Festnetzgeschäft aufgrund einer verringerten DSL Kundenbasis. Ohne die Senkung der MTR hätte die Abnahme der Gesamtumsatzerlöse für das zum 31. Dezember 2013 endende Geschäftsjahr im Vergleich mit dem zum 31. Dezember 2012 endenden Geschäftsjahr 3,5% betragen. Unser OIBDA betrug €1.237,1 Millionen in dem zum 31. Dezember 2013 endenden Geschäftsjahr, ein Rückgang von €42,0 Millionen bzw. 3,3%, verglichen mit €1.279,1 Millionen in dem zum 31. Dezember 2012 endenden Geschäftsjahr. Das OIBDA für das zum 31. Dezember 2012 endende Geschäftsjahr wurde vom Anstieg der Umsatzerlöse aus Mobilfunkdienstleistungen positiv beeinflusst, während das OIBDA für das zum 31. Dezember 2013 endende Geschäftsjahr durch die niedrigeren Umsatzerlöse negativ beeinflusst wurde. Dieser Effekt wurde durch entsprechende Einsparungen beim Materialaufwand sowie Erträge in Höhe von €76,2 Millionen aus der Veräußerung der Telefónica Germany Online Services GmbH und der GKHH Fibre Optic GmbH im letzten Quartal des zum 31. Dezember 2013 endenden Geschäftsjahrs teilweise neutralisiert. *Zum 31. Dezember 2012 und 2011 endende Geschäftsjahre* Unsere Gesamtumsatzerlöse betrugen €5.212,8 Millionen in dem zum 31. Dezember 2012 endenden Geschäftsjahr, ein Anstieg von €177,3 Millionen bzw. 3,5%, verglichen mit €5.035,6 Millionen in dem zum 31. Dezember 2011 endenden Geschäftsjahr. Die Umsatzerlöse in dem zum 31. Dezember 2012 endenden Geschäftsjahr wurden im Wesentlichen von unserem Mobilfunkgeschäft vorangetrieben, welches von unserer Fokussierung auf die Nutzung der Möglichkeiten des zunehmenden Datenverkehrs durch unser integriertes Tarifportfolio und von attraktiven Smartphone Angeboten im Rahmen des "O_2 My Handy" Modells sowie der anhaltend starken Nachfrage nach Smartphones profitiert hat. Unser OIBDA betrug €1.279,1 Millionen in dem zum 31. Dezember 2012 endenden Geschäftsjahr, ein Anstieg von €129,8 Millionen bzw. 11,3%, verglichen mit €1.149,2 Millionen in dem zum 31. Dezember 2011 endenden Geschäftsjahr. Das OIBDA für das zum 31. Dezember 2011 endende Geschäftsjahr profitierte von einigen Restrukturierungsmaßnahmen sowie einem Anstieg der Umsatzerlöse, welches mit steigenden Skaleneffekten und weiteren Effizienzsteigerungen einherging. Das OIBDA für das zum 31. Dezember 2012 endende Geschäftsjahr wurde durch steigende Umsatzerlöse aus Mobilfunkdienstleistungen, eine Verschiebung hin zu dem profitableren post-paid Segment und dem Trend zur Monetarisierung der mobilen Datennutzung beeinflusst.
B.8	**Ausgewählte wesentliche Pro-Forma-Finanzinformationen**	*Die nachfolgenden ausgewählten Pro-Forma-Konzern-Finanzinformationen entstammen den Pro-Forma-Konzern-Finanzinformationen, die die Gesellschaft für Zwecke dieses Prospekts erstellt hat und die aus Pro-Forma-Konzerngewinn- und Verlustrechnungen für das zum 31. Dezember 2013 endende Geschäftsjahr und den zum 30. Juni 2014 endenden Sechsmonatszeitraum, einer Pro-Forma-Konzernbilanz zum 30. Juni 2014 und Pro-Forma-Erläuterungen bestehen (zusammen, die "**Pro-Forma-Konzern-Finanzinformationen**").*

		Der Zweck der Pro-Forma-Konzern-Finanzinformationen ist es, die wesentlichen Auswirkungen darzustellen, die der Vollzug der Transaktion auf die historischen Konzernabschlüsse der Gesellschaft gehabt hätte, wenn Telefónica Deutschland, in Bezug auf die Pro-Forma-Konzerngewinn- und Verlustrechnungen, bereits seit dem 1. Januar 2013 und, in Bezug auf die Pro-Forma-Konzernbilanz, bereits zum 30. Juni 2014 in der durch den Vollzug der Transaktion geschaffen Struktur bestanden hätte. *Die Darstellung der Pro-Forma-Konzern-Finanzinformationen beruht auf bestimmten Pro-Forma-Annahmen und ist ausschließlich zu illustrativen Zwecken gedacht. Dementsprechend beschreiben die Pro-Forma-Konzern-Finanzinformationen lediglich eine hypothetische Situation und spiegeln folglich aufgrund ihrer Wesensart nicht die tatsächliche Vermögens-, Finanz- und Ertragslage der Gesellschaft nach Vollzug der Transaktion wider. Weiterhin stellen die Pro-Forma-Konzern-Finanzinformationen keine Prognose der Vermögens-, Finanz- und Ertragslage der Gesellschaft zu einem zukünftigen Zeitpunkt dar. Darüber hinaus sind die Pro-Forma-Konzern-Finanzinformationen nur in Verbindung mit dem Konzernabschluss 2013 und dem Ungeprüften Verkürzten Konzernzwischenabschluss aussagekräftig.*

PRO-FORMA-KONZERNGEWINN- UND VERLUSTRECHNUNG FÜR DEN ZEITRAUM VOM 1. JANUAR 2013 BIS ZUM 31. DEZEMBER 2013

Die nachstehende Tabelle enthält die Pro-Forma-Anpassungen (fünfte Spalte ("*Pro-Forma-Anpassungen*")) der Summe (i) der historischen IFRS Konzern-Gewinn- und Verlustrechnung der Gesellschaft (zweite Spalte ("*Telefónica Deutschland*")) und (ii) der historischen, an die Auswirkungen des Pre-Closing Restructuring und der Ausweis-, Bilanzierungs- und Bewertungsmethoden angepassten IFRS Konzern-Gewinn- und Verlustrechnung der E-Plus Mobilfunk GmbH & Co. KG (dritte Spalte ("*Neue E-Plus Gruppe*")) auf Basis der Annahme, dass die Transaktion bereits zum 1. Januar 2013 vollzogen gewesen wäre.

1. Januar bis 31. Dezember 2013	**Historische Finanzinformationen**				
	Telefónica Deutschland	**Neue E-Plus Gruppe**	**Summe**	**Pro-Forma-Anpassungen[1]**	**Pro-Forma-Konzern-gewinn- und Verlustrechnung**
	(in Tausend €)				
Umsatzerlöse	4.913.881	3.252.166[2]	8.166.047	(223.867)	7.942.180[3]
Sonstige Erträge	169.022	56.695	225.717	–	225.717
Materialaufwand und bezogene Leistungen	(1.957.980)	(1.027.359)	(2.985.339)	230.796	(2.754.543)
Personalaufwand	(418.647)	(254.376)	(673.023)	(11.856)	(684.879)
Sonstige Aufwendungen	(1.469.176)	(1.339.501)	(2.808.677)	(21.983)	(2.830.660)
BETRIEBSERGEBNIS VOR ABSCHREIBUNGEN (OIBDA)	**1.237.100**	**687.625**	**1.924.725**	**(26.910)**	**1.897.815**
Abschreibungen	(1.131.749)	(838.585)	(1.970.334)	(164.396)	(2.134.730)
BETRIEBSERGEBNIS	**105.351**	**(150.960)**	**(45.609)**	**(191.306)**	**(236.915)**
Finanzerträge	6.349	8.578	14.927	–	14.927
Währungsgewinne	635	108	743	–	743
Finanzaufwendungen	(33.409)	(48.675)	(82.084)	–	(82.084)
Währungsverluste	(548)	(72)	(620)	–	(620)
Finanzergebnis	**(26.972)**	**(40.061)**	**(67.033)**	**–**	**(67.033)**
ERGEBNIS VOR STEUERN AUS FORTZUFÜHRENDEN GESCHÄFTSBEREICHEN	**78.379**	**(191.021)**	**(112.642)**	**(191.306)**	**(303.948)**
Ertragsteuern	(567)	–	(567)	95.766	95.199
ERGEBNIS NACH STEUERN AUS FORTZUFÜHRENDEN GESCHÄFTSBEREICHEN	**77.813**	**(191.021)**	**(113.209)**	**(95.540)**	**(208.749)**
PERIODENERGEBNIS	**77.813**	**(191.021)**	**(113.209)**	**(95.540)**	**(208.749)**
DEN EIGENTÜMERN DES MUTTERUNTERNEHMENS ZUZURECHNENDES PERIODENERGEBNIS	**77.813**	**(191.021)**	**(113.209)**	**(95.540)**	**(208.749)**
PERIODENERGEBNIS	**77.813**	**(191.021)**	**(113.209)**	**(95.540)**	**(208.749)**
Ergebnis je Aktie					
Unverwässertes Ergebnis je Aktie (in €)	0,07				(0,07)
Verwässertes Ergebnis je Aktie (in €)	0,07				(0,07)

1 Die Pro-Forma-Anpassungen in dieser Spalte beziehen sich auf die Pro-Forma-Effekte auf die Umsatzerlöse, den Materialaufwand und bezogene Leistungen sowie die sonstigen Aufwendungen durch die Eliminierung von Liefer- und Leistungsbeziehungen zwischen Telefónica Deutschland und der Neuen E-Plus Gruppe, auf die Abschreibungen im Zusammenhang mit einer vorläufigen Kaufpreisallokation, die für den Erwerb der Neuen E-Plus Gruppe durchgeführt wurde, auf die sonstigen Aufwendungen aus den akquisitionsbezogenen, im Zusammenhang mit der Transaktion anfallenden Kosten und auf den Personalaufwand aus Management Bonusvereinbarungen im Zusammenhang mit der Transaktion. Die Spalte reflektiert außerdem die Pro-Forma-Effekte auf die Ertragsteuern, die sich aus den vorstehenden Pro-Forma-Anpassungen, der Annahme, dass die Gesellschaft von Steuervorteilen auf Ebene der Neuen E-Plus Gruppe profitiert, und dem Unterschied des gesetzlichen Steuersatzes der Gesellschaft sowie der Neuen E-Plus Gruppe ergeben. Die Pro-Forma-Anpassungen werden auf Basis der Annahme, dass die Transaktion zum 1. Januar 2013 bereits vollzogen gewesen sei, dargestellt.

2 Enthält Umsatzerlöse aus Mobilfunk von €3.245.362 Tausend, welche sich aus Umsatzerlösen aus Mobilfunkdienstleistungen von €2.726.809 Tausend und Umsatzerlösen aus Mobilfunk-Hardware von €518.553 Tausend zusammensetzen.

3 Enthält Pro-Forma-Umsatzerlöse aus Mobilfunk von €6.694.538 Tausend, welche sich aus Pro-Forma-Umsatzerlösen aus Mobilfunkdienstleistungen von €5.492.236 Tausend und Pro-Forma-Umsatzerlösen aus Mobilfunk-Hardware von €1.202.302 Tausend zusammensetzen.

PRO-FORMA-KONZERNGEWINN- UND VERLUSTRECHNUNG FÜR DEN ZEITRAUM VOM 1. JANUAR 2014 BIS ZUM 30. JUNI 2014

Die nachstehende Tabelle enthält die Pro-Forma-Anpassungen (fünfte Spalte ("*Pro-Forma-Anpassungen*")) der Summe (i) der historischen IFRS Konzern-Gewinn- und Verlustrechnung der Gesellschaft (zweite Spalte ("*Telefónica Deutschland*")) und (ii) der historischen, an die Auswirkungen des Pre-Closing Restructuring und der Ausweis-, Bilanzierungs- und Bewertungsmethoden angepassten IFRS Konzern-Gewinn- und Verlustrechnung der KPN Mobile Germany GmbH & Co. KG (dritte Spalte ("*Neue E-Plus Gruppe*")) auf Basis der Annahme, dass die Transaktion bereits zum 1. Januar 2013 vollzogen gewesen wäre.

1. Januar bis 30. Juni 2014	**Historische Finanzinformationen**				**Pro-Forma-Konzern-gewinn- und Verlustrechnung**
	Telefónica Deutschland	**Neue E-Plus Gruppe**	**Summe**	**Pro-Forma-Anpassungen**[1]	
	(in Tausend €)				
Umsatzerlöse	2.283.663	1.578.903[2]	3.862.556	(93.695)	3.768.871[3]
Sonstige Erträge	43.022	24.708	67.730	–	67.730
Materialaufwand und bezogene Leistungen	(882.649)	(507.660)	(1.390.309)	99.070	(1.291.239)
Personalaufwand	(213.284)	(145.661)	(358.945)	6.135	(352.810)
Sonstige Aufwendungen	(744.959)	(672.289)	(1.417.248)	(854)	(1.418.102)
BETRIEBSERGEBNIS VOR ABSCHREIBUNGEN (OIBDA)	**485.792**	**278.001**	**763.793**	**10.656**	**774.449**
Abschreibungen	(533.988)	(361.130)	(895.118)	(82.222)	(977.340)
BETRIEBSERGEBNIS	**(48.195)**	**(83.129)**	**(131.324)**	**(71.566)**	**(202.890)**
Finanzerträge	3.953	4.445	8.398	–	8.398
Währungsgewinne	161	18	179	–	179
Finanzaufwendungen	(19.660)	(27.488)	(47.148)	–	(47.148)
Währungsverluste	(474)	(33)	(507)	–	(507)
Finanzergebnis	**(16.020)**	**(23.058)**	**(39.078)**	**–**	**(39.078)**
ERGEBNIS VOR STEUERN	**(64.215)**	**(106.187)**	**(170.402)**	**(71.566)**	**(241.968)**
Ertragsteuern	14	–	14	124.305	124.319
PERIODENERGEBNIS	**(64.201)**	**(106.187)**	**(170.388)**	**52.739**	**(117.649)**
DEN EIGENTÜMERN DES MUTTERUNTERNEHMENS ZUZURECHNENDES PERIODENERGEBNIS	**(64.201)**	**(106.187)**	**(170.388)**	**52.739**	**(117.649)**
PERIODENERGEBNIS	**(64.201)**	**(106.187)**	**(170.388)**	**52.739**	**(117.649)**
Ergebnis je Aktie					
Unverwässertes Ergebnis je Aktie (in €)	(0,06)				(0,04)
Verwässertes Ergebnis je Aktie (in €)	(0,06)				(0,04)

[1] Die Pro-Forma-Anpassungen in dieser Spalte beziehen sich auf die Pro-Forma-Effekte auf die Umsatzerlöse, den Materialaufwand und bezogene Leistungen sowie die sonstige Aufwendungen durch die Eliminierung von Liefer- und Leistungsbeziehungen zwischen Telefónica Deutschland und der Neuen E-Plus Gruppe, auf die Abschreibungen im Zusammenhang mit einer vorläufigen Kaufpreisallokation, die für den Erwerb der Neuen E-Plus Gruppe durchgeführt wurde, auf die sonstigen Aufwendungen aus den akquisitionsbezogenen, im Zusammenhang mit der Transaktion anfallenden Kosten und auf den Personalaufwand aus Management Bonusvereinbarungen im Zusammenhang mit der Transaktion. Die Spalte reflektiert außerdem Pro-Forma-Effekte auf die Ertragsteuern, die sich aus den vorstehenden Pro-Forma-Anpassungen der Annahme, dass die Gesellschaft von Steuervorteilen auf Ebene der Neuen E-Plus Gruppe profitiert, und dem Unterschied des gesetzlichen Steuersatzes der Gesellschaft sowie der Neuen E-Plus Gruppe ergeben. Die Pro-Forma-Anpassungen werden auf Basis der Annahme, dass die Transaktion zum 1. Januar 2013 bereits vollzogen gewesen sei, dargestellt.

[2] Enthält Umsatzerlöse aus Mobilfunk von €1.571.793 Tausend, welche sich aus Umsatzerlösen aus Mobilfunkdienstleistungen von €1.333.402 Tausend und Umsatzerlösen aus Mobilfunk-Hardware von €238.391 Tausend zusammensetzen.

[3] Enthält Pro-Forma-Umsatzerlöse aus Mobilfunk von €3.177.301 Tausend, welche sich aus Pro-Forma-Umsatzerlösen aus Mobilfunkdienstleistungen von €2.674.458 Tausend und Pro-Forma-Umsatzerlösen aus Mobilfunk-Hardware von €502.843 Tausend zusammensetzen.

PRO-FORMA-KONZERNBILANZ ZUM 30. JUNI 2014

Die nachstehende Tabelle enthält die Pro-Forma Anpassungen (fünfte Spalte ("*Pro-Forma-Anpassungen*")) der Summe (i) der historischen IFRS Konzernbilanz der Gesellschaft (zweite Spalte ("*Telefónica Deutschland*")) und (ii) der historischen, an die Auswirkungen des Pre-Closing Restructuring und der Ausweis-, Bilanzierungs- und Bewertungsmethoden angepassten IFRS Konzernbilanz der KPN Mobile Germany GmbH & Co. KG (dritte Spalte ("*Neue E-Plus Gruppe*")) auf Basis der Annahme, dass die Transaktion bereits zum 30. Juni 2014 vollzogen gewesen wäre.

Zum 30. Juni 2014	**Historische Finanzinformationen**				
	Telefónica Deutschland	**Neue E-Plus Gruppe**	**Summe**	**Pro-Forma-Anpassungen**[1]	**Pro-Forma-Konzernbilanz**
			(in Tausend €)		
AKTIVA **A) LANGFRISTIGE VERMÖGENSWERTE**	**6.935.334**	**4.371.969**	**11.307.304**	**3.107.649**	**14.414.953**
Geschäfts- oder Firmenwerte	705.576	151.305	856.881	901.427	1.758.308
Immaterielle Vermögenswerte	2.717.326	1.732.092	4.449.418	2.832.148	7.281.566
Sachanlagen	2.818.161	2.298.921	5.117.082	(421.210)	4.695.872
Sonstige langfristige finanzielle Vermögenswerte	110.748	173.516	284.264	–	284.264
Latente Steueransprüche	583.523	16.135	599.659	(204.716)	394.942
B) KURZFRISTIGE VERMÖGENSWERTE	**2.313.167**	**1.092.660**	**3.405.827**	**(38.755)**	**3.367.072**
Vorräte	110.369	25.159	135.528	–	135.528
Forderungen aus Lieferungen und Leistungen und sonstige Forderungen	1.171.811	712.748	1.884.559	(25.089)	1.859.470
Sonstige kurzfristige finanzielle Vermögenswerte	24.713	–	24.713	–	24.713
Zahlungsmittel und Zahlungsmitteläquivalente	1.006.275	354.753	1.361.028	(13.666)	1.347.362
BILANZSUMME (A+B)	**9.248.502**	**5.464.629**	**14.713.131**	**3.068.894**	**17.782.025**
PASSIVA **A) EIGENKAPITAL**	**5.399.166**	**4.010.297**	**9.409.464**	**3.043.083**	**12.452.547**
Gezeichnetes Kapital	1.116.946	10.102	1.127.048	1.660.330	2.787.378
Kapitalrücklagen	430	1.434.630	1.435.060	3.922.130	5.357.190
Gewinnrücklagen	4.280.108	2.568.047	6.848.155	(2.541.859)	4.306.296
Sonstige Eigenkapitalbestandteile	1.683	(2.482)	(799)	2.482	1.683
GESAMTES DEN EIGENTÜMERN DER MUTTERGESELLSCHAFT ZUZUORDNENDES EIGENKAPITAL	**5.399.166**	**4.010.297**	**9.409.464**	**3.043.083**	**12.452.547**
B) LANGFRISTIGE SCHULDEN	**2.262.739**	**349.524**	**2.612.263**	**15.374**	**2.627.637**
Langfristige verzinsliche Schulden	1.812.596	–	1.812.596	–	1.812.596
Sonstige langfristige Verbindlichkeiten	47.013	143.255	190.268	–	190.268
Langfristige Rückstellungen	138.819	202.470	341.289	19.173	360.462
Rechnungsabgrenzungsposten	264.311	3.799	268.111	(3.799)	264.312
Latente Steuerverbindlichkeiten	–	–	–	–	–
C) KURZFRISTIGE SCHULDEN	**1.586.596**	**1.104.808**	**2.691.404**	**10.436**	**2.701.840**
Kurzfristige verzinsliche Schulden	12.687	5.271	17.958	–	17.958
Verbindlichkeiten aus Lieferungen und Leistungen	1.098.617	550.368	1.648.985	(17.726)	1.631.259
Sonstige kurzfristige Verbindlichkeiten	289.143	339.036	628.179	40.251	668.430
Kurzfristige Rückstellungen	3.155	13.669	16.824	(149)	16.675
Rechnungsabgrenzungsposten	182.995	196.464	379.459	(11.940)	367.519
BILANZSUMME (A+B+C)	**9.248.502**	**5.464.629**	**14.713.131**	**3.068.894**	**17.782.025**

[1] Die Pro-Forma-Anpassungen in dieser Spalte beziehen sich auf die Pro-Forma-Effekte aus dem Bezugsrechtsangebot, der Kapitalerhöhung gegen Sacheinlage und der Zahlung der Barkomponente als Teil der Transaktion, der Pro-Forma-Anpassungen der Sachanlagen, der immateriellen Vermögenswerte und der Geschäfts- und Firmenwerte im Zusammenhang mit der vorläufigen

Kaufpreisallokation, die für den Erwerb der Neuen E-Plus Gruppe durchgeführt wurde, der Eigenkapitaleliminierung der Neuen E-Plus-Gruppe, der Berücksichtigung der akquisitionsbezogenen, im Zusammenhang mit der Transaktion anfallenden Kosten, der Eliminierung von Liefer- und Leistungsbeziehungen zwischen Telefónica Deutschland und der Neuen E-Plus Gruppe und der Berücksichtigung der Management Bonusvereinbarungen im Zusammenhang mit der Transaktion. Die Spalte reflektiert außerdem die Pro-Forma-Effekte auf die latenten Steueransprüche und –verbindlichkeiten, die sich aus den vorstehenden Pro-Forma-Anpassungen und dem Unterschied des gesetzlichen Steuersatzes der Gesellschaft sowie der Neuen E-Plus Gruppe ergeben. Die Pro-Forma-Anpassungen werden auf Basis der Annahme, dass die Transaktion zum 30. Juni 2014 bereits vollzogen gewesen sei, dargestellt.

B.9	**Gewinnprognosen oder -schätzungen**	Entfällt (die Gesellschaft hat keine Gewinnprognose oder -schätzung veröffentlicht).
B.10	**Beschränkungen im Bestätigungsvermerk zu den historischen Finanzinformationen**	Entfällt (es bestehen keine Einschränkungen).
B.11	**Unzulänglichkeit des Geschäftskapitals des Emittenten für die bestehenden Anforderungen**	Entfällt (die Gesellschaft ist der Auffassung, dass ihr Geschäftskapital für die derzeitigen Anforderungen von Telefónica Deutschland ausreichend ist, d.h. mindestens für die dem Prospektdatum folgenden zwölf Monate).

ABSCHNITT C – WERTPAPIERE		
C.1	**Beschreibung von Art und Gattung der angebotenen und/oder zum Handel zuzulassenden Wertpapiere**	Das Angebot umfasst 1.116.945.400 neue nennwertlose Namensstückaktien der Gesellschaft, die der von der Hauptversammlung am 20. Mai 2014 beschlossenen Barkapitalerhöhung mit Bezugsrecht der bestehenden Aktionäre entstammen (die "**Angebotsaktien**"), jede Angebotsaktie mit voller Gewinnanteilsberechtigung für das am 1. Januar 2014 beginnende Geschäftsjahr. Die Zulassung zum Handel umfasst die Angebotsaktien und 740.664.193 neue nennwertlose Namensstückaktien mit voller Gewinnanteilsberechtigung für das am 1. Januar 2014 beginnende Geschäftsjahr, die der vom Vorstand der Gesellschaft am oder um den 23. September 2014 mit Zustimmung des Aufsichtsrats vom gleichen Tag zu beschließenden Sachkapitalerhöhung unter teilweiser Ausnutzung des genehmigten Kapitals der Gesellschaft, das auf der außerordentlichen Hauptversammlung der Gesellschaft am 18. September 2012 beschlossen wurde ("**Genehmigtes Kapital 2012/I**"), und unter Ausnutzung des genehmigten Kapitals der Gesellschaft, das auf der außerordentlichen Hauptversammlung der Gesellschaft am 11. Februar 2014 beschlossen wurde ("**Genehmigtes Kapital 2014/I**"), entstammen (die "**Gegenleistungsaktien**") (die Angebotsaktien und die Gegenleistungsaktien zusammen auch die "**Neuen Aktien**").
	Wertpapierkennung	Ticker Symbol: O2D International Securities Identification Number ("**ISIN**"): DE000A1J5RX9 Wertpapierkennnummer ("**WKN**"): A1J5RX
C.2	**Währung der Wertpapieremission**	Euro.
C.3	**Zahl der ausgegebenen und voll eingezahlten und der ausgegebenen und nicht voll eingezahlten Aktien. Nennwert pro Aktie, bzw. Angabe, dass Aktien keinen Nennwert haben**	Zum Datum dieses Prospekts sind 1.116.945.400 nennwertlose Stückaktien ausgegeben und voll eingezahlt.
C.4	**Mit den Wertpapieren verbundene Rechte**	Jede Aktie der Gesellschaft berechtigt den Aktionär zur Abgabe einer Stimme auf der Hauptversammlung der Gesellschaft. Die Neuen Aktien sind für das am 1. Januar 2014 beginnende Geschäftsjahr und alle nachfolgenden Geschäftsjahre voll gewinnanteilsberechtigt.

C.5	**Beschreibung aller etwaigen Beschränkungen für die freie Übertragbarkeit der Wertpapiere**	Entfällt (es bestehen keine Einschränkungen der freien Übertragbarkeit der Aktien der Gesellschaft).
C.6	**Angabe, ob für die angebotenen Wertpapiere die Zulassung zum Handel in einem geregelten Markt beantragt wurde bzw. werden soll, Nennung aller geregelten Märkte, in denen die Wertpapiere gehandelt werden oder werden sollen**	Die Gesellschaft beabsichtigt, spätestens am 18. September 2014 die Zulassung der Neuen Aktien zum Handel am regulierten Markt der Frankfurter Wertpapierbörse und gleichzeitig am dortigen Teilbereich mit weiteren Zulassungsfolgepflichten (*Prime Standard*) zu beantragen. Die Gesellschaft erwartet eine Entscheidung über die Zulassung der Angebotsaktien am oder um den 22. September 2014 und deren Einbeziehung in die bestehende Quotierung der Aktien der Gesellschaft am 25. September 2014. Die Gesellschaft erwartet eine Entscheidung über die Zulassung der Gegenleistungsaktien am oder um den 8. Oktober 2014 und deren Einbeziehung in die bestehende Quotierung der Aktien der Gesellschaft am 10. Oktober 2014.
C.7	**Beschreibung der Dividendenpolitik**	Die Hauptversammlung der Gesellschaft beschloss am 20. Mai 2014 die Ausschüttung einer Bardividende an ihre Aktionäre für das zum 31. Dezember 2013 endende Geschäftsjahr im Gesamtbetrag von €525 Millionen, die am 21. Mai 2014 ausgezahlt wurde. Der Vorstand beabsichtigt derzeit, der Hauptversammlung eine Dividendenzahlung in bar für das Geschäftsjahr endend zum 31. Dezember 2014, zahlbar in 2015, von mindestens €700 Millionen vorzuschlagen. Der Vorstand beabsichtigt, eine hohe Ausschüttungsquote im Verhältnis zu verfügbarer Cashflows zu erhalten. Im Zusammenhang mit der geplanten Akquisition der E-Plus Gruppe werden der Vorstand und der Aufsichtsrat im Rahmen ihres Vorschlags zur Dividendenausschüttung an die Hauptversammlung voraussichtlich ebenfalls erwartete, in der Zukunft zu realisierende Synergien berücksichtigen. Der Vorstand und der Aufsichtsrat beabsichtigen, der Hauptversammlung Vorschläge über die Ausschüttung von Dividenden unter der Berücksichtigung (i) des Jahresüberschusses, (ii) historischer und geplanter verfügbarer Cashflows und Liquidität, (iii) ausschüttungsfähiger Gewinnrücklagen, (iv) eines Benchmarkvergleichs anderer Telekommunikationsunternehmen und (v) des jeweils aktuellen und erwarteten Verschuldungsgrads und der Finanzlage der Gesellschaft, (vi) der allgemeinen wirtschaftlichen und geschäftlichen Umstände, (vii) anwendbarer rechtlicher und regulatorischer Erfordernisse und (viii) weiterer Faktoren zu unterbreiten, die der Vorstand und der Aufsichtsrat als wesentlich erachten. Der Vorstand und der Aufsichtsrat beabsichtigen, den Verschuldungsgrad der Gesellschaft (errechnet: Nettofinanzschulden geteilt durch OIBDA) mittelfristig unter 1,0 zu halten (der "**Zielverschuldungsgrad**"). Nettofinanzschulden werden als zinstragende Finanzverbindlichkeiten abzüglich von zinstragenden Vermögensgegenständen, Zahlungsmitteln und Zahlungsmitteläquivalenten unter Berücksichtigung des Werts von Finanzderivativen und Hedgingvereinbarungen berechnet, um die Einhaltung des Zielverschuldungsgrads einzuschätzen. Im Rahmen ihrer Finanzpolitik ist die Gesellschaft bestrebt (i) keine Auszahlung von Dividenden, Ausschüttung von Kapital oder Kapitalrücklagen in bar oder den Rückkauf von Aktien vorzunehmen, soweit das Verhältnis von Nettofinanzschulden/OBIDA den Zielverschuldungsgrad wesentlich und beständig überschreitet; und (ii) die Verwendung neuer Schulden zur Zahlung von Dividenden einzuschränken, indem dies nur möglich ist, soweit Verhältnis von Nettofinanzschulden/OBIDA mit dem Zielverschuldungsgrad übereinstimmt.

ABSCHNITT D – RISIKEN		
Neben den übrigen in diesem Prospekt enthaltenen Informationen sollten Anleger bei einer Entscheidung über eine Anlage in Bezugsrechten und Neue Aktien der Gesellschaft die nachfolgend beschriebenen Risiken sorgfältig prüfen. Der Marktpreis der Neuen Aktien der Gesellschaft könnte bei Eintritt jedes einzelnen dieser Risiken fallen; in diesem Fall könnten die Anleger ihre Anlagen ganz oder teilweise verlieren. Die folgenden Risiken könnten allein oder zusammen mit weiteren Risiken und Unsicherheiten, die uns derzeit nicht bekannt sind oder die wir derzeit als unwesentlich erachtet, unsere Geschäfts-, Finanz- und Ertragslage erheblich beeinträchtigen. *Die Reihenfolge, in der die Risikofaktoren dargestellt sind, stellt weder eine Aussage über die Eintrittswahrscheinlichkeit noch über die Bedeutung und Höhe der Risiken oder das Ausmaß der möglichen Beeinträchtigung hinsichtlich unserer Geschäfts-, Finanz- und Ertragslage dar. Die genannten Risiken könnten einzeln oder kumulativ eintreten.*		
D.1	**Zentrale Angaben zu den zentralen Risiken, die dem Emittenten oder seiner Branche eigen sind**	**Risiken in Verbindung mit unserer Geschäftstätigkeit und unserer Branche** • Rezessive Rahmenbedingungen in der Eurozone und insbesondere in Deutschland können sich nachteilig auf unsere Geschäftstätigkeit sowie Finanz- und Ertragslage auswirken. • Unsere Geschäftstätigkeit unterliegt der umfangreichen Regulierung und Überwachung durch die Bundesnetzagentur ("**BNetzA**") in Deutschland und anderer Regulierungsbehörden in Europa, wie der Europäischen Kommission. Sollten wir die anwendbaren Regularien und Verpflichtungen, die von der BNetzA vorgegeben werden, nicht einhalten können, könnten uns Sanktionen auferlegt werden, die einen nachteiligen Einfluss auf unser Geschäft haben können. Es könnten ebenso behördliche Anordnungen durch Kartell- oder Wettbewerbsbehörden gegen uns ergehen, die bestimmte Handlungen, wie Neuakquisitionen oder bestimmte Praktiken, verbieten könnten. Wir erwarten, dass diese umfangreiche Regulierung unsere Geschäftstätigkeit sowie Finanz- und Ertragslage weiterhin beeinflussen wird. • Erhöhte Transparenzanforderungen bei Online- und Telesales sowie zur Vermeidung sogenannter "Bill Shocks" (wie z.B. Preisobergrenzen oder Warnkurznachrichten) und der erreichbaren Bandbreite bei mobilen und stationären Breitbandanschlüssen könnten zu Abwanderung von Kunden und zu niedrigeren Umsatzerlösen führen, was sich wesentlich nachteilig auf unsere Geschäftstätigkeit sowie Finanz- und Ertragslage auswirken könnte. • Wir sind Senkungen von Mobilfunk- und Festnetz-Terminierungsentgelten und anderen Gebühren wie z.B. Roamingtarifen ausgesetzt. Zukünftige Herabsenkungen solcher Raten, Tarife und Gebühren könnten sich wesentlich nachteilig auf unsere Geschäftstätigkeit sowie Finanz- und Ertragslage auswirken. • Die "digital single market" Initiative der EU-Kommission hinsichtlich verschiedener Maßnahmen, welche die Rahmenbedingungen für Investitionen in moderne Breitbandnetze verbessern und günstigere Rahmenbedingungen für einen starken europäischen Telekommunikationssektor schaffen sollen, könnte sich nachteilig auf unsere Geschäftstätigkeit auswirken. • Unsere Geschäftstätigkeit ist abhängig von der Ausweitung und dem Ausbau unserer bestehenden Netze als einem wesentlichen Teil unseres Geschäfts. Verzögerungen in der Genehmigung von Anträgen auf Frequenzzuteilung für Richtfunkanwendungen könnten sich wesentlich nachteilig auf die Leistungsfähigkeit, Wettbewerbsfähigkeit und Erweiterung unserer Mobilfunknetzwerke auswirken, da solche Genehmigungen zur Erhaltung der bestehenden und Errichtung neuer Netzwerkstandorte erforderlich sind. • Unsere Lizenzen und Frequenznutzungsrechte haben eine begrenzte Laufzeit. Wir könnten nicht in der Lage sein, die Lizenzen und Frequenznutzungsrechte, die für unsere Geschäftstätigkeit notwendig sind, bei Ablauf ihrer Laufzeit zu verlängern oder neue zugeteilt zu bekom-

		men, oder es könnten erhebliche Investitionen notwendig sein, um unsere Lizenzen zu erhalten. Beides könnte sich wesentlich nachteilig auf unsere Geschäftstätigkeit und Finanzlage auswirken. • Der Telekommunikationsmarkt in Deutschland ist durch intensiven Wettbewerb von bestehenden und möglichen neuen Mobilfunknetzbetreibern und Festnetz-Wholesale-Anbietern sowie Faktoren, die außerhalb unserer Kontrolle liegen, wie zum Beispiel Konsumtrends in Bezug auf neue Technologien, gekennzeichnet. Sollten wir nicht in der Lage sein, uns in dieser Konkurrenzsituation effektiv zu behaupten, könnte sich dies wesentlich nachteilig auf unsere Geschäftstätigkeit und Ertrags- und Finanzlage auswirken. • Wir sind intensivem Wettbewerb durch Betreiber virtueller Mobilfunknetze und Wiederverkäufer unter eigenen Marken (sog. Branded Reseller) ausgesetzt. • Wir begegnen zunehmendem Wettbewerb von alternativen Telekommunikationsanbietern wie Kabelgesellschaften und Unterhaltungselektronik-Anbietern sowie Anbietern alternativer Telekommunikationsdienstleistungen, wie internetbasierten Dienstleistungen (sog. “over-the-top-Dienstleistungen (OTT)”). • Wir könnten Vermögenswerte erwerben oder verkaufen oder Joint Ventures oder sonstige Geschäftsbeziehungen eingehen, die möglicherweise weniger Umsatzerlöse, Cash Flows und Erträge generieren als angenommen. Wir könnten Schwierigkeiten ausgesetzt sein, erworbene Vermögenswerte zeitgerecht zu integrieren, und erwartete Synergien könnten sich nicht realisieren. • Die Telekommunikationsbranche ist und wird weiterhin durch schnellen technologischen Wandel geprägt sein. Wir könnten nicht in der Lage sein, diesen Wandel effektiv zu antizipieren oder darauf zu reagieren. • Kooperationsvereinbarungen oder Joint Ventures mit anderen Marktteilnehmern könnten von der zuständigen Behörde aus regulatorischen oder Wettbewerbsgründen nicht genehmigt werden, was zu höheren Investitionskosten und eingeschränktem Produktangebot führen könnte. • Wir könnten aufgrund einer fehlenden Marktakzeptanz oder technologischen Wandels nicht in der Lage sein, die erwartete Nachfrage nach unseren Produkten und Dienstleistungen oder den daraus erwarteten Umfang oder zeitliche Abstimmung der generierten Umsatzerlöse zu realisieren. • Einschränkungen oder Verbote hinsichtlich des Einkaufs oder Verkaufs von Mobilfunkgeräten könnten unsere Geschäftstätigkeit beeinträchtigen. Mobilfunkgeräte könnten eingeschränkten Zugang zu unseren Mobilfunknetzen haben oder damit inkompatibel sein. • Der Erfolg unserer Geschäftstätigkeit hängt von unserer Fähigkeit ab, Kunden zu gewinnen und zu halten. Außerdem könnten wir aufgrund externer Umstände nicht in der Lage sein, unsere vertraglichen Verpflichtungen gegenüber unseren großen Geschäftskunden zu erfüllen, was zu der Beendigung von Geschäftskundenverträgen führen könnte. • Anhaltende oder wiederholte Störungen oder Schäden unserer Mobilfunk- oder Festnetze und technischen Systeme könnten zum Verlust von Kunden und einem Umsatzrückgang führen sowie aufwendige Reparaturen erfordern. • Falls wir nicht in der Lage sind, unsere direkten und indirekten Vertriebskanäle zu erhalten oder weiter auszubauen oder die Vertriebskanäle, die Kunden für den Erwerb unserer Produkte präferieren, richtig zu antizipieren, könnte sich dies nachteilig auf unsere Fähigkeit auswirken, unsere Kundenbasis zu erhalten und zu erweitern. • Die Ausübung unserer Geschäftstätigkeit ist kapitalintensiv. Unsere Liquidität könnte nicht ausreichen oder es könnten Finanzierungsoptionen nicht in ausreichendem Maß verfügbar sein, um unsere Betriebsmittelanforderungen oder Investitionen zu finanzieren.

		• Wir unterliegen einer starken Abhängigkeit von gewissen Dienstleistern, wie der Deutschen Telekom hinsichtlich unserer Netzwerkinfrastruktur, BT Germany hinsichtlich Ausrüstung, Dienstleistungen für unsere Standorte, der Errichtung und dem Betrieb unserer IT und Kommunikationsausrüstung sowie der flankierenden Infrastruktur sowie den Betrieb unserer Kern- und Zugangsstandorte sowie Netzwerkbetreibern hinsichtlich Roaming-Dienstleistungen. Wir könnten nicht in der Lage sein, passende alternative Dienstleister zu finden, sollten die jeweiligen Dienstleistungsverträge beendet werden, was wesentliche nachteilige Auswirkungen auf unsere Geschäftstätigkeit, Finanz- und Ertragslage haben könnte. • In den vergangenen Jahren haben wir Teile unseres Betriebs, wie den Großteil unserer technischen Dienste, die Wartung unserer Netzwerke und erhebliche Teile unserer Call-Center, ausgelagert und beabsichtigen, diese Strategie weiter zu verfolgen. Unsere Abhängigkeit von diesen Auslagerungen macht uns anfällig für die Fehlerhaftigkeit oder die fehlende Verfügbarkeit der ausgelagerten wesentlichen Tätigkeiten und Dienstleistungen. • Die Beendigung oder Nichtverlängerung von bestehenden Verträgen oder Partnerschaften mit Betreibern virtueller Mobilfunknetze, Branded Resellern und Dienstleistern könnte unsere Fähigkeit beeinträchtigen, unsere Kundenbasis und Umsätze zu diversifizieren und zu erweitern. • Der Wettbewerb um qualifiziertes Personal, das wir benötigen, um unser Geschäft erfolgreich zu betreiben und zu entwickeln, ist intensiv. Der Verlust von oder das Unvermögen, erfahrene Führungskräfte und anderes wichtiges Personal einzustellen oder zu halten, könnte sich negativ auf unsere Geschäftstätigkeit auswirken. • Wir verwenden Technologien, die möglicherweise durch Rechte Dritter geschützt sind. Die wachsende Abhängigkeit der Industrie für Telekommunikationsausstattung von geschützten Technologien könnte die Wahrscheinlichkeit erhöhen, dass wir Rechtsstreitigkeiten oder anderen Verfahren zu geltend gemachten Schutz- oder Urheberrechtsverletzungen ausgesetzt sind. Wir könnten nicht in der Lage sein, unsere eigenen geistigen Eigentumsrechte adäquat zu schützen. • Wir könnten gegen Daten-, Verbraucherschutz- sowie Wettbewerbsvorschriften verstoßen, was regulatorische Untersuchungen, Strafen, Reputationsverlust sowie Kundenverlust nach sich ziehen könnte. • Wir könnten nachteilig durch die zwingende Implementierung neuer Zahlungsformate und -weisen aufgrund des “Einheitlichen Europäischen Zahlungsverkehrs” insbesondere im Zusammenhang mit Lastschriftverfahren beeinträchtigt werden. • Wir könnten durch die öffentliche Wahrnehmung angeblicher Gesundheitsrisiken elektromagnetischer Radiowellen und drahtloser Kommunikationsgeräte und Antennen nachteilig beeinträchtigt werden. • Unser Versicherungsschutz könnte nicht ausreichend sein, um Schäden aufgrund unerwarteter Ereignisse abzudecken. • Wir könnten verpflichtet sein, zusätzliche Steuern oder Abgaben infolge von Betriebsprüfungen zu zahlen. Veränderungen im Steuerrecht oder bei der Auslegung des Steuerrechts durch Gerichte oder Steuerbehörden könnten ebenfalls wesentliche negative Auswirkungen auf unsere Geschäftstätigkeit, Finanz- und Ertragslage haben. • Wir könnten außer Stande sein, unsere steuerlichen Verlustvorträge in vollem Umfang zu nutzen. Der mögliche Verfall steuerlicher Verlustvorträge könnte zu einer höheren Steuerlast bei zukünftigen Steuerfestsetzungen führen (sobald die Gesellschaft zu versteuernde Gewinne generiert).

		Risiken in Verbindung mit unserem Erwerb der E-Plus Gruppe • Gemäß des SPA haben sich KPN, Telefónica, S.A. und die Gesellschaft auf die Transaktion geeinigt. Der Vollzug der Transaktion ist bedingt durch den Eintritt von oder Verzicht auf bestimmte aufschiebende Bedingungen, von denen auf einige kein Verzicht erklärt werden kann. Sollten die aufschiebenden Bedingungen nicht am oder vor dem 1. März 2015 eintreten oder darauf verzichtet werden, können KPN, Telefónica, S.A. und die Gesellschaft jeweils das SPA kündigen; in diesem Falle würde die Transaktion scheitern. Für Telefónica Deutschland könnte ein Scheitern der Transaktion zur Rufschädigung sowie zu finanziellen Nachteilen führen, die unter anderem aus der im Zusammenhang mit der Transaktion angefallenen Arbeitsaufwendungen und den entstandenen Kosten resultieren können. • Die Transaktion unterliegt zusätzlichen Einschränkungen und Bedingungen, die von der zuständigen Wettbewerbs- und Regulierungsbehörde auferlegt wurden, die zu gesteigertem Wettbewerb für die Neue Gruppe führen und eine wesentlich nachteilige Auswirkung auf die Geschäftstätigkeit sowie Finanz- und Ertragslage der Telefónica Deutschland und der Neuen Gruppe haben könnte. • Gewährleistungsansprüche und Ansprüche auf Schadenersatz und Freistellung, die von KPN im SPA eingeräumt wurden, sind hinsichtlich Umfang und Beträgen eingeschränkt und unterliegen zeitlichen Begrenzungen. • Die Pro-Forma-Konzern-Finanzinformationen der Gesellschaft beschreiben lediglich eine hypothetische Situation und spiegeln folglich aufgrund ihrer Wesensart nicht die tatsächliche Vermögens-, Finanz- und Ertragslage von Telefónica Deutschland nach dem Vollzug der Transaktion wider. • Die im Prospekt enthaltenen historischen Konzernfinanzinformationen der E-Plus Gruppe können nicht als indikativ für die zukünftige Leistungsfähigkeit der E-Plus Gruppe als Teil der Neuen Gruppe betrachtet werden. Obwohl dies im Wesentlichen keine Auswirkungen auf den freien Cashflow hat, wäre das Ergebnis für die Periode, welches in dem geprüften Konzernabschluss für das zum 31. Dezember 2013 endende Geschäftsjahr und dem ungeprüften verkürzten Konzernzwischenabschluss für den zum 30. Juni 2014 endenden Sechsmonatszeitraum der KPN Mobile Germany ausgewiesen wird, bei einer Anwendung der Bilanzierungs- und Bewertungsgrundsätze der Gesellschaft wesentlich niedriger ausgefallen, wobei die wesentlichen Unterschiede aus der unterschiedlichen bilanziellen Behandlung der Vermietung von Mobilfunkgeräten an Kunden, von Rückbauverpflichtungen in Bezug auf Netzwerkstationen und der Aktivierung von Eigenleistungen resultieren. • Die Geschäftstätigkeit der E-Plus Gruppe unterliegt Risiken, die mit den vorgenannten Risiken in Bezug auf unsere Geschäftstätigkeit und Branche vergleichbar sind, und könnte weiteren Risiken ausgesetzt sein. • Die E-Plus Gruppe ist von bestimmten, großen Wholesale-Partnern und bestimmten Dienstleistern und Lieferanten hinsichtlich ihrer Netzwerkinfrastruktur und IT-Systeme abhängig. • Die E-Plus Gruppe wird auch nach dem Vollzug der Transaktion von KPN in Bezug auf die Bereitstellung wesentlicher Dienstleistungen abhängig sein und Vertragspartner einer Vielzahl von Verträgen bleiben. • Die Neue Gruppe könnte wegen Zahlungsansprüchen aufgrund von Pensionsverpflichtungen gegenüber Mitarbeitern der E-Plus Gruppe in Anspruch genommen werden. • Die Neue Gruppe könnte nur geringen Einfluss auf die Erhaltung und Verbesserung des Netzwerks, der Systeme und Betriebstätigkeiten der E-Plus Gruppe haben und zusätzlichen Kosten aufgrund von nach dem Vollzug der Transaktion fortbestehenden vertraglichen Verpflichtungen ausgesetzt sein.

		• Telefónica Deutschland könnte die Integration der E-Plus Gruppe in ihre bestehende Geschäftstätigkeit nicht in der Weise oder in dem Zeitrahmen gelingen, wie derzeit erwartet wird, oder nur zu höheren Kosten. • Telefónica Deutschland ist weiteren Risiken im Zusammenhang mit der Transaktion ausgesetzt. Die Transaktion könnte, unter anderem, sich als weniger erfolgreich als erwartet erweisen, die zusammengeführten Unternehmen könnten sich nicht wie erwartet entwickeln und Umsatzerlös- und Ergebnisziele könnten nicht erreicht werden. Wir könnten Risiken und Problemen der E-Plus Gruppe, die nicht im Rahmen der der Transaktion vorhergehenden Due Diligence offengelegt wurden und die nicht aus den verfügbaren Finanzinformationen der E-Plus Gruppe abgeleitet werden konnten, ausgesetzt sein. Weiterhin könnte der Prozess der Integration der Geschäftstätigkeiten der E-Plus Gruppe und von Telefónica Deutschland unser operatives Geschäft nachteilig beeinflussen, wenn dieser unser Management von anderen Aufgaben ablenkt oder zum Verlust von Schlüsselpersonal führt. Die berechneten Synergieeffekte könnten nur teilweise oder gar nicht wie geplant realisiert werden oder könnten sich als unzureichend prognostiziert herausstellen. • Die Transaktion könnte Kunden, Lieferanten, Dienstleister oder andere Vertragspartner dazu berechtigen, ihre Vertragsbeziehungen mit der E-Plus Gruppe zu beenden oder zu vertraglich vereinbarten Einschränkungen für die Neue Gruppe führen. • Die Struktur der Transaktion könnte zu einer Haftung der Gesellschaft für Steuerverbindlichkeiten von KPN Mobile Germany und Verbindlichkeiten aufgrund von Gesellschafterdarlehen zwischen KPN Mobile Germany einerseits und KPN und/oder mit KPN verbundenen Gesellschaften andererseits führen. **Risiken in Verbindung mit unserer Beziehung zu Telefónica, S.A.** • Unser Mehrheitsaktionär Telefónica, S.A. kann umfangreichen Einfluss auf uns und unsere Geschäftstätigkeit ausüben. Die Interessen der Telefónica, S.A. können den Interessen der anderen Aktionäre der Gesellschaft entgegenstehen. • Unsere Interessen könnten denen der Gesellschaften der Telefónica Gruppe entgegenstehen. • Wir sind von Gesellschaften der Telefónica Gruppe hinsichtlich wesentlicher Dienstleistungen abhängig. Dies betrifft, unter anderem, die Lizenzen der Marken Telefónica und O_2. Ein Unvermögen, bestehende Dienstleistungsverträge mit unserer Muttergesellschaft Telefónica, S.A. zu verlängern oder zu gegenseitig akzeptablen Bedingungen abzuschließen, oder die Nichterfüllung der Verpflichtungen der Telefónica Gruppe aus diesen Verträgen könnte sich wesentlich nachteilig auf unsere Geschäftstätigkeit sowie Finanz- und Ertragslage auswirken. • Die Verwendung unserer Hauptmarke O_2 unterliegt einer Lizenz der Telefónica Gruppe. Obwohl die Laufzeit dieser Lizenz unbeschränkt ist, könnte diese aus wichtigem Grund, wie einer drohenden feindlichen Übernahme, beendet werden. Sollte es uns nicht möglich sein, die Marke O_2 aufgrund einer Beendigung der Lizenz oder aus anderen Gründen weiter zu nutzen, würde ein erheblicher Aufwand an Zeit, Bemühungen und Ressourcen notwendig werden, um eine neue Markenidentität zu schaffen. • Unsere Beziehung zur Telefónica Gruppe könnte unsere Fähigkeit einschränken, mit Wettbewerbern der Telefónica Gruppe zusammen zu arbeiten. • Unser Image im Markt wird vom Image der Telefónica Gruppe beeinflusst. Negative Presse oder Probleme im Zusammenhang mit der Telefónica Gruppe könnten sich schädlich auf unser Image auswirken

D.3	**Zentrale Angaben zu den zentralen Risiken, die den Wertpapieren eigen sind**	• Verkäufe einer großen Anzahl von Aktien der Gesellschaft durch Großaktionäre könnten erheblichen negativen Kursdruck auf die Aktien der Gesellschaft ausüben. • Zukünftige Kapitalmaßnahmen könnten zu einer erheblichen Verwässerung der Beteiligungen der Aktionäre an der Gesellschaft führen, d.h., zu einer Reduzierung des Werts der Aktien und der Stimmrechte, sowie unseren Aktienkurs nachteilig beeinflussen. • Der Kurs der Aktien der Gesellschaft ist volatil und der Bezugspreis könnte den Aktienkurs übersteigen. • Möglicherweise entwickelt sich kein Handel von Bezugsrechten und die Bezugsrechte könnten stärkeren Kursschwankungen als die Aktien der Gesellschaft ausgesetzt sein. • Die Beteiligungen von Aktionären, die nicht an diesem Angebot teilnehmen, werden erheblich verwässert. • Ausländische rechtliche Regelungen könnten bestimmte Aktionäre in ausländischen Rechtsordnungen davon abhalten, die Aktien zu zeichnen. • Die Rechte von Aktionären einer deutschen Aktiengesellschaft könnten sich von denen von Aktionären solcher Gesellschaften unterscheiden, die nach dem Recht anderer Jurisdiktionen errichtet und organisiert sind. • Anleger, deren Referenzwährung nicht der Euro ist, könnten Wechselkursrisiken ausgesetzt sein, wenn sie in Aktien der Gesellschaft investieren. • Unsere Fähigkeit, zukünftig Dividenden auszuschütten, ist von einer Vielzahl von Faktoren abhängig. • Sollten die Konsortialbanken nicht in der Lage sein, die Angebotsaktien in Übereinstimmung mit dem Angebot zu platzieren, könnte dies Kursdruck auf die Aktien der Gesellschaft ausüben. • Die in diesem Angebot involvierten Konsortialbanken sind dazu berechtigt, unter bestimmten Voraussetzungen vom Übernahmevertrag zurückzutreten. Sollte das Angebot aufgrund eines solchen Rücktritts nicht durchgeführt werden, verfallen die Bezugsrechte und werden wertlos.

ABSCHNITT E – ANGEBOT		
E.1	**Gesamtnettoerlöse und geschätzte Gesamtkosten der Emission/ des Angebots**	Die Gesellschaft erwartet aus dem Angebot Nettoemissionserlöse von ungefähr €3,59 Milliarden (Bruttoemissionserlös in Höhe von €3,62 Milliarden abzüglich der erwarteten Kosten, Kommissionen und Steuern im Zusammenhang mit dem Angebot in Höhe von ungefähr €33 Millionen).
	Geschätzte Kosten, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden	Entfällt (die Emittentin und die Konsortialbanken werden dem Anleger weder Kosten noch Steuern in Rechnung stellen).
E.2a	**Gründe für das Angebot, Zweckbestimmung der Erlöse, geschätzte Nettoerlöse**	Der Grund für das Angebot ist der Erwerb der E-Plus Gruppe durch die Gesellschaft. Die Gesellschaft wird die Nettoemissionserlöse des Angebots in Höhe des erwarteten Betrags von ungefähr €3,59 Milliarden zur teilweisen Finanzierung der Transaktion verwenden. Nach Vollzug der Transaktion wird KPN Mobile Germany (i) ungefähr €3,64 Milliarden (€3,7 Milliarden abzüglich einer vorläufigen Anpassung an die Nettoverschuldung und Betriebsmittel von €64 Millionen) in bar von der Gesellschaft (diese Barkomponente wird teilweise durch das Angebot finanziert) und (ii) Gegenleistungsaktien in einer solchen Anzahl, die 24,9% des gesamten ausgegebenen Grundkapitals der Gesellschaft nach Durchführung des Angebots und Ausgabe der Gegenleistungsaktien entspricht, erhalten. Die Gesellschaft wird die Differenz von ungefähr €50 Millionen zwischen der Barkomponente von ungefähr €3,64 Milliarden und den erwarteten Nettoemissionserlösen von ungefähr €3,59 Milliarden durch die Verwendung verfügbarer liquider Mittel finanzieren.

E.3	**Beschreibung der Angebots-konditionen**	Das Angebot umfasst 1.116.945.400 Angebotsaktien der Telefónica Deutschland Holding AG, jede Angebotsaktie mit einem rechnerischen Anteil am Grundkapital von €1,00 und voller Gewinnanteilsberechtigung für das am 1. Januar 2014 beginnende Geschäftsjahr, die den Aktionären der Gesellschaft im Rahmen eines mittelbaren Bezugsrechts zu einem Bezugsverhältnis von 1:1 zum Bezug angeboten werden. Die Angebotsaktien stammen aus der von der ordentlichen Hauptversammlung am 20. Mai 2014 beschlossenen Kapitalerhöhung, in der das Grundkapital der Gesellschaft um bis zu €3.700.000.000,00 durch Ausgabe von bis zu 3.700.000.000 neuen Aktien mit Bezugsrechten für bestehende Aktionäre gegen Bareinlagen erhöht wird. Der Beschluss wurde am 10. Juli 2014 im Handelsregister des Amtsgerichts München eingetragen. Die Konsortialbanken und die Gesellschaft haben am 9. September 2014 einen Übernahmevertrag abgeschlossen, in dem sich die Konsortialbanken verpflichtet haben, die Angebotsaktien zu zeichnen und den bestehenden Aktionären der Gesellschaft und Inhabern von Bezugsrechten im Rahmen eines öffentlichen Angebots in Deutschland und Luxemburg sowie einer Privatplatzierung in den Vereinigten Staaten von Amerika sogenannten "Qualifizierten institutionellen Anleger" ("**QIBs**") unter Berufung auf die Ausnahme von den Registrierungserfordernissen in Übereinstimmung mit Rule 144A des U.S. Securities Act von 1933 in der geltenden Fassung (der "**Securities Act**"), und außerhalb der Vereinigten Staaten von Amerika unter Berufung auf Regulation S des Securities Act zum Bezugspreis je Aktie entsprechend dem Bezugsverhältnis anzubieten (das "**Bezugsangebot**"). Nach dem Abschluss des Bezugsangebots verbleibende Angebotsaktien, für die die Bezugsrechte nicht ausgeübt wurden (die "**Rumpfaktien**"), werden entweder (i) von den Konsortialbanken institutionellen Investoren in bestimmten Ländern zu einem Preis angeboten, der nicht geringer als der Bezugspreis sein darf (das "**Internationale Angebot**" und gemeinsam mit dem Bezugsangebot, das "**Angebot**") oder (ii) von den Konsortialbanken über den Börsenhandel oder anderweitig verkauft (der „**Dribble-Out**"). Das Internationale Angebot wird außerhalb der Vereinigten Staaten von Amerika unter Berufung auf Regulation S des Securities Acts und innerhalb der Vereinigten Staaten von Amerika nur an QIBs unter Berufung auf die Ausnahme von den Registrierungserfordernissen in Übereinstimmung mit Rule 144A des Securities Act stattfinden. Der Dribble-Out wird nur außerhalb der Vereinigten Staaten von Amerika unter Berufung auf Regulation S des Securities Act stattfinden. Telefónica, S.A. hat sich unwiderruflich verpflichtet, durch ihre Tochtergesellschaft Telefónica Germany Holdings Limited alle Angebotsaktien zu zeichnen, die auf ihren indirekten Anteilsbesitz entfallen. Angebotsaktien, die nicht bei Abschluss des Angebots erworben wurden, werden von den Konsortialbanken zum Bezugspreis erworben. Die Durchführung des Angebots unterliegt bestimmten Bedingungen, einschließlich der Eintragung der Durchführung der Barkapitalerhöhung im Handelsregister des Amtsgerichts München, die voraussichtlich am oder um den 19. September 2014 erfolgen wird. Unter bestimmten Voraussetzungen können das Bezugsangebot und das Internationale Angebot abgebrochen werden.
	Ausübung von Bezugsrechten	Aktionäre können ihre Bezugsrechte für den Kauf der Angebotsaktien durch ihre Depotbank bei HSBC als Bezugsstelle während der regulären Geschäftszeiten ab 10. September 2014 bis einschließlich zum 23. September, 2014 ausüben. Bezugsrechte verfallen, wenn sie nicht innerhalb der genannten Frist ausgeübt werden.
	Bezugspreis	Der Bezugspreis ("**Bezugspreis**") je Angebotsaktie beträgt €3,24. Der Bezugspreis ist spätestens am 24. September 2014, bis spätestens 10:00 Uhr MESZ bei HSBC als Bezugsstelle eingehend, zu entrichten.
	Bezugsrechtshandel	Die Bezugsrechte der Angebotsaktien (ISIN DE000A12UKL4 / WKN A12UKL) werden voraussichtlich in der Zeit vom 10. September 2014 bis 19. September 2014 (jeweils einschließlich) im regulierten Markt der Frankfurter Wertpapierbörse (XETRA / XETRA Frankfurt Specialist)

		gehandelt. Die Bezugsrechte werden an keiner anderen Wertpapierbörse zum Handel angemeldet werden. Ein Ausgleich für nicht ausgeübte Bezugsrechte findet nicht statt. Nach Ablauf der Bezugsfrist verfallen die nicht ausgeübten Bezugsrechte und werden wertlos. Vom 10. September 2014 an werden die alten Aktien der Gesellschaft im regulierten Markt der Frankfurter Wertpapierbörse (*Prime Standard*) "ex Bezugsrecht" notiert.
	Lieferung der Angebotsaktien	Die auf Grund des Bezugsangebots bezogenen Angebotsaktien werden voraussichtlich am oder um den 25. September 2014 durch Girosammeldepotgutschrift geliefert und den Aktionären zur Verfügung gestellt, es sei denn, die Bezugsfrist wurde verlängert. Die Lieferung der nicht bezogenen Angebotsaktien, die im Rahmen des Internationalen Angebots veräußert werden sollen, erfolgt voraussichtlich am oder um den 25. September 2014, es sei denn, die Bezugsfrist wurde verlängert.
	Stabilisierungsmaßnahmen	Im Zusammenhang mit dem Angebot der Angebotsaktien handelt UBS Investment Bank als Stabilisierungsmanager (der "**Stabilisierungsmanager**") und darf nach eigenem Ermessen, auch durch mit diesem verbundene Unternehmen, Transaktionen zur Unterstützung des Marktpreises oder Marktwertes der Aktien der Gesellschaft auf einem höheren Preisniveau als anderenfalls bestände vornehmen mit dem Ziel der Abschwächung von Verkaufsdruck ("**Stabilisierungsmaßnahmen**"). Der Stabilisierungsmanager hat keine Verpflichtung, Stabilisierungsmaßnahmen zu ergreifen. Es kann daher nicht zugesichert werden, dass Stabilisierungsmaßnahmen tatsächlich ergriffen werden. Falls Stabilisierungsmaßnahmen ergriffen werden, so können diese jederzeit ohne vorherige Ankündigung abgebrochen werden. Stabilisierungsmaßnahmen können nach Veröffentlichung des Bezugspreises jederzeit eingeleitet werden und müssen spätestens am 30. Kalendertag nach Ablauf der Bezugsfrist, somit voraussichtlich am 23. Oktober 2014, beendet werden (die "**Stabilisierungsphase**"). Stabilisierungsmaßnahmen können zu einem höheren Marktpreis oder Marktwert der Aktien der Gesellschaft, als dies ohne derartige Maßnahmen der Fall wäre, führen. Außerdem können der Marktpreis oder der Marktwert kurzzeitig Werte erreichen, die langfristig nicht gehalten werden. Innerhalb einer Woche nach Ablauf der Stabilisierungsphase wird mittels einer Pressemitteilung, die folgende Informationen enthält, in verschiedenen Medien mit einer Verbreitung im gesamten Europäischen Wirtschaftsraum veröffentlicht werden: (1) Ob tatsächlich Stabilisierungsmaßnahmen ergriffen wurden, (2) das Datum, zu dem Stabilisierungsmaßnahmen ergriffen wurden, (3) das Datum, zu dem die letzte Stabilisierungsmaßnahme ergriffen wurde und (4) die Preisspanne, innerhalb derer Stabilisierungsmaßnahmen durchgeführt wurden. Diese Informationen werden bezüglich jedes Datums erteilt, an dem eine Stabilisierungsmaßnahme ergriffen wurde.
E.4	**Beschreibung aller für die Emission/das Angebot wesentlichen Interessen, einschließlich Interessenkonflikten**	Die Gesellschaft hat ein Interesse an dem Angebot, da sie die Nettoemissionserlöse aus dem Angebot zur teilweisen Finanzierung der Transaktion verwenden wird. Die Konsortialbanken stehen mit der Gesellschaft im Rahmen der Durchführung des Angebots und der Zulassung der Angebotsaktien zum Handel an der Frankfurter Wertpapierbörse in einem vertraglichen Verhältnis. Die Konsortialbanken wurden von der Gesellschaft mandatiert, um als Übernahmekonsortium im Rahmen des Angebots zu agieren. Bei Umsetzung des Angebots erhalten die Konsortialbanken eine Gebühr. Die Konsortialbanken haben sich weiterhin im Rahmen des Übernahmevertrags dazu verpflichtet, die Angebotsaktien, die nicht von Aktionären gezeichnet oder weder von (i) Investoren noch (ii) über den Börsenhandel erworben wurden, zum Bezugspreis zu erwerben. Die Konsortialbanken stehen in gelegentlichen Geschäftsbeziehungen mit der Gesellschaft oder erbringen Dienstleistungen für die Gesellschaft im Rahmen ihrer gewöhnlichen

		Geschäftstätigkeit. Die Konsortialbanken haben die folgenden weiteren Geschäftsbeziehungen mit der Gesellschaft oder ihren Tochtergesellschaften: – BofA Merrill Lynch und UBS Investment Bank sind von der Gesellschaft als M&A-Berater im Rahmen der Transaktion mandatiert; – Citigroup, HSBC und Morgan Stanley sind von Telefónica, S.A. als M&A-Berater im Rahmen der Transaktion mandatiert; und – JP Morgan ist von KPN als M&A-Berater im Rahmen der Transaktion mandatiert. Telefónica, S.A. hat ein Interesse an dem Erfolg des Angebots, da Telefónica, S.A. im Rahmen des SPA verpflichtet ist, die Zeichnung sämtlicher Angebotsaktien sicherzustellen. KPN Mobile Germany hat ein Interesse an dem Angebot, da die Nettoemissionserlöse aus dem Angebot dazu genutzt werden, die Barkomponente des Kaufpreises für die Transaktion zu finanzieren.
E.5	**Name der Person/des Unternehmens, die/das das Wertpapier zum Kauf anbietet**	Die Angebotsaktien werden von den Konsortialbanken angeboten.
	Lock-up-Vereinbarungen; die beteiligten Parteien und Lock-up-Frist	Die Gesellschaft hat sich gegenüber den Konsortialbanken verpflichtet, beginnend mit dem Datum des Übernahmevertrags und für die Dauer von 180 Kalendertagen nach dem 25. September 2014 ohne die vorherige schriftliche Zustimmung der Konsortialbanken (i) keine Kapitalerhöhung aus genehmigtem Kapital anzukündigen oder durchzuführen, (ii) der Hauptversammlung keine Kapitalerhöhung zur Beschlussfassung vorzuschlagen, (iii) die Ausgabe von in Aktien der Gesellschaft wandelbaren Wertpapieren weder anzukündigen, auszuführen noch vorzuschlagen und (iv) keine Transaktionen abzuschließen oder Maßnahmen mit wirtschaftlich gleicher Wirkung wie die unter (i) bis (iii) beschriebenen zu ergreifen. Diese Lock-up-Vereinbarung gilt jedoch nicht für (i) die Ausgabe oder ggf. den Verkauf von Aktien oder anderen Wertpapieren, die im Rahmen eines Mitarbeiterbeteiligungsprogramms oder eines Aktienoptionsprogramms an gegenwärtige oder künftige Angestellte der Gesellschaft oder ihrer Tochtergesellschaften ebenso wie (ii) die Ausgabe von Aktien gegen Sacheinlagen im Zusammenhang mit einer Akquisition, einer Investition in Eigenkapital oder einem Joint-Venture direkt an den Partner einer solchen Akquisition, Investition in Eigenkapital oder Joint-Venture. Telefónica, S.A. hat sich gegenüber den Konsortialbanken verpflichtet, für die Dauer von 90 Kalendertagen nach der Zulassung der Angebotsaktien zum Handel am regulierten Markt der Frankfurter Wertpapierbörse und gleichzeitig am dortigen Teilbereich mit weiteren Zulassungsfolgepflichten (*Prime Standard*) ohne die vorherige schriftliche Zustimmung der Joint Global Coordinators (wobei diese Zustimmung nicht ohne vernünftigen Grund verweigert oder verzögert werden darf), i. weder direkt noch indirekt Aktien oder andere Wertpapiere der Gesellschaft (mit Ausnahme von Wertpapieren, welche nicht in Aktien der Gesellschaft wandelbar, ausübbar oder tauschbar sind) anzubieten, zu verpfänden, zuzuteilen, zu verkaufen, sich zu deren Verkauf vertraglich zu verpflichten, und auch keine Optionen oder Kontrakte zu deren Kauf zu verkaufen, Optionen zu deren Verkauf zu kaufen, Optionen, Rechte oder Optionsscheine zu deren Erwerb einzuräumen und diese auch nicht anderweitig zu übertragen oder zu veräußern; ii. keine Swap-Vereinbarung abzuschließen, mit denen das wirtschaftliche Risiko des Eigentums an den Aktien der Gesellschaft an Dritte übertragen wird; iii. weder die Registrierung von Aktien der Gesellschaft oder anderen Wertpapieren, die in Aktien der Gesellschaft wandelbar, ausübbar oder tauschbar sind, nach US-amerikanischen Wertpapierrecht zu verlangen noch ein Recht hierzu auszuüben;

		iv. weder der Hauptversammlung der Gesellschaft eine Erhöhung des Grundkapitals der Gesellschaft vorzuschlagen, noch für einen solchen Vorschlag zu stimmen oder ihn zu unterstützen, der die Begebung von Wertpapieren mit direktem oder indirektem Wandlungs- oder Optionsrecht bezogen auf die Aktien der Gesellschaft zur Folge hat; oder v. eine der oben unter i. bis iv. genannten Transaktionen einzugehen oder eine der oben genannten wirtschaftlich ähnliche Transaktion durchzuführen. Das Vorstehende gilt nicht (a) für die Begebung oder Veräußerung von Aktien oder anderen Wertpapieren, die unter Mitarbeiterbeteiligungsprogrammen oder Stock Option Programmen an (gegenwärtige oder zukünftige) Mitarbeiter der Gesellschaft oder ihrer Tochtergesellschaften ausgegeben werden, sowie für (b) die Begebung von Aktien der Gesellschaft gegen Sacheinlagen im Zusammenhang mit einer Akquisition, Kapitalbeteiligung oder einem Joint Venture direkt an einen Partner einer solchen Akquisition, Kapitalbeteiligung oder eines Joint Ventures. Die vorstehenden Veräußerungsbeschränkungen unter i. bis v. gelten nicht für Veräußerungen von Aktien im Rahmen eines öffentlichen Übernahmeangebots oder Kaufangebote, die von Dritten oder aufgrund privater Veräußerungen (das heißt, anderer als börsenmäßiger Handel oder börsenmäßigem Handel ähnlichen Transaktionen, so wie beschleunigte Book-Building-Verfahren) an Dritte abgegeben werden, sofern dieser Dritte oder die Dritten gegenüber den Joint Global Coordinators die vorstehenden Veräußerungsbeschränkungen übernimmt bzw. übernehmen. Weiterhin gelten die vorstehenden Veräußerungsbeschränkungen unter i. bis. v nicht für Transaktionen von mit Telefónica, S.A. verbundenen Unternehmen, sofern das betreffende verbundene Unternehmen gegenüber den Joint Global Coordinators die vorstehenden Veräußerungsbeschränkungen übernimmt. Im Rahmen des SPA hat sich KPN gegenüber der Gesellschaft verpflichtet, ohne die vorherige schriftliche Zustimmung der Gesellschaft, weder direkt noch indirekt Gegenleistungsaktien oder andere Wertpapiere der Gesellschaft innerhalb eines Zeitraums von 180 Tagen nach Vollzug des SPA zu verkaufen, anzubieten, zu übertragen oder auf andere Weise zu veräußern. Die gleichen Einschränkungen gelten hinsichtlich Transaktionen mit gleicher wirtschaftlicher Wirkung. Dieser Zeitraum ist auf 45 Tage für die Verteilung von Aktien der Gesellschaft an Aktionäre von KPN begrenzt, jeweils im Verhältnis zu ihrer entsprechenden Beteiligung an KPN zum Zeitpunkt der Verteilung, aufgrund bestimmter Transaktionen, einschließlich einer Abspaltung, Entflechtung oder Dividendenausschüttung. Die vorgenannten Verpflichtungen gelten nicht hinsichtlich der Annahme eines öffentlichen Übernahmeangebots für die Aktien der Gesellschaft durch KPN. Mit Ablauf der obengenannten Lock-up-Zeiträume darf KPN Aktien der Gesellschaft in einer marktschonenden Weise verkaufen oder übertragen.
E.6	**Betrag und Prozentsatz der aus dem Angebot resultierenden unmittelbaren Verwässerung** **Im Fall eines Zeichnungsangebots an die existierenden Anteilseigner Betrag und Prozentsatz der unmittelbaren Verwässerung für den Fall, dass sie das Angebot nicht zeichnen**	***Verwässerungseffekt der Ausgabe der Angebotsaktien*** Das Grundkapital der Gesellschaft beläuft sich zurzeit auf €1.116.945.400,00 und ist in 1.116.945.400 nennwertlose Stückaktien aufgeteilt, von welchen jede einen rechnerischen Anteil am Grundkapital der Gesellschaft von €1,00 aufweist. Basierend auf der Annahme, dass (i) alle Angebotsaktien gezeichnet und/oder platziert werden und (ii) die Durchführung der Kapitalerhöhung um €1.116.945.400 durch die Ausgabe von 1.116.945.400 Angebotsaktien gegen Bareinlagen im Rahmen des Angebots im Handelsregister der Gesellschaft eingetragen wird, wird sich das Grundkapital der Gesellschaft auf €2.233.890.800 belaufen. Dementsprechend wird der proportionale Anteil eines bestehenden Aktionärs der Gesellschaft, der nicht am Angebot teilnimmt, um 50,0% verwässert. Das Konzerneigenkapital abzüglich Geschäfts- oder Firmenwerte, immaterieller Vermögenswerte und latenter Steueransprüche gemäß IFRS (der "**Nettobuchwert**") der Gesellschaft betrug zum 30. Juni 2014, basierend auf dem Ungeprüften Verkürzten Konzernzwischenabschluss, €1.393 Millionen, oder €1,25 pro Aktie (berechnet auf der Grundlage von 1.116.945.400 zum 30. Juni 2014 ausstehenden Aktien der Gesellschaft).

		Basierend auf der Annahme der Platzierung des Angebots zum Bezugspreis von €3,24 je Angebotsaktie und einem dementsprechenden Nettoerlös aus dem Angebot von ungefähr €3.586 Millionen, hätte sich der Nettobuchwert der Gesellschaft, berechnet auf der Grundlage von 2.233.890.800 ausstehenden Aktien der Gesellschaft nach Durchführung der Kapitalerhöhung im Rahmen des Angebots, zum 30. Juni 2014 auf €4.979 Millionen oder €2,23 pro Aktie belaufen. Dies entspräche für Aktionäre, die nicht am Angebot teilnehmen, einem direkten Anstieg des Nettobuchwerts der Gesellschaft um €0,98, oder 78,4%, pro Aktie. Investoren, die im Rahmen des Angebots Angebotsaktien zum Bezugspreis von €3,24 pro Angebotsaktie erwerben, werden nach vollständiger Durchführung des Angebots zum Bezugspreis in Höhe von €1,01, oder 31,2%, pro Aktie direkt verwässert. *Verwässerungseffekt der Ausgabe der Gegenleistungsaktien* Basierend auf der Annahme der vollständigen Platzierung des Angebots und der Eintragung der Durchführung der entsprechenden Kapitalerhöhung im Handelsregister würden 740.664.193 Gegenleistungsaktien (oder 24,9% aller Aktien der Gesellschaft nach Durchführung sowohl der Bar- als auch der Sachkapitalerhöhung) an KPN ausgegeben, was zu insgesamt 2.974.554.993 ausstehenden Aktien der Gesellschaft führen würde. Auf Basis der vorstehenden Annahmen würde die Sachkapitalerhöhung, die unter Bezugsrechtsausschluss erfolgen wird, zu einer Verwässerung der Beteiligungsquoten der Aktionäre der Gesellschaft um 24,9% führen. Basierend auf der Annahme der vollständigen Platzierung des Angebots, der Ausgabe von 740.664.193 Gegenleistungsaktien im Rahmen der Sachkapitalerhöhung, berechnet auf der Grundlage eines Wertes von €4,52 je Gegenleistungsaktie, der auf der Basis des XETRA Schlusskurses der Aktien der Gesellschaft vom 8. September 2014 geschätzt wurde, und geschätzter Kosten der Sachkapitalerhöhung von ungefähr €2 Millionen, hätte der Nettobuchwert der Gesellschaft zum 30. Juni 2014 €8.325 Millionen oder €2,80 pro Aktie, berechnet auf der Grundlage von 2.974.554.993 ausstehenden Aktien der Gesellschaft nach Durchführung der Barkapitalerhöhung in Zusammenhang mit dem Angebot und der Sachkapitalerhöhung, betragen. Dies entspräche einem direkten Anstieg des Nettobuchwerts der Gesellschaft um €0,57 pro Aktie, oder 25,6% für die bestehenden Aktionäre.
E.7	**Schätzung der Ausgaben, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden**	Entfällt (die Emittentin und die Konsortialbanken werden keine Gebühren oder Steuern erheben).

RISK FACTORS

Investors should carefully review and consider the following risks in addition to the other information in this Prospectus prior to making any investment decision with respect to an investment in the Subscription Rights and/or the New Shares. The following risks, alone or together with additional risks and uncertainties not currently known to us, or which we might currently deem immaterial, could adversely affect our business, financial condition and results of operations. If any of these risks were to materialize, our business, financial position and results of operations could be adversely affected. In such cases, the trading price of the Subscription Rights and/or the New Shares could decline, and investors could lose all or part of their investment. The order in which the following risks are presented does not indicate the likelihood of their occurrence, nor the scope of any potential impairment these risks may cause to our business, financial position and results of operations. The risks mentioned may materialize individually or cumulatively.

This Prospectus also contains forward-looking statements that are subject to future events, risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, the risks we face as described below and elsewhere in this Prospectus.

*The Company, together with its direct and indirect subsidiaries and joint operations is referred to as "**we**", "**us**" or "**Telefónica Deutschland**". Telefónica, S.A., together with its direct and indirect subsidiaries, but excluding Telefónica Deutschland, is referred to as the "**Telefónica Group**".*

RISKS RELATED TO OUR BUSINESS AND OUR INDUSTRY

Recessionary conditions in the Eurozone, in particular in Germany, could adversely affect our business, financial condition and results of operations.

As we operate exclusively in Germany, the success of our business is closely tied to the market environment and health of the German economy. The German economy, compared to other European countries, has not recently been materially affected by recessionary conditions in the Eurozone. However, it could be adversely affected as a result of spill-over effects or the financial commitments to which Germany has agreed, for example, under the European Financial Stabilization Mechanism. In addition, other global crises or decisions of the German government such as the agreed sanctions against Russia could negatively affect the German economy.

Macroeconomic factors may impair growth prospects in the German telecommunications market in terms of the penetration of new value-added services and traffic, Average Revenue Per User ("**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 spending by consumers on telecommunications services and products, may adversely impact our customer numbers and revenues. For example, there has been a trend by German consumers to disconnect fixed-line telephony, as consumers rely primarily on mobile telecommunications and view fixed-line telephony as an expendable discretionary expense. Consumers might also spend less on an incremental basis, such as by placing fewer calls.

A portion of our costs is affected by inflation. Our margins may suffer in the event that our costs increase more quickly than our revenues, particularly as our ability to raise prices is subject to contractual and legal limitations. In addition, fiscal or regulatory measures undertaken by the German government to address negative economic conditions could result in an increase in the levels of taxes, surcharges or other fees we must pay to run our business. Any increases in costs which cannot be effectively offset by an increase in revenues could adversely affect our overall profitability.

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

We are subject to extensive regulation which will continue to impact our business, financial condition and results of operations.

Our activities are subject to extensive regulation and supervision by the Federal Network Agency (*Bundesnetzagentur*, "**FNA**") in Germany and other regulatory authorities in Europe such as the European Commission. In addition, various German authorities at the state, regional and local level and other EU bodies have the power to regulate us and conduct market investigations or reviews of our business.

As we have been designated by the FNA as a network operator with significant market power in the voice call termination markets for both mobile and fixed-line services, we are subject to the strict regulatory provisions of the German Telecommunications Act (*Telekommunikationsgesetz*, "**Telecommunications Act**"). We expect the FNA to maintain this designation.

The FNA may impose obligations on us in relation to, among other things, the granting of network access to other operators, frequency allocations and frequency usage rights, respectively, tariff reductions, consumer protection measures, and privacy including data protection and public safety provisions. The FNA may further subject the use of assigned frequencies to additional obligations. For example, according to a roll-out obligation with regard to 800 MHz, each mobile network operator is required to provide 50% population coverage by the beginning of 2016. Although we reached a population coverage of approximately 50% as of April 30, 2014 based on our own measurements, the roll-out obligation is not fulfilled until the FNA confirms that the necessary coverage has been achieved which it has not yet done. If we fail to fulfill our roll-out obligation by the beginning of 2016, the FNA has the right to revoke the respective frequency usage rights, which may have a material adverse effect on our business, financial condition and results of operations.

We are obligated to provide access on a non-discriminatory, fair and reasonable basis to other network operators to our mobile and fixed-line networks. We are required pursuant to FNA rulings to interconnect our mobile and fixed-line networks with the networks of other operators. In order to keep our frequency usage rights, we have to offer mobile telecommunications services on our Universal Mobile Telecommunications System ("**UMTS**" or "**3G**") network to service providers in a non-discriminatory manner. Our activities in regard to the Long Term Evolution ("**LTE**" or "**4G**") network will also be subject to extensive regulation (see "*– Delayed regulatory approvals of microwave frequency usage rights applications could materially adversely affect the coverage, competitiveness and expansion of our mobile network, as such approvals are required to maintain existing network sites and to establish new sites.*"). We are additionally subject to tariff reductions in respect of our mobile and fixed-line call termination rates and roaming charges (see "*– We are exposed to decreases in mobile and fixed-line termination rates and other rates such as roaming tariffs.*" below).

If we fail to comply with applicable regulations or obligations imposed by the FNA, we may be subject to sanctions, which may have an adverse effect on our business.

We could also be affected by regulatory actions carried out by antitrust or competition bodies. These authorities could prohibit certain actions, such as new acquisitions or specific practices, among others. For example, our recently announced plan to cooperate with Telekom Deutschland GmbH in the fixed-line segment providing for increased usage of Deutsche Telekom's high speed infrastructure, was subject to approval of the FNA and is subject to clearance by the German Federal Cartel Office (*Bundeskartellamt,* "**FCO**") (see "*– Cooperation agreements or joint ventures with other market participants may not be approved by the competent authorities due to regulatory or competition reasons which could lead to higher investment costs and limited product offers.*"). In addition, these authorities could create obligations or impose significant fines. Any such regulatory measures could have a material adverse effect on our business, financial condition and results of operations.

Increased transparency requirements for online and telesales and for the avoidance of "bill shocks" and on the performance capability of mobile and fixed-line broadband connections, could lead to customer churn and reduced revenues.

Various initiatives are being undertaken at a European level to strengthen consumer protection. Some of these initiatives directly impact or imply certain risks for our business activities.

For example, amendments to EC Directive 83/2011 of the European Parliament and of the Council providing for new requirements on the transparency of contract conditions and costs and on the procedures to be adhered to for online and telesales was implemented in Germany with effect from June 13, 2014. Our potential non-compliance with these and other similar consumer protection regulations could lead to customer claims against us and constraints to our online- and telesales activities.

In addition, Section 43a of the German Telecommunications Act was amended in 2012 with regard to the transparent description of services in telecommunications contracts on the basis of Article 20 of the Directive 2002/22/EC of the European Parliament and the Council. The FNA is authorized under Section 43a(3) of the German Telecommunications Act to determine the details of the description of the type and relevant technical performance data of offered telecommunication services. In May 2013, the FNA published key issues and encouraged the self-regulation of telecommunication services providers. The key issues included, *inter alia*, the introduction of measures to avoid so-called "bill shocks" (such as price caps or warning short message service ("**SMS**") in case the customer's current consumption of telecommunication services significantly exceeds his usual behavior) and to measure and inform about the actual broadband performance capability of mobile and fixed-line broadband connections. In February 2014, the FNA published a draft regulation relating to which Telefónica Deutschland as well as leading associations of the telecommunications industry provided their comments. The final version of the regulation is expected to contain the obligation for increased transparency on service details and thus on service and network quality. If the results of this transparency exercise were to show that we may not be able to compete effectively with regard to these service parameters, we could experience a higher churn rate. A requirement for increased transparency regarding service description could also limit our marketing options. Together with price caps and warning SMS, this could reduce our revenues which could have a material adverse effect on our business, financial condition and results of operations.

We are exposed to decreases in mobile and fixed-line termination rates and other rates such as roaming tariffs.

Wholesale mobile network termination rates and fixed-line call termination have decreased across Europe in the last several years, with considerable reductions in Germany (*e.g.*, in relation to mobile network termination rates: cuts of over 50% since December 2010), and various related reviews of such rates and court proceedings on regulatory measures are still pending. The European Commission intends to further reduce mobile and fixed-line call termination rates significantly and has issued a recommendation on the calculation of such rates by the respective National Regulatory Authority ("**NRA**"), which must be fully applied since 2013. The European Commission has also recommended the elimination of rate asymmetry between network operators. As a result, decisions of the FNA on this matter are subject to an approval by the European Commission (notification procedure). If the FNA is not fully compliant with the European Commission's recommendation, the notification procedure could lead to changes of preliminary decisions of the FNA. The European Commission could further initiate an infringement proceeding against Germany to enforce compliance of final FNA decisions with its recommendation. Furthermore, third parties are allowed to comment on and initiate proceedings against the decisions of the FNA.

On July 19, 2013, the FNA published a final decision on mobile termination rates ("**MTR**") pursuant to which MTR have been reduced with effect as of December 1, 2012. The decision of the FNA was addressed with an "Art. 7a Proceeding" by the European Commission as the rates were considered to be too high in comparison with average MTR in the EU and not in compliance with its recommendation. As stated above, the FNA's decision on MTR could be modified by infringement proceedings initiated by the European Commission or upon third party proceedings which could lead to further reductions of MTR. Telefónica Germany GmbH & Co. OHG initiated legal proceedings challenging the FNA decision dated July 19, 2013 with the aim of achieving an increase in MTR. The FNA's decision on fixed-line network termination rates ("**FTR**") for Telefónica Deutschland was published at the end of February 2014. The FTR applicable until November 30, 2014 are based on the corresponding rates of Deutsche Telekom, which are currently the subject of an "Art. 7a Proceeding" by the European Commission which could lead to reductions of FTR. Further modifications of FTR could result from an outstanding decision of the FNA relating to FTR for alternative network providers which could impact our interconnection agreements with alternative network providers.

Other services with regulated prices in Europe include international call roaming, SMS and data services. The European Parliament and Council have approved the new "Roaming III" regulation, which aims to set ceilings on tariffs for voice calls and SMS retail and wholesale services between July 2012 and July 2014, with subsequent further reductions. "Roaming III" also regulates retail and wholesale data roaming charges and lays down rules to increase pricing transparency and improve the provision of information on charges to roaming customers. From July 2014, mobile network operators ("**MNOs**") will be required to enable the separate sale of roaming services from their domestic services, enabling customers to choose a different operator for roaming services in other Member States. Since July 1, 2012, mobile virtual network operators ("**MVNOs**") have had the right to access other operators' networks at wholesale prices in order to provide roaming services. This could lead to increasing competition in roaming services, reduction in rates and in turn to a decrease in our revenues (see "*– We face significant levels of competition from MVNOs and branded resellers.*").

Regulators could at any time adopt measures to lower roaming tariffs and MTR or FTR or require us to provide third-party access to our networks at reduced prices. Any future decreases of such tariffs and charges could have a material adverse effect on our business, financial condition and result of operations.

The European Commission's "digital single market" initiative could adversely affect our business operations.

Also known as the "digital single market" initiative, the European Commission published a draft regulation on September 11, 2013 (the "**Single Market Proposal**") containing various measures intended to improve the framework for investments in modern broadband networks and to create favorable parameters for a strong European telecommunications sector. The draft regulation contains proposals for stronger coordination on spectrum allocation and the rules for spectrum auctions (see "*– Our licenses and assigned frequency usage rights have finite terms, and any inability to renew or obtain new licenses and frequency usage rights necessary for our business could adversely affect our operations*"). At the same time, the draft regulation also includes measures which would have an immediate adverse effect on network operators' revenues such as the abolition of roaming charges for incoming calls within the EU and the reduction of charges for long-distance calls within the EU (based on our revenues for 2013, this would lead to a decrease of approximately 0.6% of our total revenues). These measures could also result in additional costs for network operators and lead to further regulation and restriction of the contractual freedom, such as stricter rulings on customer protection any of which could adversely affect our business operations. On April 3, 2014, the European Parliament voted in favor of the draft regulation, in particular on the abolition of roaming charges within the EU from December 2015. It is not possible to estimate when and to what extent the Single Market Proposal will be finally adopted as the European Council must still agree to the draft regulation and, upon finalization of the regulation, the European Parliament, the European Council, the Body of European Regulators of Electronic Communications (BEREC) and market participants could object to parts of the regulation which could delay the adoption or lead to further changes of the regulation.

Delayed regulatory approvals of microwave frequency usage rights applications could materially adversely affect the coverage, competitiveness and expansion of our mobile network, as such approvals are required to maintain existing network sites and to establish new sites.

The coverage, and therefore competitiveness, of our mobile network depends on our ability to maintain existing network sites and to establish new sites. Due to constant technological changes, including advances in mobile data offerings and increasing rates of data transmission in response to evolving customer preferences, particularly for new types of digital products, and increased usage of applications on smartphones and online data storage facilities (such as cloud storage), the expansion and upgrade of our existing network is an essential part of our business. As certain regulatory approvals are required in order for us to use or change our spectrum or microwave frequency usage rights, we may not be able to acquire or build the envisioned or required number of network sites or position them in appropriate locations in a timely or cost effective manner. We are reliant on obtaining such approvals to maintain, expand and improve our networks. We also depend on the FNA to assign microwave frequency usage rights (*Richtfunkfrequenzen*) for backhaul transport connectivity, which is the wireless transportation from a local antenna site to our fixed-line backbone network components. Microwave frequency usage rights are typically assigned by the FNA pursuant to an application. Frequency usage rights are not granted nationwide and can only be used for the specified location of the antenna site. Although the FNA is required by law to decide on complete applications within six weeks, it cannot be guaranteed that the FNA will be able to comply with this deadline and delays of up to six months have been known to occur. In the past, the FNA has not always been able to provide approvals within the applicable deadline in a volume according to our operational requirements. As a result we have experienced delays in building out our LTE network and in upgrading our 3G capacity. In order to accelerate the handling of applications, the FNA has taken several steps to improve the situation, such as recruiting additional staff and prioritizing applications. A failure to build new network sites in a timely or sufficient manner could have an adverse impact on the coverage of our mobile network, which could lead to customer dissatisfaction, churn and the deactivation of service. These factors could have a material adverse effect on our business, financial condition and results of operations.

Our licenses and assigned frequency usage rights have finite terms, and any inability to renew or obtain new licenses and frequency usage rights necessary for our business could adversely affect our operations.

Our mobile operations rely on the availability of frequency spectrum. The use of frequencies requires a prior frequency assignment by the FNA based on national law which is influenced by European regulation (see: "*– The European Commission's "digital single market" initiative could adversely affect our business operations*"). The FNA assigns frequency usage rights either on a general or an individual basis. Frequency usage rights are usually awarded by auction and have finite terms. In April and May 2010, the FNA auctioned off additional frequencies in the 800 MHz, 1,800 MHz, 2,000 MHz and 2,600 MHz bands for wireless network access for the provision of telecommunications services (*drahtloser Netzzugang zum Angebot von Telekommunikationsdiensten*). The related technology neutral definition (*i.e.*, non-discriminatory data traffic and non-discriminatory access to content and applications) includes the provision of mobile telecommunications services under the new LTE standard. Four mobile network operators (including us) participated in the auction. We were awarded blocks in all spectrum bands except in the 1,800 MHz band. These acquired frequency usage rights expire in 2025. The legal basis for this frequency auction was a general order issued by the President Chamber of the FNA on October 12, 2009 (*Präsidentenkammerentscheidung*). For various reasons, several mobile telecommunications, cable TV and radio providers have filed complaints against the order and auction awards and some of the corresponding proceedings are still pending. We are not involved as a party in these proceedings. However, an annulment of the President Chamber's decision of October 12, 2009 could have an adverse effect on us because the FNA may consequently be required to reallocate frequency usage rights and we may not be assigned frequency usage rights on equivalent or satisfactory terms, or at all.

Our frequency usage rights in the 900/1,800 MHz bands will expire on December 31, 2016. In 2011, the FNA launched a public consultation to identify demand for spectrum in the 900 MHz and 1,800 MHz frequency bands starting in 2017 (so-called "**Project 2016**"). On June 24, 2013, the FNA published a draft consultation paper in which it presented the proposal to allocate the spectrum in the 900/1,800 MHz bands, which are currently part of our Global System for Mobile Communications ("**GSM**" or "**2G**") licenses, together with spectrum in the 700 MHz and 1,500 MHz bands by way of an auction after conducting a public consultation process. However, the draft foresees a reservation of a 2x5 MHz block in the 900 MHz band for each of the four German mobile network operators – including us – which shall not be auctioned but granted upon request. We submitted a spectrum reservation in the 1,800 MHz band in addition to the current proposal at 900 MHz. Interested parties were invited to comment on the draft consultation paper by October 4, 2013. In total, 40 statements have been published by the FNA. Telefónica Deutschland attempted to suspend the procedure until merger clearance for the acquisition of the E-Plus Group by Telefónica Deutschland had been approved. On March 31, 2014, the FNA published a key elements paper relating to the allocation of spectrum in Germany subsequent to the acquisition of the E-Plus Group by Telefónica Deutschland. In its paper, the FNA highlighted its intention to align its decision on spectrum allocation with the decision of the European Commission relating to the merger clearance of the acquisition. However, the FNA noted that the combination of both entities would lead to a higher accumulation in the 900 MHz and 1,800 MHz spectrum compared to the other mobile network operators. The FNA announced its intention to publish its final decision relating to the future allocation of spectrum in the second half of 2014. On July 4, 2014, the FNA published its decision relating to the allocation of spectrum in Germany subsequent to the acquisition of the E-Plus Group by Telefónica Deutschland. In its decision, the FNA requires Telefónica Deutschland to return such spectrum in the 900 MHz and 1,800 MHz bands by December 31, 2015 should such frequency usage rights not be awarded to Telefónica Deutschland on that date beyond 2016. This could require us to return such spectrum one year earlier than expected, should we be unable to re-acquire such spectrum in the allocation procedure under Project 2016. In addition, the FNA announced plans to review Telefónica Deutschland's spectrum position once the allocation procedure in Project 2016 is finished and will decide whether further measures are required, especially with regard to 2,000 MHz spectrum. This review could require us to hand back further spectrum, especially in the 2,000 MHz spectrum. On August 4, 2014, we filed a claim with the Administrative Court of Cologne (*Verwaltungsgericht Köln*) against the FNA's decision of July 4, 2014, which has not been decided yet. We cannot guarantee that we will prevail with our claim filed against the FNA decision of July 4, 2014 in court, or that the process for the renewal of our 2G licenses will be completed successfully or on the most beneficial terms for us. We may further wrongly assess our need for respective frequency spectrum. The failure to obtain 900/1,800 MHz frequency usage rights after December 31, 2016 could adversely affect our operations.

Any participation in an auction may result in us not being able to renew licenses or obtain new frequency usage rights on equivalent or satisfactory terms, or at all. Even if we are successful in an auction, the renewal of any licenses or assignment of frequency usage rights may come at significant cost particularly in the case of highly valuable licenses or frequency usage rights such as those used for our GSM, UMTS and LTE networks. As the FNA may auction off frequency usage rights to the highest bidder, the costs thereof may be excessive. Such costs could, among other things, lead to a breach and/or an adjustment of our target leverage ratio (see "*– Our business is capital intensive. We may not have sufficient liquidity or financing options available to fund or support our working capital or capital expenditures*."). Furthermore, payments for the extension of licenses or future frequency usage rights may be required to be effected much earlier than the actual usage of such rights. An auction can also facilitate the entry of new competitors into the relevant markets, which could result in our inability to obtain any new frequency usage rights due to another auction participant placing a higher bid. Failure to renew or obtain new licenses or frequency usage rights would make us unable to pursue our mobile business operations as a significant part of our mobile services are carried out via our mobile network.

Should we not be able to secure sufficient frequency spectrum in the future, we may not be able to enter into national roaming agreements with other mobile network operators to enable us to offer our services to our customers across Germany on satisfactory terms, or at all. Our failure to obtain sufficient or appropriate capacity and spectrum coverage, and assume the related costs of obtaining this capacity, could have a material adverse effect on our business, financial condition and results of operations.

The German telecommunications market is characterized by high levels of competition from existing and potential new mobile network operators, fixed-line wholesale providers and factors beyond our control, such as consumer trends for using new technology.

We are subject to intense competition in the mobile as well as in the fixed-line telecommunications markets. Competitors include network operators, MVNOs, branded resellers and cable network operators as well as non-traditional voice and data services providers (see "– *We face significant levels of competition from MVNOs and branded resellers.*" and "– *We face increasing competition from alternative telecommunications providers, such as cable companies and consumer electronics companies.*"). In some instances, we compete against companies with greater scale, stronger financial positions, easier access to financing, more comprehensive product offerings, greater personnel resources, greater brand name recognition and experience or longer-established relationships with customers.

Our attempts at introducing new products and services to the market may be rejected by our customers in favor of the technologies of our competitors. Our main competitors in the German mobile and fixed-line telecommunications market are other network operators such as Deutsche Telekom, Vodafone and, pending completion of the acquisition, the E-Plus Group (only for mobile services). We compete in the German fixed-line telecommunications markets with Deutsche Telekom, in particular, the incumbent network operator, which benefits from considerable financing, marketing and personnel resources, broad brand-name recognition, well perceived network quality, a considerable government stake and an entrenched customer base. Deutsche Telekom exerts particular competitive pressure on us (as well as on other network operators in Germany) as our fixed-line business is to a large part dependent on Deutsche Telekom granting us access to its fixed-line network infrastructure by leasing unbundled local loop ("**ULL**") lines and bitstream services. Due to its dominant market position in Germany, especially in fixed-line services, Deutsche Telekom has the ability to create new market standards by quickly developing and introducing advanced technologies. We may be unable to compete successfully by adapting our products and services according to new market standards (see "– *The telecommunications industry has been, and will continue to be, affected by rapid technological change and we may not be able to effectively anticipate or react to these changes.*").

Furthermore, the German market for internet access and portal services, especially within the broadband market, is increasingly saturated. Prices have continued to decline, primarily due to intense competition and adverse decisions imposed by the FNA, as well as customers' ongoing substitutions of the services we offer in favor of non-traditional mobile voice over internet protocol ("**VoIP**") technologies such as over-the-top ("**OTT**") applications such as WhatsApp or Skype (see "– *We face increasing competition from providers of alternative telecommunications services, such as OTT.*").

Our future competitive position in the mobile and fixed-line telecommunications market in Germany will be affected by factors such as pricing, network speed and reliability, services offered, customer support and our ability to be technologically adept and innovative. Increasing competitive pressure due to factors beyond our control, such as consolidation among market participants and consumer trends for the use of new technology, could lead to a loss of our market share. Any possible inability to compete with other network operators and alternative services could have a material adverse effect on our business, financial condition and results of operations (see also "– *A termination or failure to renew existing agreements or partnerships with wholesale partners could negatively impact our ability to diversify and grow our customer base and revenues.*").

We face significant levels of competition from MVNOs and branded resellers.

Competition in the German mobile telecommunications market is significant and is increasing due to the proliferation of MVNOs and branded resellers, particularly in the pre-paid market segment but also in the post-paid market segment. MVNOs enter into commercial agreements with network operators for network access which they sell to their own customers. MVNOs have been growing in Germany mostly due to their aggressive pricing strategies. Branded resellers enter into agreements with network operators for the sale of contracts to other customers. Although these "re-sold" contracts are generally ultimately entered into by the network operator and the customer, they usually provide less revenues and lower margins to the network operator than contracts not involving branded resellers. In addition, some branded resellers benefit from particular buying power due to a large customer base and strong distribution channels and brands. As we enter into such contracts with MVNOs and branded resellers, the expected increase in their market shares could reduce our margins and revenues.

Aggressive pricing strategies from MVNOs or branded resellers on our own network or on other networks, pressure from MVNOs and branded resellers for contract terms that are more favorable to them, or the conversion of MVNOs into mobile network operators through the acquisition of spectrum, including at an auction, could also increase the competitive pressure on us and reduce our market share. The competitive position of MVNOs could, in particular, improve due to our remedy obligations linked to the merger clearance of the Transaction by the European Commission (see "*Risks Related to Our Acquisition of the E-Plus Group – The Transaction is subject to additional restrictions and conditions imposed by the competent competition or regulatory authority which could lead to increased competition for the New Group and could have a material adverse effect on Telefónica Deutschland's and the New Group's business, financial condition and results of operations*.").

Our inability to compete effectively with MVNOs and branded resellers could have a material adverse effect on our business, financial condition and results of operations.

We face increasing competition from alternative telecommunications providers, such as cable network companies and consumer electronics companies.

Cable network operators and fixed-line carriers exert increasing competitive pressure in the German fixed-line telecommunications market. We expect a further increase in competition from cable network operators, which are, unlike us, able to provide private homes and smaller companies throughout Germany with telecommunications products that require them neither to build out their own networks nor to lease ULL lines from Deutsche Telekom or other fixed-line carriers. Operators with a strong presence in the fixed-line market are also promoting the trend to converged offerings which may further increase competition and may have an adverse effect on our business.

Competitive pressure is also increasing from competitors that have traditionally operated outside the telecommunications sector, such as major consumer electronics companies as well as non-traditional voice and data service providers, which are capable of providing mobile data-only users with mobile voice and video services and providing fixed-line internet-only users with fixed-line voice and video services at much lower prices than ours due to these services leveraging existing infrastructures. Increasing competition could adversely affect our business, financial condition and results of operations.

We face increasing competition from providers of alternative telecommunications services, such as OTT.

We face increasing competition from providers of non-traditional mobile voice and data services based on new mobile VoIP technologies, in particular OTT (such as WhatsApp or Skype), and roaming applications. These OTT applications are often free of charge, accessible, for example, via smartphones, and enable users to access potentially unlimited messaging and voice services over the internet. Users can thereby bypass more expensive traditional voice and messaging services (such as SMS/ multimedia messaging service ("**MMS**")) provided by mobile network operators like us, who are only able to charge the internet data usage for such services. Competition may further increase due to the implementation of network neutrality regulations which could prevent mobile network operators from discriminating against OTT providers, for example, with regard to the quality of services.

With the growing share of smartphones among the German mobile subscriber base, there is an increasing number of customers using OTT services. All mobile network operators are currently competing with OTT service providers that leverage existing infrastructures and are often not required to implement capital-intensive business models associated with traditional mobile technologies. OTT service providers have in recent years become more sophisticated players, and technological developments have led to a significant improvement in the quality of their service, particularly the speech quality. In addition, market participants with a strong brand and significant financial strength, such as Apple, Google and Microsoft, have turned their attention to the provision of OTT services. This is underscored by the recent acquisition of the OTT service provider WhatsApp by Facebook.

The increasing popularity of OTT services has led to lower usage of traditional voice services and, in particular, SMS and MMS by our customers, resulting in a decline in revenues generated from such services. If non-traditional mobile voice and data services or similar services, particularly OTT services, continue to increase in popularity and if we and other mobile network operators are not able to successfully address this competition, this could cause continuing declines in our ARPU, subscriber base and profitability. This could have a material adverse effect on our business, financial condition and results of operations.

We may acquire or sell assets or enter into joint ventures or other business relationships which may generate lower revenues, cash flows and earnings than anticipated. We may also experience difficulties integrating acquired assets in a timely manner and may be unable to realize anticipated synergies.

We may experience difficulties in selling assets or integrating newly acquired assets and companies and the anticipated benefits of such sales or acquisitions, joint ventures or other business relationships may not be realized fully (or at all) and may take longer to realize than expected. Upon entering into significant business relationships in the future, for example but not limited to acquisitions and joint ventures, our performance will depend in part on whether we can successfully integrate such acquisitions in an effective and efficient manner. Such integration will be a complex, time consuming and expensive process and involve a number of risks, including the costs and expenses associated with any unexpected difficulties with respect to such assets and companies. Even if we are able to integrate such assets and companies successfully, this integration may not result in the realization of the full benefits of synergies, cost savings, revenues and cash flow enhancements, growth, operational efficiencies and other benefits that we expect. For certain risks related to the acquisition of the E-Plus Group, see "*– Risks Related to Our Acquisition of the E-Plus Group*".

The telecommunications industry has been, and will continue to be, affected by rapid technological change and we may not be able to effectively anticipate or react to these changes.

The telecommunications industry is subject to constant and rapid technological development and related changes in customer demand for new products and services at competitive prices. New products and technologies are constantly being developed which can render obsolete the products and services we offer and the technology we use. Technological developments may also shorten product lifecycles and facilitate convergence of various segments of the telecommunications industry.

Our competitors or potential new market entrants may introduce new or technologically superior telecommunications services before we do. In particular, Deutsche Telekom and Vodafone, due to their strong position and financial capacity, have the ability to create new market standards by quickly introducing new advanced technologies, such as new fixed-line based services and LTE mobile networks. New technologies, such as VoIP, mobile instant messaging, Wi-Fi or internet protocol TV ("**IPTV**") for retail customers and cloud computing for business customers have had and are expected to have a continuing effect on the telecommunications industry and on our business. To compete effectively, we need to successfully market our products and services and respond to both commercial actions by competitors and other competitive factors affecting these markets. This involves anticipating and adapting promptly to technological changes, changes in consumer preferences and general economic, political and social conditions. Furthermore, this means that we must invest in the development of new products, technology and services so that we can continue to compete effectively with current or future competitors, which may reduce the revenues margins we obtain or, alternatively, force us to enter into joint ventures or cooperation agreements. In a rapidly developing technological landscape, we may not be able to accurately predict which technology will prove to be the most economical, efficient or capable of attracting customers or stimulating usage, or how rapidly any competitor focuses on a particular new technology. Thus, if we develop or implement a technology that does not achieve widespread commercial success or that is not compatible with other newly developed technologies, demand for our products and services may be negatively affected.

In addition, in many circumstances, the ability to upgrade networks and deliver new products or services will be constrained by license and usage regulation. If we do not receive necessary licenses or frequency usage rights to provide services or operate new technologies, or if our ability to develop and use such new product, services or technology is constrained by unfavorable regulation, we could lose customers, fail to attract new customers or incur substantial costs in order to maintain our customer base. These and other factors outside our control could have a material adverse effect on our business, financial condition and results of operations.

Cooperation agreements or joint ventures with other market participants may not be approved by the competent authorities due to regulatory or competition reasons which could lead to higher investment costs and limited product offers.

Due to the high levels of competition and rapid technological changes in the German telecommunications market, we could be required to enter into cooperation agreements or joint ventures in order to compete effectively which could be subject to prior regulatory approval or merger clearance. On December 20, 2013, Telefónica Germany GmbH & Co. OHG and Telekom Deutschland GmbH entered into a cooperation agreement. The cooperation involves the increased utilization by Telefónica Deutschland of Deutsche Telekom's high-speed infrastructure for fixed-line network products in the future, which would enable us to realize the transition from our own Asymmetric Digital Subscriber Line ("**ADSL**") infrastructure to a sustainable so-called "next generation access platform" (or "**NGA**" platform) as well as allow the further use of Very High Speed Digital Subscriber Line ("**VDSL**") and vectoring products of Deutsche Telekom pursuant to the cooperation agreement. In December 2013, the FNA declared its intention to finalize the regulatory procedure without remedies in a draft decision and thereby declared conformity of the cooperation with the German Telecommunications Law. On March 18, 2014, the FNA published its final decision, confirming the draft decision from December 2013. With the final FNA decision, the cooperation agreement came into effect on March 18, 2014.

The FCO is also reviewing the cooperation agreement and a decision is expected for the second half of 2014. However, the contractual start of the cooperation is not dependent on the decision of the FCO. Should objections be raised by the FCO, the cooperation could be subject to renegotiations which could lead to higher costs, be subject to the fulfillment of certain obligations or could not be admissible at all. In case Deutsche Telekom ceased to cooperate with us in the above mentioned areas for legal or other reasons, we would be required to find an alternative cooperation partner or to conduct additional investments in our own fixed-line infrastructure which could restrict us to offering technically competitive products only to a limited extent. Failure to find an adequate cooperation partner in time or at all or only at less favorable commercial terms could lead to increased investment costs and the loss of market share and revenues with regard to fixed-line services and converged products. This could have a material adverse effect on our business, financial condition and results of operations.

We may not realize the expected level of demand for our products and services, or the expected level or timing of revenues generated by those products and services, as a result of lack of market acceptance or technological change.

There is a risk that we will not succeed in making customers sufficiently aware of existing and future value-added services or in creating customer acceptance of these services at prices we would want to charge. In addition, market acceptance for these new products and services could be negatively affected by an unwillingness on the part of customers to pay for additional features. There is also a risk that we will not identify market trends or changes in customer demand correctly, or that we will not be able to bring new services to market as quickly or as price-competitively as our competitors. These risks exist, particularly, with respect to our anticipated future growth drivers in the mobile telecommunications area, such as mobile data services or other advanced technologies (which are supported by advanced "smartphone" products), and in the pursued convergence strategy through bundling of services. Ever shorter innovation cycles in these advanced technologies require us to introduce new products at increasingly shorter intervals. Further, as a result of rapid technological progress, and the trend towards technological convergence, there is a danger that new and established information and telecommunications technologies or products may not only fail to complement one another, but in some cases may even substitute one another.

One example of this is VoIP, a technology that is already established in the business customer market. VoIP has now reached the consumer market as well and, as a technology that competes directly with traditional fixed-line telephony services, it has the potential to further reduce our market share and revenues in our fixed-line business. The introduction of mobile handsets with VoIP functionality may also adversely affect our pricing structures and market share in our mobile voice telephony business. If we do not appropriately anticipate the demand for new technologies and adapt our strategies and cost structures accordingly, we may be unable to compete effectively. Furthermore, as we have made, and intend to make further, significant investments into our network and spectrum based on our anticipated future growth drivers such as mobile data-related services, we may only be able to recoup our costs and leverage our improved infrastructure if consumer demand for new mobile data-related services (for example, those based on LTE) increases as expected and our pricing strategy is competitive. We may be unable to recoup our costs and profit from our network build-out due to lower than expected demand, pricing or market share or as a result of new or improved technologies that make such infrastructure obsolete. These factors may have a material adverse effect on our business, financial condition and results of operations.

Constraints or prohibitions to source or sell handsets could impair our business. Devices could have limited access to or be incompatible with our network.

Our business success depends on our ability to anticipate and adapt to technological changes and customer preferences. This also relates to us being able to ensure the constant availability of handsets and smartphones to our customers as well as those handsets and smartphones being compatible with our mobile network.

We supply third-party handsets to our customers. Certain of our supply contracts contain provisions with minimum purchase volume requirements. If we fail to order handsets or smartphones in the agreed volumes, we may be subject to contractual penalties or liability claims. Furthermore, the market for smartphones is currently experiencing ongoing patent claims in connection with the use of certain operating systems in smartphones as well as with alleged copying of designs and infringement of intellectual property rights. The outcome of those patent claims cannot be predicted and is outside our control. So far, temporary sales bans have been imposed on market participants. Depending on the outcome of those patent claims, this may lead to further constraints on smartphones or to a prohibition on sales of delivered and stored handsets. Such disruptions in handset supply could be long term or could have a disproportionate impact on us. The risks associated with a potential scarcity or ban on sales of handsets could have a material adverse effect on our business, financial condition and results of operations.

Future handsets or smartphones may also be incompatible with our network, if for example such smartphones operated only on frequency spectrums for which we had not been assigned the respective frequency usage rights, or if such smartphones are designed to perform better on, or give preferential access to, the network infrastructures of our competitors. Limited access to or the incompatibility of devices with our network could have a material adverse effect on our business, financial condition and results of operations.

The success of our business operations depends on our ability to attract and retain customers.

Our ability to attract and retain mobile subscribers will depend in large part on convincing subscribers to switch from competing operators to our services in addition to our ability to minimize subscriber deactivation rates, referred to as customer "churn". Churn is significantly higher among pre-paid customers compared to post-paid customers. Churn may also rise if we are unable to maintain and upgrade our network or provide our subscribers with attractive portfolios of products and services. Furthermore, the mobile telecommunications market is characterized by frequent developments in products, service offerings and pricing tariffs, as well as by advances in network and handset technology. These and other factors are outside of our control and therefore there can be no assurance that the various measures we are taking to prevent any loss of market share and increase customer loyalty will reduce our churn rate.

We could experience a higher churn rate due to a perception by some of our customers of a lower network performance compared to our competitors. The network quality regarding voice and data services could decrease should we be unable to expand our network and IT capacity. If we fail to maintain, expand and upgrade our network and are unable to offer our customers continuously high quality and value, we may not be able to retain customers or attract new ones.

Likewise, if we fail to effectively communicate the benefits of our products and services to the market, we may not be able to attract new customers. Our recent efforts at promoting bundled products to attract and retain customers may prove unsuccessful. We may also be unable to meet the contractual obligations of our larger business customers due to external circumstances, which could lead to the termination of business customer contracts. Additionally, our competitors may improve their ability to attract new customers, or offer their products or services at lower prices, which would make it more difficult for us to retain our current customers, and the cost of retaining current customers and acquiring new customers could increase. Our inability to attract or retain customers, including large business customers, due to these and other factors outside of our control could have a material adverse effect on our reputation as well as our business, financial condition and results of 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.

Our business depends on the functioning of our mobile and fixed-line networks and on certain central systems and service platforms. If any part of our mobile or fixed-line network or equipment is damaged by a flood, storm, fire or other natural disaster, long periods of extreme cold, failure or misuse of systems, damage from construction works, acts of terrorism, break-ins, sabotage, vandalism or other malicious human acts, power loss, or other catastrophes, our operations and customer relations could be materially and adversely affected. In the event that such losses are not, or are not fully, covered by our insurance we may not have the capital to make necessary equipment repairs or replacements. In some cases, valuable customer data may be lost, which may adversely affect significant customer relationships.

The Company's technical equipment and systems have been and may continue to be subject to occasional malfunctioning due to technical shortcomings in the Company's own network or in other surrounding equipment. Despite security measures, the Company's servers are potentially vulnerable to physical or electronic break-ins, computer viruses and similar disruptive problems. The hardware supporting a large number of our critical systems for our network is housed in locations that are geographically close to each other or that could be exposed to the same or similar risks at the same time. Moreover, in the event of a power outage or data loss, the Company may not have a back-up or alternative supplier to provide all the required components of its network. Despite the presence of certain data back-up systems and similar precautions the Company has taken, unanticipated problems affecting its systems could cause failures in its information technology systems or disruption in the transmission of signals over the Company's network. Any of these events could lead to customer dissatisfaction and increased churn, reduced revenues and traffic, costly repairs, penalties or other measures imposed by regulatory authorities and could harm our reputation. Any such events or incidents could have a material adverse effect on our business, financial condition and results of operations.

Any failure to maintain or further develop our direct and indirect distribution channels or any failure to anticipate the distribution channels customers prefer to use to purchase our products could adversely affect our ability to sustain and further grow our customer base.

Our sales strategy uses a mix of direct and indirect distribution channels in order to grow our customer base. We distribute our products and services directly through a network of approximately 882 O_2 shops; approximately 150 of those are self-operated O_2 shops, (as of June 30, 2014) the O_2 internet portal and further direct marketing channels. We also depend on third parties in connection with our indirect distribution channel through which we distribute our products and services through O_2 partner shops, premium partner shops and a network of non-exclusive distributors, including Saturn and Media Markt.

We intend to continue to invest in our direct distribution channel. We may not be able to recoup such costs or increase our revenues sufficiently by expanding our distribution presence. For example, if we are not able to renew or replace our current shop leases or enter into new leases for shops on favorable terms, or if any of our current leases are terminated prior to their stated expiration date and we cannot find suitable alternative locations, our growth and profitability could be adversely affected.

Furthermore, we may not be able to correctly identify the distribution channels through which our customers prefer to purchase our products and services. We have perceived a shift in retail customers' purchase behaviors as they now increasingly prefer the O_2 online store over O_2 shops. We are aligning our sales strategy by offering special discounts on products and services purchased via our O_2 online portal. However, we may fail to anticipate the distribution channels through which our customers prefer to purchase our products, which could lead to reduced revenues or customer acceptance.

Additionally, if we fail to maintain our key distribution relationships, or if our distribution partners fail to procure sufficient customers for any reason, or if we fail to expand our direct and indirect distribution presence, our ability to retain or further grow our market share could be adversely affected. In addition, the customer acquisition and retention costs associated with maintaining or further growing our customer base through both direct channels and indirect channels could materially increase in the future. These factors in turn could have a material adverse effect on our business, financial condition and results of operations.

Our business is capital intensive. We may not have sufficient liquidity or financing options available to fund or support our working capital or capital expenditures.

Our business is capital intensive and requires significant amounts of investment. 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 Packet Access ("**HSPA**") coverage and LTE technology. In addition, costs associated with frequency usage rights required 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, constitute a significant portion of our cost base and are subject to cost increases.

We believe that we will be able to meet our financial obligations for the next 12 months. However, there can be no assurance that our business will generate sufficient cash flows from operations or that financing arrangements or agreements (*e.g.*, factoring agreements) will be available at all or on satisfactory terms to meet our capital expenditure needs or repay or renew our debt financing as principal repayments become due. Therefore, we may require additional sources of working capital to fund our continued growth, execute our planned strategy, keep up to date with market developments, develop new technologies or service our debt. Consequently, we may need to raise additional debt or equity financing in amounts that could be substantial. This could have the effect that we breach and/or adjust our target leverage ratio (calculated by dividing net financial debt[1] by OIBDA[2]), which our management board and supervisory board intend to maintain below 1.0x over the medium term (the "**Target Leverage**").

Our ability to raise additional capital to fund our operations could 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. We may enter into future debt agreements which 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. Any future issuance of additional debt instruments could adversely affect our share price.

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

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1 Net financial debt will be measured as interest-bearing financial liabilities less interest-bearing financial assets, cash and cash equivalents, taking into account the value of financial derivatives and hedge arrangements.

2 In order to assess compliance with the Target Leverage, OIBDA will be measured as operating income before depreciation and amortization for the last twelve months, excluding non-recurring and exceptional items. Solely for purposes of calculating the Target Leverage for any twelve month period which includes historical periods prior to the closing of the Transaction, an unaudited illustrative consolidated OIBDA will be applied. This unaudited illustrative consolidated OIBDA includes the OIBDA of the New E-Plus Group for the entire twelve month period as if the closing of the Transaction had occurred at the beginning of such twelve month period.

We rely heavily on certain providers and suppliers, including Deutsche Telekom for network infrastructure, BT Germany for equipment and services related to our sites, and network operators for roaming services.

Similar to other companies in the telecommunications industry, we are heavily dependent on certain providers and suppliers, in particular for network infrastructure, with respect to which we rely on the network of our competitor Deutsche Telekom. On December 23, 2011, we signed an agreement with Telekom Deutschland GmbH that will allow us to use part of the Deutsche Telekom's fiber-infrastructure in Germany to backhaul mobile data traffic in order to enhance our mobile backhaul capacity. The agreement is effective until December 31, 2031. Additionally, we have entered into standard agreements with Deutsche Telekom for access to Deutsche Telekom's ULL shared access thereto. We signed a final agreement with Telekom Deutschland GmbH on December 20, 2013 with regard to fixed-line services providing for increased usage of Deutsche Telekom's high speed infrastructure (the NGA platform) by Telefónica Deutschland. As our network does not typically include access lines to customer premises, those or other wholesale products of Deutsche Telekom (for example, bitstream access) form a significant part of our fixed-line business. Consequently, our ability to offer our services to our customers depends on the performance of Deutsche Telekom and its affiliates of their respective obligations under existing arrangements. In particular, we rely on Deutsche Telekom to provide us with timely access to shared facilities, especially for the purposes of maintaining and repairing our network and avoiding or rectifying network outages. Our ability to provide services may be negatively affected if Deutsche Telekom faces strikes and other industrial actions, financial difficulties or ULL price increases. In addition, the increase of our direct competition with Deutsche Telekom could have a negative impact on Deutsche Telekom's performance of its obligations under these arrangements. Deutsche Telekom could use its dominant position to increase prices for access to its network. Claims or lawsuits relating to breaches of the existing contracts could adversely impact Deutsche Telekom's contractual performance and hamper cooperation at a working level.

We also depend on BT Germany GmbH & Co. OHG ("**BT Germany**") in connection with the installation and operation of our IT and communications equipment and the support of infrastructure as well as with housing of our core sites and access sites.

We further rely on our ability to interconnect with the networks of other network operators and on third-party operators for the provision of international roaming services for our mobile customers. While we have interconnection and roaming agreements in place with such operators, we do not have direct control over the quality of their networks and the interconnection and roaming services they provide. There could be difficulties or delays in interconnecting with such networks and accessing their services, or they could charge additional fees. Even if we attempt to offset such fees by implementing similar fees ourselves, we may not be able to completely offset the added costs. In certain cases, these agreements can be terminated by our counterparties upon reasonably short notice. A lack of reliable interconnections or roaming services available to us on a consistent basis could result in a loss of customers or a decrease in traffic.

Our relationships with Deutsche Telekom, BT Germany or other service providers and suppliers could deteriorate or the relevant agreements could be terminated, and we might not be able to find a suitable alternative providers at comparable cost, within a reasonable timeframe, or at all. The risks associated with our dependence on these providers and other suppliers could have a material adverse effect on our business, financial condition and results of operations.

Our reliance on outsourcing makes us vulnerable to failures and a lack of availability of certain essential operations and services.

In the recent past, we have outsourced parts of our operations, including most of our technical services, the maintenance of our networks and significant parts of our call centers and intend to continue with this strategy. In particular, we have outsourced a significant part of our call center operations to Arvato, which is also responsible for providing us with logistics services. We have also outsourced a significant amount of our IT services and infrastructure. Our outsourcing strategy covers IT operations (such as data center, desktop) and also IT software analysis and development. These operations and services could fail or become unavailable, and might not be replaceable in a timely or cost efficient manner; furthermore, the financial impact of such an outage and/or failure might not be reimbursed by the outsourcing partner. This could negatively impact our customer satisfaction levels and profitability. We may also face difficulties in exchanging or replacing single outsourcing partners.

If we experience difficulties in our outsourcing arrangements, our ability to service our customers may be affected and this could have a material adverse effect on our business, financial condition and results of operations.

A termination or failure to renew existing agreements or partnerships with wholesale partners could negatively impact our ability to diversify and grow our customer base and revenues.

We compete with MVNOs, branded resellers and service providers, but also depend on them as wholesale partners to expand our reach to new customers. Our wholesale partners, however, may terminate their relationships with us or discontinue their services on relatively short notice, including, in the case of MVNOs, to start offering their services through the network of one of our competitors. Additionally, we may, in the future, be unable to renew our existing agreements with wholesale partners on commercially favorable terms. This risk is particularly relevant with regard to wholesale partners to which we provide fixed-line services (*e.g.*, 1&1) based on our agreement with Deutsche Telekom dated December 20, 2013 relating to the transition from our ADSL-infrastructure to Deutsche Telekom's NGA platforms by 2019. This could result in the termination of contracts with our fixed-line wholesale partners should we fail to agree on the future provision of fixed-line services based on bitstream (instead of ULL) with them. Failure to maintain existing relationships with, or attract new, wholesale partners and branded resellers could prevent us from further growing and diversifying our customer base, which may impair our ability to grow and increase market share. The risks associated with our dependence on wholesale partners could have a material adverse effect on our business, financial condition and results of operations.

We may suffer the loss of, or an inability to attract and retain, experienced management and other key personnel.

We are heavily dependent on our senior managers and personnel to run our business. Our management and key personnel are responsible for, among other things, marketing our products, introducing and establishing new or enhanced products and services, negotiating and renegotiating our agreements and the agreements of certain of our affiliates, and responding to technological developments and changing market trends. Competition for qualified employees is intense, and the loss of qualified employees or an inability to attract, retain and motivate highly skilled employees required for the operation of our business could hinder our ability to successfully run and develop our business. Any loss of or inability to attract and retain management or key personnel may have a material adverse effect on our business, financial condition and results of operations.

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 use technologies that are possibly protected by third parties' rights. Increasing dependence of the telecommunications equipment industry on proprietary technology may increase the possibility that we will be exposed to litigation or other proceedings where we need to defend against alleged infringements, claims or other disputes in relation to, the intellectual property rights of others. Furthermore, we may be forced to acquire additional and costly technology licenses in the future or to pay additional royalties for currently used technologies.

We have a combination of patents, licenses, copyrights, trademarks, trade secret law and contractual obligations in place to protect the intellectual property which we use to provide our products and services. In the event that the steps we have taken and the protection provided by law do not adequately safeguard our proprietary technology, we could suffer losses in revenues and profits due to competitive products and services unlawfully offered based on our proprietary intellectual property.

Future litigation or proceedings may also be necessary for us to enforce and protect our intellectual property rights. Any such intellectual property litigation or proceeding could be costly. An unfavorable court decision in any litigation or proceeding could result in the loss of our proprietary rights, which could subject us to significant liabilities or disrupt our business operations.

Any of these risks could have a material adverse effect on our business, financial condition and results of operations.

We could infringe data, consumer protection and unfair trade laws which could result in regulatory investigations, fines, loss of reputation and customer churn.

We collect, store and use data in the ordinary course of our operating business. Such data is protected by data protection laws. German data protection agencies have the right to audit us and impose orders and fines if they find that we have not complied with applicable laws and adequately protected customer data. Although we take precautions to process, use and protect customer data in accordance with applicable German federal data protection requirements, any limitations imposed by a stricter interpretation of the existing requirements or by future modifications of the data protection laws could have a significant impact on our business operations and our ability to market products and services to existing or potential customers.

It may not be possible to prevent cases of data leakage or the misuse of data as a result of human error, technological failure or other factors outside of our control. We work with third-party service providers including call center agents, and there can be no assurance that they will abide by contractual terms limiting the use of data or that they will not experience system failures involving the storage or transmission of proprietary information. We may also be subject to consumer data leakage from cyber-attacks on our data systems or criminal activities by our employees.

Consumer protection associations or entities regularly monitor the conditions we impose on, and our interactions with, our customers. These consumer protection associations or entities could file claims against us claiming the invalidity of provisions in our general terms and conditions on the basis that these provisions unreasonably disadvantage the consumer contrary to good faith principles. In addition, they could file claims against us claiming non-compliance with transparency regulations which could lead to constraints in our sales processes or additional efforts caused by further technical or procedural requirements. We may further inadvertently infringe laws prohibiting aggressive phone marketing methods, known as "cold calling" and other direct marketing methods. Within the EU, the Directive on Privacy in Electronic Communications, and within Germany, the UWG (*Gesetz gegen den unlauteren Wettbewerb*) and the Telecommunications Act (*Telekommunikationsgesetz*), make it unlawful for us to approach prospective customers for direct marketing purposes via telephone without the express prior written consent of the customer. Consumer protection associations or entities could file claims against us seeking, among other things, the disgorgement of profits made with the alleged breach of these laws or provisions in our general terms and conditions they consider void.

Violation of data protection laws or the infringement of consumer protection or competition laws may result, *inter alia*, in fines and customer churn, as well as an irrecoverable loss of our reputation in the market. In addition, data leakage may lead to the obligation to inform the individuals affected and the competent data protection supervisory authority.

We may be affected by the mandatory implementation of new payment formats and procedures under the Single Euro Payments Area (SEPA).

The Single Euro Payments Area ("**SEPA**") is a payment-integration initiative of the European Union for simplification of bank transfers between member states of the European Economic Area and provides for payment instructions based on IBAN bank-account identification and SWIFT-BIC bank identifiers. We have introduced a project to adapt our internal billing and contract systems and procedures to the requirements of the SEPA regulation entering into force as of August 1, 2014. However, we may not be able to achieve our project targets in time or at all. In addition, we may not be able to agree with the

German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, BaFin) or our banks on any interim solutions allowing us to implement required changes subsequently. Failed or belated implementations of SEPA requirements may lead to difficulties regarding direct debit for our existing or new customers and delays in our collection of payments or a reduction in the number of new customers acquired, any of which could have a material adverse effect on our business, financial condition and results of operations.

We may be adversely affected by public perception of alleged health risks associated with electromagnetic radio emissions and wireless communications devices and base stations.

Currently, there is public concern regarding alleged potential effects of electromagnetic fields emitted by mobile devices and base stations on human health. This social concern has caused certain governments and administrations to take measures that have hindered the deployment of the infrastructure necessary to ensure quality of service and affected the deployment criteria of new networks and digital services such as smart meters development.

There currently is a consensus between various expert groups and public health agencies, including the World Health Organization (WHO), who claim that at the moment there have not been established risks for exposure to low frequency signals in mobile communications. However, the scientific community is still investigating this issue especially on mobile devices. Exposure limits for radio frequency suggested in the guidelines of the Protection of Non-Ionizing Radiation Protection Committee (ICNIRP) have been internationally recognized. The mobile industry has adopted these exposure limits and works to request authorities worldwide to adopt these standards.

Society's worries about radiofrequency emissions may discourage the use of mobile devices and new digital services, which could cause the public authorities to implement measures restricting locations where transmitters and cell sites can be located and how they operate, and the use of our mobile telephones, the massive deployment of smart meters and other products using mobile technology. This could limit or completely block our ability to expand or improve our mobile network.

The adoption of new measures by governments or administrations or other regulatory interventions in this respect, and any future assessment on the adverse impact of electromagnetic fields on health could have a material adverse effect on our business, financial condition and results of operations.

Our insurance policies may be inadequate to cover damages from unexpected events.

We have various insurance policies necessary for our ongoing business operations and believe that our current level of coverage is sufficient and customary in the industry to protect against risks associated with our business activities. We regularly review our insurance coverage and adjust it where necessary. However, we may incur damages for which we have no or insufficient coverage, which could have a material adverse effect on our business, financial position and results of operations.

We could be obligated to pay additional taxes as a result of tax audits.

In our financial statements, we have made provisions for certain tax-related risks of which we are aware. However, tax claims may exceed these provisions as a result of tax audits to which we are regularly subject. The most recent tax audits of Telefónica Deutschland Holding AG, Telefónica Germany Management GmbH and Telefónica Germany GmbH & Co. OHG, relating to the years up to and including 2003 regarding corporate income and trade tax, were finalized in 2013 and 2014, respectively. The final audit conferences (*Schlussbesprechungen*) have already taken place and there were no material findings. Amended final tax assessment notices have been issued relating to years up to and including 2003. The final amended corporate income tax assessment for Telefónica Deutschland Holding AG has not been issued and is, therefore, still subject to revision (*Vorbehalt der Nachprüfung*). The tax audit regarding value-added taxes has been completed for the periods up to and including 2002 and amended final tax assessments notices have been issued. Telefónica Germany GmbH & Co. OHG has filed an appeal against value-added tax assessments for the periods 2000 to 2002 and applied for an amendment of value-added tax for the periods 2003 to 2012 to reclaim value-added tax on non-performing receivables. Furthermore, Telefónica Germany GmbH & Co. OHG has requested correction of several value-added tax related cases for the periods 2000 to 2014 by the tax authorities. There has been no assessment by the tax authorities so far.

Telefónica Deutschland Holding AG, Telefónica Germany Management GmbH and Telefónica Germany GmbH & Co. OHG are currently subject to a tax audit for the years from and including 2004 up to and including 2011. Since the year 2004, and 2003 for value-added tax purposes, all tax assessments regarding value-added, corporate income and trade tax of Telefónica Deutschland Holding AG, Telefónica Germany Management GmbH and Telefónica Germany GmbH & Co. OHG are subject to revision (*Vorbehalt der Nachprüfung*). Accordingly, tax audits relating to these financial years may lead to tax assessments resulting in higher tax payments. This could have a material adverse effect on our business, financial condition and results of operations.

In 2012, Telefónica Deutschland Holding AG, Telefónica Germany Management GmbH and Telefónica Germany GmbH & Co. OHG filed a correction of the wage tax declaration for the period from January 2008 up to October 2012 for employee benefits. The effects on wage tax, value-added tax as well as corporate income and trade tax have to be finally agreed on with the tax authorities.

Since December 2012, Telefónica Deutschland Holding AG, Telefónica Germany Management GmbH and Telefónica Germany GmbH & Co. OHG have been subject to a wage tax audit for the period from January 2008 up to December 2013.

Changes in tax laws or in the interpretation of tax laws by courts or tax authorities may also have a material adverse effect on our business, financial condition and results of operations.

We may not be in a position to use the full amount of our tax losses carried forward.

As of December 31, 2013, Telefónica Deutschland had trade tax losses carried forward at the group level in the amount of €12.3 billion and corporate income tax losses carried forward at the group level also in the amount of €12.3 billion. Of these amounts, trade tax losses carried forward and corporate income tax losses carried forward for which no deferred tax assets were recognized amounted to €12.0 billion in each instance, as of December 31, 2013. The tax losses carried forward could be forfeited in the future, in part or in full, at the level of Telefónica Deutschland Holding AG, Telefónica Germany Management GmbH or Telefónica Germany GmbH & Co. OHG if, *inter alia*, an acquirer, a person affiliated with such acquirer or a group of acquirers with similar interest acquires directly or indirectly more than 25% of Telefónica Deutschland Holding AG's shares within five years. The tax losses carried forward and losses existing at the time the threshold is exceeded could be forfeited on a pro rata basis. If such an acquisition relates to more than 50% of Telefónica Deutschland Holding AG's shares, the tax losses carried forward could be forfeited completely. As a consequence, Telefónica Deutschland Holding AG, Telefónica Germany Management GmbH and Telefónica Germany GmbH & Co. OHG may no longer be able to use tax losses, or may only be able to use them to a limited extent. This will result in a higher tax burden. Irrespective of the above, if we decide to implement a change in the partnership structure, this could also result in the forfeiture of trade tax losses carried forward.

Losses incurred in any one year may be carried back for corporate income tax purposes to the immediately preceding assessment period up to an amount of €1 million. Trade tax losses cannot be carried back. Any remaining losses regarding corporate income tax and trade tax are carried forward and may only be offset within certain restrictions against profits from future years (referred to as "minimum taxation"). Up to €1 million of taxable profits may be offset against existing tax losses carried forward without restriction. Taxable profits in excess of €1 million may be offset against existing losses carried forward for corporate income and trade tax purposes, but this offset is limited to 60% of the taxable profits (above €1 million) in each tax assessment period.

The potential forfeiture of losses carried forward could result in a higher tax burden in future tax assessment periods (once Telefónica Deutschland Holding AG generates taxable profits). This may have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATED TO OUR ACQUISITION OF THE E-PLUS GROUP

The acquisition of the E-Plus Group could fail.

In a sale and purchase agreement dated July 23, 2013, as amended on August 26, 2013, August 28, 2013, December 5, 2013, March 24, 2014 and August 7, 2014 among Koninklijke KPN N.V. ("**KPN**" and, together with its direct and indirect subsidiaries, the "**KPN Group**"), Telefónica, S.A. and the Company (the "**SPA**"), the Company agreed to purchase E-Plus Mobilfunk GmbH & Co. KG ("**New E-Plus KG**", formerly E-Plus Transition GmbH & Co. KG) following the transfer of the business activities, all assets and certain liabilities of KPN Mobile Germany GmbH & Co. KG ("**KPN Mobile Germany**", formerly E-Plus Mobilfunk GmbH & Co. KG) into New E-Plus KG (the "**Transaction**"). Since this transfer, which became effective on June 23, 2014, New E-Plus KG, including its direct and indirect subsidiaries (the "**E-Plus Group**", also referred to as the "**New E-Plus Group**", and upon integration of the E-Plus Group into Telefónica Deutschland, collectively referred to as the "**New Group**") has conducted the business activities of KPN Group on the German mobile telecommunications market. Upon the closing of the Transaction, KPN Mobile Germany will receive (i) approximately €3.64 billion (€3.7 billion minus €64 million preliminary net debt and working capital adjustment) in cash from the Company (this cash component being partially financed by a capital increase of the Company against contribution in cash via the Rights Offering) and (ii) new shares in the Company which shall be issued from a capital increase against contribution in kind entitled to full dividend rights for the year starting January 1, 2014 to be resolved by the management board of the Company on or about September 23, 2014, to be approved by the supervisory board on the same day, utilizing a portion of the authorized capital resolved by the extraordinary general shareholders' meeting on September 18, 2012 ("**Authorized Capital 2012/I**") and the authorized capital resolved by the extraordinary general shareholders' meeting on February 11, 2014 ("**Authorized Capital 2014/I**") (the "**Consideration Shares**"). The Consideration Shares will represent 24.9% of the Company's total share capital issued and outstanding following the consummation of the Offering and the issuance of the Consideration Shares. Immediately after the registration of the capital increase against contribution in kind with regard to the Consideration Shares, Telefónica, S.A. will acquire through its wholly-owned subsidiary Telefónica Germany Holdings Limited 4.4% of the shares in the Company from KPN and has the option to acquire through its wholly-owned subsidiary Telefónica Germany Holdings Limited an additional 2.9% of the shares in the Company on the first anniversary after the closing of the Transaction and potentially other shares in the Company from KPN pursuant to other conditions in the SPA (see also "*– Risks Related to Our Relationship with Telefónica, S.A. – Telefónica S.A. continues to exercise considerable influence over us and our operations, and the interests of Telefónica, S.A. may conflict with those of other shareholders of the Company.*").

The closing of the Transaction is currently still subject to the occurrence or waiving of, *inter alia*, the following conditions precedent:

(a) No governmental or judicial prohibition of the Transaction;

(b) No material breach of the SPA by any of its parties that has not been remedied by the respective party after having been notified of it;

(c) No material adverse change with regard to the E-Plus Group. Neither Telefónica, S.A. nor the Company have informed KPN of the occurrence of such material adverse change;

(d) Certain German corporate law requirements being met in respect of a capital increase by the Company against contribution in kind from authorized capital, including an auditor's certificate from an external court-appointed auditor in accordance with Sec. 205(5), 34(1) no 2 German Stock Corporation Act (*Aktiengesetz,* "**AktG**"); and

(e) A document prepared by a firm of chartered accountants or an international, reputable investment bank confirming that the number of Consideration Shares to be issued to KPN Mobile Germany as part of the consideration is not inappropriate (*unangemessen*) pursuant to Section 255(2) AktG. A respective document was issued on September 8, 2014.

The SPA also provides for break fees. In particular, should the Company fail to register with the commercial register the share capital increases required for the closing of the Transaction before March 1, 2015 it must pay to KPN €50 million as a break fee.

Should any of the conditions precedent set out above not be satisfied or waived on or before March 1, 2015, each of KPN, Telefónica, S.A. and the Company may terminate the SPA and consequently, the Transaction will fail.

A failure of the Transaction would likely entail reputational damage as well as financial hardships for Telefónica Deutschland as a result of the significant efforts and the costs incurred in connection with the Transaction and could have a material adverse effect on Telefónica Deutschland's business, financial condition and results of operations. In addition, the proceeds from the Offering could not be used as intended to finance the cash component of the purchase price payable for the acquisition of the E-Plus Group. It is unlikely that we would have an immediate alternative use for the proceeds of the Offering, which may lead to a cancellation of the Offering which may in turn result in significant losses of shareholders or investors having acquired subscription rights or sold shares in the Company at a discount due to the expected completion of the Offering. Alternatively, we may decide to return the funds from the Offering to our shareholders via capital decreases, dividend distributions or share buy-backs, which may prove difficult and time consuming. Furthermore, there can be no assurance that any such capital return would be approved by a general shareholders' meeting or that applicable laws would not prohibit or impose restrictions or limitations on any such capital return.

The Transaction is subject to additional restrictions and conditions imposed by the competent competition or regulatory authority, which could lead to increased competition for the New Group and could have a material adverse effect on Telefónica Deutschland's and the New Group's business, financial condition and results of operations.

The European Commission granted merger clearance of the Transaction on July 2, 2014. The decision is subject to the fulfillment of certain remedies which were offered by the Company to the European Commission. These remedies consist of the following three measures to be implemented:

- The Company is obligated to make available to one or more (up to three) third parties ("**MBA MVNOs**") a total of 20% of the network capacity of the mobile network of both Telefónica Deutschland and the E-Plus Group under a mobile bitstream access model ("**MBA Model**") on the German market, with these MBA MVNOs being obligated to acquire such network capacity. In addition, the MBA MVNOs are entitled to acquire from Telefónica Deutschland and the E-Plus Group additional network capacity of up to an aggregate of 10% of the combined network capacity. Mobile network capacity, in this context, includes data throughput capacity, data volume capacity, voice capacity and capacity for SMS. The European Commission requested this component of the remedies to be fulfilled prior to the closing of the Transaction. Accordingly, on June 25, 2014, Telefónica Germany GmbH & Co. OHG entered into an agreement with a member of the group of companies with Drillisch AG as parent company ("**Drillisch**") on terms and conditions set by the European Commission, under which Drillisch committed to acquire the total of 20% of the mobile network capacity available under the MBA Model (such 20% not including and in addition to the network capacity used to service existing customers of Drillisch on Telefónica Deutschland's and the E-Plus Group's mobile networks). The agreement will enter into force upon the closing of the Transaction.
- The Company is obligated to offer certain assets and services to a new mobile network operator ("**New MNO Entrant**") on the German market. As part of this obligation, the Company is obligated to offer 2,600 MHz spectrum as well as 2,100 MHz spectrum on the basis of a lease agreement at pre-determined prices and for a term compliant with the expiry of the relevant frequency usage rights. In addition, the Company is obligated, at the New MNO Entrant's request, to offer national roaming services, sell up to 8,000 antenna sites, agree to a passive radio network sharing and/or sell up to 100 points of sale in urban areas, all at prices to be negotiated with the New MNO Entrant. This offer has to be kept open to one potential new mobile phone network operator until December 31, 2014, after which date it will only be available until the fifth anniversary of the closing of the Transaction to those third parties who have entered into an agreement with the Company or any of its affiliates under the MBA Model.
- The Company is obligated to offer to all MVNOs and service providers which currently procure 2G/3G/4G services from Telefónica Deutschland and/or the E-Plus Group to prolong their existing contracts until the end of 2025 (or such earlier date on which Telefónica Deutschland may cease to offer 2G/3G or 4G services to its own customers). In addition, Telefónica Deutschland is obligated to provide access to 4G services on the basis of agreements to all MVNOs and service providers within twelve months after the start of the performance of the agreement concluded with the MBA MVNOs with terms at least until the end of 2025 (or such earlier date on which Telefónica Deutschland ceases to offer 4G services to its own customers). This offer has to be made at prices to be determined on a benchmark basis. In addition, Telefónica Deutschland is obligated to waive any obligations of MVNOs and service providers which currently procure 2G/3G/4G services from Telefónica Deutschland and/or the E-Plus Group

according to which the respective MVNO or service provider has to transfer its customer base to Telefónica Deutschland and/or the E-Plus Group in case of a change of network or change of business model.

On August 29, 2014, the European Commission confirmed that the agreement with Drillisch fulfilled the upfront remedies obligation and thereby granted final merger clearance of the Transaction.

While the obligations under the MBA Model have to be fulfilled prior to the closing of the Transaction, the other remedies may be fulfilled subsequently. In compliance with a corresponding commitment *vis-à-vis* the European Commission, the Company has engaged Competition RX remedies & compliance as the monitoring trustee in order to monitor the Company's compliance with its obligations under the remedies. The monitoring trustee will issue regular reports to the European Commission and has certain rights to intervene in case it deems that the Company has not complied with its commitments. In addition, a fast track arbitration mechanism has been implemented in order to ensure the Company's prompt compliance with its commitments towards those third parties with which it has or will enter into agreements under the remedies.

There can be no assurance that the Company will be able to fulfill the stipulated remedies as envisaged. Even after confirmation of the fulfillment of the upfront remedies a persistent non-compliance with the above remedies could not only lead to significant fines, but even to the European Commission ordering the reversal of the Transaction.

The contract entered into with Drillisch in order to fulfill the upfront obligation in accordance with the MBA Model, as well as the obligation to make certain spectrum available to a potential New MNO Entrant, significantly limit the network capacity available to the New Group which could affect the network quality and availability and, thus, customer satisfaction. In addition, the limitations in network capacity limit the possibility of the New Group to capture future growth opportunities. The agreement with Drillisch could also lead to increased competition in addition to those levels of competition we are already facing, in particular, as Drillisch is under the obligation to acquire 20% network capacity which could yield aggressive pricing strategies (see "*– The German telecommunications market is characterized by high levels of competition from existing and potential new mobile network operators, fixed-line wholesale providers and factors beyond our control such as consumer trends for using new technology*.", "*– We face significant levels of competition from MVNOs and branded resellers*." and "*– We face increasing competition from alternative telecommunications providers, such as cable network companies and consumer electronics companies*."). Finally, the consideration agreed with Drillisch could prove insufficient to cover the proportionate costs of the network roll-out, operation and maintenance which would detrimentally affect the New Group's profitability. The same negative effects could result from agreements with a potential New MNO Entrant and other MVNOs and service providers to be entered by the New Group in order to comply with the above remedies and add to potential negative effects of the agreement with Drillisch.

The materialization of any of the aforementioned risks could have a material adverse effect on Telefónica Deutschland's and the New Group's business, financial condition and results of operations. In addition, the merger clearance decision could become subject to legal challenges.

Warranty claims and claims for damages and indemnification under the SPA are limited in scope and amount and are subject to time limits.

In the SPA, KPN made certain warranties, *inter alia*, concerning legal, tax and financial circumstances of the E-Plus Group, many of which are limited in scope and amount, with claims based on these warranties having to be made within certain agreed time limits. These include warranties concerning the accuracy of financial statements of the E-Plus Group prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*, "**HGB**") as of and for the year ended December 31, 2012. Furthermore, KPN has granted representations and warranties relating to the existence and scope of pension obligations and industrial property rights, the IT infrastructure, compliance with data protection regulations, certain employment law circumstances, the existence of certain material contracts and the disclosure of court proceedings. KPN is further obligated to indemnify the Company against all tax and tax ancillary obligations incurred by a company of the E-Plus Group for tax assessment and collection periods prior to January 1, 2014, as far as such obligations have not yet been performed prior to December 31, 2013. It is possible that these warranties and indemnifications do not fully cover all risks. Additionally, a warranty made by KPN could be unenforceable against KPN for a number of reasons, including the opening of insolvency proceedings over KPN's assets. We may therefore not be in a position to assert or enforce claims against KPN based on defects, breach of warranties and damages identified in connection with the Transaction.

The pro forma consolidated financial information of the Company describes only a hypothetical situation and thus, due to its nature, the presentation does not reflect the actual net assets, financial position and results of operations of Telefónica Deutschland upon the closing of the Transaction.

Since the Transaction is expected to have a material impact on the assets, financial position and results of operations of Telefónica Deutschland, pro forma consolidated financial information, consisting of pro forma consolidated income statements for the year ended December 31, 2013 and the six months ended June 30, 2014, a pro forma consolidated statement of financial position as of June 30, 2014 and pro forma notes, was prepared by the Company for purposes of this Prospectus (the "**Pro Forma Consolidated Financial Information**"). The purpose of the Pro Forma Consolidated Financial Information is to show the material effects the Transaction would have had on the Company's consolidated income statements for the year ended December 31, 2013 and the six months ended June 30, 2014 and on the Company's consolidated statement of financial position as of June 30, 2014 if Telefónica Deutschland had already existed in the structure of the New Group created by the closing of the Transaction as of January 1, 2013 with respect to the pro forma consolidated income statements and as of June 30, 2014 with respect to the pro forma consolidated statement of financial position. Therefore, the Pro Forma Consolidated Financial Information describes only a hypothetical situation and thus, due to its nature, the presentation does not reflect the actual net assets, financial position and results of operations of Telefónica Deutschland (*i.e.*, the New Group) upon the closing of the Transaction. The presentation of the Pro Forma Consolidated Financial Information of the Company is based on information available, preliminary estimates and certain pro forma assumptions and is intended for illustrative purposes only. In addition, the Pro Forma Consolidated Financial Information does not represent a forecast of the net assets, financial position and results of operations of Telefónica Deutschland (*i.e.*, the New Group) at any future date or for any future period. The Pro Forma Consolidated Financial Information neither contains potential synergies or cost savings, nor a normalization of any restructuring or any additional future expenses that could result from the Transaction. Furthermore, the Pro Forma Consolidated Financial Information is only meaningful in conjunction with the historical consolidated financial statements of the Company as of and for the year ended December 31, 2013, and the historical condensed interim consolidated financial statements of the Company as of and for the six months ended June 30, 2014.

The historical consolidated financial information of the E-Plus Group contained in the Prospectus may not be considered indicative of the E-Plus Group's future performance as part of the New Group.

The consolidated financial statements as of and for the year ended December 31, 2013 and the interim condensed consolidated financial statements as of and for the six months ended June 30, 2014 of KPN Mobile Germany (together the "**E-Plus Consolidated Financial Statements**") have been prepared in accordance with IFRS for the first time for purposes of this Prospectus, as KPN Mobile Germany was a member of the KPN Group during the reporting periods and as such not under the legal obligation to prepare separate consolidated financial statements under IFRS. They do not fully reflect the restructuring steps that the E-Plus Group has undergone prior to the closing of the Transaction. As the E-Plus Consolidated Financial Statements were prepared according to "*IFRS 1 – First-time Adoption of International Financial Reporting Standards*" and do not reflect historical purchase price push down effects and certain internal restructurings executed to prepare for the closing of the Transaction, the financial information reported by KPN for its German operations are not fully comparable with the E-Plus Consolidated Financial Statements. The accounting policies applied by KPN Mobile Germany in preparing the E-Plus Consolidated Financial Statements differ in some instances from the accounting policies as applied by the Company. As explained further in the Pro Forma Consolidated Financial Information, the profit for the period shown in the E-Plus Consolidated Financial Statements would have been significantly lower had the accounting policies of the Company been applied. While being largely neutral with regard to free cash flow, the application of Telefónica Deutschland accounting policies to the historical financial information of the E-Plus Group would have led to a reduction in OIBDA and operating income for the year ended December 31, 2013 of approximately €220 million and €87 million, respectively. The main differences relate to the accounting treatment of arrangements for leasing mobile devices to customers of the E-Plus Group (which would have led to a reduction in OIBDA and operating income for the year ended December 31, 2013 of approximately €192 million and €13 million respectively), of dismantling obligations with regard to the E-Plus Group's network sites (which would have led to a reduction in OIBDA and operating income for the year ended December 31, 2013 of approximately €30 million and €32 million respectively) and of the capitalization of own work (which would have led to a reduction in operating income for the year ended December 31, 2013 of approximately €45 million). In addition, we were neither involved in the preparation of the E-Plus Consolidated Financial Statements, nor in the auditing of consolidated financial statements of KPN Mobile Germany as of and for the year ended December 31, 2013 and therefore did not have the possibility to independently confirm and verify that these financial statements are complete and correct in all material respects as was the case for our own historical financial statements contained herein.

The acquisition of the E-Plus Group will be accounted for in accordance with "*IFRS 3 – Business Combinations*" applying the acquisition method. The identifiable assets acquired and the liabilities assumed that meet the definition of assets and liabilities and are exchanged as part of the acquisition of the E-Plus Group, will be measured at their fair values and recognized separately at the acquisition date. These assets and liabilities measured at fair value for the initial accounting of the acquisition, the income and expenses and the cash flows of the entities that were formerly part of the restructured E-Plus Group will be consolidated from the actual acquisition date in the future consolidated financial statements of the Company using the accounting policies applied by the Company. The accounting of the acquisition of the E-Plus Group will have a significant impact on the Company's future consolidated financial statements.

Therefore, the historical consolidated financial information of the E-Plus Group contained in the Prospectus may not be considered indicative of the future performance of the E-Plus Group as part of the New Group.

The E-Plus Group's business activities are exposed to risks that are comparable to the aforementioned risks related to our business and our industry and could be exposed to additional risks.

The mobile services business activities of Telefónica Deutschland and the E-Plus Group are largely similar. We therefore believe that the E-Plus Group is exposed to legal and regulatory, tax, market, business and other risks similar to those that have been described in the paragraphs above with respect to us (see "*– Risks Related to Our Business and Our Industry*"). The materialization of any of these risks for the E-Plus Group could, upon the closing of the Transaction, have a material adverse effect on our business, financial condition and results of operations, as the risks of the E-Plus Group become risks of the New Group consisting of Telefónica Deutschland and the E-Plus Group. The SPA provides for the adjustment of the cash component payable by the Company on the basis of the E-Plus Group's net debt and working capital as of December 31, 2013. The risk of any adverse financial or business development of the E-Plus Group in 2014 is, therefore, borne by Telefónica Deutschland (and, thus, the New Group) and not by KPN.

We believe that the E-Plus Group is, *inter alia*, exposed to the following risks that generally also apply to Telefónica Deutschland and will also apply to the New Group:

- ***The E-Plus Group depends on certain large wholesale partners***: The E-Plus Group depends on certain large wholesale partners which constitute a large portion of the customer base and contribute a significant amount to revenues of the E-Plus Group. The failure of the respective wholesale partners to timely and fully perform their obligations towards the

E-Plus Group, the inability of the E-Plus Group to renew its agreements with these wholesale partners at all or at adequate terms or a termination of the agreement by such a wholesale partner could lead to a significant decrease in revenues, prevent the E-Plus Group from further growing its customer base and/or lead to a significant loss of customers, which could have a material adverse effect on the business, financial condition and results of operations of the New Group.

- ***The E-Plus Group relies on certain service providers and suppliers for network infrastructure and its IT systems***: The E-Plus Group relies heavily on certain suppliers, service providers and other contract partners such as ZTE Services Deutschland GmbH and Germany Tower Interco B.V. in relation to its network infrastructure and maintaining and repairing its mobile network. Furthermore, the E-Plus Group relies on Atos Information Technology AG for the installation and operation of its IT systems. The failure of such supplier or service provider to timely and fully perform its contractual obligations could have materially detrimental impacts on the business operations of the New Group. In addition, the E-Plus Group's relationships with its suppliers or service providers could deteriorate or the relevant agreements could be terminated and the E-Plus Group could not be able to find suitable alternative providers at comparable cost, within a reasonable timeframe, or at all. Long-term commitments of the E-Plus Group *vis-à-vis* suppliers or service providers could be found to be commercially unfavorable to the New Group and could limit the ability of the New Group to operate in a most efficient manner, or it may be economically unviable to seek alternative arrangements so long as any such agreement is in force. The risks associated with the E-Plus Group's reliance on its suppliers and service providers as well as its long-term commitments towards such suppliers and service providers could have a material adverse effect on the business, financial condition and results of operations of the New Group.
- ***The E-Plus Group will remain dependent on KPN for the provision of essential services and also as a counterpart to a number of material agreements after the closing of the Transaction***: Upon closing of the Transaction, E-Plus Group will continue to license the use of the BASE brand and of certain domain names for Germany from KPN. The E-Plus Group shall remain entitled to use the third party software it requires for its operations and has been using prior to closing of the Transaction. To this end, KPN will support the E-Plus Group in transferring existing licenses or entering into new license agreements with the respective licensor. KPN and the E-Plus Group will remain entitled to use technologies each of them used prior to the closing of the Transaction and to which the respective other party holds proprietary rights. Additionally, the E-Plus Group and KPN will enter into new discount agreements with the E-Plus Group's roaming partners. The E-Plus Group is obligated to continue to provide KPN voicemail platforms and network system testing services and KPN Group is obligated to continue to provide international traffic carrier services and a human resource management platforms. The respective agreements have been entered into or will be entered into prior to the closing of the Transaction. There can be no assurance that these agreements will be concluded at the terms and within the timeframe currently contemplated or that existing agreements are arm's length arrangements and could be renegotiated in case any agreement was found to contain terms that are commercially unfavorable to the New Group. In addition, we will, upon implementation of the Transaction, depend on the full and timely performance of the above obligations by KPN and its affiliates. Furthermore, failure to renew existing arrangements with KPN upon their expiration at adequate terms or at all, could adversely affect the business, financial condition and results of operations of the New Group.
- ***The New Group might be subject to claims for payments resulting from pension obligations towards employees of the E-Plus Group***: Certain of the E-Plus Group's employees are covered by KPN's defined benefit plans. In the SPA, KPN made certain representations and warranties relating to the existence and scope of pension obligations of the E-Plus Group and their funding. While KPN makes periodic contributions to its defined benefit plans, such contributions are based on certain assumptions imposed by law and therefore the actual amount of future pension obligations of the E-Plus Group may be higher than provided for by KPN. Furthermore, as portions of its pension plans are unfunded and pension liabilities are recognized on KPN's consolidated balance sheet as an accrual against future obligations only, there is a risk that such accruals are insufficient and that the New Group might be burdened with payment obligations for pensions not covered by KPN's representations and warranties or that such representations and warranties do not provide adequate protection given their limitations in scope.
- ***The New Group might have limited influence on maintaining and improving the E-Plus Group's networks, systems and operations and may face additional costs resulting from contractual obligations subsisting after the closing of the Transaction***: The E-Plus Group has entered into sale and leaseback transactions for the majority of its mobile towers in Germany. Although these arrangements provide for obligations for third parties to maintain the towers, the E-Plus Group has limited control over the actions of these third parties in maintaining these sites. These third parties may fail to adequately maintain the sites on which the E-Plus Group's mobile towers are located and the terms of the sale and leaseback transactions may limit the New Group's operational flexibility, for example, by requiring long-term revenue sharing, under which the New Group would be obligated to make payments even if it no longer needed certain mobile towers due to technological change or decided to shut down mobile towers in the process of combining the mobile networks of Telefónica Deutschland and the E-Plus Group.

Telefónica Deutschland may not be successful in integrating the E-Plus Group into its existing business in the manner, or within the time frame, as currently anticipated or only at higher costs.

The process of integrating the E-Plus Group into Telefónica Deutschland's existing business involves certain risks and uncertainties (see "*– Telefónica Deutschland is exposed to risks relating to the Transaction.*") and there can be no assurance that Telefónica Deutschland will be able to integrate the two businesses in the manner or within the time frame currently anticipated. The integration of the E-Plus Group into Telefónica Deutschland requires, for example, the implementation of a new business and operational model, including a revision of rules, policies and controls as well as the integration of different

IT-systems used. This bears the risk of uncertainty, weaknesses in the internal control system, overlapping responsibilities and lack of coordination of certain activities, *e.g.*, procurement, human resources, product development and marketing during the integration period. The necessity of combining and consolidating the networks, IT-systems, distribution networks and customer service platforms and other operational or administrative units makes the New Group particularly susceptible to failure and disruptions in these areas during the integration phase. Any material delays in the combination of the businesses of the E-Plus Group and Telefónica Deutschland could also adversely influence the realization of estimated synergy effects. The materialization of the aforementioned risks could result in, *inter alia*, inefficiencies, decreasing customer satisfaction, the loss of important wholesale customers or an increase of customer churn, additional tax obligations or increased integration costs, all of which could have a material adverse effect on Telefónica Deutschland's business, financial condition and results of operations.

Telefónica Deutschland is exposed to risks relating to the Transaction.

Carrying out the Transaction involves risks. For example, the acquisition of the E-Plus Group carries the risk that the Transaction might prove less successful than anticipated, that the combination of both businesses might not develop as expected and that revenues and earnings expectations may not be met.

Inter alia, the acquisition of the E-Plus Group may expose Telefónica Deutschland to the following risks:

- ***Telefónica Deutschland could be exposed to risks or problems of the E-Plus Group that have not been detected during the due diligence preceding the Transaction and that could not have been derived from available financial information on the E-Plus Group***: The E-Plus Group's business may be subject to risks or problems that Telefónica Deutschland may not be aware of, which may not have been detected or which have not been disclosed to Telefónica Deutschland in the due diligence process or derived from the financial information on the E-Plus Group and that may only emerge after the Transaction has been consummated. The SPA only grants us limited protection against the existence of such problems or the materialization of any such risks. The existence of such problems or the materialization of any undetected risks could lead to a deterioration of the business of the E-Plus Group. Furthermore, the assumptions we relied upon when agreeing to the purchase price for the E-Plus Group could turn out to be incorrect. This could have a material adverse effect on Telefónica Deutschland's business, financial condition and results of operations.

- ***Commitment of management capacity***: The combination of the businesses of the E-Plus Group and Telefónica Deutschland will require a large amount of the time and attention of both companies' management. Should these tasks divert management from other responsibilities, the operational business could be negatively affected.

- ***Possible loss of key employees***: Both Telefónica Deutschland and the E-Plus Group depend on their key employees for the successful combination of the businesses of the E-Plus Group and Telefónica Deutschland. The implementation of a common strategy and the execution of normal business operations could be negatively affected or delayed if either Telefónica Deutschland or the E-Plus Group were to lose key employees or know how due to their combination. This could have a material adverse effect on Telefónica Deutschland's business, financial condition and results of operations.

- ***Estimated synergies may not be realized in part or at all or could prove to be incorrectly forecasted***: The Company expects that the Transaction will lead to synergy effects, in particular with respect to distribution, customer service and network infrastructure and operations, with incremental value from additional revenues and other synergies. The net present value of synergies to be realized over time is estimated to be more than €5.0 billion (post-tax) net of integration costs. The net present value of synergies was calculated as the net present value of the Transaction computed as the sum of the present values of forecasted future cash flows including the so-called "terminal value" (present value of expected future cash flows beyond the explicit forecast horizon) after tax. Those synergies could not be realized in part or at all or later than expected. Furthermore, the assumptions used as a basis for the estimated synergy effects could turn out to be inappropriate or incorrect. The Transaction could lead to higher integration and restructuring costs than expected due to, for example, commitments *vis-à-vis* third parties or a workers consultation. The estimation of potential synergy effects is forward-looking and therefore subject to changes by a large number of factors, such as the general macroeconomic, industry, legal, regulatory and tax environment, consumer behavior, changes in technology, the successful development of the product portfolio, the retention of key personnel and changes in the Company's business strategy, development and investment plans. In addition, numerous factors in estimating the future synergies of the combination of both businesses relate solely to the E-Plus Group. The Company has only very limited access to and insights into these input factors. Investors should therefore be aware that the estimation of synergies to be unlocked by the Transaction is subject to significant uncertainty. A failure to realize the estimated synergy effects in part or at all could have a material adverse effect on Telefónica Deutschland's business, financial condition and results of operations.

- ***The Transaction could entitle customers, suppliers, service providers or other contractual partners to terminate their contracts with the E-Plus-Group or result in contractually agreed restrictions for the New Group***: The E-Plus Group is party to a number of agreements that contain a so-called change of control clause (*i.e.*, a clause entitling one contract partner to derive the right to terminate the agreement from the fact that a natural or legal person subsequently to the execution of the agreement gains control over the other contract partner, usually by transgressing a certain defined threshold of voting rights in such contract partner) or other restrictive provisions *(e.g.,* restrictions on contracts with specific third parties). In addition, other agreements of the E-Plus Group may require the payment of certain specified amounts or the incurrence of other specified or unspecified liabilities in case of the occurrence of a change of control event. The implementation of the Transaction qualifies as a change of control in the above mentioned sense. In addition, certain agreements with wholesale partners contain restrictions on entering into similar agreements with certain specified competitors of the respective wholesale partners (including wholesale partners of Telefónica Deutschland). If, in such situation, the E-Plus Group was unable to obtain a waiver of such termination right, payment claim or contractual restriction, the change of control provision could lead to the loss of significant contractual rights, such as restrictions in actions *vis-à-vis* contractors, partners and vendors or in voting rights and benefits or the termination of joint venture or licensing agreements. Furthermore, the combination of the businesses of Telefónica Deutschland and the E-Plus Group could prevent the New Group from renewing its existing contracts with wholesale partners, suppliers or service providers at adequate terms due to the fact that wholesale partners, suppliers or service providers could object to the combination based on competitive or other reasons which could have a material adverse effect on the New Group's business, financial condition and results of operations.

- ***The structure of the Transaction could lead to the liability of the Company for tax liabilities of KPN Mobile Germany and liabilities under shareholder loans between KPN Mobile Germany on the one hand and KPN and/or companies affiliated with KPN on the other hand***: The restructuring of New E-Plus KG prior to closing of the Transaction included measures such as the corporate restructuring and merger of subsidiaries as well as the spin-off of all assets and certain liabilities of KPN Mobile Germany (formerly: E-Plus Mobilfunk GmbH & Co. KG) to a new holding company (founded under the name E-Plus Transition GmbH & Co. KG and subsequently renamed E-Plus Mobilfunk GmbH & Co. KG, *i.e.*, New E-Plus KG). All shareholder loans existing between KPN Mobile Germany on the one side and KPN and companies affiliated with KPN on the other side, as well as all tax liabilities of KPN Mobile Germany relating to time periods prior to January 1, 2014, were contractually excluded from this spin-off and remain with KPN Mobile Germany. The same applies to a potential statutory liability of KPN Mobile Germany as a result of a previous spin-off from E-Plus Mobilfunk Geschäftsführungs GmbH. However, according to the German Transformation Act, New E-Plus KG is still (additionally) liable for these liabilities provided that these liabilities become due within a period of five years after the effectiveness of the spin-off. KPN Mobile Germany undertook in the spin-off agreement and KPN undertook in the SPA to indemnify New E-Plus KG against such liabilities. However, in case KPN Mobile Germany and KPN fail to provide such indemnification in full or in part, New E-Plus KG and consequently the Company would still be liable for these liabilities.

In addition, other risks and unexpected problems could arise that we cannot currently assess and that, as in the case of the occurrence of one of the aforementioned risks, could cause the combination of both businesses to be more difficult, time consuming and expensive than anticipated, resulting in a material adverse effect on our business, financial condition and results of operations.

RISKS RELATED TO OUR RELATIONSHIP WITH TELEFÓNICA, S.A.

Telefónica, S.A. continues to exercise considerable influence over us and our operations, and the interests of Telefónica, S.A. may conflict with those of other shareholders of the Company.

As of the date of this Prospectus, Telefónica, S.A. indirectly owns 76.83% of the shares in the Company. The shareholdings of Telefónica, S.A. immediately following the closing of the Transaction will depend on the extent to which Telefónica, S.A., Telefónica Germany Holdings Limited or any of their affiliates will participate in the Offering. Assuming that Telefónica, S.A.'s indirect shareholding in the Company will only be increased by the exercise of statutory subscription rights within the Rights Offering and by the acquisition of 4.4% of the shares in the Company by Telefónica, S.A. acting through its wholly-owned subsidiary Telefónica Germany Holdings Limited from KPN pursuant to the SPA, and no further shares in the Company will be acquired by any company of Telefónica Group in the Offering, Telefónica, S.A.'s indirect shareholding will amount to 62.1% whereas KPN Mobile Germany will own 20.5% of the shares in the Company immediately upon the closing of the Transaction. Telefónica, S.A. or Telefónica Germany Holdings Limited may at its sole discretion also decide to increase its shareholding further by acquiring additional shares in the Offering.

In addition, on the first anniversary of the closing of the Transaction, Telefónica, S.A., based on a call option to be granted by KPN Mobile Germany, will further be entitled to acquire through its wholly-owned subsidiary Telefónica Germany Holdings Limited additional shares in the Company corresponding to up to 2.9% of the Company's total share capital issued and outstanding following the consummation of the Offering and the issuance of the Consideration Shares. Should Telefónica, S.A., acting through its wholly-owned subsidiary Telefónica Germany Holdings Limited, exercise the call option in total, Telefónica, S.A. would indirectly own 65.0% of the shares in the Company (KPN Mobile Germany's shareholding would then decrease to 17.6%). In addition, under the SPA for a period of five years from the closing of the Transaction, Telefónica, S.A. or any company of the Telefónica Group is entitled to acquire shares in the Company held by KPN if and to the extent KPN's (direct or indirect) shareholdings, together with certain other parties' such as major KPN shareholders' shareholdings, in the Company exceed 22.6% of the then current share capital of the Company. Telefónica, S.A. also has a right of first offer, which may be assigned to any company of the Telefónica Group, to acquire any shares in the Company that KPN or its subsidiaries intend to sell via a private securities transaction relating to at least 3% of the then current total share capital of the Company.

The Company's articles of association provide that resolutions may be adopted by a simple majority of votes cast, unless higher thresholds are required by law. Telefónica, S.A. has, and upon the closing of the Transaction will continue to have, the indirect simple voting majority necessary to exercise considerable influence over us, including the adoption of all resolutions of the general shareholders' meeting requiring a simple majority of votes cast and depending on the overall shareholder attendance at the general shareholders' meetings and the voting behavior of these shareholders attending such meeting also resolutions of the general shareholders' meeting requiring qualified majorities. Such resolutions include the election and removal of the shareholders' representatives on the supervisory board (who elect management board members), any proposed capital increase or issuance of convertible bonds and similar instruments, amendments to our articles of association, dividend distribution, corporate mergers and demergers, and sales involving all or nearly all of the Company's assets. Notwithstanding legal restrictions from German law on stock corporations, Telefónica, S.A. is also able to exercise considerable influence on our business and strategy. The interests of Telefónica, S.A. may conflict with the interests of other shareholders.

We may have conflicts of interests with Telefónica Group companies.

Notwithstanding certain restrictions stemming from German law on stock corporations, Telefónica, S.A. can, as our controlling shareholder, exercise considerable influence over our operations and business strategy. Telefónica, S.A. also owns controlling equity interests in other companies within the telecommunications industry. Telefónica, S.A. therefore already competes with us to a certain extent. As the telecommunications industry continues to consolidate and converge, other companies within the Telefónica Group may begin to compete with us. Due to the fact that we are a member of the Telefónica Group, business activities and strategies of individual Telefónica Group companies may result in conflicts of interest. When conflicts of interest arise, Telefónica, S.A., as our ultimate parent company, and the respective Telefónica Group companies must address and resolve such conflicts, balancing the conflicting interest of the Telefónica Group to resolve conflicts of interest against one of the parties concerned. The demarcation between the activities of Telefónica, S.A. and its other Telefónica Group members on the one hand and our activities on the other hand may have a material adverse effect on our business, financial condition and results of operations.

We are dependent on Telefónica Group for essential services. Failure to renew existing service agreements with our parent company, Telefónica, S.A., at all or under mutually favorable terms, could adversely affect our business, financial condition and results of operations.

Telefónica Group companies provide us with, among other things, the valuable licenses of Telefónica and the O_2 brand, the ability to source network equipment under the Telefónica Group's global purchasing contracts and access to premium devices and cost benefits from shared services and functions at attractive prices.

Telefónica Group companies provide us with certain services and resources that are necessary for our operations and to maintain service quality levels. We rely on these to support our business activities and to help us remain competitive.

Due to the significant control by Telefónica, S.A. of the Company (due to various inter-company agreements and Telefónica, S.A. being the ultimate shareholder), both companies form a *de facto* group (*faktischer Konzern*) pursuant to the AktG. Telefónica, S.A. is regarded as the controlling company and the Company as the controlled company. Pursuant to Section 311 AktG, Telefónica, S.A. as controlling company may use its influence on the Company to induce it to act to its disadvantage. If any such disadvantageous measures are taken, the Company's rights for compensation are limited to financial remedy. In addition, Telefónica, S.A.'s interest as a shareholder may conflict with our interests. Furthermore, any negative influences exerted on Telefónica, S.A. may also have a negative impact on us.

We have historically relied on our ultimate holding company, Telefónica, S.A., and its subsidiaries in connection with the provision of certain services to us. In particular, we have entered into several intercompany agreements relating to the provision of management services by Telefónica Group entities in the Netherlands, United Kingdom and Spain, agreements for the use of the Telefónica and O_2 brands in Germany, cost sharing arrangements in relation to areas of innovation, an agreement for wholesale roaming services, agreements for technology charges and an agreement for human resource-related services. We participate in the procurement process of Telefónica Group and interact with subsidiaries of Telefónica Group in connection with large multinational business customers. We also make payments to Telefónica Group's entities in relation to insurance premiums and we have entered into loan agreements with Telefónica Group entities as lenders. Any termination of or failure to renew (or renew at comparable terms) of our existing agreements in terms of provision of services could have a material adverse effect on our business, financial condition and results of operations.

In addition, we participate in the cash management system used by the Telefónica Group under deposit and cash management agreements. As of June 30, 2014, Telefónica Deutschland's receivables under the deposit and cash management agreements amounted to €999 million. Based on these agreements, the cash surplus available in our bank accounts which are included in the cash pool is transferred to master bank accounts held by a Telefónica Group finance subsidiary which also includes cash balances of other Telefónica Group entities. Any claims for the repayment of deposits made under the deposit and cash management agreements can be off-set against liabilities under loans granted to us by Telfisa Global B.V. ("**TGB.V.**"), including, in case of OHG, the existing loan facility with an outstanding amount at the date of the Prospectus of €725 million, granted by TGB.V. on September 12, 2012, subject only to the general legal rules for the set-off of claims. In addition, our remaining repayment claims under the deposit and cash management agreements may not be fully recoverable if Telefónica, S.A. or any of the other participating Telefónica Group companies defaults. The occurrence of any of the aforementioned risks could have a material adverse effect on our business, financial condition and results of operations.

We license the use of our primary brand O_2 from the Telefónica Group and could be limited in our usage by the terms of the license agreement or for any other reason.

We currently market the vast majority of our products and services under the O_2 brand and intend to continue to do so in the future. The O_2 brand has significant positive brand recognition amongst its suppliers, customers and employees. We license the use of the O_2 brand from the Telefónica Group. Rights to use the O_2 brand are provided under a license agreement together with a group cost sharing agreement, both dated October 15, 2007 and amended on August 29, 2012, with O2 Holdings Limited, the owner of the brand rights and an entity in the Telefónica Group. The term of the license is indefinite, but it may be terminated for good cause, including if we experience a hostile take-over. If we were unable to continue to use the O_2

brand due to a termination of the license or for any other reason, significant time, effort and resources would be required to establish a new brand identity. This could cause a material adverse effect on our business, financial condition and results of operations.

Our relationship with Telefónica Group could limit our ability to work with Telefónica Group's competitors.

For strategic reasons, we may be prevented from having commercial relationships with Telefónica Group's competitors. It is also possible that such competitors may choose not to enter into commercial relationships with us. Contractual undertakings of Telefónica Group may also restrict us in competing with some of Telefónica Group's international partners. This could reduce our opportunity for profitability.

Our market image is influenced by Telefónica Group's image.

Our corporate name clearly identifies us as a member of Telefónica Group. Negative publicity or problems associated with Telefónica Group could be detrimental to our image.

RISKS RELATED TO THE OFFERING, THE SUBSCRIPTION RIGHTS AND THE NEW SHARES

Sales of a large volume of shares in the Company by major shareholders could cause significant downward pressure on the Company's share price.

The price of the Company's shares could be significantly negatively impacted by a potential sale of shares by the Company's major shareholders, specifically Telefónica, S.A., and/or by other shareholders having a considerable stock portfolio. There is no assurance that the major shareholders will continue to hold their shares in the Company. Moreover, a decline in the price of the Company's shares resulting from sales by one or more major shareholders could make it more difficult for the Company to issue new shares at the time and price the Company's management board deems reasonable.

Future capitalization measures could lead to substantial dilution, i.e., a reduction in the value of the shares and the control rights, of existing shareholders' interests in the Company or adversely affect our share price.

We may require additional capital in the future to finance our business operations and growth or to repay our debts. Both the raising of additional equity through the issuance of new shares and the potential exercise of conversion or option rights by the holders of convertible bonds or bonds with warrants, which may be issued in the future, may dilute shareholder interests or could adversely affect our share price. Additionally, the acquisition of other companies or investments in companies in exchange for newly issued shares of the Company, as well as the exercise of stock options by our employees in the context of future stock option programs or the issuance of shares to employees in the context of future employee stock participation programs could lead to such dilution or have an adverse effect on our share price.

The market price for the Company's shares is volatile and the subscription price could exceed the market price.

The market price of the Company's shares has been volatile in the past and might continue to be volatile and characterized by fluctuating trading volumes in the future. Securities markets in general have been extremely volatile in the past. The market price of the Company's shares may also be subject to significant fluctuations and could decline considerably in spite of positive business developments. The market price of the Company's shares may experience major fluctuations due to, in particular, changes in its actual or projected results of operations or those of its competitors, changes of earnings projections or failure to meet investors' and analysts' earnings expectations, investors' evaluations of the success and effects of the strategy described in this Prospectus, as well as the evaluation of the related risks, changes in general economic conditions, changes in shareholders and other factors. Additionally, general fluctuations in share prices could lead to pricing pressures on the Company's shares, even where there could not necessarily be a reason for this in its business, financial condition or results of operations or business or earnings outlook. Furthermore, the possibility exists that investors with short-term investment goals have already acquired, or will acquire, large blocks of shares, which would enable such investors to deliberately affect the Company's share price. Investors should therefore be aware that the subscription price might exceed the current market price. If investors decide to exercise their subscription rights, they bear the risk that they would pay a higher price for a share than they would pay if they purchased it on the stock exchange.

Trading of Subscription Rights might not develop, and Subscription Rights could be subject to stronger price fluctuations than the Company's shares.

The Company plans to have the Subscription Rights traded during the period between September 10, 2014 and September 19, 2014 (including both dates) on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange. There will be no trading of Subscription Rights on any other stock exchange. It is not certain that active trading in the Subscription Rights will develop on the Frankfurt Stock Exchange during this period or that sufficient liquidity will exist during the period in which the Subscription Rights are traded. In conformity with German market practice, the price of the Subscription Rights will be determined only once per day. The market price of the Subscription Rights depends on the performance of the Company's shares, but could also be subject to significantly stronger price fluctuations than the Company's shares. Shareholders may, therefore, not be able to sell their Subscription Rights for the prices they expect or at all.

The investments of shareholders who fail to participate in this Offering will be diluted considerably.

Subscription Rights not exercised by September 23, 2014, inclusive, will lapse and become void and worthless. If a shareholder fails to exercise his subscription rights granted to him by virtue of his status as a shareholder by that time, his proportional investment in the Company's overall capital could decrease, with the exact amount of such dilution depending on the total amount of subscribed Offer Shares. If he also fails to sell his subscription rights during the rights trading period, the shareholder will forego any return for the unexercised and unsold Subscription Rights.

Foreign legal provisions could prevent certain shareholders in foreign jurisdictions from subscribing to the shares.

The Offer Shares are publicly offered only to shareholders in Germany and Luxembourg, and, in particular, are not publicly offered to shareholders in the United States of America. Therefore, there is no guarantee that acceptance of the Offering in countries other than Germany and Luxembourg is compatible with the legal system in place in those countries. Therefore, shareholders in foreign jurisdictions may be prevented from participating in the Offering. In such case, such shareholders' relative shareholding in the Company's share capital will decrease.

The rights of shareholders in a German company may differ from the rights of shareholders in companies organized under the laws of other jurisdictions.

The Company is organized under the laws of Germany. The rights of shareholders in a German stock corporation are based on its articles of association and applicable laws and regulations and may differ from the rights of share-holders of stock corporations organized under the laws of other jurisdictions. As such, it may be difficult or impossible to enforce rights against the Company that may be common in other jurisdictions.

Investors whose reference currency is not the euro may be exposed to exchange rate risks when investing in the Company's shares.

The Company's equity capital is denominated in euro and all its dividends are paid in euros. Investors having a reference currency other than the euro may suffer adverse effects if the euro depreciates against such reference currency. Moreover, they may also incur additional transaction costs upon the conversion from euro into another currency and vice versa.

Our ability to pay dividends in the future depends on several factors.

The Company is a holding company with no significant assets other than direct and indirect interests in its subsidiaries through which it conducts its operations. Therefore, its ability to pay dividends mainly depends on the receipt of sufficient funds from its subsidiaries. Additionally, the Company's future payment of dividends, if any, and the amounts and timing thereof, will depend on a number of factors, including the profit for the year, historical and forecasted free cash flow and liquidity, distributable reserves available, benchmarking against other telecommunication companies, the current and expected leverage and financial condition of the Company, the general economic and business conditions, any applicable legal and regulatory requirements and such other factors as our management board may deem relevant. There can be no assurances that the Company's or its subsidiaries' performance will allow us to pay dividends consistent with our dividend policy and financing policy. In particular, our ability to pay dividends may be impaired if any of the risks described in this section "*Risk Factors*" were to occur. Furthermore, our dividend policy is subject to change as our management board will revisit our dividend policy from time to time. There can be no assurance that in any given year a dividend will be proposed or declared.

Should the Underwriters be unable to place the Offer Shares pursuant to the Offering, this may exert pressure on the Company's share price.

The Underwriters have, subject to certain conditions, undertaken to acquire the Offer Shares resulting from the capital increase against contribution in cash and offer them to the shareholders for subscription. If the Offer Shares are not fully subscribed by the current shareholders or if any remaining unsubscribed Offer Shares cannot be sold to interested investors, it can be assumed that the Underwriters will attempt to sell their remaining Offer Shares in the Company as quickly as possible. Such a sale or the expectation that such a sale could take place may have an adverse effect on the Company's share price. Because the shares from the capital increase may not to be fully subscribed for by existing shareholders or acquired by other interested investors if the Company's share price is close to, or already lower than, the subscription price, any such sale of Telefónica Deutschland's shares could have an adverse effect on the Company's share price.

The Underwriters involved in this Offering have the right to withdraw from the underwriting agreement under certain circumstances. Should the Offering not be conducted due to such a withdrawal, the Subscription Rights will expire and be rendered worthless.

The Company and the Underwriters have entered into an underwriting agreement, pursuant to which the Underwriters are obligated to subscribe for the Offer Shares and offer them to the shareholders for purchase. Pursuant to the provisions of the underwriting agreement, the Underwriters have, under certain circumstances, the right to prematurely withdraw from the obligation to subscribe for the Offer Shares or to refrain from conducting the Offering. The circumstances that would permit them to do so include, in particular, material adverse changes in the net assets, financial position and results of operations of the Telefónica Deutschland, unless such changes are described in the Prospectus; the imposition of material limitations on stock exchange trading or banking business; the outbreak or escalation of hostilities, other disasters or crises that have or could be expected to have material adverse effects on the financial markets and a material adverse change in national or international financial, political, industrial or economic conditions and laws in Germany, the United Kingdom or the United States. In the event that the Underwriters should withdraw from the underwriting agreement prior to the registration of the implementation of the capital increase in the commercial register, the Offering would not be conducted and the Subscription Rights would lapse and become worthless. In such case, investors would not be entitled to the delivery of the Offer Shares. If investors had engaged in so-called short selling, they would bear the risk of being unable to fulfil their obligations by delivering the Offer Shares. The unwinding of Subscription Rights trading transactions by the parties brokering the Subscription Rights transactions would not take place in such case. Investors who had acquired Subscription Rights through the stock exchange would sustain a corresponding loss, because if the Offering was cancelled, Subscription Rights transactions could not be unwound through the stock exchange.

GENERAL INFORMATION

RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

Telefónica Deutschland Holding AG, Munich (the "**Company**" or the "**Issuer**", and collectively with its direct and indirect subsidiaries and joint operations, "**Telefónica Deutschland**" or "**we**"), along with Citigroup Global Markets Limited, London ("**Citigroup**"), HSBC Trinkaus & Burkhardt AG, Duesseldorf ("**HSBC**"), Morgan Stanley & Co. International plc., London ("**Morgan Stanley**"), and UBS Limited, London ("**UBS Investment Bank**") (each a "**Joint Global Coordinator**" and, collectively, the "**Joint Global Coordinators**"), and Merrill Lynch International, London (acting under the marketing name BofA Merrill Lynch) ("**BofA Merrill Lynch**"), and J.P. Morgan Securities plc, London ("**J.P. Morgan**"; the Joint Global Coordinators, BofA Merrill Lynch and J.P. Morgan each a "**Joint Bookrunner**" and, collectively, the "**Joint Bookrunners**"), as well as Bayerische Landesbank, Munich ("**Bayern LB**"), Société Générale, Paris ("**Société Générale Corporate & Investment Banking**"), Banco Bilbao Vizcaya Argentaria S.A., Bilbao ("**BBVA**"), COMMERZBANK Aktiengesellschaft, Frankfurt ("**COMMERZBANK**"), BNP Paribas, Paris ("**BNP Paribas**"), UniCredit Bank AG, Munich ("**UniCredit Bank AG**"), Banco Santander, S.A., Santander ("**Banco Santander**"), Mediobanca – Banca di Credito Finanziario S.p.A., Milan ("**Mediobanca**") (Bayern LB, Société Générale Corporate & Investment Banking, BBVA, COMMERZBANK, BNP Paribas, UniCredit Bank AG, Banco Santander and Mediobanca each a "**Co-Lead Manager**" and collectively the "**Co-Lead Managers**"; the Co-Lead Managers together with the Joint Bookrunners, the "**Underwriters**"), assume responsibility for the content of this Prospectus pursuant to Section 5(4) of the German Securities Prospectus Act (*Wertpapierprospektgesetz,* "**WpPG**") and declare that the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and that no material circumstances have been omitted.

If any claims are asserted before a court of law based on the information contained in this Prospectus, the investor appearing as plaintiff may have to bear the costs of translating the Prospectus prior to the commencement of the court proceedings pursuant to the national legislation of the member states of the European Economic Area ("**EEA**").

The information in this Prospectus will not be updated subsequent to the date hereof except for any significant new event or significant error or inaccuracy relating to the information contained in this Prospectus that may affect an assessment of the securities and occurs or comes to light following the approval of the Prospectus, but before the completion of the public offering or admission of the securities to trading, whichever is later. These updates must be disclosed in a prospectus supplement in accordance with Section 16(1), sentence 1 of the WpPG.

PURPOSE OF THIS PROSPECTUS

This Prospectus relates to (i) the public offering of 1,116,945,400 Offer Shares as well as (ii) the admission to trading of the New Shares, including (a) the Offer Shares and (b) 740,664,193 Consideration Shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange and on the sub-segment of the regulated market with additional post-admission obligations (Prime Standard).

ABBREVIATIONS FOR TELEFÓNICA DEUTSCHLAND AND TELEFÓNICA GROUP COMPANIES

The following table provides an overview of abbreviations used in this Prospectus relating to entities of Telefónica Deutschland and Telefónica Group companies:

Name of the company	Abbreviation
Group 3G UMTS Holding GmbH[1]	G3G
Telefónica Germany GmbH & Co. OHG[2]	OHG
Quam GmbH[1]	Quam
Telfisa Global B.V.[1]	TGB.V.
Telefónica Global Roaming GmbH[1]	TGR
Telefónica Global Services GmbH[1]	TGS

1 Telefónica Group

2 Telefónica Deutschland

FORWARD-LOOKING STATEMENTS

This Prospectus contains various forward-looking statements that reflect management's current views with respect to future events and anticipated financial and operational performance. A forward-looking statement is any statement that does not relate to historical facts or events as of the date of this Prospectus. Statements made using words such as "predicts", "forecasts", "plans", "endeavors" or "expects" may be an indication of forward-looking statements. Forward-looking statements appear in a number of places in this Prospectus, including, without limitation, in the sections entitled "*Risk Factors*", "*Dividend Policy and Earnings per Share*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Key Factors Affecting Our Performance and the Results of Our Operations*", "*Industry Overview*", "*Business*", "*Regulation*", "*Acquisition of the E-Plus Group*" and "*Recent Developments and Outlook*" and include, among other things, statements relating to:

- our strategy, outlook and growth prospects;
- our operational and financial targets and dividend policy;
- our liquidity, capital resources and capital expenditure;
- our ongoing investments;
- the expected synergies to be realized from the Transaction;
- the expectations as to future growth in demand for our products and services;
- general economic trends and trends in the markets and industries in which we operate;
- the impact of regulations on us and our operations;
- the competitive environment in which we operate; and
- the outcome of legal proceedings.

Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurances that they will materialize or prove to be correct. Because these statements involve risks and uncertainties, the actual results or outcome could differ materially from those set forth in the forward-looking statements as a result of, among others:

- changes in international and local economic, political, business, industry (including regulatory) and tax conditions;
- changes in underlying consumer behavior;
- changes in technology;
- our ability to successfully develop and expand the range of products and services offered;
- our ability to realize synergies from the Transaction;
- our ability to retain or replace key personnel; or
- changes in our business strategy, development and investment plans.

Accordingly, investors are strongly advised to read the sections entitled "*Risk Factors*", "*Dividend Policy and Earnings per Share*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Key Factors Affecting Our Performance and the Results of Our Operations*", "*Industry Overview*", "*Business*", "*Regulation*", "*Acquisition of the E-Plus Group*" and "*Recent Developments and Outlook*", which include more detailed descriptions of factors that might have an impact on Telefónica Deutschland's business development and the markets in which it operates.

In light of these uncertainties and assumptions, it is also possible that the future events mentioned in this Prospectus might not occur. In addition, the forward-looking estimates and forecasts reproduced in this Prospectus from third-party reports could prove to be inaccurate (see "*– Information Derived From Third Parties*").

Neither the Company nor the Underwriters assume any obligation to update such forward-looking statements or to adjust them to reflect future events or developments, save as required by law (in particular, their obligation to publish supplements pursuant to Section 16(1) WpPG). Accordingly, prospective investors are cautioned not to place undue reliance on any of the forward-looking statements contained herein.

PRESENTATION OF FINANCIAL INFORMATION, NON-IFRS FINANCIAL DATA AND CURRENCY

Unless otherwise indicated, financial information contained in this Prospectus has been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("**IFRS**").

This Prospectus contains:

- our audited combined financial statements as of and for the years ended December 31, 2011, 2010 and 2009, prepared in accordance with IFRS, taking into account the basis of preparation as set out in Note 1 to these audited combined financial statements (the "**Combined Financial Statements 2009-2011**");
- our audited consolidated financial statements as of and for the year ended December 31, 2012, prepared in accordance with IFRS and the additional requirements of German commercial law pursuant to Section 315a(1) HGB (the "**Consolidated Financial Statements 2012**");

- our audited consolidated financial statements as of and for the year ended December 31, 2013, prepared in accordance with IFRS and the additional requirements of German commercial law pursuant to Section 315a(1) HGB (the "**Consolidated Financial Statements 2013**");
- our unaudited interim condensed consolidated financial statements as of and for the six months ended June 30, 2014, prepared in accordance with IFRS on interim financial reporting (International Accounting Standard ("**IAS**") 34) (the "**Unaudited Interim Condensed Consolidated Financial Statements**");
- the Company's audited annual financial statements as of and for the year ended December 31, 2013, prepared in accordance with HGB;
- the Company's pro forma consolidated financial information for the year ended December 31, 2013 and as of and for the six months ended June 30, 2014;
- audited consolidated financial statements of E-Plus Mobilfunk GmbH & Co. KG (today: KPN Mobile Germany) as of and for the year ended December 31, 2013, prepared in accordance with IFRS (the "**E-Plus Consolidated Financial Statements 2013**"); and
- unaudited interim condensed consolidated financial statements of KPN Mobile Germany GmbH & Co. KG as of and for the six months ended June 30, 2014, prepared in accordance with IFRS on interim financial reporting IAS 34 (the "**E-Plus Unaudited Interim Condensed Consolidated Financial Statements**").

The Consolidated Financial Statements 2012 include the assets and liabilities, and the Consolidated Financial Statements 2013 as well as the Consolidated Financial Statements 2012 include the income and expenses and cash flows of the entities G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its indirectly held 40% interest in Adquira España S.A., until October 1, 2012, when these entities ceased to be direct and indirect subsidiaries or associates of the Company as part of our pre-IPO restructuring. According to IFRS 5 "Non-current assets held for sale and discontinued operations", the income and expenses and cash flows of these sold entities including the gain on the disposal of these sold entities are separately disclosed in the consolidated income statement of the Consolidated Financial Statements 2013 as well as the Consolidated Financial Statements 2012 as profit after tax for the year from discontinued operations and in the consolidated statement of cash flows of the Consolidated Financial Statements 2013 as well as the Consolidated Financial Statements 2012 as cash flow from operating activities from discontinued operations, cash flow from investing activities from discontinued operations and cash flows from financing activities from discontinued operations, respectively. According to IFRS 5 "Non-current assets held for sale and discontinued operations", the assets and liabilities of these sold entities are not separately disclosed in the comparative financial information as of December 31, 2011 in the consolidated statement of financial position of the Consolidated Financial Statements 2012.

The Combined Financial Statements 2009-2011 do not include the assets and liabilities, income and expenses and cash flows of the following entities: G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its indirectly held 40% interest in Adquira España S.A. sold by us with effect on October 1, 2012.

Where financial information in this Prospectus is labelled "audited", this means that it was taken from the Combined Financial Statements 2009-2011, the Consolidated Financial Statements 2012 or the Consolidated Financial Statements 2013 and the E-Plus Consolidated Financial Statements 2013. The label "unaudited" is used in this Prospectus to indicate financial information that was derived from the Consolidated Financial Statements 2012 or from the Consolidated Financial Statements 2013, or taken or derived from our Unaudited Interim Condensed Consolidated Financial Statements, the E-Plus Unaudited Interim Condensed Consolidated Financial Statements as well as from the Company's accounting records or internal management reporting systems.

OIBDA, OIBDA margin, OIBDA before Group Fees, OIBDA before Group Fees margin, capital expenditures, net financial debt, net working capital, ARPU and certain other items included herein are not recognized measures in accordance with IFRS and investors should not consider such items as an alternative to the applicable IFRS measures. We have provided OIBDA, OIBDA margin, OIBDA before Group Fees, OIBDA before Group Fees margin, ARPU and other information in this Prospectus because we believe they provide investors with additional information to measure our performance. Our use of the terms OIBDA, OIBDA margin, OIBDA before Group Fees, OIBDA before Group Fees margin, net working capital and ARPU varies from others in our industry and should not be considered as an alternative to the result for the respective year or period, cash flow from operating activities, revenues or any other performance measures derived in accordance with IFRS as measures of operating performance or to cash flows as measures of liquidity. OIBDA, OIBDA margin, OIBDA before Group Fees, OIBDA before Group Fees margin, capital expenditures and ARPU have important limitations as analytical tools and investors should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS. We believe OIBDA, OIBDA margin, OIBDA before Group Fees and OIBDA before Group Fees margin facilitate operating performance comparisons from period to period and company to company by eliminating potential differences caused by variations in tax positions (such as the impact of changes in effective tax rates or deferred taxes on periods or companies), amortization and depreciation and certain other items. Because other companies may not calculate OIBDA and OIBDA margin identically to us, our presentation of OIBDA and OIBDA margin may not be comparable to that of other companies. However, OIBDA and OIBDA margin are commonly used terms to compare the operating activities of telecommunications companies. For a reconciliation of OIBDA, OIBDA margin, OIBDA before Group Fees and OIBDA before Group Fees margin to our operating result see "*Selected Consolidated Financial Information*".

Amounts expressed in this Prospectus in "**EUR**", "**€**" or "**euro**" refer to the legal currency of Germany. The designations "**USD**", "**U.S. dollar**" or "**US$**" refer to the legal currency of the United States. Where figures are given in another currency, the particular figure is always expressly labeled with the name of the relevant currency or the currency symbol in accordance with ISO 4217.

EXCHANGE RATE INFORMATION

The following table sets forth, for the periods and dates indicated, the high, low, average and period-end Bloomberg Generic (BGN) bid rates expressed as U.S. dollars per €1.00. We make no representation that the euro or U.S. dollar amounts referred to in this Prospectus have been, could have been or could, in the future, be converted into U.S. dollars or euros, as the case may be, at any particular rate, if at all.

Period	**U.S. dollars per €1.00**			
Year ended December 31,	**High**	**Low**	**Average**	**End**
2009	1.5133	1.2528	1.3945	1.4301
2010	1.4511	1.1922	1.3265	1.3380
2011	1.4830	1.2906	1.3925	1.2958
2012	1.3457	1.2059	1.2859	1.3191
2013	1.3801	1.2780	1.3284	1.3742
Month				
January 2014	1.3761	1.3486	1.3622	1.3486
February 2014	1.3802	1.3518	1.3669	1.3802
March 2014	1.3934	1.3733	1.3825	1.3768
April 2014	1.3886	1.3704	1.3810	1.3866
May 2014	1.3927	1.3590	1.3732	1.3634
June 2014	1.3692	1.3531	1.3600	1.3692
July 2014	1.3679	1.3390	1.3537	1.3390
August 2014	1.3427	1.3132	1.3314	1.3132

On September 1, 2014, the Bloomberg Generic (BGN) bid rate was US$1.3128 to €1.00.

The above rates may differ from the actual rates used in the preparation of the combined financial statements, consolidated financial statements and other financial information appearing in this Prospectus.

NOTICE REGARDING NUMERICAL DATA AND TECHNICAL TERMS

Some figures (including percentages) in this Prospectus have been commercially rounded. Such rounded figures and percentages do not always add up exactly to 100% or to totals or subtotals contained in tables or elsewhere in this Prospectus. In addition, totals or subtotals in the tables may vary slightly from unrounded figures given in other places in this Prospectus due to commercial rounding.

A glossary with the technical terms and abbreviations used in this Prospectus may be found at the end of the Prospectus.

INFORMATION DERIVED FROM THIRD PARTIES

This Prospectus contains or refers to numerical data, market data, analyst reports, and other publicly available information about our industry and estimates that we have made based largely on published market data or on numerical data derived from publicly available sources.

In particular, the following sources are cited in this Prospectus:

- Analysys Mason, "North America telecoms market-2014 interim forecast 2013-2018", March 2014;
- Analysys Mason, "Telecoms Market Matrix Western Europe 1Q 2014", July 2014;
- Analysys Mason, "Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019", July 2014;
- Analysys Mason, "Wireless network traffic worldwide: forecasts and analysis 2013-2018", October 2013;
- Economist Intelligence Unit ("**EIU**"), July 2014;
- Euromonitor International, statistics on consumer expenditure, July 21, 2014 ("**Euromonitor**");
- European Commission, "Consumer Confidence Indicator Germany", Bloomberg Data, June 2014;
- European Commission, "MEMO/12/316", http://ec.europa.eu dated May 10, 2012;
- Eurostat, "Population at January 1 (in persons)", http://epp.eurostat.ec.europa.eu, dated March 26, 2014;
- Eurostat, "Population density (inhabitants per km2)", http://epp.eurostat.ec.europa.eu, dated March 26, 2014;

- FNA, consultation document of the "Identification of post-2016 demand for spectrum, in the 900 MHz and 1800 MHz frequency bands for wireless access (Project 2016) BK1-11/003", dated May 2012;
- FNA, press release, "Coverage requirement in 800 MHz band fulfilled in Saxony-Anhalt and Thuringia", http://www.bundesnetzagentur.de, http://www.bundesnetzagentur.de, dated June 25, 2012;
- FNA, publication "BK 1a-09/002", http://www.bundesnetzagentur.de, dated October 22. 2010;
- German Federal Office of Statistics (*Statistisches Bundesamt*), "Key Figures Germany", https://www.destatis.de, April 10, 2014;
- German Federal Office of Statistics (*Statistisches Bundesamt*), press release "*Erstmals mehr als 16 Millionen Menschen mit Migrationshintergrund in Deutschland*", https://www.destatis.de, July 14, 2010;
- mm customer strategy GmbH, "Convergence Study", September 2012; and
- Published financial information of Deutsche Telekom and Vodafone (quarterly and annual reports as of June 30, 2014 and December 31, 2013, respectively) as well as the E-Plus Group's press releases on second quarter in 2014 and the financial year 2013 ("**Published Information by MNOs**").

We have accurately reproduced such third-party information and, as far as we are aware and are able to ascertain from information published by these third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Investors are nevertheless advised to consider the information derived from third parties with caution. Market studies are frequently based on information and assumptions that may not be exact or appropriate, and their methodology is by nature forward looking and speculative. This Prospectus also contains estimates made by us based on third-party market data, which in turn is based on published market data or figures from publicly available sources.

Neither we nor the Underwriters have verified the figures, market data or other information on which third parties have based their studies or verified the external sources on which our own estimates are based. Neither we nor the Underwriters can therefore guarantee or assume responsibility for the accuracy of the information from third-party studies presented in this Prospectus or for the accuracy of the information on which these estimates are based. The providers of the third-party data and studies cited in this report do not guarantee the accuracy or reliability of the information provided, nor do they accept liability for any investment decision based on such information.

This Prospectus also contains estimates of market data and information derived therefrom that cannot be gathered from publications by market research institutions or any other independent sources. Such information is based on our own internal estimates. In many cases there is no publicly available information on such market data, for example from industry associations, public authorities or other organizations and institutions. We believe that our estimates of market data and information derived therefrom are helpful in order to give investors a better understanding of the industry in which we operate as well as of our position within this industry. Although we believe that our internal market observations are reliable, our own estimates are not reviewed or verified by any external sources. Neither we nor the Underwriters assume any responsibility for the accuracy of the information on which our own estimates are based and any information derived therefrom. Our estimates may deviate from estimates made by our competitors or future statistics by market research institutes or other independent sources.

DOCUMENTS AVAILABLE FOR INSPECTION

For as long as this Prospectus is valid, the following documents, or copies thereof, may be inspected during regular business hours at our offices at Georg-Brauchle-Ring 23-25, 80992 Munich, Germany:

- the Company's articles of association (*Satzung*);
- the Combined Financial Statements 2009-2011;
- the Consolidated Financial Statements 2012;
- the Consolidated Financial Statements 2013;
- the Unaudited Interim Condensed Consolidated Financial Statements;
- the Company's audited annual financial statements as of and for the year ended December 31, 2013, prepared in accordance with HGB;
- the Company's pro forma consolidated financial information for the year ended December 31, 2013 and as of and for the six months ended June 30, 2014;
- the E-Plus Consolidated Financial Statements 2013; and
- the E-Plus Unaudited Interim Condensed Consolidated Financial Statements.

The aforementioned documents will also be available in electronic form for as long as this Prospectus is valid at www.telefonica.de.

Future annual reports and interim reports of us will also be available at our office as well as in electronic form on the aforementioned website and in the electronic company register (*elektronisches Unternehmensregister*) (www.unternehmensregister.de). Information on these websites and information accessible via these websites is neither part of nor incorporated by reference into this Prospectus.

FINANCIAL YEAR AND AUDITORS

The Company's financial year begins on January 1 of a given calendar year and ends on December 31 of that calendar year.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Munich Office, Arnulfstrasse 59, 80636 Munich, Germany ("**EY**"), independent auditors, have audited in accordance with Section 317 of the HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer in Deutschland e.V.,* "**IDW**") our Combined Financial Statements 2009-2011, our Consolidated Financial Statements 2012, our Consolidated Financial Statements 2013, and the annual financial statements of the Company as of and for the year ended December 31, 2013, prepared in accordance with HGB, and issued in each case an unqualified audit opinion. EY is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

ENFORCEMENT OF CIVIL LIABILITIES

The Company is a stock corporation organized under the laws of Germany, and our assets are located primarily outside the United States. In addition, the members of our supervisory board (*Aufsichtsrat*) and the members of our management board (*Vorstand*) are non-residents of the United States whose assets are located primarily outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon us or such persons or to enforce against them or us judgments of the courts of the United States, whether or not predicated upon the civil liability provisions of the federal securities laws of the United States or other laws of the United States or any state thereof. The United States and Germany do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for payment of money rendered by a federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, may not be enforceable, either in whole or in part, in Germany. However, if the party in whose favor such a final judgment is rendered brings a new suit in a competent court in Germany, such party may submit to the German court the final judgment rendered in the United States. Under such circumstances, a judgment by a federal or state court of the United States against us or such persons will be regarded by a German court only as evidence of the outcome of the dispute to which such judgment relates, and a German court may choose to re-hear the dispute. In addition, awards of punitive damages in actions brought in the United States or elsewhere are unenforceable in Germany.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

The Subscription Rights and Offer Shares have not been and will not be registered under the Securities Act and are being offered and sold: (i) in the United States only to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, and (ii) outside the United States in compliance with Regulation S. Prospective purchasers are hereby notified that sellers of Offer Shares may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A. For certain restrictions on resale of the Offer Shares, see "*Selling and Transfer Restrictions*".

Until 40 days after the commencement of the Offering, an offer or sale of the Offer Shares within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made other than in accordance with Rule 144A or pursuant to another available exemption from registration under the Securities Act.

This Prospectus is being furnished by the Company in connection with an offering exempt from, or not subject to, the registration requirements under the Securities Act. In the United States, this Prospectus is being furnished on a confidential basis solely for the purpose of enabling a prospective investor to consider purchasing the particular securities described herein. The information contained in this Prospectus has been provided by the Company and by the other sources identified in this Prospectus. Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents or use of any of the information contained in this Prospectus for any purpose other than considering an investment in the shares in connection with this Offering is prohibited. Each prospective investor, by accepting delivery of this Prospectus, agrees to the foregoing.

THE OFFERING

GENERAL INFORMATION

This Offering relates to 1,116,945,400 Offer Shares of Telefónica Deutschland Holding AG, each Offer Share with a notional value of €1.00 and entitled to full dividend rights for the year starting January 1, 2014.

The Offer Shares derive from the capital increase resolved by the ordinary general shareholders' meeting on May 20, 2014 pursuant to which the Company's share capital is to be increased by up to €3,700,000,000.00 against contribution in cash through the issuance of up to 3,700,000,000 new shares with subscription rights for existing shareholders of Telefónica Deutschland Holding AG. The resolution was registered in the commercial register at the local court (*Amtsgericht*) of Munich on July 10, 2014. Pursuant to the resolution, the statutory subscription right is granted to Company shareholders in such a way that the Offer Shares are subscribed for and acquired by one or more credit institutions at the minimum issue price with a commitment to offer the Offer Shares for subscription to the shareholders at the subscription price (the Rights Offering herein also referred to as "**Subscription Offer**").

By resolution of the management board on September 8, 2014, with consent of the supervisory board on the same date, the number of newly issued Offer Shares was set to 1,116,945,400, to be offered to the shareholders for subscription by way of an indirect subscription right at a ratio of 1 to 1 (one share will give the right to subscribe for one Offer Share) at the subscription price of €3.24 per Offer Share was approved. The implementation of this capital increase is expected to be registered in the commercial register of the local court (*Amtsgericht*) of Munich, Germany, on or about September 19, 2014. Telefónica, S.A. has irrevocably committed to fully subscribe through its wholly-owned subsidiary Telefónica Germany Holdings Limited for issued Offer Shares attributable to its indirect shareholding in the Company (see "*– The Subscription Offer – Commitment of the Principal Shareholder*").

The publication of the Subscription Offer in the German Federal Gazette (*Bundesanzeiger*) and on the website of the Company is expected on or about September 9, 2014.

On September 9, 2014, the Underwriters executed an underwriting agreement with the Company (the "**Underwriting Agreement**"), pursuant to which the Underwriters have undertaken to underwrite the Offer Shares and offer them to the Company's existing shareholders and to holders of Subscription Rights via a public rights offering in Germany and Luxembourg and via a private placement in the United States to QIBs in reliance on the exemption from the registration requirements provided by Rule 144A under the Securities Act, and outside of the United States in offshore transactions in reliance on Regulation S under the Securities Act at the Subscription Price for each Offer Share in accordance with the subscription ratio.

The Offer Shares remaining after completion of the Rights Offering for which Subscription Rights have not been exercised (the "**Rump Shares**") will either (i) be offered by the Underwriters to institutional investors in certain jurisdictions at a price which shall be not less than the Subscription Price (the "**International Offering**" and together with the Rights Offering, the "**Offering**") or (ii) be dribbled-out via sales through stock exchange transactions or otherwise by the Underwriters (the "**Dribble-Out**"). The International Offering will take place outside the United States pursuant to Regulation S under the Securities Act and inside the United States only to QIBs in reliance on the exemption from the registration requirements provided by Rule 144A under the Securities Act. The Dribble-Out will take place solely outside the United States pursuant to Regulation S under the Securities Act.

The completion of the Offering is subject to conditions, including the registration of the implementation of the capital increase against contribution in cash in the commercial register of the local court (*Amtsgericht*) of Munich, Germany, which is expected to occur on or about September 19, 2014. Under certain circumstances, the Offering may be cancelled (for more information see "*– The Subscription Offer*").

Pursuant to the Underwriting Agreement, the Underwriters are obligated to acquire Offer Shares not subscribed for, placed with investors or dribbled-out in the market in the Offering at the Subscription Price.

TIMETABLE

Expected timetable for the Offering:

September 9, 2014	Approval of the Prospectus by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin*)
	Publication of the Prospectus on Telefónica Deutschland Holding AG's website
	Notification of the Prospectus to the Luxembourg Commission for the Supervision of the Financial Sector (*Commission de Surveillance du Secteur Financier – CSSF*)
	Publication of the Subscription Offer in the German Federal Gazette (*Bundesanzeiger*)

September 10, 2014	Booking of Subscription Rights to the accounts of the custodian banks of the Company's shareholders based on the number of shares held or purchased in the evening of September 9, 2014
	Existing Shares quoted "*ex subscription rights*"
	Commencement of the Subscription Period
	Commencement of trading in Subscription Rights
September 18, 2014	Application for admission to trading of the Offer Shares and Consideration Shares on the regulated market of the Frankfurt Stock Exchange and the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) at the latest
September 19, 2014	Registration of the implementation of the capital increase for the Offer Shares with the commercial register of the local court of Munich, Germany, and issuance of one or several global share certificates
	End of trading in Subscription Rights
September 22, 2014	Admission to trading of the Offer Shares 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)
	Publication of results of the Offering pursuant to Section 30b(1) sentence 1 number 2 of the German Securities Trading Act (*Wertpapierhandelsgesetz* – "**WpHG**")
September 23, 2014	End of Subscription Period
September 24, 2014	Potential International Offering
	10:00 a.m. CEST deadline for receipt of the Subscription Price by HSBC as subscription agent
September 25, 2014	Inclusion of Offer Shares in the existing quotation of Telefónica Deutschland Holding AG's shares
	Book-entry delivery of subscribed Offer Shares
	Book-entry delivery of Rump Shares placed in the potential International Offering
October 8, 2014	Registration of the implementation of the capital increase against contribution in kind for the Consideration Shares with the commercial register of the local court of Munich, Germany
	Admission to trading of the Consideration Shares 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)
October 10, 2014	Inclusion of the Consideration Shares in the existing quotation of Telefónica Deutschland Holding AG's shares
	Book-entry delivery of the Consideration Shares

THE SUBSCRIPTION OFFER

The following is an English-language translation of the German-language Subscription Offer. The German-language Subscription Offer is expected to be published on or about September 9, 2014 in the German Federal Gazette (*Bundesanzeiger*):

"Telefónica Deutschland Holding AG

Munich, Germany

(ISIN DE000A1J5RX9 / German Securities Code (WKN) A1J5RX)

Subscription Offer

On May 20, 2014, the ordinary general shareholders' meeting of Telefónica Deutschland Holding AG (the "Company") resolved to increase the share capital of the Company from €1,116,945,400.00 by up to €3,700,000,000.00 against contribution in cash to up to €4,816,945,400.00 by issuing up to 3,700,000,000 new ordinary registered shares with no par value, each such share with a minimum issue price of €1.00 and full dividend rights for the year starting January 1, 2014.

The management board of the Company was authorized, with the consent of the supervisory board of the Company to determine the further details of the capital increase and its implementation, in particular the issuance price pursuant to Section 182(3) AktG, the subscription price (the price at which the new shares shall be offered to existing shareholders and holders of subscription rights) and the conditions for issuing the new shares.

The resolution regarding the capital increase was entered in the commercial register of the local court of Munich on July 10, 2014.

Utilizing its authorization, the management board with the consent of the supervisory board of the Company on the same day, the latter acting through its capital increase committee instituted for this purpose, resolved on September 8, 2014, to set the subscription price per new share at €3.24 (the "Subscription Price").

As a result of (i) the subscription price being fixed at €3.24 and (ii) the targeted gross issue proceeds of approximately €3.62 billion, the total number of new shares to be issued was set at 1,116,945,400 (the "Offer Shares").

On September 9, 2014, a consortium of fourteen financial institutions (the "Underwriters") executed an underwriting agreement with the Company (the "Underwriting Agreement"), pursuant to which the Underwriters have undertaken to underwrite the Offer Shares and offer them to the Company's existing shareholders and holders of subscription rights via a public rights offering in the Federal Republic of Germany ("Germany") and the Grand Duchy of Luxembourg ("Luxembourg") and via a private placement in the United States of America (the "United States") to qualified institutional buyers ("QIBs") in reliance on the exemption from the registration requirements provided for by Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act"), and outside the United States in offshore transactions in reliance on Regulation S under the Securities Act at the subscription price for each Offer Share at a ratio of 1:1 (the "Subscription Ratio"). Shareholders can subscribe for one Offer Share per one existing share (the "Existing Shares") of the Company (the "Subscription Offer").

The Offer Shares remaining after completion of the Subscription Offer and for which subscription rights have not been exercised (the "Rump Shares") will either (i) be offered by the Underwriters to institutional investors in certain jurisdictions at a price which shall be not less than the Subscription Price in the Subscription Offer (the "International Offering" and together with the Subscription Offer, the "Offering") or (ii) be dribbled-out via sales through stock exchange transactions or otherwise by the Underwriters (the "Dribble-Out"). The International Offering will take place outside the United States pursuant to Regulation S under the Securities Act and inside the United States only to QIBs in reliance on the exemption from the registration requirements provided by Rule 144A under the Securities Act. The Dribble-Out will take place solely outside the United States pursuant to Regulation S under the Securities Act.

The subscription rights and the Offer Shares have not been and will not be registered under the Securities Act, or under the securities laws of any state of the United States and, accordingly, may not be offered or sold, directly or indirectly, in or into the United States other than pursuant to an exemption from the registration requirements of the Securities Act and in compliance with any applicable state securities law of the United States. See "*Selling Restrictions*".

Any Offer Shares not purchased by completion of the Offering will be purchased by the Underwriters at the Subscription Price in accordance with the Underwriting Agreement.

Entry of implementation of the capital increase in the commercial register of the local court of Munich (Germany), is expected to take place on or about September 19, 2014.

Existing Shares with ISIN DE000A1J5RX9 / German Securities Code (WKN) A1J5RX held or purchased at the Record Date (as defined below) entitle the holder to subscribe for Offer Shares at the Subscription Price and in accordance with the Subscription Ratio.

Subscription rights (ISIN DE000A12UKL4 / WKN A12UKL) allocated to Existing Shares (ISIN DE000A1J5RX9 / WKN A1J5RX), which are all held in collective custody, will be automatically booked to the accounts of the custodian banks on September 10, 2014 based on the number of shares held or purchased in the evening on September 9, 2014 (the "Record Date") by Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn, Germany. Shareholders will receive one subscription right for each Existing Share.

The delivery of Offer Shares after exercise of subscription rights is subject to implementation of the capital increase being entered in the commercial register and is subject to the further restrictions described below under "*Important Notice*".

The Company requests its shareholders, in order to avoid exclusion from the capital increase, to exercise their subscription rights in the Offer Shares during the period

from (and including) September 10, 2014 until (and including) September 23, 2014

(the "Subscription Period") through their respective custodian bank *vis-à-vis* the subscription agent listed below during regular banking hours. The Company can extend the Subscription Period upon consultation with the Underwriters.

Subscription rights that are not exercised in a timely manner will lapse and become worthless. No compensation will be paid for subscription rights that are not exercised.

The subscription agent is HSBC Trinkaus & Burkhardt AG, Duesseldorf ("HSBC"). In accordance with the subscription ratio of 1:1, shareholders can subscribe for one Offer Share per one Existing Share of the Company at a subscription price of €3.24 per Offer Share. Shareholders may only subscribe for one share or multiples thereof. The notice of the exercise of subscription rights is binding upon its receipt by the subscription agent and cannot be altered afterwards.

SUBSCRIPTION PRICE

The subscription price per subscribed Offer Share amounts to €3.24 and is payable through the respective custodian bank of the shareholders no later than September 24, 2014, to be received by the subscription agent at the latest by 10:00 a.m. CEST.

TRADING IN SUBSCRIPTION RIGHTS

In connection with the Subscription Offer of the Offer Shares, subscription rights (ISIN DE000A12UKL / German Securities Code (WKN) A12UKL are expected to be traded on the regulated market of the Frankfurt Stock Exchange (XETRA and XETRA Frankfurt Specialist) during the period from September 10, 2014 (inclusive) to September 19, 2014 (inclusive). The Company has not applied for admission of the subscription rights to trading on another stock exchange. No compensation will be paid for unexercised subscription rights. Upon the expiration of the Subscription Period, unexercised subscription rights will lapse and become worthless. Starting September 10, 2014, the Company's Existing Shares will be listed "*ex-subscription rights*" (*ex Bezugsrecht*) on the Frankfurt Stock Exchange.

HSBC may take appropriate measures to provide liquidity for orderly trading in subscription rights, such as the purchase or sale of subscription rights to Offer Shares. In this regard, HSBC has reserved the right to effect hedging transactions in shares of the Company or corresponding derivatives. Such measures and hedging transactions could affect the stock price or market price of the subscription rights and the shares of the Company. It is not certain that active trading in the subscription rights will develop on the Frankfurt Stock Exchange or that sufficient liquidity will exist during the period in which the subscription rights are traded.

The stock price of the subscription rights depends on the share price development of the Company, but could also be subject to significantly stronger price fluctuations than the shares of the Company.

COMMITMENT OF THE PRINCIPAL SHAREHOLDER

Telefónica, S.A., Madrid (Spain), indirectly holding in aggregate 76.83% of the current share capital in the Company, has irrevocably committed towards Citigroup Global Markets Limited, London, HSBC, Morgan Stanley & Co. International plc., London and UBS Limited, London, as representatives of the Underwriters, to subscribe in full through its wholly-owned subsidiary Telefónica Germany Holdings Limited for the Offer Shares attributable to its indirect shareholding in the Company.

IMPORTANT NOTICE

Prior to making a decision to exercise, purchase or sell subscription rights for the Offer Shares, shareholders and investors should carefully read the securities prospectus dated September 9, 2014 for the public offering of the Offer Shares (the "Prospectus"), and, in particular, the risks described in the "*Risk Factors*" section of the Prospectus and to consider such information when making their decision. In light of the current high volatility of stock prices and the market environment, shareholders should inform themselves of the current stock exchange price of the Company before they exercise their subscription rights for the Offer Shares at the Subscription Price.

Upon the occurrence of certain circumstances, the Underwriters reserve the right to terminate the Underwriting Agreement. Such termination may already occur on the first day of the Subscription Period. These circumstances include in particular the occurrence of certain material adverse changes in the earnings, business affairs, condition (financial and operational, legal or otherwise) or prospects of the Company and its subsidiaries, taken as a whole, material limitations of stock exchange trading and banking activities, the outbreak or escalation of hostilities or war, certain changes in, among other things, certain national or international political, financial or economic conditions and the non-occurrence of certain conditions precedent.

If the Offering is cancelled by the Company or if the Underwriting Agreement is terminated prior to entry of the implementation of the capital increase in the commercial register, the Offering will not take place, in which case any allocations of Offer Shares to investors will be invalidated and investors will not have any claim to delivery of Offer Shares, the Subscription Offer will lapse and the shareholders' subscription rights will expire. In such case, the subscription agents will not reverse subscription rights trading transactions. Investors that have acquired subscription rights for the Offer Shares over a stock exchange would therefore suffer a complete loss. Subscription declarations for Offer Shares already made will be invalid. Should short sales already have occurred at the time of such an expiry of the Subscription Offer, the short-seller of the Offer Shares would bear the risk of not being able to meet its obligation to deliver shares.

If the Underwriting Agreement is terminated subsequent to entry of the implementation of the capital increase in the commercial register, shareholders who have exercised or will exercise their subscription rights during the Subscription Period may acquire the Offer Shares at the Subscription Price.

FORM AND CERTIFICATION OF THE OFFER SHARES

The Offer Shares (ISIN DE000A1J5RX9 / German Securities Code (WKN) A1J5RX) will be certified by one or several global share certificates deposited in collective custody with Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn, Germany. The right of shareholders of the Company to receive individual share certificates for their shares is excluded by Section 6(2) of the Company's articles of association. The Offer Shares bear the same rights as all other shares of the Company and do not bear any additional rights or benefits.

DELIVERY AND SETTLEMENT OF THE OFFER SHARES

The Offer Shares subscribed for in the Subscription Offer are expected to be credited to a collective securities deposit account and made available to the shareholders on or about September 25, 2014, unless the Subscription Period has been extended.

Delivery of the unsubscribed Offer Shares to be sold in the potential International Offering is expected to occur on or about September 25, 2014, unless the Subscription Period has been extended.

Existing Shareholders or investors participating in the Subscription Offer may inquire with their custodian banks whether shares have been booked to their depositary account on the second calendar day immediately following the end of the Subscription Period, which is expected to be on or about September 23, 2014. The Offer Shares may only be booked to the accounts of Existing Shareholders or investors participating in the Offering upon commencement of trading in the Offer Shares.

COMMISSIONS

The subscription of Offer Shares in the context of the Subscription Offer is subject to customary banking commissions from the custodian banks.

EXCHANGE ADMISSION AND COMMENCEMENT OF TRADING OF THE OFFER SHARES

The admission of the Offer Shares to the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the regulated market segment with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange is expected to be granted on or about September 22, 2014.

Commencement of trading is expected on September 25, 2014. It is intended that the Offer Shares will be included in the existing quotation of the Company's shares (ISIN DE000A1J5RX9 / WKN A1J5RX).

PUBLICATION OF THE PROSPECTUS

Following completion of a review of completeness, including a review of coherence and comprehensibility of the information provided, the Prospectus was approved by the German Financial Supervisory Authority (*BaFin*) on September 9, 2014. The Prospectus was published on the website of the Company (www.telefonica.de) on September 9, 2014.

The approved Prospectus has been notified by BaFin to the Luxembourg Commission for the Supervision of the Financial Sector (*Commission de Surveillance du Secteur Financier – CSSF*). Printed copies of the Prospectus will be available free of charge during regular business hours, *inter alia*, at the Company's offices at Georg-Brauchle-Ring 23-25, 80992 Munich, and at the offices of HSBC, Koenigsallee 21/23, 40212 Duesseldorf, Germany, and UBS Limited, c/o UBS Deutschland AG, Bockenheimer Landstraße 2-4, 60306 Frankfurt am Main, Germany.

SELLING RESTRICTIONS

The Offer Shares and the subscription rights have not been, and will not be, registered under the Securities Act or with the securities regulatory authorities of any state of the United States. The Offer Shares and the subscription rights may at no time be offered, sold, exercised, pledged, transferred or delivered directly or indirectly to or within the United States, except pursuant to an exemption from the registration requirements of the Securities Act and, in each case, in accordance with any applicable securities laws of any state. Consequently, the subscription rights may be exercised only by shareholders outside the United States in accordance with Regulation S under the Securities Act or by certain shareholders who are QIBs as defined in Rule 144A under the Securities Act. The Offer Shares are being offered and sold (i) in the United States only to QIBs and (ii) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. Prospective investors are hereby notified that any seller of the Offer Shares may be relying on the exemptions from the provisions of Section 5 of the Securities Act. The Offer Shares are not transferable to U.S. persons or into or within the United States except in accordance with certain restrictions.

Acceptance of the Subscription Offer of the Offer Shares outside Germany and Luxembourg may be subject to restrictions. Persons who wish to accept the Subscription Offer outside Germany and Luxembourg are advised to inform themselves of and pay heed to restrictions existing outside Germany and Luxembourg.

STABILIZATION

UBS Limited, London, will act as the stabilization manager ("Stabilization Manager") in connection with the Subscription Offer of Offer Shares and may, either itself or through affiliated companies, take measures aimed at supporting the stock market price or market value of the Company's shares in order to counterbalance any existing sales pressure ("Stabilization Measures"). The Stabilization Manager is under no obligation to initiate Stabilization Measures. Accordingly, there is no guarantee that Stabilization Measures will be conducted at all. To the extent that Stabilization Measures are taken, they can be terminated at any time without prior notice. Such Stabilization Measures can be undertaken starting with the date of publication of the Subscription Price and must cease no later than on the 30th calendar day following the expiration of the Subscription Period, that is, presumably on or about October 23, 2014 ("Stabilization Period"). Stabilization Measures may result in a higher stock market price or market value of the Company's shares than what would have been the case in the absence of such measures. In addition, the stock price or market value may temporarily reach a level that is not sustainable. Within a week after the end of the Stabilization Period, a notice will be published in various media distributed across the entire European Economic Area ("*Medienbündel*") as to whether Stabilization Measures were implemented, the date Stabilization Measures were commenced, the date the last Stabilization Measure was taken and the price range within which the Stabilization Measures were implemented for each date in which a Stabilization Measure was undertaken.

Munich, September 2014

Telefónica Deutschland Holding AG

The Management Board"

TRADING OF OFFER SHARES

An application is expected to be filed at the latest on September 18, 2014 for the admission to trading of the Offer Shares on the regulated market (*regulierter Markt*) at the stock exchange of Frankfurt am Main and to the sub-segment of the regulated market at the Frankfurt Stock Exchange with additional post-admission obligations (Prime Standard). The admission decision regarding the Offer Shares is expected for on or about September 22, 2014. The Offer Shares are expected to be included in the existing quotation for the shares of the Company on September 25, 2014.

FORM AND CERTIFICATION OF THE OFFER SHARES

The Offer Shares (ISIN DE000A1J5RX9 / WKN A1J5RX) will be issued as new ordinary non-par value registered shares (*auf den Namen lautende Stammaktien*) in accordance with the Company's current articles of association. The Offer Shares will be represented by one or several global share certificates deposited in collective custody with Clearstream Banking AG Mergenthalerallee 61, 65760 Eschborn, Germany.

The right of the Company's shareholders to receive individual share certificates for their shares is excluded by Section 6(2) of the Company's articles of association.

LOCK-UP AGREEMENTS

The Company has committed itself to the Underwriters, commencing on the date of the Underwriting Agreement and ending 180 calendar days after September 25, 2014 and without the written consent of the Underwriters (i) not to announce, issue or effect a capital increase from authorized capital, (ii) not to submit a proposal for a capital increase to any meeting of the shareholders for resolution, (iii) not to announce, issue, effect or submit a proposal for the issuance of any securities convertible into shares of the Company and (iv) not to enter into a transaction or perform any action economically similar to those described in (i) through (iii). This lock-up provision does, however, not apply to (i) the issuance or sale, as applicable, of shares or other securities issued under employee participation programs or stock option plans to (present or future) employees of the Company or its subsidiaries as well as (ii) the issuance of shares against contributions in kind in connection with any acquisition, equity investment or joint venture directly to the partner in any such acquisition, equity investment or joint venture.

Telefónica, S.A. has committed itself to the Underwriters for a period ending 90 calendar days after admission of the Offer Shares to the regulated market (*regulierter Markt*) segment of the Frankfurt Stock Exchange and the sub-segment thereof with additional post-admission obligations (Prime Standard), except with the prior written consent of the Joint Global Coordinators (such consent not to be unreasonably withheld or delayed), not to:

i. offer, pledge, allot, sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of the Company or any other securities of the Company, excluding securities which are not convertible into or exercisable or exchangeable for shares of the Company;

ii. conclude any swap agreements that would transfer the economic risk of ownership of the shares of the Company to a third party;

iii. make any demand for, or exercise any right with respect to registration under U.S. securities laws of any shares of the Company or any security convertible into or exercisable or exchangeable for shares of the Company;

iv. propose any increase in the share capital to the general shareholders' meeting of the Company, vote in favor of such a proposed increase or otherwise support any proposal for the issuance of any security convertible into shares of the Company, with option rights for shares of the Company, whether directly or indirectly; or

v. enter into a transaction or perform any action economically similar to those described under i. through iv. above.

This does not apply to (a) the issuance or sale, as applicable, of shares or other securities issued under employee participation programs or stock option plans to (present or future) employees of the Company or its subsidiaries as well as (b) the issuance of shares against contributions in kind in connection with any acquisition, equity investment or joint venture directly to the partner in any such acquisition, equity investment or joint venture.

Telefónica, S.A.'s undertakings under i. through v. above do not apply to disposals within the framework of a public takeover bid or purchase offer made by a third-party or pursuant to private sales (*i.e.*, other than through stock exchange trades or transactions similar to stock exchange trades, such as accelerated book-building offerings) to third parties provided that such party or parties assume *vis-à-vis* the Joint Global Coordinators the aforementioned selling restrictions. Further excluded from Telefónica, S.A.'s undertakings under i. through v. above are transactions with companies affiliated with us, provided that any such affiliate assumes *vis-à-vis* the Joint Global Coordinators the aforementioned selling restrictions.

In the SPA, KPN has committed itself to the Company, without the prior written consent of the Company, not to directly or indirectly sell, market, transfer or otherwise dispose of any Consideration Shares or other securities in the Company within a period of 180 days from the closing of the SPA. The same restrictions shall apply to any economically equivalent transaction. This period is limited to 45 days for distributions of shares in the Company to KPN's shareholders pursuant to certain transactions, including, but not limited to, a spin-off, demerger or dividend distribution. The above commitments do not apply with regard to the acceptance of a public takeover offer for the shares in the Company by KPN. Upon expiration of the above mentioned lock-up periods, KPN is authorized to sell and transfer its shares in the Company in an orderly market manner.

PROCEEDS AND COSTS OF THE OFFERING

The Company expects the gross proceeds of the Offering to be approximately €3.62 billion. The estimated total expenses for the Offering are expected to be approximately €33 million, including commissions and other fees for underwriting commitments of approximately €26 million payable to the Underwriters. Therefore, the Company expects the total net proceeds of the Offering to be approximately €3.59 billion assuming all Offer Shares will be subscribed for by existing shareholders or placed with new investors at the Subscription Price.

Investors will not be charged with expenses by the Company or the Underwriters.

USE OF PROCEEDS

The Company intends to use the net issue proceeds from the Offering in the expected amount of approximately €3.59 billion to partially finance the cash component of the total consideration payable to KPN Mobile Germany for the acquisition of the E-Plus Group (see "*Acquisition of the E-Plus Group*"). In case of an adjustment of the cash component of the total consideration payable to KPN Mobile Germany subsequent to closing of the Transaction and a repayment of the respective amount to the Company by KPN Mobile Germany, the Company intends to use the amount repaid for general business purposes.

The Company will finance the difference of approximately €50 million between the cash component of approximately €3.64 billion (€3.7 billion minus €64 million preliminary net debt and working capital adjustment) and the expected net proceeds of approximately €3.59 billion by using available cash and cash equivalents.

DILUTION

The Subscription Rights ensure that each shareholder of Existing Shares exercising its Subscription Rights will continue to hold a share in the aggregate capital of the Company equal to the percentage of its shareholdings prior to the Offering. If Subscription Rights are not exercised by a shareholder, the percentage of the proportionate share held by such shareholder in the aggregate capital of the Company will be diluted. Furthermore, shareholders will incur a dilution of their proportionate share in the share capital of the Company from the implementation of the capital increase against contribution in kind described below.

Dilutive Effect of the Issuance of the Offer Shares

The Company's share capital currently amounts to €1,116,945,400.00. It is divided into 1,116,945,400 ordinary registered shares with no par value, each such share with a notional value of €1.00. Under the assumption that (i) all Offer Shares are subscribed and/or placed; and (ii) the implementation of the capital increase by €1,116,945,400 through the issuance of 1,116,945,400 Offer Shares against cash contributions as part of the Offering is registered with the commercial register of the Company, the Company's share capital will amount to €2,233,890,800. Accordingly, the proportionate holdings of the Company's existing shareholders who do not participate in the Offering would be diluted by 50.0%.

The consolidated equity less goodwill, intangible assets and deferred tax assets under IFRS (the "**Net Book Value**") of the Company as of June 30, 2014 amounted to €1,393 million (based on the Unaudited Interim Condensed Consolidated Financial Statements), or €1.25 per share (calculated on the basis of 1,116,945,400 shares of the Company outstanding as of June 30, 2014).

Assuming an implementation of the Offering at the Subscription Price of €3.24 per Offer Share and corresponding net proceeds from the Offering of approximately €3,586 million, the Net Book Value of the Company as of June 30, 2014 would have amounted to €4,979 million, or €2.23 per share (calculated on the basis of 2,233,890,800 shares of the Company outstanding after implementation of the capital increase in connection with the Offering). This would correspond to a direct increase in the Net Book Value of the Company by €0.98, or 78.4%, per share for the existing shareholders not participating in the Offering. Investors purchasing Offer Shares at the Subscription Price of €3.24 per Offer Share would be directly diluted by €1.01, or 31.2%, per share upon the full implementation of the Offering at the Subscription Price.

Dilutive Effect of the Issuance of the Consideration Shares

Assuming the full implementation of the Offering and registration of the corresponding capital increase with the commercial register, 740,664,193 Consideration Shares (or 24.9% of the Company's total number of shares upon implementation of both, the capital increase against cash contribution and the capital increase against contribution in kind) will be issued to KPN, taking the total number of shares in the Company to 2,974,554,993. The capital increase against contribution in kind with regard to which subscription rights of existing shareholders are excluded would, on the basis of the preceding assumptions, lead to a dilution of the proportionate holdings of the Company's shareholders by 24.9%.

Assuming the full implementation of the Offering and that 740,664,193 Consideration Shares will be issued from the capital increase against contribution in kind valued on the basis of €4.52 per Consideration Share estimated on the basis of the XETRA closing price of the Company's shares as at September 8, 2014 and estimated expenses of the capital increase against contribution in kind of approximately €2 million, the Net Book Value of the Company as of June 30, 2014 would have amounted to €8,325 million, or €2.80 per share (calculated on the basis of 2,974,554,993 shares of the Company outstanding after implementation of the capital increase against cash contribution in connection with the Offering and the capital increase against contribution in kind). This would correspond to a direct increase in the Net Book Value of the Company by €0.57 per share, or 25.6%, for the existing shareholders.

INTERESTS OF PERSONS PARTICIPATING IN THE OFFERING

The Company has an interest in the Offering as it will use the net proceeds of the Offering to partially finance the Transaction.

The Underwriters have a contractual relationship with the Company in connection with the Offering and admission to trading of the Offer Shares on the Frankfurt Stock Exchange. The Underwriters have been mandated by the Company to act as underwriters of the Offering. Upon the successful completion of the Offering, the Underwriters will receive a commission. The Underwriters also are obligated under the Underwriting Agreement to purchase any Offer Shares not purchased after the completion of the Offering at the Subscription Price. The Underwriters may from time to time enter into business relationships with the Company or render services to it in connection with ordinary business activities. The Underwriters have the following other business relationships with the Company or its subsidiaries:

– BofA Merrill Lynch and UBS Investment Bank are engaged by the Company as M&A advisors in connection with the Transaction;

– Citigroup, HSBC and Morgan Stanley are engaged by Telefónica, S.A. as M&A advisors in connection with the Transaction; and

– J.P. Morgan is engaged by KPN as M&A advisor in connection with the Transaction.

Telefónica, S.A. has an interest in the success of the Offering as it is obligated under the SPA to procure the subscription of all Offer Shares.

KPN Mobile Germany has an interest in the Offering as the net proceeds from the Offering will be used to finance the cash component of the purchase price for the Transaction.

INFORMATION ON THE OFFER SHARES AND THE CONSIDERATION SHARES

STATUTORY BASIS FOR THE ISSUE OF THE OFFER SHARES

The statutory basis for the creation of the Offer Shares is provided by the rules of the German Stock Corporation Act (*Aktiengesetz*) on capital increases (Sections 182 *et seq.* AktG). The ordinary general shareholders' meeting of the Company resolved on May 20, 2014 to increase the share capital of the Company from €1,116,945,400.00 by an amount of up to €3,700,000,000.00 to up to €4,816,945,400.00 by issuance of up to 3,700,000,000 new ordinary non-par value registered shares against contribution in cash with subscription rights for existing shareholders, each Offer Share entitled to full dividend rights for the year starting January 1, 2014. The resolution was registered in the commercial register of the local court (*Amtsgericht*) of Munich, Germany, on July 10, 2014.

By resolution of the management board on September 8, 2014, with consent of the supervisory board acting through the capital increase committee on the same day, the number of newly issued shares was set at 1,116,945,400 and the offering of the Offer Shares to the shareholders for subscription by way of an indirect subscription right at a ratio of 1 to 1 at the Subscription Price was approved. The implementation of this capital increase is expected to be registered in the commercial register of the local court (*Amtsgericht*) of Munich, Germany, on or about September 19, 2014.

STATUTORY BASIS FOR THE ISSUE OF THE CONSIDERATION SHARES

The Company will furthermore issue 740,664,193 Consideration Shares. The Consideration Shares will represent 24.9% of the Company's total share capital issued and outstanding following the consummation of the Offering and the issuance of the Consideration Shares. The Consideration Shares will be issued utilizing a portion of the Authorized Capital 2012/I and the Authorized Capital 2014/I (see "*Description of Share Capital – Authorized Share Capital*"). The statutory basis for the creation of the Consideration Shares is provided by the rules of the German Stock Corporation Act (*Aktiengesetz*) on capital increases from authorized capital (Sections 202 *et seq.* AktG).

ISIN, WKN AND TRADING SYMBOL

International Securities Identification Number (ISIN) for the New Shares	DE000A1J5RX9
German Securities Code (WKN) for the New Shares	A1J5RX
Trading Symbol	O2D
International Securities Identification Number (ISIN) for the subscription rights	DE000A12UKL4
German Securities Code (WKN) for the subscription rights	A12UKL

VOTING RIGHTS

Each New Share and each Existing Share carries one vote at Telefónica Deutschland Holding AG's general shareholders' meetings. There are no voting right restrictions.

DIVIDEND RIGHTS AND SHARE OF LIQUIDATION PROCEEDS

The New Shares have full dividend rights for the year starting January 1, 2014. Dividend payment claims are subject to the three-year standard limitation period pursuant to Section 195 of the German Civil Code (*Bürgerliches Gesetzbuch*). Pursuant to Section 5(5) of the Company's articles of association, dividend rights of shares newly issued as part of a capital increase can be different from the rule of Section 60(2) of the AktG; however, this will not be the case with regard to the New Shares. The New Shares shall participate in any liquidation proceeds in proportion to the notional amount of the share capital attributable to such shares.

TRANSFERABILITY OF THE NEW SHARES

The New Shares are freely transferable in accordance with the applicable legal requirements for registered shares.

DELIVERY OF THE OFFER SHARES AND THE CONSIDERATION SHARES AND SETTLEMENT

The settlement (delivery of shares) for the subscribed Offer Shares against payment of the subscription price and customary commissions is expected to take place on or about September 25, 2014. The settlement (delivery of shares) for the Offer Shares placed in the International Offering, if any, against payment of the subscription price and customary commissions is expected to take place on or about September 25, 2014.

The settlement (delivery of shares) for the Consideration Shares is expected to take place on or about October 10, 2014.

The Offer Shares and the Consideration Shares are each represented by one or several global share certificates without dividend coupons, respectively, which will be deposited with Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn, Germany. The Offer Shares will be made available to shareholders as co-ownership interests in the respective global certificate. The shareholders have no right to demand definitive share certificates. HSBC is acting as settlement agent.

STOCK EXCHANGE LISTING AND INCLUSION IN THE EXISTING LISTING

An application for admission to trading of the Offer Shares and the Consideration Shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange and to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) is expected to be filed at the latest on September 18, 2014. The admission decision regarding the Offer Shares is expected on or about September 22, 2014. The Offer Shares are expected to be included in the existing quotation for the shares of the Company on September 25, 2014. The admission decision regarding the Consideration Shares is expected on or about October 8, 2014. The Consideration Shares are expected to be included in the existing quotation for the shares of the Company on October 10, 2014.

ANNOUNCEMENTS, PAYING AND REGISTRATION AGENT

The Company's announcements are published in the German Federal Gazette (*Bundesanzeiger*), as provided by Section 3(1) of the Company's articles of association. Any announcements related to the shares of the Company will also be published in the German Federal Gazette (*Bundesanzeiger*) and in at least one national newspaper designated for stock exchange notices by the Frankfurt Stock Exchange. All announcements required under German securities laws will be published in a national newspaper designated for stock exchange notices by the Frankfurt Stock Exchange and, if required, in the German Federal Gazette (*Bundesanzeiger*).

Announcements related to the approval of this Prospectus or any supplements thereto will be published in accordance with the German Securities Prospectus Act (*Wertpapierprospektgesetz*), and according to the form of publication required for the Prospectus, that is, through publication on the website of the Company (www.telefonica.de).

The paying and registration agent is BNP Paribas Securities Services, Europa-Allee 12, 60327 Frankfurt, Germany.

DIVIDEND POLICY AND EARNINGS PER SHARE

DIVIDEND RIGHTS AND DIVIDEND POLICY

The shares of individual shareholders in the profit of the Company are determined in accordance with the number of shares they hold in the registered capital (Section 60(1) AktG).

The adoption of resolutions regarding the distribution of dividends on the shares for a given financial year is the responsibility of the general shareholders' meeting held during the following financial year, which resolves on the utilization of the Company's distributable profits on the basis of the non-binding proposal of the management board and the supervisory board.

Under German law, a resolution concerning dividends and the utilization of distributable profits may be adopted only on the basis of a balance sheet profit (*Bilanzgewinn*) shown on the Company's adopted unconsolidated annual financial statement (*festgestellter Jahresabschluss*) prepared in accordance with generally accepted German accounting principles, *i.e.*, the accounting provisions of the HGB. In determining the balance sheet profit available for distribution, the annual net income (*Jahresüberschuss*) or annual net loss (*Jahresfehlbetrag*) of the respective financial year must be adjusted for profits and carried forward losses from the previous year and for deposits into or withdrawals from reserves. Certain reserves are to be created by law and must be deducted, where applicable, when calculating the balance sheet profits available for distribution.

In a resolution regarding the utilization of balance sheet profits, the general shareholders' meeting can include further amounts in retained earnings or carry them forward as profit. Dividends resolved at the general shareholders' meeting are payable on the first business day after such meeting, unless the dividend resolution provides otherwise. Dividend claims are subject to a three-year limitation period.

The Company's management board and the supervisory board intend to make suggestions for the distribution of dividends to the general shareholders' meeting taking into account:

(i) the profit for the year;

(ii) historical and forecasted free cash flow and liquidity;

(iii) distributable reserves available;

(iv) benchmarking against other telecommunications companies;

(v) the current and expected leverage and financial condition of the Company;

(vi) the general economic and business conditions;

(vii) any applicable legal and regulatory requirements; and

(viii) any other factors management may deem relevant.

According to its financing policy, the Company aims to:

(i) refrain from paying dividends, distributing capital or capital reserves in cash or buying back shares if the ratio of net financial debt/OIBDA materially and consistently exceeds the Target Leverage (see "*Capitalization and Indebtedness*"); and

(ii) restrict the use of new debt to pay dividends, allowing it only if the ratio of net financial debt/OIBDA complies with the Target Leverage.

The management board intends to maintain a high payout ratio in relation to free cash flow. With regards to the planned acquisition of the E-Plus Group, the management board and the supervisory board might also consider in their dividend proposal expected synergies to be realized in the near future.

On May 20, 2014, the Company's general shareholders' meeting resolved upon the distribution of a dividend in the total amount of €525 million in cash to its shareholders for the year ended December 31, 2013, which was paid on May 21, 2014.

For the year ending December 31, 2014, the management board currently intends to suggest to the general shareholders' meeting a cash dividend of at least €700 million, payable in 2015.

There can be no assurances that the Company's performance will allow us to pay dividends consistent with our dividend policy or that we will be able to pay dividends for the year ending December 31, 2014 in accordance with the above stated intention. In particular, our ability to pay dividends may be impaired if any of the risks described in this Prospectus were to occur (see "*Risk Factors – Our ability to pay dividends in the future depends on several factors.*"). Furthermore, our dividend policy is subject to changes as our management board will revisit our dividend policy from time to time. There can be no assurance that in any given year a dividend will be proposed or declared.

Because the Company does not conduct any operations of its own, the payment of dividends depends primarily on the profit of its operating subsidiaries, including the E-Plus Group's business to be acquired, and their ability to distribute dividends to the Company.

Dividend income is in general subject to German dividend withholding tax plus solidarity surcharge (*Kapitalertragsteuer plus Solidaritätszuschlag*) unless paid from the Company's tax contribution account (*steuerliches Einlagenkonto*). In the foreseeable future, we plan to distribute dividends from the Company's tax contribution account (*steuerliches Einlagenkonto*). German dividend withholding tax plus solidarity surcharge on the withholding tax will consequently not apply to our dividends distributed from the Company's tax contribution account (*steuerliches Einlagenkonto*). See "*Taxation in the Federal Republic of Germany – Taxation of the Shareholders – Taxation of Dividends*".

Certain information herein relating to our dividend policy may constitute forward-looking statements. Forward-looking statements are not guarantees of future financial performance and our actual dividends could differ materially from those expressed or implied by such forward-looking statements as a result of many factors, including those described under "*General Information – Forward-Looking Statements*" and "*Risk Factors*".

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year after tax attributable to the ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the reporting period.

The following summary shows our profit attributable to ordinary equity holders of the parent from continuing operations and the basic earnings per share on the basis of our Consolidated Financial Statements 2013 and Consolidated Financial Statements 2012 and the dividends declared by the Company for the years ended December 31, 2013, 2012 and 2011:

	Year ended December 31,		
	2013	**2012**	**2011**
	(audited, unless otherwise indicated)		
Profit attributable to ordinary equity holders of the parent from continuing operations (in €thousands)	77,813	307,523	71,346
Basic earnings per share from continuing operations (in €)[1]	0.07	0.28	0.06
Dividends paid for the respective financial year (in €million)	525[4]	503	7,186[2]
Dividends per share (in €)[3]	0.47[4]	0.45	6.43[4]

1 Basic earnings per share from continuing operations are calculated by dividing profit attributable to ordinary equity holders of the parent from continuing operations (equal to profit for the year from continuing operations) by the weighted average number of ordinary shares of 1,117 million for 2011, 2012 and 2013 (based on the existing subscribed capital in the years ended December 31, 2012 and 2011 assuming that the 1,117 million shares already had existed in the year ended December 31, 2011 and throughout the entire year ended December 31, 2012).

2 On September 14, 2012, Telefónica Deutschland declared a pre-IPO dividend to O2 (Europe) Limited amounting to €7,186 million. Thereof, €4,300 million have been considered as cash payments and €2,886 million were offset against the above mentioned capital promise.

3 Based on the weighted average number of ordinary shares of 1,117 million for the years ended December 31, 2013, 2012 and 2011 underlying the basic earnings per share from continuing operations as described in footnote 1 above.

4 Unaudited.

CAPITALIZATION AND INDEBTEDNESS

Our management board and supervisory board intend to maintain the Company's leverage ratio (calculated by dividing net financial debt by OIBDA) below 1.0x over the medium term (the "**Target Leverage**"). Net financial debt will be measured as interest-bearing financial liabilities less interest-bearing financial assets, cash and cash equivalents, taking into account the value of financial derivatives and hedge arrangements. In order to assess compliance with the Target Leverage, OIBDA will be measured as operating income before depreciation and amortization for the last twelve months, excluding non-recurring and exceptional items. Solely for purposes of calculating the Target Leverage for any twelve month period which includes historical periods prior to the closing of the Transaction, an unaudited illustrative consolidated OIBDA will be applied. This unaudited illustrative consolidated OIBDA includes the OIBDA of the New E-Plus Group for the entire twelve month period as if the closing of the Transaction had occurred at the beginning of such twelve month period.

According to its financing policy, the Company aims to:

(i) refrain from paying dividends, distributing capital or capital reserves in cash or buying back shares if the ratio of net financial debt/OIBDA materially and consistently exceeds the Target Leverage; and

(ii) restrict the use of new debt to pay dividends, allowing it only if the ratio of net financial debt/OIBDA complies with the Target Leverage.

The management board and supervisory board intend to review the calculation of the Target Leverage for the above purposes and ensure that the calculation is effected in compliance with standard market practice in particular with regards to adjustments for non-recurring and exceptional items (such as write-downs with no cash impact).

The management board and supervisory board may adjust the Target Leverage in the future with the aim of protecting the Company's solvency and business strength, if there are material changes in the actual and expected business performance or competitive position, general financial and economic conditions, or other aspects that our management board and supervisory board may deem relevant.

The information on our Target Leverage constitutes a forward-looking statement. Forward-looking statements are not guarantees of future financial performance and our actual leverage could differ materially from that expressed or implied by such forward-looking statements as a result of many factors, including future revenues, profits, financial condition, general economic and business conditions, future prospects and other factors described under "*General Information – Forward – Looking Statements*" and "*Risk Factors*". There can be no assurance that the Company's performance will allow for adherence to the Target Leverage.

For information on the capitalization and indebtedness of the Company on the basis of the assumption that the Transaction already had been closed as of June 30, 2014 (and therefore reflecting the receipt of estimated net proceeds from the Offering, however, on the basis of different assumptions for the number of offered shares and the subscription price per share, as well as the acquisition of the E-Plus Group), see "*Pro Forma Consolidated Financial Information*".

CAPITALIZATION

The data presented in the following table shows, on a consolidated basis, the Company's capitalization as of June 30, 2014 on a historical basis (first column), which has been derived from the Unaudited Interim Condensed Consolidated Financial Statement and our accounting records, and as adjusted (second column). The data presented in the "adjusted" column has been prepared on the basis of the assumption that the Company had already obtained the net proceeds of the Offering of approximately €3.59 billion as of June 30, 2014.

	As of June 30, 2014	**As of June 30, 2014 (adjusted; including net proceeds of the Offering)**
	(in €thousands)	
	(unaudited)	
Total current liabilities	**1,586,596**	**1,586,596**
of which is guaranteed	–	–
of which is secured	–	–
unguaranteed/unsecured	1,586,596	1,586,596
Total non-current liabilities	**2,262,739**	**2,262,739**
of which is guaranteed	–	–
of which is secured	–	–
unguaranteed/unsecured	2,262,739	2,262,739
Total liabilities[1]	**3,849,335**	**3,849,335**
Equity	**5,399,166**	**8,985,069**
of which is share capital[2]	1,116,946	2,233,891[6]
of which is legal reserve[3]	14	14
of which is other reserve[4]	4,282,206	6,751,164[7]
Total capitalization[5]	**9,248,502**	**12,834,404**

1 Total liabilities represent the sum of current liabilities and non-current liabilities.

2 Share capital disclosed in our Unaudited Interim Condensed Consolidated Financial Statements as "Common stock".

3 Legal reserve contained in "Retained earnings" as disclosed in our Unaudited Interim Condensed Consolidated Financial Statements.

4 Other reserve comprises "Retained earnings" minus "Legal reserve", "Additional paid-in capital" and "Other components of equity" as disclosed in our Unaudited Interim Condensed Consolidated Financial Statements.

5 Total capitalization represents the sum of current liabilities, non-current liabilities and equity.

6 Adjusted to reflect effects of the Offering.

7 Adjusted to reflect effects of the Offering without consideration of deferred tax effects on the estimated total expenses of the Offering.

NET FINANCIAL INDEBTEDNESS

The data presented in the following table shows, on a consolidated basis, the Company's net financial indebtedness (*i.e.*, interest-bearing financial liabilities less current interest-bearing financial assets less cash and cash equivalents) as of June 30, 2014 on a historical basis (first column), which has been derived from the Unaudited Interim Condensed Consolidated Financial Statement and our accounting records, and as adjusted (second column). The data presented in the "adjusted" column has been prepared on the basis that the Company had already obtained the net proceeds of the Offering as of June 30, 2014.

	As of June 30, 2014	As of June 30, 2014 (adjusted; including net proceeds of the Offering)
	(in €thousands)	
	(unaudited)	
Cash and cash equivalents	1,006,275	4,592,178[1]
Trading Securities	–	–
Liquidity[2]	**1,006,275**	**4,592,178**
Current financial receivables[3]	**151,697**	**151,697**
Current bank debt	–	–
Current portion of non-current debt	–	–
Other current financial debt[4]	27,941	27,941
Current financial debt[5]	**27,941**	**27,941**
Current net financial debt[6]	**(1,130,030)**	**(4,715,934)**
Non-current bank loans	–	–
Bonds issued[7]	1,087,596	1,087,596
Other non-current loans[7]	725,000	725,000
Other non-current financial debt[8]	43,913	43,913
Non-current financial indebtedness[9]	**1,856,509**	**1,856,509**
Net financial indebtedness[10]	**726,480**	**(2,859,425)**

1 Adjusted to give effect to net proceeds of the Offering.

2 Cash and cash equivalents plus trading securities.

3 Current interest-bearing financial assets: Current portion of "O_2 My Handy" receivables (€151,233 thousand) plus Loan to third parties (€464 thousand).

4 Current interest-bearing debt (€12,687 thousand) plus Current finance lease payables (€15,254 thousand).

5 Current bank debt plus current portion of Non-current debt plus other Current financial debt.

6 Current financial debt minus Current financial receivables minus Liquidity.

7 "Non-current interest-bearing debt": Bonds issued plus Other non-current loans.

8 Non-current finance lease payables.

9 Non-current bank loans plus Bonds issued plus Other non-current loans plus Other non-current financial debt (only including interest-bearing debt).

10 Current net financial debt plus Non-current financial indebtedness. Net financial debt (€634,245 thousand) is Net financial indebtedness minus Non-current financial "O_2 My Handy" receivables (€92,234 thousand).

INDIRECT, CONTINGENT INDEBTEDNESS AND OTHER FINANCIAL COMMITMENTS

As of June 30, 2014, we did not have any material indirect or contingent liabilities.

STATEMENT OF WORKING CAPITAL

In our opinion, our working capital is sufficient for our present requirements, that is, sufficient to cover payment obligations which will become due at least within the next 12 months from the date of this Prospectus.

NO SIGNIFICANT CHANGE

There have been no significant changes in our financial or trading position between June 30, 2014 and the date of this Prospectus.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

SELECTED FINANCIAL INFORMATION OF TELEFÓNICA DEUTSCHLAND

The selected financial information of the Company below as of and for the years ended December 31, 2012 and ended December 31, 2011 was taken or derived from the Consolidated Financial Statements 2012, the selected financial information as of and for the year ended December 31, 2013 was taken or derived from the Consolidated Financial Statements 2013, and the selected financial information as of June 30, 2014 and for the six months ended June 30, 2014 and 2013 was taken or derived from the Unaudited Interim Condensed Consolidated Financial Statements, as well as for each of these periods from the Company's accounting records or internal management reporting systems.

The Consolidated Financial Statements 2012 include the assets and liabilities, and the Consolidated Financial Statements 2013 as well as the Consolidated Financial Statements 2012 include the income and expenses and cash flows of the entities G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its indirectly held 40% interest in Adquira España S.A., until October 1, 2012 when these entities ceased to be direct and indirect subsidiaries or associates of the Company as part of our pre-IPO restructuring. According to IFRS 5 "Non-current assets held for sale and discontinued operations" the income and expenses and cash flows of these sold entities including the gain on the disposal of these sold entities are separately disclosed in the consolidated income statement of the Consolidated Financial Statements 2013 as well as the Consolidated Financial Statements 2012 as profit after tax for the year from discontinued operations and in the consolidated statement of cash flows of the Consolidated Financial Statements 2013 as well as the Consolidated Financial Statements 2012 as cash flow from operating activities from discontinued operations, cash flow from investing activities from discontinued operations and cash flows from financing activities from discontinued operations, respectively. According to IFRS 5 "Non-current assets held for sale and discontinued operations", the assets and liabilities of these sold entities are not separately disclosed in the comparative financial information as of December 31, 2011 in the consolidated statement of financial position of the Consolidated Financial Statements 2012.

In the Consolidated Financial Statements 2013 we reclassified expenses for external personnel services and adjusted the prior year comparative figures for the year ended December 31, 2012 and reported expenses for external personnel services in Other Expenses whereas these expenses were reported in the Consolidated Financial Statements 2012 in the Personnel Expenses in the short-term employee benefits (see "Management Discussion and Analysis of Financial Condition and Results of Operations – Comparability of Financial Data – Reclassification of Expenses for External Personnel Services in the Consolidated Financial Statements 2013").

Where financial information in this section is labelled "audited", this means that it was taken from the Consolidated Financial Statements 2012 or from the Consolidated Financial Statements 2013. The label "unaudited" is used in this section to indicate financial information that was derived from the Consolidated Financial Statements 2012 or from the Consolidated Financial Statements 2013, or taken or derived from the Unaudited Interim Condensed Consolidated Financial Statements as well as from the Company's accounting records or internal management reporting systems.

The figures in the following have been rounded in accordance with established commercial practice. Figures or additions within a table may therefore result in sums different from those shown in the same table and do not always add up to 100%.

Consolidated Income Statement and other Consolidated Financial Information

The table below sets forth our consolidated income statement and other consolidated financial information for the years ended December 31, 2013, 2012 and 2011 and for the six months ended June 30, 2014 and 2013:

	For the year ended December 31,			For the six months ended June 30,	
	2013	**2012**	**2011**	**2014**	**2013**
	(in €thousands, unless otherwise indicated)				
	(audited, unless otherwise indicated)			*(unaudited)*	
Revenues	**4,913,881**	**5,212,838**	**5,035,552**	**2,283,663**	**2,445,419**
Wireless Business	3,673,043	3,845,053	3,605,747	1,699,203	1,816,290
Wireless Service Revenues[1]	2,989,294	3,151,838	2,946,465	1,434,751	1,481,230
Handset Revenues	683,749	693,215	659,282	264,452	335,060
Wireline Business	1,234,958	1,363,203	1,425,740	580,775	626,429
Other Revenues	5,880	4,582	4,065	3,686	2,700
Other Income	169,022	60,806	60,991	43,022	38,192
Supplies	(1,957,980)	(2,130,869)	(2,047,139)	(882,649)	(974,483)
Personnel Expenses[6]	(418,647)	(421,764)	(437,756)	(213,284)	(207,589)
Other Expenses[2, 6]	(1,469,176)	(1,441,938)	(1,462,411)	(744,959)	(729,111)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)[3, 4]	**1,237,100**	**1,279,074**	**1,149,237**	**485,792**	**572,428**
Depreciation and Amortization	(1,131,749)	(1,133,183)	(1,082,189)	(533,988)	(566,387)
OPERATING INCOME	**105,351**	**145,891**	**67,048**	**(48,195)**	**6,040**
Finance Income	6,349	15,678	14,271	3,953	3,391
Exchange Gains	635	715	707	161	296
Finance Costs	(33,409)	(21,385)	(8,389)	(19,660)	(19,744)
Exchange Losses	(548)	(1,132)	(559)	(474)	(175)
Net Financial Income/(Expense)	**(26,972)**	**(6,123)**	**6,030**	**(16,020)**	**(16,232)**
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS/(LOSS) BEFORE TAX	**78,379**	**139,768**	**73,078**	**(64,215)**	**(10,191)**
Income Tax	(567)	167,756	(1,732)	14	17
PROFIT AFTER TAXES FOR THE YEAR FROM CONTINUING OPERATIONS	**77,813**	**307,523**	**71,346**	**–**	**–**
PROFIT AFTER TAXES FOR THE YEAR FROM DISCONTINUED OPERATIONS	**–**	**1,027,030**	**482,557**	**–**	**–**
TOTAL PROFIT/(LOSS) FOR THE YEAR/ PERIOD	**77,813**	**1,334,553**	**553,904**	**(64,201)**	**(10,174)**
PROFIT/(LOSS) FOR THE YEAR/PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	**77,813**	**1,334,553**	**553,904**	**(64,201)**	**(10,174)**
PROFIT/(LOSS) FOR THE YEAR/PERIOD	**77,813**	**1,334,553**	**553,904**	**(64,201)**	**(10,174)**
Reconciliation from Operating Income to Operating Income before Depreciation and Amortization (OIBDA) and before Group Fees and OIBDA before Group Fees Margin[3]					
OPERATING INCOME	**105,351**	**145,891**	**67,048**	**(48,195)**	**6,040**
Depreciation and Amortization	(1,131,749)	(1,133,183)	(1,082,189)	(533,988)	(566,387)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)[4]	**1,237,100**	**1,279,074**	**1,149,237**	**485,792**	**572,428**
Group Fees	(70,929)	(72,311)	(70,232)	(29,687)	(31,047)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA) AND BEFORE GROUP FEES (unaudited)[3]	**1,308,029**	**1,351,385**	**1,219,469**	**515,480**	**603,475**
Revenues	4,913,881	5,212,838	5,035,552	2,283,663	2,445,419
OIBDA margin[5] (unaudited)	**25.2%**	**24.5%**	**22.8%**	**21.3%**	**23.4%**
OIBDA before Group Fees margin[5] (unaudited)	**26.6%**	**25.9%**	**24.2%**	**22.6%**	**24.7%**

[1] Adjusted for the effect of decreases in MTR in December 2010, 2012 and 2013, Wireless Service Revenues would have been €194.8 million, €9.0 million and €114.7 million higher in the years ended December 31, 2011, 2012 and 2013, respectively. Adjusted for the effect of the decrease in MTR in December 2013, Wireless Service Revenues would have been €2.7 million higher in the six months ended June 30, 2014 (see "*Management Discussion and Analysis of Financial Condition and Results of Operations – Key Factors Affecting Performance and Results of Operations – Key Factors Affecting our Wireless Service Revenues – Access and Interconnection Fees*").

[2] Other Expenses includes certain fees paid to the Telefónica Group ("**Group Fees**") under a range of agreements, including management and consulting services, licenses, cost sharing and other such services.

[3] We have provided OIBDA, OIBDA margin, OIBDA before Group Fees and OIBDA before Group Fees margin and other information because we believe they provide investors with additional information to measure our performance. Our use of the terms OIBDA, OIBDA margin, OIBDA before Group Fees and OIBDA before Group Fees margin varies from others in our industry and should not be considered as an alternative result for the year or period, cash flow from operating activities, revenues or any other performance measures derived in accordance with IFRS as measures of operating performance or to cash flows as measures of liquidity. OIBDA, OIBDA margin, OIBDA before Group Fees and OIBDA before Group Fees margin have important limitations as analytical tools and investors should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS. We believe OIBDA, OIBDA margin, OIBDA before Group Fees and OIBDA before Group Fees margin facilitate operating performance comparisons from period to period and company to company by eliminating potential differences caused by variations in tax positions (such as the impact of changes in effective tax rates or deferred taxes on periods or companies), depreciation and amortization and certain other items. OIBDA and OIBDA margin are commonly used terms to compare the operating activities of telecommunications operators, however, because other companies may not calculate OIBDA and OIBDA margin identically to us, our presentation of OIBDA and OIBDA margin may not be comparable to that of other companies.

[4] OIBDA as reported in our consolidated financial statements contains the Group Fees as described in footnote 2 above.

[5] OIBDA margin and OIBDA before Group Fees margin are calculated as percentage of total Revenues, respectively.

[6] In the Consolidated Financial Statements 2013 we reclassified expenses for external personnel services and adjusted the prior year comparative figures for the year ended December 31, 2012 and reported expenses for external personnel services in Other Expenses whereas these expenses were reported in the Consolidated Financial Statements 2012 in the Personnel Expenses in the short-term employee benefits. We believe that the presentation used in our Consolidated Financial Statements 2013 improves the clarity of the information provided in our consolidated financial statements. Expenses for external personnel services amounted to €46.4 million for the year ended December 31, 2013 and €42.8 million for the year ended December 31, 2012 and €38.9 million for the year ended December 31, 2011.

Consolidated Statement of Financial Position

The table below sets forth our consolidated statement of financial position as of December 31, 2013, 2012 and 2011 and as of June 30, 2014:

	As of December 31,			As of June 30,
	2013	2012	2011[1]	2014
	(in €thousands)			
	(audited)			*(unaudited)*
ASSETS				
A) NON-CURRENT ASSETS	**7,167,703**	**7,652,337**	**7,996,891**	**6,935,334**
Goodwill	705,576	705,576	705,576	705,576
Intangible assets	2,884,200	3,277,456	3,662,491	2,717,326
Property, plant and equipment	2,895,617	2,973,440	3,119,370	2,818,161
Investment in associates	–	–	1,972	–
Other non-current financial assets	98,787	114,675	95,449	110,748
Deferred tax assets	583,523	581,191	412,033	583,523
B) CURRENT ASSETS	**1,853,716**	**1,417,469**	**5,657,420**	**2,313,167**
Inventories	89,185	84,671	70,428	110,369
Trade and other receivables	1,035,234	1,009,031	1,349,290	1,171,811
Other current financial assets	20,751	101	2,887,051	24,713
Cash and cash equivalents	708,545	323,666	1,350,651	1,006,275
TOTAL ASSETS (A+B)	**9,021,419**	**9,069,807**	**13,654,311**	**9,248,502**
EQUITY AND LIABILITIES				
A) EQUITY	**5,998,973**	**6,428,793**	**12,282,644**	**5,399,166**
Common stock	1,116,946	1,116,946	1,116,946	1,116,946
Additional paid-in capital	430	430	–	430
Retained earnings	4,879,914	5,309,936	11,164,353	4,280,108
Other components of equity	1,683	1,481	1,345	1,683
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT / COMPANY	**5,998,973**	**6,428,793**	**12,282,644**	**5,399,166**
B) NON-CURRENT LIABILITIES	**1,451,739**	**1,091,576**	**75,289**	**2,262,739**
Non-current interest-bearing debt	1,342,584	1,000,000	–	1,812,596
Other payables	4,809	9,193	6,342	47,013
Non-current provisions	104,346	82,382	68,947	138,819
Deferred income	–	–	–	264,311
C) CURRENT LIABILITIES	**1,570,707**	**1,549,438**	**1,296,378**	**1,586,596**
Current interest-bearing debt	102,059	250,878	–	12,687
Trade payables	1,074,038	918,458	891,321	1,098,617
Other payables	221,532	219,130	188,747	289,143
Other current financial liabilities	–	–	4,836	–
Current provisions	3,513	7,000	41,609	3,155
Deferred income	169,565	153,972	169,866	182,995
TOTAL EQUITY AND LIABILITIES (A+B+C)	**9,021,419**	**9,069,807**	**13,654,311**	**9,248,502**

[1] According to IFRS 5 "Non-current assets held for sale and discontinued operations", the assets and liabilities of the entities G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its indirectly held 40% interest in Adquira España S.A., sold by us with effect as of October 1, 2012, are not separately disclosed in our consolidated statement of financial position information as of December 31, 2011. Therefore, the consolidated statement of financial position information as of December 31, 2011 is not directly comparable to the consolidated statement of financial position information as of December 31, 2012 and 2013, respectively.

Consolidated Statement of Cash Flows

The table below sets forth our consolidated statement of cash flows for the years ended December 31, 2013, 2012 and 2011 and for the six months ended June 30, 2014 and 2013:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2012	2011	2014	2013
	(in €thousands)				
	(audited)			(unaudited)	
Profit/(Loss) for the Year/Period	**77,813**	**1,334,553**	**553,904**	**(64,201)**	**(10,174)**
Adjustments to Profit/(Loss)					
Net Financial Result	26,972	5,707	(5,882)	16,020	16,353
Gains on Disposal of Assets	(76,149)	(492,121)	(272)	(333)	(6)
Net Income Tax Expense	567	(167,756)	1,732	(14)	(17)
Depreciation and Amortization	1,131,749	1,135,751	1,086,997	533,988	566,387
Change in Working Capital					
Trade and Other Receivables	(36,334)	(40,172)	45,172	(61,151)	3,312
Inventories	(4,514)	(14,272)	13,889	(21,184)	13,586
Other Current Assets	–	(5,594)	(7,855)	(320)	(6,306)
Trade and Other Payables	168,818	(105,573)	42,243	44,566	56,998
Other Current Liabilities and Provisions	16,471	(25,126)	(103,038)	13,510	7,147
Other Non-Current Assets and Liabilities	(13,950)	4,681	(44,766)	253,493	27,490
Interest Received	7,005	15,615	13,934	3,827	2,237
Interest Paid	(28,196)	(13,871)	(1,351)	(11,006)	(12,535)
Total Cash Flow from Operating Activities/Cash Flow from Operating Activities	**1,270,252**	**1,631,823**	**1,594,707**	**707,194**	**664,472**
Cash Flow from Operating Activities from discontinued operations	**–**	**349,070**	**355,006**	**–**	**–**
Cash Flow from Operating Activities from continuing operations	**1,270,252**	**1,282,754**	**1,239,701**	**–**	**–**
Proceeds on Disposals of Property, Plant and Equipment and Intangible Assets	69,088	1,978	3,185	632	12
Payments on Investments in Property, Plant and Equipment and Intangible Assets	(664,153)	(594,120)	(548,240)	(304,194)	(307,753)
Proceeds on Disposals of Companies, Net of Cash and Cash Equivalents Disposed	37,596	557,446	–	–	–
Payments Made on Financial Investments not Included under Cash Equivalents	(14,252)	(14,930)	–	(7,043)	(12,147)
Total Cash Flow from Investing Activities/Cash Flow from Investing Activities	**(571,721)**	**(49,626)**	**(545,055)**	**(310,605)**	**(319,888)**
Cash Flow from Investing Activities from discontinued operations	**–**	**557,170**	**(952)**	**–**	**–**
Cash Flow from Investing Activities from continuing operations	**(571,721)**	**(606,797)**	**(544,104)**	**–**	**–**
Acquisition of non-controlling interests	–	–	(3,006)	–	–
Repayment of capital reserves	–	(251)	(237)	–	–
Payments made on future capital increase	(2,143)	–	–	(3,195)	–
Proceeds from borrowing/debt	594,972	2,398,060	–	570,220	–
Repayment of borrowing/debt	(403,856)	(706,991)	(3,752)	(140,921)	(2,186)
Dividends paid	(502,625)	(4,300,000)	–	(524,964)	(502,625)
Total Cash Flow from Financing Activities/Cash Flow from Financing Activities	**(313,652)**	**(2,609,182)**	**(6,995)**	**(98,860)**	**(504,811)**
Cash Flow from Financing Activities from Discontinued Operations	**–**	**445,060**	**(3,006)**	**–**	**–**
Cash Flow from Financing Activities from Continuing Operations	**(313,652)**	**(3,054,242)**	**(3,989)**	**–**	**–**
Net Increase/(Decrease) in Cash and Cash Equivalents	**384,879**	**(1,026,985)**	**1,042,656**	**297,729**	**(160,226)**
Cash and Cash Equivalents at the Beginning of the Period	**323,666**	**1,350,651**	**307,995**	**708,545**	**323,666**
Cash and Cash Equivalents at the End of the Period	**708,545**	**323,666**	**1,350,651**	**1,006,275**	**163,440**

SELECTED OPERATIONAL INFORMATION

The tables below set forth certain selected operational information as of and for the years ended December 31, 2013, 2012 and 2011 and as of and for the six months ended June 30, 2014 and 2013:

	As of December 31,			As of June 30,	
	2013	2012	2011	2014	2013
	(accesses in thousands, except as otherwise indicated)				
	(unaudited)				
Mobile Accesses:					
Post-paid	10,286.1	10,108.5	9,235.7	10,516.1	10,260.5
Pre-paid	9,114.9	9,191.3	9,144.5	8,919.7	9,150.6
Total	**19,401.0**	**19,299.9**	**18,380.1**	**19,435.9**	**19,441.1**
Fixed Accesses:					
Retail DSL	2,244.3	2,376.3	2,587.7	2,191.4	2,295.1
Wholesale ULL	1,125.0	1,087.9	1,042.4	1,151.8	1,127.2
Fixed Telephony	2,124.9	2,249.0	2,055.1	2,078.2	2,176.0
Narrowband and other	271.7	359.8	417.9	258.8	334.0
Total	**5,765.9**	**6,072.9**	**6,103.1**	**5,680.2**	**5,932.2**

	For the year ended December 31,			For the six months ended June 30,	
	2013	2012	2011	2014	2013
	(unaudited)				
Mobile ARPU (in €):					
Blended[1]	12.7	13.8	13.6	12.3	12.6
Pre-paid[2]	5.1	5.5	5.7	5.1	5.0
Post-paid[3]	19.4	21.5	21.9	18.5	19.4
Data[4]	6.2	6.2	5.6	6.1	6.2
Non-SMS over Data Revenues (%)[5]	66.5	56.7	50.4	72.3	64.4
Data Contribution to blended ARPU (%)[6]	48.9	44.7	41.3	49.4	48.8
Blended churn (%)[7]	2.4	2.2	2.2	2.1	2.2
Post-paid churn (%)[8]	1.6	1.5	1.7	1.4	1.4

1 Calculated by dividing total service revenues from sales to customers for the period by the weighted average number of mobile accesses for all contract types (post- and pre-paid) for the period.

2 Calculated by dividing mobile service revenues attributable to accesses operated on a pre-paid basis (excluding inbound roaming) by the weighted average number of mobile accesses operated on a pre-paid basis for the period.

3 Calculated by dividing mobile service revenues attributable to accesses operated on a post-paid basis (excluding inbound roaming) by the weighted average number of mobile accesses operated on a post-paid basis for the period.

4 Calculated by dividing mobile service revenues generated through data usage (SMS, MMS, other) under mobile accesses by the weighted average number of mobile accesses for the period.

5 Portion of data revenues generated other than through SMS in total data revenues for the period in percent.

6 Contribution of data revenues to blended ARPU for the period in percent.

7 Calculated as the percentage of the number of mobile access disconnections of the total weighted average number of mobile accesses for all contract types (post- and pre-paid) for the period.

8 Calculated as the percentage of the number of disconnections of mobile accesses operated on a post-paid basis of the total weighted average number of mobile accesses operated on a post-paid basis for the period.

SELECTED FINANCIAL INFORMATION OF THE E-PLUS GROUP

The selected financial information of the E-Plus Group below as of and for the years ended December 31, 2013 and 2012 and as of and for the six months ended June 30, 2014 was taken or derived from the E-Plus Consolidated Financial Statements 2013 and from the E-Plus Unaudited Interim Consolidated Financial Statements or taken or derived from the E-Plus Group's accounting records or internal management reporting systems. The E-Plus Consolidated Financial Statements 2013 and the E-Plus Unaudited Interim Consolidated Financial Statements have been prepared on a voluntary basis for the purpose of this Offering.

It should be noted that the E-Plus Consolidated Financial Statements 2013 and the below selected financial information taken and derived therefrom have not been adjusted for the effects of the restructuring of the E-Plus Group to be implemented prior to the closing of the Transaction (see "Acquisition of the E-Plus Group – Pre-Closing Restructuring and Separation"). The E-Plus Unaudited Interim Consolidated Financial Statements and the below selected financial information taken and derived therefrom reflect the effects of the restructuring of the E-Plus Group, which has been completed on June 23, 2014. The guidance that the E-Plus Consolidated Financial Statements 2013, the E-Plus Unaudited Interim Consolidated Financial Statements and the below selected financial information provide to investors on the net assets, the financial position and results of operations of the E-Plus Group in the form as acquired by the Company as well as the comparability of the E-Plus Consolidated Financial Statements 2013 and the E-Plus Unaudited Interim Consolidated Financial Statements is therefore limited.

Consolidated Statement of Profit or Loss of the E-Plus Group

The table below sets forth the consolidated income statements of the E-Plus Group for the years ended December 31, 2013 (and comparative information for the year ended December 31, 2012) and for the six months ended June 30, 2014 (and comparative information for the six months ended June 30, 2013):

	For the year ended December 31,		**For the six months ended June 30,**	
	2013	**2012**	**2014**	**2013**
	(in €thousands)			
	(audited)		*(unaudited)*	
Revenues	3,142,707	3,199,091	1,582,980	1,523,780
Other income	7,775	345,323	1,443	3,679
Total revenues and other income	**3,150,482**	**3,544,414**	**1,584,423**	**1,527,459**
Own work capitalized	(37,215)	(38,481)	(18,082)	(18,042)
Cost of materials	279,621	176,454	103,739	122,260
Work contracted out	1,438,509	1,416,754	704,051	711,285
Employee benefits	254,376	260,968	145,661	136,967
Depreciation, amortization and impairments	971,298	685,438	499,365	501,207
Other operating expenses	299,159	289,696	164,648	144,224
Total operating expenses	**3,205,748**	**2,790,829**	**1,599,382**	**1,597,901**
Operating profit (loss)	**(55,266)**	**753,585**	**(14,959)**	**(70,442)**
Finance income	333,019	2,286,366	370	9,061
Finance costs	(24,828)	(23,064)	(619,148)	(15,553)
Other financial result	(19,353)	(7,333)	(6,293)	(10,878)
Total financial income/(costs)	**288,838**	**2,255,969**	**(625,071)**	**(17,370)**
Profit (loss) before income tax	**233,572**	**3,009,554**	**(640,030)**	**(87,812)**
Income taxes	(66,065)	(489,352)	260,085	24,789
Profit (loss) for the period	**167,507**	**2,520,202**	**(379,945)**	**(63,023)**

Consolidated Statement of Financial Position of the E-Plus Group

The table below sets forth the consolidated statement of financial position of the E-Plus Group as of December 31, 2013 (and comparative information as of December 31, 2012) and as of June 30, 2014:

Assets

	As of December 31,		As of June 30,
	2013	2012	2014
	(in €thousands)		
	(audited)		*(unaudited)*
NON-CURRENT ASSETS			
Goodwill	151,305	68,237	151,305
Licenses	1,667,444	1,853,402	1,552,046
Software	156,072	158,762	157,888
Other intangible assets	25,939	68,630	22,158
Total intangible assets	**2,000,760**	**2,149,031**	**1,883,397**
Land and buildings	47,305	42,153	44,197
Property, plant and equipment	2,538,437	2,341,172	2,550,496
Other tangible assets	9,497	3,220	7,991
Assets under construction	260,035	213,357	243,526
Total property, plant and equipment	**2,855,274**	**2,599,902**	**2,846,210**
Other non-current assets	52,024	51,984	50,070
Total non-current assets	**4,908,058**	**4,800,917**	**4,779,677**
CURRENT ASSETS			
Inventories	49,937	25,545	25,159
Trade and other financial receivables	270,435	243,459	322,647
Other current assets	66,112	62,606	118,035
Cash and cash equivalents	484,270	617,847	354,753
Total current assets	**870,754**	**949,457**	**820,594**
Assets of disposal groups classified as held for sale	**–**	**17,514**	**–**
TOTAL ASSETS	**5,778,812**	**5,767,888**	**5,600,271**

Group Equity and Liabilities

	As of December 31,		As of June 30,
	2013	**2012**	**2014**
	(in €thousands)		
	(audited)		*(unaudited)*
GROUP EQUITY			
Fixed partnership capital	10,000	10,000	10,102
Additional contributions from partners	1,260,644	1,260,644	1,434,630
Retained earnings	(5,682,686)	(5,918,120)	(6,070,149)
Total Group equity	**(4,412,042)**	**(4,647,476)**	**(4,625,417)**
NON-CURRENT LIABILITIES			
Borrowings	6,143,874	6,621,062	6,747,189
Finance lease liabilities	109,394	53,240	107,178
Provisions for retirement benefit obligations	36,582	48,408	48,262
Provisions for other liabilities and charges	165,464	236,095	167,956
Other payables and deferred income	8,968	15,711	8,172
Deferred income tax liabilities	2,215,524	2,154,003	1,949,225
Total non-current liabilities	**8,679,806**	**9,128,519**	**9,027,982**
CURRENT LIABILITIES			
Trade and other payables	953,765	873,023	775,369
Borrowings	42,825	46,508	5,271
Finance lease liabilities	243,139	79,753	287,662
Income tax payables	249,556	239,552	115,735
Provisions for other liabilities and charges	21,763	43,123	13,669
Total current liabilities	**1,511,048**	**1,281,959**	**1,197,706**
Liabilities of disposal groups classified as held for sale	**–**	**4,886**	**–**
TOTAL EQUITY AND LIABILITIES	**5,778,812**	**5,767,888**	**5,600,271**

Consolidated Statement of Cash Flows of the E-Plus Group

The table below sets forth the consolidated statement of cash flows of the E-Plus Group for the years ended December 31, 2013 (and comparative information for the year ended December 31, 2012) and for the six months ended June 30, 2014 (and comparative information for the six months ended June 30, 2013):

	For the year ended December 31,		For the six months ended June 30,	
	2013	**2012**	**2014**	**2013**
	(in €thousands)			
	(audited)		*(unaudited)*	
Profit (loss) before income tax	233,572	3,009,554	(640,030)	(87,812)
Adjustments for:				
– Net finance cost	(304,249)	(2,263,042)	622,456	6,590
– Share-based compensation	173	174	–	–
– Income from investments	15,411	7,073	2,579	8,867
– Depreciation, amortization and impairments	971,298	685,438	499,365	501,207
– Gain on disposal of fixed assets	(1,861)	(315,408)	–	–
– Changes in provisions (excluding deferred taxes)	(60,409)	27,401	(6,680)	(51,409)
Changes in working capital relating to:				
– Inventories	(414,812)	(153,245)	(175,338)	(173,830)
– Trade receivables and other receivables	(12,042)	32,274	(106,073)	(72,639)
– Trade payables and other payables	118,558	83,711	(179,367)	2,771
Income taxes received (+) / paid (–)	617	(11,267)	(120,810)	(3,704)
Interest received (+) / paid (–)	(20,147)	(17,323)	(29,994)	(9,981)
Net cash flow used in / provided by operating activities	**526,109**	**1,085,340**	**(133,892)**	**120,060**
Acquisition of investments to be consolidated	(100,054)	(31,714)	–	(100,054)
Acquisition of investments	(5,066)	(6,797)	(2,634)	(2,700)
Investments in intangible assets	(113,054)	(151,205)	(37,848)	(41,452)
Investments in property, plant and equipment	(519,234)	(521,941)	(133,844)	(193,131)
Disposals of subsidiaries to be consolidated	3,952	423,192	–	–
Disposals of fixed assets	–	2,191	–	15
Net cash flow used in investing activities	**(733,456)**	**(286,274)**	**(174,326)**	**(337,322)**
Payment of finance lease liabilities	(171,912)	(32,279)	(158,455)	(59,571)
Cash received from loans	390,421	171,243	200,114	161,109
Repayments of shareholder loans	(145,000)	(637,961)	137,042	–
Net cash flow provided by/used in financing activities	**73,509**	**(498,997)**	**178,701**	**101,538**
Changes in cash and cash equivalents	**(133,838)**	**300,069**	**(129,517)**	**(115,724)**
Net cash and cash equivalents at the beginning of the period	618,108	318,039	484,270	618,108
Changes in cash and cash equivalents	(133,838)	300,069	–	–
Net cash and cash equivalents at the end of the period	**484,270**	**618,108**	**354,753**	**502,384**
Cash classified as held for sale	–	261	–	–
Cash and cash equivalents	**484,270**	**617,847**	**354,753**	**502,384**

SELECTED ADDITIONAL ILLUSTRATIVE FINANCIAL INFORMATION FOR THE NEW GROUP FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE SIX MONTH PERIOD ENDED JUNE 30, 2014

Aggregated capital expenditures of the New Group (defined as additions to property, plant and equipment and to intangible assets) applying the accounting policies of the Company amounted to €1,298 million for the year ended December 31, 2013 of which €666 million were attributable to Telefónica Deutschland and €632 million to the E-Plus Group.

Aggregated capital expenditures of the New Group (defined as additions to property, plant and equipment and to intangible assets) applying the accounting policies of the Company amounted to €438 million for the six month period ended June 30, 2014 of which €266 million were attributable to Telefónica Deutschland and €172 million to the E-Plus Group.

CERTAIN SELECTED OPERATIONAL INFORMATION OF THE E-PLUS GROUP AND SELECTED ILLUSTRATIVE OPERATIONAL INFORMATION OF THE NEW GROUP

The tables below set forth certain selected operational information of the E-Plus Group as of and for the year ended December 31, 2013 and as of and for the six months ended June 30, 2014. The selected operational information of the E-Plus Group shown below was collected and calculated in accordance with the definitions and calculation policies applied by Telefónica Deutschland in this regard and may therefore differ from respective information reported by KPN or the E-Plus Group. Furthermore, the tables below set forth certain selected illustrative operational information of the New Group as of and for the year ended December 31, 2013 and as of and for the six months ended June 30, 2014 collected and calculated in accordance with the definitions and calculation policies applied by Telefónica Deutschland and assuming the Transaction had already been closed as of January 1, 2013.

E-Plus Group	**As of December 31,**	**As of June 30,**
	2013	**2014**
	(accesses in thousands, except as otherwise indicated)	
	(unaudited)	
Mobile Accesses:		
Post-paid	7,971	8,167
Pre-paid	13,762	14,020
Total	**21,732**	**22,187**

E-Plus Group	**For the year ended December 31,**	**For the six month period ended June 30,**
	2013	**2014**
	(unaudited)	
Mobile ARPU (in €):		
Blended[1]	10.8	10.1
Post-paid[2]	18.8	16.9
Pre-paid[3]	6.3	6.1
Data[4]	5.3	5.4
Non-SMS over Data Revenues (%)[5]	50.1	58.1
Post-paid churn (%)[6]	1.9	2.0

1 Calculated by dividing total service revenues from sales to customers for the period by the weighted average number of mobile accesses for all contract types (post- and pre-paid) for the period.

2 Calculated by dividing mobile service revenues attributable to accesses operated on a post-paid basis (excluding inbound roaming) by the weighted average number of mobile accesses operated on a post-paid basis for the period.

3 Calculated by dividing mobile service revenues attributable to accesses operated on a pre-paid basis (excluding inbound roaming) by the weighted average number of mobile accesses operated on a pre-paid basis for the period.

4 Calculated by dividing mobile service revenues generated through data usage (SMS, MMS, other) under mobile accesses by the weighted average number of mobile accesses for the period.

5 Portion of data revenues generated other than through SMS in total data revenues for the period in percent.

6 Calculated as the percentage of the number of disconnections of mobile accesses operated on a post-paid basis of the total weighted average number of mobile accesses operated on a post-paid basis for the period.

New Group	As of December 31,	As of June 30,
	2013	2014
	(accesses in thousands, except as otherwise indicated)	
	illustrative *(unaudited)*	
Mobile Accesses:		
Post-paid	18,257	18,683
Pre-paid	22,876	22,940
Total	**41,133**	**41,623**

New Group	For the year ended December 31,	For the six month period ended June 30,
	2013	2014
	illustrative *(unaudited)*	
Mobile ARPU (in €):		
Blended[1]	11.2	10.7
Post-paid[2]	18.4	17.2
Pre-paid[3]	5.5	5.4
Data[4]	5.7	5.7

1 Calculated by dividing total service revenues from sales to customers for the period by the weighted average number of mobile accesses for all contract types (post- and pre-paid) for the period.

2 Calculated by dividing mobile service revenues attributable to accesses operated on a post-paid basis (excluding inbound roaming) by the weighted average number of mobile accesses operated on a post-paid basis for the period.

3 Calculated by dividing mobile service revenues attributable to accesses operated on a pre-paid basis (excluding inbound roaming) by the weighted average number of mobile accesses operated on a pre-paid basis for the period.

4 Calculated by dividing mobile service revenues generated through data usage (SMS, MMS, other) under mobile accesses by the weighted average number of mobile accesses for the period.

SELECTED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

*The following selected pro forma consolidated financial information was taken from the pro forma consolidated financial information prepared by the Company for the purpose of this Prospectus, comprising pro forma consolidated income statements for the year ended December 31, 2013 and the six months ended June 30, 2014, a pro forma consolidated statement of financial position as of June 30, 2014 and pro forma notes (together, the "**Pro Forma Consolidated Financial Information**").*

The purpose of the Pro Forma Consolidated Financial Information is to show the material effects that the closing of the Transaction would have had on the historical consolidated financial statements of the Company if Telefónica Deutschland had already existed in the structure created by the closing of the Transaction as of January 1, 2013 with respect to the pro forma consolidated income statements and as of June 30, 2014 with respect to the pro forma consolidated statement of financial position.

The presentation of the Pro Forma Consolidated Financial Information is based on certain pro forma assumptions and is intended for illustrative purposes only. Therefore, the Pro Forma Consolidated Financial Information describes only a hypothetical situation and thus, due to its nature, the presentation does not reflect the actual net assets, financial position and results of operations of the Company after completion of the Acquisition. In addition, the Pro Forma Consolidated Financial Information does not represent a forecast of the net assets, financial position and results of operations of the Company at a future time. Furthermore, the Pro Forma Consolidated Financial Information is only meaningful in conjunction with the Consolidated Financial Statements 2013 and the Unaudited Interim Condensed Consolidated Financial Statements.

PRO FORMA CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1, 2013 TO DECEMBER 31, 2013

The table below sets forth the pro forma adjustments (fifth column ("*Pro forma adjustments*")) made to the aggregate of (i) the historical IFRS consolidated income statement of the Company (second column ("*Telefónica Deutschland*")) and (ii) the historical IFRS consolidated income statement of E-Plus Mobilfunk GmbH & Co. KG adjusted for the effects of the pre-closing restructuring and presentation, accounting and valuation adjustments (third column ("*New E-Plus Group*")) on the basis of the assumption that the Transaction had already been closed as of January 1, 2013.

January 1 to December 31, 2013	**Historical Financial Information**				
	Telefónica Deutschland	**New E-Plus Group**	**Total**	**Pro forma adjustments[1]**	**Pro forma consolidated income statement**
	(in €thousands)				
Revenues	4,913,881	3,252,166[2]	8,166,047	(223,867)	7,942,180[3]
Other income	169,022	56,695	225,717	–	225,717
Supplies	(1,957,980)	(1,027,359)	(2,985,339)	230,796	(2,754,543)
Personnel expenses	(418,647)	(254,376)	(673,023)	(11,856)	(684,879)
Other expenses	(1,469,176)	(1,339,501)	(2,808,677)	(21,983)	(2,830,660)
Operating income before depreciation and amortization (OIBDA)	**1,237,100**	**687,625**	**1,924,725**	**(26,910)**	**(1,897,815)**
Depreciation and amortization	(1,131,749)	(838,585)	(1,970,334)	(164,396)	(2,134,730)
Operating income	**105,351**	**(150,960)**	**(45,609)**	**(191,306)**	**(236,915)**
Finance income	6,349	8,578	14,927	–	14,927
Exchange gains	635	108	743	–	743
Finance costs	(33,409)	(48,675)	(82,084)	–	(82,084)
Exchange losses	(548)	(72)	(620)	–	(620)
Net financial income/(expense)	**(26,972)**	**(40,061)**	**(67,033)**	**–**	**(67,033)**
Profit/(loss) before tax from continuing operations	**78,379**	**(191,021)**	**(112,642)**	**(191,306)**	**(303,948)**
Income tax	(567)	–	(567)	95,766	95,199
Profit/(loss) after taxes for the year from continuing operations	**77,813**	**(191,021)**	**(113,209)**	**(95,540)**	**(208,749)**
Total profit/(loss) for the year	**77,813**	**(191,021)**	**(113,209)**	**(95,540)**	**(208,749)**
Profit/(loss) for the year attributable to owners of the parent	**77,813**	**(191,021)**	**(113,209)**	**(95,540)**	**(208,749)**
Profit/(loss) for the year	**77,813**	**(191,021)**	**(113,209)**	**(95,540)**	**(208,749)**
Earnings per share					
Basic earnings per share (in €)	0.07				(0.07)
Diluted earnings per share (in €)	0.07				(0.07)

1 The pro forma adjustments presented in this column relate to pro forma effects on revenues, supplies and other expenses from the elimination of supply and service relationships between Telefónica Deutschland and the New E-Plus Group, on depreciation and amortization in connection with a provisional purchase price allocation performed for the acquisition of the New E-Plus Group, on other expenses for acquisition-related costs assumed in connection with the Transaction and on personnel expenses through certain management bonus agreements in connection with the Transaction. The column furthermore reflects pro forma effects on income tax as a result of the aforementioned pro forma adjustments, the assumption that the Company would benefit from tax benefits arising at the New E-Plus Group level as well as the difference in statutory tax rates of the Company and the New E-Plus Group. Each pro forma adjustment is presented as if the Transaction had already closed on January 1, 2013.

2 Contains wireless business revenues €3,245,362 thousand comprising of wireless service revenues of €2,726,809 thousand and handset revenues of €518,553 thousand.

3 Contains pro forma wireless business revenues €6,694,538 thousand comprising of pro forma wireless service revenues of €5,492,236 thousand and pro forma handset revenues of €1,202,302 thousand.

PRO FORMA CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1, 2014 TO JUNE 30, 2014

The table below sets forth the pro forma adjustments (fifth column ("*Pro forma adjustments*")) made to the aggregate of (i) the historical IFRS consolidated income statement of the Company (second column ("*Telefónica Deutschland*")) and (ii) the historical IFRS consolidated income statement of KPN Mobile Germany GmbH & Co. KG adjusted for the effects of the pre-closing restructuring and presentation, accounting and valuation adjustments (third column ("*New E-Plus Group*")) on the basis of the assumption that the Transaction had already been closed as of January 1, 2013.

January 1 to June 30, 2014	**Historical Financial Information**				
	Telefónica Deutschland	**New E-Plus Group**	**Total**	**Pro forma adjustments[1]**	**Pro forma consolidated income statement**
	(in €thousands)				
Revenues	2,283,663	1,578,903[2]	3,862,556	(93,695)	3,768,871[3]
Other income	43,022	24,708	67,730	–	67,730
Supplies	(882,649)	(507,660)	(1,390,309)	99,070	(1,291,239)
Personnel expenses	(213,284)	(145,661)	(358,945)	6,135	(352,810)
Other expenses	(744,959)	(672,289)	(1,417,248)	(854)	(1,418,102)
Operating income before depreciation and amortization (OIBDA)	**485,792**	**278,001**	**763,793**	**10,656**	**774,449**
Depreciation and amortization	(533,988)	(361,130)	(895,118)	(82,222)	(977,340)
Operating income	**(48,195)**	**(83,129)**	**(131,324)**	**(71,566)**	**(202,890)**
Finance income	3,953	4,445	8,398	–	8,398
Exchange gains	161	18	179	–	179
Finance costs	(19,660)	(27,488)	(47,148)	–	(47,148)
Exchange losses	(474)	(33)	(507)	–	(507)
Net financial income/(expense)	**(16,020)**	**(23,058)**	**(39,078)**	**–**	**(39,078)**
Profit/(loss) before tax	**(64,215)**	**(106,187)**	**(170,402)**	**(71,566)**	**(241,968)**
Income tax	14	–	14	124,305	124,319
Total profit/(loss) for the period	**(64,201)**	**(106,187)**	**(170,388)**	**52,739**	**(117,649)**
Profit/(loss) for the period attributable to owners of the parent	**(64,201)**	**(106,187)**	**(170,388)**	**52,739**	**(117,649)**
Profit/(loss) for the period	**(64,201)**	**(106,187)**	**(170,388)**	**52,739**	**(117,649)**
Earnings per share					
Basic earnings per share (in €)	(0.06)				(0.04)
Diluted earnings per share (in €)	(0.06)				(0.04)

1 The pro forma adjustments presented in this column relate to pro forma effects on revenues, supplies and other expenses from the elimination of supply and service relationships between Telefónica Deutschland and the New E-Plus Group, on depreciation and amortization in connection with a provisional purchase price allocation performed for the acquisition of the New E-Plus Group, on other expenses for acquisition-related costs assumed in connection with the Transaction and on personnel expenses through certain management bonus agreements in connection with the Transaction. The column furthermore reflects pro forma effects on income tax as a result of the afore-

mentioned pro forma adjustments, the assumption that the Company would benefit from tax benefits arising at the New E-Plus Group level as well as the difference in statutory tax rates of the Company and the New E-Plus Group. Each pro forma adjustment is presented as if the Transaction had already closed on January 1, 2013.

[2] Contains wireless business revenues €1,571,793 thousand comprising of wireless service revenues of €1,333,402 thousand and handset revenues of €238,391 thousand.

[3] Contains pro forma wireless business revenues €3,177,301 thousand comprising of pro forma wireless service revenues of €2,674,458 thousand and pro forma handset revenues of €502,843 thousand.

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2014

The table below sets forth the pro forma adjustments (fifth column ("*Pro forma adjustments*")) made to the aggregate of (i) the historical IFRS consolidated statement of financial position of the Company (second column ("*Telefónica Deutschland*")) and (ii) the historical IFRS consolidated statement of financial position of KPN Mobile Germany GmbH & Co. KG adjusted for the effects of the pre-closing restructuring and presentation, accounting and valuation adjustments (third column ("*New E-Plus Group*")) on the basis of the assumption that the Transaction had already been closed as of June 30, 2014.

As of June 30, 2014	Historical Financial Information				Pro forma consolidated statement of financial position
	Telefónica Deutschland	New E-Plus Group	Total	Pro forma adjustments[1]	
	(in €thousands)				
Assets					
A) Non-current assets	**6,935,334**	**4,371,969**	**11,307,304**	**3,107,649**	**14,414,953**
Goodwill	705,576	151,305	856,881	901,427	1,758,308
Intangible assets	2,717,326	1,732,092	4,449,418	2,832,148	7,281,566
Property, plant and equipment	2,818,161	2,298,921	5,117,082	(421,210)	4,695,872
Other non-current financial assets	110,748	173,516	284,264	–	284,264
Deferred tax assets	583,523	16,135	599,659	(204,716)	394,942
B) Current assets	**2,313,167**	**1,092,660**	**3,405,827**	**(38,755)**	**3,367,072**
Inventories	110,369	25,159	135,528	–	135,528
Trade and other receivables	1,171,811	712,748	1,884,559	(25,089)	1,859,470
Other current financial assets	24,713	–	24,713	–	24,713
Cash and cash equivalents	1,006,275	354,753	1,361,028	(13,666)	1,347,362
Total assets (A+B)	**9,248,502**	**5,464,629**	**14,713,131**	**3,068,894**	**17,782,025**
Equity and liabilities					
A) Equity	**5,399,166**	**4,010,297**	**9,409,464**	**3,043,083**	**12,452,547**
Common stock	1,116,946	10,102	1,127,048	1,660,330	2,787,378
Additional paid-in capital	430	1,434,630	1,435,060	3,922,130	5,357,190
Retained earnings	4,280,108	2,568,047	6,848,155	(2,541,859)	4,306,296
Other components of equity	1,683	(2,482)	(799)	2,482	1,683
Equity attributable to owners of the parent	**5,399,166**	**4,010,297**	**9,409,464**	**3,043,083**	**12,452,547**
B) Non-current liabilities	**2,262,739**	**349,524**	**2,612,263**	**15,374**	**2,627,637**
Non-current interest-bearing debt	1,812,596	–	1,812,596	–	1,812,596
Other payables	47,013	143,255	190,268	–	190,268
Non-current provisions	138,819	202,470	341,289	19,173	360,462
Deferred income	264,311	3,799	268,111	(3,799)	264,312
Deferred tax liabilities	–	–	–	–	–
C) Current liabilities	**1,586,596**	**1,104,808**	**2,691,404**	**10,436**	**2,701,840**
Current interest-bearing debt	12,687	5,271	17,958	–	17,958
Trade payables	1,098,617	550,368	1,648,985	(17,726)	1,631,259
Other payables	289,143	339,036	628,179	40,251	668,430
Current provisions	3,155	13,669	16,824	(149)	16,675
Deferred Income	182,995	196,464	379,459	(11,940)	367,519
Total equity and liabilities (A+B+C)	**9,248,502**	**5,464,629**	**14,713,131**	**3,068,894**	**17,782,025**

[1] The pro forma adjustments presented in this column relate to pro forma effects related to the rights offering, the capital increase against contribution in kind and the payment of the cash contribution as part of the Transaction, pro forma adjustments to property, plant and equipment, intangible assets and goodwill in connection with a provisional purchase price allocation performed for the acquisition of the New E-Plus Group, the equity elimination of the New E-Plus Group, the recognition of acquisition-related costs assumed in connection with the Transaction, the elimination of supply and service relationships between Telefónica Deutschland and the New E-Plus Group, as well as the consideration of certain management bonus agreements in connection with the Transaction. The column furthermore reflects pro forma effects on deferred tax assets and deferred tax liabilities as a result of the aforementioned pro forma adjustments as well as the difference in statutory tax rates of the Company and the New E-Plus Group. Each pro forma adjustment is presented as if the Transaction had already closed on June 30, 2014.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the results of our operations and financial condition based on our Consolidated Financial Statements 2013, our Consolidated Financial Statements 2012 and our Unaudited Interim Condensed Consolidated Financial Statements. The following discussion of the Company's financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements 2013 and the Consolidated Financial Statements 2012, as well as the Unaudited Interim Condensed Consolidated Financial Statements and the information relating to the business of the Company included elsewhere in this Prospectus. Financial information in this section as of and for the years ended December 31, 2012 and December 31, 2011 was taken or derived from the Consolidated Financial Statements 2012.

The Consolidated Financial Statements 2012 include the assets and liabilities, and the Consolidated Financial Statements 2013 as well as the Consolidated Financial Statements 2012 include the income and expenses and cash flows of the entities G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its indirectly held 40% interest in Adquira España S.A., until October 1, 2012 when these entities ceased to be direct and indirect subsidiaries or associates of the Company as part of our pre-IPO restructuring (see "– Comparability of Financial Data – Reorganization of Our Group").

In the Consolidated Financial Statements 2013 we reclassified expenses for external personnel services and adjusted the prior year comparative figures for the year ended December 31, 2012 and reported expenses for external personnel services in Other Expenses whereas these expenses were reported in the Consolidated Financial Statements 2012 in the Personnel Expenses in the short-term employee benefits (see "– Comparability of Financial Data – Reclassification of Expenses for External Personnel Services in the Consolidated Financial Statements 2013").

Where financial information in this section is labelled "audited", this means that it was taken from the Consolidated Financial Statements 2013 or the Consolidated Financial Statements 2012. The label "unaudited" is used in this section to indicate financial information that was derived from the Consolidated Financial Statements 2012 or from the Consolidated Financial Statements 2013, or taken or derived from the Unaudited Interim Condensed Consolidated Financial Statements or from the Company's accounting records or internal management reporting systems.

A summary of the accounting policies that have been applied to the Company's consolidated financial statements is set forth below in "– Accounting Policies." You should also review the information in the subsection "– Presentation of Financial Information."

This discussion includes forward-looking statements which, although based on assumptions that we consider reasonable, are subject to risks and uncertainties which could cause actual events or conditions to differ materially from those expressed or implied by the forward-looking statements. For a discussion of risks and uncertainties that we face as a result of various factors, see "General Information – Forward-Looking Statements" and "Risk Factors".

The figures in the following have been rounded in accordance with established commercial practice. Figures or additions within a table may therefore result in sums different from those shown in the same table and do not always add up to 100%.

OVERVIEW

We are the third largest integrated telecommunications services provider in Germany (based on 2013 revenues published by German network operators Deutsche Telekom, Vodafone and Telefónica Deutschland), serving approximately 25.1 million customer accesses as of June 30, 2014. We offer mobile and fixed-line services providing voice, data and value-added services to consumer and business customers. In addition, we are one of the leading wholesale telecommunications services providers in Germany, offering access to our mobile and fixed-line infrastructure and service capabilities to our wholesale partners. We are a member of Telefónica Group, one of the largest telecommunications providers in the world.

We operate a nationwide mobile network with GSM coverage of more than 99% and UMTS coverage of approximately 76% of the German population as of June 30, 2014, respectively. The expansion of our LTE network is advancing steadily and as of June 30, 2014, we reached LTE coverage of more than 50% of the German population. In addition, we operate a nationwide fixed-line network. Our strategic cooperation with Deutsche Telekom has expanded our fixed-line network coverage to 98% of German households and enables us to supply nearly 15 million households with high-speed DSL internet access, delivering current data transfer rates of up to 50MBit/s and of up to 100MBit/s soon, via the new vectoring technology.

We execute a multi-brand strategy for our products in order to reach as many customer segments as possible. We offer most of our post-paid and pre-paid mobile products, fixed-line products, converged product offerings, and value added services under our core O_2 brand. We strive to continuously improve the market position of our O_2 brand, especially to gain consumer and business customers in the premium segment. In recent years, we have focused our strategy particularly on selling mobile post-paid contracts to smartphone users. This customer group, which accounted for 72% of our O_2 post-paid customer base as of June 30, 2014, generates above-average revenues compared to non-smartphone users based on its use of mobile data services and greater enthusiasm for the new LTE mobile communications standard. Interest in smartphones and the use of mobile data services is also growing among customers purchasing pre-paid products. As of June 30, 2014, approximately 21% of our O_2 pre-paid customers were using a smartphone.

Our secondary and partner brands, together with our wholesale distribution channels, enable us to reach additional customer segments outside the target market of our core O_2 brand. Our secondary brands include our own brands FONIC and netzclub as well as brands associated with joint operations and strategic partnerships, such as Tchibo mobil. Our multi-brand approach enables us to target a broad range of customers and to maximize our sales coverage through tailored products, marketing, and distribution. Our wholesale business consists of mobile, fixed-line, and value-added services, which we offer to customers such as 1&1, mobilcom/debitel, Drillisch, and Unitymedia KabelBW. We provide our fixed-line wholesale partners with a range of unbundled local loop services (ULL), including fixed-line telephony and high-speed internet access, as well as other value-added services, such as billing, management of phone numbers, and Session Initiation Protocol ("**SIP**") accounts. Our comprehensive portfolio enables our wholesale partners to independently service their end customers, while at the same time giving us the opportunity to expand our reach and take advantage of economies of scale.

For the year ended December 31, 2013, we recorded revenues of €4.9 billion and OIBDA of €1.2 billion, corresponding to year-on-year decreases in revenues of 5.7% and in OIBDA of 3.3%, respectively.

In an SPA dated July 23, 2013 among KPN, Telefónica, S.A. and the Company, the Company agreed to purchase all assets, certain liabilities and business activities of the E-Plus Group (for further details on the SPA, please see "*Business – Material Contracts – Sale and Purchase Agreement with regard to the E-Plus Group*"; for further details on the business of the E-Plus Group, see "*Acquisition of the E-Plus Group – Business of the E-Plus Group*").

Assuming the acquisition of the E-Plus Group had taken place as of January 1, 2013, Telefónica Deutschland would have served approximately 46.9 million customer accesses[1] and recorded pro forma revenues of €7,942 million as of and for the year ended December 31, 2013. In our view, the combination of Telefónica Deutschland and the E-Plus Group is intended to create a leading digital telecommunications company in the German market while retaining our mindset as "challenger". We aim to realize this by leveraging the scale of the New Group to realize business efficiencies, improve our value proposition for customers, focus on digital and data services and evolve to a leaner digital operating model which relies increasingly on digitalized processes.

KEY FACTORS AFFECTING OUR PERFORMANCE AND THE RESULTS OF OUR OPERATIONS

Our performance and results of operations have been, and will continue to be, affected by a number of factors, including external factors. Certain of these key factors that have had, or may have, an effect on the results of our operations are set forth below.

General Economic Conditions

As the global financial crisis spread to non-financial sectors of the world economy, economies worldwide have shown significant signs of weakness. Many European countries experienced and continue to experience an economic slowdown, which included a general contraction in consumer spending resulting from, among other factors, reduced consumer confidence, falling gross domestic product, rising unemployment rates and uncertainty in the macroeconomic environment. The German economy has been relatively resilient through the recent economic crisis, experiencing consistent GDP growth over the last few years (see "*Industry Overview – Introduction – German Macro Environment*").

Germany is one of Europe's largest telecommunications markets, both in terms of accesses and revenues. The German telecommunications sector generated retail revenues of approximately €40.1 billion in 2013 (*Source: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014*). Moreover, the telecommunications sector has been, and continues to be, comparatively less affected by the global financial and economic crisis as it has proven to be less cyclical than other aspects of consumer spending.

If there is a change in the German economy that impacts the telecommunications market, consumers and businesses may spend less on an incremental basis, such as by placing fewer calls or otherwise using their telecommunications devices less. The general trend in the German telecommunications market, however, shows strong demand for mobile data usage, and increasing smartphone and tablet penetration provides mobile network operators with further opportunities for growth, which is anticipated to continue in the future. Germany is the largest mobile market by subscribers in the EU, with 115.2 million accesses (*i.e.*, SIM cards) and a penetration rate of approximately 143% in 2013. The total number of mobile SIM cards in the German market is expected to increase by 1.7% annually between 2013 and 2016. This is expected to lead to an increase in penetration by more than 6.3% with a decreasing share of pre-paid accesses, a rising share of both post-paid accesses and M2M accesses in the future. (*Source: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014*). The German market for mobile services, however, is expected to show negative growth in the coming years with service revenues expected to decrease by 2.4% annually between 2013 and 2016, partially driven by pricing pressure due to high competition, declining messaging revenues due to OTT substitution and downward pressure on MTR. It is also important to note that ARPU is substantially lower for voice and data (both messaging and non-messaging) in Germany compared to other European markets (see "*Industry Overview – German Mobile Market – Introduction*").

Our Acquisition of the E-Plus Group and Expected Synergies

We expect that our acquisition of the E-Plus Group will allow us to realize significant synergy effects, particularly with respect to distribution, customer service and network synergies, with incremental value from financial, tax and other synergies. It is estimated that the total value of synergies to be realized over time will have a total net present value of more than €5.0 billion (post-tax).

[1] The number of accesses of the E-Plus Group determined on the basis of the definitions and calculation policies applied by Telefónica Deutschland in this regard.

Our Acquisition of the E-Plus Group

On July 23, 2013, we entered into an SPA pursuant to which we agreed to acquire the E-Plus Group from KPN (see "*Business – Material Contracts – Sale and Purchase Agreement with regard to the E-Plus Group*"). The capital measures to finance the acquisition of the E-Plus Group were approved by our extraordinary general shareholders' meeting on February 11, 2014 and our ordinary general shareholders' meeting on May 20, 2014. As of the date of this Prospectus, the completion of the acquisition of the E-Plus Group remains subject to the satisfaction or waiver of certain conditions (see "*Business – Material Contracts – Sale and Purchase Agreement with regard to the E-Plus Group*"). For more information on the acquisition of the E-Plus Group, see "*Acquisition of the E-Plus Group*".

We obtained merger clearance of the Transaction from the European Commission on July 2, 2014 subject to certain conditions. The decision is subject to the fulfillment of certain remedies which were offered by the Company to the European Commission. These remedies include the Company's obligation to enter into a MBA Model with up to three MBA MVNOs which had to be fulfilled prior to closing of the Transaction. Accordingly, on June 25, 2014, OHG entered into an agreement with Drillisch on terms and conditions set by the European Commission. In the agreement dated June 25, 2014, Drillisch committed to acquire 20% of the mobile network capacity available (such 20% not including and in addition to the network capacity used to serve existing customers of Drillisch on Telefónica Deutschland's and the E-Plus Group's mobile networks). The effectiveness of the agreement is subject to the closing of the Transaction (see "*Business – Material Contracts – MBA Model Agreement with Drillisch*"). Until December 31, 2014, the Company is further obligated to offer certain assets and services to a New MNO Entrant on the German market. As part of this obligation, the Company, *inter alia*, is obligated to offer 2,600 MHz spectrum as well as 2,100 MHz spectrum on the basis of a lease agreement at pre-determined prices and for a term consistent with the expiry of the relevant frequency usage rights. Additionally, the Company is obligated to offer to all MVNOs and service providers which currently procure 2G/3G/4G services from Telefónica Deutschland and/or the E-Plus Group, *inter alia*, to prolong their existing contracts until the end of 2025 and to provide access to 4G services on the basis of agreements to all MVNOs and service providers within twelve months after the start of the performance of the agreement concluded with the MBA MVNOs at least until the end of 2025. (See "*Risk Factors – Risks Related to our Acquisition of the E-Plus Group*" and "*Acquisition of the E-Plus Group – Merger Clearance and Remedies*").

On August 29, 2014, the European Commission confirmed that the agreement with Drillisch fulfilled the upfront remedies obligation and thereby granted final merger clearance of the Transaction.

Accounting Treatment of the Acquisition of the E-Plus Group

The acquisition of the E-Plus Group will be accounted for in accordance with "IFRS 3 – *Business Combinations*" applying the acquisition method at the acquisition date, the date on which the change of control resulting from the acquisition occurred (the "**Acquisition Date**"). The identifiable assets acquired and the liabilities assumed that meet the definition of assets and liabilities and are exchanged as part of the acquisition of the E-Plus Group, will be recognized separately on the Acquisition Date. Assets and liabilities, including acquired intangible assets, are measured at their fair value as at the Acquisition Date.

The consideration transferred by the Company consists of a cash payment and an equity interest in the Company. The value of that equity interest, being part of the consideration transferred, will be determined as at the Acquisition Date. The acquisition of the E-Plus Group does not include any contingent consideration arrangements. Any cost items that are not a part of the acquisition of the E-Plus Group, such as acquisition-related costs, are accounted for outside the acquisition accounting and will be recognized as expenses in our consolidated income statement. These items include financing, financial advisory, legal and accounting fees and expenses. Costs directly related to the issue of equity instruments that are part of the consideration transferred are, however, accounted for under "IAS 32 – *Financial Instruments: Presentation*" and "IAS 39 – *Financial Instruments: Recognition and Measurement*" as a reduction of the equity issued.

The acquisition of the E-Plus Group is expected to be completed in the third quarter of 2014. As at the date of this Prospectus, the acquisition of the E-Plus Group remains subject to the satisfaction or waiver of certain conditions. Therefore, the Pro Forma Consolidated Financial Information with the pro forma adjustments presented in this Prospectus relating to the acquisition of the E-Plus Group are hypothetical. The accounting for the actual acquisition will be based on the actual purchase price and the fair values of the acquired assets and assumed liabilities of the E-Plus Group as at the Acquisition Date. Therefore, the actual accounting for the acquisition may reflect additional information about facts and circumstances that existed on the Acquisition Date and may differ from the hypothetical accounting treatment used and presented in the Pro Forma Consolidated Financial Information in this Prospectus.

After the closing of the Transaction, we expect that the differences in the accounting treatment will have certain effects on the New Group's results of operations. See "*Risk Factors – Risks Related to our Acquisition of the E-Plus Group – The historical consolidated financial information of the E-Plus Group contained in the Prospectus may not be considered indicative of the E-Plus Group's future performance as part of the New Group*" and "*Pro Forma Consolidated Financial Information – Historical Financial Information – Adjustments to the historical financial information of the New E-Plus Group to harmonize the accounting policies – Accounting and valuation adjustments – Explanation of accounting and valuation adjustments – Leasing of mobile devices.*"

Synergy Potential

We estimate that the integration of the E-Plus Group will allow us to realize significant synergies with a total net present value of more than €5.0 billion (post-tax) (see "*Acquisition of the E-Plus Group – Estimated Synergy Effects*" and "*Risk Factors – Risks Related to our Acquisition of the E-Plus Group – Telefónica Deutschland is exposed to risks relating to the Transaction – Estimated synergies may not be realized in part or at all or could prove to be incorrectly forecasted.*").

Regulation

We are subject to stringent regulation and supervision by various regulatory authorities in Germany and Europe, including the FNA and the European Commission. The German Telecommunications Act (*Telekommunikationsgesetz*, "**Telecommunications Act**") sets forth certain provisions that apply to telecommunications providers which have significant market power in their respective markets. The FNA is able to impose obligations in relation to, among other things, network access (including interconnection services, unbundled access and access to certain services and facilities), rate regulation, separate accounting for interconnection services, transparency and non-discrimination on network operators. We have been designated as having significant market power in the fixed-line voice termination market and the mobile voice call termination market and are therefore subject to strict regulatory provisions of the Telecommunications Act.

We receive revenues in the form of access and interconnection fees from other network operators for voice calls and messages terminated on our network, and are required to pay access and interconnection fees to other network operators for calls terminated on their networks. The access and interconnection fees regarding the termination of voice calls are based on FTR and MTR set by the FNA. In recent years, the FNA has imposed ex-ante rate-regulation with regard to our fees for the termination of voice traffic on our mobile network (voice MTR) and for call termination on our individual public telephone networks provided at a fixed location. The FNA may lower MTR and FTR in the future which could have a material adverse effect on our business, financial condition and results of operations. In addition, the European Commission intends to harmonize cost standards for MTR throughout Europe leading to increased downward pressure on MTR (see "*Regulation – Rate Regulation*", "*Regulation – Fixed-Line Telephone Network Regulation, Interconnection, Call Termination*", "*Regulation – Fixed and Mobile Termination Rate Recommendation*", "*Regulation – Mobile Telephone Network Regulation, Interconnection, Call Termination*" and "*Risk Factors – Risks Related to our Business and our Industry – We are subject to extensive regulation which will continue to impact our business, financial condition and results of operations.*").

We receive and pay roaming charges, which are fees charged by a host network for calls, data or SMS initiated on a network that is outside the customer's host country. Such roaming charges are subject to increasingly stringent fee caps for voice, SMS and data tariffs in the wholesale and retail customer markets throughout Europe. In addition, under Roaming III, from July 1, 2014, customers have had the option to purchase their domestic and roaming services separately from different operators while maintaining the same phone number. Roaming III further lays down rules aimed at increasing price transparency and improving the provision of information on charges to roaming customers. See "*Regulation – International Roaming*". As a result, the roaming charges that we may charge our retail and wholesale customers for voice, SMS and data roaming are subject to price caps. Further reductions to price caps are anticipated. In addition, the Single Market Proposal includes proposed changes to the future regulation of roaming services, including the aim to gradually end mobile roaming surcharges within Europe. The Single Market Proposal is still subject to considerable debate and we do not know for certain what its impact will be. As roaming charges are a component of our revenues and our access and interconnection expenses, any future decreases of roaming tariffs and charges could have an adverse effect on our business, financial condition and/or the results of our operations.

Key Factors Impacting Our Business Operations

Regulatory Effects, Pricing Pressure and Changes in Customer Behavior

Tariff prices for products and services in Germany have decreased in recent years, particularly in the mobile market, where the decrease is partially driven by significant cuts in voice MTR, and in the fixed-line voice and fixed-line internet markets. Further reductions in voice MTR, increasing competitive pressure in these markets and technological progress (particularly with regard to OTT applications such as WhatsApp and Skype) may cause prices for telecommunications services and broadband internet to continue to decline.

We expect that, in accordance with the trends described above, we will receive lower revenues from classic communications services such as telephony and SMS, as pricing declines as a result of regulatory effects and since substitution with other services (such as OTT applications) will continue.

Rising Demand for Smartphones and LTE

Current trends in mobile tariffs include the uptake of tiered data tariffs and customers switching to higher bandwidth tariffs. This is caused by the increasing popularity of smartphones and tablets, in particular, those equipped with LTE capability, as LTE is a driver for mobile broadband and data usage. For example, in January 2013, only 45% of smartphones we sold to post-paid customers had LTE capability; for the six months ended June 30, 2014, that proportion had increased to 82%. In addition, there is growing demand for higher speeds in terms of internet connectivity and the use of data. The LTE standard is advantageous as it is able to provide significantly greater transfer rates than other standards can, with a downstream data transfer rate of up to 150 Mbit/s, compared to a rate of 42 Mbit/s provided by 3G. This difference in speed should provide us with the opportunity to generate increased revenues from these services in the future.

In recent years, our strategic focus has been on the sale of wireless post-paid services to smartphone users which, as of June 30, 2014, comprised 72% of the O_2 post-paid consumer customer base. This group of customers generates above-average revenues in comparison to non-smartphone users, as they utilize mobile data services and have an elevated interest in utilizing the LTE standard due to the advantages mentioned above. We have also noticed that the interest in smartphones and the use of mobile data is growing among pre-paid customers. We anticipate that use of the LTE standard will significantly increase in the coming years, with users utilizing greater amounts of mobile data on the LTE standard, and we may benefit from increased data revenues as a result.

Network Infrastructure and LTE

In order to capture the anticipated growth in mobile data services, we continue to invest in our LTE network. Given the growing penetration of smartphones and an increasing demand for data services and speed of data transfer, upgrading and maintaining our network is critical to the provision of our services to our customers. Our mobile network currently consists of more than 21,000 physical sites with GSM, UMTS and/or LTE base stations. We operate a nationwide mobile network with GSM coverage of more than 99% and UMTS coverage of approximately 76% of the German population as of June 30, 2014. In addition, as a result of our strategic cooperation with Deutsche Telekom, we have expanded our fixed-line network coverage to 98% of German households which enables us to supply nearly 15 million households with high-speed DSL internet access. The quality of our network represents a key element in our ability to maintain our subscriber base and attract new customers.

Additionally, our investment in the LTE network and the acquisition of a 4G spectrum license has had a direct impact on the level of expenses and capital expenditures we have incurred in recent years. We began the rollout of LTE across our network in 2011. We have been offering LTE services for smartphones since July 2012. We increased our network investment in 2013, mainly focused on the deployment of our own LTE network, reaching more than 50% of the German population as of June 30, 2014.

At present our LTE population coverage is focused on major metropolitan areas in Germany, and we plan to increase this coverage in the coming years as we continue to invest in our LTE network (see "*– Capital Expenditures and Investments*" and "*Business – Network Infrastructure – LTE*").

We believe that the integration of the E-Plus Group's high capacity mobile network will significantly improve our coverage, network quality and the capacity of our mobile network (see "*Business – Strengths – A Competitive Network Infrastructure with a Strong Spectrum Position*" and "*Business – Strategy – Further Improve the Perception of our Network Quality and Accelerate Nationwide LTE Deployment*").

Multi-branding

We follow a multi-brand strategy which enables us to target a broad range of consumers and maximize our sales reach (see "*Business – Strategy – Capitalize on Multi-Brand Portfolio, Multi-Channel Distribution and an Increasingly Digital Approach*"). The positioning and marketing approach of each brand is tailored to a target consumer group and follows our international branding guidelines. O_2 is our premium brand through which we market the full scope of our pre-paid and post-paid mobile and fixed-line products and services. Our secondary brands include: FONIC for cost-conscious customers who use basic mobile services only and do not require extensive customer service; the Tchibo mobil brand aimed at visitors of points of sales operated by Tchibo; and the netzclub brand targeted to users of social media. The brands of wholesale partners, such as 1&1 and mobilcom/debitel, and the brand of the cable operator Unitymedia/KabelBW are positioned and marketed by these partners.

In accordance with our multi-brand strategy, the addition of the brands in the portfolio of the E-Plus Group and their wholesale partners will be evaluated and rationalized following the closing of the Transaction (see "*Acquisition of the E-Plus Group – Overview*").

Wholesale Partners

We offer an extensive portfolio of mobile, fixed-line and value-added services to our wholesale partners. We believe that there is potential for further growth in the service provider market in Germany.

We cooperate with our wholesale partners, including Drillisch, Lidl, Unitymedia/KabelBW and Freenet (with the brands mobilcom/debitel and klarmobil) in the mobile area. Our largest and long-standing wholesale partner in the area of fixed-line services is the internet service provider United Internet, which markets our services under the 1&1 brand. It sells VDSL and Digital Subscriber Line ("**DSL**") fixed-line telephony and internet access under a direct contractual relationship with its customers.

Collaboration with our wholesale partners is mutually beneficial. We are able to provide our wholesale partners with the opportunity to independently service their end customers while giving us the opportunity to expand our reach and take advantage of certain economies of scale. We have also upgraded our network infrastructure through broadening our cooperation with Deutsche Telekom (see "*– Network Cooperation*", "*Regulation – Interconnection Agreements with Deutsche Telekom*" and "*Business – Material Contracts – Backhaul Contract with Deutsche Telekom*").

As of June 30, 2014, we had approximately 2.4 million mobile accesses and approximately 1.2 million fixed-line accesses in our wholesale business. We expect the DSL-infrastructure to remain the dominant technology in the fixed-line market for the foreseeable future; however, the increasing popularity of cable technology in urban areas may have a negative impact on our wholesale results.

Convergence

We focus on converged mobile and fixed-line service bundles in order to increase our share in customer spending, reduce mobile churn and reduce subscriber acquisition costs. We anticipate greater demand for converged product offerings from our customers, and we therefore plan to continue to attract customers by maximizing the potential of our bundled offerings. We have many customers with only a single product or service from our range of offerings, which we believe presents us with an opportunity to target those customers and to cross-sell to them our other products and services. We believe that our convergence strategy will allow us to protect our growth in mobile services, extract additional value from existing customers, lower our acquisition costs and reduce churn. Our overall strategy is still toward convergence. Our arrangement with Deutsche Telekom supports our convergence strategy by enabling us to bundle LTE with VDSL, allowing us to offer a high-speed integrated offering for such services while ensuring efficient use of our capital (see "*– Network Cooperation*" and "*Business – Material Contracts – VDSL Contingency Model with Deutsche Telekom*").

Upon the closing of our acquisition of the E-Plus Group, we believe we will be able to offer and cross-sell our fixed-line broadband high-speed services and converged bundles to a significantly enlarged customer base (see "*Business – Strategy – Cross-Sell Fixed-Line Products and Seize Opportunities in the B2B Segment*").

SoHo and SME Segment

We expect that the improvements in network quality and the expansion of our LTE network will improve our competitive position with regard to business customers, particularly small and home office ("**SoHo**") and small and medium sized businesses ("**SME**") customers. These customers have traditionally been more demanding than retail customers and we intend to further penetrate this segment of the market with flexible offerings such as our new O_2 Unite tariff for business customers (see "*Business – Strategy – Cross-Sell Fixed-Line Products and Seize Opportunities in the B2B Segment*").

Network Cooperation

We rely heavily on Deutsche Telekom's network infrastructure. On December 23, 2011, we signed an agreement with Telekom Deutschland GmbH that will allow us to use part of Deutsche Telekom's fiber-infrastructure in Germany to backhaul mobile data traffic in order to enhance our mobile backhaul capacity. The agreement is effective until 2031. Additionally, we have entered into standard ULL agreements with Deutsche Telekom in order to provide fixed-line services to our customers. We entered into a further agreement with Deutsche Telekom on December 20, 2013 broadening our cooperation with regard to fixed-line services. The agreement came into effect on March 18, 2014 and provides for the transition from our ADSL infrastructure to the advanced network infrastructure of Deutsche Telekom (the so-called "next generation access platform" or NGA platform). This enables us to offer our customers high-speed internet products with data transfer rates of up to 100 Mbit/s. The completion of the transition to Deutsche Telekom's NGA platform is expected in 2019 (see "*Risk Factors – Risks Related to our Business and our Industry – Cooperation agreements or joint ventures with other market participants may not be approved by the competent authorities due to regulatory or competition reasons which could lead to higher investment costs and limited product offers.*" and "*Risk Factors – Risks Related to our Business and our Industry – We rely heavily on certain providers and suppliers, including Deutsche Telekom for network infrastructure, BT Germany for equipment and services related to our sites, and network operators for roaming services.*").

Taxation

As of December 31, 2013, Telefónica Deutschland had trade tax losses carried forward at the group level in the amount of €12.3 billion and corporate income tax losses carried forward at the group level also in the amount of €12.3 billion.

In the Consolidated Financial Statements 2013, deferred tax assets amounting to €105.6 million have been recognized as of December 31, 2013 on trade and corporate income tax losses carried forward.

The main income statement differences between the IFRS profit (profit before tax) and the taxable profit (under German tax accounting provisions) in respect of the amortization of our UMTS license and goodwill will amount to approximately €780 million *per annum* until 2015 and decrease to approximately €320 million *per annum* thereafter until 2020 on a stand-alone basis without considering the acquisition of the E-Plus Group. The impact of these income statement differences is that the taxable profit will be lower than the IFRS profit and we expect not to have to pay income and trade taxes prior to the year starting January 1, 2016 on a stand-alone basis without considering the acquisition of the E-Plus Group.

Under current German law, tax losses carried forward do not expire. We may use our tax losses carried forward to offset up to €1 million in taxable income *per annum* without restriction. At least 40% of our taxable income over €1 million, however, remains subject to taxation (referred to as "minimum taxation"). We anticipate that we will be able to use our accumulated tax losses carried forward against future taxable income for German tax purposes. The size of the tax losses carried forward should secure this favorable tax position applicable under the current tax regime for a time period exceeding the current planning horizon.

The tax position of the Company in the future will depend on a number of factors, including future revenues, profits, financial conditions, general economic and business conditions, availability of tax losses, the results of tax audits, deductibility of interest expenses, changes in tax laws and future business prospects and integration of the E-Plus Group. This information on future taxation constitutes forward-looking statements. Forward-looking statements are not guarantees and the actual future tax position could differ materially from those expressed or implied by such forward-looking statements as a result of many factors, including those described under "*General Information – Forward-Looking Statements*" and "*Risk Factors*".

Key Factors Affecting Wireless Service Revenues

General

Our Wireless Service Revenues are affected by, among other factors, our customer base as measured by accesses, our mix of pre-paid and post-paid customers and the traffic on our network as determined by customer usage. Our subscriber base is driven by market dynamics (including demographics, technical innovation and changing customer behavior), gross connections (our ability to capture new subscribers), market share and our churn rate (our ability to retain existing customers, see: "*– Churn*"). For the past three years, the number of mobile accesses has increased, with a continuing trend towards a more favorable post-paid subscriber mix, and a steady increase in the portion of revenues from mobile data services. We expect this trend to continue. The rise in use of data services is linked to the growing popularity of smartphones and mobile computing devices, such as tablets. Our mobile voice traffic volume has increased, driven by our increasing customer base. Wireless Service Revenues are also affected by industry factors, such as competition-driven price evolution and general macroeconomic conditions. Access and interconnection fees are based on set mobile termination rates or voice MTR. Due to increased regulation of the telecommunications industry in Germany, there has been downward pressure on MTR. This and the competitiveness of the German market are the main drivers of the trend in recent years of declining ARPU, which is partially offset by the favorable trend of increased mobile broadband penetration and the uptake of tiered data tariffs.

Subscriber Base

We present our subscriber base using an access model as the integration of telecommunication services in bundled service packages has changed the way our consumer and business customers contract for mobile and fixed-line services. As individual customers may contract for multiple services, we believe it is more accurate to measure our subscriber base by the number of accesses, or services, a customer has contracted for, as opposed to only counting the number of customers. For a description of what is included in mobile access, see "*Glossary – Mobile Accesses*". The number of accesses mentioned below also includes accesses under a mobile services contract between the end-user and one of our wholesale partners.

The total mobile access base reached 19.3 million lines at the end of 2012, an increase of 0.9 million, or 5.0%, from the year ended December 31, 2011. By December 31, 2012, post-paid accesses accounted for 52.4% of our total mobile access base, an increase of 2.2 percentage points from the year ended December 31, 2011.

Our total mobile access base reached 19.4 million lines at the end of 2013, an increase of 0.1 million, or 0.5%, from the year ended December 31, 2012. Post-paid accesses accounted for 53.0% of our total mobile access base for the year ended December 31, 2013, an increase of 0.6 percentage points from the year ended December 31, 2012 as a result of our continued focus on the post-paid segment.

As of June 30, 2014, we had approximately 19.4 million mobile accesses (consisting of 8.9 million pre-paid accesses and 10.5 million post-paid accesses).

Based on our own published customer data and customer data published by the three other mobile network operators in Germany, our subscriber market share of the mobile business was 16.8% as at December 31, 2013, 17.1% as at December 31, 2012, 16.1% as at December 31, 2011 and 16.7% as at June 30, 2014. Our post-paid market share was 18.4% as at December 31, 2013, 19.1% as at December 31, 2012, 18.3% as at December 31, 2011 and 18.4% as at June 30, 2014 (see "*Industry Overview – German Mobile Market – Mobile Players and Competitive Environment*").

Smartphone Penetration

At 44.3%, smartphone penetration (defined as the number of smartphone handsets divided by the total number of handsets) in Germany is relatively low compared to the average of the selected large Western peer countries of 64.4%, which is expected to increase to 64.8% by 2016. There are, however, general telecommunication trends moving towards increased smartphone acquisition and an accompanying rise in data use with smartphone penetration in the German market expected to increase further in the coming years (see "*Industry Overview*") (*Source: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014, Analysys Mason, Telecoms Market Matrix Western Europe 4Q 2013, April 2014*). We therefore believe that there is significant catch-up potential in the German market for mobile data services compared to other Western European mobile markets.

We believe smartphone sales and the usage of mobile data will continue their upward trend. We intend to maintain a strong 3G network to service our existing and future smartphone customer base while continuing to roll out our LTE network, which we believe provides our customers with a better customer experience and allows us to capitalize on the data growth opportunity in the long term. LTE adoption by our customers accelerated in 2014, with 82% of handsets sold in the six months ended June 30, 2014 being LTE-enabled.

The following chart shows smartphone penetration of our mobile customer base:

	Smartphone Penetration[1]				
	For the year ended December 31,			**For the six months ended June 30,**	
	2013	**2012**	**2011**	**2014**	**2013**
	(in percentages) *(unaudited)*				
Smartphone Penetration	31.4	26.4	20.1	33.1	28.8

1 Our definition of smartphone penetration is tariff-based and calculated as follows: number of customers with a Smallscreen tariff divided by the total mobile customer base less M2M and customers with a Bigscreen tariff (see "*Glossary*" for definitions of M2M, Smallscreen and Bigscreen). In contrast, the definition of smartphone penetration from Analysys Mason is device-based and calculated as follows: number of smartphone handset customers divided by the number of all handset customers (regardless of whether the customer has a data tariff).

Churn

Churn refers to the percentage of subscriber disconnections during a given period, in our case monthly (see "*Glossary – Churn*"). The churn rates reflect in large part the attractiveness of our offers and pricing, the subscriber experience and perception of the brand, the perceived quality of our network (including its coverage) and the perceived quality of our services (including customer care), all as compared to other operators. Our churn rates may also be impacted by shifts in subscriber status (where a subscriber becomes active or inactive), subscription duration and other factors. We have adopted certain retention measures, which are designed to reduce our churn (see "*Business – Brands and Marketing*").

The table below sets forth our Blended Churn and Post-Paid Churn rates for the periods indicated:

	Mobile Churn (Monthly)				
	For the year ended December 31,			For the six months ended June 30,	
	2013	2012	2011	2014	2013
	(in percentages) *(unaudited)*				
Blended Churn	2.4	2.2	2.2	2.1	2.2
Post-Paid Churn	1.6	1.5	1.7	1.4	1.4

Our Blended Churn rate was stable at 2.2% in the year ended December 31, 2012 compared to the year ended December 31, 2011. In the year ended December 31, 2012, Post-Paid Churn improved by 0.3 percentage points from the year ended December 31, 2011 to reach 1.5%. This was the result of our active policy of retaining customers and our enhanced portfolio of products and services.

Our Blended Churn rate was 2.4% in the year ended December 31, 2013, an increase of 0.1 percentage points from the year ended December 31, 2012. In the year ended December 31, 2013, the Post-Paid Churn rate increased by 0.1 percentage point from the year ended December 31, 2012 to reach 1.6%. This was the result of the intense competition seen in the German mobile market.

Our Blended Churn rate was 2.1% in the six months ended June 30, 2014, which represented a decrease of 0.1 percentage points compared to the six months ended June 30, 2013. The Post-Paid Churn rate in the six months ended June 30, 2014 was 1.4% and remained stable compared to the six months ended June 30, 2013. This reflects ongoing, intense competition seen in the German mobile telecommunications market which we counter through actively managing retention among our existing customer base.

Our churn rate may be influenced by a changing regulatory environment, changes to our methodology of reporting the number of customer accesses, or the activity levels of our customer base, particularly in relation to pre-paid customers. We constantly review the long term activity of our customer base and, in line with other operators in the market. Such reviews in the past have led, in some instances, to extraordinary effects on our churn rate. Such adjustments have not historically led to any significant negative impact on our financial results.

Average Revenue Per User (ARPU)

ARPU for mobile services includes both the revenues billed to the customer each month for usage and the revenues generated from incoming calls, payable within the regulatory interconnection regime. ARPU is driven primarily by prices for our services, traffic volume, data services utilization and revenues from access and interconnection fees for incoming calls and messages and excludes roaming-in revenues from visitors. Our "O_2 My Handy" model impacts our ARPU since the revenues from handset sales is reported as Handset Revenues and not in Wireless Service Revenues, as it would be in a standard subsidized handset contract regime (see "*– Comparability of Financial Data – O_2 My Handy Model*").

	Mobile ARPU (Monthly)				
	For the year ended December 31,			For the six months ended June 30,	
	2013	2012	2011	2014	2013
	(in €, unless otherwise indicated) *(unaudited)*				
Blended ARPU	12.7	13.8	13.6	12.3	12.6
Pre-Paid	5.1	5.5	5.7	5.1	5.0
Post-Paid	19.4	21.5	21.9	18.5	19.4
Data ARPU	6.2	6.2	5.6	6.1	6.2
Non-SMS as a Percentage of Data Revenues	66.5%	56.7%	50.4%	72.3%	64.4%
Voice ARPU	6.5	7.6	8.0	6.2	6.5
Total Mobile Voice Traffic (in million minutes)	30,152	29,519	27,993	15,347	15,135

Blended ARPU

Blended ARPU for voice and data combined for the year ended December 31, 2011 was €13.6. Blended ARPU for the year ended December 31, 2012 increased by 0.9% from the year ended December 31, 2011 to €13.8. Excluding the impact from voice MTR, Blended ARPU would have increased by 1.2% in the year ended December 31, 2012 compared to the year ended December 31, 2011 (see "– *Access and Interconnection Fees*").

Blended ARPU for voice and data combined for the year ended December 31, 2013 was €12.7, representing a decline of 7.9% as compared to the year ended December 31, 2012. Excluding regulatory impacts, Blended ARPU would have declined by 4.3% in the year ended December 31, 2013 compared to the year ended December 31, 2012, mainly driven by decreasing voice and SMS revenues despite the growth in non-SMS data revenues.

Blended ARPU for the six months ended June 30, 2014 was €12.3, which represented a decrease of 2.6% as compared to the six months ended June 30, 2013. This decrease was mainly the result of an accelerating decline in SMS usage and reduced Voice ARPU.

Voice ARPU

Voice ARPU decreased by 5.0% in the year ended December 31, 2012 compared to the year ended December 31, 2011. Voice ARPU declined 14.9% in the year ended December 31, 2013 compared to the year ended December 31, 2012, primarily due to MTR decreases as determined by the FNA and market pressures on pricing. This decrease was partially offset by a favorable change in customer mix. Voice ARPU for the six months ended June 30, 2014 was €6.2, a decrease of €0.2 or 3.8% from the six months ended June 30, 2013. This was primarily attributable to changing demands and spending patterns of our existing customers.

Mobile Voice Traffic Volume

In terms of usage, mobile voice traffic in the year ended December 31, 2012 increased by 5.5% from the year ended December 31, 2011 to 29.5 million minutes. Mobile voice posted growth of 2.1% reaching 30.2 million minutes in the year ended December 31, 2013, mainly driven by the increasing customer base. Mobile traffic increased in the six months ended June 30, 2014 to 15,347 million minutes, representing a 1.4% increase compared to the six months ended June 30, 2013, due to slightly higher usage per customer.

Data ARPU

Data ARPU increased by 9.3% in the year ended December 31, 2012 to €6.2 from the year ended December 31, 2011 and remained largely stable at €6.2 in the year ended December 31, 2013 compared to the year ended December 31, 2012, increasing by only 0.7% as the reduction of SMS usage was offset by increasing data usage. Data ARPU for the six months ended June 30, 2014 was €6.1, a decrease of €0.1 or 1.4% from the six months ended June 30, 2013.

Data Revenues

Mobile data services include traditional messaging services carried over the circuit-switch network (SMS) as well as messaging and non-messaging services carried over the packet-switch network and the internet (non-SMS mobile data or, most commonly, mobile data).

Data revenues as a percentage of Wireless Service Revenues were 48.3%, 44.1% and 40.6%, for the years 2013, 2012 and 2011, respectively, and were 49.0% for the six months ended June 30, 2014. Non-SMS data revenues were 66.5%, 56.7% and 50.4% of total data revenues for the years ended December 31, 2013, 2012 and 2011, respectively, and were 72.3% for the six months ended June 30, 2014. This was mainly driven by an uplift in LTE and an increase in data consumption.

The increasing proportion of data revenues to wireless service revenues illustrates the importance of these services as a key business driver and the increased effect of improved mobile broadband penetration, which is further shown by the proportion of non-SMS data as a percentage of total data.

Access and Interconnection Fees

Access and interconnection fees paid and received contribute to our mobile revenues and costs. We receive revenues from other operators for voice and messages terminated on our network, and we are required to pay fees to other mobile operators for calls terminated on their mobile networks, in each case both domestic and international. Access and interconnection fees are based on set mobile termination rates or voice MTR. MTR is set by the German regulator, FNA, and has faced increasing downward pressure in the last few years. Decreasing MTR has a dual effect on our operations by decreasing the revenues received from other operators for calls terminated on our network while also decreasing inter-connection costs in our supply lines as our payments to other operators decrease. On July 19, 2013, the FNA confirmed in its final decision the provisionally approved MTR of €1.85 cents per minute as of December 1, 2012 and €1.79 cents per minute as of December 1, 2013. These MTR are approved until November 30, 2014. We filed suit on August 16, 2013 against the MTR decisions with the goal of achieving higher termination rates. In 2013, the contribution to revenues from voice interconnection on our network was 5% of our Wireless Service Revenues, with a slightly lower associated interconnection cost compared to the year ended December 31, 2012 (see "*Regulation – Mobile Telephone Network Regulation, Interconnection, Call Termination*").

The table below is an overview of the impact of MTR cuts on our Wireless Service Revenues for the years ended December 31, 2013, 2012 and 2011 and for the six months ended June 30, 2014 and 2013:

	Voice MTR Impacts				
	For the year ended December 31,			For the six months ended June 30,	
	2013	2012	2011	2014	2013
	(in €millions, except percentages) *(unaudited)*				
Wireless Service Revenues	2,989.3	3,151.8	2,946.5	1,434.8	1,481.2
Voice MTR Cut Impact[1]	114.7	9.0	194.8	2.7	60.1
Wireless Service Revenues adjusted for Voice MTR Cut	3,104.0	3,160.8	3,141.3	1,437.5	1,541.3
Wireless Service Revenues Growth adjusted for Voice MTR Cut	(1.5)%	7.3%	7.1%	(3.0)%	(0.4)%

1 The Voice MTR Cut Impact (*i.e.*, the amount of reduction in Wireless Service Revenue caused by decreases in voice MTR) has been calculated, on a month-by-month basis, by assuming that, where the voice MTR has fallen from one period to the next, the higher voice MTR applies in both periods. The effect of the reduction of voice MTR from €0.0714 to €0.0339 as of December 1, 2010 on the comparison of the years ended December 31, 2010 and 2011 was adjusted for by applying a voice MTR of €0.0714 for the first 11 months of 2011. The voice MTR remained stable at €0.0339 between December 1, 2010 and December 1, 2012. The effect of the reduction of voice MTR from €0.0339 to €0.0185 as of December 1, 2012 on the comparison of the years ended December 31, 2012 and 2013 was adjusted for by applying a voice MTR of €0.0339 for the first 11 months of 2013 and a voice MTR of €0.0185 for December 2013 following a reduction of voice MTR from €0.0185 to €0.0179 as of December 1, 2013. For the comparison between the six months ended on each of June 30, 2013 and 2014, the effect of the reduction of voice MTR from €0.0185 to €0.0179 as of December 1, 2013, was adjusted for by applying a voice MTR of €0.0185 for the first six months of 2014.

Key Factors Affecting Wireline Business Revenues

Subscribers

Our retail DSL business decreased in the year ended December 31, 2012 reaching 2.4 million accesses. Wholesale ULL accesses increased in the year ended December 31, 2012 by 4.4% from the year ended December 31, 2011 to 1.1 million lines at December 31, 2012.

Our retail DSL business decreased in the year ended December 31, 2013 reaching 2.2 million accesses. This was mainly due to the overall intensely competitive market conditions partly offset by the increased traction of demand for speed amongst customers. Wholesale ULL accesses increased in the year ended December 31, 2013 by 3.4% from the year ended December 31, 2012 to 1.1 million lines at December 31, 2013.

As of June 30, 2014, we had approximately 5.7 million accesses in our fixed-line business (comprising 2.1 million telephony, 3.3 million retail DSL and wholesale ULL, and the remainder to narrowband and subscribers of certain value-added services). This represented a total decrease of 4.2% for the six months ended June 30, 2014 compared to 5.9 million total accesses for the six months ended June 30, 2013, which was mainly attributable to challenging market conditions, broken down into a decrease of 4.5% for accesses to our fixed-line telephony service, a decrease of 4.5% for accesses to our retail DSL services and an increase of 2.2% for accesses to our wholesale ULL service (see "*Selected Consolidated Financial Information – Selected Operational Information*").

COMPARABILITY OF FINANCIAL DATA

Reclassification of Expenses for External Personnel Services in the Consolidated Financial Statements 2013

In the Consolidated Financial Statements 2013 we reclassified expenses for external personnel services and adjusted the prior year comparative figures for the year ended December 31, 2012 and reported expenses for external personnel services in Other Expenses whereas these expenses were reported in the Consolidated Financial Statements 2012 in the Personnel Expenses in the short-term employee benefits. We believe that the presentation used in our Consolidated Financial Statements 2013 improves the clarity of the information provided in our consolidated financial statements. Expenses for external personnel services amounted to €46.4 million for the year ended December 31, 2013 and €42.8 million for the year ended December 31, 2012, and €38.9 million for the year ended December 31, 2011. In the discussion and analysis of the results of our operations in this section, the comparison of the years ended December 31, 2013 and 2012 is based on the reclassified Personnel Expenses and Other Expenses and the adjusted prior year comparative figures for 2012 as reported in the Consolidated Financial Statements 2013, whereas the comparison of the years ended December 31, 2012 and 2011 is based on the un-reclassified or unadjusted Personnel Expenses and Other Expenses as reported in our Consolidated Financial Statements 2012.

Reorganization of Our Group

As part of the reorganization of our group in preparation for our initial public offering, OHG sold and transferred to TGB.V. on September 27, 2012 with effect as of October 1, 2012, all of its shares in Telefónica Global Activities Holdings B.V., through which we held all shares in our former subsidiaries G3G, Quam, and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its indirectly held 40% interest in Adquira España S.A. The purchase price amounted to €703.0 million, which was used to repay a loan in the amount of €703.0 million granted to us by TGB.V. on September 12, 2012.

The Consolidated Financial Statements 2012 include the assets and liabilities, and the Consolidated Financial Statements 2013 as well as the Consolidated Financial Statements 2012 include the income and expenses and cash flows of the entities G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its indirectly held 40% interest in Adquira España S.A., until October 1, 2012 when these entities ceased to be direct and indirect subsidiaries or associates of the Company as part of our pre-IPO restructuring. According to IFRS 5 "Non-current assets held for sale and discontinued operations", the income and expenses and cash flows of these sold entities including the gain on the disposal of this sub-group are separately disclosed in the consolidated income statement of the Consolidated Financial Statements 2013 as well as the Consolidated Financial Statements 2012 as profit after tax for the year from discontinued operations and in the consolidated statement of cash flows of the Consolidated Financial Statements 2013 as well as the Consolidated Financial Statements 2012 as cash flow from operating activities from discontinued operations, cash flow from investing activities from discontinued operations and cash flows from financing activities from discontinued operations, respectively. According to IFRS 5 "Non-current assets held for sale and discontinued operations", the assets and liabilities of these sold entities are not separately disclosed in the comparative financial information as of December 31, 2011 in the consolidated statement of financial position of the Consolidated Financial Statements 2012.

The Combined Financial Statements 2009-2011 do not include the assets and liabilities, income and expenses and cash flows of the entities G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its indirectly held 40% interest in Adquira España S.A., sold by us with effect as of October 1, 2012.

O_2 My Handy Model

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 the immediate payment of the total purchase price or for an upfront payment of part of the total purchase price and 12 or 24 subsequent monthly installments. The model remains popular, with 92% of total handsets sold under "O_2 My Handy" during 2013. Through "O_2 My Handy" we separate the sale of handsets from the sale of services and do not allocate handset revenues to Wireless Service Revenues. This shift from Wireless Service Revenues to Handset Revenues impacts a variety of our financial measures, including ARPU. Due to the fact that most of our competitors continue to subsidize handsets, it is difficult to compare our results with theirs, including our revenues from mobile services and mobile hardware, working capital requirements and exposure to handset prices.

In connection with the "O_2 My Handy" monthly payments, in 2011 we started putting in place factoring agreements with certain financial institutions for the sale of the associated accounts receivable to provide support to our working capital. Thus, we receive immediate payments from "O_2 My Handy" contracts upon entering into a factoring agreement with the financial institutions for those receivables. The assigned receivables were derecognized from our consolidated statement of financial position other than a small proportion due to a continuing involvement.

We entered into our first factoring arrangement in November 2011 with a net cash contribution in the year ended December 31, 2011 of €229 million; we entered into our second, third and fourth such arrangement in March 2012, September 2012 and December 2012 with net cash contributions in the year ended December 31, 2012 of €36 million, €135 million and €131 million, respectively. In 2013, we entered into three additional such arrangements with net cash contributions in the year ended December 31, 2013 of €74 million, €71 million and €75 million, respectively. In January and March of 2014, we entered into two additional arrangements with net cash contributions in the six months ended June 30, 2014 of €153 million. We plan on entering into additional factoring arrangements from time to time; however, should we be unable to enter into such arrangements with factoring partners, this may have a significant impact on our working capital and cash flow position (see "*Risk Factors – Risks Related to our Business and our Industry – Our business is capital intensive. We may not have sufficient liquidity or financing options available to fund or support our working capital or capital expenditure.*").

RECENT DEVELOPMENTS

Acquisition of the E-Plus Group

Pursuant to a sale and purchase agreement dated July 23, 2013, as amended on August 26, 2013, August 28, 2013, December 5, 2013, March 24, 2014 and August 7, 2014 among KPN, Telefónica, S.A. and the Company, the Company agreed to purchase the E-Plus Group (see "*– Key Factors Affecting Performance and Results of Operations – Our Acquisition of E-Plus and Expected Synergies – Our Acquisition of the E-Plus Group*" and "*Business – Material Contracts – Sale and Purchase Agreement with regard to the E-Plus Group*"). We received merger clearance approval for the acquisition of the E-Plus Group from the European Commission on July 2, 2014, subject to certain conditions, and confirmation by the European Commission of fulfillment of the upfront remedies obligations on August 29, 2014 (see "*Acquisition of the E-Plus Group – Merger Clearance and Remedies*").

For additional information about recent developments, see "*Recent Developments and Outlook*".

PRESENTATION OF FINANCIAL INFORMATION

Revenues

Revenues principally comprise Wireless Service Revenues, Handset Revenues, Wireline Business revenues and Other Revenues.

Wireless Service Revenues

The vast majority of Wireless Service Revenues is comprised of basic fee and tariff fees charged for voice (including incoming and outgoing calls), text (including SMS and MMS) and mobile data services and revenues from service contracts. Additionally, non-recurring charges except activation fees (*e.g.*, charges for address change, porting mobile numbers, etc.) are included. 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. We allocate tariff subscription over Voice, SMS and Data Revenues based on the fair value proportion of individual bundle components. Fair value is defined under IFRS as "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction". In our case it is typically the retail price.

Handset Revenues

Handset Revenues are comprised of the sale of mobile devices under the "O_2 My Handy" model (see "*– Comparability of Financial Data – O_2 My Handy Model*") as well as cash sales. The revenues under the "O_2 My Handy" model are discounted as we receive payments from customers in monthly installments, which are paid out over a 12 or 24 month period. Furthermore, one-time revenues payments, 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.

Wireline Business

Wireline Business revenues are principally comprised of:

- retail DSL service revenues, retail DSL activation fees, revenues for DSL-related hardware and non-recurring charges (*e.g.*, charges for address change, number portation, etc.);
- service and hardware revenues from Pay TV service, which was terminated as per the end of 2013;
- revenues from wholesale ULL, also called wholesale DSL, revenues derived from the sale of our DSL network and services as well as hardware to other providers who then repackage and resell it to the end consumer;
- carrier traffic revenues related to the sale and trading of minutes between carriers to connect their customers calls through other operators networks; and
- revenues derived from hosting client content on our data center infrastructure and providing accompanying management services, such as the use of our data center infrastructure to host applications designed and operated by third parties; after the disposal of Telefónica Germany Online Services GmbH as per September 30, 2013, we terminated this service.

Wireline Business also comprises fixed-line telephony revenues.

Other Revenues

Other Revenues comprise revenues from new businesses such as mobile advertising and financial services (*e.g.*, the mobile offer service "O_2 more Local" or the mobile payment system "mpass").

Other Income

Other Income is principally comprised of own work capitalized and ancillary income as well as the gain on disposal of assets.

Supplies

Supplies primarily include:

- interconnection costs relating to costs incurred when connecting our subscribers to other mobile networks;
- costs for sold devices, in particular the sales as part of the "O_2 My Handy" model; and
- costs associated with providing connectivity to consumer and business customers, such as leased lines and purchases of ULL, primarily from Deutsche Telekom, as well as the costs for the leasing of space for network installations.

Personnel Expenses

Personnel Expenses primarily include wages, sales commissions, social security, employees' termination benefits and expenses for share-based payments and pensions.

In the Consolidated Financial Statements 2013 we reclassified expenses for external personnel services and adjusted the prior year comparative figures for the year ended December 31, 2012 and reported expenses for external personnel services in Other Expenses whereas these expenses were reported in the Consolidated Financial Statements 2012 in the Personnel Expenses in the short-term employee benefits (see "*– Comparability of Financial Data – Reclassification of Expenses for External Personnel Services in the Consolidated Financial Statements 2013*").

Other Expenses

Other Expenses is comprised primarily of commissions paid to dealers, marketing costs, customer service and administrative outsourcing, hardware and IT maintenance, equipment and premise lease expenses and energy costs.

As noted above, in the Consolidated Financial Statements 2013 we reclassified expenses for external personnel services and adjusted the prior year comparative figures for the year ended December 31, 2012 and reported expenses for external personnel services in Other Expenses whereas these expenses were reported in the Consolidated Financial Statements 2012 in the Personnel Expenses in the short-term employee benefits (see "*– Comparability of Financial Data – Reclassification of Expenses for External Personnel Services in the Consolidated Financial Statements 2013*").

Depreciation and Amortization

Depreciation and Amortization relate to property, plant and equipment (mainly plant and machinery) and intangible assets (mainly licenses and software).

Finance Income

Finance Income is mainly comprised of interest income in connection with "O_2 My Handy" receivables as well as of interest income resulting from the arrangements under the deposit and cash pooling agreements (see "*– Deposit and Cash Management Agreements*").

Exchange Gains

Exchange Gains are due to differences in exchange rates and are not significant. Occasionally in the past, we have undertaken small and short duration hedging positions with members of the Telefónica Group. These positions are infrequent and also not substantial.

Finance Costs

Finance Costs mainly include the interest expense for the loan granted by TGB.V. in September 2012 (see "*– Long-Term Financing Arrangements*"). Additional Finance Costs result primarily from interest expenses attributable to the senior unsecured bond with a nominal value of €600.0 million and a maturity date of November 22, 2018, issued in November 2013 by Telefónica Deutschland, via its subsidiary O2 Telefónica Deutschland Finanzierungs GmbH (the "**Senior Unsecured Bond 2018**"), and the senior unsecured bond with a nominal value of €500.0 million and a maturity date of February 10, 2021, issued in February 2014 by Telefónica Deutschland, via its subsidiary O2 Telefónica Deutschland Finanzierungs GmbH (the "**Senior Unsecured Bond 2021**").

Exchange Losses

Exchange Losses are due to differences in exchange rates, which are not significant.

Income Tax

Income Tax comprises current and deferred income tax expenses or benefits. Income tax expenses/benefits include corporate income tax and trade tax as well as withholding taxes.

CONSOLIDATED INCOME STATEMENT AND OTHER CONSOLIDATED FINANCIAL INFORMATION

The table below shows our consolidated income statement and other financial information for the years ended December 31, 2013, 2012 and 2011 and the six months ended June 30, 2014 and 2013:

	For the year ended December 31,			For the six months ended June 30,	
	2013	**2012**	**2011**	**2014**	**2013**
	(in €thousands, unless otherwise indicated)				
	(audited, unless otherwise indicated)			*(unaudited)*	
Revenues	**4,913,881**	**5,212,838**	**5,035,552**	**2,283,663**	**2,445,419**
Wireless Business	3,673,043	3,845,053	3,605,747	1,699,203	1,816,290
Wireless Service Revenues[1]	2,989,294	3,151,838	2,946,465	1,434,751	1,481,230
Handset Revenues	683,749	693,215	659,282	264,452	335,060
Wireline Business	1,234,958	1,363,203	1,425,740	580,775	626,429
Other Revenues	5,880	4,582	4,065	3,686	2,700
Other Income	169,022	60,806	60,991	43,022	38,192
Supplies	(1,957,980)	(2,130,869)	(2,047,139)	(882,649)	(974,483)
Personnel Expenses[6]	(418,647)	(421,764)	(437,756)	(213,284)	(207,589)
Other Expenses[2, 6]	(1,469,176)	(1,441,938)	(1,462,411)	(744,959)	(729,111)

	For the year ended December 31,			For the six months ended June 30,	
	2013	**2012**	**2011**	**2014**	**2013**
	(in €thousands, unless otherwise indicated)				
	(audited, unless otherwise indicated)			*(unaudited)*	
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)[3, 4]	**1,237,100**	**1,279,074**	**1,149,237**	**485,792**	**572,428**
Depreciation and Amortization	(1,131,749)	(1,133,183)	(1,082,189)	(533,988)	(566,387)
OPERATING INCOME	**105,351**	**145,891**	**67,048**	**(48,195)**	**6,040**
Finance Income	6,349	15,678	14,271	3,953	3,391
Exchange Gains	635	715	707	161	296
Finance Costs	(33,409)	(21,385)	(8,389)	(19,660)	(19,744)
Exchange Losses	(548)	(1,132)	(559)	(474)	(175)
Net Financial Income/(Expense)	**(26,972)**	**(6,123)**	**6,030**	**(16,020)**	**(16,232)**
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS/(LOSS) BEFORE TAX	**78,379**	**139,768**	**73,078**	**(64,215)**	**(10,191)**
Income Tax	(567)	167,756	(1,732)	14	17
PROFIT AFTER TAXES FOR THE YEAR FROM CONTINUING OPERATIONS	**77,813**	**307,523**	**71,346**	**–**	**–**
PROFIT AFTER TAXES FOR THE YEAR FROM DISCONTINUED OPERATIONS	**–**	**1,027,030**	**482,557**	**–**	**–**
TOTAL PROFIT/(LOSS) FOR THE YEAR/ PERIOD	**77,813**	**1,334,553**	**553,904**	**(64,201)**	**(10,174)**
PROFIT/(LOSS) FOR THE YEAR/PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	**77,813**	**1,334,553**	**553,904**	**(64,201)**	**(10,174)**
PROFIT/(LOSS) FOR THE YEAR/PERIOD	**77,813**	**1,334,553**	**553,904**	**(64,201)**	**(10,174)**
Reconciliation from Operating Income to Operating Income before Depreciation and Amortization (OIBDA) and before Group Fees and OIBDA before Group Fees margin[3]					
OPERATING INCOME	**105,351**	**145,891**	**67,048**	**(48,195)**	**6,040**
Depreciation and Amortization	(1,131,749)	(1,133,183)	(1,082,189)	(533,988)	(566,387)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)[4]	**1,237,100**	**1,279,074**	**1,149,237**	**485,792**	**572,428**
Group Fees	(70,929)	(72,311)	(70,232)	(29,687)	(31,047)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA) AND BEFORE GROUP FEES (unaudited)[3]	**1,308,029**	**1,351,385**	**1,219,469**	**515,480**	**603,475**
Revenues	**4,913,881**	**5,212,838**	**5,035,552**	**2,283,663**	**2,445,419**
OIBDA margin[5] (unaudited)	**25.2%**	**24.5%**	**22.8%**	**21.3%**	**23.4%**
OIBDA before Group Fees margin[5] (unaudited)	**26.6%**	**25.9%**	**24.2%**	**22.6%**	**24.7%**

1 Adjusted for the effect of decreases in MTR in December 2010, 2012 and 2013, Wireless Service Revenues would have been €194.8 million, €9.0 million and €114.7 million higher in the years ended December 31, 2011, 2012 and 2013, respectively. Adjusted for the effect of the decrease in MTR in December 2013, Wireless Service Revenues would have been €2.7 million higher in the six months ended June 30, 2014 (see "*– Key Factors Affecting Performance and Results of Operations – Key Factors Affecting our Wireless Service Revenues – Access and Interconnection Fees*").

2 Other Expenses includes certain fees paid to the Telefónica Group ("**Group Fees**"), under a range of agreements, including management and consulting services, licenses, cost sharing and other such services.

3 We have provided OIBDA, OIBDA margin, OIBDA before Group Fees and OIBDA before Group Fees margin and other information because we believe they provide investors with additional information to measure our performance. Our use of the terms OIBDA, OIBDA margin, OIBDA before Group Fees and OIBDA before Group Fees margin varies from others in our industry and should not be considered as an alternative to result for the year or period, cash flow from operating activities, revenues or any other performance measures derived in accordance with IFRS as measures of operating performance or to cash flows as measures of liquidity. OIBDA, OIBDA

margin, OIBDA before Group Fees and OIBDA before Group Fees margin have important limitations as analytical tools and investors should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS. We believe OIBDA, OIBDA margin, OIBDA before Group Fees and OIBDA before Group Fees margin facilitate operating performance comparisons from period to period and company to company by eliminating potential differences caused by variations in tax positions (such as the impact of changes in effective tax rates or deferred taxes on periods or companies), depreciation and amortization and certain other items. OIBDA and OIBDA margin are commonly used terms to compare the operating activities of telecommunications operators, however, because other companies may not calculate OIBDA and OIBDA margin identically to us, our presentation of OIBDA and OIBDA margin may not be comparable to that of other companies.

4 OIBDA as reported in our consolidated financial statements contains the Group Fees as described in footnote 2 above.

5 OIBDA margin and OIBDA before Group Fees margin are calculated as percentage of total Revenues, respectively.

6 In the Consolidated Financial Statements 2013 we reclassified expenses for external personnel services and adjusted the prior year comparative figures for the year ended December 31, 2012 and reported expenses for external personnel services in Other Expenses whereas these expenses were reported in the Consolidated Financial Statements 2012 in the Personnel Expenses in the short-term employee benefits. We believe that the presentation used in our Consolidated Financial Statements 2013 improves the clarity of the information provided in our consolidated financial statements. Expenses for external personnel services amounted to €46.4 million for the year ended December 31, 2013 and €42.8 million for the year ended December 31, 2012, and €38.9 million for the year ended December 31, 2011. In the discussion and analysis of the results of our operations in this section, the comparison of the years ended December 31, 2013 and 2012 is based on the reclassified Personnel Expenses and Other Expenses and the adjusted prior year comparative figures for 2012 as reported in the Consolidated Financial Statements 2013, whereas the comparison of the years ended December 31, 2012 and 2011 is based on the un-reclassified or unadjusted Personnel Expenses and Other Expenses as reported in our Consolidated Financial Statements 2012.

SIX MONTHS ENDED JUNE 30, 2014 AS COMPARED TO SIX MONTHS ENDED JUNE 30, 2013

Revenues

Our total Revenues were €2,283.7 million for the six months ended June 30, 2014, a decrease of €161.8 million, or 6.6%, from €2,445.4 million for the six months ended June 30, 2013. The decline in Wireless Business revenues resulted, in particular, from lower handset revenues as well as a change in customer behavior for wireless telephony services (*e.g.*, the ongoing substitution of text messaging by OTT messaging applications). The reduction of MTR impacted the decline in revenues to a lower extent than in previous periods. Lower revenues in our Wireline Business were realized as a result of a reduced DSL customer base. Revenues continued to be positively influenced by strong growth in the wireless data business.

The table below sets forth our Revenues for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013:

	For the six months ended June 30,				Change	
	2014	% of total Revenues	2013	% of total Revenues	Amount	%
	(in €thousands, except percentages) *(unaudited)*					
Revenues:						
Wireless Business	1,699,203	74.4	1,816,290	74.3	(117,088)	(6.4)
Wireless Service Revenues	1,434,751	62.8	1,481,230	60.6	(46,479)	(3.1)
Handset Revenues	264,452	11.6	335,060	13.7	(70,608)	(21.1)
Wireline Business	580,775	25.4	626,429	25.6	(45,654)	(7.3)
Other Revenues	3,686	0.2	2,700	0.1	986	36.5
Total Revenues	**2,283,663**	**100.0**	**2,445,419**	**100.0**	**(161,755)**	**(6.6)**

Wireless Service Revenues were €1,434.8 million for the six months ended June 30, 2014, a decrease of €46.5 million, or 3.1%, from €1,481.2 million for the six months ended June 30, 2013. Adjusted for the impact of the MTR reduction the decrease would have been smaller at 3.0%. The decrease in Wireless Service Revenues was primarily attributable to the declining Voice ARPU as a result of a demanding market and competitive environment. The share of data revenues as a proportion of Wireless Service Revenues increased by 0.9 percentage points to 49.0% in the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Non-SMS data revenues, as a key driver, increased in the six months ended June 30, 2014 by 10.6% compared to the six months ended June 30, 2013, offset by lower messaging revenues on the back of a reduction in the number of text messages sent and received.

Handset Revenues were €264.5 million for the six months ended June 30, 2014, a decrease of €70.6 million, or 21.1%, from €335.1 million for the six months ended June 30, 2013. This decrease was due to lower volumes of handsets sold as well as lower prices for the handsets sold following special offers and promotions to compete in a challenging market.

Wireline Business revenues were €580.8 million for the six months ended June 30, 2014, a decrease of €45.7 million, or 7.3%, from €626.4 million for the six months ended June 30, 2013. The decrease in Wireline Business revenues was primarily attributable to a lower retail DSL base, which was partly mitigated by the uptake of VDSL.

Other Revenues were €3.7 million for the six months ended June 30, 2014, an increase of €1.0 million, or 36.5% from €2.7 million for the six months ended June 30, 2013.

Other Income

Other Income was €43.0 million for the six months ended June 30, 2014, an increase of €4.8 million, or 12.6%, from €38.2 million for the six months ended June 30, 2013. The increase in Other Income was primarily attributable to an increase in our own work capitalized.

Supplies

Supplies expenses were €882.6 million for the six months ended June 30, 2014, a decrease of €91.8 million, or 9.4%, from €974.5 million for the six months ended June 30, 2013. The decrease in Supplies expenses was primarily attributable to lower handset sales and lower termination costs from outgoing SMS.

Personnel Expenses

Personnel Expenses were €213.3 million for the six months ended June 30, 2014, an increase of €5.7 million, or 2.7%, from €207.6 million for the six months ended June 30, 2013. The increase in Personnel Expenses was primarily attributable to general increases in salaries from July 2013 onwards.

Other Expenses

Other Expenses were €745.0 million for the six months ended June 30, 2014, an increase of €15.8 million, or 2.2%, from €729.1 million for the six months ended June 30, 2013. The increase in Other Expenses was primarily due to higher costs for customer acquisition and customer retention measures.

Depreciation and Amortization

Depreciation and Amortization were €534.0 million for the six months ended June 30, 2014, a decrease of €32.4 million, or 5.7%, from €566.4 million for the six months ended June 30, 2013. The decrease in Depreciation and Amortization was primarily attributable to the already fully written off assets, mainly within the software category.

Finance Income

Finance Income was €4.0 million for the six months ended June 30, 2014, an increase of €0.6 million, or 16.6%, from €3.4 million for the six months ended June 30, 2013.

Exchange Gains

Exchange Gains remained stable at €0.2 million for the six months ended June 30, 2014 compared to €0.3 million for the six months ended June 30, 2013.

Finance Costs

Finance Costs remained stable at €19.7 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Lower interest expenses relating to the accretion of provisions and other liabilities were offset by interest expenses attributable to the Senior Unsecured Bond 2018 and the Senior Unsecured Bond 2021 for the six months ended June 30, 2014.

Exchange Losses

Exchange Losses were €0.5 million for the six months ended June 30, 2014, an increase of €0.3 million, from €0.2 million for the six months ended June 30, 2013.

Income Tax

Income Tax was a benefit of €0.014 million for the six months ended June 30, 2014, a decrease of €0.004 million, or 20.4%, from an Income Tax benefit of €0.017 million for the six months ended June 30, 2013.

Operating Income Before Depreciation and Amortization and Before Group Fees (OIBDA Before Group Fees) and Operating Income Before Depreciation and Amortization (OIBDA)

Our OIBDA Before Group Fees was €515.5 million for the six months ended June 30, 2014, a decrease of €88.0 million, or 14.6%, from €603.5 million for the six months ended June 30, 2013. Our OIBDA was €485.8 million for the six months ended June 30, 2014, a decrease of €86.6 million, or 15.1%, from €572.4 million for the six months ended June 30, 2013. The decline in OIBDA was primarily due to the decrease in revenues as well as increased costs for focused commercial activities to gain trading momentum, such as selected offers with discounted devices.

OIBDA Before Group Fees margin for the six months ended June 30, 2014 stood at 22.6%, a decrease of 2.1 percentage points compared to the six months ended June 30, 2013. OIBDA margin for the six months ended June 30, 2014 stood at 21.3% a decrease of 2.1 percentage points compared to the six months ended June 30, 2013.

YEAR ENDED DECEMBER 31, 2013 AS COMPARED TO YEAR ENDED DECEMBER 31, 2012

Revenues

Our total Revenues were €4,913.9 million for the year ended December 31, 2013, a decrease of €299.0 million, or 5.7%, from €5,212.8 million for the year ended December 31, 2012. The decrease in Revenues was primarily due to a decrease in Wireless Service Revenues, driven by the reduction of MTR, as well as through the generally changed utilization of wireless telephony services, such as the increasing adoption of OTT messaging applications. The reduction in Revenues was also partly explained by a decrease in Wireline Business revenues due to a reduced DSL customer base. Without the reduction in the MTR, the decrease in total Revenues for the year ended December 31, 2013 as compared to the year ended December 31, 2012 would have been 3.5%.

The table below sets forth our Revenues for the year ended December 31, 2013 as compared to the year ended December 31, 2012:

	For the year ended December 31,				Change	
	2013	% of total Revenues	2012	% of total Revenues	Amount	%
	(in €thousands, except percentages) *(audited, except unaudited change amounts and percentages)*					
Revenues:						
Wireless Business	3,673,043	74.7	3,845,053	73.8	(172,010)	(4.5)
Wireless Service Revenues	2,989,294	60.8	3,151,838	60.5	(162,544)	(5.2)
Handset Revenues	683,749	13.9	693,215	13.3	(9,465)	(1.4)
Wireline Business	1,234,958	25.1	1,363,203	26.2	(128,245)	(9.4)
Other Revenues	5,880	0.1	4,582	0.1	1,298	28.3
Total Revenues	**4,913,881**	**100.0**	**5,212,838**	**100.0**	**(298,957)**	**(5.7)**

Wireless Service Revenues were €2,989.3 million for the year ended December 31, 2013, a decrease of €162.5 million, or 5.2%, from €3,151.8 million for the year ended December 31, 2012. The decrease in Wireless Service Revenues in the year ended December 31, 2013 was primarily due to regulatory influences (*i.e.,* the reduction in MTR). Adjusted for the effect of decreasing voice MTR, Wireless Service Revenues would have decreased by 1.5% in the year ended December 31, 2013 compared to the year ended December 31, 2012, due to an increasingly competitive market. Total data revenues in the year ended December 31, 2013 increased by 3.7% compared to the year ended December 31, 2012, accounting for 48.3% of Wireless Service Revenues. The main driver of this development was the increase in non-SMS data revenues on the back of accelerating smartphone penetration and our well-adapted portfolio of data products and tariffs. This was partially offset by a decrease in SMS revenues as a result of the lower number of text messages sent.

Handset Revenues were €683.7 million for the year ended December 31, 2013, a decrease of €9.5 million, or 1.4%, from €693.2 million for the year ended December 31, 2012. The decrease in Handset Revenues was primarily attributable to lower sales of mobile devices.

Wireline Business revenues were €1,235.0 million for the year ended December 31, 2013, a decrease of €128.2 million, or 9.4%, from €1,363.2 million for the year ended December 31, 2012. The decrease in Wireline Business revenues was primarily attributable to a contraction in the customer base and the overall competitive market conditions. The decrease was partially offset by demand for our "O_2 DSL All-in" tariffs as well as a positive uptake in the VDSL business.

Other Revenues were €5.9 million for the year ended December 31, 2013, an increase of €1.3 million, or 28.3% from €4.6 million for the year ended December 31, 2012. The rise in Other Revenues was primarily attributable to an increase in wireless marketing activities.

Other Income

Other Income was €169.0 million for the year ended December 31, 2013, an increase of €108.2 million, or 178.0%, from €60.8 million for the year ended December 31, 2012. The increase in Other Income was primarily attributable to the one-off gains of €76.2 million from the disposal of Telefónica Germany Online Services GmbH and GKHH Fibre Optic GmbH in the last quarter of the year ended December 31, 2013 as well as to an increase in our own work capitalized. For further details, see Note 19 of the Consolidated Financial Statements 2013 contained in the F-pages of this Prospectus.

Supplies

Supplies expenses were €1,958.0 million for the year ended December 31, 2013, a decrease of €172.9 million, or 8.1%, from €2,130.9 million for the year ended December 31, 2012. The decrease in Supplies expenses was primarily attributable to the reduction in MTR, which resulted in lower fees payable for the transmission of calls to third-party networks as well as the decreasing use of SMS. The decrease was partly offset by higher costs for sold end-devices.

Personnel Expenses

After reclassification of expenses for external personnel services, Personnel Expenses were €418.6 million for the year ended December 31, 2013, a decrease of €3.1 million, or 0.7%, from €421.8 million for the year ended December 31, 2012. The decrease in Personnel Expenses was primarily attributable to the disposal of parts of our business and the consequential reduced number of employees. This was partially offset by a general increase in wages.

Other Expenses

After reclassification of expenses for external personnel services, Other Expenses were €1,469.2 million for the year ended December 31, 2013, an increase of €27.2 million, or 1.9%, from €1,441.9 million for the year ended December 31, 2012. The increase in Other Expenses was primarily attributable to increasing costs for customer retention measures as well as the offering of certain sales promotions in the second half of 2013.

Depreciation and Amortization

Depreciation and Amortization remained stable at €1,131.7 million for the year ended December 31, 2013 compared to €1,133.2 million for the year ended December 31, 2012.

Finance Income

Finance Income was €6.3 million for the year ended December 31, 2013, a decrease of €9.4 million, or 59.9%, from €15.7 million for the year ended December 31, 2012. The decrease is mainly attributable to lower interest income from financial assets resulting from lower average cash pooling deposits in 2013 compared to 2012.

Exchange Gains

Exchange Gains were €0.6 million for the year ended December 31, 2013, a decrease of €0.1 million, or 11.2%, from €0.7 million for the year ended December 31, 2012.

Finance Costs

Finance Costs were €33.4 million for the year ended December 31, 2013, an increase of €12.0 million, or 56.1%, from €21.4 million for the year ended December 31, 2012. The increase in Finance Costs was primarily attributable to the interest expenses relating to the loan granted by TGB.V. in September 2012.

Exchange Losses

Exchange Losses were €0.5 million for the year ended December 31, 2013, a decrease of €0.6 million, or 51.6%, from €1.1 million for the year ended December 31, 2012.

Income Tax

The following table sets forth our Income Tax for the year ended December 31, 2013 as compared to the year ended December 31, 2012:

	For the year ended December 31,		**Change Amount**
	2013	**2012**	
	(in €thousands) *(audited, except unaudited change amounts)*		
Current Tax	17	–	17
Deferred Tax (expense)	(584)	167,756	(168,340)
Total Income Tax (expense)	**(567)**	**167,756**	**(168,323)**

Total Income Tax expense was €0.6 million for the year ended December 31, 2013, a decrease of €168.3 million from an Income Tax benefit of €167.8 million for the year ended December 31, 2012. The Total Income Tax expense for the year ended December 31, 2013, was mainly attributable to changes in the deferred taxes. For further details, see Note 18 of the Consolidated Financial Statements 2013 contained in the F-pages of this Prospectus.

Operating Income Before Depreciation and Amortization and Before Group Fees (OIBDA Before Group Fees) and Operating Income Before Depreciation and Amortization (OIBDA)

Our OIBDA Before Group Fees was €1,308.0 million for the year ended December 31, 2013, a decrease of €43.4 million, or 3.2%, from €1,351.4 million for the year ended December 31, 2012. Our OIBDA was €1,237.1 million for the year ended December 31, 2013, a decrease of €42.0 million, or 3.3%, from €1,279.1 million for the year ended December 31, 2012.

OIBDA for the year ended December 31, 2012 was impacted by increasing Wireless Service Revenues whereas OIBDA for the year ended December 31, 2013 was impacted by lower Revenues and was partly offset by the corresponding savings in Supplies as well as gains on disposal of Telefónica Germany Online Services GmbH and GKHH Fibre Optic GmbH in the last quarter of the year ended December 31, 2013, amounting to €76.2 million.

OIBDA before Group Fees margin for the year ended December 31, 2013 stood at 26.6%, an increase of 0.7 percentage points compared to the year ended December 31, 2012. OIBDA margin for the year ended December 31, 2013 stood at 25.2%, an increase of 0.6 percentage points compared to the year ended December 31, 2012.

YEAR ENDED DECEMBER 31, 2012 AS COMPARED TO YEAR ENDED DECEMBER 31, 2011

Revenues

Our total Revenues were €5,212.8 million for the year ended December 31, 2012, an increase of €177.3 million, or 3.5%, from €5,035.6 million for the year ended December 31, 2011. Revenues for the year ended December 31, 2012 were driven primarily by our wireless business, which benefited from our focus on the data opportunity reflected by an integrated tariff portfolio ("O_2 Blue") and attractive smartphone offers through the "O_2 My Handy" model and continued strong demand for smartphones.

The table below sets forth our Revenues for the year ended December 31, 2012 as compared to the year ended December 31, 2011:

	For the year ended December 31,				Change	
	2012	**% of total Revenues**	**2011**	**% of total Revenues**	**Amount**	**%**
	(in €thousands, except percentages) *(audited, except unaudited change amounts and percentages)*					
Revenues:						
Wireless Business	3,845,053	73.8	3,605,747	71.6	239,306	6.6
Wireless Service Revenues	3,151,838	60.5	2,946,465	58.5	205,373	7.0
Handset Revenues	693,215	13.3	659,282	13.1	33,933	5.1
Wireline Business	1,363,203	26.2	1,425,740	28.3	(62,537)	(4.4)
Other Revenues	4,582	0.1	4,065	0.1	517	12.7
Total Revenues	**5,212,838**	**100.0**	**5,035,552**	**100.0**	**177,286**	**3.5**

Wireless Service Revenues were €3,151.8 million for the year ended December 31, 2012, an increase of €205.4 million, or 7.0%, from €2,946.5 million for the year ended December 31, 2011. The increase in Wireless Service Revenues was primarily due to a rise in wireless post-paid accesses in the year ended December 31, 2012. Total data revenues in the year ended December 31, 2012 increased by 16.1% compared to the year ended December 31, 2011, accounting for 44.1% of Wireless Service Revenues for the year ended December 31, 2012. This increase was primarily due to the rising demand for data services such as wireless internet, service applications and other data content. We continued monetizing the data opportunity by leveraging the integrated tariff portfolio (mainly the enhanced "O_2 Blue" portfolio with "O_2 Blue Select" and "O_2 Nxt"), driving non-SMS data revenue growth of 30.7% for the year ended December 31, 2012.

Handset Revenues were €693.2 million for the year ended December 31, 2012, an increase of €33.9 million, or 5.1%, from €659.3 million for the year ended December 31, 2011. The increase in Handset Revenues was primarily attributable to the continued success of the "O_2 My Handy" model and continued strong demand for smartphones.

Wireline Business revenues were €1,363.2 million for the year ended December 31, 2012, a decrease of €62.5 million, or 4.4%, from €1,425.7 million for the year ended December 31, 2011. The decrease in Wireline Business revenues was driven by a lower retail DSL customer base resulting from overall difficult market conditions.

Other Revenues were €4.6 million for the year ended December 31, 2012, an increase of €0.5 million, or 12.7% from €4.1 million for the year ended December 31, 2011.

Other Income

Other Income was €60.8 million for the year ended December 31, 2012, a decrease of €0.2 million, or 0.3%, from €61.0 million for the year ended December 31, 2011.

Supplies

Supplies expenses were €2,130.9 million for the year ended December 31, 2012, an increase of €83.7 million, or 4.1%, from €2,047.1 million for the year ended December 31, 2011. The increase in Supplies expenses was primarily attributable to a strong demand for smartphones and increased wireless interconnection expenses due to higher usage of voice services.

Personnel Expenses

Before reclassification of expenses for external personnel services, Personnel Expenses were €464.5 million for the year ended December 31, 2012, an increase of €26.8 million or 6.1%, from €437.8 million for the year ended December 31, 2011. The increase in Personnel Expenses mainly reflected the general pay rise from July 1, 2012 and the change in the mix of our employee base towards the commercial areas.

Other Expenses

Before reclassification of expenses for external personnel services, Other Expenses were €1,399.2 million for the year ended December 31, 2012, a decrease of €63.2 million, or 4.3%, from €1,462.4 million for the year ended December 31, 2011. The increased network costs were overcompensated by savings realized from a more focused commercial approach and efficiencies achieved in customer services.

Depreciation and Amortization

Depreciation and Amortization were €1,133.2 million for the year ended December 31, 2012, an increase of €51.0 million, or 4.7%, from €1,082.2 million for the year ended December 31, 2011. The increase in Depreciation and Amortization was primarily attributable to the amortization of LTE spectrum licenses that were acquired in 2010, but activated for commercial service from July 1, 2011.

Finance Income

Finance Income was €15.7 million for the year ended December 31, 2012, an increase of €1.4 million, or 9.9%, from €14.3 million for the year ended December 31, 2011. The increase in Finance Income was primarily attributable to other interest income.

Exchange Gains

Exchange Gains remained stable at €0.7 million for the years ended December 31, 2012 and 2011.

Finance Costs

Finance Costs were €21.4 million for the year ended December 31, 2012, an increase of €13.0 million, or 154.8%, from €8.4 million for the year ended December 31, 2011. The increase in Finance Costs was the result of the new capital structure of the Company from September 2012 onwards.

Exchange Losses

Exchange Losses were €1.1 million for the year ended December 31, 2012, an increase of €0.6 million, or 102.5%, from €0.6 million for the year ended December 31, 2011.

Income Tax

The following table sets forth our Income Tax for the year ended December 31, 2012 as compared to the year ended December 31, 2011:

	For the year ended December 31,		**Change Amount**
	2012	**2011**	
	(in €thousands) *(audited, except unaudited change amounts)*		
Deferred Tax (expense)	167,756	(1,732)	169,488
Total Income Tax (expense)	**167,756**	**(1,732)**	**169,488**

Total Income Tax benefit was €167.8 million for the year ended December 31, 2012, an increase of €169.5 million, from an Income Tax expense of €1.7 million for the year ended December 31, 2011. The increase in Total Income Tax was attributable to the recognition of tax losses carried forward as well as deductible temporary differences arising from the differences between the tax bases of the assets and liabilities and their respective carrying amounts (see Note 21 of the Consolidated Financial Statements 2012 contained in the F-pages of this Prospectus). The income tax benefit included within the year ended December 31, 2012 relates to changes in deferred taxes.

Operating Income Before Depreciation and Amortization and Before Group Fees (OIBDA Before Group Fees) and Operating Income Before Depreciation and Amortization (OIBDA)

OIBDA before Group Fees was €1,351.4 million for the year ended December 31, 2012, an increase of €131.9 million, or 10.8%, from €1,219.5 million for the year ended December 31, 2011. Our OIBDA was €1,279.1 million for the year ended December 31, 2012, an increase of €129.8 million, or 11.3%, from €1,149.2 million for the year ended December 31, 2011.

OIBDA for the year ended December 31, 2011 benefitted from certain business restructuring measures as well as growth in Revenues, along with the increased scale and further efficiencies. OIBDA for the year ended December 31, 2012 was impacted by increasing Wireless Service Revenues with a shift towards the more valuable post-paid segment and the trends towards data monetization.

OIBDA before Group Fees margin for the year ended December 31, 2012 stood at 25.9%, an increase of 1.7 percentage points compared to the year ended December 31, 2011. The OIBDA margin for the year ended December 31, 2012 was 24.5%. The OIBDA margin for the year ended December 31, 2011 was 22.8%.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The table below sets forth our consolidated statement of financial position as of December 31, 2013, 2012 and 2011 and as of June 30, 2014:

	As at December 31,			As at June 30,
	2013	2012	2011[1]	2014
	(in €thousands)			
	(audited)			*(unaudited)*
ASSETS				
A) NON-CURRENT ASSETS	**7,167,703**	**7,652,337**	**7,996,891**	**6,935,334**
Goodwill	705,576	705,576	705,576	705,576
Intangible assets	2,884,200	3,277,456	3,662,491	2,717,326
Property, plant and equipment	2,895,617	2,973,440	3,119,370	2,818,161
Investment in associates	–	–	1,972	–
Other non-current financial assets	98,787	114,675	95,449	110,748
Deferred tax assets	583,523	581,191	412,033	583,523
B) CURRENT ASSETS	**1,853,716**	**1,417,469**	**5,657,420**	**2,313,167**
Inventories	89,185	84,671	70,428	110,369
Trade and other receivables	1,035,234	1,009,031	1,349,290	1,171,811
Other current financial assets	20,751	101	2,887,051	24,713
Cash and cash equivalents	708,545	323,666	1,350,651	1,006,275
TOTAL ASSETS (A+B)	**9,021,419**	**9,069,807**	**13,654,311**	**9,248,502**
EQUITY AND LIABILITIES				
A) EQUITY	**5,998,973**	**6,428,793**	**12,282,644**	**5,399,166**
Common stock	1,116,946	1,116,946	1,116,946	1,116,946
Additional paid-in capital	430	430	–	430
Retained earnings	4,879,914	5,309,936	11,164,353	4,280,108
Other components of equity	1,683	1,481	1,345	1,683
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT / COMPANY	**5,998,973**	**6,428,793**	**12,282,644**	**5,399,166**
B) NON-CURRENT LIABILITIES	**1,451,739**	**1,091,576**	**75,289**	**2,262,739**
Non-current interest-bearing debt	1,342,584	1,000,000	–	1,812,596
Other payables	4,809	9,193	6,342	47,013
Non-current provisions	104,346	82,382	68,947	138,819
Deferred income	–	–		264,311
C) CURRENT LIABILITIES	**1,570,707**	**1,549,438**	**1,296,378**	**1,586,596**
Current interest-bearing debt	102,059	250,878	–	12,687
Trade payables	1,074,038	918,458	891,321	1,098,617
Other payables	221,532	219,130	188,747	289,143
Other current financial liabilities	–	–	4,836	–
Current provisions	3,513	7,000	41,609	3,155
Deferred income	169,565	153,972	169,866	182,995
TOTAL EQUITY AND LIABILITIES (A+B+C)	**9,021,419**	**9,069,807**	**13,654,311**	**9,248,502**

[1] According to IFRS 5 "Non-current assets held for sale and discontinued operations", the assets and liabilities of the entities G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its indirectly held 40% interest in Adquira España S.A., sold by us with effect as of October 1, 2012, are not separately disclosed in our consolidated statement of financial position information as of December 31, 2011. Therefore, the consolidated statement of financial position information as of December 31, 2011 is not directly comparable to the consolidated statement of financial position information as of December 31, 2012 and 2013, respectively.

Intangible Assets

As of June 30, 2014 and December 31, 2013, 2012 and 2011, intangible assets primarily include licenses for wireless communication standards and software for office and IT applications. The useful lives of intangible assets are assessed individually. Intangible assets with finite useful lives are amortized systematically over the economic useful life and are assessed for impairment if events or circumstances indicate that their carrying amount may not be recoverable.

Intangible assets were €2,717.3 million as of June 30, 2014, a decrease from €2,884.2 million as of December 31, 2013 by €166.9 million, or 5.8%, mainly due to the amortization of intangible assets.

Intangible assets were €2,884.2 million as of December 31, 2013, a decrease of €393.3 million, or 12.0%, from €3,277.5 million as of December 31, 2012. This decrease mainly resulted from the amortization of intangible assets with a finite useful life in the amount of €527.9 million partly offset by additions of €142.3 million.

Intangible assets were €3,277.5 million as of December 31, 2012, a decrease of €385.0 million, or 10.5%, from €3,662.5 million as of December 31, 2011. This decrease can essentially be attributed to amortization of intangible assets with a finite useful life amounting to €531.7 million. This effect was partially offset by additions totaling €155.7 million.

Property, Plant and Equipment

Property, plant and equipment mainly relates to plant and machinery. We depreciate our property, plant and equipment once they are in full working condition using the straight-line method based on estimated useful lives of assets. The useful lives are calculated in accordance with technical studies which are reviewed periodically and, where appropriate, revised based on technological advances and the rate of dismantling.

Property, plant and equipment were €2,818.2 million as of June 30, 2014, a decrease of €77.5 million, or 2.7% from €2,895.6 million as of December 31, 2013, mainly as a result of depreciation amounting to €309.1 million partly offset by additions which mainly relate to investments in 4G technology (*i.e*., an LTE network), the expansion of the 3G technology capacities, improvement of performance as well as coverage of the wireless networks.

Property, plant and equipment were €2,895.6 million as of December 31, 2013, a decrease of €77.8 million, or 2.6% from €2,973.4 million as of December 31, 2012 mainly as a result of depreciation amounting to €603.9 million partly offset by additions amounting to €523.6 million. These additions mainly related to investments for the transition to the 4G technology (LTE network), the expansion of the 3G technology capacities, improvement of performance as well as coverage of the wireless networks.

Property, plant and equipment were €2,973.4 million as of December 31, 2012, a decrease of €145.9 million, or 4.7% from €3,119.4 million as of December 31, 2011 mainly as a result of depreciation amounting to €604.0 million partly offset by additions amounting to €453.4 million. The additions mainly related to our investments to improve the capacity and coverage of the wireless networks.

Trade and Other Receivables

Trade and other receivables were €1,171.8 million as of June 30, 2014, an increase of €136.6 million, or 13.2% from €1,035.2 million as of December 31, 2013, mainly as a result of advanced payments for rental contracts.

Trade and other receivables remained stable €1,035.2 million as of December 31, 2013 (€1,009.0 million as of December 31, 2012).

Trade and other receivables were €1,009.0 million as of December 31, 2012, a decrease of €340.3 million, or 25.2% from €1,349.3 million as of December 31, 2011, mainly as a result of silent factoring transactions.

Interest-Bearing Debt

Interest-bearing debt was €1,825.3 million as of June 30, 2014, an increase of €380.6 million, or 26.3% from €1,444.6 million as of December 31, 2013 mainly as a result of the issuance of our second bond with a total nominal amount of €500 million in February 2014 (see "*– Long-Term Financing Arrangements – Senior Unsecured Bond 2021*").

Interest-bearing debt was €1,444.6 million as of December 31, 2013, an increase of €193.8 million, or 15.5% from €1,250.9 million as of December 31, 2012. The increase is mainly attributable to the issuance of our inaugural senior unsecured bond with a total nominal amount of €600 million in November 2013 (see "*– Long-Term Financing Arrangements – Senior Unsecured Bond 2018*"). This effect was partly offset by the repayment of the loan from TGB. V. in the amount of €400 million in 2013.

Interest-bearing debt of €1,250.9 million as of December 31, 2012 is attributable to amounts outstanding under the loan with the Telefónica Group entity TGB.V. as lender (see "*– Long-Term Financing Arrangements – Financing Arrangements*").

Trade and Other Payables

Trade and other payables were €1,434.8 million as of June 30, 2014, an increase of €134.4 million, or 10.3% from €1,300.4 million as of December 31, 2013, mainly due to a rise in other payables from €226.3 million as of December 31, 2013 to €336.2 million as of June 30, 2014. The increase in other payables was mainly due to an increase of finance lease payables.

Trade and other payables were €1,300.4 million as of December 31, 2013, an increase of €153.6 million, or 13.4% from €1,146.8 million as of December 31, 2012, mainly as a result of an increase in trade payables of €155.6 million, or 16.9%.

Trade and other payables were €1,146.8 million as of December 31, 2012, an increase of €60.4 million, or 5.6% from €1,086.4 million as of December 31, 2011. The increase is mainly due to the normal course of business.

Deferred Income

Deferred income was €447.3 million as of June 30, 2014, an increase of €277.7 million from €169.6 million as of December 31, 2013. This was mainly due to an increase of non-current deferred income to €264.3 million resulting from other advance payments for future services to be received.

Equity

Equity was €5,399.2 million as of June 30, 2014, a decrease of €599.8 million, or 10.0% from €5,999.0 million as of December 31, 2013. The change in equity is primarily attributable to the dividend payment on May 21, 2014 of €525.0 million.

LIQUIDITY AND CAPITAL RESOURCES

General

Our historical liquidity needs have arisen primarily from the need to finance capital expenditures for the maintenance and expansion of our operations, including development of new technologies, expansion of network coverage and acquisition of new spectrum licenses. Our principal source of funds has been cash flows from operating activities and equity contribution from O2 (Europe) Limited, our parent company, with the latter in particular being used to finance extraordinary investments such as the acquisition of HanseNet in 2010 and the 4G spectrum license acquired in the same year. In addition, we have gained liquidity, *inter alia*, by disposing of Telefónica Germany Online Services GmbH and GKHH Fibre Optic GmbH in the last quarter of 2013. In 2012, we entered into bilateral facilities with various financial institutions, which will potentially enhance our liquidity position (see "*Business – Material Contracts – Financing Agreements*"). Further, we have established ourselves as a debt capital markets issuer through an inaugural bond issuance of the Senior Unsecured Bond 2018 in November 2013 and the Senior Unsecured Bond 2021 in February 2014. This additional source of funds from debt financing activities may allow us to raise liquidity through the issuance of debt market instruments, subject to market conditions.

Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. Our ability to raise liquidity from debt financing activities will primarily depend on the debt market environment as well as our general credit quality. The Company obtained a Long-Term Rating of BBB with a stable outlook by Fitch Ratings[1] on January 9, 2013. This rating has remained unchanged and was last confirmed on January 14, 2014. On July 3, 2014, Fitch Ratings published a Fitch Wire article whereby it confirmed that the merger clearance approval was positive as Fitch Ratings deemed the acquisition to be positive for the Company's credit profile, as the Company will benefit from a significantly stronger operating profile due to greater operational scale and the expected synergies. In the long-term, we generally expect a positive impact on our liquidity from the acquisition of the E-Plus Group due to its expected contribution to cash flows from operating activities. The positive impact may, however, be delayed due to initial integration costs. As of June 30, 2014, we had total cash and cash equivalents of €1,006 million, and unused committed bilateral revolving credit facilities in an amount of €710 million (see "*Business – Material Contracts – Financing Agreements*").

A Long-Term Rating of BBB is considered, under market convention, to indicate "investment grade" quality. The term "investment grade" indicates relatively low to moderate credit risk. More specifically, according to Fitch's Primary Credit Rating Scale, a BBB rating for a non-financial corporation indicates "good credit quality", and that "expectations of default risk are currently low", and that "the capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity".

[1] Fitch Ratings is established in the European Community and is registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, amended by Regulation (EC) No 513/2011 of the European Parliament and of the Council of 11 March 2011 (the "**CRA Regulation**"). The European Securities and Markets Authority publishes on its website (www.esma.europa.eu/page/List-registered-and-certified-CRAs) a list of credit rating agencies registered in accordance with the CRA Regulation. That list is updated within five working days following the adoption of a decision under Articles 16, 17 or 20 CRA Regulation. The European Commission shall publish that updated list in the Official Journal of the European Union within 30 days following such update.

CONSOLIDATED STATEMENT OF CASH FLOWS

The table below sets out our consolidated statement of cash flows for the years ended December 31, 2013, 2012 and 2011 and the six months ended June 30, 2014 and 2013:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2012	2011	2014	2013
	(in €thousands)				
	(audited)			*(unaudited)*	
Profit/(Loss) for the Year/Period	**77,813**	**1,334,553**	**553,904**	**(64,201)**	**(10,174)**
Adjustments to Profit/(Loss)					
Net Financial Result	26,972	5,707	(5,882)	16,020	16,353
Gains on Disposal of Assets	(76,149)	(492,121)	(272)	(333)	(6)
Net Income Tax Expense	567	(167,756)	1,732	(14)	(17)
Depreciation and Amortization	1,131,749	1,135,751	1,086,997	533,988	566,387
Change in Working Capital					
Trade and Other Receivables	(36,334)	(40,172)	45,172	(61,151)	3,312
Inventories	(4,514)	(14,272)	13,889	(21,184)	13,586
Other Current Assets	–	(5,594)	(7,855)	(320)	(6,306)
Trade and Other Payables	168,818	(105,573)	42,243	44,566	56,998
Other Current Liabilities and Provisions	16,471	(25,126)	(103,038)	13,510	7,147
Other Non-Current Assets and Liabilities	(13,950)	4,681	(44,766)	253,493	27,490
Interest received	7,005	15,615	13,934	3,827	2,237
Interest paid	(28,196)	(13,871)	(1,351)	(11,006)	(12,535)
Total Cash Flow from Operating Activities/Cash Flow from Operating Activities	**1,270,252**	**1,631,823**	**1,594,707**	**707,194**	**664,472**
Cash Flow from Operating Activities from Discontinued Operations	**–**	**349,070**	**355,006**	**–**	**–**
Cash Flow from Operating Activities from Continuing Operations	**1,270,252**	**1,282,754**	**1,239,701**	**–**	**–**
Proceeds on Disposals of Property, Plant and Equipment and Intangible Assets	69,088	1,978	3,185	632	12
Payments on Investments in Property, Plant and Equipment and Intangible Assets	(664,153)	(594,120)	(548,240)	(304,194)	(307,753)
Proceeds on Disposals of Companies, Net of Cash and Cash Equivalents Disposed	37,596	557,446	–	–	–
Payments Made on Financial Investments not Included under Cash Equivalents	(14,252)	(14,930)	–	(7,043)	(12,147)
Total Cash Flow from Investing Activities/Cash Flow from Investing Activities	**(571,721)**	**(49,626)**	**(545,055)**	**(310,605)**	**(319,888)**
Cash Flow from Investing Activities from Discontinued Operations	**–**	**557,170**	**(952)**	**–**	**–**
Cash Flow from Investing Activities from Continuing Operations	**(571,721)**	**(606,797)**	**(544,104)**	**–**	**–**
Acquisition of non-controlling interests	–	–	(3,006)	–	–
Repayment of capital reserves	–	(251)	(237)	–	–
Payments made on future capital increase	(2,143)	–	–	(3,195)	–
Proceeds from borrowing/debt	594,972	2,398,060	–	570,220	–
Repayment of borrowing/debt	(403,856)	(706,991)	(3,752)	(140,921)	(2,186)
Dividends paid	(502,625)	(4,300,000)	–	(524,964)	(502,625)
Total Cash Flow from Financing Activities/Cash Flow from Financing Activities	**(313,652)**	**(2,609,182)**	**(6,995)**	**(98,860)**	**(504,811)**
Cash Flow from Financing Activities from Discontinued Operations	**–**	**445,060**	**(3,006)**	**–**	**–**
Cash Flow from Financing Activities from Continuing Operations	**(313,652)**	**(3,054,242)**	**(3,989)**	**–**	**–**
Net Increase/(Decrease) in Cash and Cash Equivalents	**384,879**	**(1,026,985)**	**1,042,656**	**297,729**	**(160,226)**
Cash and Cash Equivalents at the Beginning of the Period	**323,666**	**1,350,651**	**307,995**	**708,545**	**323,666**
Cash and Cash Equivalents at the End of the Period	**708,545**	**323,666**	**1,350,651**	**1,006,275**	**163,440**

Six Months Ended June 30, 2014 as Compared to Six Months Ended June 30, 2013

For the six months ended June 30, 2014, cash flow from operating activities increased by €42.7 million, or 6.4%, to €707.2 million, from €664.5 million for the six months ended June 30, 2013. This increase resulted from an improvement in working capital in particular due to the increase of non-current deferred income in an amount of €264.3 million in the first six months ended June 30, 2014 caused by other advance payments for future service to be received. This effect was partially offset by an increase of trade accounts receivables, other receivables and inventories. The improvement in working capital was partially compensated by a decrease in OIBDA of €86.6 million to €485.8 million for the six months ended June 30, 2014.

For the six months ended June 30, 2014, cash outflow from investing activities decreased by €9.3 million, or 2.9%, to €310.6 million from €319.9 million for the six months ended June 30, 2013. Payments on investments in property, plant and equipment and intangible assets in the first six months of 2014 totaled €304.2 million compared to €307.8 million for the six months ended June 30, 2013. These related mainly to investments for the transition to the 4G technology (LTE network), the expansion of the 3G technology capacities, improvement of performance as well as improved coverage of the wireless networks.

For the six months ended June 30, 2014, cash outflow from financing activities decreased by €405.9 million to €98.9 million from €504.8 million for the six months ended June 30, 2013. The cash inflows from financing activities in the first six months ended June 30, 2014 were mainly due to the Senior Unsecured Bond 2021 issued in February 2014 and to payments received from sale-and-lease-back agreements. This was offset mainly by cash outflows from dividends paid of €525.0 million as well as the partial repayment of €125.0 million of the loan with an initial volume of €1,250 million, which OHG concluded with TGB.V. as lender (see "– *Long-Term Financing Arrangements*").

Year Ended December 31, 2013 as Compared to Year Ended December 31, 2012

For the year ended December 31, 2013, cash flow from operating activities from continuing operations decreased by €12.5 million, or 1.0%, to €1,270.3 million, from €1,282.8 million for the year ended December 31, 2012 and thus almost reached the level of previous year's cash flow from operating activities. The reduction in OIBDA, adjusted for the impact of the disposal of Telefónica Germany Online Services GmbH and GKHH Fibre Optic GmbH in the last quarter of the year ended December 31, 2013 and the increase in the net interest payments were mainly compensated by a positive development of working capital.

For the year ended December 31, 2013, cash outflow from investing activities from continuing operations decreased by €35.1 million, to €571.7 million, from €606.8 million for the year ended December 31, 2012. Due to ongoing investments in our LTE network and investments which enhanced the capacity of our 3G network, capital expenditures from continuing operations increased in the year ended December 31, 2013 compared to the year ended December 31, 2012 by 9.4%. The growth in capital expenditures was balanced by the proceeds on the disposal of Telefónica Germany Online Services GmbH and GKHH Fibre Optic GmbH in the last quarter of the year ended December 31, 2013.

For the year ended December 31, 2013, cash outflow from financing activities from continuing operations decreased by €2,740.5 million to €313.7 million, from €3,054.2 million for the year ended December 31, 2012. The cash outflows for the year ended December 31, 2013 were mainly attributable to the partial repayment in the amount of €400.0 million of the €1,250 million loan with TGB.V. (see "– *Long-Term Financing Arrangements*"). The significant cash inflows in the year ended December 31, 2013 were due to the issuance of the Senior Unsecured Bond 2018.

Year Ended December 31, 2012 as Compared to Year Ended December 31, 2011

For the year ended December 31, 2012, cash flow from operating activities from continuing operations increased by €43.1 million, or 3.5%, to €1,282.8 million, from €1,239.7 million for the year ended December 31, 2011. The increase was primarily driven by an increase in OIBDA as a result of monetizing wireless data, coupled with additional efficiencies from the commercial area compensating higher infrastructure growth-related costs. The increase was largely offset by working capital consumption of the revenues from the "O_2 My Handy" model.

For the year ended December 31, 2012, cash outflow from investing activities from continuing operations increased by €62.7 million to €606.8 million, from €544.1 million for the year ended December 31, 2011. The increase was primarily related to greater capital expenditures from continuing operations in the year ended December 31, 2012, representing a 9.1% increase compared to the year ended December 31, 2011, due to the accelerated rollout of the LTE network deployment and 3G capacity investments.

For the year ended December 31, 2012, cash outflow from financing activities from continuing operations increased by €3,050.2 million to €3,054.2 million, from a cash outflow of €4.0 million for the year ended December 31, 2011. The increased cash outflow was primarily due to the pre-IPO dividend to O2 (Europe) Limited in the amount of €7,186 million, of which €4,300 million was considered as cash payment and €2,886 million as cancellation of declarations of obligation. The pre-IPO dividend was partly financed by loan agreements between OHG and TGB.V. as lender, in the amounts of €1,250 million and €703 million, respectively. The remaining part of the dividend was financed by cash and cash equivalents. Furthermore, €707 million of repayment of borrowing or debt mainly resulted from the repayment of the loan towards TGB.V. in the amount of €703 million.

DEPOSIT AND CASH MANAGEMENT AGREEMENTS

We will continue to participate in the liquidity management system of the Telefónica Group (see "*Risk Factors*" and "*Related Party Transactions – Deposit and Cash Management Agreements*").

LONG-TERM FINANCING ARRANGEMENTS

Financing Arrangements

Our subsidiary OHG entered into a loan agreement dated September 12, 2012, as borrower, with the Telefónica Group entity TGB.V. as lender, pursuant to which TGB.V. agreed to provide OHG with a loan facility (the "**Facility**") of €1,250 million, bearing interest at the rate of the 3-month Euribor plus a margin of 120 basis points. This rate increases by 40 basis points each year. Interest accrues on a daily basis after drawdown of funds on the basis of a 360 day year. Taking into account the annual repayment of €250.0 million, which was paid in September 2013, and the early repayments of €150.0 million and €125.0 million paid in December 2013 and March 2014, respectively, the Facility has an outstanding amount of €725.0 million as at the date of the Prospectus (see "*Capitalization and Indebtedness*" for the effect of, among other things, this financing arrangement on our financial position). The Facility has a repayment schedule of 20% per year until 2017. OHG has the right to prepay the Facility, in whole or in part in a minimum amount of €100,000, on any interest payment date or subject to payment of a market-based breakage fee. Default interest of an additional 2 percentage points on top of the applicable interest rate will apply in case OHG fails to comply with any of its payment obligations under the Facility for any reason. The Facility contains certain restrictive covenants, including with respect to disposals of assets, creation of liens, and mergers and consolidations. Upon an event of default, the Facility will be accelerated and all amounts owing under the Facility will become immediately due for repayment. Events of default under the Facility include, among others, breach of the loan agreement, in particular a payment breach, an insolvency or similar event, a breach of payment obligations with respect to other indebtedness, and if OHG experiences a change of control (see "*Related Party Transactions*").

In August and September 2012, OHG concluded revolving credit facility agreements with several banks resulting in OHG having €710 million of banking liquidity lines with a term of over one year. The facilities have not been drawn. The interest rate for drawings under the individual revolving credit facility agreements is calculated as Euribor plus a margin and is applied to the amount drawn down (see "*Business – Material Contracts – Financing Arrangements*").

Senior Unsecured Bond 2018

In November 2013, Telefónica Deutschland Group, via its subsidiary O2 Telefónica Deutschland Finanzierungs GmbH, issued the Senior Unsecured Bond 2018 listed on the regulated market of the Luxembourg Stock Exchange. The Senior Unsecured Bond 2018 is guaranteed by the Company. The coupon for the fixed interest rate of the Senior Unsecured Bond 2018 is 1.875% and the issue price was 99.162%. The issue spread was 98 basis points over the five-year Euro Midswap Rate resulting in a yield of 2.053%. O2 Telefónica Deutschland Finanzierungs GmbH transferred the net proceeds of the Senior Unsecured Bond 2018 to OHG in the form of a loan. The net proceeds from the Senior Unsecured Bond 2018 were used for general corporate purposes.

Senior Unsecured Bond 2021

In February 2014, Telefónica Deutschland, again via its subsidiary O2 Telefónica Deutschland Finanzierungs GmbH, issued the Senior Unsecured Bond 2021 listed on the regulated market of the Luxembourg Stock Exchange. The Senior Unsecured Bond 2021 is guaranteed by the Company. The coupon for the fixed interest rate Senior Unsecured Bond 2021 is 2.375% and the issue price was 99.624%. The issue spread was 100 basis points over the seven-year Euro Midswap Rate, resulting in a yield of 2.434%. O2 Telefónica Deutschland Finanzierungs GmbH transferred the proceeds of the Senior Unsecured Bond 2021 to OHG in the form of a loan. The net proceeds from the Senior Unsecured Bond 2021 were used for general corporate purposes.

As of June 30, 2014, the principal future payment obligations from our long-term financing arrangements, including the outstanding principal future payment obligations from the loan granted by TGB.V. on September 12, 2012 with an initial amount of €1,250 million (see "*Related Party Transactions*") as well as debt relating to finance leases and the principal future payment obligations for the Senior Unsecured Bond 2018 and the Senior Unsecured Bond 2021, are as follows:

	Payment Due by Period							
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
	(in €million) *(unaudited)*							
Senior credit facilities	–	225.0	250.0	250.0	–	–	–	–
Debt Relating to Finance Leases	0.7	15.2	14.1	14.4	14.7	–	–	–
Senior Unsecured Bond 2018	–	–	–	–	600.0	–	–	–
Senior Unsecured Bond 2021	–	–	–	–	–	–	–	500.0
Total	**0.7**	**240.2**	**264.1**	**264.4**	**614.7**	**–**	**–**	**500.0**

As of June 30, 2014, we had cash and cash equivalents of €1,006 million. We have generated free cash flow pre dividends[1] of €396.6 million in the six months ended June 30, 2014, and free cash flow pre dividends from continuing operations[2] of €698.5 million in the year ended December 31, 2013.

On the basis of our cash flow generation capacity, there is currently no need for any new debt financing to support its operational business.

CAPITAL EXPENDITURES AND INVESTMENTS

The following table shows our capital expenditures, defined as additions of property, plant and equipment and intangible assets, for the years ended December 31, 2013, 2012 and 2011 and for the six months ended June 30, 2014 and 2013:

	For the year ended December 31,			For the six months ended June 30,	
	2013	**2012**	**2011**	**2014**	**2013**
	(in €thousands)				
	(audited)			*(unaudited)*	
Property, Plant and Equipment	523,603	453,405	375,353	208,144	236,935
Intangible Assets	142,281	155,711	183,250	58,298	59,519
Total Capital Expenditures	**665,884**	**609,114**	**558,603**	**266,442**	**296,454**
Capital Expenditures from Continuing Operations	**665,884**	**608,838**	**557,651**	**–**	**–**

Six Months Ended June 30, 2014

For the six months ended June 30, 2014, our Total Capital Expenditures amounted to €266.4 million, of which €208.1 million related to property, plant and equipment and €58.3 million related to intangible assets, a decrease of 10.1% or €30.0 million from the six months ended June 30, 2013. This decline in Total Capital Expenditures during the six months ended June 30, 2014, compared to the six months ended June 30, 2013, reflects the focused investments into our LTE network deployment and the fact that phasing of Capital Expenditures varies from year to year, which means that Capital Expenditures may not take place in the same quarter each year.

Year Ended December 31, 2013

For the year ended December 31, 2013, our Total Capital Expenditures amounted to €665.9 million, of which €523.6 million related to property, plant and equipment and €142.3 million related to intangible assets. This represented an increase of 9.4% in our Total Capital Expenditures for the year ended December 31, 2013 compared to the year ended December 31, 2012, due to ongoing investments in our LTE network coverage while at the same time enhancing the capacity of the 3G network. For the year ended December 31, 2013, Capital Expenditures from Continuing Operations amounted to €665.9 million, an increase of €57.0 million compared to the year ended December 31, 2012.

Year Ended December 31, 2012

For the year ended December 31, 2012, our Total Capital Expenditures totaled €609.1 million, of which €453.4 million related to property, plant and equipment and €155.7 million related to intangible assets. Total Capital Expenditures in the year ended December 31, 2012 represented a 9.1% increase compared to the year ended December 31, 2011 due to the accelerated rollout of the LTE network deployment and 3G capacity investments. For the year ended December 31, 2012, Capital Expenditures from Continuing Operations amounted to €608.8 million, an increase of €51.2 million compared to the year ended December 31, 2011.

Year Ended December 31, 2011

For the year ended December 31, 2011, our Total Capital Expenditures amounted to €558.6 million, of which €375.4 million related to property, plant and equipment and €183.3 million related to intangible assets. Total Capital Expenditures in the year ended December 31, 2011 mainly related to investments in 3G capacity and the start of the LTE network deployment. The start of LTE "white spot" rollout was offset by reduced 2G and fixed-line investments. The cost of the network rollout was mitigated with 99% of sites using our existing infrastructure. For the year ended December 31, 2011, Capital Expenditures from Continuing Operations amounted to €557.7 million.

Investments in Progress

In terms of investments, the LTE network rollout will continue to be the main priority for us, also after the closing of the Transaction. Considering the LTE network rollout, investments in other areas, the current investment planning

[1] Free cash flow pre dividends is defined as the sum of cash flow from operating activities (€707.2 million for the six months ended June 30, 2014) and cash flow from investing activities (cash outflow of €310.6 million for the six months ended June 30, 2014).

[2] Free cash flow pre dividends from continuing operations is defined as the sum of cash flow from operating activities from continuing operations (€1,270.3 million for the year ended December 31, 2013) and cash flow from investing activities from continuing operations (cash outflow of €571.7 million for the year ended December 31, 2013).

as well as the integration of the E-Plus Group, we expect Capital Expenditures in the second half of 2014 to show a significant increase compared to the first half of 2014. Capital Expenditures will be funded by cash flow from operating activities and available cash and cash equivalents.

OFF BALANCE SHEET ARRANGEMENTS

The following table summarizes our off balance sheet contractual obligations as of December 31, 2013. The information presented in this table reflects management's estimates of the contractual maturities of our obligations, which may differ significantly from the actual maturities of these obligations:

Payments Due by Period	Less than 1 year	1 to 5 years	Over 5 years	Total
	(in €thousands) *(audited)*			
Operating Lease Obligations	315,954	804,409	790,020	1,910,383
Purchase and other Contractual Obligations	185,390	46,164	81,000	312,554
Total Contractual Obligations	**501,344**	**850,573**	**871,020**	**2,222,937**

Primarily, in order to secure rental obligations with regard to antenna site rental contracts, operating guarantees are provided by external financial counterparts in the course of normal commercial activity. These guarantees amounted to €37.2 million as of December 31, 2013.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various financial market risks as part of our business activity. Due to the regional focus of our activities, we are not significantly affected by, for example, foreign currency risks. We are exposed to the risk of default from the operative business (trade receivables) and from receivables from the Telefónica Group.

In addition, we face liquidity risks connected with our credit risks, market risks, the weakening of our operative business or disruption of financial markets.

If any such financial risks are realized, they may have a negative impact on our assets, financial position and our cash flows.

We have developed guidelines for risk management and for the use of financial instruments. The guidelines for risk management include maintaining a clear separation of tasks with respect to financial activities, invoicing, financial reporting and associated controlling. Derivative financial instruments are used exclusively to manage the risks from operations and corporate financing. We have developed guidelines for monitoring the use of financial derivatives which we derived from established standards of risk evaluation.

Interest Rate Risk

Interest risks arise predominantly in connection with our cash pooling accounts and deposits, as well as through loan agreements where the Company acts as borrower, and with interest swaps. We deposit cash surpluses almost exclusively in cash pooling deposit accounts with TGB.V. These accounts and the bank accounts pay a variable interest rate. The loan agreements where the Company is the borrower have variable interest rates. In November 2013 and February 2014, we entered into interest rate swap agreements for a portion of the nominal value of the Senior Unsecured Bond 2018 and the Senior Unsecured Bond 2021 (collectively, the "**Bonds**"), respectively. On the basis of these interest swap contracts, we pay a variable interest rate on a nominal amount and receive a fixed interest rate on the same amount in return. These interest rate swaps compensate, up to the level of its nominal amount, the effects of future market interest rate changes on the fair value of the underlying fixed-interest financial liabilities from the issue of the Bonds (fair value hedge).

Hedge accounting for this hedge relationship complies with IAS 39. At the start of the hedge relationship, both the relationship between the hedge instrument and the underlying transaction as well as the goal and strategy of the hedge were documented. A specific allocation of the hedging instrument to the corresponding liability followed and an estimate of the degree of effectiveness of the hedging relationship. The existing hedging relationship is continuously monitored for effectiveness.

Our net risk position for variable interest as of December 31, 2013 was minus €341.5 million and as of December 31, 2012 was minus €926.3 million, respectively, which is essentially attributable to the loan from TGB.V, the interest swap agreements and the cash and cash equivalents deposited with TGB.V.

Currency Risk

The underlying currency for our financial reports is the Euro, thus we are not subject to any risks arising from currency conversion. Because we finance our activities exclusively through self-generated cash, equity and debt (all in Euros), there is no exchange rate risk arising from the source of financing being denominated in a currency other than the Euro. Nevertheless, we still face exchange rate risks as we conduct business with suppliers or other business partners who are based in jurisdictions that have not adopted the Euro. The net risk position from exchange rate risks in the statement of financial position is comprised of non-derivative and derivative financial instruments denominated in foreign currencies, as well as future positions in foreign currencies in the following year.

Derivatives are contracted with the Telefónica Group to hedge against key currency risks.

Credit Risk

Credit risk is the risk of financial losses due to the inability of our contractual partners to pay or service their debts to us when due. Our maximum credit risk corresponds with the carrying amount of the financial assets (without considering any guarantees or securities).

We consider commercial credit risk management to be a critical factor in helping us to achieve sustainable growth of our business and customer base in accordance with our risk management guidelines. Suitable processes have been established for the management and the monitoring of the credit risk.

Our approach to credit risk management is based on continuously monitoring expected risks and levels of default. Particular attention is paid to customers who can have a significant effect on our consolidated financial statements. Depending on the business area and the type of relationship, we use appropriate credit management instruments, such as credit insurance or security, to limit our exposure to the credit risk of such customers. We regularly conduct an analysis of the maturity structure of trade receivables and only report adjustments for doubtful receivables with a credit risk.

In accordance with our corporate policy and that of the Telefónica Group, we have entered into cash pooling and deposit agreements with TGB.V. and deposit the majority of our cash surpluses there. They are, therefore, concentrated in the group companies of the Telefónica Group. International rating agencies have provided Telefónica, S.A. with an investment grade rating. Our remaining cash surpluses are distributed across several German banks that are rated as investment grade by international rating agencies.

As of June 30, 2014 and December 31, 2013, 2012 and 2011, receivables from the Telefónica Group, as counterparty, amounted to €1,019.3 million, €727.2 million, €335.0 million and €4,265.9 million, respectively.

Our credit risk is principally associated with receivables from sales and services, billed and unbilled. We seek to minimize credit risk through a preventative credit check process that ensures that all subscribers requesting new products and services or changes to existing services are reliable and solvent. We also seek to minimize credit risk by preferring contracts that provide for the use of automatic payment methods with the aim of reducing the underlying credit risk. This control is carried out at the subscriber acceptance phase through the use of internal and external information.

We additionally use timely pre- and post-subscriber acquisition measures for the purpose of credit collection, such as the following:

- sending reminders to subscribers;
- employing measures for the collection of overdue receivables, separated by strategy, portfolio and subscriber profiles; and
- measuring and monitoring debt status through reporting tools.

The result of this effective action is that we have a limited amount of credit losses. Additionally, as a general rule, we have a limited level of credit concentration as the consequence of diversifying our product and services portfolio to our subscribers.

We also receive guarantees, including securities issued by primary banks, as collateral for the obligations resulting from supplies to, and receivables from, dealers.

On the dealer side, we have a certain degree of concentration offset by bank guarantees and credit limits delivered by credit insurers. Concentration of credit risk relating to accounts receivable from subscribers is limited due to their large number. For accounts receivable from foreign telecommunications operators, the concentration of credit risk is also limited due to netting agreements with accounts payable to these companies, prepayment obligations and imposed bank guarantees.

Credit risk relating to cash and cash equivalents, derivative financial instruments and financial deposits and money market funds arises from the risk that the counterparty becomes insolvent and, accordingly, is unable to return the deposited funds or execute the obligations under the derivative transactions as a result of the insolvency. To mitigate this risk, wherever possible we conduct transactions and deposit funds with investment-grade rated financial institutions and monitor and limit the concentration of our transactions with any single party.

Our maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event the counterparty fails to perform its obligations in relation to each class of recognized financial assets is the carrying amount of those assets as indicated on our balance sheet.

As of June 30, 2014, we had cash and cash equivalents amounting to €1,006 million.

Due to the diverse portfolio of the products and services we provide, credit concentrations are limited. In general, a certain degree of credit risk concentration may be found in the business that we carry out with dealers and domestic and international operators.

Liquidity Risk

Liquidity risk includes the risk that a business cannot comply with its financial obligations, which are processed either in cash or with other financial assets. We ensure, for the management of liquidity risk, that we have sufficient liquidity at all times to fulfill our obligations, both under normal and under demanding circumstances. We work on our liquidity management closely with the Telefónica Group and, in accordance with applicable corporate policies, have concluded cash-pooling and deposit agreements with TGB.V. We deposit the majority of our cash surplus with TGB.V. The liquidity risk is reduced by the inflowing funds generated by our operative business, by the opportunity to factor receivables and by maintaining (currently unused) of credit facilities.

In August and September 2012, OHG concluded agreements with various banks for revolving credit facilities. As a result OHG has, as at the reporting date December 31, 2013, undrawn committed credit lines in a total amount of €710 million with a maturity beyond one year. In all agreements the interest yield corresponds to the sum of margin and Euribor.

The management board is authorized with the approval of the supervisory board, to increase the share capital of the Company in the period up to September 17, 2017, on one or multiple occasions by up to a maximum amount of €558,472,700. This may occur through the issuance of new no-par value registered shares for cash or a contribution in kind. Furthermore, the share capital of the Company has been conditionally increased by up to €558,472,700 (Conditional Capital 2014/I).

For further information regarding the share capital of the Company, see "*Description of Share Capital – Authorized Share Capital – Authorized Capital 2012/I*" and "*Description of Share Capital – Share Capital and Shares, Development of the Share Capital Over the Last Three Years*".

BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED FINANCIAL STATEMENTS

Background of the Consolidated Financial Statements

The Consolidated Financial Statements 2013 have been prepared in accordance with IFRS, as adopted by the EU. In addition, the accounting policies are the same as those used to prepare the published prior year Consolidated Financial Statements 2012, with the exception of the change to IFRS (see "– *New Accounting Standards*"). Furthermore, the additional requirements of German commercial law pursuant to Section 315a(1) HGB have been applied.

The Consolidated Financial Statements 2012 have been prepared in accordance with IFRS, as adopted by the EU, with the exception of certain provisions under IFRS 1 with respect to the transition date of January 1, 2011. These were our first consolidated financial statements prepared in accordance with IFRS and as a consequence IFRS 1 First-time Adoption of International Financial Reporting Standards was applied. Furthermore, the additional requirements of German commercial law pursuant to Section 315a(1) HGB have been applied.

Background and Purpose of the Combined Financial Statements 2009-2011

The Combined Financial Statements 2009-2011 were prepared in preparation for the initial public offering of the Company in October 2012 and taking into account the Company's "Complex Financial History" according to European Prospectus Regulation No. 809/2004, as amended.

The purpose of the Combined Financial Statements 2009-2011 was to provide general purpose historical financial information of the Company for the inclusion in the prospectus for the initial public offering and the admission of the shares of the Company to trading on a regulated market. Therefore, the Combined Financial Statements 2009-2011 present only the historical financial information of those entities that were a part of the Company's group at the time of the initial public offering.

ACCOUNTING POLICIES

Our principal accounting policies are described in the notes to the Consolidated Financial Statements 2013 and the Consolidated Financial Statements 2012 as well as in the notes to the Unaudited Interim Condensed Consolidated Financial Statements included in the F-pages to this Prospectus.

Use of Estimates, Assumptions and Judgments

Some of our accounting policies require the application of significant judgments and estimates by us at the particular reporting date. The key assumptions concerning future and other uncertainty in estimates at the particular reporting date could have a significant impact on our consolidated financial statements within the next financial years are described below. These assumptions are based on our historical experience as well as other relevant factors.

A significant change in the facts and circumstances on which these estimates and related judgments are based could have a material impact on our net assets, financial positions and earnings.

Unforeseeable development outside our management's control may cause actual amounts to differ from the original estimates. In this case the underlying assumptions, and if necessary the carrying amounts of the pertinent assets and liabilities, will be adjusted accordingly.

Pensions – Defined Benefit Plans

The determination of the present value of defined benefit obligations involves the application of actuarial assumptions. To determine the interest rate for the defined benefit pension plans, first the so-called bond universe is established on the basis of the AA corporate bonds available on the reporting date. On the basis of such bonds, an interest structure curve is calculated. Then a uniform average interest rate is calculated with a cash flow that corresponds to the duration of our defined benefit plan. This latter interest rate is the actuarial discount rate used. The determination of the expected increase in pensions is aligned with the long-term inflation expectations in the Euro area.

The assumption on the fluctuation of the respective employees is based on historical experience.

The mortality rate underlying the calculation of the present value of the defined benefit obligation is based on official statistics and mortality tables. The mortality tables underlying the actuarial calculation of the defined benefit obligation as of the reporting date are the Heubeck Mortality Tables 2005 G (Heubeck Richttafeln 2005 G).

Property, Plant and Equipment, Intangible Assets and Goodwill

Accounting for investments in property, plant and equipment and intangible assets involves the use of estimates to determine the useful life for depreciation and amortization purposes and to assess the fair value of assets acquired in a business combination at the acquisition date.

Determining the useful life requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict.

When an item or property, plant and equipment or an intangible asset is considered to be impaired, the impairment loss is recognized in the consolidated income statement for the period. The decision to recognize an impairment loss involves estimates of the timing and amount of the impairment, as well as an analysis of the reasons for the potential loss. Furthermore, additional factors, such as technical obsolescence, the suspension of certain services and other circumstantial services are taken into account.

We evaluate our cash-generating unit's performance regularly to identify potential goodwill impairment. Determining the recoverable amount of the cash-generating unit to which goodwill is allocated also entails the use of assumptions and estimates and requires a significant element of judgment.

Deferred Income Taxes

We assess the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on our ability to generate taxable income over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of the taxable income, which is based on internal projections and are continuously updated to reflect the latest trends.

The recognition of tax assets and liabilities depends on a series of factors, including estimates with respect to timing and the realization of deferred tax assets and the projected tax payment schedule. Our actual income tax receipts and payments could differ from the estimates made by us as a result of changes in tax legislation or unforeseen transactions that could affect our tax balance.

Provisions

Both the recognition and the valuation of provisions involve judgments to a high extent. The amount of the provision is determined based on the best estimate of the outflow or resources required to settle the obligation, bearing in mind all available information at the reporting date, including the opinions of independent experts such as legal counsel to consultants.

Given uncertainties inherent in the estimates used to determine the amount of provisions, the actual outflows of resources may differ from the amounts recognized originally on the basis of the estimates.

Revenue Recognition

Initial connection fees are deferred and recognized as revenues over the average estimated term of the customer relationship. The estimate of the average estimated customer relationship period is based on the recent history of customer churn. Potential changes in estimates could lead to changes in both the amount and timing of future recognition of revenues.

Bundled offers that combine different elements are assessed to determine whether it is necessary to separate the different identifiable components and apply the corresponding revenue recognition policy to each element. The total package revenues are allocated among the identified elements based on their respective fair values. Determining fair values for each identified element requires estimates that are complex due to the nature of the business. A change in the estimates of the fair value could affect the allocation of revenues among the elements and, as a result, the date at which the revenues are recognized.

Joint Operations

For the year ended December 31, 2013, the classification of interests in businesses as joint operation or as joint venture requires a certain degree of judgment. The classification is made in accordance with the contractual and actual circumstances.

NEW ACCOUNTING STANDARDS

The accounting policies applied for the preparation of the Consolidated Financial Statements 2013 correspond to those that were applied to the Consolidated Financial Statements 2012. Exceptions to this are the new standards adopted as at January 1, 2013 as well as changes to the standards and interpretations as published by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) and endorsed for implementation by the EU. For further details, see Note 3 of the Consolidated Financial Statements 2013 contained in the F-pages of this Prospectus.

AUDITED ANNUAL FINANCIAL STATEMENTS OF THE COMPANY IN ACCORDANCE WITH HGB

In the balance sheet of the annual financial statements of the Company in accordance with HGB as of and for the year ended December 31, 2013, Total Assets decreased to €5,267.2 million as of December 31, 2013 by €500.7 million from €5,767.9 million as of December 31, 2012 mainly due to a decrease in financial assets. The reduction resulted from a withdrawal of capital at OHG. Equity decreased to €5,258.0 million as of December 31, 2013 by €508.2 million from €5,766.2 million as of December 31, 2012 mainly due to the payment of dividends in the amount of €502.6 million. As of December 31, 2013, the Company's Equity primarily comprises Subscribed Capital of €1,117.0 million and Net Retained Earnings of €4,140.6 million.

INDUSTRY OVERVIEW

INTRODUCTION

German Macro Environment

Germany is the most populous nation in the European Union ("**EU**"), with a resident population of approximately 80.7 million in 2013. Germany recorded a population density of 226 inhabitants per square kilometer in 2013, higher than the EU average of 117. In 2013, the foreign population in Germany was estimated to be 9.5%, representing various ethnic origins. (*Source: German Federal Office of Statistics* (*Statistisches Bundesamt*))

Germany is Europe's largest economy and has been relatively resilient through the recent economic crisis, experiencing consistent GDP growth over the last few years. Real GDP growth in 2013 was 0.5% compared to -0.3% across the Euro Area. Projections for real GDP growth in 2014 are 2.0% for Germany, higher than in the Euro Area of 1.1% in 2014. Germany is one of the wealthiest countries in the EU with an estimated GDP per capita in 2013 of €32,135 and a projected increase to €34,840 in 2014, higher than in the Euro Area average of €27,767 in 2013 and €28,134 forecasted for 2014. (*Source: Economist Intelligence Unit, July 2014*)

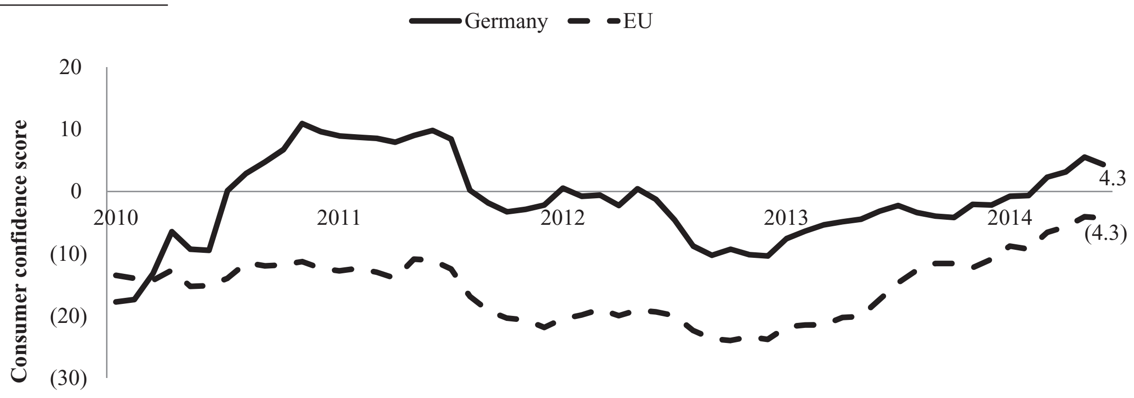
Real GDP Growth (%)	**2010**	**2011**	**2012**	**2013**	**2014E**
Germany	3.9	3.4	0.9	0.5	2.0
Euro Area	2.0	1.7	(0.5)	(0.3)	1.1

Germany has a strong sovereign AAA credit rating with stable outlook by S&P and was rated Aaa by Moody's in July 2014. In addition, with 5.3% in 2013, Germany has one of the lowest unemployment rates in Europe, currently at the lowest rate in a decade. The unemployment rate is expected to remain stable at 5.3% in 2014. This compares favorably with the Euro Area, which had a consistently higher unemployment rate reaching 11.8% in 2013, and is expected to decrease slightly to 11.6% in 2014. (*Source: Economist Intelligence Unit, July 2014*)

Unemployment Rate (%)	**2010**	**2011**	**2012**	**2013**	**2014E**
Germany	7.1	6.0	5.5	5.3	5.3
Euro Area	10.0	10.0	11.2	11.8	11.6

Consumer spending is another indicator that sets Germany apart from most countries in the EU. Germany has shown growing levels of consumer spending, with a compound annual growth rate ("**CAGR**") between 2010 and 2013 of 1.1% compared to the EU average of -0.8%. Private consumption per head was €19,478 in 2013, higher than the EU average of €16,504. Consumer confidence in Germany remains relatively robust despite the European sovereign debt crisis and is higher than the EU average (based on a European Commission consumer survey as of June 2014). (*Sources: EIU, European Commission, Euromonitor*)

Consumer Confidence



(*Sources: European Commission*)

German Telecommunications Market

Germany is one of the largest telecommunications markets in Europe both in terms of accesses and revenue. The German telecommunications sector generated retail revenue of approximately €40.1 billion during 2013. Of this retail revenue, approximately €19.6 billion (48.8%) was derived from mobile services and approximately €20.5 billion (51.2%) from fixed-line services (*Source*: *Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014*). The market is divided between the Business-to-Consumer, or "**B2C**", which accounts for 60.0% of the market and Business-to-Business, or "**B2B**", which accounts for 40.0%.

The telecommunications regulatory environment in Germany has been relatively stable since the liberalization of the sector began over 20 years ago. The sector is governed by the German Telecommunications Act and certain regulations that supplement the Telecommunications Act. The Telecommunications Act replaced a 1996 Act, which paved the way for market liberalization and the licensing of rival operators to compete with the incumbent Deutsche Telekom and brought the German telecommunications market in line with the EU's legislative framework for telecommunications. The FNA is responsible for the regulation of the German telecommunications market. It is an independent legal body, whose central role is to regularly assess Deutsche Telekom's and other participants' market power and stimulate competition in the market, which includes the control of network access and interconnection and the approval or review of tariffs, including MTR (see "*Regulation*").

On July 19, 2013, the FNA published a final decision on MTR pursuant to which MTR were reduced with effect as of December 1, 2012. The decision of the FNA was addressed with an "Art. 7a Proceeding" by the European Commission as the rates set by the FNA were considered to be too high in comparison with average MTR in the EU and not in compliance with the European Commission's relevant recommendation on the calculation of such rates. The FNA's decision on MTR could be modified by infringement proceedings initiated by the European Commission or upon third party proceedings which could lead to further reductions of MTR. The rates for SMS wholesale termination services will not fall under this regulation. However, retail rates are regulated pursuant to European provisions.

EU Regulations capping retail charges for roaming apply to voice, SMS and data roaming and will be lowered on an annual basis until 2014. The new roaming regulation will apply until 2022. (*Source: EU MEMO/12/316, May 2012*) On April 3, 2014, the European Parliament voted in favor of the European Commissions' Single Market Proposal which includes, among others, the abolition of roaming charges within the EU by December 2015.

The GSM licenses which grant the right to use frequency spectrum in the 900 MHz and 1,800 MHz band expire at the end of 2016. On June 24, 2013, the FNA published a draft consultation paper in which it proposed the allocation of the spectrum in the 900/1,800 MHz bands together with spectrum in the 700 MHz and 1,500 MHz bands by way of an auction. However, the draft consultation paper foresees a reservation of a 2 x 5 MHz block in the 900 MHz band for each of the four existing mobile network operators – including us – which shall not be auctioned but granted upon request. Interested parties were invited to comment on the draft consultation paper by October 4, 2013, which we did. 40 statements were published by the FNA afterwards.

On July 4, 2014, the FNA published its decision relating to the allocation of spectrum in Germany subsequent to the acquisition of the E-Plus Group by Telefónica Deutschland. In its decision, the FNA in general grants Telefónica Deutschland and the E-Plus Group the permission to make further use of each of its spectrum holdings even after closing of the Transaction. However, the FNA requires Telefónica Deutschland in its decision to return such spectrum in the 900 MHz and 1,800 MHz bands by December 31, 2015 should such frequency usage rights not be awarded to Telefónica Deutschland on that date beyond 2016. In addition, the FNA announced to review Telefónica Deutschland's spectrum position once the allocation procedure in Project 2016 has been finished and will decide whether further measures are required, especially with regard to the 2,000 MHz spectrum. On July 25, 2014, the FNA initiated a public consultation to all interested parties and has invited them to update or notify their spectrum demand with regard to the forthcoming spectrum allocation procedure by August 20, 2014 which we have recently done. In the consultation, the FNA confirmed its previously announced timetable for Project 2016 and that, following the ongoing spectrum demand consultation, it will initiate public consultations on the draft decisions under Sections 55(10), 61 of the Telecommunications Act of the President's Chamber on the order for and choice of spectrum allocation proceedings in the third quarter of 2014. The FNA intends to publish respective final decisions as well as the decisions on the rules for the allocation conditions and the auction rules in the fourth quarter of 2014. The spectrum allocation procedure will commence in the second half of 2014.

GERMAN MOBILE MARKET

Introduction

Germany is the largest mobile market by subscribers in the EU with 115.2 million accesses (*i.e.*, SIM cards) and a penetration rate of approximately 143% in 2013. In 2013 there were 59.4 million pre-paid accesses in Germany, representing 51.6% of total accesses, while post-paid accounts for 55.8 million accesses, representing 48.4% of the total accesses. (*Source*: *Published Information by MNOs*)

The number of mobile subscribers, driven by an uptake of data, has increased by 5.8% from 2010 to 2013 compared to an increase of 6.7% in the "selected Western European peer countries", defined as Belgium, Denmark, France, Netherlands, Norway, Sweden, Switzerland and the UK. (*Source: Analysys Mason, Telecoms Market Matrix Western Europe 1Q 2014*)

The total number of mobile SIM cards in the German market is expected to increase by 1.7% annually between 2013 and 2016. This is expected to lead to an increase in penetration by more than 6.3% with a decreasing share of pre-paid accesses, a rising share of both post-paid accesses and M2M accesses in the future. (*Source: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014*)

In terms of mobile service revenue, voice services are estimated to have accounted for the majority of the total mobile services revenue in 2013 with €11.8 billion (or 55.5%), while data services are estimated to have accounted for €9.4 billion. The portion of voice service revenues in total mobile services revenue is expected to decrease to 47.0% by 2016. Data revenues are forecasted to exceed voice revenues by 2015. (*Source: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014*)

% of Total Mobile Service Revenues					
	2012	**2013**	**2014E**	**2015E**	**2016E**
Voice	58.6%	55.5%	52.4%	49.8%	47.0%
Data	41.4%	44.5%	47.6%	50.2%	53.0%

The German market for mobile services is expected to show negative growth in the coming years, with service revenue expected to decrease by 2.4% annually between 2013 and 2016. This projected decrease in mobile services revenue is partially driven by pricing pressure due to high competition, declining messaging revenues due to OTT substitution and regulation (*i.e*., relating to MTR cuts and roaming).

Total mobile ARPU has decreased by a CAGR of 1.3% 2011-2013 in Germany compared to a negative CAGR of 6.4% 2011-2013 in selected Western European peer countries. Total ARPU is currently substantially lower for voice and data (both messaging and non-messaging) in Germany compared to other European markets, leaving potential for mobile data service revenue per user to catch up to peer countries and possibly less downside potential for mobile voice service revenue per user. (*Sources: Analysys Mason, Telecoms Market Matrix Western Europe 1Q 2014, July 2014 Analysys Mason, North America telecoms market – 2014 interim forecast update 2013-2018, March 2014)*

ARPU 2013 (€ per month)											
	DE	**Avg.**	**BE**	**CH**	**DK**	**FR**	**NL**	**NO**	**SE**	**UK**	**US**
Total	16.6	26.1	21.8	34.2	18.8	24.9	23.7	34.5	22.3	21.1	33.5
Voice	9.2	14.7	13.0	23.9	10.4	13.3	13.3	18.3	12.3	10.1	17.8
Data	7.4	11.4	8.8	10.3	8.4	11.5	10.4	16.2	10.0	11.0	15.7

In the German market, there are currently four operators with their own mobile network (so-called MNOs). All four MNOs in the German market currently provide mobile broadband services over their UMTS networks after launching W-CDMA-based services in 2004. Since then, all four MNOs have gradually rolled out different technologies supporting significantly higher data rates than W-CDMA such as HSDPA, HSUPA and most recently HSPA+ and LTE.

In the German spectrum auction that took place in April to May 2010, Deutsche Telekom, Vodafone, E-Plus and Telefónica Deutschland acquired new spectrum (frequency usage rights) for nearly €4.4 billion from the FNA. Part of the auctioned spectrum was the Digital Dividend (800 MHz) which was formerly used by German broadcasters and which will now be used to deploy mobile broadband services via LTE. LTE supersedes the UMTS standard and provides significantly higher bandwidth and lower latency times. This technology, therefore, is expected to act as market catalyst for mobile broadband. The 800 MHz band is considered to be the most suitable to deploy nationwide LTE in Germany. E-Plus did not acquire any blocks within the 800 MHz band. (*Source: FNA publication BK 1a-09/002*)

As part of the terms of the 2010 spectrum auctions, the FNA established a set of roll-out obligations which mandated Deutsche Telekom, Vodafone and Telefónica Deutschland to start their LTE roll-out in the 800 MHz band in rural areas not already served by broadband ("**white spots**") before deploying LTE technology in urban areas. Rural coverage obligations in Germany have now been fulfilled and the MNOs have already started to provide urban areas with LTE. (*Source: FNA press release, June 25, 2012*) Furthermore, commercial activity in LTE has already been started by Deutsche Telekom, Vodafone and Telefónica Deutschland and management expects mass market adoption in 2014.

Mobile Players and Competitive Environment

The German mobile market is well-developed, and divided between four MNOs: Deutsche Telekom, E-Plus, Telefónica Deutschland and Vodafone. In terms of accesses, Deutsche Telekom is the leading mobile network operator as of June 30, 2014 with 39.3 million subscribers (33.7%), followed by Vodafone with 31.9 million subscribers (27.4%), E-Plus with 25.8 million subscribers (22.2%) and Telefónica Deutschland with 19.4 million accesses (16.7%). (*Source*: *Published Information by MNOs*)

Mobile Market in Germany								
	Total Market Share (%)				**No. of Subscribers (millions)**			
	June 30,	**December 31,**			**June 30,**	**December 31,**		
	2014	**2013**	**2012**	**2011**	**2014**	**2013**	**2012**	**2011**
Deutsche Telekom	33.7	33.5	32.3	31.0	39.3	38.6	36.6	35.4
Vodafone	27.4	28.0	29.9	33.0	31.9	32.2	33.9	37.6
E-Plus	22.2	21.6	20.7	19.9	25.8	24.9	23.4	22.7
Telefónica Deutschland	16.7	16.8	17.1	16.1	19.4	19.4	19.3	18.4

Deutsche Telekom has the greatest market share in post-paid subscriptions, standing at 39.1% as of June 30, 2014. Since June 2012 (when it was 35.9%), their post-paid market share increased by 3.2 percentage points. In the same period, Vodafone's share of the post-paid subscription market has declined (by 3.2 percentage points to 27.1%), and market shares have decreased for Telefónica Deutschland (by 0.4 percentage points to 18.4%) and increased for E-Plus (by 0.5 percentage points to 15.5%). In contrast to other European markets where a new entrant has gained significant market share in recent years (*e.g.*, Denmark, Sweden, United Kingdom and France), there has not been a new network operator entering the German mobile market since 2006. (*Source: Published Information by MNOs*)

Post-paid Mobile Market in Germany								
	Total Market Share (%)				**No. of Post-paid Subscribers (millions)**			
	June 30,	**December 31,**			**June 30,**	**December 31,**		
	2014	**2013**	**2012**	**2011**	**2014**	**2013**	**2012**	**2011**
Deutsche Telekom	39.1	38.6	37.0	36.2	22.4	21.6	19.6	18.2
Vodafone	27.1	27.6	29.4	30.6	15.5	15.4	15.6	15.4
Telefónica Deutschland	18.4	18.4	19.1	18.3	10.5	10.3	10.1	9.2
E-Plus	15.5	15.4	14.5	14.9	8.9	8.6	7.7	7.5

In addition to the four established MNOs, Germany has a very well-developed group of operators without their own networks (so-called MVNOs, including service providers and branded resellers), which account for a substantial share of the market and exert substantial competitive pressure. In 2013, this segment accounted for around 30.0 million subscribers and more than 25.0% of total subscribers). Secondary brands of the MNOs include, for example, FONIC (Telefónica Deutschland), congstar (Deutsche Telekom) and blau (E-Plus). Mobile offerings are available from large retail chains, including AldiTalk (using E-Plus's network), Tchibo mobil (joint venture with Telefónica Deutschland), Edeka (using Vodafone's network) and Lidl (using Telefónica Deutschland's network). Brands targeted at the international calling market include Lebara mobile, TURKCELL (both using Deutsche Telekom's network) and Lycamobile (using Vodafone's network). Cable operators such as Kabel Deutschland ("**KDG**") and Unitymedia/KabelBW have also established mobile operations. The recent acquisition of KDG by Vodafone may result in a shift in strategy for KDG from being an MVNO competitor to becoming part of an integrated network operator. After the acquisition of debitel by freenet in 2008, the key non-MNO players are the freenet group (comprising, *inter alia*, mobilcom/debitel), the Drillisch group and 1&1. (*Source*: *Analysys Mason, Telecoms Market Matrix Western Europe 1Q 2014, July 2014*)

Mobile Voice

Mobile voice currently represents the largest segment of mobile service revenue with €11.8 billion in 2013. Mobile voice revenues are expected to decline at a rate of 7.7% annually down to €9.3 billion by 2016, partly due to increasing competition from non-traditional mobile voice services based on VoIP technologies. OTT applications such as Skype, which are generally free-of-charge and accessible via smartphones, have the potential to gradually substitute traditional voice services carried over circuit-switched networks. In addition, in recent years in Germany, there have been considerable reductions in regulated mobile voice termination rates. As announced on July 19, 2013 by the FNA, the rate of the termination of calls to mobile networks run by German mobile network operators was decreased on December 1, 2013 from €1.85 cent/min to €1.79 cent/min and this will remain in force until November 30, 2014.

Despite the expected negative trend in mobile voice revenue, there are possibly less downsides in the German market, in comparison to other European markets. Voice ARPU in Germany is currently €9.2 per month, compared to the average of "selected large Western peer countries" (defined as Belgium, Denmark, France, Netherlands, Norway, Sweden, Switzerland, the UK and the United States) with €14.7 per month. Monthly minutes of use ("**MoU**") in Germany is also significantly lower than in peer countries with 86 minutes average MoU in 2013 compared to 161 minutes average of peer countries. (*Sources: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014; Analysys Mason, Telecoms Market Matrix Western Europe 1Q 2014, July 2014; Analysys Mason, North America telecoms market – 2014 interim forecast update 2013-2018, March 2014)*

	DE	**Avg.**	**BE**	**CH**	**DK**	**FR**	**NL**	**NO**	**SE**	**UK**	**US**
Voice ARPU 2013 (€ per month)	9.2	14.7	13.0	23.9	10.4	13.3	13.3	18.3	12.3	10.1	17.8
MoU (outgoing MoU per active subscriber per month)	86	161	97	110	131	176	99	168	148	136	383

Mobile Data

Mobile data services include traditional messaging services carried over the circuit-switched network, or SMS, as well as messaging and non-messaging services carried over the packet-switch network and the Internet, or non-SMS mobile data.

Mobile data total service revenue in Germany is expected to increase from €9.4 billion in 2013 to €10.4 billion in 2016 to represent 53.0% of total mobile service revenue (from 44.5% in 2013), driven by non-messaging mobile revenue growth.

Smartphone penetration (defined as the number of smartphone handsets divided by the total number of handsets) is expected to increase from 44.3% in 2013 to 64.8% in 2016. (*Source: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014*)

Messaging

Traditional messaging services, such as SMS, have historically represented an attractive source of revenue and cash flow generation for mobile network operators due to the relatively high margins and low network utilization. However, in recent years, many European countries have experienced a strong substitution effect on SMS services due to the rapid expansion of OTT services, such as WhatsApp or Facebook Messenger, which enable users to access potentially unlimited messaging services over the Internet. In addition, there remains some uncertainty around SMS termination rates, which are not regulated. According to Analysys Mason, revenues from messaging are expected to fall from €2.8 billion in 2013 to an estimated €0.9 billion in 2016. (*Source: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014)*

Non-Messaging

Non-SMS mobile data is a key future growth driver in the mobile market and is being targeted by all four MNOs in the German market. In 2013, the contribution of non-messaging mobile data to total mobile service revenue was €6.6 billion, and is expected to increase at a compound annual growth rate of 12.9% to €9.5 billion by 2016. This increase is primarily due to an increase in non-SMS mobile data traffic driven by the increased uptake of smartphones and other small screen devices, such as tablets, as well as the technological evolution to super-fast mobile broadband with the introduction of the LTE standard. Data traffic from mobile devices in Germany is expected to increase from 230 Petabytes in 2013 to 598 Petabytes in 2016. (*Source: Analysys Mason, Wireless network traffic worldwide: forecasts and analysis 2013-2018, October 2013)*

Mass market roll-out of LTE technology will contribute to non-messaging mobile data revenue growth as it brings positive effects on customer experience and data usage and allows premium data pricing for MNOs. By 2016 non-messaging mobile data will account for 48.2% of mobile revenue. (*Source: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014)*

There is significant upside potential in the German market for mobile data service revenue compared to other Western European mobile markets. Smartphone penetration (defined as the number of smartphone handsets divided by the total number of handsets) was relatively low in 2013 at 44.3%, compared to the average of the selected large Western peer countries of 64.4%, but this is expected to increase to 64.8% by 2016. (*Sources: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014; Analysys Mason, Telecoms Market Matrix Western Europe 1Q 2014, July 2014; Analysys Mason, North America telecoms market – 2014 interim forecast update 2013-2018, March 2014)*

	DE	Avg.	BE	CH	DK	FR	NL	NO	SE	UK	US
Smartphone penetration 2013 (%)	44.3	64.4	55.3	62.5	62.9	60.9	64.0	80.4	63.3	58.8	71.7

The average small screen data usage of 247 MB per user per month in 2013 is also relatively low compared to other peer countries. *(Sources: Analysys Mason, Telecoms Market Matrix Western Europe 1Q 2014, July 2014; Analysys Mason, North America telecoms market – 2014 interim forecast update 2013-2018, March 2014; Analysys Mason, Wireless network traffic worldwide: forecasts and analysis 2013-2018, October 2013)*

	DE	FR	Nordics	Western Europe	UK	US
Avg. small screen data usage 2013 (MB/user/month)	247	370	631	349	489	774

Increasing LTE usage and smartphone penetration are forecasted to foster mobile data services growth in Germany. MNOs have and continue to make significant investments in LTE which has resulted in substantially increased coverage, with major cities already offering coverage that exceeds 90%.

Smartphone Penetration in Germany (%)					
	2013	**2014**	**2015**	**2016**	**2017**
Total handset penetration	**44.3**	**52.9**	**59.6**	**64.8**	**68.8**
Thereof with LTE contract	4.5	11.3	22.4	33.9	45.4

GERMAN FIXED-LINE MARKET

Introduction

The German fixed-line market generated total service revenue (including retail revenue and interconnect revenue, *i.e.*, operator's revenue from other operators and service provider for fixed-line telecommunication services) of approximately €27.3 billion in 2013. (*Source: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014)*

The main broadband access line technologies are DSL and cable. DSL continues to be the dominant technology in the broadband market, with 23.2 million of the total 28.6 million subscribers in 2013 using DSL, generating retail revenue of approximately €6.6 billion. The use of cable technology is increasingly popular in urban areas and increased from 3.6 million subscribers in 2011 to 5.2 million subscribers in 2013. Alternative means of connection, such as direct fiber connection, are becoming more prevalent. In 2013, fiber connected 68,000 broadband customers in Germany. (*Source: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014; Analysys Mason, Telecoms Market Matrix Western Europe 1Q 2014, July 2014)* In addition, regulation enables competitors to access Deutsche Telekom's fast VDSL network via a "contingency model" which includes lower access costs for the network operators than a traditional bitstream wholesale model in exchange for an upfront payment by the network operator to Deutsche Telekom. In recent years, there has been a significant investment in VDSL network infrastructure, primarily by Deutsche Telekom, with its network coverage reaching approximately 15 million households across Germany as of the end of June 2014.

Triple-play packages are offered by the majority of broadband service providers. These bundle fixed-line telephony, broadband Internet access and IPTV/digital TV. Quadruple-play packages which add mobile services are also available from some fixed-line network operators and cable network operators such as Kabel Deutschland and Unitymedia/KabelBW.

Fixed-line Internet/Broadband

Germany is the largest fixed-line broadband market in Europe, with nearly 29 million subscribers by the end of 2013 and has grown, driven by high-speed connections, by 10.0% since 2010 versus a growth of 12.1% for selected Western European peer countries. This is expected to rise steadily to nearly 32 million by 2016. The total revenue from fixed-line broadband was €7.4 billion in 2013 and is expected to increase slightly to €7.8 billion by 2016. (*Source: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014)*

Due to rapid growth over recent years, broadband internet penetration in German homes has accelerated and increased to approximately 69.8% of all homes at the end of 2013. Compared to other European countries, this penetration level is still relatively low. *(Sources: Analysys Mason, Telecoms Market Matrix – Western Europe 1Q 2014, July 2014; Analysys Mason, North America telecoms market – 2014 interim forecast update 2013-2018, March 2014; EIU)*

Fixed-line Broadband Penetration (% households)											
	DE	**Avg.**	**BE**	**CH**	**DK**	**FR**	**NL**	**NO**	**SE**	**UK**	**US**
2013	69.8	85.1	82.0	93.3	88.6	85.6	91.2	86.1	74.9	86.4	78.2

Market Players and Competitive Environment

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. (*Source: Analysys Mason, Telecoms Market Matrix Western Europe 1Q 2014, July 2014)*

Fixed-line Broadband Market in Germany								
	Total Market Share (%)				**Number of Retail Subscribers (millions)**			
	March 31,	**December 31,**			**March 31,**	**December 31,**		
	2014	**2013**	**2012**	**2011**	**2014**	**2013**	**2012**	**2011**
Deutsche Telekom	42.9	43.3	44.6	45.3	12.4	12.4	12.4	12.3
Vodafone	20.9[1]	20.4[1]	14.5	15.6	6.0	5.8	4.0	4.2
Telefónica Deutschland	7.7	7.9	8.5	9.6	2.2	2.2	2.4	2.6
United Internet	12.3	12.2	11.5	11.8	3.6	3.5	3.2	3.2
UnityMedia	9.2	9.0	8.0	3.8	2.7	2.6	2.2	1.0
Other	6.9	7.3	12.9	14.0	2.0	2.1	3.6	3.8

1 Vodafone including Kabel Deutschland

Alternative Network Operators

With the liberalization of the German telecommunications market in 1998, the FNA required Deutsche Telekom to open up the last mile of its network, *i.e.*, the copper wire from the main distribution frame (MDF) through the ULL to the customer's premises to further competition. A significant number of ULL operators have evolved from infrastructure-based operators created by major utility companies or by Deutsche Bahn AG. In approximately 100 German cities, local utility companies have constructed city networks which provide a local alternative infrastructure. The MNOs, Vodafone and Telefónica Deutschland, use Deutsche Telekom's regulated ULL products to connect fixed-line customers.

Deutsche Telekom is currently offering to the wholesale market a new VDSL bitstream contingency model which is based on a commitment and risk sharing approach including an upfront payment allowing other providers to connect a defined number of households for a more attractive monthly bitstream price with bandwidths of up to 100 Mbit/s. Telefónica Deutschland is participating in this model through its agreement with Telekom Deutschland GmbH in order to provide fixed-line broadband high speed products with data transmission rates of up to 100 Mbit/s with VDSL vectoring (see *"Business – Material Contracts – VDSL Contingency Model with Deutsche Telekom*").

Resellers

Voice resellers were the first competitors to emerge in the German fixed-line telecommunications market. The resale model has been developed subsequently in the dial-up and broadband internet markets. Today, pure resellers primarily offer broadband access and VoIP using a facilities-based carrier's infrastructure. United Internet, with its brand 1&1, is the only relevant remaining reseller in the market.

Cable Companies

In Germany, cable operators offer high speed internet connections as a result of rapid modernization of cable networks in recent years. Cable operators had a subscriber market share of 18.2% as at December 31, 2013. (*Source: Analysys Mason, Telecoms Market Matrix Western Europe 1Q 2014, July 2014)* Cable revenue is expected to continue to increase steadily from €755 million in 2013 to €1.1 billion in 2016. However, broadband and telephony service deployment in the cable market is constrained by a number of complicating factors, including the structural separation of the network into four distribution levels and the need to upgrade a significant number of distribution networks in the home. (*Source*: *Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014)*

Fixed-line Telephony

In the German market for consumer fixed-line telephony, Deutsche Telekom remains the biggest provider. The fixed-line telephony market is increasingly under pressure from resellers, alternative carriers, mobile substitution and alternative access technologies such as VoIP services offered via DSL or other broadband internet connections, and service providers such as Skype.

GENERAL TRENDS IN THE GERMAN TELECOMMUNICATIONS MARKET

The German telecommunications sector is experiencing a number of trends which are expected to continue in the future. First, there is a trend towards convergence. The fully integrated operators, Deutsche Telekom, Telefónica Deutschland and Vodafone, are pursuing strategies of bundling and cross-selling and offer packages of mobile services, broadband and fixed-line telephony. Integrated mobile and fixed-line operators can benefit from a convergence strategy by various means, particularly relating to lower levels of customer churn and up- and cross selling opportunities. On average, converged households have a lower churn rate regarding both mobile and fixed-line products compared to non-converged households. When switching providers, households tend to choose providers which are already used by the household. Only very few households simultaneously switch both mobile and fixed-line products to a provider which is completely new to the household. (*Source: mm customer strategy GmbH, Convergence Study, September 2012*)

There is a strong push by all four MNOs in the German market to monetize mobile data. The symbiotic growth in mobile data usage and smartphone penetration presents upside opportunities for MNOs. Third, it is expected that there will be a move to cloud services, where services such as Customer Relationship Management (CRM) systems and e-mail are hosted remotely rather than on dedicated servers within enterprises. This move has increased data traffic between enterprises and data centers and has resulted in a corresponding increase in demand for network capacity. Finally, the market for M2M communications is growing. By 2016, the machine-to-machine communications market revenue in Germany is expected to grow to €440 million, up from €169 million in 2013. (*Source: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014*)

MNOs are beginning to offer innovative digital services in addition to their core connectivity services with the intention of driving their future growth. Telefónica Deutschland, supported by Telefónica, S.A., has identified the following five trends which have already had an impact on revenue which we anticipate to continue:

- Launching and commercializing tools allowing for additional communication features on mobile handsets, such as multi-media content sharing and cloud services;
- Machine-to-machine solutions (*i.e.*, automated data communication between two devices via a mobile network), such as tracking & tracing and vending machines;
- Security solutions such as antivirus, anti-phishing and URL filtering; and
- more broadly:
    - Financial services, including, for example, direct-to-bill services that enable users to pay for digital goods through their mobile phone bill and certain insurance products such as handset insurance and internet insurance; and
    - Advertising services, such as offering business customers the opportunity to communicate their product offers through messaging and e-mail, or offering advertising space on telephone bills.

BUSINESS

OVERVIEW

We are the third largest integrated telecommunications services provider in Germany (based on 2013 revenues published by German network operators Deutsche Telekom, Vodafone and Telefónica Deutschland), serving approximately 25.1 million customer accesses as of June 30, 2014. We offer mobile and fixed-line services providing voice, data and value-added services to consumer and business customers. In addition, we are one of the leading wholesale telecommunications services providers in Germany, offering access to our mobile and fixed-line infrastructure and service capabilities to our wholesale partners. We are a member of Telefónica Group, one of the largest telecommunications providers in the world.

We operate a nationwide mobile network with GSM coverage of more than 99% and UMTS coverage of approximately 76% of the German population as of June 30, 2013, respectively. The expansion of our LTE network is advancing steadily and as of June 30, 2014, we reached LTE coverage of more than 50% of the German population. In addition, we operate a nationwide fixed-line network. Our strategic cooperation with Deutsche Telekom has expanded our fixed-line network coverage to 98% of German households and enables us to supply nearly 15 million households with high-speed DSL internet access, delivering current data transfer rates of up to 50MBit/s and of up to 100MBit/s soon, via the new vectoring technology.

We execute a multi-brand strategy for our products in order to reach as many customer segments as possible. We offer most of our post-paid and pre-paid mobile products, fixed-line products, converged product offerings, and value added services under our core O_2 brand. We strive to continuously improve the market position of our O_2 brand, especially to gain consumer and business customers in the premium segment. In recent years, we have focused our strategy particularly on selling mobile post-paid contracts to smartphone users. This customer group, which accounted for 72% of our O_2 post-paid customer base as of June 30, 2014, generates above-average revenues compared to non-smartphone users based on its use of mobile data services and greater enthusiasm for the new LTE mobile communications standard. Interest in smartphones and the use of mobile data services is also growing among customers purchasing pre-paid products. As of June 30, 2014, approximately 21% of our O_2 pre-paid customers were using a smartphone.

Our secondary and partner brands, together with our wholesale distribution channels, enable us to reach additional customer segments outside the target market of our core O_2 brand. Our secondary brands include our own brands FONIC and netzclub as well as brands associated with joint operations and strategic partnerships, such as Tchibo mobil. Our multi-brand approach enables us to target a broad range of customers and to maximize our sales coverage through tailored products, marketing, and distribution. Our wholesale business consists of mobile, fixed-line, and value-added services, which we offer to customers such as 1&1, mobilcom/debitel, Drillisch, and Unitymedia KabelBW. Our comprehensive portfolio enables our wholesale partners to independently service their end customers, while at the same time giving us the opportunity to expand our reach and take advantage of economies of scale.

For the year ended December 31, 2013, we recorded revenues of €4.9 billion and OIBDA of €1.2 billion, corresponding to year-on-year decreases in revenues of 5.7% and in OIBDA of 3.3%, respectively.

In the SPA among KPN, Telefónica, S.A. and the Company, the Company agreed to purchase all assets, certain liabilities and business activities of the E-Plus Group (for further details on the SPA, please see "*– Material Contracts – Sale and Purchase Agreement with regard to the E-Plus Group*"; for further details on the business of the E-Plus Group, see "*Acquisition of the E-Plus Group – Business of the E-Plus Group*").

Assuming the acquisition of the E-Plus Group had taken place as of January 1, 2013, Telefónica Deutschland would have served approximately 46.9 million customer accesses[1] and recorded pro forma revenues of €7,942 million as of and for the year ended December 31, 2013. In our view, the combination of Telefónica Deutschland and the E-Plus Group is intended to create a leading digital telecommunications company in the German market while retaining our mindset as a "challenger". We aim to realize this by leveraging the scale of the New Group to realize business efficiencies, improve our value proposition for customers, focus on digital and data services and evolve to a leaner digital operating model which relies increasingly on digitalized processes.

STRENGTHS

We believe that the following strengths will enable us to execute our strategy to create a leading digital telecommunications company (see "*– Strategy*").

A Consumer Market Leader in one of Europe's Most Attractive Telecommunications Markets

We are a single country integrated telecommunications provider operating in Germany, one of the strongest economies in Europe. Germany has the highest GDP in Europe, a strong sovereign credit rating, low public debt, a healthy fiscal balance and a stable political system. Amid the European sovereign debt crisis, Germany's economy has remained resilient with real GDP growth of 0.5% in 2013 and forecasted GDP growth of 2.0% for 2014 (European average: -0.3% for 2013 and 1.1% forecasted for 2014) (*Source: Economist Intelligence Unit, July 2014*) (see "*Industry Overview – Introduction – German Macro Environment*").

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1 The number of customer accesses of the E-Plus Group determined on the basis of the definitions and calculation policies applied by Telefónica Deutschland in this regard.

Germany is one of Europe's largest telecommunications markets, with revenues from telecommunications services reaching €40.1 billion in 2013, and also benefits from a relatively stable regulatory environment. Data consumption in the German market has grown in recent years, which has contributed to mobile service revenues reaching approximately €19.6 billion in 2013. This has been driven by the increased use of smartphones and tablet devices, a rising demand for connectivity and bandwidth and other digital trends (*Source: Analysys Mason, Western Europe Telecoms Market Complete Trends and Forecasts 2014-2019, July 2014*). The demand for increased speed of mobile internet access is due to the use of more demanding applications such as video and music streaming and online gaming.

Germany was one of the first countries in Europe to deploy the LTE spectrum but Germany's data service usage is relatively low compared to other developed Western European telecommunications markets. In 2013, Germany's smartphone penetration was 44.3%, its mobile data usage per user was 247MB per month and its data ARPU was €7.4 as compared to the average of the selected large Western European peer countries of 64.4%, 349 MB per month and €11.9, respectively. (see "*Industry Overview – German Mobile Market*"). As such, we believe that there is significant potential for the German market to catch-up with the rest of the Western European market and to grow in respect of data services. (*Sources: Analysys Mason, Telecoms Market Matrix Western Europe 1Q 2014, July 2014 Analysys Mason, North America telecoms market – 2014 interim forecast update 2013-2018, March 2014*).

We are one of only three integrated network telecommunications providers in Germany. Following the closing of our acquisition of the E-Plus Group, we believe we will be the leading integrated telecommunications service provider by consumer mobile subscriber numbers, according to our estimates. We believe that we will have the market position, scale and general resources that will enable us to further capitalize on growth opportunities, in particular, accelerate expansion of our LTE network and exploit mobile data services growth.

Combining Two Successful and Agile Innovators

We have a successful track record of challenging market leaders with innovative tariffs, as does the E-Plus Group. In our case, this includes tariffs such as "O_2o", "O_2 Blue", "O_2 Blue all-in", "O_2 on" and, in the case of the E-Plus Group, the "BASE flower" tariff structure. We have managed to increase our mobile customer market share from 13.9% as at June 30, 2009 to 16.7% as at June 30, 2014. The E-Plus Group increased its mobile customer market share from 17.0% as at June 30, 2009 to 22.2% as at June 30, 2014. (*Source: Published Information by MNOs*)

We began focusing on opportunities in the market for data services early in its development, allowing us to monetize the rapid growth in data traffic in Germany. This included setting up innovative data-centric tariff offerings (such as the "O_2 Blue all-in" smartphone tariffs, the "O_2 Unite" business tariff and the "O_2 DSL All-in" tariff) and pioneering smartphone data tariff offerings.

Our "O_2 Blue all-in" smartphone tariffs are specifically designed to foster LTE adoption, which is one of the key factors for the successful monetization of mobile data. This approach has allowed us to attract and retain customers while positioning O_2 as an LTE brand with what we believe to be an attractive value-for-money proposition. Similarly, the E-Plus Group offers a variety of tariffs through its BASE brand, focused on flat rates and data usage. In particular, the BASE flower offering helps customers to configure their tariff based on their voice, SMS and data needs. Recent pricing initiatives from both us and the E-Plus Group were in response to more smartphone centric customer demands. For example, we and the E-Plus Group have launched attractive and easy-to-understand tariff and device bundles covering the wide spectrum of customer demand, helping to improve mobile data usage, smartphone penetration and the wide adoption of LTE-enabled devices.

Similarly, both we and the E-Plus Group have recently launched new digital offers such as "Napster Music Flat" and "EA Games Flat" to foster the usage of mobile data. Simultaneously, we are creating new revenue sources such as mobile advertising solutions and have introduced financial services products such as "mpass" and "BASE Wallet". Furthermore, the E-Plus Group has entered the media and entertainment segment by entering into partnerships with content providers such as ProSiebenSat.1 Group and TV streaming provider Zattoo. The enlarged customer base of the New Group will, we believe, make us more attractive to business partners in developing digital innovations.

We intend to continue to provide innovative propositions and remain more agile and flexible than our main competitors, giving us the ability to react faster to market changes and trends.

Coverage of Numerous Segments with a Broad Brand Offering

We have a powerful multi-brand portfolio comprised of our core premium O_2 brand as well as established secondary and partner brands. Our multi-brand approach enables us to target a broad range of consumers and maximize our sales reach. Our secondary brands such as Fonic, Tchibo mobil and netzclub are positioned to target customers of varying age groups, ethnicities, interests and profiles. We also expand our access to customers through the brands used in our wholesale partnerships with service providers, cable operators and retailers.

Following the closing of our acquisition of the E-Plus Group, our brand portfolio will be enhanced by that of the E-Plus Group. The E-Plus Group's brand portfolio is also built on a successful multi-brand approach and contains a variety of strong brands. BASE, the E-Plus Group's core brand, sits in a large portfolio alongside, what we believe to be, successful secondary brands, such as simyo and Blau, and other strong brands used in wholesale partnerships such as AldiTalk (one of the largest retail brands in Germany) as well as other established brands in the fast growing market for services tailored for ethnic groups, including Ay Yildiz and Ortel Mobile. The New Group will have one of the broadest brand portfolios which it will continue to review in accordance with its brand portfolio strategy.

A Competitive Network Infrastructure with a Strong Spectrum Position

As of June 30, 2014, our mobile network provides 2G coverage reaching over 99% of the German population and 3G coverage reaching approximately 76% of the German population. With the deployment of Dual Cell HSPA+ technology in selected areas we can provide enhanced downstream data transfer rates of up to 42 MBit/s. Additionally, as at June 30, 2014, we covered more than 50% of the German population with our next-generation 4G/LTE network which provides downstream data transfer rates of up to 150 MBit/s. We believe that the integration of the E-Plus Group's high capacity mobile network, providing 2G coverage to over 99% and 3G coverage to over 80% of the German population, will significantly improve individual coverage, network quality and the capacity of our 2G and 3G networks. We believe our joint networks, upon the closing of our acquisition of the E-Plus Group, will be the largest in the German market with approximately 40,000 antenna sites for the 2G and 3G networks.

In 2010, we acquired the rights to use the 800 MHz frequency band which is most suited to provide mobile broadband services on the next generation LTE network. LTE technology's higher data transmission speeds and capacity allow us to meet the increasing demand of customers for new types of digitized media such as streaming media, games, videos and social media applications. Upon the closing of our acquisition of the E-Plus Group, we will also be able to use the spectrum assets of the E-Plus Group. We aim to use these as additional speed and capacity layers to support our growing LTE network on the 800 MHz frequency band. With the combined scale and resources of the New Group, we expect to be in a position to further accelerate the deployment of our LTE network and make it more efficient to close the gap to our main competitors in providing nationwide LTE coverage. We think that this will also further strengthen our market position and allow us to penetrate the demanding higher value and business segments.

Our mobile backhaul transport cooperation with Telekom Deutschland GmbH regarding the use of Deutsche Telekom's infrastructure, and in particular its fiber optic infrastructure, allows us to better cope with mobile traffic growth. Such cooperation enhances our performance and efficiency allowing our mobile network to transmit data at greater speeds and we also benefit from increased capacity. This scalable and flexible cooperation with Deutsche Telekom enables us to connect up to 2,600 concentration points (*i.e.*, the first point at which individual end-user connections are brought to a single point in the network, see "*– Network Infrastructure – Transportation Network*". Also see "*– Material Contracts – Backhaul Contract with Deutsche Telekom*").

Regarding our fixed-line infrastructure, our strategic NGA cooperation with Deutsche Telekom has expanded our fixed broadband coverage to 98% of the German population and enables us to supply approximately 15 million households with VDSL internet access, delivering data transfer rates of up to 50 Mbit/s and in selected regions data transfer rates up to 100 Mbit/s with VDSL vectoring.

We believe that our increased scale will allow us to continue to improve our network to meet increasing customer demands in the near to mid-term.

A Presence Across all Distribution Channels Underpinning an Extensive Retail Distribution Network

Following the closing of our acquisition of the E-Plus Group, we will have an extensive retail distribution network. Our extensive combined German distribution network will help ensure access to our enlarged customer base. The combined number of shops owned by the New Group upon the closing of the acquisition of the E-Plus Group will be approximately 1,700, with a strong presence in most regions in Germany.

We also have an indirect distribution arrangement for our O_2 brand relating to approximately 400 Media Markt and Saturn stores which exclusively sell our products and services. Furthermore, we have indirect distribution arrangements in place with most major retailers (including e-retailers) in Germany. We will benefit from increased market coverage through service providers, wholesale partners and strong partnerships with cable operators and fiber network operators.

We believe that we and the E-Plus Group provide an attractive digital customer experience. As a result of our distribution channels, comprehensive online self-care options (*e.g.*, Mein O_2 Kundenportal, Mein O_2 App, Mein BASE App) and integrated social media applications on our online portals (*e.g.*, YouTube, Twitter, Facebook) we believe that we have one of the highest proportions of online sales in the market. We have recently strengthened that approach and increased the frequency of contact with our customers by launching our new O_2 Facebook shop, a dedicated space to interact with customers in their own digital environment.

Significant Synergy Value Creation Opportunities

We estimate that the integration of the E-Plus Group offers significant synergy potential with a net present value of more than €5.0 billion (post-tax), particularly with respect to distribution, customer service and network synergies, with further value potentially to be derived from additional revenues and other synergies.

We aim to complete the integration of the E-Plus Group in the next five years. We currently envisage an annual cash flow synergy potential of approximately €800 million (pre-tax) once the integration is complete. The majority of the synergy potential is based on cost reductions and not on increases in revenues. (see "*Acquisition of the E-Plus Group – Estimated Synergy Effects*")

Strong Cash Flow Generation and a Conservative Capital Structure

We have been steadily growing our subscriber base across all business areas since we first began to provide telecommunications services to the German market. Consistent revenue generation year-on-year, despite a challenging market environment, has been driving our strong cash flow.

We have managed to slightly increase our free cash flow in the year ended December 31, 2013, to approximately €699 million in the aggregate, despite significant capital expenditures (including investments into a rapid deployment of high speed mobile networks). Cash flows also benefitted from factors such as efficient cash management and a favorable tax position including significant tax losses carried forward (see "*Management Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources*").

Following the closing of our acquisition of the E-Plus Group, we expect to maintain a strong cash flow. In addition, we remain committed to a conservative leverage target (calculated by dividing net financial debt by OIBDA) of below 1.0x (see "*Capitalization and Indebtedness*"). Following the closing of our acquisition of the E-Plus Group, the New Group would have a leverage ratio below this target.

STRATEGY

Our vision is to create a leading digital telecommunications company in the German market while retaining our mindset as a "challenger". We aim to achieve this by leveraging the scale of the New Group to realize business efficiencies, improve our value proposition for customers, focus on digital and data services and evolve to a leaner digital operating model which relies increasingly on digitized processes. This has led us to the following strategic priorities.

Monetize Mobile Data Opportunities and a Rising Demand for LTE

Our strategic focus on data and innovative data-centric tariff solutions will continue to be pursued across all brands and customer segments.

We aim to drive mobile data ARPU, particularly for our core brands, by increasing the demand for data services, particularly through marketing LTE technology, and by providing our customers with the latest digital products and services. We believe that data-centric products with flat rates, tiered by volume and speed, and the provision of the latest smartphones and tablets are key factors to achieving this strategic objective. Similarly, we aim to strengthen our customer relationship management (CRM) system to allow us to more fully increase revenues in data services by anticipating potential changes in customer demand and providing them with the most appropriate offers through the most appropriate channels (*e.g.*, upselling of data packages).

We also expect our value-added services offering, which includes financial services, media and entertainment services as well as mobile security solutions, to further increase our attractiveness to smartphone users. We intend to adopt and provide support for the latest technological innovations and to be in line with changing customer needs and preferences. To this end, we plan to leverage our enlarged customer base to enter into strategic partnerships with industry leaders relating to the provision of OTT and other digital content and other attractive services to our customers.

Cross-Sell Fixed-Line Products and Seize Opportunities in the B2B Segment

We plan to focus on high-value segments and cross-sell fixed broadband services to our enlarged customer base. Along with our LTE offering, we are able to offer our customers high-speed fixed broadband services with high transmission speeds. We intend, on the back of our strategic NGA cooperation with Deutsche Telekom (see "*– Material Contracts – NGA cooperation with Deutsche Telekom*"), to further leverage Deutsche Telekom's network infrastructure and serve our customers with fixed broadband high speed products with data transmission rates of up to 100 Mbit/s with VDSL vectoring. We plan to offer our customers competitive and attractively-priced mobile and fixed services bundles to cover their full telecommunications needs.

Upon the closing of our acquisition of the E-Plus Group, we will be able to offer and cross-sell these high-speed fixed broadband services to a significantly enlarged customer base. In parallel, we believe that leveraging our enlarged mobile customer base by upselling mobile data, LTE services and digital services will allow us to retain our position in the market, contribute to being a successful integrated network telecommunications provider and increase our revenues in data services.

We further believe that improvements in network and service quality will significantly improve our competitive position with regard to demanding business customers, especially SoHos and SMEs. We intend to capitalize on this opportunity through innovative offerings, such as our new O_2 Unite tariff for business customers, with a promise of high quality, good value-for-money and an integrated multi-channel and digital experience. We plan to adopt a more segment-based approach, concentrating more on mobility-focused industries. We believe this will also place us in a better position to cross-sell fixed-line services and complement our offering with information and communication technology ("**ICT**") solutions, such as the recently launched digital workplace solutions including Microsoft Office 365, online content sharing solution and an IP cloud-based telephone system.

Capitalize on a Multi-Brand Portfolio, Multi-Channel Distribution and an Increasingly Digital Approach

We aim to use our core brands, our strong combined portfolio of secondary brands and the partner brands of the New Group to further strengthen our position in the telecommunications market. We intend to continue to operate in different market segments under a focused multi-brand strategy which enables us to target a broad range of consumers, maximizing our sales reach, and, at the same time, addressing the specific needs of our customers through tailored product offerings, marketing and distribution. In addition, we intend to continue to explore strategic partnerships to add brands to our portfolio which target specific niches or consumer segments. We believe that both the Company and the E-Plus Group are perceived as strong competitors providing the best value for money in the segments of the German market targeted by their brands. We aim to capitalize on this strength and apply it to our new combined brand portfolio across each target segment. With this combined brand portfolio of the New Group and with a competitive network, we believe we will be able to stretch the reach of our brands to high value customers in each market segment.

We believe that, in the future, most customer contact will occur through digital channels. In terms of distribution and customer service, therefore, our strategy is to rely on a multi-channel model that is based increasingly around digital sales and services and uses a digital medium as the foundation for every customer interaction. We intend to shift sales and customer care activities to digital channels, enabling customers to access services easily, anywhere and at any time.

We always aim to deliver the best customer service experience regardless of distribution channel (*e.g.*, through providing specialist technology advice to our customers in our O_2 stores). We believe this will continue to allow us to generate the most value out of each customer contact and will help differentiate us from our competitors.

Our self-operated shops and partner shops will remain important. We aim for them to continue to function as service points and increasingly become a point for us to demonstrate and cross-sell our digital offerings, to answer customers' technical questions and also encourage them to make the most out of our digital products and services.

We aim to continue to offer our customers a consistent level of high quality service, ensuring transparency and thereby enhancing customer confidence. We believe that high levels of customer satisfaction will reduce customer churn rates and encourage existing customers to recommend our products and services to others. However, we intend to only provide assisted contact when it is beneficial for the customer and for us. As a result, we aim to be able to provide excellent service to our customers while maintaining a lean set-up and incurring reasonable operating costs.

Further Improve the Perception of our Network Quality and Accelerate Nationwide LTE Deployment

We believe that our network infrastructure assets position us well to capitalize on the opportunity provided by the strong growth in data usage in the German market and the increased demand for LTE. Following the closing of our acquisition of the E-Plus Group, we believe that our combined 3G and LTE networks will improve our competitive position. The combination will provide us with the opportunity to bundle the strengths of each of our dense historical 2G and 3G network grids in urban areas in order to achieve a very high mobile network quality, particularly in areas where customers tend to use higher volumes of data. We estimate that, upon the closing of our acquisition of the E-Plus Group, we will have the largest number of physical sites in the German market, which will give us the opportunity to develop a dense integrated network with broad coverage, larger capacity and higher quality.

The combination of our networks will also result in certain cost savings and, by combining scale, we will be able to accelerate the deployment of our LTE network. LTE technology's higher data transmission speeds and capacity will allow us to meet increasing customer demand for new types of digitized content, such as streaming videos and music, games, and social media applications. As the combination of the two networks will allow us to deploy our network more quickly, we aim to leverage our 800 MHz spectrum while simultaneously rolling out a higher frequency LTE capacity network layer in urban and sub-urban areas.

We aim to improve our competitive position with regard to demanding consumer and business customers. We also believe that the improved and expanded network will improve our bargaining position with infrastructure partners and network equipment providers.

In parallel, we plan to advance our mobile backhaul strategy and further increase fiber access points in transport to manage increased traffic and limit our dependency on microwave. This will be done on the basis of our existing cooperation agreement with Deutsche Telekom (see "– *Material Contracts – Backhaul Contract with Deutsche Telekom*") and through the consolidation of the fiber assets of both companies. We have the right to increase the access points available under the agreement following the closing of our acquisition of the E-Plus Group.

Develop a New Operating Model with Lean and Digital at its Core

We plan to take advantage of the economies of scale available to the New Group to develop a leaner operating model with lowered costs drawing from the best practices of both groups. This will, we expect, increase our profitability and cashflow generation over time. An increasing use of digitized external processes (such as customer service and customer relationship management) and digitized internal processes (such as identifying opportunities for cross-selling and upselling) will play a central role in driving efficiencies. We aim to simplify and unify our operating model and reduce complexity in our central functions with best practice administration processes. Moreover, with the rationalization and streamlining of commercial activities we also anticipate lowered rent, sales and general administration, channel management and other expenses. As regards infrastructure, we aim to optimize processes, increase network performance and improve our IT systems. This includes simplifying and standardizing our IT infrastructure and unifying our IT stacks to reduce duplication. We also plan to consolidate our data centers and platform vendors which we expect will help in reducing office IT spending. We also intend to increase the outsourcing of our IT services.

Significant Synergy Realization

We estimate that the integration of the E-Plus Group offers significant synergy potential with a net present value of more than €5.0 billion (post-tax) (see "*Acquisition of the E-Plus Group – Estimated Synergy Effects*"). We aim to complete the integration of the E-Plus Group in the next five years. Following on from this, we expect an annual cash flow synergy potential of approximately €800 million (pre-tax) once the integration is complete. The majority of this is based on cost reductions and not revenue increases.

We plan to combine the distribution networks and customer service organizations of the Company and the E-Plus Group. We think that this will increase efficiency and reduce costs through the application of the best practices of both organizations, and will also lead to a reduction in channel management and overhead costs.

With regard to our network, we aim to consolidate our backbone, backhaul and core networks with the respective network components of the E-Plus Group and we also plan to reduce the total number of mobile network sites by approximately 14,000 nation-wide. We believe the former will result in reduced operational expenditure for operation, maintenance and surveillance and the latter will lead to the realization of additional synergies in the form of a reduction of rental, power, maintenance and transport costs and overheads. We further aim to leverage the scalable cooperation with Deutsche Telekom with regard to mobile backhaul services, which we believe will increase our efficiency (see "*– Material Contracts – Backhaul Contract with Deutsche Telekom*").

Due to process rationalization and a continued focus on becoming a leaner and more agile and dynamic organization, we expect that the combination of both entities will lead to a reduction in selling, general & administration expenses. We expect these synergies mainly in the form of cost reductions in IT, administration and rent (*e.g.*, through outsourcing of data centers, facility support, transactional services and by simplifying IT).

In addition, we plan to exploit opportunities to acquire additional SME customers on the basis of a broader and higher quality network platform of the New Group and to use increasing opportunities to cross-sell high-speed fixed-line services to an enlarged mobile customer base.

HISTORY

The foundation of our Company dates back to 1995 when we started as a joint venture, VIAG Interkom, between the German utility conglomerate VIAG AG and British Telecom plc (joined later by Telenor ASA), to provide services in the German mobile and fixed-line telecommunications market. In 1997, VIAG Interkom was awarded a GSM license to build a 2G network to provide mobile voice, messaging and data services. In 1999, VIAG Interkom launched the first integrated mobile and fixed-line services offering in the German market.

With the acquisition of UMTS licenses for a 3G network in 2000, VIAG Interkom was able to improve the mobile services offered to our customer base, which grew to exceed one million that year. In 2001, British Telecom plc bought out the former interests in VIAG Interkom that were owned by the German utility company E.ON and Telenor ASA, renamed our mobile business "O_2 Germany", which started operating as a subsidiary of mmO_2 plc and in 2002 began offering products and services under the "O_2" brand to the German market. mmO_2 plc was later renamed O_2 plc.

In 2006, Telefónica, S.A. purchased O_2 plc, including its O_2 mobile networks and operations in Germany, and this was subsequently integrated into Telefónica, S.A.'s existing German operations. That year we launched our O_2 DSL services and our customer base exceeded 10 million. In 2007, we introduced FONIC, our main secondary discount brand, to the German market. In 2010, we further expanded our fixed-line operations with the acquisition of HanseNet, Telecom Italia's German broadband unit, which provides fixed-line telephony, internet, broadband and pay TV services in Germany, including its fixed-line network. In 2010, we also completed the development of an independent and competitive 2G and 3G network and acquired the LTE spectrum licenses. In 2011, we completed the integration of HanseNet's operations into our existing O_2 Germany operations and commenced the roll-out of our LTE network. In October 2012, Telefónica Deutschland successfully listed on the regulated market of the Frankfurt Stock Exchange.

PRODUCTS AND SERVICES

We offer comprehensive mobile and fixed-line services as well as value added services for consumers and business customers and an extensive portfolio of mobile, fixed-network and value-added services to wholesale partners.

As of June 30, 2014, we had approximately 25.1 million accesses consisting of approximately 19.4 million mobile service accesses (10.5 million on a post-paid and 8.9 million on a pre-paid basis) and approximately 5.7 million fixed-line accesses, thereof 2.1 million telephony, 3.3 million DSL and wholesale ULL and 0.3 million narrowband and subscribers of certain value-added services.

Consumers

Our core business is our consumer business and primarily comprises providing customers with mobile voice, messaging and data services and fixed-line telephony as well as high-speed internet access. In addition, we provide innovative value-added services, such as security solutions and mobile financial services.

These products and services are marketed under our core O_2 brand and secondary brands. Our secondary brands consist of our own brand netzclub and fully controlled brands, such as FONIC, or brands managed through joint ventures and strategic partnerships such as Tchibo mobil.

We have noticed a significantly below average churn rate for our converged customers on both, their DSL services and their O_2 mobile post-paid services. As part of our convergence strategy, we provide benefits of up to €10 per month for customers who purchase fixed-line as well as mobile services under our "O_2 Kombi-Vorteil". We also exclusively offer "SIM Plus", a smartphone entry tariff to our new and existing O_2 DSL customers. We believe that our convergence strategy improves customer loyalty and satisfaction and allows us to extract additional value from existing customers and lower our acquisition costs.

Mobile Services to Consumers

O_2 and secondary brands

Under the O_2 brand, we mainly sell mobile voice, messaging and data services and converged bundles (mobile and fixed-line services) to customers on a post-paid basis, but also market pre-paid services. Customers can choose between a large variety of tariffs. In recent years, we have placed a strategic emphasis on selling mobile post-paid services marketed under the O_2 brand to smartphone users, which is also supporting our strategy of monetizing mobile data opportunities based on LTE technology. We believe that smartphone customers generate above average revenues through extensive usage of mobile services.

In March 2013, we changed our O_2 blue tariffs to allow subscribers to make calls and send messages to all German networks for free. In April 2014, these tariffs were updated with extended LTE inclusion and roaming benefits. Our tariff portfolio includes varying high speed data volumes depending on the chosen tariff. This allows us not only to upsell customers to higher value tariff bundles, but also to directly monetize our LTE technology as LTE access is only granted in mid/high value tariffs. If customers fully utilize their data allowance in a given month, we offer them specific additional data/speed options. We offer special conditions to young people (students and young people below the age of 26) as well as to SoHos, such as our O_2 Blue all-in portfolio with more data allowance or minutes to other countries.

Mobile services under our secondary brands are generally also offered on a post-paid and pre-paid basis. However, we primarily sell pre-paid mobile voice, data and messaging services under our secondary brands, while post-paid tariffs, mobile data services and bundled tariffs are sold to a lesser extent. A large proportion of pre-paid customers of our FONIC brand has opted for payments by automated recharge of their call-up credits by way of direct debit from their bank account. Services under the Tchibo mobil brand address the Tchibo community, and customers can receive additional Tchibo benefits such as "coffee beans" points which can be spent in a Tchibo-store.

In terms of pre-paid mobile services, we focus on smartphone customers and, within this customer group, on the so called "smartphone entry" segment with tariffs starting at approximately €10 per month. Our pre-paid tariff portfolios have been expanded to address this target group by launching the tariffs "Fonic Smart S" and "O_2 Loop Smart".

We offer our customers tailor-made data packages. For example, when a customer has exhausted the high-speed data volume available under his tariff, we offer a customized high-speed data package via SMS.

O_2 My Handy

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 the immediate payment of the total purchase price or for an upfront payment of part of the total purchase price and 12 or 24 subsequent monthly installments. Customers are able to acquire a wide range of mobile phones, including premium handsets, as all mobile services tariffs can be combined with any handset. Our main suppliers of handsets are Samsung, Apple, Nokia, HTC, Sony and Huawei. Our focus for the "O_2 My Handy" model has been and continues to be on smartphones, which comprise approximately 96% of the handsets we sold in the six months ended June 30, 2014.

In 2013, we started offering bundles of O_2 Blue mobile tariffs and the latest hardware at an attractive price.

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.

Fixed-line Services to Consumers

We also offer fixed-line telephony and high-speed internet access via DSL to our customers. DSL is offered under the ADSL2+ and VDSL standards through our O_2 DSL All-in portfolio offering unlimited calls to German landlines and mobile phones as well as transparent data allowance conditions. The O_2 DSL portfolio was recently updated with additional VDSL options for young people and small businesses. Based on our agreement with Telekom Deutschland GmbH with regard to the VDSL contingency model (see "*– Material Contracts – NGA Cooperation Agreement with Deutsche Telekom*"), we are able to serve approximately 15 million households with data transfer rates of up to 50 MBit/s and in selected regions data transfer rates up to 100 MBit/s with VDSL vectoring. To a very small extent, we still operate a legacy of narrowband accesses. The majority of our fixed-line DSL and narrowband customers result from the acquisition of HanseNet Telekommunikation GmbH in 2010. Customers of our fixed-line services have access to value-added services such as security solutions and internet data storage capacity.

Business

We offer our products and services to SoHos, SMEs and large national businesses through the O_2 brand, and we leverage the Telefónica Group for large international businesses (see "*– Brands and Marketing*"). We are committed to differentiating ourselves from competitors through innovative product and service offerings, distinct marketing, sales and customer service approach and our high flexibility in tailoring solutions to individual needs.

We tailor our products and services to the types of business customers that use them. SoHos and SMEs are addressed with standardized mobile and fixed-line services and tariffs based on a discount scheme depending on the number of contracts per customer and bundled benefits. In April 2014, we launched O_2 Unite, which is one single tariff with contingents (or a set pool) of call minutes, SMS and data volumes for the whole company and all employees, respectively. By using O_2 Unite, the company and employees may themselves determine how they wish to utilize the allowances provided by the tariff. To large companies and global corporations, we offer tailored integrated solutions combining mobile and fixed-line services and WANs. We also market innovative M2M- telemetry solutions (*e.g.*, for vending machines, fleet and facility management) to our business customers (see "– *Digital Innovation*"). We complement our offerings with ICT solutions, such as the recently launched digital workplace solutions including Microsoft Office 365, online content sharing solution and a cloud-based telephone system. Through our "O_2 Hardware Only" model, we sell handsets and other hardware to our business customers against immediate purchase price payment or against payment of 12 or 24 monthly installments.

Mobile Services for Businesses

We offer our business customers mobile voice, messaging and data services with tariffs tailored to the type of customer and optional value-added services such as BlackBerry Enterprise Server and Mobile Device Management ("**MDM**"). MDM is a cloud-based tool to remotely control and secure all mobile devices of a company. This solution was developed together with Airwatch, one of the leading MDM providers. We also offer VPN Link solutions enabling cost-free calls from fixed-line to mobile customer accesses, mobile conferencing services, mobile security solutions, a multicard option for up to five mobile devices and dual lines (one SIM and one handset with two contracts and tariffs). In order to enhance network coverage within office buildings, we offer our business customers the O_2 Signal Box, an UMTS femtocell (a femtocell is a wireless access point that improves cellular reception inside a home or office building and resembles a wireless router) under the "O_2 Hardware Only" model. Once plugged in to the DSL access of the customer, the O_2 Signal Box is connected to our mobile network.

Additionally, we offer our business customers a new pooling concept with our tariff O_2 Unite which we launched in April 2014. O_2 Unite is one single tariff with contingents (or a set pool) of call minutes, SMS and data volumes for the whole company (and all of its employees). Instead of separate single tariffs for each employee, all employees may utilize the contingents under O_2 Unite (up to the agreed company contingent of call minutes, SMS and data) and the business customer pays one monthly price for the whole company for the agreed contingent. User profiles for employees can be utilized based on their changing data requirements and travel schedules. O_2 Unite includes a three month test phase to adjust the monthly estimated contingents. The overall contract duration is 24 months. The monthly price for O_2 Unite is digressive, *i.e.*, the higher the volume booked, the lower the price per unit. The O_2 Unite tariff also includes a discount on hardware and MDM. With O_2 Unite, we believe we offer an easy and flexible solution with full cost control for all business segments.

Fixed- line Services for Businesses

Fixed-line services for business customers range from combined DSL voice and internet access bundles for SoHos such as our recently launched O_2 DSL All-in Professional tariffs providing for flat rates for calls to all fixed-line and mobile networks in Germany and internet flat rates with different bandwidths to high-speed internet access and leased lines (which permanently connect two customer sites with data transmission speeds of between 2 Mbit/s and 100 Mbit/s and allow for constant high-speed and high quality data transmission between these customer sites), managed WANs (secure fixed-line connections of multiple customer sites) and data center services for large corporate customers. In addition, we offer fixed-line voice services and primary rate interfaces, enabling business customers to connect their telephone system to the fixed-line access in certain regions of Germany. These core services are complemented by optional value-added-services such as hosted e-mail, website builders, service numbers and call center solutions.

Wholesale

We offer a comprehensive portfolio of mobile, fixed-line and value-added services to our wholesale partners. As of June 30, 2014, we had approximately 2.4 million mobile accesses and approximately 1.2 million fixed-line accesses (including accesses where the service contract is between the end-customer and the wholesale partner).

Mobile Services for Wholesale Partners

Depending on the type of cooperation with our wholesale partners, we provide either: (i) mobile voice, messaging and data services to the end-customer under a services contract between the end-customer and us; or (ii) access to our mobile network and infrastructure (including the usage of roaming arrangements and the termination of voice minutes, data traffic and messages) to the wholesale partner to enable it to service the end-customer. The service level agreed with our wholesale partners may also include additional services such as billing, customer service, collection of consumption data, handset management, SIM-card logistics and reservation of blocks of telephone numbers. Depending on the agreed level of our involvement, wholesale partners either resell our existing tariffs, market jointly developed individual tariffs or use their self-developed tariffs.

Fixed-line Services Wholesale Partners

To our fixed-line wholesale partners we provide ULL services, including fixed-line telephony and high-speed internet access. In addition, we provide voice termination services to other network operators. Optionally, the wholesale partner can also receive further services such as billing, customer service, collection of consumption data, the management of telephone numbers and SIP accounts. As of June 30, 2014, we had approximately 1.2 million fixed-line accesses under wholesale partnerships, the majority of which are attributable to our cooperation with 1&1.

All fixed-line accesses in our wholesale business are governed by service contracts directly between the whole-sale partner and the end-customer.

Value-Added Services for Wholesale Partners

We provide our wholesale partners a choice of value-added services with end-to-end solutions based on our infrastructure, such as Premium Voice and Data (mainly used for televoting) or Bulk SMS-services (dissemination of large numbers of SMS).

Digital Innovation

In order to leverage our strong position in the German mobile services market and monetize additional growth opportunities, we have recently launched or intend to launch the following digital innovations which have partially been developed in cooperation with Telefónica Group:

- Financial Services: Activities in the financial services field include payment services, such as direct-to-bill, a service that enables users to pay for digital goods through their mobile phone bill. Further, we offer mpass, a mobile payment method that allows customers to pay for purchases made online and in physical stores with their handset, in the latter case by making use of NFC technology. This service will play a substantial role in the planned O_2 wallet. This application will allow customers not only to make contactless payments with their handsets, but also to collect and redeem coupons and offers with their mobile phone. In later phases, the O_2 wallet will also enable our customers to purchase and store transportation tickets and to use it to obtain access to buildings and cars. In addition to the mobile payment services, the product portfolio of Telefónica Deutschland includes a co-branded credit card which is issued to customers in cooperation with Barclaycard and which entitles the customer to receive valuable bonus points for each euro spent with the credit card.

- Media Services: We communicate targeted marketing messages for business customers from industry sectors FMCG (fast-moving consumer goods, *e.g.*, soft drinks or consumer electronics), fashion, retail, gastronomy, automotive or finance to our subscriber base through email, messaging (including MMS) and our online portals as value-added services for our O_2 customers. These so-called "push marketing campaigns" can selectively address specific customer groups to ensure relevancy or be delivered to customers based upon their proximity to certain retailers, restaurants or other locations. Push marketing campaigns only address customers who have agreed to these. In addition, we also sell advertising space across other channels such as our fixed-line and mobile services internet portals, mobile apps, and physical and electronic bills sent to subscribers.

- Communications: We plan to launch messaging and communication services based on the Rich Communication Suite ("**RCS**") standard. In this context, we are exploring features like chat, group-chat, multi-media content sharing, video-calling and others with a clear focus on data protection and reliability.

- Device Insurance: With this insurance, we offer our customers the possibility to protect the customer's smartphone against loss or damage.

- Value-Added Services: We have several cooperations with content partners, such as the gaming company Electronic Arts (EA) for a mobile gaming flatrate and Napster/Rhapsody for a music streaming service. Both services deliver an entertainment experience to smartphone users and are offered to our customers as add-ons to their mobile contracts. In the O_2-branded "Apps & Entertainment Shop", we also offer a range of other mobile content to our customers, such as MP3 songs, ringtones, pictures and apps. Complementary to the new data packages for EU countries under our "O_2 Blue All-in portfolio" tariff, we launched a free travel app providing our customers with all relevant travel information for about 450 cities within the EU compiled by travel specialist TripAdvisor.

- M2M: We offer M2M solutions (*i.e.*, automated data communication between two devices via a mobile network) tailored to individual customer requirements. The M2M offer consists of managed connectivity via a telemetry platform, enhanced by industry-specific solutions, *e.g.*, fleet management, tracking & tracing, vending machines, time recording, insurance telematics and energy management. Our strength lies in customizing solutions to customers' needs and in the possibility of drawing on the experience of Telefónica Group to deliver globally scalable solutions. One example is the agreement entered into with Tesla in April 2014 under which we are providing mobile internet connections in Germany for Tesla's in-car infotainment (*i.e.*, online navigation, music streaming and internet access) systems as well as for telematics (*i.e.*, tracking of vehicle position).

- Security: We offer security solutions such as anti-virus, anti-phishing, anti-theft and URL-filtering for mobile and fixed-line customers. We offer these security services for mobile only, fixed-line only, and converged customers in a multi-license product setup. Upcoming services will also include child protection functionalities.

BRANDS AND MARKETING

To optimize market exploitation and maximize our sales reach, our premium brand O_2 and our secondary brands such as FONIC, netzclub and Tchibo mobil are positioned to address distinct market segments. The positioning and marketing of each brand is tailored to the targeted consumer groups based on our market segmentation. Our segments are mainly built on insights regarding lifestyle and digital attitude and behavior.

Brands

O_2 is our core premium brand through which we market the full range of our post-paid and pre-paid mobile and fixed-line products and services. O_2 is positioned to appeal to customer segments that have a (high) affinity to digital trends, have a strong interest in the latest smartphones and the LTE technology. We aim to position O_2 as a brand that inspires customers to discover the digital world. Our brand strategy consists of two pillars: to "inspire" customers to explore new digital possibilities, and "enable" them with the right products, services and experiences to make the most of the digital opportunities.

To "inspire" customers, we invite them to enter a digital environment to test, play, learn and buy, *e.g.*, in our "O_2 Live store" in Berlin where they can discover new digital opportunities and test the latest apps and digital innovations. The O_2 Gurus, our technical experts, offer guidance and support to customers on how to make the most of the technology we offer – online as well as in our O_2 stores and on our hotline. With the loyalty program "O_2 More", we reward our customers with benefits in order to increase customer satisfaction and recommendation and to prevent churn. An additional customer contact point is our online platform #youcando.

To "enable" customers to make the most of the digital world, we offer them attractive propositions such as our data centric mobile and fixed-line product portfolio and value-added services such as the Napster music and EA Games flat rates. We aim to be the value-for-money LTE provider in the German telecommunications market and to provide reliable and competitive technology for mobile and fixed-line services. To provide them with high quality support, we aim to deliver outstanding service at all customer contact points, including over the phone, online or face to face.

In our current campaign, we combine both pillars of our O_2 brand strategy. We intend to "inspire" customers by showing videos in our online portal of people exploring new digital possibilities and thereby sharing their experience supported by the motivational message "YouCanDo". By doing this, we intend to visualize how O_2 "enables" people to achieve more with the help of digital possibilities and our products and services.

In the business market, we primarily target SoHos, SMEs and large national businesses with our O_2 brand and offer them flexible and affordable products and services which are easy to understand manage and integrate to enhance efficiency and productivity.

Large international businesses are targeted with the Telefónica brand.

We fully own FONIC, our largest secondary brand. Under the FONIC brand, we only market mobile services on a pre-paid basis. Launched in 2007, it has one of the largest customer bases among German mobile services discount brands. It is positioned to appeal to cost-conscious customer segments that use only basic mobile services and do not require extensive customer care. In terms of pricing, FONIC branded services are positioned at the upper end of the price range of mobile services distributed under discount brands in Germany.

Under our 50/50 joint venture with German retail-chain Tchibo, we market mobile services on a pre-paid basis under the Tchibo mobil brand since 2004 (see "– *Material Contracts*"). The brand is owned by Tchibo and is positioned to appeal to the Tchibo customer base. The product offering was recently expanded to entry level smartphones. By the end of 2013, the number of Tchibo branded accesses was approximately 1.4 million subscribers.

With the netzclub brand, launched in May 2010, we specifically target social media users with mobile voice and data services on a pre-paid basis. The netzclub offering is advertising-sponsored which leads to additional revenues from advertising customers. This is possible because all netzclub subscribers give their permission to be addressed with push marketing measures.

Our wholesale partners' brands are positioned and marketed by these partners themselves. These include mobilcom-debitel, Drillisch and the brands of the cable operators Unitymedia/KabelBW for mobile services as well as 1&1 for fixed-line services.

Marketing

We carry out various forms of general and customized marketing measures.

Our advertising approach for the O_2 brand reflects the brand's strategy and our position as a market challenger. We advertise the O_2 brand in all core media. Regional marketing activities, such as outdoor advertising and local promotional events are tailored to the local target groups and competitive situation. Significant marketing activity is also focused on the existing customer base to increase customer satisfaction, reduce churn and use cross-selling potential, such as selling fixed-line services to a mobile subscriber or vice versa. We also use regional marketing activities to target potential business customers, primarily SoHos and SMEs and large national businesses through the O_2 brand. Our average monthly gross media spend for our O_2 brand during the period from December 2012 to December 2013 amounted to €9.5 million.

The FONIC marketing strategy reflects the positioning of the brand as a market leader in the discount segment and is centered on the brand's commitment towards truth, transparency and simplicity. All FONIC marketing slogans and materials underscore that the brand stands for simple, fair and easy to understand mobile pre-paid services. Advertising activities are split between television, as the main focus, and online marketing.

Marketing of Tchibo mobil is focused on the Tchibo community and uses the slogan "*Das gibt es nur bei Tchibo*" (only available at Tchibo).

Marketing measures in connection with the brand netzclub include tutorial videos shown on the netzclub internet portal and a channel on the website YouTube explaining the concept of advertising-sponsorship, basic products and the "ad-funded tariff". We further employ viral marketing for our netzclub brand by using social media to distribute our marketing videos.

SALES AND DISTRIBUTION

We use direct and indirect distribution channels to increase customer growth. In 2013, approximately 36% of our total sales transactions were attributable to our online portal and telesales, 24% to O_2 partner shops, 14% to our self-operated O_2 shops, 17% to large retail distributors, 8% to distributors and cooperation partners and the remaining 9% to other distribution channels. Transactions are defined as the purchase of a product or service or the renewal of an existing contract.

Consumers

We conduct direct sales of O_2 branded offers to consumers via five channels: self-operated shops, partner shops, premium partner shops, online and telesales. Our self-operated shops, partner shops and online channels are the largest direct sales channels. As of June 30, 2014, we had approximately 150 self-operated shops, staffed with approximately 600 sales representatives. These shops are located in highly frequented and strategically important areas, such as high streets in urban centers, and offer exclusively O_2 branded products and services. We estimate that these shops had an aggregate of approximately 0.68 million visitors per month in the first six months of 2014. Our partner shops ("**O_2 Partnershops**") are operated by franchisees, but are branded the same way as self-operated shops and are not readily distinguishable from self-operated shops. They also exclusively offer O_2 products. As of June 30, 2014, we had approximately 732 O_2 Partnershops. We estimate that these shops had an aggregate of approximately 1.6 million visitors per month in the first six months of 2014. Both the self-operated shops and O_2 Partnershops focus on winning post-paid customers with good credit quality, but also on acquiring prepaid and DSL customers.

Our premium partner shops are independently operated stores that offer O_2 products and services as well as the products and services of other telecommunications services providers. We require the majority of the products for sale in a premium partner shop to be O_2 products. As of June 30, 2014, we had approximately 220 premium partners operating shops. We estimate that these shops had an aggregate of approximately 0.18 million visitors per month in the first six months of 2014. Premium partners obtain O_2 products and services through our strategic distributors.

In addition to signing up new customers, all physical shops play a vital role for our customer service. The majority of customers entering our stores are existing customers who come to the store in order to prolong their contracts, make service requests or purchase additional products or services. All distribution channels aim to use the contact with existing customers in order to increase the overall share of the customers' spending by offering converged O_2 products and additional services. In order to provide the best possible solutions and services for hardware-related problems as well as to assist the customer in making the best use of our products and technology within the digital environment, we offer a service called "O_2 Guru" across our customer contact points. "O_2 Guru" encompasses and utilizes both digital content (*e.g.*, O_2 Guru videos on our online portal and social media content) and highly skilled staff with the product and technical expertise accessible at selected self-operated shops and via the O_2 Guru hotline. By the end of 2014, we aim to increase and expand the O_2 Guru presence in digital content and physical distribution channels.

We also sell our products and services directly through our O_2 online portal. We estimate that our O_2 online portal had an average of approximately 20.7 million visits per month during the first six months of 2014. We use various methods to drive online traffic towards our O_2 online portal, including via eBay, social media applications such as Facebook, search-engine marketing and our affiliates. In addition, we sell our products through telesales, where we estimate that we had approximately 650 thousand contacts per month on average during the first six months of 2014.

We also conduct consumer sales through indirect distribution channels such as large retailers, e-retail and distributors and cooperation partners. The main retail distribution arrangement relates to approximately 416 Media Markt and Saturn locations (as of June 30, 2014). On the basis of an innovative revenue sharing agreement, we are the only German MNO with sales presences that exclusively sell our products and services in Media Markt and Saturn stores.

As of June 30, 2014, we had distribution arrangements with 8 e-retailers in all areas of online business. In total, our distributors and cooperation partners serve more than 10,000 points of sale as well as a number of sub-distributors.

Handsets are distributed through the "O_2 My Handy" model via all of our O_2 branded distribution channels and indirect retail sales channels (for example, Media Markt and Saturn).

FONIC branded services are mainly sold through the stores of a number of distribution partners such as the German retailers real, DM and Rossmann, but also via the FONIC online portal. netzclub branded services are sold exclusively via the netzclub online portal. Sales activity relating to jointly managed mobile secondary brands such as Tchibo mobil is closely coordinated with the respective cooperation partners. Tchibo mobil branded services are mainly sold through Tchibo stores and Tchibo shops in shop, but also through the Tchibo online portal.

Our strategy is to create a multichannel-model based increasingly around digital sales and services as a foundation of every customer interaction. Customer buying and service interactions, with varying degrees of digitalization, will be steered across the channels in order to provide the best customer experience with the goal to generate the most value out of each contact. Our non-physical distribution channels (online and telesales) are considered to be strong value creators. Our strategy is to grow the volume and share of transactions in these channels as well as enhance customer awareness about our digital touchpoints for self-service (*e.g.*, "O_2 community", "Mein O_2" app). Our self-operated shops and partnershops will remain important and we aim for them to increasingly become a point of experience to bring the digital world to life for our customers, *e.g.*, by demonstrating use cases and offering smartphone classes for customers. Improving cost efficiency in all physical channels remains a key focus.

Business

We are one of the three major providers of mobile and fixed-line telecommunication services to business customers in the German market. Our goal is to further enhance growth and gain market share in the business segment.

Our approach to business sales to SoHos and small SMEs is to leverage the existing O_2 distribution channels used to target consumers, namely O_2 shops, the O_2 online portal and telesales. We also have dedicated SoHo business experts present in our O_2 shops.

Because of the high level of complexity, sales projects with larger SME, enterprises and multinational corporations are individually targeted by our dedicated sales managers on the basis of a key and regional account management system.

We additionally target the business segment through our indirect partner channel supported by our dedicated partner account managers.

For global corporations we leverage the relationships of Telefónica Group with large multinational corporations in order to approach their German business. Our sales activity in this area is also based on a key account management system. In cases where the target customer has its headquarters in Germany, we lead and coordinate sales activities, whereas in other cases we support the sales activity of the member of Telefónica Group leading and coordinating the sales pitch.

Through our dedicated in-house sales representatives responsible for customer service and care we focus on service quality, cross and up-selling opportunities and contract extensions.

Wholesale

We believe the key success factor in wholesale is our partner management and our close cooperation with our partners. We seek to combine our telecommunications expertise with the distinct sales and marketing expertise of our partners in order to offer products that meet the demand of the market and address the large market for customers who seek telecommunications services without frills and are outside the focus of our own brands.

Mobile

We have three different types of cooperation arrangements with wholesale partners:

Branded Sales

Under a branded sales cooperation with a wholesale partner, we provide mobile voice, messaging and data services under the brand of the wholesale partner. The contractual relationship to provide the services, however, is typically between us and the end-customer. Under this model, the wholesale partner is usually in charge of sales and marketing only and markets the mobile services to its own customer base at its own points of sale.

Service Providers on a Retail Model

Wholesale partners that are referred to as "Service Providers" market mobile services under their own brand, have a direct mobile services contract with the end-customer and typically handle the customer relationship, customer billing, the collection of consumption data and handset management themselves, but sell mobile services on the basis of our tariffs. Service partners with a retail model include Freenet with the brand mobilcom/debitel, one of the largest providers of mobile services without an own mobile network in Germany.

Service Providers on a Wholesale Model

In a wholesale model a Service Provider buys voice, messaging and data termination services from us but handles all sales and marketing activities as well as end-customer-related topics such as customer service and billing itself. In this model the Service Provider also sells the mobile services to the end-customer on the basis of its own tariffs. If the service provider so wishes, we may take over the responsibility for customer service, billing and customer relationship management. This model is the basis for the cooperation with our wholesale partners Drillisch and Unitymedia/KabelBW.

Wholesale partners that are referred to as "MVNOs" market mobile services under their own brand, have a direct mobile services contract with the end-customer, handle the customer relationship, customer billing, the collection of consumption data and handset management themselves and, in addition, own certain elements of the network infrastructure.

Fixed-line

Our largest wholesale partner of fixed-line services is the internet service provider United Internet, which markets its services under the 1&1 brand. It sells fixed-line telephony and high-speed internet access under direct contractual relationship with the end-customers.

CUSTOMER SERVICE AND RETENTION

We believe that quality customer service increases customer satisfaction, reduces customer churn and can be a key competitive advantage in the telecommunications industry. Therefore, retaining existing customers is critical to the financial performance of telecommunications service providers and an essential element of our business strategy.

We have customer service representatives available by telephone and via chat functions at five German in-house locations in Hamburg, Rostock, Bremen, Nuremberg and Munich. We also have a number of outsourcing partners located in Germany.

These partners are responsible for approximately three quarters of all consumer voice volume. Our main outsourcing partners are Arvato, with approximately 1,760 employees providing services to us, and SNT, with approximately 880 employees. Outsourcing partners also provide invoice production, print, postage, back-office, credit check and collection services. We established a new near-shore center with 250 employees to support our digital transformation agenda, which commenced operations in June 2014.

Customer Service for Consumers

Our customer service, retention and satisfaction programs aim to provide customers with convenient and easy to use products and services in order to promote long-term relationships and minimize churn. Our customer service strategy is to grow the proportion of customer service delivered digitally through apps, internet portals, device self-service as well as to leverage social media to complement the service experience delivered over the phone and in the shop. To this end, we have already implemented a number of “e-Care” tools such as the private support function through Facebook. We believe that this approach will continue to improve customer satisfaction and further decrease churn.

One of the main key performance indicators which we use to steer our customer service operations is the monthly average contact rate. Over the last couple of years this rate has decreased: for subscribers of post-paid mobile services from an average contact rate of 18% in 2011 to 13% in the first six months of 2014, and for subscribers of fixed-line services from an average of 44% in 2011 to 36% in the first six months of 2014. The higher contact rate for subscribers of fixed-line services is a result of the high complexity of the installation process.

One of the reasons for the decrease of the contact rates is the increased use of online self-service support, also driven by the young demographics of our customer base. Customers can interact with us at any time through our online self-service support, which allows them to view and amend their contract terms and personal data such as bank account details and address, view and analyze their monthly bills and purchase additional services. Our online self-service support includes interactive applications, the use of social media and messaging services, and applications accessible from a customer’s handset, *e.g.*, Mein O_2 App. The share of digital services in the overall contact volume increased from 17.7% in the first six months of 2013 to 24.8% in the first six months of 2014.

We believe that high-quality complaint handling improves customer satisfaction. For this reason, we have dedicated complaint handling teams in Nuremberg and Hamburg. These teams personally contact the customer – regardless of the format of the complaint (written, voice or digital) – to ensure quick reaction times and fast solutions. We document complaints in order to identify issues and report them internally to relevant departments so as to address the cause of the complaint. Through this, we have reduced the number of customer complaints and will continue to develop this approach in the future.

Another driver of customer satisfaction is quality in billing. Our billing quality assurance teams located in Munich and Hamburg ensure that invoices are correct, transparent and easy to understand and are produced on time. For the production and dispatching of different bill types, we co-operate with external partners. To minimize billing costs, we encourage customers to use e-billing. As of June 30, 2014, the portion of our customers using e-billing had significantly increased to approximately 89% of the mobile services customers in our business area “Consumers” and approximately 93% of our fixed-line services customers.

In order to minimize and control customer credit risk, we have set up a customer credit risk management system. It consists of credit check, fraud, high-spend and dealer monitoring and different credit collection methods. For the evaluation of customer credit risks, external information sources (for example Schufa) are used. We believe that these measures have led to a relatively low rate of bad debt. Regarding overdue invoices, various credit collection strategies are applied, depending on the value and risk of the customer. Customer credit risk management is located in Bremen, Nuremberg, Munich and Rostock. If open invoices cannot be collected, the cases are handed over to external collection agencies.

In order to retain our customers, we aim to constantly deepen our understanding of our customers’ needs and improve customer loyalty. We place a stronger emphasis on customers with whom we generate high revenues. For purposes of our retention activities, we categorize customers into the following groups: “at risk”, “contract renewal”, “save desk” and “win back”. Whenever customers who are classified as “high risk” contact us, they are directly transferred to a special team with a focus on retention. They receive special treatment from this team, such as offers and problem solutions, with the purpose of increasing customer satisfaction and obtaining a contract extension. We contact customers whose contracts are about to expire through several channels such as messages and e-mail in order to achieve a contract extension. The main response channel of customers is the inbound hotline. Customers who call the care hotline to ask for a cancellation of their contracts are transferred to the “save desk”. Here, customers receive special treatment in the form of offers and problem solutions in order to improve customer satisfaction and prolong the contract. We attempt to contact customers that already terminated their services contract through several outbound communication channels in order to trigger inbound calls with the purpose of winning back the customer.

Customer Service for Businesses

In addition to our consumer services, we offer dedicated and specialized services to our business customers to cater for their specific needs, for example, by providing personalized services, frame contract management and third level care dealing with increased complexity. In particular, the “business customer” service for SMEs and large enterprises and multinational corporate customers is separated into five main areas: service management for multinational corporations, expert service for large SMEs and enterprises, technical care, third level support (*i.e.*, the highest level of support responsible for handling the most difficult or advanced problems) and general hotlines. The goal of our service management activities is to maintain active relationships with larger enterprises and multinational corporations with dedicated service managers that provide contract management services, prepare usage reports and reports on service level agreements, offer frequent project review meetings, create service improvement plans and conduct escalation management.

Our expert services comprise dedicated and personalized service accountants for high revenue and high complexity customers in the SME business segments for mobile and fixed-line services. A strong individual customer focus is relevant for us to understand and maintain relationships with large SME customers. We therefore aim to build a personal professional relationship with the customers representatives and provide proactive communication services. Additionally, in order to optimize our customer services, we align our measures with our business sales team.

Our tech support and third level handles business specific technical requests, such as mobile VPN, mobile device management, femtocell support and diverse mobile data requests. In addition, the third level care teams manage complaints from SME customers concerning various topics, *e.g.*, bill shock, network coverage issues and extraordinary contract cancellations.

Our customer service also provides business customer specific-order management services, including activation of subscriptions (SIM cards and landlines), hardware shipment, and number porting.

We also operate dedicated 24/7 hotlines to cater for the needs of business customers as well as sales partners. A number of initiatives, particularly related to process capability improvement and e-care, are also offered to business customers.

Customer Service for Wholesale Partners

On the basis of different models of cooperation (*e.g.*, branded sales partners and service providers), we provide customized service solutions to meet the specific requirements of our wholesale partners. The service comprises of project support, classic customer service including up-selling, second level and back office activities as well as SIM product management.

NETWORK INFRASTRUCTURE

We are one of the three integrated telecoms network operators with nationwide mobile and fixed-line networks in Germany. We believe that we have a competitive network infrastructure and sufficient frequency spectrum to enable us to cope with future capacity and service quality requirements. Furthermore, we benefit from the Telefónica Group’s buying power and its global expertise in network design and operations.

Network Strategy

We have invested significantly in our network infrastructure over the past years. Our current infrastructure has been developed through continuous organic as well as non-organic growth. In particular, the mergers of Telefónica Deutschland GmbH and Telefónica O_2 Germany GmbH & Co. OHG in 2009 and the acquisition of HanseNet in 2010 extended our transport and fixed-line network significantly. We have integrated the mobile and fixed-line networks and are in the process of leveraging synergies from the joint infrastructure usage for both our mobile and our fixed-line network. We completed the integration of the acquired network infrastructure by optimizing our network tools and processes. We have decreased our headcount in the network infrastructure department from January 1, 2011 to June 30, 2014, and thereby improved headcount efficiency of our network operations.

Our mobile access network strategy is based on three pillars. The basic needs of our customers are fulfilled through our GSM, or 2G, network, which provides nationwide voice and basic data services. The UMTS, or 3G, network, with its higher data capacity, covers cities and the surrounding areas. Finally, we are deploying our LTE, or 4G, network to cope with the growing demand for mobile broadband capacity. The mobile access network is supplemented by our fixed-access network, which has been constructed to efficiently reach as large a portion of the population as possible. This is achieved by using our own infrastructure and bitstream access products. Our core and service network is also up to the latest technology standards. It consists of IP-based service and core platforms which are ready to provide integrated and converged services.

Mobile Access Network

We operate a mobile access network based on GSM (with mobile data enhancement EDGE) and UMTS (with high speed data enhancement HSPA) standards as well as the new LTE, or 4G, standard.

As of June 30, 2014 our mobile network had a population coverage of 99.8% for mobile voice and 98.7% for mobile data services and consisted of more than 21,000 physical sites with GSM, UMTS and/or LTE base stations. The table below provides an overview of our GSM, UMTS and LTE population coverage as of June 30, 2014.

Mobile technology standard	**Population Coverage (outdoor)[1]**
GSM	99.8% (data 98.7%)
UMTS	75.7%
LTE	52%

1 Population coverage refers to the percentage of the population in Germany.

GSM

Our GSM network was launched on October 1, 1998. At the time of the launch, the mobile network did not have nationwide coverage, so we had to rely on national roaming services from other mobile operators. Since 1999, the national roaming was limited to the network of one other operator and completely ceased in January 2010. In 2001, we introduced, as the first German mobile network operator, the new GSM mobile data standard GPRS, which enabled mobile data rates of up to 55.6 kbit/s. After having been awarded additional frequency usage rights in 2006, the GSM network was expanded into rural areas and, as of 2008, the GSM network was upgraded by implementing the EDGE standard.

UMTS

Since 2004, our customers have been able to use UMTS. In 2006, we added the upgraded HSDPA standard which was further complemented by HSUPA, and eventually extended to the HSPA standard. The average user speed for HSPA is approximately 1 Mbit/s and the theoretical user speed under ideal conditions is 14.4 Mbit/s. We use our 2,100 MHz frequency band to provide UMTS. Due to the strong growth of data traffic coming from new devices like smartphones and tablet computers, we are currently upgrading the capacity of our UMTS network in all relevant areas, including radio links, connection to fiber points of presence and the exchange of first generation UMTS network elements. The emphasis of this network upgrade lies on capacity expansion and not on the extension of coverage. With the deployment of Dual Cell HSPA+ technology in selected areas, we can provide enhanced downstream data transfer rates of up to 42 MBit/s.

LTE

In 2011, after acquiring additional spectrum, particularly in the 800 MHz band, we started to build a next-generation network based on LTE technology. The average user speed for LTE (downlink) is approximately 5 to 10 Mbit/s and a theoretical user speed of up to 75 Mbit/s would be possible under ideal conditions. Furthermore, in comparison with an UMTS network cell at 2,100 MHz, an LTE network cell at 800 MHz provides better indoor coverage and covers a larger area. To provide additional capacity for future customer needs, LTE cells with 2,600 MHz can be implemented, providing theoretical user speeds of up to 150 Mbit/s. Our roll-out is primarily based on commercial considerations and is therefore focused on urban locations. Most metropolitan areas in Germany (*i.e.*, Hamburg, Hanover, Berlin, Cologne/Duesseldorf, Leipzig, Dresden, Duisburg, Essen, Frankfurt, Nuremburg and Munich) are already covered by our next-generation LTE network. In the coming years, we expect to continue the LTE roll-out in line with market demand.

Fixed Access Network

We also operate a fixed-line network and offer fixed-line network-based broadband connections with speeds of up to 16 Mbit/s using ADSL2+ technology. We upgraded parts of our fixed-line network to the VDSL technology and, for the use of certain business customers, to the SHDSL technology.

The fixed-line network is connected mainly via leased fiber connections from third-party carriers and utilities.

Our strategic cooperation with Telekom Deutschland has expanded our fixed-line coverage to 98% of the German population and enables us to supply approximately 15 million households with VDSL internet access, delivering data transfer rates of up to 50 MBit/s and in selected regions with data transfer rates up to 100 MBit/s with VDSL vectoring.

In addition, Telefónica Deutschland and Telekom Deutschland GmbH signed an agreement on December 20, 2013 to further expand their cooperation with regard to fixed-line services and allow increased utilization by Telefónica Deutschland of Deutsche Telekom's high-speed infrastructure. Based on this cooperation, we will be able to realize the transition from our own ADSL infrastructure to a sustainable NGA platform. The transition from our ADSL infrastructure to the NGA platform of Deutsche Telekom is expected to be completed in 2019 (see "*– Material Contracts – NGA Cooperation Agreement with Deutsche Telekom*").

Core and Service Network

Our core and service network provides integrated service layer architecture in order to realize converged services. The network is based on a Multiprotocol Label Switching ("**MPLS**") architecture and has been built on fiber infrastructure. Our backbone is capable of handling up to 1.3 Tbit/s.

Furthermore, we are developing a mobile voice solution for our LTE network, which is going to be based on an IP Multimedia Subsystem ("**IMS**") architecture, which at present is used for fixed-line voice service. In order to be able to offer popular data packages to customers as well as actively manage traffic in the network, we implemented Policy Charging and Ruling Function ("**PCRF**") and Deep Packet Inspection ("**DPI**") platforms.

Transportation Network

Our transportation network consists of more than 27,000 microwave links and leased fiber infrastructure in the backbone and increasingly in the backhaul network. To cope with mobile traffic growth, fiber connections have to come closer to the edge of the network. Therefore, we have designed a network structure with 2,000 points of concentration of which more than 1,000 are in operation. Our current fiber strategy is based on the infrastructure of Deutsche Telekom and alternative carriers.

Network Implementation

In order to further improve the efficiency of our network implementation, we recently outsourced the civil works and implementation of our system technology to three local service providers. Each provider is responsible for a different geographical area.

Another outsourcing partner manages the central warehouse, including modules to be deployed or decommissioned and spare parts. It also manages the repair of broken modules of system vendors.

The two main suppliers of infrastructure equipment for our mobile access network are Nokia Siemens Networks and Huawei Technologies. To ensure continuously high network quality with the introduction of new network elements or network features, internal tests with well-defined success criteria are executed on an end-to-end basis.

Network Operations

Our network operations are structured according to three levels. On the first level, the key task is the monitoring of network performance 24 hours a day. This includes solving basic incidents which can be solved remotely and addressing remaining problems to the field force partner unit or the second level teams.

On the second level, the key task is the resolution of more complex incidents or problems during normal office hours and on-call. For each technology area a dedicated team of experts is available to address the issue.

The third level team is typically the support team of the major vendors, which has access to very specific knowledge, including the involvement of the research and development units.

Similar to the network implementation, we continually aim to improve the efficiency of our operations processes. We have established a close relationship with partners to allow efficient, high quality operations of the network. There is an agreement between us and O2 Czech Republic a.s. pursuant to which we monitor the mobile networks in Germany, the Czech Republic and Slovakia, whereas O2 Czech Republic a.s. monitors the fixed-line networks in such countries. The field services for the fixed-line and mobile network have been out-sourced to the service partner Huawei Technologies. This cooperation includes the integration of new network elements and implementation of changes.

LICENSES AND FREQUENCIES

We hold paired frequency spectrum in the amount of 2 x 67.25 MHz and unpaired spectrum in the amount of 29.2 MHz (overall 163.7 MHz). The following table gives an overview of our frequency spectrum.

Frequency range	**Amount of frequency spectrum (in MHz)**
800 MHz (paired)	2 x 10
900 MHz (paired)	2 x 5
1,800 MHz (paired)	2 x 17.4
2,000 MHz (paired)	2 x 14.85
2,600 MHz (paired)	2 x 20
Amount of paired frequency spectrum	**2 x 67.25**
2,000 MHz (unpaired)	19.2
2,600 MHz (unpaired)	10
Amount of frequency spectrum (overall)	**163.7**

History of Spectrum Acquisition

We obtained our first frequencies in 1998 under the former authorization regime as part of our GSM license. Our GSM license comprises the 1,800 MHz frequency band granted in 1998 as well as frequency usage rights for the 900 MHz band granted in February 2006 (GSM 900: 2 x 5 MHz and GSM 1,800: 2 x 17.4 MHz). The GSM licenses and the corresponding frequency usage rights expire on December 31, 2016. On October 21, 2011, the FNA decided not to redistribute spectrum in the 900 MHz frequency, allowing us to keep our allotted spectrum.

In August 2000, we obtained our UMTS license. The UMTS license comprises frequency usage rights in the amount of 2 x 10 MHz in the frequency range of 2,000 MHz. It expires on December 31, 2020.

In April and May 2010, the FNA auctioned off additional frequencies in the 800 MHz, 1,800 MHz, 2,000 MHz and 2,600 MHz bands, with four mobile network operators participating in the auction. During this auction, we acquired 2 x 10 MHz in the 800 MHz band, 2 x 20 MHz in the 2,600 MHz band (paired), 10 MHz in the 2,600 MHz band (unpaired), 2 x 5 MHz in the 2,000 MHz band (paired), and 19.2 MHz in the 2,000 MHz band (unpaired). These licenses expire in December 31, 2025. The assigned frequencies may be used for mobile network access by using any technology.

Special Obligations related to 800 MHz Spectrum

During the auction in 2010, the 800 MHz frequencies proved to be the most valuable despite the fact that the assignments of the 800 MHz frequencies involve progressive coverage and roll-out obligations. Prior to the auction, the federal states in Germany specified towns and districts with little or no broadband coverage, which were grouped into four priority levels depending on their number of inhabitants. When using the 800 MHz frequencies, network operators are obligated to provide broadband connections to towns and cities in line with the individual priority levels. As soon as the coverage requirement has been met in all four levels, assignees may use the 800 MHz frequencies freely in the respective federal state. All technologies implemented (mobile, DSL, cable, etc.) are considered for the determination whether the requirement has been met. At the end of August 2012, the coverage requirements were fulfilled in all federal states for which there had been requirements. We and the other holders of frequency usage rights are therefore able to freely use the 800 MHz frequencies also in these federal states. According to a further roll-out obligation with regard to 800 MHz, each mobile operator has to provide 50% population coverage by the beginning of 2016. Although we reached a population coverage of approximately 50% as of April 30, 2014 based on our own measurements, the roll-out obligation is not fulfilled until the FNA confirms that the necessary coverage has been achieved which it has not yet done. In case we fail to fulfil this obligation, FNA has, in principle, the right to revoke the respective frequency usage rights.

Roll-out requirements also exist for the new frequencies in the 1,800 MHz and 2,600 MHz spectrum ranges: 25% population coverage by the beginning of 2014 and 50% by the beginning of 2016. As existing GSM and UMTS also count toward these coverage targets, we have already met these requirements.

Project 2016 – 900/1800 MHz Spectrum beyond December 31, 2016

In 2011, the FNA launched a public consultation to identify demand for spectrum in the 900 MHz and 1,800 MHz frequency bands starting in 2017 (so-called "**Project 2016**"). The FNA has stated that it intends to decide on the next steps for the future use of 900/1,800 MHz spectrum and make new assignments of frequency usage rights effective from January 1, 2017. Following this consultation and after a public hearing which took place on November 9, 2012, the FNA initiated an additional consultation on several scenarios for the future use of such frequencies. Interested parties were invited to comment on the scenarios described by the FNA by the end of January 2013. The FNA may extend the terms of GSM licenses and frequency usage rights or allocate frequency usage rights via an award or auction. On June 24, 2013, the FNA published a draft consultation paper in which it proposed the allocation of the spectrum in the 900/1,800 MHz bands together with spectrum in the 700 MHz and 1,500 MHz bands by way of an auction. However, the draft consultation paper foresees a reservation of a 2 x 5 MHz block in the 900 MHz band for each of the four existing mobile network operators – including us – which shall not be auctioned but granted upon request. Interested parties were invited to comment on the draft consultation paper by October 4, 2013, which we did. 40 statements have been published by the FNA afterwards.

On March 31, 2014, the FNA published a key elements paper relating to the allocation of spectrum in Germany subsequent to the acquisition of the E-Plus Group by Telefónica Deutschland. In its paper, the FNA highlighted its intention to align its decision on spectrum allocation with the decision of the European Commission relating to merger clearance of the acquisition. However, the FNA noted that the combination of both entities would lead to a higher accumulation in the 900 MHz and 1,800 MHz spectrum compared to the other mobile network operators. The FNA announced its intention to publish its final decision relating to the future allocation of spectrum in the second half of 2014.

On July 4, 2014, the FNA published its decision relating to the allocation of spectrum in Germany subsequent to the acquisition of the E-Plus Group by Telefónica Deutschland. In its decision, the FNA in general grants Telefónica Deutschland and the E-Plus Group permission to make further use of each of its spectrum holdings even after closing of the Transaction. However, in its decision the FNA requires Telefónica Deutschland to return such spectrum in the 900 MHz and 1,800 MHz bands by December 31, 2015 should such frequency usage rights not be awarded to Telefónica Deutschland on that date beyond 2016. In addition, the FNA announced that it would review Telefónica Deutschland's spectrum position once the allocation procedure in Project 2016 has been finalized and would decide whether further measures are required, especially with regard to the 2,000 MHz spectrum. On July 25, 2014, the FNA initiated a public consultation to all interested parties and has invited them to update or notify their spectrum demand with regard to the forthcoming spectrum allocation procedure by August 20, 2014, which we have recently done. In the consultation, the FNA confirmed its previously announced timetable for Project 2016. The FNA further noted that, following the ongoing spectrum demand consultation, it will initiate public consultations on the draft decisions under Sec. 55(10), 61 of the Telecommunications Act of the President's Chamber on the order for and choice of spectrum allocation proceedings in the third quarter of 2014. The FNA intends to publish respective final decisions as well as the decisions on the rules for the allocation conditions and the auction rules in the fourth quarter of 2014. The spectrum allocation procedure will commence in the second half of 2014, for which purpose the FNA will invite for the application for spectrum usage rights and for the participation in the allocation proceeding in due time prior to such a proceeding. On August 4, 2014, we filed a claim with the Administrative Court of Cologne (*Verwaltungsgericht Köln*) against the FNA's decision of July 4, 2014, which has not been decided yet.

INFORMATION TECHNOLOGY SYSTEMS

Our business operations are highly dependent on the functionalities, availability and further development of sophisticated and advanced IT systems. Our IT systems are integral to our business and provide capabilities for all fixed-line, mobile and digital services, such as online services, point-of-sales support, third party integration of sales channels and resellers, service provisioning, billing, customer relationship management, data warehousing and enterprise resource management, and workplace support.

IT Service Operations

We strive to ensure constant system availability which is critical for our business operations. Service management and governance functions are performed in-house, while infrastructure operations are outsourced and hosted in redundant and geographically distinct datacenters. We introduced SAP as a managed service operation in the beginning of 2012.

IT Service Development

We use carefully selected software systems to increase our efficiency, including internally developed software, open-source software and third-party commercial software. We select established suppliers and innovative software development methods to prevent cost and time intensive product and service development.

IT Outsourcing

We outsource more than two-thirds of our total IT services, including services such as the operation of data centers, desktop services, application maintenance and software analysis and development. To this end, we concluded outsourcing agreements with leading European and global IT services providers. Even though we have transferred a significant portion of our IT services to outsourcing partners, we believe the quality of our IT services remains high and is ensured by sourcing quality management.

Differentiating IT – Agility and Digital Enabling

We continuously improve our software development methodologies to quickly react in a flexible and efficient way to changing market demand. In particular, agile and lean development has helped us to significantly reduce the time-to-market for market critical services like new tariffs and online services.

In the last several years, we have invested in our IT architecture to improve the efficiency of our IT services through increased standardization, simplification, consolidation and virtualization as well as effectiveness through seamless integration of third parties and digital OTT services.

INTELLECTUAL PROPERTY RIGHTS

As of June 30, 2014, we owned approximately 1,700 internet domains, approximately 220 trademarks and 51 patent families with 135 family members. 24 of those patent families contain at least one granted patent. Patent applications are predominantly filed as European patent applications – with validation in Germany, Spain and the United Kingdom – or national German patent applications.

The "O_2", "O_2 My Handy" and "Think Big" brands which we use are owned by O2 Holdings Limited and licensed to us for the use in Germany under a group trademark license agreement dated October 15, 2007 as amended by an agreement dated August 29, 2012. This agreement has an indefinite term. The license is granted without consideration, but we are obligated to bear certain general and specific brand costs according to a separate cost sharing agreement (see "*Related Party Transactions*").

All "Telefónica" and "Wayra" brands which we use are owned by Telefónica, S.A. and may be used by us in Germany on the basis of a trademark user license agreement dated January 1, 2011 as amended by an agreement dated August 29, 2012. The agreement has an indefinite term. We pay a royalty fee for the use of the brands (see "*Related Party Transactions*").

The "Tchibo mobil" brands are owned by our respective cooperation partners.

In addition to the brands mentioned above, the brands "netzclub", "Loop" and "FONIC" are also significant relevant brands we currently use and for which we own the relevant trademarks. They are registered for use in the EC.

EMPLOYEES AND PENSION OBLIGATIONS

The table below provides a breakdown of the number of our employees (full time equivalents, "**FTE**") as at December 31, 2013, 2012 and 2011 and June 30, 2014, respectively:

Category of employees[1]	As of June 30, 2014	As of December 31, 2013	2012	2011
Commercial	2,932	2,939	2,992	2,833
Infrastructure Units	1,503	1,508	1,515	1,559
Central and Admin	512	516	510	618
Total	**4,947**	**4,963**	**5,017**	**5,010**

[1] FTE numbers do not include employees of TGS and TGR entities, which ceased to be member of Telefónica Deutschland as of November 1, 2012. The calculation of FTEs includes part time employees in proportion to their worktime and excludes employees to which we did not pay wages at the relevant point in time, such as persons absent due to long-term sick leave or on parental leave.

The number of FTEs of Telefónica Deutschland as of the date of this Prospectus does not significantly differ from the number as of June 30, 2014.

All of our employees are employed in Germany.

We are no longer subject to collective agreements with unions. All agreements were terminated with effect as of June 30, 2012 in order to allow for more flexible and company-specific rules. As of June 30, 2014, less than 5% of our employees have employment contracts incorporating provisions of former collective agreements with unions.

The Company is subject to the German Co-Determination Act (*Mitbestimmungsgesetz*).

We offer a defined benefit plan for all employees with a permanent contract. Our net defined benefit liabilities amounted to €4.7 million as of December 31, 2013.

Various human resource functions are outsourced to Telefónica Group's human resources center located in Dublin, Ireland. The human resource center primarily handles administrative matters such as contracting and case management involving routine matters (see "*Related Party Transactions*"). Our payroll is also outsourced to a third-party service provider.

We believe that our employee relations are good. We ranked third in the 2012 national survey of the Great Place to Work Institute in the category of companies with more than 5,000 employees. This is the fourth year in a row that we have been placed among the top five in this category.

PROPERTY AND LEASES

As of June 30, 2014, we leased 26 properties (17 offices, one day-care center, one emergency power supply site and eight parking sites). We also subleased four office properties, two cafeterias and two parking sites.

As of June 30, 2014, we leased properties for approximately 150 self-operated shops, approximately 239 partnershops and subleased approximately 246 shop properties. We do not own any real estate. The aggregate rental area is approximately 143,000 square meters. Our headquarters in Munich is the largest rented site with approximately 75,000 square meters.

As of June 30, 2014, we used more than 21,000 antenna sites for our mobile network. We lease almost all of the antenna sites (either wholly or a space on the site) under operating lease agreements.

CORPORATE RESPONSIBILITY, ENVIRONMENTAL AND HEALTH MATTERS

Responsibility is an integral aspect of our corporate culture and our business processes. The leading role of our parent company Telefónica, S.A. in the area of sustainability provides both commitment and motivation. We are in a continuous dialogue with our employees, customers, suppliers, non-governmental organizations, politicians and the community with the aim of achieving strategic and targeted commitment. The findings of these dialogues and the results of reputational analyses have been used to formulate our corporate responsibility strategy. We have defined the following focus areas within our corporate responsibility strategy:

- Through our European social program "Think Big" we empower young people to act creatively and autonomously developing their own projects for their communities using digital technologies. In 2013, we launched Think Big School which helps young people to learn work skills and aims to introduce the world of digital making to them so they can start to develop and explore their own ideas.
- Our environmental management system has been certified according to ISO 14001 since 2004. We take responsibility for climate and environment by enhancing the energy efficiency of our business and expanding the range of environmentally friendly products and services. We intend to reduce electricity consumption in our network by 2015 by 30% per equivalent access (base year: 2007). In 2013, we had already achieved a 10% reduction per employee in the area of energy and CO_2 management due in 2015 (base year 2007). However, we will continue to reduce the amount of energy consumption in our corporate offices, call centers and retail stores. Our concept "Green electricity" helps to reduce CO_2: 58% of our electricity currently are from renewable energy sources. We are also committed to an efficient and ecological use of resources throughout the life-cycle of our products and services. We have a handset recycling program in place since 2004 and we continue to reduce our waste, including packaging and paper consumption.

We are subject to a variety of laws and regulations relating to land use and environmental protection, including those governing the clean-up of contaminated sites. While we could incur costs, such as clean-up costs, fines and third-party claims for property damage or personal injury, as a result of violations of environmental laws and regulations, we believe that we are in substantial compliance with the applicable requirements of such laws and regulations.

We believe that the principal environmental risks arising from our current operations relate to the potential for electromagnetic pollution. We have constructed our network to achieve radiation emission ranges lower than the minimum levels currently permitted by German regulations. Should the FNA lower the limits on emissions for electromagnetic fields in the future, we may have to invest in network reconstruction in order to adhere to the more restrictive guidelines (see "*Risk Factors – Risks Related to our Business and our Industry – We may be adversely affected by public perception of alleged health risks associated with electromagnetic radio emissions and wireless communications devices and antennas.*").

MATERIAL CONTRACTS

The following summarizes material contracts concluded outside the ordinary course of our business entered into in the past two years (2013 and 2012) and the current year (2014) to which we are a party as well as those material contracts entered into earlier, but which still have a material effect on us.

In addition to the contracts described below, we also consider the contracts relating to the licensing of the O_2 brand, the licensing of the Telefónica brand, wholesale roaming services and intra-group roaming discounts with numerous Telefónica Group entities, reciprocal network monitoring services with O2 Czech Republic a.s., the multinational sales activities with Telefónica Multinational Solutions, the procurement agreement with TGS, the deposit and cash management agreements and financing agreements with TGB.V., and the indemnification and reimbursement agreement with Telefónica Germany Holdings Limited, all described under "*Related Party Transactions*", to be material.

Sale and Purchase Agreement with regard to the E-Plus Group

In the SPA, KPN, Telefónica, S.A. and the Company agreed on the Transaction, *i.e.*, the Company's acquisition of New E-Plus KG.

Following certain restructuring steps provided for in the SPA (see "*Acquisition of the E-Plus Group – Pre-Closing Restructuring and Separation*"), E-Plus Mobilfunk GmbH & Co. KG (formerly E-Plus Transition GmbH & Co KG) registered in the commercial register at the local court (*Amtsgericht*) of Duesseldorf, Germany, under HRA 22776 (the "**New E-Plus KG**"), and the companies in which it holds direct or indirect interests constitute the E-Plus Group (the "**E-Plus Group**") and conduct the business activities of KPN Group on the German mobile telecommunications market.

Transaction Structure

Following the closing of the Transaction, the Company will have acquired the entire limited partnership interest in New E-Plus KG from KPN Mobile Germany, registered in the commercial register of the local court (*Amtsgericht*) of Duesseldorf, Germany, under HRA 19031 ("**KPN Mobile Germany**"), an indirect 100% subsidiary of KPN, and Telefónica Germany Management GmbH, a 100% subsidiary of the Company, will have become sole general partner of New E-Plus KG. As a result, the Company will have acquired the E-Plus Group as agreed in the SPA.

Consideration

The consideration payable by the Company to KPN Mobile Germany for the E-Plus Group consists of (i) a cash component of approximately €3.7 billion and (ii) new shares in the Company representing 24.9% of the Company's total issued share capital following the implementation of the capital increase for the creation of the Offer Shares and an additional capital increase for contribution in kind for the closing of the Transaction (the "**Post Transaction Share Capital**"). The cash component of the consideration is subject to an adjustment mechanism based on the net debt position and the working capital (both terms as defined in the SPA) of the E-Plus Group as of December 31, 2013 on a consolidated basis in accordance with IFRS and in line with past practice. On the basis of the information provided by KPN for these purposes, the cash component of the purchase price is to be reduced by €64 million. The Company can contest the preliminary adjusted cash consideration in the amount of €64 million payable at the closing of the Transaction and initiate a procedure which may lead to a reduction of such amount.

Purchase of Shares by Telefónica, S.A. from KPN Mobile Germany following the Closing of the Transaction

The SPA further provides that upon following the closing of the SPA, Telefónica, S.A. shall acquire through its wholly-owned subsidiary Telefónica Germany Holdings Limited from KPN Mobile Germany such number of shares in the Company that correspond to 4.4% of the Post Transaction Share Capital for a cash purchase price of €1.3 billion. As a consequence, the participation of KPN Mobile Germany in the Company will equal 20.5% following the closing of the Transaction and the transfer of such shares to Telefónica, S.A.

In addition, KPN Mobile Germany will provide Telefónica, S.A. with a call option to acquire additional shares in the Company through its wholly-owned subsidiary Telefónica Germany Holdings Limited. The call option relates to shares in the Company corresponding to up to 2.9% of the Post Transaction Share Capital and may be exercised only with regard to shares corresponding to no less than 0.5% of the Post Transaction Share Capital. The exercise price for the entire 2.9% of shares which are subject to the call option equals €510 million plus interest in the amount of 2.27% p.a. accruing from the date of the closing of the SPA on the exercise price, less dividends received by KPN Mobile Germany after the closing of the SPA on the shares with regard to which the option is exercised and interest of 2.27% accruing from the closing of the SPA on such dividend payments. Should Telefónica, S.A. decide to exercise such call option it would exercise such call option through its wholly-owned subsidiary Telefónica Germany Holdings Limited on the date which is one year after closing of the SPA.

Warranties and Tax Indemnification

In the SPA, KPN made certain representations and warranties concerning the legal, tax and financial circumstances of the E-Plus Group. These include warranties as to the limited partner interest in the New E-Plus KG and the corporate structure of the E-Plus Group as well as warranties concerning the accuracy of the consolidated financial statements of KPN Mobile Germany prepared in accordance with HGB as of and for the year ended December 31, 2012. Furthermore, KPN has granted representations and warranties relating to the existence and scope of pension obligations and industrial property rights, the IT infrastructure, compliance with data protection regulations, certain employment law circumstances, the existence of certain material contracts and the disclosure of court proceedings. The liability in connection with the abovementioned warranties is subject to restrictions, including maximum liability limits ranging between €1.2 billion and €8 billion.

KPN agreed to indemnify the Company against all taxes and tax ancillary obligations incurred by a company of the E-Plus Group for tax assessment and collection periods prior to January 1, 2014, as far as such taxes have not yet been paid on or before December 31, 2013. The Company will have to indemnify KPN and its subsidiaries against all taxes owed by the E-Plus Group relating to time periods beginning as of January 1, 2014.

Non-Competition Clause

KPN agreed neither to engage, directly or indirectly, in the mobile telecommunication sector in Germany, nor to recruit employees of the E-Plus Group, both for a period of two years following the closing of the SPA.

Acquisition Restrictions Imposed on KPN

In order to prevent possible tax disadvantages for the Company, for a period of five years from closing of the Transaction, KPN is, among other things, prohibited from acquiring further shares in the Company directly or indirectly. In addition, Telefónica, S.A. or any company of the Telefónica Group is entitled to acquire additional shares in the Company from KPN Group if and to the extent KPN's (direct or indirect) shareholding, together with certain other parties' such as major KPN shareholders' shareholdings, in the Company exceed 22.6% of the then current share capital of the Company.

During the first five years after the closing of the SPA, KPN may not exercise the votes on such number of shares by which KPN's shareholdings, together with certain other parties' such as major KPN shareholders' shareholdings, exceed 22.6% of the shares in the then current share capital of the Company.

In addition, Telefónica, S.A. has a right of first offer, which may be assigned to any company of the Telefónica Group, to acquire any shares in the Company that KPN or its subsidiaries intend to sell via a private securities transaction relating to at least 3% of the then current total share capital of the Company.

Conditions Precedent

The closing of the SPA is subject to the occurrence or waiving of the following conditions precedent, provided that conditions precedent (a), (b) and (g) cannot be waived:

(a) Approval by the shareholders meeting of KPN: The approval was granted by an extraordinary general shareholders' meeting of KPN on October 2, 2013.

(b) Merger clearance: On July 2, 2014, the European Commission issued an approval of the Transaction subject to certain conditions (see "*Acquisition of the E-Plus Group – Merger Clearance and Remedies*"). On August 29, 2014, the European Commission confirmed fulfillment of the upfront remedies and thereby granted final merger clearance of the Transaction.

(c) No governmental or judicial prohibition of the Transaction.

(d) No material breach of the SPA by any of its parties that has not been remedied by the respective party after having been notified of it.

(e) No material adverse change: This condition is deemed to be fulfilled unless a material adverse change has occurred and Telefónica, S.A. or the Company has informed KPN of that occurrence before July 22, 2014, whereby "material adverse change" means any event or change that would be sustainably materially adverse to the business, assets, financial condition, operating results or operations of the E-Plus Group. Neither Telefónica, S.A. nor the Company have informed KPN of the occurrence of such material adverse change.

(f) Certain German corporate law requirements with regard to the capital increase against contribution in kind: Certain German corporate law requirements have to be complied with in respect of the envisaged capital increase by the Company against contribution in kind from authorized capital, including an auditor's certificate from an external court-appointed auditor on the value of the E-Plus Group in accordance with Sec. 205(5), 34(1) no 2 AktG.

(g) A document prepared by a firm of chartered accountants or an international, reputable investment bank confirming that the number of Consideration Shares to be issued to KPN Mobile Germany as part of the consideration is not inappropriate (*unangemessen*) pursuant to Sec. 255(2) AktG. A respective document was issued on September 8, 2014.

(h) Completion of the pre-closing restructuring of the E-Plus Group: The SPA provides for certain restructuring steps to be taken by KPN Mobile Germany and its subsidiaries, which have been completed on June 23, 2014 (see "*Acquisition of the E-Plus Group – Pre-Closing Restructuring and Separation*").

If the conditions precedent set out above that have not yet occurred are not satisfied or waived on or before March 1, 2015, each of KPN, Telefónica, S.A. and the Company may terminate the SPA.

Lock-Up Periods

The SPA provides for a lock-up period of 180 days from the closing of the SPA during which neither KPN nor its subsidiaries may sell shares in the Company without the prior written consent of the Company. However, the lock-up does not apply to any distributions of shares in the Company by KPN to its shareholders made later than 45 days following the closing of the SPA.

Break Fees

The parties to the SPA agreed, *inter alia*, that the Company must pay to KPN €50 million if it fails to register before March 1, 2015 with the competent commercial register the share capital increase forming the basis of this Offering or the capital increase against contribution in kind for the acquisition of the entire partnership interest in the New E-Plus KG by the Company from KPN Mobile Germany provided that the other conditions precedent set out in the SPA have been fulfilled.

MBA Model Agreement with Drillisch

As part of the remedies offered by the Company to the European Commission for obtaining merger clearance of the Transaction, OHG entered into an agreement with Drillisch on June 25, 2014, as amended on July 12 and 13, 2014, August 11, 2014, August 13, 2014 and August 23, 2014, on terms and conditions set by the European Commission under the MBA Model. Pursuant to the MBA Model and the related agreement, the Company is obligated to make available to Drillisch a total of 20% of the network capacity of the mobile network of both Telefónica Deutschland and the E-Plus Group (such 20% not including and in addition to the network capacity used to serve existing Drillisch customers on Telefónica Deutschland's and the E-Plus Group's mobile networks) under a mobile bitstream access model on the German market with Drillisch being obligated to acquire such network capacity. Drillisch is further entitled to acquire additional network capacity of up to an aggregate of 10% of the combined network capacity. Accordingly, a maximum aggregate of 30% of the mobile network capacity of Telefónica Deutschland and E-Plus Group could be required to be made available to Drillisch. Mobile network capacity, in this context, includes data throughput capacity, data volume capacity, voice capacity and capacity for SMS. The volume of capacity to be made available is subject to a glide path mechanism, *i.e.*, the network capacity made available will increase consistently during the term of the agreement until it reaches 20% or, in case Drillisch should acquire the additional network capacity, 30% of the network capacity, such 30% including the capacity required to serve existing customers of Drillisch on Telefónica Deutschland's and the E-Plus Group's mobile networks. The term of the agreement dated June 25, 2014 on the usage of network capacity ends on June 30, 2020, with Drillisch being entitled to extend the term of the agreement for two additional five-year periods. The effectiveness of the agreement is subject to the closing of the Transaction.

Backhaul Contract with Deutsche Telekom

In order to enhance our mobile backhaul capacity and to avoid a costly expansion of our own network, we entered into an agreement with Telekom Deutschland GmbH on December 23, 2011 related to the use of parts of Deutsche Telekom's fiber-infrastructure in Germany to backhaul mobile data traffic. The first operative connection under this agreement was in April 2012. Under this agreement, Deutsche Telekom provides transportation of our mobile data between our local points of concentration and our fixed-line network components at their antennas. The agreement may not be terminated without cause prior to December 31, 2031. After that date, the agreement may be terminated with six months' prior written notice, effective at the end of each calendar year. Our current intention is to connect up to 2,600 points of concentration sites to Deutsche Telekom's fiber infrastructure. In most cases, Deutsche Telekom is obligated to deliver the link to our network within six months after we have placed an order. If we fail to order the agreed amount of connections, a contractual penalty may become due. The same is applicable to Deutsche Telekom if it fails to provide the connections in time. We are required to make a one-time payment for the point of concentration site connection and monthly payments for the use of the connection.

ULL Contracts with Deutsche Telekom

We have entered into standard agreements with Telekom Deutschland GmbH regarding access to Deutsche Telekom's ULL. Because our network does not have many access lines to customer premises, such lines and other wholesale products of Deutsche Telekom (including bit stream access) are essential for our fixed-line business. These agreements can be terminated by either party at any time with three months' prior written notice. However, Deutsche Telekom has a regulatory obligation to grant access to its ULL at a rate regulated by the FNA. Therefore, in the event of a termination of one of the agreements, Deutsche Telekom is obligated to provide us with an alternative contract offer to secure service continuity.

Wholesale Internet Access and IP-Bitstream Contracts with Deutsche Telekom

We have entered into standard agreements with Telekom Deutschland GmbH regarding wholesale internet access and IP bitstream access. These contracts provide us with access to Deutsche Telekom's xDSL connections. These agreements can be terminated by either party at any time with six months' prior written notice. However, Deutsche Telekom has a regulatory obligation to grant access to its DSL services at a rate regulated by the FNA. Therefore, in the event of a termination of one of the agreements, Deutsche Telekom is obligated to provide us with an alternative contract offer to secure service continuity.

VDSL Contingency Model with Deutsche Telekom

We entered into an agreement with Telekom Deutschland GmbH on December 6, 2012 regarding the provision of accesses to VDSL connections of Deutsche Telekom. The agreement is based upon the VDSL contingency model approved by the FNA, pursuant to which the rate to be charged for the provision of VDSL connections is reduced for a contingent determined at the conclusion of the contract. As a compensation, Deutsche Telekom received an upfront payment. Pursuant to the agreement, the pre-determined contingent can be increased to accesses to up to 15 million VDSL connections. The agreement has a fixed term until March 31, 2024.

NGA Cooperation Agreement with Deutsche Telekom

We have entered into an agreement with Telekom Deutschland GmbH on December 20, 2013 broadening our cooperation with regard to fixed-line services. The agreement provides for the transition from our ADSL infrastructure to the advanced network infrastructure of Deutsche Telekom (the NGA platform) and enables us to offer our customers high-speed internet products with data transfer rates of up to 100 Mbit/s. In June 2013, the FCO confirmed that the cooperation is not subject to merger control clearance; however, it announced in December 2013 a review of the cooperation under general provisions of competition law and its final decision is expected within the second half of 2014. In the proceeding for the regulatory clearance of the envisaged cooperation, the FNA published a draft decision on December 17, 2013 pursuant to which the proceeding shall be terminated without any remedies. The draft decision was subject to a public consultation in Germany and notified to the European Commission. The European Commission responded to the notification on March 13, 2014 and raised no serious objections. On March 18, 2014, the FNA published its final decision confirming its draft decision from December 2013. With the final FNA decision, the cooperation came into effect on March 18, 2014. A decision by the FCO is expected in the second half of 2014, however, the contractual start of the cooperation is not dependent on the decision of the FCO. If the FCO were to object to the cooperation following its review, renegotiations would be necessary.

The completion of the transition to Deutsche Telekom's NGA platform is expected for 2019.

Agreement with Versatel

We have extended our existing fixed-line and mobile network cooperation with the Versatel Group by entering into a new agreement with Versatel Holding GmbH on October 16, 2013 regarding the sale of certain of our owned and leased fiber assets in the vicinity of Hamburg together with related wholesale and business customer contracts, lease agreements and rights regarding a datacenter for housing services located in the area of Hamburg to Versatel. Merger clearance was granted on November 11, 2013. The sale was completed on December 30, 2013. Pursuant to the agreement, the respective assets (including infrastructure and agreements, but excluding employees) were transferred into a new entity, the shares in which were subsequently transferred to Versatel. The transaction also included the signing of additional agreements forming the future relationship between us and the Versatel Group. Capacities needed on the sold network after the transfer are procured under an additional agreement with a term until 2027, which was entered into by us and Versatel Deutschland GmbH as part of the closing procedures. Capacities and services needed by Versatel during the 36 months of migration after closing and thereafter are provided for under corresponding agreements. Additionally, an agreement regarding the building of a fiber ring complementing the sold infrastructure by Telefónica Deutschland was concluded.

Agreement with Host Europe

On September 12, 2013, OHG signed an agreement with Host Europe GmbH, according to which OHG sold its subsidiary Telefónica Germany Online Services GmbH, in which our web hosting business activities are concentrated, to Host Europe GmbH. The closing of the transaction was effected on October 31, 2013. The agreement provides for the continued provision of various services, *e.g.*, central functions, hosting, reporting and billing related services. OHG is obligated not to offer competing hosting services to customers for a period of two years after closing of the agreement.

Agreement with BT Germany

Due to the joint corporate history of Telefónica Deutschland and BT Germany GmbH & Co. OHG, we continue to have a contractual relationship with BT Germany. Viag Interkom was the legal predecessor of both, BT Germany and Telefónica Deutschland. Viag Interkom started in 1995 as a mobile and fixed-line network services operator and was split into BT Germany (fixed-line network activities) and Telefónica Deutschland (mobile network activities) in 2001. BT Germany and Telefónica Deutschland continue to operate under a framework agreement set up in 2003 to govern our contractual relationship.

The most important products BT Germany supplies to us are "Telehousing Services" and "Private Lines". With regard to the Telehousing Services, we entered into a framework agreement with BT Germany on July 25, 2003. Under this agreement, BT Germany provides us with accommodation or floor space, respectively, for the installation and operation of our IT and communications equipment and the supporting infrastructure. In order to keep the relevant floor spaces separated, we conclude individual contracts. We are currently located in 15 of BT Germany's core sites and in 12 of BT Germany's access sites (in total approximately 90% of our core sites). As these sites are formally sites of BT Germany, BT Germany also has the authority to access these sites. Nearly 2,500 floor spaces are in service. The minimum period for individual contracts for the core floor spaces is until September 30, 2015. The minimum period for all other floor spaces depends on the provisions of the individual contracts.

Furthermore, on July 25, 2003, we entered into a framework agreement with BT Germany regarding Private Lines which encompasses the provision of leased lines and in-house cabling. The contract period under this framework agreement is either six or 12 months for each individual contract. In November 2013, we entered into a new framework agreement with BT Germany which bundles the existing housing contracts and provides us with the guaranteed use of BT Germany's floor spaces until 2020.

Agreement with Tchibo

On February 24, 2004, we entered into a framework joint venture agreement with Tchibo GmbH, Hamburg, regarding a 50/50 joint venture for the distribution of telecommunications services. Pursuant to the joint venture, we provide telecommunication services and Tchibo GmbH provides marketing and customer acquisition services and the granting of trademark licenses required for distribution purposes. We are the exclusive contractual partner of end-customers and Tchibo GmbH receives a commission for each mobile services contract procured. The agreement has a minimum term until December 31, 2014 and will automatically be extended for successive periods of two years unless terminated with six months' notice prior to the end of a renewal period. According to a supplementary agreement, the parties agreed not to exercise such termination right prior to the end of 2014.

Financing Agreements

OHG has undrawn committed credit lines with maturity beyond one year in a total amount of €710 million. In August and September 2012, OHG, as borrower, entered into revolving credit facility agreements with several banks.

INSURANCE

We maintain insurance coverage primarily with Telefónica Insurance S.A., an insurance company which is a member of the Telefónica Group and registered in Luxembourg (see "*Related Party Transactions – Insurance*").

We are insured by, among other insurance, an all-risks material damages and business interruption policy, including cyber risk and crime, general liability, pure financial loss, media contents liability, and policies for accident insurance for employees, car fleet insurance and credit insurance. We believe that our existing insurance coverage, including the amounts of coverage and the terms, provides reasonable protection, taking into account the costs for the insurance coverage and the potential risks to business operations. However, we are not able to guarantee that no losses will be incurred or that no claims will be filed against us which exceed the type and scope of our existing insurance coverage.

LEGAL PROCEEDINGS

From time to time, we are a party to governmental, legal and arbitration proceedings arising in the ordinary course of our business. Other than as discussed below, we are currently not, nor have we been in the past 12 months, party to any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) which may have, or have had in the recent past, significant effects on our financial position or profitability.

On February 2, 2006, the FNA issued an administrative act pursuant to which we were assigned frequency usage rights in the amount of 5 MHz in the 900 MHz band and had to relinquish frequencies in the 1,800 MHz band in the same amount under a frequency swap. The administrative act included an obligation to grant DB Netz AG (a subsidiary of Deutsche Bahn AG) the right to use parts of the frequency spectrum for the European Train Control System when needed. Airdata AG filed a claim against the administrative acts before the Administrative Court of Cologne (*Verwaltungsgericht Köln*) in December 2006 seeking to annul the administrative act and to initiate a new frequency allocation procedure. We took part in this administrative proceeding as a third party (*Beigeladene*). In the first instance, the Administrative Court of Cologne dismissed the claim. However, the court decided that its decision may be re-assessed by a court of second instance due to the complexity and importance of the case. In June 2009, the Higher Administrative Court of North-Rhine Westphalia (*Oberverwaltungsgericht NRW*) also dismissed the case and denied the admission to the third instance. Airdata AG filed an appeal against the denial of admission and was granted access to the third instance, the Federal Administrative Court (*Bundesverwaltungsgericht*) in March 2010. The Federal Administrative Court dismissed the claim on January 26, 2011. Airdata AG appealed the dismissal to the Federal Constitutional Court (*Bundesverfassungsgericht*), which is still pending. We estimate that we would have to incur additional costs of approximately €200 million for new network planning, purchasing equipment and implementing an interim solution, should Airdata ultimately be successful with its complaint. Other companies, such as DB Netz AG, have also challenged the above-mentioned administrative acts. Those claims were dismissed with binding and final effect at earlier stages.

Commencing in December 2006, we filed several administrative claims with the Administrative Court of Cologne (*Verwaltungsgericht Köln*) against administrative acts in which the FNA set mobile termination rates for certain periods. In our claims, we requested higher maximum mobile termination rates and contested the methodology of the calculation of the rates set by the FNA. For example, on December 30, 2010 and March 7, 2011, we filed an administrative claim with the Administrative Court of Cologne (*Verwaltungsgericht Köln*) against a preliminary administrative act of October 26, 2010, in which the FNA approved mobile termination rates in the amount of 3.36 cents per minute, and an administrative act of February 24, 2012 in which the FNA finally approved maximum mobile termination rates in the amount of 3.39 cents per minute with retroactive effect from December 1, 2010 through November 30, 2012. We also filed an administrative claim with the Administrative Court of Cologne (*Verwaltungsgericht Köln*) on December 19, 2012 against a preliminary administrative act of November 16, 2012, in which the FNA approved the currently applicable mobile termination rates in the amount of 1.85 cents per minute with effect from December 1, 2012, and of 1.79 cents per minute with effect from December 1, 2013 until November 30, 2014. After the FNA confirmed the aforementioned preliminary decision on mobile termination rates for the current period, we filed a claim against this decision and the respective regulatory order, which is the basis for ex-ante price regulation and stipulates the methodology of rate calculation on August 16, 2013 as a precautionary measure. The claim against the regulatory order has been withdrawn in the meantime. Some of the administrative claims are still pending. However, even if we prevail in these proceedings, we could not be able – except for the currently applicable mobile termination rates – to retroactively claim the difference between the requested higher mobile termination rates and the lower rates set by the FNA because the relevant periods lie in the past. However, we believe that if we succeed, the FNA would possibly change its future methodology for setting mobile termination rates.

Appeals are pending against the decision of the President Chamber of the FNA of October 12, 2009, pursuant to which we obtained the spectrum position that we use for the deployment of our LTE network and the related auction proceeding. For various reasons, several mobile telecommunications, cable TV and radio providers filed complaints against the decision with the Administrative Court of Cologne (*Verwaltungsgericht Köln*). We are not involved in these proceedings. The Administrative Court of Cologne has already ruled on most of the proceedings and has rejected them in the first instance. After decisions of the Administrative Court of Cologne, the Federal Administrative Court (*Bundesverwaltungsgericht*) ruled in March 2011 on two legal proceedings filed by E-Plus Mobilfunk GmbH & Co. KG and Airdata AG. Essentially, the Federal Administrative Court found that the facts relevant to the decision were insufficiently investigated and referred the proceedings back to the Administrative Court of Cologne for further investigation. The Administrative Court of Cologne is currently further investigating the facts in the Airdata AG proceedings. E-Plus Mobilfunk GmbH & Co. KG has withdrawn its claim. The cable TV and radio providers filed complaints against the Administrative Court of Cologne's decision with the Federal Administrative Court (*Bundesverwaltungsgericht*). On October 10, 2012, the Federal Administrative Court rejected these complaints.

ACQUISITION OF THE E-PLUS GROUP

OVERVIEW

Pursuant to the SPA, the Company has agreed to purchase New E-Plus KG. For further details on its purchase and financing of the SPA, see "*Business – Material Contracts – Sale and Purchase Agreement with regard to the E-Plus Group*".

The E-Plus Group, headquartered in Duesseldorf, Germany, offers customers in Germany multi-brand mobile telecommunications services targeted at multiple market segments on a post-paid and pre-paid basis. By number of customer accesses as of June 30, 2014, and by mobile service revenues[1] in the six months ended June 30, 2014, the E-Plus Group is the third largest mobile telecommunications services provider in Germany (*Source: Published Information by MNOs*). For the year ended December 31, 2013, E-Plus Group's total revenues amounted to €3,143 million and its EBITDA amounted to €916 million (€1,583 million and €484 million for the six months ended June 30, 2014, respectively)[2]. The E-Plus Group's multi-brand portfolio includes E-Plus and BASE as well as various other brands such as the youth-focused brand yourfone, the no-frills brand Blau, the brands Ay Yildiz and Ortel focused on affordable mobile telecommunications services for ethnic communities as well as the online brand simyo. Branded resellers and wholesale partners of the E-Plus Group include, among others, MedionMobile (AldiTalk), Metro (Metro Mobil), the Nature and Biodiversity Conservation Union of Germany (NABU), Pro7 / Sat1 (simfinity), Tele 2, United Internet (1&1) and yuilop.

Assuming the closing of the Transaction had taken place as of January 1, 2013, Telefónica Deutschland would have served approximately 46.9 million customer accesses[3] and recorded pro forma revenues of €7,942 million (see "*Pro Forma Consolidated Financial Information*") as of and for the year ended December 31, 2013. In our view, the combination of Telefónica Deutschland and the E-Plus Group is a unique opportunity to create a "Leading Digital Telco" while retaining our mindset as a "challenger" in the German market. We believe that the New Group will provide a superior digital customer experience, realize significant synergies, benefit from enhanced profitability and free cash flow generation and will create value for Telefónica Deutschland's shareholders.

HISTORY OF THE E-PLUS GROUP

The E-Plus Group dates back to the founding of E-Plus Mobilfunk GmbH in 1993. In 1994, the E-Plus Group launched its network operations. By 1996, its 2G network achieved a coverage of more than 75% and, by 1998, of more than 90% of the German population as required by the 2G license terms. The E-Plus Group acquired UMTS licenses in 2000. The commercial launch of UMTS took place in 2005. In 2005, the E-Plus Group launched the brands simyo, BASE, Ay Yildiz and entered into branded reseller models, *e.g.*, with MTV and MedionMobile. In 2008, KPN purchased blau Mobilfunk, which was sold to the E-Plus Group in 2013. In 2009, the E-Plus Group began its HSPA roll-out and engaged ZTE as its new network supplier. The year 2010 marked the most extensive network expansion in the E-Plus Group's history. In 2014, the E-Plus Group launched its LTE offerings. The E-Plus Group launched a new wholesale partnership with WhatsApp in the second quarter of 2014 and with United Internet (1&1) in the third quarter of 2014.

Since 2002, KPN has been the sole shareholder in the E-Plus Group.

BUSINESS OF THE E-PLUS GROUP

Products and Services

The E-Plus Group provides customers in Germany with multi-brand mobile telecommunications services, offering post-paid and pre-paid services targeted at multiple customer segments.

As of June 30, 2014, the E-Plus Group had approximately 22.2 million mobile service accesses (8.2 million on a post-paid basis and 14.0 million on a pre-paid basis).[4]

Consumers

The E-Plus Group's main focus is its consumer business, which primarily comprises providing customers with mobile voice, messaging and data services. In addition, the E-Plus Group provides value-added services such as music streaming, security solutions and cloud services. Under its recently launched online platform smartkauf, the E-Plus Group markets handsets, tablets and related equipment also on a stand-alone basis (*i.e.,* without requiring the customer to simultaneously subscribe for mobile telecommunications services).

Products and services are marketed under the E-Plus Group's main brand BASE as well as the brands yourfone, Blau, Ay Yildiz, Ortel and simyo. The E-Plus Group ceased to market products and services under the E-Plus brand in its consumer division.

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1 Based on accounting principles applied by KPN Mobile Germany GmbH & Co. KG and including traffic and subscription fees for the usage of the E-Plus Group's networks, handset leasing fees, one-off connection and other initial fees.

2 All financial information taken from the E-Plus Consolidated Financial Statements that were prepared for the purposes of this Prospectus.

3 The number of customer accesses of the E-Plus Group determined on the basis of the definitions and calculation policies applied by Telefónica Deutschland in this regard.

4 The number of customer accesses of the E-Plus Group determined on the basis of the definitions and calculation policies applied by Telefónica Deutschland in this regard.

On March 5, 2014, the E-Plus Group launched its LTE offerings for all its customers based on the campaign "highspeed for everybody" (*Highspeed für Jedermann*). This offers existing customers access to LTE services at no additional cost irrespective of the customer's tariff until the end of December 2014.

Business

The E-Plus Group targets SoHo and SME business customers with mobile voice, messaging and data services under its E-Plus professional brand. The E-Plus Group offers tariffs for mobile telecommunications services, specifically tailored to the needs of SoHos and SMEs in addition to the tariffs offered to consumers which are also available to business customers.

Wholesale

In its wholesale division, the E-Plus Group offers a comprehensive portfolio of mobile and value-added services such as mobile-payments, IP-communication and service apps to its wholesale partners and their customers.

Branded resellers and wholesale partners of the E-Plus Group include MedionMobile (AldiTalk), Metro (Metro Mobil), the Nature and Biodiversity Conservation Union of Germany (NABU), Pro7/Sat1 (simfinity), Tele 2, United Internet (1&1) and yuilop.

The E-Plus Group launched a new wholesale partnership with WhatsApp in the second quarter of 2014 and with United Internet (1&1) in the third quarter of 2014.

Brands and Marketing

Own Brands

The E-Plus Group's multi-brand portfolio includes the core brands E-Plus and BASE as well as various other brands such as a youth-focused brand (yourfone) and a no-frills brand (Blau), brands focused on affordable mobile telecommunications services for ethnic communities (Ay Yildiz and Ortel) as well as an online brand (simyo). The BASE brand was transferred to KPN prior to the closing of the Transaction and a license agreement has been entered into with KPN pursuant to which the New Group may continue to use the BASE brand in Germany after the Transaction (see "*– Pre-Closing Restructuring and Separation*" and "*– Business of the E-Plus-Group – Material Contracts – License Agreements with KPN regarding the BASE Trademarks*").

The E-Plus brand is only used in the business division and for existing customers. The BASE brand targets users of mobile telecommunications services aged between 18 and 40 years.

The simyo brand is positioned to appeal to internet oriented and price sensitive customers and the yourfone brand to social media oriented customers. The Ay Yildiz brand aims to appeal to members of the Turkish community living in Germany and the Ortel brand, generally, to various ethnic communities. The E-Plus Group markets Blau to price sensitive customers.

Marketing

The E-Plus Group carries out various general and customized marketing measures. The marketing approach for each of the E-Plus Group's brands reflects the strategy for the respective brand.

The marketing approach for the BASE brand follows the E-Plus Group's strategy to position itself as an attractive provider with a competitive mobile network and a focus on customers' needs. To enable and stimulate mobile data usage, the E-Plus Group complements its tariff offerings with attractive smartphones and tablets. The BASE brand is advertised in core media. Regional marketing activities, such as outdoor advertising, local promotional events and advertising campaigns for specific regions or cities, are tailored to the local target groups and the competitive situation.

In accordance with the strategy for the E-Plus brand to be perceived as the brand for professionals, the marketing activities for the E-Plus brand are directed towards attracting business customers, in particular SoHo and SME. The E-Plus brand is particularly advertised through the E-Plus Group's dedicated sales personnel, the internet, outdoor advertising and local promotional events. The E-Plus brand is no longer advertised to non-business consumers.

The marketing approach for the yourfone brand reflects the strategy to position yourfone as a youth focused brand and consequently focusses on advertising activities through the internet and social media.

The Blau brand is advertised as a solution for price sensitive consumers and is particularly marketed through food retail channels and the internet.

The marketing approach for Ay Yiliz and Ortel follows the strategy to position these brands as tailored to people with a Turkish or other foreign background, respectively. To this end, the marketing activities for these brands are tailored to the specific needs of the members of these ethnic communities and comprise advertising campaigns in foreign languages and advertising in places frequented by the members of the ethnic communities, such as call shops, book shops and kiosks.

The simyo brand, as the E-Plus Group's online brand, is almost exclusively advertised through the internet.

The marketing activities for mobile services offered by the E-Plus Group's branded resellers and wholesale partners are tailored to the targeted consumer group and generally carried out by these partners. In some cases, however, the E-Plus Group covers parts of the advertising costs.

Sales and Distribution

The E-Plus Group uses multiple sales and distribution channels.

Consumers

The E-Plus Group conducts direct sales to consumers under its own brands via self-operated shops and shops operated by partners exclusively selling products and services under the brands of the E-Plus Group, via telesales, online and through indirect sales channels such as independent retailers and service providers. The total number of self-operated shops and partner-operated shops exclusively selling products and services under the brands of the E-Plus Group is approximately 800.

Distribution via online channels has become increasingly important, and the E-Plus Group expects this trend to continue.

While products and services marketed under the BASE brand are distributed via all channels, simyo and yourfone branded products and services are only distributed online (including, in the case of yourfone, via social media). Ay Yildiz and Ortel branded products and services are distributed at all points of sale, online and additionally through specific sales channels commonly frequented by persons with a foreign background such as call shops, kiosks and, in the case of Ay Yildiz, Turkish book stores.

Business

In its business division, the E-Plus Group employs dedicated sales personnel, also making use of the distribution channels used in its consumer division where appropriate.

Wholesale

The E-Plus Group benefits from the distribution network of its wholesale partners. Through the co-operation with its wholesale partners, the E-Plus Group gains access to their highly frequented sales channels. As of June 30, 2014, the E-Plus Group's wholesale partners sold products at more than 10,000 outlets.

Customer Service and Retention

The E-Plus Group delivers complaint handling, billing and credit risk management services over the phone, at its points of sale and via online and device-based self-support functionalities. The E-Plus Group's customer service strategy is to grow the proportion of its customer service delivered digitally through self-support facilities compared to customer service delivered over the phone and at points of sale in order to increase customer satisfaction and reduce customer service costs. To this end, the E-Plus Group has, among other measures, launched apps for its brands for customer self-care which is increasingly popular with its subscribers of mobile telecommunications services.

The E-Plus Group operates its main customer service activities in-house and has service centers located in Essen and Potsdam providing customer services mainly over the phone. In addition, the E-Plus Group co-operates with several outsourcing partners to fulfill specific aspects of services and basic operations such as IT services and back-office functions.

The E-Plus Group has dedicated quality assurance teams for billing in order to ensure that bills are correctly produced on time and are easy to understand for the subscriber. The E-Plus Group encourages e-billing (*i.e.*, subscribers can review their bills on the internet and download them) in order to improve its cost structure in this area.

The E-Plus Group focuses on strategies and activities aimed at preventing churn and regaining customers that have terminated their contract.

Network Infrastructure

Mobile Access Network

As of June 30, 2014, the E-Plus Group's mobile network consisted of more than 18,300 physical sites with GSM, UMTS and/or LTE base stations. The network towers (*i.e.*, steel, concrete and related lease contracts) located on approximately 2,000 of these sites have been sold to and leased back from American Towers International, Inc. (see "*– Material Contracts – Sale and Leaseback Agreement with American Towers regarding Towers*").

The table below provides an overview of the E-Plus Group's GSM and UMTS population coverage as of June 30, 2014.

Mobile technology standard	Population Coverage (outdoor)[1]
GSM	99%
UMTS	92%

1 Population coverage refers to the percentage of the population in Germany.

GSM

The E-Plus Group's GSM network was launched in 1994. In 2001, the E-Plus Group introduced the new GSM mobile data standard GPRS.

UMTS

In 2004, the E-Plus Group commenced to deploy a UMTS technology based network. At a later stage, the E-Plus Group added the upgraded HSDPA standard, which was further complemented by HSUPA and eventually extended to the HSPA standard. As of June 30, 2014, 99% of the UMTS base stations were equipped for HSPA, 91% of the UMTS base stations were connected with broadband and 90% of the UMTS base stations provided for Dual Cell technology.

Although the traffic volume transported through the E-Plus Group's network has increased since 2012, the accessibility rate of its network has remained high.

LTE

On March 5, 2014, the E-Plus Group made mobile telecommunications services on the basis of the LTE technology available to its customers and intends to expand the LTE network in line with mass market adoption of LTE.

Network Planning, Implementation and Operation

The E-Plus Group plans and designs the upgrade and expansion of its mobile network in-house. Since March 31, 2007, the implementation of the upgrade and expansion, the operation, maintenance, and monitoring of the E-Plus Group's mobile network has been outsourced, first to Alcatel-Lucent Deutschland and, since 2014, to network equipment supplier ZTE (see "*– Material Contracts*").

Licenses and Frequencies

The following table provides an overview of the E-Plus Group's frequency spectrum as of the date hereof.

Frequency Range	**Amount of Frequency Spectrum (in MHz)**
900 MHz (paired)	2 x 5
1,800 MHz (paired)	2 x 5; 2 x 5; 2 x 17.4
2,100 MHz (paired)	2 x 4.95; 2 x 4.95; 2 x 9.9
2,600 MHz (paired)	2 x 5; 2 x 5
3,500 MHz (paired)	2 x 7; 2 x 7; 2 x 7; 2 x 7; 2 x 7; 2 x 7
Amount of paired frequency spectrum	**208.4**
2,000 MHz (unpaired)	1 x 5
2,600 MHz (unpaired)	1 x 5; 1 x 5
Amount of frequency spectrum (overall)	**223.4**

Information Technology Services

The E-Plus Group uses IT infrastructure and software mainly in the areas of billing, customer care, call center systems and finance and accounting. The E-Plus Group uses a mixture of proprietary software as well as software licensed from third parties.

Intellectual Property Rights

The E-Plus Group owns internet domains related to the brands in use, several other trademarks and a range of patents and patent applications. Many of these patents and patent applications are protected or seek protection for Germany and as a European patent only.

The BASE and the Ortel Mobile brands are the only brands not owned by the E-Plus Group but licensed-in from KPN on the basis of a license agreement (see "*– Material Contracts – License Agreements with KPN regarding the BASE Trademarks*").

Employees and Pension Obligations

As of December 31, 2013 and June 30, 2014, the number of the E-Plus Group's FTEs amounted to 4,502 and 4,347, respectively.

All of the E-Plus Group's employees are employed in Germany.

The E-Plus Group offers to pay the premiums of pension insurance for all of its permanent employees. In addition, it provides a defined contribution and a defined benefit pension plan for all permanent employees with the status as a manager, the position of "manager" or above.

Property and Leases

As of June 30, 2014, the E-Plus Group owned a small share of the properties used by it.

As of June 30, 2014, the E-Plus Group leased 24 properties for its offices and approximately 395 properties for self-operated shops and approximately 125 properties for shops of partners exclusively selling products and services under the brands of the E-Plus Group.

The headquarters in Duesseldorf is the largest rented site with approximately 30,000 square meters.

As of June 30, 2014, the E-Plus Group used more than 18,300 antenna sites for its mobile network. The E-Plus Group leases almost all of the antenna sites (either wholly or a space on the site) under operating lease agreements.

Material Contracts

The following summarizes material contracts entered into in the past two years (2013 and 2012) and the current year (2014) to which the E-Plus Group is a party as well as those material contracts entered into earlier, but which still have a material effect on the E-Plus Group.

Network Rollout and Operation Services Agreement with ZTE

In November 2013, the E-Plus Group entered into an agreement with ZTE Services Deutschland GmbH, a subsidiary of ZTE Corporation, regarding the provision of rollout and operation services for the E-Plus Group's mobile network. According to the agreement, ZTE Services Deutschland GmbH is obliged to provide the E-Plus Group with all network-related rollout and operation services at certain service levels as defined in more detail in the agreement. In this context, the E-Plus Group undertook to transfer certain of its assets (such as hardware, equipment and other assets) and contracts attributable to its information technology environment to ZTE Services Deutschland GmbH and to grant ZTE Services Deutschland GmbH non-exclusive and non-transferrable licenses with respect to software attributable to the E-Plus Group's mobile network. ZTE Services Deutschland GmbH agreed to take over certain assets and to enter into certain contracts and licenses owned or entered into by the previous service provider Alcatel Lucent Network Services GmbH and to take over its works in progress. In addition, the E-Plus Group is entitled to order additional services related to rollout or operation services or other services such as IT-Services following mutual agreement on the scope and price of such additional services. The agreement further provides for customary termination rights as well as customary representations and warranties. ZTE Corporation has assumed a guarantee towards the E-Plus Group for obligations of ZTE Services Deutschland GmbH under the agreement.

Cooperation Agreement with Medion

In June 2005, E-Plus Service GmbH & Co. KG entered into a cooperation agreement with MEDION AG regarding the distribution of telecommunication services. Pursuant to the agreement, MEDION AG acts as branded reseller, which means that MEDION AG markets and distributes its own mobile brands (MEDIONmobile and ALDI TALK) under its own name. The E-Plus Group provides mobile telecommunications services. MEDION AG is entitled to a commission for each mobile service contract procured, for certain revenues generated by the customers as well as certain additional services procured by MEDION AG, *e.g*., the procurement of specific tariffs. Following several amendments, a broad range of tariffs is available under the ALDI TALK tariffs comprising, *inter alia*, various mobile services tariffs including flat rates, internet packages, allnet flats (*i.e*., various combinations of voice, SMS and internet flat rates) and EU roaming packages.

Sale and Leaseback Agreement with American Towers regarding Towers

In November 2012, the E-Plus Group entered into a sale and leaseback agreement with American Towers International, Inc., and its subsidiary Germany Tower Interco B.V. regarding the sale and subsequent leaseback of approximately 2,000 towers located on network sites (*i.e*., steel, concrete and related lease contracts). Under a sale and transfer agreement executed in November 2012, the ownership in the towers was transferred to Germany Tower Interco B.V. via the sale of all shares in the companies owning these towers. At the same time, E-Plus Mobilfunk GmbH & Co. KG, as lessee, and the companies owning the towers, as lessors, entered into a lease agreement with respect to the antenna sites on the transferred towers used by the E-Plus Group.

Hardware Lease Agreement with Deutsche Leasing

The E-Plus Group cooperates with Deutsche Leasing Information Technology GmbH, a subsidiary of Deutsche Leasing AG, in the field of hardware leasing, particularly smartphone leasing. The smartphones are initially acquired by the E-Plus Group from the various manufacturers. Thereafter, the smartphones are acquired by Deutsche Leasing Information Technology GmbH and are then leased back by means of finance leases to the E-Plus Group, which, in turn, subleases them to its customers via operating leases. The sale and lease back agreements with Deutsche Leasing Information Technology GmbH are concluded on a periodic basis for the leasing volume pertaining to such period.

Interconnection with Deutsche Telekom's Fixed Network

In 2003, the E-Plus Group has entered into an agreement with Deutsche Telekom regarding the interconnection with Deutsche Telekom's fixed network based on PSTN (public switched telephone network) technology. Deutsche Telekom has the right to terminate the agreement at six months' notice to the end of a quarter. However, Deutsche Telekom is obligated to offer a substitution contract that matches the regulatory requirements imposed by the FNA (*i.e.*, revised standard offer). Most of Deutsche Telekom's services and prices under this agreement are subject to regulatory approval. However, since the agreement entered into force in 2003, certain services and prices have been deregulated (such as transit services on a wholesale level).

Interconnection with Deutsche Telekom's Mobile Network

In addition to the fixed network interconnection, the E-Plus Group has entered into an interconnection contract with Deutsche Telekom regarding their respective mobile networks in 2002. On the basis of that contract, both mobile networks are directly interconnected. The relevant services agreed between the parties include text messages and MMS.

Furthermore, the E-Plus Group has direct interconnection agreements *inter alia* with the following network operators regarding its mobile network: BT Germany GmbH & Co. OHG, COLT Telecom GmbH and QSC AG.

Interconnection with Vodafone D2 GmbH

The E-Plus Group has furthermore entered into interconnection contracts with the legal predecessors of Vodafone D2 GmbH regarding both their respective fixed networks in 2005 and their respective mobile networks in 2000. In case of termination of the agreements, the parties are obliged to offer the respective other party a substitution contract that matches the regulatory requirements imposed by the FNA (*i.e.*, revised standard offer). The relevant services agreed between the parties include text messages and MMS.

Interconnection with Telefónica Deutschland

The E-Plus Group has furthermore entered into an interconnection contract with the legal predecessor of Telefónica Deutschland regarding their respective mobile networks in 2002. On the basis of that contract, both mobile networks are directly interconnected. In case of a termination of the agreement, the parties are obliged to offer the respective other party a substitution contract that matches the regulatory requirements imposed by the FNA (*i.e.*, revised standard offer). The relevant services agreed between the parties include text messages and MMS.

IT Services Agreements with ATOS Information Technology GmbH

In July 2013, E-Plus Mobilfunk GmbH & Co. KG entered into an IT services agreement with ATOS Information Technology GmbH. The agreement replaces a former IT services agreement that had been entered into between the parties in 2004 and prolonged in 2008. The services to be provided by ATOS Information Technology GmbH basically comprise all services relating to the operation of the IT of the E-Plus Group such as application management services, data center services and work station services. In another agreement entered into between the parties in July 2013, ATOS Information Technology GmbH agreed to render certain development services in addition to the aforementioned IT services. ATOS Information Technology GmbH is generally entitled to grant sub-licenses for the purposes of rendering the IT-Services. In consideration for rendering the services, ATOS Information Technology GmbH is entitled to a remuneration which is based on the assumption that ATOS Information Technology GmbH will render most of its IT services from outside Germany, to which it is entitled to.

Agreements with Mobile Wholesale Partners

The E-Plus Group has concluded agreements with mobile wholesale partners.

Under such agreements, the E-Plus Group *inter alia* provides on a wholesale level access to its mobile network and infrastructure and provides respective mobile services including, for example, voice, data and international roaming services.

The E-Plus Group delivers SIM-cards and mobile devices like smartphones to service providers. Usually, such service providers do not operate an own mobile telecommunications network but market these mobile services under their own brand and in some cases under their own commercial conditions and enter into direct mobile service contracts with end customers. The service provider also handles the end customer relationship, the end customer billing and mobile device management.

License Agreements with KPN regarding the BASE Trademarks

In December 2013, as part of the preparations for the closing of the Transaction (see "– *Pre-Closing Restructuring and Separation*"), E-Plus Mobilfunk GmbH & Co. KG entered into several agreements with KPN regarding the BASE trademarks. In the first agreement, E-Plus Mobilfunk GmbH & Co. KG agreed to sell and transfer the BASE trademarks back to KPN, from which it had previously acquired the BASE trademarks. The purchase price for the BASE trademarks corresponded to the purchase price paid by E-Plus Mobilfunk GmbH & Co. KG for the acquisition of the BASE trademarks. At the same time, E-Plus Mobilfunk GmbH & Co. KG and KPN agreed in a second agreement to cancel a license agreement regarding the granting of licenses by E-Plus Mobilfunk GmbH & Co. KG to KPN concerning the BASE community trademarks following the retransfer of the BASE trademarks to KPN. In a third agreement, KPN granted E-Plus Mobilfunk GmbH & Co. KG a license for the BASE trademarks. The license is limited to the use of the trademarks on the territory of Germany. E-Plus Mobilfunk GmbH & Co. KG is not obliged to pay royalties or license fees for the BASE trademarks. The term of the license is twenty years. KPN is entitled to terminate the license agreement for cause. This includes cases where the E-Plus Group has ceased using the BASE trademarks in active marketing communication for a consecutive period of 30 months or in the event of a change of control at the E-Plus Group, unless the respective purchaser adheres in writing to the terms of the license agreement under the same conditions.

Insurance

The E-Plus Group maintains insurance coverage primarily with KPN Insurance Company Limited, an insurance company which is part of the KPN group and registered in Dublin, Ireland.

The insurance coverage comprises, among others, general business insurance, property, crime and D&O insurance. Most of these insurances have been in place for several years. The E-Plus Group considers its existing insurance coverage, including the amounts of the coverage and the terms, to be customary for a company of this kind and as providing reasonable protection, taking into account the costs for the insurance coverage and the potential risks to the business operations. However, there is no guarantee that no losses will be incurred or that no claims will be filed against the E-Plus Group which exceed the type and scope of the existing coverage.

The insurance coverage provided by KPN Insurance Company Limited will not continue upon closing of the Transaction. Telefónica Deutschland intends to obtain insurance coverage for the E-Plus Group from Telefónica Insurance S.A., an insurance company which is a member of the Telefónica Group and registered in Luxembourg (see "*Related Party Transactions – Insurance*").

Legal Proceedings

From time to time, the E-Plus Group is party to governmental, legal and arbitration proceedings arising in the ordinary course of its business. Other than as discussed below, the E-Plus Group is currently not, nor has the E-Plus Group been in the past 12 months, party to any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the E-Plus Group is aware) which may have, or have had in the recent past, significant effects on the E-Plus Group's financial position or profitability.

Similar to us, the E-Plus Group is involved in several proceedings regarding the swap and assignment of frequencies. As described above with respect to Telefónica Deutschland (see "*Business – Legal Proceedings*"), there are two proceedings pending against the E-Plus Group. The first proceeding relates to the frequency swap between 900 MHz and 1,800 MHz which took place in 2006. After the appeals against the respective decision of the FNA were dismissed by the Federal Administrative Court (*Bundesverwaltungsgericht*), one plaintiff, Airdata AG, filed a constitutional complaint (*Verfassungsbeschwerde*) with the Federal Constitutional Court (*Bundesverfassungsgericht*), which is still pending. The E-Plus Group would have to incur significant additional costs for new network planning, the purchase of equipment and the implementation of an interim solution, should Airdata AG be successful with its complaint.

Secondly, the proceedings against the decision of the President Chamber of the FNA of October 12, 2009 (see with respect to Telefónica Deutschland, "*Business – Legal Proceedings*") are also relevant for the E-Plus Group, since in the course of the following frequency auction it obtained frequencies in the 1,800 MHz, 2,000 MHz and 2,600 MHz frequency bands, respectively. Most of the claims against the decision have been dismissed or withdrawn. Only Airdata AG's claim is still pending. After the Federal Administrative Court (*Bundesverwaltungsgericht*) remanded the case to the Administrative Court (*Verwaltungsgericht*) of Cologne, that court is currently investigating the relevant facts, in particular whether there was an excess demand at the time the FNA decided to allocate the frequencies by auction.

Other administrative proceedings relate to the administrative acts in which the FNA set MTRs for certain periods. In particular, Deutsche Telekom filed claims against the FNA's decisions regarding the MTR set for the E-Plus Group for 2007, 2009 and 2010. Deutsche Telekom's claim seeks to annul these decisions and/or reduce MTR set for the E-Plus Group.

In addition to these administrative proceedings, the E-Plus Group is one of several defendants in a patent infringement case filed by High Point. High Point claims that one of its patents is violated by the E-Plus Group's UMTS system. The corresponding technical equipment was provided by several suppliers including Nokia Siemens Networks and ZTE. The E-Plus Group has asked the suppliers to join the proceeding (*Streitverkündung*). High Point's claims were dismissed in the first instance by the Regional Court (*Landgericht*) of Duesseldorf and in the second instance by the Higher Regional Court (*Oberlandesgericht*) of Duesseldorf. High Point has filed a complaint with the Federal Civil Court (*Bundesgerichtshof*) against the Higher Regional Court of Duesseldorf's denial of leave to appeal (*Nichtzulassungsbeschwerde*). The Federal Civil Court has suggested to stay the proceedings until in another proceeding it has passed a decision on the invalidity of the relevant patent of High Point. The Federal Civil Court has ruled in a decision dated June 26, 2014, that the High Point patent only covers UMTS voice telephony.

REASONS FOR THE ACQUISITION AND STRATEGY

With the acquisition of the E-Plus Group, we aim to create a stronger player in the German telecommunications market. Assuming the Transaction had taken place as of January 1, 2013, Telefónica Deutschland would have served approximately 46.9 million customer accesses[1] and recorded pro forma revenues of €7,942 million (see "*Pro Forma Consolidated Financial Information*") and would have had an aggregated mobile service revenue market share of 31% (prior to consolidation) as of and for the year ended December 31, 2013 (*Source: published financial results as of December 31, 2013 by Deutsche Telekom, Vodafone and E-Plus/KPN*).

We contemplate the merger as the best way to effectively compete with Deutsche Telekom and Vodafone in the mid to long term. In our view, the combination of Telefónica Deutschland and the E-Plus Group is a unique opportunity to create a "Leading Digital Telco" in the German market while retaining our mindset as a "challenger". We believe that the New Group will provide a superior digital customer experience, realize significant synergies, benefit from enhanced profitability and free cash flow generation and will create value for Telefónica Deutschland's shareholders.

ESTIMATED SYNERGY EFFECTS

This section contains a discussion of the synergy effects that we estimate will be realized from our acquisition of the E-Plus Group. Investors should be aware that the estimated synergies may not be realized in part or at all. The assumptions used as a basis for calculating estimated synergy effects could turn out to be inappropriate or incorrect. The estimation of potential synergy effects is forward-looking and therefore subject to changes by a number of factors, including changes in general macroeconomic conditions, industry, legal and tax environment, consumer behavior, changes in technology, the successful development of the product portfolio, the retention of key personnel and changes in the Company's business strategy, development and investment plans. In addition, various factors in estimating synergies relate solely to the E-Plus Group. The Company has limited insight into and influence on these factors. Investors should therefore be aware that the estimation of synergies to be realized by the Transaction and the underlying assumptions are subject to significant uncertainty which may

[1] The number of customer accesses of the E-Plus Group determined on the basis of the definitions and calculation policies applied by Telefónica Deutschland in this regard.

lead to actual results differing materially from our synergy estimates (see "*Risk Factors – Risks Related to Our Acquisition of the E-Plus Group – Telefónica Deutschland is exposed to risks relating to the Transaction.*"*). The assumptions underlying our estimation of synergy effects include, among others:*

- *the timely completion of the acquisition of the E-Plus Group and the integration of the E-Plus Group into our existing business in the manner and timeframe contemplated in this Prospectus;*
- *our ability to combine the E-Plus Group's distribution network and customer service operations with our own in order to realize economies of scale and to increase efficiency in distribution and customer service;*
- *the swift and cost efficient implementation of our unified roll out strategy for a national LTE network, realizing savings from the consolidation of the existing 2G and 3G network sites, consolidation of backhaul and core networks and the utilization of scale effects in connection with our strategic NGA cooperation with Deutsche Telekom (see* "*Business – Material Contracts – NGA Cooperation Agreement with Deutsche Telekom*"*);*
- *reducing the overall selling, general & administration expenses of the New Group in particular for administration, IT and office rents; and*
- *increasing revenues due to increased customer satisfaction as a result of improved network quality, generated from small and medium sized enterprises and from the cross selling of high speed broadband services to the enlarged customer base.*

We estimate that the Transaction will realize synergy effects with a net present value of more than €5.0 billion (post-tax), particularly with respect to distribution, customer service and network synergies.

Investors should be aware that the determination of the present value of synergies is based on an infinite planning horizon and that the vast majority of the total value of the estimated synergies is attributable to synergy effects expected to be realized only after completion of the integration of the E-Plus Group, which is currently expected to occur by year five following the closing of the Transaction.

Based on our current plans, we expect positive cash flow synergies starting from the second year of integration. We believe that the annual cash flow synergies will amount to approximately €800 million (pre-tax) once the integration of the E-Plus Group is completed, with 80% of this run-rate already achieved in the fourth year of integration.

We expect that the remedies the Company offered to the European Commission in connection with the merger clearance of the Transaction (see "*– Merger Clearance and Remedies*") will not have a significant impact on cost-based synergy effects.

Operating Synergies

The expected operating synergies from the Transaction can be broken down to the following main areas:

Network

We expect to benefit from the consolidation of our core mobile 2G/3G access networks, as well as the backbone and backhaul with the respective network components of the E-Plus Group and reduced operational expenditure for operation, maintenance and surveillance. In addition, we expect the reduction of the total number of mobile network sites by approximately 14,000 to result in additional synergies (*i.e.*, a reduction of rental, power, maintenance, transport costs and overhead). We further believe that we will benefit from increased efficiency by leveraging the scalable cooperation with Deutsche Telekom with regard to mobile backhaul capacity and fixed-line services (see "*Business – Material Contracts – Backhaul Contract with Deutsche Telekom"* and *"Business – Material Contracts – NGA Cooperation Agreement with Deutsche Telekom*"). We expect that the net present value of network synergies will amount to approximately €1.7 billion.

Distribution and Customer Service

We expect that the combination of both distribution networks and customer service organizations will increase efficiency and reduce costs by leveraging best practices and scale as well as channel management and overhead costs. We expect that we will be able to optimize the retail footprint for the New Group due to distribution network overlap, which will result in a decrease of rent and staff-related costs. Our calculation of distribution synergies includes the assumption that the New Group will be able to achieve a better channel mix by increasing the number of digital contacts with the customer. Furthermore, we expect that online sales will increase and generate additional synergies due to the strong, joint multi-brand proposition of the two businesses. We expect that the net present value of synergies from Distribution and Customer Service will amount to approximately €1.1 billion.

*Selling, General & Administration ("**SG&A**")*

We expect additional synergies to be realized in SG&A. We expect these synergies mainly in the form of a cost reduction of IT, administration and rent. Additionally, we believe that the joint advertising and marketing expenses can be reduced significantly. We expect that the net present value of synergies from SG&A will amount to approximately €0.8 billion.

CapEx Synergies

The capital expenditure of the New Group is expected to be reduced from current levels due to the integration of the two networks and associated platforms after the initial integration activities are finished. In this context, we expect that the combined 3G networks will provide improved quality and capacity compared to our current 3G network, reducing our planned capital expenditure for the capacity increase of our 3G network. The development of a faster 4G network rollout will also enable traffic offload from existing 3G networks, which will also improve the average production cost for data traffic. We further believe that the need for fewer mobile network sites and related mobile telecommunications equipment will also result in reduced capital expenditure. We expect that the net present value of synergies from CapEx will amount to approximately €1.9 billion.

Integration Costs

Upon completion of the integration of the E-Plus Group, integration costs will partially offset benefits from the estimated synergy effects. We expect that these costs will primarily relate to one-time payments such as rent cancellation fees, severance payments to employees and network and IT migration costs, as well as the costs for rebranding and customer migration to the target network. We expect that the net present value of synergies from integration costs will be negative and to amount approximately to €0.9 billion.

Revenue and Other Synergies

The synergy effect in revenues and other effects comprises of expected revenue synergies and the foreseeable impact from remedies for the Transaction. This category includes benefits from the expected increase in customer satisfaction as a result of the improved network and quality as well as additional opportunities in the SME segment due to a broader and higher quality network platform. In addition, the enlarged customer base offers additional cross-selling opportunities for fixed-line broadband products, in particular into the mobile customer base of the E-Plus Group. We expect that the net present value of the revenue and other synergies as well as the above mentioned cost based synergies will add up to a total net present value of synergies of more than €5 billion.

MERGER CLEARANCE AND REMEDIES

The European Commission granted merger clearance of the Transaction on July 2, 2014. The decision is subject to the fulfillment of certain remedies which were offered by the Company to the European Commission. These remedies consist of the following three measures to be implemented:

MBA Model

The Company is obligated to make available to one or more (up to three) MBA MVNOs a total of 20% of the network capacity of the mobile network of both, Telefónica Deutschland and the E-Plus Group, (such 20% not including and in addition to the network capacity used to serve existing customers of the MBA MVNOs on the Telefónica Deutschland and the E-Plus Group's mobile networks) under a mobile bitstream access model on the German market, *i.e.*, the MBA Model, with these MBA MVNOs being obligated to acquire such network capacity. In addition, the MBA MVNOs are entitled to acquire from Telefónica Deutschland and the E-Plus Group additional network capacity of up to an aggregate of 10% of the combined network capacity. Accordingly, a maximum aggregate of 30% of the mobile network capacity of Telefónica Deutschland and E-Plus Group needs to be made available to MBA MVNOs under the remedies at a price to be negotiated. Mobile network capacity, in this context, includes data throughput capacity, data volume capacity, voice capacity and capacity for SMS. The volume of capacity to be made available is subject to a glide path mechanism, *i.e.*, the network capacity made available will increase consistently during the term of the agreement, until it reaches 20% or, in case MBA MVNOs should acquire the additional 10% of network capacity, 30% of the network capacity, such 30% including the capacity required to serve existing customers of the MBA MVNOs on Telefónica Deutschland's and the E-Plus Group's mobile networks. The European Commission has requested that this component of the remedies be fulfilled prior to the completion of the Transaction. Accordingly, on June 25, 2014, OHG entered into an agreement with Drillisch under which Drillisch committed to acquire 20% of the mobile network capacity available under the MBA Model (see "*Business – Material Contracts – MBA Model Agreement with Drillisch*"). The term of this agreement ends on June 30, 2020 with Drillisch being entitled to extend the term of the agreement for two additional five-year periods.

New MNO Entrant

The Company is obligated to offer certain assets and services to a New MNO Entrant on the German market. As part of this obligation, the Company is obligated to offer 2,600 MHz spectrum as well as 2,100 MHz spectrum on the basis of a lease agreement at pre-determined prices and for a term compliant with the expiry of the relevant frequency usage rights. In addition, the Company is obligated, at the New MNO Entrant's request, to offer national roaming services, sell up to 8,000 antenna sites, agree to a passive radio network sharing and/or sell up to 100 points of sale in urban areas, all at prices to be negotiated with the New MNO Entrant. This offer has to be kept open to one potential new mobile phone network operator until December 31, 2014, after which date it will only be available until the fifth anniversary of the closing of the Transaction to those third parties who have entered into an agreement with the Company or any of its affiliates under the MBA Model.

Existing MVNOs and Service Providers

The Company is obligated to offer to all MVNOs and service providers which currently procure 2G/3G/4G services from Telefónica Deutschland and/or the E-Plus Group to prolong their existing contracts until the end of 2025 (or such earlier date on which Telefónica Deutschland may cease to offer 2G/3G or 4G services to its own customers). In addition, Telefónica Deutschland is obligated to provide access to 4G services on the basis of agreements to all mobile virtual network operators and service providers within twelve months after the start of the performance of the agreement concluded with the MBA MVNOs at least until the end of 2025 (or such earlier date on which Telefónica Deutschland ceases to offer 4G services to its own customers). This offer has to be made at prices to be determined on a benchmark basis. In addition, Telefónica Deutschland is obligated to waive any obligations of MVNOs and service providers which currently procure 2G/3G/4G services from

Telefónica Deutschland and/or the E-Plus Group according to which the respective MVNO or service provider has to transfer its customer base to Telefónica Deutschland and/or the E-Plus Group in case of a change of network or change of business model.

While the obligations under the MBA Model had to be fulfilled prior to the completion of the Transaction, the other remedies may be fulfilled subsequently. In compliance with a corresponding commitment *vis-à-vis* the European Commission, the Company has engaged Competition RX remedies & compliance as monitoring trustee in order to monitor the Company's compliance with its obligations under the remedies. On August 26, 2014, the monitoring trustee issued a report to the European Commission confirming that the contracts with Drillisch fulfill the requirements established in the merger clearance decision as an upfront remedy. On August 29, 2014, the European Commission confirmed fulfillment of the upfront remedies and thereby granted final merger clearance of the Transaction.

The monitoring trustee will issue regular reports to the European Commission and has certain rights to intervene in case it deems that the Company does not comply with its commitments. In addition, a fast track arbitration mechanism has been implemented in order to ensure the Company's prompt compliance with its commitments towards those third parties with which it has or will enter into agreements under the remedies.

PRE-CLOSING RESTRUCTURING AND SEPARATION

In the SPA, KPN agreed to restructure KPN Mobile Germany prior to the closing of the Transaction (the "**Pre-Closing Restructuring**"). The intention of the Pre-Closing Restructuring was to simplify the structure of KPN Mobile Germany and its direct and indirect subsidiaries, enabling the Company to acquire New E-Plus KG unencumbered of tax liabilities attributable to previous periods and obligations under shareholder loans. The Pre-Closing Restructuring included measures such as the restructuring and/or merger of certain subsidiaries as well as establishing a new holding company, *i.e.*, New E-Plus KG (founded under the name E-Plus Transition GmbH & Co. KG and subsequently renamed E-Plus Mobilfunk GmbH & Co. KG), to which, by way of a spin-off (*Ausgliederung*) under the German Transformation Act (*Umwandlungsgesetz*), KPN Mobile Germany (formerly: E-Plus Mobilfunk GmbH & Co. KG) contributed all its assets, liabilities and contracts except (i) all shareholder loans (including all liabilities thereunder, in particular principal, accrued interest and costs) existing between KPN Mobile Germany on the one side and KPN and companies affiliated with KPN on the other side, as well as (ii) all tax liabilities of KPN Mobile Germany (irrespective of whether due, assessed, contingent or future) for periods prior to January 1, 2014. The Pre-Closing Restructuring has been completed on June 23, 2014 with registration of the spin-off in the commercial register.

Prior to the contribution of the limited partner interest in New E-Plus KG to the Company, measures were undertaken to separate New E-Plus KG and its affiliated companies (*i.e.*, the E-Plus Group) from the companies of KPN: debt existing between the two groups was settled. Security that companies of the E-Plus Group had provided in favor of the companies of KPN was released. Further contractual relationships between the two groups were either terminated (*e.g.*, cash pooling agreement and the agreement on a management fee), divided between the two groups (*e.g.*, with respect to roaming services) or amended. For example, the companies of the E-Plus Group exited from existing license, trademark and domain pooling contracts and alternative license agreements were concluded – in part with and in part without compensation – for certain industrial property rights which the companies of the E-Plus Group still require after the closing of the Transaction for their business operations (*e.g.*, use of the "BASE" brand). Contracts for which the two groups have not or will not make any particular arrangement generally continue to apply without change, with both sides being entitled to terminate these contracts on reasonable notice.

CONSIDERATION

The consideration payable by the Company to KPN Mobile Germany for the E-Plus Group consists of (i) a cash payment of approximately €3.64 billion (€3.7 billion minus €64 million preliminary net debt and working capital adjustment) and (ii) the Consideration Shares.

At the date of this Prospectus, the Company has an Authorized Capital 2012/I in the amount of €558,472,700.00, which was resolved by the Company's extraordinary general shareholders' meeting on September 18, 2012. Pursuant to Section 4(3) of the Company's articles of association, the management board can, within the existing authorization, issue up to 558,472,700 new non-par value registered shares in the Company in connection with capital increases by contribution in kind with the exclusion of subscription rights, *inter alia*, for the purpose of acquisitions (including indirect acquisitions) of companies, parts of companies, interests in other companies and other assets.

In addition, the Company will be able to utilize the Authorized Capital 2014/I, resolved by the extraordinary general shareholders' meeting on February 11, 2014, which authorizes the management board to increase the share capital of the Company by the end of February 10, 2016, with the consent of the supervisory board, by up to a total of €475,000,000.00 by issuance of up to 475,000,000 new non-par value registered shares at an issuance price of €1.00 per non-par value share in exchange for contributions in kind. The statutory subscription rights of the shareholders are excluded. The Authorized Capital 2014/I has not yet been registered with the commercial register of the Company as the total amount of the Authorized Capital 2012/I and the Authorized Capital 2014/I in total exceed 50% of the current share capital of the Company. Pursuant to Section 202(3) AktG, the Authorized Capital 2014/I will be registered upon registration of the consummation of the capital increase against contribution in cash resolved by the ordinary general shareholders' meeting on May 20, 2014, which is expected to take place on or about September 19, 2014.

The management board will decide, with the consent of the supervisory board, in due course in which amount the respective Authorized Capital will be used in order to create the Consideration Shares to be issued.

The issue price for the Consideration Shares to be subscribed by KPN Mobile Germany within the framework of the closing of the Transaction will correspond to the minimum issue amount of €1.00 per share.

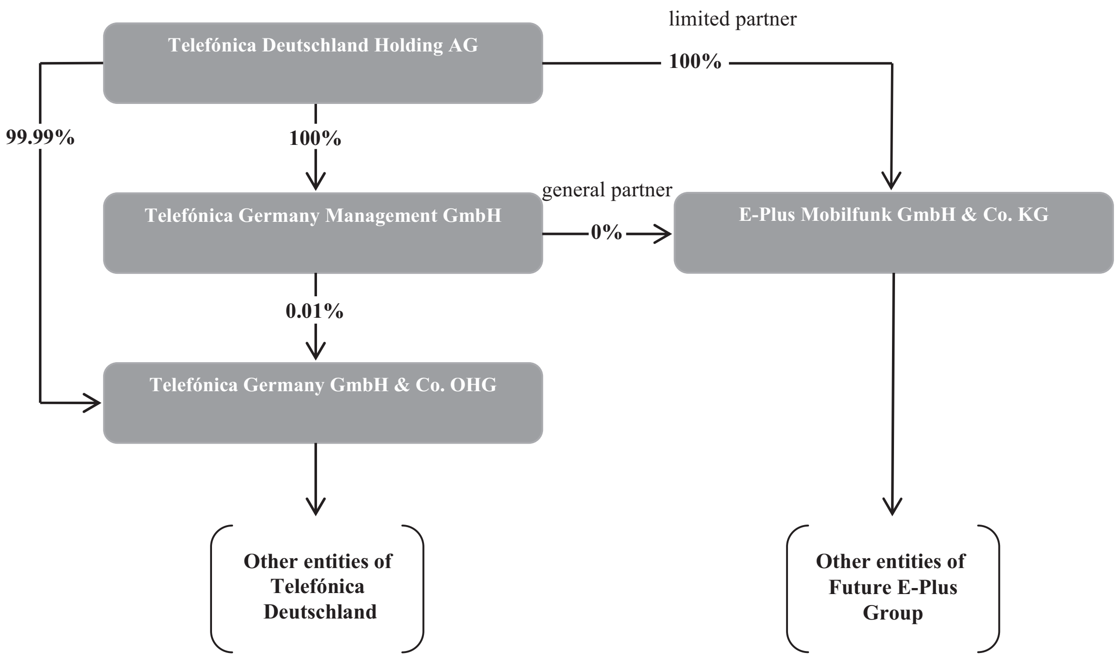
CLOSING OF THE TRANSACTION

After satisfaction and/or waiving of all closing conditions (see "*Business – Material Contracts – Sale and Purchase Agreement with regard to the E-Plus Group*"), KPN Mobile Germany will subscribe the Consideration Shares and enter into a contribution agreement with the Company. Simultaneously, the Company will pay the preliminary cash component in the amount of approximately €3.64 billion (€3.7 billion minus €64 million preliminary net debt and working capital adjustment) into a trust account. Under the contribution agreement, KPN Mobile Germany will assign the New E-Plus KG limited partner interest (together with all credit balances on its partner accounts at New E-Plus KG) to the Company. The assignment of the limited partner interest will be subject to the condition precedent of the Company being registered with the commercial register as a limited partner of New E-Plus KG by way of special legal succession. In a separate step, the current general partner of New E-Plus KG, E-Plus Mobilfunk Geschäftsführungs GmbH, will cease to be general partner of New E-Plus KG and Telefónica Germany Management GmbH will become the new general partner of New E-Plus KG.

After the registration of the Company as limited partner of the New E-Plus KG with the commercial register, KPN Mobile Germany can request payment of the cash component of the Transaction from the trust account and the Company will file for registration of the consummation of the capital increase in kind with its commercial register. The Consideration Shares come into existence upon such registration.

Following the closing of the Transaction, the Company will have 32 business days to serve notice to KPN if the Company wishes to object to the draft calculation of the adjustment to the cash consideration. Such draft calculation resulted in a decrease of the cash consideration of €3.7 billion by €64 million resulting in a preliminary cash component of the purchase price of €3.64 billion. If, following such a notice by the Company, the Company and KPN agree on an adjustment amount, or if an independent expert determines such amount in accordance with the SPA, any difference between the preliminary cash component and the final adjusted cash consideration will be settled in cash.

The following chart provides an overview of Telefónica Deutschland's structure upon closing of the Transaction:



INTEGRATION

After closing of the Transaction, we intend to focus on realizing initial smaller synergies with certain immediate measures and on developing a concept for a new organization and an operating model for the New Group and an integration plan based on such concept. We intend to commence with the brand transitioning, the rationalization of the shop network, the consolidation and joint roll-out of our network, the legal integration and the digitalization of structures and processes in the second year of the integration process.

REGULATION

Our operations are subject to sector-specific telecommunications regulations and general competition law, as well as to a variety of other regulations.

TELECOMMUNICATIONS REGULATION

The liberalization of the German telecommunications sector began over twenty years ago with Postreform I. The liberalization was in line with the EC policy at that time which intended to break up monopolistic structures in the European telecommunications markets. Postreform I was followed by Postreform II in 1994 which, *inter alia*, effected a constitutional change, allowing for the privatization of Deutsche Telekom, the former state owned telecommunication monopolist. In 1996, the initial German Telecommunications Act came into force. Since the break off of Deutsche Telekom's last monopoly (voice telephony) on January 1, 1998, the telecommunications market in Germany is regarded as liberalized.

Today, telecommunications services and the operation of telecommunication networks are subject to the regulatory regime of the Telecommunications Act of June 22, 2004, as amended on August 7, 2013, and certain regulations that supplement the Telecommunications Act.

The Telecommunications Act implements the European Regulatory Framework for Electronic Communications Networks and Services which was amended in November 2009 (the "**Framework**"). The Framework consists of, amongst other provisions, the Framework Directive (2002/21/EC), the Authorization Directive (2002/20/EC), the Access Directive (2002/19/EC), the Universal Service Directive (2002/22/EC) and the Directive on Privacy and Electronic Communications (2002/58/EC).

In November 2009, the European Parliament, following a proposal by the European Commission, passed legislation amending certain directives within the Framework in order to strengthen competition and consumer rights in Europe's telecom markets and to facilitate access to high-speed broadband internet connections. The changes to the existing Framework came into effect on December 19, 2009, and had to be transposed into national law. This led to an amendment of the Telecommunications Act which entered into force in May 2012.

The Telecommunications Act contains provisions regarding, among other things: (i) the establishment and powers of the regulatory body; (ii) notification requirements; (iii) the granting of rights of way; (iv) the allocation of frequencies and numbers; (v) access obligations; (vi) the regulation of rates; (vii) abusive behavior; (viii) consumer protection; and (ix) data protection and public safety. Some of these obligations only apply to providers which have significant market power in their respective markets. Other obligations apply or might be imposed by the FNA even if those operators do not have significant market power.

The Regulatory Body

The FNA is, amongst other things, responsible for the regulation of the German telecommunications market. It has at its disposal significant powers regarding the enforcement of telecommunications laws and regulations. These powers include the authority to impose network access and interconnection obligations on network operator and to approve or review the charges as well as general business terms and conditions of providers. Furthermore, the FNA is the competent authority to assign wireless spectrum, supervise frequencies and administer numbering as well as to impose universal service obligations. The FNA's decisions may be challenged in the relevant administrative courts. With respect to general cartel law compliance, the FCO may impose obligations on us.

Notification Requirements

The operation of telecommunication networks and the provision of telecommunications services no longer require a license from a regulatory body. However, commercial operators of public telecommunication networks and commercial providers of publicly available telecommunication services must notify the FNA of the commencement, any modification and the termination of their business activities. Furthermore, the use of mobile frequencies still requires prior frequency assignment and the use of numbers requires a number allocation.

Granting of Rights of Way

Operators of public telecommunications networks that wish to use public streets, squares, bridges and public waters for the laying and operating of telecommunications lines must file applications with the FNA for the granting of related rights of way. Subsequently, the FNA must determine whether the applicant has demonstrated sufficient professional expertise, reliability and financial capability to operate telecommunications lines.

We hold rights of way for Germany. The rights were originally granted to Bayernwerk Netkom GmbH and handed over to Viag Interkom GmbH & Co. within the contract on license transfer (*Lizenzübertragungsvertrag*) between those two parties dated December 22 and December 23, 1998.

The Class 3 License Nr. 9603020 (dated October 29, 1996) holds limited rights of way for the area of the federal states of Bavaria and Thuringia as well as the city of Frankfurt am Main and the city area (*Stadtkreis*) of Leipzig. With Document 9703020 (dated July 16, 1997), the area has been extended nationwide to Germany.

The Way of Rights Document of the – now merged – HanseNet Telekommunikation GmbH (Nr. 98 08 0039) has been handed back to the FNA in 2011.

For the construction of new lines, we need the consent of the relevant bearer of the public easement (*Träger der Wegebaulast*) of the related public streets, squares, bridges and public waters.

Allocation of Frequencies

Due to the population's increasing demand for mobile communication services, not least because of the new technical possibilities emerging based on new mobile transmission standards such as UMTS or LTE and new devices and applications such as smartphone or tablets, the demand for bandwidth is constantly increasing and increasing levels of telecommunications traffic are handled over mobile networks. A precondition for technically coping with this development is the availability of an adequate frequency spectrum.

Therefore, the allocation and the use of frequencies as a scarce resource are strictly regulated. The main legal provisions are stipulated in the Telecommunications Act and the related ordinances such as the Frequency Plan (*Frequenzplan*) which describes the usage of frequency spectrum. The frequency regulation regime aims, among other things, to secure an efficient and interference-free use of frequencies. Unlike the usage of frequencies within a mobile telecommunications network, the frequency use within coaxial and other landline or fixed cable is permitted without a frequency allocation by the FNA pursuant to the Telecommunications Act.

Frequency assignment means authorization by a public authority or by legal provisions to use particular frequencies under specified conditions. According to the Telecommunications Act, the FNA can assign frequency usage rights on a general or an individual basis. The FNA assigns frequencies individually where it considers a general assignment is not feasible. Frequency usage rights are assigned for a particular purpose in accordance with the Frequency Plan and in a non-discriminatory manner on the basis of transparent and objective procedures.

Where there is insufficient frequency available across the spectrum for assignment to all interested parties, the FNA may order that the assignment is to be based on award proceedings. As a general rule, frequency usage rights are awarded by auction. In exceptional cases, when an auction is not likely to achieve the regulatory goals (for example, when it is likely to have anti-competitive effects), the FNA may choose to run a tender proceeding. So far, the FNA has only conducted auctions and no tender proceedings under the current Telecommunications Act.

A transfer of individually allocated frequency usage rights is possible, but requires prior consent by the FNA. The FNA is obligated to consent if the transferee fulfills the requirements of the initial allocation, a distortion of competition in the relevant product and geographic market is not a concern, and the efficient and interference-free use of frequencies is secured. In addition, each change of frequency rights, such as a change in the ownership of the holder of the frequency usage right, must be reported to the FNA without undue delay. Finally, the FNA can permit and set rules for the trading of frequencies. So far, no such rules have been established.

Since the start of our business in Germany, we have been granted frequency usage rights in all relevant parts of the spectrum.

In 1998, we obtained a GSM license and the according frequency usage rights for the 1,800 MHz frequency band (2 x 22.4 MHz) and in February 2006, we exchanged frequency usage rights at 1,800 MHz for the 900 MHz band (2 x 5 MHz). These licenses are for a set period of time, although they may be renewed. The GSM licenses and the corresponding frequency usage rights expire on December 31, 2016.

Since 2011, the FNA has launched a number of related public consultations in order to, amongst others, identify the demand for spectrum, *inter alia*, in the 900 MHz and 1,800 MHz frequency bands and to develop potential scenarios for their allocation from 2017 onwards. The procedure may result in an auction procedure, a prolongation of the current spectrum usage rights or in a combination of both.

Pursuant to the consultation draft dated June 24, 2013, the FNA proposes to grant a so called "frequency reserve" in the 900 MHz Band (2 x 5 MHz) to each of the four German mobile network operators. According to the draft, the remaining frequencies in the 900 MHz and 1,800 MHz band will be allocated together with further frequencies in the 700 MHz und 1.5 GHz band by means of an auction. The FNA intends to commence with the relevant proceedings in 2014. Following the announcement of the planned acquisition of the E-Plus Group by Telefónica Deutschland, the FNA delayed a decision on steps of the auction proceedings until the European Commission's decision on merger clearance of the acquisition of the E-Plus Group. This was confirmed in a document on the allocation of frequency rights in connection with the planned acquisition of the E-Plus Group which was published by the FNA on March 31, 2014. According to these documents, the FNA intends to commence an award proceeding in 2014 to give all competitors the opportunity to obtain the frequency spectrum required for a broadband roll out.

On July 4, 2014, the FNA published its decision relating to the allocation of spectrum in Germany subsequent to the acquisition of the E-Plus Group by Telefónica Deutschland. In its decision, the FNA in general grants Telefónica Deutschland and the E-Plus Group permission to make further use of each of its spectrum holdings even after closing of the Transaction. However, the FNA requires Telefónica Deutschland in its decision to return such spectrum in the 900 MHz and 1,800 MHz bands by December 31, 2015 should such frequency usage rights not be awarded to Telefónica Deutschland on that date beyond 2016. In addition, the FNA announced to review Telefónica Deutschland's spectrum position once the allocation procedure in Project 2016 has been finished and will decide whether further measures are required, especially with regard to the 2,000 MHz spectrum. On July 25, 2014, the FNA initiated a public consultation to all interested parties and has invited them to update or notify their spectrum demand with regard to the forthcoming spectrum allocation procedure by August 20, 2014 which we have recently done. In the consultation, the FNA confirmed its previously announced timetable for Project 2016. The FNA further noted that, following the ongoing spectrum demand consultation, it will initiate public consultations on the draft decisions under Sections 55(10), 61 of the Telecommunications Act of the President's Chamber on the order for and choice of spectrum allocation proceedings in the third quarter of 2014. The FNA intends to publish respective final decisions as well as the decisions on the rules for the allocation conditions and the auction rules in the fourth quarter of 2014. The spectrum allocation procedure will commence in the second half of 2014, for which purpose the FNA will invite for the application for spectrum usage rights and for the participation in the allocation proceeding in due time prior to such a proceeding. On August 4, 2014, we filed a claim with the Administrative Court of Cologne (*Verwaltungsgericht Köln*) against the FNA's decision of July 4, 2014, which has not been decided yet.

In August 2000, we obtained a UMTS license which expires on December 31, 2020 (2 x 10 MHz).

In April and May 2010, the FNA auctioned off additional frequencies in the 800 MHz, 1,800 MHz, 2,000 MHz and 2,600 MHz ranges, with four mobile network operators (including us) participating in the auction. The spectrum in the range of 790 MHz to 862 MHz has been freed as a result of the switchover from analogue to digital television. The legal basis for this frequency auction was a general order issued by the President Chamber of the FNA on October 12, 2009 (*Präsidentenkammerentscheidung*). In May 2010, after a spectrum auction procedure, Telefónica Deutschland acquired 10 MHz in the 800 MHz band (Digital Dividend), 20 MHz in the 2,600 MHz band (paired), 10 MHz in the 2,600 MHz band (unpaired), 5 MHz in the 2,000 MHz band (paired), and 20 MHz in the 2,000 MHz band (unpaired). These frequency usage rights expire in 2025. The assigned frequency usage rights may be used for wireless network access by using any technology ("technology neutrality") (see "*Business – Legal Proceedings*").

Regulatory Framework for Undertakings with Significant Market Power

The FNA may impose obligations in relation to, for example, network access (including interconnection, unbundled access and access to certain services and facilities), rate regulation, separate accounting for interconnection services, transparency and non-discrimination on network operators that are designated as having significant market power. Independent of its respective market power, every public telecommunications network operator which controls access to end customers has to make, upon request, an interconnection offer to other public telecommunications network operators to, *inter alia*, secure the service interoperability.

We have been designated as having significant market power in the fixed-line voice termination market and the mobile voice call termination market.

These designations with respect to us are based on the relevant underlying current market definitions and market analyses. With regard to the fixed-line voice termination market, regulatory obligations were imposed on us pursuant to a ruling by the FNA on November 19, 2013 with respect to market no. three (call termination on individual public telephone networks provided at a fixed location) of the Commission recommendation 2007/879/EC of December 17, 2007 on relevant product and service markets ("**Commission Recommendation on Product Markets**"). The Commission is currently revising the Commission Recommendation on Product Markets. We expect, however, to be subject to regulation with regard to the fixed-line voice termination market also under the revised Commission Recommendation on Product Markets. For more information regarding the consequences of such determination, see "*– Fixed-Line Telephone Network Regulation, Interconnection, Call Termination*".

With regard to the mobile voice termination market, regulatory obligations were imposed on us pursuant to a ruling by the FNA on July 19, 2013 with respect to market no. seven (voice call termination on individual mobile networks) of the Commission Recommendation on Product Markets. For more information regarding the consequences of such determination, see "*– Mobile Telephone Network Regulation, Interconnection, Call Termination*".

Following the imposition of regulatory obligations, the FNA shall, as a rule, submit draft market definitions, draft market analyses and draft regulatory obligations every three years. Notwithstanding changes in the Commission Recommendation on Product Markets, it has to be expected that FNA will maintain its designations of us having significant market power in the fixed-line voice termination market and the mobile voice call termination market.

INTERCONNECTION AND ACCESS OBLIGATIONS

The FNA may impose on operators of public telecommunications networks with significant market power the obligation to grant other companies access to their services or to their networks. In particular, the FNA may impose the obligation to grant access for certain telecommunications services on an unbundled basis. This means the operator must offer access to its network or its services in a manner that does not force the other party to purchase any services that it does not require.

Among other things, the FNA is authorized to impose on operators the obligation (i) to grant access to certain network components and certain facilities as designated by the FNA, and (ii) to offer the re-sale of their telecommunications services on a wholesale basis.

Under certain conditions, the FNA may also impose access obligations if the operators do not have significant market power but control end-user access. Regardless of whether or not an operator has significant market power, it is obligated to offer any other operator, upon the request of the FNA, the interconnection of both parties' networks, provided that the interconnection is technically feasible.

We are obligated to provide access on a non-discriminatory, fair and reasonable basis to other network operators both with regard to our fixed-line and our mobile network. The basis of such obligations are the FNA rulings of November 19, 2013 and July 19, 2013 described above. With regard to both our mobile and our fixed-line network, this includes the obligation to interconnect with other telecommunications networks and to terminate calls via our respective networks to our end customers.

In addition, the FNA has ordered us to publish a reference offer with regard to interconnection with mobile networks. In its ruling of April 4, 2012 the FNA reviewed and amended our respective reference offer.

RATE REGULATION

The rates charged by operators of public telecommunication networks on which the FNA has imposed access obligations may be subject to rate regulation under the Telecommunications Act. Rate regulation consists of either ex-ante-rate regulation or ex-post-rate-regulation of the relevant rates. However, the FNA may also decide not to impose rate regulation irrespective of an access obligation imposed on the network operator.

Under the ex-ante-rate-regulation, FNA's approval of the rates charged by the operator is required prior to their application. The Telecommunications Act provides for two basic approaches to prior approvals of rates: price-cap regulation and individual approvals on the basis of the costs of efficient service provision (the "**efficient costs approach**"). In addition, under these two types of ex-ante regulation, the FNA shall not issue a rate approval in case the rates amount to an abuse of the operator's significant market power. Under the current Telecommunications Act, the FNA is entitled to conduct rate approval procedures, *inter alia*, in accordance with other methods. The FNA considers that, on this statutory basis, rate approval procedures may follow the efficient costs approach. A different approach to the efficient costs approach is the pure LRIC (long run incremental costs) approach set out in the Commission Recommendation 2009/396/EC of May 7, 2009 on Fixed and Mobile Termination Rates ("**Commission Recommendation on Termination Rates**"). In contrast to the efficient costs approach, the pure LRIC approach requires that costs not related to the wholesale termination service – for example, non-traffic-related costs and costs incurred by the network operators irrespective of the wholesale termination service – shall be disregarded for the purpose of setting termination rates.

If rates are subject to ex-post rate regulation by the FNA, the relevant rates do not need to pass a review process before the operator having significant market power charges those to other network operators or service providers, except if the FNA has imposed a notification obligation upon the operator. However, the FNA may prohibit rates if, after carrying out a review at a later stage, the FNA comes to the conclusion that charging such rates amounts to an abuse of the operator's significant market power. The FNA may furthermore order the application of rates which it deems fit.

We are subject to ex-ante-rate regulation with regard to our fees for the termination of traffic into our mobile network (voice MTR) according to the FNA ruling of July 19, 2013 described above. This rate regulation is based on the efficient costs approach taking into account the Commission Recommendation on Termination Rates.

Under the FNA ruling of November 19, 2013, our rates for the termination of traffic into our fixed-line network, FTR, are subject to ex-ante-rate regulation.

FIXED-LINE TELEPHONE NETWORK REGULATION, INTERCONNECTION, CALL TERMINATION

With respect to the provision of telephone services based on a self-operated fixed-line telecommunications network, the previously mentioned provisions of the Telecommunications Act regarding notification, granting of rights of way, access obligations, regulation of rates and abusive behavior also apply. In particular, if a network operator is designated either to have significant market power in the relevant market or to control end-user access, the FNA may impose access obligations on the company, order the interconnection with other network operators and regulate the rates charged.

We are deemed to have significant market power with respect to market no. three (call termination on individual public telephone networks provided at a fixed location) of the Commission Recommendation on Product Markets pursuant to the FNA ruling of November 19, 2013 described above. Under the ruling, the rates we charge in this market are subject to ex-ante regulation by the FNA, *i.e.*, remuneration does need to pass a review process before we charge those to other network operators.

On February 19, 2014, the FNA issued a preliminary rate approval decision with regard to our FTR and commenced the public consultation procedure with regard to the draft final rate approval decision. Pursuant to the preliminary decision, BK 3g-13/063, the FNA ruled with retroactive effect from November 20, 2013 that our fixed-line termination rates are 0.36 cent per minute (peak time) and 0.25 cent per minute (off peak time). These rates are based on the corresponding rates of Deutsche Telekom. The draft final rate approval decision provides for the same rates as the preliminary decision. The rates will expire on November 30, 2014 and new rates will be determined with effect as from December 1, 2014. On July 11, 2014, the FNA issued a draft decision on FTR for Deutsche Telekom with effect as from December 1, 2014. The draft decision provides for a consistent FTR of 0.24 cent per minute to be charged by Deutsche Telekom during peak time and off peak time. This change will be adopted in regard to our FTR accordingly.

The final decision on the determination of fixed-line termination rates may be challenged before the competent administrative courts.

MOBILE TELEPHONE NETWORK REGULATION, INTERCONNECTION, CALL TERMINATION

With respect to the commercial provision of mobile phone services based on a self-operated mobile telecommunications network, the previously mentioned provisions of the Telecommunications Act regarding notification, granting of rights of way, access obligations, regulation of fees and abusive behavior also apply. In particular, if a network operators company is deemed either to have significant market power in the relevant market or to control end-user access, the FNA may impose access obligations on the company, order the interconnection with other network operators and regulate the rates charged.

We are deemed to have significant market power on the market no. seven (voice call termination on individual mobile networks) of the recommendation 2007/879/EC pursuant to the FNA ruling of July 19, 2013 described above. Under the ruling, the rates we charge in this market are subject to an ex-ante-regulation by the FNA, *i.e.*, remuneration does need to pass a review process before Telefónica Deutschland charges it to other network operators.

On July 19, 2013, pursuant to decision BK 3a-12/087, the FNA ruled with retroactive effect from December 1, 2012 that the MTR which we are entitled to charge for the termination of traffic into our own mobile telecommunications network are 1.85 cent per minute until November 30, 2013 and 1.79 cent per minute from December 1, 2013 to November 30, 2014. The decision of the FNA was addressed with an "Art. 7a Proceeding" by the European Commission as the MTR were considered to be too high in comparison with average MTR in the EU and not in compliance with the European Commission's relevant recommendation on the calculation of such rates. The FNA's decision on MTR could be modified by infringement proceedings initiated by the European Commission or upon third party proceedings, which could lead to further reductions of MTR.

The MTR for the other three German network operators Vodafone D2 GmbH, E-Plus Mobilfunk GmbH & Co. KG and Telekom Deutschland GmbH are identical. These rates are significantly lower than the prior rates. Our previous rate was 3.39 cent per minute. We, as well as other mobile network operators, have challenged the regulatory order and the decision on the determination of mobile termination rates before the competent administrative courts. Our appeal against the decision on the determination of mobile termination rates remains pending while we have withdrawn our appeal against the regulatory order.

On September 3, 2014, the FNA published its draft decision regarding preliminary MTR of 1.72 cent per minute for the period from December 1, 2014 until November 30, 2015 and 1.66 cent per minute for the period from December 1, 2015 until November 30, 2016. The rates are symmetric for all German network operators. We expect that the draft decision of the FNA will also be addressed with an Art. 7a Proceeding by the European Commission as the MTR are not in compliance with the European Commission's relevant recommendation on the calculation of such rates. In case of an Art. 7a Proceeding, the FNA is expected to issue its preliminary decision on November 30, 2014 and its final decision in the third quarter of 2015 based on which MTR would be applied with retroactive effect from December 1, 2014 which then could be modified by infringement proceedings initiated by the European Commission or upon third party proceedings, which could lead to further reductions of MTR.

The FNA may further lower MTR in the future.

FIXED AND MOBILE TERMINATION RATE RECOMMENDATION

In May 2009, the European Commission issued a recommendation on the regulatory treatment of fixed and mobile termination rates in the EU. The recommendation defined the details for the cost calculation of termination rates by the relevant NRAs. With the recommendation, the Commission intends to harmonize cost standards for mobile termination rates throughout the EU.

In this respect, the Commission stated the intention to further reduce termination rates by the end of 2012, while also eliminating asymmetry between operators. Although the recommendation is not legally binding, NRAs have to take the utmost account of the recommendation while still being able to reflect national circumstances. Although the most recent mobile termination rate approval decision of July 19, 2013 by the FNA is in general still based on the efficient costs-approach (taking into account the Commission Recommendation on Termination Rates), mobile operators could nevertheless be subject to further pressure to lower termination rates in the future.

ABUSIVE BEHAVIOR

In addition, the Telecommunications Act provides for a general prohibition of abusive behavior in the telecommunication markets by operators of telecommunication networks or providers of telecommunication services with significant market power.

Such abuse includes discriminatory and restrictive practices. The FNA may prohibit abusive behavior and declare the relevant agreements void. The FNA may also confiscate profits generated from abusive behavior if certain conditions are met. Moreover, the FNA has the authority to impose an administrative fine on any company that fails to comply with its rulings regarding abusive behavior.

INTERCONNECTION AGREEMENTS WITH DEUTSCHE TELEKOM

Alternative fixed-line and mobile phone service providers generally enter into interconnection agreements with Deutsche Telekom in order to allow their customers to initiate and receive calls to and from Deutsche Telekom's subscribers. The essential fees Deutsche Telekom charges for calls to its own subscribers are subject to ex-ante review by the FNA. Under the same agreements, Deutsche Telekom also provides intermediary services for the connection of subscribers of two alternative fixed-line or mobile network operators, in case the respective operators do not exchange calls over a direct link of their networks. The fees of Deutsche Telekom for intermediary interconnection services are mainly not regulated. The FNA has ordered Deutsche Telekom to offer interconnection with its fixed-line and mobile network based on published regulated reference offers.

INTERCONNECTION WITH DEUTSCHE TELEKOM'S FIXED-LINE NETWORK

We have entered into three independent agreements with Deutsche Telekom regarding the interconnection with Deutsche Telekom's fixed-line network. After our acquisition of HanseNet in 2010, the fixed-line networks of former HanseNet and former Telefónica Deutschland GmbH – for the purpose of interconnection with Deutsche Telekom – are still treated as two separate networks and underlie two independent contracts (Fixed/Fixed1 and Fixed/Fixed2). The third interconnection agreement concerns the interconnection of Deutsche Telekom's fixed-line network and our mobile network (Fixed/Mobile).

Agreement Fixed/Fixed 1 with Telekom Deutschland GmbH (formerly Deutsche Telekom AG) was signed in 2003 according to Deutsche Telekom's regulated standard offer at that time. Telekom Deutschland GmbH has the right to terminate the agreement at six months' notice. However, Telekom Deutschland GmbH is obligated to offer a substitution contract that matches the regulatory requirements imposed by FNA (*i.e.*, revised standard offer). Most of Telekom Deutschland GmbH's services and prices under this agreement are subject to regulation. However, since the agreement entered into force in 2003 for certain services and prices have been deregulated (such as transit services on a wholesale level).

Agreement Fixed/Fixed 2 (formerly in the name of HanseNet) was signed in 2002 by means of an order of the FNA. Deutsche Telekom has the right to terminate the agreement at six months' notice. However, Deutsche Telekom is obligated to offer a substitution contract that matches the regulatory requirements imposed by the FNA (*i.e.*, the current standard offer).

Agreement Fixed/Mobile was signed in 2003 in accordance with Deutsche Telekom's regulated standard offer at that time. Deutsche Telekom has the right to terminate the agreement with six months' notice. However, Deutsche Telekom is obligated to offer a substitution contract that matches the regulatory requirements imposed by the FNA (*i.e.*, the revised reference offer).

All interconnection agreements described above cover interconnection based on PSTN technology. Telephone networks formerly used to operate entirely on circuit-switched PSTN-technology, and consequently interconnection links were deployed on that technology as well. Meanwhile, operators have begun to converge fixed-line telephone services with broadband internet access and accordingly started to deploy voice telephony based on IP over broadband networks. Based on this development, Deutsche Telekom now also offers interconnection with its fixed-line network via an IP-based link (the so-called "next generation network interconnection" or NGN-interconnection). We have entered into two separate agreements with Deutsche Telekom on December 20, 2013 to set-up interconnection via NGN (for Fixed/Fixed1 and Fixed/Fixed2). In the long-term, NGN interconnection will replace the existing PSTN-based interconnection links completely. The NGN agreements are based on Deutsche Telekom's reference offer, which is currently under review by the FNA. Deutsche Telekom has the right to terminate each of the agreements at three months' notice. However, Deutsche Telekom is obligated to offer a replacement contract that meets the regulatory requirements imposed by the FNA (*i.e.*, revised NGN reference offer).

INTERCONNECTION WITH DEUTSCHE TELEKOM'S MOBILE NETWORK

In addition to the fixed-line network interconnection, we have entered into an interconnection contract with Deutsche Telekom regarding mobile networks. On the basis of that contract, both mobile networks are directly interconnected.

Furthermore, Telefónica Deutschland's mobile network has direct interconnection agreements with the following network operators: BT (Germany) GmbH & Co. OHG, Cable&Wireless Telecommunications Services GmbH, COLT Technology Services GmbH, E-Plus Mobilfunk GmbH & Co. KG, Telefónica Czech Republic, a.s., Telefónica Ireland Ltd., Telefónica UK, Telekom Austria TA AG, Verizon Deutschland GmbH, Vodafone D2 GmbH and WIND Telecomunicazioni S.p.A.

INTERNET ACCESS

In connection with the commercial provision of internet access services to end customers via a self-operated fixed-line telecommunications network, the same provisions of the Telecommunications Act apply as set out above. The regulations under the Telecommunications Act do not differentiate between the content (phone or internet data) transmitted via the telecommunications network.

We were not deemed to have significant market power within the market for internet access services. This end customer market is also neither listed in the current recommendation 2007/879/EC nor in the most recent draft revised recommendation. Therefore, we are not and do not expect to be subject to any competitive regulation regarding the internet access market in the near to medium term.

WHOLESALE BROADBAND SERVICES

As for the commercial provision of wholesale broadband services, the same provisions of the Telecommunications Act apply as set out above.

We were not deemed to have significant market power within the market for wholesale broadband services. Therefore, we are not subject to any special competitive regulation with regard to the internet access market. The FNA may, however impose obligations on us not related to a significant market power, such as an obligation to share our network facilities.

CONSUMER PROTECTION

Pursuant to the Telecommunications Act, we are obligated to comply with various provisions for the special protection of consumers. The protection of consumers was further strengthened by the above-mentioned reform of the Framework. According to the definition in the German Civil Code (*Bürgerliches Gesetzbuch*), which is applicable here, "consumer" refers to every natural person who enters into a legal transaction for a purpose that is outside his trade, business or profession.

The consumer protection provisions in the Telecommunications Act concern, among other things, (i) the formation of agreements and the mandatory information to be provided in such agreements, (ii) the subject matter, maximum duration and the termination of contracts as well as certain rights and obligations of the contracting parties and of third parties engaged in telecommunications traffic, (iii) quality of service, (iv) details of delivery periods, (v) the obligation for waiting loops (*Warteschleifen*) to be free of charge, (vi) automatic price announcements, (vii) specific obligations toward disabled end-users, (viii) the operator's liability *vis-à-vis* the end-users, (ix) the way in which reference is made to standard terms and conditions and fees, (x) requirements deriving from the Universal Service Directive, (xi) entries in directories and directory enquiry service databases, (xii) the blocking of the subscriber's line, (xiii) billing and (xiv) out-of-court dispute resolution procedures for customers.

The FNA is authorized under Section 43a(3) of the Telecommunications Act to determine the details of the description of the type and relevant technical performance data of offered telecommunication services. In May 2013, the FNA published key issues and encouraged the self-regulation of telecommunication services providers. The key issues included, inter alia, the introduction of measures to avoid so-called "bill shocks" (such as price caps or warning SMS in case the customer's current consumption of telecommunication services significantly exceeds his usual behavior) and to measure and inform about the actual broadband performance capability of mobile and fixed-line broadband connections. The FNA is currently reviewing its draft regulation published in February 2014. The final version of the regulation is expected to enter into force in the second half of 2014 and to contain the obligation for increased transparency on service details and thus on service and network quality.

Consumer protection provisions are also contained in other statutes, such as the German Civil Code or Act Against Unfair Competition (*Gesetz gegen den unlauteren Wettbewerb*). According to the latter, it is, among other things, unlawful to approach prospective customers for direct marketing purposes via a phone without the express prior consent of the subscriber. Fines may be charged in case of an infringement.

On September 11, 2013, the European Commission published the Single Market Proposal, which includes provisions relating to the protection of consumers.

These provisions include rules dealing with (i) the non-discrimination between certain domestic and intra-EU (international) communications, (ii) mandatory pre-contractual and contractual information, (iii) increased transparency and facilities to avoid "bill shocks", (iv) the right to terminate a contract after six months without costs (excluding the residual value of any subsidized equipment or other promotions), (v) the obligation on providers to provide unhindered connection to all content, applications or services (also referred to as Net Neutrality).

The Single Market Proposal is currently still under heavy discussion. It is not yet foreseeable when and how it will enter into force. However, should the proposal come into force, it could lead to additional obligations towards customers.

NUMBER PORTABILITY AND CONTINUITY OF SERVICE

In the case of a change of the provider by the customer, each public phone network operator is obligated to allow for number portability. Customers must be able to retain their phone number, in the case of geographic numbers, at a specific location and in the case of non-geographic numbers at any location. The relevant telecommunication service must not be discontinued for more than one calendar day. Customers of mobile telephone service providers may transfer their mobile telephone number to another provider at any time. The duration of their telephone service contract with the original provider is not affected by such transfer. We believe that number portability is advantageous to market participants like us that are in the position of a challenger.

Pursuant to the former version of the Telecommunication Act, telecommunications service providers were allowed to align the number portation with the duration of the contract. This is no longer possible for mobile numbers. Thus, the new regulation may lead to a higher churn rate.

The Single Market Proposal, which has been published by the European Commission on September 11, 2013, includes provisions regarding the change of the provider by customers and the portability of numbers.

The Single Market Proposal is currently still under heavy discussion. It is not yet foreseeable when and how it will enter into force. However, should the proposal come into force, it could lead to additional obligations towards customers in connection with a change of the provider.

NUMBERING ISSUES

The FNA is the competent authority for the administration of numbering issues. It is responsible for structuring and configuring the national number space in Germany. The FNA also allocates (telephone) numbers to telecommunications network operators, telecommunications service providers and end-users.

When we are allocated numbers (for example, local or mobile numbers for end-customers), we are obligated to comply with certain conditions (for example, with regard to the transfer of numbers), as set out in the respective number allocation rules issued by the FNA. Furthermore, we must observe certain statutory provisions with regard to premium-rate numbers. The FNA is authorized to impose fines in order to enforce our regulations on numbering.

NETWORK NEUTRALITY

The revised Telecommunications Act includes a new provision that applies to all telecommunication network providers and grants the German government discretionary authority to impose an ordinance specifying general requirements of non-discriminatory data traffic and non-discriminatory access to content and applications. Whether the German government will issue such an ordinance depends on ongoing public discussions on net neutrality as well as actual developments in the market. So far, the FNA has not issued any regulations regarding net neutrality.

PRIVACY OF TELECOMMUNICATIONS – DATA PROTECTION AND PUBLIC SAFETY

Each provider of telecommunications services is obligated to maintain telecommunications privacy. This means that the content and detailed circumstances of telecommunications, in particular, the fact of whether or not a person is or was engaged in a telecommunications activity must not be disclosed to third parties.

In addition, each operator is obligated to protect the personal data of telecommunications subscribers and users in connection with the collection and use of such data.

Furthermore, any person offering publicly available phone services for domestic calls is obligated to provide all users with free access to emergency services by either using the European-wide emergency call number "112", or the national emergency call number "110", by sending the corresponding emergency signals.

Moreover, each provider of telecommunication services is obligated to make appropriate technical arrangements and other measures in order to protect the privacy of telecommunications and personal data. In addition, providers of either public telecommunication networks or of publicly available telecommunication services must make appropriate technical arrangements and other measures (i) to protect its telecommunications and data processing systems against disruptions, which would result in considerable harm to telecommunications networks and services, and (ii) to control potential risks for the security of telecommunication networks and services. In addition, each provider is obligated to nominate a security commissioner (*Sicherheitsbeauftragten*) and to draw up a security concept (*Sicherheitskonzept*) setting out (a) which public telecommunications networks are operated and which publicly available telecommunications services are provided, (b) any potential hazards, and (c) which technical arrangements or other safeguards have been made or put in place or are planned.

Providers of publicly available telecommunication services are obligated to notify violations of the protection of personal data to the FNA, the Federal Commissioner for Data Protection and Freedom of Information (*Bundesbeauftragter für den Datenschutz und die Informationsfreiheit*) and, in certain circumstances, the individuals affected by the violation.

INTERCEPTION AND INFORMATION REQUESTS FROM LAW ENFORCEMENT AUTHORITIES

Each operator of a telecommunications system on which publicly available telecommunications services are provided must provide, at its own expense, technical facilities for telecommunications interception by law enforcement authorities. The administrative and procedural details of the telecommunications interception are specified in the revised telecommunications interception regulation (*Telekommunikations-Überwachungsverordnung*), whereas the technical details (for example, relating to transmission protocols) are specified in the relevant technical guidelines relating to the telecommunications interception regulation. The FNA regularly updates the technical guidelines in order to reflect developments in technology, such as the use of e-mail and VoIP, for example.

For each interception measure ordered by the competent authorities, the operator of the telecommunications system receives a monetary compensation. The amount and the provision for such compensation are stipulated in the German Law on Payment and Compensation by Judiciary Authorities (*Justizvergütungs- und -entschädigungsgesetz*).

In order to comply with statutory provisions related to law enforcement, each operator of a telecommunications network or provider of telecommunications services used to be obligated to collect and store certain data for a certain period of time with regard to the telecommunications traffic across its network. Following a decision of the Federal Constitutional Court of March 2, 2010, the legal basis for such storage is now unconstitutional and void. Therefore, there is currently no storage obligation and there will not be one in the future unless the legislature passes a constitutional amendment regarding data storage. However, such a storage obligation could lead to significant costs for us and the other mobile network operators.

INTERNATIONAL ROAMING

In July 2009, a new EU roaming regulation came into force and expanded the existing roaming regulation to SMS and data roaming services. This amended 2009 regulation expired on June 30, 2012. On May 30, 2012, the Council of the European Union adopted a new, recast Roaming Regulation, which replaced the 2009 regulation ("**Roaming III**"). This new Roaming Regulation entered into force on July 1, 2012 and will apply until June 30, 2022.

Under Roaming III, the current retail price caps on voice and SMS calls have been reduced and a new retail cap on data services has been introduced. Wholesale price caps will also be progressively reduced and new structural measures are being introduced to improve competition.

From July 1, 2014, customers will be able to buy their domestic and roaming services separately, from different operators, while keeping the same phone number. In addition, since July 1, 2012 MVNOs have the right to access other operators networks at wholesale prices in order to provide roaming services. Roaming III also lays down rules aimed at increasing price transparency and improving the provision of information on charges to roaming customers.

With respect to retail prices, the new rules pursuant to Roaming III which entered into force on July 1, 2012 and were decreased with effect from July 1, 2013 are, among others, as follows:

- 24 cents per minute to make a call;
- 7 cents per minute to receive a call;
- 8 cents to send a text message; and
- 45 cents per Megabyte (MB) to download data or browse the internet while travelling abroad (charged per Kilobyte used), subject to a maximum financial limit (the default being €50 per month).

These regulated retail price caps will progressively go down so that by July 1, 2014, roaming consumers will be paying no more than 19 cents per minute to make a call, a maximum of 5 cents per minute to receive a call, a maximum of 6 cents to send a text message and a maximum of 20 cents per MB to download data or browse the internet while travelling abroad.

In terms of wholesale caps, the current caps were reduced with effect from July 1, 2013 to 15 cents per MB for data, to 10 cents per minute for voice and to 2 cents per SMS. There will be further reductions on July 1, 2014, such that they will then be 5 cents per MB for data, and 5 cents per minute for voice.

The Single Market Proposal which has been published by the European Commission on September 11, 2013 includes proposed changes to the future regulation of roaming.

According to the proposal, which builds on Roaming III, one of its aims is to gradually end mobile roaming surcharges. Incoming call charges while travelling in the EU would in general be banned from July 1, 2014. Companies would have the choice to either (i) offer phone plans that apply everywhere in the European Union (so called "roam like at home"), the price of which will be driven by domestic competition, or (ii) allow their customers to "decouple", *i.e.*, opt for a separate roaming provider who offers cheaper rates (without having to buy a new SIM card).

The Single Market Proposal is currently still under heavy discussion. It is not yet foreseeable when and how it will enter into force. However, should the proposal come into force, it could lead to significantly lower roaming charges which we will be able to charge to our customers.

ANTITRUST REGULATION AND COMPETITION LAW

We are subject to the general antitrust regulations of the EU and Germany on the prohibition of the abuse of a market dominant position as well as the distortion of competition through agreements or collusive behavior by market participants.

Under Articles 101 and 102 of the EU Treaty and the implementing European Regulations as well as under the provisions of the German Act against Restraints of Competition (*Gesetz gegen Wettbewerbsbeschränkungen*), if the FCO or the European Commission determines that a company has a dominant position in a market or distorts competition through agreements or collusive behavior, they are entitled to prohibit such practices and to impose various measures, including fines or disgorgement of projects generated by such behavior. The European Commission enforces these rules in cooperation with the national competition authorities (*i.e.*, the FCO in Germany). The FCO may also directly enforce such rules. In addition, the national courts have jurisdiction over alleged violations of EU competition law. Moreover, third parties may initiate civil proceedings against companies that willfully or negligently violate provisions of the German Act against Restraints of Competition to obtain compensation for damages suffered, provided that these provisions were intended to protect the interests of such third parties.

The European Merger Regulation requires that all mergers, acquisitions and joint ventures involving participants meeting a certain turnover threshold be submitted to the EU Commission for review, rather than to national authorities, *i.e.*, the FCO in Germany. Concentrations are prohibited if they pose the risk of creating or strengthening a dominant position on a relevant market.

GENERAL INFORMATION ON THE COMPANY

FORMATION, LEGAL NAME AND CORPORATE HISTORY

Telefónica Deutschland Holding AG is incorporated in Germany as a German stock corporation (*Aktiengesellschaft*) organized and operating under German law. The Company was founded as a German limited liability company (*Gesellschaft mit beschränkter Haftung*) by KPMG Unternehmensberatung GmbH by notarial deed No. 409/1995-s dated November 29, 1995 by notary public Dr. Klaus Fischer and was registered in the commercial register of the local court (*Amtsgericht*) of Munich under registration number HRB 121389 on February 28, 1996. 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 by the 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 legal seat (*Satzungssitz*) is in Munich, Germany. Telefónica Deutschland Holding AG is registered with 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 has been established for an unlimited period of time.

BUSINESS PURPOSE

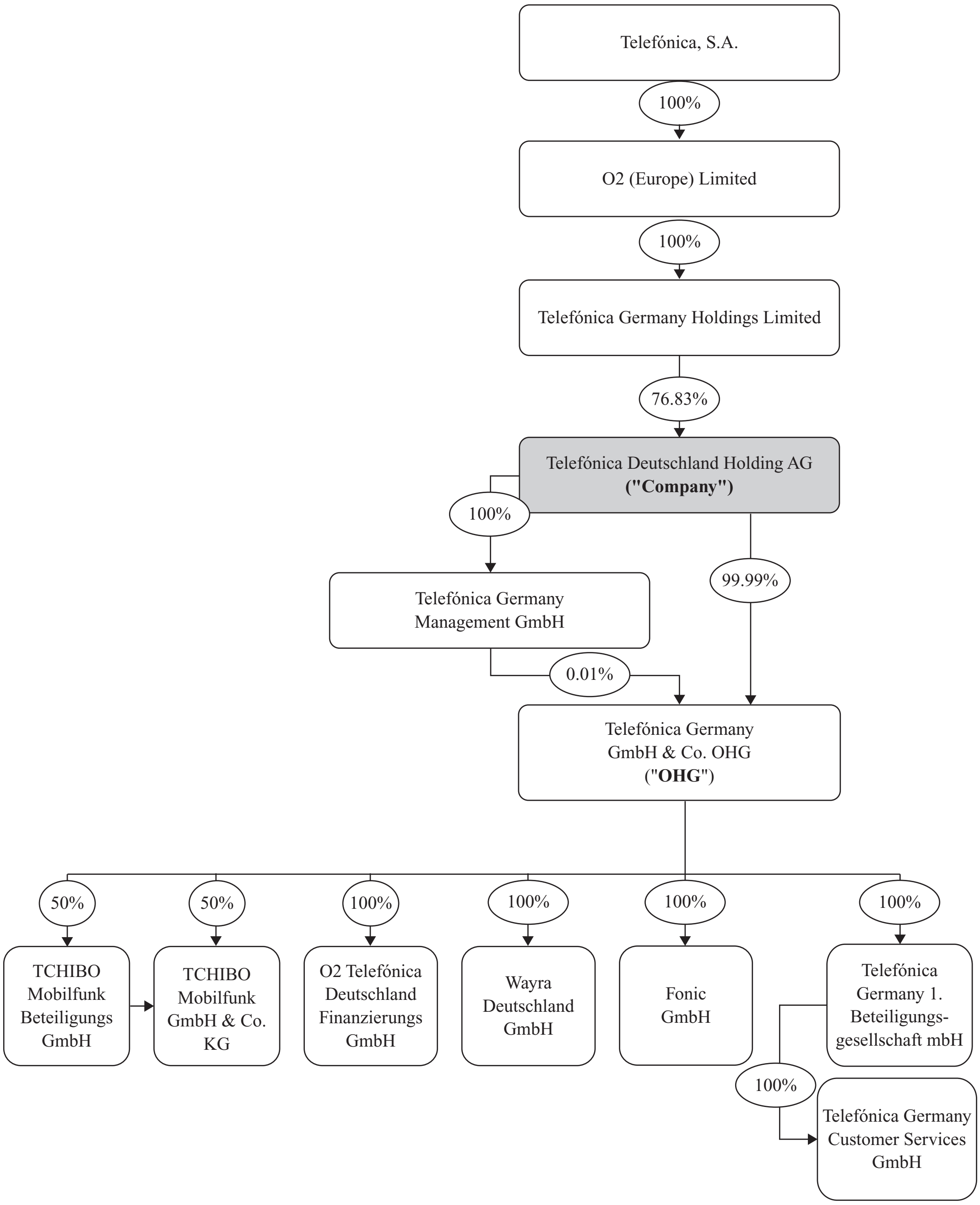
The business purpose (*Unternehmensgegenstand*) of the Company as set forth in Section 2 of its articles of association (*Satzung*) is:

(i) The object of the Company is to engage in Germany and abroad in the areas of telecommunications and information technology, multimedia, information and entertainment, mobile payment and other payment solutions as well as the provision of distribution and brokerage services and any services connected or related with any of these areas, including the distribution of hardware and insurance solutions.

(ii) The Company is entitled to carry out all measures and business transactions which appear necessary and useful to achieve and realize the object of the Company as described in (i). In particular, it may for this purpose establish branches in Germany and abroad; it may found or acquire companies of the same or similar type in Germany and abroad, or acquire an interest in such companies; it may demerge parts of its business to associated companies, including joint ventures with third parties, sell interests in other companies, conclude enterprise agreements, or limit itself to the management of shareholdings. Furthermore, the Company may itself operate in the fields of business set forth in sub-clause (i) above.

GROUP STRUCTURE

The Company is the parent company of Telefónica Deutschland. Its primary role within Telefónica Deutschland is to function as finance and management holding company. The operating business is conducted exclusively by its subsidiaries, all of which were founded and have their registered offices in Germany. The following table shows the current group structure of Telefónica Deutschland and the Company's direct and indirect majority shareholders:



Information on Holdings

The table below provides an overview of the Company's operating subsidiaries at the date of the Prospectus:

Legal name, seat[1]	Business area	Interest held by us *(unaudited)*
Telefónica Germany Management GmbH	The purpose of the company is to acquire and manage interests in other companies, particularly in Telefónica Germany GmbH & Co. OHG, and to take over the position of a personally liable shareholder and to manage the business operations of these companies. The company is authorized to perform all legal transactions and other activities which it deems necessary or useful for attaining its corporate purpose. The company is authorized to establish branch offices or subsidiaries in Germany and to acquire or hold interests in identical or similar companies.	100%
Telefónica Germany GmbH & Co. OHG	The purpose of the partnership is the provision of national and transborder telecommunication services of any kind in Germany over fixed, wireless and other networks, in particular, the transmission of voice, data and visual images in Germany.	99.99% of interest held by the Company; 0.01% of interest held by Telefónica Germany Management GmbH
Wayra Deutschland GmbH	The purpose of the company is the commercial support of companies in their business development, the acquisition, holding and disposal of shares in companies and the letting of premises in addition to provision of infrastructure services and IT services.	100%
Fonic GmbH	The purpose of the company is the provision of telecommunication services of any kind using any transmission technique, in particular for transmission of voice, data and pictorial displays.	100%
Telefónica Germany 1. Beteiligungsgesellschaft mbH	The purpose of the company is the acquisition and management of equity interests in undertakings in the field of telecommunications.	100%
TCHIBO Mobilfunk Beteiligungs GmbH	The purpose of the company is the acquisition and management of equity interests in undertakings, in particular as personally liable partner in TCHIBO Mobilfunk GmbH & Co. KG.	50%
TCHIBO Mobilfunk GmbH & Co. KG	The purpose of the company is marketing and sales of mobile telecommunications services provided by third parties.	50%
Telefónica Germany Customer Services GmbH	The purpose of the company is, *inter alia*, the planning, implementation, operation, marketing of services in the field of telecommunications.	100% held by Telefónica Germany 1. Beteiligungsgesellschaft mbH
O_2 Telefónica Deutschland Finanzierungs GmbH	The purpose of the company is (i) the financing of Telefónica Deutschland Holding AG and its group companies according to Section 15 *et seq*. of the German Stock Corporation Act (*Aktiengesetz*). The funds required for such financing may be raised by the Company, *inter alia*, by issuing debt securities tradable on the capital markets. (ii) The company is authorized to perform all legal transactions and acts which it deems useful for achieving directly or indirectly the purpose of the company. In particular, it may establish, acquire, participate in, or govern other enterprises or restrict itself to managing such interests in other enterprises.	100%

[1] The legal seat of all subsidiaries is Munich, Germany.

The Company further holds 25% of the interest in MNP Deutschland GbR, Duesseldorf. The purpose of MNP Deutschland GbR is to operate a centralized master-routing-database which saves data for the portability of mobile phone numbers in Germany. The total equity of MNP Deutschland GbR amounted to €453,603.83 as of December 31, 2013.

CORPORATE DEVELOPMENTS

Acquisition of HanseNet

On December 3, 2009, Telefónica Germany Customer Services GmbH, with OHG as guarantor, entered into a share purchase agreement with Telecom Italia S.p.A. (and several of its affiliates) regarding the acquisition of all shares in Hamburg-based HanseNet and certain of its existing shareholder loans. HanseNet was a communication services provider active in Germany mainly under the DSL trademark "Alice". HanseNet had more than two million fixed-line customers (as of closing on February 16, 2010) and annual revenues of more than €1 billion in 2009. The transaction was based on an agreed enterprise value of HanseNet of €900 million net of debt and cash and closed on February 16, 2010. On March 31, 2011, HanseNet was merged into OHG.

Changes in Members of our Group

Prior to the Company's initial public offering in October 2012, G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its indirectly held 40% interest in Adquira España S.A., ceased to be members of our group as of October 1, 2012.

NOTICES, SETTLEMENT AGENT, PAYING AGENT

In accordance with Section 3(1) of the Company's articles of association (*Satzung*), notices of the Company will be made in the German Federal Gazette (*Bundesanzeiger*), which is accessible at www.bundesanzeiger.de. Publications required by stock exchange laws will be made via electronic information systems, will be available for download from our website or published in a national journal designated for such purposes by the Frankfurt Stock Exchange.

Notices in connection with the approval of the Prospectus or regarding supplements to the Prospectus will be made in accordance with the provisions of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) and will be published in the form intended for prospectuses, *i.e.*, on our website at www.telefonica.de and will be available as a printed version at our offices and at the offices of HSBC, Koenigsallee 21/23, 40212 Duesseldorf, Germany, and UBS Investment Bank, c/o UBS Deutschland AG, Bockenheimer Landstraße 2-4, 60306 Frankfurt am Main, Germany. The settlement agent is HSBC. The specialist is Wolfgang Steubing AG, Goethestraße 29, 60313 Frankfurt am Main, Germany.

The paying agent is BNP Paribas Securities Services, Europa-Allee 12, 60327 Frankfurt, Germany.

DESCRIPTION OF SHARE CAPITAL

SHARE CAPITAL AND SHARES, DEVELOPMENT OF THE SHARE CAPITAL OVER THE LAST THREE YEARS

The share capital of the Company (*gezeichnetes Grundkapital*) amounts to €1,116,945,400 and is divided into 1,116,945,400 registered shares with no par value and a notional amount of the share capital of €1.00 each. The Company's share capital is fully paid up.

In accordance with the Company's articles of association, as amended, all of the shares have been issued as ordinary registered shares with no par value. All shares are represented by two global share certificates deposited with Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn, Germany. Holders of shares have co-ownership rights to the global share certificates. In accordance with Section 6(1) of the articles of association, the management board determines the form of the share certificates with the approval of the supervisory board. Section 6(2) of the articles of association excludes shareholders' rights to individual share certificates, to the extent that the rules of the stock exchange on which the shares are listed do not require individual certification. The shares are freely transferable.

Prior to the conversion of the Company to a German stock corporation (*Aktiengesellschaft*), it existed as a German private limited liability company (*Gesellschaft mit beschränkter Haftung*), registered with the commercial register of the local court of Munich under registration number HRB 121389. As of September 29, 2010, the share capital amounted to €1,116,945,300.

On September 18, 2012, the extraordinary shareholders' meeting of the Company resolved on an increase of the share capital of the Company by €100 in return for the transfer of all shares in Telefónica Germany Management GmbH to the Company and the change of the legal form of the Company from a German private limited liability company (*Gesellschaft mit beschränkter Haftung*) to a German stock corporation (*Aktiengesellschaft*). The capital increase and the change of legal form as resolved by the general shareholders' meeting on September 18, 2012 were registered in the commercial register on September 25, 2012 and September 26, 2012, respectively. Since September 26, 2012, the Company has existed as a German stock corporation (*Aktiengesellschaft*) with a share capital of €1,116,945,400.

The ordinary general shareholders' meeting of the Company resolved on May 20, 2014 to increase the share capital of the Company from €1,116,945,400 by an amount of up to €3,700,000,000 to up to €4,816,945,400 by issuance of up to 3,700,000,000 new ordinary non-par value registered shares against contribution in cash with subscription rights for existing shareholders, each Offer Share entitled to full dividend rights for the year starting January 1, 2014. The resolution was registered with the commercial register of the local court (*Amtsgericht*) of Munich, Germany, on July 10, 2014. Upon issuance of the Offer Shares, the Company's share capital will amount to €2,233,890,800.

Upon issuance of the Consideration Shares, utilizing a portion of the Authorized Capital 2012/I and Authorized Capital 2014/I (see "*– Authorized Capital*"), the Company's share capital will amount to €2,974,554,993.

AUTHORIZED SHARE CAPITAL

Authorized Capital 2012/I

According to Section 4(3) of the Company's articles of association, the management board is authorized to increase the share capital of the Company with the consent of the supervisory board on one or more occasions through September 17, 2017, by a total amount of up to €558,472,700 by issuing up to 558,472,700 new non-par value registered shares against contributions in cash and/or in kind ("**Authorized Capital 2012/I**").

The Company's management board is further authorized, subject to the consent of the supervisory board, to exclude the subscription rights of the shareholders

- for fractional amounts;
- if the capital is increased against contributions in kind for the purpose, directly or indirectly, of acquiring companies, parts of companies, participations in companies, or other assets;
- if the new shares are issued against contributions in cash provided that the issue price of the new shares is not significantly lower than the stock exchange price of the shares of the Company already listed at the time when the issue price is finally determined, which time should be as close in time as possible to the placement of the new shares, and the pro rata amount of the share capital attributable to the new shares does not exceed 10% at the time such authorization becomes effective or at the time it is exercised. Any shares shall count towards this limit (a) that are issued or sold subject to the exclusion of the shareholders' subscription right in direct or analogous application of Section 186(3) sentence 4 AktG during the term of such authorization, and (b) that are issued to satisfy subscription rights or conversion obligations arising from convertible bonds and/or warrant bonds, profit participation rights and/or income bonds (or any combination of these instruments) (together the "**Bonds**"), provided that such Bonds are issued subject to the exclusion of the shareholders' subscription rights in application of Section 186(3) sentence 4 AktG following the date on which this authorization becomes effective; and
- (a) to the extent necessary in order to be able to grant new non-par value registered shares to holders or creditors of convertible and/or warrant bonds, profit participation rights and/or income bonds (or any combination of these instruments) issued by the Company or any company in which the Company directly or indirectly holds an equity interest

(“**Affiliated Companies**”) upon their exercise of conversion or option right or fulfillment of conversion obligation, and (b) to the extent necessary in order to grant holders of options or convertible rights or creditors of convertible bonds with conversion obligations that have been or will be issued by the Company or Affiliated Companies a subscription right to new shares in the amount to which they would be entitled to as shareholders upon exercise of the options or conversion rights or fulfillment of the conversion obligations.

The management board is also authorized to determine, with the consent of the supervisory board, the further details of the capital increases under the Authorized Capital 2012/I and their implementation.

Authorized Share Capital 2014/I

The extraordinary general shareholders’ meeting resolved on February 11, 2014 to authorize the management board to increase the share capital of the Company by the end of February 10, 2016, with the consent of the supervisory board, by up to a total of €475,000,000 by issuance of up to 475,000,000 new non-par value registered shares at an issuance price of €1.00 per non-par value share in exchange for contributions in kind. The statutory subscription rights of the shareholders are excluded (“**Authorized Capital 2014/I**”).

Since the total amount of the Authorized Capital 2012/I and the Authorized Capital 2014/I in sum exceeded 50% of the share capital of the Company as of February 11, 2014, the new Authorized Capital 2014/I can, pursuant to Section 202(3) AktG, only be registered after the implementation of the capital increase against cash contribution for the issuance of the Offer Shares has been registered with the commercial register which is expected to take place on or about September 19, 2014.

CONDITIONAL CAPITAL

By resolution dated February 11, 2014, the Company’s extraordinary general shareholders’ meeting adopted the following conditional capital:

The share capital of the Company is increased conditionally by up to €558,472,700 by issuing up to 558,472,700 new non-par value registered shares (“**Conditional Capital 2014/I**”). The conditional capital increase solely serves the purpose of granting of non-par value registered shares to the holders or creditors of finance instruments that are issued pursuant to the authorization granted by Company’s extraordinary general shareholders’ meeting on February 11, 2014 and which provides for a conversion or option right to shares in the Company or stipulates a conversion obligation, by no later than the end of February 10, 2019 by the Company or its affiliates. The conditional capital increase also serves the issuance of non-par value registered shares to holders or creditors of convertible bonds or convertible participation rights that include conversion obligations, subject to the terms of the convertible bonds or convertible participation rights. The issuance of the new shares will be made at the conversion or option price set forth under the authorization granted by the Company’s extraordinary general shareholders’ meeting on February 11, 2014. The conditional capital increase shall only be implemented to the extent that use is made of these rights, or the holders or creditors fulfill their obligation to convert, and to the extent that no own shares or shares from authorized capital are provided to serve these rights or a cash compensation is granted. The new shares participate in the profits from the beginning of the business year in which they are issued through the exercise of conversion or option rights or through fulfillment of an obligation to convert; in derogation hereof, the management board may, with the consent of the supervisory board, determine that the new shares participate in the profits from the beginning of the business year for which, at the time of exercise of the conversion or option right or the fulfillment of the conversion obligation, no resolution of the shareholders’ meeting regarding the use of net profits has yet been adopted. The management board is authorized, with the consent of the supervisory board, to determine the further details of the implementation of the conditional capital increase.

AUTHORIZATION TO ISSUE CONVERTIBLE BONDS, WARRANT BONDS, PROFIT-PARTICIPATION RIGHTS AND / OR INCOME BONDS

By resolution dated February 11, 2014, the extraordinary general shareholders’ meeting adopted the following authorization: the management board is authorized, with the consent of the supervisory board, to issue, in bearer or registered form on one or more occasions, by the end of February 10, 2019: (i) convertible bonds; and/or (ii) option bonds; and/or (iii) convertible participation rights; and/or (iv) option participation rights; and/or (v) participation rights; and/or (vi) profit-participating bonds (including combinations of these instruments) (hereafter (i) to (iv) together the “**Financial Instruments**” and (i) to (vi) together the “**Instruments**”) in a total nominal amount of up to €3,000,000,000 with a term of no more than 15 years; and to grant the owners and creditors of Financial Instruments conversion or option rights on new non-par value registered shares of the Company, with a notional interest in the share capital of the Company of up to a total of €558,472,700, subject to the terms of the convertible and option bonds as well as the convertible and option participation rights. The Instruments may be issued, in addition to euro, in the legal currency of an OECD country, subject to the limitation of the converted value of such currency in euro. The Instruments may also be issued by companies in which the Company has a direct or indirect majority ownership (hereinafter also “**Affiliates**”), if such issuance is in the financial interest of the Company. In that case, the management board is authorized, with the consent of the supervisory board, to issue a guarantee for the Instruments and to grant the owners or creditors of such Financial Instruments conversion rights or option rights on new non-par value registered shares of the Company. The instruments will be divided into fractional bonds or fractional participation rights that have equal rights among each other.

The management board is authorized, with the consent of the supervisory board, to determine the further details of the issuance and terms of the Instruments, in particular interest rate, issuance price, denomination, conversion or option price, conversion or option period, term and termination rights, or to determine such matters with the governing bodies of the Affiliates issuing the instruments.

AUTHORIZATION TO ACQUIRE AND SELL TREASURY SHARES

By resolution dated October 5, 2012, the general shareholders' meeting authorized the Company to acquire its own shares in accordance with Section 71(1), no 8 AktG until October 4, 2017 as follows: the management board is, with the consent of the supervisory board, authorized to acquire up to 10% of the Company's share capital existing at the date of the resolution. The acquisition for the purpose of trading in treasury shares is not allowed. The aggregate number of the Company's shares acquired under this authorization and any other treasury shares previously acquired and still held in treasury by the Company or attributable to the Company may at any time not exceed 10% of the then existing share capital. This authorization may be exercised in whole or in part, on one or more occasions, by the Company or any of its Affiliated Companies, or by third parties on behalf of the Company or its Affiliated Companies. Any acquisition of treasury shares shall be made either by acquisitions on the stock exchange or through a public share purchase offer to all shareholders. If the treasury shares are to be acquired on the stock exchange, the purchase price (excluding ancillary purchase costs) paid by the Company may not exceed the share price as determined by the opening auction on the XETRA trading platform (or a respective successor system) on the trading day by more than 20% or be lower than 20%. If the treasury shares are acquired through a public share purchase offer, the purchase price offered or the limits of the purchase price range per share may not exceed or be lower than the closing price on the XETRA-trading platform (or a respective successor system) on the third trading day prior to the public notification of the offer by more than 20%. If there are not insignificant changes to the applicable trading price after the publication of the offer, the offer may be amended. In this case the trading price on the third trading day prior to the public notification of an amended offer, if any, shall be decisive. The total volume of the offer can be limited. Insofar as the total subscription to the offer exceeds the fixed volume, the acceptance must be in proportion to the respective number of shares subscribed for. A preferential acceptance of numbers of shares less than 1,000 per shareholder can be stipulated. Besides selling treasury shares over the stock exchange or through a public sales purchase offer to all shareholders, the management board is also authorized to utilize treasury shares acquired on the basis of the authorization as follows:

- they may be redeemed without the redemption or its implementation requiring a further resolution of the general shareholders' meeting;
- such treasury shares may, with the consent of the supervisory board, be offered and transferred to third parties in the course of mergers or for the purpose of, directly or indirectly, acquiring companies, participations in companies, parts in companies or other assets;
- such treasury shares may, with the consent of the supervisory board, be sold to third parties for cash provided the price (excluding acquisition costs) at which such treasury shares are sold is not significantly lower than the market price of the shares in the Company at the time of the sale. The relevant price shall be deemed to be the price of the shares in the Company on the XETRA trading platform (or a respective successor system) at the time the sale price is determined. The aggregate volume of shares to be sold under this authorization must not exceed the maximum limit for the simplified exclusion of subscription rights of 10% of the share capital, neither at the time the authorization takes effect nor on the day of exercise. This figure shall take into account any Company shares issued or sold by the Company during the term of this authorization to exclude the subscription right in direct or analogous application of Section 186(3) sentence 4 AktG. In addition, this amount shall also take into account any shares issued or still to be issued in order to satisfy conversion or option rights provided that the respective convertible bonds or warrant bonds that have been issued during the duration of the authorization excluded the subscription right pursuant to this provision; or
- they may, with the consent of the supervisory board, be used to service conversion or option rights or conversion obligations rights arising from the Bonds, issued by the Company or an Affiliated Company. These authorizations to utilize or redeem treasury shares may be exercised as a whole or in part, on one or more occasions, individually or jointly.

The subscription rights of the shareholders with respect to treasury shares so disposed of can be excluded insofar as these shares are used in accordance with the preceding authorizations. In addition, the management board may exclude the subscription right of the shareholders with the approval of the supervisory board in the event of an offer to the shareholders to acquire treasury shares to the extent that such shares shall be offered to grant a subscription right to creditors or holders of Bonds issued by the Company or an Affiliated Company in the amount that would be available to the respective holder or creditor after the exercise of their conversion or option rights.

GENERAL PROVISIONS GOVERNING ALLOCATION OF PROFITS AND DIVIDEND PAYMENTS

For provisions governing the allocation of profits and the requirements and procedures for the payment of dividends, see "*Dividend Policy and Earnings per Share*". Pursuant to Section 29(2) of the Company's articles of association, the general shareholders' meeting may resolve to use the distributable profit to issue a dividend in kind instead of or in addition to a cash dividend.

In case of a capital increase, the entitlement to dividends for new shares can be determined in deviation from Section 60(2) AktG (Section 5(5) of the Company's articles of association).

GENERAL PROVISIONS RELATING TO THE LIQUIDATION OF THE COMPANY

Apart from liquidation as a result of insolvency proceedings, the Company may be liquidated only with a vote of 75% or more of the share capital represented at the general shareholders' meeting at which such a vote is taken. Pursuant to the German Stock Corporation Act, in the event of a company's liquidation, any assets remaining after all of a company's liabilities have been settled will be distributed pro rata among its shareholders. The German Stock Corporation Act provides certain protections for creditors which must be observed in the event of liquidation.

GENERAL PROVISIONS GOVERNING CHANGES IN THE SHARE CAPITAL

According to the German Stock Corporation Act, the share capital of a stock corporation may be increased against contributions in cash or in kind by resolution of the general shareholders' meeting which must be adopted by a simple majority of the votes cast and a majority of at least three-quarters of the share capital represented at the adoption of the resolution, unless the company's articles of association require a different majority; if the share capital is increased by issuing non-voting preference shares or the subscription rights of the shareholders are excluded, the articles of association may require a larger majority. Pursuant to the articles of association, an increase of the share capital against contributions in cash or in kind requires a simple majority of the votes cast and a simple majority of the share capital represented at the adoption of the resolution, unless preference shares are issued or the subscription rights of shareholders are excluded.

The general shareholders' meeting may also create authorized capital. The creation of authorized capital requires a resolution with a majority of three-quarters of the share capital represented at the adoption of the resolution which authorizes the management board to issue shares up to a certain amount within a period of no more than five years. The nominal amount of the authorized capital may not exceed 50% of the share capital existing at the time of the registration of the authorization in the commercial register.

In addition, the general shareholders' meeting may create conditional capital for the issuance of shares to holders of convertible bonds or other securities that grant the holder the right to subscribe for shares, of shares that serve as consideration in a merger with another company, or of shares that were offered to executives and employees; a resolution with a majority of three-quarters of the share capital represented is required in each case. The nominal amount of the conditional capital may not exceed 10%, if the conditional capital is created for the purpose of issuing shares to executives and employees, or, in all other cases, 50% of the share capital existing at the time the resolution is adopted.

A resolution on the reduction of the share capital requires a majority of three-quarters of the registered share capital represented when the resolution is adopted.

If a change in the share capital results in an increase or decrease in the voting rights, the total number of voting rights must be published by the company and the BaFin must be informed, as required by Section 26a of the German Securities Trading Act (*Wertpapierhandelsgesetz*), at the end of the month in which the increase or decrease occurred. The shareholders may be subject to disclosure requirements according to the German Securities Trading Act (*Wertpapierhandelsgesetz*) (see "*– Disclosure Requirements for Shareholdings and Takeover Bids*").

GENERAL PROVISIONS GOVERNING SUBSCRIPTION RIGHTS

According to the German Stock Corporation Act, each shareholder has, in principle, a right to subscribe for the new shares issued within the scope of a capital increase (including securities convertible into shares, securities with warrants to purchase shares, securities with profit participation or participation certificates) to maintain their existing share in the share capital. Subscription rights are freely transferable and may be traded on German stock exchanges during a fixed period before the expiration of the subscription period. Pursuant to the German Stock Corporation Act, the subscription period may not be shorter than two weeks. The general shareholders' meeting may exclude subscription rights with a majority of the votes cast and, at the same time, at least three-quarters of the share capital represented at the adoption of the resolution. An exclusion of subscription rights further requires a report of the management board, which must show, in order to justify the exclusion of subscription rights, that the company's interest in excluding the subscription rights outweighs the interest of the shareholders in the subscription rights being granted. In the absence of such objective justification, an exclusion of subscription rights may be permissible for an issuance of new shares if:

- the company increases the capital against cash contributions;
- the amount of the capital increase does not exceed 10% of the existing share capital; and
- the issuance price of the new shares is not substantially lower than the stock exchange price.

It is not considered an exclusion of subscription rights if new shares are acquired by a credit institution which undertakes to offer the new shares to those persons who would otherwise have subscription rights.

EXCLUSION OF MINORITY SHAREHOLDERS

Pursuant to the provisions in Sections 327a *et seq.* AktG regarding the "squeeze-out" process, the general shareholders' meeting of a stock corporation may resolve upon the request of a shareholder holding at least 95% of the share capital (the "**Main Shareholder**") on the transfer of the shares of the remaining minority shareholders to the Main Shareholder in exchange for granting adequate cash compensation.

The amount of the cash compensation to be granted to the minority shareholders must take into account "the circumstances of the company" at the time the resolution is adopted by the general shareholders' meeting. The amount of the compensation is determined by the full value of the enterprise which is normally determined using the capitalized earnings method (*Ertragswertverfahren*).

The shareholding requirements for a squeeze-out are lowered if the squeeze-out takes place in connection with the merger of a subsidiary into the parent company. According to Section 62(5) of the German Transformation Act (*Umwandlungsgesetz*), the general shareholders' meeting of a transferring stock corporation may, within three months after the signing of the merger agreement, adopt a squeeze-out resolution in accordance with Section 327a AktG if the acquiring company is a German stock corporation, partnership limited by shares (*Kommanditgesellschaft auf Aktien*) or European public company (*Societas Europea*) that holds at least 90% of the share capital. After registration of the squeeze-out with the commercial register, the merger can be implemented without a further resolution by the general shareholders' meeting of the subsidiary.

In addition to the squeeze-out process under the German Stock Corporation Act summarized above, Sections 39a *et seq.* of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz – WpÜG*) permit the squeeze-out under the law on takeovers. Under these provisions, a bidder holding at least 95% of the voting share capital in a target company (within the meaning of the German Securities Acquisition and Takeover Act) after a public takeover offer or mandatory offer can generally file a motion with the district court (*Landgericht*) of Frankfurt am Main for the transfer of the other voting shares in exchange for the grant of adequate compensation by means of a court order within three months after expiration of the acceptance period. A resolution of the general shareholders' meeting is not necessary. A bidder also holding at least 95% of the share capital can furthermore demand the transfer of the remaining preference shares without voting rights, if any. The type of compensation must correspond to the consideration in the takeover offer or the mandatory offer; cash compensation must always be offered as an alternative. The consideration offered in connection with the takeover or mandatory offer is deemed to be reasonable if the bidder has acquired shares equal to at least 90% of the share capital affected by the offer. In addition, shareholders have a sell-out right. During squeeze-out proceedings under the law on takeovers initiated upon the motion of the bidder, the provisions on a squeeze-out under stock corporation law do not apply, and they are only applicable after a final conclusion of the squeeze-out proceedings under takeover law.

Pursuant to the provisions in Sections 319 *et seq.* AktG regarding the "integration process" (*Eingliederung*), the general shareholders' meeting of a stock corporation can resolve upon the integration into another company if the future principal company holds at least 95% of the shares in the company to be integrated. The existing shareholders in the integrated company have a claim for reasonable compensation which must as a general rule be granted in the form of own shares in the principal company. The amount of the compensation must be determined using the "merger value ratio" (*Verschmelzungswertrelation*) between the two companies, *i.e.*, the exchange ratio which would be considered reasonable in the event of merging the two companies. In contrast to the rules governing squeeze-outs, integration is only possible if the future principal company is a stock corporation domiciled in Germany.

DISCLOSURE REQUIREMENTS FOR SHAREHOLDINGS AND TAKEOVER BIDS

The Company's Existing Shares are admitted to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (Prime Standard). The Company is subject to the provisions of the German Securities Trading Act.

The German Securities Trading Act provides in Section 21 that any shareholder who, through acquisition, sale or otherwise, reaches 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the voting rights in a listed company whose country of origin is Germany must notify the respective company and the BaFin without undue delay, but no later than four trading days after the event, of having reached, exceeded or fallen below the threshold values and must also disclose the amount of its current share of the voting rights. The prescribed time limit commences at the time when the shareholder required to give the notification has actual knowledge or should have had knowledge under the circumstances that its share of voting rights reached, exceeded or fell below the stated thresholds.

Except for the threshold at 3%, corresponding disclosure obligations towards the company and the BaFin apply for reaching, exceeding, or falling below the above mentioned threshold values when the relevant shareholder holds financial instruments that (i) grant the holder the right to unilaterally acquire, under a legally binding agreement, previously issued voting shares of an issuer whose country of origin is Germany (Section 25 WpHG), or (ii) are designed to enable its holder or a third party to acquire previously issued voting shares of an issuer whose country of origin is Germany (Section 25a WpHG). In particular, the notification obligations pursuant to Section 25a WpHG apply to further financial and other instruments, *e.g.,* (i) which provide for a cash settlement only, but not for a right to acquire shares, if the counterparty is in a position to hedge risks under the instruments by holding shares and (ii) under which shares may be acquired directly. The latter include instruments such as physical call options providing for a condition which is beyond the control of the holder of the instrument. The voting rights from shares and voting rights obtainable through financial instruments will be aggregated.

The company must publish this notification without undue delay, but no later than three trading days after receipt of the notification in accordance with Section 20 of the German Securities Trading Reporting and Insider List Ordinance (*Wertpapierhandelsanzeige- und Insiderverzeichnisverordnung*) and notify the BaFin about the publication at the same time. Furthermore, the company must submit the publication to the company register (*Unternehmensregister*) maintained electronically by the German Federal Ministry of Justice within the meaning of Section 8b HGB for storage without undue delay, but not prior to the publication.

The German Securities Trading Act contains in Section 22 various rules in connection with this requirement which are supposed to ensure that the shareholding is attributed to the person who actually controls the voting rights relating to the shares. For example, shares held by a third person will be attributed to another person if that other person exercises control over the person holding the shares. This also applies to shares which are held by a third person on behalf of another person or a person controlled by such other person as well as voting rights which the person can exercise free of instructions as a proxy. Any arrangements regarding the exercise of voting rights in a general shareholders' meeting will be considered "acting in concert" and result in the mutual attribution of voting rights, unless limited to a single arrangement regarding different matters. Also, coordination outside the general shareholders' meeting may constitute "acting in concert" and result in the mutual attribution of voting rights if the shareholders intend to change the target company's strategic direction permanently and substantially, for example, by a fundamental change in the business model or the disposition of significant parts of the target company's business.

If the disclosure of the amount of shares according to Section 21 WpHG (including those shares that are attributed according to Section 22(1) sentence 1 no. 1 or 2 WpHG) is not made, the shareholder is precluded from exercising the rights relating to these shares (including voting rights) in accordance with the provision of Section 28 WpHG. The shareholder is also precluded from the right to receive dividends if the notification was deliberately omitted and was not subsequently submitted. If the disclosure requirements are violated in a willful or grossly negligent manner, any rights relating to the shares will be suspended for a six month period even if accurate and complete disclosure is ultimately made. Furthermore, a fine can be imposed in the case of non-compliance with the disclosure requirements. The articles of association of the Company do not contain any provisions which extend beyond the legally prescribed duties to notify shareholdings, see "*Major Shareholders*".

Moreover, a shareholder holding 10% or more of the voting rights relating to shares of an issuer must inform the issuer of its intentions and the sources of its capital, in each case within 20 trading days from such shareholder acquiring the relevant percentage of the shares (Section 27a WpHG). In particular, the shareholder must disclose whether it intends to (i) pursue any strategic objectives with respect to the company (as opposed to profits from trading in the shares), (ii) acquire further voting rights within the following 12 months, (iii) exert any influence or control over the company's management or supervisory board, and (iv) make any substantial changes to the company's capital structure (by incurring additional debt). However, the company may waive that obligation in its articles of association (*Satzung*). If the above objectives change, such changes need to be disclosed to the issuer within 20 trading days of such change.

Furthermore, under Section 35 *et seq.* of the German Securities Acquisition and Takeover Act, any shareholder whose portion of voting rights reaches or exceeds 30% of the voting rights of the company must publish this fact, including the percentage of his share of the voting rights, without undue delay and no later than seven calendar days after the fact by announcing this on the internet and by means of an electronic information distribution system for financial information and must subsequently submit a public mandatory offer directed at all holders of ordinary shares of the company unless an exemption from this obligation has been granted. The German Securities Acquisition and Takeover Act contains a number of provisions which are supposed to ensure that the shareholding is attributed to the person who actually controls the voting rights relating to the shares. If the notification about reaching or exceeding the 30% threshold or the submission of the public mandatory offer does not occur, during the time such submission occurs, the shareholder is precluded from exercising any rights relating to these shares (including the voting rights, Section 59 WpÜG) and must pay interest to the shareholders of the target company. The shareholder is also precluded from the right to receive dividends if the notification or offer was deliberately omitted and was not subsequently submitted. Furthermore, a fine can be imposed in such situations (Section 60 WpÜG). Shareholders who already hold at least 30% of the voting rights in the company or to whom at least 30% of the voting rights in the company are attributed prior to the admission of the shares to trading on the regulated market are exempt from these requirements.

The German Securities Trading Act requires in Section 15a persons who perform management functions in a listed stock corporation ("**Executives**") to notify the company and the BaFin within five business days about their own transactions with shares in the company or related financial instruments, especially derivatives.

This also applies to persons who have a close relationship to the Executives. The company is required to publish such a notification without undue delay after receipt and to send the publication to the BaFin and the companies register after the publication. The obligation does not apply if the total amount of transactions of an Executive and the persons having a close relationship with this Executive does not exceed an amount of €5,000 in a single calendar year. Executives, within the meaning of the German Securities Trading Act, include members of a management body, administrative body or supervisory body of the company as well as other persons who regularly have access to insider information as defined in the German Securities Trading Act and who are authorized to make material corporate decisions.

The following persons are defined as having a close relationship with an Executive: spouses, civil partners, children entitled to support and other relatives who have lived in the same household as the Executive for at least one year at the time the transaction requiring notification occurs. Legal entities in which the aforementioned persons exercise management responsibility are also subject to the notification requirement. The provision also applies to those legal entities, companies and organizations which are directly or indirectly controlled by an Executive or a person having a close relationship to an Executive which were established for the benefit of such a person or whose economic interests generally correspond to those of such a person.

A fine can be imposed in the case of culpable non-compliance with the notification requirements.

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 powers of these governing bodies are 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.

In general, the management board is responsible for managing the company in accordance with applicable law, the company's articles of association and its by-laws. The management board represents the company in dealings with third parties.

The management board is responsible for the management of the entire Company and decides on fundamental questions of business policy, company strategy and on annual long-term planning. Further, it bears responsibility for the preparation of the quarterly and half-year financial reports and the annual financial statements and the consolidated financial statements of the Company, ensures compliance with the legal provisions and the Company's internal guidelines, and works towards adherence to these throughout Telefónica Deutschland's group companies. In particular, it ensures that adequate risk management and risk control systems are set up within the Company.

The management board is obligated to report to the supervisory board on a regular basis, in detail and in a timely manner on the business situation, in particular the business policy, the company planning, including financial, investment and personnel planning, the profitability of the Company, the course of business, the Company's risk situation and risk management as well as on transactions significant to profitability and liquidity.

Simultaneous membership on the management board and supervisory board of a German stock corporation is not permitted under German law, however, simultaneous membership that results from a member of the supervisory board taking a seat on the management board of the same German stock corporation for a maximum period of one year is permissible in exceptional cases. During this period, such individual may not perform any duties for the supervisory board.

The supervisory board determines the exact number of members of the management board. Pursuant to the Company's articles of association, the management board comprises at least one member. The supervisory board also appoints them and is entitled to dismiss them for good cause (*aus wichtigem Grund*). As set out in the German Stock Corporation Act, the supervisory board advises on and monitors the management board's management of the company, but is not itself authorized to manage the company. The articles of association or the by-laws of the supervisory board or management board must, however, designate the types of transactions that may only be made with the approval of the supervisory board unless the delay of such transaction until the approval of the supervisory board has been granted would involve significant disadvantages for the company or its subsidiaries. The supervisory board may issue a general authorization for a specific type of business in advance.

Members of the management board and supervisory board owe duties of loyalty and due care to the Company. Each member of these governing bodies must consider a broad spectrum of interests, particularly those of the Company and its shareholders, employees and creditors. In addition, the management board must also take into consideration the shareholders' rights to equal treatment and equal access to information. If members of the management board or supervisory board breach their duties, they may be individually or jointly and severally with the other members of the management board or the supervisory board liable to the Company for compensatory damages, as the case may be.

Under German law, a shareholder generally has no right to proceed directly against members of the management board or supervisory board if he believes they have breached their duties to the company. In general, only the company has the right to enforce claims for damages against the members of the management board or supervisory board. With respect to claims against supervisory board members, the company is represented by the management board, and with respect to claims against management board members, the company is represented by the supervisory board. Under a decision of the German Federal Supreme Court (*Bundesgerichtshof*), the supervisory board is required to assert damages claims that are likely to succeed against the management board unless significant interests of the company conflict with the pursuit of such claims and outweigh the reasons for bringing such claim. If the governing body authorized to represent the company decides not to pursue a claim, the company's claims for damages against members of the management board or supervisory board must nevertheless be asserted if the general shareholders' meeting adopts a resolution to this effect by a simple majority. The general shareholders' meeting may appoint a special representative to assert the claims. Shareholders whose shares cumulatively make up 10% of the share capital or a pro rata share of €1 million may also petition the court to appoint a special representative. In addition, the general shareholders' meeting may appoint auditors (special auditors) to audit transactions, particularly management transactions, by simple majority vote. If the general shareholders' meeting rejects a motion to appoint a special auditor, the court must appoint a special auditor upon the petition of shareholders whose shares cumulatively constitute 1% of the share capital at the time the petition is filed or constitute a pro rata share of €100,000 if facts exist that justify the suspicion that the transaction was accompanied by dishonesty or gross violations of the law or the articles of association. If the general shareholders' meeting appoints a special auditor, the court must appoint another special auditor upon the petition of shareholders whose shares cumulatively constitute 1% of the share capital at the time the petition is filed or constitute a pro rata share of €100,000 if this appears necessary due to the identity of the special auditor who was appointed. Shareholders and shareholder associations can solicit other shareholders to file a petition, jointly or by proxy, for a special audit, for the appointment of a special representative, or to convene a general shareholders' meeting or exercise voting rights in a general shareholders' meeting in the shareholders' forum of the German Federal Gazette (*Bundesanzeiger*), which is also accessible via the website of the German electronic Company Register (*elektronisches Unternehmensregister*). If there are facts that justify a strong suspicion that the company was harmed by dishonesty or a gross violation of law or the articles of association, shareholders who collectively hold 1% of the share capital or a pro rata share of €100,000 may also, under certain conditions, seek damages from members of the company's governing bodies in their own names through court proceedings seeking leave to file a claim for damages. Such claims become inadmissible if the company itself files a claim for damages.

The company may only waive or settle claims for damages against members of the management board or supervisory board three years after such claims arose if the shareholders approve this at the general shareholders' meeting by simple majority vote and if a minority of the shareholders whose shares cumulatively constitute 10% of the share capital does not record its objection in the minutes.

Under German law, individual shareholders and all other persons are prohibited from using their influence on the company to cause a member of the management board or the supervisory board to take an action detrimental to the company. A shareholder with a controlling influence may not use that influence to cause the company to act contrary to its own interests unless there is a domination agreement (*Beherrschungsvertrag*) between the shareholder and the company and the influence remains within the bounds of certain mandatory provisions of law or compensation is paid for the disadvantages that arise. Any person who uses his influence on the company to cause a member of the management board or the supervisory board, an authorized signatory (*Prokurist*), or an authorized agent (*Handlungsbevollmächtigter*) to act to the detriment of the company or its shareholders must compensate the company for the resulting losses. Moreover, in this context, the members of the management board and supervisory board are jointly and severally liable if they have acted in violation of their duty of due care.

MANAGEMENT BOARD

General Provisions on the Management Board

The supervisory board may appoint one management board member as chairperson or spokesman and another member as deputy chairperson or spokesman.

Members of the management board are appointed by the supervisory board for a maximum term of five years. Members of the management board 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 cause, 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, or, if the supervisory board has not done so, the management board with the approval of the supervisory board, may issue by-laws for the management board (*Geschäftsordnung des Vorstands*). For specific types of transactions of the company or Affiliates and Affiliated Companies, in particular those that fundamentally change the company's earnings prospects or its risk exposure, the respective by-laws must specify that such transactions require the prior consent of the supervisory board. By-laws for the management board were most recently passed by a resolution of the supervisory board on October 16, 2012. According to the by-laws of the management board, certain transactions (for example, capital expenditure projects above a specific amount, the acquisition and disposal of companies and of real property above a specific amount) require the prior approval of the supervisory board.

According to its articles of association (*Satzung*), the Company is legally represented by two members of the management board acting jointly or by one member of the management board acting jointly with one authorized signatory (*Prokurist*). If only one person is appointed to the management board, that person is entitled to represent the Company solely. The supervisory board can grant individual power of representation to individual members or to all members of the management board and exempt individual members or all members of the management board from the prohibition against multiple representations (Section 181, second alternative, German Civil Code), Section 112 AktG not being hereby affected.

On July 2, 2014, the supervisory board of the Company resolved that it will appoint Thorsten Dirks as a member of the management board and CEO of the Company if and once the closing of the Transaction occurs. Thorsten Dirks' appointment is expected to take place in October 2014. Upon closing of the Transaction, Rachel Empey will be CFO responsible for finance and strategy and Markus Haas COO.

Members of the Management Board

The management board of the Company currently comprises two members. Following closing of the Transaction, the management board of the Company will comprise three members. The following table shows the current and, in the case of Thorsten Dirks, future members of the management board, their date of birth, the date on which they were initially appointed, the date on which their current appointment is scheduled to end, their position as well as their other positions in administrative, management and supervisory bodies and as partners in partnerships outside the Company during the past five year; unless stated otherwise below, these memberships are current:

Name	Date of birth	Initially appointed on	Appointed until	Responsibilities	Current and former membership on management boards and supervisory boards and comparable governing bodies or partnerships in the previous five years
Thorsten Dirks[1]	June 17, 1963	July 2, 2014	third anniversary of the date of closing of the Transaction	CEO (Chief Executive Officer)	Until closing of the Transaction: KPN, Member of the Board Until closing of the Transaction: E-Plus Group, CEO
Rachel Empey	June 16, 1976	September 18, 2012	third anniversary of the date of closing of the Transaction	CFO (Chief Financial Officer)[2]	–
Markus Haas	March 31, 1972	September 18, 2012	third anniversary of the date of closing of the Transaction	CSO (Chief Strategy Officer)[2]	Since May 2011, member of the board of "Association of Telecommunications and value-added Service Provider" Since August 2012, member of the board of "*Bundesverband Breitbandkommunikation e.V.*" From December 2009 until September 2012: Member of the board of Telefónica Global Roaming GmbH and Telefónica Global Services GmbH

1 Thorsten Dirks will be appointed as member of the management board and become CEO of the Company if and once the closing of the Transaction occurs. His appointment is expected to take place in October 2014.

2 Upon closing of the Transaction, Rachel Empey will also be responsible for strategy and Markus Haas will become Chief Operating Officer (COO).

Thorsten Dirks is a graduate engineer from the University of the Armed Forces, Hamburg, Germany. He was appointed Chief Executive Officer (CEO) of the E-Plus Group in January 2007 and member of the board of directors of KPN in 2011, where he was responsible for the international mobile telecommunication business of KPN. He joined the E-Plus Group in 1996 where he was responsible, *inter alia*, for the areas of innovation, network and IT and performed a key role in advancing the E-Plus Group's multi-brand strategy, which started in 2005, with tariff offerings including simyo, BASE and AY YILDIZ. Prior to joining the E-Plus Group, Mr. Dirks held several positions in companies in the telecommunications sector.

Rachel Empey was appointed Managing Director Finance (CFO) at Telefónica Germany GmbH & Co. OHG in October 2011. Prior to this, she was Vice President of Controlling at Telefónica O_2 Germany. She joined the German Telefónica operations from Telefónica Europe, where she led a central team as Group Controller from 2007 to 2009. Previously, she spent several years in various finance positions at O_2 UK, including a key role in negotiating the purchase of the 300-store retail chain "The Link". She started her career at Ernst & Young, Lucent Technologies and Weir Group. Rachel Empey is also a member of the Institute Chartered Accountants of England and Wales.

Markus Haas was appointed Managing Director at Telefónica Germany GmbH & Co. OHG in May 2009. As Managing Director of Corporate Affairs & Strategy, he is responsible for legal affairs, regulation, strategy & innovation, auditing as well as roaming services. He started his career with us in 1998 – at that time Viag Interkom – as "*Referent Recht und Regulierung*", followed by a position as executive assistant to the Managing Director, subsequently Head of the Division Regulatory Affairs, and – prior to his current position – as Vice President Legal & Regulatory Affairs. Key projects at Telefónica Deutschland have been the spectrum auction in 2010, network sharing initiatives and several M&A activities including the acquisition of HanseNet. Markus Haas is also a member of the boards of the industry associations "Association of Telecommunications and value-added Service Provider" (VATM) and "*Bundesverband Breitbandkommunikation e.V.*" (BREKO).

Since February 1, 2014, Rachel Empey and Markus Haas have jointly led the management board of the Company. Rachel Empey focuses on the operational business and Markus Haas focuses on the preparation for the integration of the E-Plus Group.

Subsequent to the closing of the Transaction, Thorsten Dirks will be appointed as member of the management board and CEO of the Company. Rachel Empey will then also be responsible for strategy and Markus Haas will become COO, being responsible for the operative business of the New Group.

Rachel Empey and Markus Haas are both members of the Executive Committee at Telefónica, S.A. Upon the closing of the Transaction, Markus Haas will remain, and Thorsten Dirks will become, a member of the Executive Committee at Telefónica, S.A.

Compensation of Management Board Members

The current service contracts of the current management board members of the Company were concluded on July 2, 2014 and have fixed terms of three years commencing with the closing of the Transaction. The service contract of Thorsten Dirks was concluded on July 2, 2014, conditional upon closing of the Transaction, and has a fixed term of three years commencing with the closing of the Transaction. The service contract of a former management board member of the Company, René Schuster, who left the management board with effect as of January 31, 2014, will expire on September 30, 2014.

The total remuneration granted to the members of our management board (including the former member René Schuster) for the year ended December 31, 2013, amounted to €3,718 thousand. This amount comprises fixed salary, variable cash remuneration and long-term remuneration components, company car, life and accident insurance, contributions to pension insurance, non-monetary benefits such as, among others, fixed travel allowances, rental allowance, the reimbursement of the cost of UK social insurance, reimbursement of relocation costs, home leave flights, school fees, employer expenditures, tax compensation and compensation for exchange rate losses. The Company also provides Director & Officer insurance for each management board member, subject to the statutory deductible.

The remuneration of the management board members for 2013 includes a fixed component and a variable component. The fixed component comprises the annual fixed salary, which is paid in twelve equal monthly installments, and the above-mentioned non-monetary benefits. The management board members receive either an allowance to establish a private pension fund of 20% or 13% of the annual fixed salary or a retirement commitment.

The variable portion of the remuneration comprises three variable performance-related remuneration components pursuant to a long term incentive plan ("**LTIP**"). The first variable component of the LTIP is an annual cash bonus ("**Bonus I**"). Bonus I is calculated in accordance with the formula target bonus multiplied by business performance multiplied by individual performance. The target bonus was set as a percentage of the relevant annual fixed salary. In 2013, three components were relevant for the achievement of certain business performance targets and these have been aligned with the success of the Company ("Telefónica Deutschland Component"), Telefónica Europe ("Telefónica Europe Component") and Telefónica, S.A. ("Telefónica, S.A. Component"). The business performance targets were weighted among the Telefónica Deutschland Component, Telefónica Europe Component and Telefónica, S.A. Component 70%, 15% and 15%, respectively.

The second variable component is participation in various share and investment plans:

(i) Performance and Investment Plan 2011, pursuant to which shares in Telefónica, S.A. were granted to the management board members in 2011 depending on the achievement of certain targets, and subject to a three year vesting period ending in 2014. Conditions for vesting include: the individual remains employed by a Telefónica Group company at the end of such period; and the change in share price of Telefónica, S.A.'s shares over the vesting period aggregated with dividends paid on such shares during such period (the "**Total Share Return S.A.**") is at least equal to the median total share return reflected in a benchmark index of global telecommunications companies. 30% of the awarded shares will vest if the Total Share Return S.A. equals the median performance of such companies. The amount of vested shares increases on a sliding scale, up to 100% if the Total Share Return S.A. is in the upper quartile of the benchmark index. If the Total Share Return S.A. is below the median of the benchmark index, the awarded shares do not vest and will lapse. In addition, persons participating in the Performance and Investment Plan 2011 (*i.e.*, plan beneficiary) received an optional co-investment right. This option allows the plan beneficiary to receive an additional award in the amount of 25% of the awarded shares under the Performance and Investment Plan 2011, if such plan beneficiary holds a number of shares in his or her account at the end of the vesting period equal to 25% of the awarded shares;

(ii) Performance and Investment Plan 2012, pursuant to which shares in Telefónica, S.A. will be granted to the management board members depending on the achievement of certain targets, and subject to a three year vesting period ending in 2015. The award and vesting criteria are the same as the Performance and Investment Plan 2011; and

(iii) Performance and Investment Plan 2013, pursuant to which shares in Telefónica, S.A. will be granted to the management board members depending on the achievement of certain targets, and subject to a three year vesting period ending in 2016. The award and vesting criteria are the same as the Performance and Investment Plan 2011.

The third variable remuneration component is a deferred bonus ("**Bonus II**") which has been implemented in order to balance the incentive effect of the Performance and Investment Plans and the pursuit of corporate goals. Based on Bonus II, the management board members receive a cash bonus in an amount equal to a share of the annually paid Bonus I as a prospective bonus. Payment of the full amount of Bonus II is deferred for a period of three years and will only occur if the change in share price of the Company over the vesting period aggregated with dividends paid on such shares during such period (the "**Total**

Shareholder Return AG") is in the upper quartile of the total shareholder return of a reference group comprising the DAX-30 companies. 50% of Bonus II will be paid if the Total Shareholder Return AG equals the median performance of the reference group. If the Total Shareholder Return AG is between the upper quartile and the median performance of the reference group, the Bonus II payment will increase proportionate to the outperformance of the median performance of the reference group. If the Total Shareholder Return AG falls below the median performance of the reference group, no Bonus II payment will occur.

The Company believes it has structured the variable components of compensation so that the related awards depend on a sustainable development of the Company in accordance with Section 87 AktG. As such, the performance targets for the LTIP described above have been structured so that the performance of the Company is weighted at least 60% for the calculation of awards under this plan.

According to a shareholders' resolution adopted on October 5, 2012, we will not disclose the individual compensation for each member of the management board during the five year period ending October 4, 2017 in the notes to our financial statements, in accordance with Section 286(5) German Commercial Code.

For the year ended December 31, 2013, the aggregate fixed portion of the compensation of the management board members was €1.3 million.

In addition, one management board member is entitled to further benefits such as usage of company cars, continued payment of fixed salary in case of sickness, disability or death, and contributions to health insurance.

The current management board members have been granted a merger bonus which amounts to (i) 100% of the respective fixed annual salary in the event of the successful closing of the Transaction, or (ii) 50% of the respective fixed annual salary should the Transaction fail (in this case, the merger bonus shall compensate the management board member's additional efforts in connection with the Transaction). "Successful" with the meaning of the preceding sentence shall refer to the closing of the Transaction prior to November 1, 2014 (should the closing of the Transaction become effective subsequent to November 1, 2014 based on reasons beyond the Company's control, the closing of the Transaction shall still be deemed to be successful) whereas "fail" shall refer to the Company or any enterprise affiliated with the Company announcing that the closing of the Transaction will not occur at all.

Upon termination of employment, the service contract of one current member of the management board provides, under certain conditions, for a benefit in the form of a transition payment of up to the amount of one fixed annual salary. One current member of the management board will have the option, under certain conditions, to continue employment at an affiliate of the Company.

In the event of a specified type of change of control of the Company, the current members of the management board will have a right to terminate their service contracts and to receive compensation in the amount of one fixed annual salary and the amount of the last annual bonus received, but at most the compensation that would have been payable up to the end of the relevant service contract.

The current members of the management board are subject to customary post-contractual non-competition obligations.

Shareholdings of the Management Board Members

None of the current members of the management board, nor Thorsten Dirks, holds shares in the Company or options on shares in the Company.

Rachel Empey holds 4,410 shares of Telefónica, S.A. She is further entitled to be granted, without consideration, 7,511 shares of Telefónica, S.A. on June 30, 2015 and 10,830 shares of Telefónica, S.A. on June 30, 2016, respectively, if certain conditions are met.

Markus Haas holds 4,533 shares of Telefónica, S.A. He is further entitled to be granted, without consideration, 7,864 shares of Telefónica, S.A. on June 30, 2015 and 14,438 shares of Telefónica, S.A. on June 30, 2016, respectively, if certain conditions are met.

Thorsten Dirks does not hold shares of Telefónica, S.A.

Conflicts of Interest

Rachel Empey has employment agreements with entities of Telefónica Group, which are suspended as long as she is a member of the Company's management board, and can be reinstated thereafter if certain conditions are met. In addition, the variable components of the management board members' remuneration depend in part on the performance of Telefónica Europe and Telefónica Group. Rachel Empey and Markus Haas are members of the Executive Committee at Telefónica, S.A. Upon the closing of the Transaction, Markus Haas will remain, and Thorsten Dirks will become, a member of the Executive Committee at Telefónica S.A. Therefore, conflicts of interest could arise for all members of the management board between their duties towards Telefónica Group and its interest as the Company's main shareholder on the one hand and their duties as members of the management board and our interests on the other hand. However, as mentioned above, the variable cash components of the management board members' remuneration depend to a larger extent on the business performance of the Company.

SUPERVISORY BOARD

General Provisions on the Supervisory Board

In accordance with the Company's articles of association, Sections 95 and 96 AktG and applicable provisions of the German Co-Determination Act (*Mitbestimmungsgesetz*), the supervisory board consists at the date of the Prospectus of 12 members (six shareholder representatives and six employee representatives).

On May 20, 2014, the general shareholders' meeting of the Company resolved to amend the articles of associations stipulating that the supervisory board shall consist of 16 members (eight shareholder representatives and eight employee representatives) and appointed Sally Anne Ashford and Antonio Manuel Ledesma Santiago as additional shareholder representatives of the supervisory board. This amendment of the articles of association has not yet been registered in the commercial register and is therefore not yet effective. The general shareholders' meeting instructed the management board to file the amendment for registration only if and when the Authorized Capital 2014/I has been registered, which is currently planned for September 19, 2014, so that the amendment shall take effect prior to the acquisition of the E-Plus Group. As of such date, the term of office of the new members appointed by the shareholders on May 20, 2014 will have begun. It is currently envisaged to have the two additional employee representatives on the supervisory board appointed by the competent court following the registration of the amendment of the articles of association in the commercial register.

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 resolving on the discharge of 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. The election of a successor for a member leaving his or her office before the end of his or her term of office is valid for the remainder of the term of office of the departing member, unless the general shareholders' meeting has determined a shorter term of office of the successor.

Any supervisory board member elected by the shareholders may be removed by means of a resolution of the general shareholders' meeting with a simple majority of the votes cast by the shareholders in the general shareholders' meeting. Any member of the supervisory board may resign from office without good cause by giving written notice to the chairperson of the supervisory board and the management board with a notice period of at least one month. With the consent of the chairperson of the supervisory board, this notice period can be waived. The resignation may take immediate effect with good cause.

The general shareholders' meeting may appoint substitute members for one or more supervisory board members, who, in accordance with specific determinations by the general shareholders' meeting, may become members of the supervisory board if elected supervisory board members leave office before the end of their term. Accordingly, the employees may appoint substitute members to represent them on the supervisory board as well. The term of the substitute member expires as soon as a successor for the departing supervisory board member is appointed, but no later than the expiration of the departing supervisory board member's term. The supervisory board elects one of its members as chairperson and one of its members as deputy chairperson. Should the chairperson or the deputy chairperson leave office prior to the expiration of his or her term, the supervisory board must without delay elect a new chairperson or deputy chairperson to fill the remaining term of the departing chairperson or deputy chairperson.

Under mandatory statutory provisions and the articles of association, the supervisory board is authorized to establish by-laws and form committees of at least three individuals from among its members. The supervisory board's by-laws were approved by the supervisory board on October 5, 2012 and last amended on May 29, 2013. The supervisory board is authorized to make amendments to the articles of association that only affect their wording. As a rule, the supervisory board is expected to hold quarterly meetings and must hold at least two meetings within each six month period. Meetings of the supervisory board are usually called by its chairperson with ten days' advance notice. The day on which the notice is sent and the day of the meeting itself are not included when calculating this period. In urgent cases, the chairperson can shorten the notice period within reason.

The articles of association provide that at least half of the supervisory board members must participate in voting on a resolution to constitute a quorum. Any member who is present but abstains from voting is deemed to have participated in the vote. Absent members may participate in the casting of votes pursuant to Section 108(3) AktG. Unless otherwise required by law or by the articles of association, resolutions of the supervisory board are passed by a simple majority of the votes cast. For purposes of passing a resolution, abstentions do not count as votes cast. If a vote in the supervisory board results in a tie, the chairperson has a casting vote if the resolution is resolved upon again. The articles of association provide that, on the chairperson's instruction, resolutions may be passed without a meeting by written notice including by facsimile, oral vote by telephone, or a vote by other conventional means of electronic communication.

The German Stock Corporation Act provides that at least one independent member of the supervisory board of publicly traded companies must have expertise in the fields of accounting or auditing, *i.e.*, is an independent financial expert. Michael Hoffmann, who was elected on October 5, 2012 as new member of the supervisory board, qualifies as such, as he has the required financial expertise and independence.

Members of the Supervisory Board

The supervisory board currently comprises twelve members. Upon registration of the amendment of the Company's articles of association, the supervisory board will comprise 16 members (see "– *General Provisions on the Supervisory Board*"). The following table lists the current and, in case of Sally Anne Ashford and Antonio Manuel Ledesma Santiago, elected future members of the supervisory board as of the date of this Prospectus, the date on which they were first appointed, as well as their other positions in administrative, management and supervisory bodies and as partners in partnerships outside the Company over the past five years; unless stated otherwise below, these memberships are current:

Name	Date of birth	Initially appointed on	Appointed until[1]	Responsibilities	Other memberships in administrative, management or supervisory bodies or as partner in partnerships in the previous five years
Eva Castillo Sanz	November 23, 1962	October 5, 2012	2017	Chairperson	• Telefónica, S.A., Member of the Board • Bankia S.A., Member of the Board • Telefónica Foundation, Member of the Board • Comillas–ICAI Foundation, Member of the Board • Until June 2014: Tuenti Technologies, S.L., Chairperson of the Board • Until February 2014: Telefónica Europe, plc, Chairperson and Chief Executive Officer • Until January 2014: Telefónica Czech Republic, a.s., Chairperson of the Supervisory Board • Until 2013: Old Mutual, Plc., Member of the Board
Imke Blumenthal*	May 20, 1966	May 29, 2013	2018	Deputy Chairperson	–
Sally Anne Ashford[2]	October 7, 1970	May 20, 2014	2017	Member	• Telefónica Europe, plc, Member of the Board • Telefónica, S.A., Deputy Chief Human Resources Officer • Until March 2014: Telefónica Europe, plc, Group Human Resources Director • Until November 2011: Telefónica, S.A., Compensation & Benefits Director
María Pilar López Álvarez	June 13, 1970	September 18, 2012	2017	Member	• Telefónica Europe, plc, Director • Telfisa Global B.V., Member of the Board • Tuenti Technologies, S.L. Member of the Board • Wolseley PLC, non-executive Director • Until July 2014: mmO2 plc, Director • Until July 2014: O2 Holdings Limited, Director • Until July 2014: O2 (Europe) Limited, Director • Until July 2014: Telefónica Germany Holdings Limited, Director • Until March 2014: Telefónica Europe, plc, CFO

Name	Date of birth	Initially appointed on	Appointed until[1]	Responsibilities	Other memberships in administrative, management or supervisory bodies or as partner in partnerships in the previous five years
					• Until January 2014: Telefónica Czech Republic, a.s., Member of the Supervisory Board, Vice Chairperson of the Audit Committee and Member of the Nomination and Remuneration Committee
Angel Vilá Boix	July 29, 1964	September 18, 2012	2017	Member	• Telefónica, S.A., Chief Financial and Corporate Development Officer • Telco S.P.A., Vice Chairperson of Board of Directors • Until May 2013: Telefónica Czech Republic, a.s., Member of Supervisory Board • Until 2013: Telefónica de Contenidos, Chairperson • Until 2013: D.T.S. Distribuidora de Televisión Digital, Board Member • Until September 2011: General Manager Corporate Development of Telefónica, S.A. • Until September 2011: Board Member of Atento S.A. • Until September 2011: M.E.I.F. Advisory Panel Member of Macquarie Infrastructure and Real Assets (Europe) Limited
Patricia Cobián González	February 27, 1975	September 18, 2012	2017	Member	• Telefónica Europe, plc. Member of the Board • Wayra Investigacion Y Desarrollo: Member of the Board • German PMI Director, Telefónica, S.A • Until March 2014: Director, Business Development, Telefónica Europe • Until May 2013: Telefónica Czech Republic, a.s., Member of Supervisory Board, Vice Chairperson Nomination and Remuneration Committee • Until September 2011: CEO Business Manager of Telefónica Europe • Until December 2008: SVP Strategy & Development of O_2 Group
Christoph Heil*	January 12, 1965	May 29, 2013	2018	Member	• Capgemini GmbH, Member of the Supervisory Board

Name	Date of birth	Initially appointed on	Appointed until[1]	Responsibilities	Other memberships in administrative, management or supervisory bodies or as partner in partnerships in the previous five years
Michael Hoffmann	September 13, 1961	October 5, 2012	2017	Member	• Lekkerland AG, CEO • Until September 2011: Carl Zeiss Vision International GmbH, CEO • Until October 2009: Hewlett Packard, Senior Vice President, General Manager Worldwide Graphics Solutions Business
Antonio Manuel Ledesma Santiago[2]	June 9, 1972	May 20, 2014	2017	Member	• Telefónica S.A, Financial Projects Director • Venturini España, S.A., Sociedad Unipersonal. Sole Administrator • Until March 2014: Telefónica Europe, plc, Head of Telefónica Europe Chairperson and CEO Office • Until January 2014: Telefónica Czech Republic, a.s., Member of the Supervisory Board, Member of the Audit Committee and Member of the Nomination and Remuneration Committee • Until November 2013: Banco Inversis, S.A., Member of the Board of Directors and Member of the Audit Committee • Until November 2012: Telefónica, S.A., M&A operations Director
Enrique Medina Malo	April 4, 1972	September 18, 2012	2017	Member	• Telefónica Europe, plc, Member of the Board • mmO2 plc, Director • O2 Holding limited, Director • O2 (Europe) Limited, Director • O2 Cedar Limited, Member of the Board • O2 Networks Limited, Member of the Board • O2 International Holdings Limited, Member of the Board • Until June 2014: Wayra UK Limited, Director • Until May 2013: Telefónica Czech Republic, a.s., substitute Member of the supervisory board, Member of the Nomination and Remuneration Committee, Member of the Ethics and Corporate Social Responsibility Committee
Thomas Pfeil*	October 12, 1966	May 29, 2013	2018	Member	–

Name	Date of birth	Initially appointed on	Appointed until[1]	Responsibilities	Other memberships in administrative, management or supervisory bodies or as partner in partnerships in the previous five years
Marcus Thurand*	March 30, 1967	May 29, 2013	2018	Member	–
Dr. Jan-Erik Walter*	January 25, 1961	May 29, 2013	2018	Member	–
Claudia Weber*	November 1, 1966	May 29, 2013	2018	Member	• Deputy Managing Director of Unified Service Sector Union, ver.di, Munich

1 All current shareholder representative supervisory board members are appointed until the end of the ordinary general shareholders' meeting held in 2017 for the year ended December 31, 2016.

* Employee representatives, who all are appointed until the end of the ordinary general shareholders' meeting held in 2018 for the year ended December 31, 2017.

2 Appointment as additional shareholder representatives of the supervisory board will become effective upon registration of the amendment of the articles of association, which was resolved upon by the general shareholders' meeting of the Company on May 20, 2014, in the commercial register, which will be filed only if and when the Authorized Capital 2014/I has been registered, which is currently planned for September 19, 2014, so that the amendment shall take effect prior to the acquisition of the E-Plus Group. The term of additional supervisory board members ends concurrently with the term of the other shareholder representatives at the end of the ordinary general shareholders' meeting held in 2017 for the year ended December 31, 2016.

Eva Castillo Sanz was initially appointed on October 5, 2012. Ms. Castillo holds BA degrees in Business and Law from Universidad Pontificia de Comillas (ICADE, E- 3) in Madrid. In addition to her position as chairperson of the supervisory board of Telefónica Deutschland Holding AG, she is currently a member of the Board of Directors of Telefónica, S.A., member of the Board of Directors of Bankia, member of the Board of Telefónica Foundation and member of the Board of Comillas-ICAI Foundation. From February 2011 until February 2013, she was a member of the Board of Directors of Old Mutual, Plc. From May 2010 until January 2014, she was Chairperson of the Supervisory Board of Telefónica Czech Republic, a.s. Until December 2009, she headed Merrill Lynch Global Wealth Management business operations in Europe, the Middle East and Africa (EMEA) and she was a member of the Merrill Lynch EMEA Executive Committee and the Global Wealth Management Executive and Operating Committees. Prior to the mentioned position, she served as head of Merrill Lynch Global Markets & Investment Banking in Iberia as well as President of Merrill Lynch Spain (October 2003), and before that as Chief Operating Officer for Equity Markets in Europe, Middle East and Africa. Ms. Castillo joined Merrill Lynch in 1997 as head of Equity Markets for Spain and Portugal. In 1999 she was promoted to Country Manager for Spain and Portugal and in 2000 she became CEO of Merrill Lynch Capital Markets España. Before joining Merrill Lynch, she worked for Goldman Sachs in London for five years in the International Equity Markets Department. Prior to this she worked for 5 years at the Spanish broker Beta Capital in the Sales and Equity Research Department.

Imke Blumenthal was appointed on May 29, 2013. Ms. Blumenthal holds a degree in Social Services from the University Bremen in 1993 and is a certified business administrator (*geprüfte Betriebswirtin*). Within Telefónica Deutschland, Ms. Blumenthal holds several positions. She has been Chairperson of the Works Council Northwest since April 2006, Chairperson of the General Works Council since September 2009 and Chairperson of the Group Works Council since May 2010.

Sally Anne Ashford was appointed on May 20, 2014. Ms. Ashford holds a Bachelor of Science in Management Science from the University of Manchester and a master's degree in Industrial Relations from the University of Warwick. She is Deputy Chief Human Resources Officer of Telefónica, S.A. and member of the Board of Directors of Telefónica Europe plc. Prior to joining Telefónica Group in 1999, Ms. Ashford worked for Tesco and Arthur Andersen (now Deloitte). Since joining Telefónica Group, she has worked in the human resources department in various roles. From 2001, Ms Ashford led the department Compensation and Benefits for Telefónica Europe. Subsequently, she led the Global Compensation and Organisation team and then led the European Human Resources Team as Group Human Resources Director for Telefónica Europe plc.

María Pilar López Álvarez was initially appointed on September 18, 2012. Ms. López Álvarez is a Business Studies graduate who joined the Telefónica Group in 1999 in Telefónica de España's Strategic Planning Department. In May 2000, she was appointed Director of Management Control at Telefónica, S.A. In 2002, she joined Telefónica Móviles S.A. heading the company's Management Control. In October 2006, she was promoted to Director of Strategy and Business Development at Telefónica España followed by an appointment in 2007 as Chief Financial Officer of Telefónica Europe until March 2014.

Angel Vilá Boix was initially appointed on September 18, 2012. He holds a degree in Industrial Engineering and a MBA from Columbia Business School and joined Telefónica in 1997. In 1998, he was promoted as CFO of Latam Holding. In 1999, he joined Telefónica, S.A. as General Manager of Corporate Development. Previously, he was General Manager of Grupo Planeta, Business Development Manager at Ferrovial and consultant at McKinsey & Co.

Patricia Cobián González was initially appointed on September 18, 2012. Ms. Cobián González holds an MsC in Industrial Engineering and joined Telefónica Europe in 2006 as VP Strategy & Development. In January 2009, she became Business Manager for Telefónica Europe's CEO until September 2011, when she was appointed MD Business Development for Telefónica Europe and a member of the Telefónica Europe Executive Committee until March 2014. In March 2014, she took on the German PMI Director role for Telefónica, S.A. Prior to joining the Telefónica Group, she was a consultant for McKinsey&Co in Madrid, New York and London for seven years. Patricia started her career at Hewlett-Packard's Financial Services Division.

Christoph Heil was appointed on May 29, 2013. Mr. Heil graduated from the University of Cologne in 1999 and holds degrees in economics and sociology. Since 2000, he has been trade union secretary at the German trade union ver.di (department for telecommunication, information technology and data processing).

Michael Hoffmann was initially appointed on October 5, 2012. Michael Hoffmann started his business career at Hewlett Packard more than 20 years ago. From 2007 until October 2009, he worked as Senior Vice President for HP Imaging & Printing Group and was responsible for businesses with total revenue of approximately USD16 billion and 6,000 employees. After leaving HP, he joined Carl Zeiss Vision International GmbH (the lens-making business of Carl Zeiss AG) as CEO where he was responsible for restructuring the business, building a mid-term strategy and improving operational execution. In December 2011, he was appointed CEO of Lekkerland AG & Co. KG.

Antonio Manuel Ledesma Santiago was appointed on May 20, 2014. He holds an MBA from IESE Business School, Barcelona, and a degree in Economics from the University of Salamanca (Spain). Mr. Ledesma Santiago started his career at Telefónica Group in the corporate development department of Telefónica, S.A., where he was responsible for the coordination and execution of mergers and acquisitions within the Telefónica Group, including the acquisition of mmO2, plc. and the initial public offering of Telefónica Deutschland Holding AG. Prior to joining the Telefónica Group in 2002, he worked for five years in the investment banking division of J.P. Morgan in Madrid. From 2012 until 2014, he was responsible for the Telefónica Europe Chairman and CEO's Office where he, *inter alia*, participated in several transactions in Europe. Since February 2014, Mr. Ledesma Santiago has been Director of Financial Projects at Telefónica, S.A. where he is responsible for leading and executing interdisciplinary financial projects.

Enrique Medina Malo was initially appointed on September 18, 2012. Mr. Medina Malo holds a law degree from Carlos III University of Madrid and was admitted to the Spanish Government Legal Services in 1997. Until 2006, he served as State Lawyer for the Public Administration, Ministry of Science and Technology, Ministry of Industry and Energy and the High Court of Cataluña. From 2002 to 2004, he was appointed General Director for Legislation of the Ministry of Science & Technology. He joined Telefónica, S.A. in 2006 as Public Law Manager and later Telecommunications and Information Society Legal Affairs Manager responsible for regulation and competition legal issues. He has been Chief Legal Officer of the Spanish Broadcasting Corporation. From 2008, he was the Chief Legal Officer of Telefónica, S.A. until September 2011, when he was appointed General Counsel of Telefónica Europe until April 2014. In May 2014, he was appointed Chief Policy Officer of Telefónica, S.A.

Thomas Pfeil was appointed on May 29, 2013. Mr. Pfeil is a telecommunications specialist (*Fernmeldehandwerker*) and graduated as master electrician for communications engineering (*Elektromeister Nachrichtentechnik*) in 1997 and as master of technical business administration (*Technischer Betriebswirt*) in 2000 from IHK Akademie Augsburg. Until April 2014, Mr. Pfeil was the deputy chairperson of Telefónica Deutschland's works council of which he has been a member since 2000. Within Telefónica Deutschland, he worked as network service manager from 2004 to 2008 and since 2008, he has worked as service manager operations. Mr. Pfeil is also spokesperson of the Company's economic committee.

Marcus Thurand was appointed on May 29, 2013. Mr. Thurand is a graduate engineer for computer engineering (*Diplom-Ingenieur für technische Informatik*). He received comprehensive training at Siemens as a mobile and fixed-line specialist. He also gained more than four years of international experience relating to the implementation and operation of mobile networks. Within Telefónica Deutschland, he worked as head of service operation center from 2009 to 2012, as head of mobile access engineering from 2010 to 2012 and since April 2012, he has worked as vice president network operations.

Dr. Jan-Erik Walter was appointed on May 29, 2013. Mr. Walter holds degrees in total quality management of the University Kaiserslautern, in economics (*Dr. oec.* and *Diplom-Ökonom*) from Hochschule für Ökonomie Berlin and graduated as auditor and environmental issues manager (*Auditor* and *Umweltbeauftragter*) from Deutsche Gesellschaft für Qualität. Mr. Walter joined Telefónica Deutschland in 1998. From January 2001 to December 2011, he acted as senior auditor. Since 2010, he has been member of the Company's workers council in Munich of which he has been the deputy chairperson since January 2012.

Claudia Weber was appointed on May 29, 2013. Ms. Weber started her career as a telecommunications specialist (*Fernmeldehandwerkerin*). She received further training in technical telecommunication services (*Fachwirtin Telekom*). Ms. Weber holds a diploma in economics and a bachelor in economics from the University of Abertay, Scotland.

Supervisory Board Committees

Under the Company's articles of association, the supervisory board may form committees from among its members. Under the supervisory board's by-laws, the supervisory board shall form an audit committee, a nomination committee and a mediation committee. In connection with the Transaction, the supervisory board formed a capital increase committee. Other committees may be formed, if necessary. The supervisory board's decision-making authority may be delegated to these committees to the extent permitted by law. The following committees have been established by the supervisory board:

Audit Committee

The audit committee is responsible for the preparation of advice and resolution of accounting matters. This includes questions relating to accounting and risk management and the requisite independence of the external auditor and commissioning an external auditor. At least one member of the audit committee shall be an independent member having expertise knowledge in the fields of accounting and annual auditing within the meaning of Section 107(4) AktG. At present, this is Michael Hoffmann. The audit committee comprises four members. The by-laws of the supervisory board provide that the audit committee shall comprise of two shareholders representatives and two employees' representatives. The audit committee must have at least one independent member of the supervisory board with expertise in the fields of accounting and auditing. The chairperson of the audit committee shall have specialist knowledge and experience in the application of accounting principles and internal control processes. The by-laws of the supervisory board further provide that the chairperson of the audit committee shall have the casting vote.

Name	Position
Michael Hoffmann	Chairperson
María Pilar López Álvarez	Member
Thomas Pfeil	Member
Christoph Heil	Member

Nomination Committee

The nomination committee is responsible for proposing to the supervisory board suitable candidates to be recommended to the general shareholders' meeting for election. The nomination committee comprises three members. According to the by-laws of the supervisory board, all of the members shall be shareholders' representatives and the chairperson has the casting vote.

Name	Position
Patricia Cobián González	Chairperson
María Pilar López Álvarez	Deputy Chairperson
Enrique Medina Malo	Member

Mediation Committee

In accordance with Section 31(3) sentence 1 of the German Co-Determination Act (*Mitbestimmungsgesetz*), the mediation committee (*Vermittlungsausschuss*) is responsible for making a proposal to the supervisory board recommending the appointment of a particular candidate, if the required majority of two-thirds of the votes cast by the supervisory board is not achieved in respect of the appointment of management board members within one month after the vote. The same applies if the removal of certain management board members from office does not achieve the required majority in the first round of voting.

Name	Position
Eva Castillo Sanz	Chairperson
Imke Blumenthal	Deputy Chairperson
Angel Vilá Boix	Member
Marcus Thurand	Member

Capital Increase Committee

In connection with the Transaction, the supervisory board resolved on June 16, 2014 and on June 17, 2014 to form a capital increase committee. The supervisory board delegated its decision-making authority regarding any tasks, including the passing of resolutions, in the context of the Transaction to the capital increase committee. The capital increase committee is therefore responsible, for example, for the granting of approvals to measures of and declarations by the management board in connection with the execution of the capital increase against contribution in cash as set out in the resolution of the ordinary general shareholders' meeting of the Company resolved on May 20, 2014 and the execution of the capital increase against contribution in kind in the context of the closing of the Transaction. The capital increase committee is further responsible for the passing of resolutions on changes to the Company's articles of association following the implementation of the capital increase against contribution in cash and the implementation of the capital increase against contribution in kind. Upon closing of the Transaction, the supervisory board may resolve on the dissolution of the capital increase committee.

Name	Position
Patricia Cobián González	Chairperson
Thomas Pfeil	Deputy Chairperson
María Pilar López Álvarez	Member
Marcus Thurand	Member

Compensation of Supervisory Board Members

Pursuant to the articles of association, the members of the supervisory board receive a fixed compensation payable after the end of the fiscal year in the amount of €20,000 per annum. The chairperson of the supervisory board receives €80,000 and the deputy chairperson €40,000. The chairperson of the audit committee additionally receives €50,000 unless the chairperson of the supervisory board or his/her deputy chair this committee. Members of the supervisory board who hold their office in the supervisory board or who hold the office as chairperson or chairperson of a committee only during a part of the fiscal year receive a corresponding portion of the compensation to be determined *pro rata temporis*.

In addition to the compensation paid pursuant to the foregoing paragraphs, the Company reimburses the members of the supervisory board for their out-of-pocket expenses incurred in the performance of their duties as supervisory board members as well as the value-added tax on their compensation and out-of-pocket expenses, if applicable.

The Company has entered into directors' and officers' insurance in its name, covering the members of the management board and supervisory board, based on prevailing market conditions.

Shareholding and Options

Among the members of the Company's supervisory board, Eva Castillo Sanz and Angel Vilá Boix each hold 10,000 shares in the Company and Thomas Pfeil holds 200 shares in the Company. No restrictions on transferability or voting right apply to these shares. None of the other members of the Company's supervisory board holds shares in the Company or options on shares in the Company.

Enrique Medina Malo holds 40,990 shares of Telefónica, S.A. He is further entitled to be granted, without consideration, 13,120 shares of Telefónica, S.A. on June 30, 2015 and 13,225 shares of Telefónica, S.A. on June 30, 2016, respectively, if certain conditions are met.

Eva Castillo Sanz holds 97,089 shares of Telefónica, S.A. She is further entitled to be granted, without consideration, 149,787 shares of Telefónica, S.A. on June 30, 2015, and 162,500 shares of Telefonica, S.A. on June 30, 2016, respectively, if certain conditions are met.

Sally Anne Ashford holds 11,616 shares of Telefónica, S.A. She is further entitled to be granted, without consideration, 14,823 shares of Telefónica, S.A. on June 30, 2015, and 17,463 shares of Telefónica, S.A. on June 30, 2016, respectively, if certain conditions are met.

Patricia Cobián González holds 9,896 shares of Telefónica, S.A. She is further entitled to be granted, without consideration, 13,933 shares of Telefónica, S.A. on June 30, 2015, and 15,513 shares of Telefónica, S.A. on June 30, 2016, respectively, if certain conditions are met.

Antonio Manuel Ledesma Santiago holds 6,329 shares of Telefónica, S.A. He is further entitled to be granted, without consideration, 5,163 shares of Telefónica, S.A. on June 30, 2015, and 10,225 shares of Telefónica, S.A. on June 30, 2016, respectively, if certain conditions are met.

María Pilar López Álvarez holds 42,661 shares of Telefónica, S.A. She is further entitled to be granted, without consideration, and 25,444 shares of Telefónica, S.A. on June 30, 2015 and 32,500 shares of Telefónica, S.A. on June 30, 2016, respectively, if certain conditions are met.

Angel Vilá Boix holds 95,510 shares of Telefónica, S.A. He is further entitled to be granted, without consideration, 161,287 shares of Telefónica, S.A. on June 30, 2015, and 162,500 shares of Telefónica, S.A. on June 30, 2016, respectively, if certain conditions are met.

Thomas Pfeil holds 252 shares of Telefónica, S.A.

Imke Blumenthal, Marcus Thurand and Dr. Jan-Erik Walter hold 120 shares, 250 shares and 250 shares of Telefónica, S.A., respectively. Markus Thurand is further entitled to be granted 2,647 shares of Telefónica, S.A. on June 30, 2015, and 1,490 shares of Telefónica, S.A. on June 30, 2016, respectively, if certain conditions are met. Markus Thurand is further entitled to be granted, without consideration, additional 373 shares of Telefónica, S.A. on June 30, 2016, if certain conditions are met.

Thomas Pfeil, Marcus Thurand and Dr. Jan-Erik Walter participate in the global employee share plan of Telefónica, S.A. based on which they are entitled to acquire shares of Telefónica, S.A. through maximum monthly installments of €100 up to a maximum of €1,200 over a period of 12 months, if certain conditions are met. Sally Anne Ashford also participates in the global employee share plan of Telefónica, S.A. based on which she holds 103 shares of Telefónica, S.A. which are to be matched on a 1:1 basis at the end of the holding period.

Michael Hoffmann, Christoph Heil and Claudia Weber do not hold any shares or options on shares of Telefónica, S.A.

Conflicts of Interest

The shareholder representatives in the Company's supervisory board, except for Michael Hoffmann, also hold other positions within the Telefónica Group that are outside Telefónica Deutschland. Therefore, conflicts of interest could arise for those members of the supervisory board, except for Michael Hoffmann, between their duties towards Telefónica Group and Telefónica, S.A.'s interest as the indirect main shareholder on the one hand and their duties as members of the supervisory board and the interests of Telefónica Deutschland on the other hand. For the members of the supervisory board which are employees', conflicts of interest could arise between their duties as employees of Telefónica Deutschland and their duties as supervisory board members. Other than mentioned in this paragraph, there are no conflicts between any duties of the members of the supervisory board to the Company, their private interests and other duties.

CERTAIN INFORMATION ON THE MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Over the last five years, no member of the Company's administrative, management or supervisory bodies, in particular, no member of the management board and supervisory board:

- was convicted in relation to fraudulent offences;
- was associated with any bankruptcies, receiverships or liquidations in any of the capacities set out above;
- was publicly incriminated and/or sanctioned by statutory or regulatory authorities (including designated professional bodies); or
- has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

At present, the Company has not granted sureties or loans to members of the management board and the supervisory board, nor has it assumed any guarantees for them. No supervisory board member has concluded any service contract with any of the Telefónica Deutschland's companies that includes special benefits upon the end of the service. No family relationships exist among the members of the management board and the supervisory board or within any of these bodies.

Members of the management board and the supervisory board may be contacted at the Company's business address at Georg-Brauchle-Ring 23-25, 80992 Munich, Germany.

GENERAL SHAREHOLDERS' MEETING

A general shareholders' meeting may, at the discretion of the governing body initiating the meeting, be held in the town where the company's registered office is located or in a town in Germany with more than 100,000 inhabitants.

General shareholders' meetings are convened by the management board. The supervisory board must convene a general shareholders' meeting whenever the interests of the company so require. Upon request of shareholders holding an aggregate of 5% or more of the share capital, the management board is obligated to call a general shareholders' meeting. The annual general shareholders' meeting, which decides on the discharge of the management board and the supervisory board, profit distributions, appointment of the auditor and the approval of the financial statements must be held within the first eight months of each financial year.

According to the German Stock Corporation Act, the Company is required to publish the invitation to the general shareholders' meeting in the Federal Gazette (*Bundesanzeiger*) at least 30 days before the day of the meeting, and no less than 30 days before notice of attendance has to be given. The day of the general shareholders' meeting and the day of the publication of the invitation are not counted for this purpose. To take part in the general shareholders' meetings, shareholders must give due notice of their attendance. The deadline for giving the notice of attendance for the general shareholders' meeting is published with the invitation, however, the company must receive the notice of attendance at least six days prior to the general shareholders' meeting.

According to Section 23 of the Company's articles of association, shareholders who wish to attend the annual general shareholders' meeting and exercise their right to vote must register with the Company by giving notice of attendance. This registration must reach the Company at the address and in the form stated in the invitation at least six days prior to the general shareholders' meeting. The day of the receipt of the registration and the day of the general shareholders' meeting are not counted for this purpose. The registration deadline for attending the meeting is published concurrently with the notice of meeting. The granting and revocation of the proxy as well as evidence of the authorization *vis-à-vis* the Company must be made in text form (*Textform*), including via e-mail, in accordance with Section 126b German Civil Code. Section 135 of the German Stock Corporation Act remains unaffected.

Each share entitles its holder to one vote at the general shareholders' meeting. Shareholders can exercise their voting rights by proxy. Unless otherwise stipulated by mandatory statutory provisions or provisions of the articles of association, resolutions of the general shareholders' meeting are adopted by a simple majority of the votes cast and, if a capital majority is required, by a simple majority of the share capital represented.

Under the German Stock Corporation Act, resolutions of fundamental importance (*grundlegende Bedeutung*) require both a majority of votes cast and a majority of at least 75% of the share capital represented at the vote on the resolution. Resolutions of fundamental importance include:

- capital increases if shareholders' subscription rights are excluded;
- capital decreases;
- the creation of authorized or conditional capital;
- transformations pursuant to the German Transformation Act (*Umwandlungsgesetz*), including mergers, divisions, transfers of assets (*Vermögensübertragung*) and changes in legal form;
- an agreement to transfer all of the Company's assets pursuant to Section 179a AktG;

- the execution of enterprise agreements (*Unternehmensverträge*), such as controlling and profit-and-loss-transfer agreements; and
- the dissolution of the Company.

CORPORATE GOVERNANCE

The German Corporate Governance Code (*Deutscher Corporate Governance Kodex*) (the "**Code**" or "**GCGC**"), contains recommendations and suggestions for managing and supervising German companies listed on a stock exchange. The Code contains provisions relating to shareholders and the general shareholders' meeting, the management board, the supervisory board and to transparency, accounting policies and auditing. There is no obligation to comply with the recommendations and suggestions of the Code. However, the German Stock Corporation Act requires the management board and supervisory board of a listed company to make an annual declaration that it follows and will follow the recommendations of the Code or which of the recommendations were or will not be followed. The declaration must be published on the Company's website.

The Company's management board and supervisory board issued a compliance declaration according to Section 161(1) of the German Stock Corporation Act on February 11, 2014. From February 28, 2013 (*i.e.*, the date of the previous compliance declaration) until June 10, 2013, the current compliance declaration refers to the "German Corporate Governance Code" ("**GCGC**") as amended on May 15, 2012, and for the period from June 11, 2013 to the GCGC as amended on May 13, 2013, published in the German Federal Gazette on June 10, 2013.

The management board and supervisory board declared in the current compliance declaration according to Section 161(1) of the German Stock Corporation Act dated February 11, 2014 that, since the issuance of the last compliance declaration (*i.e.*, February 28, 2013), the Company has complied, and will in the future comply, with the recommendations of the GCGC with the following exceptions:

1. The GCGC recommends in 4.2.1, sentence 1, that the management board shall be comprised of several persons and have a chairperson or a spokesperson. This recommendation has been deviated from since termination of appointment of the previous chairperson of the management board of the Company with effect as of January 31, 2014, because no other member of the management board has been appointed chairperson or spokesperson instead. Management board and supervisory board consider this as advisable in order to emphasize that the two remaining members of the management board are equally ranked and that the additional responsibilities they have assumed after the leave of the previous chairperson of the management board are equal.
2. While determining the total compensation, the supervisory board shall, according to 4.2.2, 2nd paragraph, sentence 3 GCGC (as amended on May 13, 2013), consider the relationship between the compensation of the management board and that of senior management and the staff overall, particularly in terms of its development over time whereupon the supervisory board shall determine how senior managers and the relevant staff are to be differentiated. With regard to the remuneration increases for the two members of the management board dated January 29, 2014 and effective from February 1, 2014, the supervisory board has deviated from this recommendation. The supervisory board and the management board consider that the comparison as recommended by the GCGC cannot lead to relevant results in case members of the management board are being granted a remuneration increase because they assume additional tasks for which the previous chairperson of the management board has been responsible.
3. The recommendation in 4.2.3, 2nd paragraph, sentence 4 GCGC that both positive and negative developments shall be taken into account with respect to the structure of the variable remuneration components has not been and will not be followed. The management board and the supervisory board are of the opinion that the remuneration of the management board is nevertheless oriented towards a sustainable company development. The remuneration consists of fixed as well as of short- and long-term variable components. The relevant parameters for the determination of the variable remuneration are overall oriented towards sustainable development and structured in a way that they, as a whole, do not provide incentives for business decisions which are opposed to the interests of the Company.
4. In 4.2.3, 3rd paragraph, sentence 2 as amended on May 15, 2012, the GCGC, recommended that share-based and performance-based remuneration components shall relate to rigorous and relevant comparison parameters. In 4.2.3, 2nd paragraph, sentence 7 as amended on May 13, 2013, the GCGC recommends that the variable remuneration components shall relate to rigorous and relevant comparison parameters. A partial derogation from such recommendation has been and will be made. The amount of the annual bonus depends to a small extent also on parameters regarding Telefónica Europe and Telefónica, S.A. In addition, a part of the long-term remuneration components is dependent on the Total Shareholder Return of the Telefónica, S.A. shares. The management board and the supervisory board are of the opinion that no misdirected incentives are created thereby.
5. The GCGC recommends in 4.2.3, 2nd paragraph, sentence 6 (as amended on May 13, 2013), that the amount of compensation shall be capped, both overall and for individual compensation components. This recommendation is partially deviated from as neither for the stock option program nor for the deferred bonus, caps have been determined. By doing so, the supervisory board shall be granted the necessary room to maneuver to ensure the balance between short-term and long-term variable remuneration elements at any time. Furthermore, one of the two board member service agreements does not provide for the exact amount of the Company's pension expenses. As the Company is not able to unilaterally amend the board member service agreement, the pension expenses will only be capped by amount in future board member service agreements.

6. The recommendation in 4.2.3, 3rd paragraph, sentence 3 GCGC (as amended on May 15, 2012), respectively, 4.2.3, 2nd paragraph, sentence 8 GCGC (as amended on May 13, 2013), that forbids a retroactive change of performance objectives or comparison parameters has not been and will not be followed. The service contracts partially allow for a retroactive change of the criteria for the variable remuneration. From the management board's and the supervisory board's view, this is necessary because the Company is active in an extremely volatile and innovative market environment, and a change of corporate strategy in the interest of a sustainable company development must also be possible within the calculation period for the variable remuneration components. Such changes of corporate strategy necessary with a view to reasonable company interests shall not be hindered or delayed as a result of monetary interests of the members of the management board. Thus, in particular the supervisory board is of the opinion that flexibility is required as to performance objectives and comparison parameters.

7. In deviation from the recommendation in 4.2.3, 4th paragraph GCGC, no formal severance payment cap in the event of premature termination of the management board mandate is agreed in the service contracts. However, we think a combination of various mechanisms in the service contracts ensures that a member of the management board in the event of premature termination of the mandate as a general rule receives less, and in no event more than the amount that is recommended by the GCGC as a severance payment cap.

8. The recommendation in 4.2.5, 2nd paragraph GCGC, that the compensation report shall also include information on the nature of fringe benefits provided by the Company has only been followed in part. The general shareholders' meeting on October 5, 2012 resolved pursuant to Section 286(5) German Commercial Code to dispense with disclosure of the compensation of individual management board members for the period of five years. Therefore, the fringe benefits provided by the Company are only disclosed to the extent they are provided to all management board members. Where fringe benefits are only provided to individual management board members, these are not shown. The management board and supervisory board take the view that the individualization involved in the disclosure of these individual benefits would contradict the resolution of the general shareholders' meeting and would represent too large an intrusion into the private sphere of the relevant management board members.

9. Contrary to the recommendation in 5.1.2, 2nd paragraph, sentence 3 GCGC, the Company has not determined any age limit for management board members. A fixed age limit for management board members is not appropriate in the view of the Company, since the ability to successfully run a company is not necessarily restricted by reaching a certain age. Rather, it may be necessary where appropriate in the interest of the Company to appoint persons of advanced age with extensive experience even after they reach a particular age limit. In addition, the setting of a fixed age limit could also constitute discrimination.

10. Pursuant to 5.4.1, 2nd paragraph GCGC, the supervisory board shall specify concrete objectives regarding its composition, considering an age limit. The supervisory board has resolved on concrete objectives regarding its composition, however without specifying a concrete objective regarding an age limit for supervisory board members. Just as for management board members, a fixed age limit for supervisory board members is not appropriate in the view of the Company, since the ability to control and supervise the management board is not necessarily restricted by reaching a certain age. Rather, it may be necessary where appropriate in the interest of the Company to appoint persons of advanced age with extensive experience even after they reach a particular age limit. In addition, the setting of a fixed age limit could also constitute discrimination.

11. Notwithstanding the recommendation in 5.4.6, 1st paragraph, sentence 3 GCGC (as amended on May 15, 2012), or 5.4.6, 1st paragraph, sentence 2 GCGC respectively (as amended on May 13, 2013), that the chair and membership in committees is also to be taken into account in the compensation of the supervisory board members, only the chair of the audit committee receives an additional compensation. The Company takes the view that this reasonably takes into account the current composition of the supervisory board.

As of the date of this Prospectus, the Company is in compliance with the recommendations of the GCGC in the scope declared in the compliance declaration by the management board and supervisory board of February 11, 2014.

MAJOR SHAREHOLDERS

On the basis of shareholders' notifications received by the Company pursuant to Section 21 WpHG, the following table provides an overview of the shareholding structure of the Company prior to the Offering and following the Offering, assuming the placement of all of the Offer Shares:

	Shareholdings					
	Prior to the Offering		Following the Offering[2]		Following the capital increase against contribution in kind[3]	
Name of shareholder	Ordinary registered shares	in %	Ordinary registered shares	in %	Ordinary registered shares	in %
KPN	–	–	–	–	609,783,774	20.50
Telefónica Germany Holdings Limited[1]	858,195,400	76.83	1,716,390,800	76.83	1,847,271,219	62.10
Freefloat	258,750,000	23.17	517,500,000	23.17	517,500,000	17.40
Total	**1,116,945,400**	**100**	**2,233,890,800**	**100**	**2,974,554,993**	**100**

1 Telefónica Germany Holdings Limited is an indirect wholly-owned subsidiary of Telefónica, S.A. The shareholdings of Telefónica Germany Holdings Limited are attributable to their direct and indirect 100% shareholders O2 (Europe) Limited and Telefónica, S.A., respectively, pursuant to Section 22(1) no. 1 WpHG.

2 Assuming that entities of the Telefónica Group do not acquire Offer Shares in excess of the Offer Shares resulting from the full exercise of statutory subscription rights attributable to their existing shareholdings.

3 Assuming that entities of the Telefónica Group do not acquire Offer Shares in excess of the Offer Shares resulting from the full exercise of statutory subscription rights attributable to their existing shareholdings, not reflecting shareholdings of Telefónica Group potentially resulting from a call option to be granted by KPN to Telefónica Germany Holdings Limited and already reflecting the acquisition of 4.4% of the shares in the Company's Post Transaction Share Capital by Telefónica Germany Holdings Limited from KPN provided for in the SPA (see "*Business – Material Contracts – Sale and Purchase Agreement with regard to the E-Plus Group*").

TELEFÓNICA, S.A.

Telefónica, S.A. is one of the largest telecommunications companies in the world in terms of market capitalization and number of customers. From its consolidated position in the sector, and with telephony fixed and mobile broadband as key areas that support future growth, the company focuses its strategy on securing its leadership in the digital world. Present in 24 countries and with a customer base of approximately 315.8 million customers (as of June 30, 2014), Telefónica, S.A. has a strong presence in Europe and Latin America, important industrial alliances and a leading global scale which positions the company to capture growth opportunities. Telefónica, S.A. is a publicly traded company and its ordinary shares are traded on various stock markets, including London and New York.

Telefónica, S.A. indirectly holds 76.83% of the Company's share capital. Therefore, pursuant to Section 312 AktG, the management board of the Company is required to prepare a dependency report (*Abhängigkeitsbericht*) on relations with the Telefónica Group. The latest dependency report prepared for the financial year 2013 includes the following final declaration of the Company's management board: "*Our company has, with regard to the legal transactions and measures listed in the dependency report, and based on the circumstances which were known to us at the time at which the legal transactions were carried out or the measures were taken or refrained from, received adequate compensation for each legal transaction and has not been disadvantaged as a result of measures being taken or refrained from*" (see also "*Related Party Transactions*").

The shareholdings of Telefónica Group immediately following the closing of the Transaction will depend on the extent to which Telefónica, S.A., Telefónica Germany Holdings Limited or any of their affiliates will participate in the Offering. Assuming that Telefónica, S.A.'s indirect shareholding in the Company will only be increased due to the obligation of Telefónica Germany Holdings Limited to exercise all of its statutory subscription rights in the Rights Offering and by the acquisition of 4.4% of the shares in the Company (based on the number of shares in the Company after the implementation of both capital increases) from KPN pursuant to the SPA, Telefónica, S.A.'s indirect shareholding will amount to 62.1% of the shares in the Company immediately after the registration of the capital increase against contribution in kind with regard to the Consideration Shares (the "**Base Scenario**"). The proportionate shareholdings of the above listed direct and indirect shareholders of Telefónica Group will increase if and to the extent the below mentioned options to acquire additional shares from KPN are exercised.

In addition, on the first anniversary of the closing of the Transaction, Telefónica, S.A., based on a call option to be granted by KPN Mobile Germany, will further be entitled to acquire through its wholly-owned subsidiary Telefónica Germany Holdings Limited additional shares in the Company corresponding to up to 2.9% of the Company's total share capital issued and outstanding following the consummation of the Offering and the issuance of the Consideration Shares. Should Telefónica, S.A. acting through its wholly-owned subsidiary Telefónica Germany Holdings Limited exercise the call option in total, Telefónica, S.A. would indirectly own 65% of the shares in the Company based on the Base Scenario (KPN Mobile Germany's shareholding would then decrease to 17.6%). In addition, under the SPA for a period of five years from the closing of the

Transaction, Telefónica, S.A. or any company of the Telefónica Group is entitled to acquire shares in the Company held by KPN, if and to the extent KPN's (direct or indirect) shareholding, together with certain other parties' such as major KPN shareholders' shareholdings, in the Company exceed 22.6% of the then current share capital of the Company. Finally, Telefónica, S.A. also has a right of first offer, which may be assigned to any company of the Telefónica Group, to acquire any shares in the Company that KPN or its subsidiaries intend to sell via a private securities transaction relating to at least 3% of the then current total share capital of the Company.

RELATED PARTY TRANSACTIONS

In accordance with IAS 24, transactions with persons or companies which are, inter alia, members of the same group as the Company or which are in control of or controlled by the Company must be disclosed, unless they are already included as consolidated companies in our audited consolidated financial statements. Control exists if a shareholder owns more than one half of the voting rights in the Company or, by virtue of an agreement, has the power to control the financial and operating policies of the Company. The disclosure requirements under IAS 24 also extend to transactions with associated companies (including joint ventures) as well as transactions with persons who have significant influence on our financial and operating policies, including family members and intermediate entities. Set forth below is a summary of such transactions with related parties for the years ended December 31, 2013, 2012 and 2011 up to and including the date of this Prospectus. All business transactions with related parties are in our view made on arm's-length terms. Further information, including quantitative amounts of related party transactions are contained in the notes to the Consolidated Financial Statements 2013, the Consolidated Financial Statements 2012 and in the notes to our Unaudited Interim Condensed Consolidated Financial Statements, which are all included in the section "Financial Section" of this Prospectus.

In addition, related parties also include the members of the management board and supervisory board and close members of their families, as well as those entities over which the members of the management board and supervisory board or their close family members are able to exercise a significant influence or in which they hold a significant share of voting rights.

Described below are all material transactions and legal relationships which have existed between Telefónica Deutschland and/or other companies in Telefónica Group and the aforementioned related persons and entities in the years ended December 31, 2013, 2012 and 2011 up to and including the date of this Prospectus. Business relationships between companies of Telefónica Deutschland are not included.

OVERVIEW

Telefónica, S.A. indirectly owns a majority of the Existing Shares in the Company and, by virtue of its shareholding, controls and, subsequent to the Offering, will still control the Company within the meaning of the relevant provisions of the German Stock Corporation Act.

Telefónica Deutschland maintains several relationships with entities in the Telefónica Group. With respect to these relationships and in accordance with Section 312(1) AktG, the management board of the Company is required to prepare an annual dependency report about the relationships with associated corporations (*Abhängigkeitsbericht*) (see also "*Major Shareholder*").

We have entered into a number of transactions with entities in the Telefónica Group, pursuant to which we either receive products, rights and/or services from, or provide products, rights and/or services to, such entities. Among others, such transactions relate to (i) management consultancy and support services, (ii) our use of the Telefónica and O_2 brands in Germany, (iii) cost sharing in relation to areas of innovation, (iv) the coordination by a Telefónica Group entity of wholesale roaming services with third parties and discounts on roaming tariffs among Telefónica Group entities, (v) technology and software services and development by a Telefónica Group entity, (vi) insurance coverage from the Telefónica Group entity Telefónica Insurance S.A., (vii) network monitoring for us by a Telefónica Group entity and by us for a Telefónica Group entity, (viii) central functions services as well as operational and support functions we provide to certain Telefónica Group entities, (ix) outsourcing of our procurement function to a Telefónica Group entity, (x) services in respect of multinational sales activities, (xi) network connection services and (xii) operational human resources services. We believe all of the products, rights and services that we received from the Telefónica Group entities and that Telefónica Group entities received from us, were provided on an arm's length basis on terms substantially similar to those available from other providers in the market.

In addition, we are part of a Telefónica Group cash pooling arrangement and have entered into two loan facility agreements dated September 12, 2012 with the Telefónica Group entity TGB.V., as lenders, in the initial amounts of €1,250 million and €703 million, the latter of which we repaid on October 1, 2012.

AGREEMENTS WITH RELATED PARTIES

Management Services

We entered into a services agreement with O2 Limited (now O2 Holdings Limited) dated August 12, 2002 and amended on October 10, 2012, pursuant to which we are able to obtain management consultancy and support services from Telefónica Group entities in the UK and Spain in the following areas: legal, business development, strategy, global projects, corporate communications, finance, human resources, system maintenance, IT, insurance and technology. The term of the agreement is indefinite, and it may be terminated by either party with one month's written notice.

Telefónica Brand

We license Telefónica brand rights from Telefónica, S.A. pursuant to a license agreement dated January 1, 2011, as amended on August 29, 2012, for which we pay a royalty fee. Telefónica, S.A. manages the Telefónica trademarks and grants us rights to use and sublicense such trademarks in Germany in order to promote our products and services and to be identified as a member of the Telefónica Group. The license agreement is of unlimited duration and may only be terminated for good cause or if Telefónica, S.A. reduces its shareholding in the Company to below 51%. If the license is terminated due to a breach by us of the license agreement, we will have a period of at least six months to wind down use of the related brand rights. In connection with the license, we have also agreed to indemnify Telefónica, S.A. against losses incurred from third party claims relating to our use of the trademarks under the license agreement or losses caused by our failure to comply with applicable laws and regulations in Germany, our breach of the license agreement and our unauthorized use of the trademarks.

O_2 Brand

We license the O_2 brand from O2 Holdings Limited pursuant to a license agreement and participate in a group cost share agreement with O2 Holdings Limited and other Telefónica Group entities, both dated October 15, 2007 and as amended August 29, 2012 and June 20, 2013. O2 Holdings Limited owns and is responsible for, and bears the costs of central management and development and protection of, the O_2 brand rights. The other parties, including us, contribute to the costs incurred by O2 Holdings Limited as owner and manager of such brand rights. We do not pay a royalty for the use of the O_2 brand pursuant to the license agreement. The license territory is Germany and the license includes the right to sublicense. The terms of both the cost share agreement and license agreement are indefinite, and each agreement may only be terminated for good cause, including if we experience a hostile or unsolicited take-over. If the license and/or the group cost share agreement are terminated due to a breach by us of the license agreement and/or group cost share agreement or due to a change of control – other than in the event of a hostile or unsolicited take-over – we will have a minimum period of six months to wind down use of the related brand rights. In the event the cost share agreement is terminated due to a change of control that is not a hostile or unsolicited take-over, there will be a renegotiation of the license terms in good faith but no termination of the license.

This license is of critical importance to our business. If it is terminated, our business, financial condition and results of operations could be materially adversely affected (see "*Risk Factors – Risks Related to our Relationship with Telefónica, S.A. – We license the use of our primary brand O_2 from Telefónica Group and could be limited in our usage by the terms of the license agreement or for any other reason.*").

Areas of Innovation

The Telefónica Group has several departments, which are called "digital areas", that are working on the development of new business opportunities and technologies in areas including the following: cloud computing, propagation of video and digital content via home networks, applications, financial services, M2M and wireless security solutions and e-health (see "*Business – Products and Services – Digital Innovation*"). Until 2013, we participated in a cost share arrangement pursuant to which the related development and coordination costs are shared among the Telefónica Group entities that stand to benefit from such developments. Since 2014, our intention has been to license the portfolio of digital services from the Telefónica Group paying for the use of such portfolio mainly through revenue share schemes. A formalized agreement between us and Telefónica Digital Limited regarding the arrangement is currently under negotiation.

Wholesale Roaming Services and Intragroup Roaming Discounts

We entered into a service agreement with TGR effective as of December 5, 2009, in which both parties have agreed that TGR is entitled to represent us and carry out negotiations on our behalf in relation to a wholesale roaming business level with third parties (existing and potential roaming partners) as well as mutual roaming discounts with Telefónica Group entities. TGR guarantees minimum revenues levels linked to inbound roaming sales to third party operators and minimum total discounts linked to roaming costs.

The service agreement stipulates our right to be granted discounts by roaming partners and our obligation to grant discounts to roaming partners that have signed a roaming wholesale discount agreement. The single discount agreements signed with each roaming partner by TGR on our behalf may be terminated according to the terms and conditions under each agreement. As for intragroup discount agreements, we grant discounts on roaming wholesale charges with respect to the related inbound traffic generated by Telefónica Group entities and these entities grant us discounts on roaming wholesale charges with respect to our outbound traffic. TGR negotiates and agrees on our behalf the amount of such discounts with the other group entities on an annual basis. TGR also develops and coordinates traffic steering policies with the aim to optimize our and Telefónica Group's financial position.

The service agreement remains effective for an indefinite period whereas each year the agreement is reviewed by both parties and is subject to amendments as required (schedule revision). Amendments to the service agreement are in effect until December 31 of each calendar year ("**Eligible Term**"). Nonetheless the service agreement grants termination for good cause or due to a change of control of one of the parties.

Per a signed addendum dated May 1, 2012, TGR has outsourced certain settlement and paying services in relation to wholesale roaming services to TGB.V., which also provides such services to other Telefónica Group entities. Under this agreement, TGB.V. collects fees on our behalf and provides other services related thereto.

Procurement of VPN Site Networking

We have entered into an agreement (Master Service Agreement) with Telefónica International Wholesale Services, S.L. ("**TIWS**") effective as of May 17, 2013, which governs the conditions for the procurement of VPN site networking via TIWS as part of the global managed wide area network ("**mWAN**") project.

Technology, Software and Network Services

We have entered into an agreement dated December 13, 2010 with Telefónica Global Technology, S.A.U. ("**TGT**"), regarding the provision of its SAP system. Pursuant to the agreement, TGT provides us the license for various functions of the SAP software, including, among others, management of collections, recoveries, finance, agencies, late payments and customer help desk, budgeting planning and consolidation, logistics and point of sale, internal audit, and human resources as well as silent factoring and supplier relationship management. In addition, TGT provides the following services: prevention services, corrective, adaptive, evolutionary and master data maintenance services, management service for new projects, operating services, SAP management services, user support services and access service. For the software and services, we are required to pay TGT a market-based fee. The initial term of the agreement is until December 31, 2014, subject to five automatic renewals of one year periods, unless terminated with six months' notice by either party. The agreement may also be terminated for good cause, including due to a change of control. Upon any such termination, we will have a period of one year to transition the services to a new provider.

We have entered into a further agreement with TGT dated May 3, 2011 regarding the provision and operation of our desktop workplace and e-mail system. Pursuant to the agreement, TGT provides us the software as well as the tools, network connectivity, and IP communications services. For the software and services, we are required to pay TGT a market-based fee. The initial term of the agreement is until December 31, 2015, subject to five automatic renewals of one year periods, unless terminated by us with six months' notice prior to expiration of the initial term or any renewal period. The agreement may also be terminated by either party for cause, or by TGT if we experience a change of control. Upon any such termination, we will have a period of one year to transition the services to a new provider.

We have entered into an agreement with TGT dated August 1, 2014 to migrate our current local data centers mainly into one of TGT's operated Tier IV gold certified data centers in Spain. The contract will have a term of five years.

We have entered into an agreement with Telefónica Global Applications S.L. ("**TGA**") dated August 1, 2011, pursuant to which TGA has the responsibility to work with developers on our behalf regarding the development, marketing and distribution of mobile applications. TGA's obligations include selecting applications to be licensed to us and contracting with application developers for specific applications, interfacing in all respects with developers regarding the development of mobile applications, obtaining licenses to applications from developers and providing sublicenses for such applications to us. The agreement with TGA was terminated with effect as of June 30, 2013.

We have entered into two agreements with O2 Czech Republic a.s. ("**O2 Czech**") pursuant to one of which O2 Czech provides monitoring services for our fixed-line networks and pursuant to the other of which we provide monitoring services for O2 Czech's mobile network, each signed August 29, 2011. For the monitoring of our fixed-line network, we are required to pay O2 Czech a market-based fee. For the monitoring of its mobile network, O2 Czech is required to pay us a market-based fee. Each agreement has an initial term until December 31, 2015. The parties will mutually inform each other 12 months prior to expiration whether they wish to negotiate and agree to an extension of the agreements. The agreements may only be terminated for good cause during the initial term, including due to a change of control. In February 2014, O2 Czech was sold to a third party and ceased to be a member of the Telefónica Group. According to an amendment agreement dated November 4, 2013 to the framework agreement for the provision of monitoring services for O2 Czech's mobile network, both parties waived their right to terminate the agreement due to a change of control event. However, the agreement may be terminated by either party with six months' prior written notice provided that the termination may not take effect prior to February 1, 2015.

We have entered into an interconnection agreement with Telefónica Digital Inc. (formerly Jajah, Inc.), pursuant to which we provide Telefónica Digital Inc. with connections to our network and Telefónica Digital Inc. provides us connections to Telefónica Digital Inc.'s network for the purpose of termination of telecommunications traffic in the respective networks, as well as for the conducting of telecommunications traffic via the network of one party into the telecommunications network of a third party that is connected to such party's network. For the mutual services provided under the agreement, the parties pay each other market-based fees. The agreement is for an unspecified duration and, other than for good cause, can be terminated by either party with three months' prior written notice.

Insurance

We maintain insurance policies from Telefónica Insurance S.A., an insurance company in the Telefónica Group registered in Luxembourg, for insurance against damages to property and business interruption (including internet risks and criminality), for general public liability insurance, insurance for pure financial loss and public liability insurance for media content. The insurance program is managed and implemented by Pleyade Peninsular Correduria de Seguros, S.A. in Madrid, a Telefónica Group entity. Our insurance contracts with Telefónica Insurance S.A. for general liability, financial loss and media content as well as damages resulting from a breach of patent, employment law and pension related disputes were terminated with effect as of June 30, 2013. The policies for the above-mentioned risks were subsequently concluded with a third party insurance company with effect as of July 1, 2013. Our all risk insurance contract, which covers insurance against damages to property and business interruption, remains unchanged with Telefónica Insurance S.A.

We have entered into a distribution agreement with Telefónica Insurance S.A. and ACE European Group Limited dated November 14, 2103 regarding the sales and marketing of mobile phone insurance via the O_2 channels. OHG offers its customers this insurance and makes use of Telefónica Insurance S.A. as the insurance company. ACE European Group Limited acts here as the re-insurer. The distribution agreement replaces the former agreement that was in place until November 13, 2013 between OHG and Telefónica Insurance S.A.

Multinational Sales Activities

We benefit from the multinational sales activities coordinated by the Telefónica Group global unit Telefónica Multinational Solutions ("**TMS**"). TMS has its own central budget and employees at the Telefónica, S.A. level and each of the participating Telefónica Group entities dedicates a number of employees and resources to TMS activities. The function of TMS is to manage the relationship with the top 200 worldwide major customers ("**MNCs**") of the Telefónica Group and to offer MNCs global products by operating across Telefónica Group units in various jurisdictions. The goal of each local TMS group, having a relationship with an MNC, is to conclude a master agreement for Telefónica Group services with such MNC. The services to be provided under the master agreement are then performed by other Telefónica Group entities in addition to the entity holding the master agreement (the "**Lead Operator**"). The Lead Operator typically provides central services (such as central billing) and receives a market-based percentage of the turnover generated by the other Telefónica Group entities that perform such services or receives a compensation for such services directly from a customer. As such, with respect to any MNC that has concluded a master agreement, we either may pay fees to another Telefónica Group entity if it is the Lead Operator for such MNC or other Telefónica Group entities may pay fees to us if we are the Lead Operator for such MNC.

Human Resources Services

We have entered into a services agreement with the Ireland-based Telefónica Europe People Services Limited, effective October 10, 2010, for the provision of operational human resources and employment related services to us. The agreement is for a period of three years from the effective date. Either party may terminate the agreement at any time by giving the other party six months' prior notice. The agreement may also be terminated for good cause. We are currently renegotiating a new agreement with Telefónica Europe People Services Limited.

Central Functions Services and Support Functions

We have entered into a framework agreement with TGS effective as of January 1, 2010 and a framework agreement with TGR effective as of January 1, 2010. Pursuant to these framework agreements, we conclude individual service agreements with TGR and TGS, pursuant to which we provide central services as well as operational and support functions to TGR and TGS. Individual agreements have been concluded for, among others, facility, finance and accounting, human resources, IT, legal, risk management and internal audit services. For the services provided under these individual agreements, TGR and TGS pay us market-based fees. The individual agreements concluded under the framework agreements are generally for an indefinite term and may generally be terminated with three months' notice.

Procurement

We have entered into a services agreement with TGS dated October 6, 2010, pursuant to which we have outsourced our procurement process to TGS. Pursuant to the agreement, TGS conducts the purchase of all kinds of goods and services and performs all related procurement processes including tenders, evaluations and negotiations on our behalf. TGS also performs upfront planning, supplier management, contract management and reporting for us. For these services, we are required to pay TGS a market-based fee. The agreement is for an indefinite term and can be terminated by us with six months' prior notice. The agreement may also be terminated for good cause.

Deposit and Cash Management Agreements

We have been party to the cash management system used by the Telefónica Group. In this regard, we have entered into certain deposit and cash management agreements with TGB.V. Cash throughout the Telefónica Group is centralized through these arrangements, allowing us to benefit from the economies of scale from the overall Telefónica Group as well as, among other things, from the in-house liquidation of payables and receivables between us and the participating members of the Telefónica Group. Under the cash pooling arrangements, the entire cash surplus available on those of our bank accounts which are included in the cash pool is automatically transferred on a daily basis to master bank accounts held by TGB.V. In addition, we are also able to use other ways to deposit funds on the cash pool account and settle receivables from, and payables to, Telefónica Group companies and third parties via the cash pool. We are able to draw from this pooled account certain amounts exceeding the amount of our cash contributions, up to a maximum amount of €39 million, which helps us to satisfy our working capital requirements. The amount which may be included in the cash pool is capped at an amount equal to our 18-month free cash flow. In addition, we are entitled to make cash deposits for periods between one and up to 12 months in separate accounts. For positive balances in the cash pool account, we are paid a rate of interest set by a reference rate (Libor or Euribor, depending on the relevant currency), plus/less a margin based on market prices. For deposits made in separate accounts for a period between one and up to 12 months we agree with Telefónica Group on the applicable interest rate in each individual case. Similarly, we will be charged interest when we borrow money from the pool exceeding our contributed cash amounts. The interest rate for borrowings is based on a reference rate (Libor or Euribor, depending on the relevant currency), plus a margin based on market prices. The deposit and cash management agreements are automatically renewed every calendar year unless terminated by either party prior to the end of a contractual year upon 30 business days' notice or immediately in certain circumstances, such as failure to make payments requested under the agreement or if we reasonably believe that our repayment claims under the arrangements are not fully recoverable. Subject only to the general legal rules for the set-off of claims, any claims for the repayment of deposits made under the deposit and cash management agreement can be off-set against liabilities under loans granted to us by TGB.V., including, in the case of OHG, the existing loan facility described below under "– *Financing Agreement*." In addition, we have significant information rights under the deposit and cash management agreements with regard to the financial condition of Telefónica, S.A. and TGB.V. This helps us to determine whether we may continue participating in the cash pooling or whether any termination rights are triggered and should be exercised. Telefónica, S.A. has guaranteed TGB.V.'s obligations under the cash pool arrangements.

Financing Agreement

OHG has entered into a loan agreement dated September 12, 2012 with the Telefónica Group entity TGB.V. as lender, pursuant to which TGB.V. provided a loan facility (the "**Facility**") in the initial aggregate amount of €1,250 million, bearing interest at the rate of 3-month Euribor plus a margin of initially 120 basis points, increasing by 40 basis points per year, accruing on a daily basis after drawdown of funds on the basis of a 360 day year. As of the date of this Prospectus, the outstanding amount under the Facility is €725 million. The Facility has a repayment schedule of 20% per year until 2017. OHG has the right to prepay the Facility, in whole or in part in a minimum amount of €100,000, on any interest payment date or subject to payment of a market-based breakage fee. The Facility is also subject to a mandatory prepayment in the event that OHG obtains financing that matures after September 13, 2017, in the amount of 25% of the proceeds received from such financing which will be applied as a prepayment of the Facility. Default interest of an additional 2 percentage points on top of the applicable interest rate will apply if OHG fails to comply with any of its payment obligations under Facility for any reason. The Facility contains certain restrictive covenants, including with respect to disposals of assets, creations of liens, and mergers and consolidations. Upon an event of default, the Facility will be accelerated and all amounts owing under the Facility will become immediately due for repayment. Events of default under the Facility include, among others, breach of Facility, in particular a payment breach, an insolvency or similar event, a breach of payment obligations with respect to other indebtedness, and if OHG experiences a change of control. For the impact of the Facility on our financial position and results of operations, see "*Capitalization and Indebtedness*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Long-term Financing Arrangements*".

We have entered into a short-term loan agreement dated as of September 12, 2012 with TGB.V., as lender. Pursuant to such loan agreement, we borrowed an amount of €703 million from TGB.V., which amount was entirely repaid as of October 1, 2012.

Indemnification and Cost Reimbursement Agreement

In preparation of the initial public offering of the Company in October 2012, we have entered into an indemnification and cost reimbursement agreement with Telefónica Germany Holdings Limited, an entity in the Telefónica Group. Under this agreement, Telefónica Germany Holdings Limited agreed (i) to indemnify us from certain liability risks and (ii) to assume the transaction costs, in each case arising out of or in connection with the initial public offering of the Company. The costs of the initial public offering were invoiced in the year ended December 31, 2013 and settled in the year ending December 31, 2014.

CORPORATE DEVELOPMENTS

Prior to the Company's initial public offering in October 2012, G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its indirectly held 40% interest in Adquira España S.A., ceased to be members of our group as of October 1, 2012 as a result of the following transactions:

Based on a sales purchase agreement dated September 27, 2012, effective October 1, 2012, 0.00 a.m., OHG sold to TGB.V., having its corporate seat in the Netherlands, an indirect 100% subsidiary of Telefónica, S.A., all its shares in Telefónica Global Activities Holdings B.V. (former Telefónica Chile Holding B.V.), having its corporate seat in the Netherlands, for a total purchase price of €703 million. Telefónica Global Activities Holdings B.V. is a shell company acquired by OHG for the purpose of the transaction described below.

Prior to the sale of all its shares in Telefónica Global Activities Holdings B.V., OHG had (i) contributed to TGR, through TGS, all of its rights and obligations under a loan agreement with G3G, and (ii) contributed to Telefónica Global Activities Holdings B.V. all of its shares in its directly and indirectly held subsidiaries G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its indirectly held 40% interest in Adquira España S.A.

As of September 30, 2012, 12.00 p.m., all existing profit and loss transfer agreements between OHG and each of G3G, Quam, TGS and TGR were terminated. Creditors of G3G, Quam, TGS and TGR were entitled to request OHG to provide security for claims against one of these entities which had been established (*begründet*) prior to registering the termination of the respective profit and loss transfer agreements in the commercial register. Prior to such termination, prepayments on expected profits were made under these agreements in the total amount of €854.5 million in 2012 (net of a prepayment on an expected loss balance obligation arising from the profit and loss transfer agreements).

Pursuant to the sales purchase agreement with TGB.V., the total net amount of any additional profit transfer payments to OHG as well as the total net amount of any repayments or additional loss assumption to be compensated by OHG shall be fully neutralized from a financial perspective by a corresponding adjustment of the purchase price for the shares in Telefónica Global Activities Holdings B.V. This was effective as of December 31, 2013 by TGB.V.

RELATIONSHIPS WITH MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

For an overview regarding the compensation, shareholding and stock incentives of the members of the management board and supervisory board, see "*Management and Governing Bodies – Management Board*" and "*Management and Governing Bodies – Supervisory Board*".

RECEIVABLES AND LIABILITIES TO RELATED PARTIES

The table below set forth our receivables and liabilities against companies of the Telefónica Group as of December 31, 2013, 2012 and 2011 and as of June 30, 2014:

	As of December 31,			As of June 30,
	2013	**2012**	**2011**	**2014**
	(in €thousands)			
	(audited)			*(unaudited)*
Receivables from Telefónica Group	**727,180**	**335,028**	**4,265,882**	**1,019,314**
that are recognized in the following items in the Consolidated Statement of Financial Position:				
Cash and cash equivalents (cash pooling)	700,548	308,154	1,333,425	998,523
Financial Assets	–	101	2,887,051	–
Trade and other receivables	26,632	26,773	45,406	20,791
Liabilities to Telefónica Group	**1,101,267**	**1,492,776**	**149,389**	**958,652**
that are recognized in the following items in the Consolidated Statement of Financial Position:				
Trade payables	219,958	210,802	144,553	201,245
Other payables	30,575	31,096	4,836	31,918
Interest-bearing debt	850,734	1,250,878	–	725,489

REVENUES, OTHER INCOME AND EXPENSES TO RELATED PARTIES

The table below set forth our revenues, other income and expenses with companies of the Telefónica Group for the years ended December 31, 2013, 2012 and 2011 and the six months ended June 30, 2014:

	For the year ended December 31,			For the six months ended June 30,
	2013	**2012**	**2011**	**2014**
	(in €thousands)			
	(audited)			*(unaudited)*
Revenues and other income / Sales of goods and services, other income and other transactions	**44,675**	**193,868**	**231,939**	**14,013**
Expenses / Purchase of goods and services, other expenses and other transactions	**(150,832)**	**(139,561)**	**(111,278)**	**(52,418)**

UNDERWRITING

INTRODUCTION

The Company and the Underwriters have entered into an Underwriting Agreement dated September 9, 2014, pursuant to which the Underwriters have severally agreed, subject to certain terms and conditions, to: (i) subscribe for the Offer Shares in the percentages set forth below at the lowest issue price (*geringster Ausgabebetrag*) of €1.00 per Offer Share and offer them for subscription to existing shareholders and holders of Subscription Rights in the Rights Offering at the Subscription Price during the Subscription Period, and (ii) offer the Rump Shares that may remain unsubscribed for in the Rights Offering either in the International Offering to institutional investors in certain jurisdictions at a price which shall not be less than the Subscription Price or via the Dribble-Out. Any Offer Shares not purchased after the completion of the Offering will be purchased by the Underwriters at the Subscription Price. The difference between the lowest issue price of €1.00 per Offer Share and the Subscription Price and, if any, between the Subscription Price and the price at which the Rump Shares are either sold to institutional investors or via the Dribble-Out, respectively, shall be paid by the Underwriters to the Company, less commissions and expenses payable to the Underwriters.

As part of the Rights Offering, the Offer Shares will be offered by the Underwriters to the public in Germany and Luxembourg. As part of the International Offering, the Rump Shares are being offered and sold by the Underwriters: (i) in the United States only to persons reasonably believed to be QIBs in reliance on Rule 144A under the Securities Act; and (ii) outside the United States in compliance with Regulation S. The Dribble-Out will take place solely outside the United States pursuant to Regulation S under the Securities Act. Prospective purchasers of the Rump Shares are hereby notified that the Underwriters may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

UNDERWRITERS

Pursuant to the terms of the Underwriting Agreement and subject to certain conditions, each Underwriter will underwrite the percentage of Offer Shares set forth below opposite the Underwriter's name:

Underwriters		Percentage of Offer Shares
HSBC Trinkaus & Burkhardt AG	Königsallee 21/23, 40212 Duesseldorf Germany	17.25
UBS Limited	1 Finsbury Avenue London EC2M 2PP United Kingdom	17.25
Citigroup Global Markets Limited	Citigroup Centre, 33 Canada Square Canary Warf London E14 5LB United Kingdom	17.25
Morgan Stanley & Co. International plc	25 Cabot Square Canary Wharf London E14 4QA United Kingdom	17.25
Merrill Lynch International	2 King Edward Street London EC1A 1HQ United Kingdom	7.0
J.P. Morgan Securities plc	25 Bank Street London E14 5JP United Kingdom	7.0
Bayerische Landesbank	Brienner Str. 18 80333 Munich Germany	2.125
Société Générale	29 Boulevard Haussmann 75009 Paris France	2.125
Banco Bilbao Vizcaya Argentaria S.A.	Plaza de San Nicolas 4 48005 Bilbao Spain	2.125
COMMERZBANK Aktiengesellschaft	Kaiserstraße 16 (Kaiserplatz) 60311 Frankfurt am Main Germany	2.125
BNP Paribas	16, boulevard des Italiens 75009 Paris France	2.125
UniCredit Bank AG	Arabellastr. 14 81925 Munich Germany	2.125
Banco Santander, S.A.	Pasco Pereda, 9-12 39004 Santander Spain	2.125
Mediobanca – Banca di Credito Finanziario S.p.A.	Piazzetta Enrico Cuccia 1 20121 Milan Italy	2.125

The obligations of the Underwriters under the Underwriting Agreement are subject to certain conditions that are customary for an agreement of this nature. These conditions include, among other things, that Telefónica, S.A. shall have subscribed and paid for its committed amounts of the Offer Shares at the Subscription Price, as described in "– *Participation of Telefónica, S.A.*" below, the accuracy of the representations and warranties of the Company in the Underwriting Agreement and the receipt of standard legal opinions that the Underwriters deem satisfactory.

The Company has given customary representations and warranties to the Underwriters, including in relation to the Company's business and legal compliance, in relation to the Existing Shares and the Offer Shares and in relation to the contents of this Prospectus.

COMMISSIONS

The Company will pay the Underwriters a base fee of 1.75% of the aggregate Subscription Price for the Offer Shares (excluding Offer Shares attributable to Telefónica, S.A. as of the date of this Prospectus) and, to the extent differing, the aggregate price for the Rump Shares actually placed with investors. In addition to the base fee, the Company will pay the Underwriters a discretionary fee of up to 0.5% of the aggregate Subscription Price for the Offer Shares (excluding Offer Shares attributable to Telefónica, S.A. as of the date of this Prospectus) and, to the extent differing, the aggregate price for the Rump Shares actually placed with investors, payable entirely at the sole discretion of the Company. The decision to pay any discretionary fee and its amount are within the sole discretion of the Company. The fees payable to the Underwriters by the Company in connection with the Offering amount to an aggregate of approximately €19 million (including the base fee and a discretionary fee). According to separate agreements, the Joint Global Coordinators are entitled to fees for underwriting commitments in a total amount of €7 million. The Company has also agreed to reimburse the Underwriters for certain expenses incurred by them in connection with the Offering.

TERMINATION AND INDEMNITY

The Underwriters may, under certain circumstances, terminate the Underwriting Agreement and their respective commitments thereunder, including after the Offer Shares have been allotted and listed, up to the time of delivery and settlement. These circumstances include, in particular, the occurrence of certain material adverse changes in the earnings, business affairs, condition (financial and operational, legal or otherwise), or prospects of the Company and its subsidiaries, taken as a whole, and certain changes in, among other things, certain national or international political, financial or economic conditions. If the Underwriting Agreement is terminated prior to registration of the implementation of the Capital Increase in the Commercial Register, the Offering will not take place, in which case any allocations of Offer Shares to investors will be invalidated and investors will not have any claim to delivery of Offer Shares. See also "*Risk Factors – Risks Related to the Offering, the Subscription Rights and the Offer Shares – The Underwriters involved in this Offering have the right to withdraw from the underwriting agreement under certain circumstances. Should the Offering not be conducted due to such a withdrawal, the Subscription Rights will expire and be rendered worthless.*" and "*The Offering – Subscription Offer – Important Notice*".

The Company also has agreed in the Underwriting Agreement to indemnify the Underwriters against certain liabilities that may arise in connection with the Offering, including liabilities under applicable securities laws.

PARTICIPATION OF TELEFÓNICA, S.A.

Telefónica, S.A., indirectly holding in aggregate 76.83% of the current share capital in the Company, has irrevocably committed towards the Joint Global Coordinators (as representatives of the Underwriters) to subscribe in full through its wholly-owned subsidiary Telefónica Germany Holdings Limited for the issued Offer Shares attributable to its indirect shareholding in the Company.

LOCK-UP AGREEMENTS

The Company and Telefónica, S.A. have agreed with the Underwriters to certain lock-up arrangements. See "*The Offering – Lock-Up Agreements*".

SELLING AND TRANSFER RESTRICTIONS

GENERAL

The grant of Subscription Rights and issue of Offer Shares upon the exercise of Subscription Rights and the offer of unsubscribed Offer Shares to persons resident in, or who are citizens of, countries other than Germany and Luxembourg, may be affected by the laws of the relevant jurisdiction. Investors should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to exercise Subscription Rights or otherwise subscribe for Offer Shares.

The Company is not taking any action to permit a public offering of the Subscription Rights or the Offer Shares (pursuant to the exercise of the Subscription Rights or otherwise) in any jurisdiction other than Germany and Luxembourg. Receipt of this Prospectus will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this Prospectus is for information only and should not be copied or redistributed. Except as otherwise disclosed in this Prospectus, if an investor receives a copy of this Prospectus in any jurisdiction other than in Germany and Luxembourg, the investor may not treat this Prospectus as constituting an invitation or offer to it, nor should the investor in any event deal in the Subscription Rights or the Offer Shares, unless, in the relevant jurisdiction, such an invitation or offer could lawfully be made to that investor, or the Subscription Rights or the Offer Shares could lawfully be dealt in without contravention of any unfulfilled registration or other legal requirements. Accordingly, if an investor receives a copy of this Prospectus, the investor should not distribute or send the same, or transfer Subscription Rights or Offer Shares, to any person or in or into any jurisdiction where to do so would or may contravene local securities laws or regulations.

If any person (including a financial intermediary) forwards this Prospectus into any such territories (whether under a contractual or legal obligation or otherwise), such person should draw the recipient's attention to the contents of this section. Except as expressly noted in this Prospectus: (i) the Subscription Rights and the Offer Shares being granted or offered, respectively, in the Offering may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into, any of the member states of the EEA that have implemented the Directive 2001/34/EC (the "**Prospectus Directive**") (other than Germany and Luxembourg), unless they are granted or offered pursuant to applicable exemptions under the Prospectus Directive, or in or into Australia, Canada and Japan and, subject to certain exceptions, the United States, or any other jurisdiction in which it would be forbidden to offer the Subscription Rights or the Offer Shares (each, an "**Ineligible Jurisdiction**"); (ii) this Prospectus may not be sent to any person in any Ineligible Jurisdiction; and (iii) the crediting of the Subscription Rights to an account of a shareholder or other person in an Ineligible Jurisdiction or a citizen or resident of an Ineligible Jurisdiction (each, an "**Ineligible Person**") does not constitute an offer to such persons to sell or purchase the Offer Shares. Ineligible Persons may not exercise Subscription Rights or purchase Offer Shares.

If an investor takes up, delivers or otherwise transfers Subscription Rights, exercises Subscription Rights to obtain Offer Shares or trades or otherwise deals in Subscription Rights or Offer Shares being granted or offered, respectively, in the Offering, that investor will be deemed to have made, or, in some cases, be required to make, the following representations and warranties to the Company and any person acting on its behalf, unless the Company waives such requirement:

- the investor is not located in an Ineligible Jurisdiction;
- the investor is not an Ineligible Person;
- the investor is not acting, and has not acted, for the account or benefit of an Ineligible Person;
- unless the investor is a holder of Shares and a QIB, the investor is located outside the United States, and any person for whose account or benefit it is acting on a non-discretionary basis is located outside the United States and, upon acquiring Offer Shares, the investor and any such person will be located outside the United States;
- the investor understands that neither the Subscription Rights nor the Offer Shares being granted and offered in the Offering have been or will be registered under the Securities Act and that neither may be offered, sold, pledged, resold, delivered, allotted, taken up or otherwise transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act; and
- the investor may lawfully be offered, take up, subscribe for and receive the Subscription Rights and Offer Shares being offered in the Offering in the jurisdiction in which it resides or is currently located.

The Company, the Underwriters and any other persons acting on behalf of the Company will rely upon the investor's representations and warranties. Any provision of false information or subsequent breach of these representations and warranties may void a transaction in the Subscription Rights or the Offer Shares and subject the investor to liability.

If a person is acting on behalf of a holder of Subscription Rights (including, without limitation, as a nominee, custodian or trustee), that person will be required to provide the foregoing representations and warranties to the Company with respect to the exercise of Subscription Rights on the holder's behalf. If such person cannot provide the foregoing representations and warranties, the Company will not be bound to authorize the allocation of any of the Subscription Rights or the Offer Shares to that person or the person on whose behalf the other is acting.

Subject to the specific restrictions described below, if an investor (including, without limitation, its nominees and trustees) located outside Germany and Luxembourg wishes to exercise or otherwise deal in Subscription Rights or subscribe for the Offer Shares, the investor must satisfy itself as to full observance of the applicable laws of any relevant jurisdiction, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories. The information set out in this section is intended as a general guide only. If the investor is in any doubt as to whether it is eligible to exercise its Subscription Rights or otherwise subscribe for the Offer Shares, that investor should consult its professional adviser without delay.

As regards shareholders who on the Record Date hold Shares through a financial intermediary, all Subscription Rights will initially be credited to the intermediary. A financial intermediary may not exercise any Subscription Rights on behalf of any person in the Ineligible Jurisdictions or any Ineligible Persons and may be required in connection with any exercise of Subscription Rights to certify the same. Subject to certain exceptions, financial intermediaries are not permitted to send this Prospectus or any other information about the Offering into any Ineligible Jurisdiction or to any Ineligible Persons. The crediting of Subscription Rights to the account of persons in Ineligible Jurisdictions or to Ineligible Persons does not constitute an offer of Offer Shares to such persons. Financial intermediaries, which include brokers, custodians and nominees, holding for Ineligible Persons may consider selling any and all Subscription Rights held for the benefit of such persons to the extent permitted under their arrangements with such persons and applicable law and to remit the net proceeds to the accounts of such persons.

Subject to certain exceptions, exercise instructions sent from or postmarked in any Ineligible Jurisdiction will be deemed to be invalid, and the Offer Shares being offered in the Offering will not be delivered to an addressee in any Ineligible Jurisdiction. The Company reserves the right to reject any exercise (or revocation of such exercise) in the name of any person who provides an address in an Ineligible Jurisdiction for acceptance, revocation of exercise or delivery of such Offer Shares, who is unable to represent or warrant that such person is not in an Ineligible Jurisdiction and is not an Ineligible Person, who is not acting on a discretionary basis for such persons, or who appears to the Company or its agents to have executed its exercise instructions or certifications in, or dispatched them from, an Ineligible Jurisdiction. Furthermore, the Company reserves the right, with sole and absolute discretion, to treat as invalid any exercise or purported exercise of Subscription Rights which appear to it to have been executed, effected or dispatched in a manner that may involve a breach or violation of the laws or regulations of any jurisdiction.

Despite any other provision of this Prospectus, the Company reserves the right to permit a holder to exercise its Subscription Rights if the Company, in its absolute discretion, is satisfied that the transaction in question is exempt from or not subject to the laws or regulations giving rise to the restrictions in question. Applicable exemptions in certain jurisdictions are described further below. In any such case, the Company does not accept any liability for any actions that a holder takes or for any consequences that it may suffer by them accepting the holder's exercise of Subscription Rights.

UNITED STATES

The Subscription Rights and the Offer Shares have not been, and will not be, registered under the Securities Act or under the securities laws of any state of the United States and, accordingly, may not be offered or sold, directly or indirectly, in or into the United States, unless registered under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Accordingly, the Subscription Rights and the Offer Shares are being offered in the United States only to QIBs in reliance on the exemption from registration provided by Rule 144A under the Securities Act. Terms used in this section are used as defined in Regulation S and/or Rule 144A.

Each holder of the Subscription Rights or the Offer Shares distributed, offered or sold in the United States, by accepting delivery of this Prospectus or by its acquisition of the Subscription Rights or subscription for the Offer Shares, will be deemed to have represented and agreed, *inter alia*, on its behalf and on behalf of any investor accounts for which it is acquiring Subscription Rights or subscribing for the Offer Shares, as the case may be, that:

1. it is authorized to consummate the purchase of the Subscription Rights or the Offer Shares in compliance with all applicable laws and regulations;

2. it acknowledges that the Subscription Rights and the Offer Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to restrictions on transfer;

3. the purchaser: (i) is a QIB; (ii) is aware, and each beneficial owner of such Subscription Rights or Offer shares has been advised, that the sale of the Subscription Rights or the Offer Shares is being made pursuant to an exemption from the registration requirements of the Securities Act; and (iii) is acquiring such Subscription Rights or Offer Shares for its own account or for the account of a QIB (in which case he agrees and represents on the behalf of such person), as the case may be, or it is exercising, subscribing for or otherwise acquiring the Subscription Rights or Offer Shares in an offshore transaction in accordance with Rule 903 or 904 of Regulation S;

4. if in the future, the purchaser decides to offer, resell, pledge or otherwise transfer such Subscription Rights or Offer Shares, or any economic interest therein, such Subscription Rights or Offer Shares or any economic interest therein may be offered, sold, pledged or otherwise transferred only; (i) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; (ii) in compliance with Regulation S under the Securities Act; or (iii) in accordance with Rule 144 under the Securities Act (if available), in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction;

5. it acknowledges that the Subscription Rights Offer Shares acquired or subscribed for by it are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and no representation is made as to the availability of the exemption provided by Rule 144 for resales of any Subscription Rights or Offer Shares;
6. the purchaser will not deposit or cause to be deposited such Subscription Rights and Offer Shares into any depositary receipt facility established or maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility, so long as such Subscription Rights and Offer Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act;
7. if it is acquiring any Subscription Rights or Offer Shares as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of such account; and
8. the Company, the Underwriters and each of their respective affiliates and agents will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Until 40 days after the commencement of the Offering, an offer, sale or transfer of the Subscription Rights or Offer Shares within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act.

The Subscription Rights and the Offer Shares offered hereby have not been approved or disapproved or recommended by any U.S. federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not passed upon the merits of the Offering, the Subscription Rights or the Offer Shares or confirmed the accuracy or completeness or determined the adequacy of this Prospectus. Any representation to the contrary is a criminal offense in the United States.

In the United States, this Prospectus is being furnished on a confidential basis solely for the purpose of enabling a prospective purchaser to consider purchasing the particular securities described herein. The information contained in this Prospectus has been provided by the Company and the other sources identified in the Prospectus. Distribution of this Prospectus to any person other than the offeree specified by the Company and those persons, if any, retained to advise such offeree with respect thereto, is unauthorized, and any disclosure of its contents, without the prior written consent of the Company, is prohibited. Any reproduction or distribution of this Prospectus in the United States, in whole or in part, and any disclosure of its contents to any other person is prohibited. This Prospectus is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the securities described herein. Investors agree to the foregoing by accepting delivery of this Prospectus.

Notice to New Hampshire Residents Only

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Available Information for Investors in the United States

Neither the Company nor any of its subsidiaries is required to file periodic reports under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended ("**Exchange Act**"). For so long as any Ordinary Shares are "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) of the Exchange Act, provide, upon written request, to holders of Ordinary Shares, any owner of any beneficial interest in Ordinary Shares or any prospective purchaser designated by such holder or owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

EUROPEAN ECONOMIC AREA

In any member state of the European Economic Area (EEA) that has implemented Directive 2003/71/EC of the European Parliament and of the Council of November 4, 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending the Prospectus Directive and to the extent a member state of the EEA has implemented Directive 2010/73/EC of the European Parliament and the Council amending the Prospectus Directive (the "**Amended Prospectus Directive**"; any reference herein to the Prospectus Directive shall be read as a reference to the Amended Prospectus Directive) (each, a "**Relevant Member State**"), each Underwriter will represent and agree that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of the Subscription Rights and/or the Offer Shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Subscription Rights and/or the Offer Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Offer Shares to the public in that Relevant Member State at any time:

- directed exclusively to any legal entity which is authorized or regulated to operate in the financial markets or whose sole corporate purpose is to invest in securities;
- directed exclusively to any legal entities that have met two or more of the following criteria as shown in their most recent annual or consolidated financial statements: (1) an average of at least 250 employees during the last financial year; (2) total assets of more than €43,000,000; and (3) annual net revenue of more than €50,000,000;
- to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive subject to obtaining the prior consent of the Joint Global Coordinators nominated by the Company for any such offer; or
- in any other circumstances which do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive by the Company.

For the purposes of this provision, the expression an "offer to the public" in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares, as such expression may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. For the purposes of this provision, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto), and includes any relevant implementing measure in the Relevant Member State.

Each person in a Relevant Member State, other than persons receiving offers contemplated in the Prospectus in Germany, who receives any communication in respect of, or who acquires any Offer Shares under, the offers contemplated hereby will be deemed to have represented, warranted and agreed to and with each of the Underwriters and us that:

1. it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
2. in the case of any Offer Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Offer Shares acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in other circumstances falling within Article 3(2) of the Prospectus Directive and the prior consent of the Joint Global Coordinators has been given to the offer or resale; or (ii) where Offer Shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Offer Shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this provision, the expression an "offer" in relation to any of the Offer Shares in any Relevant Member States means the communication in any form and by any means of sufficient information on the terms of the offer and any Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

UNITED KINGDOM

This Prospectus has not been submitted to the clearance procedures of the United Kingdom Listing Authority and is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (iii) are persons falling within Article 49(2)(a) to (d) (all such persons in (ii) and (iii) being referred to as "high net worth companies, unincorporated associations, etc.") of the Order (all such persons together being referred to as "relevant persons"). The Offer Shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Offer Shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

TAXATION

TAXATION IN THE FEDERAL REPUBLIC OF GERMANY

General

This section describes some key German taxation principles that may become relevant when acquiring, holding and transferring shares. It is not a comprehensive or exhaustive description of all aspects of German taxation that may be relevant for shareholders. The description is based on the German taxation acts and the relevant provisions of double taxation treaties that Germany has entered into with third countries in force on the date of this Prospectus. The acts, treaties and the opinion of the tax authorities are subject to change – including retrospectively.

Potential purchasers of shares are therefore advised to consult their tax advisor on the tax implications of acquiring, holding and transferring shares and on the procedure to be followed for any refund of German withholding tax paid (*Kapitalertragsteuer*). This should take particular account of the specific situation of each individual shareholder.

Taxation of the Company

In Germany, corporations are generally subject to corporate income tax at a rate of 15% plus a 5.5% solidarity surcharge (*Solidaritätszuschlag*) thereon (in total 15.825%). In the pertinent case, the income of OHG will be attributed to the Company for corporate income tax purposes due to the transparency of an OHG as limited partnership for income tax purposes.

Dividends and other shares in profits which corporations receive from domestic or foreign corporations are generally exempt from corporate income tax in case they hold 10% or more of the distributing company's registered share capital. However, 5% of such income qualifies as non-deductible business expenses and is therefore subject to corporate income tax at a rate of 15% (plus solidarity surcharge of 5.5% thereon). Capital gains from the disposition of shares in domestic or foreign corporations are also tax exempt except for 5%. Capital losses are not deductible for tax purposes.

In addition, German corporations are subject to trade tax (*Gewerbesteuer*) on their business income, *i.e.*, income that has been generated at their German places of business and is subject to certain adjustments for trade tax purposes. The trade tax depends on the municipalities in which the corporations maintain permanent establishments. The trade tax rate amounts to 7 to 17.5% of the trade taxable income (*Gewerbeertrag*) depending in each case on the trade tax assessment rate (*Hebesatz*) of the relevant municipality. All entities of our group are subject to trade tax; for trade tax purposes, OHG is not regarded as transparent and is subject to trade tax itself.

For trade tax purposes, dividends received from shares in domestic and foreign corporations and capital gains from the disposition of shares in other corporations are generally treated in the same manner as for corporate income tax purposes. However, dividends are, in general, 95% tax-exempt only if the corporations have held at least 15% of the distributing company's registered share capital ("trade tax participation exemption privilege") as of the beginning of the relevant assessment period (*Erhebungszeitraum*). Additional restrictions apply to dividends received from foreign corporations.

With regard to the possibility of deducting net interest expenses, the interest barrier (*Zinsschranke*) applies. The interest barrier restricts the deductibility of interest expenses exceeding the interest earnings of the relevant financial year ("net interest expenses") to 30% of the earnings before interest, taxes, depreciation and amortization ("creditable EBITDA") determined for corporate income tax and trade tax purposes. The non-deductible part of the interest expenses can be carried forward to future fiscal years ("interest carried forward") and might reduce the taxable profit of the Company in the future if the interest expenses in such period are deductible under the interest barrier. In addition, a five year EBITDA carried forward applies according to which a positive difference between the creditable EBITDA and the net interest expenses may be carried forward for five financial years so that future net interest expenses, within certain limits, can be offset against the EBITDA carried forward in future years. However, there is a risk that the interest carried forward might be forfeited in case of a change of ownership on the basis of the same rules as applicable to losses carried forward (see below). The interest barrier will not apply if the net interest expenses are less than €3 million in one tax assessment period or in the event the Company complies with the "escape clause" or if the Company is not part of a group, provided there is no harmful shareholder debt financing. The escape clause stipulates the complete deductibility of interest expenses in the event that the Company's equity ratio is not lower than that of the group. For this purpose the equity ratios of the financial statements at the end of the preceding business year are relevant. Only in case that there is no harmful shareholder debt financing, the escape clause will be applicable. A harmful shareholder debt financing is existing if the shareholder (holding directly or indirectly more than 25% of the shares) or any related party hereto or any third party who has a right of recourse against the shareholder or a related party hereto receives interest exceeding 10% of the negative interest balance (difference between interest income and interest expenses) from the respective corporation or from another affiliated company. For trade tax purposes 25% of the interest expenses have to be added back to the trade earnings.

Corporate income tax losses incurred by the Company in one year may be carried back to the immediately preceding assessment period up to an amount of €1 million. Trade tax losses cannot be carried back. Any remaining losses regarding corporate income tax and trade tax may only be offset within certain restrictions against profits from future years ("minimum taxation"). Up to an amount of €1 million taxable profits may be offset against existing tax losses carried forward without limitation. Taxable profits in excess of €1 million may be offset against existing tax losses carried forward for corporate income and trade tax purposes only by 60%. Unused tax losses carried forward may, in principle, be carried forward indefinitely and are subject to the above described minimum taxation rules when determining future taxable profits. However, to the extent an acquirer, a person affiliated with such acquirer or a group of acquirers with similar interests acquires directly or indirectly more than 25% of the Company's shares within five years, the tax losses carried forward and current losses existing at the time the threshold is exceeded will be forfeited on a pro rata basis, unless there is an acquisition of more than 50%, in which case the tax losses carried forward will be forfeited completely. As an exception, in case of an above-described harmful transfer of shares, tax losses carried forward in an amount equal to certain built-in gains of the Company may still be upheld.

Taxation of Shareholders

The shareholders are generally subject to tax on their shareholdings (taxation of dividends), disposal of shares (taxation of capital gains) and transfers of shares free of charge (inheritance and gift tax).

Taxation of Dividends

Withholding Tax

The full amount of a dividend distributed by the company is, in general, subject to German withholding tax at a rate of 25% plus solidarity surcharge of 5.5% on the withholding tax, resulting in an aggregate rate of 26.375%. The basis for the withholding tax is the dividend approved for distribution by the company's general shareholder meeting.

Withholding tax is, in principle, withheld regardless where the shareholders reside in Germany or abroad. Exemptions may be allowed for some shareholders. These could include corporations resident in another EU Member State, to which the EU Parent-Subsidiary Directive (Council Directive 90/435/EEC of 23 July 1990) applies. Similar exceptions may also apply in the case of double taxation agreements. In these cases the restrictive preconditions according to Section 50d(3) Income Tax Act have to be fulfilled. Application forms for the respective exemption can be obtained from the German Federal Tax Office (*Bundeszentralamt für Steuern*), An der Kuppe 1, D-53225 Bonn (www.bzst.bund.de), and from German embassies and consulates.

Withholding tax is withheld and remitted to the German tax authorities by the disbursing agent (*auszahlende Stelle*), *i.e.*, the bank, financial services institution, securities trading enterprise or securities trading bank (each as defined in the German Banking Act (*Kreditwesengesetz*) and in each case including a German branch of a foreign enterprise, but excluding a foreign branch of a German enterprise) that holds or administers the shares in custody and disburses or credits the dividend income from the shares or disburses or credits the dividend income from the shares on delivery of the dividend coupons or disburses such dividend income to a foreign agent or by the central securities depository (*Wertpapiersammelbank* in terms of the German Depositary Act (*Depotgesetz*)) holding the shares in a collective deposit, if such central securities depository disburses the dividend income from the shares to a foreign agent.

The Company or the disbursing agent is liable for withholding the withholding tax, unless it can show that it has not negligently or deliberately violated its obligations. The withholding tax can be claimed from the shareholder if (i) the dividends have not been shortened according to the rules, (ii) the shareholders know that the withholding tax has not been correctly withheld and they do not inform the tax office of this immediately, or (iii) the dividends have been improperly paid without withholding tax.

Dividends to a corporation domiciled outside of Germany are subject to a reduced withholding tax (irrespective of any double taxation treaties) in the event the shares do neither constitute an asset of a permanent establishment in Germany nor an asset for which a permanent representative has been appointed in Germany. In this case, 2/5 of the withholding tax will be refunded upon application. The refund requires that the corporation fulfils the preconditions of Section 50d(3) Income Tax Act. Refund application forms may be obtained from the German Federal Central Tax Office (*Bundeszentralamt für Steuern*), An der Kuppe 1, 53225 Bonn, Germany (www.bzst.bund.de), as well as from German embassies and consulates. A further reduction or refund under an applicable double taxation treaty is possible.

For shareholders resident in Germany (*i.e.*, shareholders whose residence, habitual abode, management, or domicile is located in Germany) holding their shares as business assets as well as for shareholders residing outside Germany (foreign shareholders) holding their shares in a permanent establishment or a fixed base in Germany, or as assets for which a permanent representative has been appointed in Germany, the tax withheld is credited against the shareholders' personal income tax or corporate income tax liability. Such crediting of withholding tax requires a certificate within the meaning of Section 45a(2) sentence 3 Income Tax Act.

Any tax withheld in excess of the shareholders' personal tax liability is refunded. The same principles apply to the solidarity surcharge.

Taxpayers who are subject to church tax may choose whether the church tax should be withheld at source or declared as part of the annual tax assessment. For dividends received after December 31, 2014, the disbursing agent should send an automatic data query to the German Federal Central Tax Office (*Bundeszentralamt für Steuern*) and the church tax will then be withheld with the withholding tax. The taxpayer may refuse (block) the automatic query to the Federal Central Tax Office, which will then force an assessment by the taxpayer. The respective forms may be obtained from the German Federal Central Tax Office (*Bundeszentralamt für Steuern*), An der Kuppe 1, 53225 Bonn, Germany (www.bzst.bund.de). If the church tax is withheld together with the withholding tax, the withholding tax will be reduced by 25% of the church tax levied on the withholding tax.

Shareholders Resident in Germany

In case of shareholders (individuals, partnerships and corporations) subject to German taxation on their worldwide income (*i.e.*, persons whose place of residence or usual place of abode or, in case of corporations, its statutory seat or place of management is situated in Germany) the dividend payments are subject to German taxation.

Taxation of Dividend Income of Investors Resident in Germany Holding their Shares as Private Assets (*Privatvermögen*)

Individual shareholders resident in Germany holding their shares as private assets dividends are subject to the final flat tax (*Abgeltungsteuer*). Under this regime dividend income of private investors will be taxed at the principal final flat tax rate of 25% plus a 5.5% solidarity surcharge thereon (aggregate tax burden: 26.375%) and church tax if applicable. Except for an annual lump sum allowance (*Sparerpauschbetrag*) of €801 (€1,602 for married couples filing jointly), private investors will not be entitled to deduct expenses incurred in connection with the capital investments from their dividend income. In certain cases, however, upon election and filing of an annual income tax return, the dividend payments may be taxed at the shareholder's individual tax rate if this results in a lower income tax burden. The withholding tax will then be credited against the income tax. Private investors are not entitled to deduct expenses incurred in connection with the capital investments from their income except of the annual lump sum allowance even if they opt for taxation at their individual tax rate. This option may be exercised only for all capital income from capital investments received in the relevant assessment period uniformly and married couples filing jointly may only jointly exercise the option.

Taxation of Dividend Income of Investors Resident in Germany Holding their Shares as Business Assets (*Betriebsvermögen*)

If shares are held as business assets of a shareholder, the taxation depends on whether the shareholder is a corporation, a sole proprietor, or a partnership (*Mitunternehmerschaft*). Withholding tax (including the solidarity surcharge thereon) withheld and remitted to the German tax authorities is credited against the respective shareholder's individual or corporate income tax liability or if in excess thereof, is refundable to the shareholder. The flat tax regime does not apply to shares held as business assets.

Corporations. Dividends are subject to corporate income tax in case the shareholder has diversified holdings (<10% of the share capital) in the company at the beginning of the calendar year. Acquisitions of at least 10% during the year are deemed to take place at the start of the calendar year. Expenses incurred in connection with the shares are tax-deductible. Otherwise, dividends to corporate shareholders are exempt from corporate income tax. However, 5% of the tax-exempt dividend income is deemed to be a non-deductible business expense for tax purposes and is therefore subject to corporate income tax (plus solidarity surcharge thereon) and trade tax. Business expenses actually incurred in connection with the shares are entirely tax deductible.

Dividends are fully subject to trade tax after deduction of related business expenses, unless the corporation has held at least 15% of the Company's registered share capital as from the beginning of the relevant assessment period. In the latter case, 5% of the dividends will be subject to trade tax. Special rules for banks, financial services institutions, financial enterprises, life and health insurance companies, and pension funds, are described below.

Sole Proprietors. If the shares are held by a sole proprietor as business assets, the "partial income method" (*Teileinkünfteverfahren*) applies. Accordingly, for income tax purposes, generally 60% of the dividend distributions are taxable. Correspondingly, 60% of the business expenses related to the dividend income are deductible for tax purposes (subject to any other restrictions on deductibility). In addition, dividends are entirely subject to trade tax if the shares are held as a business asset of a permanent establishment in Germany and if the shareholder does not hold at least 15% of the share capital of the Company at the beginning of the relevant assessment period. The trade tax levied – depending on the municipal trade tax rate and the individual tax situation – is partly or entirely credited against the shareholder's personal income tax liability by means of a lump-sum tax credit system.

If the shareholder is subject to church tax, such tax may become due as well.

Partnerships. If the shareholder is a partnership, the shareholder is subject to income or corporation tax plus solidarity surcharge. The taxation of each partner depends on whether they are a corporation (see (i)) or an individual (see (ii)). If the shares are attributable to the permanent establishment of a commercial business of the partnership (*i.e.*, if the partnership is generally subject to trade tax), the dividends will also be subject to trade tax, unless the partnership has held at least 15% of the Company's registered share capital as from the beginning of the relevant assessment period so that 5% of dividends will be subject to trade tax to the extent corporations are partners, and are exempt from trade tax to the extent individuals are partners. If the partner is an individual, the trade tax paid by the partnership may generally be credited, fully or partly, against his or her individual income tax.

Shareholders not Resident in Germany

For foreign shareholders who do not hold their shares in a permanent establishment or a fixed base in Germany, or as an asset for which a permanent representative has been appointed in Germany, the German tax liability is, in principle, satisfied upon deduction of withholding tax (possibly reduced by way of a refund under a double taxation treaty or EU Parent/Subsidiary Directive (2011/96/EU of 30 November 2011) or 2/5 of the withholding tax may be refunded in some cases.)

However, shareholders who hold their shares in a permanent establishment or a fixed base in Germany, or as business assets for which a permanent representative has been appointed in Germany, are subject to the same rules described above for shareholders resident in Germany. The tax withheld and remitted (including solidarity surcharge thereon) is credited against the shareholder's income or corporate income tax liability or, if in excess thereof, will be refunded to the shareholder.

Taxation of Capital Gains

Withholding tax

Subject to the qualifications set out below, capital gains are generally subject to withholding tax at a rate of 25% plus solidarity surcharge of 5.5% thereon (in total: 26.375%), if the shares are kept or administered in a custodial account maintained by a German resident bank or a German resident financial services institution, also including a German branch of a foreign bank or foreign financial services institution, a German securities trading firm or a German securities trading bank as a disbursing agent and the capital gains are paid out or credited by this disbursing agent.

The Company or the disbursing agent are liable for the withholding tax which they are obligated to withhold and remit to the German tax authorities, unless they prove that they did not breach their duties on purpose or negligently. The withholding tax can be claimed from the shareholder, if (i) the dividends have not been shortened correctly, if (ii) the shareholder knows that the withholding tax has not been withheld correctly and he did not disclose this to the competent tax authority immediately, if (iii) the dividends have been wrongfully distributed without withholding the withholding tax.

Generally, such rule applies regardless of whether and to what extent the capital gains may be exempt from taxation and irrespective of the shareholder being resident in Germany or not, provided that tax would not be withheld, under certain conditions in case of shares held as business assets in Germany. The tax base for the withholding tax is generally calculated as the difference between the proceeds received upon the disposition (less the expenses directly related to the disposition of the shares) and the acquisition costs. If the shares were not acquired from the same disbursing agent by whom they have been held ever since, a different basis of calculation equal to 30% of the proceeds from the disposition may apply, with the same withholding tax rate (in total: 26.375%) unless the shareholder provides proof of the acquisition costs and the account is moved from a disbursing agent from an EU member state or a contracting state of the EEA Agreement. If the shareholder is subject to church tax, the same principles apply as described above (see "– *Taxation of dividends- Withholding tax*").

Shareholders Resident in Germany

In case of shareholders (individuals, partnerships and corporations) subject to German taxation on their worldwide income (*i.e.*, persons whose place of residence or usual place of abode or, in case of corporations, statutory seat or place of management is situated in Germany) capital gains received from the disposition of shares will be subject to German taxation.

Taxation of Capital Gains of Investors Resident in Germany Holding their Shares as Private Assets (*Privatvermögen*)

Any gains from the sale or redemption of the shares will be subject to a final flat tax (*Abgeltungsteuer*) of 25% plus solidarity surcharge of 5.5% thereon resulting in an aggregate tax burden of 26.375% and church tax if applicable. Except for an annual lump sum allowance (*Sparerpauschbetrag*) of €801 (€1,602 for married couples filing jointly) private investors will not be entitled to deduct expenses incurred in connection with the capital investments from their capital gains. In certain cases, however, upon election and filing of an annual income tax return, the capital gains may be taxed at the shareholder's individual tax rate if this results in a lower income tax burden. The tax withheld at source is then credited against the individual income tax liability assessed or, in excess of such liability, refunded. The deduction of actual expenses related to the capital gains (other than the expenses directly related to the disposition of the shares which can be deducted when calculating the capital gains) is excluded in that case as well. The option may only be exercised for all capital gains and income from capital investments received in the relevant assessment period uniformly and married couples filing jointly may only exercise the option jointly.

Losses from the disposition of the shares may only be offset against other capital gains resulting from the disposition of shares in the Company and in other stock corporations. Offsetting of overall losses with other income (*e.g.* business or rental income) and other capital income is not possible. Such losses are to be carried forward and to be offset against positive capital gains deriving from the sale of shares in future years.

The general flat tax will not apply if the seller of the shares or, in case of gratuitous transfer, its legal predecessor has held, directly or indirectly, at least 1% of the share capital of the Company at any time during the five years prior to the disposal. 60% of the capital gains are taxed upon this disposal. Correspondingly, only 60% of related expenses are deductible for tax purposes.

Taxation of Capital Gains of Investors Resident in Germany Holding their Shares as Business Assets (*Betriebsvermögen*)

If shares are held as business assets of a shareholder, the taxation of capital gains realized upon disposal depends on whether the shareholder is a corporation, a sole proprietor, or a partnership:

Corporations. Capital gains realized by a corporate shareholder upon disposal of shares are generally exempt from corporate income tax and trade tax. Capital gains for this purpose is the amount by which the selling price or the equivalent value after deduction of selling costs exceeds the tax base at the time of disposal. However, 5% of the capital gain is deemed to be a non-deductible business expense and is therefore subject to corporate income and trade tax. Losses or other profit reductions relating to the sold shares are not tax deductible.

Sole Proprietors. If the shares are held by sole proprietors, pursuant to the partial income method (*Teileinkünfteverfahren*), 60% of the capital gains realized upon disposal are subject to income tax and solidarity surcharge. Correspondingly, 60% of the business expenses related to such capital gains and 60% of any losses incurred upon disposal of shares are tax deductible.

In addition, 60% of the capital gains are subject to trade tax if the sole proprietor is subject to trade tax. However, trade tax is partly or entirely credited against the shareholder's personal income tax liability depending on the applicable municipal trade tax rate and individual circumstances. If the shareholder is subject to church tax, such tax may become due as well.

Partnerships. If the shareholder is a partnership, taxation depends on whether the partners are subject to personal income tax or corporate income tax: If the partners are subject to corporate income tax, any capital gains are generally tax exempt in an amount of 95% (see: "*– Taxation of Shareholders – Taxation of Capital Gains of Investors Resident in Germany Holding Their Shares as Business Assets – Corporations*"). If the partners are subject to personal income tax, the partial income method (*Teileinkünfteverfahren*) applies and 60% of the capital gains are taxable (see "*– Taxation in the Federal Republic of Germany – Taxation of Shareholders – Taxation of Capital Gains of Investors Resident in Germany Holding Their Shares as Business Assets – Sole Proprietors*"). For information on the deductibility of business expenses relating to capital gains and disposal losses for partners who are subject to corporate income tax see also "*– Taxation of Shareholders – Taxation of Capital Gains of Investors Resident in Germany Holding Their Shares as Business Assets (Betriebsvermögen) – Corporations*" and see above "*– Taxation of Shareholders – Taxation of Capital Gains of Investors Resident in Germany Holding Their Shares as Business Assets – Sole Proprietors*" for information with respect to partners who are subject to personal income tax. In addition, 60% of the capital gains are subject to trade tax at the level of a partnership if the partnership is liable to trade tax and the partners are individuals and 5% of the capital gains are subject to trade tax if partners are corporations. However, the trade tax paid at the level of a partnership may partly or entirely be credited – depending on the applicable municipal trade tax rate and individual circumstances – against the personal income tax liability of the partners who are individuals.

Special rules for banks, financial services institutions, financial enterprises, life and health insurance companies, and pension funds, are described below.

Shareholders not Resident in Germany

Capital gains realized upon disposal of shares by a shareholder resident outside Germany are only subject to German income tax (plus solidarity surcharge) in the event (i) the shares are held in a permanent establishment or through a fixed base in Germany, or held as assets for which a permanent representative has been appointed in Germany or (ii) the shareholder or, in case of a gratuitous transfer, its legal predecessor has held, directly or indirectly, at least 1% of the share capital of the Company at any time during the five year period prior to the disposal. In this case:

- 5% of the capital gain is subject to corporate income tax and solidarity surcharge, if the shareholder is a corporation; and
- 60% of the capital gain is taxed in all other cases.

However, some of the German double taxation treaties provide for a complete exemption from German taxation (except in case (i)) in such cases and assign the right to tax to the shareholder's State of residence. In this case, in general no withholding tax is assessed upon the sale provided sufficient proof of the foreign tax status is given. Otherwise, withholding tax of 25% plus 5.5% solidarity surcharge thereon (in total 26.375%) may be levied in the event a disbursing agent keeps or administers or carries out the sale of the shares and pays or credits the capital income unless capital gains are attributed to German business assets and additional documentation requirements are met. In these cases, for foreign corporations, withholding tax may be refunded by 2/5 if certain preconditions are met.

Capital gains realized upon disposal of shares held in a permanent establishment or through a fixed base in Germany, or held as assets for which a permanent representative has been appointed in Germany, are subject to the same rules as described above for shareholders resident in Germany.

Special Rules for Banks, Financial Services Institutions, Financial Institutions, Life and Health Insurance Companies, and Pension Funds

To the extent banks and financial services institutions hold shares that are attributable to their trading book pursuant to Section 1a of the German Banking Act (*Kreditwesengesetz*) neither the standard tax exemption for corporations nor the partial income method (*Teileinkünfteverfahren*) applies to dividend income received or to capital gains or losses realized upon the disposal of shares, *i.e.*, dividend income and capital gains are fully subject to corporate income tax or income tax and, if applicable, in principle to trade tax. The same applies to shares that were acquired by financial institutions within the meaning of the German Banking Act in order to realize short-term proprietary trading gains (this applies to banks, financial services institutions and financial institutions domiciled in another Member State of the European Community or another contracting party to the EEA Agreement). The standard tax exemption for corporations neither applies to dividends received nor to capital gains or losses if the shares are attributable to the capital investments (*Kapitalanlagen*) of life and health insurance companies or pension funds. The aforementioned exceptions do not apply to dividends within the scope of the EU Parent/Subsidiary Directive (2011/96/EU of 30 November 2011).

Inheritance and Gift Tax

The transfer of shares by way of gift or succession is, in principle, subject to German inheritance and gift tax in particular if one of the following criteria is met:

(i) the testator, donor, heir, donee, or any other beneficiary has his or her residence or habitual abode, registered domicile or place of management in Germany at the time of the transfer or is a German citizen who has not stayed abroad for more than five years without having a residence in Germany;

(ii) irrespective of these personal circumstances, the shares are held as business assets for which a permanent establishment is maintained or a permanent representative is appointed in Germany; or

(iii) at the time of succession or donation, the testator or donor held, either alone or with other closely related persons, directly or indirectly, at least 10% of the registered share capital of the Company. In some cases participation under 10% may also lead to German inheritance and gift tax.

The few double taxation treaties on inheritance and gift tax which Germany has entered into generally provide that German inheritance or gift tax is levied only in case (i) and, with certain restrictions, in case (ii). Special provisions apply to certain German expatriates and former German citizens.

Other Taxes

In general, no German capital transfer tax, value-added tax, stamp duty, or similar tax is levied on the acquisition, sale, or other forms of transferring shares. However, an entrepreneur may opt for value-added tax being levied on a transaction that is normally tax-exempt if the transaction is executed for the enterprise of another entrepreneur. Net wealth tax (*Vermögensteuer*) is currently not levied in Germany.

TAXATION IN THE GRAND DUCHY OF LUXEMBOURG

General

The following is an overview of certain material Luxembourg tax consequences of purchasing, owning and disposing of the shares. It does not purport to be a comprehensive description of all of the tax considerations that might be relevant to an investment decision. It is included herein solely for preliminary information purposes. It is not intended to be, nor should it be construed to be, legal or tax advice. It is a description of the essential material Luxembourg tax consequences with respect to the shares and may not include tax considerations that arise from rules of general application or that are generally assumed to be known to shareholders. This overview is based on the laws in force in Luxembourg law on the date of this Prospectus and is subject to any change in law that may take effect after such date. Prospective shareholders should consult their professional advisors with respect to particular circumstances, the effects of state, local or foreign laws to which they may be subject and as to their tax position.

Please be aware that the residence concept used under the respective headings applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l'emploi*), as well as personal income tax (*impôt sur le revenu*) generally. Corporate shareholders may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Withholding Tax

Dividend payments made to the shareholders by a non-resident company, as well as liquidation proceeds and capital gains derived by shareholders from the shares of a non-resident company, are not subject to a withholding tax in Luxembourg.

The Company is principally not liable for the withholding of taxes at the source.

Income Tax

Luxembourg resident individual shareholders

Dividends and other payments derived from the shares by resident individual shareholders, who act in the course of the management of either their private wealth or their professional/business activity, are subject to income tax at the ordinary progressive rate. A tax credit may be generally granted for foreign withholding taxes, provided it does not exceed the corresponding Luxembourg tax. Under current Luxembourg tax laws, there is a 50% income tax exemption of the gross amount of dividends received by resident individual shareholders from (i) a Luxembourg resident fully-taxable company limited by share capital (*société de capitaux*), (ii) a company limited by share capital (*société de capitaux*) resident in a State with which Luxembourg has concluded a double tax treaty and liable to a tax corresponding to Luxembourg's corporate income tax or (iii) a company resident in a EU Member State and covered by Article 2 of the amended EU Parent-Subsidiary Directive.

Capital gains realized on the disposal of the shares by resident individual shareholders, who act in the course of the management of their private wealth, are not subject to income tax, unless said capital gains qualify either as speculative gains or as gains on a substantial participation. Capital gains are deemed to be speculative if the shares are disposed of within six months after their acquisition or if their disposal precedes their acquisition. Speculative gains are subject to income tax at ordinary rates. A participation is deemed to be substantial where a resident individual shareholder holds or has held, either alone or together with his spouse or partner and/or minor children, directly or indirectly at any time within the five years preceding the disposal, more than 10% of the share capital of the company whose shares are being disposed of. A shareholder is also deemed to hold a substantial participation if he acquired free of charge, within the five years preceding the transfer, a participation that was constituting a substantial participation in the hands of the alienator (or the alienators in case of successive transfers free of charge within the same five-year period). Capital gains realized on a substantial participation more than six months after the acquisition thereof are according to the half-global rate method, (*i.e.*, the average rate applicable to the total income is calculated according to progressive income tax rates and half of the average rate is applied to the capital gains realized on the substantial participation). A disposal may include a sale, an exchange, a contribution or any other kind of alienation of the participation.

Capital gains realized on the disposal of the shares by resident individual shareholders, who act in the course of their professional/business activity, are subject to income tax at ordinary rates. Taxable gains are determined as being the difference between the price for which the shares have been disposed of and the lower of their cost or book value.

Luxembourg corporate residents

Dividends and other payments derived from the shares by Luxembourg resident fully-taxable companies are subject to income tax at ordinary rates (*i.e.* 29.22% for entities having their registered office in Luxembourg-City), unless the conditions of the participation exemption regime, as described below, are satisfied. If these conditions are not met, under current Luxembourg tax laws, 50% of the gross amount of dividends received by Luxembourg resident fully-taxable companies from (i) a Luxembourg resident fully-taxable company limited by share capital (*société de capitaux*), (ii) a company limited by share capital (*société de capitaux*) resident in a state with which Luxembourg has concluded a double tax treaty and liable to a tax corresponding to Luxembourg's corporate income tax or (iii) a company resident in a EU member state and covered by Article 2 of the amended EU Parent-Subsidiary directive are exempt from income tax. A tax credit may generally be granted for foreign withholding taxes, provided it does not exceed the corresponding Luxembourg tax.

Under the participation exemption regime, dividends derived from the shares may be exempt from income taxes at the level of the shareholder if cumulatively (i) the shareholder is a qualified parent ("**Qualified Parent**"), (ii) the distributing company is a qualified subsidiary ("**Qualified Subsidiary**") and (iii) at the time the dividend is put at the shareholder's disposal, the shareholder has held or commits itself to hold for an uninterrupted period of 12 months a qualified shareholding ("**Qualified Shareholding**"). A Qualified Parent means either a Luxembourg resident fully-taxable company, a Luxembourg permanent establishment of a company covered by Article 2 of the amended EU Parent-Subsidiary Directive, a Luxembourg permanent establishment of a company limited by share capital (*société de capitaux*) resident in a country having a tax treaty with Luxembourg, a Luxembourg permanent establishment of a limited company (*société de capitaux*) or a co-operative company (*société de capitaux*) resident in the EEA other than a EU Member State. A Qualified Subsidiary means a Luxembourg fully-taxable company, an entity covered by Article 2 of the amended EU Parent-Subsidiary Directive or a non-resident company limited by share capital (*société de capitaux*) liable to a tax corresponding to Luxembourg corporate income tax. A Qualified Shareholding means shares representing a participation of at least 10% in the share capital of the Qualified Subsidiary or a participation of an acquisition price of at least €1.2 million. Liquidation proceeds are assimilated to a received dividend and may be exempt under the same conditions. Shares held through a tax transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Capital gains realized by a Luxembourg fully-taxable resident company on the shares are subject to income tax at ordinary rates *(i.e.* 29.22% for entities having their registered office in Luxembourg-City), unless the conditions of the participation exemption regime, as described below, are satisfied. Under the participation exemption regime, capital gains realized on the shares may be exempt from income tax at the level of the shareholder if cumulatively (i) the shareholder is a Qualified Parent, (ii) the distributing company is a Qualified Subsidiary and (iii) at the time the capital gain is realized, the shareholder has held or commits itself to hold for an uninterrupted period of 12 months shares representing a participation of at least 10% in the share capital of the Qualified Subsidiary or a participation of an acquisition price of at least €6 million. Taxable gains are determined as being the difference between the price for which the shares have been disposed of and the lower of their cost or book value.

Luxembourg corporate residents benefiting from a special tax regime

Shareholders who are (i) undertakings for collective investment governed by the law of December 17, 2010, as amended, (ii) specialized investment funds governed by the law of February 13, 2007, as amended, or (iii) family wealth management companies governed by the law of May 11, 2007, as amended, are exempt from income tax in Luxembourg. Dividends derived from and capital gains realized on the shares are thus not subject to income tax in their hands.

Taxation of Luxembourg Non-Resident Shareholders

Non-resident shareholders who have neither a permanent establishment nor a permanent representative in Luxembourg to which or whom the shares are attributable, are not liable to any Luxembourg income tax on income and gains derived from the Shares.

Non-resident shareholders which have a permanent establishment or a permanent representative in Luxembourg to which the shares are attributable, must include any income received, as well as any gain realized on the sale, disposal or redemption of shares, in their taxable income for Luxembourg tax assessment purposes. Taxable gains are determined as being the difference between the sale, repurchase or redemption price and the lower of the cost or book value of the shares sold or redeemed.

Net Wealth Tax

Luxembourg resident shareholders, as well as non-resident shareholders who have a permanent establishment or a permanent representative in Luxembourg to which the shares are attributable, are subject to Luxembourg net wealth tax on such shares, except if the shareholder is (i) a resident or non-resident individual, (ii) an undertaking for collective investment governed by the law of December 17, 2010, as amended, (iii) a securitization company governed by the law of March 22, 2004 on securitization, as amended, (iv) a company governed by the law of June 15, 2004 on venture capital vehicles, as amended, (v) a specialized investment fund governed by the law of February 13, 2007, as amended, or (vi) a family wealth management company governed by the law of May 11, 2007, as amended. The shares held in a Qualified Subsidiary by a Qualified Parent may further be exempt under the participation exemption, provided the shares represent a Qualified Shareholding.

Other Taxes

There is no Luxembourg registration tax, stamp duty, value-added tax, issuance tax, transfer tax or other similar tax or duty payable by the Shareholders in Luxembourg by reason only of the issuance or transfer of shares.

Under Luxembourg tax law, where an individual shareholder is a resident of Luxembourg for tax purposes at the time of his/her death, the shares are included in his/her taxable basis for inheritance tax purposes.

Gift tax may be due on a gift or donation of the shares, if the gift is recorded in a Luxembourg notarial deed or otherwise registered in Luxembourg.

TAXATION IN THE UNITED STATES OF AMERICA

General

The following discussion is a general summary under present law of certain U.S. federal income and Medicare tax considerations relevant to the receipt, exercise and disposition of Subscription Rights, and the purchase, ownership and disposition of Offer Shares. The summary is not a complete description of all tax considerations that may be relevant. It applies only to U.S. Holders (as defined below) that own the Subscription Rights or Offer Shares as capital assets for U.S. federal income tax purposes and use the U.S. dollar as their functional currency. It does not address the tax treatment of persons subject to special rules, such as financial institutions, brokers, dealers or traders, insurance companies, U.S. expatriates, tax exempt entities, tax-deferred or other retirement accounts, entities classified as partnerships for U.S. federal income tax purposes, persons owning, actually or constructively, 10% or more of the total voting power or value of our share capital, persons holding Subscription Rights or Offer Shares as part of a hedge, straddle, conversion, constructive sale or other integrated transaction, persons holding Subscription Rights or Offer Shares in connection with a trade or business conducted outside of the United States, persons holding Subscription Rights or Offer Shares in connection with a permanent establishment in Germany or persons with a "tax home" outside of the United States. This discussion also does not address U.S. state and local tax considerations or other tax laws, including gift and estate tax.

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, EACH PROSPECTIVE INVESTOR IS HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX CONSEQUENCES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY SUCH INVESTOR FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SUCH INVESTOR UNDER THE INTERNAL REVENUE CODE OF 1986 (AS AMENDED); (B) ANY SUCH DISCUSSION WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE MATTERS ADDRESSED HEREIN; AND (C) EACH SUCH INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

As used in this section, "U.S. Holder" means a beneficial owner of Subscription Rights or Offer Shares that, for U.S. federal income tax purposes, is (i) a U.S. citizen or individual resident of the United States, (ii) a corporation or other business entity treated as a corporation created or organized under the laws of the United States or its political subdivisions, (iii) a trust (A) subject to the control of a U.S. person and the primary supervision of a U.S. court or (B) in existence and treated as a U.S. person on August 20, 1996, that has a valid election in place under applicable Treasury Regulations to continue to be treated as a U.S. person, or (iv) an estate the income of which is subject to U.S. federal income tax without regard to its source.

The U.S. federal income tax treatment of a partner in a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) receiving, exercising and disposing of Subscription Rights or purchasing, owning and disposing of Offer Shares generally will depend on the status of the partner and the activities of the partnership. Partners in a prospective purchaser that is a partnership should consult their own tax advisors regarding the specific U.S. federal income tax consequences to them of the partnership's receipt, exercise and disposition of Subscription Rights or acquisition, ownership and disposition of Offer Shares.

The Company believes, and the following discussion assumes, that the Company is not and will not become a passive foreign investment company for U.S. federal income tax purposes. Because passive foreign investment company status depends upon our income and the composition of our assets from time to time and, if applicable, may have adverse tax consequences to U.S. Holders, U.S. Holders are urged to consult their own tax advisors regarding the tax consequences to them if we are characterized as a passive foreign investment company, including certain elections that may be available to mitigate such tax consequences.

TAXATION OF SUBSCRIPTION RIGHTS

Receipt of Subscription Rights

The distribution of Subscription Rights to a U.S. Holder should not require the U.S. Holder to include any amount in income for United States federal income tax purposes.

Tax Basis and Holding Period of Subscription Rights

If the fair market value of the Subscription Rights on the date they are distributed equals or exceeds 15% of the fair market value on such date of the outstanding shares of the Company (the "**Outstanding Shares**") with respect to which the Subscription Rights are distributed, then a U.S. Holder's tax basis in its existing Outstanding Shares must be allocated between the existing Outstanding Shares and the Subscription Rights received with respect to such Outstanding Shares in proportion to their relative fair market values on the date of distribution. If, however, the Subscription Rights expire before being sold or exercised by a U.S. Holder, the allocation rule described above and the election to allocate tax basis described below will not apply. A U.S. Holder will not recognize any loss as a result of such expiration and the tax basis in its existing Outstanding Shares will not change as a result of the Subscription Rights Offering.

Alternatively, if the fair market value of the Subscription Rights on the distribution date is less than 15% of the fair market value of the existing Outstanding Shares with respect to which the Subscription Rights are distributed, then a U.S. Holder's tax basis in the Subscription Rights generally will be zero and such holder's tax basis in its existing Outstanding Shares generally will not change as a result of the Rights Offering. However, in such event, a U.S. Holder may elect to allocate to the Subscription Rights a portion of the tax basis in such holder's Outstanding Shares in accordance with the allocation method described in the preceding paragraph. A U.S. Holder who wishes to make this election must attach a statement to this effect to the holder's United States federal income tax return for the tax year in which the Subscription Rights are received. The election will apply to all of the Subscription Rights received by the U.S. Holder pursuant to the Rights Offering and, once made, will be irrevocable. U.S. Holders should consult their own tax advisers regarding the advisability and specific procedures for making such an election in the event that the value of the Subscription Rights is less than 15% of the value of the existing Outstanding Shares with respect to which the Subscription Rights were issued.

The holding period of a Subscription Right will include a U.S. Holder's holding period for the existing Outstanding Share with respect to which the Subscription Right was distributed.

Exercise of Subscription Rights

The exercise of Subscription Rights by a U.S. Holder will not be a taxable transaction for United States federal income tax purposes. A U.S. Holder's tax basis in each Offer Share acquired upon exercise of a Subscription Right will equal the sum of (i) the Subscription Price paid by the holder for the Offer Share and (ii) the holder's tax basis (as determined above), if any, in the Subscription Right exercised, each determined in U.S. dollars. The holding period of any Offer Share so acquired will begin on the date the Subscription Right was exercised.

Sale or Other Taxable Disposition of Subscription Rights

A U.S. Holder will generally recognize capital gain or loss on the sale or other taxable disposition of a Subscription Right, which will be long-term capital gain or loss if the holder's holding period for the Subscription Right is more than one year. The amount of the U.S. Holder's gain or loss will be equal to the difference between the amount realized on the sale or other taxable disposition and such holder's tax basis in the Subscription Right, each determined in U.S. dollars. Any gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes. The deductibility of capital losses is subject to limitations. A U.S. Holder that receives foreign currency on the disposition of Subscription Rights will realize an amount equal to the U.S. dollar value of the currency received at the spot rate on the date of disposition (or, so long as the Subscription Rights are treated as traded on an established securities market and the U.S. Holder is a cash basis or electing accrual basis taxpayer, the settlement date). An accrual basis U.S. Holder that does not elect to determine the amount realized using the spot rate on the settlement date will recognize foreign currency gain or loss equal to the difference between the U.S. dollar value of the amount received based on the spot exchange rates in effect on the date of sale or other disposition and the settlement date. A U.S. Holder will have a tax basis in the currency received equal to the U.S. dollar value of the currency received on the settlement date. Any gain or loss on a subsequent conversion or disposition of the currency for a different U.S. dollar amount generally will be U.S.-source ordinary income or loss.

TAXATION OF OFFER SHARES

Taxation of Dividends

Distributions, if any, made with respect to the Offer Shares generally will constitute dividend income to the extent that such distributions are paid out of the Company's current or accumulated earnings and profits as determined under U.S. federal income tax principles. However, the Company does not intend to calculate earnings and profits under U.S. federal income tax principles. As a result, a U.S. Holder should expect that a distribution made with respect to the Offer Shares generally will be treated as a dividend.

Dividends on the Offer Shares (including the amount of any German tax withheld) should be included in a U.S. Holder's gross income as ordinary income. Dividends will not be eligible for the dividends-received deduction generally available to U.S. corporations. Dividends received by individuals and certain other non-corporate U.S. Holders should qualify for the preferential tax rate available for qualified dividend income if the Offer Shares are regularly traded on the Frankfurt Stock Exchange or the Company is otherwise eligible for benefits under the income tax treaty between Germany and the United States and the holder meets certain holding period requirements. Dividends paid in euros will be includable in income in a U.S. dollar amount based on the exchange rate in effect on the date of receipt whether or not the payment is converted into U.S. dollars at that time. Any foreign currency gain or loss on a subsequent conversion of the euros into U.S. dollars (or other disposition of the euros) for a different U.S. dollar amount generally will be U.S.-source ordinary income or loss and will not be treated as a dividend. U.S. Holders should consult their tax advisers regarding the availability of the reduced tax rate on dividends.

A U.S. Holder eligible for benefits under the income tax treaty between Germany and the United States may be entitled to claim a reduced 15% rate of German withholding tax on dividends. Each U.S. Holder should consult its own tax adviser about its eligibility for reduction of German withholding tax under the income tax treaty. Dividends paid on the Offer Shares generally will constitute foreign-source income and generally will be considered "passive category" income in computing the foreign tax credit allowable to U.S. Holders under U.S. federal income tax laws. A U.S. Holder may be entitled to claim a deduction or a foreign tax credit (subject to applicable limitations) for non-U.S. withholding taxes paid. The rules relating to the treatment of non-U.S. taxes imposed on a U.S. Holder and foreign tax credits are complex, and U.S. Holders should consult their tax advisors about the impact of these rules in their particular situations.

Sales and Other Taxable Dispositions of Offer Shares

A U.S. Holder will recognize capital gain or loss on the sale or other taxable disposition of Offer Shares in an amount equal to the difference between the U.S. Holder's adjusted tax basis in the Offer Shares and the U.S. dollar value of the amount realized from the disposition. Subject to the discussion above regarding the exercise of Subscription Rights, a U.S. Holder's adjusted tax basis in the Offer Shares generally will be its U.S. dollar cost. For a U.S. Holder that uses foreign currency to purchase Offer Shares, the U.S. dollar cost of the Offer Shares will be the U.S. dollar value of the foreign currency purchase price determined by reference to the spot rate of exchange on the date of purchase or the settlement date if the Offer Shares are treated as traded on an established securities market and the U.S. Holder is either a cash basis taxpayer or an electing accrual basis taxpayer.

A U.S. Holder that receives foreign currency on the disposition of Offer Shares will realize an amount equal to the U.S. dollar value of the currency received at the spot rate on the date of disposition (or, so long as the Offer Shares are treated as traded on an established securities market and the U.S. Holder is a cash basis or electing accrual basis taxpayer, the settlement date). An accrual basis U.S. Holder that does not elect to determine the amount realized using the spot rate on the settlement date will recognize foreign currency gain or loss equal to the difference between the U.S. dollar value of the amount received based on the spot exchange rates in effect on the date of sale or other disposition and the settlement date. A U.S. Holder will have a tax basis in the currency received equal to the U.S. dollar value of the currency received on the settlement date. Any gain or loss on a subsequent conversion or disposition of the currency for a different U.S. dollar amount generally will be U.S.-source ordinary income or loss.

Any gain or loss on the sale or other taxable disposition of Offer Shares generally will be treated as arising from U.S. sources. It will be long-term capital gain or loss if the holder has held the Offer Shares for more than one year. Regardless of a U.S. Holder's holding period, however, any loss may be long-term capital loss to the extent the U.S. Holder has received a dividend qualified for the reduced tax rate discussed above that, when aggregated with other dividends in the same consecutive 85 day period, exceeds 10% of the U.S. Holder's basis in its Offer Shares. A U.S. Holder's ability to deduct capital losses is subject to limitations.

Medicare Tax

Certain U.S. Holders, including certain individuals, estates and trusts, are subject to an additional 3.8% Medicare tax on "net investment income." For individual U.S. Holders, the additional Medicare tax applies to the lesser of (i) "net investment income," or (ii) the excess of "modified adjusted gross income" over US$200,000 for unmarried individuals (US$250,000 if married and filing jointly or US$125,000 if married and filing separately). "Net investment income" generally equals the taxpayer's gross investment income reduced by the deductions that are allocable to such income. Investment income generally includes passive income such as interest, dividends, annuities, royalties, rents, and capital gains. U.S. Holders are urged to consult their own tax advisors regarding the implications of the additional Medicare tax resulting from an investment in the Offer Shares.

Information Reporting and Backup Withholding

Dividends on and proceeds from the sale or other disposition of the Offer Shares may be required to be reported to the U.S. Internal Revenue Service ("**IRS**") unless the holder is a corporation or other exempt recipient and, when required, establishes a basis for exemption. Backup withholding may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number on a properly executed IRS Form W-9 or otherwise establish a basis for exemption. Backup withholding is not an additional tax. A U.S. Holder can claim a credit against its U.S. federal income tax liability for amounts withheld under the backup withholding rules, and can claim a refund of amounts in excess of its tax liability by providing the appropriate information to the IRS in a timely manner. Prospective investors should consult their tax advisors about qualifying for an exemption from backup withholding.

Foreign Financial Asset Reporting

Individuals that own "specified foreign financial assets" with an aggregate value in excess of US$50,000 are generally required to file an information report with respect to such assets with their tax returns. "Specified foreign financial assets" include any financial accounts maintained with foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained with financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties, and (iii) interests in foreign entities. The Offer Shares may be subject to these rules. Additionally, under certain circumstances, an entity may be treated as an individual for purposes of these rules. U.S. Holders are urged to consult their tax advisers regarding the application of this requirement to their ownership of the Offer Shares.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE OFFER SHARES IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.

RECENT DEVELOPMENTS AND OUTLOOK

On July 2, 2014, the European Commission granted merger clearance subject to the confirmation by the European Commission that the obligation to make available to up to three MBA MVNOs 20% of the network capacity of both Telefónica Deutschland and the E-Plus Group is fulfilled (see "*Acquisition of the E-Plus Group – Merger Clearance and Remedies*"). On June 25, 2014, we entered into an agreement with Drillisch on terms and conditions established by the European Commission in the merger clearance decision and under which Drillisch committed to acquire 20% of the network capacity available under the MBA model (see "*Business – Material Contracts – MBA Model Agreement with Drillisch*"). On August 29, 2014, the European Commission confirmed that the agreement with Drillisch fulfilled the upfront remedies obligation and thereby granted final merger clearance of the Transaction.

As the closing of the Transaction will likely change the scope of our operations, our ability to provide a precise outlook for the remainder of 2014 is very limited at this moment due to a number of uncertainties. These uncertainties include the exact point in time at which the change of control over the E-Plus Group occurs which will trigger the commencement of consolidation of both organizations and of key decisions to be taken about the initial setup of the business of the New Group while at the same time ensuring the continuity of operations. As a direct consequence of the consolidation of the E-Plus Group into Telefónica Deutschland, we expect a significant increase in wireless service revenues and OIBDA for the second half of 2014 compared to the first half of 2014.

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

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

On July 2, 2014, the supervisory board of the Company resolved to appoint Thorsten Dirks, the current CEO of E-Plus, as CEO of the Company subject to closing of the Transaction.

GLOSSARY

Access

Connection to any of the telecommunication services offered by Telefónica Germany.

Because a single customer may contract for multiple services, to count the number of accesses, or services a customer has contracted for, as opposed to only counting the number of customers seems more accurate. For example, a customer who subscribes for fixed-line telephony services and broadband service represents two accesses rather than a single customer.

The categories of accesses are: mobile accesses, fixed-line telephony accesses; DSL accesses; wholesale unbundled local loop, or ULL; fixed-line narrowband accesses; IPTV.

Act Against Unfair Competition

The German Act Against Unfair Competition (*Gesetz gegen den unlauteren Wettbewerb*).

ADSL2+

Asymmetric Digital Subscriber Line is a DSL based data communications technology that enables faster data transmission over copper telephone lines than a conventional voiceband modem can provide.

ADSL2+ technology extends the capability of basic ADSL by doubling the number of downstream bits. The data rates can be as high as 24 Mbit/s downstream and up to 1.4 Mbit/s upstream.

App

Applications.

An application, typically a small, specialized program downloaded onto mobile devices.

ARPU

Average Revenue per User per month.

ARPU is calculated by dividing total service revenues (excluding inbound roaming revenues) from sales to customers for the preceding 12 months by the weighted average number of accesses for the same period, divided by 12 months.

ARPU is calculated using gross service revenues before deduction of wholesale discounts.

Blended ARPU refers to the weighted average over all contract types (post- and pre-paid).

Branded Reseller

A branded reseller has neither a mobile license nor its own mobile infrastructure, but has a direct customer relationship with end-users. The branded reseller cannot handle network routing themselves and the branded reseller will not enter into roaming deals with foreign MNOs. The branded reseller cannot produce and distribute, for example, voice minutes and data traffic themselves and are not able to produce SMS or MMS messages. A typical branded reseller will not handle customer service, customer billing or collection of consumption data and handset management themselves. The branded reseller will primarily concentrate its activities around marketing and sales to end-users. The branded reseller's positive contribution to the value chain is its "brand", but its distribution power will also be a central asset for many branded resellers.

Bigscreen

Bigscreen tariffs relate to data tariffs which only include data usage and which are solely designed for the usage of, *e.g.*, surfsticks, dongles or tablets.

BT Germany

BT Germany GmbH & Co. KG.

Call termination rates

Call termination is the service required in order to terminate voice calls from the calling network to called locations (in fixed-line networks) or subscribers (in mobile networks) in the called network. The charging system in the European Union is based on calling party network pays, which means that the termination charge is set by the operator of the called network and paid by the operator of the calling network. Call termination rates are the charges set by the operator of the called network for the service of call termination.

Churn

Churn is the percentage of subscriber disconnections based on the average mobile customer base during a given period. In this Prospectus monthly averages are shown.

Blended churn refers to the weighted average over all contract types (post- and pre-paid).

	Post-paid churn refers to the percentage of post-paid subscriber disconnection as of average mobile post-paid customer base.
Cloud services	Services relating to cloud computing, the delivery of computing as a service rather than a product, whereby shared resources, software and information are provided to computers and other devices as a utility over a network (typically the internet).
Company	Telefónica Deutschland Holding AG.
Customer revenues	Service revenues less interconnection revenues.
Data Center	A Data Center is a facility used to house computer systems and associated components, such as telecommunications and storage systems. It generally includes redundant or backup power supplies, redundant data communications connections, environmental controls (for example, air conditioning, fire suppression) and security devices.
Digital Dividend	Refers to the amount of spectrum that has been freed up in the switchover from analogue to digital terrestrial TV.
DSL	Digital Subscriber Line is a family of technologies that provide internet access by transmitting digital data over a local telephone network.
Dual Cell HSPA+	A dual carrier or dual channel version of HSPA+ that achieves greater upload and download speeds by using dual bands of the relevant spectrum in parallel.
EDGE	Enhanced Data rates for GSM Evolution is a digital mobile phone technology that allows improved data transmission rates as a backward-compatible extension of GSM.
E-Plus Group	E-Plus Mobilfunk GmbH & Co. KG collectively with its direct and indirect subsidiaries, also referred to as the New E-Plus Group.
FCO	The German Federal Cartel Office (*Bundeskartellamt*).
FNA	The German Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railways (*Bundesnetzagentur für Elek-trizität, Gas, Telekommunikation, Post und Eisenbahnen*).
FTR	Fixed-line termination rates.
GHz	Gigahertz.
G3G	Group 3G UMTS Holding GmbH.
GPRS	General Packet Radio Service is a packet oriented mobile data service on GSM.
Gross adds	The gross increase in the customer base measured in terms of accesses in a period.
GSM	Global System for Mobile communications, a standard set developed for digital cellular networks of the second generation, also referred to as “2G”.
HGB	German Commercial Code (*Handelsgesetzbuch*).
HSPA	A mobile broadband technology amalgamating the two 3G mobile telephony communications protocols HSDPA and HSUPA and allowing networks based on UMTS to have higher data transfer speeds and capacity.
HSDPA	High Speed Downlink Packet Access.
	HSDPA is a 3G mobile telephony communications protocol relating to the downlink of an UMTS mobile network.
HSUPA	High Speed Uplink Packet Access is a telephony communications protocol relating to the uplink of a UMTS mobile network.
Interconnection revenues	Revenues received from other operators which use Telefónica Deutschland’s networks to connect to Telefónica Deutschland’s customers.
ISP	Internet service provider.
IT	Information Technology is the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a microelectronics-based combination of computing and telecommunications.

IPTV	Internet Protocol Television is a system through which television services are delivered using the internet protocol suite over a packet-switched network such as the internet, instead of being delivered through traditional terrestrial, satellite signal, and cable television formats.
KPN	Koninklijke KPN N.V.
KPN Group	KPN collectively with its direct and indirect subsidiaries.
KPN Mobile Germany	KPN Mobile Germany GmbH & Co. KG, formerly E-Plus Mobilfunk GmbH & Co. KG.
LAN	A Local Area Network is a network that interconnects devices in a limited area such as a home or an office building using network media.
LTE	Long Term Evolution is the fourth generation mobile access technology, also referred to as “4G” that, based on the GSM/EDGE and UMTS/HSPA network technologies, increasing the capacity and speed using a different radio interface together with core network improvements.
Local loop	The physical circuit connecting the network termination point at the customer’s premises to the main distribution frame or equivalent facility in the fixed public telephone network.
MB	Megabyte.
MBA	Mobile bitstream access.
MDF	A Main Distribution Frame is a signal distribution frame for connecting equipment (inside plant) to cables and subscriber carrier equipment (outside plant).
MHz	Megahertz.
Mobile accesses	Includes accesses to mobile network for voice and/or data services (including connectivity). Mobile broadband includes internet access from devices used to make voice calls and smartphones (mobile internet), and internet access from devices that complement fixed-line broadband, such as PC cards/dongles, and enable large amounts of data to be downloaded on the move (mobile connectivity). Mobile accesses are categorized at post-paid or pre-paid accesses.
Mobile services	Mobile voice, messaging and data services.
M2M	Machine-to-Machine technologies allow both mobile and wired systems to communicate with other devices of the same ability. M2M uses a device (such as a sensor or meter) to capture an event (such as temperature, inventory level), which is relayed through a network (wireless, wired or hybrid) to an application (software program), that translates the captured event into meaningful information (for example, items that need to be restocked).
MMS	Multimedia Messaging Service.
MNO	Mobile Network Operator.
MTR	Mobile Termination Rates are the rates charged for terminating calls on a mobile network.
MVNO	A Mobile Virtual Network Operator is not entitled to use spectrum for the provision of mobile services. Consequently, an MVNO must subscribe to an access agreement with an MNO in order to provide mobile access to our customers. An MVNO pays such MNO for using the infrastructure to facilitate coverage to their customers. An MVNO is characterized by having neither its own mobile license nor its own mobile infrastructure, but it does not have a direct customer relationship with the end-user. The MVNO is able to handle network routing and will typically have entered into roaming deals with foreign MNOs. The MVNO is often able to produce and distribute (for example) voice minutes and data traffic, typically by tagging onto its existing fixed-line operation, and the MVNO will typically be able to handle producing SMS and MMS messages. A typical MVNO will be able to handle customer service, customer billing and collection of consumption data and handset management. Furthermore, the MVNO will usually handle marketing and sales to end-users.

Narrowband	Narrowband is a term used to describe an internet connection speed that is most commonly associated with a dial-up connection. Using phone lines and transmitting over voice-grade frequencies, the highest effective speed a connection can provide is approximately 56k, which is 56,000 bits per second.
Net adds	The difference between the customer base measured in terms of accesses at the end of the period and the beginning of that period. "Difference" is relating to any variation in the customer base, increase or decrease, in the determined period.
New E-Plus Group	New E-Plus KG collectively with its direct and indirect subsidiaries, also referred to as the E-Plus Group.
New E-Plus KG	E-Plus Mobilfunk GmbH & Co. KG, formerly E-Plus Transition GmbH & Co. KG.
New Group	Telefónica Deutschland together with the E-Plus Group upon closing of the Transaction.
NFC	Near Field Communication.
NGA	Next Generation Access.
Non-SMS data revenues	Data revenues excluding SMS revenues (Revenues from MMS, mobile broadband, mobile internet, push email as well as premium services and solutions).
NRA	National Regulatory Authority.
OHG	Telefónica Germany GmbH & Co. OHG.
OIBDA	Operating income before depreciation and amortization.
Operating Revenues	Total revenues less other non-operating recurrent revenues, *i.e.*, third party rent. Formula: Operating Revenues = Total Gross Service Revenues + Handset Revenues.
OTT	Over The Top refers to video, television and other services provided over the internet rather than via a service provider's own dedicated, managed network. OTT is delivered directly from provider to user using an open internet/broadband connection, without the need for carriage negotiations and without any infrastructure investment on the part of the provider. It is a "best effort" unmanaged method of content delivery via the internet that suits providers who are primarily broadcasters rather than ISPs.
OTT (over the top) services	Non-traditional mobile voice and data services based on new mobile VoIP technologies. OTT applications such as Skype, WhatsApp, Google Talk and Facebook are often free of charge, accessible, for example, via smartphones and enable their users to access potentially unlimited messaging and voice services over the internet.
PBX	A Private Branch Exchange is a telephone exchange that serves a particular business or office, as opposed to one that a common carrier or telephone company operates for many businesses or for the general public.
Quam	Quam GmbH.
Revenues	Net sales and revenues from rendering of services.
RCS-e	Rich Communication Services enhanced refers to an industry effort focused on the use of IP multimedia subsystem for providing mobile phone communication services such as instant messages and video sharing.
Secondary brands	Fully controlled brands such as FONIC and netzclub or brands managed through joint ventures and strategic partnerships such as Tchibo mobil.
Service provider	A service provider has neither a mobile license nor its own mobile infrastructure, but does have a direct customer relationship with the end-user. A service provider is not able to handle Network Routing itself and a service provider will not enter into roaming deals with foreign MNOs. The service provider is not able to produce and distribute (for example) voice minutes and data traffic and cannot produce SMS or MMS messages. The service provider will typically handle customer relationships, customer billing consumption data and handset management. Additionally, the service provider will typically handle its own marketing and sales to end-users.

Service revenues	Revenues less revenues from handset sales and one-time fees (*e.g.*, activation fees).
SHDSL	Single-pair High-speed Digital Subscriber Line is a form of DSL. Compared to ADSL, SHDSL provides equal transmit and receive (*i.e.*, symmetric) data rates. Support of symmetric data rates made SHDSL a popular choice by businesses for PBX, VPN, web hosting and other data services.
SIP	Session Initiation Protocol is a defined signaling protocol widely used for controlling communication sessions such as voice and video calls over internet Protocol (IP). The protocol can be used for creating, modifying and terminating two-party (unicast) or multiparty (multicast) sessions.
SoHo	Small office Home office.
Smallscreen	Smallscreen tariffs relate to all data tariffs (*e.g.*, bundled tariffs or data packs) that are designed especially for smartphone devices and which are not defined as Bigscreen.
Smartphone penetration	Smartphone penetration is based on the number of customers with a smallscreen tariff (*e.g.*, for smartphones) divided by the total mobile customer base less M2M, less customers with a bigscreen tariff (*e.g.*, for Surfsticks, Dongles, Tablets).
SME	Small Medium Enterprise.
SMS	Short Message Service.
Tbit	Terabyte.
Telecommunications Act	The German Telecommunications Act (*Telekommunikationsgesetz*) of June 22, 2004, as amended on August 7, 2013.
Telefónica Deutschland	Telefónica Deutschland Holding AG collectively with its direct and indirect subsidiaries and joint operations.
Telefónica Group	Telefónica, S.A. collectively with its direct and indirect subsidiaries, but excluding Telefónica Deutschland.
TGB.V.	Telfisa Global B.V.
TGR	Telefónica Global Roaming GmbH.
TGS	Telefónica Global Services GmbH.
ULL	Unbundled Local Loops are accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, “fully UL”) or only DSL service (shared unbundled loop, “shared UL”).
UMTS	Universal Mobile Telecommunications System is a third generation mobile cellular system for networks based on the GSM standard, also referred to as “3G”.
VDSL	Very-high-bit-rate DSL.
VoIP	Voice over Internet Protocol commonly refers to the communication protocols, technologies, methodologies, and transmission techniques involved in the delivery of voice communications and multimedia sessions over Internet Protocol networks, such as the internet.
VPN	Virtual Private Networks stands for a technology for using the internet or another intermediate network to connect computers to isolated remote computer networks that would otherwise be inaccessible. A VPN provides security so that traffic sent through the VPN connection stays isolated from other computers on the intermediate network.
Wi-Fi	A popular technology that allows an electronic device to exchange data wirelessly over a computer network, including high-speed internet connections. WLANs often use Wi-Fi.
WAN	A Wide Area Network is a telecommunications network that covers a broad area (any network that links across metropolitan, regional or national boundaries).
W-CDMA	Wideband Code Division Multiple Access is an air interface standard found in 3G mobile telecommunications networks.

WLAN	A Wireless Local Area Network links two or more devices using a wireless distribution method, and usually provides a connection through an access point to the wider internet. This gives users the mobility to move around within a local coverage area and still be connected to the network.
WpPG	German Securities Prospectus Act (*Wertpapierprospektgesetz*)

FINANCIAL SECTION

Note: The following English-language interim condensed consolidated financial statements of Telefónica Deutschland Holding AG (F-3 – F-20), consolidated financial statements of Telefónica Deutschland Holding AG (F-22 – F-85 and F-87 – F-145) and annual financial statements of Telefónica Deutschland Holding AG (F-204 – F-216) are translations of the respective German-language unaudited interim condensed consolidated financial statements, German-language audited consolidated financial statements and German-language audited annual financial statements of Telefónica Deutschland Holding AG.

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UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF TELEFÓNICA DEUTSCHLAND HOLDING AG IN ACCORDANCE WITH IFRS ON INTERIM FINANCIAL REPORTING (IAS 34) AS OF AND FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2014

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2014
(EUROS IN THOUSANDS)

		As of June 30	**As of December 31**
	Note	**2014**	**2013**
Assets			
A) Non-current assets	**-**	**6,935,334**	**7,167,703**
Goodwill	-	705,576	705,576
Intangible assets	-	2,717,326	2,884,200
Property, plant and equipment	-	2,818,161	2,895,617
Other non-current financial assets	-	110,748	98,787
Deferred tax assets	-	583,523	583,523
B) Current assets	**-**	**2,313,167**	**1,853,716**
Inventories	-	110,369	89,185
Trade and other receivables	7	1,171,811	1,035,234
Other current financial assets	-	24,713	20,751
Cash and cash equivalents	-	1,006,275	708,545
Total assets (A+B)	**-**	**9,248,502**	**9,021,419**
Equity and liabilities			
A) Equity	**-**	**5,399,166**	**5,998,973**
Common stock	-	1,116,946	1,116,946
Additional paid-in capital	-	430	430
Retained earnings	-	4,280,108	4,879,914
Other components of equity	-	1,683	1,683
Equity attributable to owners of the parent	-	5,399,166	5,998,973
B) Non-current liabilities	**-**	**2,262,739**	**1,451,739**
Non-current interest-bearing debt	7	1,812,596	1,342,584
Other payables	7	47,013	4,809
Non-current provisions	-	138,819	104,346
Deferred income	7	264,311	-
C) Current liabilities	**-**	**1,586,596**	**1,570,707**
Current interest-bearing debt	7	12,687	102,059
Trade payables	7	1,098,617	1,074,038
Other payables	7	289,143	221,532
Current provisions	-	3,155	3,513
Deferred income	7	182,995	169,565
Total equity and liabilities (A+B+C)	**-**	**9,248,502**	**9,021,419**

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONSOLIDATED INCOME STATEMENT
FROM JANUARY 1 TO JUNE 30, 2014
(EUROS IN THOUSANDS)

		April 1 to June 30		**January 1 to June 30**	
	Notes	**2014**	**2013**	**2014**	**2013**
Revenues	8	1,161,562	1,215,535	2,283,663	2,445,419
Other income	8	22,437	22,633	43,022	38,192
Supplies	-	(455,368)	(472,937)	(882,649)	(974,483)
Personnel expenses	-	(105,303)	(102,515)	(213,284)	(207,589)
Other expenses	-	(371,681)	(368,529)	(744,959)	(729,111)
Operating income before depreciation and amortization (OIBDA)	**-**	**251,647**	**294,186**	**485,792**	**572,428**
Depreciation and amortization	-	(267,127)	(286,302)	(533,988)	(566,387)
Operating income	**-**	**(15,480)**	**7,885**	**(48,195)**	**6,040**
Finance income	-	2,057	666	3,953	3,391
Exchange gains	-	31	170	161	296
Finance costs	-	(10,139)	(6,075)	(19,660)	(19,744)
Exchange losses	-	(426)	16	(474)	(175)
Net financial income/(expense)	**8**	**(8,477)**	**(5,222)**	**(16,020)**	**(16,232)**
Profit/(loss) before tax	**-**	**(23,957)**	**2,663**	**(64,215)**	**(10,191)**
Income tax	-	(0)	(1)	14	17
Total profit/(loss) for the period	**-**	**(23,957)**	**2,662**	**(64,201)**	**(10,174)**
Profit/(loss) for the period attributable to owners of the parent	**-**	**(23,957)**	**2,662**	**(64,201)**	**(10,174)**
Profit/(loss) for the period	**-**	**(23,957)**	**2,662**	**(64,201)**	**(10,174)**
Earnings per share	-				
Basic earnings per share in EUR	**-**	**(0.02)**	**0.00**	**(0.06)**	**(0.01)**
Diluted earnings per share in EUR	**-**	**(0.02)**	**0.00**	**(0.06)**	**(0.01)**

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FROM JANUARY 1 TO JUNE 30, 2014
(EUROS IN THOUSANDS)

		April 1 to June 30		January 1 to June 30	
	Note	**2014**	**2013**	**2014**	**2013**
Profit/(loss) for the period	**-**	**(23,957)**	**2,662**	**(64,201)**	**(10,174)**
Other comprehensive income/(loss)					
Items that may be reclassified subsequently to profit or loss	**-**	**-**	**-**	**-**	**-**
Gains/(losses) on measurement of available-for-sale investments	-	-	-	-	-
Income tax impact	-	-	-	-	-
Items that will not be reclassified to profit or loss	**-**	**(8,302)**	**(9,571)**	**(11,080)**	**(9,571)**
Remeasurement of defined benefit plans	-	(8,302)	(9,571)	(11,080)	(9,571)
Income tax impact	-	-	-	-	-
Total other comprehensive income/(loss)	**-**	**(8,302)**	**(9,571)**	**(11,080)**	**(9,571)**
Total comprehensive income	**-**	**(32,259)**	**(6,909)**	**(75,281)**	**(19,745)**
Total comprehensive income for the period attributable to owners of the parent	-	(32,259)	(6,909)	(75,281)	(19,745)
Total comprehensive income	**-**	**(32,259)**	**(6,909)**	**(75,281)**	**(19,745)**

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FROM JANUARY 1 TO JUNE 30, 2014
(EUROS IN THOUSANDS)

	Common stock	Additional paid-in capital	Retained earnings	Other components of equity: Available-for-sale investments	Equity attributable to owners of the parent	Equity
Financial position as of January 1, 2013	**1,116,946**	**430**	**5,309,936**	**1,481**	**6,428,793**	**6,428,793**
Profit/(loss) for the period	-	-	(10,174)	-	(10,174)	(10,174)
Other comprehensive income/(loss)	-	-	(9,571)	-	(9,571)	(9,571)
Total comprehensive income	**-**	**-**	**(19,745)**	**-**	**(19,745)**	**(19,745)**
Dividends	-	-	(502,625)	-	(502,625)	(502,625)
Financial position as of June 30, 2013	**1,116,946**	**430**	**4,787,566**	**1,481**	**5,906,423**	**5,906,423**
Financial position as of January 1, 2014	**1,116,946**	**430**	**4,879,914**	**1,683**	**5,998,973**	**5,998,973**
Profit/(loss) for the period	-	-	(64,201)	-	(64,201)	(64,201)
Other comprehensive income/(loss)	-	-	(11,080)	-	(11,080)	(11,080)
Total comprehensive income	**-**	**-**	**(75,281)**	**-**	**(75,281)**	**(75,281)**
Dividends	-	-	(524,964)	-	(524,964)	(524,964)
Other movements	-	-	438	-	438	438
Financial position as of June 30, 2014	**1,116,946**	**430**	**4,280,108**	**1,683**	**5,399,166**	**5,399,166**

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONSOLIDATED STATEMENT OF CASH FLOWS
FROM JANUARY 1 TO JUNE 30, 2014
(EUROS IN THOUSANDS)

	January 1 to June 30	
	2014	**2013**
Cash flow from operating activities		
Profit/(loss) for the period	**(64,201)**	**(10,174)**
Adjustments to profit/(loss)		
Net financial result	16,020	16,353
Gains on disposal of assets	(333)	(6)
Net income tax expense	(14)	(17)
Depreciation and amortization	533,988	566,387
Change in working capital		
Trade and other receivables	(61,151)	3,312
Inventories	(21,184)	13,586
Other current assets	(320)	(6,306)
Trade and other payables	44,566	56,998
Other current liabilities and provisions	13,510	7,147
Other non-current assets and liabilities	253,493	27,490
Interest received	3,827	2,237
Interest paid	(11,006)	(12,535)
Cash flow from operating activities	**707,194**	**664,472**
Cash flow from investing activities		
Proceeds on disposals of property, plant and equipment and intangible assets	632	12
Payments on investments in property, plant and equipment and intangible assets	(304,194)	(307,753)
Payments made on financial investments not included under cash equivalents	(7,043)	(12,147)
Cash flow from investing activities	**(310,605)**	**(319,888)**
Cash flow from financing activities		
Payments made on future capital increase	(3,195)	-
Proceeds from borrowing/debt	570,220	-
Repayment of borrowing/debt	(140,921)	(2,186)
Dividends paid	(524,964)	(502,625)
Cash flow from financing activities	**(98,860)**	**(504,811)**
Net increase/(decrease) in cash and cash equivalents	**297,729**	**(160,226)**
Cash and cash equivalents at the beginning of the period	**708,545**	**323,666**
Cash and cash equivalents at the end of the period	**1,006,275**	**163,440**

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONDENSED NOTES
FOR THE PERIOD FROM JANUARY 1 TO JUNE 30, 2014

1. REPORTING ENTITY

The Interim Condensed Consolidated Financial Statements (hereinafter “Interim Consolidated Financial Statements”) of Telefónica Deutschland Holding AG have been prepared for the period from January 1 to June 30, 2014 and comprise Telefónica Deutschland Holding AG (hereinafter “Telefónica Deutschland”) as well as its subsidiaries and joint operations (together referred to as “Telefónica Deutschland Group” or “Group”).

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

The company’s name is “Telefónica Deutschland Holding AG”. The company’s registered office is located in Munich, Germany. Telefónica Deutschland Holding AG is registered in the commercial register of the local court in Munich under registration number HRB 201055. The company’s business address is Georg-Brauchle-Ring 23–25, 80992 Munich, Germany (Telephone number: +49 (0) 89 2442-0; www.telefonica.de). Telefónica Deutschland Holding AG was established for an indefinite period.

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

The company is listed in the regulated market of the Frankfurt Stock Exchange. The security identification number (WKN – Wertpapierkennnummer = security identification number) is A1J5RX, the ISIN (International Securities Identification Number) is DE000A1J5RX9. As of June 30, 2014, Telefónica Deutschland Holding AG has a share capital of EUR 1,116,945,400. It is divided into 1,116,945,400 registered shares with no-par value each representing a notional amount of EUR 1.00 in the registered share capital. 23.17% of the shares are in free float, the remaining 76.83% are held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited). Each non-par share in general grants one vote at the General Meeting.

As of June 30, 2014, the authorized capital of Telefónica Deutschland Holding AG allows the Management Board of the company, with the approval of the Supervisory Board, to increase the share capital in the period up until September 17, 2017 once or repeatedly by up to a total of EUR 558,472,700 by issuing new no-par value registered shares against cash and/or contribution in kind (Authorized Capital 2012/I).

The extraordinary General Meeting on February 11, 2014 had approved furthermore an authorization of the Management Board to execute, with the approval of the Supervisory Board, a capital increase against contribution in kind by up to EUR 475,000,000 and the related amendment of the Articles of Association (Authorized Capital 2014/I).

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

The extraordinary General Meeting held on February 11, 2014 and the annual General Meeting on May 20, 2014 had furthermore approved an increase of the share capital by up to EUR 3.7bn against cash contribution with a subscription right of the shareholders, as well as the related amendment of the Articles of Association in connection with the E-Plus transaction.

For further information, please refer to Note 2, Significant events and transactions of the period.

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

Telefónica Deutschland Group is one of three integrated network operators in Germany having both a wireline and a wireless network. It offers its consumer retail and business customers postpaid and prepaid wireless communications products, along with wireless data services using Global Packet Radio Service (GPRS), Universal Mobile Telecommunications System (UMTS) and Long Term Evolution (LTE) technology as well as Digital Subscriber Line (DSL) wireline telephony and high-speed internet services.

Telefónica Deutschland Group markets its products under a multi-brand strategy and offers the majority of its wireless and wireline communications products as well as services via the core brand O_2.

With secondary and partner brands and via wholesale channels Telefónica Deutschland Group reaches further groups of customers to whom the core brand O_2 does not appeal. The secondary brands include the brands Fonic and netzclub, which are fully controlled, as well as brands from joint operations and strategic partnerships such as, for example, TCHIBO mobil. The Group also markets high-speed DSL internet access and wireline telephony. The multi-brand approach enables the Group to address a broad spectrum of customers and to maximize the sales range through customized product offers, sales and marketing.

As part of the wholesale business, Telefónica Deutschland Group offers wireless communications, wireline and added value services for customers such as 1&1, mobilcom/debitel, Drillisch, and wireline providers. In the wireline area the Group makes a range of so called “Unbundled Local Loop services” (ULL), including wireline telephony and high-speed internet, available to the wholesale partners. Furthermore, added value services such as e.g. billing services or the management of telephone numbers and SIP accounts are offered. This comprehensive portfolio enables the wholesale partners to independently service their end-customers and at the same time provides the Group the opportunity to increase its range and to achieve economies of scale.

2. SIGNIFICANT EVENTS AND TRANSACTIONS OF THE PERIOD

a) Agreement on the acquisition of E-Plus

On July 23, 2013, Telefónica Deutschland, Telefónica, S.A. and Koninklijke KPN N.V. (KPN) concluded an agreement for the acquisition of KPN's German mobile business, E-Plus, by Telefónica Deutschland. As consideration, KPN receives in total EUR 3.7bn in cash (subject to a price adjustment) and newly to be issued shares. The cash component to be paid to KPN will be financed via a Cash Capital Increase of Telefónica Deutschland. The shares that are to be issued as a further consideration to KPN should be generated via a capital increase against contribution in kind. By this, KPN will have a 24.9% stake in Telefónica Deutschland after the capital increases.

Thereafter, pursuant to the agreement as of July 23, 2013, in the amended version as of August 26 and 28, as well as of December 5, 2013 and March 24, 2014, Telefónica, S.A. shall acquire from KPN a share of 4.4% of Telefónica Deutschland for EUR 1.3bn. Furthermore, a call option agreement shall be concluded with KPN, which grants Telefónica, S.A. the right to acquire from KPN a further share of up to 2.9% of Telefónica Deutschland. This right can be exercised one year after the conclusion of the call option agreement at an exercise price of up to EUR 0.51bn.

This would finally lead to a holding of Telefónica, S.A. in Telefónica Deutschland of 62.1%, or, in case of the complete exercise of the call options of 65.0%, respectively, and of KPN of 20.5%, or, in the case of the complete exercise of the call option, 17.6%, respectively. The free float will then amount to 17.4%.

KPN's extraordinary General Meeting approved the transaction with a large majority on October 2, 2013.

Regarding the approval of the capital measures for the E-Plus transaction by the General Meeting of Telefónica Deutschland we refer to items c) and d).

As of June 30, 2014 the execution of the transaction still required the approval of the competent authorities as well as further standard closing conditions. The completion of the transaction is expected in the third quarter 2014.

For further information, please refer to Note 11, Events after the reporting period.

b) Agreement on network access in view of the E-Plus acquisition

On June 25, 2014, Telefónica Deutschland signed an agreement with MS Mobile Services GmbH ("Drillisch"), a subsidiary of Drillisch AG, according to which Drillisch agreed to acquire, in addition to the capacity necessary to provide services to its existing customers already hosted on Telefónica Deutschland's or E-Plus' networks, 20% of the capacity of all mobile networks that will be under the control of Telefónica Deutschland following the consummation of the proposed acquisition of E-Plus Group. The 20% will be reached via a glide path mechanism over a period of 5 years. In addition, Drillisch shall have the right to acquire up to 10% additional capacity of those networks. Telefónica Deutschland published this accordingly on June 25, 2014.

Telefónica Deutschland will grant Drillisch, via a Mobile Bitstream Access model, access to the future joint network of Telefónica Deutschland and E-Plus, as well as to the existing and future technology developments on that network, which Drillisch may offer to its customers.

The agreement has been entered into with a view to the decision by the European Commission in the merger control proceeding relating to the acquisition of E-Plus by Telefónica Deutschland (refer to item a). By means of the agreement certain remedies shall be implemented, which Telefónica Deutschland offered during merger control proceedings in order to remove competition concerns of the European Commission.

The agreement with Drillisch will become effective only if the European Commission confirms that the agreement with Drillisch meets the conditions and obligations associated with the decision, as far as these have to be fulfilled before the closing of the transaction, and that the transaction will be completed. The decision by the European Commission with respect to the merger is expected for July 2014.

For further information, please refer to Note 11, Events after the reporting period.

c) Extraordinary General Meeting

On December 30, 2013, the Management Board of Telefónica Deutschland called an extraordinary General Meeting, which took place on February 11, 2014. In such extraordinary General Meeting, the General Meeting of Telefónica Deutschland approved the following capital measures for the E-Plus transaction (refer to item a):

- Increase in the share capital by up to EUR 3.7bn against cash contribution with a subscription right of the shareholders, as well as the related amendment of the Articles of Association
- Authorization of the Management Board, with the approval of the Supervisory Board, to execute a capital increase against contribution in kind by up to EUR 475,000k and the related amendment of the Articles of Association (Authorized Capital 2014/I)

The resolution passed by the General Meeting on the authorization to increase the share capital by up to EUR 3.7bn was registered in the commercial register on February 25, 2014.

Furthermore, the extraordinary General Meeting resolved a new Conditional Capital 2014/I, whilst suspending the former Conditional Capital 2012/I. The new Conditional Capital 2014/I was registered in the commercial register on February 25, 2014, whilst suspending the former Conditional Capital 2012/I.

d) Annual General Meeting and dividend payment

On May 20, 2014, the second Annual General Meeting of Telefónica Deutschland Holding AG took place. In addition to the discharge of the members of the Supervisory Board and the members of the Management Board as well as the election of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft with its registered office in Stuttgart, branch office Munich, as auditor for the Consolidated Financial Statements and Financial Statements of Telefónica Deutschland Holding AG for the financial year 2014, the General Meeting resolved to distribute a dividend of EUR 0.47 for each share entitled to dividends, in total EUR 524,964,338.00.

In addition, the increase of the share capital by up to EUR 3.7bn against cash contribution with a subscription right of the shareholders in connection with the acquisition of E-Plus (hereinafter "Cash Capital Increase") as well as the related amendment of the Articles of Association was approved (refer to item a). Hereby the possibility is created to potentially implement the Cash Capital Increase beyond the implementation period of the resolution passed at the extraordinary General Meeting as of February 11, 2014 under agenda item 1, therefore beyond August 10, 2014.

Furthermore, it was resolved to increase the number of members of the Supervisory Board according to section 7 (1) sentence 1 no. 2 of the German Co-Determination Act (Mitbestimmungsgesetz) to 16 members and change the Articles of Association accordingly; the change is subject to registration in the commercial register which will only take place following the registration of the Authorized Capital 2014/I resolution passed at the extraordinary General Meeting as of February 11, 2014 under agenda item 2 in connection with the acquisition of E-Plus. Subject to this before-mentioned change of the Articles of Association becoming effective, the General Meeting elected Sally Anne Ashford and Antonio Manuel Ledesma Santiago as members of the Supervisory Board of Telefónica Deutschland Holding AG.

For further information, please refer to Note 11, Events after the reporting period.

e) Change in the Management Board of Telefónica Deutschland

On January 31, 2014, René Schuster left in mutual agreement as CEO and member of the Management Board. On January 29, 2014, the Supervisory Board of Telefónica Deutschland approved a respective termination agreement. Since February 1, 2014, the responsibilities of the CEO have been taken over jointly by Chief Financial Officer, Rachel Empey, and Chief Strategy Officer, Markus Haas, in addition to their responsibilities to date. Rachel Empey focuses on the operative business and Markus Haas on the preparation for the E-Plus integration.

f) Issue of a 7-year bond (Bond II)

On February 10, 2014, Telefónica Deutschland Group issued a senior unsecured 7-year bond with a nominal value of EUR 500,000k. The bond has a maturity on February 10, 2021 and was issued by O_2 Telefónica Deutschland Finanzierungs GmbH, Munich, and is guaranteed by Telefónica Deutschland Holding AG. The coupon for the fixed interest bond is 2.375% and the issue price 99.624%. The issue spread was 100 basis points over the seven-year Euro Midswap Rate, resulting in a yield of 2.434%. The bond has a denomination of EUR 1,000 and was issued on the basis of a bond security prospectus. O_2 Telefónica Deutschland Finanzierungs GmbH, Munich, has transferred the net proceeds of the bond to Telefónica Germany GmbH & Co. OHG, Munich, in the form of a loan. The net proceeds generated by the bond will be used for general corporate purposes.

In this connection an interest rate swap was signed for a partial amount of EUR 150,000k of the bond's nominal value. On the basis of the interest rate swap contract, Telefónica Deutschland Group pays a variable interest rate amounting to the three-month Euribor on the nominal amount and receives a fixed interest rate of 1.268% on the same amount in return.

g) Conclusion of contract to expand the wireline cooperation

In May 2013, Telefónica Deutschland Group via Telefónica Germany GmbH & Co. OHG concluded with Telekom Deutschland GmbH a "Memorandum of Understanding" to expand their wireline cooperation. This comprises the future intensified usage of the high-speed infrastructure of Telekom Deutschland GmbH by Telefónica Deutschland Group for its wireline products. Within the scope of this cooperation, Telefónica Deutschland Group will be able to implement the transition from the independent ADSL infrastructure through a sustainable NGA platform. In the future, Telefónica Deutschland intends to increasingly use VDSL and vectoring wholesale products provided by Telekom Deutschland GmbH. The transition should be fully completed in 2019. A binding agreement for the wireline cooperation with Telekom Deutschland GmbH was concluded on December 20, 2013.

The cooperation includes regulating aspects which are subject to an inspection by the Federal Network Agency (Bundesnetzagentur – BNetzA) and the Federal Cartel Office (Bundeskartellamt – BKartA). The Federal Network Agency has approved the cooperation in its preliminary draft decision from December 2013. The preliminary draft decision was publicly discussed at national level and with the European Commission. In its response from March 13, 2014, the European Commission did not express serious doubts. Consequently, the Federal Network Agency published its final decision on March 18, 2014 and confirmed its preliminary draft decision from December 2013. With this decision the agreement concluded in December came into effect on March 18, 2014.

The agreement affected the Consolidated Statement of Financial Position as of June 30, 2014 in particular in other payables, the provision for dismantling obligations and thus simultaneously property, plant and equipment as well as deferred income. Furthermore, purchase obligations included within other financial commitments increased. There were no material effects on the results of operations of the Group in the reporting period.

The cooperation is not subject to the approval of anti-trust authorities, however, is investigated with regard to general legal competition matters by the Federal Cartel Office. The result and decision with respect to this investigation is expected in the second half of 2014. The decision has no impact on the commencement of the cooperation. Effective on May 1, 2014, Telefónica Deutschland Group intensifies usage of the high-speed infrastructure of Telekom Deutschland GmbH for its wireline products in connection with the binding agreement. If the Federal Cartel Office questions the cooperation in the agreed form, renegotiations will be necessary.

3. BASIS OF PREPARATION OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. Accordingly, the Interim Consolidated Financial Statements do not contain all of the information and disclosures required for a complete set of consolidated financial statements and should thus be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2013. Therefore for further information, please refer to the Consolidated Financial Statements for the year ended December 31, 2013 (Note 2, Basis of Preparation).

These Interim Consolidated Financial Statements for the period ended June 30, 2014 are unaudited.

Unless otherwise stated, the figures in these Interim Consolidated Financial Statements are rounded and refer to thousands of Euros (EUR k). The figures in these Interim Consolidated Financial Statements have been rounded according to established commercial principles. Additions of the figures can thus lead to amounts that deviate from those shown in the tables.

In preparing these Interim Consolidated Financial Statements, the Management Board had to make certain judgments, estimates, and assumptions related to both the application of accounting policies and the reported amounts of the company's assets, liabilities, income and expenses. A significant change in the facts and circumstances on which these estimates and assumptions and the respective judgments are based could have a material impact on Telefónica Deutschland Group's net assets, financial position and results of operations.

The material assumptions made by the management in applying Telefónica Deutschland Group's accounting policies and main causes of estimation uncertainty during the preparation of these Interim Consolidated Financial Statements were the same as those assumptions and causes of estimation uncertainty in the Consolidated Financial Statements for the year ended December 31, 2013 with the exception of the changes described below in Note 4, Accounting Policies, as well as a change in estimate for the dismantling of a part of Telefónica Deutschland Group's network, which will now be done earlier than originally expected. The latter results in an additional provision requirement of EUR 20,221k in the reporting period.

For further information, please refer to the Consolidated Financial Statements for the year ended December 31, 2013 (Note 3, Accounting Policies).

4. ACCOUNTING POLICIES

Starting January 1, 2014, Telefónica Deutschland Group applied the changes of IAS 32, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities as well as amendments to IAS 36, Recoverable Amount Disclosures for Non-Financial Assets. These standards and amendments were required to be adopted for financial years beginning on or after January 1, 2014.

Furthermore the Group adopted early IFRIC 21, Levies effective as of January 1, 2014. The European Union (EU) endorsed the interpretation with its regulation dated June 13, 2014 for annual periods beginning on or after June 17, 2014. Earlier application was permitted.

These and additional standards and amendments which had to be adopted by January 1, 2014 had no or no material effect on the net assets, financial position and results of operations of the Group.

Accounting pronouncements published at the date of preparation of the Interim Consolidated Financial Statements, but which had not to be applied mandatorily are described below:

Standards and amendments		Mandatory adoption for financial years beginning on or after
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions	July 1, 2014*
Annual improvements to IFRSs 2010-2012 Cycle	Amendments to IAS 16, IAS 24, IAS 38, IFRS 2, IFRS 3, IFRS 8 and IFRS 13	July 1, 2014*
Annual improvements to IFRSs 2011-2013 Cycle	Amendments to IAS 40, IFRS 1, IFRS 3 and IFRS 13	July 1, 2014*
IFRS 14	Regulatory Deferral Accounts	January 1, 2016*
Amendments to IAS 16 and IAS 38	Clarification of acceptable Methods of Depreciation and Amortisation	January 1, 2016*
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016*
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants	January 1, 2016*
IFRS 15	Revenue from Contracts with Customers	January 1, 2017*
IFRS 9 and amendments to IFRS 7	Financial Instruments	January 1, 2018**

* Endorsement by EU still outstanding, information for first time adoption according to IASB.

** Expected first time adoption according to the IASB decision from February 2014.

On May 6, 2014, the IASB published amendments to IFRS 11, Joint Arrangements in connection with the acquisition of interests in joint operations. The acquirer of an interest in a joint operation, which constitutes a business in accordance with IFRS 3, should apply the accounting principles of IFRS 3 as long as those principles do not conflict with the guidance in IFRS 11.

With the amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets published on May 12, 2014, the IASB provides additional guidance to determine an acceptable depreciation method. In particular a depreciation method that is based on revenue is not appropriate for property, plant and equipment and is allowed for intangible assets only in limited circumstances.

The amendments to IFRS 11, IAS 16 and IAS 38 are effective for annual periods beginning on or after January 1, 2016. The Group does not expect an effect on its net assets, financial position and results of operations.

On May 28, 2014, the International Accounting Standards Board (IASB) issued IFRS 15, Revenue from Contracts with Customers with the objective to converge rules from different standards and interpretations across industries in a uniform standard. The new standard provides for a five-step model framework to determine the amount of revenue and the point in time of revenue recognition. Furthermore the standard includes additional guidance on more detailed questions. The standard is effective for periods beginning on or after January 1, 2017. Telefónica Deutschland Group currently analyzes the standard for its potential effects.

For a comprehensive description of the new standards, amendments to standards and interpretations applicable for the Group, please refer to the disclosures in the Consolidated Financial Statements for the year ended December 31, 2013 (Note 3, Accounting Policies). An assessment is provided there on the estimated impact to the net assets, financial position and results of operations of the Group, which is still valid for the Interim Consolidated Financial Statements for the period ended June 30, 2014.

5. COMPARATIVE INFORMATION

The Consolidated Statement of Financial Position presented in these Interim Consolidated Financial Statements compares figures as of June 30, 2014 and December 31, 2013. The Consolidated Income Statement and the Consolidated Statement of Comprehensive Income compare figures for the six-month periods ended June 30, 2014 and June 30, 2013 and the figures for the second quarter in financial years 2014 and 2013. The Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity compare figures for the six-month periods ended June 30, 2014 and June 30, 2013.

To date, the development of the results has not shown any indication that the business is subject to significant seasonal fluctuations.

6. RELATED PARTIES

There have been no material changes in the nature and amount of Telefónica Deutschland Group's transactions with related parties as of June 30, 2014 compared to those reported as of December 31, 2013. For further details please refer to the Consolidated Financial Statements for the year ended December 31, 2013 (Note 24, Related Parties).

7. SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

a) Trade and other receivables

The breakdown of this item in the Consolidated Statement of Financial Position is as follows:

(Euros in thousands)	As of June 30 2014	As of December 31 2013
Receivables from sales and services	1,046,278	968,993
Receivables from related parties	20,791	26,632
Other receivables	5,196	11,701
Prepayments	221,834	146,280
Provisions for bad debts	(122,288)	(118,371)
Trade and other receivables	**1,171,811**	**1,035,234**

b) Trade payables, other payables and deferred income

Trade payables, other payables and deferred income comprise the following:

	As of June 30 2014		As of December 31 2013	
(Euros in thousands)	Non-current	Current	Non-current	Current
Trade payables against third parties	-	275,342	-	450,511
Accruals	-	622,030	-	403,569
Payables to related parties	-	201,245	-	219,958
Trade payables	**-**	**1,098,617**	**-**	**1,074,038**
Other payables	**47,013**	**289,143**	**4,809**	**221,532**
Deferred income	**264,311**	**182,995**	**-**	**169,565**

Deferred income mainly includes advance payments received on prepaid contracts as well as other advance payments for future services to be received. The latter are classified according to their expected utilization as current or non-current. Advance payments received on prepaid contracts are solely classified as current.

c) Non-current and current interest-bearing debt

Non-current interest-bearing debt includes the bonds, which were issued by Telefónica Deutschland Group with a nominal value of EUR 600,000k in November 2013 (please refer to the Consolidated Financial Statements for the year ended December 31, 2013, Note 1h, Reporting entity) and with a nominal value of EUR 500,000k in February 2014 (see Note 2f, Significant events and transactions of the period). These bonds (except for EUR 350,000k of the nominal value of the bonds) are accounted for by using the effective interest method after deduction of the disagio and incurred transaction costs. A portion amounting to EUR 350,000k of the nominal value of the bonds together with interest swaps is subject to a fair value hedge and is therefore classified as liability at fair value through profit or loss.

In addition, a loan of EUR 1,250,000k is included, which was borrowed by Telefónica Germany GmbH & Co. OHG from Telfisa Global B.V. on September 12, 2012 (please refer to the Consolidated Financial Statements for the year ended December 31, 2013, Note 24, Related Parties). In 2013 a repayment of EUR 250,000k was made. Furthermore in 2013, EUR 150,000k and in 2014, EUR 125,000k were repaid prematurily due to obtaining financing through the bonds. The remaining balance of EUR 725,000k as of June 30, 2014, is classified as non-current.

The current interest-bearing debt reflects the accrued interest for the non-current interest-bearing debt described above.

d) Valuation categories of financial assets and financial liabilities

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

As of June 30, 2014 the carrying amounts of the financial assets and financial liabilities represent an appropriate approximation for their fair values (with the exception of the portion of the bonds that is not hedged, see below).

For further information, please refer to the Consolidated Financial Statements for the year ended December 31, 2013 (Note 10, Financial Assets and Liabilities).

In addition, the tables show the categorization of the financial assets and liabilities in accordance with the importance of the input factors that were used for their respective valuation. For this purpose three levels or valuation hierarchies are defined:

- Level 1: Primary market value: Quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: Significant other observable input parameters: Inputs, either directly or indirectly observable, which are subject to certain limitations
- Level 3: Significant unobservable input parameters: All unobservable inputs which might include the entity's own data as a starting point and which should be adjusted, if reasonably available information indicates that other market participants would use different data

	As of June 30, 2014									
	Financial assets									Non-financial assets
					Measurement hierachy					
(Euros in thousands)	**Financial assets at fair value through profit or loss**	**Available-for-sale financial assets**	**Held-to-maturity assets**	**Loans and receivables**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Total carrying amount**	**Total fair value**	
Other non-current financial assets	-	6,321	-	104,427	-	6,321	-	110,748	110,748	-
Trade and other receivables (Note 7a)	-	-	-	944,781	-	-	-	944,781	944,781	227,030
Other current financial assets	-	-	-	24,713	-	-	-	24,713	24,713	-
Cash and cash equivalents	-	-	-	1,006,275	-	-	-	1,006,275	1,006,275	-
Total	**-**	**6,321**	**-**	**2,080,195**	**-**	**6,321**	**-**	**2,086,516**	**2,086,516**	**227,030**

	As of December 31, 2013									
	Financial assets									Non-financial assets
					Measurement hierachy					
(Euros in thousands)	**Financial assets at fair value through profit or loss**	**Available-for-sale financial assets**	**Held-to-maturity assets**	**Loans and receivables**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Total carrying amount**	**Total fair value**	
Other non-current financial assets	-	6,473	-	92,314	-	6,473	-	98,787	98,787	-
Trade and other receivables (Note 7a)	-	-	-	877,254	-	-	-	877,254	877,254	157,981
Other current financial assets	-	-	-	20,751	-	-	-	20,751	20,751	-
Cash and cash equivalents	-	-	-	708,545	-	-	-	708,545	708,545	-
Total	**-**	**6,473**	**-**	**1,698,864**	**-**	**6,473**	**-**	**1,705,337**	**1,705,337**	**157,981**

With respect to these financial assets there are no indications of circumstances that could have a negative impact on their value as at the respective reporting date.

The other non-current financial assets are classified as loans and receivables as well as available-for-sale financial assets in 2014 and 2013:

- The balance of these assets that are classified as loans and receivables essentially comprises the "O_2 My Handy" receivables as well as a deposit of EUR 11,977k (2013: EUR 8,889k). This deposit was pledged as collateral to cover the maximum risk from silent factoring to be borne by Telefónica Deutschland Group and the guarantee of the servicing of the receivables over the term of the sold receivables. Telefónica Deutschland Group receives a fixed interest for the deposit.

- The balance of these assets that are classified as available-for-sale financial assets comprises financial assets owned by Telefónica Deutschland Group to meet its pension obligations, but, in accordance with IAS 19, do not qualify as plan assets. The fair values recognized in level 2 are based on the values received from the insurance company, which are derived on the insurance company's internal calculation models.

Other current financial assets, which have been categorized as loans and receivables, mainly include security deposits for silent factoring amounting to EUR 24,248k (2013: EUR 20,293k).

The non-financial assets within trade and other receivables primarily relate to advance payments.

	As of June 30, 2014									
	Financial liabilities									Non-financial liabilities
					Measurement hierachy					
(Euros in thousands)	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized costs	Finance Leases	Financial liabilities held-to-maturity	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	
Long-term loans (Note 7c)	344,907	1,467,689	-	-	-	344,907	-	1,812,596	1,826,520	-
Other non-current payables (Note 7b)	-	3,099	43,913	-	-	-	-	47,013	47,013	-
Short-term loans (Note 7c)	-	12,687	-	-	-	-	-	12,687	12,687	-
Trade payables (Note 7b)	-	1,098,617	-	-	-	-	-	1,098,617	1,098,617	-
Other current liabilities (Note 7b)	-	187,997	15,254	-	-	-	-	203,252	203,252	85,891
Total	**344,907**	**2,770,090**	**59,168**	**-**	**-**	**344,907**	**-**	**3,174,164**	**3,188,088**	**85,891**

	As of December 31, 2013									
	Financial liabilities									Non-financial liabilities
					Measurement hierachy					
(Euros in thousands)	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Finance Leases	Financial liabilities held-to-maturity	Level1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	
Long-term loans (Note 7c)	200,492	1,142,093	-	-	-	200,492	-	1,342,584	1,348,310	-
Other non-current payables (Note 7b)	-	3,469	1,340	-	-	-	-	4,809	4,809	-
Short-term loans (Note 7c)	-	102,059	-	-	-	-	-	102,059	102,059	-
Trade payables (Note 7b)	-	1,074,038	-	-	-	-	-	1,074,038	1,074,038	-
Other current liabilities (Note 7b)	-	195,986	1,649	-	-	-	-	197,635	197,635	23,897
Total	**200,492**	**2,517,645**	**2,989**	**-**	**-**	**200,492**	**-**	**2,721,126**	**2,726,851**	**23,897**

The long- and short-term loans are primarily accounted for as financial liabilities at amortized cost (except for EUR 350,000k of the nominal value of the bonds).

A portion of the above-mentioned bonds (EUR 350,000k of the nominal value) together with an interest swap for each is subject to a fair value hedge and is therefore classified as financial liability at fair value through profit or loss.

In measuring the fair value of the swaps, all factors are included that market participants would consider, including the credit risks of the contract parties. The fair value of the interest swaps results from discounting the expected future payments over the remaining term of the contract using current market interest rates and yield curves.

The adjustments to the carrying amount of the financial liabilities result in a cumulated loss of EUR 6,412k (EUR 5,934k loss in the three months of the second quarter and EUR 9,275k loss in the first half of 2014), wheras the corresponding interest rate swaps result in a cumulated gain of EUR 7,666k (EUR 6,530k gain in the three months of the second quarter and EUR 10,384k gain in the first half of 2014). Thus, a net result, representing the ineffective part of the hedge relationship amounting to EUR 1,254k (EUR 596k net result in the three months of the second quarter and EUR 1,109k in the first half of 2014) is recognized in the net financial result. There had been no effects until June 30, 2013. Under the existing interest rate swaps, Telefónica Deutschland Group pays a variable quarterly interest rate amounting to the three-month Euribor and receives an average fixed interest rate of 0.927% and 1.268%, respectively. The hedged nominal value of the financial liabilities amounts to EUR 350,000k. Hence, 19% (2013: 14%) of the bonds and debentures of the company were switched from fixed interest to variable interest. The fair value of the interest swaps used to hedge financial liabilities amount to EUR 8,027k as of June 30, 2014 (2013: EUR -2,718k) and reduces (increased) the long-term loans. The fair value of the bonds is determined by discounting the expected future cash flows using currently applicable interest rates with comparable conditions and residual terms.

The non-financial liabilities within other current liabilities mainly include other taxes and social security.

8. SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED INCOME STATEMENT

a) Revenues

The breakdown of revenues is as follows:

	April 1 to June 30		January 1 to June 30	
(Euros in thousands)	**2014**	**2013**	**2014**	**2013**
Rendering of services	1,015,631	1,059,174	2,015,526	2,107,659
Other sales	145,931	156,361	268,138	337,760
Total revenues	**1,161,562**	**1,215,535**	**2,283,663**	**2,445,419**

Revenues from rendering of services include wireless service revenues as well as revenues from wireline business revenues. The other sales include handset revenues and other revenues.

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

The breakdown of revenues by wireless and wireline business is provided in the following table:

	April 1 to June 30		January 1 to June 30	
(Euros in thousands)	**2014**	**2013**	**2014**	**2013**
Revenues				
Wireless business	**872,122**	**902,786**	**1,699,203**	**1,816,290**
Wireless service revenues	728,133	748,066	1,434,751	1,481,230
Handset revenues	143,989	154,720	264,452	335,060
Wireline business	**287,499**	**311,107**	**580,775**	**626,429**
Other revenues	**1,941**	**1,642**	**3,686**	**2,700**
Total revenues	**1,161,562**	**1,215,535**	**2,283,663**	**2,445,419**

b) Other income

Other income comprises the following:

	April 1 to June 30		January 1 to June 30	
(Euros in thousands)	**2014**	**2013**	**2014**	**2013**
Own work capitalized and ancillary income	22,337	22,631	42,390	38,190
Gains on disposal of assets	100	2	632	2
Other income	**22,437**	**22,633**	**43,022**	**38,192**

Own work capitalized mainly includes direct labor costs used as well as the allocable portion of indirect costs in connection with investments in non-current assets.

c) Net financial income/(expense)

In the first six months of the current financial year the net financial income/(expense) of Telefónica Deutschland Group amounted to EUR -16,020k (2013: EUR -16,232k).

The breakdown of the net financial income/(expense) is as follows:

	April 1 to June 30		January 1 to June 30	
(Euros in thousands)	**2014**	**2013**	**2014**	**2013**
Interest income from financial assets	2,057	666	3,953	3,391
Interest expenses from financial liabilities	(10,345)	(6,475)	(19,724)	(15,267)
Accretion of provisions and other liabilities	206	400	64	(4,477)
Other exchange gains/(losses)	(395)	187	(313)	121
Net financial income/(expense)	**(8,477)**	**(5,222)**	**(16,020)**	**(16,232)**

The interest income from financial assets mainly comprises the interest income in connection with “O_2 My Handy” receivables and cash-pooling balances with Telfisa Global B.V.

The interest expenses from financial liabilities mainly comprise the interest expenses for the loan granted from Telfisa Global B.V. in September 2012 and for the bonds issued in November 2013 and February 2014.

9. LEASES AND OTHER OBLIGATIONS

Finance Leases

Telefónica Deutschland Group’s finance leases are recognized in the Interim Consolidated Financial Statements for the period ended June 30, 2014 in the position property, plant and equipment and comprise the following amounts:

	As of June 30	As of December 31
(Euros in thousands)	**2014**	**2013**
Plant and machinery	71,735	3,026
Net carrying amount of lease assets	**71,735**	**3,026**

The commitments from finance leases result mainly from agreements for network elements which were entered into in connection with sale and leaseback transactions and are classified as finance lease due to their contractual features.

The breakdown of minimum lease payment obligations is as follows:

	As of June 30, 2014		
(Euros in thousands)	**Minimum future lease payments obligation**	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
Due within one year	16,455	1,201	15,254
Due between 1 and 5 years	45,672	1,758	43,913
Due in more than 5 years	-	-	-
Present value of minimum lease payments	**62,127**	**2,959**	**59,167**

	As of December 31, 2013		
(Euros in thousands)	**Minimum future lease payments obligation**	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
Due within one year	1,732	83	1,649
Due between 1 and 5 years	1,367	27	1,340
Due in more than 5 years	-	-	-
Present value of minimum lease payments	**3,099**	**110**	**2,989**

Renewal and purchase options where the exercise is not expected are not considered in the calculation of the minimum lease payments.

Purchase and other contractual obligations

The following expected maturities apply for purchase and other contractual obligations:

	As of June 30	**As of December 31**
(Euros in thousands)	**2014**	**2013**
Less than 1 year	233,635	185,390
1 to 5 years	46,129	46,164
Over 5 years	714,852	81,000
Purchase and other contractual obligations	**994,616**	**312,554**

Purchase and other contractual obligations over five years increased in the reporting period compared to the Consolidated Financial Statements for the year ended December 31, 2013 mainly due to long-term purchase contracts with suppliers.

10. CONTINGENT ASSETS AND LIABILITIES

As of June 30, 2014, the existing contingent assets and liabilities of the Telefónica Deutschland Group have not changed significantly compared to December 31, 2013. For further information please refer to the Consolidated Financial Statements for the year ended December 31, 2013 (Note 29, Contingent Assets and Liabilities).

11. EVENTS AFTER THE REPORTING PERIOD

Merger approval with conditions precedent

On July 2, 2014, Telefónica Deutschland has received the European Commission's conditional clearance regarding the acquisition of the E-Plus Group from KPN.

In the course of the merger clearance process, Telefónica Deutschland Group has agreed a set of remedies which fully address the European Commission's competition concerns. In this regard, Telefónica Deutschland Group has committed to sell upfront 20% of its mobile network capacity via Mobile Bitstream Access to a Mobile Virtual Network Operator ("MVNO") and give the opportunity to acquire up to 10% additional network capacity. Mobile Bitstream Access is a product where the MNO provides network capacity in the form of data throughput and data volume. This enables an MVNO to offer its own mobile services to customers. Telefónica Deutschland Group has already signed a contract with Drillisch with the purpose to implement measures to be taken before the closing of the transaction. This contract will only become effective when the European Commission confirms that the contract complies with the conditions and obligations which have to be fulfilled before the closing of the transaction and which are associated with the clearance of the transaction and that the transaction will be completed.

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

Decision of Federal Network Agency regarding return of frequencies of 900MHz and 1800MHz

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

Announcement of nomination of Management Board by Supervisory Board following closing of E-Plus acquisition

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

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

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

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

Munich, July 25, 2014

Telefónica Deutschland Holding AG

The Management Board

Rachel Empey   Markus Haas

The following English-language translation of the German-language review report (Bescheinigung nach prüferischen Durchsicht) refers to the interim condensed consolidated financial statements of Telefónica Deutschland Holding AG, Munich, prepared in accordance with International Financial Reporting Standards (IFRS) on interim financial reporting, as adopted by the EU, as well as the interim group management report, prepared in accordance with the requirements of the WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act) applicable to interim group management reports, as of and for the six months period ended June 30, 2014 as a whole and not solely to the interim condensed consolidated financial statements presented in this Prospectus on the preceding pages.

REVIEW REPORT

To Telefónica Deutschland Holding AG, Munich

We have reviewed the interim condensed consolidated financial statements, comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and condensed notes, and the interim group management report of Telefónica Deutschland Holding AG, Munich, for the period from 1 January 2014 to 30 June 2014, which are part of the six-monthly financial report pursuant to Sec. 37w WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act]. The preparation of the interim condensed consolidated financial statements in accordance with IFRSs [International Financial Reporting Standards] on interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the Company's management. Our responsibility is to issue a report on the interim condensed consolidated financial statements and the interim group management report based on our review.

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

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU or that the interim group management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim group management reports.

Munich, 30 July 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dahmen	Vogel
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF TELEFÓNICA DEUTSCHLAND HOLDING AG IN ACCORDANCE WITH IFRS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2013
(EUROS IN THOUSANDS)

		As of December 31	
	Note	**2013**	**2012**
Assets			
A) Non-current assets		**7,167,703**	**7,652,337**
Goodwill	4	705,576	705,576
Intangible assets	5	2,884,200	3,277,456
Property, plant and equipment	6	2,895,617	2,973,440
Other non-current financial assets	10	98,787	114,675
Deferred tax assets	18	583,523	581,191
B) Current Assets		**1,853,716**	**1,417,469**
Inventories	7	89,185	84,671
Trade and other receivables	8	1,035,234	1,009,031
Other current financial assets	10	20,751	101
Cash and cash equivalents	9	708,545	323,666
Total assets (A+B)		**9,021,419**	**9,069,807**

		As of December 31	
	Note	**2013**	**2012**
Equity and liabilities			
A) Equity	11	**5,998,973**	**6,428,793**
Common stock		1,116,946	1,116,946
Additional paid-in capital		430	430
Retained earnings		4,879,914	5,309,936
Other components of equity		1,683	1,481
Equity attributable to owners of the parent		5,998,973	6,428,793
B) Non-current liabilities		**1,451,739**	**1,091,576**
Non-current interest-bearing debt	10	1,342,584	1,000,000
Other payables	12	4,809	9,193
Non-current provisions	13	104,346	82,382
C) Current liabilities		**1,570,707**	**1,549,438**
Current interest-bearing debt	10	102,059	250,878
Trade payables	12	1,074,038	918,458
Other payables	12	221,532	219,130
Current provisions	13	3,513	7,000
Deferred income	12	169,565	153,972
Total equity and liabilities (A+B+C)		**9,021,419**	**9,069,807**

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONSOLIDATED INCOME STATEMENT FROM
JANUARY 1 TO DECEMBER 31, 2013
(EUROS IN THOUSANDS)

		January 1 to December 31	
	Note	**2013**	**2012**
Revenues	14	4,913,881	5,212,838
Other income	14	169,022	60,806
Supplies		(1,957,980)	(2,130,869)
Personnel expenses[1]	15	(418,647)	(421,764)
Other expenses[1]	16	(1,469,176)	(1,441,938)
Operating income before depreciation and amortization (OIBDA)		**1,237,100**	**1,279,074**
Depreciation and amortization	5,6	(1,131,749)	(1,133,183)
Operating income		**105,351**	**145,891**
Finance income		6,349	15,678
Exchange gains		635	715
Finance costs		(33,409)	(21,385)
Exchange losses		(548)	(1,132)
Net financial income (expense)	**17**	**(26,972)**	**(6,123)**
Profit before tax from continuing operations		**78,379**	**139,768**
Income tax	18	(567)	167,756
Profit after taxes for the year from continuing operations		**77,813**	**307,523**
Profit after taxes for the year from discontinued operations	**19**	**-**	**1,027,030**
Total profit for the year		**77,813**	**1,334,553**
Profit for the year attributable to owners of the parent		**77,813**	**1,334,553**
Profit for the year		**77,813**	**1,334,553**
Earnings per share	**20**		
Basic earnings per share in EUR		**0.07**	**1.20**
-from continuing operations		0.07	0.28
-from discontinued operations		-	0.92
Diluted earnings per share in EUR		**0.07**	**1.20**
-from continuing operations		0.07	0.28
-from discontinued operations		-	0.92

1 Reclassification of external personnel expenses into other expenses in 2013 and 2012. Refer to Note No. 15 Personnel Expenses.

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM JANUARY 1 TO DECEMBER 31, 2013
(EUROS IN THOUSANDS)

		January 1 to December 31	
	Note	**2013**	**2012**
Profit for the year		**77,813**	**1,334,553**
Other comprehensive income (loss)			
Items that may be reclassified subsequently to profit (loss)		**202**	**136**
Gains/(losses) on measurement of available-for-sale investments	13	297	199
Income tax impact		(95)	(63)
Items that will not be reclassified to profit or loss		**(6,436)**	**(2,392)**
Remeasurement of defined benefit plans	13	(9,447)	(3,882)
Income tax impact		3,011	1,490
Total other comprehensive income (loss)		**(6,234)**	**(2,256)**
Total comprehensive income		**71,579**	**1,332,297**
Total comprehensive income for the period attributable to owners of the parent		71,579	1,332,297
Total comprehensive income		**71,579**	**1,332,297**

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FROM JANUARY 1 TO DECEMBER 31, 2013
(EUROS IN THOUSANDS)

	Common Stock	Additional paid-in capital	Retained earnings	Other components of equity: Available for-sale investments	Equity attributable to owners of the parent	Total equity
As of January 1, 2012	**1,116,946**	**-**	**11,164,353**	**1,345**	**12,282,644**	**12,282,644**
Profit for the year	-	-	1,334,553	-	1,334,553	1,334,553
Other comprehensive income (loss)	-	-	(2,392)	136	(2,256)	(2,256)
Total comprehensive income	**-**	**-**	**1,332,162**	**136**	**1,332,297**	**1,332,297**
Dividends	-	-	(7,185,897)	-	(7,185,897)	(7,185,897)
Contribution in kind	-	430	(430)	-	-	-
Repayment of capital reserves	-	-	(251)	-	(251)	(251)
As of December 31, 2012	**1,116,946**	**430**	**5,309,936**	**1,481**	**6,428,793**	**6,428,793**
As of January 1, 2013	**1,116,946**	**430**	**5,309,936**	**1,481**	**6,428,793**	**6,428,793**
Profit for the year	-	-	77,813	-	77,813	77,813
Other movements	-	-	(6,436)	202	(6,234)	(6,234)
Total comprehensive income	**-**	**-**	**71,377**	**202**	**71,579**	**71,579**
Dividends	-	-	(502,625)	-	(502,625)	(502,625)
Other movements	-	-	1,226	-	1,226	1,226
As of December 31, 2013	**1,116,946**	**430**	**4,879,914**	**1,683**	**5,998,973**	**5,998,973**

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONSOLIDATED STATEMENT OF CASH FLOWS FROM JANUARY 1 TO DECEMBER 31, 2013
(EUROS IN THOUSANDS)

	January 1 to December 31	
	2013	**2012**
Cash flow from operating activities		
Profit for the period	**77,813**	**1,334,553**
Adjustments to profit		
Net financial result	26,972	5,707
Gains on disposal of assets	(76,149)	(492,121)
Net income tax expense	567	(167,756)
Depreciation and amortization	1,131,749	1,135,751
Change in working capital		
Trade and other receivables	(36,334)	(40,172)
Inventories	(4,514)	(14,272)
Other current assets	-	(5,594)
Trade and other payables	168,818	(105,573)
Other current liabilities and provisions	16,471	(25,126)
Other non-current assets and liabilities	(13,950)	4,681
Interest received	7,005	15,615
Interest paid	(28,196)	(13,871)
Total cash flow from operating activities	**1,270,252**	**1,631,823**
Cash flow from operating activities from discontinued operations	**-**	**349,070**
Cash flow from operating activities from continuing operations	**1,270,252**	**1,282,754**
Cash flow from investing activities		
Proceeds on disposals of property, plant and equipment and intangible assets	69,088	1,978
Payments on investments in property, plant and equipment and intangible assets	(664,153)	(594,120)
Proceeds on disposals of companies, net of cash and cash equivalents disposed	37,596	557,446
Payments made on financial investments not included under cash equivalents	(14,252)	(14,930)
Total cash flow from investing activities	**(571,721)**	**(49,626)**
Cash flow from investing activities from discontinued operations	**-**	**557,170**
Cash flow from investing activities from continuing operations	**(571,721)**	**(606,797)**
Cash flow from financing activities		
Repayments of capital reserves	-	(251)
Payments made on future capital increase	(2,143)	-
Proceeds from borrowing/debt	594,972	2,398,060
Repayment of borrowing/debt	(403,856)	(706,991)
Dividends paid	(502,625)	(4,300,000)
Total cash flow from financing activities	**(313,652)**	**(2,609,182)**
Cash flow from financing activities from discontinued operations	**-**	**445,060**
Cash flow from financing activities from continuing operations	**(313,652)**	**(3,054,242)**
Net increase/(decrease) in cash and cash equivalents	**384,879**	**(1,026,985)**
Cash and cash equivalents at the beginning of the period	**323,666**	**1,350,651**
Cash and cash equivalents at the end of the period	**708,545**	**323,666**

TELEFÓNICA DEUTSCHLAND HOLDING AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

(1) REPORTING ENTITY

The Consolidated Financial Statements of Telefónica Deutschland Holding AG have been prepared as of and for the year ended December 31, 2013 and comprise Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland", formerly: "Telefónica Germany Verwaltungs GmbH") and its subsidiaries as well as joint operations (together referred to as "Telefónica Deutschland Group" or "Group").

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

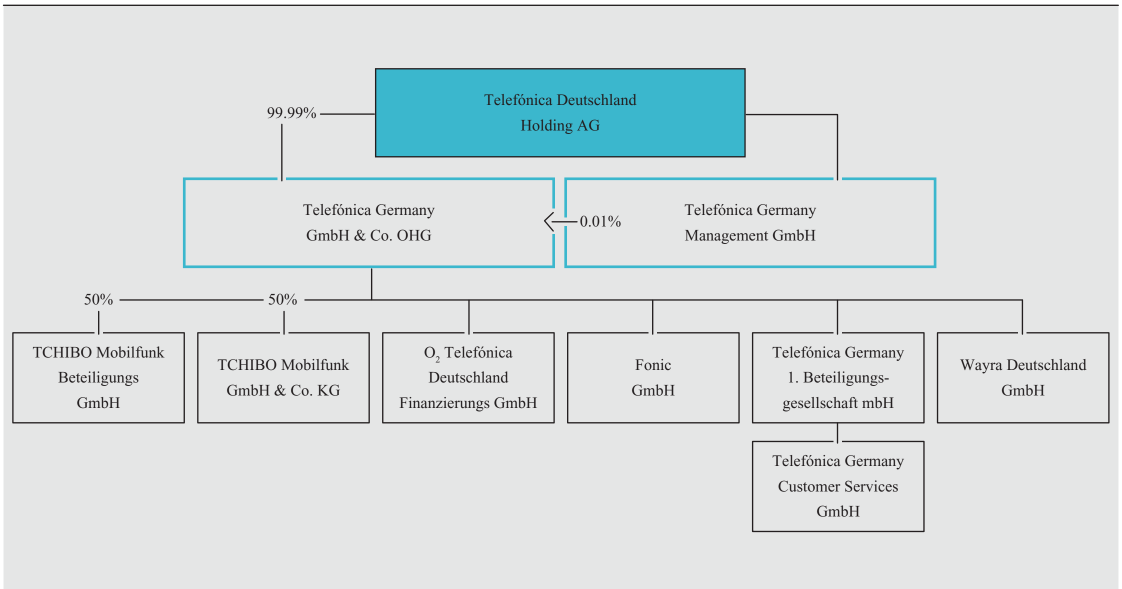
The company's name is "Telefónica Deutschland Holding AG". The company's registered office is located in Munich, Germany. Telefónica Deutschland Holding AG is registered in the commercial register of the local court in Munich under registration number HRB 201055. The company's business address is Georg-Brauchle-Ring 23–25, 80992 Munich, Germany (Telephone number: +49 (0) 89 2442-0; www.telefonica.de). Telefónica Deutschland Holding AG was established for an indefinite period.

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

The company is listed in the regulated market of the Frankfurt Stock Exchange. The security identification number (WKN – Wertpapierkennnummer = security identification number) is A1J5RX, the ISIN (International Securities Identification Number) is DE000A1J5RX9. As of December 31, 2013, Telefónica Deutschland Holding AG has a share capital of EUR 1,116,945,400. It is divided into 1,116,945,400 registered shares with no-par value each representing a notional amount of EUR 1.00 in the registered share capital. 23.17% of the shares are in free float, the remaining 76.83% are held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited). Each non-par share in general grants one vote at the General Meeting.

Telefónica Deutschland Holding AG is the parent company of the German Telefónica Deutschland Group. It is included in the Consolidated Financial Statements (Telefónica, S. A. Group) of the ultimate holding company, Telefónica, S. A., Madrid, Spain (Telefónica, S. A.) as of December 31, 2013. The parent company of Telefónica Deutschland Group is Telefónica Germany Holdings Limited, a subsidiary of O2 (Europe) Limited, Slough, United Kingdom (O2 (Europe) Limited).

As of December 31, 2013 the companies included in the Consolidated Financial Statements of Telefónica Deutschland Group were organized as shown in the following organization chart:



During financial year 2013 Telefónica Germany Online Services GmbH and GKHH Fibre Optic GmbH were sold and thus do no longer belong to the Group (see Note No. 19 Discontinued Operations and Disposal Groups).

As of December 31, 2013, Telefónica Deutschland Group has, according to IFRS 8, only the reportable segment Telecommunications. Up until September 30, 2012 Telefónica Deutschland Group consisted of two reportable segments: Telecommunications and Global Services (see Note No. 21 Segment Reporting and Reconciliation). The companies of the segment Global Services as well as Group3G UMTS Holding GmbH (G3G) and Quam GmbH (Quam) were sold as of October 1, 2012 in the previous year (see Note No. 19 Discontinued Operations and Disposal Groups).

Telefónica Deutschland Group is one of three integrated network operators in Germany having both a wireline and a wireless network. It offers its consumer retail and business customers postpaid and prepaid wireless communications products, along with wireless data services using Global Packet Radio Service (GPRS), Universal Mobile Telecommunications System (UMTS) and Long Term Evolution (LTE) technology as well as Digital Subscriber Line (DSL) wireline telephony and high-speed internet services.

Telefónica Deutschland Group markets its products under a multi brand strategy and offers the majority of its wireless and wireline communications products as well as services via the core brand O_2.

With secondary and partner brands and via wholesale channels Telefónica Deutschland Group reaches further groups of customers to whom the core brand O_2 does not appeal. The secondary brands include the brands Fonic and netzclub, which are fully controlled, as well as brands from joint operations and strategic partnerships such as, for example, TCHIBO mobil and Türk Telekom Mobile. The Group also markets highspeed DSL internet access and wireline telephony. The multi brand approach enables the Group to address a broad spectrum of customers and to maximize the sales range through customized product offers, sales and marketing.

As part of the wholesale business, Telefónica Deutschland Group offers wireless communications, wireline and added value services for customers such as 1&1, mobilcom/debitel, Drillisch, Kabel Deutschland and Unitymedia KabelBW. In the wireline area the Group makes a range of Unbundled Local Loop services (ULL), including wireline telephony and high-speed internet, available to the wholesale partners. Furthermore, added value services such as e.g. billing services or the management of telephone numbers and SIP accounts are offered. This comprehensive portfolio enables the wholesale partners to independently service their end-customers and at the same time provides the Group the opportunity to increase its range and to achieve economies of scale.

Significant Events and Transactions in the Financial Year

a) Agreement on the acquisition of E-Plus

On July 23, 2013 Telefónica Deutschland, Telefónica, S. A. and Koninklijke KPN N.V. (KPN) concluded an agreement for the acquisition of KPN's German mobile business, E-Plus, by Telefónica Deutschland. As consideration, KPN receives in total EUR 3.7bn in cash (subject to price adjustment) and newly to be issued shares. The cash component to be paid to KPN will be financed via a cash capital increase of Telefónica Deutschland. The shares that are to be issued as a further consideration to KPN should be generated via a capital increase against contribution in kind. By this KPN will have a 24.9% stake in Telefónica Deutschland after the capital increases.

Thereafter, pursuant to the agreement as of July 23, 2013, in the amended version as of August 26 and 28, 2013, as well as of December 5, 2013, Telefónica, S. A. shall acquire from KPN a share of 4.4% of Telefónica Deutschland for EUR 1.3bn. Furthermore, a call option agreement was concluded with KPN, which grants Telefónica, S. A. the right to acquire from KPN a further share of up to 2.9% of Telefónica Deutschland. This right can be exercised one year after the conclusion of the call option agreement at an exercise price of up to EUR 0.51bn.

This would finally lead to a holding of Telefónica, S. A. in Telefónica Deutschland of 62.1%, or, in case of the complete exercise of the call options of 65.0% respectively, and of KPN of 20.5%, or, in the case of the complete exercise of the call option, 17.6% respectively. The free float will then amount to 17.4%.

KPN's extraordinary General Meeting approved the transaction with a large majority on October 2, 2013.

As of December 31, 2013 the execution of the transaction still required the approval of the General Meeting of Telefónica Deutschland and the approval of the competent authorities and further standard closing conditions. The completion of the transaction is expected mid-2014.

For further information see Note No. 32 Events after the Reporting Period.

b) Sale of Telefónica Germany Online Services GmbH (TOS)

For further information see Note No. 19 Discontinued Operations and Disposal Groups.

c) Versatel and Telefónica Deutschland enter into long-term fiber optic cooperation agreement

For further information see Note No. 19 Discontinued Operations and Disposal Groups.

d) Conclusion of contract to expand the wireline cooperation

In May 2013, Telefónica Deutschland Group via Telefónica Germany GmbH & Co. OHG concluded with Deutsche Telekom GmbH a "Memorandum of Understanding" to expand their wireline cooperation. This comprises the future intensified usage of the high-speed infrastructure of Telekom Deutschland GmbH by the Telefónica Deutschland Group for its wireline products. Within the scope of this cooperation, Telefónica Deutschland Group will be able to implement the transition from the independent ADSL infrastructure through to a sustainable NGA platform. In future, Telefónica Deutschland intends to increasingly use VDSL and vectoring wholesale products provided by Telekom Deutschland GmbH. The transition should be fully completed in 2019. A binding agreement for the wireline cooperation with Telekom Deutschland GmbH was concluded on December 20, 2013.

The cooperation includes regulating aspects which are subject to an inspection by the Federal Network Agency (Bundesnetzagentur – BNetzA) and the Federal Cartel Office. The Federal Network Agency has approved the cooperation in their preliminary draft decision, but their final decision will be provided after consultation with the European Commission. This decision is expected for the first half of 2014.

In the event of the authorities failing to sanction the cooperation, this could necessitate further investments in the Group's own wireline structure or might restrict the ability to offer technically competitive products in the future.

e) Formation and change of name of O_2 Telefónica Deutschland Finanzierungs GmbH

Telefónica Germany GmbH & Co. OHG founded Telefónica Deutschland Finanzierungs GmbH, Munich, pursuant to its Articles of Association on February 26, 2013. The company was entered into the commercial register on March 14, 2013 with share capital of EUR 25k.

With effect as of November 7, 2013 Telefónica Deutschland Finanzierungs GmbH was renamed to O_2 Telefónica Deutschland Finanzierungs GmbH.

f) First ordinary General Meeting and dividend distribution

On May 7, 2013 the first ordinary General Meeting of Telefónica Deutschland Holding AG took place. Next to the discharge of the Supervisory Board and Management Board and the election of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft with its registered office in Stuttgart, branch office Munich, as auditor for the Consolidated Financial Statements and Financial Statements of Telefónica Deutschland Holding AG, the General Meeting resolved to distribute a dividend of EUR 0.45 per dividend-entitled share, a total EUR 502,625,430.00.

g) Dividend for the 2013 financial year

On November 7, 2013, the Management Board of Telefónica Deutschland resolved and announced that it is intended to propose a cash dividend of approx. EUR 525m to the next ordinary General Meeting for the 2013 financial year.

h) Issue of a 5-year bond

In November 2013 Telefónica Deutschland Group, via its subsidiary O_2 Telefónica Deutschland Finanzierungs GmbH, Munich, issued a senior unsecured 5-year bond (Senior Unsecured Bond) with a nominal value of EUR 600m and a maturity on November 22, 2018 in the regulated market of the Luxembourg Stock Exchange. The bond is guaranteed by Telefónica Deutschland Holding AG. The annual nominal interest rate of the bond is 1.875%. Based on the issue price of 99.162%, the bond yields an annual return of 2.053%. O_2 Telefónica Deutschland Finanzierungs GmbH, Munich, has transferred the net issuing proceeds of the bond to Telefónica Germany GmbH & Co. OHG, Munich, in the form of a loan. The net issuing proceeds generated by the bond will be used for general corporate purposes.

(2) BASIS OF PREPARATION

The Consolidated Financial Statements of Telefónica Deutschland Holding AG have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). In addition, the accounting policies are the same as those used to prepare the published prior year Consolidated Financial Statements for the year ended December 31, 2012, with the exception of the changes to IFRS as described in Note No. 3 Accounting Policies.

Furthermore, the additional requirements of German commercial law pursuant to section 315a (1) HGB (German Commercial Code) have been applied.

The Consolidated Financial Statements of Telefónica Deutschland Holding AG were forwarded to the Supervisory Board on March 7, 2014.

Functional currency and presentation currency

These Consolidated Financial Statements are presented in Euro, which is the functional currency of Telefónica Deutschland Group. The Euro (EUR) is the functional currency of all Telefónica Deutschland Group companies.

Other

The Consolidated Statement of Financial Position is structured in current and non-current in accordance with IAS 1. The Consolidated Income Statement was prepared using the nature of expense method.

The figures in these Consolidated Financial Statements have been rounded according to established commercial principles. Additions of the figures can thus lead to amounts that deviate from those shown in the tables.

(3) ACCOUNTING POLICIES

The principal accounting policies used in preparing the accompanying Consolidated Financial Statements are as follows:

d) Goodwill

For business combinations occurring after January 1, 2010, the effective date of revised IFRS 3-Business Combinations, goodwill represents the excess of acquisition costs over the fair values of identifiable assets acquired and liabilities assumed at the acquisition date. Acquisition date is the date on which control is transferred to Telefónica Deutschland Group. Cost of acquisition is the sum of the fair value of consideration delivered and the value attributed to existing non-controlling interests. For each business combination, Telefónica Deutschland Group determines the value of non-controlling interests at either their fair value or their proportional part of the net identifiable assets acquired. After initial measurement, goodwill is recognized less any accumulated impairment losses. Whenever an equity interest is held in the acquire prior to the business combination (business combinations achieved in stages), the carrying value of such previously held equity interest is remeasured at its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Transaction costs in connection with business combinations are expensed as incurred.

For business combinations that occurred after January 1, 2004, the date of the transition to IFRS, and before January 1, 2010, the effective date of revised IFRS 3-Business Combinations, goodwill represents the excess of the acquisition costs over the acquirer's interest, at acquisition date, in the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired business. After initial measurement goodwill is carried less any accumulated impairment losses.

In all cases, goodwill is recognized as an asset denominated in the currency of the company acquired. Goodwill is not amortized, but tested for impairment annually or more frequently if there are certain events or changes in circumstances indicating the possibility that the carrying amount is higher than the recoverable amount (see Note No. 4 Goodwill).

e) Intangible assets

Intangible assets are carried at acquisition or production cost, less any accumulated amortization and any accumulated impairment losses. Subsequent expenditure is capitalized only for existing intangible assets if it increases the future economic benefit embodied in the asset to which it relates. All other expenditure on internally generated goodwill and brands is recognized in the Consolidated Income Statement as incurred.

The useful lives of intangible assets either finite or indefinite are assessed individually. Telefónica Deutschland Group has not recognized intangible assets with indefinite useful lives. Intangible assets with finite useful lives are amortized systematically over the economic useful life and are assessed for impairment if events or circumstances indicate that their carrying amount may not be recoverable. Intangible assets that are not yet available for use are subject to an impairment test in the event of indications that their carrying amount may not be recoverable.

Residual values of assets, useful lives and amortization methods are reviewed annually at year end and, where appropriate, adjusted prospectively.

Licenses

Mainly the acquisition costs of the licenses granted by public authorities to provide telecommunications services are subsumed here as well as values allocated to licenses held by certain companies at the time they were included in Telefónica Deutschland Group.

These licenses are amortized on a straight-line basis starting from the moment commercial operation begins.

Other intangible assets

This item primarily represents the allocation of acquisition costs attributable to customers acquired in business combinations, as well as the acquisition value of this type of assets in a third-party transaction for good and valuable consideration. Amortization is on a straight-line basis over the estimated period of the customer relationship (ten years).

Software

Software is carried at cost and amortized on a straight-line basis over its useful life; generally estimated to be between two and five years.

f) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated. Cost includes external and internal costs comprising warehouse material used, direct labor used in installation work and the allocable portion of indirect costs required for the related investment. The latter two items are recorded as revenues in Other Income – Own Work Capitalized.

Cost includes in addition, where appropriate, the estimate of the costs at initial recognition for dismantling and removing the item and restoring the site on which it is located, the obligation which the entity incurs either when the item is acquired or as a consequence of having used it. Any corresponding valuation changes in subsequent years are allocated to the respective asset.

The costs of expansion, modernization or improvement leading to increased productivity, capacity and efficiency or to an extension of the useful lives of assets are capitalized when the recognition criteria are met.

Upkeep and maintenance costs are expensed as incurred.

If an asset within property, plant and equipment consists of multiple components with different useful lives, each part of the asset having a significant acquisition value is assessed and depreciated separately over the term of the useful life of the individual component (component approach).

Telefónica Deutschland Group assesses the need to write down the carrying amount of each item of property, plant and equipment to its recoverable amount, whenever there are indications that the carrying amount of the asset exceeds the higher of the fair value less costs of disposal and its value in use. The impairment charge is reversed if the factors giving rise to the impairment no longer exist (see Section d)).

Telefónica Deutschland Group depreciates its property, plant and equipment once they are in full working condition using the straight-line method based on the following estimated useful lives of the assets. The useful lives are calculated in accordance with technical studies which are reviewed periodically and, where appropriate, revised based on technological advances and the rate of dismantling:

	Estimated useful life (in years)
Buildings	5-20
Plant and machinery (incl. Telephone installations, network and subscriber equipment)	5-20
Furniture, tools and other items	2-10

The estimated residual values of assets, depreciation methods and useful lives are regularly reviewed and, where appropriate, adjusted prospectively at each financial year end.

g) Impairment of property, plant and equipment, goodwill and intangible assets

Goodwill is tested for impairment annually at the reporting date or if there are any indications. Property, plant and equipment and intangible assets with a finite useful life are only tested for impairment if any indications of impairment exist at the reporting date. Assets are tested for impairment either individually or on the level of the cash-generating unit to which the asset belongs; goodwill is always tested on the level of a cash-generating unit to which it was allocated or groups of cash-generating units. An impairment is required, if the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. The recoverable amount is determined as the higher of the fair value less costs to sell and the value in use.

The impairment test for goodwill is performed at the lowest level within the entity at which the goodwill is monitored for internal management purposes, but must be at least performed at segment level. If the recoverable amount of a cash-generating unit to which goodwill is allocated is less than the carrying amount of the unit, an impairment loss shall be recognized corresponding to the difference. If the impairment loss exceeds the carrying amount of the goodwill, the remainder shall be allocated pro rata on the basis of the respective carrying amounts of the other assets.

If the carrying amount of an asset exceeds its recoverable amount, the carrying amount written down to its recoverable amount and the resulting loss is recognized in the Consolidated Income Statement. Future depreciation or amortization charges are adjusted for the asset's new carrying amount over its remaining useful life.

If new events or changes in circumstances indicate that an impairment loss recognized for an asset no longer exists or may have decreased, a new estimate of the recoverable amount of the asset will be determined. A previously recognized impairment loss shall be reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. The reversal is limited to the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. The amount of the reversal is recognized in profit or loss, and the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life. An impairment loss recognized for goodwill shall not be reversed in subsequent reporting periods.

As of December 31, 2013, Telefónica Deutschland Group comprises one single cash-generating unit, the reportable segment Telecommunications.

Telefónica Deutschland Group in principle determines the recoverable amount of a cash-generating unit based on its fair value less costs to sell.

The fair value is determined based on the market capitalization of the Telefónica Deutschland Holding AG as of the reporting date. Costs to sell contain costs such as legal and consulting fees that can be directly allocated to the sale of the cash-generating unit.

h) Investments in Joint Operations

Telefónica Deutschland Group's interests in companies over which it has joint control with third parties are recognized in accordance with the guidelines based on relation to its interest in the joint operation. Thus Telefónica Deutschland Group's respective share of the assets and the liabilities of the joint operations are included in the Consolidated Financial Statements. The share of expenses incurred at Telefónica Deutschland Group in connection with the joint operations and its share of the revenues are recognized in the Consolidated Income Statement.

i) Foreign currency transactions

Transactions denominated in a foreign currency are translated to Euro at the exchange rate prevailing on the transaction day. At the end of the reporting period, monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate applicable at the reporting date.

The following exchange rates have been used for the respective Consolidated Financial Statements:

	Exchange Rate		Average Rate	
(EURO/Foreign Currency)	**As of December 31, 2013**	**As of December 31, 2012**	**2013**	**2012**
USD	1.379	1.319	1.327	1.285
GBP	0.834	0.816	0.849	0.811
BRL	2.343	2.703	2.158	1.954
CHF	1.228	1.207	1.231	1.205

All realized and unrealized foreign exchange gains and losses are included in the Consolidated Income Statement.

j) Inventories

Inventories are stated at the lower of cost and net realizable value and are written down in this regard, if necessary. Cost is determined on the basis of weighted average cost and comprises direct materials and where applicable, direct labor cost that have been incurred in bringing the inventory to its present location and to condition. Estimates of the net realizable value are based on the most reliable evidence available at the time of the estimates are made of the amount the inventories are expected to realize. These estimates take into consideration the fluctuations of price or costs and the purpose for which the inventory is held.

If the circumstances that previously caused inventories to be written down to an amount below cost no longer exist the amount of the write-down is reversed, so that the new carrying amount is the lower of cost and revised net realizable value.

The Group's inventory mainly consists of merchandise intended for sale to end customers. At the time of the sale or transfer of the risk to the customer, inventory is reduced accordingly through profit and loss. The change in inventory is recognized within supplies.

k) Financial instruments

A financial instrument, according to IAS 39, is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized as soon as Telefónica Deutschland Group becomes a party to the contractual provisions of the financial instrument. All regular way purchases and sales of financial assets are recognized in the statement of financial position on the trade day, i.e. the date that Telefónica Deutschland Group commits to purchase or sell the financial asset. Upon initial recognition financial instruments are measured at fair value. Transaction costs directly attributable to the acquisition or issuance are considered in determining the carrying amount if the financial instruments are not measured at fair value through profit or loss.

For the purpose of subsequent measurement, financial instruments are allocated to the following categories:

- financial assets or financial liabilities at fair value through profit or loss
- held-to-maturity investments
- loans and receivables
- available-for-sale financial assets
- financial liabilities measured at amortized cost.

Telefónica Deutschland Group does not allocate financial instruments to the category financial assets or financial liabilities at fair value through profit or loss and to the category held-to-maturity in the reporting period.

Financial assets

The financial assets mainly include trade and other receivables, other financial assets as well as cash and cash equivalents.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market (such as trade and other receivables). After initial recognition, loans and receivables are subsequently carried at amortized cost using the effective interest method less any impairment losses. Gains and losses are recognized in the Consolidated Income Statement when the loans and receivables are derecognized or impaired. Interest effects from the application of the effective interest method are also recognized in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that cannot be classified in any of the other categories. This category includes assets incurred by Telefónica Deutschland Group to meet its pension obligations but which do not qualify as plan assets in accordance with IAS 19.

After initial measurement, available-for-sale financial assets are measured at fair value, with unrealized gains and losses being recognized in other comprehensive income. If objective evidence of impairment exists, these changes are recognized in the Consolidated Income Statement. Upon the disposal of financial assets, the accumulated gains and losses recognized in other comprehensive income/loss resulting from measurement at fair value are recognized in profit or loss.

Impairment of financial assets

At each reporting date, the carrying amount of financial assets other than those measured at fair value through profit or loss are assessed to determine whether there is objective evidence of impairment. Objective evidence may, for example, exist if a debtor faces serious financial difficulties or is unwilling to pay.

Loans and receivables

The amount of impairment loss on loans and receivables is measured as the difference between the carrying amount of the asset and the present value of the expected future cash flows (excluding expected future credit losses that have not been incurred), discounted at the original effective interest rate of the financial asset. The amount of the impairment is recognized in the Consolidated Income Statement. If, in a subsequent reporting period, the amount of impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognized, the impairment loss recorded in prior periods is corrected and recognized in the Consolidated Income Statement. The impairment losses of loans and receivables (e.g. trade receivables) are recorded using allowance accounts. When receivables are assessed as uncollectible, the impaired asset is derecognized.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, the difference between its cost (less any principal payments and amortization) and its current fair value (less any impairment loss previously recognized in the Consolidated Income Statement) is reclassified from other comprehensive income to the Consolidated Income Statement. Reversals with respect to equity investments classified as available-for-sale are recognized in the other comprehensive income. Reversals of impairment losses on debt instruments are recorded in the Consolidated Income Statement if the increase in fair value of the instrument can be objectively attributed to an event occurring after the impairment losses were recognized in the Consolidated Income Statement.

For financial assets classified as available-for-sale, objective evidence for impairment exists if there is a significant (> 20%) or prolonged decline (over a period of six months) in the fair value of the instrument.

Financial liabilities

Financial liabilities primarily include trade liabilities, interest-bearing debt, bonds as well as other liabilities.

Financial liabilities at fair value through profit or loss

A financial liability is measured at fair value through profit or loss if it is held for trading or is designated as fair value through profit or loss on initial recognition. They are presented as current or non-current liabilities depending on their maturity.

Financial instruments included in this category are recorded at fair value on initial recognition and on every subsequent reporting date. Any realized and unrealized gains or losses are recognized in the Consolidated Income Statement.

The company classifies derivative financial instruments as held for trading unless they are designated as hedging instrument (hedge accounting). The fair value used of listed derivatives is equal to their positive or negative market value. If a market value is not available, fair value is calculated using standard financial valuation models, such as discounted cash flow or option price models. Derivatives are presented as assets if their fair value is positive and as liabilities if their fair value is negative. Changes in the fair value of derivative financial instruments are recognized periodically in the Consolidated Income Statement.

In the current financial year, Telefónica Deutschland Group has an interest rate swap (derivative financial instrument) to hedge interest rate risks.

Hedging transactions: if the effectiveness of a hedging relationship can be demonstrated and documented accordingly, Telefónica Deutschland Group forms a hedge comprised of the hedged item and the corresponding hedging instrument.

If the company hedges a fair value (fair value hedges), the portion of profit or loss attributable to the hedged risk is allocated to the carrying amount of the hedged item. The carrying amount of the hedged item is increased or decreased by the profit or loss that is attributable to the hedged risk. For hedged items that are recorded at amortized cost, the increase or decrease of the carrying amount is completely released at maturity of the hedged item. When hedging pending transactions, the company increases or decreases the initial carrying amount of the assets or liabilities that result from the fulfillment of the pending transactions by the accumulated changes in the fair value of financial assets or liabilities that were previously separately recognized.

From the date the hedging instrument expires, is sold, terminated or exercised, the accounting of the hedging relationship also ends. The same applies if there is no longer a hedging transaction within the meaning of IAS 39 or Telefónica Deutschland Group ends the designation.

Financial liabilities measured at amortized cost

After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the interest rate that exactly discounts the estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition. The interest expense is recognized on an effective interest basis.

Derecognition of financial assets and liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and Telefónica Deutschland Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of consideration received including the cumulative gains or losses that had been recognized directly in equity, is recognized in the Consolidated Statement of Comprehensive Income. If Telefónica Deutschland Group does not retain or transfer substantially all risks and rewards, and retains control, it continues to recognize the transferred asset to the extent of its continuing involvement. Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss.

l) Provisions

Pensions – Defined benefit plans

Telefónica Deutschland Group's obligations under defined benefit pension plans are determined using the projected unit credit method and are in principle recognized as personnel expenses unless otherwise stated below.

Telefónica Deutschland Group determines the net interest expense (net interest income) by multiplying the net defined benefit liability (asset) at the beginning of the period by the interest rate used to discount the defined benefit obligation at the beginning of the period.

The discount rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds.

The net defined benefit liability (asset) is determined at every reporting date on the basis of an actuary report based on assumptions that are explained as follows.

If the plan assets less the defined benefit obligation results in a surplus, then the level of the reported net defined benefit asset is limited to the present value of economic benefits associated with the plan asset surplus in the form of refunds from the plan or on the basis of reduced future contributions. In addition, in the event of a surplus of the plan the new valuation components include the change in the net defined benefit asset from the application of the asset ceiling, to the extent not taken into account in the net interest component.

As part of the determination of the present value of economic benefits associated with the plan asset surplus, any existing minimum funding requirements are taken into account.

The remeasurement component includes on the one hand the actuarial gains and losses from the valuation of the defined benefit obligation and on the other hand the difference between actual return on plan assets and the amounts contained in the net interest on net defined benefit liability (asset).

The company recognizes all remeasurement effects in other comprehensive income, whereas the remaining components of the net pension expense (service cost and net interest) are recognized in the Consolidated Income Statement.

Other provisions

Provisions are recognized when Telefónica Deutschland Group has a present (legal or constructive) obligation, as a result of a past event that can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted and the corresponding increase in the provision due to the passage of time is recognized as interest expense. For the purpose of discounting, the group applies non-risk market interest rates before tax which are matched to the duration. Potential risks are fully taken into account in determining the settlement amount. When Telefónica Deutschland Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented, if applicable net of any reimbursement, in the Consolidated Income Statement.

Provisions for restructuring are recognized if there is a detailed, formal plan that provides for the individual measures and has been adopted by the appropriate managing bodies. In addition, implementation is expected to begin as soon as possible and a valid expectation has been raised in those affected that the restructuring will be carried out.

Provisions for the costs of decommissioning or dismantling and retirement are recognized if Telefónica Deutschland Group has a legal or constructive obligation to dismantle the relevant items after their utilization. The estimated costs are recognized as an asset and a provision. Changes in the timing or estimation of the costs are reflected in the asset and in the provision, respectively.

m) Revenues and expenses

Revenues and expenses are recognized in the Consolidated Income Statement in line with the accrual basis of accounting (i.e. when the goods or services represented by them take place) regardless of when actual payment or collection is being made.

Telefónica Deutschland Group principally obtains revenues from providing the following telecommunications services: traffic, connection fees, regular (normally monthly) network usage fees, interconnection services, network and equipment leasing, handset sales, added value services (e.g. text and data messaging) and maintenance. Products and services may be sold separately or in promotional packages (bundled services).

Revenues from calls carried on Telefónica Deutschland Group networks (traffic) include an initial call establishment fee plus a variable call rate, based on call length, distance and type of service. Both wireline and wireless traffic is recognized as revenue as service is provided. For prepaid calls, the amount of unused traffic generates deferred revenue that is recognized in deferred income in the Consolidated Statement of Financial Position. Prepaid cards generally expire within twelve months and any deferred revenue from prepaid traffic is recognized directly in the Consolidated Income Statement when the card expires as Telefónica Deutschland Group has no obligation to provide service after this date.

Revenues from traffic sales and other services generated at a fixed rate over a specified period of time (flat rate) are recognized on a straight-line basis over the term covered by the rate paid by the customer.

Initial call establishment fees are recognized in deferred income and are subsequently realized in profit or loss for the period over the average estimated term of the customer relationship, which may vary according to the type of service. All related costs, with the exception of expenses for the network expansion and general administration costs and overheads, are recognized in profit or loss for the period in which they incurred.

Installment fees are taken to the Consolidated Income Statement on a straight-line basis over the related period. Income from the equipment leasing and other services are taken to profit or loss as they are consumed.

Interconnection revenues from wireline-wireless and vice versa calls and other customer services are recognized in the period in which the calls are made.

Revenues from handset and equipment sales are recognized once the sale is considered complete, i.e. generally when delivered to the end customer. Revenues from installment sales are recognized in the amount of the discounted future receipts. The amount is discounted based on a typical market interest rate. The Group offers bundle packages which combine multiple elements from the wireline, wireless and internet business. They are assessed to determine whether it is necessary to separate the separately identifiable elements and apply the corresponding revenue recognition policy to each element. Total package revenues are allocated among the identified elements based on their respective fair value (i.e. the fair value of each element in relation to the total fair value of the package).

As connection fees or initial activation fees, or upfront non-refundable fees are not separately identifiable elements in these types of packages, any revenues received from the customer for these items are allocated to the remaining elements. However, amounts contingent upon delivery of undelivered elements are not allocated to delivered elements.

All expenses related to bundled promotional packages are recognized in the Consolidated Income Statement as incurred.

n) Income tax

Income tax includes both current and deferred taxes. Current and deferred tax is recognized in the Consolidated Income Statement except to the extent that they relate to business combinations or items directly recognized in equity or in other comprehensive income.

Current tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. To calculate the amount tax rates and tax laws applicable or enacted on the reporting date are used.

Telefónica Deutschland Group determines deferred tax assets and liabilities by applying the tax rates that will be effective when the corresponding asset is received or the liability is settled. Tax rates and tax laws that are enacted (or substantively enacted) at the reporting date are used.

Deferred tax assets and liabilities are not discounted to present value and are classified as non-current, irrespective of the date of their reversal.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that a sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that a future taxable income will allow the deferred tax asset to be recovered.

Deferred tax liabilities on investments in subsidiaries, branches, associates and joint operations are not recognized if the parent company is in a position to control the timing of the reversal and if the reversal is unlikely to take place in the foreseeable future.

To the extent that deferred taxes relate to items directly recognized in equity these are also recognized in equity. Deferred tax assets and liabilities arising from the initial recognition of the purchase price allocation of business combinations impact the amount of goodwill. However, subsequent changes in tax assets acquired in a business combination are recognized as an adjustment to profit or loss.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

o) Discontinued operations and disposal groups

Components of the company that meet the criteria of IFRS 5 are classified as discontinued operations and are presented separately in the Consolidated Income Statement and the Consolidated Statement of Cash Flows, if they meet the definition of a major line of business under IFRS 5. All changes made in the current reporting period to amounts that are directly related to the sale of discontinued operations in one of the prior reporting periods are likewise presented within this separate category. If a component of the company is no longer classified as held for sale, the profit or loss of this component, which had previously been presented within discontinued operations, is reclassified as continuing operations in all presented reporting periods. If supply of goods and services between continued and discontinued operations also continue after disposal, these supplies are recorded prior to consolidation in the Consolidated Income Statement.

Disposal groups, if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, are classified accordingly if the criteria of IFRS 5 are met. The disposal groups are measured at the lower of carrying amount and fair value less costs to sell and are classified as held for sale. Individual assets of the disposal group are no longer depreciated or amortized. If an impairment loss is recognized for the disposal group, then on any subsequent increases in the fair value less costs to sell the previously recognized impairment loss has to be reversed. The reversal of the impairment is limited to the cumulative impairment loss that was recognized for the respective disposal group previously. The assets and liabilities of the disposal group are presented separately in the Consolidated Statement of Financial Position.

p) Share-based payments

Telefónica, S. A. grants employees of Telefónica Deutschland Group share options. The determination of fair value is based on the performance of the shares of Telefónica, S. A. Some of the share option plans are cash-settled whereas others are equity-settled.

For cash-settled share-based transactions the total cost of the rights granted is recognized as an expense in the Consolidated Income Statement over the vesting period with recognition of a corresponding liability. The total cost of the share options is measured initially at fair value at the grant date using statistical techniques, taking into account the terms and conditions established in each share option plan. At each subsequent reporting date, the Group reviews its estimate of the fair value and the number of options expected to be exercised and remeasures the liability, with changes in fair value recognized in the Consolidated Income Statement.

For equity-settled share option plans, fair value at the grant date is determined by applying statistical techniques or using a benchmark securities model. The costs and the corresponding increase in equity are recognized as expenses over the vesting period.

q) Lease contracts

The determination of whether an agreement is, or contains a lease, is based on the substance of the agreement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the agreement conveys a right to Telefónica Deutschland Group to use the asset.

Leases where the lessor does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense on a straightline basis over the term of the lease in the Consolidated Income Statement.

Leases are classified as finance leases when the terms of the lease transfer substantially all risks and rewards incidental to ownership of the leased item to Telefónica Deutschland Group. These are classified at the inception of the lease, in accordance with its nature and the associated liability, at the lower of the present value of the minimum lease payments or the fair value of the leased object. Lease payments are apportioned between finance costs and reduction of the principal of lease liability so as to achieve a constant interest rate on the remaining liability balance over the period. Finance costs are recognized over the term of the lease in the Consolidated Income Statement.

In sale and leaseback transactions resulting in a finance lease, the asset sold is not derecognized and the funds received are considered financing for the asset during the term of the lease. However, when the sale and leaseback transaction results in an operating lease, and it is clear that both the transaction and subsequent lease income are established at fair value, the asset is derecognized and any gain or loss generated on the transaction is recognized.

r) Use of estimates, assumptions and judgments

The key assumptions concerning the future and other relevant sources of uncertainty in estimates at the reporting date that could have a significant impact on the Consolidated Financial Statements within the next financial year are discussed below. The estimated and associated assumptions are based on historical experience as well as other factors considered to be relevant.

A significant change in the facts and circumstances on which these estimates and related judgments are based could have a material impact on Telefónica Deutschland Group’s net assets, financial position and earnings.

Unforeseeable development outside management’s control may cause actual amounts differ from the original estimates. In this case the underlying assumptions, and if necessary the carrying amounts of the pertinent assets and liabilities, will be adjusted accordingly.

Changes in estimates are recognized in the period in which they occur, and also in subsequent periods if the changes affect both the reporting period and the subsequent periods.

Pensions – defined benefit plans

The determination of the present value of defined benefit obligations involves the application of actuarial assumptions.

To determine the interest rate for the defined benefit pension plans first the so-called bond universe is established on the basis of the AA corporate bonds available on the reporting date. On the basis of these bonds an interest structure curve is calculated. Then a uniform average interest rate is calculated with a cash flow that corresponds to the duration of Telefónica Deutschland Group. This latter interest rate is the actuarial discount rate used.

The determination of the expected increase in pensions is aligned with the long-term inflation expectations in the Euro area.

The assumption on the fluction of the respective employees is based on historical experience.

The mortality rate underlying the calculation of the present value of the defined benefit obligation is based on official statistics and mortality tables. The mortality tables underlying the actuarial calculation of the defined benefit obligations (DBO) as of the reporting date are the Heubeck Mortality Tables 2005 G (Heubeck Richttafeln 2005 G).

Property, plant and equipment, intangible assets and goodwill

Accounting for investments in property, plant and equipment and intangible assets involves the use of estimates to determine the useful life for depreciation and amortization purposes and to assess the fair value of assets acquired in a business combination at the acquisition date.

Determining the useful life requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict.

When an item of property, plant and equipment or an intangible asset is considered to be impaired, the impairment loss is recognized in the Consolidated Income Statement for the period. The decision to recognize an impairment loss involves estimates of the timing and amount of the impairment, as well as an analysis of the reasons for the potential loss. Furthermore, additional factors, such as technical obsolescence, the suspension of certain services and other circumstantial services are taken into account.

Telefónica Deutschland Group evaluates its cash-generating unit's performance regularly to identify potential goodwill impairment. Determining the recoverable amount of the cash-generating unit to which goodwill is allocated also entails the use of assumptions and estimates and requires a significant element of judgment.

Deferred income taxes

Telefónica Deutschland Group assesses the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on Telefónica Deutschland Group's ability to generate taxable income over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of the taxable income, which is based on internal projections and are continuously updated to reflect the latest trends.

The recognition of tax assets and liabilities depends on a series of factors, including estimates with respect to timing and the realization of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments of Telefónica Deutschland Group could differ from the estimates made by Telefónica Deutschland Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balance.

Provisions

Both the recognition and the valuation of provisions involve judgments to a high extent. The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, bearing in mind all available information at the reporting date, including the opinions of independent experts such as legal counsel or consultants.

Given uncertainties inherent in the estimates used to determine the amount of provisions, the actual outflows of resources may differ from the amounts recognized originally on the basis of the estimates.

Revenue recognition

Connection fees

Initial connection fees are deferred and recognized as revenue over the average estimated term of the customer relationship.

The estimate of the average estimated customer relationship period is based on the recent history of customer churn. Potential changes in estimates could lead to changes in both the amount and timing of future recognition of revenue.

Bundled offers

Bundled offers that combine different elements are assessed to determine whether it is necessary to separate the different identifiable components and apply the corresponding revenue recognition policy to each element. The total package revenues are allocated among the identified elements based on their respective fair values.

Determining fair values for each identified elements requires estimates that are complex due to the nature of the business.

A change in the estimates of the fair value could affect the allocation of revenues among the elements and, as a result, the date at which the revenues are recognized.

Joint Operations

The classification of interests in businesses as joint operations or as joint ventures requires partly a certain degree of judgment. The classification is made in accordance with the contractual and actual circumstances.

s) Consolidated methods

The consolidation methods applied are as follows:

- Full consolidation method for companies where Telefónica Deutschland Group has control. Control is assumed if Telefónica Deutschland Group is exposed to variable returns or has rights to these returns. In addition, the ability must exist to use its power over the investee to affect the returns.
- Proportionate consolidation of the attributable assets, liabilities as well as expenses and income for companies jointly controlled with third parties (Joint Operations). Similar line items are combined so that the corresponding share of total assets, liabilities, expenses and income as well as the cash flows of these companies is integrated in the corresponding items in the Consolidated Financial Statements.

All material receivables and liabilities and transactions between the consolidated companies were eliminated in consolidation. The returns generated on transactions involving capitalizable goods or services by subsidiaries with other Telefónica Deutschland Group companies were also eliminated in consolidation.

The financial statements of the consolidated companies are prepared using the same accounting policies and have the same financial year-end as the parent company's individual financial statements. In the case of Group companies whose accounting and valuation methods differ from those of Telefónica Deutschland Group, adjustments are made in consolidation in order to present the Consolidated Financial Statements on a consistent basis.

The Consolidated Income Statement and Consolidated Statement of Cash Flows include the revenues and expenses as well as the cash flows of companies that are no longer in the Telefónica Deutschland Group up to the date on which the related interest was sold or the company was liquidated.

Revenues and expenses as well as the cash flows of new Group companies are included from the date on which the interest was acquired or the company was established until the end of the year.

t) Accounting policies adopted as of December 31, 2013

The accounting policies applied for the preparation of the Consolidated Financial Statements for the financial year ending December 31, 2013 correspond to those that were applied for the financial year ending December 31, 2012. Exceptions to this are the new standards adopted as at January 1, 2013 as well as changes to the standards and interpretations as published by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) and endorsed for implementation by the European Union (EU):

Presentation of financial statements

In June 2011 the IASB issued Presentation of Items in Other Comprehensive Income (amendments to IAS 1), which was endorsed by the EU with the resolution of June 2012. Entities need to group items presented in other comprehensive income on the basis whether they are potentially reclassifiable to profit or loss subsequently. This is to be applied for financial years that began on or after July 1, 2012. Telefónica Deutschland Group has applied the change to IAS 1 since January 1, 2013. Consequently, the form of presentation of the Consolidated Statement of Comprehensive Income has been adjusted.

Defined benefit plans

In June 2011 the IASB published the changes to IAS 19, Employee Benefits, which were endorsed by the EU in June 2012. Telefónica Deutschland Group applies IAS 19R, Employee Benefits, since January 1, 2013.

IAS 19R contains various new regulations in the area of accounting and reporting of employee benefits. For Telefónica Deutschland Group it was particularly significant that the interest cost and the expected return on plan assets are replaced by a net interest amount. This is calculated by multiplying the net pension obligation or the net defined benefit liability with the discount rate set at the beginning of the period. The net pension obligation results from subtracting the fair value of plan assets from the present value of the defined benefit obligation. In addition, with the introduction of IAS 19R unrecognized past service cost are from now on immediately recognized in the Consolidated Income Statement.

The first time application of IAS 19R as of January 1, 2013 has no significant effect on the net assets, financial position and earnings, the amount of the balance sheet line item for pensions, the amount of equity or the amount of other comprehensive income (see Note No. 13 Provisions).

Thus the change to IAS 19R has no significant effect on the Consolidated Financial Statements. Therefore it was determined not to be applied retrospectively.

Fair value measurement

In May 2011 the IASB published the standard IFRS 13 – Fair Value Measurement, which provides a single source of fair value measurement and disclosure requirements for use across IFRS. The EU endorsed the standard with a resolution in December 2012. The standard defines fair value as the price that would be received to sell an asset or paid to settle a liability in an orderly transaction on a defined market. It indicates that fair value refers to a market based and not a business specific valuation figure. The standard specifies that in general a certain asset or a certain liability serves as a basis of assessment unless a business manages its net risk at the portfolio level and reports it at the portfolio level. In this case it can under certain conditions elect to make price adjustments at the portfolio level. The standard also introduces new information and improves the information content of existing disclosures. The first application must occur on January 1, 2013 whereby an earlier application is permitted. IFRS 13 must be prospectively applied from this date. The first use of IFRS 13 in the reporting period had no significant effects on the measurement of fair value carried out by Telefónica Deutschland Group.

The information obligations of IFRS 13 do not have to be applied to comparative information that was provided for periods before the first use of this standard. Telefónica Deutschland Group makes use of the relief with regards to the comparative period and has not changed the presentations as of December 31, 2012.

Consolidated Financial Statements

As at January 1, 2013 Telefónica Deutschland Group introduced IFRS 10 – Consolidated Financial Statements, which was published by the IASB in May 2011 and was endorsed by the EU in December 2012. IFRS 10 is applicable to all types of companies and is based on the existing principle that a company must consolidate all companies that it controls. The definition of control in IFRS 10 requires power and variable returns for the existence of control. Power is the ability to direct the relevant activities of the investee that significantly affect the variable returns. IFRS 10 also requires considerable adjudication ability to determine whether a company has to be consolidated or not. The application of IFRS 10 does not impact the net assets, financial position and earnings of the Group.

Joint arrangements

In May 2011 the IASB published IFRS 11 – Joint Arrangements, which replaces IAS 31 – Interests in Joint Ventures. The standard was likewise endorsed by the EU in December 2012. The focus when classifying a joint arrangement in accordance with IFRS 11 no longer lies on the legal structuring of the joint arrangement but rather on the way in which the rights and obligations are distributed to the partners to the joint arrangement. The application of the classification guidelines in IFRS 11 led to the result that both joint ventures of the Telefónica Deutschland Group to date, TCHIBO Mobilfunk GmbH & Co. KG, Hamburg and TCHIBO Mobilfunk Beteiligungs GmbH, Hamburg, were classified as joint operations within the meaning of IFRS 11. This therefore results in the same accounting treatment as the proportional consolidation method used to date under IAS 31.

At the same time as IFRS 10 and IFRS 11, with IFRS 12 the disclosures in the notes in relation to the interest held in subsidiaries, joint arrangements, associated businesses as well as non-consolidated structured companies were introduced. The standard requires a number of additional statements that were implemented accordingly.

Likewise at the same time as the introduction of IFRS 10, IFRS 11 and IFRS 12, the changes resulting from IAS 27 – Separate Financial Statements – and IAS 28 – Investments in Associates and Joint Ventures – were implemented. The use of the revised standards has no influence on the net asset, financial position, and earnings of the company. The first time application of the new standards IFRS 10, IFRS 11 and IFRS 12 as well as the changes to IAS 27 and IAS 28 must be implemented within the EU at the latest by January 1, 2014. Earlier application was permitted.

Annual improvements to the IFRSs 2009 – 2011 Cycle (May 2012)

The annual improvement project offers the opportunity to undertake non time-critical but necessary changes to the IFRSs in that inconsistencies are removed and wordings are clarified. The application of these improvements has no influence on the net assets, financial position and earnings of the company.

Further standards or changes to standards that had to be implemented by January 1, 2013, have no effect on the net assets, financial position and earnings of the Group.

u) New standards and IFRIC interpretations issued, but not yet effective as at December 31, 2013

At the time of publication of the Consolidated Financial Statements, the following standards and interpretations were published, but their application was not mandatory.

Standards and Amendments		**Compulsory application for financial years beginning on or after**
IFRS 9 and amendments to IFRS 7	Financial instruments	*
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities	January 1, 2014
Amendments to IAS 32	Offsetting financial assets and financial liabilities	January 1, 2014
Amendments to IAS 36	Disclosures of recoverable amounts for non-financial assets	January 1, 2014
Amendments to IAS 39	Novation of derivatives and continuing hedge accounting	January 1, 2014
Amendments to IAS 19	Defined benefits plans: Employee contributions	July 1, 2014**
Annual Improvements to the IFRSs 2010-2012 Cycle	Amendments to IAS 16, IAS 24, IAS 38, IFRS 2, IFRS 3, IFRS 8 and IFRS 13	July 1, 2014**
Annual Improvements to the IFRSs 2011-2013 Cycle	Amendments to IAS 40, IFRS 1, IFRS 3 and IFRS 13	July 1, 2014**

Interpretations		**Compulsory for financial years beginning on or after**
IFRIC 21	Levies	January 1, 2014**

* The compulsory application date for IFRS 9 has not yet been set. However, it is expected to be announced shortly following finalization of the last points.

** Resolution of adoption by the EU is still outstanding, statement of compulsory application according to IASB.

In November 2009, the IASB published IFRS 9, Financial Instruments. This standard contains the first of three phases of the IASB project for replacing the existing IAS 39, financial Instruments: recognition and measurement. IFRS 9 changes the recognition and measurement requirements of financial assets, including various hybrid agreements. It applies a single approach to determine whether a financial asset should be recognized at amortized cost or at fair value. The definition depends on how a company controls its financial instruments (its business model) and the characteristics of the contractually agreed cash flows of the financial asset. In October 2010, the requirements of IAS 39 regarding financial liabilities were mainly adopted into IFRS 9. In December 2011, IFRS 9 was amended in that effect that for the first-time adoption no restatement of prior financial statement is necessary, additional disclosure requirements are to be fulfilled, and the obligatory transition period has been deferred to financial years that commence on or after January 1, 2015. Pursuant to the ongoing project “Classification and measurement: limited amendments to IFRS 9”, in July 2013 the IASB however provisionally decided to defer the obligatory time of first adoption once again, and leave it open until the limited changes have been established and the second phase of the IFRS 9 for impairment methodologies has been concluded. An early adoption is still allowed. The European Financial Reporting Advisory Group has deferred the recommendation to adopt the currently published IFRS 9 in the EU. On November 19, 2013, the IASB published IFRS 9 Financial Instruments (hedge accounting and changes to IFRS 9, IFRS 7 and IAS 39) and, with that, IFRS 9 is to be recognized in other comprehensive income with regard to the adoption of the new model for the general hedge accounting, the approval of the early adoption of the provision, changes to the fair value calculation from own credit risks for liabilities which are assessed for the fair value calculation in recognition of the changes in the profit and loss account; and has changed the date of obligatory first-time adoption of January 1, 2015. Due to the continuous amendments to IFRS 9, the company’s test what impact the application of IFRS 9 will have on the Consolidated Financial Statements has not been completed.

The changes to IAS 32 Offsetting financial assets and financial liabilities, which were published on December 16, 2011 by the IASB and endorsed on December 13, 2012 by the EU do not intrinsically alter the present offsetting model of the IAS 32, but provide additional support and clarification by adding implementation guidelines.

The changes to IAS 36 Recoverable amount disclosures for non-financial assets, which were published in May 2013, on the one part restrict the currently valid mandatory information required regarding the recoverable amount, but also increase the scope of the information that is to be specified in the case of a value decrease or value increase.

In June 2013, the IASB adopted IAS 39 Novation of derivatives and continuation of hedge accounting. Here, under certain circumstances, despite a novation derivatives remain designated as hedge instruments in continued hedging relationships.

In its official journal, published December 20, 2013, the European Union endorsed the changes to IAS 36 as well as the changes to IAS 39, and approved the obligatory application for the financial year commencing January 1, 2014.

On November 21, 2013, the IASB published a slight amendment to IAS 19 Defined benefit plans: Employee Contributions. This change represents a relief for the company with regard to recording employee or third party contributions to a pension plan. As a result of this change to IAS 19.93, it is permitted for a company to record contributions from employees or third-parties in the periods in which the associated performance is rendered as a reduction in the current service costs, provided the contributions are independent of the number of years of service.

In May 2013, the IASB published IFRIC 21. This interpretation is a clarification for taxes which are levied by a government authority and do not fall in the scope of another IFRS as to how and when these obligations are to be carried as a liability in accordance with IAS 37. The overriding factor is the event that triggers the payment obligation (obligating event).

According to information currently available, the Group is assuming that the application of the standards (with the exception of IFRS 9), the changes and the interpretations of their implementation will have no or only a negligible influence on the net assets, financial position and earnings. The Group is planning to implement the changes pursuant to the mandatory application. As already stated, the IFRS 10, IFRS 11 and IFRS 12 standards which were to be applied for the first time in the EU on January 1, 2014, as well as the associated amendments to IAS 27 were applied prospectively on January 1, 2013.

(4) GOODWILL

In 2013 and 2012 there was no change to goodwill. The carrying amount corresponds to the initial recognition of EUR 705,576k.

The acquired and reported goodwill is comprised of the following two components:

- The carrying amount of the goodwill in the amount of EUR 423,081k resulted from the acquisition of MediaWays GmbH by HighwayOne Germany GmbH, a subsidiary of Telefónica, S. A., which was executed on September 30, 2002. On October 2, 2002 HighwayOne Germany GmbH and MediaWays GmbH merged into Telefónica Deutschland GmbH. On March 23, 2011, Telefónica Deutschland GmbH was changed to Telefónica Germany Customer Services GmbH;
- The remaining carrying amount of the goodwill (EUR 282,495k) resulted from the acquisition of HanseNet Telekommunikation GmbH by Telefónica Germany Customer Services GmbH from Telecom Italia Deutschland Holding GmbH, Hamburg, on February 16, 2010. Under the agreement dated March 4, 2011, and as of the agreed merger date on January 1, 2011, Telefónica Germany Customer Services GmbH has transferred the carrying amount of goodwill to Telefónica Germany GmbH & Co. OHG.

The annual impairment test for goodwill was carried out in December 2013. The impairment test carried out at the level of the cash-generating unit Telecommunications does not result in a need to recognize any write-downs to goodwill as of the end of 2013, because the recoverable amount of EUR 6,672m, based on the fair value less costs to sell, was higher than the carrying amount. No write-downs occurred in financial year 2012 either.

The impairment test is described in Note No. 3 Accounting and Valuation Principles.

(5) INTANGIBLE ASSETS

The intangible assets comprise the following:

	As of December 31, 2013		
(Euros in thousands)	**Gross cost**	**Accumulated amortization**	**Net intangible assets**
Licenses	9,830,811	(7,456,564)	2,374,247
Software	1,330,972	(1,037,734)	293,238
thereof internal capitalized expenditure	*161,359*	*(110,180)*	*51,179*
Other intangible assets	357,399	(161,569)	195,830
Prepayments on intangible assets	20,886	-	20,886
Net intangible assets	**11,540,068**	**(8,655,868)**	**2,884,200**

(Euros in thousands)	As of December 31, 2012 Gross cost	Accumulated amortization	Net intangible assets
Licenses	9,830,811	(7,184,958)	2,645,853
Software	1,334,818	(954,071)	380,747
thereof internal capitalized expenditure	*138,836*	*(93,579)*	*45,257*
Other intangible assets	373,423	(136,010)	237,413
Prepayments on intangible assets	13,443	-	13,443
Net intangible assets	**11,552,495**	**(8,275,039)**	**3,277,456**

(Euros in thousands)	As of January 1, 2013	Additions	Amortization	Disposals	Transfers	Disposals of subsidiaries	As of December 31, 2013
Licenses	2,645,853	-	(271,581)	-	(25)	-	2,374,247
Software	380,747	123,724	(217,962)	-	6,993	(264)	293,238
thereof internal capitalized expenditure	*45,257*	*27,268*	*(21,346)*	-	-	-	*51,179*
Other intangible assets	237,413	4,221	(38,351)	(7)	24	(7,471)	195,830
Prepayments on intangible assets	13,443	14,336	-	-	(6,890)	(3)	20,886
Net intangible assets	**3,277,456**	**142,281**	**(527,894)**	**(7)**	**102**	**(7,738)**	**2,884,200**

(Euros in thousands)	As of January 1, 2012	Additions	Amortization	Disposals	Transfers	Disposals of subsidiaries	As of December 31, 2012
Licenses	2,917,434	-	(271,581)	-	-	-	2,645,853
Software	44,633	155,350	(217,617)	-	302	(1921)	380,747
thereof internal capitalized expenditure	*43,921*	*24,365*	*(23,029)*	-	-	-	*45,257*
Other intangible assets	279,668	261	(42,516)	-	-	-	237,413
Prepayments on intangible assets	20,756	100	-	-	(7,026)	(387)	13,443
Net intangible assets	**3,662,491**	**155,711**	**(531,714)**	**-**	**(6,724)**	**(2,308)**	**3,277,456**

Licenses

As of December 31, 2012 and 2013, licenses consist primarily of the licenses listed below:

In May 1997, Telefónica Germany GmbH & Co. OHG acquired a GSM License (Global System for Wireless Communications) (2G). As of December 31, 2013 the carrying amount of the license was EUR 1,325k (2012: EUR 1,660k). The GSM License expires on December 31, 2016. The remaining amortization period is three years.

In August 2000 and in May 2010 Telefónica Germany GmbH & Co. OHG acquired UMTS Licenses (3G) that expire on December 31, 2020. In May 2010, the company acquired additional UMTS licenses that expire in December 2025. As of December 31, 2013, the carrying amount was EUR 1,296,871k (2012: EUR 1,478,447k), the remaining amortization period is seven years and twelve years, respectively.

In May 2010 Telefónica Germany GmbH & Co. OHG acquired LTE Licenses (4G) that expire in 2025. The carrying amount as of December 31, 2013 was EUR 1,076,051k (2012: EUR 1,165,722k). The remaining amortization period is twelve years.

Software

Software mainly includes licenses for office and IT applications. The software is amortized on a straightline basis over its useful life, which is generally estimated to be between two to five years. In the financial years 2013 and 2012 there were no significant individual additions to software.

Other intangible assets

The other intangible assets represent primarily the customer base. The amortization of intangible assets comprises the following:

	As of December 31, 2013			
(Euros in thousands)	**Licences**	**Software**	**Other intangible assets**	**Amortization intangible assets**
Amortization continuing operations	271,581	217,962	38,351	527,894
Amortization discontinued operations	-	-	-	-
	271,581	**217,962**	**38,351**	**527,894**

	As of December 31, 2012			
(Euros in thousands)	**Licences**	**Software**	**Other intangible assets**	**Amortization intangible assets**
Amortization continuing operations	271,581	215,306	42,516	529,403
Amortization discontinued operations	-	2,311	-	2,311
	271,581	**217,617**	**42,516**	**531,714**

(6) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2013 and 2012 is made up as follows:

	As of December 31, 2013		
(Euros in thousands)	**Gross cost**	**Accumulated depreciation**	**Net PP&E**
Land and buildings	680,860	(430,703)	250,157
Plant and machinery	5,760,596	(3,239,182)	2,521,413
Furniture, tools and other items	261,902	(206,634)	55,268
Total PP&E in service	**6,703,357**	**(3,876,519)**	**2,826,838**
PP&E in progress	68,779	-	68,779
Net PP&E	**6,772,136**	**(3,876,519)**	**2,895,617**

	As of December 31, 2012		
(Euros in thousands)	**Gross cost**	**Accumulated depreciation**	**Net PP&E**
Land and buildings	673,951	(373,533)	300,418
Plant and machinery	5,393,282	(2,861,853)	2,531,429
Furniture, tools and other items	302,272	(223,741)	78,531
Total PP&E in service	**6,369,505**	**(3,459,127)**	**2,910,378**
PP&E in progress	63,062	-	63,062
Net PP&E	**6,432,567**	**(3,459,127)**	**2,973,440**

(Euros in thousands)	**As of January 1, 2013**	**Additions**	**Depreciation**	**Disposals**	**Transfers**	**Disposal of subsidiaries**	**Others**	**As of December 31, 2013**
Land and buildings	300,418	7,519	(69,817)	-	5,220	(12,683)	19,501	250,157
Plant and machinery	2,531,429	486,149	(497,119)	(6)	792	(3,377)	3,544	2,521,413
Furniture, tools and other items	78,531	16,634	(36,918)	(17)	963	(3,924)	-	55,268
PP&E in service	**2,910,378**	**510,301**	**(603,855)**	**(23)**	**6,976**	**(19,984)**	**23,045**	**2,826,838**
PP&E in progress	63,062	13,302	-	-	(7,077)	(508)	-	68,779
Net PP&E	**2,973,440**	**523,603**	**(603,855)**	**(23)**	**(102)**	**(20,492)**	**23,045**	**2,895,617**

(Euros in thousands)	As of January 1, 2012	Additions	Depreciation	Disposals	Transfers	Disposal of subsidiaries	Others	As of December 31, 2012
Land and buildings	40,476	11,682	(76,571)	-	324,831	-	-	300,418
Plant and machinery	2,917,977	430,856	(482,061)	(849)	(333,594)	-	-	2,531,429
Furniture, tools and other items	101,834	33,131	(45,405)	(919)	(9,860)	(250)	-	78,531
PP&E in service	**3,059,387**	**475,669**	**(604,037)**	**(1,768)**	**(18,623)**	**(250)**	**-**	**2,910,378**
PP&E in progress	59,983	(22,264)	-	-	25,347	(4)	-	63,062
Net PP&E	**3,119,370**	**453,405**	**(604,037)**	**(1,768)**	**6,724**	**(254)**	**-**	**2,973,440**

The additions to property, plant and equipment for 2013 of EUR 523,603k and for 2012 of EUR 453,405k primarily relate to investments for the migration to 4G technology, for the expansion of the capacity of the 3G technology to improve the performance as well as the coverage of the wireless networks.

Property, plant and equipment deriving from finance leases amounted to EUR 3,026k as of December 31, 2013 and EUR 8,948k as of December 31, 2012. The most significant finance leases are disclosed in Note No. 30 Lease and Sublease Agreements.

Depreciation of property, plant and equipment for the 2013 and 2012 financial years comprises the following:

	As of December 31, 2013				
(Euros in thousands)	**Land and buildings**	**Plant and machinery**	**Furniture, tools and other items**	**PP&E in progress**	**Total depreciation PP&E**
Depreciation continuing operations	69,817	497,119	36,918	-	603,855
Depreciation discontinued operations	-	-	-	-	-
	69,817	**497,119**	**36,918**	**-**	**603,855**

	As of December 31, 2012				
(Euros in thousands)	**Land and buildings**	**Plant and machinery**	**Furniture, tools and other items**	**PP&E in progress**	**Total depreciation PP&E**
Depreciation continuing operations	76,571	482,061	45,148	-	603,780
Depreciation discontinued operations	-	-	257	-	257
	76,571	**482,061**	**45,405**	**-**	**604,037**

(7) INVENTORIES

As of December 31, 2013 inventories amount to EUR 89,185k (2012: EUR 84,671k).

The total cost of inventories recognized as an expense in the Consolidated Income Statement was EUR 648.026k (2012: EUR 616.240k) in financial year 2013.

As is typical for the industry, the suppliers of the inventories hold title retention to the inventories.

(8) TRADE AND OTHER RECEIVABLES

The breakdown of this item in the Consolidated Statement of Financial Position is as follows:

	As of December 31	
(Euros in thousands)	**2013**	**2012**
Receivables from sales and services	968,993	966,441
Receivables from related parties (Note No. 24 Related Parties)	26,632	26,773
Other receivables	11,701	4,583
Prepayments	146,280	141,628
Provisions for bad debts	(118,371)	(130,394)
Total trade and other receivables	**1,035,234**	**1,009,031**

The breakdown of trade receivables is as follows:

(Euros in thousands)	As of December 31	
	2013	2012
Trade receivables billed	748,589	760,355
Trade receivables unbilled	220,404	206,086
Total	**968,993**	**966,441**

The following table shows the development of the allowances for the years ending as of December 31, 2013 and 2012, respectively:

(Euros in thousands)	
Allowances as of December 31, 2013	**(118,371)**
Additions	(56,303)
Reductions	5,472
Utilized	61,206
Disposals of subsidiaries	1,648
Allowances as of December 31, 2012	**(130,394)**
Additions	(70,335)
Reductions	-
Utilized	53,102
Withdrawals from discontinued operations	4,154
Allowances as of December 31, 2011	**(117,315)**

In 2013 and 2012 Telefónica Deutschland Group sold "O_2 My Handy" receivables in order to optimize the working capital and to access an alternative source of funding. The nominal value of the receivables transferred in 2013 was EUR 320.2m (2012: EUR 370.4m) and carrying amount was EUR 311.6m (2012: EUR 364.2m). The buyer of the receivables bears the majority of the risk of these receivables. A small portion (2013 less than 5%, 2012 less than 5%) of the sold receivables was not derecognized at the time of the sale due the continuing involvement. The carrying amount of these assets, which Telefónica Deutschland Group continues to recognize, was EUR 26.5m as of December 31, 2013 and EUR 16.0m as of December 31, 2012. A liability in the same amount is recognized. The continuing involvement that is recognized is the maximum risk that would have to be borne by Telefónica Deutschland Group and essentially results from a possible default of the receivables. Between now and the end of 2015, the company could be obligated to repurchase EUR 22.2m if customers should default on their respective debts. The actual defaults are compared to the originally expected ones every month to monitor the associated risk.

In addition, Telefónica Deutschland Group records a provision in the amount of the fair value of the guarantees given of EUR 1.4m (2012: EUR 0.9m).

The total loss as of the date of the transfer of the receivables in 2013 was EUR 1.14m (2012: EUR 1.24m).

After the completion of the transactions, the impact on profit and loss from continuing involvement comprises a loss of EUR 0.3m in 2013 and a loss of EUR 1.1m in 2012.

(9) CASH AND CASH EQUIVALENTS

(Euros in thousands)	As of December 31	
	2013	2012
Cash at bank and in hand	7,997	15,512
Cash pooling	700,548	308,154
Total	**708,545**	**323,666**

The cash and cash equivalents line item mainly includes deposits in connection with cash pooling agreements with Telfisa Global B.V. (up until September 30, 2012 the cash pooling agreement existed with Telefónica Finanzas S. A.), receivables from banks, with an original term of up to three months and cash-on-hand.

(10) FINANCIAL ASSETS AND LIABILITIES

In the following tables the fair value of all financial assets and financial liabilities of Telefónica Deutschland Group are disclosed in accordance with the valuation categories from IAS 39 considering the requirements of IFRS 13. As of December 31, 2013 the carrying amount of the financial assets and financial liabilities represents an appropriate approximation for the fair value (with the exception of the portion of the bond that is not hedged – see below).

In addition, the tables show the categorization of the financial assets and liabilities in accordance with the importance of the input factors that were used for their respective valuation. For this purpose three levels or valuation hierarchies are defined:

- Level 1: Primary market value: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: Significant other observable input parameters: inputs observable, either directly or indirectly, which are subject to certain limitations
- Level 3: Significant unobservable input parameters: all unobservable inputs which might include the entity's own data as a starting point and which should be adjusted if reasonably available information indicates that other market participants would use different data.

Financial assets

	As of December 31, 2013									
	Financial assets									Non-financial assets
					Measurement hierarchy					
(Euros in thousands)	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity assets	Loans and receivables	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (inputs not based on observable market data)	Total carrying amount	Total fair value	
Other non-current financial assets	-	6,473	-	92,314	-	6,473	-	98,787	98,787	-
Trade and other receivables (Note No. 8)	-	-	-	877,254	-	-	-	877,254	877,254	157,981
Other current financial assets	-	-	-	20,751	-	-	-	20,751	20,751	-
Cash and cash equivalents (Note No. 9)	-	-	-	708,545	-	-	-	708,545	708,545	-
Total financial assets	**-**	**6,473**	**-**	**1,698,864**	**-**	**6,473**	**-**	**1,705,337**	**1,705,337**	**157,981**

	As of December 31, 2012									
	Financial assets									Non-financial assets
					Measurement hierarchy					
(Euros in thousands)	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity assets	Loans and receivables	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (inputs not based on observable market data)	Total carrying amount	Total fair value	
Other non-current financial assets	-	5,759	-	108,916	-	5,759	-	114,675	114,675	-
Trade and other receivables (Note No. 8)	-	-	-	862,821	-	-	-	862,821	862,821	146,210
Other current financial assets	-	-	-	101	-	-	-	101	101	-
Cash and cash equivalents (Note No. 9)	-	-	-	323,666	-	-	-	323,666	323,666	-
Total financial assets	**-**	**5,759**	**-**	**1,295,504**	**-**	**5,759**	**-**	**1,301,263**	**1,301,263**	**146,210**

The ageing structure of the financial assets that are overdue and not impaired is as follows:

	As of December 31	
(Euros in thousands)	**2013**	**2012**
Overdue since 1-90 days	42,385	14,998
Overdue since 91-180 days	4,247	3,963
Overdue more than 180 days	20,815	20,025
Total	**67,447**	**38,986**

With regards to these trade and other receivables there are no indications of circumstances that could have a negative impact on their value as of the respective reporting date.

The other long-term financial assets are classified as loans and receivables as well as available-for-sale financial assets in 2013 and 2012:

- The proportion of these assets that are classified as loans and receivables essentially comprises the "O_2 My Handy" receivables as well as a deposit of EUR 8.9m (2012: EUR 14.9m). This deposit was pledged as collateral to cover the maximum risk from silent factoring to be borne by Telefónica Deutschland Group and the guarantee of the servicing of the receivables over the term of the sold receivables (see Note No. 8 Trade and Other Receivables). Telefónica Deutschland Group receives a fixed interest for the deposit.
- The proportion of these assets that are classified as available-for-sale financial assets comprises financial assets incurred by Telefónica Deutschland Group to meet its pension obligations, but, in accordance with IAS 19, do not qualify as plan assets. In 2013 and 2012, Telefónica Deutschland Group realized net gains from available-for-sale financial assets of EUR 297k and EUR 199k, respectively, that were directly recognized in other comprehensive income for the period. The fair values recognized in level 2 are based on the values received from the insurance company, which are based on the insurance company's internal calculation models.

Other current financial assets, which have been categorized as loans and receivables, include mainly security deposits for silent factoring amounting to EUR 20.3m.

The non-financial assets in trade and other receivables relate primarily to advance payments.

Financial liabilities

	As of December 31, 2013									
	Financial liabilities									Non-financial liabilities
		Measurement hierarchy								
(Euros in thousands)	**Financial liabilities at fair value through profit or loss**	**Liabilities at amortized costs**	**Finance leases**	**Liabilities held-to-maturity**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (inputs not based on observable market data)**	**Total carrying amount**	**Total fair value**	
Long-term loans	200,492	1,142,093	-	-	-	200,492	-	1,342,584	1,342,584	-
Other non-current payables (Note No. 12)	-	3,469	1,340	-	-	-	-	4,809	4,809	-
Short-term loans	-	102,059	-	-	-	-	-	102,059	102,059	-
Trade payables (Note No. 12)	-	1,074,038	-	-	-	-	-	1,074,038	1,074,038	-
Other current liabilities (Note No. 12)		195,986	1,649	-				197,635	197,635	23,897
Total financial liabilities	**200,492**	**2,517,645**	**2,989**	**-**	**-**	**200,492**	**-**	**2,721,126**	**2,721,126**	**23,897**

	As of December 31, 2012									
	Financial liabilities									Non-financial liabilities
		Measurement hierarchy								
(Euros in thousands)	**Financial liabilities at fair value through profit or loss**	**Liabilities at amortized costs**	**Finance leases**	**Liabilities held-to-maturity**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (inputs not based on observable market data)**	**Total carrying amount**	**Total fair value**	
Long-term loans	-	1,000,000	-	-	-		-	1,000,000	1,000,000	-
Other non-current payables (Note No. 12)	-	4,209	4,984	-	-	-	-	9,193	9,193	-
Short-term loans	-	250,878	-	-	-	-	-	250,878	250,878	-
Trade payables (Note No. 12)	-	918,458	-	-	-	-	-	918,458	918,458	-
Other current liabilities (Note No. 12)		46,219	3,964	-				50,183	50,183	168,947
Total financial liabilities	**-**	**2,219,764**	**8,948**	**-**	**-**	**-**	**-**	**2,228,712**	**2,228,712**	**168,947**

The long and short-term loans primarily are accounted for as financial liabilities at amortized cost (except for EUR 200m of the nominal value of the bond).

This includes the bond that Telefónica Deutschland Group issued in November 2013 with a nominal value of EUR 600m (refer to Note No. 1 Reporting Entity). This bond is accounted for by using the effective interest method after deduction of the disagio and transaction costs.

A portion of the above-mentioned bond (EUR 200m of the nominal value) together with an interest swap is subject to a fair value hedge (see Note No. 28 Financial Instruments and Risk Management) and is therefore classified as liability at fair value through profit or loss.

In measuring the fair value of the swap, all factors included in that market participants would consider, including the credit risks of the contract parties. The fair value of the interest swap results from discounting of the expected future payments over the remaining term of the contract using current market interest rates and yield curves.

The adjustments to the carrying amount of the financial liabilities resulted in a profit of EUR 2.9m, while the corresponding interest rate swap resulted in a loss of EUR 2.7m. Thus, a net result, representing the ineffective part of the hedge relationship, in the amount of EUR minus 0.2m (2012: EUR 0m) was recognized in the net financial income (expense). Under the interest rate swap, Telefónica Deutschland Group pays a variable quarterly interest rate amounting to the three-month Euribor and receives an average fixed interest rate of 1.875%. The hedged nominal value of the financial liabilities amounts to EUR 200m. Thus, 14% (2012: 0%) of the bonds and debentures of the company were switched from fixed interest to variable interest.

The fair value of the interest swap used to hedge financial liabilities amounted to EUR 2.7m. The fair value of the bond is determined by discounting the expected future cash flows at currently applicable interest rates with comparable conditions and residual terms.

In addition, a loan of EUR 1,250m is included, which was borrowed by Telefónica Germany GmbH & Co. OHG from Telfisa Global B. V. on September 12, 2012 (Refer to Note No. 24 Related Parties). In 2013, EUR 250m was repaid as scheduled and EUR 150m was repaid unscheduled due obtaining financing through the bond. Of the remaining EUR 850m of the loan, EUR 750m is classified as long-term as of December 31, 2013.

The non-financial liabilities within other current liabilities mainly include other taxes and social security.

(11) EQUITY

Common stock

The registered share capital of Telefónica Deutschland Holding AG amounts to EUR 1,116,945,400. The registered share capital is divided into 1,116,945,400 shares with no-par value and a notional amount of the registered share capital of EUR 1.00 each (“Shares”). The registered share capital is fully paid. As of December 31, 2013 Telefónica Deutschland Holding AG did not hold any of its own shares. 23.17% of the shares are in free float, the remaining 76.83% are held by Telefónica Germany Holdings Limited.

In accordance with section 6 para. 2 of the Articles of Association the shareholders have no right to securitize shares. Each share in general grants one vote at the General Meeting. The shares are freely transferable.

In 2012, O2 (Europe) Limited increased the share capital of Telefónica Deutschland by EUR 100 to EUR 1,116,945,400 based on a capital increase resolution on September 18, 2012, entered in the commercial register on September 26, 2012, in return for a contribution in kind. The increase in the share capital was made through the issue of a new share with a 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 in Telefónica Germany Management GmbH into Telefónica Deutschland within a common control transaction.

Authorized capital

As of December 31, 2013 the Management Board is authorized with the approval of the Supervisory Board to increase the share capital of Telefónica Deutschland once or several times in the period until September 17, 2017 by a total of EUR 558,472,700, by issuing up to 558,472,700 new non-par value registered shares in exchange for a cash and/or contribution in kind (authorized capital 2012/I). The authorization for the Management Board provides that the shareholders’ subscription rights under section 4 para. 3 of the Articles of Association can be excluded in whole or in part in certain cases.

Conditional capital

For the purpose of the issue of registered no-par value shares to the holders or creditors of bonds, the share capital of the company is conditionally increased by up to EUR 558,472,700 by issuing 558,472,700 new registered no-par value shares (conditional capital 2012/I).

By resolution at the General Meeting of October 5, 2012 the Management Board has been authorized until October 4, 2017 and subject to the approval of the Supervisory Board to, on one or more occasions, issue convertible bonds, warrant bonds, profit participation rights and/or participating bonds (and/or combinations of such instruments) (together “bonds”) in bearer and/or registered form with or without limited maturity in an aggregate nominal value of up to EUR 1,500,000,000 and to grant and/or impose on the holders or creditors of bonds conversion or option rights to shares in the company representing a total notional amount in the share capital of up to EUR 558,472,700 (in words: five hundred fifty-eight million four hundred and seventy-two thousand and seven hundred Euro), subject to the more detailed terms and conditions of issue of such bonds. Shareholders shall in principle be granted a right to subscribe for the bonds. The authorization provides that subject to the approval of the Supervisory Board, the subscription right of the shareholders can, however, be excluded

a) for fractional amounts; furthermore

b) provided that the issue price is not substantially lower than the market value of the bonds with conversion and/or option rights or option obligation and the shares issued or to be issued in order to satisfy the conversion and option rights or conversion obligation do not exceed in total 10% of the share capital;

c) to the extent profit participation rights or participating bonds are issued without conversion rights or obligations or an option right, provided the interest rate and the issue price of the profit participation rights or participating bonds correspond at the date of issue to current market values; and

d) to the extent the bonds are issued in written form contributions in kind for the purpose of directly or indirectly acquiring companies, parts of companies, participations in companies or other assets and the value of the contribution in kind is reasonably proportionate to the value of the bonds.

For further details, see Note No. 32 Events after the Reporting Period.

Capital promise

On March 28, 2003 and April 30, 2004 O2 (Europe) Limited issued a declaration of obligation to Telefónica Deutschland under which O2 (Europe) Limited obliged itself to provide Telefónica Deutschland by way of voluntary shareholder contribution with an amount of EUR 4,650m and EUR 500m. These amounts were to be paid on first demand by Telefónica Deutschland and the obligations were not limited in time. In 2011 O2 (Europe) Limited made cash payments under the declaration of obligation of EUR 2,264,104k, the remaining amount of EUR 2,885,897k was settled in 2012 through the offsetting of a receivable due from O2 (Europe) Limited.

Additional paid-in capital

The additional paid-in capital of Telefónica Deutschland Holding AG remains unchanged at EUR 430k. The contribution occurred in accordance with a contribution contract dated September 18, 2012 in connection with a contribution in kind.

Retained Earnings

Legal reserve

Retained earnings contain a legal reserve in accordance with Section 150 (2) of the German Stock Corporation Act (Aktiengesetz – AktG) of EUR 14k (2012: EUR 14k).

First ordinary General Meeting and dividend distribution in 2013

On May 7, 2013 the first ordinary General Meeting of Telefónica Deutschland Holding AG took place. Alongside the discharge of the Supervisory Board and Management Board and the appointment of Ernst & Young GmbH with its registered office in Stuttgart, branch office in Munich, as auditors for the Consolidated Financial Statements and Financial Statements of Telefónica Deutschland Holding AG, the General Meeting resolved to distribute a dividend of EUR 0.45 per dividend-entitled share, a total of EUR 502,625,430.00.

Pre-IPO dividend in 2012

The shareholders' meeting of Telefónica Deutschland declared on September 14, 2012 to make a pre-IPO dividend to O2 (Europe) Limited of EUR 7,186m. Thereof, EUR 4,300m have been considered as cash payments and EUR 2,886m were offset against the above mentioned capital promise.

Dividend for the financial year 2013

On November 7, 2013, the Management Board of Telefónica Deutschland resolved and announced that it is intended to propose a cash dividend of approx. EUR 525m to the next ordinary General Meeting for the 2013 financial year. This equates to a dividend of about EUR 0.47 per share with dividend entitlement.

(12) TRADE PAYABLES, OTHER PAYABLES AND DEFERRED INCOME

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

	As of December 31			
	2013		2012	
(Euros in thousands)	**Non-current**	**Current**	**Non-current**	**Current**
Trade payables against third parties	-	450,511	-	379,402
Accruals	-	403,569	-	328,254
Payables to related parties (Note No. 24 Related Parties)	-	219,958	-	210,802
Trade payables	**-**	**1,074,038**	**-**	**918,458**
Other payables	**4,809**	**221,532**	**9,193**	**219,130**
Deferred income	**-**	**169,565**	**-**	**153,972**

Accruals relate mainly to outstanding invoices for goods and services.

Deferred income includes principally advance payments received on prepaid contracts.

The other payables comprise as follows:

	As of December 31	
(Euros in thousands)	**2013**	**2012**
Other creditors non-trade	56,577	63,665
Capital creditors	109,798	78,870
Other taxes and social security	22,933	41,535
Current other payables to related parties (Note No. 24 Related Parties)	30,575	31,096
Finance leasing (Note No. 30 Lease and Sublease Agreements)	1,649	3,964
Total current other payables	**221,532**	**219,130**
Other creditors non-trade	3,469	4,208
Finance leasing (Note No. 30 Lease and Sublease Agreements)	1,340	4,985
Total non-current other payables	**4,809**	**9,193**
Total other payables	**226,341**	**228,323**

Current other creditors non-trade consist mainly of liabilities due to personnel. Non-current other creditors non-trade mainly consist of liabilities for deferred rent-free units (non-current portion).

Capital creditors comprise essentially liabilities for outstanding invoices for non-current assets.

(13) PROVISIONS

The provisions were created with the following amounts:

	As of December 31	
(Euros in thousands)	**2013**	**2012**
Pensions	4,660	7,459
Other provisions	99,686	74,923
Total non-current provisions	**104,346**	**82,382**
Other provisions	3,513	7,000
Total current provisions	**3,513**	**7,000**
Total provisions	**107,858**	**89,382**

Pensions

IAS 19R introduces changes with regards to the recognition, valuation and presentation as well as the disclosure of post-employment benefits. For further information see Note No. 3 Accounting Policies.

Telefónica Deutschland Group has defined benefit plans. These include defined benefit rights against an external support fund (Gruppen-Unterstützungskasse), which is managed in accordance with its Articles of Association and from direct commitments. Currently, no direct commitments are provided to new employees.

The overriding investment policy and strategy for the defined benefit plans are based on the goal of generating returns from the plan assets as well as from the reimbursement rights deriving from reinsurance policies which, together with the contributions, are sufficient to meet the pension obligations.

The investment in the plan assets is carried out in reinsurance policies that are taken out directly by Telefónica Deutschland Group or indirectly by the support fund. The reimbursement rights from reinsurance policies result from reinsurance policies, which were not pledged to the employees.

The requirements for the financing of pension obligations arise from the financing strategy of the support fund and are anchored in its guidelines. The guidelines define that the expected defined benefit obligation will be settled by the support fund. They are fully financed by Telefónica Deutschland Group. Telefónica Deutschland Group provides the support fund with the necessary financial resources.

However, under its Articles of Association the fund must cease or reduce its payments if the company does not make or no longer makes the necessary financial resources available to the fund. In this case the employees can bring their legal right to post-employment benefits against Telefónica Deutschland Group.

The amount of the committed benefits for the defined benefit pension plans essentially depends on the basic salary of the individual employee during the period of employment. The benefits paid include old age pensions, payments for the inability to work and benefits in the event of death to surviving relatives.

In order to minimize the biometric risks of the committed benefits (such as an early benefits claim through invalidity or death of the beneficiary) the pension or promised retirement capital is covered to the full extent (congruent) or in part by reinsurance policies. In addition, the pledging of the reinsurance policies to the pension beneficiary acts as security for the claims of the beneficiary in the event of the insolvency of the sponsoring company.

This defined benefit plan is subject to actuarial and financial risks such as life expectancy and interest rate risk.

In the 2013 financial year the employer's share of the statutory pension insurance amounted to EUR 28.1m (2012: EUR 28.4m).

The following table contains the key data for the defined benefit plans:

	As of December 31	
(Euros in thousands)	**2013**	**2012**
Defined benefit obligation from funded plans	(82,663)	(71,927)
Defined benefit obligation from unfunded plans	(10,387)	(8,781)
Present value of the defined benefit obligation	**(93,050)**	**(80,708)**
Plan assets	91,132	73,389
Surplus / (deficit)	**(1,918)**	**(7,319)**
Effect of the asset ceiling	(2,741)	(140)
Net defined benefit liability	**(4,660)**	**(7,459)**
Reimbursement Rights	**6,473**	**6,690**

The development in the present value of the defined benefit obligation in 2013 and 2012 is as follows:

(Euros in thousands)	2013	2012
Defined benefit obligation as of January 1	**(80,708)**	**(55,739)**
Current service cost (personnel expenses)	(3,014)	(2,347)
Interest income/expense (financial result)	(3,367)	(2,944)
Remeasurement of defined benefit obligation	(5,877)	(21,380)
Thereof: actuarial gains and losses arising from changes in demographic assumptions	*34*	-
Thereof: actuarial gains and losses arising from changes in financial assumptions	*(7,969)*	-
Thereof: experience gains and losses	*2,058*	-
Benefits paid	769	1,126
Changes in business combinations and disposals	191	851
Others	(1,044)	(275)
Defined benefit obligation as of December 31	**(93,050)**	**(80,708)**

The present value of the defined benefit obligation is distributed as follows across the individual groups of those entitled to pensions:

	As of December 31	
(Euros in thousands)	**2013**	**2012**
Amounts owing to active members	(39,575)	(32,087)
Amounts owing to deferred members	(43,408)	(40,191)
Amounts owing to retirees	(10,068)	(8,431)
Defined benefit obligation	**(93,050)**	**(80,708)**

The fair value of the plan assets developed as follows in 2013 and 2012:

(Euros in thousands)	2013	2012
Fair value of plan assets as of January 1	**73,389**	**73,465**
Return on plan assets excluding amounts included in interest income	(266)	(2,386)
Interest income (Net financial income/expense)	3,221	3,638
Employer contributions	14,504	311
Benefits paid	(555)	(906)
Changes in business combinations and disposals	(261)	(858)
Others	1,099	125
Fair value of plan assets as of December 31	**91,132**	**73,389**

The return from plan assets would have been EUR 240k higher and the amount recorded directly in equity would have been EUR 240k lower if we had used the same interest rate in 2012 as that used in the valuation of the pension obligations.

If the company had not applied IAS 19R in 2013, the expected return from plan assets for financial year 2013 would have been higher than the interest calculated based on IAS 19R. Accordingly, the actuarial gains recognized in the other comprehensive income would have been lower. Based on the expected return from the plan assets as of December 31, 2012, the effect for the financial year 2013 would have amounted to EUR 19k (before taxes).

The effect of the asset ceiling developed as follows in 2013 and 2012:

(Euros in thousands)	2013	2012
Effect of the asset ceiling as of January 1	**140**	**17,050**
Change of the effect of asset ceiling	2,601	(16,910)
Effect of the asset ceiling as of December 31	**2,741**	**140**

The fair value of the reimbursement rights from insurance contracts developed in 2013 and 2012 as follows:

(Euros in thousands)	2013	2012
Fair value of reimbursement rights as of January 1	**6,690**	**6,425**
Return on reimbursement rights excluding amounts included in interest income	(63)	199
Interest income	281	257
Employer contributions	23	23
Benefits paid	(223)	-
Others	(234)	(192)
Fair value of reimbursement rights as of December 31	**6,473**	**6,690**

The net pension expense recognized in the Income Statement is comprised as follows:

	As of December 31	
(Euros in thousands)	**2013**	**2012**
Current service costs (personnel expenses)	3,014	2,347
Interest expense (income) (net financial income/expense)	146	(694)
Total amount of expense	**3,160**	**1,653**

The actual returns from plan assets for the financial year ending December 31, 2013 were EUR 2,955k and for 2012 EUR 1,252k.

The main actuarial assumptions on which the determination of the present value of the defined benefit obligation as of the reporting date are based are provided in the following (information in the form of average factors).

	As of December 31	
(in percent)	**2013**	**2012**
Discount rate	3.80%	4.20%
Nominal rate of pension payment increase	2.00%	2.00%
Fluctuation rate	[0%-20%]	[0%-20%]

The mortality rate underlying the calculation of the present value of the defined benefit obligation is based on official statistics and mortality tables. The mortality tables on which the actuarial calculation of the DBO as at the reporting date is based are the Heubeck Mortality Tables 2005G (Heubeck Richttafeln 2005G).

	As of December 31	
(in years)	**2013**	**2012**
Life expectancy at age 65 for a retiree currently	21	21
Life expectancy at age 40 for a deferred member currently	24	24

An increase or decrease in the main actuarial assumptions would have had the following effects on the present value of the defined benefit obligation as of December 31, 2013:

(Euros in thousands)		
Discount rate (+0.25% /-0.25%)	(5,104)	5,503
Nominal rate of pension payment increase (+0.50% /-0.50%)	4,740	(4,312)
Fluctuation rate (+1.00% /-1.00%)	(47)	47
Life expectancy (+1 year)	3,195	-

Increases and reductions in the discount rate and increases to pension payments do not have the same level of effect on the determination of the DBO due to the interest effects. If several assumptions are changed at the same time the overall effect will not necessarily correspond to the sum of the individual effects due to the changes in the assumptions. In addition, the sensitivity of a change in the DBO only reflects each specific order of magnitude in the change of assumptions (for example 0.25%). If the assumptions change by a different order of magnitude, the effect on the DBO does not necessarily have to be linear.

The following table contains information regarding the weighted average term of the present value of the defined benefit obligation as well as the analysis of the due date of expected payments:

(Euros in thousands)	January 1 to December 31, 2013
Benefits expected to be paid within 1 year	658
Benefits expected to be paid within 2 years	1,090
Benefits expected to be paid within 3 years	1,199
Benefits expected to be paid within 4 years	1,357
Benefits expected to be paid within 5 years	1,518
Benefits expected to be paid within 6 years and 10 years	10,611

The average of the expected term of the defined benefit obligation is 22 years.

The best estimate of the contributions that will be paid into the plan in the financial year ending December 1, 2014 amounts to EUR 7,994k.

Other provisions

Other provisions include provisions for dismantling, onerous contracts and other provisions.

The movement is as follows:

(Euros in thousands)	Dismantling	Onerous contracts	Other	Total
As of January 1, 2013	**55,694**	**26,000**	**229**	**81,923**
Additions	5,521	-	62	5,583
Utilization	(6,292)	(7,241)	-	(13,533)
Reversal	(43)	-	-	(43)
Transfers	-	-	-	-
Other	23,045	-	-	23,045
Unwinding of discount	1,631	4,593	-	6,224
As of December 31, 2013	**79,556**	**23,352**	**291**	**103,199**
thereof non-current	*79,556*	*19,839*	*291*	*99,686*
thereof current	-	*3,513*	-	*3,513*
As of January 1, 2012	**58,602**	**51,954**	**-**	**110,556**
Additions	157	6,952	-	7,109
Utilization	(6,739)	(22,755)	-	(29,494)
Reversal	-	-	-	
Transfers	-	(10,151)	229	(9,922)
Unwinding of discount	3,674	-	-	3,674
As of December 31, 2012	**55,694**	**26,000**	**229**	**81,923**
thereof non-current	*55,694*	*19,000*	*229*	*74,923*
thereof current	-	*7,000*	-	*7,000*

The provisions for dismantling obligations comprise the estimated costs for the dismantling and removal of assets (e.g. mobile masts and other fixed assets), based on the respective agreements.

The onerous contracts provision essentially includes expected losses from the sub-letting of leased objects. The expected utilization covers short and mid-term periods of time depending on the date of the rent payment and the rental income.

(14) REVENUES AND OTHER INCOME

Revenues

Revenues are comprised as follows:

(Euros in thousands)	January 1 to December 31	
	2013	**2012**
Rendering of services	4,224,252	4,515,041
Other sales	689,629	697,797
Total revenues	**4,913,881**	**5,212,838**

Revenues from the rendering of services include revenues from wireless service as well as revenues from wireline business. The remaining revenues include handset revenues and other revenues.

None of Telefónica Deutschland Group's customers accounts for more than 10% of total revenue.

The breakdown of revenues according to wireless business and wireline business is shown in the following table:

(Euros in thousands)	January 1 to December 31	
	2013	**2012**
Revenues		
Wireless business	3,673,043	3,845,053
Wireless service revenues	2,989,294	3,151,838
Handset revenues	683,749	693,215
Wireline business	1,234,958	1,363,203
Other revenues	5,880	4,582
Total revenues	**4,913,881**	**5,212,838**

Wireless service revenues

The wireless service revenues are largely based on the basic fee and the fees levied for voice (including incoming and outgoing calls), text messages (including SMS and MMS) and wireless data services as well as the revenues from service contracts. The wireless service revenues include, alongside roaming revenues, access and connection fees that were paid by other service providers for calls and SMS messages which were delivered via the group's network.

Handset revenues

Handset revenues include income from the sale of mobile phones as part of the "O_2 My Handy" model as well as cash sales.

The customer can choose with the "O_2 My Handy" model whether to pay the entire price of the mobile phone up front or to make an initial payment to start with and pay the remaining purchase price in twelve or 24 monthly installments.

Revenues from the "O_2 My Handy" model are discounted according to their term. In addition, the revenues include one-off payments such as activation fees from the wireless communications business (mainly postpaid), hardware for bundled products from prepaid SIM cards and wireless communications hardware or postpaid contracts as well as accessories.

Wireline business revenues

Wireline business revenues mainly include revenues from DSL services for private customers, DSL activation fees for private customers, revenues from DSL hardware and non-recurring items (e. g. fees for change of address, number transfers, etc.), services and hardware revenues from pay TV, revenues from wholesale ULL, also called wholesale DSL, revenues from the sale of the company's own DSL network, from services and from hardware to other service providers who re-bundle these and sell them on to end customers, data traffic revenues from carriers in connection with the sale and trade of minutes between carriers to connect their customer calls via the networks of other operators as well as revenues from the hosting of customer content on the company's own computer center infrastructure and from associated administrative services such as the use of this infrastructure to host applications that were developed and are operated by third parties. In addition, DSL revenues also include fixed line revenues.

Other revenues

Other revenues relate to new business, such as advertising and financial services, e.g. "O_2 More Local" mobile location-based services or "mpass" mobile payment system.

Other income

Other income comprised the following in 2013 and 2012:

(Euros in thousands)	January 1 to December 31	
	2013	2012
Own work capitalized and ancillary income	92,843	60,596
Gain on disposal of assets	76,179	210
Other income	**169,022**	**60,806**

The own work capitalized and ancillary income mainly includes direct labor used as well as the allocable portion of indirect costs in connection with investments in non-current assets.

The gain on disposal of assets mainly includes the gains of EUR 76,163k from the sale of Telefónica Germany Online Services GmbH (TOS) and GKHH Fibre Optic GmbH. For further information see Note No. 19 Discontinued Operations and Disposal Groups.

(15) PERSONNEL EXPENSES

In financial year 2013, personnel expenses amounted to EUR 418,647k (2012: EUR 421,764k). Personnel expenses from share-based payments is presented in Note No. 26 Share-based Payments; personnel expenses relating to pension plans are presented in Note No. 13 Provisions.

Since January 1, 2013 as well as in the comparative prior year period Telefónica Deutschland Group has reported expenses for external personnel services in other expenses whereas these expenses were recorded within the personnel expenses in the short-term employee benefits line item in the Consolidated Financial Statements for the financial year ending December 31, 2012. In 2013 expenses for external personnel services of EUR 46,429k were incurred (2012: EUR 42,769k). The presentation used improves the clarity of the information provided in the Consolidated Financial Statements.

(16) OTHER EXPENSES

The other expenses mainly comprise of costs for sales and marketing, infrastructure, administration and other external services.

(17) NET FINANCIAL INCOME / (EXPENSE)

The breakdown of net financial income / (expense) is as follows:

(Euros in thousands)	January 1 to December 31	
	2013	2012
Interest income from financial assets	6,349	12,068
Other interest income	-	3,610
Interest expenses from financial liabilities	(28,955)	(18,622)
Accretion of provisions and other liabilities	(4,453)	(2,763)
Other exchange gains (losses)	87	(416)
Net financial income (expense)	**(26,972)**	**(6,123)**

The interest income from financial assets mainly comprises the interest income in connection with “O_2 My Handy” receivables.

The interest expenses from financial liabilities mainly includes the interest expense for the loan granted from Telfisa Global B. V. in September 2012 (see Note No. 24 Related Parties).

(18) INCOME TAXES

Consolidated income tax group

The consolidated income tax group comprised six companies as of December 31, 2013 (six in 2012).

Current and deferred taxes

The income taxes recorded in the Consolidated Income Statement essentially comprise deferred taxes. The reported current taxes relate to capital gains tax refunds from previous years:

	January 1 to December 31	
(Euros in thousands)	**2013**	**2012**
Current tax (expense)	17	-
Deferred tax (expense)	(584)	167,756
Income tax (expense)	**(567)**	**167,756**

The movements in deferred taxes are as follows:

(Euros in thousands)	**2013**	**2012**
Balance as of January 1	**581,191**	**412,033**
Deferred tax expense	(584)	167,756
Movement in deferred taxes recognized directly in equity as shown in the consolidated statement of comprehensive income	2,916	1,427
Other	-	(25)
Balance as of December 31	**583,523**	**581,191**

Tax loss carry forwards and temporary differences

Tax losses carried forward for which no deferred tax asset was reported as of December 31, 2013, amounted to EUR 12,000,260k for corporate income tax and EUR 11,976,350k for trade tax (2012: EUR 11,222,741k and EUR 11,239,147k). For temporary differences of EUR 353,771k in 2013, EUR 565,122k in 2012, no deferred tax asset were recognized.

Temporary differences arise due to the difference between the tax bases of the assets and liabilities and their respective carrying amounts. Deductible temporary differences and tax losses carried forward give rise to deferred tax assets in the Consolidated Statement of Financial Position. Taxable temporary differences in tax bases give rise to deferred tax liabilities in the Consolidated Statement of Financial Position.

The breakdown of deferred tax assets and tax liabilities from temporary differences and tax losses carried is as follows:

	As of December 31			
	2013		2012	
(Euros in thousands)	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Goodwill and intangible assets	906,353	(163,432)	891,684	(80,486)
Tangible assets	71,017	(343,755)	-	(327,255)
Trade and other receivables	4,946	(24,401)	116,446	(441)
Other current financial assets	10,494	(4,328)	11,413	(49,564)
Debt, trade and other payables	6,607	(11,290)	1,138	(114,675)
Provisions including pension provisions	28,607	(1,327)	34,410	(5,173)
Other current financial liabilities	2,296	(3,866)	4,210	(2,319)
Tax loss carryforwards	105,604	-	101,802	-
Tax assets (liabilities)	**1,135,924**	**(552,400)**	**1,161,103**	**(579,913)**
Set off of tax	(552,400)	-	(579,913)	579,913
Tax assets (liabilities)	**583,523**	**-**	**581,191**	**-**

Reconciliation of profit before tax to taxable income

The reconciliation between profit before tax and taxable income for 2013 and 2012 is as follows:

	As of December 31	
(Euros in thousands)	**2013**	**2012**
Profit before tax from continuing operations	**78,379**	**139,768**
Tax expense at prevailing statutory rate (32%)	(25,081)	(44,628)
Non-deductible expenses	(9,500)	(9,429)
Tax free income	-	85,095
Change in unrecognized temporary differences and tax loss carryforwards	36,759	135,571
Other	(2,744)	1,147
Income tax (expense)	**(567)**	**167,756**
Current tax expense	17	-
Deferred tax (expense)	(584)	167,756
Total income tax (expense)	**(567)**	**167,756**

(19) DISCONTINUED OPERATIONS AND DISPOSAL GROUPS

a) Disposal group in 2013:

Sale Telefónica Germany Online Services GmbH (TOS):

On September 12, 2013, Telefónica Germany GmbH & Co. OHG and Host Europe GmbH entered into an agreement regarding the sale of Telefónica Germany Online Services GmbH (TOS). TOS is a provider of managed hosting and cloud services for business customers. In this context, the domination agreement and the profit and loss transfer agreement between TOS and Telefónica Germany GmbH & Co. OHG were mutually terminated on September 30, 2013.

With the fulfillment of all the necessary closing conditions, the shares in TOS were transferred to the Host Europe Group on October 31, 2013.

The sale of TOS impacted the financial position of the Group with effect from October 31, 2013 as follows:

(Euros in thousands)	**As of October 31, 2013**
Intangible assets	267
Property, plant and equipment	5,194
Trade and other receivables	3,713
Financial assets	1,379
Deferred tax assets	0
Trade and other payables	(2,187)
Deferred tax liabilities	(94)
Provisions	(66)
Prepaid expenses and deferred income	(290)
Net assets and liabilities	**7,916**
Cash consideration received, satisfied in cash	42,000
Cash and cash equivalents disposed of	(4,404)
Net cash inflow	**37,596**

In connection with the sale of TOS, a gain on disposal of EUR 30.0m was recognized in the Consolidated Income Statement within other income.

b) Disposal group in 2013

Versatel and Telefónica Deutschland agree long-term fiber optics cooperation

On December 30, 2013, Versatel Holding GmbH took over all shares in GKHH Fibre Optic GmbH pursuant to the share purchase and transfer agreement dated October 16, 2013. By means of a spin-off for new foundation out of Telefónica Germany GmbH & Co. OHG in accordance with section 123 (3) no. 2 of the German Transformation Act (Umwandlungsgesetz –

UmwG), GKHH Fibre Optic GmbH was created with registration in the commercial registry on December 4, 2013. Thus, Telefónica Deutschland's fiber optic network in the Hamburg city area with approx. 93,000 kilometers of fiber and accordingly 1,000 cable kilometers, a newly built computer center as well as selected wholesale and business customer contracts were spun out of Telefónica Germany GmbH & Co. OHG.

The sale of GKHH Fibre GmbH impacted the financial position of the Group with effect from December 30, 2013 as follows:

(Euros in thousands)	**As of December 31, 2013**
Intangible assets	7,471
Property, plant and equipment	15,298
Trade and other receivables	2,042
Provisions	(21)
Financial assets	(6,081)
Other payables	(33)
Prepaid expenses and deferred income	(75)
Net assets and liabilities	**18,601**
Cash consideration received, satisfied in cash	69,072
Cash and cash equivalents disposed of	0
Net cash inflow	**69,072**

In connection with this sale, a gain on disposal of EUR 46.2m was recognized in the Consolidated Income Statement within other income.

c) Discontinued operations in 2012

In financial year 2012, Telefónica Deutschland Group sold with effective date October 1, as part of a single sale transaction

- its entire Global Services Segment as well as
- the legal entities Group3G UMTS Holding GmbH and Quam GmbH.

The companies in the Global Services reportable segment (comprising Telefónica Global Services GmbH (TGS), Telefónica Global Roaming GmbH (TGR), Telefónica Compras Electronicas S.L. and the 40% interest in Adquira España, S. A.) as well as the Group3G UMTS Holding GmbH (G3G) and Quam GmbH (Quam) were sold as of October 1, 2012. All shares in these companies were held by Telefónica Global Activities Holdings B.V. (formerly: Telefónica Chile Holding B.V.). Before the IPO, Telefónica Deutschland Holding AG sold all shares in Telefónica Global Activities Holdings B.V. to Telfisa Global B.V., a company in the Telefónica, S. A. Group. Following the sale, Telefónica Global Activities Holdings B.V. and all other companies referred to above were no longer Group companies.

On July 1, 2012, Management committed to the plan to sell these areas following the strategic plan to focus on the key competencies of the Group – the telecommunications business in Germany. The companies included in the transaction were classified in 2012 as discontinued operations.

For the first nine months of the 2012 financial year, the discontinued operations of Telefónica Deutschland Group were reported in the Consolidated Financial Statements separately from the continuing operations. The following table shows the breakdown of the result of the discontinued operations:

(Euros in thousands)	January 1 to December 31, 2012
Revenues	412,629
Other income	8,401
Finance income	24,826
Supplies	(409)
Personnel expenses	(17,092)
Other expenses	(11,696)
Depreciation and amortization	(2,574)
Finance costs	(22,928)
Profit before tax from discontinued operations	**391,157**
Income tax	143,962
Profit for the year from discontinued operations	**535,119**
Gain (loss) recognized on the measurement to fair value less costs to sell	-
Gain (loss) recognized on the disposal of the disposal group constituting the discontinued operations	491,911
Related income tax expenses	-
Profit from discontinued operations	**1,027,030**

The reported business activities include all global procurement activities. Telefónica Global Services GmbH acted as an agent for all companies on group-level by pooling the composite demand of each group entity. This bargaining power opposite to the suppliers generates for the Group economies of scale. To ensure a group-wide smoothly running tender and proposal proceeding, Telefónica Global Services GmbH and its suppliers are able to use an electronic data processing system provided by Telefónica Compras Electronicas S.L. Telefónica Global Services GmbH received commissions from the suppliers depending on the order volume for the service offered. The handling of the purchasing process, meaning delivery and payment, was settled between the supplier and the individual entity of Telefónica Deutschland Group.

Adquira España S. A. was established in 2000 by four Spanish companies (Telefónica, BBVA, Iberia, Repsol), in order to bundle and optimize their purchasing process.

Over the last decade, Adquira has developed into a specialist in the area of e-commerce. Adquira focuses on the support and optimization of the buying process by using its data platform and keeping it updated. The company is able to revert to a comprehensive data base with more than 4,500 suppliers in Spain. Thus every customer of Adquira can select its products from a broad range and thus maximize economies of scale.

Telefónica Global Roaming GmbH is responsible for the international business of the Telefónica, S. A. Group and delivers integrated fixed, mobile and IT services. The company manages the roaming business of the Group with the goal of being able to offer customers optimal and individually tailored roaming services.

The disposal of the discontinued business segments affected the financial position of the Group as follows:

(Euros in thousands)	As of December 31, 2012
Intangible assets	2,308
Property, plant and equipment	254
Non-current financial assets	2,794
Inventories	28
Trade and other receivables	379,628
Cash and cash equivalents	145,554
Deferred tax assets	155,000
Trade and other payables	(444,217)
Provisions	(29,457)
Deferred tax	(803)
Net assets and liabilities	**211,089**
Cash consideration received, satisfied in cash	703,000
Cash and cash equivalents disposed of	145,554
Net cash inflow	**557,446**

(20) EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year after tax attributable to the ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the reporting period.

Diluted earnings per share are calculated by adjusting the profit after tax attributable to the ordinary shareholders of the parent company and the weighted average number of ordinary shares outstanding in the reporting period for the effects of any dilutive effects inherent in converting potential ordinary shares. During the reporting period there were no dilutive equity instruments outstanding.

The share capital of Telefónica Deutschland Holding AG is conditionally increased by up to EUR 558,472,700 by issuing new registered shares (see Note No. 11 Equity). Shares from the conditional capital of a stock corporation are not part of the calculation of the earnings per share as they can be contingently issued.

Both basic as well as diluted earnings per share attributable to the ordinary shareholders of the parent company are calculated based on the following data in accordance with IAS 33.

	January 1 to December 31	
(Euros in thousands)	**2013**	**2012**
Profit attributable to ordinary equity holders of the parent from continuing operations	77,813	307,523
Profit attributable to ordinary equity holders of the parent from discontinued operations	-	1,027,030
Total profit attributable to equity holders of the parent for basic earnings	77,813	1,334,553
Dilutive effects of the conversion of potential ordinary shares	-	-
Total profit attributable to equity holders of the parent for diluted earnings	77,813	1,332,553

	As of December 31	
(Number of shares in thousands)	**2013**	**2012**
Weighted average number of ordinary shares for basic earnings per share	1,116,945	1,117,001
Telefónica Deutschland Group share option plan	-	-
Weighted average number of ordinary shares for diluted earnings per share	1,116,945	1,117,001

Basic and diluted earnings per share attributable to the ordinary shareholders of the parent company can be broken down by continuing and discontinued operations as follows:

	January 1 to December 31	
(Earnings per share)	**2013**	**2012**
Basic earnings per share in EUR	**0.07**	**1.20**
-from continuing operations	0.07	0.28
-from discontinued operations	-	0.92
Diluted earnings per share in EUR	**0.07**	**1.20**
-from continuing operations	0.07	0.28
-from discontinued operations	-	0.92

(21) SEGMENT INFORMATION AND RECONCILIATION

General information

As of December 31, 2013, Telefónica Deutschland Group only has the reportable segment Telecommunications in accordance with IFRS 8. Up until September 30, 2012 Telefónica Deutschland Group consisted of two reportable segments: Telecommunications and Global Services. The companies of the Global Services segment and Group3G UMTS Holding GmbH (G3G) as well as Quam GmbH (Quam) were sold in the previous year with effect of October 1, 2012 (see Note No. 19 Discontinued Operations and Disposal Groups).

The measurement principles that were used by Telefónica Deutschland Group in this segment reporting are based on IFRS. These principles are also the basis for the segment performance assessment. Because Telefónica Deutschland Group operates exclusively in the Federal Republic of Germany, a geographic segmentation is not suitable for the Group.

The Management Board of Telefónica Deutschland Holding AG acts as the chief operating decision-maker on a group-wide basis, and it assesses performance and allocates resources on Group level. The chief operating decision-maker controls the performance by OIBDA of the Group as a performance indicator.

Telecommunications segment

Telefónica Deutschland Group offers its German customers wireless communications, wireline and internet services and offers its wholesale partners in Germany in addition access to its infrastructure and services.

Telefónica Deutschland Group markets its products as part of a multi brand strategy and offers the majority of its wireless communications products, wireline products and services under the core O_2 brand. With secondary and partner brands as well as wholesale channels, the Telefónica Deutschland Group reaches further customer groups to whom the core O_2 brand does not appeal. The secondary brands include the fully controlled brands Fonic and netzclub as well as brands from joint operations and strategic partnerships such as for example TCHIBO mobil and Türk Telekom Mobile. In addition, the Group markets high-speed DSL internet access and wireline telephony. The multi brand approach enables the Group to address a broad spectrum of customers and to maximize the sales range through customized product offers, sales and marketing.

As part of its wholesale business, Telefónica Deutschland Group offers wireless communications, wireline and added value services for customers such as 1&1, mobilcom /debitel, Drillisch, Kabel Deutschland and Unitymedia KabelBW. In the wireline area, the Group makes a range of Unbundled Local Loop services (ULL), including wireline telephony and high-speed internet available to wholesale partners. Further, added value services such as e.g. invoicing services or the management of telephone numbers and SIP accounts are offered. This comprehensive portfolio enables the wholesale partners to independently service their end-customers and at the same time provides the Group the opportunity to expand coverage and achieve economies of scale.

It is the goal of Telefónica Deutschland Group to provide its customers with access to telecommunications and information areas and thus to offer technology, multimedia, information and entertainment. In addition, associated services such as the sale of hardware are offered. Telefónica Deutschland Group promotes the sale of hardware via its core brand O_2 with the "O_2 My Handy" models (since 2009). So that a broad hardware spectrum such as mobile phones, wireless communications hardware and other technical accessories can be offered, the customers can avail themselves of attractive payment methods such as payment by installments over twelve or 24 months. This generates price transparency with respect to costs.

Disposal of the Global Services segment in 2012

Legally effective as of October 1, 2012, the Global Services segment was sold. Details are provided in Note No. 19 Discontinued Operations and Disposal Groups.

Operating income before depreciation and amortization (OIBDA) and the operating income before depreciation and amortization and before Group fees (adjusted OIBDA)

Operating income before depreciation and amortization (OIBDA), which the Group uses as a performance indicator, is calculated as operating income before income tax, financial result and depreciation of intangible assets and property, plant and equipment and measures the earnings power of the operative business. The advantage of this key figure is the elimination of potential differences that can be caused by fluctuations in the tax positions (for example on a change of effective tax rates or deferred taxes and their effect on individual periods of companies), depreciation, financial result and other positions. Thus OIBDA and the OIBDA margin derived therefrom are often called upon as a performance figure in order to compare the business activity of telecommunications companies.

In addition the adjusted OIBDA is used as an additional figure to measure the performance of the company as well as to set operative and strategic goals. The adjusted OIBDA is calculated in the same way as the OIBDA, however it does not include Group fees. This makes a better period comparison of the operating performance possible. The adjusted OIBDA is a common figure in reports and is widely used by analysts, investors and other interested parties in the telecommunications branch, although it is not explicitly defined in IFRS and thus cannot necessarily be compared with similar indicators of other companies. The adjusted OIBDA should not be seen as an alternative to the operative result as a key indicator of the operative activity or as an alternative to cash flow from current operations as a key indicator of liquidity.

Group fees are fees that were paid to Telefónica, S. A. Group as part of a number of agreements, including management and consultancy services, licenses, cost allocation and other services.

The following tables show each reportable segment and the reconciliation of profit for Telefónica Deutschland Group for the 2013 and 2012 years ended December 31.

Key figures from the reportable segments

	January 1 to December 31, 2013	January 1 to December 31, 2012				
(Euros in thousands)	**Telecom-munications= Group**	**Telecom-munications**	**Global Services (discontinued)**	**Total**	**Reconciliations**	**Group**
Revenues	4,913,881	5,212,838	412,629	5,625,467	(412,629)	5,212,838
Thereof: Revenues from external customers	4,913,881	5,212,838	394,958	5,607,796	(394,958)	5,212,838
Thereof: Revenues from transactions with other operating segments	-	-	17,671	17,671	(17,671)	-
Adjusted OIBDA	1,398,029	1,351,385	411,184	1,762,570	(411,192)	1,351,377
CapEx	665,884	608,838	275	609,114	(275)	608,838

Reconciliation

Revenue reconciliation (Euros in thousands)	January 1 to December 31	
	2013	**2012**
Total revenues of reportable segments	4,913,881	5,625,467
-Elimination of intersegmental revenues (from discontinued operations)	-	17,671
-Other eliminations of discontinued operations	-	394,958
=Consolidated revenues	4,913,881	5,212,838

Income reconciliation (Euros in thousands)	January 1 to December 31	
	2013	**2012**
Adjusted OIBDA of reportable segments	1,308,029	1,762,570
+/- Adjusted OIBDA of other activities (G3G and Management GmbH)	-	8
-Adjusted OIBDA from discontinued operations	-	411,176
=Adjusted OIBDA of group (continuing operations)	**1,308,029**	**1,351,385**
-Group fees	(70,929)	(72,311)
=OIBDA of group (continuing operations)	**1,237,100**	**1,279,074**
-Depreciation and amortization	(1,131,749)	(1,133,183)
=Operating income (continuing operations)	**105,351**	**145,891**
+/- Net financial income (expense)	(26,972)	(6,123)
=Profit before tax from continuing operations	**78,379**	**139,768**

Capital expenditure (CapEx)

The net additions are comprised as follows:

Capital expenditure reconciliation (Euros in thousands)	2013	2012
Total CapEx for reportable segments	665,884	609,114
-CapEx for discontinued operations	-	275
-Eliminations	-	-
=CapEx total	**665,884**	**608,838**
+Non-recurring investments	-	-
=Additions fixed assets / intangibles	**665,884**	**608,838**

(22) GROUP COMPANIES OF THE TELEFÓNICA DEUTSCHLAND GROUP

The following table lists the companies comprising Telefónica Deutschland Group as of December 31,2013:

Company name, registered office	**Country**	**As of December 31, 2013**
Parent company		
Telefónica Deutschland Holding AG, Munich	Germany	n/a
Subsidiaries		
Telefónica Germany Management GmbH, Munich	Germany	100%
Telefónica Germany GmbH & Co. OHG, Munich[1]	Germany	100%
Telefónica Germany 1. Beteiligungsgesellschaft mbH, Munich	Germany	100%
Telefónica Germany Customer Services GmbH, Munich	Germany	100%
Wayra Deutschland GmbH, Munich	Germany	100%
Fonic GmbH, Munich	Germany	100%
O_2 Telefónica Deutschland Finanzierungs GmbH, Munich (former: Telefónica Deutschland Finanzierungs GmbH)	Germany	100%
Joint operations		
TCHIBO Mobilfunk Beteiligungs GmbH, Hamburg	Germany	50%
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg	Germany	50%

1 Telefónica Germany GmbH & Co. OHG, Munich, is availing itself of the exemption provisions governing disclosures pursuant to section 264b HGB.

(23) JOINT OPERATIONS

Telefónica Germany GmbH & Co. OHG jointly controls TCHIBO Mobilfunk Beteiligungs GmbH, Hamburg, and TCHIBO Mobilfunk GmbH & Co. KG, Hamburg. In application of IFRS 11.17 and the respective application guidelines, the companies were classified as joint operations considering other facts and circumstances.

The business objective of TCHIBO Mobilfunk Beteiligungs GmbH is the holding of interests in other companies. The business objective of TCHIBO Mobilfunk GmbH & Co. KG, where TCHIBO Mobilfunk Beteiligungs GmbH is its personally liable shareholder, is the marketing and sales of wireless communications services to be rendered by third parties and the marketing and sales of hardware.

As part of the joint operation in TCHIBO Mobilfunk GmbH & Co. KG, Telefónica Germany GmbH & Co. OHG reimburses the company for sales and marketing services provided by the latter, on the one hand and otherwise supplies the company with wireless communications devices. Telefónica Germany GmbH & Co. OHG has committed to provide the company with capital amounting to up to EUR 6m, if needed. As of December 31, 2013, EUR 1.4m of that amount was still outstanding.

The share of the assets, liabilities and expenses and income to be attributed to Telefónica Deutschland Group from both companies corresponds in each case to 50%. Thus the actual share is identical to the contractually agreed share of voting rights.

The shares of assets, liabilities, income and expenses before consolidation for the 2013 and 2012 years are comprised as follows:

TCHIBO Mobilfunk GmbH & Co. KG (Euros in thousands)	**2013**	**2012**
Financial Position:	**As of December 31**	
Current assets	15,534	44,814
therein cash and cash equivalents	*6,266*	*8,148*
Non-current assets	332	261
Current liabilities	(11,496)	(41,227)
Non-current liabilities	-	-
Income Statement:	**January 1 to December 31**	
Revenues and other income	28,908	26,091
Expenses	(28,394)	(25,598)
thereof: amortization and depreciation	*(166)*	*(146)*
Operating income	514	493
Net financial income (expense)	10	6
Income tax	(3)	-
Profit for the year	522	499

TCHIBO Mobilfunk Beteiligungs GmbH (Euros in thousands)	**2013**	**2012**
Financial Position:	**As of December 31**	
Current assets	100	72
therein cash and cash equivalents	*28*	*21*
Non-current assets	-	-
Current liabilities	(81)	(54)
Non-current liabilities	-	-
Income Statement:	**January 1 to December 31**	
Revenues	1	-
Expenses	-	-
Operating income	1	-
Profit for the year	1	-

(24) RELATED PARTIES

The transactions with related parties include transactions between Telefónica Deutschland Group and Telefónica, S. A. Group. In addition the transactions with related parties also include transactions between the Telefónica Deutschland Group and the members of the Management Board and Supervisory Board of Telefónica Deutschland and their close family members (for definition of key management personnel in 2012, see item b)).

Telefónica Germany Holdings Limited, Slough, United Kingdom, a subsidiary of O2 (Europe) Limited, itself a subsidiary of Telefónica, S. A., is the parent company of Telefónica Deutschland Holding AG. Telefónica, S. A. Group is a related company because Telefónica, S. A. (the ultimate parent company) controls Telefónica Deutschland Group.

Transactions with Telefónica, S. A. Group

Telefónica Deutschland Group has entered into a series of contractual relationships that are considered to be transactions with related parties.

In accordance with a service agreement with O2 Holdings Limited dated August 12, 2002, Telefónica Germany GmbH & Co. OHG receives consulting and support services from companies of Telefónica, S. A. Group in the United Kingdom and Spain.

As part of a license agreement with Telefónica, S. A. dated January 1, 2011, Telefónica Germany GmbH & Co. OHG is permitted to use the brand “Telefónica” in return for payment of a licensing fee.

In addition Telefónica Germany GmbH & Co. OHG uses the core brand O_2 (as well as all brands that have a relationship to the O2 brand) of O2 Holdings Limited as part of a license agreement and participates in the costs as part of a Group cost sharing agreement with O2 Holdings Limited and other companies in the Telefónica, S. A. Group. Both contracts were concluded on October 15, 2007. O2 Holdings Limited holds the rights to the core brand O_2 and all brands that have a relationship to the O_2 brand and bears the responsibility and the cost for the central administration and development and the protection of the O_2 trademark rights.

Telefónica, S. A. Group has established several departments called “innovation fields”, that are working on the development of new business opportunities and technology in the following areas: cloud computing, propagation of video and digital content via home networks, machine to machine communication, applications, financial services, wireless security solutions and e-health. As part of a cost sharing agreement, Telefónica Germany GmbH & Co. OHG participates in the associated development and coordination costs, which are apportioned to the companies belonging to Telefónica, S. A. Group that benefit from these developments.

Further, Telefónica Germany GmbH & Co. OHG concluded a service agreement with Telefónica Global Roaming GmbH (TGR) that became effective on December 5, 2009. TGR administers the wholesale roaming business with third parties as well as the mutual roaming rebates for the Group companies of the Telefónica, S. A. Group. For the roaming agreements with all companies of the Telefónica, S. A. Group, Telefónica Germany GmbH & Co. OHG concluded international roaming agreements.

Telefónica Deutschland Group benefits from international sales and marketing activities that are coordinated by Telefónica Multinational Solutions (TMS), a global Telefónica, S. A. Group business unit. TMS has its own central budget and employees on the level of the Telefónica, S. A. Group. Further, all participating companies of the Telefónica, S. A. Group make an array of employees and resources available for the activities of TMS.

With effect as of May 17, 2013, a contract (Master Service Agreement) was concluded between Telefónica Germany GmbH & Co. OHG and Telefónica International Wholesale Services, S.L. (TIWS). The contract governs the conditions for the procurement of VPN site networking via TIWS as part of the global mWAN project.

On December 13, 2010, Telefónica Germany GmbH & Co. OHG concluded a development and service contract with Telefónica Global Technology S.A.U. (TGT) regarding the introduction of a SAP system. TGT grants the companies licenses for various functions of the SAP software. In addition TGT provides among other things development services as well as master data management, user support services and access services. On May 3, 2011 a further agreement with TGT regarding the provision and operation of an integrated desktop workspace and e-mail system for the business was concluded. In accordance with this agreement, TGT makes software as well as tools, network linking and IP communication services available to the business.

In addition, on August 1, 2011 Telefónica Germany GmbH & Co. OHG concluded a contract with Telefónica Global Applications S.L. (TGA) under which TGA is contracted by the business to be responsible for cooperation with the developers in connection with the development, marketing and sales of wireless communications applications. The contract was terminated with effect as of June 30, 2013.

Two further contracts were concluded with Telefónica Czech Republic, a.s. (Telefónica Czech). In accordance with these, Telefónica Czech renders monitoring services for Telefónica Germany GmbH & Co. OHG’s wireline networks; Telefónica Germany GmbH & Co. OHG renders monitoring services for Telefónica Czech’s wireless communications network. Both contracts date from August 29, 2011.

As part of an interconnection contract with the Telefónica Group company Telefónica Digital Inc. (formerly Jajah, Inc.), Telefónica Digital Inc. was connected to the Group’s network and Telefónica Germany GmbH & Co. OHG to the network of Telefónica Digital Inc. The goal is the scheduling of voice and data traffic in the relevant networks as well as the transfer to the network of a third party where the third party’s network is connected to that party’s network.

On October 24, 2010, Telefónica Germany GmbH & Co. OHG concluded a service contract with the Irish Telefónica Europe People Services Limited, which provides for the rendering of services in the area of operative personnel management as well as wage and employment related services. A new contract is currently being negotiated.

In addition, on January 1, 2010 Telefónica Germany GmbH & Co. OHG concluded a framework contract with Telefónica Global Services GmbH (TGS) and on October 20, 2010 a framework contract with TGR. Telefónica Germany GmbH & Co. OHG in this respect has individual service agreements with TGR and TGS under which it renders central services and operative support for TGR and TGS.

As part of the service agreement with TGS dated October 6, 2010, Telefónica Germany GmbH & Co. OHG has outsourced its procurement process to TGS. TGS carries out the purchasing of various goods and services on behalf of the company and is responsible for everything associated with the procurement processes including tenders, evaluations and negotiations.

As part of a purchasing contract dated September 27, 2012 which entered into force on October 1, 2012 at 0:00 a.m., Telefónica Germany GmbH & Co. OHG sold all its shares in Telefónica Global Activities Holding B.V. (formerly Telefónica Chile Holding B.V.) to Telfisa Global B.V., a subsidiary of the Telefónica, S. A. The total purchase price was EUR 703m. Following this sale, Group 3G UMTS Holding GmbH (G3G), Quam GmbH and TGS, together with their subsidiaries TGR, Telefónica Compras Electronica S.L. and the indirect 40% stake in Adquira España S. A., were no longer Group companies of the Telefónica Deutschland Group.

Before the sale of all of its shares in Telefónica Global Activities Holdings B.V., Telefónica Germany GmbH & Co. OHG (i) contributed all its rights and obligations under a loan contract with G3G via TGS to TGR and (ii) contributed to Telefónica Global Activities Holdings B.V. all its shares in its direct and indirect subsidiaries (G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and the indirect 40% share in Adquira España S. A.).

As of September 30, 2012 at 12:00 p.m., all existing profit and loss transfer agreements between Telefónica Germany GmbH & Co. OHG and G3G, Quam, TGS and TGR were terminated. The creditors of G3G, Quam, TGS and TGR are entitled to demand from Telefónica Germany GmbH & Co. OHG the provision of security for receivables from these companies that arose before registration of the termination of the relevant profit and loss transfer contract in the Company Registry. Before the termination of the contract, prepayments of expected profits of EUR 854.5m were made in 2012 as part of these contracts (less a prepayment from an expected obligation to assume a loss from these profit and loss transfer agreements). In accordance with the share sale agreement with Telfisa Global B.V., which is the corporate law basis for the termination of the profit and loss transfer agreements, the total net amount of each additional profit payment to Telefónica Germany GmbH & Co. OHG, just like the total net amount of every repayment or additional assumption of loss by Telefónica Germany GmbH & Co. OHG, is neutralized from a financial viewpoint in that a corresponding purchase price adjustment for the shares in Telefónica Global Activities Holdings B.V. is made. In 2013 this resulted in a repayment claim of in total EUR 7.2m to Telefónica Germany GmbH & Co. OHG. This was settled with effect as of December 30, 2013 by Telfisa Global B.V.

With effect as of October 31, 2013, Telefónica Germany GmbH & Co. OHG sold its shares in Telefónica Germany Online Services GmbH (TOS) to Host Europe GmbH. With effect as of September 30, 2013, the existing profit and loss transfer agreement between Telefónica Germany GmbH & Co. OHG and TOS was terminated.

Telefónica Germany GmbH & Co. OHG maintains insurance policies from Telefónica Insurances S. A., an insurance company in the Telefónica, S. A. Group registered in Luxemburg, for insurance against damage to property and business interruption (including Internet risks and criminality), for general public liability insurance, insurance for pure financial loss and public liability insurance for media content. The insurance program is administered and carried out by Pleyade Peninsular Correduria de Seguros, S. A. in Madrid, which likewise belongs to the Telefónica, S. A. Group. On the recommendation of the insurance broker, the existing insurance contracts with Telefónica Insurance S. A. for general liability, financial loss and media content as well as damages resulting from a breach of patent, employment law and pension related disputes were terminated with effect as of June 30, 2013. The policies for the above-mentioned risks were then concluded with a non-Group third party insurance company (Mapfre Global Risks S. A.) with effect as of July 1, 2013. The existing contract, which covers all risks for telecommunications operators, continues unchanged with Telefónica Insurance S. A. The costs arising in 2013 were reimbursed to Telefónica Germany GmbH & Co. OHG by Telefónica Europe plc.

In the framework of cash pooling and deposit agreements, Telefónica Deutschland Holding AG and its subsidiaries are included in the cash management system of Telefónica, S. A. Group. The cash funds of the Telefónica, S. A. Group are centralized via these agreements. In this way the economics of scale of the entire Telefónica, S. A. Group can be used, and use can likewise be made of the internal administration of the receivables and liabilities between Telefónica Deutschland Group and the participating Group companies of Telefónica, S. A. Group. As part of the cash pooling agreements, the total cash surpluses in the bank accounts of the companies in the cash pool are automatically transferred daily to master accounts of Telfisa Global B.V. (in the previous year to master accounts of Telefónica Finanzas S. A. up until September 30, 2012), which is a subsidiary of Telefónica, S. A.

On September 12, 2012, Telefónica Germany GmbH & Co. OHG concluded a loan contract with Telfisa Global B.V., a company in the Telefónica, S. A. Group, as lender, under which Telfisa Global B.V. grants a credit facility (facility) in the amount of EUR 1.25bn; this facility carries interest at the level of the three-month Euribor plus a margin of 120 basis points, increased annually by 40 basis points. The interest is calculated daily from the date of drawdown of funds, whereby a year is recorded as 360 days. The facility is repayable until 2017 at the level of 20% annually. Telefónica Germany GmbH & Co. OHG is entitled to fully or partially repay the facility with repayments of at least EUR 100k on each interest date or on condition that a market-based break fee is paid. In 2013 EUR 250m was repaid.

In addition the facility is subject to an obligatory early repayment if Telefónica Germany GmbH & Co. OHG obtains financing that is repayable after September 13, 2017. In this event, 25% of the proceeds of the financing must be used for early repayment of the facility. An unscheduled repayment of EUR 150m was made in 2013. If Telefónica Germany GmbH & Co. OHG does not comply with its payment obligations under the loan contract, default interest of an additional two percentage points above the relevant interest rate will be due. The loan contract contains certain restrictive clauses, for example, for the disposal of assets, the granting of charges or for mergers and consolidations.

On September 12, 2012, Telefónica Germany GmbH & Co. OHG concluded a loan contract with Telfisa Global B.V. as lender for a short-term loan. In the framework of this loan contract, Telefónica Germany GmbH & Co. OHG obtained a loan of EUR 703m from Telfisa Global B.V., which was fully repaid as of October 1, 2012.

In preparing for the IPO, Telefónica Deutschland concluded an indemnity and cost sharing agreement with Telefónica Germany Holdings Limited. Under this contract, Telefónica Germany Holdings Limited is obliged to indemnify Telefónica Deutschland against certain liability risks and to bear the transaction costs that arise from or in connection with the stock market listing. The costs of the IPO were invoiced in the reporting year.

On July 23, 2013, Telefónica Deutschland, Telefónica, S. A. and Koninklijke KPN N.V. (KPN) entered into a notarized agreement (Share Purchase Agreement) of which the subject matter is the acquisition of E-Plus by Telefónica Deutschland. The Share Purchase Agreement was amended and supplemented on August 26, August 28 and December 5, 2013. Telefónica Deutschland agreed to pay KPN a break-up-fee of EUR 100m in the event that the relevant merger control authorities do not approve the transaction.

In addition, Telefónica Deutschland must pay KPN a break-up fee of EUR 50m if it has not registered its share capital increase in the commercial register as part of the transaction before March 1, 2015. Details of the transaction are explained in Note No. 1 Reporting Entity.

With the contract dated November 14, 2013, Telefónica Germany GmbH & Co. OHG concluded an agreement with Telefónica Insurance S. A. and ACE European Group Limited for the sales and marketing of mobile phone insurance via the O_2 channels (Distribution Agreement). Telefónica Germany GmbH & Co. OHG offers its customers this insurance and makes use of Telefónica Insurance S. A. as the insurance company. ACE European Group Limited acts here as the re-insurer. The contract replaces the contract that was in place up until November 13, 2013 between Telefónica Germany GmbH & Co. OHG and Telefónica Insurance S. A.

Receivables and liabilities as against the Telefónica, S. A. Group

The Telefónica Deutschland Group reports the following receivables and liabilities as against the companies belonging to Telefónica, S. A. Group:

	As of December 31	
(Euros in thousands)	**2013**	**2012**
Receivables from Telefónica, S.A. Group	**727,180**	**335,028**
that are recognized in the following items in the Consolidated Statement of Financial Position:		
Cash and cash equivalents (cash pooling)	700,548	308,154
Trade and other receivables	26,632	26,874
Liabilities to Telefónica, S.A. Group	**1,101,267**	**1,492,776**
that are recognized in the following items in the Consolidated Statement of Financial Position:		
Trade payables	219,958	210,802
Other payables	30,575	31,096
Interest-bearing debt	850,734	1,250,878

Cash and cash equivalents (cash pooling)

The receivables due from Telefónica, S. A. Group from cash pooling in 2013 relate to the cash pooling agreement with Telfisa Global B.V. (up until September 30, 2012 the cash pooling agreement existed with Telfisa Global B.V. and Telefónica Finanzas S. A.).

Trade and other receivables

These receivables result mainly from transactions with goods and services between Telefónica Deutschland Group and Telefónica, S. A. Group. As of the reporting dates of December 31, the line item contains receivables due from Telefónica, S. A. of EUR 1,831k in 2013 and of EUR 262k in 2012.

Trade payables

This item primarily relates to liabilities sold by the suppliers of Telefónica Germany GmbH & Co. OHG to Telefónica Factoring España, S. A., in which Telefónica, S. A. has an interest.

Other payables

These liabilities primarily result from transactions involving goods and services between Telefónica Deutschland Group and Telefónica, S. A. Group. As of the reporting dates on December 31, the item included liabilities of EUR 5,879k in 2013 (2012: EUR 5,836k).

Interest-bearing debt

The interest-bearing debt relates to the loan agreement with Telfisa Globe B. V.

Revenues, other income and expenses with Telefónica, S. A. Group

Telefónica Deutschland Group reports the following revenues, other income and expenses with companies belonging to Telefónica, S. A. Group:

	Revenues and other income		**Expenses**	
	January 1 to December 31		**January 1 to December 31**	
(Euros in thousands)	**2013**	**2012**	**2013**	**2012**
Telefónica, S.A. Group	44,675	193,868	(150,832)	(139,561)

Revenues were generated primarily from the sale of goods and services. The figure also includes interest income from cash pooling amounting to EUR 0.4m (2012: EUR 6.5m).

Expenses include group fees totaling EUR 70.9m in 2013 and EUR 72.3m in 2012, together with expenses relating to the purchase of goods and services, as well as other expenses in connection with transactions with Telefónica, S. A. Group.

Transactions with Joint Operations

Telefónica Deutschland Group reports the following assets and debts relating to the joint operations TCHIBO Mobilfunk GmbH & Co. KG and TCHIBO Mobilfunk Beteiligungs GmbH:

	As of December 31	
(Euros in thousands)	**2013**	**2012**
Receivables from TCHIBO Mobilfunk GmbH & Co. KG	2,571	4,876
Liabilities to TCHIBO Mobilfunk GmbH & Co. KG	1,270	1,004

	As of December 31	
(Euros in thousands)	**2013**	**2012**
Receivables from TCHIBO Mobilfunk Beteiligungs GmbH	3	2
Liabilities to TCHIBO Mobilfunk Beteiligungs GmbH	-	-

Telefónica Deutschland Group reports the following revenues, other income and expenses with the joint operations TCHIBO Mobilfunk GmbH & Co. KG and TCHIBO Mobilfunk Beteiligungs GmbH:

	Revenues and other income		Expenses	
	January 1 to December 31		**January 1 to December 31**	
(Euros in thousands)	**2013**	**2012**	**2013**	**2012**
TCHIBO Mobilfunk GmbH & Co. KG	7,672	8,209	20,371	23,067

	Revenues and other income		Expenses	
	January 1 to December 31		**January 1 to December 31**	
(Euros in thousands)	**2013**	**2012**	**2013**	**2012**
TCHIBO Mobilfunk Beteiligungs GmbH	-	6	223	-

Transactions with other related persons

a) Management in 2013:

In the 2013 financial year, the members of Key Management Personnel comprise the following members of the Management Board:

- René Schuster (CEO) (for more details, see Note No. 32 Events after the Reporting Period),
- Rachel Claire Empey (CFO),
- Markus Haas (CSO).

In the financial years to which the accompanying Consolidated Financial Statements relate, the members of the Management Board have not carried out any transactions with the Telefónica Deutschland Group other than as part of the normal trading and business activity of the Telefónica Deutschland Group.

For further details, see Note No. 25 Transactions with Management Board and Supervisory Board.

b) Management in 2012:

In 2012, the Key Management Personnel of the Telefónica Deutschland Group included by definition persons who, as part of their function, have the authority and responsibility for the planning, leadership and control of the activities of Telefónica Deutschland Group.

In financial year 2012, the operating business of the Telefónica Deutschland Group was conducted by Telefónica Germany GmbH & Co. OHG. In financial year 2012, its top management mainly comprised the Managing Directors of its partner, Telefónica Germany Management GmbH.

In the financial years to which the accompanying Consolidated Financial Statements relate, the members of Management have not carried out any transactions with the Telefónica Deutschland Group other than as part of the normal trading and business activity of the Telefónica Deutschland Group.

In 2012, management comprised the following persons:

Name	Position
Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH:	
René Schuster	Chief Executive Officer (CEO)
Markus Haas	Chief Strategy Officer (CSO)
Rachel Clare Empey	Chief Financial Officer (CFO)
Joachim Kugoth	Managing Director Human Resources
Peter Alex Rampling	Managing Director Marketing
Michiel van Eldik	Managing Director Wholesale & Partner Management
Dr. Eckart Pech	Managing Director Service Technology
Andrea Fabiana Folgueiras	Managing Director Network Technology
John Gerald McGuigan	Managing Director Consumer Sales
Marc Irmisch	Vice President Small & Medium Enterprises & SoHo, Acting Lead of Business Unit
Carsten Wreth	Managing Director Service Technology
Johannes Pruchnow	Managing Director Business & Wholesale Service

With effect from January 1, 2012 onwards, Telefónica Germany Verwaltungs GmbH – which was changed into Telefónica Deutschland Holding AG by entry in the commercial register dated September 26, 2012 while preserving its identity – had been a directly dependent subsidiary of O2 (Europe) Limited, Slough, United Kingdom, and an indirectly dependent subsidiary of Telefónica, S. A., Madrid, Spain. Between September 26 and December 31, 2012, Telefónica Deutschland Holding AG was a directly dependent subsidiary of Telefónica Germany Holdings Limited, Slough, United Kingdom; moreover, Telefónica Deutschland Holding AG was an indirectly dependent subsidiary of O2 (Europe) Limited, Slough, United Kingdom, and of Telefónica, S. A., Madrid, Spain.

The management boards of these companies are comprised of the following members:

Name	Position
Telefónica, S.A.:	
César Alierta Izuel	Board Member Telefónica, S.A., Chairperson
Isidro Fainé Casas	Board Member Telefónica, S.A., Vice Chairperson
Julio Linares López	Board Member Telefónica, S.A., Vice Chairperson
José María Abril Pérez	Board Member Telefónica, S.A., Vice Chairperson
José Fernande de Almansa Moreno-Barreda	Board Member Telefónica, S.A.
José María Álvarez-Pallete López	Board Member Telefónica, S.A., (COO)
Eva Castillo Sanz	Board Member Telefónica, S.A.
Carlos Colomer Casellas	Board Member Telefónica, S.A.
Peter Erskine	Board Member Telefónica, S.A.
Alfonso Ferrari Herrero	Board Member Telefónica, S.A.
Luiz Fernando Furlán	Board Member Telefónica, S.A.
Gonzalo Hinojosa Fernández de Angulo	Board Member Telefónica, S.A.
Pablo Isla Álvarez de Tejera	Board Member Telefónica, S.A.
Antonio Massanell Lavilla	Board Member Telefónica, S.A.
Ignacio Moreno Martínez	Board Member Telefónica, S.A.
Francisco Javier de Paz Mancho	Board Member Telefónica, S.A.
Chang Xiobing	Board Member Telefónica, S.A.
Santiago Fernández Valbuena	Board Member Telefónica, S.A.

Name	Position
O2 (Europe) Limited:	
Robert John Harwood	Director
María Pilar López Álvarez	Director
Enrique Medina Malo	Director
Francisco Jesus, Perez de Uriquen Muinelo	Director
David Melcon Sanchez-Friera	Director

Name	Position
Telefónica Germany Holdings Limited:	
Robert John Harwood	Director
María Pilar López Álvarez	Director
Enrique Medina Malo	Director
Francisco Jesus, Perez de Uriquen Muinelo	Director

c) Salaries and other benefits paid to the Management Board in 2013 and 2012:

Salaries and other benefits that were granted to the Management Board members or members of Management (until September 26, 2012) are made up as follows:

	January 1 to December 31	
(Euros in thousands)	**2013**	**2012**
Total remuneration	**3,718**	**6,876**
thereof:		
Short-term Employee benefits	3,308	6,647
Other long-term employee benefits	295	226
Share-based payments	115	3
Defined benefit obligation	**22**	**560**

The defined benefit obligation totaled EUR 167k in 2013 and EUR 19,737k in 2012.

For more details of the pension obligations of Telefónica Deutschland Group, please refer to Note No. 13 Provisions.

d) Share options held by members of Management in 2013 and 2012:

The following changes have occurred in the share options for the Management Board members and members of Management (up to September 26, 2012):

(in units)	**2013**	**2012**
Share options as of January 1	**271,176**	**260,117**
Forfeited of share options	(54,095)	(93,350)
Addition of share options	53,364	104,409
Change in Key Management	(111,153)	-
Share option as of December 31	**159,292**	**271,176**

(25) TRANSACTIONS WITH MANAGEMENT BOARD AND SUPERVISORY BOARD

1. Management Board

According to a shareholders' resolution adopted on October 5, 2012, Telefónica Deutschland does not disclose the additional disclosures for listed stock corporations (*Aktiengesellschaften*) in accordance with section 314 (1) no. 6 a) section 5 to 8 German Commercial Code (*Handelsgesetzbuch – HGB*).

The current employment contracts of the members of the Management Board of Telefónica Deutschland Holding AG were concluded on September 18, 2012 (last amended by the third amendment agreement dated July 30, 2013) and will fundamentally expire on September 17, 2015. Up until September 26, 2012, the members of the Management Board, together with the other members of Management before the IPO, were also directors of Telefónica Germany Verwaltungs GmbH, which was transformed into Telefónica Deutschland Holding AG with resolution of September 18, 2012 and the entry in the commercial register on September 26, 2012. The Management Board members, together with the other members of Management before the IPO, were and are also directors of Telefónica Germany Management GmbH and received (up until September 17, 2012) direct remuneration from Telefónica Germany Management GmbH, which is the managing shareholder of Telefónica Germany GmbH & Co. OHG and became a legal subsidiary of Telefónica Deutschland Holding AG in September 2012.

In accordance with section 314 (1) no. 6a German Commercial Code *(Handelsgesetzbuch – HGB)* the total remuneration granted to the Management Board of Telefónica Deutschland Holding AG for the financial year ended December 31, 2013 amounted to EUR 3,718k. The fair value of the share-based payments was EUR 515k for 53,364 share options.

Currently Telefónica Deutschland Group has not granted the members of its Management Board any security or loans and has not assumed any guarantees for them.

The total remuneration of the Management and Management Board in 2012 was EUR 6,876k. The fair value of the share options was EUR 1,021k for a quantity of 105,806. This total remuneration for the reporting period ended December 31, 2012 includes the remuneration of nine other, former directors of Telefónica Germany Verwaltungs GmbH, who had already resigned as directors before the conversion of Telefónica Germany Verwaltungs GmbH into Telefónica Deutschland Holding AG.

In the 2013 and 2012 financial years, the total remuneration expenses for former directors and their surviving dependents was EUR 199k in 2013 and EUR 0 in 2012.

As of December 31, 2013 and 2012 the pension obligations for former directors and their surviving dependents were EUR 22,972k and EUR 20,391k, respectively.

For more details of the pension obligations of Telefónica Deutschland Group, please refer to Note No. 13 Provisions.

2. Supervisory Board

Members of the Supervisory Board

Name	**Member of the Supervisory Board of the listed AG**
Eva Castillo Sanz	since October 5, 2012
María Pilar López Álvarez	since September 18, 2012
Angel Villá Boix	since September 18, 2012
Patricia Cobian González	since September 18, 2012
Michael Hoffmann	since October 5, 2012
Enrique Medina Malo	since September 18, 2012
Imke Blumenthal	since June 3, 2013
Thomas Pfeil	since June 3, 2013
Jan-Erik Walter	since June 3, 2013
Marcus Thurand	since June 3, 2013
Christoph Heil	since June 3, 2013
Claudia Weber	since June 3, 2013

The members of the Supervisory Board received remuneration for their activities amounting to EUR 162k in 2013 and EUR 19k in 2012.

Members of the Supervisory Board who are also employees of Telefónica Deutschland Group also receive remuneration from their employment relationship, including entitlements from share-based payment agreements, subject to compliance with the requirements for participation in each individual case, and from service cost relating to pension schemes. This remuneration comprises the following with effect from appointment to the Supervisory Board:

(Euros in thousands)	**January 1 to December 31, 2013**
Total remuneration	**424**
thereof:	
Short-term employee benefits	422
Share-based remuneration	2
Service cost	**5**

Currently, Telefónica Deutschland Group has not granted its Supervisory Board members any securities or loans and has not assumed any guarantees for them.

(26) SHARE-BASED PAYMENTS

As of December 31, 2013 Telefónica Deutschland Group had made the following agreement regarding share-based payments:

Description of the share-based remuneration plans

Performance Share Plan (equity-settled)

The Performance Share Plan is a long-term incentive plan for the managers and executives of Telefónica, S. A. and of other companies in the Telefónica, S. A. Group, including Telefónica Deutschland Group.

Under this plan, selected participants who meet the qualifying requirements receive a certain number of Telefónica, S. A. shares as variable compensation. The shares are delivered by Telefónica, S. A. This is the ultimate parent company which undertakes the settlement.

The plan is divided into five phases, each three years long, whereby the first phase began on July 1, 2006 and ended on June 30, 2009 and the fifth phase began on July 1, 2010 and ended on June 30, 2013. At the beginning of each phase the number of shares of to be awarded to each plan beneficiary is determined by dividing the amount that corresponds to a certain proportion of the fixed annual salary by the average share price of Telefónica, S. A. shares in the 30 days before the start of the phase. The shares are delivered on the last day of a phase if certain exercise conditions are fulfilled:

- The beneficiary is still employed by a company in the Telefónica, S. A. Group at the end of the three- year phase period.
- The actual number of the shares awarded at the end of the phase is calculated by multiplying the maximum number of shares assigned to each beneficiary at the beginning of the phase by a percentage that reflects the performance of the Telefónica, S. A. share. The performance is measured by comparing the total shareholder return (TSR – comprising both share price and dividends) of Telefónica, S. A. with the TSR of the comparison group. The comparison group comprises several listed telecom companies. The allocation is 100%, if the TSR of Telefónica, S. A. is equal to or better than the TSR of the third quartile of the comparison group, and 30% if the TSR of Telefónica, S. A. corresponds to the median. The percentage increases linearly for all points between these two benchmarks. If the TSR of Telefónica, S. A. is below the median, no shares are awarded.

The fourth phase of the plan ended on June 30, 2012. The TSR of Telefónica, S. A. was below the median for the comparison group and included the following number of options that have forfeited:

Phase	No. of shares forfeited	Grant date fair value per unit	End date
4th phase July 1, 2009	287,828	8.41	June 30, 2012

The fifth phase of the plan ended on June 30, 2013. The TSR of Telefónica, S. A. was below the median for the comparison group and included the following number of options that have forfeited:

Phase	No. of shares forfeited	Grant date fair value per unit	End date
5th phase July 1, 2010	119,557	9.08	June 30, 2013

The fair value of the equity instruments that were granted to plan beneficiaries is measured using the share price of the Telefónica, S. A. shares at grant date under consideration of market conditions.

The plan has been valued using the Monte Carlo method, thereby incorporating the performance target as a market condition. This method involves generating share prices and TSRs for each company, based on its dividend yield and volatility, taking into account the cross correlations between stocks. The model is used to define the probability for the shares to vest and establish share price growth associated with different ranking positions.

The non-market-related vesting condition which requires that the beneficiary must be employed by a company in the Telefónica, S. A. Group until the end of the vesting period is taken into account in determining the number of the equity instruments under consideration at grant date. The amount to be recognized is thus based on the number of ultimately exercisable equity instruments.

No compensation is paid for expected dividends from shares that the employee does not receive before physical delivery of the shares. This fact was taken into account in determining the fair value at grant date.

Because this is a plan with settlement by equity instruments and because Telefónica, S. A. undertakes the settlement, the personnel expenses are recognized on a pro rata temporis basis over the vesting period with a corresponding entry in the equity of Telefónica Deutschland Group.

There is a recharge agreement in place between Telefónica, S. A. and the Telefónica Deutschland Group in relation to the shares that are delivered to employees in Germany. This recharge is done by reducing equity and a corresponding increase of the liabilities to Telefónica, S. A.

(in units)	2013	2012
Share options as of January 1	**141,316**	**358,642**
Change in Employee	(21,759)	70,502
Forfeited of share options	(119,557)	(287,828)
Share options as of December 31	**-**	**141,316**

Performance and Investment Plan (equity-settled)

This plan became effective following completion of the Performance Share Plan and includes the directors and executive officers of the Telefónica, S. A. Group.

The plan is divided into three phases, each three-years long, whereby the first phase began on July 1, 2011 and will end on June 30, 2014 and the third phase began on July 1, 2013 and will end on June 30, 2016. At the beginning of each phase the number of shares for each plan beneficiary is determined by dividing the amount that corresponds to a certain proportion of the fixed annual salary by the average share price of Telefónica, S. A. shares during the 30 days before the start of the phase.

The shares are delivered on the last day of each phase. The shares are delivered by Telefónica, S. A. This is the ultimate parent company which undertakes the settlement.

The method of calculation for determining the Telefónica, S. A. shares that must actually be delivered is similar to the method used for the Performance Share Plan. The vesting condition for this plan that every plan beneficiary must be employed with the Telefónica, S. A. Group at the delivery date of each phase also applies.

In addition, all plan beneficiaries have the opportunity to co-invest. In accordance with the co-investment condition, the plan beneficiary must personally own 25% of the number of Telefónica, S. A. shares allocated to him or her under the Performance and Investment Plan. These shares must be so owned at the first anniversary (or for the first cycle only within fifteen months) of the beginning of each cycle and the participant must hold them up until the vesting date in order to be entitled to receive a further 25% of the number of the originally held Telefónica, S. A. shares. Thus the plan beneficiary receives, conditional on the performance of the company, one free Telefónica, S. A. share for every co-invested Telefónica, S. A. share.

The first allocation of share options of Telefónica, S. A. shares as part of this plan occurred on July 1, 2011. The maximum number of shares of Telefónica, S. A. assigned (including the amount of co-investment) under the plan was, as of December 31, 2013:

Phase	Maximum number of share options still to granted	Fair value per unit when granted	End date
1st phase July 1, 2011	106,128	8.28	June 30, 2014

Phase	No. of shares co-investment	End date
1st phase July 1, 2011	17,599	June 30, 2014

Phase	Total	End date
1st phase July 1, 2011	123,727	June 30, 2014

The second allocation of share options under this plan occurred on July 1, 2012. The maximum number of shares of Telefónica, S. A. assigned under this plan (including the amount of co-investment) as of December 31, 2013 is as follows:

Phase	Maximum number of share options still to granted	Fair value per unit when granted	End date
2nd phase July 1, 2012	215,596	8.28	June 30, 2015

Phase	No. of shares co-investment	End date
2nd phase July 1, 2012	28,079	June 30, 2015

Phase	Total	End date
2nd phase July 1, 2012	243,675	June 30, 2015

The last allocation of share options of Telefónica, S. A. shares as part of this plan occurred on July 1, 2013. The maximum number of shares of Telefónica, S. A. assigned under this plan (including the amount of co-investment) is as of December 31, 2013 as follows:

Phase	Maximum number of share options still to granted	Fair value per unit when granted	End date
3rd phase July 1, 2013	206,350	6.40	June 30, 2016

Phase	No. of shares co-investment	End date
3rd phase July 1, 2013	51,588	June 30, 2016

Phase	Total	End date
3rd phase July 1, 2013	257,938	June 30, 2016

The fair value of the equity instruments that were granted to employees is determined using the share price of the shares of Telefónica, S. A. at grant date of the grant under consideration of market conditions.

The market condition that requires the Telefónica, S. A. shares to reach a prescribed performance goal was incorporated by means of the Monte Carlo method described above in determining the fair value.

The service condition which requires that the plan beneficiary must be employed by a Telefónica, S. A. company until the end of the vesting period is considered in determining the number of equity instruments to be taken into account at the grant date. The amount to be recognized is thus based on the number of ultimately exercisable equity instruments.

The co-investment condition, being a non-vesting condition, is taken into account in determining the number of equity instruments to be considered. In addition in determining the fair value, a further non-vesting condition is taken into account, which provides that the shares must be held until the vesting date.

No compensation is paid for expected dividends from the shares that the employees do not receive before physical delivery of the shares. This fact was taken into account in determining the fair value.

Because this is a plan with settlement through equity instruments and because Telefónica, S. A. undertakes the settlement, the personnel expenses are recognized with a corresponding entry in the equity of the Telefónica Deutschland Group.

There is a recharge agreement between Telefónica, S. A. and Telefónica Deutschland Group in relation to the shares that are delivered to employees of the Telefónica Deutschland Group. This recharge is done by reducing equity and a corresponding increase of the liabilities to Telefónica, S. A.

(in units)	2013	2012
Share options as of January 1	**400,068**	**92,767**
Addition of share option	206,350	262,007
Change in Employee	(78,344)	45,294
Share options as of December 31	**528,074**	**400,068**

Performance Cash Plan (cash-settled)

The plan is operating under the same vesting conditions as the Performance Share Plan. The plan involves the delivery of a certain number of theoretical shares in Telefónica, S. A. to key personnel that are, if applicable, settled in cash at the end of each phase. The payment is equivalent to the market value of Telefónica, S. A. shares on the settlement date up to a maximum of three times the notional value of the shares on the delivery date.

The payment is made by the respective legal entity of Telefónica Deutschland Group, which undertakes the settlement.

The value of the theoretical shares is established as the average share price in the period of 30 days immediately before the start of a phase; except for the first phase, where the average share price during the 30 days before May 11, 2006 (EUR 12.83) was used as the reference.

The duration of the plan is seven years, with six phases, each of three years, beginning in 2006, whereby the first phase began on July 1, 2006 and ended on June 30, 2009. The sixth phase began on July 1, 2011 and will end on June 30, 2014.

Like the Performance Share Plan, the basis for the performance-based rate for the payments is the TSR of Telefónica, S. A. shares compared to the TSR of the comparison group, in line with the same criteria.

As of December 31, 2013 the fair value of the shares that were delivered in each phase in force at that time was EUR 11.84 per share (December 31, 2012: EUR 10.19 per share). The value is calculated by using the price of a Telefónica, S. A. share as the basis and in addition taking into account the estimated TSR. This value is updated in each case at the end of the year.

The market condition which implies that the Telefónica, S. A. shares must reach a prescribed performance target was taken into account by means of the Monte Carlo method described above in determining the fair value.

The service condition that requires that the plan beneficiary must be employed by a Telefónica, S. A. company until the end of the vesting period is considered in determining the number of equity instruments to be taken into account at grant date.

Because this plan is a cash-settled plan, it was accounted for by recording personnel expenses and a corresponding liability.

(in units)	**2013**	**2012**
Share options as of January 1	**200,431**	**313,414**
Change in Employee	(13,640)	(12,843)
Forfeited of share options	(95,051)	(100,140)
Share options as of December 31	**91,740**	**200,431**

Global Employee Share Plan (equity-settled)

This plan is a share incentive plan for all employees of the Telefónica, S. A. Group, with certain exceptions. Under this plan, participants who meet the qualifying requirements are offered the opportunity to acquire shares of Telefónica, S. A. and to receive the same number of shares free of charge at the end of the period.

The shares are delivered by Telefónica, S. A. This is the ultimate parent company, which carries out settlement.

The duration of the plan is two years. Employees who participate in the plan can acquire Telefónica, S. A. shares through monthly installment payments of up to EUR 100 and up to a maximum of EUR 1,200 for a twelve-month period (acquisition period). The shares are purchased at fair value on the acquisition date. The employees who participate in the plan have are entitled to dividend payments with respect the acquired shares. The first delivery of shares occurred on September 1, 2012, whereby the following vesting conditions had to be fulfilled:

- The beneficiary must be continuously employed during the two-year duration of the plan with a Telefónica, S. A. company (consolidation period), with the exception of employees leaving for a good cause.
- The beneficiary must retain the acquired shares for an additional twelve months after the end of the acquisition period.

The vesting period for this plan ended on August 31, 2012. 141,135 shares were delivered to 2,198 plan participants:

As of December 31	**No. of shares delivered**	**Weighted average of grant date fair value per unit**
2012	141,135	10.01

In December 2012 a further phase began. The acquisition period for this plan will end on November 30, 2014. The number of pre-emptive rights to be issued as of December 31, 2013 is as follows:

As of December 31	**Maximum no. of pre-emptive rights to be issued**	**Weighted average of grant date fair value per unit**
2013	150,417	11.01

The fair value of the equity instruments granted to employees is determined by means of the share price of the Telefónica, S. A. shares at grant date.

The non-market-related vesting condition that provides that the beneficiary must be employed by a company in the Telefónica, S. A. Group until the end of the vesting period is considered in determining the number of equity instruments to be taken into account at grant date. The amount to be recognized is thus based on the number of ultimately exercisable equity instruments.

In determining the fair value, the holding condition was taken into account, which is a non-vesting condition.

No compensation is paid for expected dividends from shares that the employee does not receive before physical delivery of the shares. This fact was taken into account in determining the fair value.

The Global Employee Share Plan is an equity-settled plan and is accounted for by a debit to personnel expenses and a credit to equity.

There is a recharge agreement between Telefónica, S. A., and Telefónica Deutschland Group in relation to the shares that are delivered to employees of the Telefónica Group. This recharge is done by reducing equity and a corresponding increase of the liability to Telefónica, S. A.

(in units)	2013	2012
Share options as of January 1	**14,438**	**47,045**
Addition of share options	135,979	108,528
Exercise of share options	-	(141,135)
Share options as of December 31	**150,417**	**14,438**

Personnel expenses resulting from share-based payment transactions

In the financial year ending December 31, the following personnel expenses resulting from share-based payment transactions were recorded:

	January 1 to December 31	
(Euros in thousands)	**2013**	**2012**
Personnel expenses arising from share-based payment transactions	2,105	2,576
thereof from cash-settled plans	178	(615)
thereof from equity-settled plans	1,927	3,191

(27) INFORMATION REGARDING EMPLOYEES

In the following table presents the breakdown of Telefónica Deutschland Group's average headcount in 2013 and 2012 grouped with respect to their status under labor law:

Average headcount	2013	2012
Office staff	5,461	5,599
thereof from Joint Ventures	9	8
Temporary staff	521	613
Total	**5,982**	**6,212**

(28) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

General

Telefónica Deutschland Group is exposed to various financial market risks as part of its business activity. Due to the Telefónica Deutschland Group's regional focus of its activities, however, it is not significantly affected by e.g. foreign currency risks. Telefónica Deutschland Group is exposed to the risk of default from the operative business (trade receivables) and receivables from the Telefónica, S. A. Group.

In addition there are liquidity risks for Telefónica Deutschland Group that are connected with its credit risks and market risks or a weakening of its operative business or disruptions of the financial market.

If such financial risks occur, could they may lead to negative impacts on the net assets, financial position, earnings and the cash flows of Telefónica Deutschland Group.

Telefónica Deutschland Group has developed guidelines for risk management processes and for the use of financial instruments including a clear separation of tasks with respect to financial activities, invoicing, financial reporting and associated controlling. Derivative financial instruments are used solely to manage the risks from trade and general corporate financing. Telefónica Deutschland Group has developed guidelines derived from established standards for the evaluation of risks and monitoring with regards to the use of financial derivatives.

Market risk

The market risk is the risk that changes in market prices such as, for example, changes in exchange rates and interest rates will affect the value of financial instruments or the earnings of the Telefónica Deutschland Group.

Currency risk

The underlying currency of the financial reports of the Telefónica Deutschland Group is the Euro. All financial statements of all subsidiaries of Telefónica Deutschland Group are also prepared in Euro; thus the Telefónica Deutschland Group is not subject to any translation risk. However, aside from the translation risks there is a transaction risk that primarily arises from the business relationship of Telefónica Deutschland Group with its suppliers or business partners in countries with a different national currency than the Euro. Because Telefónica Deutschland Group finances itself exclusively through self-generated cash in Euro as well as in Euro-denominated equity and debt, there is no exchange rate risk through debts that are denominated in a different currency than the Euro. The net risk position from foreign currency risks in the statement of financial position is comprised of non-derivative and derivative financial instruments denominated in foreign currencies, as well as future positions in foreign currencies in the following year.

Derivatives are contracted with Telefónica, S. A. Group Treasury to hedge against key identified currency risks.

The effects before taxes on the Consolidated Income Statement and thus equity of a simultaneous, parallel increase in the Euro of 10% as against all foreign currencies in the financial years 2013 and 2012 would be as follows:

	January 1 to December 31			
	2013		2012	
(Euros in millions)	**Risk**	**+10%**	**Risk**	**+10%**
USD	-	-	(36.8)	3.3
GBP	-	-	(21.5)	2.0

Because the Telefónica Deutschland Group does not use cash flow hedge accounting the effect of the sensitivities would only affect the Consolidated Income Statement.

Interest rate risk

Interest risks arise predominantly in connection with the cash pooling accounts and deposits of Telefónica Deutschland Group, as well as through loan agreements where the company acts as borrower, and with interest swaps. Telefónica Deutschland Group deposits cash surpluses almost exclusively in cash pooling deposit accounts with Telfisa Global B.V. These accounts and the bank accounts pay a variable interest rate. The loan agreements where Telefónica Deutschland Group is the borrower carry a variable interest rate. In November 2013 an interest rate swap was signed in connection with the issue of the bond for partial amount of the bond's nominal value. On the basis of this interest swap contract, Telefónica Deutschland Group pays a variable interest rate on a nominal amount and receives a fixed interest rate on the same amount in return. This interest rate swap compensates, to the level of its nominal amount, the effects of future market interest rate changes on the fair value of the underlying fixed-interest financial liabilities from the bond issue (fair value hedge).

Hedge accounting for this hedge relationship complies with IAS 39. At the start of the hedge relationship, both the relationship between the hedge instrument and the underlying transaction as well as the goal and strategy of the hedge were documented. A specific allocation of the hedging instrument to the corresponding liability followed and an estimate of the degree of effectiveness of the hedging relationship. The existing hedging relationship is continuously monitored for effectiveness.

The net risk position for variable interest for Telefónica Deutschland Group as of the reporting dates December 31, 2013 was minus EUR 341,455k and in 2012 minus EUR 926,334k, respectively, which is essentially attributable to the loan, the interest swap and the cash and cash equivalents deposited with Telfisa Global B. V.

In the reporting periods, Telefónica Deutschland Group has concluded only one interest rate swap as a hedging instrument in the financial year 2013 (see Interest Risk Management below).

The effects before taxes on the Consolidated Income Statement of a change in the interest rates of variable interest-bearing financial instruments of +/– 100 basis points as of the reporting dates December 31, 2013 and 2012 are shown below. There is no impact recognized directly in equity. This analysis assumes that all other variables remain unchanged.

	January 1 to December 31	
(Euros in thousands)	**2013**	**2012**
+ 100bp	(3,415)	(9,263)
- 100bp	8,047	12,133

Credit risk

Credit risk describes the risk of financial losses from the inability of contractual partners to repay or service debts in accordance with the contract. Telefónica Deutschland Group's maximum credit risk corresponds with the carrying amount of the financial assets (without considering any guarantees or securities).

Telefónica Deutschland Group considers the management of the commercial credit risk to be critical in order to achieve its goals for sustainable growth of the business and the customer base in harmony with its risk management guidelines. Suitable processes have been established for the management and the monitoring of the credit risk.

This approach for credit risk management is based on the ongoing monitoring of the expected risks and the level of default. Here, particular attention is paid to customers who can have a significant effect on the Consolidated Financial Statements of Telefónica Deutschland Group and for them, depending on the business area and the type of relationship, appropriate credit management instruments are used such as credit insurance or security to limit the credit risk. To control the credit risk, Telefónica Deutschland Group regularly conducts an analysis of the maturity structure of trade receivables and only reports adjustments for doubtful receivables with a credit risk. Telefónica Deutschland Group has concluded cash pooling and deposit agreements with Telfisa Global B. V. with regards to its cash surpluses in accordance with Telefónica corporate policy, and it deposits the majority of its cash surpluses there. The majority of cash surpluses of Telefónica Deutschland Group are thus concentrated in Group companies of the Telefónica, S. A. Group. Telefónica, S. A. is rated by international rating agencies with an Investment Grade Rating. The remaining cash surpluses are distributed across several German banks that have been rated by international rating agencies with Investment Grade.

The financial assets where the Telefónica, S. A. Group is a counterparty amounted to EUR 727m as of December 31, 2013 and EUR 335m as of December 31, 2012, respectively.

Liquidity risk

The liquidity risk includes the risk that a business cannot comply with its financial obligations, which are processed either in cash or with other financial assets. Telefónica Deutschland Group ensures, for the management of the liquidity risk, that it has sufficient liquidity at all times to fulfil its obligations, both under normal and under demanding circumstances. Telefónica Deutschland Group works on its liquidity management closely with Telefónica, S. A. Group and, in accordance with the corporate policy, has concluded cash-pooling and deposit agreements with Telfisa Global B.V., Netherlands. It deposits the majority of its cash surplus there. The liquidity risk is reduced by the inflowing funds generated by the operative business of Telefónica Deutschland Group, by the opportunity to factor receivables and by maintaining (currently unused) of credit facilities.

In August and September 2012 Telefónica Germany GmbH & Co. OHG concluded agreements with various banks for revolving credit facilities. As a result Telefónica Germany GmbH & Co. OHG has, as of the reporting date December 31, 2013, undrawn committed credit lines in a total amount of EUR 710m with a maturity beyond one year. In all agreements the interest yield corresponds to the sum of margin and Euribor.

Telefónica Deutschland Holding AG has authorized capital which allowing the Management Board, upon approval of the Supervisory Board, to increase the share capital up until September 2017 for against cash and / or contribution in kind once or several times by a total of up to EUR 558,472,700 by issuing new registered shares with no-par value (see Note No. 11 Equity and Note No. 32 Events after the Reporting Period).

Cash and cash equivalents amounted to EUR 709m as of December 31, 2013 and EUR 324m as of December 31, 2012.

The following table shows the maturity profile of the financial liabilities of Telefónica Deutschland Group on the basis of the contractual undiscounted payments:

	As of December 31, 2013				
			remaining term		
(Euros in thousands)	**Total carrying amount**	**Gross cash outflow**	**< 1 years**	**1-5 years**	**> 5 years**
Non-current loans	1,342,584	1,445,404	-	1,445,404	-
Non-current other payables	4,809	4,836	-	4,836	-
Current loans	102,059	118536	118,536	-	-
Current trade payables	1,074,038	1,074,038	1,074,038	-	-
Current other payables	197,635	197,718	197,718	-	-
Total financial liabilities	**2,721,125**	**2,840,531**	**1,390,292**	**1,450,240**	**-**

	As of December 31, 2012				
			remaining term		
(Euros in thousands)	**Total carrying amount**	**Gross cash outflow**	**< 1 years**	**1-5 years**	**> 5 years**
Non-current loans	1,000,000	1,063,217	-	1,063,217	-
Non-current other payables	9,193	9,335	-	9,335	-
Current loans	250,878	270,940	270,940	-	-
Current trade payables	918,458	918,458	918,458	-	-
Current other payables	50,183	50,183	50,183	-	-
Total financial liabilities	**2,228,712**	**2,312,133**	**1,239,581**	**1,072,552**	**-**

Capital management

Telefónica Deutschland Group strives to guarantee the sustainability of its business and to maximize the business value. Here it monitors its capital costs with the goal of an optimal capital structure. In particular, Telefónica Deutschland Group monitors its equity ratio and OIBDA. As of December 31, 2013, the equity ratio was 66.5% and 70.9% in 2012. The OIBDA from continuing operations was EUR 1,237m in 2013 and EUR 1,279m in 2012, respectively.

Interest rate risk management

The interest rate risk results from the sensitivity of financial assets and liabilities in relation to changes in the market interest rates. The corporation strives to limit such risks by using interest swaps.

Fair Value Hedge for fixed interest financial liabilities

In November 2013 an interest swap of EUR 200m was signed in connection with the bond issue. On the basis of the existing interest swap contract, Telefónica Deutschland Group pays a variable interest rate on a nominal amount and in return receives a fixed interest rate on the same amount as consideration. This interest swap compensates for the effects of future market interest rate changes on the fair value of the underlying fixed-interest financial liabilities. Telefónica Deutschland Group records the interest swap in the Consolidated Statement of Financial Position at fair value. The company recognizes the corresponding portion of the fixed-interest financial liabilities that are thereby hedged as the sum of their carrying amount and a value adjustment. The value adjustment corresponds to the change in the fair value of the financial liabilities on the basis of the relevant hedged interest risk. Changes in the fair value of the interest swap as well as the changes in the adjustment to the carrying amount of the hedged portion of the fixed-interest financial liabilities are recognized in the financial income/(loss) in the Consolidated Income Statement.

(29) CONTINGENT ASSETS AND LIABILITIES

On October 16, 2013, the Federal Fiscal Court (Bundesfinanzhof) passed a judgment regarding the free of- charge provision of wireless communications devices by intermediaries (reference XI R 39 / 12). With this, the device bonus, which is used by intermediaries to reduce prices and which is linked to transferring the IMEI number of the sold device (so-called IMEI provision), is considered to be the fee from a third party for the supply of the wireless communication device. This interpretation results in the loss of the input tax deduction for these commission components for mobile telephone providers. Telefónica Deutschland Group is presuming that the judgment refers to an individual case. The current Telefónica Deutschland Group standard sales model in any case deviates from the situation covered in the case law, as no IMEI commission is paid. Due to the complex and heterogeneous commission structure on the mobile telephone market, it is also not certain that this case law would have applied to Telefónica Deutschland Group for past situations; so it is not yet possible to quantify any theoretical effects on taxation. Furthermore, after industry discussions with the financial administration, Telefónica Deutschland Group is assuming that a transitional provision would apply in the event of the case law being published. It is deemed highly probable that the case law will have no negative impact on VAT for Telefónica Deutschland Group.

Telefónica Deutschland Group is, as part of its ordinary business, involved in various proceedings both in court and out-of-court. Possible effects are of minor significance for the net assets, financial and earnings.

(30) LEASE AND SUBLEASE AGREEMENTS

Finance leases

Telefónica Deutschland Group's finance leases are recognized in the Consolidated Financial Statements as of December 31, 2013 in the position property, plant and equipment (see Note No. 6 Property, Plant and Equipment) and comprise the following amounts:

	As of December 31	
(Euros in thousands)	**2013**	**2012**
Plant and machinery	3,026	8,948
Net carrying amount of lease assets	**3,026**	**8,948**

These commitments mainly result from lease agreements for IT equipment and network technology for internal use. There are no options to renewal and purchase options are not already reflected in the minimum lease payment obligations.

The breakdown of minimum lease payment obligations is as follows:

(Euros in thousands)	As of December 31, 2013		
	Minimum future lease payments obligation	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
due within one year	1,732	83	1,649
due within 1 and 5 years	1,367	27	1,340
due in more than 5 years	-	-	-
Present value of minimum lease payments	**3,099**	**110**	**2,989**

(Euros in thousands)	As of December 31, 2012		
	Minimum future lease payments obligation	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
due within one year	4,162	198	3,964
due within 1 and 5 years	5,127	142	4,985
due in more than 5 years	-	-	-
Present value of minimum lease payments	**9,289**	**340**	**8,949**

Operating leases

The following expected maturity dates apply for the obligations from operating leases, purchase and contractual obligations:

(Euros in thousands)	As of December 31	
	2013	**2012**
Less than 1 year	315,954	300,347
1 to 5 years	804,409	821,735
Over 5 years	790,020	829,204
Total operating lease obligations	**1,910,383**	**1,951,286**

(Euros in thousands)	As of December 31	
	2013	**2012**
Less than 1 year	185,390	125,932
1 to 5 years	46,164	49
Over 5 years	81,000	-
Total purchase and other contractual obligations	**312,554**	**125,981**

The following amounts are recognized in the Consolidated Income Statement:

(Euros in thousands)	January 1 to December 31	
	2013	**2012**
Operate lease expenses	341,303	312,295

The expenses for operating leases include essentially rental expenses (i.e. office building and shops), antenna sites, cars and network equipment (i.e. leased lines and cell sites). Telefónica Deutschland Group provides guarantees to secure rental obligations primarily for antenna sites. These guarantees were granted by external financial counterparts and are offered in the course of normal commercial activity. The guarantees as of December 31, 2013 amount to EUR 37.2m and EUR 37.6m in 2012, respectively.

Subleases of operating leases

Telefónica Deutschland Group entered into various sublease agreements for office buildings, cell sites and shops. The estimated payment schedule for subleases is as follows:

	As of December 31	
(Euros in thousands)	**2013**	**2012**
Less than 1 year	25,817	21,248
1 to 5 years	77,434	78,962
Over 5 years	39,085	56,141
Total sublease income	**142,336**	**156,351**

The following amounts are recognized in the Consolidated Income Statement:

	January 1 to December 31	
(Euros in thousands)	**2013**	**2012**
Sublease income	24,347	24,314

(31) TOTAL AUDITOR'S FEES

In the financial years 2012 and 2013, the services listed below performed by the Group's auditor, Ernst & Young, were recognized in the Consolidated Income Statement. Because Telefónica Deutschland Group conducts all of its business in Germany, the entire amount was incurred in Germany.

	January 1 to December 31	
(Euros in thousands)	**2013**	**2012**
Type of fees:		
Audit fees	1,572	1,333
Other audit-related services	150	2,301
Total fees	**1,722**	**3,634**

The audit fees include primarily the fees for auditing the Consolidated Financial Statements of Telefónica Deutschland Holding AG and the companies included in the Consolidated Financial Statements. The other audit related-services essentially include fees for comfort letter and in the previous year the fees in connection with the IPO.

(32) EVENTS AFTER THE REPORTING PERIOD

Issue of a 7-year bond (Bond II)

On February 10, 2014, Telefónica Deutschland Group issued a senior unsecured 7-year bond with a nominal value of EUR 500m. The bond has a maturity on February 10, 2021 and was issued by O_2 Telefónica Deutschland Finanzierungs GmbH, Munich, and is guaranteed by Telefónica Deutschland Holding AG. The coupon for the fixed interest bond is 2.375% and the issue price 99.624%. The issue spread was 100 basis points over the seven-year Euro Midswap Rate, resulting in a yield of 2.434%. The bond has a denomination of EUR 1,000 and was issued on the basis of a bond security prospectus. O_2 Telefónica Deutschland Finanzierungs GmbH, Munich, has transferred the net issue proceeds of the bond available to Telefónica Germany GmbH & Co. OHG, Munich, in the form of a loan. The net proceeds generated by the bond will be used for general corporate purposes.

Change in the Management Board of Telefónica Deutschland

On January 31, 2014, René Schuster left in mutual agreement as CEO and member of the Management Board. On January 29, 2014, the Supervisory Board of Telefónica Deutschland approved a respective termination agreement. Since February 1, 2014, the responsibilities of the CEO were taken over jointly by Chief Financial Officer, Rachel Empey and Chief Strategy Officer, Markus Haas, in addition to their responsibilities to date. Rachel Empey focuses on the operative business and Markus Haas on the preparation for the E-Plus integration.

Extraordinary General Meeting

On December 30, 2013 the Management Board of Telefónica Deutschland called an extraordinary General Meeting, which took place on February 11, 2014. In such extraordinary General Meeting, the General Meeting of Telefónica Deutschland approved the following capital measures for the E-Plus transaction:

- increase in the share capital by up to EUR 3.7bn against cash with a subscription right of the shareholders, as well as a related amendment of the Articles of Association;
- authorization of the Management Board, with the approval of the Supervisory Board, to execute a capital increase against contribution in kind up to EUR 475m and the related amendment of the Articles of Association (authorized capital 2014/I). The resolution passed by the General Meeting on the authorization to increase share capital by up to EUR 3.7bn was registered in the commercial register on February 25, 2014.

Furthermore, the extraordinary General Meeting resolved a new conditional capital 2014/I whilst suspending the former conditional capital 2012/I. The new conditional capital 2014/I was registered in the commercial register on February 25, 2014, whilst suspending the former conditional capital 2012/I.

(33) DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

On February 11, 2014, the Management Board and Supervisory Board of Telefónica Deutschland Holding AG issued a latest declaration of compliance in accordance with section 161 of the German Stock Corporation Act (Aktiengesetz – AktG) that is available on the company's website for the shareholders.

Munich, March 7, 2014

Telefónica Deutschland Holding AG
The Management Board

Rachel Empey Markus Haas

The following English-language translation of the German-language audit opinion (Bestätigungsvermerk) refers to the consolidated financial statements of Telefónica Deutschland Holding AG, Munich, prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ("Handelsgesetzbuch", German Commercial Code), as well as the group management report, prepared on the basis of German commercial law (HGB), as of and for the fiscal year ended December 31, 2013 as a whole and not solely to the consolidated financial statements presented in this Prospectus on the preceding pages.

AUDIT OPINION

We have audited the consolidated financial statements prepared by Telefónica Deutschland Holding AG, Munich, comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the fiscal year from 1 January 2013 to 31 December 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 18, 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dahmen	Vogel
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüferin [German Public Auditor]

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF TELEFÓNICA DEUTSCHLAND HOLDING AG IN ACCORDANCE WITH IFRS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2012
(EUROS IN THOUSANDS)

		As of December 31		As of January 1
	Note	**2012**	**2011**	**2011**
ASSETS				
A) NON-CURRENT ASSETS		**7,652,337**	**7,996,891**	**8,535,864**
Goodwill	7	705,576	705,576	705,576
Intangible assets	6	3,277,456	3,662,491	3,964,196
Property, plant and equipment	8	2,973,440	3,119,370	3,348,972
Investments in associates	9	-	1,972	1,771
Other non-current financial assets	16	114,675	95,449	102,839
Deferred tax assets	21	581,191	412,033	412,510
B) CURRENT ASSETS		**1,417,469**	**5,657,420**	**4,672,670**
Inventories		84,671	70,428	84,317
Trade and other receivables	13	1,009,031	1,349,290	1,394,462
Other current financial assets	16	101	2,887,051	2,885,897
Cash and cash equivalents	14	323,666	1,350,651	307,995
TOTAL ASSETS (A+B)		**9,069,807**	**13,654,311**	**13,208,534**

		As of December 31		As of January 1
	Note	**2012**	**2011**	**2011**
EQUITY AND LIABILITIES				
A) EQUITY	15	**6,428,793**	**12,282,644**	**11,736,109**
Common stock		1,116,946	1,116,946	1,116,946
Additional paid-in capital		430	-	18,078,540
Retained earnings		5,309,936	11,164,353	(7,463,506)
Other components of equity		1,481	1,345	1,192
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**6,428,793**	**12,282,644**	**11,733,172**
Non-controlling interests		-	-	2,937
B) NON-CURRENT LIABILITIES		**1,091,576**	**75,289**	**122,621**
Non-current interest-bearing debt	16	1,000,000	-	-
Other payables	17	9,193	6,342	5,846
Non-current provisions	18	82,382	68,947	116,775
C) CURRENT LIABILITIES		**1,549,438**	**1,296,378**	**1,349,804**
Current interest-bearing debt	16	250,878	-	-
Trade payables	17	918,458	891,321	822,831
Other payables	17	219,130	188,747	207,624
Other current financial liabilities	16	-	4,836	-
Current provisions	18	7,000	41,609	182,429
Deferred income	17	153,972	169,866	136,920
TOTAL EQUITY AND LIABILITIES (A+B+C)		**9,069,807**	**13,654,311**	**13,208,534**

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONSOLIDATED INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31, 2012
(EUROS IN THOUSANDS)

		January - December		January - December	
	Note	**2012**	**2011**	**Delta**	**Delta %**
Revenues	22	5,212,838	5,035,552	177,286	3.5%
Other income	22	60,806	60,991	(185)	(0.3%)
Supplies		(2,130,869)	(2,047,139)	(83,730)	4.1%
Personnel expenses	29	(464,533)	(437,756)	(26,778)	6.1%
Other expenses	22	(1,399,169)	(1,462,411)	63,242	(4.3%)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)		**1,279,074**	**1,149,237**	**129,835**	**11.3%**
Depreciation and amortization	22	(1,133,183)	(1,082,189)	(50,994)	4.7%
OPERATING INCOME		**145,891**	**67,048**	**78,841**	**>100%**
Finance income	20	15,678	14,271	1,407	9.9%
Exchange gains	20	715	707	8	1.2%
Finance costs	20	(21,385)	(8,389)	(12,996)	>100%
Exchange losses	20	(1,132)	(559)	(573)	>100%
Net financial income (expense)		**(6,123)**	**6,030**	**(12,153)**	**>100%**
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**139,768**	**73,078**	**66,688**	**91.3%**
Income tax	21	167,756	(1,732)	169,488	>100%
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**307,523**	**71,346**	**236,176**	**>100%**
Profit after taxes from discontinued operations	5	1,027,030	482,557	544,473	>100%
TOTAL PROFIT FOR THE YEAR		**1,334,553**	**553,904**	**780,649**	**>100%**
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**1,334,553**	**553,904**	**780,649**	**>100%**
PROFIT FOR THE YEAR		**1,334,553**	**553,904**	**780,649**	**>100%**
EARNINGS PER SHARE	**25**				
BASIC EARNINGS PER SHARE IN EUR		**1.20**	**0.49**	**0.71**	**>100%**
-from continuing operations		0.28	0.06	0.22	>100%
-from discontinued operations		0.92	0.43	0.49	>100%
DILUTED EARNINGS PER SHARE IN EUR		**1.20**	**0.49**	**0.71**	**>100%**
-from continuing operations		0.28	0.06	0.22	>100%
-from discontinued operations		0.92	0.43	0.49	>100%

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM JANUARY 1 TO DECEMBER 31, 2012
(EUROS IN THOUSANDS)

		January - December	
	Note	**2012**	**2011**
Profit for the year		**1,334,553**	**553,904**
Other comprehensive income (loss)			
Gains on measurement of available-for-sale investments	16	199	225
Income tax impact		(63)	(72)
		136	**153**
Actual gains (losses) and impact of limit on assets for defined benefit pension plans	18	(3,882)	(4,352)
Income tax impact		1,490	1,327
		(2,392)	(3,025)
Total other comprehensive income (loss)		**(2,256)**	**(2,871)**
Total comprehensive income		**1,332,297**	**551,033**
Attributable to:			
Equity owners of the parent		**1,332,297**	**551,033**
Total comprehensive income		**1,332,297**	**551,033**

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONSOLIDATED STATEMENT OF CASH FLOWS
FROM JANUARY 1 TO DECEMBER 31, 2012
(EUROS IN THOUSANDS)

	January - December	
	2012	**2011**
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the Year	**1,334,553**	**553,904**
Adjustment to Result		
Net financial result	5,707	(5,882)
Gains on disposal of assets	(492,121)	(272)
Net income tax expense	(167,756)	1,732
Depreciation and amortization	1,135,751	1,086,997
Change in Working Capital		
Trade and other receivables	(40,172)	45,172
Inventories	(14,272)	13,889
Other current assets	(5,594)	(7,855)
Trade and other payables	(105,573)	42,243
Other current liabilities and provisions	(25,126)	(103,038)
Other non current assets and liabilities	4,681	(44,766)
Interest received	15,615	13,934
Interest paid	(13,871)	(1,351)
Total Cash Flow from Operating Activities	**1,631,823**	**1,594,707**
Cash Flow from Operating Activities from discontinued operations	**349,070**	**355,006**
Cash Flow from Operating Activities from continuing operations	**1,282,754**	**1,239,701**
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds on disposals of property, plant and equipment and intangible assets	1,978	3,185
Payments on investments in property, plant and equipment and intangible assets	(594,120)	(548,240)
Proceeds on disposals of companies, net of cash and cash equivalents disposed	557,446	-
Payments made on financial investments not included under cash equivalents	(14,930)	-
Total Cash Flow from Investing Activities	**(49,626)**	**(545,055)**
Cash Flow from Investing Activities from discontinued operations	**557,170**	**(952)**
Cash Flow from Investing Activities from continuing operations	**(606,797)**	**(544,104)**
CASH FLOW FROM FINANCING ACTIVITIES		
Acquisition of non-controlling interests	-	(3,006)
Repayment of capital reserves	(251)	(237)
Proceeds from borrowing/debt	2,389,060	-
Repayment of borrowing/debt	(706,991)	(3,752)
Dividends paid	(4,300,000)	-
Total Cash Flow from Financing Activities	**(2,609,182)**	**(6,995)**
Cash Flow from Financing Activities from discontinued operations	**445,060**	**(3,006)**
Cash Flow from Financing Activities from continuing operations	**(3,054,242)**	**(3,989)**
Net increase (decrease) in cash and cash equivalents	**(1,026,985)**	**1,042,656**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**1,350,651**	**307,995**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**323,666**	**1,350,651**

TELEFÓNICA DEUTSCHLAND HOLDING AG
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FROM JANUARY 1 TO DECEMBER 31, 2012
(EUROS IN THOUSANDS)

	Common Stock	Additional paid-in capital	Retained earnings	Other components of equity: Available for-sale investments	Total equity attributable to owners of the company	Non-controlling interests	Total equity
Financial position as of January 1, 2011	**1,116,946**	**18,078,540**	**(7,463,506)**	**1,192**	**11,733,172**	**2,937**	**11,736,109**
Profit for the year	-	-	553,904	-	553,904	-	553,904
Other comprehensive income (loss)	-	-	(3,025)	153	(2,872)	-	(2,872)
Total comprehensive income	**-**	**-**	**550,879**	**153**	**551,032**	**-**	**551,032**
Acquisition of non-controlling interests	-	-	(69)	-	(69)	(2,937)	(3,006)
Withdrawal from capital reserve	-	(18,078,540)	18,078,540	-	-	-	-
Other movements	-	-	(1,492)	-	(1,492)	-	(1,492)
Financial position as of December 31, 2011	**1,116,946**	**-**	**11,164,353**	**1,345**	**12,282,644**	**-**	**12,282,644**
Financial position as of January 1, 2012	**1,116,946**	**-**	**11,164,353**	**1,345**	**12,282,644**	**-**	**12,282,644**
Profit for the year	-	-	1,334,553	-	1,334,553	-	1,334,553
Other comprehensive income (loss)	-	-	(2,392)	136	(2,256)	-	(2,256)
Total comprehensive income	**-**	**-**	**1,332,162**	**136**	**1,332,297**	**-**	**1,332,297**
Dividends	-	-	(7,185,897)	-	(7,185,897)	-	(7,185,897)
Contribution in kind	-	430	(430)	-	-	-	-
Other movements	-	-	(251)	-	(251)	-	(251)
Financial position as of December 31, 2012	**1,116,946**	**430**	**5,309,936**	**1,481**	**6,428,793**	**-**	**6,428,793**

TELEFÓNICA DEUTSCHLAND HOLDING AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

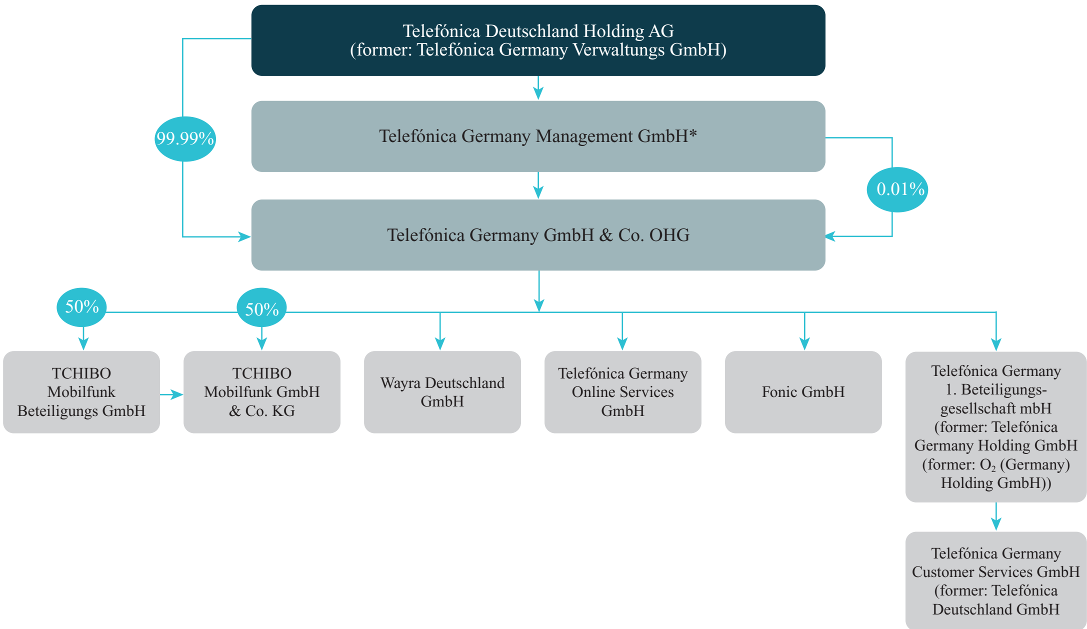
(1) REPORTING ENTITY

Telefónica Deutschland Holding AG (hereafter "Telefónica Deutschland"; formerly "Telefónica Germany Verwaltungs GmbH" prior to September 26, 2012) is located in Germany, Georg-Brauchle-Ring 23-25, 80992 München.

In 2012 Telefónica Deutschland 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 as well as on the sub-segment of the regulated market with additional post-admission obligations (Prime Standard). The 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. Telefónica Germany Holdings Limited, an indirect wholly owned subsidiary of Telefónica S.A., Madrid, Spain ("Telefónica"; together with its direct and indirect subsidiaries as well as its investments in associates and jointly controlled entities excluding Telefónica Deutschland Group referred to as the "Telefónica Group"), is the major shareholder of Telefónica Deutschland, holding a total share of 76.83%. The remaining 23.17% of the shares are widely spread.

The Consolidated Financial Statements of Telefónica Deutschland as at and for the year ended December 31, 2012 comprise Telefónica Deutschland and its subsidiaries as well as interests in associates and jointly controlled entities (together referred to as the "Telefónica Deutschland Group" or "TDG" or "Group").

As of December 31, 2012 the legal entities included in the Consolidated Financial Statements of Telefónica Deutschland Group are organized as illustrated in organizational chart below.



* Telefónica Germany Management GmbH has been acquired during the year 2012 within a common control transaction.

Please refer to section 3 b) for accounting policies applied.

In the first nine months of 2012 and during the whole financial year 2011 Telefónica Deutschland Group consisted of two reportable segments according to IFRS 8 (see Note 4 "Segment Information"):

- Telecommunications
- Global Services

The entities of the reportable segment "Global Services" (comprising Telefónica Global Services GmbH ("TGS"), Telefónica Global Roaming GmbH ("TGR"), Telefónica Compras Electronicas S.L., and the 40% interest in Adquira España S.A.) as well as Group 3G UMTS Holding GmbH ("G3G") and Quam GmbH ("Quam") have been sold as of October 1, 2012.

All shares of these companies were held by Telefónica Global Activities Holdings B.V. (former Telefónica Chile Holding B.V.). Prior to the IPO, Telefónica Deutschland Holding AG sold all shares in Telefónica Global Activities Holdings B.V. to Telfisa Global B.V., a Telefónica Group entity. After the sale, Telefónica Global Activities Holdings B.V. and all of the aforementioned entities ceased to be members of the group.

Telefónica Deutschland Group is one of only three integrated network operators in Germany having both a wireline and wireless network. It offers its consumer retail and business customers post-paid and prepaid wireless communications products, along with wireless data services using Global Packet Radio Service ("GPRS"), Universal Mobile Telecommunications System ("UMTS") and Long Term Evolution ("LTE") technology as well as Digital Subscriber Line ("DSL") wireline telephony and high-speed internet services.

Telefónica Deutschland Group markets their products under a multi-brand strategy and offers the majority of its post-paid and pre-paid mobile and fixed-line products and services through their core premium O_2 brand. The group accesses additional customer groups through secondary and partner brands as well as 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. The group markets high-speed internet access and fixed-line telephony via DSL (under the standards ADSL2+ and VDSL) and targets the Small offices/Home offices (SoHo) and Small and Medium-sized Enterprise (SME) business customers through the O_2 brand, and large, national companies and multinational corporations through the Telefónica Multinational Solutions brand. In the wholesale service business, the group offers mobile and fixed-line services to customers such as 1&1, mobilcom/debitel, Drillisch and the two major German cable operators. The products are offered through a diversified distribution platform comprising direct (nationwide network of self-operated shops and O_2 partner shops, premium partners, online and telesales) and indirect (retail/e-retail partnerships and dealers/cooperations) sales channels.

Telefónica Deutschland Group is incorporated in the Consolidated Financial Statements of its ultimate parent, Telefónica, S.A. Madrid, Spain, as of December 31, 2012.

(2) BASIS OF PREPARATION

Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) with the exception of certain provisions under IFRS 1 with respect to the transition date of January 1, 2011. These are the Group's first Consolidated Financial Statements prepared in accordance with IFRSs and as a consequence IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

The Consolidated Financial Statements were authorized for issue by the management board of Telefónica Deutschland Holding AG on February 28, 2013.

Basis of measurement

The Group has applied IFRS 1.D16 (b), as the Group was acquired after Telefónica's date of transition to IFRS. However, the accounting principles used by Telefónica Deutschland Group for the preparation of its Consolidated Financial Statements do not differ from those used in the preparation of the financial information for the Telefónica Consolidated Financial Statements in accordance with IFRS as adopted by the EU with the exception of certain provisions under IFRS 1 with respect to the transition date of January 1, 2011. The Consolidated Financial Statements have been prepared by measuring assets and liabilities at the carrying amounts, based on the Telefónica Deutschland Group's date of transition to IFRS. No previous Consolidated local GAAP accounts were prepared, thus no transition is presented in accordance with IFRS 1. The Consolidated Financial Statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

Estimates

The Consolidated Financial Statements present assets and liabilities as presented in the authorized Consolidated Financial Statements of Telefónica for the years ended December 31, 2012 and 2011 as well as comparative information as of January 1, 2011 prepared under IFRS as adopted by the EU. Estimates in accordance with IFRS used in preparation of Telefónica's Consolidated Financial Statements, remain unchanged for purposes of preparation of the Consolidated Financial Statements of Telefónica Deutschland Group. Circumstances which provide new information to past events but have arisen subsequent to the respective reporting dates are not adjusted for. If estimates contain an error, the error is corrected to appropriately reflect the situation at the respective date.

Functional and presentation currency

These Consolidated Financial Statements are presented in Euro, which is the Telefónica Deutschland Group's functional currency. The Euro ("EUR" or "€") is the functional currency of all Telefónica Deutschland Group companies.

Other

The Consolidated Statement of Financial Position is structured in current and non-current in accordance with IAS 1. The Consolidated Income Statement is presented in accordance with the nature of expense method. The figures in these Consolidated Financial Statements are expressed in thousands of Euros, unless otherwise indicated, and therefore rounded to three decimal places. Due to rounding differences figures might deviate by one thousand Euros.

(3) ACCOUNTING POLICIES

The principal accounting policies used in preparing the accompanying Consolidated Financial Statements are as follows:

a) Foreign currency transactions

Monetary transactions denominated in foreign currencies are translated to Euros at the exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currency are translated at the closing rate at the date of the Statement of Financial Position.

The following exchange rates have been used at the respective year ends:

EURO/Foreign Currency	As of December 31, 2012	As of December 31, 2011	As of January 1, 2011
USD	1.319	1.294	1.328
GBP	0.816	0.835	0.860
BRL	2.703	2.427	2.218
CHF	1.207	1.216	1.250

All realized and unrealized exchange gains or losses are included in the Consolidated Income Statement.

b) Goodwill

- For business combinations occurring from January 1, 2010, the effective date of Revised IFRS 3, Business Combinations, goodwill represents the excess of acquisition cost over the fair values of identifiable assets acquired and liabilities assumed at the acquisition date. Acquisition date is the date on which control is transferred to Telefónica Deutschland Group. Cost of acquisition is the sum of the fair value of consideration delivered and the value attributed to existing non-controlling interests. For each business combination, Telefónica Deutschland Group determines the value of non-controlling interests at either their fair value or their proportional part of the net identifiable assets acquired. After initial measurement, goodwill is carried at cost, less any accumulated impairment losses. Whenever an equity interest is held in the acquiree prior to the business combination (business combinations achieved in stages), the carrying value of such previously held equity interest is remeasured at its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Transaction costs in connection with business combinations are expensed as incurred.
- For business combinations that occurred after January 1, 2004, the IFRS transition date, and prior to January 1, 2010, the effective date of Revised IFRS 3, Business Combinations, goodwill represents the excess of the acquisition cost over the acquirer's interest, at acquisition date, in the fair values of identifiable assets, liabilities and contingent liabilities of an acquired subsidiary or joint venture. After initial measurement, goodwill is carried at cost, less any accumulated impairment losses.

In all cases, goodwill is recognized as an asset denominated in the currency of the company acquired.

Goodwill is not amortized but tested for impairment annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable (see Note 7 "Goodwill").

Business combinations involving entities under common control are excluded from the scope of IFRS 3, as a result the group uses predecessor accounting by incorporating predecessor carrying values. Furthermore, the date of transaction under common control is accelerated to the start of the earliest period presented even if the transaction occurs part of the way during the year.

c) Intangible assets

Intangible assets are carried at acquisition or production cost, less any accumulated amortization or any accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefit embodied in the asset to which it relates. All other expenditure on internally generated goodwill and brands is recognized in profit or loss as incurred.

The useful lives of intangible assets either finite or indefinite are assessed individually. Telefónica Deutschland Group has not recognized intangible assets with indefinite useful lives. Intangible assets with finite lives are amortized systematically over the useful economic life and assessed for impairment whenever events or changes indicate that their carrying amount may not be recoverable. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, or more frequently in the event of indications that their carrying amount may not be recoverable (see Note 6 "Intangible Assets"). Intangible assets that have not been completed yet are subject to an impairment test in the event of indications that their carrying amount may not be recoverable.

Useful lives, amortization methods and residual values are revised annually at year end and, where appropriate, adjusted prospectively.

Service concession arrangements and licenses

Such arrangements relate to the acquisition cost of the licenses granted to Telefónica Deutschland Group by the public authorities to provide telecommunications services and to the value allocated to licenses held by certain companies at the time they were included in Telefónica Deutschland Group.

These concessions are amortized on a straight-line basis over the duration of related licenses from the moment commercial operation begins.

Other intangible assets

This item primarily represents the allocation of acquisition costs attributable to customers acquired in business combinations, as well as the acquisition value of this type of assets in a third-party transaction for good and valuable consideration. Amortization is on a straight-line basis over the estimated period of the customer relationship (10 years).

Software

Software, including self-generated software, is carried at cost and amortized on a straight-line basis over its useful life, generally estimated to be between two and five years.

d) Property, plant and equipment

Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment in value. Land is not depreciated.

Cost includes external and internal costs comprising warehouse materials used, direct labor used in installation work and the allocable portion of the indirect costs required for the related investment. The latter two items are recorded as revenues under "Other income – Own work capitalized". Cost includes, where appropriate, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the entity incurs either when the item is acquired or as a consequence of having used it.

The costs of expansion, modernization or improvement leading to increased productivity, capacity, and efficiency or to a lengthening of the useful lives of assets are capitalized when recognition requirements are met.

Upkeep and maintenance costs are expensed as incurred.

If an asset consists of multiple components with different useful lives, each part of the asset having a significant acquisition value is depreciated separately over the term of the useful life of the individual component (component approach).

Telefónica Deutschland Group assesses the need to write down, if appropriate, the carrying amount of each item of property, plant and equipment to its recoverable amount, whenever there are indications that the asset's carrying amount exceeds the higher of its fair value less costs to sell or its value in use. The impairment charge is reversed if the factors giving rise to the impairment disappear (see Note 3 e) "Impairment of property, plant and equipment, goodwill and intangible assets").

Telefónica Deutschland Group depreciates its property, plant and equipment, net of its residual values, once they are in full working condition using the straight-line method based on the assets' estimated useful lives, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

	Years of estimated useful life
Buildings	5 – 20
Plant and machinery (incl. Telephone installations, networks and subscriber equipment)	5 – 20
Furniture, tools and other items	2 – 10

Assets' estimated residual values and methods and depreciation periods are reviewed, and adjusted if appropriate, prospectively at each financial year end.

e) Impairment of property, plant and equipment, goodwill and intangible assets

Non-current assets, including property, plant and equipment, goodwill and intangible assets are evaluated at each reporting date for indications of impairment losses. Wherever such indications exist, or in the case of assets which are subject to an annual impairment test, the recoverable amount is estimated. An asset's recoverable amount is the higher of fair value less costs to sell and value in use.

In assessing fair value less costs to sell, the estimated future cash flows deriving from the asset or its cash generating unit, as applicable, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired. In this case, the carrying amount is written down to the recoverable amount and the resulting loss is recognized in the Consolidated Income Statement. Future depreciation or amortization charges are adjusted for the asset's new carrying amount over its remaining useful life. Each asset is individually assessed, unless the asset does not generate cash inflows that are largely independent of those from other assets.

The impairment test is constituted at the lowest level, at which goodwill is monitored for internal management purposes. This is the segment level for the respective cash generating unit. Telefónica Deutschland Group has two segments. The potential impairment loss regarding goodwill is determined by assessing the recoverable amount of the cash generating unit (or group of cash-generating units) to which the goodwill relates when originated. If this recoverable amount is less than the carrying amount, an irreversible impairment loss is recognized in profit and loss. If the impairment loss recognized for the cash generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through the pro-rata reduction of the carrying amounts of the assets allocated to the cash generating unit.

As of December 31, 2012 Telefónica Deutschland Group comprises one single cash generating unit, which represents the reportable segment Telecommunications. Until September 30, 2012, Telefónica Deutschland Group comprised two cash generating units, which represented the reportable segments Telecommunications and Global Services.

Telefónica Deutschland Group determines the recoverable amount of a cash generating unit on the basis of fair value less costs to sell. Value in use is not calculated unless the impairment charge is impending. Since there is no evidence of a binding sale agreement in an arm's length transaction or an observable market price in an actively traded market, the entity relies on a discounted cashflow approach to measure fair value less costs to sell. These calculations use cash flow projections based on the business plan covering a 3-year detail planning period followed by the terminal value. The business plan has been approved by the management as well as used for internal purposes and is based on wireless service revenue growth projections as well as improving OIBDA margins in line with Company's aim to outperform the German mobile market in the medium term. Free Cash flows beyond the detail planning horizon are extrapolated using a steady state growth rate of 0.5%. The growth rates are in line with market expectations, e.g. analyst reports of investment banks.

The applied pre-tax discount rate is obtained from weighted average cost of capital calculations (WACC) following a peer group approach.

The following pre-tax discount rates were taken as a basis:

Discount rates	2012	2011	2010
Pre-tax discount rates	7.59%	8.00%	7.63%

Telefónica Deutschland Group bases its WACC calculations on the average financing costs and debt/market capitalization ratios of the Group's major competitors.

The annual impairment testing took place in June 2012. The result of the impairment test was that no impairment charges need to be recorded as the carrying amount is lower than the fair value less costs to sell. Since no triggering events existed, an additional testing was not carried out on the reporting date.

Telefónica Deutschland Group conducted a scenario analysis concerning the key value drivers capital expenditure to revenue ratio and OIBDA margin to determine sensitivity. Within a reasonable range a change in key assumptions would not cause the carrying amount to exceed the recoverable amount. In addition, sensitivity analyses were performed on changes reasonably expected to occur in the primary valuation variables, and the recoverable amount remained above the net carrying amount.

When there are new events or changes in circumstances that indicate that a previously recognized impairment loss no longer exists or has been decreased, a new estimate of the asset's recoverable amount is made. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

The reversal is limited to the net carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss and the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount. Impairment losses relating to goodwill shall not be reversed in future periods.

f) Lease contracts

The determination of whether an arrangement is, or contains a lease is based on the substance of the agreement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the agreement conveys a right to Telefónica Deutschland Group to use the asset.

Leases where the lessor does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the Consolidated Income Statement on a straight-line basis over the lease term.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased item to Telefónica Deutschland Group. These are classified at the inception of the lease, in accordance with its nature and the associated liability, at the lower of the present value of the minimum lease payments or the fair value of the leased property. Lease payments are apportioned between finance costs and reduction of the principal of lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are reflected in the Consolidated Income Statement over the lease term.

In sale and leaseback transactions resulting in a finance lease, the asset sold is not derecognized and the capital received is considered financing for the asset during the lease term. However, when the sale and leaseback transaction results in an operating lease, and it is clear that both the transaction and subsequent lease income are established at fair value, the asset is derecognized and any gain or loss generated on the transaction is recognized.

g) Investment in joint ventures

Telefónica Deutschland Group's investments in companies over which it exercises joint control with third parties are accounted for using the proportionate consolidation. Therefore, the Consolidated Financial Statements include the share of the assets that Telefónica Deutschland Group jointly controls and the share of the liabilities which are incurred in the course of pursuing the joint operation. The Consolidated Statement of Comprehensive Income includes the expenses that Telefónica Deutschland Group incurs and its share of the income that it earns from the joint operation.

Telefónica Deutschland Group combines its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its Consolidated Financial Statements.

h) Investments in associates

The Telefónica Deutschland Group's investments in companies over which it exercises significant influence but does not control or jointly control with third parties are accounted for using the equity method. The Group evaluates whether it exercises significant influence not only on the basis of its percentage ownership but also on the existence of qualitative factors such as representation on the board of directors of the investee, its participation in decision-making processes, interchange of managerial personnel and access to technical information.

The carrying amount of investments in associates includes related goodwill and the Consolidated Income Statement reflects the share of profit or loss from operations of the associate. If the associate recognizes any gains or losses directly in equity, the Group also recognizes the corresponding portion of these gains or losses directly in its own equity. The Group assesses the existence of indicators of impairment of the investment in each associate at each reporting date in order to recognize any required valuation adjustments.

i) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments in the form of financial assets and financial liabilities are generally presented separately. Financial instruments are recognized as soon as Telefónica Deutschland Group becomes a party to the contractual provisions of the financial instrument. All regular way purchases and sales of financial assets are recognized in the statement of financial position on the trade date, i.e. the date that Telefónica Deutschland Group commits to purchase or sell the financial asset. Upon initial recognition, financial instruments are measured at fair value. Transaction costs directly attributable to acquisition or issuance are considered in determining the carrying amount if the financial instruments are not measured at fair value through profit or loss.

For the purpose of subsequent measurement, financial instruments are allocated to the categories "Financial assets at fair value through profit or loss", "Loans and receivables", "Available-for-sale financial assets", "Financial liabilities measured at amortized cost" as well as "Financial liabilities at fair value through profit or loss". Telefónica Deutschland Group does not allocate financial instruments to the category "held to maturity".

Financial Assets

Financial assets primarily comprise receivables from Telefónica Group, trade receivables, receivables from banks and cash and cash equivalents.

Financial assets at fair value through profit or loss

Financial assets held for trading are included in the category financial assets at fair value through profit or loss and presented as current or non-current assets, depending on their maturity. Derivatives are classified as held for trading. Financial instruments included in this category are recorded at fair value and are remeasured at subsequent reporting dates at fair value, with any realized or unrealized gains or losses recognized in the Consolidated Income Statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as financial receivables from Telefónica Group or trade receivables. After initial recognition, loans and receivables are subsequently carried at amortized cost using the effective interest method less any impairment losses. Gains and losses are recognized in the Consolidated Income Statement when the loans and receivables are derecognized or impaired. Interest effects on the application of the effective interest method are also recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents consist primarily of receivables from cash pooling agreements with Telfisa Global B.V., Netherlands, and Telefónica Finanzas S.A., Spain, receivables from banks with an original term of up to three months and cash on hand. Cash and cash equivalents correspond with the classification in the Consolidated Statement of Cash Flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for- sale or that are not classified in any of the preceding categories. This category comprises assets incurred by Telefónica Deutschland Group to meet its pension obligations but which do not qualify as plan assets under IAS 19.

After initial measurement, available-for-sale financial assets are measured at fair value, with unrealized gains or losses being recognized in other comprehensive income. If objective evidence of impairment exists, these changes are recognized in the Consolidated Income Statement. Upon disposal of financial assets, the accumulated gains and losses recognized in other comprehensive income/loss resulting from measurement at fair value are recognized in profit or loss.

Impairment of financial assets

At each reporting date, the carrying amounts of financial assets other than those to be measured at fair value through profit or loss are assessed to determine whether there is objective evidence of impairment. Objective evidence may exist for example if a debtor faces serious financial difficulties or is unwilling to pay.

For financial assets classified as available for sale, objective evidence for impairment exists if there is a significant (> 20%) or prolonged decline (over a 6 months-period) in the fair value of the instrument.

Loans and receivables

The amount of the impairment loss on loans and receivables is measured as the difference between the carrying amount of the asset and the present value of expected future cash flows (excluding expected future credit losses that have not been incurred), discounted at the original effective interest rate of the financial asset. The amount of the impairment loss is recognized in the Consolidated Income Statement. If, in a subsequent reporting period, the amount of the impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognized, the impairment loss recorded in prior periods is reversed and recognized in the Consolidated Income Statement. Impairment losses on loans and receivables (e.g. trade receivables) are recorded using allowance accounts. When receivables are assessed as uncollectible, the impaired asset is derecognized.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, the difference between its cost (less any principal payment and amortization) and its current fair value (less any impairment loss previously recognized in the Income Statement) is reclassified from the statement of comprehensive income to the Consolidated Income Statement. Reversals with respect to equity instruments classified as available-for-sale are recognized in the statement of comprehensive income. Reversals of impairment losses on debt instruments are recorded in the Consolidated Income Statement if the increase in fair value of the instrument can be objectively attributed to an event occurring after the impairment losses were recognized in the Consolidated Income Statement.

Financial liabilities

Financial liabilities primarily include trade payables, loans, other payables and derivative financial liabilities.

Financial liabilities at fair value through profit or loss.

Financial liabilities held for trading are included in the category financial assets at fair value through profit or loss and presented as current or non-current assets, depending on their maturity. Derivatives are classified as held for trading. Financial instruments included in this category are recorded at fair value and are remeasured at subsequent reporting dates at fair value, with any realized or unrealized gains or losses recognized in the Consolidated Income Statement.

Financial liabilities measured at amortized cost

After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognized on an effective interest basis.

Derivative financial instruments

Generally, Telefónica Deutschland Group uses derivative financial instruments only to manage foreign currency risks. For material identified foreign currency risks, derivatives are contracted with Telefónica Group treasury. Derivative financial instruments are measured at fair value upon initial recognition and at each subsequent reporting date. The fair value of listed derivatives is equal to their positive or negative market value. If a market value is not available, fair value is calculated using standard financial valuation models such as discounted cash flow or option pricing models. Derivatives are presented as assets if their fair value is positive and as liabilities if the fair value is negative. Changes in the fair value of derivative financial instruments are recognized periodically in the Consolidated Income Statement. Telefónica Deutschland Group does not apply hedge accounting as set out in IAS 39.

Derecognition of financial assets and liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and Telefónica Deutschland Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset´s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in the statement of comprehensive income is recognized in the total comprehensive income. If Telefónica Deutschland Group retains substantially all the risks and rewards of ownership of a transferred asset, Telefónica Deutschland Group continues to recognize the financial asset and recognize a collateralized borrowing for proceeds received. If Telefónica Deutschland Group does not retain or transfer substantially all risks and rewards, and retains control, it continues to recognize the transferred asset to the extent of its continuing involvement. Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

j) Inventories

Inventories for consumption and replacement are stated at the lower of cost and net realizable value. Cost is determined on the basis of weighted average cost and comprises direct materials and where applicable, direct labor cost and overhead that has been incurred in bringing the inventory to its present location and condition. The estimates of net realizable value are based on the most reliable evidence available at the time estimates are made of the amount the inventories are expected to realize. These estimates take into consideration the fluctuations of price or costs and the purpose for which the inventory is held.

Obsolete, defective or slow-moving inventories have been written down to estimated net realizable value. When the circumstances that previously caused inventories to be written down no longer exist, the amount of the write-down is reversed, so that the new carrying amount is the lower of cost and revised net realizable value.

k) Provisions

Pensions and other employee benefit obligations

Provisions required to cover the accrued liability for defined benefit pension plans are determined using “the projected unit credit” actuarial valuation method. The calculation is based on demographic and financial assumptions for the country considering the macroeconomic environment. The discount rates are determined based on market yield curves. Plan assets are measured at fair value. Actuarial gains and losses on post-employment defined benefit plans are recognized immediately in other comprehensive income and all expenses related to defined benefit plans in personnel expenses. For defined contribution pension plans, the obligations are limited to the payment of the contributions, which are recognized to the Consolidated Income Statement as occurred.

The measurement of a net defined benefit asset is limited to the lower of the surplus in the defined benefit plan and the asset ceiling. Asset ceiling is defined as “the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan”.

In accordance with the terms and conditions of the defined benefit plan contracts relating to companies where asset ceiling had to be considered, it has been determined, that the present value of economic benefits (available in the form of refunds from the plan or reductions in future contributions to the plan) is lower than the total fair value of plan assets less the total present value of the liability. This calculation has been separately conducted for every plan. As a result, a limitation of the defined benefit asset has been necessary for those companies.

In cases where asset ceiling has not been relevant, it has been determined, that the present value of economic benefits (available in the form of refunds from the plan or reductions in future contributions to the plan) is higher than the total fair value of plan assets less the total present value of the liability. This calculation has been separately conducted for every plan.

Provisions for other post-employment benefits (e.g. early retirement or other) are calculated individually based on the terms agreed with the employees.

Other provisions

Provisions are recognized when Telefónica Deutschland Group has a present obligation (legal or constructive), as a result of a past event that can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted, and the corresponding increase in the provision due to the passage of time is recognized as interest expense. When Telefónica Deutschland Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Consolidated Income Statement net of any reimbursement.

Provisions for restructuring are recognized if there is a detailed, formal plan that provides for the individual measures and has been adopted by the appropriate managing bodies. In addition, implementation is expected to begin as soon as possible and a valid expectation has been raised in those affected that the restructuring will be carried out.

Provisions for decommissioning, retirement and site reconditioning costs are recognized if Telefónica Deutschland Group has a legal or constructive obligation to dismantle the relevant items after their utilization. The estimated costs are recognized as an asset and a provision. Changes in the timing or estimation of the costs are reflected in the asset and in the provision, respectively.

l) Share-based payments

The Group has compensation systems linked to the market value of Telefónica's shares, providing employees share options. Certain compensation plans are cash-settled, while others are equity-settled.

For cash-settled share-based transactions, the total cost of the rights granted is recognized as an expense in the Consolidated Income Statement over the vesting period with recognition of a corresponding liability. The total cost of the options is measured initially at fair value at the grant date using statistical techniques, taking into account the terms and conditions established in each share option plan. At each subsequent reporting date, the Group reviews its estimate of fair value and the number of options expected to be settled, remeasuring the liability, with changes in fair value recognized in the Income Statement.

For equity-settled share option plans, fair value at the grant date is measured by applying statistical techniques or using benchmark securities. The cost is recognized, together with a corresponding increase in equity, over the vesting period. At each subsequent reporting date, the company reviews its estimate of the number of options it expects to vest, with a corresponding adjustment to equity.

m) Income tax

The income tax expense includes both current and deferred taxes. Current and deferred tax is recognized in the Consolidated Income Statement except to the extent that it relates to a business combination or items directly recognized in equity or in other comprehensive income.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are applicable by the reporting date.

Telefónica Deutschland Group determines deferred tax assets and liabilities by applying the tax rates that will be effective when the corresponding asset is received or the liability is settled, based on tax rates and tax laws that are enacted (or substantively enacted) at the reporting date.

Deferred tax assets and liabilities are not discounted to present value and are classified as non-current, irrespective of the date of their reversal.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities on investments in subsidiaries, branches, associates and joint ventures are not recognized if the parent company is in a position to control the timing of the reversal and if the reversal is unlikely to take place in the foreseeable future.

Deferred income tax relating to items directly recognized in equity is recognized in equity. Deferred tax assets and liabilities arising from the initial recognition of the purchase price allocation of business combinations impact the amount of goodwill. However, subsequent changes in tax assets acquired in a business combination are recognized as an adjustment to profit or loss.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

n) Revenues and expenses

Revenues and expenses are recognized on the Consolidated Income Statement based on an accruals basis (i.e. when the goods or services represented by them take place), regardless of when actual payment or collection is being made.

Telefónica Deutschland Group principally obtains revenue from providing the following telecommunications services: traffic, connection fees, regular (normally monthly) network usage fees, interconnection, network and equipment leasing, handset sales and other services such as pay TV, value-added services (e.g. text or data messaging) and maintenance. Products and services may be sold separately or in promotional packages (bundled).

Revenue from calls carried on Telefónica Deutschland Group's networks (traffic) entail an initial call establishment fee plus a variable call rate, based on call length, distance and type of service. Both wireline and wireless traffic is recognized as revenue as service is provided. For prepaid calls, the amount of unused traffic generates deferred revenue presented in "Trade and other payables" on the statement of financial position. Prepaid cards generally expire within 12 months and any deferred revenue from prepaid traffic is recognized directly to the Consolidated Income Statement when the card expires as Telefónica Deutschland Group has no obligation to provide service after this date.

Revenue from traffic sales and services at a fixed rate over a specified period of time (flat rate) is recognized on a straight-line basis over the term covered by the rate paid by the customer.

Connection fees arising when customers connect to the Group's network are deferred and recognized in the Consolidated Income Statement throughout the average estimated customer relationship period, which varies by type of service. All related costs, except those related to network enlargement expenses, administrative expenses and overhead, are recognized in the Consolidated Income Statement as incurred.

Installment fees are taken to the Consolidated Income Statement on a straight-line basis over the related period. Equipment leases and other services are taken to profit or loss as they are consumed.

Interconnection revenue from wireline-wireless and vice versa calls and other customer services is recognized in the period in which the calls are made.

Revenue from handset and equipment sales is recognized once the sale is considered complete, i.e., generally when delivered to the end customer. Revenue from installment sales is recognized in the amount of the discounted future receipts.

Wireless customers are offered to participate in loyalty campaigns whereby customers obtain points for the telephone traffic they generate. The amount assigned to points awarded is recognized as deferred income until the points are redeemed and recognized as sales or services according to the product or service chosen by the customer. Point redemption can be for discounts on the purchase of handsets, traffic or other types of services depending on the number of points earned and the type of contract involved. The accompanying Consolidated Statements of Financial Position include the related deferred revenue, based on an estimate of the value of the points accumulated at year-end, under "Trade and other payables."

Bundle packages, which include multiple elements, are sold in the wireline, wireless and internet businesses. They are assessed to determine whether it is necessary to separate the separately identifiable elements and apply the corresponding revenue recognition policy to each element. Total package revenue is allocated among the identified elements based on their respective fair values (i.e. the fair value of each element relative to the total fair value of the package).

As connection or initial activation fees, or upfront non-refundable fees, are not separately identifiable elements in these types of packages, any revenues received from the customer for these items are allocated to the remaining elements.

However, amounts contingent upon delivery of undelivered elements are not allocated to delivered elements.

All expenses related to bundled promotional packages are taken to the Consolidated Income Statement as incurred.

o) Use of estimates, assumptions and judgments

The key assumptions concerning the future and other relevant sources of uncertainty in estimates at the reporting date that could have a significant impact on the Consolidated Financial Statements within the next year are discussed below. The estimated and associated assumptions are based on historical experience and other factors that are considered to be relevant.

A significant change in the facts and circumstances on which these estimates and related judgments are based could have a material impact on Telefónica Deutschland Group's results and financial position.

Unforeseeable development outside management's control may cause actual amounts to differ from the original estimates. In this case the underlying assumptions, and if necessary the carrying amounts of the pertinent assets and liabilities, will be adjusted accordingly.

Changes are recognized in the period in which they occur, and also in following periods if changes affect both the reporting period and the subsequent ones.

Pensions – Defined benefit plans

In the fiscal year 2012 Telefónica Deutschland Group changed its estimate of the interest rate for defined benefit plans in the following manner. Based on the market developments in high quality corporate bonds, which serve as basis for determining the discount rate, the portfolio was extended in the course of the financial year: Included are now bonds that were rated with AA by at least one rating agency. The minimum volume for the consideration was reduced to EUR 50m. Furthermore, information on corporate bonds with a rating of A were taken into account, after deducting the spread between AA and A when extrapolating market rates along the yield curve to arrive at the prevailing maturity.

Since the derivation of the discount rate will no longer be continued using the earlier data base, the effects of this extension at the end of the financial year cannot be calculated. If the extended data base would already have been applied at the beginning of the year, the DBO, at this time, would be:

- with a duration of 10 years, lower by 1%;
- with a duration of 15 years higher by 3%;
- with a duration of 20 years higher by 8%.

Property, plant and equipment, intangible assets and goodwill

The accounting treatment of investments in property, plant and equipment and intangible assets entails the use of estimates to determine the useful life for depreciation and amortization purposes and to assess fair value at their acquisition dates for assets acquired in business combinations.

Determining useful life requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict.

When an item of property, plant and equipment or an intangible asset is considered to be impaired, the impairment loss is recognized in the Consolidated Income Statement for the period. The decision to recognize an impairment loss involves estimates of the timing and amount of the impairment, as well as analysis of the reasons for the potential loss. Furthermore, additional factors, such as technological obsolescence, the suspension of certain services and other circumstantial changes are taken into account.

Telefónica Deutschland Group evaluates its cash-generating units' performance regularly to identify potential goodwill impairments. Determining the recoverable amount of the cash-generating units to which goodwill is allocated also entails the use of assumptions and estimates and requires a significant element of judgment.

Deferred income taxes

Telefónica Deutschland Group assesses the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on Telefónica Deutschland Group's ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of taxable earnings, which are sourced from internal projections and are continuously updated to reflect the latest trends.

The recognition of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realization of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments of Telefónica Deutschland Group could differ from the estimates made by Telefónica Deutschland Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

Tax loss carryforwards and deductible temporary differences have been determined under the probability criteria.

Provisions

Provisions are recognized when Telefónica Deutschland Group has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. This obligation may be legal or constructive, deriving from inter alia regulations, contracts, normal practices or public commitments that lead third parties to reasonably expect that Telefónica Deutschland Group will assume certain responsibilities. The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, bearing in mind all available information at the statement of financial position date, including the opinions of independent experts such as legal counsel or consultants.

Given the uncertainties inherent in the estimates used to determine the amount of provisions, actual outflows of resources may differ from the amounts recognized originally on the basis of the estimates.

Revenue recognition

Connection fees

Connection fees, generated when customers connect to the Group's network, are deferred and recognized as revenue over the average estimated customer relationship period.

The estimate of the average estimated customer relationship period is based on the recent history of customer churn. Potential changes in estimates could lead to changes in both the amount and timing of the future recognition of revenues.

Bundled offers

Bundled offers that combine different elements are assessed to determine whether it is necessary to separate the different identifiable components and apply the corresponding revenue recognition policy to each element. Total package revenue is allocated among the identified elements based on their respective fair values.

Determining fair values for each identified element requires estimates that are complex due to the nature of the business.

A change in estimates of fair values could affect the apportionment of revenue among the elements and, as a result, the date of recognition of revenue.

p) Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of the carrying amount and fair value less cost to sell and are classified as non-current assets held for sale. Such assets are no longer depreciated. If impairment of such assets is recognized, as a rule, if fair value less costs to sell subsequently increases, the impairment losses previously recognized must be reversed. The reversal of impairment losses is limited to the impairment losses previously recognized for the assets concerned.

q) Discontinued operations

Components of the company that meet the requirements of IFRS 5 are classified as discontinued operations and presented separately in the Consolidated Income Statement and the Consolidated Statement of Cash Flows, if they meet the definition of a major line of business under IFRS 5. All changes made in the current reporting period to amounts that are directly related to the sale of discontinued operations in one of the prior reporting periods are likewise presented within this separate category. If a component of the company is no longer classified as held for sale, the profit or loss of this component, which had previously been presented within discontinued operations, is reclassified as continuing operations in all presented reporting periods. If supplies of goods and services between continued and discontinued operations also continue after disposal, these supplies are recorded prior to consolidation in the Consolidated Income Statement.

r) Consolidation methods

The consolidation methods applied are as follows:

- Full consolidation method for companies which Telefónica Deutschland Group controls either by exercising effective control or by virtue of agreements with other shareholders.
- Proportionate consolidation method for Group companies which are jointly controlled with third parties (joint ventures). Similar items are grouped together such that the corresponding proportion of these companies' overall assets, liabilities, expenses and revenues and cash flows are integrated on a line by line basis into the Consolidated Financial Statements.
- Equity method for companies in which there is significant influence, but no control or joint control with third parties.

In certain circumstances, some of the investees of Telefónica Deutschland Group may require a qualified majority to adopt certain resolutions. This, together with other relevant factors, is taken into account when selecting the consolidation method.

All material accounts and transactions between the consolidated companies were eliminated on consolidation. The returns generated on transactions involving capitalizable goods or services by subsidiaries with other Telefónica Deutschland Group companies were eliminated on consolidation.

The financial statements of the consolidated companies have the same financial year-end as the parent company's individual financial statements and are prepared using the same accounting policies. In the case of Group companies whose accounting and valuation methods differed from those of the Telefónica Deutschland Group, adjustments were made on consolidation in order to present the Consolidated Financial Statements on a consistent basis.

The Consolidated Income Statement and Consolidated Statement of Cash Flows include the revenues and expenses and cash flows of companies that are no longer in the Telefónica Deutschland Group up to the date on which the related holding was sold or the company was liquidated, and those of the new companies included in the Group from the date on which the holding was acquired or the company was incorporated at year end.

The share of non-controlling interests in the equity and results of the fully consolidated subsidiaries is presented under "Non-controlling interests" on the Consolidated Statement of Financial Position and Consolidated Income Statement, respectively.

s) Acquisitions and disposals of non-controlling interests

Changes in investments in subsidiaries without loss of control:

Effective January 1, 2010, any increase or decrease in the percentage of ownership interest in subsidiaries that does not result in a loss of control is accounted for as a transaction with owners in their capacity as owners. This means that as of the aforementioned date, any difference between the carrying amount of the non-controlling interests and the fair value of the consideration received or paid, as applicable, is recognized in equity. On the partial disposal of a subsidiary that includes a foreign operation, the proportionate share of the cumulative translation differences recorded in equity is re-attributed to the non-controlling interests in that foreign operation.

t) New IFRS and IFRIC-interpretations issued but not yet effective as of December 31, 2012

At the date of preparation of the accompanying Consolidated Financial Statements, the following IFRS, amendments and IFRIC interpretations had been published, but their application was not mandatory:

Standards and amendments		**Mandatory application: annual periods beginning on or after**
IFRS 1	First-time Adoption of IFRS, Amendment Government Loans	January 1, 2013
IFRS 9	Financial instruments	January 1, 2015
IFRS 10	Consolidated Financial Statements	January 1, 2013
	Amendments Investment Entities	January 1, 2014
IFRS 11	Joint arrangements	January 1, 2014
IFRS 12	Disclosures of interests in other entities	January 1, 2014
	Amendments Investment Entities	January 1, 2014
IFRS 13	Fair value measurement	January 1, 2013
Revised IAS 19	Employee benefits	January 1, 2013
Revised IAS 27	Separate financial statements	January 1, 2013
	Amendments Investment Entities	January 1, 2014
Revised IAS 28	Investments in associates and joint ventures	January 1, 2013
Amendments to IFRS 7	Disclosures – Offsetting of financial assets and liabilities	July 1, 2013
	Disclosures – Transition to IFRS 9	January 1, 2015
Amendments to IAS 32	Offsetting of financial assets and liabilities	January 1, 2014
Annual improvements to IFRS (2011)	Amendments to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34	January 1, 2013

Interpretations		**Mandatory application: annual periods beginning on or after**
IFRIC 20	Stripping costs in the production phase of a surface mine	January 1, 2013

Improvements to IFRS (2011), IFRS 9 and IFRS 9/IFRS 7 (amendment mandatory effective date and transition disclosure) have not been endorsed by the European Union. Telefónica Deutschland Group is currently assessing the impact of the application of the standards, amendments and interpretations.

Based on the analyses made to date, Telefónica Deutschland Group estimates that – with the exception of the changes of IAS 19 and IFRS 9 – their adoption will not have a significant impact on the Consolidated Financial Statements in the initial period of application.

In June 2011 the IASB issued amendments to IAS 19 "Employee Benefits". Changes to IAS 19 become mandatory for the fiscal year 2013. Because Telefónica Deutschland Group already covered the actuarial gains and losses in other comprehensive income, this has no impact on the Consolidated Financial Statements. One significant consequence of these amendments is that the expected return on plan assets has to be calculated using the same discount rate that is used to measure the defined benefit obligation. Therefore in 2013 there will be a decrease of approximately kEUR 12 of expenses due to an increase of the remeasurement of plan assets in the other comprehensive income (net of tax). Furthermore, revised version of IAS 19 will enhance disclosure requirements. The standard will be applied retrospectively.

The changes introduced by IFRS 9 will affect the accounting for financial instruments and transactions with financial assets carried out on or after January 1, 2015.

(4) SEGMENT INFORMATION

General information

Telefónica Deutschland Group consists of two reportable segments: (a) Telecommunications and (b) Global Services, of which Global Services has been disposed with effect of October 1, 2012.

The measurement principles used by Telefónica Deutschland Group in preparing this segment reporting are based on IFRS. These principles are also the basis for the segment performance assessment.

The management board of Telefónica Deutschland Holding AG acts as a chief operating decision maker on a group-wide basis by assessing the performance and allocating resources on group level. As performance indicator, the chief operating decision maker controls the performance by the group's adjusted OIBDA.

Segment Telecommunications

Telefónica Deutschland Group offers wireless and wireline telephony and internet services to its German customers as well as access to its infrastructure and service capabilities for its wholesale partners in Germany. Therefore, a geographical segmentation is not suitable for the group, as it operates only in one geographical area, the Federal Republic of Germany.

Telefónica Deutschland Group pursues a multi-brand strategy, but focusing on its premium brand O_2. TDG accesses additional customer groups through its secondary and partner brands as well as its wholesale channels. Secondary brands are fully-controlled brands, such as FONIC or brands held through joint ventures and strategic partnerships, such as Tchibo mobil and Türk Telekom Mobile. In its wholesale service business, Telefónica Deutschland Group offers mobile and fixed-line services to customers such as 1&1, Mobilcom/Debitel, Drillisch and the two major German cable operators Unitymedia/ KabelBW and Kabel Deutschland. TDG offers their products through a diversified distribution platform comprising direct and indirect sales channels.

The objective of Telefónica Deutschland Group is to dismount access to telecommunication and information areas for its customers by offering technology, multimedia, information and entertainment as well as any service connected or related with these areas, including the distribution of hardware. Telefónica Deutschland Group expedites the distribution of hardware through its premium brand O_2 with the "O_2 My Handy" contracts (launched 2009). To provide the possibility to acquire a wide range of different hardware such as mobile phones, handsets and other additional technical equipment at an affordable price, customers are able to revert to attractive payment terms like 12 or 24 subsequent monthly installments. This generates price transparency with respect to the costs.

Disposal of segment Global Services during 2012

Legally effective as of October 1, 2012 following companies, which formed the segment Global Services, were sold: Telefónica Global Services GmbH, Telefónica Global Roaming GmbH, Telefónica Compras Electronicas S.L. and Adquira España S.A.

Telefónica Deutschland Group's Global Services segment has been reported for the first nine months in 2012. The business activities reported therein contain all global procurement activities. Telefónica Global Services GmbH acted as an agent for all companies on group-level by pooling the composite demand of each group entity. This bargaining power opposite to the suppliers generates for the group economies of scale. To ensure a group-wide smoothly running tender and proposal proceeding, Telefónica Global Services GmbH and its suppliers are able to use an electronic data processing system provided by Telefónica Compras Electronicas S.L.. Telefónica Global Services GmbH received commissions from the supplier depending on the order volume for the service offered. The handling of purchasing process, meaning delivery and payment, was settled between the supplier and the individual entity of Telefónica Deutschland Group.

Adquira España S.A. was founded in the year 2000 by four Spanish companies (Telefónica, BBVA, Iberia, Repsol) to bundle and optimize their buying process.

Over the last decade Adquira developed as a specialist in the segment of e-commerce. Adquira focuses on the support and optimization of the buying process by using its data platform and keeping it updated. The company is able to revert to a huge data base with over 4,500 suppliers in Spain, which gives each client of Adquira the possibility to select its products out of a variety of goods, thereby maximizing economies of scale.

Telefónica Global Roaming GmbH is in charge of Telefónica's international business, delivering integrated fixed, mobile and IT services. Telefónica Global Roaming GmbH manages the roaming business in the group with the objective of optimizing and providing the best possible roaming-services to its customers.

Operating income before depreciation and amortization ("OIBDA") before group fees ("adjusted OIBDA")

Operating income before depreciation and amortization (OIBDA), used by the group as a performance indicator, is calculated by excluding depreciation and amortization from operating income to eliminate the impact of investments in fixed assets that cannot be directly controlled by management in the short term. OIBDA is considered to be more important for investors as it provides a gauge of operating performance and profitability using the same measures utilized by management. This metric also allows comparison with other companies in the telecommunications sector without consideration of their asset structure.

Adjusted OIBDA is calculated in the same manner as OIBDA, but detaches the group fees of the calculation to facilitate operating performance comparisons from period to period.

Adjusted OIBDA is used by the chief operating decision maker to track the performance of the business and to establish operating and strategic targets. Adjusted OIBDA is a commonly reported measure and is widely used among analysts, investors and other interested parties in the telecommunications industry, although it is not a measure explicitly defined in IFRS and therefore may not be comparable to similar indicators used by other companies. Adjusted OIBDA should not be considered as an alternative to operating income as a measurement of our operating results or as an alternative to cash flows from operating activities as a measurement of our liquidity.

The following table presents the two reportable segments and the reconciliation for the Telefónica Deutschland Group for the years ended December 31, 2012 and 2011.

	2012				
Thousands of euros	**Telecommunications**	**Global Services (discontinued)**	**Total**	**Reconciliations**	**Group**
Revenues	**5,212,838**	**412,629**	**5,625,467**	**(412,629)**	**5,212,838**
Thereof: Revenues from external customers	5,212,838	394,958	5,607,796	(3,94,958)	5,212,838
Thereof: Revenues from transactions with other operating segments	-	17,671	17,671	(17,671)	-
Adjusted OIBDA	**1,351,385**	**411,184**	**1,762,570**	**(411,192)**	**1,351,377**
CapEx	**608,838**	**275**	**609,114**	**(275)**	**608,838**

	2011				
Thousands of euros	**Telecommunications**	**Global Services (discontinued)**	**Total**	**Reconciliations**	**Group**
Revenues	**5,035,552**	**534,717**	**5,570,269**	**(534,717)**	**5,035,552**
Thereof: Revenues from external customers	5,035,552	513,938	5,549,490	(513,938)	5,035,552
Thereof: Revenues from transactions with other operating segments	-	20,779	20,779	(20,779)	-
Adjusted OIBDA	**1,219,469**	**486,078**	**1,705,547**	**(486,864)**	**1,218,683**
CapEx	**557,651**	**952**	**558,603**	**(952)**	**557,651**

There is no customer of Telefónica Deutschland Group providing more than 10% of the total revenues.

Reconciliation

Revenue Reconciliation		
Thousands of euros	**2012**	**2011**
Total revenue for reportable segments	5,625,467	5,570,269
- Elimination of inter-segment revenue	17,671	20,779
- Elimination of discontinued operations	394,958	513,938
= Consolidated revenue	5,212,838	5,035,552

Profit or loss reconciliation		
Thousands of euros	**2012**	**2011**
Adjusted OIBDA reportable segments	1,762,570	1,705,547
+/- Adjusted OIBDA of other activities (G3G and Management GmbH)	8	(786)
- Adjusted OIBDA from discontinued operations	411,176	486,864
- Eliminations	-	-
= Adjusted OIBDA of Group (continuing operations)	**1,351,385**	**1,219,469**
- Group fees	(72,311)	(70,232)
= OIBDA of Group (continuing operations)	**1,279,074**	**1,149,237**
- Depreciation and amortization	(1,133,183)	(1,082,189)
= Operating income (continuing operations)	**145,891**	**67,048**
- Net financial income (expense)	(6,123)	6,030
= Profit before tax from continuing operations	**139,768**	**73,078**

Adjusted OIBDA of other activities

The figures reported therein represent business activities of Group 3G Holding UMTS GmbH and Quam GmbH, which do not qualify as operating segments.

Group fees

Group fees represent fees towards the Telefónica Group under a range of agreements, including management and consulting services, licenses, cost sharing and other services.

Capital expenditure reconciliation		
Thousands of euros	**2012**	**2011**
Total CapEx for reportable segments	609,114	558,603
- CapEx for discontinued operations	275	952
- Eliminations	-	-
= CapEx total	**608,838**	**557,651**
+ Non-recurring investments	-	-
= Net additions fixed assets/intangibles/associates and joint ventures	**608,838**	**557,651**

Information about geographical areas

External revenues 2012	Wireless	Wireline	Other	Total
Germany	3,845,053	1,363,203	4,582	5,212,838

External revenues 2011	Wireless	Wireline	Other	Total
Germany	3,605,747	1,425,740	4,065	5,035,552

For more information regarding the content and development of revenues please refer to Note 22 “Revenues and Expenses”.

Non-current assets as of December 31, 2012	**Total**
Germany	6,956,472
Other	-

Non-current assets as of December 31, 2011	**Total**
Germany	7,482,582
Other	4,855

Non-current assets as of January 1, 2011	**Total**
Germany	8,010,033
Other	8,711

(5) DISCONTINUED OPERATIONS

As of October 1, 2012 Telefónica Deutschland Group sold within a single sales transaction

- its entire Segment “Global Services” (see Note 4 “Segment Information”) and
- the following entities: Group 3G UMTS Holding GmbH and Quam GmbH.

The entities contained in this transaction were not classified as a discontinued operation or held-for sale at December 31, 2011 and the comparative Consolidated Income Statement has been prepared to show the discontinued operation separately from continuing operations. Management committed to the plan to sell these areas on July 1, 2012 following the strategic plan to focus on the Group’s key competencies, being its telecommunication services operations in Germany.

The following table shows the analysis of the result of the discontinued operation:

Thousands of euros	**2012**	**2011**
Revenues	412,629	534,717
Other income	8,401	1,444
Finance income	24,826	13,413
Supplies	(409)	(538)
Personnel expenses	(17,092)	(22,363)
Other expenses	(11,696)	(7,188)
Depreciation and amortization	(2,574)	(4,808)
Financial charges	(22,928)	(9,556)
RESULTS FROM DISCONTINUED OPERATIONS BEFORE TAX	**391,157**	**505,121**
Income tax	143,962	(22,564)
RESULTS FROM DISCONTINUED OPERATIONS AFTER TAX	**535,119**	**482,557**
Gain or loss recognized on the measurement to fair value less costs to sell	-	-
Gain or loss recognized on the disposal of the assets or disposal group(s) constituting the discontinued operation	491,911	-
Related income tax expenses	-	-
RESULT FROM DISCONTINUED OPERATIONS AFTER TAX	**1,027,030**	**482,557**

The effect of the disposal on the financial position of the Group is as follows:

Thousands of euros	2012
Intangible assets	2,308
Property, plant and equipment	254
Non-current financial assets	2,794
Inventory	28
Trade and other receivables	379,628
Cash and cash equivalents	145,554
Deferred tax assets	155,000
Trade and other payables	444,217
Provisions	29,457
Deferred income	803
Net assets and liabilities	**211,089**
Cash consideration received, satisfied in cash	703,000
Cash and cash equivalents disposed of	145,554
Net cash inflow	**557,446**

(6) INTANGIBLE ASSETS

The composition of and movements in net intangible assets in the years ended December 31, 2012 and 2011 are as follows:

Thousands of euros	As of January 1, 2012	Additions	Amortization	Disposals	Transfers and other	Deconsolidation as of October 1, 2012	As of December 31, 2012
Service concession arrangements and licenses	2,917,434	-	(271,581)	-	-	-	2,645,853
Software	444,633	155,350	(217,617)	-	302	1,921	380,747
Other intangible assets	279,668	261	(42,516)	-	-	-	237,413
Prepayments on intangible assets	20,756	100	-	-	(7,026)	387	13,443
Net intangible assets	**3,662,491**	**155,711**	**(531,714)**	-	**(6,724)**	**2,308**	**3,277,456**

Thousands of euros	As of January 1, 2011	Additions	Amortization	Disposals	Transfers and other	As of December 31, 2011
Service concession arrangements and licenses	1,843,927	-	(226,746)	-	1,300,253	2,917,434
Software	497,607	155,586	(205,950)	(39)	(2,571)	444,633
Other intangible assets	309,979	-	(43,399)	-	13,088	279,668
Prepayments on intangible assets	1,312,683	27,664	-	-	(1,319,591)	20,756
Net intangible assets	**3,964,196**	**183,250**	**(476,095)**	**(39)**	**(8,821)**	**3,662,491**

The gross costs, accumulated amortization and impairment losses – if any – of intangible assets as of December 31, 2012 and 2011 are as follows:

	As of December 31, 2012		
Thousands of euros	**Gross cost**	**Accumulated amortization**	**Net intangible assets**
Service concession arrangements and licenses	9,830,811	(7,184,958)	2,645,853
Software	1,334,818	(954,071)	380,747
Other intangible assets	373,423	(136,010)	237,413
Prepayments on intangible assets	13,443	-	13,443
Net intangible assets	**11,552,495**	**(8,275,039)**	**3,277,456**

	As of December 31, 2011		
Thousands of euros	**Gross cost**	**Accumulated amortization**	**Net intangible assets**
Service concession arrangements and licenses	9,830,836	(6,913,402)	2,917,434
Software	1,283,325	(838,692)	444,633
Other intangible assets	383,709	(104,041)	279,668
Prepayments on intangible assets	20,756	-	20,756
Net intangible assets	**11,518,626**	**(7,856,135)**	**3,662,491**

Service concession arrangements and licenses:

Telefónica Germany GmbH & Co. OHG obtained a Global System for Mobile Communications ("GSM") license (2G) in May 1997. As of December 31, 2012 the license has a carrying amount of kEUR 1,660 (2011 kEUR 1,994). The GSM licenses expire on December 31, 2016.

In August 2000 and in May 2010, Telefónica Germany GmbH & Co. OHG obtained UMTS licenses (3G) expiring on December 31, 2020. The carrying amount as of December 31, 2012 was kEUR 1,478,447 (2011 kEUR 1,660,022).

In May 2010, Telefónica Germany GmbH & Co. OHG acquired LTE licenses (4G) expiring in 2025. The acquisition was recognized as "Additions" of prepayments on intangible assets and reclassified as concessions and licenses in 2011. The carrying amount as of December 31, 2012 was kEUR 1,165,722 (in 2011 kEUR 1,255,392). There were no further significant additions of licenses in the years 2012 and 2011.

Software:

Software mainly includes licenses for Office and IT application software. The software is amortized on a straight-line basis over its useful life, generally estimated to be between two and five years. Within the additions in software in the financial years 2012 and 2011 were no significant single additions. All additions were made within the course of normal commercial activity.

Other intangible assets:

"Other intangible assets" includes mainly the amounts allocated to rights for brands and customer base.

Intangible assets are also subject to impairment tests whenever there are indicators of a potential loss in value and, in any event, at the end of each year for intangible assets with indefinite useful lives. There was no impairment recognized in the Consolidated Financial Statements for 2012 and 2011 as a result of these impairment tests. Regarding parameters used in the impairment test, please see Note 3 "Accounting Policies".

The depreciation of the intangible assets for the financial year 2012 amounting to kEUR 531,714 contains kEUR 2,311 based on discontinued operations. So the depreciation presented above is not comparable to the depreciation presented in the profit and loss.

(7) GOODWILL

In the years 2012 and 2011 there were no movements of goodwill. The carrying amount represents the gross costs amounting kEUR 705,576:

Thousands of euros	**2012**	**2011**
Carrying amount of goodwill at the beginning of the year	**705,576**	**705,576**
Acquisitions	-	-
Carrying amount of goodwill at the end of the year	**705,576**	**705,576**

The acquired and recognized goodwill is entirely assigned to the segment Telecommunications.

The carrying amount of goodwill results in the amount of kEUR 423,081 from the acquisition of Media- Ways GmbH by HighwayOne Germany GmbH, a subsidiary of Telefónica as of September 30, 2002. On October 2, 2002 HighwayOne Germany GmbH and MediaWays GmbH merged into Telefónica Deutschland GmbH. On March 23, 2011 Telefónica Deutschland GmbH was changed to Telefónica Germany Customer Services GmbH.

The rest of the carrying amount of goodwill (kEUR 282,495) results from the acquisition of HanseNet Telekommunikation GmbH as of February 16, 2010.

The impairment tests carried out in 2011 and 2012 on the level of the segment Telecommunications did not identify the need to recognize any write-downs to goodwill at the 2012 and 2011 year ends as the recoverable amount, in all cases based on value in use, was higher than the carrying amount. Regarding parameters used in the impairment test, see Note 3 e) "Impairment of property, plant and equipment, goodwill and intangible assets".

In addition, sensitivity analyses were performed on changes reasonably expected to occur in the primary valuation variables, and the recoverable amount remained above the net carrying amount.

(8) PROPERTY, PLANT AND EQUIPMENT

The composition of and movements in the items comprising net "Property, plant and equipment" in December 31, 2012 and 2011 were the following:

Thousands of euros	As of January 1, 2012	Additions	Depreciation	Disposals	Transfers and other	Deconsolidation as of October 1, 2012	As of December 31, 2012
Land and buildings	40,476	11,682	(76,571)	-	324,831	-	300,418
Plant and machinery	2,917,077	430,856	(482,061)	(849)	(333,594)	-	2,531,429
Furniture, tools and other items	101,834	33,131	(45,405)	(919)	(9,860)	250	78,531
Total PP&E in service	**3,059,387**	**475,669**	**(604,037)**	**(1,768)**	**(18,623)**	**250**	**2,910,378**
PP&E in progress	59,983	(22,264)	-	-	25,347	4	63,062
Net PP&E	**3,119,370**	**453,405**	**(604,037)**	**(1,768)**	**6,724**	**254**	**2,973,440**

Thousands of euros	As of January 1, 2011	Additions	Depreciation	Disposals	Transfers and other	As of December 31, 2011
Land and buildings	59,054	6,501	(24,786)	(54)	(239)	40,476
Plant and machinery	3,089,461	375,783	(533,543)	(1,001)	(13,623)	2,917,077
Furniture, tools and other items	123,829	35,048	(52,573)	(1,815)	(2,655)	101,834
Total PP&E in service	**3,272,344**	**417,332**	**(610,902)**	**(2,870)**	**(16,517)**	**3,059,387**
PP&E in progress	76,628	(41,979)	-	(4)	25,338	59,983
Net PP&E	**3,348,972**	**375,353**	**(610,902)**	**(2,874)**	**8,821**	**3,119,370**

The gross costs, accumulated depreciation and impairment losses – if any – of property, plant and equipment as of December 31, 2012 and 2011 are as follows:

	As of December 31, 2012		
Thousands of euros	**Gross cost**	**Accumulated depreciation**	**Net PP&E**
Land and buildings	673,951	(373,533)	300,418
Plant and machinery	5,393,282	(2,861,853)	2,531,429
Furniture, tools and other items	302,272	(223,741)	78,531
Total PP&E in service	**6,369,505**	**(3,459,127)**	**2,910,378**
PP&E in progress	63,062	-	63,062
Net PP&E	**6,432,567**	**(3,459,127)**	**2,973,440**

Thousands of euros	As of December 31, 2011 Gross cost	Accumulated depreciation	Net PP&E
Land and buildings	123,310	(82,834)	40,476
Plant and machinery	5,690,850	(2,773,773)	2,917,077
Furniture, tools and other items	353,013	(251,179)	101,834
Total PP&E in service	**6,167,173**	**(3,107,786)**	**3,059,387**
PP&E in progress	59,983	-	59,983
Net PP&E	**6,227,156**	**(3,107,786)**	**3,119,370**

"Additions" for 2012 und 2011 totaling kEUR 453,405 and kEUR 375,353 mainly reflect Telefónica Deutschland Group's investments (i.e. cell masts) made during the year to improve the capacity and coverage of the wireless networks.

Property, plant and equipment deriving from finance leases amounted to kEUR 8,948 as of December 31, 2012 and kEUR 11,786 as of December 31, 2011. The most significant finance leases are disclosed in Note 24 "Finance Leases".

The depreciation of the property, plant and equipment for the fiscal year 2012 amounting to kEUR 604,037 contains kEUR 257 based on discontinued operations. So the depreciation presented above is not comparable to the depreciation presented in the profit and loss.

(9) INVESTMENT IN ASSOCIATES

The investments in associates concern the 40% interest in Adquira España S.A. which has been sold with effect of October 1, 2012.

(10) JOINT VENTURES

Telefónica Germany GmbH & Co. OHG jointly controls the TCHIBO Mobilfunk Beteiligungs GmbH and the TCHIBO Mobilfunk GmbH & Co. KG. Both companies are recognized proportionally with 50% in the Consolidated Financial Statements.

The contributions in assets, liabilities, income and expense before consolidation to Telefónica Deutschland Group's Consolidated Statement of Financial Position as of December 31, 2012 and 2011 as well as the contributions to the Consolidated Income Statements for the years 2012 and 2011 are as follows:

TCHIBO Mobilfunk Beteiligungs GmbH Thousands of euros	As of December 31, 2012	 2011	As of January 1, 2011
Financial Position:			
Current assets	72	54	66
Non-current assets	-	-	-
Current liabilities	(54)	(36)	(49)
Non-current liabilities	-	-	-
Income Statement:			
Income	-	-	
Expenses	-	-	

TCHIBO Mobilfunk GmbH & Co. KG Thousands of euros	As of December 31, 2012	 2011	As of January 1, 2011
Financial Position:			
Current assets	44,814	14,617	28,483
Non-current assets	261	-	-
Current liabilities	(41,227)	(11,269)	(25,187)
Non-current liabilities	-	-	-
Income Statement:			
Income	26,091	25,047	
Expenses	(25,598)	(25,034)	

(11) RELATED PARTIES

Related party transactions include transactions between Telefónica Deutschland Group and Telefónica Group (Telefónica and its direct and indirect subsidiaries excluding Telefónica Deutschland Group), Telefónica Group's associated companies and joint ventures as well as Telefónica Deutschland Group's joint ventures. Furthermore, the related party transactions include transactions between Telefónica Deutschland Group and the members of Telefónica Deutschland's management board and supervisory board as well as other related individuals (other key management).

Telefónica Germany Holdings Limited, a subsidiary of O2 (Europe) Limited, a subsidiary of Telefónica, S. A., is the parent company of Telefónica Deutschland Holding AG. Therefore Telefónica Group (see above) is a related party as Telefónica S. A. (the ultimate parent) controls Telefónica Deutschland Group.

Transactions with Telefónica Group

Telefónica Deutschland Group has entered into a number of contractual relationships considered to be related party transactions.

Due to a service agreement with O2 Limited (now O2 (Europe) Limited), dated August 12, 2002 Telefónica Deutschland Group receives management consultancy and support services from Telefónica Group entities in the UK and Spain.

According to a license agreement dated January 1, 2011 Telefónica Deutschland Group is allowed to use brand rights from the Telefónica Group for which it pays a royalty fee.

Additionally, Telefónica Deutschland Group uses the O_2 brand from O2 (Europe) Limited pursuant to a license agreement and participates in a group cost share agreement with O2 (Europe) Limited and other Telefónica Group entities, both dated October 15, 2007. O2 (Europe) Limited owns and is responsible for, and bears the costs of central management and development and protection of the O_2 brand rights.

Telefónica Group has several departments called "areas of innovation" that are working on the development of new business opportunities and technologies in the following areas: cloud computing, video and digital home, content delivery network, machine to machine, applications, financial services, mobile security and e-health. Telefónica Deutschland Group participates in a cost share arrangement pursuant to which the related development and coordination costs are shared among the Telefónica entities that stand to benefit from such developments.

Furthermore Telefónica Deutschland Group has entered into a service agreement with Telefónica Global Roaming GmbH ("TGR") effective as of December 5, 2009. TGR manages the wholesale roaming business with third parties as well as the mutual roaming discounts with Telefónica Group entities. With respect to roaming arrangements with Telefónica Group entities, Telefónica Deutschland Group has GSMA-standard based international roaming agreements with all such entities.

Telefónica Deutschland Group benefits from multinational sales activities coordinated by the Telefónica global unit Telefónica Multinational Solutions ("TMS"). TMS has its own central budget and employees at the Telefónica level and each of the participating Telefónica Group entities dedicates a number of employees and resources to TMS activities. Telefónica Deutschland Group and Telefónica Group are collaborating with the business unit Telefónica Global Solutions for the development of a managed wide area network (mWAN). Due to the collaboration, Telefónica Global Solutions will develop and offer a global mWAN service for all Telefónica Group entities, including a service for the corporate clients in the German market.

Telefónica Deutschland Group has entered into an agreement dated December 13, 2010 with Telefónica Global Technology S.A.U. ("TGT") regarding the provision of its SAP system. TGT provides the company the license for various functions of the SAP software. There is a further agreement with TGT dated May 3, 2011 regarding the provision and operation of the company's desktop workplace and e-mail system. In accordance with the agreement, TGT provides the company the software as well as the tools, network connectivity, and IP communications services.

Telefónica Deutschland Group has also entered into an agreement with Telefónica Global Applications S.L. ("TGA") dated August 1, 2011, pursuant to which TGA has the responsibility for working with developers on the company's behalf regarding the development, marketing and distribution of wireless applications and into two agreements with Telefónica Czech Republic ("Telefónica Czech").

Thus, Telefónica Czech provides monitoring services for the company's wireline networks and otherwise Telefónica Deutschland Group provides monitoring services for Telefónica Czech's wireless network, each dated August 29, 2011. The interconnection agreement with Telefónica Group entity Jajah, Inc. ("Jajah") provides Jajah with connections to the company's network and Jajah provides Telefónica Deutschland Group connections to Jajah's network for the purpose of termination of telecommunications traffic in the respective networks, as well as for the conducting of telecommunications traffic via the network of one party into the telecommunications network of a third party that is connected to such party's network.

With the Ireland-based Telefónica European People Services Centre effective October 10, 2010, the Telefónica Deutschland Group has entered into a services agreement for the provision of operational human resources, payroll and employment related services to Telefónica Deutschland Group.

Furthermore, Telefónica Deutschland Group has entered into a framework agreement with Telefónica Global Services GmbH ("TGS") dated January 1, 2010 and a framework agreement with TGR dated October 20, 2010. Therefore, Telefónica Deutschland Group concludes individual service agreements with TGR and TGS, that provide central services as well as operational support functions to TGR and TGS. TGS and TGR have such agreements with further companies within the Telefónica Group.

Due to a service agreement with TGS dated October 6, 2010, Telefónica Deutschland Group has outsourced its procurement process to TGS. TGS conducts the purchase of all kinds of goods and services and performs all related procurement processes including tenders, evaluations and negotiations on behalf of the Company.

Based on a sales purchase agreement dated September 27, 2012, effective October 1, 2012, 0.00 a.m., Telefónica Germany GmbH & Co. OHG sold to Telfisa Global B.V., Netherlands, a subsidiary of Telefónica Group, all its shares in Telefónica Global Activities Holdings B.V., Netherlands (former Telefónica Chile Holding B.V.), for a total purchase price of EUR 703m. As a result of this, G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and the indirectly held 40% interest in Adquira España S.A., ceased to be members of Telefónica Deutschland Group.

Prior to the sale of all its shares in Telefónica Global Activities Holdings B.V., Telefónica Germany GmbH & Co. OHG had (i) contributed to TGR, through TGS, all of its rights and obligations under a loan agreement with G3G, and (ii) contributed to Telefónica Global Activities Holdings B.V. all of its shares in its directly and indirectly held subsidiaries G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and Telefónica Deutschland Group's indirectly held 40% interest in Adquira España S.A.

As of September 30, 2012, 12.00 p.m., all existing profit and loss transfer agreements between Telefónica Germany GmbH & Co. OHG and each of G3G, Quam, TGS and TGR were terminated. Creditors of G3G, Quam, TGS and TGR are entitled to request OHG to provide security for claims against one of these entities, which were established prior to registering the termination of the respective profit and loss transfer agreements in the commercial register. Prior to such termination, prepayments on expected profits were made under these agreements in the total amount of EUR 854.5m in 2012 (net of a prepayment on an expected loss balance obligation arising from the profit and loss transfer agreements).

On December 3, 2009, Telefónica Deutschland Group entered into a purchase agreement with Telecom Italia S.p.A. (and several of its affiliates) on the acquisition of all shares in Hamburg-based Hanse-Net and certain existing shareholder loans.

Telefónica Deutschland Group receives policies for all material damages and business interruption (including cyber risk and crime) insurance and general liability, pure financial losses, and media contents liability insurance, from Telefónica Insurances S.A., which is an insurance company in the Telefónica Group registered in Luxembourg. The insurance program is managed and implemented by the broker Pleyade S.A., in Madrid, Spain, which is also part of the Telefónica Group.

Telefónica Deutschland Group participates in the cash management system used by the Telefónica Group under cash pooling and deposit agreements. Cash throughout the Telefónica Group is centralized through these arrangements, allowing them to benefit from the economies of scale from the overall Telefónica Group as well as from the in-house liquidation of payables and receivables between Telefónica Deutschland Group and the participating members of the Telefónica Group. Under the cash pooling arrangements, the entire cash surplus available on those of their bank accounts which are included in the cash pool is automatically transferred on a daily basis to master bank accounts held by Telefónica Finanzas S.A. and Telfisa Global B.V.; both are Telefónica Group subsidiaries.

Telefónica Germany GmbH & Co. OHG entered into a loan agreement dated September 12, 2012 with the Telefónica Group entity Telfisa Global B.V. as lender, pursuant to which Telfisa Global B.V. agreed to provide a loan facility (the "Facility") of EUR 1.25bn bearing interest at the rate of 3-month Euribor plus a margin of 120 basis points, increasing by 40 basis points per year, accruing on a daily basis after drawdown of funds on the basis of a 360 day year. The Facility has a repayment schedule of 20% per year until 2017. Telefónica Germany GmbH & Co. OHG has the right to prepay the Facility, in whole or in part in a minimum amount of €100,000, on any interest payment date or subject to payment of a market-based breakage fee.

The Facility is also subject to a mandatory prepayment in the event that OHG obtains financing that matures after September 13, 2017, in the amount of 25% of the proceeds received from such financing which will be applied as a prepayment of the Facility. Default interest of an additional 2 percentage points on top of the applicable interest rate will apply in case OHG fails to comply with any of its payment obligations under the loan agreement for any reason. The loan agreement contains certain restrictive covenants, including with respect to disposals of assets, creation of liens, and mergers and consolidations.

Telefónica Germany GmbH & Co. OHG entered into a short-term loan agreement dated as of September 12, 2012 with Telfisa Global B.V. as lender. Pursuant to such loan agreement, Telefónica Germany GmbH & Co. OHG borrowed an amount of EUR 703m from Telfisa Global B.V., which amount was entirely repaid as of October 1, 2012. In preparation for the public listing, Telefónica Deutschland Group entered into an indemnity and cost sharing agreement with Telefónica. Under this agreement, Telefónica agreed to indemnify Telefónica Deutschland Group from certain liability risks and to assume the transaction costs, in each case arising out of or in connection with public listing.

Sales of goods and services and other income as well as purchases of goods and services and other expenses from transactions with Telefónica Group in years 2012 and 2011 are presented in the following table:

	Sales of goods and services, other income and other transactions		Purchases of goods and services, other expenses and other transactions	
	From January 1 to December 31,		From January 1 to December 31,	
Thousands of euros	**2012**	**2011**	**2012**	**2011**
Telefónica Group	193,868	231,939	(139,561)	(111,278)

The other income includes interest income from cash pooling with an amount of EUR 6.5m (2011: EUR 6.3m).

The other expenses include group fees totaling EUR 54.7m in 2012 and EUR 49.5m in 2011.

Telefónica Deutschland Group's receivables from and payables to Telefónica Group are as follows:

	As of December 31,		As of January 1,
Thousands of euros	**2012**	**2011**	**2011**
Receivables from Telefónica Group	**335,028**	**4,265,882**	**3,191,754**
therein:			
from cash pooling	308,154	1,333,425	248,875
from financial assets	101	2,887,051	2,885,897
from other items	26,773	45,406	56,982
Liabilities to Telefónica Group	**1,492,776**	**149,389**	**136,228**
therein:			
from trade payables	210,802	144,553	136,228
from other items	31,096	4,836	-
from borrowing debt	1,250,878	-	-

Cash Pooling:

The amounts from cash pooling are related to the cash pooling agreement with Telfisa Global B.V. and Telefónica Finanzas S.A. (until September 30, 2012).

Financial Assets:

The other non-current financial assets as of December 31, 2011 and January 1, 2011 amounting to kEUR 2,885,897 comprise mainly receivables against O2 (Europe) Limited regarding Telefónica Deutschland's capital promise. In 2012, the receivable was offset against dividend distribution (see Note 15 "Equity").

Liabilities from borrowing debt:

These liabilities are relating to the Loan Facility, described above.

Contributions in Equity and Dividends:

Described in detail in Note 15 "Equity".

Other Items:

The receivables and liabilities from other items mainly result from transaction of goods and services between Telefónica Deutschland Group and Telefónica Group. It includes receivables against Telefónica S.A. amounting to kEUR 262 and kEUR 990 as well as liabilities amounting to kEUR 5,836 and kEUR 5,721 at the reporting dates December 31, 2012 and 2011, respectively.

The position liabilities to Telefónica Group comprise primarily liabilities sold by the suppliers of Telefónica Germany GmbH & Co. OHG to a factoring company in which Telefónica has participation.

Transactions with Joint Ventures

The most significant balances and transactions with joint ventures and their contributions to the Consolidated Statement of Financial Position and Consolidated Income Statement are detailed below.

	As of December 31,		As of January 1,
Thousands of euros	**2012**	**2011**	**2011**
Receivables from TCHIBO Mobilfunk GmbH & Co. KG	**4,876**	**2,907**	**12,260**
therein:			
from other items	4,876	2,907	12,260
Liabilities to TCHIBO Mobilfunk GmbH & Co. KG	**1,004**	**698**	**1,089**
therein:			
from other items	1,004	698	1,089

	As of December 31,		As of January 1,
Thousands of euros	**2012**	**2011**	**2011**
Receivables from TCHIBO Mobilfunk Beteiligungs GmbH	**2**	**9**	**20**
therein: from other items	2	9	20
Liabilities to TCHIBO Mobilfunk Beteiligungs GmbH	**-**	**-**	**-**

	Sales of goods and services, other income and other transactions		Purchases of goods and services, other expenses and other transactions	
	From January 1 to December 31,		From January 1 to December 31,	
Thousands of euros	**2012**	**2011**	**2012**	**2011**
TCHIBO Mobilfunk GmbH & Co. KG	8,209	12,710	23,067	20,530

	Sales of goods and services, other income and other transactions		Purchases of goods and services, other expenses and other transactions	
	From January 1 to December 31,		From January 1 to December 31,	
Thousands of euros	**2012**	**2011**	**2012**	**2011**
TCHIBO Mobilfunk Beteiligungs GmbH	6	96	-	-

Transactions with pension entities

For information regarding the funding of the principal pension benefits please see Note 18 “Provisions”.

Transactions with other related individuals

Key management of Telefónica Deutschland Group is defined as those people having authority and responsibility for planning, directing and controlling the activities of Telefónica Deutschland Group within their function and within the interest of Telefónica. For the period until incorporation of Telefónica Deutschland Holding AG (September 26, 2012), the key management comprised managing directors of the Telefónica Germany GmbH & Co. OHG, Telefónica Management GmbH, Telefónica, S.A. and O2 (Europe) Limited and consisted of:

Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH		
Name	**Position**	**Since Date**
Jens Prautzsch	Managing Director Strategy & Innovation	until March 2011
Robert Simmeth	Managing Director Service Technology (CIO)	until July 2011
Gregor Bieler	Managing Director Consumer Sales	until August 2011
André Krause	Managing Director Finance (CFO)	until October 2011
Johannes Pruchnow	Managing Director Business & Wholesale Service	until July 2012
Andrea Fabiana Folgueiras	Managing Director Network Technology	until January 2013
René Schuster	Chief Executive Officer (CEO)	
Markus Haas	Chief Strategy Officer (CSO)	
Joachim Kugoth	Managing Director Human Resources	
Peter Alec Rampling	Managing Director Marketing	
Michiel van Eldik	Managing Director Wholesale & Partner Management	
Rachel Clare Empey	Chief Financial Officer (CFO)	since October 2011
John Gerald McGuigan	Managing Director Consumer Sales	since October 2011
Dr. Eckart Pech	Managing Director Service Technology	since October 2011
Marc Irmisch	Vice President Small & Medium Enterprises & SoHo, Acting Lead of Business Unit	since June 2012

Telefónica, S.A.		
Name	**Position**	**For the years**
César Alierta Izuel	Board Member Telefónica S.A., Chairperson	
Isidro Fainé Casas	Board Member Telefónica S.A., Vice Chairperson	
Vitalino Manuel Nafría Aznar	Board Member Telefónica S.A., Vice Chairperson	until December 2011
Julio Linares López	Board Member Telefónica S.A., Vice Chairperson	
José María Abril Pérez	Board Member Telefónica S.A., Vice Chairperson	
José Fernando de Almansa Moreno-Barreda	Board Member Telefónica S.A.	
José María Álvarez-Pallete López	Board Member Telefónica S.A. (COO)	
David Arculus	Board Member Telefónica S.A.	until September 2012
Eva Castillo Sanz	Board Member Telefónica S.A.	
Carlos Colomer Casellas	Board Member Telefónica S.A.	
Peter Erskine	Board Member Telefónica S.A.	
Alfonso Ferrari Herrero	Board Member Telefónica S.A.	
Luiz Fernando Furlán	Board Member Telefónica S.A.	
Gonzalo Hinojosa Fernández de Angulo	Board Member Telefónica S.A.	
Pablo Isla Álvarez de Tejera	Board Member Telefónica S.A.	
Antonio Massanell Lavilla	Board Member Telefónica S.A.	
Ignacio Moreno Martínez	Board Member Telefónica S.A.	since December 2011
Francisco Javier de Paz Mancho	Board Member Telefónica S.A.	
Chang Xiaobing	Board Member Telefónica S.A.	since May 2011
Santiago Fernández Valbuena	Board Member Telefónica S.A.	since September 2012

O2 (Europe) Limited		
Name	**Position**	**Since Date**
Robert John Harwood	Director	
Maria Pilar López Alvarez	Director	since November 2011
Enrique Medina Malo	Director	since November 2011
Francisco Jesus, Perez de Uriquen Muinelo	Director	since August 2012
David Melcon Sanchez-Friera	Director	

Telefónica Germany Holdings Limited		
Name	**Position**	**Change during Reporting Period**
Robert John Harwood	Director	Since September 2012
Maria Pilar López Alvarez	Director	since September 2012
Enrique Medina Malo	Director	since September 2012
Francisco Jesus, Perez de Uriquen Muinelo	Director	since September 2012

With effect of the incorporation of Telefónica Deutschland Holding AG (September 26, 2012), key management personnel solely comprises the management board of the company as following:

- René Schuster (CEO),
- Rachel Clare Empey (CFO),
- Markus Haas (CSO).

Please refer to Note 12 “Transaction with management and supervisory board” for further details.

During the years to which these accompanying Consolidated Financial Statements refer, key management personnel did not perform any transactions with Telefónica Deutschland Group other than those in Telefónica Deutschland Group’s normal trading activity and business.

Compensation and other benefits paid to members of key management personnel are detailed as follows:

	From January 1 to December 31,	
Thousands of euros	**2012**	**2011**
Compensation	**5,503**	**8,447**
thereof:		
Short-term employee benefits	1,221	2,200
Termination benefits	-	717
Share-based payments	3	834
Defined benefit obligation	**19,737**	**14,921**

The movements in share options for the key management are as follows:

In units	**2012**	**2011**
Share options at beginning of the year	**260,117**	**273,164**
Exercise of share options	(93,350)	(107,034)
Addition of share options	104,409	93,987
Share options at end of the year	**271,176**	**260,117**

(12) TRANSACTIONS WITH MANAGEMENT AND SUPERVISORY BOARD

1. Management board

Admission to trading on the Frankfurt Stock Exchange was granted to Telefónica Deutschland Holding AG on October 29, 2012 and the trading in the shares commenced on October 30, 2012. According to a shareholders' resolution adopted on October 5, 2012, Telefónica Deutschland does not disclose the additional disclosures for listed stock corporations in accordance with section 314 (1) no. 6 a) p. 5-8 German Commercial Code (HGB).

Members of the management board		
Name	**Members of the management board of the listed Telefónica Deutschland Holding AG (Vorstand)**	**Management board before listing**
René Schuster	since September 26, 2012	since June 2009
Rachel Empey	since September 26, 2012	since October 2011
Markus Haas	since September 26, 2012	since June 2009
Jens Prautzsch		since February 2010 until March 2011
Robert Simmeth		since February 2010 until July 2011
Gregor Bieler		since May 2011 until August 2011
André Krause		since December 2006 until October 2011
Johannes Pruchnow		since June 2009 until July2012
Andrea Fabiana Folgueiras		since October 2007
Joachim Kugoth		since February 2010
Peter Alec Rampling		since May 2010
Michiel van Eldik		since September 2010
John Gerald McGuigan		since October 2011
Dr. Eckart Pech		since October 2011
Carsten Wreth		since November 2007 until September 2012

The current service contracts of the members of the management board ("Vorstand") of Telefónica Deutschland Holding AG were concluded on September 18, 2012 and will each expire on September 17, 2015. Until September 26, 2012 they were – next to others – managing directors ("Geschäftsführer") of Telefónica Germany Verwaltungs GmbH (which was converted into Telefónica Deutschland Holding AG by resolution dated September 18, 2012 and registration ("Eintragung") with the Commercial Register on September 26, 2012). They were and are – next to others – also managing directors ("Geschäftsführer") of Telefónica Germany Management GmbH and received (until September 17, 2012) direct remuneration by Telefónica Germany Management GmbH, which is the managing shareholder ("geschäftsführender Gesellschafter") of Telefónica Germany GmbH & Co. OHG and became a legal subsidiary of Telefónica Deutschland Holding AG in September 2012. The aggregate compensation pursuant to section 314 (1) no. 6 lit. a) German Commercial Code (HGB), which was granted to the management of Telefónica Germany Verwaltungs GmbH, now Telefónica Deutschland Holding AG, by Telefónica Germany Management GmbH and Telefónica Deutschland Holding AG for the year ended December 31, 2012, amounted to kEUR 6,876 and to kEUR 8,725 for the year ended December 31, 2011, respectively. Included in the amount are 105,806 (2011: 101,287) granted share options amounting to the total fair value of kEUR 1,021 (2011 kEUR 1,808). Such aggregate compensation for the period ended December 31, 2012 includes the remuneration granted for nine other, former managing directors of Telefónica Germany Verwaltungs GmbH who ceased to be managing directors ("Geschäftsführer") before the conversion of Telefónica Germany Verwaltungs GmbH into Telefónica Deutschland Holding AG.

At present, the Telefónica Deutschland Group has not granted securities or loans to members of the management board, nor has it assumed any guarantees for them.

In the fiscal years 2012 and 2011, total personnel compensation for former members of the management board and their surviving dependents amounted to kEUR 0 and kEUR 465, respectively.

As of December 31, 2012 and 2011, respectively, the pension liabilities for former members of the management board and their surviving dependents amounted to kEUR 20,391 and kEUR 14,964, respectively.

2. Supervisory board

Members of the supervisory board	
Name	**Member of the supervisory board of the listed AG**
Eva Castillo Sanz	since October 5, 2012
Maria Pilar López Alvarez	since September 18, 2012
Angel Vilá Boix	since September 18, 2012
Patricia Cobian González	since September 18, 2012
Michael Hoffmann	since October 5, 2012
Enrique Medina Malo	since September 18, 2012
José María Álvarez-Pallete López	since September 18, 2012 until October 5, 2012
Christoph Herbert Steck	since September 18, 2012 until October 5, 2012

The total amount of benefits to the members of the supervisory board for 2012 and 2011 amounted to kEUR 19 and kEUR 0.

At present, the Telefónica Deutschland Group has not granted sureties or loans to members of the supervisory board, nor has it assumed any guarantees for them.

(13) TRADE AND OTHER RECEIVABLES

The breakdown of this item in the Consolidated Statements of Financial Position is as follows:

	As of December 31,		**As of January 1,**
Thousands of euros	**2012**	**2011**	**2011**
Receivables from sales and services	966,441	1,199,200	1,222,856
Receivables from related parties (note 11)	26,773	45,406	56,982
Other receivables	4,583	19,961	14,469
Prepayments	141,628	202,038	257,320
Provisions for bad debts:	(130,394)	(117,315)	(157,165)
Total trade and other receivables	**1,009,031**	**1,349,290**	**1,394,462**

	As of December 31,		**As of January 1,**
Thousands of euros	**2012**	**2011**	**2011**
Trade receivables billed	760,355	813,520	895,241
Trade receivable unbilled	206,986	385,680	327,615
Total	**966,441**	**1,199,200**	**1,222,856**

The ageing of the trade receivables and other receivables, which are not impaired, is as follows:

	As of December 31,		**As of January 1,**
Thousands of euros	**2012**	**2011**	**2011**
not past due	130,312	178,421	127,292
overdue since 1-30 days	2,736	6,515	-
overdue since 31-60 days	1,085	4,034	8,209
overdue since 61-90 days	(768)	6,285	555
overdue since 91-180 days	301	1,044	5,479
overdue since 181-360 days	-	13,713	1,970
overdue since more than 360 days	-	-	919
Total	**133,666**	**210,012**	**144,424**

With regard to these receivables there were no indications of circumstances that may negatively affect their value at the respective reporting dates.

In November 2011 and during 2012 Telefónica Germany GmbH & Co. OHG entered into asset purchase agreements for "O_2 My Handy" receivables in order to optimize working capital and to access an alternative source of funding. The buyer bears the majority of the credit risks of these receivables. A small portion (in 2012 less 5%, in 2011 less 5%) of the sold assets has not been derecognized due to the continuing involvement. In the same amount a liability was recognized. Both will be dissolved over the term of the receivables sold. The continuing involvement recognized is the maximum risk that Telefónica Deutschland Group retains. It represents the maximum repurchase rate of defaulted receivables, the loss percentage and the late payment risk. In addition, Telefónica Deutschland Group recognizes a liability in the amount of the fair value of the guarantees given. The total loss recognized at the dates of transfers of the assets amounted to EUR 1.24m (2011: EUR 0.7m). The total carrying amount of the transferred receivables amounted to EUR 370.4m (2011: EUR 254.6m). The carrying amount of assets that Telefónica Deutschland Group continues to recognize amounted to EUR 16.0m as of December 31, 2012 and EUR 10.1m as of December 31, 2011. The carrying amount of the associated liabilities amounted to EUR 16.9m and EUR 10.7m, respectively. The impact on profit and loss from continuing involvement after the dates of sale comprises loss in the amount of EUR 1.1m in 2012 and in EUR 0.6m in 2011. As well as the cumulative loss impact from continuing involvement up to December 31, 2012 amounted to EUR minus 1.7m (2011 EUR -0.6m, respectively).

The following table shows the reconciliation of changes in the allowances account for the years ended December 31, 2012 and 2011:

Allowances as of December 31, 2012	**(130,394)**
Additions	(74,059)
Reductions	56,315
Withdrawals from discontinued operations	4,665
Allowances as of December 31, 2011	**(117,315)**
Additions	(47,223)
Reductions	87,073
Allowances as of January 1, 2011	**(157,165)**

(14) CASH AND CASH EQUIVALENTS

	As of December 31,		As of January 1,
Thousands of euros	**2012**	**2011**	**2011**
Cash at bank and in hand	15,512	17,226	59,120
Cash pooling	308,154	1,333,425	248,875
Total	**323,666**	**1,350,651**	**307,995**

Cash and cash equivalents mainly consist of deposits related to cash pooling agreements with Telfisa Global B.V. and Telefónica Finanzas S.A. (until September 30, 2012).

(15) EQUITY

Capital promise

On March 28, 2003 and April 30, 2004 O2 (Europe) Limited issued a declaration of obligation to Telefónica Deutschland (former "Telefónica Germany Verwaltungs GmbH"; former "O2 Germany Verwaltungs GmbH") under which O2 (Europe) Limited obliged itself to provide Telefónica Deutschland 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 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. Therefore a receivable of Telefónica Deutschland against O2 (Europe) Limited remained in the amount of EUR 2,866m.

Pre-IPO dividend

Based on shareholder resolution dating August 24, 2012 the capital reserve has been unwinded according to section 270 par. 1 HGB to get it disposable for dividend distribution to shareholders. On September 14, 2012 Telefónica Deutschland declared a pre-IPO dividend to O2 (Europe) Limited amounting to EUR 7,186m. Thereof, EUR 4,300m have been considered as cash payments and EUR 2,886m were offset against the above mentioned capital promise.

Capital increase resolution

With resolution on September 18, 2012 and with entry in the Commercial Register on September 26, 2012, O2 (Europe) Limited has increased the share capital of Telefónica Deutschland 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 within a common control transaction.

Authorized share capital

Until September 17, 2017 and subject to the approval of the supervisory board, the management board is authorized to increase the registered share capital of the company on one or more occasions by a total amount of up to EUR 558,472,700, by issuing up to 558,472,700 new non-par value registered shares against contribution in cash and/or in kind.

Legal reserve

Retained earnings include a legal reserve according to section 150 par. 2 Stock Corporation Act (AktG) amounting to kEUR 14, which has been remunerated from current year result.

Acquisition of non-controlling interests

The Group acquired the remaining 27.16% of Telefónica Compras Electronica S.L. shares at the beginning of 2011. As a result, the Group's total interest increased to 100%. In return, a consideration of kEUR 3,006 has been paid in cash. By the time, the carrying amount attributable to the non-controlling interests amounted to kEUR 2,937. The difference between purchase price paid and carrying amount attributable to the acquired non-controlling interests in the amount of kEUR 69 has been offset in equity with retained earnings.

(16) FINANCIAL ASSETS AND LIABILITIES

The following tables list the carrying values and fair values of all financial assets and financial liabilities held by the Telefónica Deutschland Group in accordance with the valuation categories of IAS 39. For simplification purposes the carrying amount of current financial assets and current financial liabilities is assumed to be the respective fair value.

In addition the tables show the categorization of financial assets and liabilities according to the importance of the input factors used for their respective valuation. For this purpose three levels are defined:

- Level 1: Quoted prices of the respective financial asset or financial liability in active markets;
- Level 2: Other directly observable input parameters which contribute to establishing the fair value based on a valuation model; and
- Level 3: Input parameters not based on observable market data.

	As of December 31, 2012								
			Measurement hierarchy						
Thousands of euros	**Available-for-sale**	**Held for trading**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Loans and receivables**	**Total carrying amount**	**Total fair value**	**Not in scope of IFRS 7**
Other non-current financial assets	5,759	-	-	5,759	-	108,916	114,675	114,675	-
Trade and other receivables	-	-	-	-	-	862,821	862,821	862,821	146,210
Other current financial assets	-	-	-	-	-	101	101	101	-
Cash and cash equivalents	-	-	-	-	-	323,666	323,666	323,666	-
Total	**5,759**	**-**	**-**	**5,759**	**-**	**1,295,504**	**1,301,263**	**1,301,263**	**146,210**

	As of December 31, 2011								
			Measurement hierarchy						
Thousands of euros	**Available-for-sale**	**Held for trading**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Loans and receivables**	**Total carrying amount**	**Total fair value**	**Not in scope of IFRS 7**
Other non-current financial assets	5,560	-	-	5,560	-	89,889	95,449	95,449	-
Trade and other receivables	-	-	-	-	-	1,144,891	1,144,891	1,144,891	204,399
Other current financial assets	-	1,154	-	1,154	-	2,885,897	2,887,051	2,887,051	-
Cash and cash equivalents	-	-	-	-	-	1,350,651	1,350,651	1,350,651	-
Total	**5,560**	**1,154**	**-**	**6,714**	**-**	**5,471,328**	**5,478,042**	**5,478,042**	**204,399**

	As of January 1, 2011								
			Measurement hierarchy						
Thousands of euros	**Available-for-sale**	**Held for trading**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Loans and receivables**	**Total carrying amount**	**Total fair value**	**Not in scope of IFRS 7**
Other non-current financial assets	5,335	-	-	5,335	-	97,504	102,839	102,839	-
Trade and other receivables	-	-	-	-	-	1,136,073	1,136,073	1,136,073	258,389
Other current financial assets	-		-		-	2,885,897	2,885,897	2,885,897	-
Cash and cash equivalents	-	-	-	-	-	307,995	307,995	307,995	-
Total	**5,335**	**-**	**-**	**5,335**	**-**	**4,427,469**	**4,432,804**	**4,432,804**	**258,389**

Other non-current financial assets include non-current other investments classified as loans and receivables. The major position under other non-current financial assets are "O_2 My Handy" receivables. The other investments comprise an amount of EUR 14.9m (2011: EUR 0m) of a deposit pledged as collateral to cover the maximum risk from silent factoring to be borne by Telefónica Deutschland Group. The deposit is pledged over the term of the receivables sold (see Note 13 "Trade and other Receivables"). Telefónica Deutschland Group is paid a fixed interest for the deposit.

Furthermore, other non-current financial assets comprise available-for-sale financial assets incurred by Telefónica Deutschland Group to meet its pension obligations but do not qualify as plan assets under IAS 19. Telefónica Deutschland Group realized net gains from available-for-sale financial assets amounting to kEUR 199 and kEUR 225 in the years 2012 and 2011, respectively, which were recognized directly in other comprehensive income.

Other current financial assets as of December 31, 2011 and as of January 1, 2011 comprise in the amount of kEUR 2,885,897 a capital promise between the Telefónica Deutschland Group and O2 (Europe) Limited (see Note 15 "Equity").

Other current financial assets classified as held for trading comprise foreign currency forwards (see Note 19 "Financial Instruments and Risk Management").

	As of December 31, 2012								
				Measurement hierarchy					
Thousands of euros	**Liabilities at amortized cost**	**Finance Leases**	**Held for trading**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Total carrying amount**	**Total fair value**	**Not in scope of IFRS 7**
Non-current liabilities	**1,004,209**	**4,984**	**-**	**-**	**-**	**-**	**1,009,193**	**1,009,193**	**-**
Loans	1,000,000	-	-	-	-	-	1,000,000	1,000,000	-
Other payables	4,209	4,984	-	-	-	-	9,193	9,193	-
Current liabilities	**1,215,555**	**3,964**	**-**	**-**	**-**	**-**	**1,219,519**	**1,219,519**	**168,947**
Trade payables	918,458	-	-	-	-	-	918,458	918,458	-
Loans	250,878	-	-	-	-	-	250,878	250,878	-
Other payables	46,219	3,964	-	-	-	-	50,183	50,183	168,947
Total	**2,219,764**	**8,948**	**-**	**-**	**-**	**-**	**2,228,712**	**2,228,712**	**168,947**

	As of December 31, 2011								
				Measurement hierarchy					
Thousands of euros	**Liabilities at amortized cost**	**Finance Leases**	**Held for trading**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Total carrying amount**	**Total fair value**	**Not in scope of IFRS 7**
Non-current liabilities	**-**	**6,342**	**-**	**-**	**-**	**-**	**6,342**	**6,342**	**-**
Other payables	-	6,342	-	-	-	-	6,342	6,342	-
Current liabilities	**992,431**	**5,444**	**4,836**	**-**	**4,836**	**-**	**1,002,711**	**1,002,711**	**82,193**
Trade payables	891,321	-	-	-	-	-	891,321	891,321	-
Other current financial liabilities	-	-	4,836	-	4,836	-	4,836	4,836	-
Other payables	101,110	5,444	-	-	-	-	106,554	106,554	82,193
Total	**992,431**	**11,786**	**4,836**	**-**	**4,836**	**-**	**1,009,053**	**1,009,053**	**82,193**

	As of January 1, 2011								
				Measurement hierarchy					
Thousands of euros	**Liabilities at amortized cost**	**Finance Leases**	**Held for trading**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Total carrying amount**	**Total fair value**	**Not in scope of IFRS 7**
Non-current liabilities	**-**	**5,846**	**-**	**-**	**-**	**-**	**5,846**	**5,846**	**-**
Other payables	-	5,846	-	-	-	-	5,846	5,846	-
Current liabilities	**930,909**	**3,789**	**-**	**-**	**-**	**-**	**934,698**	**934,698**	**95,775**
Trade payables	822,831	-	-	-	-	-	822,831	822,831	-
Other payables	108,078	3,789	-	-	-	-	111,867	111,867	95,775
Total	**930,909**	**9,635**	**-**	**-**	-	**-**	**940,544**	**940,544**	**95,775**

Financial liabilities measured at amortized cost

Telefónica Germany GmbH & Co. OHG entered into loan agreements dated as of September 12, 2012 with Telfisa Global B.V. as borrower in the amount of EUR 703m and EUR 1,250m. The loan in the amount of EUR 703m was repaid in 2012. The loan in the amount of EUR 1,250m generally has a five year term. The agreed yearly repayment is 20%. For this reason, EUR 1,000m of the amount is classified as non-current other payables to related parties. But Telefónica Germany GmbH & Co. OHG has the right to prepay the loan earlier voluntarily. In case Telefónica Germany GmbH & Co. OHG obtains other financing facilities, it will be required to prepay the loan in the amount of 25% of the proceeds of these facilities.

Other current payables comprise payables from investment in fixed assets.

Financial liabilities held for trading

Other current financial liabilities classified as held for trading comprise foreign currency derivatives (forwards).

(17) TRADE AND OTHER PAYABLES AND DEFERRED INCOME

The composition of "Trade and other payables" is as follows:

	As of December 31,				As of January 1,	
	2012		2011		2011	
Thousands of euros	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**
Trade payables	-	379,402	-	335,621	-	295,641
Accruals	-	328,254	-	411,147	-	390,962
Payables to related parties (Note 11)	-	210,802	-	144,553	-	136,228
Trade payables	**-**	**918,458**	**-**	**891,321**	**-**	**822,831**
Other payables[1]	9,193	219,130	6,342	188,747	5,846	207,624
Deferred income	-	153,972	-	196,866	-	136,920
Total	**9,193**	**1,291,560**	**6,342**	**1,249,934**	**5,846**	**1,167,375**

[1] Thereof current payables to related parties: As of December 31, 2012 31,096 kEUR; As of December 31, 2011 4,836 kEUR; As of January 1, 2011 0 kEUR.

"Accruals" mainly includes liabilities for provisions, liabilities for personnel and liabilities for outstanding invoices.

"Deferred income" principally includes the amount of advance payments received on prepaid contracts and the accruals for future interests from installment purchases.

The detail of current “Other payables” is as follows:

Thousands of euros	As of December 31, 2012	2011	As of January 1, 2011
Current other payables			
Other creditors non trade	63,665	54,726	58,599
Capital creditors	78,870	101,110	108,078
Other taxes and social security	41,535	22,631	37,158
Current other payables to related parties	31,096	4,836	-
Finance leasing	3,964	5,444	3,789
Total current	**219,130**	**188,747**	**207,624**
Non-current other payables			
Other creditors non trade	4,208	-	-
Finance leasing	4,985	6,342	5,846
Total non-current	**9,193**	**6,342**	**5,846**
Total other payables	**228,323**	**195,089**	**213,470**

“Other creditors non trade” mainly includes liabilities from factoring and liabilities for deferred rent-free units.

“Capital creditors” mainly includes liabilities for outstanding invoices for non-current assets.

(18) PROVISIONS

The amounts of provisions are as follows:

Thousands of euros	As of December 31, 2012	2011	As of January 1, 2011
Non-current provisions			
Pensions	7,459	-	9,044
Other provisions	74,923	68,947	107,731
Total	**82,382**	**68,947**	**116,775**
Current provisions			
Other provisions	7,000	41,609	182,429
Total	**7,000**	**41,609**	**182,429**
Total provisions	**89,382**	**110,556**	**299,204**

Employee benefits

Telefónica Deutschland Group has defined benefit plans for its employees. The following tables present the main data of these plans:

Thousands of euros	As of December 31, 2012	2011	As of January 1, 2011
Obligation	(80,708)	(55,739)	(57,122)
Assets	73,389	73,465	57,456
Net provision before asset ceiling	(7,319)	17,726	334
Asset ceiling	(140)	(17,050)	(9,378)
Net provision	(7,459)	-	(9,044)
Net assets	-	676	-

At December 31, 2012 the amount of the defined benefit obligation arising from plans that are wholly unfunded amounts to kEUR 3,251 and 2011 to kEUR 2,899, respectively and from plans that are wholly or partly funded amounts to kEUR 77,457 and kEUR 52,840, respectively.

The development in the present value of defined benefit obligations in 2012 and 2011 is as follows:

Thousands of euros	2012	2011
Present value of defined benefit obligation at the beginning of the year	**(55,739)**	**(57,122)**
Current service cost	(2,347)	(2,918)
Interest cost	(2,944)	(2,725)
Actuarial gains and losses	(21,380)	6,620
Benefits paid	1,126	347
Changes in the consolidated subsidiaries	851	-
Transfer to other companies	(275)	59
Present value of defined benefit obligation at the end of the year	**(80,708)**	**(55,739)**

Developments in the fair value of plan assets in 2012 and 2011 are as follows:

Thousands of euros	2012	2011
Fair value of plan assets at the beginning of the year	**73,465**	**57,456**
Expected return on plan assets	3,638	2,857
Actuarial gains and losses	(2,386)	(3,283)
Employer contributions	311	16,545
Benefits paid	(906)	(174)
Changes in the consolidated subsidiaries	(858)	-
Transfer to other companies	-	(75)
Others	125	139
Fair value of plan assets at the end of the year	**73,389**	**73,465**

Plan assets comprise solely qualifying insurance policies.

Expenses recognized in profit or loss are shown as follows:

	As of December 31,	
Thousands of euros	**2012**	**2011**
Current service costs	2,347	2,918
Interest cost	2,944	2,725
Expected return on plan assets	(3,638)	(2,857)
Recognition of past service cost	275	-
Total amount of expense	**1,928**	**2,786**

The actual return on plan assets for the year ended December 31, 2012 and 2011 amounts to kEUR 1,252 and kEUR minus 426.

The amounts of actuarial gains and losses of these plans recognized directly in equity in accordance with their asset ceiling before the related tax effect are as follows:

	As of December 31,	
Thousands of euros	**2012**	**2011**
Actuarial gains and losses	23,766	(3,337)
Effect of the limit in IAS 19.58b	(19,884)	7,689
Total amount of expense	**3,882**	**4,352**

The accumulated amount recognized in the other comprehensive income at December 31, 2012 and 2011 amounts to kEUR 33,189 and kEUR 29,307.

The various companies consolidated within Telefónica Deutschland Group have defined benefit plans, covered by plan assets.

The following experience adjustments arised as of December 31, 2012 and 2011:

	As of December 31,	
Thousands of euros	**2012**	**2011**
Present value of defined benefit obligation	(80,708)	(55,739)
Fair value of plan assets	73,389	73,465
Deficit/Surplus in the plan	(7,319)	17,726
Experience adjustments arising from defined benefit obligation	3,709	(337)
Experience adjustments arising from plan assets	(5,663)	2,974

The number of beneficiaries of these plans at December 31, 2012 and 2011 is as follows:

	As of December 31,	
Employees	**2012**	**2011**
Consolidated Group	6,409	6,189

The main actuarial assumptions used in valuing these plans are as follows:

	As of December 31,	
Assumption	**2012**	**2011**
Nominal rate of salary increase	2.60%	3.50%
Nominal rate of pension payment increase	2%	2%
Discount rate	4.20%	5.30%
Expected return on plan assets	4.20%	4.25%-4.0%
- Support fund	4.20%	4.25%
- Direct commitments	4.20%	4.00%
Mortality tables	Prof. Klaus Heubeck (RT 2005 G)	Prof. Klaus Heubeck (RT 2005 G)

The discount rate used is based on the duration of the DBO, which is greater than 20 years. The best estimate of contributions expected to be paid to the plans during the year ending December 31, 2013 will amount to approximately kEUR 7,615. The expected return on assets is based on the expected return of the underlying insurance contracts.

Other provisions

"Other provisions" include provisions for dismantling and restructuring. The movement is as follows:

	Non Current			Current		Non Current & Current
Thousands of euros	**Dismantling**	**Restructuring**	**Total**	**Restructuring**	**Total**	**Total**
Other provisions at December 31, 2012	**55,694**	**19,229**	**74,923**	**7,000**	**7,000**	**81,923**
Additions	157	-	157	6,952	6,952	7,109
Utilization	(6,739)	(407)	(7,146)	(22,348)	(22,348)	(29,494)
Transfers	-	9,291	9,291	(19,213)	(19,213)	(9,922)
Unwinding of discount	3,674	-	3,674	-	-	3,674
Other provisions at December 31, 2011	**58,602**	**10,345**	**68,947**	**41,609**	**41,609**	**110,556**
Additions	3,382	-	3,382	2,095	2,095	5,477
Utilization	(11,623)	(26,106)	(37,729)	(149,561)	(149,561)	(187,290)
Transfers	-	(6,646)	(6,646)	6,646	6,646	-
Unwinding of discount	2,209	-	2,209	-	-	2,209
Other provisions at January 1, 2011	**64,634**	**43,097**	**107,731**	**182,429**	**182,429**	**290,160**

Provisions for dismantling obligations include the estimated costs for dismantling and removing an asset (e.g. mobile masts and other fixed assets), and restoring the site on which it is located. The expected timing of use depends on the respective agreements of site usage. Respective agreements have a duration of up to 20 years.

"Restructuring" mainly includes provisions for staff reduction plans and provisions for vacancies in rented properties. The expected timing of use covers periods from short to medium term depending on the respective restructuring events. The provisions for restructuring include contingent liabilities from acquisition of HanseNet Telekommunikation GmbH in 2010 in regard to outstanding settlement agreements with sales agents. As of December 31, 2012 the provision amounts to EUR 0.7m and EUR 6.3m as of December 31, 2011 as EUR 5.2m have been reversed and EUR 0.4m used up. The expected timing of use depends on the progress of settlement agreements with sales agents.

(19) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

General

Telefónica Deutschland Group is exposed to various financial market risks as a result of its business. However, due to Telefónica Deutschland Group's regional focused operations, foreign exchange risk does not affect Telefónica Deutschland Group materially. Telefónica Deutschland Group is subject to credit risk from the operating business (trade receivables) as well as from receivables towards Telefónica Group.

Furthermore, Telefónica Deutschland Group is exposed to liquidity risks relating to its credit risks and market risks or a weakening of its operating business or financial market disturbances.

If these financial risks materialize, they could adversely affect Telefónica Deutschland Group's financial position, cash flows and profitability.

Telefónica Deutschland Group has guidelines in place for risk management procedures and for the use of financial instruments, including a clear segregation of duties with regard to financial activities, settlement, accounting and the related controlling. Derivative financial instruments are only contracted to hedge underlying risks from its commercial and treasury financing activities. However, these instruments are always contracted with Telefónica Group treasury and Telefónica Deutschland Group has established guidelines derived from best practice standards for risk assessment procedures and supervision concerning the use of financial derivatives.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the value of financial instruments or income of Telefónica Deutschland Group.

Foreign exchange risk

Telefónica Deutschland Group has determined the Euro as its financial reporting currency. All financial statements of Telefónica Deutschland Group's subsidiaries are prepared in Euro and therefore Telefónica Deutschland Group is not exposed to foreign exchange translation risks. Besides translation risks, foreign exchange transaction risk exists, mainly arising from Telefónica Deutschland Group's business relations with suppliers or business partners in countries that use currencies other than the Euro. Given its funding solely by self-generated cash and equity no exchange risk from debt denominated in currencies other than the Euro occurs. The net exposure on foreign currency risk at the balance sheet consists of primary and derivative financial instruments in foreign currencies as well as planned positions in foreign currencies of the following year.

For material identified foreign currency risks, derivatives are contracted with Telefónica Group treasury. At the reporting date December 31, 2012 no foreign currency derivatives existed. In 2011 foreign exchange derivatives were contracted to hedge exposure from its activities in currencies other than Euro. The effects before tax on the Consolidated Income Statement and equity of a simultaneous parallel appreciation of the Euro against all foreign currencies of 10% at the reporting dates December 31, 2012 and December 31, 2011 are as follows:

	2012		**2011**	
	Exposure	**+10%**	**Exposure**	**+10%**
USD	(36.8)	3.3	224.2	(20.4)
GBP	(21.5)	2.0	54.0	(4.9)
BRL	0.0	0.0	36.2	(3.3)
Others	0.0	0.0	61.0	(5.5)

As Telefónica Deutschland Group does not apply cash Flow hedge Accounting the effect of the sensitivity analysis would only affect the Consolidated Income Statement. The significant decrease of the net exposure and the sensitivities results from the purchasing activities of TGS until October 1, 2012, which is exposed to foreign currency risks from its operating business.

Interest rate risk

Interest rate risks arise primarily from Telefónica Deutschland's cash pooling accounts and deposits and in 2012 additionally from a loan agreement as a borrower.

Telefónica Deutschland Group deposits cash surpluses in cash pooling accounts and deposit accounts with Telfisa Global B.V. These accounts as well as the bank accounts bear variable interests.

Beyond Telefónica Deutschland Group has a loan liability in the amount of EUR 1,250m, which is bearing variable interest. The loan generally has to be repaid in five equal annual installments from September 2013 until September 2017. But Telefónica Deutschland Group may repay the loan early at any time. In case of obtaining other financing facilities, Telefónica Deutschland Group has to prepay the loan mandatory in the amount of 25% of the proceeds of these facilities.

The net exposure on variable interest for Telefónica Deutschland Group at the reporting dates December 31, 2012 and 2011, amounted to kEUR minus 926,334 and kEUR 1,148,125, respectively, mainly resulting from the loan and the cash and cash equivalents deposited with Telfisa Global B.V.. Telefónica Deutschland Group did not enter into interest rate derivatives during the years ended December 31, 2012 and 2011.

The effects before tax on the Consolidated Income Statement of a change in interest rates for variable- rate financial instruments of +/-100 basis points on the reporting dates December 31, 2012 and 2011 are shown in the table below. There is no impact recognized directly in equity. The minimum interest rate applied to take changes in interest rates into account was 0%. This analysis assumes that all other variables remain constant.

Impact on Consolidated Income Statement

Thousands of euros	2012	2011
+100bp	(9,263)	11,481
-100bp	12,133	(11,171)

Credit risk

Credit risk is the risk of financial loss arising from counterparty's inability to repay or service debt in accordance with the contractual terms. Credit risk includes both the direct risk of default and the risk of a deterioration of creditworthiness as well as concentration risks. Telefónica Deutschland Group's maximum exposure to credit risk is initially represented by the carrying amounts of the financial assets (without consideration of guarantees or collateral, if available).

Telefónica Deutschland Group considers managing commercial credit risk as crucial to meet its sustainable business and customer base growth targets in a manner that is consistent with its risk management policy. Appropriate credit policies, procedures and authorization guidelines are established to manage and monitor credit risk.

This approach to manage credit risk is based on continuous monitoring of the risk assumed and the resources necessary. In particular, attention is given to those clients that could cause a material impact on Telefónica Deutschland Group's Consolidated Financial Statements for which depending on the segment and type of relation appropriate credit management instruments like credit insurance or collateral may be used to mitigate exposure to credit risk. The assets acquired as a result of these credit insurances or collaterals during the years ended December, 31 2012 and 2011 were not material. In order to control credit risk, Telefónica Deutschland Group regularly performs an ageing analysis of trade accounts receivables and books allowances for doubtful accounts receivables with similar exposure to credit risk only.

In case Telefónica Deutschland Group has entered into foreign currency derivatives, all trades have been conducted with Telefónica Group treasury according to group policy only.

With regard to its cash surpluses Telefónica Deutschland Group has entered into cash pooling agreements and deposit agreements with Telfisa Global B.V. according to Telefónica Group policy and places most of its cash surpluses with these institutions.

Thus, most of Telefónica Deutschland Group's cash surpluses will be concentrated in these companies belonging to Telefónica Group which is rated by international rating agencies with an investment grade rating. The remaining cash surplus is spread out over several German banks, which are rated by international rating agencies with an investment grade rating.

At year-end 2012 and 2011 financial assets with Telefónica Group as counterparty amounted to EUR 335m and EUR 4,266m, respectively.

Liquidity risk

Liquidity risk comprises the risk that a company is unable to meet its financial obligations that are settled by delivering cash or another financial asset. Telefónica Deutschland Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions. Telefónica Deutschland Group manages its liquidity closely coordinated with Telefónica and has entered into cash pooling agreements and deposit agreements with Telfisa Global B.V. according to Telefónica Group policy and places most of its cash surpluses with these institutions. The cash inflows generated by Telefónica Deutschland Group's operating business as well as the possibility of factoring receivables and maintaining credit facilities are used to reduce Telefónica Deutschland Group's liquidity risk.

In August and September 2012, Telefónica Germany GmbH & Co. OHG, as borrower, entered into revolving credit facility agreements with several banks. As a result, Telefónica Germany GmbH & Co. OHG has undrawn committed credit lines with maturity beyond one year in a total amount of EUR 710m. Every agreement's calculation of interest is the percentage rate which is the aggregate of margin and EURIBOR.

Furthermore, Telefónica Deutschland Holding AG has authorized capital allowing the management board, upon approval by the supervisory board, to increase the registered share capital, against and/ or non-cash contributions until September 2017 on one or more occasions by a total amount of up to EUR 558,472,700 by issuing new non-par value registered shares. At year-end 2012 and 2011, cash and cash equivalents totaled EUR 323.7m and EUR 1,350.7m, respectively.

The following table shows the maturity profile of Telefónica Deutschland Group's financial liabilities based on contractual undiscounted payments:

	As of December 31, 2012				
			remaining term		
Thousands of euros	**Total carrying amount**	**Gross cash outflow**	**< 1 years**	**1-5 years**	**> 5 years**
Non-current liabilities	**1,009,193**	**1,072,552**	**-**	**1,072,552**	**-**
Loans	1,000,000	1,063,217	-	1,063,217	-
Other payables	9,193	9,335	-	9,335	-
Current liabilities	**1,219,519**	**1,239,581**	**1,239,581**	**-**	**-**
Trade payables	918,458	918,458	918,458	-	-
Loans	250,878	270,940	270,940	-	-
Other payables	50,183	50,183	50,183	-	-
Total financial liabilities	**2,228,712**	**2,312,133**	**1,239,581**	**1,072,552**	**-**

	As of December 31, 2011				
			remaining term		
Thousands of euros	**Total carrying amount**	**Gross cash outflow**	**<1 years**	**1-5 years**	**>5 years**
Non-current liabilities	**6,342**	**6,473**	**-**	**6,473**	**-**
Loans	-	-	-	-	-
Other payables	6,342	6,473	-	6,473	-
Current liabilities	**1,002,711**	**1,003,067**	**1,003,067**	**-**	**-**
Trade payables	891,321	891,321	891,321	-	-
Other current financial liabilities	4,836	4,969	4,969	-	-
Other payables	106,554	106,777	106,777	-	-
Total financial liabilities	**1,009,053**	**1,009,540**	**1,003,067**	**6,473**	**-**

Capital management

Telefónica Deutschland Group aims to ensure sustainability of the business and maximize the value to shareholders. Telefónica Deutschland Group monitors its cost of capital with a goal of optimizing its capital structure. Telefónica Deutschland Group monitors the equity ratio and the OIBDA. As of December 31, 2012 and 2011, the equity ratio was 70.9% and 90%, while the OIBDA from continuing operations was EUR 1,279.1m and EUR 1,149.2m.

(20) FINANCIAL RESULTS

The breakdown of the "Financial Result" is as follows:

	As of December 31,	
Thousands of euros	**2012**	**2011**
Interest income from financial assets not accounted at fair value through profit and loss	12,068	11,426
Other interest income	3,610	2,845
Interest expenses from financial liabilities not accounted at fair value through profit and loss	(18,622)	(6,180)
Accretion of provisions and other liabilities	(2,763)	(2,209)
Other exchange gains/losses	(416)	148
Net financial result	**(6,123)**	**6,030**

The increase in interest expenses from financial assets not accounted at fair value through profit and loss mainly results from an increase in borrowings.

Other exchange gains/losses result from assets and liabilities not accounted at fair value through profit and loss. Gains and losses from foreign-exchange derivates only relate to discontinued operations.

(21) INCOME TAX MATTERS

Consolidated tax group

Telefónica Deutschland has filed consolidated tax returns for certain companies of Telefónica Deutschland Group. The consolidated tax group comprises 6 companies as of December 31, 2012 (10 in 2011).

Deferred taxes

Total tax expense consists solely of deferred tax expense as follows:

	As of December 31,	
Thousands of euros	**2012**	**2011**
Deferred tax (expense)	167,756	(1,732)
Income tax (expense)	**167,756**	**(1,732)**

The movements in deferred taxes are as follows:

Thousands of euros	**2012**	**2011**
Balance at January 1	**412,033**	**412,510**
Deferred tax expense	167,756	(1,732)
Movement in deferred taxes recognized directly in equity as shown in the consolidated statement of comprehensive income	1,427	1,255
Other	(25)	-
Balance at December 31	**581,191**	**412,033**

Tax loss carry forwards and temporary differences

Tax loss carried forward for which no deferred tax assets have been recognized at December 31, 2012 amounted to kEUR 11,222,741 for corporate income tax and kEUR 11,239,147 for trade tax respectively (kEUR 21,441,697 and kEUR 21,125,664 in 2011 and kEUR 20,847,724 and kEUR 20,588,258 as of January 1, 2011). The reduction results from the sale of Group 3G UMTS Holding and Quam GmbH. No deferred tax assets have been recognized for temporary differences in the amount of kEUR 565,122 in 2012, kEUR 2,234,462 in 2011 and kEUR 2,472,469 as of January 1, 2011.

Tax loss carried forward of Telefónica Deutschland Group contain taxable income and losses surrendered by Telefónica Global Services GmbH, Telefónica Global Roaming GmbH, Group 3G UMTS Holding and Quam GmbH, which are disposed as discontinued operations.

Temporary differences are generated as a result of the difference between tax bases of the assets and liabilities and their respective carrying amounts. Deductible temporary differences and tax loss carried forward give rise to deferred tax assets on the consolidated statement of financial position, whereas taxable temporary differences in tax bases give rise to deferred tax liabilities on the consolidated statement of financial position. The sources of deferred tax assets and liabilities from temporary differences and losses carried forward recognized at December 31, 2012, 2011 and January 1, 2011 are as follows:

	As of December 31				As of January 1, 2011	
	2012		2011			
	Deferred tax		Deferred tax		Deferred tax	
Thousands of euros	**assets**	**liabilities**	**assets**	**liabilities**	**assets**	**liabilities**
Goodwill and intangible assets	891,684	(80,486)	796,735	(84,125)	1,204,232	(75,761)
Tangible assets	-	(327,255)	-	(286,945)	43,975	(291,945)
Investments in subsidiaries, associates and joint ventures	-	-	-	(1)	-	-
Trade and other receivables	116,446	(441)	304,877	-	957,182	(274,718)
Other current financial assets	11,413	(49,564)	3,584	(6)	12,366	(1,834)
Debt, trade and other payables	1,138	(114,675)	97,112	(435,294)	128,318	(1,286,225)
Provisions including pension provisions	34,410	(5,173)	32,285	-	34,490	(9,380)
Other current financial assets	4,210	(2,319)	5,166	(21,356)	14,817	(43,007)
Tax loss carryforward	101,802	-	-	-	-	-
Tax assets (liabilities)	1,161,103	(579,913)	1,239,759	(827,726)	2,395,380	(1,982,870)
Set off of tax	(579,913)	579,913	(827,726)	827,726	(1,982,870)	1,982,870
Net tax assets (liabilities)	**581,191**	**-**	**412,033**	**-**	**412,510**	**-**

Reconciliation of profit before taxes to taxable income

The reconciliation between profit and the income tax expense for 2012 and 2011 is as follows:

	As of December 31,	
Thousands of euros	**2012**	**2011**
Profit before tax from continuing operations	**139,768**	**73,078**
Tax expense at prevailing statutory rate (32%)	(44,628)	(23,334)
Non-deductible expenses	(9,429)	(9,111)
Tax free income	85,095	-
Change in unrecognized temporary differences and tax loss carryforwards	135,571	30,288
Other	1,147	425
Income tax (expense)	**167,756**	**(1,732)**
Deferred tax (expense)	167,756	(1,732)
Total income tax (expense)	**167,756**	**(1,732)**

(22) REVENUES AND EXPENSES

Revenues

The breakdown of "Revenues" is as follows:

	As of December 31,	
Thousands of euros	**2012**	**2011**
Rendering of services	4,515,041	4,372,205
Net Sales	697,797	663,347
Total	**5,212,838**	**5,035,552**

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

Thousands of euros	As of December 31, 2012	As of December 31, 2011
Revenues		
Wireless Business	3,845,053	3,605,747
Wireless Service Revenues	*3,151,838*	*2,946,465*
Handset Revenues	*693,215*	*659,282*
Wireline Business	1,363,203	1,425,740
Other	4,582	4,065
Total Revenues	**5,212,838**	**5,035,552**

Revenues mainly comprise Wireline revenues, Wireless Service revenues and Handset revenues. Service revenues comprise Wireless Service revenues as well as Wireline revenues.

Wireline Revenues

Wireline revenues are primarily comprised of retail DSL service revenue, retail DSL activation fees, revenue for DSL-related hardware and non-recurring charges (e.g. charges for address change, number portation, etc.); service and hardware revenue from Pay TV; revenues from wholesale ULL, also called wholesale DSL, revenue derived from the sale of our DSL network and services as well as hardware to other providers who then repackage and resell it to the end consumer; carrier traffic revenue related to the sale and trading of minutes between carriers to connect their customers' calls through other operators networks as well as revenue derived from hosting client content on our data center infrastructure and providing accompanying management services, such as the use of our data center infrastructure to host applications designed and operated by third parties. DSL revenue also comprises fixed line telephony revenues.

Wireless Service Revenues

The vast majority of Wireless Service Revenues consists of customer base and tariff fees charged for voice (including incoming and outgoing calls), text (including SMS and MMS) and wireless data services and revenue 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 revenue.

Handset Revenues

Handset revenues comprise of the sale of wireless devices under the "O_2 My Handy" model as well as cash sales. The revenue under the "O_2 My Handy" model is discounted as Telefónica Deutschland Group receives payments from customers in monthly installments, which are paid out over a 12 or 24-month period. Furthermore, one-time revenue payments, 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.

Other Revenues

Other Revenues comprise revenue derived from the vertical business.

Other income

The breakdown of "Other income" in 2012 and 2011 is as follows:

Thousands of euros	As of December 31, 2012	As of December 31, 2011
Ancillary income	191	249
Own work capitalized	60,405	60,471
Gain on disposal of assets	210	271
Total	**60,806**	**60,991**

Other expenses

Other expenses mainly consist of sales and marketing, infrastructure, management fee and other external services.

Operating Leases

The estimated payment schedule regarding operating leases, purchase and contractual obligations is as follows:

Thousands of euros	As of December 31, 2012	As of December 31, 2011	As of January 1, 2011
Operating lease obligations			
Less than 1 year	300,347	297,589	311,308
1 to 5 years	821,735	873,664	907,599
Over 5 years	829,204	861,077	740,976
Total	**1,951,286**	**2,032,330**	**1,959,883**
Purchase and other contractual obligations			
Less than 1 year	125,932	197,053	184,526
1 to 5 years	49	30,774	16,076
Over 5 years	-	-	-
Total	**125,981**	**227,827**	**200,602**

The following amounts have been recognized in the Consolidated Income Statement:

Thousands of euros	As of December 31, 2012	As of December 31, 2011
Operate lease expense	312,295	313,812

The operate lease expenses mainly include expenses for real estate (i.e. office buildings and shops), cars and network equipment (i.e. leased lines and cell sites).

Telefónica Deutschland Group provides operating guarantees granted by external financial counterparts which are offered in the course of normal commercial activity especially with regard to antenna sites rental contracts.

These guarantees amounted to EUR 37.6m and EUR 35.8m as of December 31, 2012 and 2011 respectively.

Subleases

Telefónica Deutschland Group entered into various subleasing agreements for office buildings, cell sites and shops. The estimated payment schedule for subleases is as follows:

Thousands of euros	As of December 31, 2012	As of December 31, 2011	As of January 1, 2011
Sublease payments			
Less than 1 year	21,248	20,484	12,357
1 to 5 years	78,962	86,065	74,287
Over 5 years	56,141	36,406	21,496
Total	**156,351**	**142,955**	**108,140**

The following amounts have been recognized in the Consolidated Income Statement:

Thousands of euros	As of December 31, 2012	As of December 31, 2011
Sublease income	24,314	27,658

The main finance lease transactions are described in Note 24 "Finance Leases".

Depreciation and amortization

The breakdown of "Depreciation and amortization" is as follows:

Thousands of euros	2012	2011
Depreciation of property, plant and equipment	604,037	610,902
Amortization of intangible assets	531,714	476,095
Total	**1,135,751**	**1,086,997**

(23) OTHER INFORMATION

Contingent liabilities and assets

As part of its ordinary business Telefónica Deutschland Group is involved in various proceedings both in and out of court. These proceedings are in total not material to the results of operations and financial position.

(24) FINANCE LEASES

The finance leases of Telefónica Deutschland Group are presented in the Consolidated Financial Statements of the year ended December 31, 2012 in the position "Property, Plant and Equipment" (Note 8 "Property, Plant and Equipment") and are as follows:

Net carrying amount of lease assets	**As of December 31**		**As of January 1,**
Thousands of euros	**2012**	**2011**	**2011**
Plant and machinery	8,948	11,786	9,635
Total	**8,948**	**11,786**	**9,635**

These commitments mainly arise from lease agreements for IT and office equipment for internal usage.

The breakdown of the minimum lease payments is as follows:

Present value of minimum lease payments			
Thousands of euros	**Minimum future lease payments obligation**	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
	As of December 31, 2012		
due within 1 year	4,162	198	3,964
due between 1 and 5 years	5,127	142	4,985
due in more than 5 years	-	-	-
Total	**9,289**	**340**	**8,949**
	As of December 31, 2011		
due within 1 year	5,667	223	5,444
due between 1 and 5 years	6,473	131	6,342
due in more than 5 years	-	-	-
Total	**12,140**	**354**	**11,786**
	As of January 1, 2011		
due within 1 year	4,096	307	3,789
due between 1 and 5 years	6,064	218	5,846
due in more than 5 years	-	-	-
Total	**10,160**	**525**	**9,635**

(25) EARNINGS PER SHARE

Until September 26, 2012, 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 twelve month period ended December 31, 2012.

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent (adjusted for any dilutive effects inherent in converting potential ordinary shares issued) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. During the financial period presented, there were no dilutive instruments outstanding.

Telefónica Deutschland Holding AG has authorized capital allowing the company to increase the registered share capital until September 17, 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 Earnings per share (EPS) calculation since they are contingently issuable shares.

Both basic and diluted earnings per share attributable to equity holders of the parent are calculated based on the following data and in accordance with IAS 33.

	As of December 31,	
Thousands of euros	**2012**	**2011**
Profit attributable to ordinary equity holders of the parent from continuing operations	307,523	71,348
Profit attributable to ordinary equity holders of the parent from discontinued operations	1,027,030	482,557
Total profit attributable to equity holders of the parent for basic earnings	1,334,553	553,904
Adjustment for dilutive effects of the conversion of potential ordinary shares	-	-
Total profit attributable to equity holders of the parent for diluted earnings	1,334,553	553,904

The denominators used in the calculation of both basic and diluted earnings per share have been adjusted to reflect any transactions that changed the number of shares outstanding without a corresponding change in equity as if they had taken place at the start of the first period under consideration. There have been no transactions involving existing or potential ordinary shares between the end of the year and the date of preparation of the Consolidated Financial Statements.

	As of December 31,	
Number of shares in thousands	**2012**	**2011**
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share	1,117,001	1,117,023
Telefónica Deutschland Group share option plan	-	-
Weighted average number of ordinary shares (excluding treasury shares) outstanding for diluted earnings per share	1,117,001	1,117,023

Basic and diluted earnings per share attributable to equity holders of the parent broken down by continuing and discontinued operations are as follows:

	Continuing operations		Discontinued operations		Total	
	As of December 31,		As of December 31,		As of December 31,	
In euros	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Basic earnings per share	0.28	0.06	0.92	0.43	1.19	0.50
Diluted earnings per share	0.28	0.06	0.92	0.43	1.19	0.50

(26) SHARE-BASED PAYMENTS

At December 31, 2012 Telefónica Deutschland Group has the following share-based payment arrangements:

Description of the share-based payment plans

"Performance Share Plan" (equity-settled)

The Performance Share Plan is a long-term incentive plan for managers and executives of Telefónica and other Telefónica Group companies, Telefónica Deutschland Group included.

Under this plan, selected participants who met the qualifying requirements were given a certain number of Telefónica shares as a form of variable compensation. As the shares are delivered by Telefónica, the ultimate parent company is the settling entity in accordance with IFRS 2.

It is divided into five phases, each three years long, the first beginning on July 1, 2006 and ending on June 30, 2009, the fifth beginning on July 1, 2010. At the start of each phase the number of shares to be awarded to plan beneficiaries is determined based on their success in meeting targets set. The shares are delivered at the end date of each phase, subject to a number of conditions:

- The beneficiary must continue to work for the company throughout the three-year duration of each phase.
- The actual number of shares awarded at the end is calculated by multiplying the maximum number of shares assigned to each executive at the start of a phase by a percentage reflecting the performance of the Telefónica share. The performance is measured by comparing the Total Shareholder Return ("TSR"), which includes both share price and dividends, with the TSRs offered by a basket of listed telecom companies that comprise the comparison group. This will

be 100% if the TSR of Telefónica is equal to or better than that of the third quartile of the comparison group and 30% if Telefónica's TSR is in line with the average. The percentage rises linearly for all points between these two benchmarks. If the TSR is below average no shares are awarded.

At June 30, 2011, the third phase of this plan ended, which entailed the following number of shares issued:

Phase	No. of shares delivered	Grant-date fair value per unit	End date
3nd phase July 1, 2008	137,507	8.39	June 30, 2011

At June 30, 2012, the fourth phase of this plan ended, which entailed the following number of shares issued:

Phase	No. of shares delivered	Grant-date fair value per unit	End date
4th phase July 1, 2009	287,828	8.41	June 30, 2012

The number of the shares granted in the outstanding phase at December 31, 2012 is as follows:

Phase	Maximum no. of shares to be issued	Grant-date fair value per unit	End date
5th phase July 1, 2010	141,316	9.08	June 30, 2013

The fair values of the equity instruments granted to employees were measured using the share price of Telefonica shares at grant date under consideration of market conditions.

The plan has been valued using a Monte Carlo method, thereby incorporating the performance target as a market condition. This method involves generating share prices and TSRs for each company, based on its dividend yield and volatility, taking into account the cross correlations between stocks. The model is used to define the probability for the shares to vest and establish share price growth associated with different ranking positions.

The other than market vesting condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

Concerning expected dividends of the shares, which the employees do not receive until physical delivery of the shares, there is no compensation payment. This fact was incorporated in the measurement of the grand date fair value.

As this plan is an equity-settled plan, settled by Telefónica employee expenses were recognized with a corresponding entry in equity as a contribution by parent.

There is a recharge agreement in place between Telefónica and Telefónica Deutschland concerning the shares delivered to employees in Germany. The recharge was accounted for by a debit to equity and a credit to liabilities against Telefónica by analogy to the requirements for cash-settled share-based payments. This means that the valuation is adjusted at each reporting date and the amounts are recognized on a pro rata basis over the vesting period.

"Performance and Investment Plan" (equity-settled)

This plan will take effect following completion of the "Performance Share Plan" and addresses Telefónica Group directors and executive officers.

It is divided into three phases, each three years long, the first beginning on July 1, 2011 and ending on June 30 2014, the third beginning on July 1, 2013. At the start of each phase the number of shares to be awarded to plan beneficiaries is determined based on their success in meeting targets set. The shares will be delivered at the end date of each phase.

As the shares are delivered by Telefónica, the ultimate parent company is the settling entity in accordance with IFRS 2.

The calculation method used to determine the actual number of shares delivered is similar to the "Performance Share Plan". The condition, that each participant must still be a Telefónica Group employee at the delivery date for each phase, also applies.

In addition to this, the possibility of co-investing has been included for all the participants. Under the co-investment condition the participant must directly own 25% of the number of shares assigned to him or her under the "Performance and Investment Plan". The shares must be owned at the first anniversary (or within fifteen months exclusively for the first cycle) of the starting date of each cycle, and the participant must hold those until the vesting date, in order to be entitled to receive an additional award of 25% of the original number of shares. Consequently, the participant receives one free share for each co-invested share, subject to the Company's performance.

The first allocation of shares under this plan was made on July 1, 2011. Therefore, the maximum number of shares assigned (including the amount of co-investment) under the plan at December 31, 2012 is as follows:

Phase	Maximum no. of shares to be issued	Grant-date fair value per unit	End date
1st phase July 1, 2011	138,061	8,28	June 30, 2014

Phase	No. of shares co-invested	End date
1st phase July 1, 2011	20,153	June 30, 2014

The second allocation of shares under this plan was made on July 1, 2012. Therefore, the maximum number of shares assigned (including the amount of co-invested) under the plan at December 31, 2012 is as follows:

Phase	Maximum no. of shares to be issued	Grant-date fair value per unit	End date
2nd phase July 1, 2012	262,007	8.28	June 30, 2015

Phase	No. of shares co-invested	End date
2nd phase July 1, 2012	33,707	June 30, 2015

The fair values of the equity instruments granted to employees were measured using the share price of Telefónica shares at grant date under consideration of market conditions.

The market condition, which implies that a performance target of the Telefónica share must be achieved, was incorporated in the measurement of the fair value by means of the Monte Carlo method as explained above.

The service condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

The co-investment condition, being a non-vesting condition, is taken into account when estimating the fair value of the awards at the measurement date. Additionally, the condition to hold the shares until the vesting date, which is another non-vesting condition, was incorporated in the fair value.

Concerning expected dividends of the matching shares, which the employees do not receive until physical delivery of the shares, there is no compensation payment. This fact was incorporated in the measurement of the fair value.

As this plan is an equity-settled plan, settled by Telefónica, employee expenses were recognized with a corresponding entry in equity as a contribution by parent.

There is a recharge agreement in place between Telefónica, and Telefónica Deutschland concerning the shares delivered to employees in Germany. The recharge was accounted for by a debit to equity and a credit to liabilities against Telefónica by analogy to the requirements for cash-settled share-based payments.

“**Performance Cash Plan**” **(cash-settled)**

This plan is operating under the same conditions like the “Performance Share Plan”. It entails delivery to executives of a specific number of theoretical options in Telefónica which, in the event, would be cash-settled at the end of each phase. The payment is equivalent to the market value of the shares on settlement date up to a maximum of three times the notional value of the shares at the delivery date.

As the payment is made by Telefónica Deutschland, it is the settling entity.

The value of theoretical options is established as the average share price in the 30 days immediately prior to the start of each phase, except for the first phase, where the average share price during the 30 days immediately prior to May 11, 2006 (12.83 Euros) was taken as the reference.

The estimated duration of this plan is 7 years, with 6 phases, each of 3 years, commencing on July 1 of each year, starting in 2006.

Like the “Performance Share Plan”, the performance rate for setting payments is measured based on the TSR on Telefónica shares with respect to the comparison group’s TSRs, in line with the same criteria.

The fair value at December 31, 2012 of the options delivered in each phase in force at that time was 10.19 (December 31, 2011: 13.39) Euros per option. This value is calculated by taking the Telefónica share price and including the estimated TSR and is updated at each year end.

The market condition, which implies that a performance target of the Telefónica share must be achieved, was incorporated in the measurement of the fair value, by means of the Monte Carlo method as explained above.

The service condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

As this plan is a cash-settled plan, it was accounted for by recording employee expenses and a corresponding liability.

"Global Employee Share Plan" (equity-settled)

This plan is a share incentive plan for all employees of the Telefónica group worldwide, with certain exceptions.

Under this plan, participants that meet the qualifying requirements are offered the possibility of acquiring Telefónica shares and receiving the same number of shares free of charge at the end of the period.

As the shares are delivered by Telefónica, the ultimate parent company is the settling entity in accordance with IFRS 2.

The initial duration of the plan is intended to be two years. Employees subscribed to the plan can acquire Telefónica shares through monthly installments of up to 100 Euros up to a maximum of 1,200 Euros over a twelve-month period of time (acquisition period). The shares are purchased at fair value at acquisition date. The employees participating in the plan are entitled to dividends on the shares they acquired. The first delivery of shares has taken place as at September 1, 2012 considering the following conditions:

- The beneficiary must have continued to work for the company throughout the two-year duration of the plan (consolidation period), except for employees leaving for a good reason.
- The beneficiary must have retained the shares acquired for an additional twelve-month period after the end of the acquisition period.

The acquisition period opened in August 2010, and at December 31, 2011, 2,844 employees had adhered to the plan.

At August 31, 2012, the vesting period of this plan ended and 141,135 shares have been delivered to participants:

As of December 31,	No. of shares delivered	Weighted average of grant date fair value per unit
2012	94,090	16.72
2011	47,045	18.07
Total	**141,135**	**-**

In December 2012, a further phase started with an acquisition period until November 2013. At December 31, 2012 the following number of shares have been assigned to participants:

As of December 31,	Maximum no. of rights for shares to be issued	Weighted average of grant date fair value per unit
2012	14,438	10.06

The fair values of the equity instruments granted to employees were measured using the share price of Telefónica shares at grant date.

The other than market vesting condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

The holding condition concerning the shares, which is a non-vesting condition, was incorporated in the fair value.

Concerning expected dividends of the shares, which the employees do not receive until physical delivery of the shares, there is no compensation payment. This fact was incorporated in the measurement of the fair value.

The GESP is an equity-settled plan and is therefore accounted for by a debit to employee expenses and a credit to equity.

There is a recharge agreement in place between O2 (Europe) Limited and Telefónica Deutschland concerning the shares delivered to employees in Germany. The recharge agreement is recognized by deduction from equity and a corresponding liability to O2 (Europe) Limited.

Employee expenses

	As of December 31,	
Thousands of euros	**2012**	**2011**
Employee expenses arising from share-based payment transactions	2,576	3,520
Thereof from cash-settled plans	(615)	602
Thereof from equity-settled plans[1]	3,191	2,918
Liabilities arising from share-based payment transactions (without liabilities from recharge agreements)	-	602

[1] Part of other movements within the statement of changes in equity.

(27) EVENTS AFTER THE REPORTING PERIOD

Rating

On January 16, 2013 the international rating agency Fitch Ratings, London has assigned Telefónica Deutschland Holding AG an initial first long-term issuer default rating (IDR) of 'BBB' with a stable outlook and a senior unsecured rating to Telefónica Germany GmbH & Co. OHG of 'BBB'.

(28) GROUP AUDITOR'S FEES AND REMUNERATION

For the services performed by the Group auditor Ernst & Young (E&Y) in the years ended December 31, 2012 and 2011, the fees and expenses depicted in the following table were recognized in the Consolidated Income Statement. As Telefónica Deutschland Group conducts all of its business in Germany, the full amount was incurred in Germany.

	As of December 31,	
Thousands of euros	**2012**	**2011**
Type of fees:		
Audit fees	1,333	1,038
Other audit-related services	2,301	-
Total	**3,634**	**1,038**

The audit fees include mainly fees for the year-end audit of the Consolidated Financial Statements, and the statutory auditing of Telefónica Deutschland Group and the subsidiaries included in the Consolidated Financial Statements. The audit-related fees essentially comprise the auditors' review of the interim Consolidated Financial Statements and the fees related to the Initial Public Offering.

(29) PERSONNEL INFORMATION

The following personnel costs are contained in the positions of the Consolidated Income Statement:

	As of December 31,	
Thousands of euros	**2012**	**2011**
Short-term employee benefits	456,664	428,616
Long-term employee benefits	7,869	9,140
Expenses relating to pension plans	5,293	5,620
Expenses arising from share-based payment transactions	2,576	3,520
Total	**464,533**	**437,756**

The table below presents the breakdown of Telefónica Deutschland Group's average headcounts in 2012 and 2011 grouped with respect to their status in labor law:

Average Headcount		
	2012	**2011**
Office staff	5,599	5,705
thereof from Joint Ventures:	8	8
Temporary staff	613	620
Total	**6,212**	**6,325**

Expenses relating to defined contribution plan amount to EUR 28.4m in 2012 (EUR 28.3m in 2011).

(30) DECLARATIONS OF CONFORMITY GERMAN CORPORATE GOVERNANCE CODE

On February 28, 2013, the executive board and the supervisory board of Telefónica Deutschland Holding AG issued a latest declaration of conformity in accordance with Art. 161 of the Stock Corporation Act (AktG) and is now publicly available to the shareholders on the company's website (www.telefonica.de/declaration-of-compliance).

Munich, February 28, 2013

Telefónica Deutschland Holding AG

The management board

René Schuster | Rachel Empey | Markus Haas

COMPANIES COMPRISING TELEFÓNICA DEUTSCHLAND GROUP

The table below lists the companies comprising Telefónica Deutschland Group as at December 31, 2012 and 2011.

Included for each company are the company name, the registered office, country, Telefónica Deutschland Group's effective shareholding and the company or companies through which the Telefónica Deutschland Group holds a stake.

		As of December 31	
Company name, registered office	**Country**	**2012**	**2011**
Parent company			
Telefónica Deutschland Holding AG, Munich (former: Telefónica Germany Verwaltungs GmbH	Germany	n/a	n/a
Subsidiaries			
Telefónica Germany Management GmbH, Munich	Germany	100%	0%
Telefónica Germany GmbH & Co. OHG, Munich[1]	Germany	100%	99.99%
Telefónica Germany 1. Beteiligungsgesellschaft mbH, Munich (former: Telefónica Germany Holding GmbH (former: O2 (Germany) Holding GmbH))	Germany	100%	100%
Telefónica Germany Customer Services GmbH, Munich (former: Telefónica Deutschland GmbH)	Germany	100%	100%
Telefónica Germany Online Services GmbH, Munich	Germany	100%	100%
Wayra Deutschland GmbH, Munich	Germany	100%	n/a
Fonic GmbH, Munich	Germany	100%	100%
Telefónica Germany Partner Services GmbH, Munich	Germany	n/a	100%
Telefónica Global Services GmbH, Munich	Germany	n/a	100%
Telefónica Global Roaming GmbH, Munich	Germany	n/a	100%
Telefónica Compras Electronicas S.L., Madrid	Spain	n/a	100%
Group 3G UMTS Holding GmbH, Munich	Germany	n/a	100%
Quam GmbH, Munich	Germany	n/a	100%
Joint Ventures			
Tchibo Mobilfunk Beteiligungs GmbH, Hamburg	Germany	50%	50%
Tchibo Mobilfunk GmbH & Co. KG, Hamburg	Germany	50%	50%
Associates			
Adquira España S.A., Madrid	Spain	n/a	40%

[1] Exemption according to section 264 b German Commercial Code (HGB)

The following English-language translation of the German-language audit opinion (Bestätigungsvermerk) refers to the consolidated financial statements of Telefónica Deutschland Holding AG, Munich, prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ("Handelsgesetzbuch", German Commercial Code), as well as the group management report, prepared on the basis of German commercial law (HGB), as of and for the fiscal year ended December 31, 2012 as a whole and not solely to the consolidated financial statements presented in this Prospectus on the preceding pages.

AUDIT OPINION

We have audited the consolidated financial statements prepared by Telefónica Deutschland Holding AG (formerly: Telefónica Germany Verwaltungs GmbH), Munich, comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity, and the notes to the consolidated financial statements, together with the group management report for the fiscal year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the entities to be included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU as well as the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, February 28, 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Borstedt	Weiß
Wirtschaftsprüfer	Wirtschaftsprüferin
[German public auditor]	[German public auditor]

AUDITED COMBINED FINANCIAL STATEMENTS OF TELEFÓNICA GERMANY GROUP IN ACCORDANCE WITH IFRS TAKING INTO ACCOUNT THE BASIS OF PREPARATION AS SET OUT IN NOTE 1 OF THE COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010 AND DECEMBER 31, 2009

TELEFÓNICA GERMANY GROUP
COMBINED STATEMENTS OF FINANCIAL POSITION AS AT
DECEMBER 31, 2011, DECEMBER 31, 2010, DECEMBER 31, 2009 AND JANUARY 1, 2009
(THOUSANDS OF EUROS)

		At December 31			At January 1
	Note	**2011**	**2010**	**2009**	**2009**
ASSETS					
A) NON-CURRENT ASSETS		**7,900,175**	**8,427,878**	**6,248,527**	**6,373,931**
Goodwill	Note 6	705,576	705,576	423,081	423,081
Intangible assets	Note 5	3,658,137	3,956,504	2,510,684	2,732,154
Property, plant and equipment	Note 7	3,118,869	3,347,953	2,895,662	2,801,228
Other non-current financial assets	Note 13	5,560	5,335	6,412	6,271
Deferred tax assets	Note 17	412,033	412,510	412,688	411,197
B) CURRENT ASSETS		**5,115,173**	**4,443,290**	**3,911,730**	**3,793,031**
Inventories		70,429	84,318	72,909	80,417
Trade and other receivables	Note 10	1,010,279	1,284,110	914,967	699,471
Other current financial assets	Note 13	2,885,897	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	Note 11	1,148,568	188,965	37,957	127,246
TOTAL ASSETS (A+B)		**13,015,348**	**12,871,168**	**10,160,257**	**10,166,962**

		At December 31			At January 01
		2011	**2010**	**2009**	**2009**
EQUITY AND LIABILITIES					
A) EQUITY	Note 12	**11,756,290**	**11,421,311**	**9,221,577**	**9,258,975**
Net assets attributable to Telefónica Germany Group		11,754,945	11,420,119	9,219,652	9,257,146
Other components of equity		1,345	1,192	1,925	1,829
Total equity attributable to Telefónica Germany Group		11,756,290	11,421,311	9,221,577	9,258,975
B) NON-CURRENT LIABILITIES		**75,289**	**122,621**	**49,618**	**42,444**
Other payables	Note 14	6,342	5,846	6,301	3,043
Non-current provisions	Note 15	68,947	116,775	43,317	39,401
C) CURRENT LIABILITIES		**1,183,769**	**1,327,236**	**889,062**	**865,543**
Trade payables	Note 14	785,580	811,936	599,309	557,722
Other payables	Note 14	186,714	195,951	192,846	218,132
Current provisions	Note 15	41,609	182,429	-	-
Deferred income	Note 14	169,866	136,920	96,907	89,689
TOTAL EQUITY AND LIABILITIES (A+B+C)		**13,015,348**	**12,871,168**	**10,160,257**	**10,166,962**

The accompanying Notes 1 to 22 and Appendix I and II are an integral part of these Combined Financial Statements.

TELEFÓNICA GERMANY GROUP
COMBINED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010, AND DECEMBER 31, 2009
(THOUSANDS OF EUROS)

		for the year ended December 31		
	Note	**2011**	**2010**	**2009**
Revenues	Note 18	5,035,552	4,826,278	3,745,540
Other income	Note 18	60,991	88,859	92,102
Supplies		-2,047,139	-1,906,492	-1,360,254
Personnel expenses		-437,756	-611,353	-395,831
Other expenses	Note 18	-1,462,411	-1,504,615	-1,190,075
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)		**1,149,237**	**892,677**	**891,482**
Depreciation and amortization	Note 18	-1,082,189	-988,165	-922,872
OPERATING RESULT		**67,048**	**-95,488**	**-31,390**
Finance income		14,271	8,686	4,152
Exchange gains		707	348	212
Finance expenses		-8,389	-9,931	-5,424
Exchange losses		-559	-870	-1,286
Net financial result		**6,030**	**-1,767**	**-2,346**
RESULT BEFORE TAX		**73,078**	**-97,255**	**-33,736**
Income tax	Note 17	-1,732	-5,277	152
RESULT FOR THE YEAR		**71,346**	**-102,532**	**-33,584**

The accompanying Notes 1 to 22 and Appendix I and II are an integral part of these Combined Financial Statements.

TELEFÓNICA GERMANY GROUP
COMBINED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010, AND DECEMBER 31, 2009
(THOUSANDS OF EUROS)

		for the year ended December 31		
	Note	**2011**	**2010**	**2009**
Result for the year		**71,346**	**-102,532**	**-33,584**
Other comprehensive income/expense				
Gains / losses on measurement of available-for-sale investments	Note 13	225	-1,078	141
Income tax impact		-72	345	-45
		153	**-733**	**96**
Actuarial losses and impact of limit on assets for defined benefit pension plans	Note 15	-4,154	-14,784	-4,332
Income tax impact		1,327	4,721	1,384
		-2,827	**-10,063**	**-2,948**
Total other comprehensive expense		**-2,674**	**-10,796**	**-2,852**
Total comprehensive income/expense recognized in the year		**68,672**	**-113,328**	**-36,436**

The accompanying Notes 1 to 22 and Appendix I and II are an integral part of these Combined Financial Statements.

TELEFÓNICA GERMANY GROUP
COMBINED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010, AND DECEMBER 31, 2009
(THOUSANDS OF EUROS)

	Note	Net assets attributable to Telefónica Germany Group	Other components of equity Available-for-sale investments	Total equity
Balance at December 31, 2011		**11,754,945**	**1,345**	**11,756,290**
Result for the year		71,346	-	71,346
Other comprehensive income/expense		-2,827	153	-2,674
Total comprehensive income		**68,519**	**153**	**68,672**
Increase in equity		266,307	-	266,307
Balance at December 31, 2010		**11,420,119**	**1,192**	**11,421,311**
Balance at December 31, 2010		**11,420,119**	**1,192**	**11,421,311**
Result for the year		-102,532	-	-102,532
Other comprehensive expense		-10,063	-733	-10,796
Total comprehensive expense		**-112,595**	**-733**	**-113,328**
Increase in equity		2,313,062	-	2,313,062
Balance at December 31, 2009		**9,219,652**	**1,925**	**9,221,577**
Balance at December 31, 2009		**9,219,652**	**1,925**	**9,221,577**
Result for the year		-33,584	-	-33,584
Other comprehensive income/expense		-2,948	96	-2,852
Total comprehensive income/expense		**-36,532**	**96**	**-36,436**
Decrease in equity		-962	-	-962
Balance at January 1, 2009		**9,257,146**	**1,829**	**9,258,975**

The accompanying Notes 1 to 22 and Appendix I and II are an integral part of these Combined Financial Statements.

TELEFÓNICA GERMANY GROUP
COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010 AND DECEMBER 31, 2009 (THOUSANDS OF EUROS)

		for the year ended December 31		
	Note	**2011**	**2010**	**2009**
Result for the Year		**71,346**	**-102,532**	**-33,584**
Adjustments to Result				
Net finance result		-5,882	1,245	1,272
Losses on disposal of assets	Note 18	-272	-1,385	-537
Net income tax result	Note 17	1,732	5,277	-152
Depreciation and amortization	Note 18	1,082,189	988,165	922,872
Change in Working Capital				
Trade and other receivables		273,831	-253,630	-215,496
Inventories		13,889	-752	7,508
Other current assets		-3,831	-4,965	-807
Trade and other payables		-41,707	-1,746	44,051
Other current liabilities and provisions		-107,874	105,660	7,218
Other non current assets and liabilities		-51,983	30,858	-417
Interest received		11,065	5,522	1,751
Interest paid		-1,351	-1,802	-2,217
Cash Flow from Operating Activities		**1,241,152**	**769,915**	**731,462**
Proceeds on disposals of property, plant and equipment and intangible assets		3,185	2,960	1,845
Payments on investments in property, plant and equipment and intangible assets		-547,289	-2,088,798	-819,114
Payments on investments in companies, net of cash and cash equivalents acquired	Note 4	-	-844,060	-
Cash Flow from Investing Activities		**-544,104**	**-2,929,898**	**-817,269**
Proceeds from equity		289,207	2,590,695	-
Repayment of equity		-22,900	-277,633	-962
Repayment of borrowing/debt		-3,752	-2,071	-2,520
Cash Flow from Financing Activities		**262,555**	**2,310,991**	**-3,482**
Net increase/decrease in cash and cash equivalents		**959,603**	**151,008**	**-89,289**
Cash and cash equivalents at beginning of period		**188,965**	**37,957**	**127,246**
Cash and cash equivalents at end of period		**1,148,568**	**188,965**	**37,957**

The accompanying Notes 1 to 22 and Appendix I and II are an integral part of these Combined Financial Statements.

(1) BASIS OF PREPARATION

Background and purpose of the combined financial statements

At the end of May, 2012 Telefónica, S.A., Madrid, Spain ("Telefónica") announced its plans to publicly list the Telefónica Germany Business ("Telefónica Germany Group" or "TGG"). According to the European Prospectus Regulation No. 809/2004 (the "European Prospectus Regulation"), the prospectus issued by the Telefónica Germany Group shall include 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. Also, according to the European Prospectus Regulation, Telefónica Germany Group has a "Complex Financial History". Therefore, the Combined Financial Statements consisting of the Combined Statements of Financial Position, Combined Income Statements, Combined Statements of Comprehensive Income, Combined Statements of Cash Flow, Combined Statements of Changes in Equity and Notes to the Combined Financial Statements as of and for financial years ended December 31, 2011, 2010 and 2009 (the "Combined Financial Statements") were prepared.

Telefónica Germany Group comprises Telefónica's operations in Germany. Telefónica Germany Group is one of only three integrated network operators in Germany having both a wireline and wireless network. It offers its consumer retail and business customers post-paid and prepaid wireless communications products, along with wireless data services using Global Packet Radio Service ("GPRS"), Universal Mobile Telecommunications System ("UMTS") and Long Term Evolution ("LTE") technology, as well as, DSL wireline telephony and high-speed internet services.

Telefónica Germany Group follows a multi-branding strategy, which enables TGG to target a broad range of consumers and maximize its sales reach. The positioning and marketing of each brand is tailored to the target consumer group and follows TGG's international branding guidelines. O_2 is TGG's premium brand through which TGG markets the full scope of TGG's pre-paid and post-paid wireless and wireline products and services. TGG's secondary brands include FONIC for cost-conscious customers who use basic wireless services only and do not require extensive customer service; the TCHIBO mobil brand is aimed at visitors of points of sales operated by TCHIBO; Türk Telekom for the large Turkish community in Germany; and the netzclub brand is targeted to users of social media.

Telefónica Germany Group primarily distributes its O_2 branded services offering through a network of own operated and franchised shops, its wholesale and other distribution partners and via its O_2 internet portal.

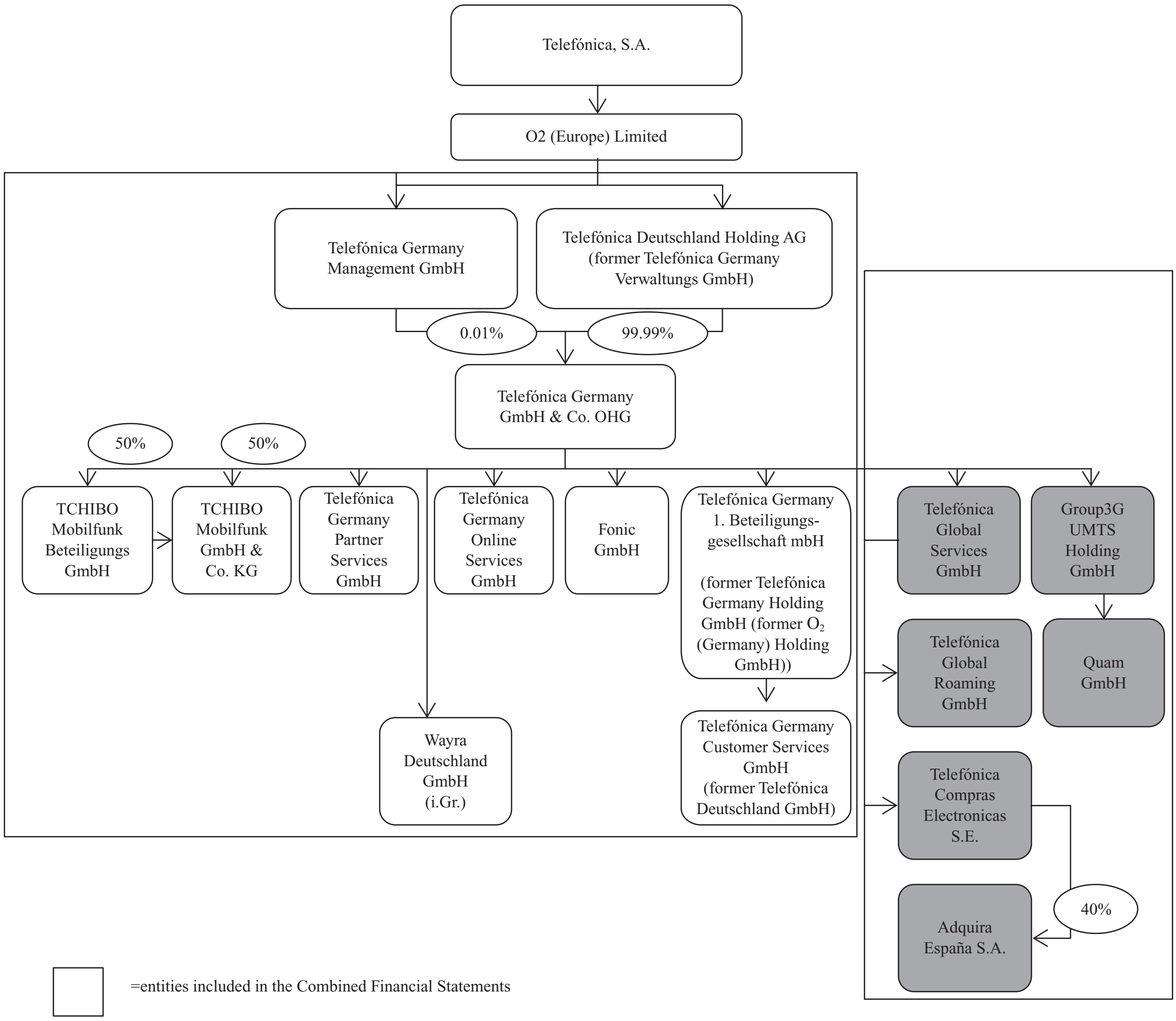
Telefónica Germany Group is managed centrally by the Management Board of the Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") located in Georg-Brauchle-Ring 23-25, 80992 München.

The Company's change in legal form from a German limited liability company (*Gesellschaft mit beschränkter Haftung*) into a German stock corporation (*Aktiengesellschaft*) was resolved by the Shareholders' Meeting on September 18, 2012 and was registered in the commercial register with the number 201055 on September 26, 2012.

The purpose of these Combined Financial Statements is to provide general purpose historical financial information of Telefónica Germany Group for the inclusion in the prospectus for the initial public offering and for the admission to the regulated market. Therefore, the Combined Financial Statements present only the historical financial information of those entities that will be part of Telefónica Germany Group at the time of the intended initial public offering.

Scope of the entities included in the combined financial statements

As of December 31, 2011, the legal entities of Telefónica in Germany are organized as illustrated in the following organizational chart (for historical development see Appendix II):



Only the entities described in the "Telefónica Germany Group" box as shown in the chart will be included in the intended public listing. Hence, Telefónica Germany Group consists of

- Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH")
- Telefónica Germany GmbH & Co. OHG
- Telefónica Germany Partner Services GmbH
- Wayra Deutschland GmbH (registered with commercial register after June 30, 2012)
- Telefónica Germany Online Services GmbH
- Fonic GmbH
- Telefónica Germany 1. Beteiligungsgesellschaft mbH
- Telefónica Germany Customer Services GmbH
- Telefónica Germany Management GmbH
- TCHIBO Mobilfunk Beteiligungs GmbH
- TCHIBO Mobilfunk GmbH & Co. KG

For the years ended December 31, 2011, 2010 and 2009, all of the entities of Telefónica Germany Group were under common control of Telefónica, except for TCHIBO Mobilfunk Beteiligungs GmbH and TCHIBO Mobilfunk GmbH & Co. KG which are under joint control.

The following legal reorganization took place before the intended initial public offering:

- The contribution of shares of Telefónica Germany Management GmbH to Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") was resolved upon on September 18, 2012 and registered with the commercial register on September 25, 2012.
- Transfer of a loan to one of the other Telefónica entities in Germany to another subsidiary of Telefónica, S.A.
- The sale by Telefónica Germany Group of Telefónica Global Services GmbH and Group3G UMTS Holding GmbH ("Group3G") as well as their subsidiaries as shown in the "Other Telefónica entities in Germany" chart above, that are legally held by Telefónica Germany Group in an arms-length transaction to a subsidiary of Telefónica, S.A.

The impact of legal reorganization on the preparation of the combined financial statements is described in the basis of preparation below.

Presentation of the Combined Financial statements

Taking into account the specifics to be considered in preparing combined financial statements which are explained below, the Combined Financial Statements of Telefónica Germany Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

These Combined Financial Statements will constitute Telefónica Germany Group's first financial statements in accordance with IFRS. Telefónica Germany Group has applied IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1") in its adoption of IFRS. In particular, the Group has applied IFRS 1.D16 (b), as the Group was acquired after Telefónica's date of transition to IFRSs. However, the accounting principles used by Telefónica Germany Group for the preparation of its Combined Financial Statements do not differ from those used in the preparation of the financial information for the Telefónica, S.A. Consolidated Financial Statements in accordance with IFRS as adopted by the EU with the exception of certain provisions under IFRS 1 with respect to the transition date of January 1, 2009.

The Combined Financial Statements have been prepared by measuring assets and liabilities at the carrying amounts, based on the Telefónica Germany Groups date of transition to IFRSs.

All intra-group balances within the combined group, income and expenses, unrealized gains and losses resulting from transactions between the Telefónica Germany Group entities are eliminated in the Combined Financial Statements. Due to the preparation of combined financial statements the presentation of equity for Telefónica Germany Group differs from the presentation of equity as prescribed by IAS 1. The presentation of "Net assets attributable to Telefónica Germany Group" and "Other components of equity" corresponds with the classical presentation of equity in combined financial statements. Net assets attributable to Telefónica Germany Group contain share capital, capital reserves and retained earnings of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") and Telefónica Germany Management GmbH. For the other companies within the Telefónica Germany Group the carrying amount of the investment in each subsidiary held by Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") and Telefónica Germany Management GmbH and their portion of net equity of each subsidiary are consolidated. The net assets attributable to Telefónica Germany Group also include undistributed profits of companies comprising the combined group – less interim dividends paid against profit for the year – actuarial gains and losses, and the impact of the asset ceiling on defined-benefit plans.

Material transactions with the other German entities of Telefónica, S.A. and its subsidiaries, which are directly or indirectly controlled by Telefónica, S.A., are disclosed as transactions with related parties. For the purpose of the Combined Financial Statements the other German entities (see organizational chart on the preceding page) are treated as subsidiaries of Telefónica. Accordingly, all transactions with "Other Telefónica entities in Germany" are presented as transactions with related parties.

The carrying amounts of the investments in Group3G UMTS Holding GmbH and Telefónica Global Services GmbH held directly by Telefónica Germany GmbH & Co. OHG have been eliminated against the equity of Telefónica Germany Group.

On March 31, 2010 Telefónica, S.A. and Telefónica Germany GmbH & Co. OHG entered into a loan assignment agreement under which Telefónica, S.A. transferred a receivable against Group3G UMTS Holding GmbH with a nominal value at the time of transfer of EUR 923 million to Telefónica Germany GmbH & Co. OHG. The consideration paid by Telefónica Germany GmbH & Co. OHG to Telefónica amounted to EUR 243 million. As explained above this loan will not be part of TGG in the initial public offering. Therefore, the consideration paid is accounted for as a distribution to shareholders in 2010.

Entities of TGG entered into Profit and Loss Transfer Agreements with Telefónica Global Services GmbH, Telefónica Global Roaming GmbH, Group3G UMTS Holding GmbH, and Quam GmbH. Cash received from these entities under the respective Profit and Loss Transfer Agreements were included as a contribution in equity in the respective fiscal year. Amounts paid are reflected as capital contributions.

All German subsidiaries below Telefónica Germany GmbH & Co. OHG including entities outside of Telefónica Germany Group were part of the German tax group with the exception of TCHIBO Mobilfunk Beteiligungs GmbH and TCHIBO Mobilfunk GmbH & Co. KG. In 2010, HanseNet Telekommunikation GmbH also was not part of the German tax group. Current and deferred income taxes of Telefónica Germany Group entities are measured under the assumption that the German tax group covered only those entities included in the combined financial statements. The current and deferred tax effects of all other entities were treated as contributions to or distributions within equity.

Any taxable losses were assessed to determine whether it is probable that taxable profits will be available against which the unused tax losses can be utilized. The assessment did not take into account any results from entities or activities that are not part of Telefónica Germany Group.

Estimates

The Combined Financial Statements present assets and liabilities as presented in the authorized Consolidated Financial Statements of Telefónica for the years ended December 31, 2011, 2010 and 2009 prepared under IFRS as adopted by the EU. Estimates in accordance with IFRS used in preparation of Telefónica`s Consolidated Financial Statements, remain unchanged for purposes of preparation of the Combined Financial Statements. Circumstances which provide new information to past events but have arisen subsequent to the respective reporting dates are not adjusted for. If estimates contain an error, the error is corrected to appropriately reflect the situation at the respective date.

Other

The Combined Financial Statements were authorized for issue by the Management Board of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") on October 2, 2012.

The Combined Statement of Financial Position is structured in current and non-current in accordance with IAS 1. The Combined income statement is presented in accordance with the nature of expense method. The Euro ("EUR" or "€") is the functional currency of all Telefónica Germany Group companies. The figures in these combined financial statements are expressed in thousands of Euros, unless otherwise indicated, and therefore rounded to three decimal places. Due to rounding differences figures might deviate by one thousand Euros.

The following exchange rates have been used at the respective year ends:

EURO/Foreign Currency	As at December 31, 2011	As at December 31, 2010	As at December 31, 2009	As at January 1, 2009
USD	1.294	1.336	1.441	1.392
GBP	0.835	0.861	0.888	0.953
CHF	1.216	1.250	1.484	1.484

(2) ACCOUNTING POLICIES

The principal accounting policies used in preparing the accompanying Combined Financial Statements are as follows:

a) Foreign currency transactions

Monetary transactions denominated in foreign currencies are translated to Euros at the exchange rates prevailing on the transaction date.

Monetary assets and liabilities in foreign currency are translated at the closing rate at the date of the Statement of Financial Position.

All realized and unrealized exchange gains or losses are recognized in the Combined Income Statement.

b) Goodwill

- For acquisitions occurring after January 1, 2010, the effective date of Revised IFRS 3, *Business combinations*, goodwill represents the excess of acquisition cost over the fair values of identifiable assets acquired and liabilities assumed at the acquisition date. Acquisition date is the date on which control is transferred to Telefónica Germany Group. Cost of acquisition is the sum of the fair value of consideration delivered and the value attributed to existing non-controlling interests. For each business combination, Telefónica Germany Group determines the value of non-controlling interests at either their fair value or their proportional part of the net identifiable assets acquired. After initial measurement, goodwill is carried at cost, less any accumulated impairment losses. Whenever an equity interest is held in the acquiree prior to the business combination (business combinations achieved in stages), the carrying value of such previously held equity interest is remeasured at its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss.

- For acquisitions after January 1, 2004, the IFRS transition date, and prior to January 1, 2010, the effective date of Revised IFRS 3, *Business combinations*, goodwill represents the excess of the acquisition cost over the acquirer's interest, at acquisition date, in the fair values of identifiable assets, liabilities and contingent liabilities acquired from a subsidiary or joint venture. After initial measurement, goodwill is carried at cost, less any accumulated impairment losses.

In all cases, goodwill is recognized as an asset denominated in the currency of the company acquired.

Goodwill is not amortized but tested for impairment annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable (see Note 2 e).

The impairment test is constituted at the lowest level, at which goodwill is monitored. This is the segment level for the respective cash generating unit (see Note 3). Telefónica Germany Group has only one segment.

c) Intangible assets

Intangible assets are stated at acquisition or production cost, less any accumulated amortization or any accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefit embodied in the asset to which it relates. All other expenditure on internally generated goodwill and brands is recognized in profit or loss as incurred.

The useful lives of intangible assets are assessed individually to be either finite or indefinite. Intangible assets with finite lives are amortized systematically over the useful economic life and assessed for impairment whenever events or changes indicate that their carrying amount may not be recoverable. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, or more frequently in the event of indications that their carrying amount may not be recoverable (see Note 2 e). Intangible assets that have not been completed yet are subject to an annual impairment test or more frequently in the event of indications that their carrying amount may not be recoverable.

Useful lives, amortization methods and residual values are revised annually at year end and, where appropriate, adjusted prospectively.

Service concession arrangements and licenses

These arrangements relate to the acquisition cost of the licenses granted to Telefónica Germany Group by the public authorities to provide telecommunications services and to the value assigned to licenses held by certain companies at the time they were included in Telefónica Germany Group.

These concessions are amortized on a straight-line basis over the duration of related licenses from the moment commercial exploitation commences.

Other Intangibles (Customer base)

The other Intangible primarily represents the allocation of acquisition costs attributable to customers acquired in business combinations, as well as the acquisition value of this type of assets in a third-party acquisition entailing consideration. Amortization is on a straight-line basis over the estimated period of the customer relationship.

Software

Software, including self-generated software, is stated at cost and amortized on a straight-line basis over its useful life, generally estimated to be between two and five years.

d) Property, plant and equipment

Property, plant and equipment is stated at cost less any accumulated depreciation and any accumulated impairment in value. Land is not depreciated.

Cost includes external and internal costs comprising warehouse materials used, direct labor used in installation work and the allocable portion of the indirect costs required for the related investment. The latter two items are recorded as income under "Other income - Own work capitalized". Cost includes, where appropriate, the initial estimate of decommissioning, retirement and site reconditioning costs when Telefónica Germany Group is under obligation to incur such costs due to the use of the asset.

Interest and other financial expenses (borrowing cost) incurred and directly attributable to the acquisition or construction of qualifying assets are capitalized. Qualifying assets at Telefónica Germany Group are those assets that require at least 18 month of time to bring the assets to their intended use or sale. In the past Telefónica Germany Group had no qualifying assets.

The costs of expansion, modernization or improvement leading to increased productivity, capacity, efficiency or to a lengthening of the useful lives of assets are capitalized when recognition requirements are met.

Upkeep and maintenance costs are expensed as incurred.

If an asset consists of multiple components with different useful lives, each part of the asset having a significant acquisition value is depreciated separately over the term of the useful life of the individual component (component approach).

Telefónica Germany Group assesses the need to write down, if appropriate, the carrying amount of each item of property, plant and equipment to its recoverable amount, whenever there are indications that the asset's carrying amount exceeds the higher of its fair value less costs to sell or its value in use. The impairment will be reversed if the factors giving rise to the impairment disappear (see Note 2 e).

Telefónica Germany Group depreciates its property, plant and equipment, net of its residual values, once they are in full working condition using the straight-line method based on the assets' estimated useful lives, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

	Years of estimated useful life
Buildings	5 – 20
Plant and machinery (incl. Telephone installations, networks and subscriber equipment)	5 – 20
Furniture, tools and other items	2 – 10

Assets' estimated residual values, depreciation methods and periods are reviewed, and adjusted if appropriate, prospectively at each year end.

e) Impairment of property, plant and equipment, goodwill and intangible assets

Non-current assets, including property, plant and equipment, goodwill and intangible assets are evaluated at each reporting date for indications of impairment losses. Wherever such indications exist, or in the case of assets which are subject to an annual impairment test, recoverable amount is estimated. An asset's recoverable amount is the higher of fair value less costs to sell and value in use.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired. In this case, the carrying amount is written down to recoverable amount and the resulting loss is taken to the combined income statement. Future depreciation or amortization charges are adjusted for the asset's new carrying amount over its remaining useful life. Each asset is assessed individually for impairment, unless the asset does not generate cash inflows that are largely independent of those from other assets.

The potential impairment loss regarding goodwill is determined by assessing the recoverable amount of the cash generating unit (or group of cash-generating units) to which the goodwill relates when originated. If this recoverable amount is less than the carrying amount, an irreversible impairment loss is recognized in profit and loss. If the impairment loss recognized for the cash generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through the pro-rata reduction of the carrying amounts of the assets allocated to the cash generating unit. Telefónica Germany Group comprises one single cash generating unit, which represents the single reportable segment. TGG determines the recoverable amount of a cash generating unit based on its fair value less costs to sell, unless a higher value in use can be determined.

In assessing fair value less costs to sell, the estimated future cash flows deriving from the asset or its cash generating unit, as applicable, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The following pre-tax discount rates were taken as a basis:

Rates	As at December 31, 2011	As at December 31, 2010	As at December 31, 2009	As at January 01, 2009
Pre-tax discount rates	8.00%	7.63%	9.07%	10.30%

The discounted cash flow calculations use projections based on the current business plan as of the respective dates of impairment testing. The business plans have been approved by management and are also used for internal purposes. The business plan generally covers a period of three years. Cash flows beyond the planning horizon are extrapolated using an expected constant growth rate of 0.5%

Key assumptions on which management has based its determination of fair value less cost to sell include the development of Revenue, churn rates, capital expenditure, operating expenditure, market share, growth rates and discount rates.

TGG conducted scenario analysis concerning the key value drivers capital expenditure to revenue ratio and OIBDA margin to determine sensitivity. Within a reasonable range a change in key assumptions would not cause the carrying amount to exceed the recoverable amount.

When there are new events or changes in circumstances that indicate that a previously recognized impairment loss no longer exists or has been decreased, a new estimate of the asset's recoverable amount is made. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited to the net carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss and the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

f) Lease contracts

The determination of whether an arrangement is, or contains a lease is based on the substance of the agreement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the agreement conveys a right to Telefónica Germany Group to use the asset.

Leases where the lessor does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the combined income statement on a straight-line basis over the lease term.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased item to Telefónica Germany Group. These are recognized at the inception of the lease, in accordance with its nature and the associated liability, at the lower of the present value of the minimum lease payments or the fair value of the leased property. Lease payments are apportioned between finance costs and reduction of the principal of lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are reflected in the combined income statement over the lease term.

In firm sale and leaseback transactions resulting in a finance lease, the asset sold is not derecognized and the capital received is considered financing for the asset during the lease term. However, when the sale and leaseback transaction results in an operating lease, and it is clear that both the transaction and subsequent lease income are established at fair value, the asset is derecognized and any gain or loss generated on the transaction is recognized.

g) Investments in joint ventures

Telefónica Germany Group's investments in companies over which it exercises joint control with third parties are accounted for using the proportionate consolidation. Therefore, the Combined Financial Statements include the share of the assets that Telefónica Germany Group jointly controls and the share of the liabilities which are incurred in the course of pursuing the joint operation. The Combined Statement of Comprehensive Income includes the expenses that Telefónica Germany Group incurs and its share of the income that it earns from the joint operation.

Telefónica Germany Group combines its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its Combined Financial Statements.

h) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments in the form of financial assets and financial liabilities are generally presented separately. Financial instruments are recognized as soon as Telefónica Germany Group becomes a party to the contractual provisions of the financial instrument. All normal purchases and sales of financial assets are recognized in the combined statement of financial position on the trade date, i.e. the date that Telefónica Germany Group commits to purchase or sell the financial asset. Upon initial recognition, financial instruments are measured at fair value. Transaction costs directly attributable to acquisition or issuance are considered in determining the carrying amount if the financial instruments are not measured at fair value through profit or loss.

For the purpose of subsequent measurement, financial instruments are allocated to the categories "Financial assets at fair value through profit or loss", "Loans and receivables", "Available-for-sale financial assets", "Financial liabilities measured at amortized cost" as well as "Financial liabilities at fair value through profit or loss". Telefónica Germany Group does not allocate financial instruments to the category "held to maturity".

Financial Assets

Financial assets primarily comprise receivables from Telefónica, S.A., trade receivables, receivables from banks and cash and cash equivalents.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include those financial assets designated as held for trading. They comprise derivatives, which are not classified as hedging instruments in hedge accounting. Gains or losses on financial assets held for trading are recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as financial receivables from Telefónica, S.A. or trade receivables. After initial recognition, loans and receivables are subsequently carried at amortized cost using the effective interest method less any impairment losses. Gains and losses are recognized in the combined income statement when the loans and receivables are derecognized or impaired. Interest effects on the application of the effective interest method are also recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents consist primarily of receivables from cash pooling agreements with Telefónica Finanzas S.A., Spain, (Telfisa), receivables from banks and cash on hand with an original term of up to three months. Cash and cash equivalents correspond with the classification in the Combined Statement of Cash Flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified in any of the preceding categories. This category comprises assets incurred by Telefónica Germany Group to meet its pension obligations but which do not qualify as plan assets under IAS 19.

After initial measurement, available-for-sale financial assets are measured at fair value, with unrealized gains or losses being recognized in other comprehensive income. If objective evidence of impairment exists, these changes are recognized in profit or loss. Upon disposal of financial assets, the accumulated gains and losses recognized in other comprehensive income/loss resulting from measurement at fair value are recognized in profit or loss.

Impairment of financial assets

At each reporting date, the carrying amounts of financial assets other than those to be measured at fair value through profit or loss are assessed to determine whether there is objective evidence of impairment. Objective evidence may exist for example if a debtor faces serious financial difficulties or is unwilling to pay.

For financial assets classified as available for sale, objective evidence for an impairment exists if there is a significant or prolonged decline in the fair value of the instrument.

Loans and receivables

The amount of the impairment loss on loans and receivables is measured as the difference between the carrying amount of the asset and the present value of expected future cash flows (excluding expected future credit losses that have not been incurred), discounted at the original effective interest rate of the financial asset. The amount of the impairment loss is recognized in profit or loss. If, in a subsequent reporting period, the amount of the impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognized, the impairment loss recorded in prior periods is reversed and recognized in profit or loss. Impairment losses on loans and receivables (e.g. trade receivables) are recorded using allowance accounts. When receivables are assessed as uncollectible, the impaired asset is derecognized.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, the difference between its cost (net of any principal payment and amortization) and its current fair value (less any impairment loss previously recognized in the combined income statement) is reclassified from the combined statement of comprehensive income to the combined income statement. Reversals with respect to equity instruments classified as available-for-sale are recognized in the combined statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively attributed to an event occurring after the impairment losses were recognized in the combined income statement.

Financial liabilities

Financial liabilities primarily include trade payables, other payables and derivative financial liabilities.

Financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Derivatives, which are not used as hedging instruments in hedge accounting, are classified as held for trading. Gains or losses on liabilities held for trading are recognized in profit or loss.

Financial liabilities measured at amortized cost

After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognized on an effective interest basis.

Derivative financial instruments and hedge accounting

Generally, Telefónica Germany Group uses derivative financial instruments only to manage foreign currency risks. For material identified foreign currency risks, derivatives are contracted with Telefónica, S.A. Group treasury. Derivative financial instruments are measured at fair value upon initial recognition and at each subsequent reporting date. The fair value of listed derivatives is equal to their positive or negative market value. If a market value is not available, fair value is calculated using standard financial valuation models such as discounted cash flow or option pricing models. Derivatives are presented as assets if their fair value is positive and as liabilities if the fair value is negative. Changes in the fair value of derivative financial instruments are recognized periodically in profit or loss. Telefónica Germany Group does not apply hedge accounting as set out in IAS 39.

Derecognition of financial assets and liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and Telefónica Germany Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset´s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in statement of combined comprehensive income is recognized in profit or loss. If Telefónica Germany Group retains substantially all the risks and rewards of ownership of a transferred asset, Telefónica Germany Group continues to recognize the financial asset and recognize a collateralized borrowing for proceeds received. If Telefónica Germany Group does not retain nor transfer substantially all risks and rewards, and retains control, it continues to recognize the transferred asset to the extent of its continuing involvement. Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

i) Inventories

Inventories for consumption and replacement are stated at the lower of cost and net realizable value. Cost is determined on the basis of weighted average cost and comprises direct materials and where applicable, direct labor cost and overhead that has been incurred in bringing the inventory to its present location and condition. The estimates of net realizable value are based on the most reliable evidence available at the time estimates are made of the amount the inventories are expected to realize. These estimates take into consideration the fluctuations of price or costs and the purpose for which the inventory is held.

Obsolete, defective or slow-moving inventories have been written down to estimated net realizable value. When the circumstances that previously caused inventories to be written down no longer exist, the amount of the write-down is reversed, so that the new carrying amount is the lower of cost and revised net realizable value.

j) Provisions

Pensions and other employee benefit obligations

Provisions required to cover the accrued liability for defined-benefit pension plans are determined using "the projected unit credit" actuarial valuation method. The calculation is based on demographic and financial assumptions for the country considering the macroeconomic environment. The discount rates are determined based on market yield curves. Plan assets are measured at fair value. Actuarial gains and losses on post-employment defined-benefit plans are recognized immediately in other comprehensive income and all expenses related to defined benefit plans in personnel expenses. When the calculation results in a benefit, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions and has no legal or constructive obligation to pay further amounts. For defined-contribution pension plans, the obligations are limited to the payment of the contributions, which are taken to the combined income statement as occurred.

Provisions for post-employment benefits (e.g. early retirement or other) are calculated individually based on the terms agreed with the employees.

Other provisions

Provisions are recognized when Telefónica Germany Group has a present obligation (legal or constructive), as a result of a past event that can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are measured at managements/directors best estimate of the expenditure required to settle the obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted, and the corresponding increase in the provision due to the passage of time is recognized as a finance cost. When Telefónica Germany Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the combined income statement net of any reimbursement.

Provisions for restructuring are recognized if there is a detailed, formal plan that provides for the individual measures and has been adopted by the appropriate managing bodies. In addition, implementation is expected to begin as soon as possible and a valid expectation has been raised in those affected that the restructuring will be carried out.

Provisions for decommissioning, retirement and site reconditioning costs are recognized if Telefónica Germany Group has a legal or constructive obligation to dismantle the relevant items after their utilization. The estimated costs are recognized as an asset and a provision. Changes in the timing or estimation of the costs are reflected in the asset and in the provision, respectively.

k) Income tax

The income tax expense of each year includes both current and deferred taxes. Current and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination or items directly recognized in equity or in other comprehensive income.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The main temporary differences arise due to discrepancies between the tax bases and carrying amounts of property, plant and equipment, intangible assets, and non-deductible provisions, as well as differences in the fair value and tax bases of net assets acquired from a subsidiary, associate or joint venture.

Furthermore, deferred tax assets arise from unused tax credits carryforwards.

Telefónica Germany Group determines deferred tax assets and liabilities by applying the tax rates that will be effective when the corresponding asset is received or the liability is settled, based on tax rates and tax laws that are enacted (or substantively enacted) at the reporting date.

Deferred tax assets and liabilities are not discounted to present value and are classified as non-current, irrespective of the date of their reversal.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities on investments in subsidiaries, branches, associates and joint ventures are not recognized if the parent company is in a position to control the timing of the reversal and if the reversal is unlikely to take place in the foreseeable future.

Deferred income tax relating to items directly recognized in equity is recognized in equity. Deferred tax assets and liabilities arising from the initial recognition of the purchase price allocation of business combinations impact the amount of goodwill. However, subsequent changes in tax assets acquired in a business combination are recognized as an adjustment to profit or loss.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

For further description of the combination methods see section n).

l) Revenues and expenses

Revenues and expenses are recognized on the combined income statement based on an accruals basis; i.e. when the goods or services represented by them take place, regardless of when actual payment or collection occurs.

Telefónica Germany Group principally obtains Revenue from providing the following telecommunications services: traffic, connection fees, regular (normally monthly) network usage fees, interconnection, network and equipment leasing, handset sales and other services such as pay TV and value-added services (e.g. text or data messaging) and maintenance. Products and services may be sold separately or in promotional packages (bundled).

Revenue from calls carried on Telefónica Germany Group´s networks (traffic) entail an initial call establishment fee plus a variable call rate, based on call length, distance and type of service. Both wireline and wireless traffic is recognized as Revenue as service is provided. For prepaid calls, the amount of unused traffic generates a deferred Revenue recognized in "Trade and other payables" on the combined statement of financial position. Prepaid cards generally expire within 12 months and any deferred Revenue from prepaid traffic is taken directly to the combined income statement when the card expires as Telefónica Germany Group has no obligation to provide service after this date.

Revenue from traffic sales and services at a fixed rate over a specified period of time (flat rate) is recognized on a straight-line basis over the period of time covered by the rate paid by the customer.

Interconnection Revenue from wireline- wireless and vice versa calls and other customer services is recognized in the period in which the calls are made.

Revenue from handset and equipment sales is recognized once the sale is considered complete, i.e., generally when delivered to the end customer. Revenue from installment sales is recognized in the amount of the discounted future receipts.

Wireless customers are offered to participate in loyalty campaigns whereby customers obtain points for the telephone traffic they generate. The amount assigned to points awarded is recognized as deferred income until the points are exchanged and recognized as sales or services according to the product or service chosen by the customer. This exchange can be for discounts on the purchase of handsets, traffic or other types of services depending on the number of points earned and the type of contract involved. The accompanying Combined Statements of Financial Position include the related deferred Revenue, based on an estimate of the value of the points accumulated at year-end, under "Trade and other payables."

Bundle packages, which include different elements, are sold in the wireline, wireless and internet businesses. They are assessed to determine whether it is necessary to separate the separately identifiable elements and apply the corresponding Revenue recognition policy to each element. Total package revenue is allocated among the identified elements based on their respective fair values (i.e. the fair value of each element relative to the total fair value of the package). However, amounts contingent upon delivery of undelivered elements are not allocated to delivered elements.

All expenses related to mixed promotional packages are taken to the combined income statement as incurred.

m) Use of estimates, assumptions and judgments

The key assumptions concerning the future and other relevant sources of uncertainty in estimates at the reporting date that could have a significant impact on the Combined Financial Statements within the next year are discussed below. The estimated and associated assumptions are based on historical experience and other factors that are considered to be relevant.

A significant change in the facts and circumstances on which these estimates and related judgments are based could have a material impact on Telefónica Germany Group's results and financial position.

Unforeseeable development outside management´s control may cause actual amounts to differ from the original estimates. In the case the underlying assumptions, and if necessary the carrying amounts of the pertinent assets and liabilities, will be adjusted accordingly.

Changes are recognized in the period in which they occur, and also in late periods if changes affect both the reporting period and the subsequent ones.

Property, plant and equipment, intangible assets and goodwill

The accounting treatment of investments in property, plant and equipment and intangible assets entails the use of estimates to determine the useful life for depreciation and amortization purposes and to assess fair value at their acquisition dates for assets acquired in business combinations.

Determining useful life requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict.

When an item of property, plant and equipment or an intangible asset is considered to be impaired, the impairment loss is recognized in the combined income statement for the period. The decision to recognize an impairment loss involves estimates of the timing and amount of the impairment, as well as analysis of the reasons for the potential loss. Furthermore, additional factors, such as technological obsolescence, the suspension of certain services and other circumstantial changes are taken into account.

Telefónica Germany Group evaluates its cash-generating units' performance regularly to identify potential goodwill impairments. Determining the recoverable amount of the cash-generating units to which goodwill is allocated also entails the use of assumptions and estimates and requires a significant element of judgment.

Deferred income taxes

Telefónica Germany Group assesses the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on Telefónica Germany Group's ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of taxable earnings, which are sourced from internal projections and are continuously updated to reflect the latest trends.

The recognition of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realization of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments of Telefónica Germany Group could differ from the estimates made by Telefónica Germany Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

Tax loss carryforwards and deductible temporary differences have been determined under the probable criteria.

Provisions

Provisions are recognized when Telefónica Germany Group has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. This obligation may be legal or constructive, deriving from inter alia regulations, contracts, normal practices or public commitments that lead third parties to reasonably expect that Telefónica Germany Group will assume certain responsibilities. The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, bearing in mind all available information at the reporting date, including the opinions of independent experts such as legal counsel or consultants.

Given the uncertainties inherent in the estimates used to determine the amount of provisions, actual outflows of resources may differ from the amounts recognized originally on the basis of the estimates.

Revenue recognition

Bundled offers

Bundled offers that combine different elements are assessed to determine whether it is necessary to separate the different identifiable components and apply the corresponding revenue recognition policy to each element. Total package revenue is allocated among the identified elements based on their respective fair values.

Determining fair values for each identified element requires estimates that are complex due to the nature of the business.

A change in estimates of fair values could affect the apportionment of revenue among the elements and, as a result, the date of recognition of revenue.

n) Combination methods

The Combined Financial Statements have been prepared by aggregating the net assets of the Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") and the Telefónica Germany Management GmbH and its direct and indirect subsidiaries

- Telefónica Germany GmbH & Co. OHG,
- Telefónica Germany Partner Services GmbH,
- Telefónica Germany Online Services GmbH,
- Fonic GmbH,
- Telefónica Germany 1. Beteiligungsgesellschaft mbH and
- Telefónica Germany Customer Services GmbH.

The financial condition and operations of TCHIBO Mobilfunk Beteiligungs GmbH and TCHIBO Mobilfunk GmbH & Co. KG, a joint venture of the Telefónica Germany GmbH & Co. OHG, are reflected proportionately with 50% in the Combined Financial Statements. Therefore the IFRS financial information reported to Telefónica, S.A. as of December 31, 2011, 2010, 2009 and 2008 as reported to Telefónica, S.A. have been used and modified as described under note (1).

Subsidiaries are entities controlled by Telefónica Germany Group, by Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") and by Telefónica Germany Management GmbH. Control exists if one of the companies has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the combined financial statements from the date that control commences until the date that control ceases.

Deferred taxes for temporary differences resulting from combination processes are recognized in profit or loss.

On loss of control, Telefónica Germany Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If Telefónica Germany Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

o) Share-based payments

For equity-settled share option plans, fair value at the grant date is measured by applying statistical techniques or using benchmark securities. The cost is recognized, together with a corresponding increase in equity, over the vesting period. At each subsequent reporting date, the company reviews its estimate of the number of options it expects to vest, with a corresponding adjustment to equity. Obligations arising from cash-settled share-based payment transactions are recognized as a liability and measured at fair value at each reporting date.

p) New IFRS and interpretations of the IFRS Interpretations Committee ("IFRS IC") issued but not yet effective as of December 31, 2011

The accounting policies applied in the preparation of the Combined Financial Statements for the year ended December 31, 2011 are consistent with those used in the preparation of Telefónica Germany Group's Combined Financial Statements for the year ended December 31, 2010 and 2009, except for the application of new standards, amendments to standards and interpretations published by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRS IC"), and adopted by the European Union, noted below:

New standards and IFRIC interpretations issued but not yet effective as of December 31, 2011

At the date of preparation of the accompanying Combined Financial Statements, the following IFRS, amendments and IFRIC interpretations had been published, but their application was not mandatory:

Standards and amendments		**Mandatory application: annual periods beginning on or after**
IFRS 9	*Financial instruments*	January 1, 2015
IFRS 10	*Consolidated financial statements*	January 1, 2013
IFRS 11	*Joint arrangements*	January 1, 2013
IFRS 12	*Disclosures of interests in other entities*	January 1, 2013
IFRS 13	*Fair value measurement*	January 1, 2013
Revised IAS 19	*Employee benefits*	January 1, 2013
Revised IAS 27	*Separate financial statements*	January 1, 2013
Revised IAS 28	*Investments in associates and joint ventures*	January 1, 2013
Amendments to IFRS 7	*Disclosures – Offsetting of financial assets and liabilities*	January 1, 2013
	Disclosures - Transition to IFRS 9	January 1, 2015
Amendments to IAS 1	*Presentation of items of other comprehensive income*	July 1, 2012
Amendments to IAS 12	*Deferred tax: Recovery of underlying assets*	January 1, 2012
Amendments to IAS 32	*Offsetting of financial assets and liabilities*	January 1, 2014
Improvements to IFRS (2011)	*Amendments to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34*	January 1, 2013

Interpretations		**Mandatory application: annual periods beginning on or after**
IFRIC 20	*Stripping costs in the production phase of a surface mine*	January 1, 2013

Except for the revised IAS 19, Amendments to IFRS 7, Disclosures: Transfer of financial assets, and Amendments to IAS 1, Presentation of items of other comprehensive income, none of the above mentioned standards amendments or interpretations have been endorsed by the European Union. Telefónica Germany Group is currently assessing the impact of the application of these standards, amendments and interpretations.

Based on the analyses made to date, Telefónica Germany Group estimates that their adoption will not have a significant impact on the Combined Financial Statements in the initial period of application. However, the changes introduced by IFRS 9 will affect the accounting for financial instruments and transactions with financial assets carried out on or after January 1, 2015.

(3) SEGMENT INFORMATION

In Telefónica, S.A.'s Consolidated Financial Statements for the year ended December 31, 2011, Telefónica Germany Group was a component belonging to Telefónica Europe operating segment of Telefónica, S.A. Telefónica Germany Group provides a combination of wireless and wireline internet and telephony services to residential and business customers. Note 18 provides a split-up of the revenue.

Telefónica Germany Group operates only in one geographical area, the country of Germany.

Consistent with how the Key Management reviews the operating results, Telefónica Germany Group has only one operating segment. The Key Management, being considered as the chief operating decision maker as defined in IFRS 8, assesses the performance and allocates resources on a group-wide basis and not for individual products or services or customer groups. The following indicators, different from accounting measures, are used by the Key Management in its decision making as they provide a better indication of its performance:

Operating income before depreciation and amortization (OIBDA)

Operating income before depreciation and amortization (OIBDA) is calculated by excluding depreciation and amortization from operating income to eliminate the impact of investments in fixed assets that cannot be directly controlled by management in the short term. OIBDA is considered to be more important for investors as it provides a gauge of operating performance and profitability using the same measures utilized by management. This metric also allows for comparisons with other companies in the telecommunications sector without consideration of their asset structure.

OIBDA is used to track the performance of the business and to establish operating and strategic targets. OIBDA is a commonly reported measure and is widely used among analysts, investors and other interested parties in the telecommunications industry, although not a measure explicitly defined in IFRS, and therefore, may not be comparable to similar indicators used by other companies. OIBDA should not be considered as an alternative to operating income as a measurement of our operating results or as an alternative to cash flows from operating activities as a measurement of our liquidity.

The following table presents the reconciliation of OIBDA to operating result for the Telefónica Germany Group for the years ended December 31, 2011, 2010 and 2009.

Thousands of euros	**for the year ended December 31**		
	2011	**2010**	**2009**
OIBDA	**1,149,237**	**892,677**	**891,482**
Depreciation and amortization	-1,082,189	-988,165	-922,872
OPERATING RESULT	**67,048**	**-95,488**	**-31,390**

There is no customer of Telefónica Germany Group providing more than 10 percent of the revenue.

(4) BUSINESS COMBINATIONS

Acquisition of HanseNet Telekommunikation GmbH (HanseNet)

On December 3, 2009, to increase its market share in the wireline services Telefónica Germany Customer Services GmbH (former "Telefónica Deutschland GmbH"), signed an agreement to acquire all of the shares of German company HanseNet Telekommunikation GmbH ("HanseNet"). HanseNet Telekommunikation GmbH was a telecommunications company offering wireline telephony, Internet, wireless and IPTV network services in Germany under the brand Alice. Telefónica Germany Group completed the acquisition of 100% of the shares of HanseNet Telekommunikation GmbH on February 16, 2010 and obtained control. Therefore, the acquisition date as defined by IFRS was February 16, 2010. The initial amount paid was approximately EUR 912m consisting of an enterprise value of EUR 900m and additional cash of EUR 12m. The initial amount included EUR 637m of refinanced debt, leaving an acquisition cost of EUR 275m, which was finally reduced by EUR 40m at completion of the transaction.

Upon the acquisition of this shareholding, the purchase price was allocated to the identifiable assets acquired and the liabilities assumed using generally accepted valuation methods for each type of asset and/or liability, based on the best available information.

The complete carrying amounts, fair values, goodwill and purchase consideration cost of the identifiable assets acquired and the liabilities assumed in this transaction at the date control was obtained are as follows:

Millions of euros	HanseNet	
	Carrying amount	Fair value
Goodwill	461	-
Other non-current assets	791	840
Current assets and deferred tax assets	191	235
Financial liabilities	(657)	(665)
Other liabilities	(303)	(457)
Value of net assets	483	(47)
Purchase consideration cost	-	(235)
Goodwill (Note 6)	**-**	**282**

The recognized goodwill results from expected synergies through the combination of the networks, potential savings of administrative functions, increase in purchasing power due to scale and potential benefits from the integrated approach. Additionally, growth in business is expected from the convergent offerings.

The acquired receivables concern the gross value of EUR 146m, the fair value of EUR 112m and cash flows not expected to be collected of EUR 34m.

In addition, the impact of this acquisition on cash and cash equivalents was as follows:

	Millions of euros
Cash and cash equivalents of the company acquired	28
Cash paid in the acquisition	(235)
Refinanced debt	(637)
Total net cash outflow	844

The contributions to Telefónica Germany Group's Revenue and OIBDA from the acquisition of HanseNet Telekommunikation GmbH in 2010 amounted to EUR 783m and EUR 77m, respectively. If HanseNet had been acquired on January 1, 2010 the contribution to revenue and OIBDA would have amounted to EUR 904m and EUR 93m, respectively.

Transaction costs in conjunction with the acquisition of the HanseNet Telekommunikation GmbH amounted to kEUR 4,993.

In 2011 the HanseNet Telekommunikation GmbH was merged into the Telefónica Germany GmbH & Co. OHG and Telefónica Deutschland GmbH was renamed into Telefónica Customer Services GmbH.

There were no other business combinations or acquisitions in the years 2011, 2010 and 2009.

(5) INTANGIBLE ASSETS

The composition of and movements in net intangible assets in the years ended December 31, 2011, 2010 and 2009 are as follows:

Thousands of euros	At December 31, 2010	Additions	Amortization	Disposals	Transfers and other	Acquisition of a subsidiary	At December 31, 2011
Service concession arrangements and licenses	1,843,927	-	-226,746	-	1,300,253	-	2,917,434
Software	490,379	155,067	-201,690	-39	-3,032	-	440,685
Other intangible assets	309,979	-	-43,399	-	13,088	-	279,668
Prepayments on intangible assets	1,312,219	27,261	-	-	-1,319,130	-	20,350
Net intangible assets	**3,956,504**	**182,328**	**-471,835**	**-39**	**-8,821**	**-**	**3,658,137**

Thousands of euros	At December 31, 2009	Additions	Amortization	Disposals	Transfers and other	Acquisition of a subsidiary	At December 31, 2010
Service concession arrangements and licenses	1,943,176	-	-177,626	-	78,377	-	1,843,927
Software	513,562	186,191	-223,564	-	-17,434	31,624	490,379
Other intangible assets	45,643	21,288	-94,034	-	-2,260	339,342	309,979
Prepayments on intangible assets	8,303	1,395,567	-	-	-91,651	-	1,312,219
Net intangible assets	**2,510,684**	**1,603,046**	**-495,224**	**-**	**-32,968**	**370,966**	**3,956,504**

Thousands of euros	At January 1, 2009	Additions	Amortization	Disposals	Transfers and other	Acquisition of a subsidiary	At December 31, 2009
Service concession arrangements and licenses	2,119,980	-	-176,804	-	-	-	1,943,176
Software	270,654	189,750	-219,759	-	272,917	-	513,562
Other intangible assets	23,875	7,603	-8,333	-2	22,500	-	45,643
Prepayments on intangible assets	317,645	14,579	-	-	-323,921	-	8,303
Net intangible assets	**2,732,154**	**211,932**	**-404,896**	**-2**	**-28,504**	**-**	**2,510,684**

The gross costs, accumulated amortization and impairment losses of intangible assets as at December 31, 2011, 2010 and 2009 are as follows:

	At December 31, 2011		
Thousands of euros	**Gross cost**	**Accumulated amortization**	**Net intangible assets**
Service concession arrangements and licenses	9,830,836	-6,913,402	2,917,434
Software	1,261,398	-820,713	440,685
Other intangible assets	383,709	-104,041	279,668
Prepayments on intangible assets	20,350	-	20,350
Net intangible assets	**11,496,293**	**-7,838,156**	**3,658,137**

	At December 31, 2010		
Thousands of euros	**Gross cost**	**Accumulated amortization**	**Net intangible assets**
Service concession arrangements and licenses	8,531,194	-6,687,267	1,843,927
Software	1,172,031	-681,652	490,379
Other intangible assets	419,950	-109,971	309,979
Prepayments on intangible assets	1,312,219	-	1,312,219
Net intangible assets	**11,435,394**	**-7,478,890**	**3,956,504**

	At December 31, 2009		
Thousands of euros	**Gross cost**	**Accumulated amortization**	**Net intangible assets**
Service concession arrangements and licenses	8,452,817	-6,509,641	1,943,176
Software	1,519,423	-1,005,861	513,562
Other intangible assets	62,967	-17,324	45,643
Prepayments on intangible assets	8,303	-	8,303
Net intangible assets	**10,043,510**	**-7,532,826**	**2,510,684**

	At January 1, 2009		
Thousands of euros	**Gross cost**	**Accumulated amortization**	**Net intangible assets**
Service concession arrangements and licenses	8,452,817	-6,332,837	2,119,980
Software	1,098,653	-827,999	270,654
Other intangible assets	41,200	-17,325	23,875
Prepayments on intangible assets	317,645	-	317,645
Net intangible assets	**9,910,315**	**-7,178,161**	**2,732,154**

Service concession arrangements and licenses:

Telefónica Germany GmbH & Co. OHG obtained a Global System for Mobile Communications ("GSM") license (2G) in February 2007. As at December 31, 2011 the license has a carrying amount of kEUR 1,994 (2010: kEUR 2,327; 2009: kEUR 2,685). The GSM licenses expire on December 31, 2016.

In August 2000 and in May 2010, Telefónica Germany GmbH & Co. OHG obtained UMTS licenses (3G) expiring on December 31, 2020. The carrying amount as at December 31, 2011 was kEUR 1,660,022 (2010: kEUR 1,841,598; 2009: kEUR 1,940,500).

In May 2010, Telefónica Germany GmbH & Co. OHG acquired LTE licenses (4G) expiring in 2025. The acquisition was recognized as "Additions" of prepayments on intangible assets and reclassified as concessions and licenses in 2011. The carrying amount as at December 31, 2011 was kEUR 1,255,392 (in 2010: kEUR 1,300,228).

The additions of assets shown as business combinations relate to the acquisition of HanseNet Telekommunikation GmbH in 2010.

There were no further significant additions of licenses in the years 2011, 2010 and 2009.

Software:

Software mainly includes licenses for Office and IT application software. The software is amortized on a straight-line basis over its useful life, generally estimated to be between two and five years.

Other intangible assets:

"Other intangible assets" includes mainly the amounts allocated to rights for brands and their use. As of 2010 "Other intangible assets" also includes the amounts allocated to the customer base of HanseNet Telekommunikation GmbH.

Intangible assets are also subject to impairment tests whenever there are indicators of a potential loss in value and, in any event, at the end of each year for intangible assets with indefinite useful lives. There was no impairment recognized in the Combined Financial Statements for 2011, 2010 and 2009 as a result of these impairment tests. Regarding parameters used in the impairment test, please see Note (2) e).

(6) GOODWILL

The movements in goodwill in the years 2011, 2010 and 2009 are as follows:

Thousands of euros	**2011**	**2010**	**2009**
Present value of goodwill at the beginning of the year	**705,576**	**423,081**	**423,081**
Acquisitions	-	282,495	-
Present value of goodwill at the end of the year	**705,576**	**705,576**	**423,081**

Goodwill as at January 1, 2009 amounting to kEUR 423,081 resulted from the acquisition of MediaWays GmbH by HighwayOne Germany GmbH, a subsidiary of Telefónica, S.A., as of September 30, 2002. On October 2, 2002 HighwayOne Germany GmbH and MediaWays GmbH merged into Telefónica Deutschland GmbH. On March 23, 2011 Telefónica Deutschland GmbH was changed to Telefónica Germany Customer Services GmbH.

The addition in 2010 is related to the acquisition of HanseNet Telekommunikation GmbH (see Note 4).

The impairment tests carried out did not identify the need to recognize any write-downs to goodwill at the 2011, 2010, 2009 and 2008 year ends as the recoverable amount, in all cases based on value in use, was higher than the carrying amount. Regarding parameters used in the impairment test, see Note (2) e).

In addition, sensitivity analyses were performed on changes reasonably expected to occur in the primary valuation variables, and the recoverable amount remained above the net carrying amount.

(7) PROPERTY, PLANT AND EQUIPMENT

The composition of and movements in the items comprising net "Property, plant and equipment" in December 31, 2011, 2010 and 2009 were the following:

Thousands of euros	Balance at 12/31/10	Additions	Depreciation	Disposals	Transfers and other	Acquisition of a subsidiary	Balance at 12/31/11
Land and buildings	59,054	6,501	-24,786	-54	-239	-	40,476
Plant and machinery	3,089,461	375,783	-533,543	-1,001	-13,623	-	2,917,077
Furniture, tools and other items	122,810	35,018	-52,025	-1,815	-2,655	-	101,333
Total PP&E in service	**3,271,325**	**417,302**	**-610,354**	**-2,870**	**-16,517**	**-**	**3,058,886**
PP&E in progress	76,628	-41,979	-	-4	25,338	-	59,983
Net PP&E	**3,347,953**	**375,323**	**-610,354**	**-2,874**	**8,821**	**-**	**3,118,869**

Thousands of euros	Balance at 12/31/09	Additions	Depreciation	Disposals	Transfers and other	Acquisition of a subsidiary	Balance at 12/31/10
Land and buildings	63,041	8,629	-16,699	-	4,083	-	59,054
Plant and machinery	2,635,389	478,612	-411,022	-692	-39,100	426,274	3,089,461
Furniture, tools and other items	123,618	50,913	-65,220	-851	-5,280	19,630	122,810
Total PP&E in service	**2,822,048**	**538,154**	**-492,941**	**-1,543**	**-40,297**	**445,904**	**3,271,325**
PP&E in progress	73,614	-84,324	-	-31	73,265	14,104	76,628
Net PP&E	**2,895,662**	**453,830**	**-492,941**	**-1,574**	**32,968**	**460,008**	**3,347,953**

Thousands of euros	Balance at 01/01/09	Additions	Depreciation	Disposals	Transfers and other	Acquisition of a subsidiary	Balance at 12/31/09
Land and buildings	61,160	12,378	-13,786	-21	3,310	-	63,041
Plant and machinery	2,551,268	541,855	-440,691	-1,026	-16,017	-	2,635,389
Furniture, tools and other items	140,536	50,788	-63,499	-164	-4,043	-	123,618
Total PP&E in service	**2,752,964**	**605,021**	**-517,976**	**-1,211**	**-16,750**	**-**	**2,822,048**
PP&E in progress	48,264	-19,809	-	-95	45,254	-	73,614
Net PP&E	**2,801,228**	**585,212**	**-517,976**	**-1,306**	**28,504**	**-**	**2,895,662**

The gross costs, accumulated depreciation and impairment losses of property, plant and equipment as at December 31, 2011, 2010, 2009 and at January 1, 2009 are as follows:

		Balance at December 31, 2011	
Thousands of euros	**Gross cost**	**Accumulated depreciation**	**Net PP&E**
Land and buildings	123,310	-82,834	40,476
Plant and machinery	5,690,850	-2,773,773	2,917,077
Furniture, tools and other items	349,677	-248,344	101,333
Total PP&E in service	**6,163,837**	**-3,104,951**	**3,058,886**
PP&E in progress	59,983	-	59,983
Net PP&E	**6,223,820**	**-3,104,951**	**3,118,869**

		Balance at December 31, 2010	
Thousands of euros	**Gross cost**	**Accumulated depreciation**	**Net PP&E**
Land and buildings	130,988	-71,934	59,054
Plant and machinery	5,420,148	-2,330,687	3,089,461
Furniture, tools and other items	330,472	-207,662	122,810
Total PP&E in service	**5,881,608**	**-2,610,283**	**3,271,325**
PP&E in progress	76,628	-	76,628
Net PP&E	**5,958,236**	**-2,610,283**	**3,347,953**

		Balance at December 31, 2009	
Thousands of euros	**Gross cost**	**Accumulated depreciation**	**Net PP&E**
Land and buildings	124,479	-61,438	63,041
Plant and machinery	4,772,498	-2,137,109	2,635,389
Furniture, tools and other items	323,043	-199,425	123,618
Total PP&E in service	**5,220,020**	**-2,397,972**	**2,822,048**
PP&E in progress	73,614	-	73,614
Net PP&E	**5,293,634**	**-2,397,972**	**2,895,662**

		Balance at January 1, 2009	
Thousands of euros	**Gross cost**	**Accumulated depreciation**	**Net PP&E**
Land and buildings	110,892	-49,732	61,160
Plant and machinery	4,649,728	-2,098,460	2,551,268
Furniture, tools and other items	305,389	-164,853	140,536
Total PP&E in service	**5,066,009**	**-2,313,045**	**2,752,964**
PP&E in progress	48,264	-	48,264
Net PP&E	**5,114,273**	**-2,313,045**	**2,801,228**

"Additions" for 2011, 2010 and 2009, totaling kEUR 375,323 (2011), kEUR 453,830 (2010) and kEUR 585,212 (2009), mainly reflect Telefónica Germany Group's investment (i.e. cell masts) made during the year to improve the capacity and coverage of the wireless networks.

The additions of assets shown as business combination relate to acquisition of HanseNet Telekommunikation GmbH in 2010 (Note 4). Property, plant and equipment deriving from finance leases amounted to kEUR 11,786 as at December 31, 2011 (kEUR 9,635 as at December 31, 2010 and kEUR 9,184 as at December 31, 2009). As at January 1, 2009 Telefónica Germany Group had finance leases amounting to kEUR 4,717. The most significant finance leases are disclosed in Note 20.

(8) JOINT VENTURES

Telefónica Germany GmbH & Co. OHG jointly controls the TCHIBO Mobilfunk Beteiligungs GmbH and the TCHIBO Mobilfunk GmbH & Co. KG. Both companies are recognized proportionally with 50% in the Combined Financial Statements.

The contributions to Telefónica Germany Group's Combined Statement of Financial Position as at December 31, 2011, 2010, 2009, as at January 1, 2009 as well as the contributions to the Combined Income Statements for 2011, 2010 and 2009 are as follows:

TCHIBO Mobilfunk Beteiligungs GmbH	**At December 31,**			**At January 1,**
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Combined Statement of Financial Position:				
Current assets	54	66	44	46
Non-current assets	-	-	-	-
Current liabilities	-36	-49	-27	-30
Non-current liabilities	-	-	-	-
Combined Income Statement:				
Income	-	-	-	
Expenses	-	-	-	

TCHIBO Mobilfunk GmbH & Co. KG	**At December 31,**		**At January 1,**	
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Combined Statement of Financial Position:				
Current assets	14,617	28,483	29,752	19,083
Non-current assets	-	-	-	-
Current liabilities	-11,268	-25,187	-26,572	-16,195
Non-current liabilities	-	-	-	-
Combined Income Statement:				
Income	25,087	21,667	19,291	
Expenses	-25,034	-21,550	-18,991	

(9) RELATED PARTIES

Related party transactions 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 Telefonica entities in Germany" (as defined in Note 1) therefore also are classified as related party transactions.

O2 (Europe) Limited, a subsidiary of Telefónica, S.A., is the parent company of Telefónica Germany Group. Therefore Telefónica Group is a related party as Telefónica, S.A. (the ultimate parent) controls Telefónica Germany Group.

Transactions with Telefónica Group

Telefónica Germany Group has entered into a number of contractual relationships considered to be related party transactions.

Due to a service agreement with O2 Limited (now O2 (Europe) Limited), dated August 12, 2002 Telefónica Germany Group receives management consultancy and support services from Telefónica Group entities in the UK and Spain.

According to a license agreement dated January 1, 2011 Telefónica Germany Group is allowed to use brand rights from the Telefónica Group for which it pays a royalty fee.

Additionally, Telefónica Germany Group uses the O_2 brand from O2 (Europe) Limited pursuant to a license agreement and participates in a group cost share agreement with O2 (Europe) Limited and other Telefónica Group entities, both dated October 15, 2007. O2 (Europe) Limited owns and is responsible for, and bears the costs of central management and development and protection of, the O_2 brand rights.

Telefónica Group has several departments called "areas of innovation", that are working on the development of new business opportunities and technologies in the following areas: cloud computing, video and digital home, content delivery network, machine to machine, applications, financial services, mobile security and e-health. Telefónica Germany Group participates in a cost share arrangement pursuant to which the related development and coordination costs are shared among the Telefónica entities that stand to benefit from such developments.

Furthermore Telefónica Germany Group has entered into a service agreement with Telefónica Global Roaming GmbH ("TGR") effective as of December 5, 2009. TGR manages the wholesale roaming business with third parties as well as the mutual roaming discounts with Telefónica Group entities. With respect to roaming arrangements with Telefónica Group entities, the Company has GSMA-standard based international roaming agreements with all such entities.

Telefónica Germany Group benefits from multinational sales activities coordinated by the Telefónica global unit Telefónica Multinational Solutions ("TMS"). TMS has its own central budget and employees at the Telefónica, S.A. level and each of the participating Telefónica Group entities dedicates a number of employees and resources to TMS activities. Telefónica Germany Group and other Telefónica Group entities are collaborating with the business unit Telefónica Global Solutions for the development of a managed wide area network (mWAN). Due to the collaboration, Telefónica Global Solutions will develop and offer a global mWAN service for all Telefónica Group entities, including a service for the corporate clients in the German market.

Telefónica Germany Group has entered into an agreement dated December 13, 2010 with Telefónica Global Technology S.A.U. ("TGT") regarding the provision of its SAP system. TGT provides the company the license for various functions of the SAP software. There is a further agreement with TGT dated May 3, 2011 regarding the provision and operation of the company's desktop workplace and e-mail system. In accordance with the agreement, TGT provides the company the software as well as the tools, network connectivity, and IP communications services. Telefónica Germany Group has also entered into an agreement with Telefónica Global Applications S.L. ("TGA") dated August 1, 2011, pursuant to which TGA has the responsibility for working with developers on the company's behalf regarding the development, marketing and distribution of wireless applications and into two agreements with Telefónica Czech Republic, a.s. ("Telefónica Czech") Thus, Telefónica Czech provides monitoring services for the company's wireline networks and otherwise Telefónica Germany Group provides monitoring services for Telefónica Czech's wireless network, each dated August 29, 2011. The interconnection agreement with Telefónica Group entity Jajah, Inc. ("Jajah") provides Jajah with connections to the company's network and Jajah provides the Company connections to Jajah's network for the purpose of termination of telecommunications traffic in the respective networks, as well as for the conducting of telecommunications traffic via the network of one party into the telecommunications network of a third party that is connected to such party's network.

With the Ireland-based Telefónica European People Services Centre effective October 10, 2010, the Telefónica Germany Group has entered into a services agreement for the provision of operational human resources, payroll and employment related services to the Company.

Furthermore Telefónica Germany Group has entered into a framework agreement with Telefónica Global Services GmbH ("TGS") dated January 1, 2010 and a framework agreement with TGR dated October 20, 2010. Therefore Telefónica Germany Group concludes individual service agreements with TGR and TGS, that provides central services as well as operational and support functions to TGR and TGS.

Telefónica Germany Group acquired all of the shares of the German company HanseNet Telekommunikation GmbH as of February 16, 2010.

Due to a services agreement with TGS dated October 6, 2010, Telefónica Germany Group has outsourced its procurement process to TGS. TGS conducts the purchase of all kinds of goods and services and performs all related procurement processes including tenders, evaluations and negotiations on behalf of the Company.

Telefónica Germany Group receives policies for all material damages and business interruption (including cyber risk and crime) insurance and general liability, pure financial losses, and media contents liability insurance, from Telefónica Insurances S.A., which is an insurance company in the Telefónica Group registered in Luxembourg. The insurance program is managed and implemented by the broker Pleyade S.A., in Madrid, which is also part of the Telefónica Group.

Telefónica Germany Group has been within the cash management system used by the Telefónica Group under cash pooling and deposit agreements. Cash throughout the Telefónica Group is centralized through these arrangements, allowing them to benefit from the economies of scale from the overall Telefónica Group as well as from the in-house liquidation of payables and receivables between Telefónica Germany Group and the participating members of the Telefónica Group. Under the cash pooling arrangements, the entire cash surplus available on those of their bank accounts which are included in the cash pool is automatically transferred on a daily basis to master bank accounts held by Telfisa Global B.V., a Telefónica Group subsidiary.

In preparation for the public listing, Telefónica Germany Group entered into an indemnity and cost sharing agreement with Telefónica. Under this agreement, Telefónica agreed to indemnify Telefónica Germany Group from certain liability risks and to assume the transaction costs, in each case arising out of or in connection with public listing.

Sales of goods and services and other income as well as purchases of goods and services and other expenses from transactions with Telefónica Group in years 2011, 2010 and 2009 are presented in the following table:

Thousands of euros	**Sales of goods and services and other income**			**Purchases of goods and services and other expenses**		
	for the year ended December 31,			**for the year ended December 31,**		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Telefónica Group	80,361	67,394	204,550	-130.124	-145,674	-134,570

The other income includes interest income from cash pooling with an amount of EUR 3.5m (2010: EUR 0.6m of, 2009: EUR 0,4m).

The other expenses include group fees totaling kEUR 70,232 in 2011, kEUR 52,205 in 2010 and kEUR 26,928 in 2009.

Telefónica Germany Group`s receivables from and payables to Telefónica Group are as follows:

	At December 31,			**At January 1,**
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Receivables from Telefónica Group	**4,031,433**	**3,042,715**	**2,970,998**	**3,038,256**
therein:				
from cash pooling	1,141,097	132,582	20,711	117,737
from financial assets	2,885,897	2,885,897	2,885,897	2,885,897
from other items	4,439	24,236	64,390	34,622
Liabilities to Telefónica Group	**143,460**	**136,508**	**154,917**	**10,298**
therein:				
from other items	143,460	136,508	154,917	10,298

Cash Pooling:

The amounts from cash pooling are related to the cash pooling agreement with Telefónica Finanzas S.A., Spain, (Telfisa).

Financial Assets:

The receivables from “Financial Assets” result from an agreement between the O2 (Europe) Limited and the Telefónica Deutschland Holding AG (former “Telefónica Germany Verwaltungs GmbH”) under which the O2 (Europe) Limited promises a capital contribution amounting to kEUR 2,885,897 at the balance sheet date December 31, in the year 2011, 2010, 2009 and at January 1, 2009.

Other Items:

The receivables and liabilities from other items mainly results from transaction of goods and services between Telefónica Germany Group and Telefónica Group. It includes receivables against Telefónica, S.A amounting to kEUR 981, kEUR 955, kEUR 27 and kEUR 287 as well as liabilities amounting to kEUR 5,575, kEUR 46, kEUR 23,105 and kEUR 23,223 at the balance sheet dates December 31, 2011, 2010, 2009 and at January 1, 2009, respectively.

The position liabilities to Telefónica Group comprise primarily liabilities which are sold by the suppliers of Telefónica Germany GmbH & Co. OHG to a factoring company in which Telefónica, S.A. has a participation.

Transactions with joint ventures

The most significant balances and transactions with joint ventures and their contributions to the Combined Statement of Financial Position and Combined Income Statement are detailed below.

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Receivables from TCHIBO Mobilfunk GmbH & Co. KG	**2,907**	**12,260**	**15,560**	**10,118**
therein:				
from other items	2,907	12,260	15,560	10,118
Liabilities to TCHIBO Mobilfunk GmbH & Co. KG	**698**	**1,089**	**1,101**	**1,140**
therein:				
from other items	698	1,089	1,101	1,140

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Receivables from TCHIBO Mobilfunk Beteiligungs GmbH	**9**	**20**	**-**	**9**
therein:				
from other items	9	20	-	9
Liabilities to TCHIBO Mobilfunk Beteiligungs GmbH	**-**	**-**	**-**	**-**
therein:				
from other items	-	-	-	-

Thousands of euros	**Sales of goods and services and other income**			**Purchases of goods and services and other expenses**		
	for the year ended December 31,			**for the year ended December 31,**		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
TCHIBO Mobilfunk GmbH & Co. KG	12,710	9,014	7,983	20,530	18,071	14,618

Thousands of euros	**Sales of goods and services and other income**			**Purchases of goods and services and other expenses**		
	for the year ended December 31,			**for the year ended December 31,**		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
TCHIBO Mobilfunk Beteiligungs GmbH	96	107	90	-	-	-

Transactions with pension entities

For information regarding the funding of the principal pension benefits please see Note 14.

Transactions with related individuals

Key management of Telefónica Germany Group is defined as those people having authority and responsibility for planning, directing and controlling the activities of Telefónica Germany Group within their function and within the interest of Telefónica, S.A. The key management, which comprises the managing directors of the Telefónica Germany GmbH & Co. OHG, Telefónica Management GmbH, Telefónica, S.A. and O2 (Europe) Limited consists of:

Name	**Position**	**Since Date**
Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH:		
Jaime Smith Basterra	Chief Executive Officer	till June, 2009
Antonio Botas Banuelos	Managing Director Product Development & Brand Management	till February, 2010
Thorsten Haeser	Managing Director Consumer Sales	between April, 2010 and September, 2010
Lutz Schüler	Managing Director Marketing & Sales	till January, 2010
Jens Prautzsch	Managing Director Strategy & Innovation	between February, 2010 and March, 2011
Robert Simmeth	Managing Director Service Technology (CIO)	between February, 2010 and July, 2011
Gregor Bieler	Managing Director Consumer Sales	till August, 2011
André Krause	Managing Director Finance (CFO)	till October, 2011
Johannes Pruchnow	Managing Director Business & Wholesale Service	between June, 2009 and July 2012
Carsten Wreth	Managing Director Service Technology (CIO)	till December, 2009
Andrea Fabiana Folgueiras	Managing Director Network Technology	since 2007
René Schuster	Chief Executive Officer	since June, 2009
Markus Haas	Managing Director Corporate Affairs & Strategy	since June, 2009
Joachim Kugoth	Managing Director Human Resources	since February, 2010
Peter Alec Rampling	Managing Director Marketing	since May, 2010
Michiel van Eldik	Managing Director Wholesale & Partner Management	since September, 2010
Rachel Clare Empey	Managing Director Finance (CFO)	since October, 2011
John Gerald McGuigan	Managing Director Consumer Sales	since October, 2011
Dr. Eckart Pech	Managing Director Service Technology	since October, 2011
Marc Irmisch	Vice President Small & Medium Enterprises & SoHo, Acting Lead of Business Unit	since June, 2012

Name	Position	For the years
Telefónica, S.A.:		
Mr. César Alierta Izuel	Board Member Telefónica, S.A., Chairman	2011, 2010 and 2009
Mr. Isidro Fainé Casas	Board Member Telefónica, S.A., Vice Chairman	2011, 2010 and 2009
Mr. Vitalino Manuel Nafría Aznar	Board Member Telefónica, S.A., Vice Chairman	2011, 2010 and 2009
Mr. Julio Linares López	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. José María Abril Pérez	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. José Fernando de Almansa Moreno-Barreda	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. José María Álvarez-Pallete López	Board Member Telefónica, S.A. (COO)	2011, 2010 and 2009
Mr. David Arculus	Board Member Telefónica, S.A.	2011, 2010 and 2009
Ms. Eva Castillo Sanz	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Carlos Colomer Casellas	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Peter Erskine	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Alfonso Ferrari Herrero	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Luiz Fernando Furlán	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Gonzalo Hinojosa Fernández de Angulo	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Pablo Isla Álvarez de Tejera	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Antonio Massanell Lavilla	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Ignacio Moreno Martínez	Board Member Telefónica, S.A.	2011
Mr. Francisco Javier de Paz Mancho	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr.Chang Xiaobing	Board Member Telefónica, S.A.	2009

Name	Position	Since Date
O2 (Europe) Ltd.:		
Robert John Harwood	Director	since July 2001
Maria Pilar Lopez Alvarez	Director	since November 2011
Enrique Medina Malo	Director	since November 2011
Francisco Jesus, Perez de Uriquen Muinelo	Director	since August 2012
David Melon Sanchez-Friera	Director	since August 2007

During the years to which these accompanying Combined Financial Statements refer, the managing directors did not 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:

	For the year		
Thousands of euros	**2011**	**2010**	**2009**
Compensation	**8,447**	**7,702**	**7,990**
thereof:			
Short-term Employee benefits	2,200	2,219	3,811
Termination benefits	717	-	-
Share-based payments	834	1,021	803
Defined Benefit Obligation	**14,921**	**15,715**	**9,741**

The movements in share options for the key management are as follows:

in units	**2011**	**2010**	**2009**
Share options at beginning of the year	**273,164**	**224,240**	**129,164**
Exercise of share options	-55,208	-57,492	-45,768
Addition of share options	74,899	106,416	140,844
Share options at end of the year	**292,855**	**273,164**	**224,240**

(10) TRADE AND OTHER RECEIVABLES

The breakdown of this item in the Combined Statements of Financial Position is as follows:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Receivables from sales and services	897,187	1,103,266	753,301	588,039
Receivables from related Parties (Note 9)	4,439	24,236	64,390	34,622
Other Receivables	19,409	13,773	9,217	18,171
Prepayments	201,895	269,950	181,809	145,976
Provisions for bad debts	-112,651	-127,115	-93,750	-87,337
Total Trade and other Receivables	**1,010,279**	**1,284,110**	**914,967**	**699,471**

The breakdown of trade receivables is as follows:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Trade receivables billed	718,398	943,077	564,576	431,471
Trade receivables unbilled	178,789	160,189	188,725	156,568
Total	**897,187**	**1,103,266**	**753,301**	**588,039**

Accounts receivables that were neither past due nor impaired at the balance sheet dates December 31, 2011, 2010, 2009 and at January 1, 2009 amounted to kEUR 115,534, kEUR 199,793 and kEUR 102,125, kEUR 59,511 respectively. With regard to these receivables there were no indications of circumstances that may negatively affect their value at the respective balance sheet dates.

Accounts receivables include non-current receivables with a maturity of more than 12 months which amount to kEUR 89,889 as of December 31, 2011 (2010: kEUR 97,505; 2009: kEUR 59,753 and kEUR 0 as of January 1, 2009).

There are no accounts receivables that are past due at the balance sheet dates December 31, 2011, 2010, 2009 and January 1, 2009 but were not impaired.

In November 2011 Telefónica Germany GmbH & Co. OHG entered into an Asset Purchase Agreement for “O_2myhandy” receivables in order to optimize working capital and to access an alternative source of funding. The sale had no significant impact on profit and loss and the buyer bears the majority of the credit risks of theses receivables. A small portion (less 5%) of the sold assets has not been derecognized due to Telefónica Germany’s continuing involvement. The continuing involvement that needs to be recognized is the maximum risk that Telefónica Germany Group retains. It is represented by the maximum repurchase rate of defaulted receivables, the loss percentage and the late payment risk. Gains resulting from the collection of defaulted receivables remain with Telefónica Germany Group. The amount of assets that Telefónica Germany Group continues to recognize amounted to EUR 10.1m as of December 31, 2011 and the carrying amount of the associated liabilities amounted to EUR 10.7m.

The following tables show the reconciliation of changes in the allowances account for the years ended December 31, 2011, 2010 and 2009:

	Thousands of euros
Allowances as of December 31, 2011	**-112,651**
Additions	-47,223
Reductions	61,687
Allowances as of December 31, 2010	**-127,115**
Additions	-105,577
Reductions	72,212
Allowances as of December 31, 2009	**-93,750**
Additions	-27,406
Reductions	20,993
Allowances as of January 1, 2009	**-87,337**

(11) CASH AND CASH EQUIVALENTS

	For the year ended December 31,			**At January 1,**
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Cash at bank and in hand	7,471	56,383	17,246	9,509
Telfisa deposit	1,141,097	132,582	20,711	117,737
Total	**1,148,568**	**188,965**	**37,957**	**127,246**

Cash and cash equivalents mainly consist of deposits related to cash pooling agreement with Telefónica Finanzas S.A., Spain (Telfisa).

(12) EQUITY

As stated in Note 1, Telefónica Germany Group is legally owned by Telefónica, S.A., during the reporting periods. Due to the preparation of Combined Financial Statements the Telefónica Germany Groups equity is presented on a combined group structure and contains “Net assets attributable to Telefónica Germany Group” and “Other components of equity” (see Basis of preparation).

The subsidiaries within the group are held by Telefónica Deutschland Holding AG (former “Telefónica Germany Verwaltungs GmbH”) and Telefónica Germany Management GmbH. The respective company`s portion of equity of each subsidiary within Telefónica Germany Group was eliminated. Therefore the equity of Telefónica Germany Group consists of the equity of these two companies.

Retained earnings

The net assets attributable to Telefónica Germany Group also include undistributed profits of companies comprising the combined group - less interim dividends paid against profit for the year - actuarial gains and losses, and the impact of the asset ceiling on defined-benefit plans.

(13) FINANCIAL ASSETS AND LIABILITIES

The following tables list the carrying values and fair values of all financial assets and financial liabilities held by Telefónica Germany Group in accordance with the valuation categories of IAS 39. For simplification purposes the carrying amount of current financial assets and current financial liabilities is assumed to be the respective fair value.

In addition the tables show the categorization of financial assets and liabilities according to the importance of the input factors used for their respective valuation. For this purpose three categories are defined:

- Level 1: Quoted prices of the respective financial asset or financial liability in active markets
- Level 2: Other directly observable input parameters which contribute to establishing the fair value based on a valuation model
- Level 3: Input parameters not based on observable market data

	At December 31, 2011						
		Measurement hierarchy					
Thousands of euros	**Available-for-sale**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Loans and receivables**	**Total carrying amount**	**Total fair value**
Other non-current financial assets	5,560	-	5,560	-	-	5,560	5,560
Trade and other receivables	-	-	-	-	808,384	808,384	808,384
Other current financial assets	-	-	-	-	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	-	-	-	-	1,148,568	1,148,568	1,148,568
Total financial assets	**5,560**	**-**	**5,560**	**-**	**4,842,849**	**4,848,409**	**4,848,409**

	At December 31, 2010						
		Measurement hierarchy					
Thousands of euros	**Available-for-sale**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Loans and receivables**	**Total carrying amount**	**Total fair value**
Other non-current financial assets	5,335	-	5,335	-	-	5,335	5,335
Trade and other receivables	-	-	-	-	1,014,160	1,014,160	1,014,160
Other current financial assets	-	-	-	-	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	-	-	-	-	188,965	188,965	188,965
Total financial assets	**5,335**	**-**	**5,335**	**-**	**4,089,022**	**4,094,357**	**4,094,357**

	At December 31, 2009						
		Measurement hierarchy					
Thousands of euros	**Available-for-sale**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Loans and receivables**	**Total carrying amount**	**Total fair value**
Other non-current financial assets	6,412	-	6,412	-	-	6,412	6,412
Trade and other receivables	-	-	-	-	733,158	733,158	733,158
Other current financial assets	-	-	-	-	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	-	-	-	-	37,957	37,957	37,957
Total financial assets	**6,412**	**-**	**6,412**	**-**	**3,657,012**	**3,663,424**	**3,663,424**

	At January 1, 2009						
		Measurement hierarchy					
Thousands of euros	**Available-for-sale**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Loans and receivables**	**Total carrying amount**	**Total fair value**
Other non-current financial assets	6,271	-	6,271	-	-	6,271	6,271
Trade and other receivables	-	-	-	-	553,495	553,495	553,495
Other current financial assets	-	-	-	-	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	-	-	-	-	127,246	127,246	127,246
Total financial assets	**6,271**	**-**	**6,271**	**-**	**3,566,638**	**3,572,909**	**3,572,909**

Trade and other receivables include non-current receivables with a maturity of more than 12 months which amount to kEUR 89,889 as of December 31, 2011 (2010: kEUR 97,505; 2009: kEUR 59,753 and kEUR 0 as of January 1, 2009).

Other non-current financial assets comprise solely available-for-sale financial assets incurred by Telefónica Germany Group to meet its pension obligations but do not qualify as plan assets under IAS 19. Telefónica Germany Group realized net gains from available-for-sale financial assets amounting to kEUR 225, kEUR -1,078 and kEUR 141 in the years 2011, 2010 and 2009, respectively, which were recognized directly in other comprehensive income.

Other current financial assets comprise solely a capital promise between the Telefónica Germany Group and O2 (Europe) Limited (see note 22).

	At December 31, 2011			
Thousands of euros	**Liabilities at amortized cost**	**Finance Leases**	**Total carrying amount**	**Total fair value**
Non-Current Liabilities	**-**	**6,342**	**6,342**	**6,342**
Other payables	-	6,342	6,342	6,342
Current Liabilities	**945,830**	**5,444**	**951,274**	**951,274**
Trade payables	785,580	-	785,580	785,580
Other payables	160,250	5,444	165,694	165,694
Total financial liabilities	**945,830**	**11,786**	**957,616**	**957,616**

	At December 31, 2010			
	Liabilities at amortized cost	Finance Leases	Total carrying amount	Total fair value
Non-Current Liabilities	**-**	**5,846**	**5,846**	**5,846**
Other payables	-	5,846	5,846	5,846
Current Liabilities	**967,367**	**3,789**	**971,156**	**971,156**
Trade payables	811,936	-	811,936	811,936
Other payables	155,431	3,789	159,220	159,220
Total financial liabilities	**967,367**	**9,635**	**977,002**	**977,002**

	At December 31, 2009			
	Liabilities at amortized cost	Finance Leases	Total carrying amount	Total fair value
Non-Current Liabilities	**-**	**6,301**	**6,301**	**6,301**
Other payables	-	6,301	6,301	6,301
Current Liabilities	**787,189**	**2,883**	**790,072**	**790,072**
Trade payables	599,309	-	599,309	599,309
Other payables	187,880	2,883	190,763	190,763
Total financial liabilities	**787,189**	**9,184**	**796,373**	**796,373**

	At January 1, 2009			
	Liabilities at amortized cost	Finance Leases	Total carrying amount	Total fair value
Non-Current Liabilities	**-**	**3,043**	**3,043**	**3,043**
Other payables	-	3,043	3,043	3,043
Current Liabilities	**766,609**	**1,674**	**768,283**	**768,283**
Trade payables	557,722	-	557,722	557,722
Other payables	208,887	1,674	210,561	210,561
Total financial liabilities	**766,609**	**4,717**	**771,326**	**771,326**

Non-current trade payables comprise solely finance lease liabilities.

Current other payables comprise operating liabilities and finance lease liabilities amounting to kEUR 5,444; kEUR 3,789 and kEUR 2,883 at the balance sheet dates December 31, 2011, 2010, 2009 and kEUR 1,674 as at January 1, 2009, respectively.

Other current payables comprise financial liabilities mainly resulting from investments in fixed assets and amount to kEUR 160,250 as of December 31, 2011 (2010: kEUR 155,431; 2009: kEUR 187,880 and kEUR 208,887 as of January 1, 2009).

(14) TRADE AND OTHER PAYABLES

The composition of "Trade and other payables" is as follows:

	At December 31,						At January 1,	
	2011		2010		2009		2009	
Thousands of euros	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**
Trade payables	-	259,293	-	293,972	-	187,684	-	312,322
Accruals	-	382,827	-	381,456	-	256,708	-	235,102
Payables to related parties (Note 9)	-	143,460	-	136,508	-	154,917	-	10,298
Trade payables	**-**	**785,580**	**-**	**811,936**	**-**	**599,309**	**-**	**557,722**
Other payables	6,342	186,714	5,846	195,951	6,301	192,846	3,043	218,132
Deferred income	-	169,866	-	136,920	-	96,907	-	89,689
Total	**6,342**	**1,142,160**	**5,846**	**1,144,807**	**6,301**	**889,062**	**3,043**	**865,543**

"Accruals" mainly includes liabilities for provisions, liabilities for personal and liabilities for outstanding invoices.

"Deferred income" principally includes the amount of advance payments received on prepaid contracts and the accruals for future interests from installment purchases.

The detail of current "Other payables" is as follows:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Current Other Payables				
Other creditors non trade	59,644	57,598	53,944	55,916
Capital creditors	100,606	97,833	133,936	152,971
Other taxes and social security	21,020	36,731	2,083	7,571
Finance Leasing	5,444	3,789	2,883	1,674
Total Current	**186,714**	**195,951**	**192,846**	**218,132**
Non-Current Other Payables				
Finance Leasing	6,342	5,846	6,301	3,043
Total Non-Current	**6,342**	**5,846**	**6,301**	**3,043**
Total Other Payables	**193,056**	**201,797**	**199,147**	**211,175**

"Other creditors non trade" mainly includes liabilities from factoring and liabilities for deferred rent-free units.

"Capital creditors" mainly includes liabilities for outstanding invoices for non-current assets.

(15) PROVISIONS

The amounts of provisions are as follows:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Non-Current-Provisions				
Pensions	-	9,044	1,248	1,759
Other Provisions	68,947	107,731	42,069	37,642
Total	**68,947**	**116,775**	**43,317**	**39,401**
Current-Provisions				
Other Provisions	41,609	182,429	-	-
Total	**41,609**	**182,429**	**-**	**-**
Total Provisions	**110,556**	**299,204**	**43,317**	**39,401**

Employee benefits

Telefónica Germany Group has defined-benefit plans for its employees. The following tables present the main data of these plans:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Obligation	-55,158	-57,014	-37,625	-33,561
Assets	72,547	57,309	51,571	44,869
Net provision before asset ceiling	17,389	295	13,946	11,308
Asset ceiling	-16,713	-9,339	-15,194	-13,067
Net provision	-	-9,044	-1,248	-1,759
Net assets	676	-	-	-

At December 31, 2011 the amount of the defined benefit obligation arising from plans that are wholly unfunded amounts to kEUR 2,899 (2010: 3,122; 2009: 2,197 and 1,925 at January 1, 2009) and from plans that are wholly or partly funded amounts to kEUR 52,259 (2010: 53,892; 2009: 35,428 and 31,636 at January 1, 2009).

The development in the present value of obligations in 2011, 2010 and 2009 is as follows:

Thousands of euros	**2011**	**2010**	**2009**
Present value of obligation at the beginning of the year	**-57,014**	**-37,625**	**-33,561**
Current service cost	-2,840	-1,930	-1,770
Interest cost	-2,701	-2,283	-2,071
Actuarial gains and losses	6,597	-16,558	-465
Benefits paid	347	357	242
Transfer to other Companies	453	1,025	-
Present value of obligation at the end of the year	**-55,158**	**-57,014**	**-37,625**

Developments in the fair value of plan assets in 2011, 2010 and 2009 are as follows:

Thousands of euros	**2011**	**2010**	**2009**
Fair value of plan assets at the beginning of the year	**57,309**	**51,571**	**44,869**
Expected return on plan assets	2,827	2,616	2,175
Actuarial losses	-3,241	-3,352	-1,741
Employer contributions	16,276	8,973	6,657
Benefits paid	-174	-182	-195
Transfer to other companies	-589	-1,752	-
Others (Adjustment Management)	139	-565	-194
Fair value of plan assets at the end of the year	**72,547**	**57,309**	**51,571**

Plan assets comprise qualifying insurance policies for all periods.

Expenses recognized in profit or loss is shown as follows:

	As of December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Current service costs	2,840	1,930	1,770
Interest cost	2,701	2,283	2,071
Expected return on plan assets	-2,827	-2,616	-2,175
Total amount of expense	**2,714**	**1,597**	**1,666**

The actual return on plan assets for the year ended December 31, 2011, 2010 and 2009 amounts to kEUR 189, 1,344 and -574.

The amounts of actuarial gains and losses of these plans recognized directly in equity in accordance with their asset ceilings in 2011, 2010 and 2009, before the related tax effect, are as follows:

	As of December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Actuarial gains and losses	-3,219	20,638	2,205
Effect of the limit in IAS 19.58b	7,373	-5,854	2,127
Total amount of expense	**4,154**	**14,784**	**4,332**

The accumulated amount recognized in the other comprehensive income at December 31, 2011, 2010 and 2009 amounts to kEUR 29,762, 25,608 and 10,824.

The various companies combined within Telefónica Germany Group have defined-benefit post-employment plans, covered by qualifying assets.

The number of beneficiaries of these plans at December 31, 2011, 2010, 2009 and at January 1, 2009 are as follows:

	At December 31,			**At January 1,**
Employees	**2011**	**2010**	**2009**	**2009**
Combined Group	5,979	5,792	5,628	4,973

The following experience adjustments arised as of December 31, 2011, 2010 and 2009:

	As of December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Present value of defined benefit obligation	-55,158	-57,014	-37,625
Fair value of plan assets	72,547	57,309	51,571
Surplus in the plan	17,389	295	13,946
Experience adjustments arising from plan liabilities	-390	2,337	-365
Experience adjustments arising from plan assets	3,016	3,791	1,601

The main actuarial assumptions used in valuing these plans are as follows:

	At December 31,			At January 1,
Assumption	**2011**	**2010**	**2009**	**2009**
Nominal rate of salary increase	3.50%	1.00%	3.80%	3.25%-3.80%
Nominal rate of pension payment increase	2%	2%	2%	2%
Discount rate	5.30%	4.80%	6.10%	6.20%
Expected return on plan assets	4.25%-4.0%	4.25%-4.10%	4.25%-4.30%	4.25%-4.30%
- Support fund	4.25%	4.25%	4.25%	4.25%
- Direct commitments	4.00%	4.10%	4.30%	4.30%
Mortality tables	Prof. Klaus Heubeck (RT 2005 G)	Prof. Klaus Heubeck (RT 2005 G)	Prof. Klaus Heubeck (RT 2005 G)	Prof. Klaus Heubeck (RT 2005 G)

The best estimate of contributions expected to be paid to the plans during the year ending December 31, 2012 will amount to approximately kEUR 8,253. The expected return on assets is based on the expected return of the underlying insurance contracts.

Other provisions

“Other Provisions” includes provisions for dismantling and restructuring. The movement is as follows:

	Non Current			Current		Non Current & Current
Thousands of euros	**Dismantling**	**Restructuring**	**Total**	**Restructuring**	**Total**	**Total**
Other provisions at December 31, 2011	**58,602**	**10,345**	**68,947**	**41,609**	**41,609**	**110,556**
Additions	3,382	-	3,382	2,095	2,095	5,477
Utilization	-11,623	-26,106	-37,729	-149,561	-149,561	-187,290
Transfers	-	-6,646	-6,646	6,646	6,646	-
Unwinding of discount	2,209	-	2,209	-	-	2,209
Other provisions at December 31, 2010	**64,634**	**43,097**	**107,731**	**182,429**	**182,429**	**290,160**
Additions	1,048	-	1,048	153,457	153,457	154,505
Utilization	-1,295	-9,607	-10,902	-16,137	-16,137	-27,039
Acquisition of a subsidiary	37,938	36,307	74,245	45,109	45,109	119,354
Unwinding of discount	1,271	-	1,271	-	-	1,271
Other provisions at December 31, 2009	**25,672**	**16,397**	**42,069**	**-**	**-**	**42,069**
Additions	3,713	8,000	11,713	-	-	11,713
Utilization	-1,509	-7,024	-8,533	-	-	-8,533
Transfers	-	-69	-69	-	-	-69
Unwinding of discount	1,316	-	1,316	-	-	1,316
Other provisions at January 1, 2009	**22,152**	**15,490**	**37,642**	**-**	**-**	**37,642**

Provisions for dismantling obligations include the estimated costs for dismantling and removing an asset (e.g. mobile masts and other fixed assets), and restoring the site on which it is located. The expected timing of use depends on the respective agreements of site usage.

“Restructuring” mainly includes provisions for staff reduction plans and provisions for vacancies in rented properties. The expected timing of use covers periods from short to medium term depending on the respective restructuring events. The addition in 2010 is mainly related to the acquisition of HanseNet Telekommunikation GmbH and therefore new staff reduction plans.

The line “Acquisition of a subsidiary” in 2010 is related to the acquisition of HanseNet Telekommunikation GmbH (Note 4). The acquired provisions for restructuring include contingent liabilities of mEUR 9.8 in regard to outstanding settlement agreements with sales agents. As of December 31, 2011 the provision amounts to mEUR 6.3 and mEUR 8.1 as of December 31, 2010. The expected timing of use depends on the progress of settlement agreements with sales agents.

(16) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

General

Telefónica Germany Group is exposed to various financial market risks as a result of its business. However, due to Telefónica Germany Group´s regional focused operations as well as its financing structure, Telefónica Germany Group´s interest rate risk as well as foreign exchange risk is not affecting Telefónica Germany Group materially. Telefónica Germany Group is subject to credit risk from the operating business (trade receivables) as well as from receivables towards Telefónica, S.A. Group.

Furthermore, Telefónica Germany Group is exposed to liquidity risks relating to its credit risks and market risks or a weakening of its operating business or financial market disturbances.

If these financial risks materialize, they could adversely affect Telefónica Germany Group´s financial position, cash flows and profitability.

Telefónica Germany Group has guidelines in place for risk management procedures and for the use of financial instruments, including a clear segregation of duties with regard to financial activities, settlement, accounting and the related controlling. Derivative financial instruments are only contracted as an exception. However, these instruments are always contracted with Telefónica, S.A. Group treasury and Telefónica Germany Group has established guidelines derived from best practice standards for risk assessment procedures and supervision concerning the use of financial derivatives.

Market Risks

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the value of financial instruments or income of Telefónica Germany Group.

Foreign Exchange Risk

Telefónica Germany Group has determined the Euro as its financial reporting currency. All financial statements of Telefónica Germany Group´s subsidiaries are prepared in Euro and therefore, the Combined Financial Statement of Telefónica Germany Group is not exposed to foreign exchange translation risks. Besides translation risks, foreign exchange transaction risk exist, mainly arising from Telefónica Germany Group´s business activities in countries that use currencies other than the Euro. Since Telefónica Germany Group only offers telecommunication services in Germany exchange risks only arise to a very limited extent from Telefónica Germany Group´s business relations with suppliers or business partners in countries that use currencies other than Euro. US Dollar as well as British pound sterling are the major foreign currencies. Given its funding solely by self generated cash and equity no exchange risk from debt denominated in currencies other than the Euro occurs. The net exposure on foreign currency risk at the balance sheet dates December 31, 2011, 2010 and 2009 amounted to kEUR 134, kEUR 4,505 and kEUR 355, respectively.

For material identified foreign currency risks, derivatives are contracted with Telefónica, S.A. Group treasury. At the balance sheet dates December 31, 2011, 2010 and 2009 no foreign currency derivatives existed. There were no material gains or losses from foreign exchange derivatives incurred during the years ended December 31, 2011, 2010 and 2009. The effects before tax on the combined income statement and equity of a simultaneous parallel appreciation as well as depreciation of all foreign currencies of 10% against the Euro at the balance sheet dates December 31, 2011, 2010 and 2009, are not material.

Interest Rate Risk

Interest rate risks arise primarily from Telefónica Germany Group´s cash surpluses being deposited in cash pooling accounts with Telefónica Finanzas S.A., Spain, (Telfisa) and deposit accounts with Telfisa Global B.V., Netherlands. These accounts as well as the bank accounts bear variable interests.

The net exposure on variable interest for Telefónica Germany Group at the balance sheet dates December 31, 2011, 2010 and 2009 amounted to kEUR 1,148,568, kEUR 188,965 and kEUR 37,957 respectively mainly resulting from cash and cash equivalents deposited with Telefónica Finanzas S.A., Spain, (Telfisa) and with Telfisa Global B.V., Netherlands. Telefónica Germany Group did not enter into interest rate derivatives during the years ended December 31, 2011, 2010 and 2009.

The effects before tax on the combined income statement of a change in interest rates for variable-rate financial instruments of +/-100 basis points on the balance sheet dates December 31, 2011, 2010 and 2009 are shown in the table below. There is no impact recognized directly in equity. The minimum interest rate applied to take changes in interest rates into account was 0%. This analysis assumes that all other variables remain constant.

Thousands of euros	**Impact on combined income statement**		
	2011	**2010**	**2009**
+100bp	11,486	1,890	380
-100bp	11,141	1,077	84

Credit Risk

Credit risk is the risk of financial loss arising from counterparty's inability to repay or service debt in accordance with the contractual terms. Credit risk includes both the direct risk of default and the risk of a deterioration of creditworthiness as well as concentration risks. Telefónica Germany Group's maximum exposure to credit risk is initially represented by the carrying amounts of the financial assets (without consideration of guarantees or collateral, if available).

Telefónica Germany Group considers managing commercial credit risk as crucial to meet its sustainable business and customer base growth targets in a manner that is consistent with its risk management policy. Appropriate credit policies, procedures and authorization guidelines are established to manage and monitor credit risk.

This approach to manage credit risk is based on continuous monitoring of the risk assumed and the resources necessary. In particular, attention is given to those clients that could cause a material impact on Telefónica Germany Group´s Combined Financial Statements for which depending on the segment and type of relation appropriate credit management instruments like credit insurance or collateral may be used to mitigate exposure to credit risk. The assets acquired as a result of these credit insurances or collaterals during the years ended December 31, 2011, 2010 and 2009 were not material. In order to control credit risk, Telefónica Germany Group regularly performs an ageing analysis of trade accounts receivables and books allowances for doubtful accounts receivables with similar exposure to credit risk, only.

In case Telefónica Germany Group has entered into foreign currency derivatives, all trades have been conducted with Telefónica, S.A. Group treasury according to group policy only.

With regard to its cash surpluses Telefónica Germany Group has entered into cash pooling agreements with Telefónica Finanzas S.A., Spain, (Telfisa) and deposit agreements with Telfisa Global B.V., Netherlands according to Telefónica, S.A. Group policy and places most of its cash surpluses with these institutions.

These cash pooling and deposit agreements will remain in place after the IPO. Thus most of Telefónica Germany Group´s cash surpluses will be concentrated in these companies belonging to Telefónica, S.A. Group which is rated by international rating agencies with an investment grade rating. The remaining cash surplus is spread out over several German banks which are rated by international rating agencies with an investment grade rating.

At year-end 2011, 2010 and 2009 financial assets with Telefónica, S.A. Group as counterparty amounted to EUR 4,031m, EUR 3,043m, EUR 2,971m and as at January 1, 2009 EUR 3,038m, respectively.

Liquidity Risk

Liquidity risk comprises the risk that a company is unable to meet its financial obligations that are settled by delivering cash or another financial asset. Telefónica Germany Group´s approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions.

Telefónica Germany Group manages its liquidity closely coordinated with Telefónica, S.A. and has entered into cash pooling agreements with Telefónica Finanzas, S.A., Spain, (Telfisa) and deposit agreements with Telfisa Global B.V., Netherlands according to Telefónica, S.A. Group policy and places most of its cash surpluses with these institutions. These cash pooling and deposit agreements will remain in place after the IPO.

The cash inflows generated by Telefónica Germany Group´s operating business as well as the possibility of factoring receivables are used to reduce Telefónica Germany Group´s liquidity risk.

Furthermore Telefónica Germany Group could at any time demand by way of voluntary shareholder's contribution from Telefónica, S.A. Group up to EUR 2,886m from an unlimited and irrevocable obligation incurred by Telefónica, S.A. Group. Telefónica Germany Group uses a staggered approach to manage its liquidity. By monitoring its cash flows and working capital development for different periods and in close co-ordination with Telfisa Telefónica Germany Group reduces its liquidity risk.

Telefónica Germany Group did neither incur bank liabilities nor had there been any credit lines at the balance sheet dates December 31, 2011, 2010 and 2009.

At year-end 2011, 2010 and 2009 cash and cash equivalents amounted to EUR 1,148.6m, EUR 189.0m, EUR 38.0m and January 1, 2009 EUR 127.2m, respectively.

The following table shows the maturity profile of Telefónica Germany Group's financial liabilities based on contractual undiscounted payments:

At December 31, 2011					
	Total carrying amount	Gross cash outflow	remaining term		
Thousands of euros			**< 1 years**	**1 - 5 years**	**> 5 years**
Non-Current Liabilities	6,342	6,473	-	6,473	-
Other payables	6,342	6,473	-	6,473	-
Current Liabilities	972,294	972,517	972,517	-	-
Trade payables	785,580	785,580	785,580	-	-
Other payables	186,714	186,937	186,937	-	-
Total financial liabilities	**978,636**	**978,990**	**972,517**	**6,473**	**-**

At December 31, 2010					
	Total carrying amount	Gross cash outflow	remaining term		
Thousands of euros			**< 1 years**	**1 - 5 years**	**> 5 years**
Non-Current Liabilities	5,846	6,063	-	6,063	-
Other payables	5,846	6,063	-	6,063	-
Current Liabilities	1,007,887	1,008,189	1,008,189	-	-
Trade payables	811,936	811,936	811,936	-	-
Other payables	195,951	196,253	196,253	-	-
Total financial liabilities	**1,013,733**	**1,014,252**	**1,008,189**	**6,063**	**-**

At December 31, 2009					
	Total carrying amount	Gross cash outflow	remaining term		
Thousands of euros			**< 1 years**	**1 - 5 years**	**> 5 years**
Non-Current Liabilities	6,301	6,687	-	6,687	-
Other payables	6,301	6,687	-	6,687	-
Current Liabilities	792,155	792,481	792,481	-	-
Trade payables	599,309	599,309	599,309	-	-
Other payables	192,846	193,172	193,172	-	-
Total financial liabilities	**798,456**	**799,168**	**792,481**	**6,687**	**-**

At January 1, 2009					
	Total carrying amount	Gross cash outflow	remaining term		
Thousands of euros			**< 1 years**	**1 - 5 years**	**> 5 years**
Non-Current Liabilities	3,043	3,306	-	3,142	164
Other payables	3,043	3,306	-	3,142	164
Current Liabilities	775,854	776,027	776,027	-	-
Trade payables	557,722	557,722	557,722	-	-
Other payables	218,132	218,305	218,305	-	-
Total financial liabilities	**778,897**	**779,333**	**776,027**	**3,142**	**164**

Capital management

Telefónica Germany Group aims to ensure sustainability of the business and maximize the value to shareholders. Telefónica Germany Group monitors its cost of capital with a goal of optimizing its capital structure. Telefónica Germany Group monitors the equity ratio and the OIBDA. As of December 31, 2011, the equity ratio was 90.3% (2010: 88.8%; 2009: 90.8%; and January 1, 2009: 91.1%), while the OIBDA was EUR 1,149m (2010: EUR 893m; 2009: EUR 886m).

(17) INCOME TAX MATTERS

Combined tax group

Telefónica Germany Group has filed consolidated tax returns for certain companies of Telefónica Germany group. The consolidated tax group comprised 6 companies in 2011 (5 in 2010 and 5 in 2009). Regarding the included entities, see Note 1.

Current and deferred taxes

Total tax expense consists of current and deferred tax expense as follows:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Current tax (expense)	-0	-	-
Deferred tax (expense)	-1,732	-5,277	152
Total tax (expense)	**-1,732**	**-5,277**	**152**

The movements in deferred taxes in 2011, 2010 and 2009 are as follows:

Thousands of euros	**2011**	**2010**	**2009**
Beginning of year balance	**412,510**	**412,688**	**411,197**
Deferred tax expense	-1,732	-5,277	152
Movement recognized directly in equity as shown in the consolidated statement of comprehensive income	1,255	5,065	1,339
Other	-	34	-
End of year balance	**412,033**	**412,510**	**412,688**

Tax loss carry forwards and temporary differences

Tax loss carry forwards for which no deferred tax assets have been recognized at December 31, 2011 amounted to kEUR 10,964,650 for corporate income tax and kEUR 11,039,602 for trade tax respectively (kEUR 10,365,410 and kEUR 10,496,929 in 2010 and kEUR 9,831,874 and kEUR 9,993,708 in 2009). No deferred tax assets have been recognized for temporary differences in the amount of kEUR 2,744,062 in 2011, kEUR 3,627,836 in 2010 and kEUR 4,262,789 in 2009. Tax loss carry forwards and deductible temporary difference have been determined under the probable criteria. Tax loss carry forwards of Telefónica Germany Group contain taxable income and losses surrendered by Telefónica Global Services GmbH, Telefónica Global Roaming GmbH, Group 3G UMTS Holding and Quam GmbH, which are not included in combined financial statements in the amount of kEUR 456,232 for 2011, kEUR 329,181, for 2010 and kEUR 4,511 for 2009.

Temporary differences are generated as a result of the difference between tax bases of the assets and liabilities and their respective carrying amounts. Deductible temporary differences give rise to deferred tax assets on the combined statement of financial position, whereas taxable temporary differences in tax bases give rise to deferred tax liabilities on the combined statement of financial position. The sources of deferred tax assets and liabilities from temporary differences and loss carry forwards recognized at December 31, 2011, 2010 and 2009 are as follows:

	At December 31		**At December 31**		**At December 31**		**Year started January 1**	
		2011		**2010**		**2009**		**2009**
Thousands of euros	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Goodwill and intangible assets	758,559	-84,125	1,031,572	-75,761	1,089,632	-241	779,261	-52,161
Tangible Assets	-	-286,945	37,670	-291,945	29	-272,737	431	-243,040
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	-
Trade and other receivables	444,238	-2,060	868,429	-1,816	723,060	-4,133	115,008	-92
Other current financial assets	5,211	-90,209	11,086	-83,667	25,153	-	34,628	-184,507
Debt, trade and other payables	92,459	-436,396	109,740	-1,220,408	80,836	-1,224,479	665	-40,896
Provisions including pension provisions	30,379	-1,581	29,545	-9,380	-	-6,310	-	-2,602
Other current financial assets	3,983	-21,480	10,018	-2,575	2,619	-740	4,602	-100
Tax loss carryforwards	-	-	-	-	-	-	-	-
Tax assets (liabilities)	1,334,828	-922,795	2,098,061	-1,685,551	1,921,328	-1,508,640	934,596	-523,399
Set off of tax	-922,795	922,795	-1,685,551	1,685,551	-1,508,640	1,508,640	-523,399	523,399
Net tax assets (liabilities)	**412,033**	**-**	**412,510**	**-**	**412,688**	**-**	**411,197**	**-**

Reconciliation of book profit before taxes to taxable income

The reconciliation between accounting profit and the income tax expense for 2011, 2010 and 2009 is as follows:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Accounting profit (loss) before tax	**73,078**	**-97,255**	**-33,736**
Tax expense at prevailing statutory rate (32%)	-23,334	31,053	10,772
Non-deductible expenses	-9,111	-7,854	-6,259
Change in unrecognized temporary differences and tax loss carryforwards	30,288	-28,408	-4,497
Other	425	-68	137
Income tax (expense)	**-1,732**	**-5,277**	**152**
Breakdown of current/deferred tax (expense)			
Current tax (expense)	-	-	-
Deferred tax (expense)	-1,732	-5,277	152
Total income tax (expense)	**-1,732**	**-5,277**	**152**

(18) REVENUES AND EXPENSES

Revenues

The breakdown of "Revenues" is as follows:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Rendering of Services	4,372,205	4,344,149	3,418,855
Net Sales	663,347	482,129	326,685
Total	**5,035,552**	**4,826,278**	**3,745,540**

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

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Revenues			
Wireline Business	1,425,740	1,411,861	558,277
Wireless Business	3,605,747	3,411,930	3,187,263
Wireless Service Revenues	*2,946,465*	*2,932,288*	*2,860,577*
Handset Revenues	*659,282*	*479,642*	*326,685*
Other	4,065	2,487	0
Total Revenues	**5,035,552**	**4,826,278**	**3,745,540**

Revenues principally comprise Wireless Service Revenues, Handset Revenues and Wireline Revenues. Service Revenues comprise Wireless Service Revenues as well as Wireline Revenues.

Wireless Service Revenues

The vast majority of Wireless Service Revenues is comprised of customer base and tariff fees charged for voice (including incoming and outgoing calls), text (including SMS and MMS) and wireless data services and revenue 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 revenue.

Handset Revenues

Handset Revenues is comprised of the sale of wireless devices under the "O_2 My Handy" model as well as cash sales. The revenue under the "O_2 My Handy" model is discounted as Telefónica Germany Group receives payments from customers in monthly installments, which are paid out over a 12- or 24-month period. Furthermore, one-time revenue payments, 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.

Wireline Business

Wireline Revenues are primarily comprised of retail DSL service revenue, retail DSL activation fees, revenue for DSL-related hardware and non-recurring charges (e.g. charges for address change, number portation, etc.); service and hardware revenue from Pay TV service; revenues from wholesale ULL, also called wholesale DSL, revenue derived from the sale of our DSL network and services as well as hardware to other providers who then repackage and resell it to the end consumer; carrier traffic revenue related to the sale and trading of minutes between carriers to connect their customers calls through other operators networks, as well as revenue derived from hosting client content on our data center infrastructure and providing accompanying management services, such as the use of our data center infrastructure to host applications designed and operated by third parties. DSL revenue also comprises fixline telephony revenues.

Other

Other Revenues comprise revenue derived from the vertical business.

Other income

The breakdown of "Other income" in 2011, 2010 and 2009 is as follows:

	for the year ended December 31		
Thousands of euros	**2011**	**2010**	**2009**
Ancillary income	249	399	334
Own work capitalized	60,471	87,074	91,231
Gain on disposal of assets	271	1,386	537
Total	**60,991**	**88,859**	**92,102**

Earnings per share

Telefónica Deutschland Holding AG, parent of the affiliated group, was formed subsequent to the reporting period presented in the combined financial statements and does therefore not have an EPS history. For information regarding the transformation under German company law please see Note 22.

Other expenses

Other expenses mainly consist of sales and marketing, infrastructure, management fee and other external services.

Operating leases

The estimated payment schedule operating leases, purchase and contractual commitments is as follows:

	At December 31,			**At January 1,**
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Operating lease obligations				
Less than 1 year	297,589	311,308	272,378	246,751
1 to 5 years	873,664	907,599	859,444	784,431
Over 5 years	861,077	740,976	737,740	738,362
Total	**2,032,330**	**1,959,883**	**1,869,562**	**1,769,544**
Purchase and other contractual obligations				
Less than 1 year	197,053	184,526	264,284	299,297
1 to 5 years	30,774	16,076	73,184	2,752
Over 5 years	-	-	-	-
Total	**227,827**	**200,602**	**337,468**	**302,049**

The following amounts have been recognized in the combined income statement:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Operate leasing expense	313,812	296,475	309,018

The operate leasing expenses mainly include expenses for real estate (i.e. office buildings and shops), cars and network equipment (i.e. leased lines and cell sites).

Telefónica Germany Group provides operating guarantees granted by external financial counterparts which are offered in course of normal commercial activity especially with regard to antenna sites rental contracts.

These guarantees amounted to EUR 35.8m, EUR 35.8m and EUR 37.4m as of December 31, 2011, 2010 and 2009 respectively.

Subleases

Telefónica Germany Group entered into various subleasing agreements for office buildings. The estimated payment schedule for subleases is as follows:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Sublease payments				
Less than 1 year	4,814	1,479	2,007	1,202
1 to 5 years	17,300	1,093	2,474	1,944
Over 5 years	17,698	-	85	-
Total	**39,812**	**2,572**	**4,566**	**3,146**

The following amounts have been recognized in the combined income statement:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Subleases income	3,663	2,241	1,676

The main finance lease transactions are described in Note 20.

Full-time equivalent (FTE) and employee benefits

a) FTE

The table below presents the breakdown of Telefónica Germany Group's average FTE in 2011, 2010 and 2009.

Average Headcount	**2011**	**2010**	**2009**
Combined Group	5,315	6,280	4,900

The increase in average headcount in 2010 is related to the acquisition of the HanseNet Telekommunikation GmbH.

b) Employee benefits

Expenses relating to defined contribution plan amount to EUR 16.5m in 2011 (2010: EUR 9.1m; 2009: EUR 6.7m).

Depreciation and amortization

The breakdown of "Depreciation and amortization" on the combined income statement is as follows:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Depreciation of property, plant and equipment	610,354	492,941	517,976
Amortization of intangible assets	471,835	495,224	404,896
Total	**1,082,189**	**988,165**	**922,872**

(19) OTHER INFORMATION

Contingent liabilities and assets

As part of its ordinary business Telefónica Germany Group is involved in various proceedings both in and out of court. These proceedings are in total not material to the results of operations and financial position.

(20) FINANCE LEASES

The finance leases of Telefónica Germany Group are presented in the Combined Financial Statements of the year 2011, 2010 and 2009 in the position "Property, Plant and Equipment" (Note 7) and are as follows:

Net carrying amount of lease assets	**At December 31,**			**At January 1,**
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Plant and machinery	11,786	9,635	9,184	4,717
Total	**11,786**	**9,635**	**9,184**	**4,717**

These commitments mainly arise from lease agreements for IT and office equipment for internal usage.

The breakdown of the minimum lease payments is as follows:

At December 31, 2011			
Present value of minimum lease payments in thousands of euros	**Minimum future lease payments obligation**	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
due within one year	5,667	223	5,444
due between one and five years	6,473	131	6,342
due in more than five years	-	-	-
Total	**12,140**	**354**	**11,786**

At December 31, 2010			
Present value of minimum lease payments in thousands of euros	**Minimum future lease payments obligation**	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
due within one year	4,096	307	3,789
due between one and five years	6,064	218	5,846
due in more than five years	-	-	-
Total	**10,160**	**525**	**9,635**

At December 31, 2009			
Present value of minimum lease payments in thousands of euros	**Minimum future lease payments obligation**	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
due within one year	3,209	326	2,883
due between one and five years	6,687	386	6,301
due in more than five years	-	-	-
Total	**9,896**	**712**	**9,184**

At January 1, 2009			
Present value of minimum lease payments in thousands of euros	**Minimum future lease payments obligation**	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
due within one year	1,847	173	1,674
due between one and five years	3,141	259	2,882
due in more than five years	164	3	161
Total	**5,152**	**435**	**4,717**

(21) SHARE-BASED PAYMENTS

At December 31, 2011 TGG has the following share-based payment arrangements:

Description of the share-based payment plans

"***Performance Share Plan***" ***(equity-settled)***

The Performance Share Plan is a long-term incentive plan for managers and senior executives of Telefónica, S.A. and other Telefónica Group companies, Telefónica Germany included.

Under this plan, selected participants who met the qualifying requirements were given a certain number of Telefónica, S.A. shares as a form of variable compensation. As the shares are delivered by Telefónica, S.A., the parent company is the settling entity in accordance with IFRS 2.

It is divided into five phases, each three years long, the first beginning on July 1, 2006 and ending on June 30, 2009, the fifth on July 1, 2010. At the start of each phase the number of shares to be awarded to plan beneficiaries is determined based on their success in meeting targets set. The shares are delivered at the end date of each phase, subject to a number of conditions:

- The beneficiary must continue to work for the company throughout the three-year duration of each phase.
- The actual number of shares awarded at the end is calculated by multiplying the maximum number of shares assigned to each executive at the start of a phase by a percentage reflecting the performance of the Telefónica share. The performance is measured by comparing the Total Shareholder Return ("TSR"), which includes both share price and dividends, with the TSRs offered by a basket of listed telecom companies that comprise the comparison group. This will be 100% if the TSR of Telefónica is equal to or better than that of the third quartile of the Comparison Group and 30% if Telefónica's TSR is in line with the average. The percentage rises linearly for all points between these two benchmarks. If the TSR is below average no shares are awarded.

At June 30, 2009, the first phase of this plan ended, which entailed the following number of shares issued:

Phase	No. of shares delivered	Grant-date fair value per unit	End date
1st phase July 1, 2006	144,289	6.43	June 30, 2009

At June 30, 2010, the second phase of this plan ended, which entailed the following number of shares issued:

Phase	No. of shares delivered	Grant-date fair value per unit	End date
2nd phase July 1, 2007	109,830	7.70	June 30, 2010

At June 30, 2011, the third phase of this plan ended, which entailed the following number of shares issued:

Phase	No. of shares delivered	Grant-date fair value per unit	End date
3rd phase July 1, 2008	137,507	8.39	June 30, 2011

The number of the shares granted in each of the two outstanding phases at December 31, 2011 is as follows:

Phase	Maximum no. of shares to be issued	Grant-date fair value per unit	End date
4th phase July 1, 2009	179,398	8.41	June 30, 2012
5th phase July 1, 2010	179,244	9.08	June 30, 2013

The fair values of the equity instruments granted to employees were measured using the share price of Telefónica, S.A. shares at grant date under consideration of market conditions.

The plan has been valued using a Monte Carlo method, thereby incorporating the performance target as a market condition. This method involves generating share prices and TSRs for each company, based on its dividend yield and volatility, taking into account the cross correlations between stocks. The model is used to define the probability for the shares to vest and establish share price growth associated with different ranking positions.

The other than market vesting condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

Concerning expected dividends of the shares, which the employees do not receive until physical delivery of the shares, there is no compensation payment. This fact was incorporated in the measurement of the grand date fair value.

As this plan is an equity-settled plan, settled by Telefónica, S.A., employee expenses were recognized with a corresponding entry in equity as a contribution by parent.

There is a recharge agreement in place between Telefónica, S.A. and TGG concerning the shares delivered to employees in Germany. The recharge was accounted for by a debit to equity and a credit to liabilities against Telefónica, S.A. by analogy to the requirements for cash-settled share-based payments. This means that the valuation is adjusted at each reporting date and the amounts are recognized on a pro rata basis over the vesting period.

"*Performance and Investment Plan*" *(equity-settled)*

This plan will take effect following completion of the "Performance Share Plan" and addresses Telefónica group directors and executive officers.

It is divided into three phases, each three years long, the first beginning on July 1, 2011 and ending on June 30 2014, the third ending on July 1, 2013. At the start of each phase the number of shares to be awarded to plan beneficiaries is determined based on their success in meeting targets set. The shares will be delivered at the end date of each phase.

As the shares are delivered by Telefónica, S.A., the parent company is the settling entity in accordance with IFRS 2.

The calculation method used to determine the actual number of shares delivered is similar to the "Performance Share Plan". The condition, that each participant must still be a Telefónica Group employee at the delivery date for each phase, also applies.

In addition to this, the possibility of co-investing has been included for all the participants. Under the co-investment condition the participant must directly own 25 % of the number of shares assigned to him or her under the "Performance and Investment Plan". The shares must be owned at the first anniversary (or within fifteen months exclusively for the first cycle) of the starting date of each cycle, and the participant must hold those until the vesting date, in order to be entitled to receive an additional award of 25 % of the original number of shares. Consequently, the participant receives one free share for each co-invested share, subject to the Company's performance.

The first allocation of shares under this Plan was made on July 1, 2011. Therefore, the maximum number of shares assigned (including the amount of co-investment) under the Plan at December 31, 2011 is as follows:

Phase	Maximum no. of shares to be issued	Grant-date fair value per unit	End date
1st phase July 1, 2011	92,767	8.28	June 30, 2014

Phase	No. of shares co-invested	End date
1st phase July 1, 2011	21,549	June 30, 2014

The fair values of the equity instruments granted to employees were measured using the share price of Telefónica, S.A. shares at grant date under consideration of market-conditions.

The market condition, which implies that a performance target of the Telefónica, S.A. share must be achieved, was incorporated in the measurement of the fair value by means of the Monte Carlo method as explained above.

The service condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

The co-investment condition, being a non-vesting condition, is taken into account when estimating the fair value of the awards at the measurement date. Additionally, the condition to hold the shares until the vesting date, which is another non-vesting condition, was incorporated in the fair value.

Concerning expected dividends of the matching shares, which the employees do not receive until physical delivery of the shares, there is no compensation payment. This fact was incorporated in the measurement of the fair value.

As this plan is an equity-settled plan, settled by Telefónica, S.A., employee expenses were recognized with a corresponding entry in equity as a contribution by parent.

There is a recharge agreement in place between Telefónica, S.A. and TGG concerning the shares delivered to employees in Germany. The recharge was accounted for by a debit to equity and a credit to liabilities against Telefónica, S.A. by analogy to the requirements for cash-settled share-based payments.

"Performance Cash Plan" (cash-settled)

This plan is operating under the same conditions like the "Performance Share Plan". It entails delivery to executives of a specific number of theoretical options in Telefónica, S.A. which, in the event, would be cash-settled at the end of each phase. The payment is equivalent to the market value of the shares on settlement date up to a maximum of three times the notional value of the shares at the delivery date.

As the payment is made by Telefónica Germany, it is the settling entity.

The value of theoretical options is established as the average share price in the 30 days immediately prior to the start of each phase, except for the first phase, where the average share price during the 30 days immediately prior to May 11, 2006 (12.83 euros) was taken as the reference.

The estimated duration of this plan is 7 years, with 5 phases, each of 3 years, commencing on July 1 of each year, starting in 2006.

Like the "Performance Share Plan", the performance rate for setting payments is measured based on the TSR on Telefónica shares with respect to the comparison group's TSRs, in line with the same criteria.

The fair value at December 31, 2011 of the options delivered in each phase in force at that time was 13.39 euros per option. This value is calculated by taking the Telefónica share price and including the estimated TSR and is updated at each year end.

The market condition, which implies that a performance target of the Telefónica, S.A. share must be achieved, was incorporated in the measurement of the fair value, by means of the Monte Carlo method as explained above.

The service condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

As this plan is a cash-settled plan, it was accounted for by recording employee expenses and a corresponding liability.

"Global Employee Share Plan" (equity-settled)

This plan is a share incentive plan for all employees of the Telefónica group worldwide, with certain exceptions. Under this plan, participants that meet the qualifying requirements are offered the possibility of acquiring Telefónica, S.A. shares and receiving the same number of shares free of charge at the end of the period.

As the shares are delivered by Telefónica, S.A., the parent company is the settling entity in accordance with IFRS 2.

The initial duration of the plan is intended to be two years. Employees subscribed to the plan can acquire Telefónica, S.A. shares through monthly installments of up to 100 euros up to a maximum of 1.200 euros over a twelve-month period of time (acquisition period). The shares are purchased at fair value at acquisition date. The employees participating in the plan are entitled to dividends on the shares they acquired. The delivery of shares will take place when the plan is consolidated, as at September 1, 2012, subject to a number of conditions:

- The beneficiary must continue to work for the company throughout the two-year duration of the plan (consolidation period), except for employees leaving for a good reason.
- The beneficiary must have retained the shares acquired for an additional twelve-month period after the end of the purchase period.

The acquisition period opened in August 2010, and at December 31, 2011, 2,844 employees had adhered to the plan.

At August 31, 2012, the vesting period of this plan will end, which entails the following number of shares assigned to participants:

As at December 31,	Maximum no. of rights for shares to be issued	Weighted average of grant date fair value per unit
2011	94,090	16.72
2010	47,045	18.07

The fair values of the equity instruments granted to employees were measured using the share price of Telefónica, S.A. shares at grant date.

The other than market vesting condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

The holding condition concerning the shares, which is a non-vesting condition, was incorporated in the fair value.

Concerning expected dividends of the shares, which the employees do not receive until physical delivery of the shares, there is no compensation payment. This fact was incorporated in the measurement of the fair value.

The GESP is an equity-settled plan and is therefore accounted for by a debit to employee expenses and a credit to equity.

There is a recharge agreement in place between O2 (Europe) Limited and TGG concerning the shares delivered to employees in Germany. The recharge agreement is recognized by deduction from equity and a corresponding liability to O2 (Europe) Limited.

Employee expenses

	At December 31,		
in thousands of euros	**2011**	**2010**	**2009**
Employee expenses arising from share-based payment transactions	3,504	3,276	3,883
Thereof from equity-settled plans	2,918	2,055	1,046
Liabilities arising from share-based payment transactions (without liabilities from recharge agreements)	587	1,221	2,837

(22) EVENTS AFTER THE REPORTING PERIOD

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 "O2 Germany Verwaltungs GmbH") under which O2 (Europe) Limited obliged itself to provide Telefónica Germany Verwaltungs GmbH 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 (former "Telefónica Germany Verwaltungs GmbH") 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 (former "Telefónica Germany Verwaltungs GmbH") cancelled the declarations of obligation. The outstanding receivable of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") 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 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 (former "Telefónica Germany Verwaltungs GmbH") 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 a new share with a nominal amount 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 (former "Telefónica Germany Verwaltungs GmbH").

Pre IPO dividend

On September 14, 2012 the pre-IPO dividend accounts for anticipated EUR 7,186m, of which EUR 4,300m has been considered as cash payments and EUR 2,886m as cancellation of declarations of obligation (see above).

Capital contribution

On September 18, 2012 the shares of Telefónica Germany Management GmbH have been contributed to Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH").

Establishment of a new company

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

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 the 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 its subsidiary Telefónica Chile Holding B.V..

Effective as of October 1, 2012 Telefónica Germany GmbH & Co. OHG sold its shares in Telefónica Chile Holding B.V., to Telfisa Global B.V., a subsidiary of Telefónica, S.A. at arm`s length. The sales price of Telefónica Chile Holding B.V. and its subsidiaries was EUR 703m. The profit and loss pooling agreements between Telefónica Germany GmbH & Co. OHG and Telefónica Global Services GmbH, respectively Group 3G UMTS Holding GmbH had been cancelled upon the sale of Telefónica Chile Holding B.V..

IC-Loan with Telefónica Germany GmbH & CO. OHG

As of September 10, 2012 Telefónica Germany GmbH & CO. OHG has entered in loan agreements with Telefónica Germany Customer Services GmbH and Fonic GmbH, receiving EUR 9m and EUR 75m (total credit line: EUR 94m), respectively.

Further intercompany loans are entered into with Telefónica Deutschland Holding AG (former “Telefónica Germany Verwaltungs GmbH”) (EUR 4m), Telefónica Germany Management GmbH (EUR 1m), Telefónica Germany 1. Beteiligungsgesellschaft mbH (EUR 3m), Telefónica Germany Partner Services GmbH (EUR 1,5m) as of September 13, 2012.

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 each of Group3G UMTS Holding GmbH, Quam GmbH, Telefónica Global Services GmbH and Telefónica Global Roaming GmbH were terminated. Prior to such termination, prepayments on expected profits were made to respectively by Telefónica Germany GmbH & Co. OHG under these agreements for the first 9 months ended September 30, 2012.

Telefónica Global Services GmbH paid on September 12, 2012 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.

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 September 12, 2012.

On August 23, 2012 Telefónica Germany GmbH & CO. OHG set off loss amounting to EUR 67,529,724 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 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 2011.

Change of legal form

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

With the change in legal form, a Supervisory Board was established, which qualifies as Related Party. No related party transaction has been conducted with any member of this board in the respective period.

Equity

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 710,000,000. In August and September 2012, Telefónica Germany GmbH & Co. OHG, as borrower, entered into revolving credit facility agreements with several banks.

APPENDIX I: COMPANIES COMPRISING TELEFÓNICA GERMANY GROUP

The table below lists the companies comprising Telefónica Germany Group as at December 31, 2011, 2010, 2009 and as at January 1, 2009.

Included for each company are the company name, the registered office, country, Telefónica Germany Group's effective shareholding and the company or companies through which the Telefónica Germany Group holds a stake.

Company name, registered office	Country	At December 31,			At January 01,
Parent companies:		**2011**	**2010**	**2009**	**2009**
Telefónica Germany Verwaltungs GmbH, München [1]	Germany	na	na	na	na
Telefónica Germany Management GmbH, München [2]	Germany	na	na	na	na
Subsidiaries					
Telefónica Germany GmbH & Co. OHG, München [3]	Germany	100%	100%	100%	100%
Telefónica Germany Holding GmbH, München [4]	Germany	100%	100%	100%	100%
Telefónica Germany Customer Services GmbH, München [5]	Germany	100%	100%	100%	100%
Telefónica Germany Partner Services GmbH, München	Germany	100%	100%	100%	100%
Telefónica Germany Online Services GmbH, München [6]	Germany	100%	0%	0%	0%
Fonic GmbH, München	Germany	100%	100%	100%	100%
HanseNet Telekommunikations GmbH, Hamburg	Germany	0%[8]	100%[7]	0%	0%
TCHIBO Mobilfunk Beteiligungs GmbH, Hamburg	Germany	50%	50%	50%	50%
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg	Germany	50%	50%	50%	50%

1) Former (till February 17, 2011) Telefónica O2 Germany Verwaltungs GmbH

2) Former (till February 17, 2011) Telefónica O2 Germany Management GmbH

3) Former Telefónica O2 Germany GmbH & Co. OHG

4) Former (till February 17, 2011) O2 (Germany) Holding GmbH

5) Former (till February 17, 2011) Telefónica Deutschland GmbH

6) Founded on May 27, 2011

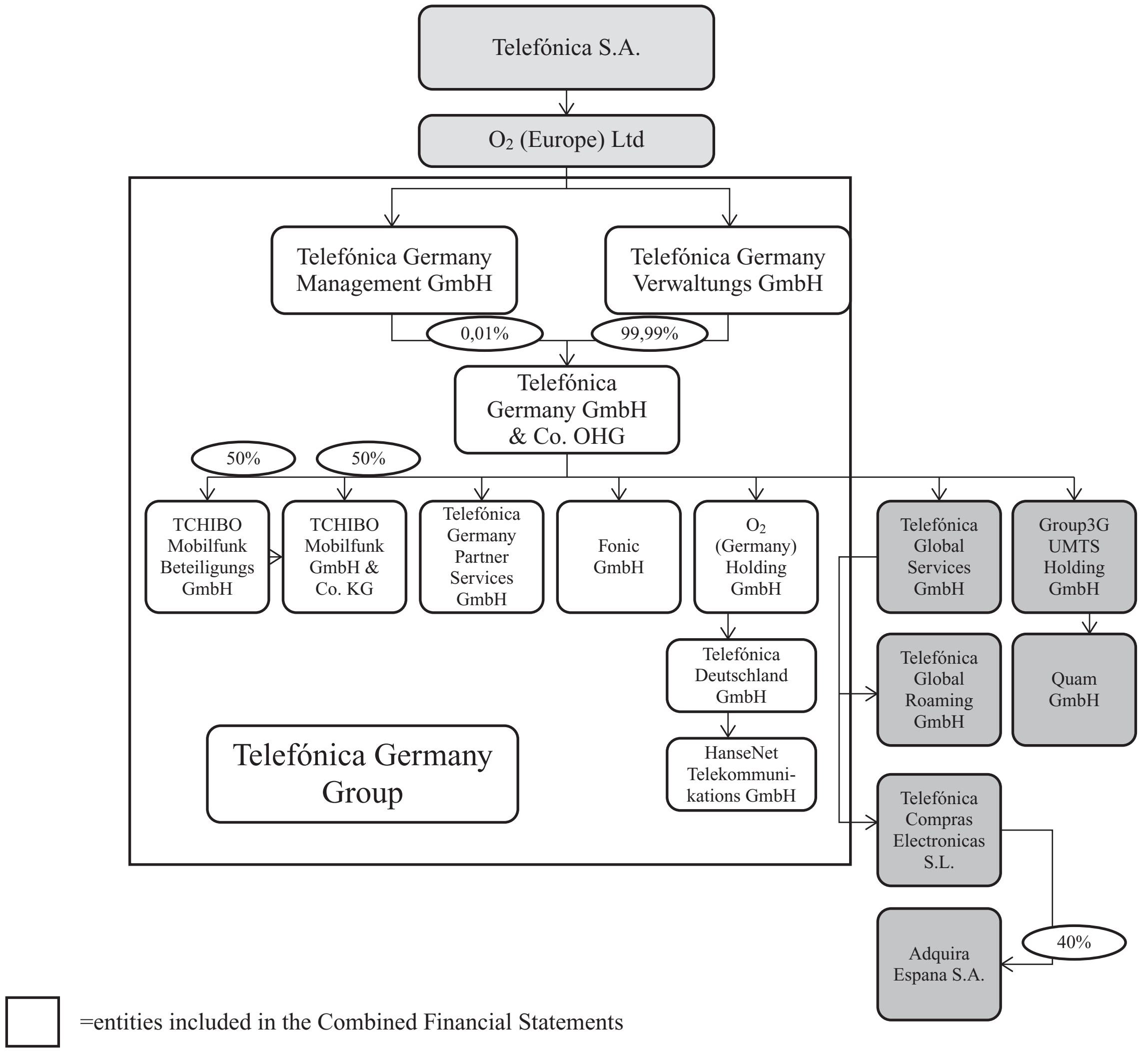
7) Acquired by Telefónica Deutschland GmbH effective at February 16, 2010

8) Merged into Telefónica Germany GmbH & Co. OHG as at March 4, 2011

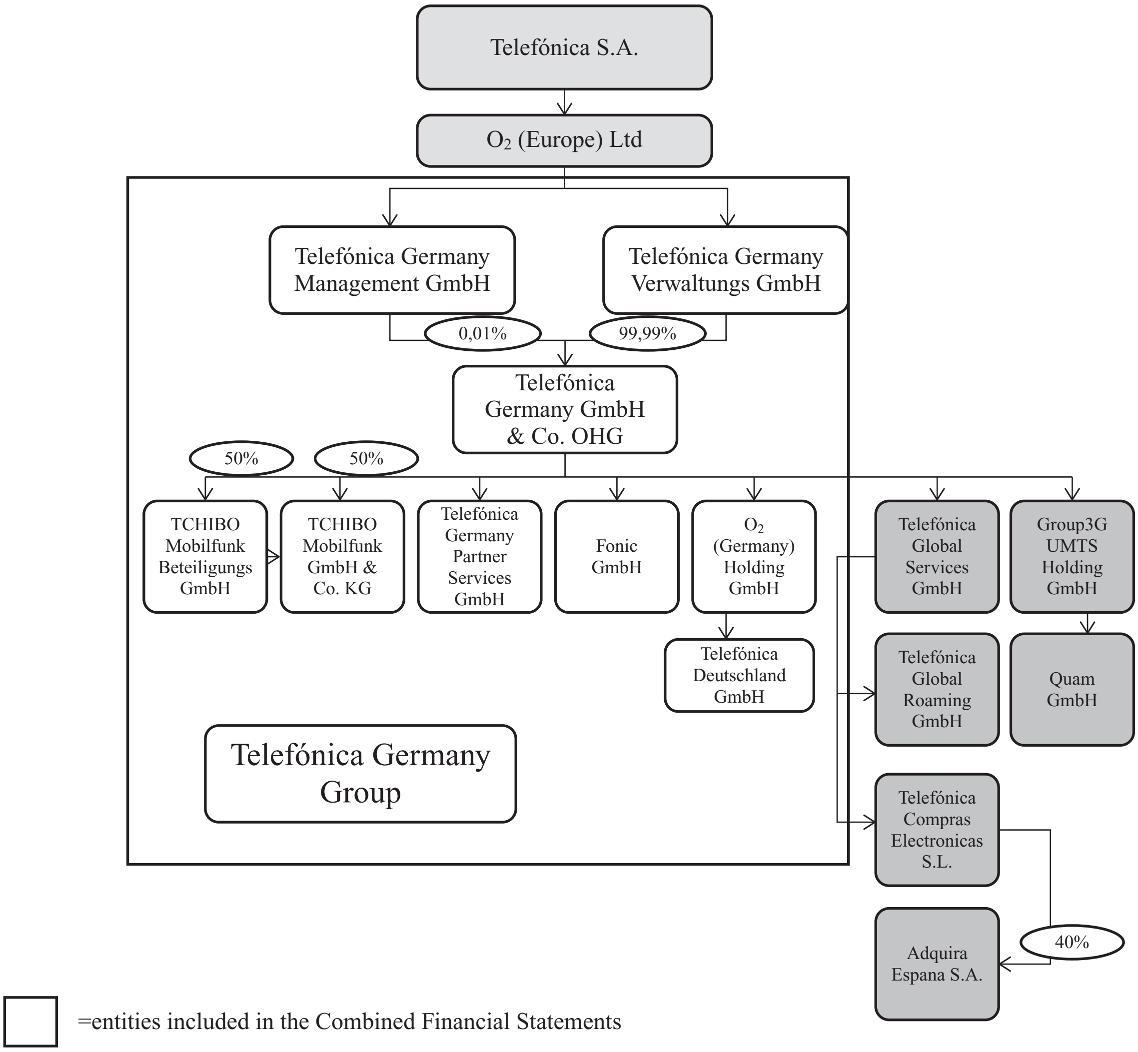
APPENDIX II: VISUAL ILLUSTRATION OF THE TELEFÓNICA GERMANY GROUP

The charts below show the companies comprising Telefónica Germany Group as in 2010 and 2009.

Companies comprising Telefónica Germany Group as of December 31, 2010:



Companies comprising Telefónica Germany Group as of January 1, and December 31, 2009:



English-language translation of the German-language audit opinion (Bestätigungsvermerk)

AUDIT OPINION

To Telefónica Deutschland Holding AG (former “Telefónica Germany Verwaltungs GmbH”)

We have audited the Combined Financial Statements prepared by Telefónica Deutschland Holding AG (former “Telefónica Germany Verwaltungs GmbH”), Munich, comprising the Combined Statements of Financial Position, the Combined Income Statements, the Combined Statements of Comprehensive Income, the Combined Statements of Cash Flows, the Combined Statements of Changes in Equity and the notes to the Combined Financial Statements, for the fiscal years from 1 January 2011 to 31 December 2011, 1 January 2010 to 31 December 2010 and 1 January 2009 to 31 December 2009. The preparation of the combined financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) taking into account the “Basis of Preparation” as set out in Note 1 to the Combined Financial Statements is the responsibility of the Company’s management. In particular, the “Basis of Preparation” sets out the basis for determining the entities to be included in the Combined Financial Statements. Our responsibility is to express an opinion on the Combined Financial Statements based on our audit.

We conducted our audit of the Combined Financial Statements in accordance with Sec. 317 HGB [“Handelsgesetzbuch”: German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the combined financial statements in accordance with the applicable financial reporting framework are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the entities included in the Combined Financial Statements and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the combined financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the Combined Financial Statements, the determination of entities to be included in the Combined Financial Statements, the accounting and combination principles used and significant estimates made by management, as well as evaluating the overall presentation of the Combined Financial Statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Combined Financial Statements comply with IFRS as adopted by the European Union (EU) taking into account the “Basis of Preparation” as set out in Note 1 to the Combined Financial Statements and give a true and fair view of the net assets, financial position and results of operations of the entirety of entities included in the Combined Financial Statements in accordance with these requirements.

Munich, October 2, 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Bostedt	Weiß
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

AUDITED ANNUAL FINANCIAL STATEMENTS OF TELEFÓNICA DEUTSCHLAND HOLDING AG IN ACCORDANCE WITH HGB AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

TELEFÓNICA DEUTSCHLAND HOLDING AG
BALANCE SHEET AS OF
DECEMBER 31, 2013

	As of December 31	
	2013	**2012**
ASSETS (in EUR)		
A) Fixed assets		
Financial assets		
Investments in affiliated companies	5,246.251,853.31	5,758,877,283.31
	5,246,251,853.31	**5,758,877,283.31**
B) Current assets		
I. Receivables and other assets		
1. Receivables from affiliates	14,946,060.53	5,953,930.80
2. Other assets	5,987,448.39	0.00
II. Cash on hand and bank balances	0.00	3,100,000.00
	20,933,508.92	**5,953,930.80**
C) Accruals and deferrals	**5,333.35**	**0.00**
TOTAL ASSETS	**5,267,190,695.58**	**5,767,931,214.11**

	As of December 31	
	2013	**2012**
EQUITY AND LIABILITIES (in EUR)		
A) Equity		
I. Subscribed capital	1,116,945,400.00	1,116,945,400.00
II. Additional paid-in capital	430,095.00	430,095.00
III. Revenue reserves	14,083.91	14,083.91
Legal reserve	14,083.91	14,083.91
IV. Net retained earnings	4,140,647,078.29	4,648,809,332.27
	5,258,036,657.20	**5,766,198,911.18**
B) Provisions		
Other provisions	6,638,552.14	1,028,400.00
	6,638,552.14	**1,028,400.00**
C) Liabilities		
1. Trade payables	2,464,164.16	306,116.44
2. Liabilities to affiliates	0.00	32,311.09
3. Other liabilities	51,322.08	365,475.40
– thereof from taxes EUR 51,322.08 (previous year: EUR 365,475.00) –		
	2,515,486.24	**703,902.93**
TOTAL EQUITY AND LIABILITIES	**5,267,190,695.58**	**5,767,931,214.11**

TELEFÓNICA DEUTSCHLAND HOLDING AG
INCOME STATEMENT FOR THE YEAR 2013

	January 1 to December 31	
	2013	**2012**
(in EUR)		
1. Revenues	9,706,193.35	1,675,894.93
2. Other operating income	7,845.17	206,637.32
3. Personnel expenses	(4,094,002.66)	(931,656.13)
a) Salaries	(4,090,442.65)	(930,666.81)
b) Social security contributions	(3,560.01)	(989.32)
4. Other operating expenses	(11,183,178.77)	(702,891.54)
5. Other interest and similar income	7,622.86	19,997.90
– thereof from affiliated companies: EUR 6,469.86 (in the previous year). EUR 12,139.55) –		
6. Interest and similar expenses	(204.00)	0.00
7. Income from ordinary business activities	**(5,555,724.05)**	**267,982.48**
8. Income taxes	18,900.07	13,695.62
9. Loss/Profit for the year	**(5,536,823.98)**	**281,678.10**
Net retained earnings of the previous year	4,648,809,332.27	11,834,438,151.08
Dividend payments	(502,625,430.00)	(7,185,896,413.00)
10. Profit carryforward	4,146,183,902.27	4,648,541,738.08
11. Addition to legal reserve	0.00	(14,083.91)
12. Net retained earnings	**4,140,647,078.29**	**4,648,809,332.27**

TELEFÓNICA DEUTSCHLAND HOLDING AG
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2013

(1) GENERAL INFORMATION ON THE ANNUAL FINANCIAL STATEMENT

The Annual Financial Statements of Telefónica Deutschland Holding AG, Munich (also referred to as "Telefónica Deutschland") for the financial year 2013 have been prepared in accordance with the principles of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

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

The company is listed in the regulated market of the Frankfurt Stock Exchange. The security identification number (Wertpapierkennnummer – WKN) is A1J5RX, the ISIN (International Securities Identification Number) is DE000A1J5RX9. As of December 31, 2013, Telefónica Deutschland Holding AG has a share capital of EUR 1,116,945,400. It is divided into 1,116,945,400 registered shares with no-par values each representing a notional amount of EUR 1.00 in the registered share capital. 23.17% of the shares are in free float, the remaining 76.83% are held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited). Each non-par share in general grants one vote at the General Meeting. There are no limitations on voting rights. The majority shareholder Telefónica Germany Holdings Limited possesses no other voting rights.

Telefónica Deutschland Holding AG is the parent company of the German Telefónica Deutschland Group, which is included in the consolidated financial statements of the group's ultimate holding company, Telefónica, S. A., Madrid, Spain (Telefónica, S. A. Group) as of December 31, 2013. The parent company of the Telefónica Deutschland Group is Telefónica Germany Holdings Limited, a subsidiary of O2 (Europe) Limited, Slough, United Kingdom (O2 (Europe) Limited).

As of the reporting date Telefónica Deutschland is classified as a large corporation in accordance with section 267 (3), sentence 2 HGB.

The income statement has been prepared using the nature of expense method in accordance with section 275 (2) HGB. The structure has not been changed compared to the previous year.

Limited comparability with the previous annual financial statements

The comparability of the results of operations with the prior year is limited as of December 31, 2013, since the company started its function as a holding company on September 26, 2012 in the financial year 2012 by registration in the commercial register and the currently applicable service level agreements came into force on this date.

First ordinary General Meeting

On May 7, 2013 the first ordinary General Meeting of Telefónica Deutschland Holding AG took place. Next to the discharge of the Supervisory Board and Management Board and the election of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft with its registered office in Stuttgart, branch office Munich, as auditor for the Consolidated Financial Statements and Annual Financial Statements of Telefónica Deutschland Holding AG, the General Meeting resolved to distribute a dividend of EUR 0.45 per dividend-entitled share, a total of EUR 502,625,430.00.

Agreement for the reimbursement of management services

Telefónica Deutschland Holding AG has signed agreements with Telefónica Germany GmbH & Co. OHG, Munich, and Telefónica Germany Management GmbH, Munich. The agreements include the obligation to render management services for Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH. Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH shall reimburse Telefónica Deutschland Holding AG a lump sum of EUR 30k per quarter. Furthermore, Telefónica Germany GmbH & Co. OHG shall reimburse the cost of remuneration for the members of the Management Board, as well as other administration cost. The total amount of the reimbursements is included in the company's revenues.

Significant Events and Transactions in the Financial Year

Dividend for the 2013 financial year

On November 7, 2013, the Management Board of Telefónica Deutschland resolved and announced that it is intended to propose a cash dividend of approx. EUR 525m to the next ordinary General Meeting for the 2013 financial year. This corresponds to a dividend of around EUR 0.47 for each share with dividend rights.

Agreement on the acquisition of E-Plus

On July 23, 2013 Telefónica Deutschland, Telefónica, S. A. and Koninklijke KPN N.V. (KPN) concluded an agreement for the acquisition of KPN's German mobile business, E-Plus, by Telefónica Deutschland. As consideration, KPN receives in total EUR 3.7bn in cash (subject to price adjustment) and newly to be issued shares. The cash component to be paid to KPN will be financed via a cash capital increase of Telefónica Deutschland. The shares that are to be issued as a further consideration to KPN should be generated via a capital increase against contribution in kind. By this KPN will have a 24.9% stake in Telefónica Deutschland after the capital increases.

Thereafter, pursuant to the agreement as of July 23, 2013, in the amended version as of August 26 and 28, 2013, as well as of December 5, 2013, Telefónica, S. A. shall acquire from KPN a share of 4.4% of Telefónica Deutschland for EUR 1.3bn. Furthermore, a call option agreement was concluded with KPN, which grants Telefónica, S. A. the right to acquire from KPN a further share of up to 2.9% of Telefónica Deutschland. This right can be exercised one year after the conclusion of the call option agreement at an exercise price of up to EUR 0.51bn.

This would finally lead to a holding of Telefónica, S. A. in Telefónica Deutschland of 62.1%, or, in case of the complete exercise of the call options of 65.0% respectively, and of KPN of 20.5%, or, in the case of the complete exercise of the call option, 17.6% respectively. The free float will then amount to 17.4%.

KPN's extraordinary General Meeting approved the transaction with a large majority on October 2, 2013.

As of December 31, 2013 the execution of the transaction still required the approval of the General Meeting of Telefónica Deutschland and the approval of the competent authorities and further standard closing conditions. The completion of the transaction is expected mid-2014.

In addition, reference is made to the note on the events after the reporting period.

(2) ACCOUNTING POLICIES

The accounting policies used in the preparation of the Annual Financial Statements as of December 31, 2013 are in accordance with the provisions of sections 242 to 256a and 264 to 288 of the German Commercial Code (HGB), as well as the relevant provisions of the German Stock Corporation Act (AktG). The accounting policies remained unchanged compared to the prior year.

The financial assets are carried at historical costs, less any impairment, to account for lower fair values at the reporting date. If the reasons for the impairment do no longer exist, impairment losses are reversed according to section 253 para. 5, sentence 1 of the HGB.

Receivables and other assets are stated at their nominal value. Adequate allowances have been recorded for all risk positions.

Indirect pension liabilities are determined in accordance with the provisions of the German Commercial Code and in accordance with the recognized principles of actuarial calculations using the " projected unit credit method" (PUC method). The calculation also considers trends with respect to prospective entitlement or pension development, as well as the company-specific age and gender-related probability of fluctuation. An interest rate of 4.9% and a pension trend of 2% as well as the mortality tables 2005G by Klaus Heubeck were used.

In order to fulfill the pension obligations, funds have been invested in the support fund "ProFund Unabhängige Gruppen-Unterstützungskasse e. V.". The assets are measured at their fair market value.

Provisions consider all identifiable risks and uncertain liabilities and have been measured at the amounts considered to be necessary by reasonable business judgment. Discounting in accordance with section 253 (2) of the HGB was not required.

Liabilities are recorded at their settlement amount.

Deferred taxes resulting from tax loss carryforwards or temporary and quasi-permanent differences between the commercial law-related valuations of assets, liabilities and deferred income and the tax bases are determined as follows: The amounts of the resulting tax burden or relief are measured considering each company's individual tax rate on the date of the temporary differences' reversal. They are not discounted. Deferred tax liabilities and deferred tax assets are offset. Deferred tax assets are not capitalized based on the related option not to recognize them.

(3) NOTES TO THE BALANCE SHEET

Financial assets

The investments in affiliated companies refer to the investment in Telefónica Germany GmbH & Co. OHG, Munich, whose personally liable partner is the company itself, amounting to EUR 5,235,822k (2012: EUR 5,758,447k), and the investment in Telefónica Germany Management GmbH, Munich amounting to EUR 10,430k (2012: EUR 430k).

The changes to the carrying amount of the investment in Telefónica Germany GmbH & Co. OHG result from the withdrawal of the amount of EUR 522,625k.

For further information, we refer to the schedule of the development of the fixed assets.

Receivables

The receivables from affiliates primarily relate to receivables from cash pooling due from Telfisa Global B. V., Amsterdam, Netherlands, amounting to EUR 12,364k (2012: EUR 3,256k) as well as receivables for management services due from Telefónica Germany GmbH & Co. OHG in an amount of EUR 2,485k (2012: EUR 1,959k).

The other assets amounting to EUR 5,987k mainly relate to capitalized cost, incurred in connection with the envisaged acquisition of E-Plus (EUR 5,887k).

All receivables and other assets have a remaining term of less than one year.

Equity

Subscribed capital

The registered share capital of Telefónica Deutschland Holding AG amounts to EUR 1,116,945,400. The registered share capital is divided into 1,116,945,400 shares with no-par value and a notional amount of the registered share capital of EUR 1.00 each (“Shares”). The registered share capital is fully paid. As of December 31, 2013 Telefónica Deutschland Holding AG did not hold any of its own shares. 23.17% of the shares are in free float, the remaining 76.83% are held by Telefónica Germany Holdings Limited.

Authorized capital

As of December 31, 2013 the Management Board is authorized with the approval of the Supervisory Board to increase the share capital of Telefónica Deutschland once or several times in the period until September 17, 2017 by a total of EUR 558,472,700 by issuing up to 558,472,700 new non-par value registered shares in exchange for a cash and/or contribution in kind (authorized capital 2012/I). The authorization for the Management Board provides that the shareholders’ subscription rights under section 4 (3) of the Articles of Association can be excluded in whole or in part in certain cases.

Conditional capital

For the purpose of the issue of registered no-par value shares to the holders or creditors of bonds, the share capital of the company is conditionally increased by up to EUR 558,472,700 by issuing 558,472,700 new registered no-par value shares (conditional capital 2012/l).

By resolution at the General Meeting of October 5, 2012 the Management Board has been authorized until October 4, 2017 and subject to the approval of the Supervisory Board to, on one or more occasions, issue convertible bonds, warrant bonds, profit participation rights and/or participating bonds (and/or combinations of such instruments) (together “bonds”) in bearer and/or registered form with or without limited maturity in an aggregate nominal value of up to EUR 1,500,000,000 and to grant and/or impose on the holders or creditors of bonds conversion or option rights to shares in the company representing a total notional amount in the share capital of up to EUR 558,472,700 (in words: five hundred fifty-eight million four hundred and seventy-two thousand and seven hundred Euro), subject to the more detailed terms and conditions of issue of such bonds. Shareholders shall in principle be granted a right to subscribe for the bonds. The authorization provides that subject to the approval of the Supervisory Board, the subscription right of the shareholders can, however, be excluded a) for fractional amounts; furthermore b) provided that the issue price is not substantially lower than the market value of the bonds with conversion and/or option rights or option obligation and the shares issued or to be issued in order to satisfy the conversion and option rights or conversion obligation do not exceed in total 10% of the share capital; c) to the extent profit participation rights or participating bonds are issued without conversion rights or obligations or an option right, provided the interest rate and the issue price of the profit participation rights or participating bonds correspond at the date of issue to current market values; and d) to the extent the bonds are issued in written form contributions in kind for the purpose of directly or indirectly acquiring companies, parts of companies, participations in companies or other assets and the value of the contribution in kind is reasonably proportionate to the value of the bonds.

Additional paid-in capital

The additional paid-in capital of Telefónica Deutschland Holding AG remains unchanged at EUR 430k and fulfills the requirements under section 272 (1), 1 HGB. The contribution occurred in accordance with a contribution agreement dated September 18, 2012 in connection with a contribution in kind.

Revenue reserve

Revenue reserve contains a legal reserve in accordance with section 150 (2) AktG of EUR 14k (2012: EUR 14k).

Profit distribution

On May 7, 2013 the first ordinary General Meeting of Telefónica Deutschland Holding AG took place, during which it was resolved to distribute a dividend of EUR 0.45 for each share with dividend rights; a total of EUR 502,625k.

Pension provisions

Telefónica Deutschland Holding AG exercises the option of section 28 (1, 2) Introductory Act to the German Commercial Code (EGHGB) not to record indirect pension liabilities covered by the support fund ProFund Unabhängige Gruppen-Unterstützungskasse e.V.

As of December 31, 2013 pension liabilities amount to EUR 121k. To cover this liability, as of December 31, 2013 EUR 168k is held on a trust basis for Telefónica Deutschland Holding AG.

Provisions

The other provisions amounting to EUR 6,639k (2012: EUR 1,028k) mainly relate to provisions for outstanding invoices of EUR 3,989k. Furthermore, expenses for the compensation of the Management Board (EUR 2,484k) are included.

Liabilities

Trade payables amounting to EUR 2,464k (2012: EUR 306k) mainly relate to cost incurred in connection to the planned purchase of E-Plus.

All liabilities have a remaining term of less than one year and are unsecured.

Deferred taxes

Deferred tax assets mainly result from temporary differences at the level of Telefónica Germany GmbH & Co. OHG as well as from the usage of tax loss carryforwards. Telefónica Deutschland Holding AG is the taxable entity for the purpose of the corporation income tax (CIT). The tax rate for deferred tax assets is 15.825% for corporate income tax and solidarity surcharge and 17.15% for commercial tax. No use is made of the option to report deferred tax assets as per section 274 (1), sentence 2 HGB.

(4) NOTES TO THE INCOME STATEMENT

Revenues

Revenues amount to EUR 9,706k (2012: EUR 1,676k) and essentially comprise the imbursement for the cost of the remuneration of the members of the Management Board, as well as further administration cost (EUR 9,466k), which, under the agreements for the reimbursement for management services (as explained under "I. General Information for the Annual Financial Statement – Agreement for the Reimbursement of Management Services"), are assumed by Telefónica Germany GmbH & Co. OHG.

Also included are those management services charged for a total of EUR 240k which are rendered by Telefónica Deutschland Holding AG to Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH.

Personnel expenses

The personnel expenses of EUR 4,094k (2012: EUR 932k) include the expenses from the remuneration of the Management Board, including social security.

Other operating expenses

The other operating expenses in the financial year in the amount of EUR 11,183k (2012: EUR 703k) primarily include cost incurred in connection with the planned cash capital increase, with respect to the acquisition of E-Plus (EUR 5,431k), as well as legal and consulting fees for external service providers. Thereof, EUR 2,149k relate to consulting fees for the previous year and have been recharged.

Other interest and similar income

Other interest and similar income in the amount of EUR 8k (2012: EUR 20k) result from the positive cashpooling balance.

Income taxes

The income taxes of an amount of EUR 19k (2012: EUR 14k) include refunds of corporate income tax and relate to ordinary business activities of the company.

(5) OTHER INFORMATION

Additional information with respect to the Supervisory Board and the Management Board

Remuneration of the Management Board and the Supervisory Board

The total remuneration of the members of the Management Board for the financial year ended December 31, 2013 amounted to EUR 4,049k (2012: EUR 932k).

Telefónica Deutschland Group has not granted the members of the Management Board any securities or loans and has not assumed any guarantees for them.

Furthermore, commitments for 53,364 share options in Telefónica, S. A., Madrid, Spain were granted to the Management Board of Telefónica Deutschland Holding AG in the financial year. The fair value per option amounted to EUR 6.40.

In accordance with the decision of the General Meeting of October 5, 2012, Telefónica Deutschland Holding AG is exempt from additional disclosures for listed stock corporations, pursuant to section 286 (5) HGB in connection with section 285 9 (a), sentences 5–8 HGB.

The members of the Supervisory Board received remuneration for their activities of a total of EUR 162k in 2013 and EUR 19k in 2012.

Telefónica Deutschland Group has not granted the members of their Supervisory Board any securities or loans and has not assumed any guarantees for them.

Management Board

The members of the Management Board of Telefónica Deutschland Holding AG as of December 31, 2013 are listed as below:

Name	**Function**
Rachel Clare Empey	Chief Financial Officer (CFO), Member of the Management Board
Markus Haas	Chief Strategy Officer & General Counsel, Member of the Management Board
René Schuster	Chief Executive Officer (CEO) Chairperson of the Management Board Member of Telefónica Europe Executive Committee Member of Telefónica Europe Advisory Board Member of Telefónica Europe Project Approvals Committee Member of the Management Board of the Telefónica Global Transformation Committee Retired on January 31, 2014

Supervisory Board

The members of the Supervisory Board of Telefónica Deutschland Holding AG as of December 31, 2013 are listed as below:

Name	**Function**
Eva Castillo Sanz	Chairperson of the Supervisory Board; Current mandates: Telefónica, S. A., Member of the Board Telefónica Europe, plc, Chairperson and Chief Executive Officer Telefónica Czech Republic, a. s., Chairperson of the Supervisory Board Tuenti Technologies, S. L., Chairman Bankia S. A., Member of the Board Comillas – ICAI Foundation, Member of the Board
Imke Blumenthal	Vice Chairperson of the Supervisory Board Current mandates: Chairperson of the Works and Group Committee of Telefónica Deutschland Vice Chairperson of the Works Committee of the North-Western Region for Telefónica Deutschland
Maria Pilar López Álvarez	Member of the Supervisory Board Current mandates: Telefónica Europe plc, Member of the Management Board (Director) Telefónica Czech Republic, a.s., Member of the Supervisory Board mmO2 plc, Member of the Management Board (Director) O2 Holding Ltd, Member of the Management Board (Director) O2 (Europe) Limited, Director Wolesley PLC, Non-Executive Director
Angel Vilá Boix	Member of the Supervisory Board Current mandates: Telefónica S. A., Chief Financial Officer and Corporate Development Officer Telco S.P.A., Vice Chairman
Patricia Cobián Gonzáles	Member of the Supervisory Board Current mandates: Telefónica Europe plc, Member of the Management Board (Director)
Enrique Medina Malo	Member of the Supervisory Board Current mandates: Telefónica Europe, plc, Member of the Management Board mmO2 Europe plc, Member of the (Director) O2 Holding Ltd, Member of the Management Board (Director) O2 (Europe) Limited, Member of the Management Board (Director) Wayra UK Limited, Member of the Management Board (Director) O2 Cedar Limited, Member of the Management Board O2 Networks Limited, Member of the Management Board O2 International Holdings Limited, Member of the Management Board

Name	Function
Michael Hoffmann	Member of the Supervisory Board Current mandates: Lekkerland AG & Co. KG [German Limited Partnership], Chief Executive Officer
Thomas Pfeil*	Member of the Supervisory Board Current mandates: Service Manager for Telefónica Germany GmbH & Co. OHG; Vice Chairperson for the Group Works Committee for Telefónica Deutschland
Jan-Erik Walter*	Current mandates: Vice Chairperson of the Munich Works Committee for Telefónica Deutschland
Marcus Thurand*	Member of the Supervisory Board Current mandates: Vice President for Network Operations of Telefónica Germany GmbH & Co. OHG
Christoph Heil*	Member of the Supervisory Board Current mandates: Ver. di. [United Services Union] Consultant, Berlin Capgemini GmbH, Member of the Supervisory Board
Claudia Weber*	Member of the Supervisory Board Current mandates: Deputy Manager, ver. di Munich Region/Trade Union Secretary

* Employee representative

Auditor's fees

The information concerning the total auditor's fees of Telefónica Deutschland Holding AG is omitted, in accordance with section 285, 17 HGB, since the company is part of the consolidation group of Telefónica Deutschland Holding AG ("Telefónica Deutschland Group") and the information is included within the consolidated financial statements as of December 31, 2013.

Number of employees

In financial year 2013 – as in 2012 – the company had no employees.

Contingent liabilities and other financial commitments

Contingent liabilities

Telefónica Deutschland Holding AG shall assume warranty obligations for its subsidiaries in its function as parent company of the Telefónica Deutschland Group. As part of the bond issued by O_2 Telefónica Deutschland Finanzierungs GmbH, Telefónica Deutschland assumes with the guarantee of November 2013 to each holder of the bond issued in an amount of EUR 600m with an unconditional and irrevocable guarantee of correct and punctual payment of all amounts payable by the issuer in relation to the bond in accordance with all the terms of the bonds.

The risk of a claim from the contingent liabilities is considered to be very low. This assessment is based on the fact that O_2 Telefónica Deutschland Finanzierungs GmbH is an indirect subsidiary of Telefónica Deutschland Holding AG and is fully controlled by Telefónica Germany GmbH & Co. OHG. The creditworthiness of O_2 Telefónica Deutschland Finanzierungs GmbH is thus determined by the operative business activities of the Telefónica Deutschland Group itself.

List of shares held pursuant to section 285, 11 and 11a HGB

Name and legal form	Registered Office	Share in the Capital	Equity on 31.12.2012 in Euros in thousands	Result of the 2012 Financial Year Euros in thousands
Telefónica Germany GmbH & Co. OHG[1; 2]	Munich	100	3,991,894	1,177,449
Telefónica Germany Management GmbH	Munich	100	569	21
Telefónica Germany I Beteiligungsgesellschaft [Investment Company] mbH [Limited Liability]	Munich	100	85,778	1,052
Telefónica Germany Customer Services GmbH	Munich	100	15,342	155,544
Wayra Deutschland GmbH	Munich	100	275	0 [3]
Fonic GmbH	Munich	100	25	0 [3]
O_2 Telefónica Germany Finanzierungs [Finance] GmbH	Munich	100	n/a	n/a
TCHIBO Mobilfunk [mobile communications] Beteiligungs [Investment] GmbH	Hamburg	50	37	1
TCHIBO Mobilfunk GmbH & Co. KG	Hamburg	50	4,996	1,098

1 § 285 no. 11a HGB

2 99.99 % Telefónica Deutschland Holding AG; 0.01% Telefónica Germany Management GmbH

3 After transfer of the profit/loss

Parent company/Consolidated Financial Statement

The Consolidated Financial Statements of Telefónica Deutschland Holding AG, Munich, will be published in the electronic version of German Federal Gazette at **WWW.E-BUNDESANZEIGER.DE**. The Consolidated Financial Statements of Telefónica Deutschland Holding AG are included in the Consolidated Financial Statements of the Spanish parent company, Telefónica, S. A. (Madrid, Spain), which is the largest group of companies for which group financial statements are drawn up. These Consolidated Financial Statements are available at Telefónica, S. A. (Madrid, Spain) and are published at **WWW.TELEFONICA.COM**.

Voting rights notification pursuant to section 26 (1) of the WpHG:

BlackRock Inc., New York, NY, USA:

On June 6, 2013 BlackRock, Inc., New York, NY, USA has informed us according to section 21 (1) WpHG that via shares its voting rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the threshold of 3% of the voting rights on June 4, 2013 and amounted to 3.02% (which corresponds to 33,702,924 voting rights) on that day. 3.02% of the voting rights (which corresponds to 33,702,924 voting rights) are attributed to the company, pursuant to section 22 (1), sentence 1, no. 6 in combination with section 22 (1) sentence 2 WpHG.

On July 17 2013 BlackRock, Inc., New York, NY, USA has informed us according to section 21 (1) WpHG that via shares its voting rights on Telefónica Deutschland Holding AG, Munich, Germany have fallen below the threshold of 3% of the voting rights on July 15, 2013 and amounted to 2.99% of the voting rights (which corresponds to 33,443,076 voting rights) on that day. 2.99% of the voting rights (which correspond to 33,443,076 voting rights) are attributed to the company, pursuant to section 22 (1) 1, no. 6, in combination with section 22 (1) 2 WpHG.

On October 24, 2013 BlackRock, Inc., New York, NY, USA has informed us according to section 21 (1) WpHG that via shares its voting rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the threshold of 3% of the voting rights on October 22, 2013 and amounted to 3.03% (which corresponds to 33,820,307 voting rights) on that day. 3.03% of the voting rights (which corresponds to 33,820,307 voting rights) are to be attributed to the company, pursuant to section 22 (1) sentence 1, no. 6, in combination with section 22 (1) sentence 2 WpHG.

On January 17, 2014 BlackRock, Inc., New York, NY, USA has informed us according to section 21 (1) WpHG that via shares its voting rights on Telefónica Deutschland Holding AG, Munich, Germany have fallen below the threshold of 3% of the voting rights on January 15, 2014 and amounted to 2.89% of the voting rights (which corresponds to 32,330,698 voting rights) on that day. 2.89% of the voting rights (which correspond to 32,330,698 voting rights) are to be attributed to the company, pursuant to section 22 (1) sentence 1, no. 6, in combination with section 22 (1) sentence 2 WpHG.

BlackRock HoldCo 2 Inc., Willmington, DE, USA

On June 7, 2013 BlackRock Holdco 2, Inc., Wilmington, DE, USA has informed us according to section 21 (1) WpHG that via shares its voting rights on Telefónica Deutschland Holding AG, Munich, Germany have exceeded the threshold of 3% of the voting rights on June 5, 2013 and amounted to 3.12% (which corresponds to 34,829,613 voting rights) on that day. 3.12% of the voting rights (which corresponds to 34,829,613 voting rights) are to be attributed to the company, pursuant to section 22 (1) sentence 1, no. 6, in combination with section 22 (1) sentence 2 WpHG.

On July 16, 2013 BlackRock Holdco 2, Inc., Wilmington, DE, USA has informed us according to section 21 (1) WpHG that via shares its voting rights on Telefónica Deutschland Holding AG, Munich, Germany have fallen below the threshold of 3% of the voting rights on July 12, 2013 and amounted to 2.98% (which corresponds to 33,336,846 voting rights) on that day. 2.98% of the voting rights (which correspond to 33,336,846 voting rights) are to be attributed to the company, pursuant to section 22 (1) sentence 1, no. 6, in combination with section 22 (1) sentence 2 WpHG.

On October 24, 2013 BlackRock Holdco 2, Inc., Wilmington, DE, USA has informed us according to section 21 (1) WpHG that via shares its voting rights on Telefónica Deutschland Holding AG, Munich, Germany have exceeded the threshold of 3% of the voting rights on October 22, 2013 and amounted to 3.03% (which corresponds to 33,811,969 voting rights) on that day. 3.03% of the voting rights (which correspond to 33,811,969 voting rights) are to be attributed to the company, pursuant to section 22 (1) sentence 1, no. 6, in combination with section 22 (1) sentence 2 WpHG.

On January 16, 2014 BlackRock Holdco 2, Inc., Wilmington, DE, USA has informed us according to section 21 (1) WpHG that via shares its voting rights on Telefónica Deutschland Holding AG, Munich, Germany have fallen below the threshold of 3% of the voting rights on January 14, 2014 and amounted to 2.98% (which corresponds to 33,232,797 voting rights) on that day. 2.98% of the voting rights (which correspond to 33,232,797 voting rights) are to be attributed to the company, pursuant to section 22 (1) sentence 1, no. 6 in combination with section 22 (1) sentence 2 WpHG.

BlackRock Financial Management Inc., New York, NY, USA

On June 7, 2013 BlackRock Financial Management, Inc., New York, NY, USA has informed us according to section 21 (1) WpHG that via shares its voting rights on Telefónica Deutschland Holding AG, Munich, Germany have exceeded the threshold of 3% of the voting rights on June 5, 2013 and amounted to 3.12% (which corresponds to 34,829,613 voting rights) on that day. 3.12% of the voting rights (which correspond to 34,829,613 voting rights) are attributed to the company, pursuant to section 22 (1) sentence 1, no. 6 in combination with section 22 (1) sentence 2 WpHG.

On July 16, 2013 BlackRock Financial Management, Inc., New York, NY, USA has informed us according to section 21 (1) WpHG that via shares its voting rights on Telefónica Deutschland Holding AG, Munich, Germany have fallen below the threshold of 3% of the voting rights on July 12, 2013 and amounted to 2.98% (which corresponds to 33,336,846 voting rights) on that day. 2.98% of the voting rights (which correspond to 33,336,846 voting rights) are to be attributed to the company, pursuant to section 22 (1) sentence 1, no. 6 in combination with section 22 (1) sentence 2 WpHG.

On January 16, 2014 BlackRock Financial Management, Inc., New York, NY, USA has informed us according to section 21 (1) WpHG that via shares its voting rights on Telefónica Deutschland Holding AG, Munich, Germany have fallen below the threshold of 3% of the voting rights on January 14, 2014 and amounted to 2.98% (which corresponds to 33,232,797 voting rights) on that day. 2.98% of the voting rights (which corresponds to 33,232,797 voting rights) are to be attributed to the company, pursuant to section 22 (1) sentence 1, no. 6 in combination with section 22 (1) sentence 2 WpHG.

Declarations of Compliance with the German Corporate Governance

On February 11, 2014, the Management Board and Supervisory Board of Telefónica Deutschland Holding AG issued a latest declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG) that is publicly available to the shareholders of Telefónica Deutschland Holding AG on the Telefónica Holding AG website (**WWW.TELEFONICA.DE/ENTSPRECHENSERKLAERUNG**).

Events after the Reporting Period

Issue of a 7-year bond (Bond II)

On February 10, 2014, Telefónica Deutschland Group issued a senior 7-year bond with a nominal value of EUR 500m. The bond has a maturity on February 10, 2021 and was issued by O_2 Telefónica Deutschland Finanzierungs GmbH, Munich, and is guaranteed by Telefónica Deutschland Holding AG. The coupon for the fixed interest bond is 2.375% and the issue price 99.624%. The issue spread was 100 basis points over the seven-year Euro Midswap Rate, resulting in a yield of 2.434%. The bond has a denomination of EUR 1,000 and was issued on the basis of a bond security prospectus. O_2 Telefónica Deutschland Finanzierungs GmbH, Munich, has transferred the net issue proceeds of the bond to Telefónica Germany GmbH & Co. OHG, Munich, in the form of a loan. The net proceeds generated by the bond will be used for general corporate purposes.

Change in the Management Board of Telefónica Deutschland

On January 31, 2014, René Schuster left in mutual agreement as CEO and member of the Management Board. On January 29, 2014, the Supervisory Board of Telefónica Deutschland approved a respective termination agreement. Since February 1, 2014, the responsibilities of the CEO were taken over jointly by Chief Financial Officer, Rachel Empey and Chief Strategy Officer, Markus Haas, in addition to their responsibilities to date. Rachel Empey focuses on the operative business and Markus Haas on the preparation for the E-Plus integration.

Extraordinary General Meeting

On December 30, 2013 the Management Board of Telefónica Deutschland called an extraordinary General Meeting, which took place on February 11, 2014. In such extraordinary General Meeting, the General Meeting of Telefónica Deutschland approved the following capital measures for the E-Plus transaction:

- Increase the share capital by up to EUR 3.7bn against cash with subscription right of the shareholders, as well as a related amendment of the Articles of Association;

- Authorization of the Management Board, with approval of the Supervisory Board, to execute a capital increase against contribution in kind up to EUR 475m and the related amendment of the Articles of Association (authorized capital 2014/I). The resolution posed by the General Meeting on the authorization to increase share capital by up to EUR 3.7bn was registered in the commercial register on February 25, 2014

Furthermore, the extraordinary General Meeting resolved a new conditional capital 2014/I whilst suspending the former conditional capital 2012/I. The new conditional capital 2014/I was registered in the commercial register on February 25, 2014, whilst suspending the former conditional capital 2012/I.

Munich, March 7, 2014

Telefónica Deutschland Holding AG

Management Board

Empey, Rachel Clare Haas, Markus

Appendix to the Notes

TELEFÓNICA DEUTSCHLAND HOLDING AG
STATEMENT OF CHANGES IN FIXED ASSETS FOR THE YEAR 2013

(in EUR)				Historical costs
	1.1.2013	**Additions**	**Disposals**	**31.12.2013**
Financial assets				
Investments in affiliated companies	5,758,877,283.31	10,000,000.00	522,625,430.00	5,246,251,853.31
	5,758,877,283.31	**10,000,000.00**	**522,625,430.00**	**5,246,251,853.31**

(in EUR)				Accumulated depreciation
	1.1.2013	**Additions**	**Disposals**	**31.12.2013**
Financial assets				
Investments in affiliated companies	0.00	0.00	0.00	0.00
	0.00	**0.00**	**0.00**	**0.00**

(in EUR)		Book value
	31.12.2013	**31.12.2012**
Financial assets		
Investments in affiliated companies	5,246,251,853.31	5,758,877,283.31
	5,246,251,853.31	**5,758,877,283.31**

The following English-language translation of the German-language audit opinion (Bestätigungsvermerk) refers to the annual financial statements and the management report of Telefónica Deutschland Holding AG, Munich, prepared on the basis of German commercial law (HGB) ("Handelsgesetzbuch", German Commercial Code), as of and for the fiscal year ended December 31, 2013 as a whole and not solely to the annual financial statements presented in this Prospectus on the preceding pages.

AUDIT OPINION

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Telefónica Deutschland Holding AG, Munich, for the fiscal year from 1 January 2013 to 31 December 2013. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, March 18, 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dahmen	Vogel
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüferin [German Public Auditor]

UNAUDITED CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS OF KPN MOBILE GERMANY GMBH & CO. KG IN ACCORDANCE WITH IFRS ON INTERIM FINANCIAL REPORTING (IAS 34) AS OF AND FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2014

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	1st half	
In kEUR	**2014**	**2013**
Revenues [1]	1,582,980	1,523,780
Other income	1,443	3,679
Total revenues and other income	**1,584,423**	**1,527,459**
Own work capitalized	-18,082	-18,042
Cost of materials [2]	103,739	122,260
Work contracted out [3]	704,051	711,285
Employee benefits	145,661	136,967
Depreciation, amortization and impairments [4]	499,365	501,207
Other operating expenses [5]	164,648	144,224
Total operating expenses	**1,599,382**	**1,597,901**
Operating loss	**-14,959**	**-70,442**
Finance income	370	9,061
Finance costs	-619,148	-15,553
Other financial result	-6,293	-10,878
Total financial costs [6]	**-625,071**	**-17,370**
Loss before income tax	**-640,030**	**-87,812**
Income taxes [7]	260,085	24,789
Loss for the period	**-379,945**	**-63,023**

[..] Bracketed numbers refer to the related Notes to the condensed consolidated interim financial statements, which form an integral part of these condensed consolidated interim financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1st half	
In kEUR	**2014**	**2013**
Loss for the period	**-379,945**	**-63,023**
Other comprehensive income:		
Items of other comprehensive income that will not be reclassified subsequently to profit or loss:		
Remeasurement of pensions and other post-employment plans:		
Losses or (gains) arising during the period	-10,000	3,967
Income Tax	2,482	-1,120
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**-7,518**	**2,847**
Remeasurements, net of income	**-7,518**	**2,847**
Total comprehensive income for the period, net of income tax	**-387,463**	**-60,176**

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Group Assets

In kEUR	30 June 2014	31 December 2013
NON-CURRENT ASSETS		
Goodwill	151,305	151,305
Licenses	1,552,046	1,667,444
Software	157,888	156,072
Other intangible assets	22,158	25,939
Total intangible assets	**1,883,397**	**2,000,760**
Land and buildings	44,197	47,305
Property, plant and equipment	2,550,496	2,538,437
Other tangible assets	7,991	9,497
Assets under construction	243,526	260,035
Total property, plant and equipment	**2,846,210**	**2,855,274**
Other non-current assets	50,070	52,024
Total non-current assets	**4,779,677**	**4,908,058**
CURRENT ASSETS		
Inventories [8]	25,159	49,937
Trade and other financial receivables [9]	322,647	270,435
Other current assets [10]	118,035	66,112
Cash and cash equivalents [11]	354,753	484,270
Total current assets	**820,594**	**870,754**
TOTAL ASSETS	**5,600,271**	**5,778,812**

[..] Bracketed numbers refer to the related Notes to the condensed consolidated interim financial statements which form an integral part of these condensed consolidated interim financial statements.

Group Equity and Liabilities

In kEUR	30 June 2014	31 December 2013
GROUP EQUITY		
Fixed partnership capital[1]	10,102	10,000
Additional contributions from partners[1]	1,434,630	1,260,644
Retained earnings	-6,070,149	-5,682,686
Total Group equity	**-4,625,417**	**-4,412,042**
NON-CURRENT LIABILITIES		
Borrowings [12]	6,747,189	6,143,874
Finance lease liabilities [13]	107,178	109,394
Provisions for retirement benefit obligations [14]	48,262	36,582
Provisions for other liabilities and charges [15]	167,956	165,464
Other payables and deferred income	8,172	8,968
Deferred income tax liabilities	1,949,225	2,215,524
Total non-current liabilities	**9,027,982**	**8,679,806**
CURRENT LIABILITIES		
Trade and other payables [16]	775,369	953,765
Borrowings [12]	5,271	42,825
Finance lease liabilities [13]	287,662	243,139
Income tax payables	115,735	249,556
Provisions for other liabilities and charges [15]	13,669	21,763
Total current liabilities	**1,197,706**	**1,511,048**
TOTAL EQUITY AND LIABILITIES	**5,600,271**	**5,778,812**

[..] Bracketed numbers refer to the related notes to the condensed consolidated interim financial statements which form an integral part of these condensed consolidated interim financial statements.

1) For further details regarding the change in fixed partnership capital and additional contribution from partners refer to Note "Changes in the composition of the Group"

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

In kEUR	Six months ended 30 June 2014	Six months ended 30 June 2013
Loss before income tax	-640,030	-87,812
Adjustments for:		
– Net finance costs [6]	622,456	6,590
– Income from investments	2,579	8,867
– Depreciation, amortization and impairments [4]	499,365	501,207
– Changes in provisions (excluding deferred taxes)	-6,680	-51,409
Changes in working capital relating to:		
– Inventories	-175,338	-173,830
– Trade receivables and other receivables	-106,073	-72,639
– Trade payables and other payables	-179,367	2,771
Income taxes received (+) / paid (-)	-120,810	-3,704
Interest received (+) / paid (-)	-29,994	-9,981
Net cash flow provided by/used in operating activities [17]	**-133,892**	**120,060**
Acquisition of investments to be consolidated	-	-100,054
Acquisition of investments	-2,634	-2,700
Investments in intangible assets	-37,848	-41,452
Disposals of fixed assets	-	15
Investments in property, plant and equipment	-133,844	-193,131
Net cash flow used in investing activities [17]	**-174,326**	**-337,322**
Payment of finance lease liabilities	-158,455	-59,571
Cash received from loans	200,114	161,109
Payments from partners	137,042	-
Net cash flow provided by financing activities [17]	**178,701**	**101,538**
Changes in cash and cash equivalents	**-129,517**	**-115,724**
Net cash and cash equivalents at the beginning of the period [11]	484,270	618,108
Net cash and cash equivalents at the end of the period [11]	**354,753**	**502,384**

[..] Bracketed numbers refer to the related notes to the condensed consolidated interim financial statements which form an integral part of these condensed consolidated interim financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

In kEUR	Fixed partnership capital	Additional contributions from partners	Retained earnings	Total Group equity
Balance as of 1 January 2013	**10,000**	**1,260,644**	**-5,918,120**	**-4,647,476**
Loss for the period	-	-	-63,023	-63,023
Other comprehensive income for the year	-	-	2,847	2,847
Total comprehensive income for the period	**-**	**-**	**-60,176**	**-60,176**
Acquisitions	-	-	56,548	56,548
Capital Contribution	-	-	-	-
Total transactions with owners, recognized directly in equity	**-**	**-**	**56,548**	**56,548**
Balance as of 30 June 2013	**10,000**	**1,260,644**	**-5,921,748**	**-4,651,104**
Balance as of 1 January 2014	**10,000**	**1,260,644**	**-5,682,686**	**-4,412,042**
Loss for the period	-	-	-379,945	-379,945
Other comprehensive income for the period	-	-	-7,518	-7,518
Total comprehensive income for the period	**-**	**-**	**-387,463**	**-387,463**
Capital contribution[1]	102	173,986	-	174,088
Total transactions with owners, recognized directly in equity	102	173,986	-	174,088
Balance as of 30 June 2014	**10,102**	**1,434,630**	**-6,070,149**	**-4,625,417**

[..] Bracketed numbers refer to the related notes to the condensed consolidated interim financial statements which form an integral part of these condensed consolidated interim financial statements.

1) For further details regarding the change in fixed partnership capital and additional contribution from partners refer to Note "Changes in the composition of the Group"

I. GENERAL NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General information

KPN Mobile Germany GmbH & Co. KG (KPN Mobile or the Company), formerly named E-Plus Mobilfunk GmbH & Co. KG, was incorporated in 1999 and is domiciled in Düsseldorf, Germany. The name of the company was changed from E-Plus Mobilfunk GmbH & Co. KG to KPN Mobile Germany GmbH & Co. KG on June 23, 2014. The address of its registered office is E-Plus Straße 1, 40472 Düsseldorf, Germany.

KPN Mobile is one of the leading telecommunications providers in Germany, offering mobile telephony, mobile broadband internet and further other services concerning telecommunication and communication. The Company pursues a challenger strategy and offers mobile telephony products and services to retail customers.

E-Plus Mobilfunk Geschäftsführungs GmbH, Düsseldorf, the general partner and direct parent to the Company, has an interest of 23.28% (kEUR 2,352) and KPN Mobile Germany III B.V., The Hague, Netherlands, has an interest of 76.72% (kEUR 7,750) in the fixed partnership capital of the Company. The ultimate parent of the Company is Koninklijke KPN N.V., The Hague, Netherlands (KPN).

The condensed consolidated interim financial statements of KPN Mobile and its subsidiaries (the Group or E-Plus Group) for the six months ended June 30, 2014 have been prepared using uniform group accounting policies in accordance with the International Financial Reporting Standards (IFRS) and the Interpretations (IFRIC) issued by the IFRS Interpretations Committee as endorsed by the European Union and apply the stipulations of IAS 34 'Interim Financial Reporting'.

Per its German GAAP statutory annual financial statements, the Company is financially over indebted with a negative shareholders' equity of kEUR 17,569,205 (previous year kEUR 17,420,930) as of December 31, 2013. In order to avoid insolvency, the lender of the shareholder loans to the Company agreed on a subordination of the debt in addition to a waiver on any claims for payment of both principal and interest on these loans as long as the state of over indebtedness is not remedied. Therefore, the German statutory annual financial statements as well as these condensed consolidated interim financial statements of the Company are prepared on a going concern basis.

The condensed consolidated interim financial statements are presented in Euros (EUR). Individual items in the condensed consolidated interim financial statements and the notes to the condensed consolidated interim financial statements are presented in thousands of euros (kEUR) in accordance with commercial rounding practices.

The Group's operations are not subject to any seasonal or cyclical influences. The Group's operating and financial results for the interim periods presented are not necessarily indicative of the results that may be expected for any future period or for the full fiscal year. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements as at December 31, 2013 and the notes thereto.

These condensed interim financial statements for the 6 months ended June 30, 2014 have been reviewed, not audited. These condensed consolidated interim financial statements were approved for issuance by the Board of Management on July 18, 2014.

Accounting policies

The accounting and consolidation principles applied in these condensed consolidated interim financial statements are principally the same as those used for the consolidated financial statements as of December 31, 2013 with two exceptions. First, taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss, in accordance with IAS 34. Second, changes resulting from the application of new or revised accounting standards that are applicable for the first time in the fiscal year 2014 can affect the Group's accounting and consolidation principles.

The following new standards and interpretations and amendments to existing standards became effective on January 1, 2014 and have been applied in preparing these condensed consolidated interim financial statements.

- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- IAS 27 'Separate Financial Statements'
- IAS 28 'Investments in Associates and Joint Ventures'
- IAS 32 'Financial Instruments: Presentation': Amendments for offsetting financial assets and financial liabilities
- IAS 39 'Financial Instruments: Recognition and Measurement': Novation of Derivatives and Continuation of Hedge Accounting

The initial application of these standards did not have any material effect on the Group's financial position or its performance.

The preparation of interim financial statements in conformity with IFRS requires the Group's management to make estimates, assessments and assumptions that may affect the amounts of assets and liabilities and income and expenses reported, as well as affect the reporting of any contingent assets and liabilities at the reporting date. Actual future amounts may differ from those estimates. Changes in estimates, assessments and assumptions can have a material impact on the Group's consolidated financial statements.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2013.

Changes in the composition of the Group

Contribution of shares in E-Plus Service GmbH & Co. KG

As part of a share transfer agreement between KPN Mobile and E-Plus Geschäftsführungs GmbH dated January 29, 2014, E-Plus Geschäftsführungs GmbH transferred its 5% share in E-Plus Service GmbH & Co. KG to KPN Mobile as a contribution in kind. Therefore, the condensed consolidated financial statements do no longer contain non-controlling interests which were disclosed as borrowings in the consolidated financial statements for the year ended December 31, 2013. The contribution was accounted for at group carrying values as its economic substance is that of a transaction with the Group's shareholders and led to an increase in the Group's equity amounting to kEUR 37,045 with a corresponding decrease in other loans (within borrowings, current) of kEUR 37,045.

Following the transaction, the articles of association of KPN Mobile were amended so as to increase the fixed partnership capital of E-Plus Geschäftsführungs GmbH in KPN Mobile by kEUR 102, resulting in a total fixed partnership capital of kEUR 10,102. Accordingly, the remaining amount of the contribution equaling kEUR 36,943 was recorded as an additional contribution from partners within the Group's equity.

Contribution to Additional Contributions from Partners

In accordance with the Guarantee Letter dated March 28, 2014, the shareholder has paid an additional contribution into additional contribution from partners in the amount of kEUR 137,043.

Merger of E-Plus 3G Luxembourg S.à.r.l. into E-Plus 3G GmbH

Pursuant to the merger plan dated December 13, 2013, the Company as the sole shareholder of E-Plus 3G Luxembourg S.à r.l. (3G Lux) transferred its holding in 3G Lux into E-Plus 3G GmbH by way of an increase in share capital against contribution in kind. The registration of the merger dated March 13, 2014. Subsequently, pursuant to the merger agreement dated March 26, 2014 E-Plus 3G GmbH was merged into KPN Mobile.

3G Lux and E-Plus 3G GmbH have been deleted from the commercial register with registration dated March 17, 2014 and June 23, 2014, respectively.

Hive-Down of Business into E-Plus Transition GmbH & Co. KG

With registration in the commercial register June 23, 2014 KPN Mobile transferred by way of hive-down its business into E-Plus Mobilfunk GmbH & Co. KG, formally named E-Plus Transition GmbH & Co. KG, fully owned by KPN Mobile with E-Plus Mobilfunk Geschäftsführungs GmbH ("EPM GF") as general partner. The contribution covered KPN Mobile business assets, equity and liabilities except for existing shareholder loans toward KPN Mobile N.V. and all tax liabilities. Since E-Plus Mobilfunk GmbH & Co. KG is a fully owned subsidiary of KPN Mobile, the transaction has only impact on the tax position of the group (see Note 7).

II. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

[1] Revenues

In kEUR	Six months ended June 30, 2014	Six months ended June 30, 2013
Sale of goods	67,811	50,144
Revenues from services	1,492,522	1,449,525
Other revenues	22,647	24,111
Total revenues	**1,582,980**	**1,523,780**

Revenues from services included traffic and subscription fees for the usage of E-Plus Group's networks, handset leasing fees, one-off connection and other initial fees. Sale of goods included peripheral and other equipment.

Sale of goods increased in the first six months of 2014 as compared to the first six months of 2013 mainly due to the growing sale of handsets (kEUR 15,676) and accessories (kEUR 1,124). The growth of revenue from services is due to expansion of the subscriber basis (kEUR 91,102) partly compensated by the decrease of the average revenue per user (kEUR 48,105).

[2] Costs of materials

The cost of materials includes the cost of sold handsets, accessories and simcards and amounts for the first half year 2014 to kEUR 103,739 (First half year 2013: kEUR 122,260). In the first half year 2014 the cost decreased mainly due to lower purchase prices for smartphones.

[3] Work contracted out

In kEUR	Six months ended June 30, 2014	Six months ended June 30, 2013
Interconnection	166,493	178,642
Roaming	40,570	42,831
Dealer commissions	201,065	183,309
Infrastructure expenses	134,731	134,758
IT-Services	51,974	58,460
Network maintenance	35,934	32,408
Rental of technique locations and shops	26,374	24,949
Customer Care	17,228	18,249
Other	29,682	37,679
Total costs of work contracted out	**704,051**	**711,285**

Decrease of interconnection fees result mainly from decrease of Mobile Termination Rates (MTR) at the beginning of December 2013 from 1.85 ct/min to 1.79 ct/min. Additionally on July 1, 2013 the retail price caps for roaming calls, SMS and data services in the European Union (EU) were reduced in accordance with EU Roaming Regulation.

Dealer commissions in connection with new contracts increased from June 30, 2013 to June 30, 2014 mainly due to a higher customer base.

[4] Depreciation, amortization and impairments

In kEUR	Six months ended June 30, 2014	Six months ended June 30, 2013
Amortization of licenses	115,398	115,398
Amortization of software and other intangibles	39,817	34,080
Impairments of software and other intangibles	-	44,446
Total amortization and impairments of intangible assets	**155,215**	**193,924**
Depreciation of property, plant and equipment	344,150	307,283
Total depreciation of property, plant and equipment	**344,150**	**307,283**
Total depreciation, amortization and impairments	**499,365**	**501,207**

In the first half 2013, software was impaired resulting in an impairment loss of kEUR 44,446. The impairment was related to the abandonment of a project to develop a new IT infrastructure.

The increase of depreciation and impairment of property, plant and equipment, in the first half 2014, is due to the leaseback of handsets where the Group is a lessee under a finance lease (see Note 13).

[5] Other operating expenses

In kEUR	Six months ended June 30, 2014	Six months ended June 30, 2013
Marketing and promotion expenses	101,917	141,276
Addition/release to/from the provision	6,938	-31,834
Addition/release to/from the provision for impairment of trade receivables	23,730	9,307
Consulting fees	6,158	9,857
Other	25,905	15,618
Total other operating expenses	**164,648**	**144,224**

Marketing and promotion expenses as of June 30, 2014 decreased in the amount of kEUR 39,359 compared to June 30, 2013 mainly due to reduced marketing expenses for television and public advertising campaigns.

In the six months ended June 30, 2013, releases of provisions for asset retirement obligations amounted to kEUR 26,147 due to a new estimation on past experiences. Also in the first half year 2013, releases of restructuring provisions in an amount of kEUR 5,687 were recognized within other operating expenses. The increase in provision for doubtful debt/losses on receivables relates mainly to a higher failure rate of consumers with an impact of kEUR 12,027.

The line item other comprises mainly administrative costs like office rents and travel expenses.

[6] Total financial costs

in kEUR	Six months ended June 30, 2014	Six months ended June 30, 2013
Fair value adjustment on shareholder loans	-	8,803
Interest income	370	258
Finance income	**370**	**9,061**
Fair value adjustment on shareholder loans	603,315	-
Interest expenses	15,833	15,553
Other financial result	6,293	10,878
Finance costs	**625,441**	**26,431**
Total financial costs [6]	**625,071**	**17,370**

The expenses contained in other financial result mainly relate to impairment of available for sale financial assets of kEUR 2,633 in the first six months of 2014 (June 30, 2013: kEUR 8,010) as well as adjustments of contingent consideration of Multiconnect GmbH (please refer to Note 18).

Please refer to Note 18 for further details on the fair value measurement of the shareholder loans.

[7] Taxation

Income tax

Income tax expense is recognized based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to June 30, 2014 is 24.82% (the estimated tax rate for the six months ended June 30, 2013 was 28.23%). The profit from income taxes recognized in the income statement as of June 30, 2014 amounts to kEUR 260,085 (June 30, 2013: kEUR 24,789).

Furthermore, the profit from income taxes directly recognized in other comprehensive income amounts to kEUR 2,482 as of June 30, 2014 (June 30, 2013: income tax expenses of kEUR 1,120).

The estimated average annual tax rate is influenced by the restructuring steps as described in the Note "Changes in the composition of the Group" that became effective in 2014. The restructuring steps within E-Plus Group have led to a one-time effect in the way of an extraordinary decrease of the net amount of deferred tax liabilities due to lower timing differences following the Hive-Down performed at fair-market value for tax purposes. This one time effect of kEUR 101,230 is considered as a discrete item and does not affect the estimated average tax rate mentioned above.

III. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

[8] Inventories

In kEUR	June 30, 2014	December 31, 2013
Trading inventory	28,865	59,407
Total inventories, gross	**28,865**	**59,407**
Provision for obsolescence	-3,706	-9,470
Total inventories, net	**25,159**	**49,937**

Trading inventory mainly includes smartphones and phone accessories. Inventories in the amount of kEUR 103,739 (2013: kEUR 122,260) were recognized as an expense during the first six months of 2014. As of June 2014 the value of stock decreased due to a lower volume of handsets and lower prices for smartphones.

[9] Trade and other financial receivables

The carrying amounts of trade and other financial receivables approximate to their fair value. Current trade and other receivables are non-interest bearing.

In kEUR	June 30, 2014	December 31, 2013
Trade receivables	300,016	261,008
Other financial receivables	22,631	9,427
Total	**322,647**	**270,435**
Trade receivables, gross	351,160	315,807
Provision for doubtful receivables	51,144	54,799
Total	**300,016**	**261,008**

The increase of trade receivables relates to the rise of receivables from end customers and roaming partners.

[10] Other current assets

In the first half 2014, other current assets increased by kEUR 51,923 to kEUR 118,035. This is the result of the annual payment for prepaid rent and leased lines due each year in January.

[11] Cash and cash equivalents

At June 30, 2014, cash and cash equivalents amounted to kEUR 354,753 (kEUR 484,270 at December 31, 2013). These consist of bank balances of kEUR 353,840 (kEUR 482,867 at December 31, 2013) and cash on hand in the amount of kEUR 913 (kEUR 1,403 at December 31, 2013).

In January 2014 KPN Mobile has made the annual advance payment for rent of kEUR 138,682.

[12] Borrowings

The carrying amounts of borrowings are as follows:

In kEUR	June 30, 2014	December 31, 2013
Shareholder loans	6,747,189	6,143,874
Other loans	5,271	42,825
Total	**6,752,460**	**6,186,699**
- of which: current	5,271	42,825
- of which: non-current	6,747,189	6,143,874

The reduction in other loans in the first half year of 2014 is mainly related to the transfer of a 5% share in E-Plus Service GmbH & Co. KG to the Company by its parent company as a contribution in kind. For further details please refer to the above note on changes in the composition of the Group.

As described in Note 25 and 30 to the consolidated financial statements as at December 31, 2013, the shareholder loans, granted by KPN, are related party transactions in accordance with IAS 24.

Please refer to Note 18 for further details on the fair value measurement of the shareholder loans.

[13] Finance lease liabilities

The Group's finance lease liabilities are split into non-current and current amounts as follows and relate to sale and leaseback transactions as described below:

In kEUR	June 30, 2014	December 31, 2013
Finance lease liabilities	394,840	352,533
- of which: non-current[1]	107,178	109,394
- of which: current	287,662	243,139

1) The non-current minimum lease payments are all due within 1 - 5 years

Sale and leaseback transactions

Handsets in the amount of kEUR 212,863 (June 30, 2013: kEUR 173,079) were sold in the six months ended June 30, 2014 to a German leasing company under a sale-and-lease-back contract. The sold handsets were capitalized as the lease-backs qualify as finance leases under IFRS and are shown within property, plant and equipment. The purpose of these leasing transactions mainly lies in the optimization of the Group's liquidity. The lease terms are between two and three years, feature fixed rentals based on the cost of the handsets to the lessor and include neither purchase nor renewal options.

In the first six months of 2014 finance lease liabilities increased with agreement of the new sale-and-lease-back contracts and only few old contracts expired.

The following table provides the reconciliation between the total of future minimum lease payments at the end of the reporting period and their present value:

In kEUR	June 30, 2014	December 31, 2013
Gross finance lease liabilities – minimum lease payments:		
Less than 1 year	301,231	254,728
1- 5 years	112,153	114,394
More than 5 years	-	-
Total	**413,384**	**369,122**
Future finance charges on finance lease liabilities	-18,544	-16,589
Present value of finance lease liabilities	**394,840**	**352,533**

Property, plant and equipment include the following amounts related to the leaseback of handsets where the Group is a lessee under a finance lease:

In kEUR	June 30, 2014	December 31, 2013
Cost-capitalized finance lease	752,787	552,673
Accumulated depreciation	390,357	223,771
Total	**362,430**	**328,902**

The Group subleases these handsets to customers as part of postpaid contracts with a two year lease term (without renewal or purchase options) and fixed lease payments. The future minimum lease payments from these subleases are included in the following table:

In kEUR	June 30, 2014	December 31, 2013
Less than 1 year	251,426	224,284
1- 5 years	81,920	84,616
More than 5 years	-	-
Total	**333,346**	**308,900**

The future minimum lease payments receivable from customers are pledged to the buyer-lessor of the handsets.

[14] Provisions for retirement benefit obligations

Net defined benefit liability (asset)

Provisions for retirement benefit obligations consist of pension provisions and provisions for partial retirement.

In kEUR	June 30, 2014	December 31, 2013
Pensions	45,740	34,485
Partial retirement	2,522	2,097
Total	**48,262**	**36,582**

The movement in the defined benefit obligation, plan assets and the net defined benefit liability is as follows:

In kEUR	Defined benefit obligation	Fair value of plan assets	Net defined benefit liability (asset)
Balance as of December 31, 2013	**43,850**	**-9,365**	**34,485**
Included in profit or loss			
Operating expense:			
current service costs	789	-	789
Interest costs (income)	827	-176	651
Total	**1,616**	**-176**	**1,440**
Included in OCI			
Remeasurements loss (gain):			
– Actuarial loss (gain) arising from:			
Change in financial assumptions	10,000	-	10,000
Total	**10,000**	**-**	**10,000**
Benefits (paid) or received	-294	109	-185
Balance as of June 30, 2014	**55,172**	**-9,432**	**45,740**

A change in the financial assumptions of the discount rate from 3.8% to 2.9% resulted in an actuarial loss of kEUR 10,000.

[15] Provisions for other liabilities and charges

The following table provides a breakdown of provisions for other liabilities and charges by type of provision:

In kEUR	June 30, 2014	December 31, 2013
Restructuring provisions	12,121	13,917
Asset retirement obligations	159,097	156,338
Other provisions	10,407	16,972
Balance	**181,625**	**187,227**

The reduction in other provisions amounting to kEUR 6,565 is mainly related to the usage of a provision for an external VAT tax audit.

[16] Trade and other payables

In kEUR	June 30, 2014	December 31, 2013
Trade payables	247,519	477,693
Deferred income	200,901	192,371
Accrued expenses	302,849	271,463
Social security and other taxes payable	4,456	4,471
Other payables	19,644	7,767
Total	**775,369**	**953,765**

The decrease of trade payables is due to lower payables for capital expenditures and inventories at June 30, 2014 as compared to December 31, 2013.

[17] Cash Flow

Net cash flow used in/ provided by operating activities

Cash flows from operating activities are reported using the indirect method, whereby profit before income tax is adjusted for effects of non-cash transactions like depreciation and amortization or gains on sale of fixed assets. Further adjustments relate to changes in receivables, prepayments, payables, accrued expenses, deferred income, provisions and inventories. The changes in the line items in the statement of financial position are adjusted for transactions directly recognized against equity (equity-settled share-based compensation), recognized against other comprehensive income (pension obligations), recognized directly against non-current assets (asset retirement obligations) and changes related to business combinations (BLAU in the first six months of 2013), the cash flows of which are reported under cash flows from investing activities.

Net cash flow from operating activities in the first six months of 2014 and 2013, respectively, is derived from the loss of the period and mainly adjusted for non-cash transactions like:

- Net finance costs contain mainly fair value adjustments of the shareholder loans (measured at fair value through profit and loss in accordance with IAS 39.11A) amounting to expenses of kEUR 603,315 and to income of kEUR 8,803 in the first six months of 2014 and 2013 as well as depreciation and amortization expenses of kEUR 499,365 and kEUR 501,207 in the first six months of 2014 and 2013 respectively.

Furthermore, net cash flow from operating activities is characterized by the following:

- Cash outflows for inventories in the first six months of 2014 and 2013 of kEUR 175,338 and kEUR 173,830 mainly due to the purchase of handsets that were subsequently sold to a German leasing company
- Increase of receivables and prepayments due to the annual advance payment for rent (see Note 9) in January of 2013 and 2014 (kEUR 106,073 and kEUR 72,639 in the first six months of 2014 and 2013)
- Decrease of payables resulting from lower payables for capital expenditures and inventories at June 30, 2014 as compared to prior year end of kEUR 179,367 (June 30, 2013 as compared to prior year: increase of kEUR 2,771).

For the six months of 2014 net cash flow used by from operating activities amounted to kEUR -133,892 whereas in the first six months of 2013 a net cash flow of kEUR 120,060 was generated from operating activities.

Net cash flow used in investing activities

In the first six months of 2013, the amount of acquisitions of subsidiaries in the consolidated statement of cash flows consisted of the acquisition of 100% of the shares of BLAU for kEUR 100,054 (kEUR 106,000 net of cash and cash equivalents acquired of kEUR 5,946). In the first six months of 2014, the investments in property, plant and equipment include cash-outflows for the build-up of new infrastructure of kEUR 133,844 (first six months of 2013: kEUR 193,131). The investments are adjusted for non-cash transactions (asset retirement obligation).

Net cash flow provided by/ used in financing activities

In the first six months of 2014 and 2013, respectively, cash inflows from new loans of kEUR 200,114 and kEUR 161,000 resulted from sale-and-lease-back transactions on handsets while finance lease obligations of kEUR 158,455 and kEUR 59,571 (including interest payments), respectively, were redeemed under a sale-and-lease-back contract with a German leasing company. Additionally, in the first six months of 2014 kEUR 137,043 were paid into additional contributions from partners.

[18] Additional disclosures on financial instruments

Carrying amount and fair value of financial instruments

The table below summarizes the Group´s financial assets and liabilities:

In kEUR	June 30, 2014		December 31, 2013		Fair Value Level
	Carrying amount	Fair Value	Carrying amount	Fair Value	
Financial assets					
Loans and receivables					
Trade and other receivables [9]					
Trade receivables[1]	300,016	-	261,008	-	-
Other receivables					
thereof financial instruments[1]	22,097	-	8,580	-	-
Cash and cash equivalents[1] [11]	354,753	-	484,270	-	-
Available-for-sale financial assets					
Other receivables [9]					
thereof financial instruments	534	534	847	847	3
Other non-current assets					
thereof financial instruments (measured at cost)[2]	782	-	786	-	-
thereof financial instruments	4,095	4,095	7,588	7,588	3
Total financial assets	**682,277**		**763,079**		
Financial liabilities					
At fair value through profit or loss					
Borrowings [12]	6,747,189	6,747,189	6,143,874	6,143,874	3
Measured at amortized cost					
Borrowings[1] [12]	5,271	-	42,825	-	-
Trade and other payables [16]					
Trade payables[1]	247,519	-	477,693	-	-
Other payables					
thereof financial instruments[1]	249,465	-	190,344	-	-
No category of IAS 39					
Finance lease liabilities [13]	394,840	395,003	352,533	363,191	2
Total financial liabilities	**7,644,284**		**7,207,269**		

1) No fair value disclosed in accordance with IFRS 7.29(a) as the carrying amounts of these current financial instruments represent a reasonable approximation of their fair values.

2) No fair value disclosed in accordance with IFRS 7.29(b) as these financial assets are measured at cost in accordance with IAS 39.46(c). As at the reporting date, there is no intention to dispose of these financial assets. Detailed information can be found in Note 13 of the consolidated financial statements as of December 31, 2013.

The fair value of financial instruments traded in active markets is based on quoted market prices. If applicable, these instruments are included in Level 1.

An instrument is included in Level 2 if the financial instrument is not traded in an active market and if the fair value is determined by using valuation techniques based on observable market data for all significant inputs. The fair value is calculated using a discounted-cash flow model with a risk adjusted interest.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3 and the fair value is estimated using models and other valuation methods. To the extent possible, the assumptions and inputs used take into account market pricing information and expectations. However, such information is by its nature subject to uncertainty. Changes arising as new information becomes available could impact income or other comprehensive income.

There were no transfers between the different levels of the fair value hierarchy in any of the periods presented.

Contingent consideration Multiconnect

In the first half year 2014, the contingent consideration decreased in an amount of kEUR 3,806 due to adjustments of kEUR 3,323 to the value of the consideration and received payments of kEUR 483. The adjustment results from a revision of cash flow estimates and was recorded within other financial result (please refer to Note 6).

Shareholder loans

One of the intermediate parent companies of KPN Mobile granted E-Plus Group several shareholder loans, which amounted to kEUR 22,095,086 (December 31, 2013: kEUR 22,094,978) in outstanding nominal amounts as well as accrued interest.

Interest terms on the shareholder loans, not taking into consideration the interest rate cap agreements mentioned below, vary as the loans partially bear fixed and variable interest. The interest terms were changed several times since the loan inception, the latest change being implemented as of January 1, 2007. This change implemented an interest rate cap agreement that limits interest payable on the shareholder loans to an amount of kEUR 218 per year. The interest rate cap agreements continued to be in place as of June 30, 2014.

The shareholder loans are repayable on demand. However, as the loans are subordinated and furthermore include a waiver by the lender on any claims for payment of both principal and interest as long as the state of over indebtedness of the Company is not remedied, the lender currently cannot request any payment from the Company. There were no repayments on the loans in 2014, while an amount of kEUR 145,000 was repaid in December 2013.

The shareholder loans are designated as financial liabilities at fair value through profit or loss in accordance with IAS 39.11A given that the interest cash flows on the loans are modified significantly by the interest rate cap agreement. Given the input parameters and the valuation method used, their fair value measurement is categorized within Level 3 of the fair value hierarchy.

Given the financial situation of the Group, the fair values of the shareholder loans were determined using a discounted-cash-flow model. The basic assumption of the model implies that in a transfer of the shareholder loan liabilities to a market participant in an orderly transaction, the market participant would pay an amount equal to the fair value of the net assets of E-Plus Group. This is due to the fact that the Group's ability to generate future free cash flows is expected to be insufficient to repay the shareholder loans as well as interest thereon as determined by the interest terms on the shareholder loans. Such a scenario is based on a de facto insolvency of the Group currently being prevented solely due to the subordination of the shareholder loans in addition to a waiver on any claims for payment of both principal and interest on these loans, conditions both of which would not be tolerable to a market participant in an acquisition of the shareholder loan receivable against E-Plus Group.

The inputs to the model include the expected future free cash flows from operations that can be generated by the Group as well as an estimation of the cost of capital for financing these operations under the assumption of an industry-typical capital structure. The model uses the following input parameters to the valuation as of the respective dates.

	Projection Period (years)	Terminal growth rate %	Discount rate %	Level allocation of input parameters
June 30, 2014	15	0.5%	6.80%	3
December 31, 2013	15	0.5%	7.15%	3

The following table provides a reconciliation of the opening to the closing balances of the shareholder loan liability included in non-current borrowings:

In kEUR	2014
Balance as of January 1,	**6,143,874**
Losses recognized in profit or loss[1]	+603,315
Redemption	-
Balance as of June 30, 2014	**6,747,189**

1) Recognized within total financial costs. Please refer to Note 6.

The increase in fair value of the shareholder loans during the six month period ended June 30, 2014 mainly reflects an adjusted expectation of future cash flows as well as a decrease in the discount rate. As described above, changes in the fair value of the shareholder loan liability are correlated with the credit risk of the Company.

Reasonable changes to the main input factors of the valuation of the shareholder loans may significantly affect the fair value of these liabilities. The following table provides an overview of the effects on profit or loss of changes in those input factors:

Change in	June 30, 2014[1)]	December 31, 2013[1)]
Discount factor		
+0.25%	-290,128	-258,941
-0.25%	314,373	279,530
Terminal growth rate of cash flows		
+0.5%	266,067	219,095
-0.5%	-226,940	-188,433
Cash flows in projection period		
+10%	366,080	345,095
-10%	-366,080	-345,095

1) Effect on financial income (gains (+), losses (-))

[19] Contingent assets and liabilities

The company HighPoint S.à.r.l. sued E-Plus for reason of an alleged violation of one of its patents that is directly related to the usage of the UMTS standard. The patent of High Point expired in the meantime and the claim was dismissed at first and second instance. It is still to be decided whether a revision is possible. In parallel, E-Plus filed a nullity claim against the High Point Patent that was dismissed at first instance. In second (and last instance) the Federal Supreme Court decided that the patent only refers to UMTS voice (not data). The reasons have not been received yet.

Telekom and 01051 took legal action against the MTR decision of BNetzA concerning the MTR 2009 of E-Plus. The BNetzA has taken a formal decision on the MTR on March 31, 2009 ordering MTR of 7.14 ct/min for E-Plus for the time period from April 1, 2009 until November 30, 2010. There is a risk that the legal actions will be successful and that BNetzA will approve the same MTR for all MNO which could lead to adjustment payment to the competitors.

Meanwhile in parallel cases (without participation of E-Plus) actions against the MTR O2 2009 have been successful. So it cannot be excluded that actions of 01051 and Telekom against E-Plus´ MTR 2009 will be successful too. This bears potential risk of adjusted payments by E-Plus to the competitors. The court did not comment on the right amount of MTR 2009. Other claims against BNetzA's decisions regarding the MTR set for the E-Plus Group for 2007 and 2010 are ongoing. The claims seek to annul these decisions and/or reduce MTR set for the E-Plus Group.

Except the above mentioned, there are no other foreseeable material changes to or new material contingent liabilities and assets presented in the consolidated financial statements for the financial year ended December 31, 2013

[20] Related party transactions

In the six months ended June 30, 2014 there has not been any material change in related party transactions since December 31, 2013, with the exception of the shareholder loans. For further information regarding the shareholder loans please refer to Note 18.

Detailed information of the Group's related party transactions can be found in Note 30 of the consolidated financial statements as of December 31, 2013.

[21] Subsequent events

No material events have occurred since the reporting date.

[22] Responsibility Statement by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group.

Düsseldorf, July 18, 2014

Board of Directors

Thorsten Dirks　　　　Godert Vinkesteijn

Kay Schwabedal　　　　Andreas Pfisterer

Alfons Lösing

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF E-PLUS MOBILFUNK GMBH & CO. KG IN ACCORDANCE WITH IFRS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

E-PLUS MOBILFUNK GMBH & CO. KG
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2013 AND DECEMBER 31, 2012
(EUROS IN THOUSANDS)

In kEUR	2013	2012
Revenues [1]	3,142,707	3,199,091
Other income [2]	7,775	345,323
Total revenues and other income	**3,150,482**	**3,544,414**
Own work capitalized	-37,215	-38,481
Cost of materials [3]	279,621	176,454
Work contracted out [4]	1,438,509	1,416,754
Employee benefits [5]	254,376	260,968
Depreciation, amortization and impairments [6]	971,298	685,438
Other operating expenses [7]	299,159	289,696
Total operating expenses	**3,205,748**	**2,790,829**
Operating profit (loss)	**-55,266**	**753,585**
Finance income	333,019	2,286,366
Finance costs	-24,828	-23,064
Other financial result	-19,353	-7,333
Total financial income [8]	**288,838**	**2,255,969**
Profit before income tax	**233,572**	**3,009,554**
Income taxes [9]	-66,065	-489,352
Profit for the year	**167,507**	**2,520,202**

[..] Bracketed numbers refer to the related notes to the consolidated financial statements, which form an integral part of these consolidated financial statements.

E-PLUS MOBILFUNK GMBH & CO. KG
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013 AND DECEMBER 31, 2012
(EUROS IN THOUSANDS)

In kEUR	2013	2012
Profit for the year	**167,507**	**2,520,202**
Other comprehensive income:		
Items of other comprehensive income that will not be reclassified subsequently to profit or loss:		
Remeasurement of pensions and other post-employment plans:		
Gains and (losses) arising during the period	13,303	-18,818
Income Tax	-2,097	2,944
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**11,206**	**-15,874**
Remeasurements, net of income tax	**11,206**	**-15,874**
Total comprehensive income for the year, net of income tax	**178,713**	**2,504,328**

[..] Bracketed numbers refer to the related notes to the consolidated financial statements, which form an integral part of these consolidated financial statements.

E-PLUS MOBILFUNK GMBH & CO. KG
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013, DECEMBER 31, 2012 AND JANUARY 1, 2012
(EUROS IN THOUSANDS)

Assets

In kEUR	December 31, 2013	December 31, 2012	January 1, 2012
NON-CURRENT ASSETS			
Goodwill [11]	151,305	68,237	43,660
Licenses	1,667,444	1,853,402	2,066,163
Software	156,072	158,762	109,964
Other intangible assets	25,939	68,630	58,382
Total intangible assets [10]	**2,000,760**	**2,149,031**	**2,278,169**
Land and buildings	47,305	42,153	42,133
Property, plant and equipment	2,538,437	2,341,172	2,032,831
Other tangible assets	9,497	3,220	5,564
Assets under construction	260,035	213,357	333,235
Total property, plant and equipment [12]	**2,855,274**	**2,599,902**	**2,413,763**
Other non-current assets [13]	52,024	51,984	50,020
Total non-current assets	**4,908,058**	**4,800,917**	**4,741,952**
CURRENT ASSETS			
Inventories [14]	49,937	25,545	33,076
Trade and other financial receivables [15a]	270,435	243,459	288,652
Other current assets [15b]	66,112	62,606	52,560
Cash and cash equivalents [16]	484,270	617,847	318,039
Total current assets	**870,754**	**949,457**	**692,327**
Assets of disposal groups classified as held for sale [17]	**-**	**17,514**	**19,263**
TOTAL ASSETS	**5,778,812**	**5,767,888**	**5,453,542**

[..] Bracketed numbers refer to the related notes to the consolidated financial statements which form an integral part of these consolidated financial statements.

Group Equity and Liabilities

In kEUR	December 31, 2013	December 31, 2012	January 1, 2012
GROUP EQUITY			
Fixed partnership capital	10,000	10,000	10,000
Additional contributions from partners	1,260,644	1,260,644	1,260,644
Retained earnings	-5,682,686	-5,918,120	-8,425,476
Total Group equity	**-4,412,042**	**-4,647,476**	**-7,154,832**
NON-CURRENT LIABILITIES			
Borrowings [19]	6,143,874	6,621,062	9,544,512
Finance lease liabilities [18]	109,394	53,240	733
Provisions for retirement benefit obligations [20]	36,582	48,408	27,772
Provisions for other liabilities and charges [21]	165,464	236,095	259,489
Other payables and deferred income [22]	8,968	15,711	13,386
Deferred income tax liabilities [9]	2,215,524	2,154,003	1,746,620
Total non-current liabilities	**8,679,806**	**9,128,519**	**11,592,512**
CURRENT LIABILITIES			
Trade and other payables [23]	953,765	873,023	801,694
Borrowings [19]	42,825	46,508	32,152
Finance lease liabilities [18]	243,139	79,753	1,729
Income tax payables [9]	249,556	239,552	168,341
Provisions for other liabilities and charges [21]	21,763	43,123	5,209
Total current liabilities	**1,511,048**	**1,281,959**	**1,009,125**
Liabilities of disposal groups classified as held for sale [17]	**-**	**4,886**	**6,737**
TOTAL EQUITY AND LIABILITIES	**5,778,812**	**5,767,888**	**5,453,542**

[..] Bracketed numbers refer to the related notes to the consolidated financial statements which form an integral part of these consolidated financial statements.

E-PLUS MOBILFUNK GMBH & CO. KG
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013 AND DECEMBER 31, 2012
(EUROS IN THOUSANDS)

In kEUR	**2013**	**2012**
Profit before income tax	233,572	3,009,554
Adjustments for:		
– Net finance cost [8]	-304,249	-2,263,042
– Share-based compensation [5]	173	174
– Income from investments [8]	15,411	7,073
– Depreciation, amortization and impairments [6]	971,298	685,438
– Gain on disposal of fixed assets	-1,861	-315,408
– Changes in provisions (excluding deferred taxes)	-60,409	27,401
Changes in working capital relating to:		
– Inventories	-414,812	-153,245
– Trade receivables and other receivables	-12,042	32,274
– Trade payables and other payables	118,558	83,711
Income taxes received (+) / paid (-)	617	-11,267
Interest received (+) / paid (-)	-20,147	-17,323
Net cash flow provided by operating activities [24]	**526,109**	**1,085,340**
Acquisition of investments to be consolidated	-100,054	-31,714
Acquisition of investments	-5,066	-6,797
Investments in intangible assets	-113,054	-151,205
Investments in property, plant and equipment	-519,234	-521,941
Disposals of subsidiaries to be consolidated	3,952	423,192
Disposals of fixed assets	-	2,191
Net cash flow used in investing activities [24]	**-733,456**	**-286,274**
Payment of finance lease liabilities	-171,912	-32,279
Cash received from loans	390,421	171,243
Repayments of shareholder loans	-145,000	-637,961
Net cash flow provided by/used in financing activities [24]	**73,509**	**-498,997**
Changes in cash and cash equivalents	**-133,838**	**300,069**
Net cash and cash equivalents at the beginning of the year [16]	618,108	318,039
Changes in cash and cash equivalents	-133,838	300,069
Net cash and cash equivalents at the end of the year [16]	**484,270**	**618,108**
Cash classified as held for sale [17]	-	261
Cash and cash equivalents [16]	**484,270**	**617,847**

[..] Bracketed numbers refer to the related notes to the consolidated financial statements which form an integral part of these consolidated financial statements.

E-PLUS MOBILFUNK GMBH & CO. KG
CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY
AS OF JANUARY 1, 2012 AND DECEMBER 31, 2013
(EUROS IN THOUSANDS

In kEUR	Fixed partnership capital	Additional contributions from partners	Retained earnings	Total Group equity
Balance as of January 1, 2012 (German GAAP)	**10,000**	**1,260,644**	**-18,231,908**	**-16,961,264**
IFRS 1 opening balance adjustment	-	-	9,806,432	9,806,432
Balance as of January 1, 2012 (IFRS)	**10,000**	**1,260,644**	**-8,425,476**	**-7,154,832**
Profit for the year	-	-	2,520,202	2,520,202
Other comprehensive income for the year	-	-	-15,874	-15,874
Total comprehensive income for the year	**-**	**-**	**2,504,328**	**2,504,328**
Share-based compensation [5]	-	-	174	174
Acquisitions[1]	-	-	2,854	2,854
Total transactions with owners, recognized directly in equity	**-**	**-**	**3,028**	**3,028**
Balance as of December 31, 2012 (IFRS)	**10,000**	**1,260,644**	**-5,918,120**	**-4,647,476**
Profit for the year	-	-	167,507	167,507
Other comprehensive income for the year	-	-	11,206	11,206
Total comprehensive income for the year	**-**	**-**	**178,713**	**178,713**
Share-based compensation [5]	-	-	173	173
Acquisitions[1]	-	-	56,548	56,548
Total transactions with owners, recognized directly in equity	**-**	**-**	**56,721**	**56,721**
Balance as of December 31, 2013	**10,000**	**1,260,644**	**-5,682,686**	**-4,412,042**

[..] Bracketed numbers refer to the related notes to the consolidated financial statements which form an integral part of these consolidated financial statements.

1) For further information please refer to the Note ‘Business Combinations and Disposals’.

I. E-PLUS MOBILFUNK GMBH & CO. KG

GENERAL NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

E-Plus Mobilfunk GmbH & Co. KG (E-Plus or the Company) was incorporated in 1999 and is domiciled in Duesseldorf, Germany. The address of its registered office is E-Plus Straße 1, 40472 Duesseldorf, Germany. E-Plus is one of the leading telecommunications providers in Germany, offering mobile telephony, mobile broadband internet and further other services concerning telecommunication and communication. The Company pursues a challenger strategy and offers mobile telephony products and services to retail customers.

E-Plus Mobilfunk Geschäftsführungs GmbH, Duesseldorf, the general partner and direct parent to the Company, has an interest of 22.5% (kEUR 2,250) and KPN Mobile Germany III B.V., The Hague, Netherlands, has an interest of 77.5% (kEUR 7,750) in the fixed partnership capital of the Company. The ultimate parent of the Company is Koninklijke KPN N.V., The Hague, Netherlands (KPN).

These consolidated financial statements consisting of the financial statements of E-Plus Mobilfunk GmbH & Co. KG and its subsidiaries (the Group or E-Plus Group) were prepared using uniform group accounting policies.

Per its German GAAP statutory annual financial statements, the Company is financially over indebted with a negative shareholders' equity of kEUR 17,569,205 (previous year kEUR 17,420,930) as of December 31, 2013. In order to avoid insolvency, the lender of the shareholder loans to the Company agreed on a subordination of the debt in addition to a waiver on any claims for payment of both principal and interest on these loans as long as the state of over indebtedness is not remedied. Therefore, the German statutory annual financial statements as well as the consolidated financial statements of the Company are prepared on a going concern basis.

The consolidated financial statements as at December 31, 2013 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the Interpretations (IFRIC) issued by the IFRS Interpretations Committee as endorsed by the European Union and were approved for issuance by the Board of Management on May 2, 2014.

The consolidated financial statements are presented in Euros (EUR). Individual items in the consolidated financial statements and the notes to the consolidated financial statements are presented in thousands of euros (kEUR) in accordance with commercial rounding practices. The financial year corresponds to the calendar year.

The following explanatory notes are an integral part of the consolidated financial statements which further comprise the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows and the consolidated statement of changes in group equity.

Accounting and valuation methods

Basis of preparation

These consolidated financial statements cover the business year from January 1, 2013 to 31 December 2013 (comparative annual period: January 1, 2012 to December 31, 2012) and represent the Group's first consolidated financial statements prepared in accordance with IFRS following the guidance of IFRS 1.

The following notes include a reconciliation of shareholder's equity from previous GAAP (German GAAP or HGB) to IFRS for the opening consolidated statement of financial position as of January 1, 2012 as well as for the consolidated statement of financial position as of 31 December 2012, the last reporting date for which the Group prepared consolidated financial statements under German GAAP. Furthermore, following IFRS 1, a reconciliation of net income and total comprehensive income for the annual period 2012 is included in these notes to the consolidated financial statements.

The Group's last German GAAP consolidated financial statements for the annual period 2012 were published in the German electronic Federal Gazette (elektronischer Bundesanzeiger) on September 13, 2013.

The consolidated financial statements have been prepared under the historical cost convention with the exception of certain financial liabilities measured at fair value through profit or loss. The consolidated statement of profit or loss is prepared based on the nature of expense method.

The functional currency of the Company as well as all of its subsidiaries is Euro.

Basis of consolidation

The consolidated financial statements include the financial results of E-Plus as well as its subsidiaries. Subsidiaries are all entities with regard to which E-Plus has the power to govern the financial and operating policies, generally by E-Plus having more than half of the voting rights ('control'). Potential voting rights that are currently exercisable or convertible are taken into consideration when assessing whether E-Plus controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by E-Plus and are deconsolidated from the date on which E-Plus's control ceases. All intercompany transactions, balances and unrealized results on transactions with subsidiaries are eliminated.

As of December 31, 2013, the financial statements of the following subsidiaries of E-Plus Mobilfunk GmbH & Co. KG are included in the consolidated financial statements by means of full consolidation:

Subsidiary	E-Plus shareholding in %
E-Plus Service GmbH & Co. KG	95
E-Plus 3G Luxemburg S.à.r.l.	100
E-Plus 3G GmbH	100
E-Plus Retail GmbH	100
AY YILDIZ Communications GmbH	100
Gettings GmbH	100
yourfone GmbH	100
Erste MVV Mobilfunk Vermögensverwaltungsgesellschaft mbH	100
E-Plus Financial Services GmbH	100
Go Clever GmbH	100
E-Plus Customer Support GmbH	100
Simyo GmbH	100
WiMee-Connect GmbH	100
WiMee-Plus GmbH	100
Cash & Phone GmbH	100
Ortel Mobile GmbH	100
BLAU Mobilfunk GmbH	100
BLAU Service GmbH	100
E-Plus Customer Operations GmbH	100
E-Plus Services Treuhand GmbH	100
E-Plus Transition GmbH & Co. KG	100

The interest of minority shareholders in E-Plus Service GmbH & Co. KG was classified as financial liabilities in accordance with IAS 32 and is included in the line item borrowings within current liabilities.

First Time adoption of IFRS

The Group applied IFRS 1 "First-time Adoption of International Financial Reporting Standards" in making the transition to IFRS as of January 1, 2012 (date of transition to IFRS). These are the Company's first consolidated financial statements under IFRS. The company prepared its financial statements in accordance with German GAAP (HGB). IFRS 1 requires that all IFRS standards and interpretations that are effective for the Group's first IFRS consolidated financial statements as of December 31, 2013 shall be applied consistently and retrospectively for all periods presented.

The Company applied the following exemptions available to first-time adopters in accordance with IFRS 1:

- Given that the Company prepared IFRS reporting packages for KPN group consolidation purposes and further had been part of KPN Group as of the date of KPN's transition to IFRS (January 1, 2004), the Company elected to measure its assets and liabilities at the carrying amounts that would be included in KPN's consolidated financial statements based on KPN's date of transition to IFRS. These KPN Group carrying amounts were adjusted for amounts of goodwill allocated to E-Plus Group (push-down accounting) but do not relate to business combinations in which E-Plus Group was the acquirer.

The following reconciliations describe the effect of the differences between German GAAP and IFRS on equity as of December 31, 2012 and January 1, 2012, as well as on net income for the annual period 2012.

Reconciliation of shareholders' equity as at December 31, and January 1, 2012		
In kEUR	**December 31, 2012**	**January 1, 2012**
Equity under previous (German) GAAP as published	**-16,719,267**	**-16,961,264**
(a) Correction of an error	-	-61,122
Equity under previous (German) GAAP adjusted	**-16,719,267**	**-17,022,386**
(b) Goodwill	-667,524	-960,304
(c) Intangible Assets	165,643	186,349
(d) Property, Plant and Equipment – Useful Life	-769,471	-820,669
(e) Deferred Taxes	-2,154,003	-1,746,620
(f) Assets Retirement Obligation – Adjustment	-38,021	-54,023
(g) Provision for pensions and other employee benefits	-16,168	756
(h) Leasing Contracts Classification	-9,208	-
(i) Non-controlling interests	-32,142	-26,881
(j) Connection Fees	-12,661	-19,169
(k) Shareholder Loans	15,618,916	13,333,427
(l) Other	-13,570	-25,312
Total Impact of Change to IFRS	**12,071,791**	**9,867,554**
Equity under IFRS	**-4,647,476**	**-7,154,832**

Reconciliation of shareholders' equity as at December 31, and January 1, 2012	
In kEUR	
Income (loss) under previous (German) GAAP	**241,997**
(a) Correction of an error	61,122
(b) Goodwill	292,780
(c) Intangible Assets	-20,706
(d) Property, plant and equipment	51,198
(e) Deferred Taxes	-410,327
(f) Assets Retirement Obligation – Adjustment	16,002
(g) Provision for pensions and other employee benefits	1,894
(h) Leasing Contracts Classification	-9,208
(i) Non-controlling interests	-5,261
(j) Connection Fees	6,508
(k) Shareholder Loans	2,285,489
(l) Other	8,714
Total Impact of Change to IFRS	**2,278,205**
Profit under IFRS	**2,520,202**
Other comprehensive income:	**-15,874**
Actuarial loss on post-employment benefit obligation	-18,818
Other comprehensive gain for the period	2,944
Comprehensive income	**2,504,328**

(a) Correction of an error

For purposes of the published German GAAP (HGB) consolidated financial statements for the year 2011, certain base stations were erroneously classified as assets under construction despite the fact that these base stations were already in use by the Group and should have been presented within property, plant and equipment instead. In accordance with German GAAP this error was corrected on current account in the year 2012. In accordance with IFRS 1, a first-time adopter of IFRS that becomes aware of errors made under previous GAAP presents such corrections separately from other reconciling items. The effect related to this correction amounts to kEUR -61,122 as of January 1, 2012.

(b) Goodwill

Goodwill recorded at E-Plus Group for IFRS purposes relates to several business combinations effected by the Group in the period from end-2006 onwards. Reorganizations internal to E-Plus Group are recorded as common control transactions and do not result in the recognition of goodwill for differences between the net assets at Group carrying values and the consideration transferred (see also below the Note 'Business Combinations and Disposals'). Under IFRS, goodwill is not amortized systematically. It is subject to an annual impairment test. If there are indications of impairment, the impairment test is also conducted during the year.

The Group's goodwill according to German GAAP (HGB) includes goodwill from the above mentioned transactions accounted for under German GAAP as well as goodwill related to group reorganizations. Under German GAAP goodwill is amortized over a period of 5 to 15 years. These different treatments regarding goodwill resulted in a negative equity effect of kEUR -667,524 as of December 31, 2012 (January 1, 2012: kEUR -960,304) and an effect on comprehensive income of kEUR 292,780 in 2012.

(c) Intangible assets

For UMTS licenses, the beginning of amortization differed between German GAAP (HGB) and IFRS. According to IFRS, amortization shall begin when the asset is available for use as intended by management. Under German GAAP (HGB), the legal right to use the license marks the beginning of amortization. This difference resulted in a negative effect on equity amounting to kEUR 165,643 as of December 31, 2012 (January 1, 2012: kEUR 186,349).

(d) Property, plant and equipment

Assessed useful lives of property, plant and equipment differs under IFRS and German GAAP (HGB). Therefore differing depreciation resulted in negative effects on equity amounting to kEUR -769,471 as of December 31, 2012 (January 1, 2012: kEUR –820,669).

(e) Deferred taxes

In accordance with Sections 274 and 306 HGB, deferred taxes are recognized for timing differences only. For German GAAP purposes, the shareholder loans are valued at their carrying amounts and as a result deferred tax assets would arise. Under German GAAP, recognition of deferred tax asset is optional. The Group didn`t recognize any deferred taxes for German GAAP purposes. Adjustments regarding deferred tax assets and deferred tax liabilities refer to additional differences between the carrying amount of assets and liabilities under IFRS and the corresponding tax basis. Deferred tax assets and liabilities were recognized on temporary differences and unused tax losses. The effect on equity from deferred tax on those additional gross differences amounted to kEUR -2,154,003 as of December 31, 2012 (January 1, 2012: kEUR -1,746,620) and of kEUR -410,327 on comprehensive income in 2012.

(f) Asset retirement obligation

The Group has contractual obligations to remove its mobile communication towers which have been constructed on sites leased from third parties. According to IFRS, provisions for such asset retirement obligations shall be recognized at their present value as part of the cost of the related property, plant and equipment on the debit side and accordingly as a provision on the credit side of the balance sheet. Subsequently the provision is increased by the accrued interest and the item of property, plant and equipment is depreciated applying the increased depreciation charge. Contrary to IFRS, under German GAAP (HGB) dismantling, removal and restoration costs cannot be capitalized as part of property, plant and equipment. E-Plus accrues its asset retirement obligations on a pro rate temporis basis until the end of the respective lease agreements. The equity effect amounted to kEUR -38,021 as of December 31, 2012 (January 1, 2012: kEUR -54,023) and the effect on comprehensive income amounted to kEUR 16,002 in 2012.

(g) Provisions for pensions and other employee benefits

During the last modernization of German GAAP (HGB "BilMoG") many differences to IFRS pension accounting have been removed; however, still some deviations still remained. Under IFRS, E-Plus recognizes the actuarial gains and losses immediately in other comprehensive income. Under German GAAP (HGB) all effects have to be recognized immediately in profit or loss. According to IAS 19, the rate used to discount post-employment benefit obligations is determined by reference to market yields on high quality corporate bonds. In order to simplify calculations, for German GAAP purposes the discount rate is published by the German Federal Bank. The different approaches between both GAAPs had an effect on equity of kEUR -16,168 as of December 31, 2012 (January 1, 2012: kEUR 756) and an effect of kEUR 1,894 on comprehensive income in 2012.

(h) Leasing contract classifications

Leasing contracts with the Group as the lessee were classified as operating leases under German GAAP (HGB) and reclassified as finance leases under IFRS. According to IFRS, as a lessee, E-Plus recognizes finance lease assets and liabilities in their consolidated statement of financial position. Different classification of leasing contracts, led to a reversal of HGB lease expenses and a breakdown of minimum lease payments between finance charges and reductions of outstanding liabilities. The effect on equity amounted to kEUR 9,208 as of December 31, 2012 (January 1, 2012: kEUR 0) and kEUR 9,208 on comprehensive income, in 2012. Since E-Plus entered into handset sale and lease back transactions during 2012, there was no effect on equity as of January 1, 2012.

(i) Non-controlling interests

Non-controlling interests in E-Plus Group classify as puttable instruments according to IFRS and have been reclassified from equity under German GAAP to liabilities for the IFRS consolidated financial statements. The reclassification had an effect on equity of kEUR 32,142 as of December 31, 2012 (January 1, 2012: kEUR 26,881).

(j) Connection Fee

Under IFRS revenues relating to connection fees are recognized on a pro rate temporis basis whereas such revenues were realized upon payment under German GAAP (HGB). This difference resulted in an effect on equity amounting to kEUR -12,661 as of December 31, 2012 (January 1, 2012: kEUR 19,169). In addition, the effect on comprehensive income in 2012 amounted to kEUR 6,508.

(k) Shareholder Loans

The shareholder loans granted to E-Plus Group are measured at their redemption amounts including accrued interest under German GAAP. The Group measures these loans at fair value in accordance with IAS 39. The change in measurement had an effect on equity of kEUR 15,618,916 as of December 31, 2012 (January 1, 2012: kEUR 13,333,427). Furthermore, the effect on comprehensive income in 2012 amounted to kEUR 2,285,489.

Consolidated statement of cash flows

Differences between HGB and IFRS in the consolidated statement of cash flows arise from the allocation of cash outflows to operating and financing activities for some leases with the Group as lessee that are classified as finance leases under IFRS which were treated as operating leases under German GAAP (see (h) above). This has a positive impact on net cash flow provided by operating activities and a negative impact on cash flow provided/used in financing activities of kEUR 32,279.

For sale-and-lease-back transactions leases with the Group as lessor the cash outflows for investments in property, plant and equipment of kEUR 162,252 and cash received from new loans of the same amount were netted under German GAAP.

in kEUR			
Reconciliation of cash-flows	**Cash-flows under previous (German) GAAP**	**Cash-flows under IFRS**	**Total Impact of Change to IFRS**
Net cash flow provided by operating activities	1,215,313	1,085,340	129,973
Net cash-flow used in investing activities	-286,274	-286,274	-
Net cash flow provided by/used in financing activities	-628,970	-498,997	-129,973
Changes in cash and cash equivalents	**300,069**	**300,069**	**-**
Net cash and cash equivalents at the beginning of the year	318,039	318,039	-
Net cash and cash equivalents at the end of the year	**618,108**	**618,108**	**-**

Recent Accounting Developments

The International Accounting Standards Board (IASB) continues to issue new standards, interpretations and amendments to existing standards. E-Plus applies these new standards when effective and endorsed by the European Union. E-Plus has not opted for early adoption for any of these standards.

Future implications of new and amended standards and interpretations

The following new standards and interpretations and amendments to existing standards will become effective on or after January 1, 2014. Except for the amendment to IAS 36 (see below), these standards have not been applied in preparing these consolidated financial statements.

Standard/Interpretation	**Content**	**Application mandatory from**	**Adopted by EU Commission**
IFRS 10; Consolidated Financial Statements	Preparation and presentation of consolidated financial statements	01.01.2014[1)]	Yes
IFRS 11; Joint Arrangements	Accounting for joint ventures and joint operations	01.01.2014[1)]	Yes
IFRS 12; Disclosure of Interests in Other Entities	Disclosure of interest in other entities	01.01.2014[1)]	Yes
IAS 27; Separate Financial Statements	Accounting for subsidiaries, joint ventures and associates in their separate annual financial statements and the corresponding notes	01.01.2014[1)]	Yes
IAS 28; Investments in Associates and Joint Ventures	Accounting for investments in associates and joint ventures	01.01.2014[1)]	Yes
IAS 32; Financial Instruments: Presentation	Amendments for offsetting financial assets and financial liabilities	01.01.2014	Yes
IAS 36; Impairment of Assets[2]	Disclosures on the recoverable amount of impaired assets	01.01.2014	Yes
IAS 39; Financial Instruments: Recognition and Measurement	Novation of Derivatives and Continuation of Hedge Accounting	01.01.2014	Yes
IFRS 9: Financial Instruments/ IFRS 7; Financial Instruments Disclosures	Mandatory Effective Date and Transition, Classification and Measurement requirements, Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39	The standard does not contain a mandatory effective date	No
IFRS 14; Regulatory Deferral Accounts	Accounting for regulatory deferral accounts	01.01.2016	No
IAS 19; Employee Benefits	Defined Benefit Plans: Employee Contributions	01.07.2014	No
IFRIC Interpretation 21; Levies	Account for liabilities to pay levies imposed by governments	01.01.2014	No

1) The original regulations of the IASB required an application starting in fiscal year 2013. In the Official Journal of the European Union, L360 dated December 29, 2012, however, the European Commission enacted an initial application date for the amendments for fiscal years beginning on or after January 1, 2014.

2) Early application of the amendment of IAS 36 by the Group as of 31.12.2013.

The major changes resulting from the above mentioned new standards are described in the following. Except for IFRS 9, the effects of which cannot be determined conclusively, E-Plus Group does not expect any material effect from the initial application of those standards.

- IFRS 10 no longer distinguishes between voting-interest (IAS 27) and special-purpose entities (SIC-12). Control only exists if an investor has the power over the investee, is exposed to variable returns, and is able to use its power to affect its amount of variable returns from its involvement with the investee. When IFRS 10 becomes effective, it will replace SIC-12 as well as the requirements relevant to consolidated financial statements in IAS 27.
- IFRS 11 will replace IAS 31 and SIC-13. It governs the accounting for joint ventures and joint operations. Proportionate consolidation for joint ventures will no longer be permissible as a result of the discontinuation of IAS 31. The amended standard IAS 28 governs the application of the equity method when accounting for investments in both associates and joint ventures. In case of a joint operation, the share of assets, liabilities, expenses, and revenues is directly recognized in the consolidated financial statements and annual financial statements of the joint operator.
- IFRS 12 combines all disclosures to be made in the consolidated financial statements regarding subsidiaries, joint arrangements, and associates, as well as unconsolidated structured entities.
- The revised standard IAS 27 exclusively governs the accounting for subsidiaries, joint ventures, and associates in the annual financial statements and the corresponding notes of separate financial statements.

- The revised IAS 28 governs the accounting for investments in associates and joint ventures using the equity method.
- The IASB published amendments to IAS 32 specifying the requirements for offsetting financial instruments. To meet the new offsetting requirements in IAS 32, an entity's right to set off must not be contingent on a future event and must be enforceable both in the normal course of business and in the event of default or insolvency of the entity and all counterparties. It is further specified that a gross settlement mechanism also complies with the offsetting requirements according to IAS 32, provided no major credit liquidity risks remain, and receivables and payables are processed in a single settlement step, making it equivalent to a net settlement.
- The amendment to IAS 36 addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
- The amendment to IAS 39 provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria.
- IFRS 9 and IFRS 7. IFRS 9 retains but simplifies the mixed measurement model, establishes two primary measurement categories for financial assets: amortized cost and fair value, contains regulations about the classification of financial assets and liabilities and deals with the regulations for general hedge accounting. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The disclosure requirements under IFRS 7 concerning the first-time application of IFRS 9 were amended at the same time.
- IFRS 14 establishes an accounting guideline specific to rate regulation and the accounting treatment regarding the governmental regulation of supply and pricing of goods or services. IFRS 14 does not have any impact on existing IFRS preparers of financial statements
- The objective of the amendment to IAS 19 is to simplify the accounting for contributions from employees or third parties to a defined benefit plan. The simplified accounting permits such contributions to be recognized as a reduction in the current service cost in the period in which the related service is rendered if the amount of the contributions is independent of the number of years of service.
- The interpretation IFRIC 21 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The IASB issued Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle which amended nine standards in detail. The improvements primarily aim to provide clarifications. The date of initial application varies from standard to standard. These amendments, which have yet to be enforced by the European Union, will not have any material effects on E-Plus Group.

Business Combinations and Disposals

E-Plus Group uses the acquisition method of accounting to account for business combinations. The consideration paid is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration paid includes the fair value of any contingent assets or liabilities resulting from the arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair values at the acquisition date. When a business combination is achieved in stages, any previously held equity interests are re-measured at their acquisition date at fair value and any resulting gain or loss is recognized in the consolidated statement of profit or loss and the equity interests are then considered in the determination of goodwill.

Contingent consideration is recognized at fair value at acquisition date. Subsequent changes to the fair value of contingent considerations deemed to be an asset or liability are recognized in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' in the consolidated statement of profit or loss. Contingent considerations classified as equity are not re-measured and subsequent settlement is accounted for within equity.

For each business combination, E-Plus elects to recognize any non-controlling interest in the acquiree either at fair value or at the proportionate share in the acquiree's net assets. Acquisition-related costs are expensed as incurred.

The excess of the sum of (i) the fair value of the consideration transferred, (ii) the fair value of non-controlling interests recognized and (iii) the acquisition date fair value of any previous equity interests in the acquiree over the fair value of E-Plus Group's share of the net assets acquired is recorded as goodwill. If negative goodwill occurs in case of a bargain purchase, the difference is recognized directly in the consolidated statement of profit or loss.

With regard to common control transactions, E-Plus applies the predecessor accounting method in its consolidated financial statements. The predecessor accounting method requires a business combination effected under common control to be accounted for using predecessor book values without any step up to fair value. Thus, the net assets acquired by an entity in a business combination under common control are measured at their book values recorded at the ultimate parent level. Therefore, in case E-Plus acquires an entity that is under common control of KPN, the net assets acquired also include goodwill recorded by KPN but attributable to E-Plus Group.

The difference between any consideration given and the aggregated book value of the assets and liabilities (as of the date of the transaction) of the acquired entity is recorded as an adjustment to equity within retained earnings. No additional goodwill is created by the transaction.

Transactions with non-controlling interests in subsidiaries without change of control are accounted for as equity transactions. The difference between the fair value of the consideration paid and the acquired share of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity as long as such transactions do not result in a loss of control.

The following two business combinations were recorded as common control transactions in these consolidated financial statements.

Ortel Mobile GmbH

Ortel Mobile GmbH ("Ortel") was founded in 2006 as a low cost mobile communications company in Germany. In 2008, Ortel Mobile Holding B.V., The Hague, Netherlands, a subsidiary of KPN, purchased the majority of Ortel's shares, thus obtaining control over the company resulting in Ortel being fully consolidated in the consolidated financial statements of KPN. Per sale and purchase agreement dated September 27, 2012 between E-Plus and Ortel Mobile Holding B. V., all shares of Ortel were sold to E-Plus as of October 1, 2012.

E-Plus initially paid kEUR 40,675 for the transfer of Ortel from Ortel Mobile Holding B.V., an amount equal to the carrying amount of Ortel's net assets as included in KPN's consolidated financial statements. A subsequent bonus adjustment concerning Ortel led to a reduction in the purchase price of kEUR 2,856, resulting in a final purchase price of kEUR 37,819. The difference of kEUR 2,856 between the amount paid and the carrying amount in the consolidated financial statements of KPN of the net assets acquired (kEUR 40,675) was recorded in equity.

The following table summarizes the consideration paid for Ortel, the carrying amounts of the assets and the goodwill acquired as well as the liabilities assumed at the acquisition date October 1, 2012:

In kEUR	Carrying amounts at KPN level prior to the acquisition
Goodwill	33,047
Other intangible assets	6,389
Property, plant and equipment	32
Inventories	1,476
Receivables	3,234
Cash and cash equivalents	8,961
Current liabilities	10,465
Non-current liabilities	1,999
Carrying amount of net assets	40,675
Difference recorded in equity	2,856
Purchase price	37,819

The book value of current liabilities of kEUR 10,465 includes among other deferred income with a book value of kEUR 3,918, accrued expenses kEUR 2,246 and accounts payable to subsidiaries to be consolidated with a book value of kEUR 1,988.

The book value of non-current liabilities is kEUR 1,999 and consists of deferred income tax liabilities.

For the annual period 2012 Ortel contributed stand-alone revenues of kEUR 11,736 and profits of kEUR 4,098 included in the consolidated statement of profit or loss since October 1, 2012. Had Ortel been consolidated from January 1, 2012, the consolidated statement of profit or loss would have included Ortel stand-alone revenues of kEUR 64,515 and a stand-alone profit for the year of kEUR 3,563.

BLAU Mobilfunk GmbH

BLAU Mobilfunk GmbH (BLAU) was founded as a low cost mobile communications company in Germany in 2005. In 2008, KPN Mobile International B.V., The Hague, Netherlands, purchased BLAU which was subsequently fully consolidated in the consolidated financial statements of KPN.

According to the share purchase and transfer agreement dated December 18, 2012 between E-Plus and KPN Mobile International B.V. all shares of BLAU were sold to E-Plus. The purchase price amounted to kEUR 106,000 and did not contain any elements of contingent consideration. E-Plus obtained control of BLAU as of January 1, 2013. The difference of kEUR 56,548 between the amount paid and the carrying amounts in the consolidated financial statements of KPN of the net assets acquired (kEUR 162,548) was recorded in equity.

The following table summarizes the consideration paid for BLAU, the carrying amounts of the assets and the goodwill acquired as well as the liabilities assumed at the acquisition date January 1, 2013:

In kEUR	Carrying amounts at KPN level prior to the acquisition
Goodwill	83,069
Intangible assets other than goodwill	12,784
Other tangible assets	561
Other financial assets	192
Current assets	124,746
Non-current liabilities	3,469
Current liabilities	55,335
Carrying amount of net assets	162,548
Difference recorded in equity	56,548
Purchase price	106,000

The book value of current assets is kEUR 124,746 and includes among other trade and other receivables of kEUR 14,640 as well as cash and cash equivalents of kEUR 5,946. Current liabilities of kEUR 55,355 contain among other deferred income of kEUR 31,938, accrued expenses of kEUR 11,088 as well as social security and other tax liabilities of kEUR 1,928.

The book value of non-current liabilities is kEUR 3,469 and includes other payables and deferred income with a book value of kEUR 1,862 and deferred income tax liabilities with a book value of kEUR 1,607

The consolidated statement of profit or loss for 2013 includes BLAU stand-alone revenues of kEUR 285,056 and a stand-alone profit for the year of kEUR 23,255.

E-Plus Funkturmgesellschaft mbH and Zweite E-Plus Funkturmgesellschaft mbH

E-Plus Funkturmgesellschaft mbH and Zweite E-Plus Funkturmgesellschaft mbH were founded in Germany in July and August 2012 as a means to transfer a portfolio of mobile communication towers including related lease contracts for antenna space as well as ground lease contracts with landlords. E-Plus Group transferred 2,031 towers, including wiring and support equipment into these two entities. Due to the fact that E-Plus Group provided transitional management services to the buyer so as to ensure the proper transition of the portfolio, the portfolio comprising the two entities E-Plus Funkturmgesellschaft mbH and Zweite E-Plus Funkturmgesellschaft mbH was considered a business, which resulted in a partial derecognition of goodwill as can be seen from the table below.

According to the share purchase agreement dated November 14, 2012 between E-Plus and Germany Tower Interco B.V. all shares of the above mentioned entities were sold to Germany Tower Interco B.V. The purchase price amounted to kEUR 401,446 payable on the closing date December 4, 2012 at which the above mentioned entities were disposed of.

The following table summarizes the consideration received for E-Plus Funkturmgesellschaft mbH and Zweite E-Plus Funkturmgesellschaft mbH and the carrying amounts of goodwill, assets, provisions and liabilities disposed of:

In kEUR	2012
Goodwill	3,515
Property, plant and equipment	101,652
Current assets	11,054
Non-current provisions	-22,471
Current liabilities	-2,650
Carrying amount of net assets	**91,100**
Purchase price	401,446
Disposal costs	-12,183
Purchase price less disposal costs	**389,263**
Gain on disposal	**298,163**

For further details related to this transaction please refer to Notes 17 and 28.

SNT Inkasso

Per sale and purchase agreement (SPA) dated November 11, 2011 between E-Plus and GFKL Financial Services AG, SNT Inkasso was sold to GFKL subject to closing conditions. The transaction became effective as of June 27, 2012. For further details, please refer to Note 17.

The following table summarizes the consideration received for SNT Inkasso and the carrying amounts of goodwill, assets and liabilities disposed of:

In kEUR	**2012**
Goodwill	2,293
Intangible assets	95
Property, plant and equipment	24
Current assets	16,851
Current liabilities	-6,737
Carrying amount of net assets	**12,526**
Purchase price	**28,756**
Gain on disposal	**16,230**

Multiconnect GmbH

Per sale and purchase agreement (SPA) dated August 31, 2012, the former director of Multiconnect GmbH purchased all shares in the company. This transaction became effective as of January 1, 2013. For further details please refer to Note 17.

The following table summarizes the consideration received for Multiconnect and the carrying amounts of goodwill, assets and liabilities disposed of:

In kEUR	**2013**
Goodwill	1,944
Intangible assets	4,208
Property, plant and equipment	1,024
Current assets	10,338
Current liabilities	-4,886
Carrying amount of net assets	**12,628**
Purchase price	**12,628**
Gain and (loss) on disposal	**-**

Additional changes in the Group structure

Per sale and purchase agreement (SPA) dated March 16, 2012, E-Plus Mobilfunk acquired all shares in Clearwire Germany GmbH, Duesseldorf, from Clearwire Europe S.à.R.l., Luxembourg. The purchase price amounted to kEUR 14,909. During the same year, Clearwire Germany was renamed into WiMee Connect GmbH.

Furthermore, E-Plus acquired all shares in Inquam Breitbandfunk GmbH, Köln per sale and purchase agreement (SPA) dated March 16, 2012, from Inquam Solutions GmbH, Köln. The purchase price amounted to kEUR 15,334. In the year 2012, Inquam Germany was renamed into WiMee Plus GmbH. Both the acquisitions of Clearwire and Inquam did not qualify as business combinations as these companies solely contained licenses the Group acquired in the form of share deals. The inclusion of these companies into the Group is presented as part of additions to intangible assets in 2012.

Additionally, the companies E-Plus Services Treuhand GmbH, E-Plus Transition GmbH & Co. KG and E-Plus Customer Operations GmbH were founded by E-Plus in 2013.

Significant accounting estimates, judgments and assumptions

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that to a certain extent affect the reported amounts of assets and liabilities, income and expenses, as well as contingent liabilities.

The assumptions and estimates relate primarily to

- The accounting representation of business combinations,
- The assessment of the value of intangible assets (particularly goodwill),
- The uniform determination of the useful economic life for intangible assets and property, plant and equipment throughout the Group,
- The collectability of receivables,
- The valuation of inventories,

- The valuation of financial instruments, especially with regard to those instruments measured at fair value,
- The assessment of economic risks and opportunities of leasing contracts,
- The accounting and measurement of pension provisions and other provisions,
- The accounting for income taxes.

In accounting for business combinations, estimates are generally made to determine the fair value of an acquired asset. As a basic principle, the fair value is determined by using a suitable valuation method that is generally based on the prospects for future incoming cash and cash equivalents. External experts are consulted in exceptional cases.

To test goodwill for impairment, the fair value less cost of disposal for cash-generating units to which goodwill has been allocated is determined by means of a discounted cash flow method (please refer to Note 11 for further details). Assumptions regarding future business developments and general underlying data are to be made for this purpose. If there are any changes in these influencing factors, the fair value less costs of disposal of the cash-generating units can change, possibly necessitating a need for impairment.

The uniform determination of the useful economic life for intangible assets and property, plant and equipment throughout the Group is subject to estimates made by management.

For receivables, solvency and default risks may arise to the extent that customers are unable to meet their payment obligations, resulting in losses to the Group. The calculation of the required impairments takes into account such things as the solvency of customers, existing securities as well as experience based on historical default rates. The actual payment defaults by customers may differ from anticipated payment defaults due to several influencing factors.

Inventories are valued at the lower value of acquisition and manufacturing cost and net realizable value. Net realizable value is determined by subtracting the costs incurred up to completion from the expected sales price of the end product. If assumptions regarding future sales prices or end product market potentials are not appropriate, this may lead to a further need for depreciating inventories.

In measuring financial instruments, the Group needs to make assumptions with regard to amounts and timing of future cash flows as well as interest rates applicable. Given the Group's financial position, several assumptions were made in measuring its shareholder loans at fair value, details of which are included in Note 23.

In accounting for leases the Group has to determine the party bearing the significant commercial risks and opportunities associated with the economic ownership of the leased asset. To this end, assumptions must be made regarding the market price of the leased assets at the end of the lease period as well as the character of any options to purchase the asset or renew the lease agreement.

When accounting for provisions, management must make assumptions regarding the probability of certain business transactions resulting in an impending loss of commercial benefit for E-Plus. Estimates regarding the amount and timing of possible economic outflows form the basis for the measurement of provisions. If the actual amount and the timing differ from estimates made, then this may affect the results of the Group.

Management judgment is required for the calculation of deferred taxes. Deferred tax assets may only be recognized to the extent that it is probable that sufficient taxable profit will be available in the future. Management analysis various factors to assess the probability of the future utilization of deferred tax assets based on reasonable scenarios taken from the Group's tax planning process.

Assumptions and estimates are based on premises based on the knowledge at hand at the respective time. Unforeseeable developments and developments beyond management's control may cause a difference between the originally estimated values and the actual amounts arising at a later date. In this case, the premises and, if necessary, the carrying amounts of the affected assets and liabilities will be adjusted accordingly.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services. Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to E-Plus Group and the amount of revenue and the associated costs can be measured reliably. Revenues are presented net of value-added tax, rebates and discounts and after eliminating sales within the Group.

Traffic fees are charged at an agreed tariff for a fixed duration of time or capacity and are recognized as revenue based upon usage of E-Plus Group's network and facilities.

Recognition of deferred revenue related to airtime (used services of prepaid customers rendered by E-Plus) is based on the expected usage of airtime per proposition.

Subscription fees and fees received for handset leases generally consist of periodic charges and are recognized as revenue over the associated subscription period.

One-off connection fees and other initial fees are not separate units of account and their accounting treatment is therefore dependent on the other deliverables in the sales arrangements (see revenue arrangements with multiple deliverables).

Sales of peripheral and other equipment are recognized when all significant risks and rewards of ownership of the goods are transferred to the buyer, which is normally at the date the equipment is delivered to and accepted by the customer. Services regarding designing, building, deploying and managing information and communication technology (ICT) solutions are provided on a time and material basis or as a fixed-price contract with contract terms generally ranging from less than one year to three years. Revenue from time and material contracts is recognized at the contractual rates as labor hours are delivered and direct expenses are incurred. Revenue from contracts involving design, build and deploy services is recognized under the percentage-of-completion (POC) method unless the outcome of the contract cannot be estimated reliably. Under the POC method, revenue is recognized based on the costs incurred to date as a percentage of the total estimated costs to fulfill the contract. Revenue from fixed-price contracts involving managed services is recognized in the period the services are provided using a straight-line basis over the term of the contract. When the outcome of the contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred. E-Plus Group presents revenue gross of costs, when the Group acts as the principal in the arrangement, and net of costs when the Group acts as agent.

Revenue arrangements with multiple deliverables

Arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet recognition criteria of IFRS. Revenues from multiple deliverables arrangements are allocated to the identified separate units of accounting based on their relative fair values. If the fair value of the delivered item exceeds the cash received at the time of delivery, revenue is recognized up to the non-contingent cash received.

Any connection fee proceeds not allocated to the delivered equipment are deferred upon connection and recognized as service revenue over the customer contract period unless E-Plus Group has the obligation to continue providing services beyond that period in which case the expected customer service period is used.

For wireless services, any consideration allocated to the sale of peripheral and other equipment, up to the amount of non-contingent cash received, is recognized as revenue when all significant risks and rewards of ownership of the equipment are transferred to the buyer.

For multiple deliverable arrangements that comprise only one unit of accounting and include an upfront connection fee, amounts representing connection fees are deferred and recognized pro-rata. Deferred connection fees are amortized over the customer contract period. Costs associated with these arrangements are expensed as incurred.

Other income

Other income includes gains on the sale of property, plant and equipment and gains on the disposal of subsidiaries.

Leases

Leases where E-Plus Group as lessor retains a significant portion of the risks and rewards of ownership of the leased asset are classified as operating leases. The assets remain on the statement of financial position and are depreciated over their useful lives. The lease payments received from the lessee are recognized as revenue on a straight-line basis over the lease period.

Payments made by E-Plus Group as lessee under operating leases are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease (net of any incentives received from the lessor). If a sale-and-leaseback transaction results in an operating lease, any profit or loss from the derecognition of the assets sold is recognized in the consolidated statement of profit or loss immediately given the sale was effected at fair value.

Leases where E-Plus Group as lessee has assumed substantially all risks and rewards of ownership are classified as finance leases. E-Plus Group then recognizes the leased assets on the statement of financial position at the lower of the assets' fair value and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in non-current and current liabilities in the statement of financial position. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term. If a sale-and-leaseback transaction results in a finance lease, any excess of the sale proceeds over the carrying amount is deferred and recognized in the consolidated statement of profit or loss over the lease term.

In case E-Plus Group acts as lessor in a finance lease, the transaction is accounted for as a normal sale and the present value of the minimum lease payments as well as the unguaranteed residual value accruing to E-Plus, in sum the net investment in the lease, is recognized as a receivable. The difference between the net investment in the lease and the gross investment in the lease (that is the nominal values of the minimum lease payments as well as the unguaranteed residual value accruing to E-Plus) is recognized as interest over the lease term using the effective interest method.

Operating expenses

Operating expenses are measured and recognized based on the accounting principles that are applied to related assets or liabilities and are allocated to the year in which they are incurred.

Subscriber acquisition and retention costs are expensed as incurred. The most common subscriber acquisition costs are handsets and dealer fees. The cost of a handset is expensed when the handset is sold. The sale can be an individual sale or a component of a multiple deliverable arrangement containing for example the sale of a handset combined with a subscription. In both cases, the handset is expensed when the costs are incurred. When a handset is leased out, it depends on the type of lease (operating or finance) whether the costs are expensed as incurred or capitalized and depreciated over the expected lifetime (see 'Leases' above).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. E-Plus Group's qualifying assets mainly are its network (included in property, plant and equipment) as well as operating licenses (included under intangible fixed assets) which are dependent on a related network. Borrowing costs related to licenses are capitalized during the construction phase of the related network up to the time that services can be first rendered on a commercial basis. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Please note that there are no qualifying assets in the course of acquisition, construction or production in any of the periods presented in these consolidated financial statements.

Taxation

Current income tax

The current corporate income tax charge recognized in the consolidated statement of profit or loss is calculated in accordance with the prevailing tax regulations and rates taking into account non-taxable income and non-deductible expenses. The current income tax expense reflects the amount for the current and prior reporting periods that E-Plus expects to recover from or pay to the tax authorities. Current income taxes are recognized either in other comprehensive income or directly in equity if the tax relates to items that are recognized in other comprehensive income or directly in equity. E-Plus's management periodically evaluates positions taken in the tax returns regarding situations in which applicable tax regulations are subject to interpretation and establishes provisions when deemed appropriate.

Deferred income taxes

Deferred taxes are recognized for temporary differences between the carrying amounts in the consolidated statement of financial position and the tax base, as well as for tax loss carry forward and tax credits. By way of derogation from this principle, a deferred tax liability is not recognized for temporary differences if the deferred tax liability arises from the initial recognition of an asset or a liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit/tax loss. Furthermore, a deferred tax liability is not recognized either for temporary differences arising from the initial recognition of goodwill. A deferred tax asset is recognized only when it is probable that a taxable profit will be available against which the deductible temporary differences, loss carry forward, and tax credits can be utilized. Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, branches and associates and interests in joint ventures except when the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and other tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset when the legally enforceable right to offset current tax assets and liabilities exists and the deferred tax assets and liabilities relate to income taxes levied by the same taxing authority on either the same tax reporting entity or tax group of reporting entities.

Any temporary differences will generally result in the recognition of deferred tax assets and liabilities in the consolidated financial statements. Management judgment is required for the calculation of actual and deferred taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction, taking into account any legal restrictions on the length of the loss carry forward period. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans and loss carry forward periods. If actual results differ from these estimates or if these estimates must be adjusted in future periods, results of operations, the financial position, and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets changes, the recognized deferred tax assets must be reduced in profit or loss or directly in other comprehensive income.

Intangible assets

Goodwill

The excess of the consideration transferred over the fair value of the identifiable net assets acquired in a business combination is recorded as goodwill. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose, irrespective of whether other assets or liabilities of the acquiree are assigned to those cash-generating units.

Goodwill is carried at cost less accumulated impairment losses and tested for impairment annually or whenever E-Plus Group has an indication that the goodwill may be impaired. Goodwill is impaired if the recoverable amount of the cash-generating unit or groups of cash-generating units to which it is allocated is lower than the book value of the cash-generating unit or groups of cash-generating units concerned. The recoverable amount is defined as the fair value less costs of disposal of the cash-generating units concerned. Following the restrictions of IFRS, impairment losses on goodwill are not reversed.

In case of disposal of a business which was part of a cash-generating unit, goodwill is allocated to that business on a relative fair value basis or other basis, that better reflects the goodwill associated with the business disposed of, and included in the carrying amount of the business when determining the gain or loss on the sale.

Licenses

Licenses are valued at cost less amortization and impairment. The cost of a qualifying asset may include capitalized borrowing costs related to qualifying assets incurred during the construction phase of the related asset. Amortization is calculated using the straight-line method and is commenced at the date that services can be offered (available for use). The amortization period for licenses equals their useful life, but is limited to the expiration date of the licenses ranging from 5 to 20 years. Licenses are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset concerned may not be recoverable. An impairment loss is recognized for the amount by which the book value of the license exceeds its recoverable amount. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use. Impairments are reversed if and to the extent that the impairment no longer exists.

Licenses not yet available for use are tested annually for impairment or whenever E-Plus Group has an indication that the licenses may be impaired. Licenses are tested as part of a cash-generating unit as licenses do not generate independent cash flows.

Software

Internally developed and acquired software, in case it is not an integral part of property, plant and equipment, is capitalized on the basis of the costs incurred, which include direct costs and directly attributable overhead costs incurred. During the development phase, interest expenses incurred are capitalized as part of qualifying assets if material. Software is amortized over the estimated useful life of three to five years. Amortization commences when software is available for use.

Software is reviewed for impairment whenever events or changes in circumstances indicate that the book value may no longer be recoverable. An impairment loss is recognized for the amount by which the asset's book value exceeds its recoverable amount. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use.

Other intangibles

Other intangible fixed assets such as customer relationships and trade names acquired in business combinations are capitalized at their fair values at acquisition date and are amortized using the straight-line method over an estimated useful life of 4 to 20 years.

Other intangible fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the book value may no longer be recoverable. An impairment loss is recognized for the amount by which the asset's book value exceeds its recoverable amount. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost of disposal and its value in use.

Property, plant and equipment

Property, plant and equipment is valued at cost less depreciation and impairment. Cost includes direct costs (materials, direct labor and work contracted out), directly attributable overhead costs and may include capitalized borrowing costs recorded during the construction phase of property, plant and equipment components.

Asset retirement obligations are capitalized as part of the cost of tangible fixed assets and expensed as either depreciation over the asset's estimated useful life or as impairment charges. The estimated useful lives of the principal property, plant and equipment categories are as follows:

Asset class	**Depreciation term**
Land	No depreciation
Leasehold improvements	Max. 10 years
Network equipment	7 to 20 years
Network infrastructure	20 years
Vehicles	3 years
Office equipment	4 years

Property, plant and equipment is depreciated using the straight-line method, based on estimated useful life, taking into account residual value. Land is not depreciated. Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the book value of the assets concerned may not be recoverable. An impairment loss is recognized for the amount by which the asset's book value exceeds its recoverable amount. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use.

Subsequent costs such as costs for replacement of network components are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that E-Plus Group will receive future economic benefits associated with the item and the cost can be measured reliably. The carrying amounts of replaced assets are derecognized. All other repair and maintenance costs are recognized in profit or loss when incurred.

The assets' residual values and useful lives are reviewed at least annually and adjusted if appropriate.

Financial assets

E-Plus Group's financial assets include investments in companies other than subsidiaries as well as receivables from the Group's trading and investing activities. At initial recognition, E-Plus Group classifies its financial assets in one of the following categories:

- Loans and receivables; and
- Available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets at initial recognition and assesses the designation at every reporting date. All financial assets are initially recognized at fair value plus transaction costs directly attributable to the acquisition of the asset. Subsequent measurement depends on the classification of the financial asset. Reclassifications of financial assets after their initial recognition are subject to restrictions.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and created by E-Plus Group by providing money, goods or services directly to a debtor, other than those for which E-Plus Group may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

After initial measurement, loans and receivables are carried at amortized cost using the effective interest rate, less an allowance for uncollectibility. Amortized cost is calculated by taking into account any discounts or premiums on acquisition and transactions costs. Effects from subsequent measurement using the effective interest rate are recognized in the consolidated statement of profit or loss under finance income.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the reporting date. Loans and receivables are included in trade and other receivables in the consolidated statement of financial position. See also Notes 15 and 19.

Available-for-sale financial assets

Shareholdings in other entities which do not result in the Group having control, joint control or significant influence over the respective other entity are allocated to available-for-sale financial assets. In case there is no active market and a fair value for such shareholdings cannot be determined reliably, shareholdings in other entities are measured at cost. As at the reporting date, there is no intention to dispose of these shares.

Inventories

Inventories of resources, parts, tools and measuring instruments are valued at the lower of cost or net realizable value. The cost of inventories is determined using the weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

Losses on the sale of handsets, which are sold for less than cost, are only recorded when the sale occurs if the normal resale value is higher than the cost of the handset. If the normal resale value is lower than costs, the difference is recognized as impairment immediately.

Trade and other receivables

Receivables qualify as loans and receivables in accordance with IAS 39 (see above) and are initially recognized at fair value, and subsequently measured at amortized cost using the effective interest rate method less provisions for impairment. A provision for impairment of trade receivables is established when there is objective evidence that E-Plus Group will not be able to collect all amounts due according to the original terms of the receivables. Trade receivables are impaired applying a two-step process. In the first step, each receivable is individually evaluated, based on the customer's paying habits, solvency and historical default rates. In the second step, all receivables not impaired during step one, are impaired based on their ageing structure. The amount of the provision is the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The provision is set up through the Consolidated Statement of Profit or Loss (as other operating expenses). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the consolidated statement of profit or loss. See Note 15 on further information on E-Plus Group's trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts included in borrowings within current liabilities are also part of cash and cash equivalents.

Non-current assets and disposal groups classified as held for sale

Non-current assets and disposal groups classified as held for sale as well as liabilities directly associated herewith are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. If fixed assets are transferred to held for sale, depreciation and amortization ceases. A disposal group classifies as a 'discontinued operation' based on its significance to the E-Plus Group.

See Note 17 for further information on E-Plus Group's non-current assets and disposal groups held for sale.

Equity

As a limited partnership, the share capital of E-Plus is divided into fixed partnership capital and additional contributions from partners, which relate to a capital increase of kEUR 1,260,644 conducted in 2010. Effects recorded in other comprehensive income, which are not reclassified subsequently to profit or loss, are included in retained earnings. Retained earnings further include effects from the transition to IFRS in accordance with IFRS 1, the effects of which are described in the respective section of the notes (see above).

As described above, per its German GAAP statutory annual financial statements E-Plus is financially over indebted with a negative sum of shareholders' equity of kEUR 17,569,205 (previous year kEUR 17,420,930), as of December 31, 2013. In order to avoid insolvency, the lender of the shareholder loans agreed on subordination of the debt in addition to a waiver on any claims for payment of both principal and interest on these loans as long as the state of over indebtedness is not remedied.

The limited partners' shares are treated as equity under IFRS in accordance with IAS 32. For summary quantitative data about the amount classified as equity please refer to the consolidated statement of financial position. Any profit shares attributed to the partners may be withdrawn as long as the variable accounts of the partners allow for withdrawals. The consolidated statement of financial position does not include any liabilities related to such withdrawals as no withdrawals are possible given the indebtedness of the Company.

Given the financial situation of the Company, the limited partners as holders of puttable instruments would not receive any payments in case of redemption of the instruments.

Financial liabilities

E-Plus Group's financial liabilities include borrowings in the form of shareholder loans liabilities from finance lease agreements as well as payables related the Group's operating activities (trade and other payables). At initial recognition, E-Plus Group classifies its financial liabilities into one of the following categories:

- Financial liabilities at fair value through profit or loss; and
- Financial liabilities measured at amortized cost (referred to in IAS 39 as "other liabilities").

Financial liabilities are initially recognized at fair value, net of directly attributable transaction costs in case of financial liabilities measured at amortized cost. Subsequent measurement depends on the classification of the financial liability. Management determines the classification of the financial liabilities at initial recognition and assesses the designation at every reporting date. Reclassifications of financial liabilities after their initial recognition are subject to restrictions.

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit and loss are measured at fair value both at initial recognition as well as for purposes of subsequent measurement. Any gains or losses arising from subsequent measurement are recognized in the consolidated statement of profit or loss under total finance income. At E-Plus, this category comprises the shareholder loans which are designated at fair value in accordance with the respective guidance in IAS 39. For details on the shareholder loans see Notes 19 and 25.

Financial liabilities measured at amortized cost

After initial recognition, these financial liabilities are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of profit or loss until maturity of the liability using the effective interest method. Amortized cost is calculated by taking into account any discounts or premiums on acquisition or issuance and transaction costs. The effective interest rate amortization is recognized in the consolidated statement of profit or loss under finance costs.

Financial liabilities are classified as current liabilities unless E-Plus Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

This category applies to E-Plus Group's trade and other payables (Note 23).

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and reported on a net basis on E-Plus Group's consolidated statement of financial position only when there currently is a legally enforceable right to offset the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Provisions for retirement benefit obligations

Pension obligations

The liability recognized in the consolidated statement of financial position in respect of all pension and early retirement plans that qualify as defined benefit obligations is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. E-Plus Group uses actuarial calculations (projected unit credit method) to measure the defined benefit obligations and the costs related to these obligations. For the calculation, actuarial assumptions are made about demographic variables (such as employee turnover and mortality) and financial variables (such as future benefit indexation, salary increases and the discount rate). The discount rate is determined by reference to market rates. These are interest rates of high-quality corporate bonds that are denominated in the currency in which the benefit will be paid and that have terms to maturity approximating the terms of the defined benefit obligation.

A net defined benefit asset may arise where a defined benefit plan has been overfunded. E-Plus Group recognizes a net defined benefit asset in such a case only when future economic benefits are available to E-Plus Group in the form of a reduction in future contributions or a cash refund.

Actuarial gains and losses are recognized immediately in the consolidated statement of other comprehensive income. Past service costs, curtailments and settlements are recognized immediately in the consolidated statement of profit or loss.

The amount of pension costs included in operating expenses with respect to defined benefit plans consist of service cost, past service costs, curtailments and settlements and administration costs. Interest cost and expected returns on plan assets are presented as part of finance costs.

For pension plans that qualify as a defined contribution plan, E-Plus Group recognizes contributions as an expense when an employee has rendered service in exchange for those contributions.

Provisions for other liabilities and charges

Provisions for items such as asset retirement obligations, restructuring costs and legal claims are recognized when E-Plus Group has a present legal or constructive obligation as a result of past events; and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. See Note 21 on E-Plus Group's provisions.

Statement of Cash Flows

The consolidated statement of cash flows is prepared using the indirect method. Cash flows denominated in currencies other than the Euro are translated at average exchange rates. Cash flows relating to interest and taxes on income are included in the cash flow from operating activities. The consideration paid in cash for newly acquired E-Plus Group companies is included in the cash flow from investing activities net of cash acquired. Cash flows resulting from the acquisition or disposal of E-Plus Group companies are disclosed separately. Additions to property, plant and equipment, which are financed by sale and leaseback transactions, are included in the cash flow used in operating activities as the equipment subject to the lease qualifies as inventories by the time of its purchase. Sale and leaseback payments are part of cash flows from financing activities.

II. NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

1. Revenues

In kEUR	2013	2012
Sale of goods	132,525	29,685
Revenues from services	2,972,041	3,124,952
Other revenues	38,141	44,454
Total revenues	**3,142,707**	**3,199,091**

Revenues from services included traffic and subscription fees for the usage of E-Plus Group's networks, handset leasing fees, one-off connection and other initial fees. Sale of goods included peripheral and other equipment.

2. Other income

In kEUR	2013	2012
Other gains	7,775	345,323
Total other income	**7,775**	**345,323**

In 2012 other gains include an amount of kEUR 298,163 related to income from the sale of a portfolio of mobile communication towers.

3. Cost of materials

The cost of materials includes the cost of sold handsets, accessories and simcards. In 2013 the cost increased due to a higher volume of sold handsets and higher prices driven by the sale of smartphones to kEUR 279,621 (2012: kEUR 176,454).

During 2013, a net amount of kEUR 2,671 (2012: kEUR 2,174) was recorded as an expense for inventories carried at net realizable value.

4. Work contracted out

In kEUR	2013	2012
Interconnection	350,443	452,641
Roaming	93,827	92,205
Dealer commissions	391,243	309,072
Infrastructure expenses	265,409	231,878
IT-Services	107,530	116,708
Network maintenance	68,046	61,570
Rental of technique locations and shops	50,493	54,096
Customer Care	37,562	26,579
Other	73,956	72,005
Total costs of work contracted out	**1,438,509**	**1,416,754**

The decision of the German Federal Network Agency on the Mobile Termination Rates (MTR) leads to a decrease of Interconnection cost in 2013. The MTR's are determined as follows:

- As of December 1, 2010 until November 30, 2012: 3.36 cent/min (for E-Plus Mobilfunk).
- As of December 1, 2012 until November 30, 2013: 1.85 cent/min (for all Mobile Network Operators).
- As of December 1, 2013 until November 30, 2014: 1.79 cent/min (for all Mobile Network Operators).

5. Employee benefits

In kEUR	2013	2012
Salaries and wages	213,296	218,290
Pension charges [18]	25,138	24,365
Social security contributions	15,942	18,313
Total employee benefits	**254,376**	**260,968**

[..] Bracketed number refers to the related note.

Share-based compensation

Since 2006, KPN has granted shares and share-based awards on its shares to members of the Board of Management and Senior Management of E-Plus:

The Performance Share Plan (PSP). The conditionally granted PSP award will vest after three years if the employee is still employed with KPN. The number of share-based awards which vest depends on KPN's Total Shareholder Return (TSR) position ranking relative to its peer group of European telecommunications companies (including KPN). Since 2011, vesting is based for 75% on relative TSR and for 25% on non-financial performance measures i.e. energy reduction targets and a reputation dashboard. For any exercised or vested shares/share-based awards affecting E-Plus's plan participants, E-Plus has to compensate KPN. Since E-Plus receives the services of its plan participants but does neither settle the obligation with its own equity instruments nor has an obligation to settle the share-based payment transaction, the plan is accounted for as equity-settled share-based transaction. For the services received, a corresponding increase in equity is recognized.

In May 2012 and May 2013, an additional equity settled plan was granted to Senior Management: the KPN Restricted Share Plan. Shares under this plan will vest on January 1, 2015 and on January 1, 2016 respectively if the employee is still employed with KPN. For this plan, no other performance measures are applicable. The cost relating to these plans remain within KPN. The Restricted Share Plan is measured as equity-settled share-based payment transaction, since the awards granted are settled with KPN equity instruments and E-Plus has no obligation to settle the share-based transaction.

The share plan rules provide the possibility to adjust granted rights under the incentive plans to maintain its economic value if, subsequent to the date of grant, an issue of shares occurs. This approach is exclusively aimed at reflecting the increased number of shares following the rights issue and is in line with market practice. Therefore, the granted shares were adjusted based on a mathematically calculated adjustment factor, i.e. the cum-rights price divided by the TERP (Theoretical Ex-Rights Price) which, in case of the KPN rights issue, set the adjustment factor at 1.6494. This adjustment factor will be applicable for the existing (not yet vested) LTI plans, i.e. 2011, 2012 and 2013 and future plans.

The main features of the awards granted under the PSP and Restricted Share Plan to KPN management are summarized below:

		Maximum term	Settlement type	Vesting period	Holding period after vesting of/until
2010	Senior Management	3 years	Equity	3 years	-
2011	Senior Management	3 years	Equity	3 years	-
2012	Board of Management	5 years	Equity[1]	3 years	2 years
	Senior Management	3 years	Equity	3 years	-
	Senior Management	2.7 years	Equity	2.7 years	-
2013	Board of Management	5 years	Equity[1]	3 years	2 years
	Senior Management	3 years	Equity	3 years	-
	Senior Management Restricted Share Plan	2.7 years	Equity	2.7 years	-

1) Including deferred dividend.

The total compensation expense for E-Plus associated with the share plans was kEUR 173 in 2013 (2012: kEUR 174). During 2013, KPN and E-Plus granted 615,430 shares and share-based awards (2012: 252,200) to members of the Board of Management and Senior Management, including the adjustment for the rights issue.

The costs for Restricted Shares are not part of the cost of E-Plus and are settled within KPN equity (EUR 305,637 in 2013 and EUR 137,908 in 2012).

The following table presents the number of shares and share-based awards under the share plans for the year ended December 31, 2013.

Number of shares and share based awards	Total at January 1, 2012	Granted/ additional vesting[2]	Exercised/ Vested	Forfeited	Total at December 31, 2012	Granted/ additional vesting[2-4]	Exercised/ Vested	Forfeited	Total at December 31, 2013[3-4]	– of which: Non-Vested
2010 Share-based awards Senior Management	**80,884**	-	-	-80,884[4]	-	-	-	-	-	-
2011 Share-based awards Senior Management	**70,387**	-	-	-14,987	**55,400**	35,977	-	-22,954[4]	**68,423**	68,423
2012 Share-based awards Senior Management	-	88,200[1]	-	-	**88,200**	57,277	-	-36,977	**108,500**	108,500
2012 Shares Board of Management	-	44,000[1]	-	-	**44,000**	28,574	-	-	**72,574**	72,574
2012 Restricted Shares Senior Management	-	120,000	-	-	**120,000**	77,928	-	-24,628	**173,300**	173,300
2013 Share-based awards Senior Management	-	-	-	-	-	75,300[1]	-	-	**75,300**	75,300
2013 Shares Board of Management	-	-	-	-	-	72,574[1]	-	-	**72,574**	72,574
2013 Restricted Shares Senior Management	-	-	-	-	-	267,800	-	-	**267,800**	267,800

1) On the basis of 100% grant. The equity-settled share numbers do not include any deferred dividend during the vesting period. The deferred dividend during the vesting period will be granted in additional shares.

2) At grant date, the fair value is calculated using a Monte Carlo Simulation model except for the restricted shares. At April 12, 2013 the fair value was EUR 1.06 (2012 grant: EUR 2.84) for the 2013 equity-settled share grant for Members of the Board of Management and Senior Management (excluding deferred dividend). At May 1, 2013 the fair value was EUR 1.58 for the 2013 restricted share award for Senior Management.

3) At the end of 2013, KPN held the 14th position with respect to the 2011 share grant and at the end of 2012 KPN held the 13th position with respect to the 2010 share grant. Final TSR measurement for the 2011 share grant was conducted as per February 15, 2014.

4) Granted shares were adjusted based on a mathematically calculated adjustment factor, i.e. the cum-rights price divided by the TERP (Theoretical Ex-Rights Price) which, in case of the KPN rights issue, is set at 1.6494.

The fair value of each share at the grant date is determined using the following assumptions:

	2013	2013 Restricted Shares	2012 PSP	2012 Restricted Shares
Risk-free interest rate based on euro governments bonds for remaining time to maturity of 2.7 years	0.6%	0.6%	1.2%	1.1%
Expected dividend for KPN (based on one year's historical daily data preceding the date of award)	0.0%	-	10.2%	-
Expected volatility (PSP grant based on 2.7 years daily historical daily data)	32.9%	-	20.0%	-
Share price at date of award (closing at grant date)	EUR 1.06	EUR 1.58	EUR 6.66	EUR 6.78

6. Depreciation, amortization and impairments

In kEUR	2013	2012
Impairment of goodwill	-	3,011
Amortization of other intangible assets	310,140	305,712
Impairment of other intangible assets	44,446	-
Total amortization and impairments of goodwill and other intangible assets	**354,586**	**308,723**
Depreciation of property, plant and equipment	616,712	367,943
Impairment and retirements of property, plant and equipment	-	8,772
Total depreciation and impairments of property, plant and equipment	**616,712**	**376,715**
Total depreciation, amortization and impairments	**971,298**	**685,438**

Please refer to Notes 10, 11 and 12 for further details.

7. Other operating expenses

In kEUR	2013	2012
Marketing and promotion expenses	249,511	168,727
Addition/release to/from the provision	-26,772	54,175
Addition/release to/from the provision for impairment of trade receivables	21,494	35,365
Consulting fees	14,611	6,270
Other	40,315	25,159
Total other operating expenses	**299,159**	**289,696**

In 2013, releases of provisions for asset retirement obligation in an amount of kEUR 26,147 are recognized under other operating expenses. For further explanations please refer to Note 21.

The line item other comprises mainly administrative costs like office rents and travel expenses.

8. Total financial income

In kEUR	2013	2012
Fair value adjustment on shareholder loans	332,188	2,285,489
Interest income	831	877
Finance income	333,019	2,286,366
Interest expense	24,828	23,064
Other financial results	19,353	7,333
-thereof income from investments	15,411	7,073
-thereof other	3,942	260
Finance costs	44,181	30,397
Total financial income	**288,838**	**2,255,969**

Net finance costs as included in the consolidated statement of cash flows comprise the following items:

In kEUR	2013	2012
Finance income	333,019	2,286,366
Interest expense	-24,828	-23,064
Other other financial results	-3,942	-260
Net finance costs	**304,249**	**2,263,040**

Interest expense includes a non-cash amount of kEUR 4,108 (2012: kEUR 4,849) relating to interest on asset retirement obligations as well as kEUR 7,443 (2012: kEUR 2,151) interest expense on finance leases. Furthermore interest expense amounting to kEUR 9,124 (2012: kEUR 9,751) relates to payment solutions provided by a mayor credit card company while expenses of kEUR 2,518 (2012: kEUR 3,269) concern to the Group's tax position. Income from investments includes profit from shares of non-controlling interests in E-Plus Service GmbH & Co. KG. The position other includes impairment charges related to other financial assets.

Please refer to Note 25 for further details on the fair value measurement of the shareholder loans.

9. Taxation

In Germany, income tax consists of trade tax ('Gewerbesteuer') and corporate tax (Körperschaftsteuer). Corporate tax is imposed at a uniform rate of 15% and is additionally subject to a solidarity surcharge of 5.5%, resulting in an effective tax rate of 15.825%. Municipalities impose a trade tax. Each municipality set its individual local multiplier rate, so that no uniform trade tax rate exists in Germany. Taking into account the various municipality multipliers, in most cities the trade tax rate ranges between 14% and 16%.

The E-Plus Group consist of corporations as well as of partnerships. Corporations such as limited liability companies (GmbH) are generally subject to corporate tax on its profits. A partnership such as limited partnership with a limited company as general partner (GmbH & Co. KG) is transparent for German corporate tax purposes. The taxable profits for corporate tax purposes have to be taxed by the individual partners. For trade tax purposes in general both corporations as well as partnerships are liable for taxes on its profit directly.

German tax law provides a tax consolidation for a German group of companies (tax group, Organschaft). A tax consolidation covers corporate tax and trade tax in case of certain requirements to be met, such as a profit-and-loss-pooling-agreement between the parent company (Organträger) and the subsidiary (Organgesellschaft). A partnership cannot be qualified as a subsidiary in a tax group, it only can be the parent company of a tax group.

E-Plus Mobilfunk GmbH & Co. KG as parent company is a partnership and not subject to corporate tax, but only for trade tax. As a result the taxable income of the E-Plus Group is charged with trade tax, only. Companies that are not part of the tax group are liable to pay corporate and trade tax. In the fiscal year 2013 Simyo GmbH and Blau Services GmbH are liable for corporate and trade tax with their own income. For 2012 that is also true for WiMee Connect GmbH, WiMee Plus GmbH, Cash&Phone GmbH, Ortel Mobile GmbH and Blau Mobilfunk GmbH. E-Plus 3G Luxemburg S.à.r.l atypische stille Gesellschaft (ATSP3G) is comprised of E-Plus 3G GmbH and E-Plus 3G Luxemburg S.à.r.l only for tax purposes. It is an atypical silent partnership and not subject to corporate tax, but only for trade tax.

E-Plus has considerable tax loss carry forwards for trade and corporate tax. In Germany, taxable income in a certain year, exceeding EUR 1 million, can only be offset for 60% against tax loss carry forward. Trade tax and corporate tax is payable on the remaining 40% of taxable income. On August 29, 2013 the Foundation 'Preference Shares B KPN' exercised its call option and obtained an interest in KPN's issued share capital equal to 50% minus 1 share. This event resulted in a proportional change of control from a German tax perspective and in an expiration of approximately 50% of the available German loss carry forwards, based on the "loss-trafficking rule" of German Corporate-Tax- and Trade-Tax law. During the year 2012, América Móvil, S.A.B. de C.V., Mexico, has acquired more than 25% of the shares in KPN. That indirect change of control in E-Plus also led to a proportional expiration of available losses of approximately 27.5%

Income tax expense

In kEUR	**2013**	**2012**
Current tax	-8,248	-91,502
Changes in deferred taxes	-57,817	-397,850
Income tax benefit/(charge)	**-66,065**	**-489,352**

The reconciliation from the statutory tax to the effective tax rate is explained in the table below.

in kEUR	**2013**	**2012**
Profit before income tax	**233,572**	**3,009,554**
Expected income tax expense (benefit)	35,996	470,845
Effects from tax rate changes[1]	-32,217	-
Non-taxable income and non-deductible expenses	16,499	15,619
Tax effects from other income tax (corporate tax)	55	13,002
Tax effects from prior years	-18,770	18,001
Changes in recognition and measurement of deferred tax assets[2]	65,954	-26,302
Other tax effects	-1,452	-1,813
Income tax benefit/(charge)	**66,065**	**489,352**
Effective tax rate	**28.23%**	**16.26%**

1) Taxes at German statutory tax rates are calculated on the basis of profit before income tax and the applicable German trade tax rate of 15.411% in 2013 (2012: 15.645%).

2) The changes in recognition and measurement of deferred tax assets are mainly driven by two factors. First, the forfeiture of losses carry forward due to the "loss-trafficking rule" for 2013 (Foundation – see above) and for 2012 (AMX – see above). Second, the change of deferred tax on unrecognized differences and losses carry forward of ATSP3G and Simyo GmbH since the future realization of these deferred tax assets is not probable and the usage of tax loss carry forwards of the EPM tax group members is not feasible.

The total current tax expense is mainly driven by the forfeiture of loss carry forwards and the new assessment of the ability to realize deferred tax assets. This refers to the probability that there is no future taxable profit which can be utilized.

Deferred tax assets and liabilities

in kEUR	December 31, 2013	December 31, 2012	January 1, 2012
Deferred tax assets (pre-offsetting)	**278,263**	**346,640**	**361,060**
– of which: to be recovered after 12 months	221,279	288,215	300,808
– of which: to be recovered within 12 months	56,984	58,425	60,252
Deferred tax liabilities	**-2,493,787**	**-2,500,643**	**-2,107,680**
– of which: to be recovered after 12 months	-2,234,552	-2,236,578	-1,894,411
– of which: to be recovered within 12 months	-259,235	-264,065	-213,269
Deferred tax assets and liabilities	**-2,215,524**	**-2,154,003**	**-1,746,620**

At December 31, 2013, a deferred tax liability (DTL) of kEUR 2,493,787 (2012: kEUR 2,500,643) and a deferred tax assets (DTA) of kEUR 236,777 (2012: kEUR 313,462), due to timing differences, have been recognized. And in addition, a deferred tax assets with the amount of kEUR 41,486 (2012: kEUR 33,178) due to tax loss carry forwards (considered 60% due to the minimum taxation) have been recognized in the consolidated statement of financial position.

To the extent that future taxable profit will allow the deferred assets to be recovered, E-Plus recognizes DTA in its consolidated statement of financial position. E-Plus considers in its corporate planning determines the DTA by estimating future taxable income taking into account various uncertainties in regarding future cash flows, derived on the Group's goodwill which are also used in impairment testing but to the full extent if deferred tax liabilities exceeds the deferred tax assets.

Deferred taxes

		Balance sheet position						
In kEUR	**Tax loss carry forward**[3]	**Licenses**[1]	**Goodwill**[3]	**Other assets**	**Shareholder Loans**	**Pension Accruals**	**Other liabilities**	**Total**
Balance as of January 1, 2012	**48,354**	**-3,830**	**97,465**	**165,559**	**-2,086,015**	**1,198**	**30,649**	**-1,746,620**
Income statement benefit/(charge)	-15,176	-623	-18,698	-23,163	-357,565	178	4,721	-410,327
Tax charged to OCI[2]	-	-	-	-	-	2,944	-	2,944
Balance as of December 31, 2012	**33,178**	**-4,453**	**78,767**	**142,395**	**-2,443,579**	**4,319**	**35,370**	**-2,154,003**
Income statement benefit/(charge)	-8,308	518	-42,350	-41,372	-14,645	-2,390	28,313	-63,618
Tax charged to OCI[2]	-	-	-	-	-	2,097	-	2,097
Balance as of December 31, 2013	**41,486**	**-3,935**	**36,417**	**101,023**	**-2,458,225**	**4,026**	**63,684**	**-2,215,524**

1) Mainly related to UMTS licenses (3G).

2) Deferred tax charged to OCI relates to movements in pensions (IAS19R).

3) The change in the consolidated statement of profit and loss is mainly driven by a new tax-perception on goodwill referring to a step-up with a remaining amount of kEUR 210,000, as of 01.01.2013.

As of December 31, 2013 and December 31, 2012 no deferred tax liabilities were recognized on temporary differences in connection with equity interests in subsidiaries amounting kEUR 15,289 and of kEUR 69,085 as it is unlikely that these differences will be reversed in the near future.

Tax loss carry forwards

			December 31, 2013			December 31, 2012
In kEUR	**Tax loss carry forward**	**Unrecognized deferred tax assets**	**Recognized deferred tax assets**	**Tax loss carry forward**	**Unrecognized deferred tax assets**	**Recognized deferred tax assets**
E-Plus – trade tax[1]	847,738	89,158	41,486	1,435,461	191,400	33,178
E-Plus – corporate tax[1]	23,648	3,742	-	11,281	1,785	-
Total	**871,386**	**92,900**	**41,486**	**1,446,742**	**193,185**	**33,178**

1) The loss carry forward of trade tax and corporate tax can be used to offset future taxable income without any time limit. However, taxable income exceeding EUR 1 million in a certain year can only be offset for 60% against tax loss carry forward. Trade tax and corporate tax have to be paid over the remaining 40% of taxable income. On August 29, 2013 the Foundation Preference Shares B KPN obtained an interest in KPN’s issued share capital equal to 50% minus 1 share which resulted in a change of control from a German tax perspective and expiration of approximately 50% of the available losses carry forward in Germany. This triggered a permanent partial release of recognized deferred tax assets for tax loss carry forward. Due to the target structure the loss carry forwards regarding corporate tax can no longer be utilized.

The deferred tax asset based on tax loss carry forward referring to trade tax amounting kEUR 89,158 as of December 31, 2013 (2012: kEUR 191,400) has not been recognized because it is not probable for ATSP3G and Simyo GmbH that future taxable profit will be available against which the both companies can utilize the benefits. Tax loss carry forward for companies that belong to the EPM tax group are unfeasible to be recognized. And in addition, a deferred tax asset with the amount of kEUR 41,486 (2012: kEUR 33,178) due to tax loss carry forwards (considered 60% due to the minimum taxation) have been recognized in the consolidated statement of financial position. The total tax loss carry forward as of January 1, 2012 amounts to kEUR 2,150,164 of which kEUR 288,076 lead to an unrecognized deferred tax asset and kEUR 48,354 lead to a recognized deferred tax asset.

Recognized deferred tax assets reflect management’s estimate of realizable amounts. The amounts of tax loss carry forwards are subject to assessment by local tax authorities.

III. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

10. Intangible assets

The following table provides the breakdown of E-Plus Group’s intangible assets:

In kEUR	December 31, 2013	December 31, 2012	January 1, 2012
Goodwill	151,305	68,237	43,660
Licenses	1,667,444	1,853,402	2,066,163
Software	156,072	158,762	109,964
Other intangible assets	25,939	68,630	58,382
Total intangible assets	**2,000,760**	**2,149,031**	**2,278,169**

The asset class software comprises computer software currently deployed at E-Plus Group as well as software in development, while the asset class ‘other intangible assets’ comprises customer relations, trade names and miscellaneous other intangible assets mostly related to prepayments on licenses transferred to the class ‘licenses’ in 2013.

The following table provides a reconciliation of the carrying amounts of E-Plus Group's intangible assets at the beginning and end of the periods presented in the consolidated financial statements:

In kEUR	Licenses	Computer software	Software in development	Customer relations	Trade names	Other	Total
Balance as of January 1, 2012	**2,066,163**	**72,886**	**37,078**	**5,688**	**1,579**	**51,115**	**2,234,509**
Additions	27,639	72,512	40,674	-	2,646	7,467	150,938
Disposals	-	-1,217	-	-	-	-	-1,217
Changes in consolidation	-	117	-	-	6,367	-	6,484
Reclassification	-	5,070	-5,070	-	-	-	0
Amortization	-239,442	-60,038	-	-2,007	-1,504	-2,721	-305,712
Impairment	-	-	-	-	-	-	-
Transferred to held for sale (net)	-958	-2,130	-1,120	-	-	-	-4,208
Closing net book value	**1,853,402**	**87,200**	**71,562**	**3,681**	**9,088**	**55,861**	**2,080,794**
Cost	9,028,534	794,593	71,562	14,356	18,438	77,983	10,005,466
Accumulated amortization/ Impairments	-7,175,132	-707,393	-	-10,675	-9,350	-22,122	-7,924,672
Balance as of December 31, 2012	**1,853,402**	**87,200**	**71,562**	**3,681**	**9,088**	**55,861**	**2,080,794**
Additions	1	88,676	23,704	-	-	-	112,381
Disposals	-	-	-	-	-1,918	-	-1,918
Changes in consolidation	-	252	-	2,172	10,232	128	12,784
Reclassification	44,836	44,339	-44,339	-	-	-44,836	0
Amortization	-230,795	-70,876	-	-3,636	-2,112	-2,721	-310,140
Impairment	-	-	-44,446	-	-	-	-44,446
Closing net book value	**1,667,444**	**149,591**	**6,481**	**2,217**	**15,290**	**8,432**	**1,849,455**
Cost	9,073,371	929,039	6,481	24,084	31,189	33,275	10,097,439
Accumulated amortization/ Impairments	-7,405,927	-779,448	-	-21,867	-15,899	-24,843	-8,247,984
Balance as of December 31, 2013	**1,667,444**	**149,591**	**6,481**	**2,217**	**15,290**	**8,432**	**1,849,455**

As of December 31, 2013 the book value of computer software and software in development comprised internally generated software amounting to kEUR 19,235 (December 31, 2012: kEUR 23,373, January 1, 2012: kEUR 13,626).

Other intangibles include among others customer relations with a carrying amount of kEUR 2,217 as of December 31, 2013 (December 31, 2012: kEUR 3,681, January 1, 2012: kEUR 5,688) and trade names with a book value of kEUR 15,290 as of December 31, 2013 (December 31, 2012: kEUR 9,088, January 1, 2012: kEUR 1,579).

In 2013, software in development was impaired resulting in an impairment loss of kEUR 44,446. The impairment was related to the abandonment of a project to develop a new IT infrastructure.

In 2012, intangible assets amounting to kEUR 4,208 and related to the sale of Multiconnect were transferred to a disposal group classified as held for sale. For further details regarding the disposal group please refer to Note 17.

11. Goodwill

The following table provides a reconciliation of E-Plus Group's goodwill for the periods presented in the consolidated financial statements:

In kEUR	2013	2012
Cost	71,248	43,660
Accumulated impairments	-3,011	-
Balance as of January 1	**68,237**	**43,660**
Additions	83,069	33,047
Impairment	-	-3,011
Disposals	-	-3,515
Transferred to held for sale (net)	-	-1,944
Closing net book value	**151,305**	**68,237**
Cost	154,316	71,248
Accumulated impairments	-3,011	-3,011
Balance as of December 31	**151,305**	**68,237**

Per sale and purchase agreement (SPA) dated September 27, 2012 between E-Plus and Ortel Mobile Holding B. V., The Hague, Netherlands, all shares of Ortel were sold to E-Plus as of October 1, 2012. As part of this transaction, goodwill of kEUR 33,047 was allocated to E-Plus Group. As of January 1, 2013, E-Plus acquired 100% of the shares of BLAU. The acquisition of BLAU led to an allocation of goodwill to E-Plus Group at an amount of kEUR 83,069. Both these transactions were accounted for as business combinations under common control. For further details please refer to the Note 'Business Combinations and Disposals' above.

The transfer of Goodwill to held for sale amounting to kEUR 1,944 in 2012 relates to the sale of the subsidiary Multiconnect and was impaired by kEUR 3,011 following the application of IFRS 5 and IAS 36. Please refer to Notes 6 and 17 for further details.

The disposal of goodwill of kEUR 3,515 in 2012 relates to the sale-and-leaseback of a portfolio of mobile communication towers including related lease contracts for antenna space as well as ground lease contracts with landlords. Due to the fact that E-Plus Group provided transitional management services to the buyer so as to ensure the proper transition of the portfolio, the portfolio comprising the two entities E-Plus Funkturmgesellschaft mbH and Zweite E-Plus Funkturmgesellschaft mbH was considered a business, which resulted in a partial derecognition of goodwill in accordance with IAS 36, whereby the amount derecognized was determined based on the relative fair value of the tower business versus the total fair value of the single cash-generating unit E-Plus Group.

For details regarding the leaseback of antenna spaces on the towers sold please refer to the Note 'Business Combinations and Disposals' above as well as Note 28.

Goodwill impairment test

For purposes of impairment testing goodwill is allocated to those cash-generating units (CGUs) that are expected to achieve benefits from the synergies inherent in a goodwill recorded in a business combination. As E-Plus Group is defined as a single cash-generating unit, goodwill is tested for impairment on Group level, the level at which goodwill is monitored for management purposes.

Goodwill is impaired if the recoverable amount of the cash-generating unit, to which it is allocated, is lower than the book value of the cash-generating unit concerned, including goodwill. Goodwill is subject to an annual impairment test. If there are indications of impairment, the impairment test is also conducted during the year. For the cash-generating unit that is E-Plus Group, the recoverable amount is based on its fair value less costs of disposal. This value was calculated using the net present value method. The main parameters are shown in the table below. The recoverable amount of the cash-generating unit was calculated using third-level input parameters, in accordance with IFRS 13 (i.e. input parameters that cannot be observed).

The measurement of the recoverable amount uses projections that are based on financial plans approved by management and used in the Group's internal reporting. The planning horizon reflects management's assumptions for short- and medium-term market developments and is selected so as to achieve a steady state towards its end so as to allow for the calculation of a perpetual annuity. Cash flows beyond the internal planning horizon are extrapolated using growth rates deemed appropriate and supportable by management.

The key assumptions on which management has based its determination of the recoverable amount include the following assumptions that were primarily derived from internal sources and are based on past experience. Any significant future changes in management's assumptions would have an impact on the fair value of the cash-generating unit.

The following table provides an overview of input parameters used as well as their classification in accordance with IFRS 13:

	Projection Period (years)	Terminal growth rate %	Discount rate %	EBITDA margin %	Capital expenditures % of revenues	Level allocation of input parameters
December 31, 2013	15	0.5%	7.15%	23.7%	18.2%	3
December 31, 2012	15	0.5%	6.95%	40.8%	18.0%	3
January 1, 2012	15	1.0%	6.35%	41.6%	18.5%	3

Additionally, a scenario analysis was performed in order to account for uncertainties regarding the future development of E-Plus. The main valuation parameters WACC, terminal growth rate, EBITDA margin and capital expenditures were varied.

In all cases the entity value based on the analysis exceeded the IFRS carrying amount of the cash-generating unit. Therefore, no evidence was found for goodwill impairment on both December 31, 2013 and December 31, 2012.

12. Property, plant and equipment

The following table provides a reconciliation of E-Plus Group's carrying amount of property, plant and equipment:

In kEUR	Land and buildings	Property, plant and equipment	Other tangible assets	Assets under construction	Total
Balance as of January 1, 2012	**42,133**	**2,032,831**	**5,564**	**333,235**	**2,413,763**
Additions	10,041	552,059	3,168	126,276	691,544
Disposals	0	-24,506	-24	-1,541	-26,071
Depreciation	-9,653	-353,591	-4,699	-8,772	-376,715
Reclassifications	76	235,645	89	-235,810	0
Change in consolidation	-386	-101,266	56	0	-101,596
Transferred to held for sale (net)	-59	-	-934	-31	-1,024
Balance as of December 31, 2012	**42,152**	**2,341,172**	**3,220**	**213,357**	**2,599,901**
Cost	94,233	7,479,277	80,578	222,129	7,876,217
Accumulated depreciation/impairments	-52,081	-5,138,105	-77,358	-8,772	-5,276,316
Balance as of December 31, 2012	**42,152**	**2,341,172**	**3,220**	**213,357**	**2,599,901**
Additions	14,089	714,942	5,901	185,696	920,628
Disposals	-	-48,810	-	-294	-49,104
Depreciation	-9,411	-587,672	-4,417	-15,212	-616,712
Reclassifications	475	118,805	4,232	-123,512	0
Change in consolidation	-	-	561	-	561
Balance as of December 31, 2013	**47,305**	**2,538,437**	**9,497**	**260,035**	**2,855,274**
Cost	106,716	8,215,043	91,358	260,035	8,673,152
Accumulated depreciation/impairments	-59,411	-5,676,606	-81,861	-	-5,817,878
Balance as of December 31, 2013	**47,305**	**2,538,437**	**9,497**	**260,035**	**2,855,274**

In 2012 property, plant and equipment transferred to the disposal group classified as held for sale amounted to kEUR 1,024 and related to assets that were used by Multiconnect. Please refer to Note 17 for further details regarding the disposal group held for sale.

In 2013 the disposal mainly refers to asset retirement obligations kEUR 47,219 (2012: kEUR 24,507). The increase in the depreciation charge 2013 as compared to 2012 relates among other to increased depreciation on handsets accounted for as finance leases (kEUR 156,591) as well as early retirements of obsolete technical equipment (kEUR 55,834).

Assets under construction mainly relate to the construction and expansion of E-Plus Group's mobile networks.

The book value of property, plant and equipment of which E-Plus as the lessee is the beneficial owner under finance lease programs amounted to kEUR 328,902 as of December 31, 2013 (December 31, 2012: kEUR 128,662, January 1, 2012: kEUR 2,516). For further details please refer to Note 18.

13. Other non-current assets

The following note provides an overview of other non-current assets split into financial non-current assets and non-financial non-current assets:

The balance of other non-current assets (financial) as of the reporting date included the following items:

In kEUR	December 31, 2013	December 31, 2012	January 1, 2012
Receivables from finance leases	-	131	1,027
Other investments and loans	8,374	6,093	885
Total	**8,374**	**6,224**	**1,912**

Other investments and loans mainly include investments in unconsolidated entities and as of December 31, 2013 contingent consideration resulting from the sale of Multiconnect (see also Note 25).

The balance of other non-current assets (non-financial) as of the reporting date included the following items:

In kEUR	December 31, 2013	December 31, 2012	January 1, 2012
Accrued income and prepayments	38,801	40,806	42,267
Pension Reinsurance Claim	4,849	4,954	5,841
Total	**43,650**	**45,760**	**48,108**

Accrued income and prepayments mainly consist of prepaid rent recognized at net present value.

14. Inventories

In kEUR	December 31, 2013	December 31, 2012	January 1, 2012
Trading inventory	59,407	35,328	42,750
Total inventories, gross	**59,407**	**35,328**	**42,750**
Provision for obsolescence	-9,470	-9,783	-9,674
Total inventories, net	**49,937**	**25,545**	**33,076**

Trading inventory includes mainly smartphones and phone accessories. Inventories in the amount of kEUR 279,621 (previous year kEUR 176,454) were recognized as an expense during the period 2013.

The amounts of write-downs of inventories recognized as an expense in 2013 are kEUR 9,470 (previous year kEUR 9,783).

15a. Trade and other financial receivables

The carrying amounts of trade and other financial receivables approximate to their fair value. Current trade and other receivables are non-interest bearing.

In kEUR	December 31, 2013	December 31, 2012	January 1, 2012
Trade receivables	261,008	221,753	271,421
Other financial receivables	9,427	21,706	17,231
Total	**270,435**	**243,459**	**288,652**
Trade receivables, gross	315,807	283,229	328,416
Provision for doubtful receivables	54,799	61,476	56,995
Total	**261,008**	**221,753**	**271,421**

The ageing of the gross trade receivables at the reporting date was as follows:

In kEUR	December 31, 2013		December 31, 2012		January 1, 2012	
	Gross	Provision	Gross	Provision	Gross	Provision
Amounts undue	197,517	18,350	182,285	0	184,327	
Past due 0-30 days	42,370	270	19,403	1,346	33,958	5,250
Past due 31-60 days	11,447	3,843	4,192	1,136	5,344	271
Past due 61-90 days	4,244	143	1,730	77	2,961	303
Past due 91-180 days	10,270	643	7,538	379	18,952	2,739
Past due 181-270 days	4,963	534	5,761	4,480	6,268	1,587
Past due 271-360 days	3,406	541	4,839	3,674	1,091	600
More than one year	41,590	30,475	57,481	50,384	75,515	46,245
Total	**315,807**	**54,799**	**283,229**	**61,476**	**328,416**	**56,995**
Trade receivables, net	261,008		221,753		271,421	

Movements in the Group's provision for impairment of trade receivables are as follows:

In kEUR	2013	2012
Balance as of January 1	**61,476**	**56,995**
Net additions (+) / reversals (-)	21,494	35,365
Use	-28,171	-30,614
Balance as of December 31	**54,799**	**61,476**

For a discussion of E-Plus Group's policies to reduce credit risk on trade receivables as well as concentrations of the credit risk, please refer to Note 26. Postpaid mobile services are considered to have the highest credit risks within the business of E-Plus. Overall, concentrations of credit risk with respect to trade receivables are limited due to the Group's large and unrelated customer base. The provision for doubtful trade receivables is predominantly collectively determined based on ageing and is reviewed periodically. The gross amount due from trade receivables in postpaid mobile services business at December 31, 2013 was kEUR 243,370 (December 31, 2012: kEUR 215,655, January 1, 2012: kEUR 234,775) for which a provision of kEUR 45,819 (December 31, 2012: kEUR 55,891, January 1, 2012: kEUR 53,381) was recorded. The provision for doubtful receivables has been determined on an individual basis.

15b. Other current assets

The balance of other current assets as of the reporting date included the following items:

In kEUR	December 31, 2013	December 31, 2012	January 1, 2012
Social security and other taxes	21,272	24,362	20,127
Other receivables	38,911	30,973	24,136
Prepayments	5,929	7,272	8,297
Total	**66,112**	**62,606**	**52,560**

16. Cash and cash equivalents

At December 31, 2013, cash and cash equivalents amounted to kEUR 484,270 (December 31, 2012: kEUR 617,847, January 1, 2012: kEUR 318,039). These consist of bank balances of kEUR 482,867 (December 31, 2012: kEUR 616,899, January 1, 2012: kEUR 317,327) and cash on hand in the amount of kEUR 1,403 (December 31, 2012: kEUR 948, January 1, 2012: kEUR 713).

Significant cash investing activities during the year relate to the purchase of BLAU Mobile GmbH in the amount of kEUR 100,054 and investments in property, plant and equipment in the amount of kEUR 519,234 that mainly relate to the expansion of the mobile network. Cash flow from financing activities includes the repayment of the shareholder loan of kEUR 145,000. The financial funds decreased in the reporting year by kEUR 133,577 to kEUR 484,270 at the reporting date.

17. Assets and liabilities of disposal groups classified as held for sale

Multiconnect GmbH

On August 31, 2012, E-Plus and the purchaser entered into a share purchase agreement regarding the sale of 100% shares of Multiconnect GmbH. The entity is an advisor for communication approaches regarding marketing, sales and customer relationship. The disposal group was sold in January 2013. In 2012, impairment loss of goodwill recognized in depreciation, amortization and impairment amounts to kEUR 3,011. Please refer to Notes 6 and 11.

SNT Inkasso & Forderungsmanagement GmbH

On November 11, 2011 E-Plus and the purchaser entered into a share purchase agreement regarding the sale of 100% shares of SNT Inkasso & Forderungsmanagement GmbH. The entity is a provider of debt collection services. The disposal group was sold in June 2012. The deconsolidation gain recognized in other income amounts to kEUR 16,230.

Assets and liabilities of the disposal groups classified as held for sale

The assets and liabilities of Multiconnect GmbH and SNT Inkasso & Forderungsmanagement GmbH are presented as follows:

Assets of disposal groups classified as held for sale			
In kEUR	**December 31, 2013**	**December 31, 2012**	**January 1, 2012**
Goodwill	-	1,944	2,293
Intangible assets	-	4,208	95
Property, plant and equipment	-	1,024	24
Trade accounts receivable	-	8,102	13,415
Other non-financial assets	-	1,970	3,436
Cash and cash equivalents	-	266	-
Total	**-**	**17,514**	**19,263**

Liabilities of disposal groups classified as held for sale			
In kEUR	**December 31, 2013**	**December 31, 2012**	**January 1, 2012**
Other provisions	-	30	-
Current income tax liabilities	-	-	6,293
Other current taxes	-	54	57
Trade accounts payable	-	1,098	25
Other accruals	-	2,847	203
Other non-financial liabilities	-	857	159
Total	**-**	**4,886**	**6,737**

E-Plus Funkturmgesellschaft mbH and Zweite E-Plus Funkturmgesellschaft mbH

The disposal of mobile communication towers effected through the sale of E-Plus Funkturmgesellschaft mbH and Zweite E-Plus Funkturmgesellschaft mbH in December 2012 is described above (see Note ‘Business combinations and Disposals’ as well as Note 28). The disposal group did not qualify for presentation under IFRS 5 at any of the dates for which information on the financial position of the Group is presented and as such is not included in the table above. The deconsolidation gain recognized in other income amounts to kEUR 298,163 recorded in the annual period 2012.

18. Finance lease liabilities

The Group’s finance lease liabilities are split into non-current and current amounts as follows and relate to sale and leaseback transactions as described below:

In kEUR	**December 31, 2013**	**December 31, 2012**	**January 1, 2012**
Finance lease liabilities	**352,533**	**132,993**	**2,462**
- of which: non-current[1]	109,394	53,240	733
- of which: current	243,139	79,753	1,729

1) The non-current minimum lease payments are all due within 1-5 years

Sale and leaseback transactions

Handsets in the amount of kEUR 410,342 (prior year: kEUR 237,506) were sold in 2013 to a German leasing company under a sale-and-lease-back contract. The sold handsets were capitalized as the lease-backs qualify as finance leases under IFRS and are shown within property, plant and equipment (see below as well as Note 12). The purpose of these leasing transactions mainly lies in the optimization of the Group's liquidity. The lease terms are two years, feature fixed rentals based on the cost of the handsets to the lessor and include neither purchase nor renewal options.

The following table provides the reconciliation between the total of future minimum lease payments at the end of the reporting period and their present value:

In kEUR	**December 31, 2013**	**December 31, 2012**	**January 1, 2012**
Gross finance lease liabilities – minimum lease payments:			
Less than 1 year	254,728	85,871	1,899
1- 5 years	114,394	57,558	911
More than 5 years	-	-	-
Total	**369,122**	**143,429**	**2,810**
Future finance charges on finance lease liabilities	-16,589	-10,436	-348
Present value of finance lease liabilities	**352,533**	**132,993**	**2,462**

Property, plant and equipment includes the following amounts related to the leaseback of handsets where the Group is a lessee under a finance lease:

In kEUR	**December 31, 2013**	**December 31, 2012**	**January 1, 2012**
Cost-capitalized finance lease	552,673	162,252	-
Accumulated depreciation	223,771	33,590	-
Total	**328,902**	**128,662**	**-**

The Group subleases these handsets to customers as part of postpaid contracts with a 2 year lease term (without renewal or purchase options) and fixed lease payments. The future minimum lease payments from these subleases are included in the following table:

In kEUR	**December 31, 2013**	**December 31, 2012**	**January 1, 2012**
Less than 1 year	224,284	91,560	-
1- 5 years	84,616	53,808	-
More than 5 years	-	-	-
Total	**308,900**	**145,368**	**-**

The future minimum lease payments receivable from customers are pledged to the buyer-lessor of the handsets. Please refer also to Note 28 for details on future minimum sublease payments receivable by E-Plus Group.

19. Borrowings

The carrying amounts of borrowings are as follows:

In kEUR	**December 31, 2013**	**December 31, 2012**	**January 1, 2012**
Shareholder loans	6,143,874	6,612,062	9,544,512
Other loans	42,825	46,508	32,152
Total	**6,186,699**	**6,658,570**	**9,576,664**
- of which: current	42,825	46,508	32,152
- of which: non-current	6,143,874	6,612,062	9,544,512

For details on the shareholder loans please refer to Note 25. Other loans comprise non-controlling interests in E-Plus Service GmbH & Co. KG classified as liabilities amounting to kEUR 37,176 as of December 31, 2013 (kEUR 32,142 as of December 31, 2012, kEUR 26,881 as of January 1, 2012) as well as a loan provided by KPN which is repayable on demand and amounts to kEUR 5,271 as of December 31, 2013 (kEUR 5,271 as of December 31, 2012, kEUR 5,271 as of January 1, 2012).

20. Provisions for retirement benefit obligations

The regulatory framework in Germany for defined benefit plans is the Betriebsrentengesetz (German pension law). The defined benefit pension plans are operated on employee pensionable earnings and lengths of service. The plan assets consist exclusively of congruent insurance pension contracts and are not traded on an active market. They are pledged to the pension holders and are funded with a single contribution.

Provisions for retirement benefit obligations consist of pension provisions and provisions for partial retirement.

In kEUR	December 31, 2013	December 31, 2012	January 1, 2012
Pensions	34,485	45,033	24,244
Partial retirement	2,097	3,375	3,528
Total	**36,582**	**48,408**	**27,772**

Pensions

The pension obligations at E-Plus are based on pension commitments to 262 current and former members of the Board of Management and employees of whom 139 are still active, 104 are former employees and 19 are retired. The pension commitments are fully vested.

Net defined benefit liability (asset)

The movement in the defined benefit obligation, plan assets and the net defined benefit liability is as follows:

In kEUR	Defined benefit obligation	Fair value of plan assets	Net defined benefit liability (asset)
Balance as of January 1, 2012	**31,169**	**-6,925**	**24,244**
Included in profit or loss			
– Operating expense:			
current service costs	1,103	-	1,103
– Interest cost (income)	1,482	-328	1,154
Total	**2,585**	**-328**	**2,257**
Included in OCI			
Remeasurements loss (gain):			
– Actuarial loss (gain) arising from:			
Change in financial assumptions	17,156	-	17,156
Experience adjustment	2,993	-	2,993
– Return on plan assets excluding interest income		-1,331	-1,331
Total	**20,149**	**-1,331**	**18,818**
Other			
Benefits paid	-494	208	-286
Balance as of December 31, 2012	**53,409**	**-8,376**	**45,033**
Included in profit or loss			
– Operating expense:			
current service costs	1,646	-	1,646
– Interest costs (income)	1,646	-256	1,390
Total	**3,292**	**-256**	**3,036**
Included in OCI			
Reameasurements loss (gain):			
– Actuarial loss (gain) arising from:			
Change in financial assumptions	-7,934	-	-7,934
Experience adjustment	-4,421	-	-4,421
– Return on plan assets excluding interest income	-	-947	-947
Total	**-12,355**	**-947**	**-13,302**
Benefits paid	-496	214	-282
Balance as of December 31, 2013	**43,850**	**-9,365**	**34,485**

There was no impact in 2013 or 2012 on the net defined benefit liability from minimum funding requirements or asset ceiling.

Principal Actuarial assumptions

The key actuarial assumptions used in the calculation of the defined benefit obligations are as follows:

	December 31, 2013	December 31, 2012
Discount rate (%)	3.8%	3.1%
Expected salary increases (%)	2.5%	2.5%
Expected benefit increase/indexation (%)	2.0%	2.0%
Life expectancy for pensioners at the age of 65 in years		
– Male	18.8	18.6
– Female	22.8	22.7

The measurement of defined benefit obligations is based on the mortality tables 2005G from Dr. Klaus Heubeck which include projected improvement rates varying by year of birth, corrected for fund specific circumstances. For example, the life expectancy at the age of 65 is expected to increase in the next 20 years with approximately 2 years. The measurement date for the defined benefit plans is December 31. The discount rate is based on yield curves of euro denominated AA corporate bonds with maturities equal to the duration of the benefit obligations in Euro.

At December 31, 2013, the duration of the defined benefit obligation was 20 years (2012: 20 years). The benefit payments for the annual period of 2014 are expected in the amount of kEUR 289.

Risk exposure

The defined benefit plans expose E-Plus to a number of risks, none of which are unusual or plan specific. The most significant risks are summarized below:

- Interest rate risk: the plans' liabilities are calculated for IFRS purposes using a discount rate set with reference to corporate bond yields; a decrease in corporate bond yields will increase the plans' liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.
- Inflation risk: pension liabilities are to a certain extent adjusted to consumer price indices. Therefore E-Plus's pension plans are exposed to inflation risk.
- Life expectancy: E-Plus pension plans provides live long benefit payments, so increases in life expectancy will result in an increase in the plans' liabilities.

Sensitivity analysis

The table below shows the approximate impact on the defined benefit obligation of a change in the key actuarial assumptions of 0.5% as at December 31, 2013.

In kEUR	Increase	Decrease
Discount rate	-1,825	5,892
Expected benefit increases	3,985	-3,649

The sensitivities in the table above were estimated by actuaries based on the defined benefit obligations per December 31, 2013. If more than one of the assumptions change, the impact would not necessarily be equal to the total impact of changes in those assumptions in isolation. The change of life expectancies of +/- 1 year has no material impact on the defined benefit obligation. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method) has been applied as when calculating the post-employment benefit obligation recognized in the consolidated statement of financial position.

Defined contribution plans

The employer's contribution paid to the statutory pension scheme (*Deutsche Rentenversicherung*) in Germany amounted to kEUR 18,669 in 2013 (2012: kEUR 18,969). Contributions of kEUR 3,433 (2012: kEUR 3,139) to additional defined contribution plans were recognized in the income statement in 2013.

Early retirement programs

E-Plus agreed on early retirement arrangements (German "Altersteilzeit") with varying terms and conditions, predominantly based on what is known as the German block model. The participant in the early retirement arrangement works full-time for half of the Altersteilzeit period (the "active period"), and then does not work for the remaining half (the "inactive period") receiving 50 percent of his/her last salary received while still fully employed each year during the entire Altersteilzeit period (covering both the active and the inactive period). Additionally employees taking part in the arrangement receive step-up payments which ensure that employees in early retirement receive 85% of their last monthly net salary received while still in full-time employment. The partial retirement arrangements are modeled based on the law governing pre-retirement.

The obligations from partial retirement are partially covered by employer contributions into insurance contracts that do not qualify as plan assets even though they are subject to restrictions because under the law governing pre-retirement, scheme credits have to be protected against the risk of insolvency.

21. Provisions for other liabilities and charges

The following table provides a breakdown of provisions for other liabilities and charges by type of provision:

In kEUR	**December 31, 2013**	**December 31, 2012**	**January 1, 2012**
Restructuring provisions	13,917	38,881	-
Asset retirement obligations	156,338	219,263	254,303
Other provisions	16,972	21,074	10,395
Balance	**187,227**	**279,218**	**264,698**
– of which: non-current	165,464	236,095	259,489
– of which: current	21,763	43,123	5,209

Restructuring provisions

Restructuring provisions amounting to kEUR 13,917 (2012: kEUR 38,881) consist of personnel (redundancy obligations) and contractual obligations related to rental contracts.

During 2013 and 2012, E-Plus continued to substantially reduce its staff. The restructuring provision relating to full-time-equivalent reduction amounted to kEUR 8,641 as at December 31, 2013. As at December 31, 2013, the restructuring provision set up for termination pay and exemption amounted to kEUR 7,103.

The movements in restructuring provisions are as follows:

In kEUR	**2013**	**2012**
Balance as of January 1	**38,881**	**-**
-of which current portion	31,681	-
Additions	7,103	38,881
Releases	-7,105	-
Usage	-24,962	-
Balance as of December 31	**13,917**	**38,881**
-of which current portion	10,954	31,681

Asset retirement obligations

The movements in asset retirement obligations are as follows:

In kEUR	**2013**	**2012**
Balance as of January 1	**219,263**	**254,303**
Additions	6,333	7,119
Disposals	-	-22,471
Change in estimate	-73.366	-24,507
Interest	4,108	4,849
Transferred to held for sale	-	-30
Balance as of December 31	**156,338**	**219,263**

With regard to asset retirement obligations for mobile communication tower sites, E-Plus distinguishes between towers (large tower constructions, placed on churches, silos, etc.), rooftops (small towers with equipment placed on rooftops) and antenna slots rented within sublease agreements. For all of those sites, E-Plus has the legal obligation to dismantle and remove the tower or equipment and restore the site on which it is located.

The asset retirement obligation as of December 31, 2013 amounted to kEUR 156,338 (December 31, 2012: kEUR 219,263, January 1, 2012: kEUR 254,303). In 2013, estimates regarding the calculation of the asset retirement obligation were changed due to new information obtained by E-Plus. Subsequently, the asset retirement obligation was reduced as a result of this change in estimate by kEUR 73,366 in 2013 (2012: kEUR 24,507). In 2013, the amount of kEUR 26,147 is recognized as a gain under other operating expenses and the amount of kEUR 47,219 is recognized as a disposal under property, plant and equipment in Note 12.

In 2012, E-Plus Group sold a portfolio of 2,031 mobile communication towers to Germany Tower Interco B.V. As part of the transfer of the portfolio asset retirement obligations amounting to kEUR 22,471 were derecognized. For further details, please refer to Note 17.

The main assumptions regarding the calculation of the asset retirement obligation relate to the number of mobile sites to be dismantled in the future, the dismantling costs per site, the duration of those mobile sites, the indexation and discount rate, which vary per type of asset.

The discount rates for the obligation recorded are based on the Euro mid-swap rates. In connection with the duration of the mobile sites, they vary based on the expected remaining usage of the sites:

Discount rate	1-10 years	11-20 years	21-30 years	31-40 years	41-50 years
2013	1.02%	2.33%	2.53%	2.54%	2.58%

In 2012 the discount rate for 20 years was set to 2.11%. The inflation rate for 2013 was set to 2.0% (2012: 2.0 %).

Other Provisions

The movements in other provisions are as follows:

In kEUR	2013	2012
Balance as of January 1	**21,074**	**10,395**
Additions	10,239	16,558
Usage	-3,479	-4,615
Release	-10,862	-1,264
Balance as of December 31	**16,972**	**21,074**

Other provisions relate to various risks and commitments as well as onerous contracts. One of these risks refers to the tax field audit (years 2002-2005 finalized; years 2006-2010 ongoing) with an amount of kEUR 8,271 (2012: kEUR 5,707). Approximately kEUR 10,809 of other provisions had a term of less than one year (2012: kEUR 11,442) and kEUR 6,163 had a term more than one year (2012: kEUR 9,632).

22. Other payables and deferred income

In kEUR	December 31, 2013	December 31, 2012	January 1, 2012
Non-interest bearing accruals	8,968	15,711	13,386
Total	**8,968**	**15,711**	**13,386**

Deferred income concerns amounts received in advance for deferred connections fees and other revenues that will be recognized in the future.

23. Trade and other payables

In kEUR	December 31, 2013	December 31, 2012	January 1, 2012
Trade payables	477,693	495,182	439,374
Deferred income	192,371	128,791	116,831
Accrued expenses	271,463	230,562	230,892
Social security and other taxes payable	4,471	4,397	3,425
Other payables	7,767	14,091	11,172
Total	**953,765**	**873,023**	**801,694**

Trade payables mainly relate to the purchase of handsets and infrastructure services while deferred income mainly concerns amounts billed in advance for fixed fees such as one-time connection fees, customer prepaid call credits and subscription income that will be recognized in the future. Accrued expenses comprise accrued personnel expenses, infrastructure, maintenance, promotion and marketing expenses as well as rental fees.

IV. OTHER DISCLOSURES

24. Cash Flow

Net cash flow provided by operating activities

Cash flows from operating activities are reported using the indirect method, whereby profit before income tax is adjusted for effects of non-cash transactions like depreciation and amortization or gains on sale of fixed assets. Further adjustments relate to changes in receivables, prepayments, payables, accrued expenses, deferred income, provisions and inventories. The changes in the line items in the statement of financial position are adjusted for transactions directly recognized against equity (equity-settled share-based compensation), recognized against other comprehensive income (pension obligations), recognized directly against non-current assets (asset retirement obligations) and changes related to business combinations (Ortel in 2012 and BLAU in 2013), the cash flows of which are reported under cash flows from investing activities. For the year 2013 net cash flow used in operating activities amounted to kEUR 526,109 (2012: kEUR 1,085,340).

Net cash flow used in investing activities

In 2013, the amount of acquisitions of subsidiaries in the consolidated statement of cash flows mainly consisted of the acquisition of 100% of the shares of BLAU for kEUR 100,054 (kEUR 106,000 net of cash and cash equivalents acquired of kEUR 5,946). In 2012, the amount of acquisitions of subsidiaries comprised the acquisition of 100% of the shares in Ortel for kEUR 31,714 (kEUR 40,675 original purchase price paid net of cash and cash equivalents acquired of kEUR 8,961).

In 2013 and 2012, the investments in property, plant and equipment include cash-outflows for the build-up of new infrastructure of kEUR 519,234 (2012: kEUR 521,941). The investments are adjusted for non-cash transactions (asset retirement obligation). The investments in intangible assets are mainly comprised of computer software (see also Note 10). In 2012, the disposal of subsidiaries to be consolidated comprised cash-inflows of kEUR 423,192 for the sale of E-Plus Funkturmgesellschaft mbH and Zweite E-Plus Funkturmgesellschaft mbH and SNT Inkasso net of transaction costs (see also Note 'Business Combinations and Disposals' and Note 15).

Net cash flow provided by/ used in financing activities

On December 30, 2013, E-Plus exceptionally repaid kEUR 145,000 of the shareholder loan liabilities. Shareholder loan liabilities of kEUR 637,961 were exceptionally repaid in 2012. In 2012, short-term debt of kEUR 8,991 was raised from BLAU under a Cash Pooling agreement. In 2013 and 2012, cash inflows from new loans of kEUR 390,421 (2012: kEUR 171,243) resulted from sale-and-lease-back transactions on handsets while finance lease obligations of kEUR 171,912 and kEUR 32,279 (including interest payments), respectively, were redeemed under a sale-and-lease-back contract with a German leasing company (see also Note 16).

25. Additional disclosures on financial instruments

Carrying amount and fair value of financial instruments

The table below summarizes the Group´s financial assets and liabilities:

In kEUR	December 31, 2013		December 31, 2012		January 1, 2012		Fair Value Level
	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value	
Financial assets							
Loans and receivables							
Trade and other receivables [15a]							
Trade receivables[1]	261,008	-	221,753	-	271,421	-	-
Other receivables							
thereof financial instruments[1]	8,580	-	21,706	-	17,231	-	-
Cash and cash equivalents[16][1]	484,270	-	617,847	-	318,039	-	-
Available-for-sale financial assets							
Other receivables [15a]							
thereof financial instruments	847	847	-	-	-	-	3
Other non-current assets [13]							
thereof financial instruments (measured at cost)[2]	786	-	6,093	-	885	-	-
thereof financial instruments	7,588	7,588	-	-	-	-	3
No category of IAS 39							
Finance lease receivables [13]	-	-	131	131	1,027	1,027	
Total financial assets	**763,079**		**867,530**		**608,603**		
Financial liabilities							
At fair value through profit or loss							
Borrowings [19]	6,143,874	6,143,874	6,612,062	6,612,062	9,544,512	9,544,512	3
Measured at amortized cost							
Borrowings [19][1]	42,825	-	46,508	-	32,152	-	-
Trade and other payables [23]							
Trade payables[1]	477,693	-	495,182	-	439,374	-	-
Other payables							
thereof financial instruments[1]	190,344	-	183,152	-	193,642	-	-
No category of IAS 39							
Finance lease liabilities [18]	352,533	363,191	132,993	139,519	2,462	2,539	2
Total financial liabilities	**7,207,269**		**7,469,897**		**10,212,142**		

1) No fair value disclosed in accordance with IFRS 7.29(a) as the carrying amounts of these current financial instruments represent a reasonable approximation of their fair values.

2) No fair value disclosed in accordance with IFRS 7.29(b) as these financial assets are measured at cost in accordance with IAS 39.46(c).

The fair value of financial instruments traded in active markets is based on quoted market prices. If applicable, these instruments are included in Level 1.

An instrument is included in Level 2 if the financial instrument is not traded in an active market and if the fair value is determined by using valuation techniques based on observable market data for all significant inputs. The fair value is calculated using a discounted-cash flow model with a risk adjusted interest.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3 and the fair value is estimated using models and other valuation methods. To the extent possible, the assumptions and inputs used take into account market pricing information and expectations. However, such information is by its nature subject to uncertainty. Changes arising as new information becomes available could impact income or other comprehensive income.

There were no transfers between the different levels of the fair value hierarchy in any of the periods presented.

Contingent consideration Multiconnect

As of January 1, 2013, Multiconnect was sold to its former director for a purchase price amounting to kEUR 12,628 subject to adjustments in the company's gross profit. In 2013, adjustments of kEUR 3,483 to the value of the consideration were recorded as revisions of cash flow estimates. The same year, parts of the purchase price amounting to kEUR 709 were settled. The remaining consideration amounting to kEUR 8,435 is split in a current portion amounting to kEUR 847 and a non-current portion amounting to kEUR 7,588. Given the input parameters and the valuation method used, fair value measurements of the receivable from contingent consideration are categorized within Level 3 of the fair value hierarchy.

Shareholder loans

One of the intermediate parent companies of E-Plus granted E-Plus Group several shareholder loans, which amounted to kEUR 22,094,978 (December 31, 2012: kEUR 22,239,978, January 1, 2012: kEUR 22,877,939) in outstanding nominal amounts as well as accrued interest. Interest terms on the shareholder loans, not taking into consideration the interest rate cap agreements mentioned below, vary as the loans partially bear fixed and variable interest. The interest terms were changed several times since the loan inception, the latest change being implemented as of January 1, 2007. This change implemented an interest rate cap agreement that limits interest payable on the shareholder loans to an amount of kEUR 218 per year. The interest rate cap agreements continued to be in place as of December 31, 2013.

The shareholder loans are repayable on demand. However, as the loans are subordinated and furthermore include a waiver by the lender on any claims for payment of both principal and interest as long as the state of over indebtedness of the Company is not remedied, the lender currently cannot request any payment from the Company. The shareholders loans were partially repaid through unscheduled repayments in an amount of kEUR 145,000 in 2013 (2012: kEUR 637,961).

The shareholder loans are designated as financial liabilities at fair value through profit or loss in accordance with IAS 39.11A given that the interest cash flows on the loans are modified significantly by the interest rate cap agreement. Given the input parameters and the valuation method used, their fair value measurement is categorized within Level 3 of the fair value hierarchy.

Given the financial situation of the Group, the fair values of the shareholder loans were determined using a discounted-cash-flow model. The basic assumption of the model implies that in a transfer of the shareholder loan liabilities to a market participant in an orderly transaction, the market participant would pay an amount equal to the fair value of the net assets of E-Plus Group. This is due the fact that the Group's ability to generate future free cash flows is expected to be insufficient to repay the shareholder loans as well as interest thereon as determined by the interest terms on the shareholder loans. Such a scenario is based on a de facto insolvency of the Group currently being prevented solely due to the subordination of the shareholder loans in addition to a waiver on any claims for payment of both principal and interest on these loans, conditions both of which would not be tolerable to a market participant in an acquisition of the shareholder loan receivable against E-Plus Group.

The inputs to the model include the expected future free cash flows from operations that can be generated by the Group as well as an estimation of the cost of capital for financing these operations under the assumption of an industry-typical capital structure. The model uses the following input parameters to the valuation as of the respective dates.

	Projection Period (years)	Terminal growth rate %	Discount rate %	Level allocation of input parameters
December 31, 2013	15	0.5%	7.15%	3
December 31, 2012	15	0.5%	6.95%	3
January 1, 2012	15	1.0%	6.35%	3

The following table provides a reconciliation of the opening to the closing balances of the shareholder loan liability included in non-current borrowings:

In kEUR	2013	2012
Balance as of January 1	**6,621,062**	**9,544,512**
Gains recognized in profit or loss [8]	-332,188	-2,285,489
Redemption	-145,000	-637,961
Balance as of December 31	**6,143,874**	**6,621,062**

As described above, changes in the fair value of the shareholder loan liability are correlated with the credit risk of the Company.

Reasonable changes to the main input factors of the valuation of the shareholder loans may significantly affect the fair value of these liabilities. The following table provides an overview of the effects on profit or loss (and retained earnings as of January 1, 2012) of changes in those input factors:

Change in	December 31, 2013[1)]	December 31, 2012[1)]	January 1, 2012[2)]
Discount factor			
+0.25%	-258,941	-270,713	-410,344
-0.25%	279,530	292,606	450,214
Terminal growth rate of cash flows			
+0.5%	219,095	218,614	399,990
-0.5%	-188,433	-187,179	-331,638
Cash flows in projection period			
+10%	345,095	424,519	583,524
-10%	-345,095	-424,519	-583,524

1) Effect on financial income (gains (+), losses (-))

2) Effect on retained earnings (increase (+), decrease (-))

The following table, which is classified according to the measurement categories of IAS 39, presents the net gains and losses (before taxes) from financial instruments reported in the consolidated statement of comprehensive income:

In kEUR	2013	2012
Loans and receivables	-36,243	-44,215
Available-for-sale financial assets	-13,859	-1,587
Financial instruments at fair value through profit and loss	332,188	2,285,489
Financial liabilities measured at amortized cost	-5,326	-5,388
Net gain/(loss)	**276,760**	**2,234,299**

Net gains and losses on financial instruments cover income and expenses related to interest, fair value changes, adjustments and impairments. Net losses on loans and receivables relate to impairments of receivables and interest income on financial assets.

Financial Instruments at fair value through profit and loss include changes of fair value and interest payments on the shareholder loan.

The losses on available-for-sale financial assets relate to the Group's shareholding in the unconsolidated entity Shortcut GmbH & Co. KG (Shortcut), which was impaired in both periods presented due to insufficient earnings perspectives. The shareholding in Shortcut can not be measured at fair value as the company is a startup venture whose valuation is subject to a significant degree of fluctuation in possible fair value measurements. This means that a fair value for the shareholding can not be determined reliably and that further, due to its nature there is no active market for the shares in the company. The increase in the carrying amount of the investment for the year ended December 31, 2012 relates to a capital increase in Shortcut being made during the period.

Additional losses on available-for-sale financial assets result from revisions of cash flows estimates related to the contingent consideration resulting from the sale of Multiconnect (see above).

Net losses on financial liabilities measured at amortized cost contain interest expenses in relation to non-controlling interests that are accounted for as financial liabilities.

26. Capital and financial risk management

Capital Management

The objective of capital management is to provide a sound financial profile. In particular, the ability to meet our current payment obligations, our debt service for external creditors and appropriate investments in new technologies and business trends. Furthermore, E-Plus intends to retain sufficient financial leeway to continue on its course of growth.

E-Plus Group's capital management objective is to maintain its ability to continue as a going concern as well as repay the shareholder loans whenever sufficient free liquidity is available for such repayments. Given the key features of the shareholder loan agreements (interest cap agreement, subordination and waiver of claims by the lender), E-Plus regards these loans as part of its capital.

The Group is dependent on the continued existence of its current capital setup and further is fully integrated into the financing of KPN. Accordingly, decisions on the Group's financing are subject to approval by KPN, while the Group mainly focuses on improving its performance as measured by operational key indicators.

E-Plus uses revenues, EBITDA, ARPU (Average Revenue per User), market share of E-Plus' customer base, free cash flow (FCF) and capital expenditure (CapEx) as central performance indicators. EBITDA is defined as earnings before interest, corporate income tax, depreciation and amortization. CapEx is defined as all investments in property, plant and equipment as well as software. FCF is excess cash whereby all payments (and receipts) of corporate income tax, interest, CapEx and all movements in provisions/long term liabilities and working capital are deducted from (added to) EBITDA. Changes in FCF and EBITDA are used to measure the operating performance and profitability of E-Plus' business activities.

Financial risk management

E-Plus Group is exposed to a variety of financial risks: market risk (including the risk of changes in interest rates and exchange rates, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on E-Plus Group's financial position and performance.

Risk management is carried out by the operational units and is regularly monitored by E-Plus Group. Certain areas, such as the handling of interest rate and credit risk, the use of non-derivative financial instruments and investment of excess liquidity are discussed regularly.

The financial risks are managed by E-Plus Group's treasury department under policies approved by the Board of Management. These policies are established to identify and analyze financial risks faced by E-Plus Group, to set appropriate risk limits and controls, and to monitor adherence to those limits. Treasury manages these risks in close cooperation with the Group companies, business operations and other corporate departments. During 2012 and 2013, several treasury policies have been reviewed and approved by the Board of Management.

E-Plus Groups' main risks are illustrated in the following:

Market Risk

E-Plus Group is exposed to various kinds of market risks in the ordinary course of business. These risks include:

- Foreign currency exchange rate risks
- Interest rate risks

Foreign currency exchange rate risks

Foreign currency exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group operates primarily within the European Union and conducts the vast majority of its business in Euro. Due to the insignificance of other currencies than the Euro for the Group's business no active risk management is operated. No material effects to the Group's financial position or its profit for the year would arise from reasonable changes in exchange rates of other currencies to the Euro for all periods presented.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group holds cash and cash equivalents the return on which is subject to changes in market interest rates. Given the low yield on these investments (see also Note 8), reasonable changes in market interest rates on these investments would have no material impact on the Group's profit for the year.

With regard to the Group's financial liabilities, interest payments on the shareholder loans are fixed to kEUR 218 per year and as such are not susceptible to changes in market interest rates. However, the Group measures these shareholder loans at fair value as described above in Note 25. Therefore, changes in market interest rates can have an impact on the cost of capital assumed in measuring the shareholder loan at fair value. Such changes in market interest rates would highly correlate with changes to the discount factor used in fair valuing the shareholder loans. Accordingly, a change in market interest rates by +/- 0.25%, assuming all other conditions remain unchanged, would result in the following impact on consolidated profit before income tax for the period:

Change in	**Effect on profit before income tax for 2013**	**Effect on profit before income tax for 2012**
Market interest rate		
+0.25%	-258,941	-270,713
-0.25%	279,530	292,606

Credit risk

E-Plus Group is exposed to credit risk from its operating activities. Concentrations of credit risk with respect to trade receivables are limited given that the Group's customer base is large and unrelated. Accordingly, management believes there is no further credit risk provision required in excess of the normal provision for impairment of trade receivables. Thus, the credit risk corresponds to the carrying amount of E-Plus Group's trade receivables. Regarding the ageing of trade receivables that are past due and provisions for doubtful receivables that have been established thereupon, please refer to Note 15. The Group also pursues business policies that limit this risk to a specific amount for individual contracting parties.

Regarding the impairment of the investment in Shortcut that was individually determined, please refer to Note 25.

No significant other agreements reducing the maximum exposure to the credit risks of other financial assets exist. The maximum exposure to credit risk of the other financial assets thus corresponds to their carrying amounts.

Liquidity Risk

Liquidity risk is regarded as being the risk that E-Plus Group does not have sufficient funds to meet its payment obligations. The risk is countered by regular monitoring and updating of the Group's cash planning. The Group's objective is to cover the long-term assets bound by a long-term financing and to provide, in all other respects, sufficient lines of credit in order to secure short-term cash requirements. In accordance with the current financial and liquidity planning, E-Plus Group will have sufficient resources to continue business in 2014. The Supervisory Board is regularly informed of the liquidity situation of E-Plus Group.

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 2013:

In kEUR	Less than 1 year	1-5 years	More than 5 years	Total
Trade payables	477,693	-	-	477,693
Other payables	7,767	-	-	7,767
Shareholder loan[1]	218	-	22,094,978	22,095,196
Finance lease liabilities	243,139	109,394	-	352,533
Total financial liabilities	**728,817**	**109,394**	**22,094,978**	**22,933,189**

1) For details regarding the maturity of the shareholder loan please see below.

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of December 31, 2012:

In kEUR	Less than 1 year	1-5 years	More than 5 years	Total
Trade payables	495,182	-	-	495,182
Other payables	14,091	-	-	14,091
Shareholder loan[1]	218	-	22,239,978	22,240,196
Finance lease liabilities	79,753	53,240	-	132,993
Total financial liabilities	**589,244**	**53,240**	**22,239,978**	**22,882,462**

1) For details regarding the maturity of the shareholder loan please see below.

The table below provides a maturity analysis of the financial liabilities based on the remaining contractual maturities as of January 1, 2012:

In kEUR	Less than 1 year	1-5 years	More than 5 years	Total
Trade payables	439,374	-	-	439,374
Other payables	11,172	-	-	11,172
Shareholder loan[1]	218	-	22,877,939	22,878,157
Finance lease liabilities	1,899	911	-	2,810
Total financial liabilities	**452,663**	**911**	**22,877,939**	**23,331,513**

1) For details regarding the maturity of the shareholder loan please see below.

The shareholder loans are repayable on demand but have been modified so as to include a waiver on any claims for payment of both principal and interest on the loans as long as the state of over indebtedness of E-Plus is not remedied. Taking this fact into consideration and given the free cash flow planning of E-Plus Group, payments of either principal or interest on the shareholder loans would not be possible in the immediate future. As such, the nominal amounts outstanding including any accrued interest as of the respective reporting date for the shareholder loans have been included within the category 'more than 5 years'. As the interest rate cap agreement included in the shareholder loans can be continued for consecutive one-year periods, payments related to this agreement have only been included within the category 'less than 1 year'. No further contractual payments expected on the shareholders loans once the term of the interest rate cap would have expired have been included in the tables above given the above mentioned waiver on any claims for payment of both principal and interest on the loans.

Insolvency

As mentioned above, to avoid the Group's insolvency status due to over-indebtedness and to ensure the going-concern of E-Plus Group, the shareholder loans and the interest accrued thereon are subordinated and subject to a waiver on any claims for payment. Furthermore, interest payments are limited to kEUR 218 p.a. under an interest cap agreement entered into with the lenders of the shareholder loans.

Available financing sources 2013

As of December 31, 2013, E-Plus Group's net cash and cash equivalents position amounted to kEUR 484,270 (prior year kEUR 617,847). Due to German capital maintenance rules, E-Plus Group is committed to keep certain funds available at E-Plus Group. In principle, net cash and cash equivalents are at disposal to E-Plus Group on a group level, except for limited amounts of cash held at local subsidiaries.

27. Offsetting financial assets and financial liabilities

Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements:

As of December 31, 2013	**Gross amount of recognized financial assets**	**Gross amount of recognized financial liabilities set off in the balance sheet**	**Net amounts of financial assets presented in the balance sheet**
Trade receivables	274,737	13,729	261,008

As of December 31, 2012	**Gross amount of recognized financial assets**	**Gross amount of recognized financial liabilities set off in the balance sheet**	**Net amounts of financial assets presented in the balance sheet**
Trade receivables	224,577	2,824	221,753

As of January 1, 2012	**Gross amount of recognized financial assets**	**Gross amount of recognized financial liabilities set off in the balance sheet**	**Net amounts of financial assets presented in the balance sheet**
Trade receivables	279,837	8,416	271,421

Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

As of December 31, 2013	**Gross amount of recognized financial liabilities**	**Gross amount of recognized financial liabilities set off in the balance sheet**	**Net amounts of financial assets presented in the balance sheet**
Trade payables	491,422	13,729	477,693

As of December 31, 2012	**Gross amount of recognized financial liabilities**	**Gross amount of recognized financial liabilities set off in the balance sheet**	**Net amounts of financial assets presented in the balance sheet**
Trade payables	498,006	2,824	495,182

As of January 1, 2012	**Gross amount of recognized financial liabilities**	**Gross amount of recognized financial liabilities set off in the balance sheet**	**Net amounts of financial assets presented in the balance sheet**
Trade payables	447,790	8,416	439,374

For financial assets and liabilities summarized above, net settlement (of the relevant assets and liabilities) is allowed for each agreement between E-Plus and the counterparty when both parties elect to settle on a net basis. If parties chose not to settle on a net basis, the financial assets and liabilities will be settled on a gross basis.

28. Commitments

Commitments

The following table provides an overview of E-Plus Group's commitments for the periods presented in the consolidated financial statements:

In kEUR	Less than 1 year	1-5 years	More than 5 years	Total December 31, 2013	Total December 31, 2012	Total December 31, 2011
Capital and purchase commitments	412,094	60,715	-	472,809	549,878	543,079
Retail and operational lease contracts	229,854	537,818	568,327	1,335,999	1,378,198	1,167,626
Total commitments	**641,948**	**598,533**	**568,327**	**1,808,808**	**1,928,076**	**1,710,705**

Capital and purchase commitments

The decrease in capital and purchase commitments is mainly related to the change of E-Plus Group's supplier regarding the rollout and maintenance of the Group's network infrastructure.

As of December 31, 2013 kEUR 226,372 (December 31, 2012: kEUR 243,899, January 1, 2012: kEUR 284,297) in purchase commitments relate to property, plant and equipment.

Operating lease commitments

The Group's operating lease commitments are mainly related to lease contracts for antenna space as well as ground lease contracts with landlords under non-cancellable operating lease agreements. Lease contracts for antenna space relate to a significant degree to the sale of the two companies E-Plus Funkturmgesellschaft mbH and Zweite E-Plus Funkturmgesellschaft mbH (see Note 'Business Combinations and Disposals' and Note 17) and subsequent leaseback of antenna slots in the 2,031 towers sold. The leaseback contracts can be terminated upon short notice for individual tower sites, while E-Plus pays a minimum guaranteed amount of kEUR 22,784 p.a. for the tower portfolio over 15 years which is indexed to increase by a minimum of 1% p.a. and is included in the minimum lease payments shown in the table below. There are no purchase options regarding the towers or individual antenna slots in the towers.

The future aggregate minimum lease payments under all non-cancellable operating leases are as follows:

In kEUR	December 31, 2013	December 31, 2012	January 1, 2012
Less than 1 year	229,854	292,736	225,892
1- 5 years	537,818	512,743	333,206
More than 5 years	568,327	572,719	608,528
Total	**1,335,999**	**1,378,198**	**1,167,626**

As of December 31, 2013, the future minimum non-cancellable sublease payments expected to be received amount to kEUR 447,377 (December 31, 2012: kEUR 277,486, January 1, 2012: kEUR 251,869), of which kEUR 308,900 (December 31, 2012: kEUR 145,368, January 1, 2012: kEUR -) relate to subleases of handsets (see Note 18), while the remainder mainly relates to subleases of buildings and site sharing arrangements.

In 2013, lease expenses of kEUR 322,446 (prior year: kEUR 311,236) were recognized, while income from subleases amounted to kEUR 217,786 (prior year: kEUR 44,737).

29. Contingent assets and liabilities

Guarantees

E-Plus Group could be contractually obligated to guarantee for liabilities that can't be settled by its ultimate parent. This guarantee amounts to E-Plus Group's Cash Pooling account amounting to kEUR 302,676 with The Royal Bank of Scotland plc, The Netherlands. As of today, there are no indications that the outflow of resources for settlement is probable taking into account the economic situation of E-Plus Group's ultimate parent company.

Claims and Litigation

In 2006, several companies sued E-Plus Group in relation to the allocation of data and air-time frequencies in the 900 MHz range. All of these claims were dismissed subsequently. Only the plaintiff Air Data AG appealed on a point of law. E-Plus Group expects the appeal to be dismissed.

Regarding the German spectrum auction in relation to the frequencies in the 1.8 GHz range, 2.0 GHz range and 2.6 GHz range in 2010, several companies including E-Plus Group and Air Data AG, sued against the allocation conditions of the auction. Except for the claim Air Data, all claims were dismissed subsequently. Should the court decide in favor of Air Data, E-Plus could be obligated to return all frequencies acquired in the 2010 spectrum auction.

The company HighPoint S.à.r.l. sued E-Plus for reason of an alleged violation of one of its patents that is directly related to the usage of the UMTS standard. The patent of High Point expired in the meantime and the claim was dismissed at first and second instance. It is still to be decided whether a revision is possible.

Restructuring plans

E-Plus Group plans to shut-down several business locations. The affected employees will be transferred to another location in the future. The intention of this restructuring activity is not to decrease the number of employees, but to save rental cost for the buildings. As of December 31, 2013, no provision in relation to this activity has been recognized in these consolidated financial statements.

Claim for VAT refund

In December 2013, E-Plus submitted an application letter to the German taxation authorities for the refund of VAT payments made by E-Plus on the confiscation of unredeemed call credit amounts during the periods 2007 to 2013. As of the reporting date, it is not virtually certain that the taxation authorities will refund the amounts claimed by E-Plus, which leads to a contingent asset of kEUR 13,595 in VAT to be refunded and kEUR 1,187 of interest for a total of kEUR 14,782.

30. Related-party transactions

E-Plus Mobilfunk Geschäftsführungs GmbH, Duesseldorf, the general partner and direct parent to the Company, has an interest of 22.5% (kEUR 2,250) and KPN Mobile Germany III B.V., The Hague, Netherlands, has an interest of 77.5% (kEUR 7,750) in the fixed partnership capital of the Company. The ultimate parent of the Company is Koninklijke KPN N.V., The Hague, Netherlands (KPN).

In the normal course of its business activities, E-Plus Group enters into agreements and transactions with its shareholders and other entities of KPN Group (defined as KPN and its subsidiaries, joint ventures and associated companies) for various business purposes, including the furnishing of services or financing of operating activities. These related-party transactions are described below.

Transactions within E-Plus Group are not included in the description as these are eliminated in the consolidated financial statements. There were no transactions with entities controlled by E-Plus but not consolidated for reasons of materiality.

The following transactions were carried out with related parties:

Sales of Services and other income

In kEUR	**2013**	**2012**
Other related parties	13,670	221,931
Direct parent	24	85
Total	**13,694**	**222,016**

Sales of services to related parties within KPN Group amount to kEUR 13,670 (2012: kEUR 221,931) and include traffic in the form of received roaming fees and chargeable minutes as well as subscription fees for the usage of E-Plus Group’s network.

Purchases of services and other expenses

In kEUR	**2013**	**2012**
Other related parties	83,960	136,584
Direct parent	1,194	1,984
Total	**85,154**	**138,568**

Purchases of services from related parties within KPN Group, excluding the direct parent of E-Plus, amount to kEUR 83,960 (2012: kEUR 136,584) and mainly include costs for roaming, interconnection fees and call center services. Amounts reported for the annual period 2012 include commissions paid to BLAU in the amount of kEUR 54,389.

Other expenses in the amount of kEUR 1,194 (2012: kEUR 1,984) relate to the compensation for management services provided by the direct parent of E-Plus as well as interest expense in connection with a minority shareholding in E-Plus Service GmbH & Co. KG held by that entity.

Year-end balances arising from transactions with related parties

In kEUR	December 31, 2013	December 31, 2012	January 1, 2012
Receivables from other related parties	1,982	3,348	2,454
Receivables from direct parent	8,524	10,617	10,410
Total	**10,506**	**13,965**	**12,864**
Payables to related parties	6,157,810	6,719,341	9,631,099
Payables to direct parent	37,176	32,142	26,881
Total	**6,194,986**	**6,751,483**	**9,657,980**

Accounts receivable and payable to related parties arise mainly from the rendering of services and bear no interest except for the shareholder loan which is included in payables to related parties. For detailed information regarding the shareholder loan please refer to Note 25.

Key management personnel compensation

The Group's key management personnel is defined as those individuals that have authority and responsibility for planning, directing and controlling the activities of the Group. At E-Plus Group, key management personnel consists of the members of the Board of Management (as represented by the executive directors of the general partner of E-Plus, E-Plus Mobilfunk Geschäftsführungs GmbH) as well as the members of the Supervisory Board of E-Plus. The compensation of key management for employee services is shown below:

In kEUR	2013	2012
Salaries and other short-term employee benefits	2,380	2,692
Post-employment benefits	229	194
Share based payments	346	-73
Total	**2,955**	**2,813**

31. Subsequent events

Contribution of shares in E-Plus Service GmbH & Co. KG

As part of a share transfer agreement between E-Plus and E-Plus Geschäftsführungs GmbH dated January 29, 2014, E-Plus Geschäftsführungs GmbH transferred its 5% share in E-Plus Service GmbH & Co. KG to the Company as a contribution in kind.

Merger of E-Plus 3G Luxembourg S.à.r.l. into E-Plus 3G GmbH

As part of a shareholders' meeting held on February 4, 2014, the Company as the sole shareholder of E-Plus 3G Luxembourg S.à.r.l. (3G Lux) transferred its holding in 3G Lux into E-Plus 3G GmbH by way of an increase in share capital against contribution in kind. 3G Lux has been liquidated in the meantime.

32. Responsibility Statement by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group.

Duesseldorf, May 2nd, 2014

Board of Directors

Thorsten Dirks — Godert Vinkesteijn

Kay Schwabedal — Andreas Pfisterer

Alfons Lösing

AUDIT OPINION

Independent Auditor's Report

To E-Plus Mobilfunk GmbH & Co. KG, Duesseldorf

We have audited the accompanying consolidated financial statements of E-Plus Mobilfunk GmbH & Co. KG, Duesseldorf, and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in group equity and consolidated statement of cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of E-Plus Mobilfunk GmbH & Co. KG, Duesseldorf, and its subsidiaries as at December 31, 2013, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

Duesseldorf, May 2, 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Lutz Granderath
Wirtschaftsprüfer
(German Public Auditor)

Thomas Tandetzki
Wirtschaftsprüfer
(German Public Auditor)

PRO FORMA CONSOLIDATED FINANCIAL INFORMATION OF TELEFÓNICA DEUTSCHLAND HOLDING AG FOR THE YEAR ENDED DECEMBER 31, 2013 AND AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2014

1. Introduction

In a sale and purchase agreement (the "**SPA**") dated July 23, 2013, as amended on August 26, 2013, August 28, 2013, December 5, 2013 and March 24, 2014 among Koninklijke KPN N.V. ("**KPN**", and together with its direct and indirect subsidiaries, the "**KPN Group**"), Telefónica, S.A. and Telefónica Deutschland Holding AG (the "**Company**", and together with its direct and indirect subsidiaries and joint operations "**Telefónica Deutschland**"), the Company agreed to purchase E-Plus Mobilfunk GmbH & Co. KG ("**New E-Plus KG**", formerly E-Plus Transition GmbH & Co. KG) following the transfer of all business activities, assets and certain liabilities of KPN Mobile Germany GmbH & Co. KG ("**KPN Mobile Germany**", formerly E-Plus Mobilfunk GmbH & Co. KG, and together with its direct and indirect subsidiaries the "**Original E-Plus Group**") into New E-Plus KG (the "**Acquisition**"). Since this transfer, which became effective on June 23, 2014, New E-Plus KG, including its direct and indirect subsidiaries (the "**New E-Plus Group**"), has conducted the business activities of KPN Group on the German mobile telecommunications market.

The closing of the Acquisition ("**Closing**") is subject to the occurrence or waiving of certain conditions precedent and is expected to occur in the second half of 2014. In the SPA, KPN agreed to restructure the Original E-Plus Group prior to Closing (the "**Pre-Closing Restructuring**"). The Pre-Closing Restructuring included measures such as the restructuring and/or merger of subsidiaries as well as establishing a new holding company, i.e., New E-Plus KG (founded under the name E-Plus Transition GmbH & Co. KG and subsequently renamed E-Plus Mobilfunk GmbH & Co. KG), to which, by way of a spin-off under the German Transformation Act (*Umwandlungsgesetz*), KPN Mobile Germany contributed all its assets, liabilities and contracts except all shareholder loans (including all liabilities thereunder, in particular principal, accrued interest, gains and losses) existing between KPN Mobile Germany on the one side and KPN and companies affiliated with KPN on the other side, as well as all tax liabilities of KPN Mobile Germany for periods prior to January 1, 2014 (irrespective of whether due, assessed, contingent or arising in the future).

Since the Acquisition is expected to have a material impact on the assets, financial position and results of operations of Telefónica Deutschland, the following pro forma consolidated financial information was prepared by the Company, comprising pro forma consolidated income statements for the periods from January 1, 2013 to December 31, 2013 and January 1, 2014 to June 30, 2014, a pro forma consolidated statement of financial position as of June 30, 2014 and pro forma notes (together, the "**Pro Forma Consolidated Financial Information**").

The purpose of the Pro Forma Consolidated Financial Information is to show the material effects that the Acquisition of the New E-Plus Group would have had on the historical consolidated financial statements of the Company if Telefónica Deutschland had already existed in the structure created by the Acquisition as of January 1, 2013 with respect to the pro forma consolidated income statements and as of June 30, 2014 with respect to the pro forma consolidated statement of financial position.

The presentation of the Pro Forma Consolidated Financial Information of the Company is based on certain pro forma assumptions and is intended for illustrative purposes only. The Pro Forma Consolidated Financial Information of the Company assumes, in particular, that the Rights Offering (as defined in section 3.2. of the Pro Forma Consolidated Financial Information), the Pre-Closing Restructuring and the subsequent Acquisition of the New E-Plus Group by the Company had taken place on January 1, 2013 for purposes of the pro forma consolidated income statements of the Company for the periods from January 1, 2013 to December 31, 2013 and from January 1, 2014 to June 30, 2014. For purposes of the pro forma consolidated statement of financial position of the Company as of June 30, 2014, the Rights Offering, the Pre-Closing Restructuring and the subsequent Acquisition of the New E-Plus Group by the Company are presented as if they had taken place on June 30, 2014.

Therefore, the Pro Forma Consolidated Financial Information describes only a hypothetical situation and thus, due to its nature, the presentation does not reflect the actual net assets, financial position and results of operations of the Company after completion of the Acquisition. In addition, the Pro Forma Consolidated Financial Information does not represent a forecast of the net assets, financial position and results of operations of the Company at a future time. Furthermore, the Pro Forma Consolidated Financial Information is only meaningful in conjunction with the historical consolidated financial statements of the Company as of and for the financial year ended December 31, 2013 and the historical interim condensed consolidated financial statements of the Company as of and for the six-month period ended June 30, 2014.

2. Historical financial information

2.1. Historical financial information used

The pro forma consolidated income statement for the period from January 1, 2013 to December 31, 2013 is based on the following historical financial information:

- The audited and published consolidated financial statements of the Company as of and for the financial year ended December 31, 2013, prepared on the basis of the International Financial Reporting Standards, as adopted by the EU ("**IFRS**"), and the additional requirements of German commercial law pursuant to section 315a (1) of the German Commercial Code (*Handelsgesetzbuch*, HGB).
- The unaudited and unpublished IFRS consolidated income statement of New E-Plus KG for the period from January 1, 2013 to December 31, 2013, which was derived from the audited consolidated financial statements of KPN Mobile Germany as of and for the financial year ended December 31, 2013, included in the prospectus relating to the offering of new ordinary non-par value registered shares of the Company as well as the admission to trading of new

ordinary non-par value registered shares of the Company on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange and on the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) (the "**Prospectus**") together with the Pro Forma Consolidated Financial Information and prepared on the basis of IFRS, and subsequently adjusted to reflect the acquisition structure agreed in the SPA and the accounting policies of the Company for purposes of the Pro Forma Consolidated Financial Information.

The pro forma consolidated income statement for the period from January 1, 2014 to June 30, 2014 and the pro forma consolidated statement of financial position as of June 30, 2014 are based on the following historical financial information:

- The unaudited and published interim condensed consolidated financial statements of the Company as of and for the six-month period ended June 30, 2014, prepared on the basis of IFRS on interim financial reporting (IAS 34).
- The unaudited and unpublished IFRS consolidated income statement of New E-Plus KG for the period from January 1, 2014 to June 30, 2014 and the unaudited and unpublished IFRS consolidated statement of financial position of New E-Plus KG as of June 30, 2014, which were derived from the unaudited interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014, included in the Prospectus together with the Pro Forma Consolidated Financial Information and prepared on the basis of IFRS on interim financial reporting (IAS 34), and subsequently adjusted to reflect the acquisition structure agreed in the SPA and the accounting policies of the Company for purposes of the Pro Forma Consolidated Financial Information.

The historical financial information of the Pro Forma Consolidated Financial Information was prepared on the basis of IFRS and the accounting policies consistently applied by the Company as described in the notes to its IFRS consolidated financial statements as of and for the financial year ended December 31, 2013 and its IFRS interim condensed consolidated financial statements as of and for the six-month period ended June 30, 2014.

2.2. Reconciliation of the historical financial information of the New E-Plus Group

The following tables summarize the adjustments to the historical financial information of the New E-Plus Group for the periods from January 1, 2013 to December 31, 2013 as well as from January 1, 2014 to June 30, 2014 and as of June 30, 2014 related to the Pre-Closing Restructuring as described in section 2.3. and to harmonize the accounting policies as described in section 2.4. of the Pro Forma Consolidated Financial Information.

2.2.1. Historical financial information of the New E-Plus Group for the period from January 1, 2013 to December 31, 2013

January 1 to December 31, 2013			**2.4. Accounting policy adjustments**		
€ in thousands	**Original E-Plus Group**	**2.3.2. Pre-Closing Restructuring**	**2.4.1.1. Presentation adjustments**	**2.4.2.1. Accounting and valuation adjustments**	**New E-Plus Group**
Revenues	3,142,707	-	(9,949)	119,408	3,252,166
Other income[(a)]	44,990	-	11,705	-	56,695
Supplies[(b)]	(1,718,130)	-	993,184	(302,413)	(1,027,359)
Personnel expenses[(c)]	(254,376)	-	-	-	(254,376)
Other expenses[(d)]	(299,159)	-	(1,003,233)	(37,109)	(1,339,501)
Operating income before depreciation and amortization (OIBDA)	**916,032**	**-**	**(8,293)**	**(220,114)**	**687,625**
Depreciation and amortization[(e)]	(971,298)	-	-	132,713	(838,585)
Operating income	**(55,266)**	**-**	**(8,293)**	**(87,401)**	**(150,960)**
Finance income	333,019	(332,188)	-	7,747	8,578
Exchange gains	-	-	108	-	108
Finance costs[(f)]	(44,181)	-	8,257	(12,751)	(48,675)
Exchange losses	-	-	(72)	-	(72)
Net financial income/(expense)	**288,838**	**(332,188)**	**8,293**	**(5,004)**	**(40,061)**
Profit/(loss) before tax from continuing operations	**233,572**	**(332,188)**	**-**	**(92,405)**	**(191,021)**
Income tax	(66,065)	66,065	-	-	-
Profit/(loss) after taxes for the year from continuing operations	**167,507**	**(266,123)**	**-**	**(92,405)**	**(191,021)**
Total profit/(loss) for the year	**167,507**	**(266,123)**	**-**	**(92,405)**	**(191,021)**

(a) Consists of other income (€7,775 thousand) and own work capitalized (€37,215 thousand) as reported in the audited IFRS consolidated financial statements of KPN Mobile Germany as of and for the financial year ended December 31, 2013.

(b) Consists of cost of materials (€279,621 thousand) and work contracted out (€1,438,509 thousand) as reported in the audited IFRS consolidated financial statements of KPN Mobile Germany as of and for the financial year ended December 31, 2013.

(c) Consists of employee benefits (€254,376 thousand) as reported in the audited IFRS consolidated financial statements of KPN Mobile Germany as of and for the financial year ended December 31, 2013.

(d) Consists of other operating expenses (€299,159 thousand) as reported in the audited IFRS consolidated financial statements of KPN Mobile Germany as of and for the financial year ended December 31, 2013.

(e) Consists of depreciation, amortization and impairments (€971,298 thousand) as reported in the audited IFRS consolidated financial statements of KPN Mobile Germany as of and for the financial year ended December 31, 2013.

(f) Consists of finance costs (€24,828 thousand) and other financial result (€19,353 thousand) as reported in the audited IFRS consolidated financial statements of KPN Mobile Germany as of and for the financial year ended December 31, 2013.

2.2.2. Historical financial information of the New E-Plus Group for the period from January 1, 2014 to June 30, 2014

January 1 to June 30, 2014			**2.4. Accounting policy adjustments**		
€ in thousands	**Original E-Plus Group**	**2.3.2. Pre-Closing Restructuring**	**2.4.1.2. Presentation adjustments**	**2.4.2.2. Accounting and valuation adjustments**	**New E-Plus Group**
Revenues	1,582,980	-	(7,981)	3,904	1,578,903
Other income[a]	19,525	-	5,183	-	24,708
Supplies[b]	(807,790)	-	500,020	(199,890)	(507,660)
Personnel expenses[c]	(145,661)	-	-	-	(145,661)
Other expenses[d]	(164,648)	-	(501,176)	(6,465)	(672,289)
Operating income before depreciation and amortization (OIBDA)	**484,406**	**-**	**(3,954)**	**(202,451)**	**278,001**
Depreciation and amortization[e]	(499,365)	-	-	138,235	(361,130)
Operating income	**(14,959)**	**-**	**(3,954)**	**(64,216)**	**(83,129)**
Finance income	370	-	-	4,075	4,445
Exchange gains	-	-	18	-	18
Finance costs[f]	(625,441)	603,315	3,969	(9,331)	(27,488)
Exchange losses	-	-	(33)	-	(33)
Net financial income/(expense)	**(625,071)**	**603,315**	**3,954**	**(5,256)**	**(23,058)**
Profit/(loss) before tax	**(640,030)**	**603,315**	**-**	**(69,472)**	**(106,187)**
Income tax	260,085	(260,085)	-	-	**-**
Total profit/(loss) for the period	**(379,945)**	**343,230**	**-**	**(69,472)**	**(106,187)**

(a) Consists of other income (€1,443 thousand) and own work capitalized (€18,082 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

(b) Consists of cost of materials (€103,739 thousand) and work contracted out (€704,051 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

(c) Consists of employee benefits (€145,661 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

(d) Consists of other operating expenses (€164,648 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

(e) Consists of depreciation, amortization and impairments (€499,365 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

(f) Consists of finance costs (€619,148 thousand) and other financial result (€6,293 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

2.2.3. Historical financial information of the New E-Plus Group as of June 30, 2014

As of June 30, 2014 € in thousands	Original E-Plus Group	2.3.3. Pre-Closing Restructuring	2.4. Accounting policy adjustments 2.4.1.4. Presentation adjustments	 2.4.2.3. Accounting and valuation adjustments	New E-Plus Group
Assets					
A) Non-current assets	**4,779,677**	**16,135**	**-**	**(423,843)**	**4,371,969**
Goodwill	151,305	-	-	-	151,305
Intangible assets[(a)]	1,732,092	-	-	-	1,732,092
Property, plant and equipment[(b)]	2,846,210	-	-	(547,289)	2,298,921
Other non-current financial assets[(c)]	50,070	-	-	123,446	173,516
Deferred tax assets	-	16,135	-	-	16,135
B) Current assets	**820,594**	**-**	**-**	**272,066**	**1,092,660**
Inventories	25,159	-	-	-	25,159
Trade and other receivables[(d)]	440,682	-	-	272,066	712,748
Other current financial assets	-	-	-	-	-
Cash and cash equivalents	354,753	-	-	-	354,753
Total assets (A+B)	**5,600,271**	**16,135**	**-**	**(151,777)**	**5,464,629**
Equity and liabilities					
A) Equity	**(4,625,417)**	**8,828,284**	**-**	**(192,570)**	**4,010,297**
Common stock[(e)]	10,102	-	-	-	10,102
Additional paid-in capital[(f)]	1,434,630	-	-	-	1,434,630
Retained earnings	(6,070,149)	8,830,766	-	(192,570)	2,568,047
Other components of equity	-	(2,482)	-	-	(2,482)
Equity attributable to owners of the parent	**(4,625,417)**	**8,828,284**	**-**	**(192,570)**	**4,010,297**
B) Non-current liabilities	**9,027,982**	**(8,696,414)**	**-**	**17,956**	**349,524**
Non-current interest-bearing debt[(g)]	6,747,189	(6,747,189)	-	-	-
Other payables[(h)]	115,350	-	(1,784)	29,689	143,255
Non-current provisions[(i)]	216,218	-	-	(13,748)	202,470
Deferred income	-	-	1,784	2,015	3,799
Deferred tax liabilities[(j)]	1,949,225	(1,949,225)	-	-	-
C) Current liabilities	**1,197,706**	**(115,735)**	**-**	**22,837**	**1,104,808**
Current interest-bearing debt[(k)]	5,271	-	-	-	5,271
Trade payables[(l)]	775,369	-	(225,001)	-	550,368
Other payables[(m)]	403,397	(115,735)	24,100	27,274	339,036
Current provisions[(n)]	13,669	-	-	-	13,669
Deferred income	-	-	200,901	(4,437)	196,464
Total equity and liabilities (A+B+C)	**5,600,271**	**16,135**	**-**	**(151,777)**	**5,464,629**

(a) Consists of licenses (€1,552,046 thousand), software (€157,888 thousand) and other intangible assets (€22,158 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

(b) Consists of land and buildings (€44,197 thousand), property, plant and equipment (€2,550,496 thousand), other tangible assets (€7,991 thousand) and assets under construction (€243,526 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

(c) Consists of other non-current assets (€50,070 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

[d] Consists of trade and other financial receivables (€322,647 thousand) and other current assets (€118,035 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

[e] Consists of fixed partnership capital (€10,102 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

[f] Consists of additional contributions from partners (€1,434,630 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

[g] Consists of non-current borrowings (€6,747,189 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

[h] Consists of non-current finance lease liabilities (€107,178 thousand) and other payables and deferred income (€8,172 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

[i] Consists of provisions for retirement benefit obligations (€48,262 thousand) and provisions for other liabilities and charges (€167,956 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014

[j] Consists of deferred income tax liabilities (€1,949,225 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014

[k] Consists of current borrowings (€5,271 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

[l] Consists of trade and other payables (€775,369 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

[m] Consists of current finance lease liabilities (€287,662 thousand) and income tax payables (€115,735 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

[n] Consists of provisions for other liabilities and charges (€13,669 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

2.3. Adjustments to the historical financial information of the New E-Plus Group related to the Pre-Closing Restructuring

As described in section 3.2 of the Pro Forma Consolidated Financial Information, the acquisition structure agreed in the SPA provided that the business of the Original E-Plus Group was contributed into New E-Plus KG by way of a spin-off under the German Transformation Act (*Umwandlungsgesetz*). The historical financial information of the New E-Plus Group, which was derived from the audited IFRS consolidated financial statements of KPN Mobile Germany as of and for the financial year ended December 31, 2013 and the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014, was adjusted to reflect the consolidated financial information of New E-Plus KG acquisition vehicle as if the Pre-Closing Restructuring had taken place on January 1, 2013 for purposes of the pro forma consolidated income statements and on June 30, 2014 for purposes of the pro forma consolidated statement of financial position.

2.3.1. Treatment of the Pre-Closing Restructuring

The contribution of the business of the Original E-Plus Group into New E-Plus KG as part of the Pre-Closing Restructuring was treated as a transaction of entities under common control applying the predecessor accounting method. This method for establishing the agreed acquisition structure of New E-Plus KG comprised the following measures:

- The assets and liabilities of the combining entities, unless excluded, were reflected at their carrying amounts. No adjustments were made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination that would otherwise be done under the acquisition method.
- No ‘new’ goodwill was recognized as a result of the combination. The only goodwill that was recognized was any existing goodwill relating to either of the combining entities.
- The consolidated income statements reflect the results of the combining entities unless excluded for the full year and the full six-month period, respectively, irrespective of when the combination took place.

In accordance with the SPA, the contribution of the business of the Original E-Plus Group into New E-Plus KG was performed at fair market values for German income tax purposes as a spin-off with retrospective effect as of December 31, 2013. For purposes of the pro forma consolidated income statements, the historical financial information of the New E-Plus Group is presented as if the spin-off had taken place on January 1, 2013. For purposes of the pro forma consolidated statement of financial position, the historical financial information of the New E-Plus Group is presented as if the spin-off had taken place on June 30, 2014.

The historical financial information of the New E-Plus Group was furthermore adjusted to reflect the acquisition structure agreed in the SPA and in doing so the consolidated financial information of the New E-Plus Group for the financial year ended December 31, 2013 and as of and for the six-month period ended June 30, 2014 was adjusted to exclude all shareholder loans (including all accrued interest, gains and losses) existing between KPN Mobile Germany on the one side and KPN and companies affiliated with KPN on the other side, as well as all tax liabilities of KPN Mobile Germany for periods prior to January 1, 2014 (irrespective of whether due, assessed, contingent or arising in the future), and related income and expenses.

2.3.2. Explanation of adjustments related to the Pre-Closing Restructuring in the consolidated income statements

For purposes of the historical consolidated income statements of the New E-Plus Group, gains and losses related to the shareholder loans of the Original E-Plus Group were eliminated. In the IFRS consolidated financial statements of KPN Mobile Germany, the shareholder loans were measured at fair value both at initial recognition as well as for purposes of subsequent measurement. Any gains or losses arising from subsequent measurement were recognized in the consolidated income statement of KPN Mobile Germany.

Consequently, finance income amounting to €332,188 thousand relating to the change in fair value of the shareholder loans recognized through profit and loss in the consolidated income statement of KPN Mobile Germany was eliminated for purposes of the historical consolidated income statement of the New E-Plus Group for the period from January 1, 2013 to December 31, 2013. Furthermore, deferred tax expenses of €14,645 thousand related to the shareholder loans recognized in the consolidated income statement of KPN Mobile Germany for the period from January 1, 2013 to December 31, 2013 were eliminated. As KPN Mobile Germany incurred a tax loss for the period from January 1, 2013 to December 31, 2013, no additional income tax effect was recognized in connection with the removal of the finance income for purposes of the historical consolidated income statement of the New E-Plus Group.

Furthermore, historical deferred tax income of KPN Mobile Germany on tax losses carried forward amounting to €8,308 thousand was eliminated due to the loss of tax losses carried forward in connection with the spin-off. In addition, other historical deferred and current tax expenses of KPN Mobile Germany in the amount of €59,728 thousand were eliminated to reflect the changes in the underlying tax position due to the Pre-Closing Restructuring and the contribution of the business of the Original E-Plus Group into New E-Plus KG at fair market values. The net tax adjustment in connection with the effects of the Pre-Closing Restructuring resulted in an income tax benefit amounting to €66,065 thousand for the financial year ended December 31, 2013.

For purposes of the historical consolidated income statement of the New E-Plus Group for the period from January 1, 2014 to June 30, 2014, finance costs amounting to €603,315 thousand relating to the change in fair value of the shareholder loans recognized through profit and loss in the consolidated income statement of KPN Mobile Germany were eliminated. Furthermore, deferred tax income of €92,960 thousand related to the shareholder loans recognized in the consolidated income statement of KPN Mobile Germany for the period from January 1, 2014 to June 30, 2014 was eliminated. Even under consideration of the elimination of the finance costs for tax purposes, KPN Mobile Germany incurred a tax loss for the period from January 1, 2014 to June 30, 2014. Consequently, no additional income tax effect was recognized in connection with the removal of the finance costs for purposes of the historical consolidated income statement of the New E-Plus Group.

Furthermore, historical deferred tax income of KPN Mobile Germany on tax losses carried forward amounting to €13,142 thousand was eliminated due to the loss of tax losses carried forward in connection with the spin-off. In addition, other historical deferred tax income and current tax expenses of KPN Mobile Germany in the net amount of €153,983 thousand were eliminated to reflect the changes in the underlying tax position due to the Pre-Closing Restructuring and the contribution of the business of the Original E-Plus Group into New E-Plus Group at fair market values. The net tax adjustment in connection with the effects of the Pre-Closing Restructuring resulted in income tax expenses amounting to €260,085 thousand for the six-month period ended June 30, 2014.

2.3.3. Explanation of adjustments related to the Pre-Closing Restructuring in the consolidated statement of financial position

For purposes of the historical consolidated statement of financial position of the New E-Plus Group as of June 30, 2014, all shareholder loans of the Original E-Plus Group amounting to €6,747,189 thousand within non-current interest-bearing debt and related deferred tax liabilities amounting to €2,365,264 thousand were eliminated.

Furthermore, historical deferred tax assets of KPN Mobile Germany (presented net of deferred tax liabilities in its consolidated financial statements) on tax losses carried forward amounting to €28,344 thousand were eliminated due to the loss of tax losses carried forward in connection with the spin-off. In addition, other historical deferred tax assets of KPN Mobile Germany in the amount of €387,695 thousand were eliminated as they ceased to be realizable due to the effects of the Pre-Closing Restructuring. The net tax adjustment in connection with the effects of the Pre-Closing Restructuring resulted in a decrease of net deferred tax liabilities amounting to €1,949,225 thousand.

Deferred tax assets resulting from the contribution of the business of the Original E-Plus Group into the New E-Plus Group at fair market values for German income tax purposes of June 30, 2014 are deemed to be realizable amounting to €16,135 thousand based on the tax planning of the New E-Plus Group.

Income tax payables of the Original E-Plus Group amounting to €115,735 thousand as of June 30, 2014 not transferred as part of the Acquisition were eliminated. The net effect from the adjustments to shareholder loans, deferred taxes and income tax payables resulted in an increase of equity amounting to €8,828,284 thousand, composed of an increase of retained earnings amounting to €8,830,766 thousand and a decrease of other components of equity amounting to €2,482 thousand.

2.4. Adjustments to the historical financial information of the New E-Plus Group to harmonize the accounting policies

In order to apply consistent accounting policies in the historical financial information of the Pro Forma Consolidated Financial Information, the historical financial information of the New E-Plus Group, which was derived from the audited IFRS consolidated financial statements of KPN Mobile Germany as of and for the financial year ended December 31, 2013 and the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014, was adjusted to the accounting policies as applied by the Company in its IFRS consolidated financial statements as of and for the financial year ended December 31, 2013 and its IFRS interim condensed consolidated financial statements as of and for the six-month period ended June 30, 2014.

2.4.1. Presentation adjustments

2.4.1.1. Presentation adjustments to the consolidated income statement for the period from January 1, 2013 to December 31, 2013

January 1 to December 31, 2013 **€ in thousands**	**Foreign exchange gains and losses**	**Rental income**	**Service provider contracts**	**Returned debits**	**Customer and supplier financing**	**Work contracted out**	**Presentation adjustments for the period January 1 to December 31, 2013**
Explanation	(1)	(2)	(3)	(4)	(5)	(6)	
Revenues	(108)	(14,921)	21,388	(16,308)	-	-	(9,949)
Other income	-	-	-	11,705	-	-	11,705
Supplies	72	-	390,116	4,603	-	598,393	993,184
Personnel expenses	-	-	-	-	-	-	-
Other expenses	-	14,921	(411,504)	-	(8,257)	(598,393)	(1,003,233)
Operating income before depreciation and amortization (OIBDA)	**(36)**	**-**	**-**	**-**	**(8,257)**	**-**	**(8,293)**
Depreciation and amortization	-	-	-	-	-	-	-
Operating income	**(36)**	**-**	**-**	**-**	**(8,257)**	**-**	**(8,293)**
Finance income	-	-	-	-	-	-	-
Exchange gains	108	-	-	-	-	-	108
Finance costs	-	-	-	-	8,257	-	8,257
Exchange losses	(72)	-	-	-	-	-	(72)
Net financial income/ (expense)	**36**	**-**	**-**	**-**	**8,257**	**-**	**8,293**
Profit/(loss) before tax from continuing operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Income tax	-	-	-	-	-	-	-
Profit/(loss) after taxes for the year from continuing operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total profit/(loss) for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**

2.4.1.2. Presentation adjustments to the consolidated income statement for the period from January 1, 2014 to June 30, 2014

January 1 to June 30, 2014 € in thousands	Foreign exchange gains and losses	Rental income	Service provider contracts	Returned debits	Customer and supplier financing	Work contracted out	Presentation adjustments for the period January 1 to June 30, 2014
Explanation	(1)	(2)	(3)	(4)	(5)	(6)	
Revenues	(18)	(7,337)	7,556	(8,182)	-	-	(7,981)
Other income	-	-	-	5,183	-	-	5,183
Supplies	33	-	201,065	2,999	-	295,923	500,020
Personnel expenses	-	-	-	-	-	-	-
Other expenses	-	7,337	(208,621)	-	(3,969)	(295,923)	(501,176)
Operating income before depreciation and amortization (OIBDA)	**15**	**-**	**-**	**-**	**(3,969)**	**-**	**(3,954)**
Depreciation and amortization	-	-	-	-	-	-	-
Operating income	**15**	**-**	**-**	**-**	**(3,969)**	**-**	**(3,954)**
Finance income	-	-	-	-	-	-	-
Exchange gains	18	-	-	-	-	-	18
Finance costs	-	-	-	-	3,969	-	3,969
Exchange losses	(33)	-	-	-	-	-	(33)
Net financial income/ (expense)	**(15)**	**-**	**-**	**-**	**3,969**	**-**	**3,954**
Profit/(loss) before tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Income tax	-	-	-	-	-	-	-
Total profit/(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**

2.4.1.3. Explanation of presentation adjustments to the consolidated income statements

Based on the respective presentation format, the consolidated income statements of KPN Mobile Germany for the financial year ended December 31, 2013 and for the six-month period ended June 30, 2014 were adjusted to the format and the designation of the line items used in the consolidated income statements of the Company. The following presentation adjustments were applied to the consolidated income statements of KPN Mobile Germany:

(1) Foreign exchange gains and losses

The Company presents foreign exchange gains and exchange losses as separate line items in its consolidated income statements. KPN Mobile Germany recognizes foreign exchange gains and losses within the line items ‘revenues’ and ‘work contracted out’, respectively, in its consolidated income statements. Consequently, these items were reclassified.

For the financial year ended December 31, 2013, foreign exchange gains in the amount of €108 thousand were reclassified from ‘revenues’ to ‘exchange gains’ and foreign exchange losses in the amount of €72 thousand were reclassified from ‘work contracted out’ (designated to the line item ‘supplies’ within the Company’s presentation format) to ‘exchange losses’. For the six-month period ended June 30, 2014, foreign exchange gains in the amount of €18 thousand were reclassified from ‘revenues’ to ‘exchange gains’ and foreign exchange losses in the amount of €33 thousand were reclassified from ‘work contracted out’ (designated to the line item ‘supplies’ within the Company’s presentation format) to ‘exchange losses’.

(2) Rental income

The Company presents rental income from sublease agreements for tower space and for shop areas as a deduction of ‘other expenses’, whereby KPN Mobile Germany classifies such income as ‘revenues’ in its consolidated income statements. Consequently, a reclassification from ‘revenues’ to ‘other expenses’ amounting to €14,921 thousand was reflected for the financial year ended December 31, 2013, and a reclassification from ‘revenues’ to ‘other expenses’ amounting to €7,337 thousand was reflected for the six-month period ended June 30, 2014.

(3) Service provider contracts

KPN Mobile Germany generates revenues from contracts with service providers. In accordance with existing principal-agent arrangement criteria, the resulting income is either presented net (as commissions within ‘revenues’) or gross (separate recognition of revenues and related expenses within ‘work contracted out’). In general, the application of these criteria is accompanied with significant judgment.

In accordance with the Company's accounting policies, certain service provider contracts that are recognized on a net basis by KPN Mobile Germany, need to be reported on a gross basis resulting in a gross-up of 'revenues' and 'other expenses' in the amount of €21,388 thousand for the financial year ended December 31, 2013 and €7,556 thousand for the six-month period ended June 30, 2014.

Furthermore, for service provider contracts reported on a gross basis, the Company recognizes certain cost elements as 'other expenses', while such costs are recognized by KPN Mobile Germany within the line item 'work contracted out' (designated to the line item 'supplies' within the Company's presentation format). Accordingly, a reclassification of such costs from 'work contracted out' to 'other expenses' was recognized in the amount of €390,116 thousand for the financial year ended December 31, 2013 and €201,065 thousand for the six-month period ended June 30, 2014. Consequently, the total adjustment to 'other expenses' amounted to €411,504 thousand for the financial year ended December 31, 2013 and to €208,621 thousand in the six-month period ended June 30, 2014.

(4) Returned debits

KPN Mobile Germany presents income from returned debits under 'revenues' with the related expenses presented within 'work contracted out'. The Company presents the net effect from such transactions in 'other income'.

Consequently, for the financial year ended December 31, 2013, revenues of €16,308 thousand as well as income recognized in 'work contracted out' of €4,603 thousand (designated to the line item 'supplies' within the Company's presentation format) were reclassified to 'other income' in a net amount of €11,705 thousand. For the six-month period ended June 30, 2014, revenues of €8,182 thousand as well as expenses recognized in 'work contracted out' of €2,999 thousand were reclassified to 'other income' in a net amount of €5,183 thousand.

(5) Customer and supplier financing

KPN Mobile Germany has entered into a customer and supplier financing agreement and presents the related total service fee within finance costs in its consolidated income statements. According to the Company's accounting policies, only the finance component of the service fee is classified as 'finance costs' in the consolidated income statements, whereas the service component is recognized as 'other expenses'. Accordingly, finance costs amounting to €8,257 thousand, reflecting the service component of the total service fee, were reclassified to 'other expenses' for the financial year ended December 31, 2013, and finance costs amounting to €3,969 thousand, reflecting the service component of the total service fee, were reclassified to 'other expenses' for the six-month period ended June 30, 2014.

(6) Work contracted out

For purposes of the historical consolidated income statements of the New E-Plus Group, the line item 'work contracted out' was designated to the line item 'supplies' used in the consolidated income statements of the Company. In accordance with the presentation format applied by the Company in its consolidated income statement, certain items presented within 'work contracted' out by KPN Mobile Germany required reclassification to 'other expenses', for example expenses related to infrastructure, IT-services and network maintenance. Consequently, a reclassification from 'supplies' to 'other expenses' amounting to €598,393 thousand was reflected for the financial year ended December 31, 2013, and a reclassification from 'supplies' to 'other expenses' amounting to €295,923 thousand was reflected for the six-month period ended June 30, 2014.

2.4.1.4. Presentation adjustments to the consolidated statement of financial position as of June 30, 2014

As of June 30, 2014 **€ in thousands**	**Deferred income**	**Other payables**	**Presentation adjustments as of June 30, 2014**
Explanation	(1)	(2)	
Assets			
A) Non-current assets	**-**	**-**	-
Goodwill	-	-	-
Intangible assets	-	-	-
Property, plant and equipment	-	-	-
Other non-current financial assets	-	-	-
Deferred tax assets	-	-	-
B) Current assets	**-**	**-**	**-**
Inventories	-	-	-
Trade and other receivables	-	-	
Other current financial assets	-	-	
Cash and cash equivalents	-	-	-
Total assets (A+B)	**-**	**-**	**-**
Equity and liabilities			
A) Equity	**-**	**-**	**-**
Common stock	-	-	-
Additional paid-in capital	-	-	-
Retained earnings	-	-	-
Other components of equity	-	-	-
Equity attributable to owners of the parent	-	-	-
B) Non-current liabilities	**-**	**-**	**-**
Non-current interest-bearing debt	-	-	-
Other payables	(1,784)	-	(1,784)
Non-current provisions	-	-	-
Deferred income	1,784	-	1,784
Deferred tax liabilities	-	-	-
C) Current liabilities	**-**	**-**	**-**
Current interest-bearing debt	-	-	-
Trade payables	(200,901)	(24,100)	(225,001)
Other payables	-	24,100	24,100
Current provisions	-	-	-
Deferred income	200,901	-	200,901
Total equity and liabilities (A+B+C)	**-**	**-**	**-**

2.4.1.5. Explanation of presentation adjustments to the consolidated statement of financial position as of June 30, 2014

Based on the respective presentation format, the consolidated statement of financial position of KPN Mobile Germany as of June 30, 2014 was adjusted to the format and the designation of the line items used in the consolidated statement of financial position of the Company. The following presentation adjustments were applied to the consolidated statement of financial position of KPN Mobile Germany:

(1) Deferred income

The Company presents current and non-current deferred income as separate line items in the consolidated statement of financial position. In its consolidated statement of financial position, KPN Mobile Germany presents current deferred income within 'trade and other payables', which was designated to the line item 'trade payables' used in the consolidated statement of financial position of the Company, and non-current deferred income within 'other payables and deferred income', which was designated to the line item ‘other payables’ in the consolidated statement of financial position of the Company. Consequently, current deferred income of KPN Mobile Germany amounting to €200,901 thousand was reclassified from ‘trade payables’ to current ‘deferred income’ and non-current deferred income of KPN Mobile Germany amounting to €1,784 thousand was reclassified from ‘other payables’ to non-current ‘deferred income’ as of June 30, 2014.

(2) Other payables

For purposes of the statement of financial position, the Company presents trade payables and other payables in separate line items. KPN Mobile Germany presents trade and other payables as a single line item in its consolidated statement of financial position, which was designated to the line item ‘trade payables’ used in the consolidated statement of financial position of the Company. Other payables and social security and other taxes payable of KPN Mobile Germany amounting to €24,100 thousand were reclassified from ‘trade payables’ to ‘other payables’ as of June 30, 2014.

2.4.2. Accounting and valuation adjustments

2.4.2.1. Accounting and valuation adjustments to the consolidated income statement for the period from January 1, 2013 to December 31, 2013

January 1 to December 31, 2013 **€ in thousands**	**Leasing of mobile devices**	**Deferred revenues one-off connection fees**	**Provisions for dis-mantling obligations**	**Allowances for doubtful accounts receivables**	**Own work capitalized**	**Tax valuation allowance**	**Accounting and valuation adjustments for the period January 1 to December 31, 2013**
Explanation	(1)	(2)	(3)	(4)	(5)	(6)	
Revenues	115,609	3,799	-	-	-	-	119,408
Other income	-	-	-	-	-	-	-
Supplies	(302,413)	-	-	-	-	-	(302,413)
Personnel expenses	-	-	-	-	-	-	-
Other expenses	(5,689)	-	(29,894)	(1,526)	-	-	(37,109)
Operating income before depreciation and amortization (OIBDA)	**(192,493)**	**3,799**	**(29,894)**	**(1,526)**	**-**	**-**	**(220,114)**
Depreciation and amortization	179,675	-	(2,010)	-	(44,952)	-	132,713
Operating income	**(12,818)**	**3,799**	**(31,904)**	**(1,526)**	**(44,952)**	**-**	**(87,401)**
Finance income	7,747	-	-	-	-	-	7,747
Exchange gains	-	-	-	-	-	-	-
Finance costs	(13,142)	-	391	-	-	-	(12,751)
Exchange losses	-	-	-	-	-	-	-
Net financial income/(expense)	**(5,395)**	**-**	**391**	**-**	**-**	**-**	**(5,004)**
Profit/(loss) before tax from continuing operations	**(18,213)**	**3,799**	**(31,513)**	**(1,526)**	**(44,952)**	**-**	**(92,405)**
Income tax	2,807	(585)	4,856	235	6,927	(14,240)	-
Profit/(loss) after taxes for the year from continuing operations	**(15,406)**	**3,214**	**(26,657)**	**(1,291)**	**(38,025)**	**(14,240)**	**(92,405)**
Total profit/(loss) for the year	**(15,406)**	**3,214**	**(26,657)**	**(1,291)**	**(38,025)**	**(14,240)**	**(92,405)**

2.4.2.2. Accounting and valuation adjustments to the consolidated income statement for the period from January 1, 2014 to June 30, 2014

January 1 to June 30, 2014 **€ in thousands**	**Leasing of mobile devices**	**Deferred revenues one-off connection fees**	**Provisions for dis-mantling obligations**	**Allowances for doubtful accounts receivables**	**Own work capitalized**	**Tax valuation allowance**	**Accounting and valuation adjustments for the period January 1 to June 30, 2014**
Explanation	(1)	(2)	(3)	(4)	(5)	(6)	
Revenues	5,876	(1,972)	-	-	-	-	3,904
Other income	-	-	-	-	-	-	-
Supplies	(199,890)	-	-	-	-	-	(199,890)
Personnel expenses	-	-	-	-	-	-	-
Other expenses	(119)	-	-	(6,346)	-	-	(6,465)
Operating income before depreciation and amortization (OIBDA)	**(194,133)**	**(1,972)**	**-**	**(6,346)**	**-**	**-**	**(202,451)**
Depreciation and amortization	162,178	-	(1,719)	-	(22,224)	-	138,235
Operating income	**(31,955)**	**(1,972)**	**(1,719)**	**(6,346)**	**(22,224)**	**-**	**(64,216)**
Finance income	4,075	-	-	-	-	-	4,075
Exchange gains	-	-	-	-	-	-	-
Finance costs	(8,970)	-	(361)	-	-	-	(9,331)
Exchange losses	-	-	-	-	-	-	-
Net financial income/(expense)	**(4,895)**	**-**	**(361)**	**-**	**-**	**-**	**(5,256)**
Profit/(loss) before tax	**(36,850)**	**(1,972)**	**(2,080)**	**(6,346)**	**(22,224)**	**-**	**(69,472)**
Income tax	5,679	304	320	978	3,425	(10,706)	-
Total profit/(loss) for the period	**(31,171)**	**(1,668)**	**(1,760)**	**(5,368)**	**(18,799)**	**(10,706)**	**(69,472)**

2.4.2.3. Accounting and valuation adjustments to the consolidated statement of financial position as of June 30, 2014

As of June 30, 2014 **€ in thousands**	**Leasing of mobile devices**	**Deferred revenues one-off connection fees**	**Provisions for dis-mantling obligations**	**Allowances for doubtful accounts receivables**	**Own work capitalized**	**Tax valuation allowance**	**Accounting and valuation adjustments as of June 30, 2014**
Explanation	(1)	(2)	(3)	(4)	(5)	(6)	
Assets							
A) Non-current assets	**(235,237)**	**(373)**	**18,256**	**-**	**(174,428)**	**(32,061)**	**(423,843)**
Goodwill	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-
Property, plant and equipment	(361,459)	-	20,374	-	(206,204)	-	(547,289)
Other non-current financial assets	123,446	-	-	-	-	-	123,446
Deferred tax assets	2,776	(373)	(2,118)	-	31,776	(32,061)	-
B) Current assets	**280,452**	**-**	**-**	**(8,386)**	**-**	**-**	**272,066**
Inventories	-	-	-	-	-	-	-
Trade and other receivables	280,452	-	-	(8,386)	-	-	272,066
Other current financial assets	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-
Total assets (A+B)	**45,215**	**(373)**	**18,256**	**(8,386)**	**(174,428)**	**(32,061)**	**(151,777)**
Equity and liabilities							
A) Equity	**(11,748)**	**2,049**	**28,863**	**(7,094)**	**(174,428)**	**(30,212)**	**(192,570)**
Common stock	-	-	-	-	-	-	-
Additional paid-in capital	-	-	-	-	-	-	-
Retained earnings	(11,748)	2,049	28,863	(7,094)	(174,428)	(30,212)	(192,570)
Other components of equity	-	-	-	-	-	-	-
Equity attributable to owners of the parent	**(11,748)**	**2,049**	**28,863**	**(7,094)**	**(174,428)**	**(30,212)**	**(192,570)**
B) Non-current liabilities	**29,689**	**2,015**	**(10,607)**	**(1,292)**	**-**	**(1,849)**	**17,956**
Non-current interest-bearing debt	-	-	-	-	-	-	-
Other payables	**29,689**	-	-	-	-	-	29,689
Non-current provisions	-	-	(13,748)	-	-	-	(13,748)
Deferred income	-	2,015	-	-	-	-	2,015
Deferred tax liabilities	-	-	3,141	(1,292)	-	(1,849)	-
C) Current liabilities	**27,274**	**(4,437)**	**-**	**-**	**-**	-	**22,837**
Current interest-bearing debt	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-
Other payables	27,274	-	-	-	-	-	27,274
Current provisions	-	-	-	-	-	-	-
Deferred income	-	(4,437)	-	-	-	-	(4,437)
Total equity and liabilities (A+B+C)	**45,215**	**(373)**	**18,256**	**(8,386)**	**(174,428)**	**(32,061)**	**(151,777)**

2.4.2.4. Explanation of accounting and valuation adjustments

Based on the respective accounting and valuation policies, the consolidated income statements of KPN Mobile Germany for the financial year ended December 31, 2013 and for the six-month period ended June 30, 2014 and the consolidated statement of financial position of KPN Mobile Germany as of June 30, 2014 were aligned to the accounting and valuation policies used in the consolidated financial statements of the Company. The following accounting and valuation adjustments were applied to the consolidated income statements and the consolidated statement of financial position of KPN Mobile Germany:

(1) Leasing of mobile devices

As part of their business model, KPN Mobile Germany leases mobile devices such as handsets and smartphones to customers ("lease-out arrangements"), which are accounted for as operating leases in the consolidated financial statements of KPN Mobile Germany. This business model is refinanced via sale-and-lease-back transactions that are classified by KPN Mobile Germany as operating leases prior to April 2012 and, prospectively, were classified as finance leases since April 2012 due to a change in contractual provisions ("lease-in arrangements"). In regard to the lease-out arrangements, the Company applies management estimates and judgments different from KPN Mobile Germany in assessing the lease classification. As a result, all lease-out arrangements are treated as finance leases by the Company. In addition, all lease-in arrangements are treated as finance leases according to the Company's assumptions.

For purposes of the consolidated income statement of the New E-Plus Group for the period from January 1, 2013 to December 31, 2013, the alignment in accounting policies resulted in additional net revenues of €115,609 thousand (comprised of additional handset revenues amounting to €386,028 thousand and lower wireless service revenues amounting to €270,419 thousand) and additional net expenses for supplies of €302,413 thousand (comprised of additional cost of materials amounting to €376,758 thousand and lower rental expenses amounting to €74,345 thousand). Other expenses increased by €5,689 thousand in the consolidated income statement of the New E-Plus Group for the period from January 1, 2013 to December 31, 2013 due to a related increase in allowances for doubtful lease receivables.

Recognized depreciation expenses of €179,675 thousand were eliminated for purposes of the consolidated income statement of the New E-Plus Group for the period from January 1, 2013 to December 31, 2013. The revised lease classification furthermore led to adjustments to finance income of €7,747 thousand and to finance costs of €13,142 thousand for the period from January 1, 2013 to December 31, 2013. The net pre-tax adjustment for the period from January 1, 2013 to December 31, 2013 amounts to negative €18,213 thousand. Under consideration of the KPN Mobile Germany statutory trade tax rate of 15.41%, this accounting policy alignment resulted in additional deferred tax income of €2,807 thousand in the consolidated income statement of the New E-Plus Group for the period from January 1, 2013 to December 31, 2013.

For purposes of the consolidated income statement of the New E-Plus Group for the period from January 1, 2014 to June 30, 2014, the alignment in accounting policies resulted in higher net revenues of €5,876 thousand (comprised of additional handset revenues amounting to €170,580 thousand and lower wireless service revenues amounting to €164,704 thousand) and additional net expenses for supplies of €199,890 thousand (comprised of additional cost of materials amounting to €204,827 thousand and lower rental expenses amounting to €4,937 thousand). Other expenses increased by €119 thousand in the consolidated income statement of the New E-Plus Group for the period from January 1, 2014 to June 30, 2014 due to a related increase in allowances for doubtful lease receivables.

Recognized depreciation expenses of €162,178 thousand were eliminated for purposes of the consolidated income statement of the New E-Plus Group for the period from January 1, 2014 to June 30, 2014. The revised lease classification furthermore led to adjustments to finance income of €4,075 thousand and to finance costs of €8,970 thousand for the period from January 1, 2014 to June 30, 2014. The net pre-tax adjustment for the period from January 1, 2014 to June 30, 2014 amounts to negative €36,850 thousand. Under consideration of the KPN Mobile Germany statutory trade tax rate of 15.41%, this accounting policy alignment resulted in additional deferred tax income of €5,679 thousand in the consolidated income statement of the New E-Plus Group for the period from January 1, 2014 to June 30, 2014.

For purposes of the consolidated statement of financial position of the New E-Plus Group as of June 30, 2014, the alignment in accounting policies resulted in a de-recognition of property, plant and equipment of €361,459 thousand and a recognition of lease receivables of €403,898 thousand (comprised of an increase in current receivables amounting to €280,452 thousand presented in 'trade and other receivables' and an increase in non-current receivables amounting to €123,446 thousand presented in 'other non-current financial assets'). In addition, finance lease liabilities increased by €56,963 thousand (comprised of an increase in current other payables amounting to €27,274 thousand and an increase in non-current other payables amounting to €29,689 thousand) and respective deferred tax assets increased by €2,776 thousand. As a result, retained earnings decreased by €11,748 thousand as of June 30, 2014.

(2) Deferred revenues for one-off connection fees

The Company and KPN Mobile Germany apply different estimates and judgments in regard to the recognition of revenues relating to connection fees. For purposes of the consolidated income statement of the New E-Plus Group for the period from January 1, 2013 to December 31, 2013, the alignment in accounting policies for revenues relating to connection fees resulted in an increase of revenues in the amount of €3,799 thousand. Under consideration of the KPN Mobile Germany statutory trade tax rate of 15.41%, this accounting policy alignment resulted in additional deferred tax expenses of €585 thousand for the period from January 1, 2013 to December 31, 2013.

For purposes of the consolidated income statement of the New E-Plus Group for the period from January 1, 2014 to June 30, 2014, the alignment in accounting policies for revenues relating to connection fees resulted in a decrease of revenues in the amount of €1,972 thousand. Under consideration of the KPN Mobile Germany statutory trade tax rate of 15.41%, this accounting policy alignment resulted in deferred tax income of €304 thousand for the period from January 1, 2014 to June 30, 2014.

For purposes of the consolidated statement of financial position of the New E-Plus Group as of June 30, 2014, the alignment in accounting policies resulted in lower deferred income of €2,422 thousand, comprised of an increase in non-current deferred income of €2,015 and a decrease in current deferred income amounting to €4,437 thousand. In addition, deferred tax assets decreased by €373 thousand, calculated under consideration of the KPN Mobile Germany statutory trade tax rate of 15.41%, and retained earnings increased by €2,049 thousand as of June 30, 2014.

(3) Provisions for dismantling obligations

KPN Mobile Germany and the Company recognize provisions for dismantling obligations for mobile communication tower sites if there is a legal or constructive obligation to dismantle and remove the tower or equipment and restore the site on which it is located. The estimated costs for dismantling obligations are recognized as a provision as soon as the related asset is capitalized.

Due to different specific parameters (e.g. discount rates, estimated inflation rates, etc.) used by KPN Mobile Germany and the Company, the estimation of the dismantling obligations, which are measured at the present value of management's best estimate of the expenditure required to settle the present obligations at the reporting date, differs from each other and results in different present values. The alignment of the estimation of the dismantling obligations for purposes of the historical financial information of the New E-Plus Group resulted in a reduction of the dismantling obligations.

Furthermore, KPN Mobile Germany and the Company perform on a recurring basis a review of the underlying accounting estimates for dismantling obligations. For purposes of the Pro Forma Consolidated Financial Information, a one-time gain recognized by KPN Mobile Germany in the financial year ended December 31, 2013, resulting from a change in accounting estimates based on the regular review of the dismantling obligations, was eliminated in order to present the consolidated income statement of the New E-Plus Group as if KPN Mobile Germany had already applied the Company's accounting policies for dismantling obligations in the past.

For purposes of the consolidated income statement of the New E-Plus Group for the period from January 1, 2013 to December 31, 2013, the effect of the alignment of the accounting policies and the reversal of the one-time gain resulted in an increase of other expenses of €29,894 thousand, an increase of depreciation expenses of €2,010 thousand and a decrease of finance costs of €391 thousand. The net pre-tax adjustment for the period from January 1, 2013 to December 31, 2013 amounted to negative €31,513 thousand. Under consideration of the KPN Mobile Germany statutory trade tax rate of 15.41%, this accounting policy alignment resulted in additional deferred tax income of €4,856 thousand for the period from January 1, 2013 to December 31, 2013.

For purposes of the consolidated income statement of the New E-Plus Group for the period from January 1, 2014 to June 30, 2014, the effect of the alignment of the accounting policies resulted in an increase of depreciation expenses of €1,719 thousand and an increase of finance costs of €361 thousand. The net pre-tax adjustment for the period from January 1, 2014 to June 30, 2014 amounted to negative €2,080 thousand. Under consideration of the KPN Mobile Germany statutory trade tax rate of 15.41%, this accounting policy alignment resulted in additional deferred tax income of €320 thousand for the period from January 1, 2014 to June 30, 2014.

The effect on the consolidated statement of financial position of the New E-Plus Group as of June 30, 2014 related to the accounting policy alignment and the reversal of the one-time gain resulted in a decrease in provisions for dismantling obligations in the amount of €13,748 thousand disclosed in non-current provisions and an increase in the value of the related assets disclosed in property, plant and equipment in the amount of €20,374 thousand. The resulting effect on taxes is composed of a reduction of deferred tax assets amounting to €2,118 thousand and an increase of deferred tax liabilities amounting to €3,141 thousand, each calculated under consideration of the KPN Mobile Germany statutory trade tax rate of 15.41%. Consequently, retained earnings increased in an amount of €28,863 thousand as of June 30, 2014.

(4) Allowances for doubtful accounts receivables

KPN Mobile Germany and the Company recognize loans and receivables at amortized costs. If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured and recognized as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Due to different specific parameters (e.g. rates for determining the allowances, classification of overdue customers) used by KPN Mobile Germany and the Company, the estimation of the allowances for doubtful accounts receivables differs from each other and results in valuation differences.

The alignment of the estimation of the allowances for doubtful accounts receivables for purposes of the consolidated income statement of the New E-Plus Group resulted in an increase of other expenses of €1,526 thousand for the period January 1, 2013 to December 31, 2013. Under consideration of the KPN Mobile Germany statutory trade tax rate of 15.41%, this accounting policy alignment resulted in additional deferred tax income of €235 thousand for the period from January 1, 2013 to December 31, 2013.

The alignment of the estimation of the allowances for doubtful accounts receivables for purposes of the consolidated income statement of the New E-Plus Group resulted in an increase of other expenses of €6,346 thousand for the period from January 1, 2014 to June 30, 2014. Under consideration of the KPN Mobile Germany statutory trade tax rate of 15.41%, this accounting policy alignment resulted in deferred tax income of €978 thousand for the period from January 1, 2014 to June 30, 2014.

For purposes of the consolidated statement of financial position of the New E-Plus Group as of June 30, 2014, the alignment in accounting policies resulted in a decrease in trade and other receivables of €8,386 thousand, a decrease in deferred tax liabilities of €1,292 thousand calculated under consideration of the KPN Mobile Germany statutory trade tax rate of 15.41%, and, as a result, a decrease in retained earnings of €7,094 thousand as of June 30, 2014.

(5) Own work capitalized

KPN Mobile Germany and the Company recognize certain assets related to installation work performed by its own employees and classify these assets as network equipment or network infrastructure depending on the type of installation work performed as well as the underlying equipment and technology. Certain installation work capitalized as network infrastructure and amortized over a useful life of 20 years by KPN Mobile Germany is classified as network equipment and amortized over a useful life of 10 years as applied by the Company for purposes of the consolidated income statement of the New E-Plus Group.

For the consolidated income statement of the New E-Plus Group for the period from January 1, 2013 to December 31, 2013, this accounting policy alignment resulted in an increase of depreciation expenses of €44,952 thousand. Under consideration of the KPN Mobile Germany statutory trade tax rate of 15.41%, this accounting policy alignment resulted in additional deferred tax income of €6,927 thousand for the period from January 1, 2013 to December 31, 2013.

For the consolidated income statement of the New E-Plus Group for the period from January 1, 2014 to June 30, 2014, this accounting policy alignment resulted in an increase of depreciation expenses of €22,224 thousand. Under consideration of the KPN Mobile Germany statutory trade tax rate of 15.41%, this accounting policy alignment resulted in additional deferred tax income of €3,425 thousand for the period from January 1, 2014 to June 30, 2014.

For purposes of the consolidated statement of financial position of the New E-Plus Group as of June 30, 2014, the accounting policy alignment resulted in reduced asset values for own work capitalized of €206,204 thousand in property, plant and equipment. Under consideration of the KPN Mobile Germany statutory trade tax rate of 15.41%, it furthermore resulted in an increase of deferred tax assets in the amount of €31,776 thousand. The net effect on retained earnings amounted to negative €174,428 thousand.

(6) Tax valuation allowance

For purposes of the consolidated income statement of the New E-Plus Group for the period from January 1, 2013 to December 31, 2013, deferred tax income in the amount of €14,240 thousand, recognized from the above described accounting policy alignments, was eliminated as the underlying deferred tax assets were deemed not realizable at the New E-Plus Group level.

For purposes of the consolidated income statement of the New E-Plus Group for the period from January 1, 2014 to June 30, 2014, deferred tax income in the amount of €10,706 thousand, recognized from the above described accounting policy alignments, was eliminated as the underlying deferred tax assets were deemed not realizable at the New E-Plus Group level.

For purposes of the consolidated statement of financial position of the New E-Plus Group as of June 30, 2014, net deferred tax assets in the amount of €32,061 thousand were offset with net deferred tax liabilities in the amount of €1,849 thousand and eliminated as they were deemed not realizable at the New E-Plus Group level, resulting in a decrease in retained earnings of €30,212 thousand as of June 30, 2014.

3. Basis of preparation

3.1. Preparation principles

The Pro Forma Consolidated Financial Information was prepared on the basis of the IDW Accounting Practice Statement: Preparation of Pro Forma Financial Information (IDW AcPS AAB 1.004) (*IDW Rechnungslegungshinweis: Erstellung von Pro-Forma-Finanzinformationen (IDW RH HFA 1.004)*), as promulgated by the Institute of Public Auditors in Germany (IDW, *Institut der Wirtschaftsprüfer in Deutschland e.V.*).

The pro forma adjustments made for purposes of the Pro Forma Consolidated Financial Information are based on information available and on preliminary estimates, as well as certain pro forma assumptions of the Company as described in these pro forma notes. The Pro Forma Consolidated Financial Information neither contains any potential synergies or cost savings nor any normalization of any restructuring or any additional future expenses that could result from the Acquisition. Furthermore, the Pro Forma Consolidated Financial Information does not contain any potential or future effects resulting from the remedies imposed on the Company to obtain merger clearance by the European Commission or other constraints ruled by other authorities or regulators in connection with the Acquisition.

The figures in tables of the Pro Forma Consolidated Financial Information were rounded according to established commercial principles. Additions of the figures can thus lead to amounts that deviate from those shown in the tables.

3.2. Acquisition of the New E-Plus Group

Upon Closing of the Acquisition, the Company will have acquired the entire limited partnership interest in New E-Plus KG from KPN Mobile Germany, an indirect 100% subsidiary of KPN, and Telefónica Germany Management GmbH, a 100% subsidiary of the Company, will have become sole general partner of New E-Plus KG. As a result, the Company will have acquired the New E-Plus Group as agreed in the SPA.

In the SPA, KPN agreed to restructure the Original E-Plus Group prior to Closing. The intention of the Pre-Closing Restructuring was to simplify the structure of the Original E-Plus Group, enabling the Company to acquire the New E-Plus Group unencumbered of tax liabilities attributable to previous periods and obligations under shareholder loans.

The Pre-Closing Restructuring included measures such as the restructuring and/or merger of subsidiaries as well as establishing a new holding company, i.e., New E-Plus KG (founded under the name E-Plus Transition GmbH & Co. KG and subsequently renamed E-Plus Mobilfunk GmbH & Co. KG), to which, by way of a spin-off under the German Transformation Act (*Umwandlungsgesetz*), KPN Mobile Germany contributed all its assets, liabilities and contracts except all shareholder loans (including all liabilities thereunder, in particular principal, accrued interest, gains and losses) existing between KPN Mobile Germany on the one side and KPN and companies affiliated with KPN on the other side, as well as all tax liabilities of KPN Mobile Germany for periods prior to January 1, 2014 (irrespective of whether due, assessed, contingent or arising in the future).

Prior to the contribution of the limited partner interest in New E-Plus KG to the Company, measures were undertaken to separate the New E-Plus Group from the companies of KPN. For example, debt existing between the two groups was settled, securities that companies of the New E-Plus Group had provided in favor of the companies of KPN was released and further contractual relationships between the two groups were either terminated (e.g. the cash pooling agreement and the agreement on a management fee), divided between the two groups (e.g. with respect to roaming services) or amended. Contracts for which the two groups have not or will not make any particular arrangement generally continue to apply without change, with both sides being entitled to terminate these contracts on reasonable notice.

The consideration payable by the Company to KPN Mobile Germany for the New E-Plus Group consists of (i) a cash payment of €3,700,000 thousand (the "**Cash Component**"). The Cash Component will be financed by a capital increase of the Company against contribution in cash via public rights offering (the "**Rights Offering**"). The Cash Component is subject to a cash consideration adjustment mechanism based on net debt position and working capital as defined in the SPA of New E-Plus Group as of December 31, 2013 on a consolidated basis in accordance with IFRS and in line with past accounting practice. On the basis of the information provided by KPN for these purposes, the Cash Component of the purchase price is to be reduced by €63,982 thousand. The Company can contest the preliminary adjusted cash consideration and initiate a procedure which may lead to a reduction of such amount. Further the consideration transferred to KPN Mobile Germany consists (ii) of new shares in the Company (the "**Consideration Shares**"). In accordance with the provisions set out in the SPA, the Consideration Shares will represent 24.9% of the Company's total issued share capital outstanding following the implementation of the capital increase for the Rights Offering and an additional capital increase against contribution in kind in form of the transfer of the full direct and indirect ownership in the New E-Plus Group to the Company for the Closing of the Acquisition (the "**Capital Increase against Contribution in Kind**"). The issue price for the Consideration Shares to be subscribed by KPN Mobile Germany within the framework of the Closing of the Acquisition will correspond to the minimum issue amount of €1.00 per share.

The Closing of the Acquisition is subject to the occurrence or waiving of the following conditions precedent and is expected to occur in the second half of 2014, provided that conditions precedent (a), (b) and (g) cannot be waived:

(a) Approval by shareholders' meeting of KPN: The approval was granted by an extraordinary general shareholders' meeting of KPN on October 2, 2013.

(b) Merger clearance: On July 2, 2014, the European Commission issued an approval of the Acquisition subject to certain conditions.

(c) No governmental or judicial prohibition of the Acquisition.

(d) No material breach of the SPA by any of its parties that has not been remedied by the respective party after having been notified to it.

(e) No material adverse change: This condition is deemed to be fulfilled unless a material adverse change has occurred and Telefónica, S.A. or the Company has informed KPN of that occurrence before July 22, 2014.

(f) Certain German corporate law requirements with regard to the Capital Increase against Contribution in Kind.

(g) A document prepared by a firm of public accountants or an international, reputable investment bank confirming that the number of Consideration Shares to be issued to KPN Mobile Germany as part of the consideration is not inappropriate pursuant to section 255 (2) of the German Stock Corporation Act (*Aktiengesetz*, AktG)

(h) Completion of the Pre-Closing Restructuring of the Original E-Plus Group

If the conditions precedent set out above that have not yet occurred are not satisfied or waived on or before March 1, 2015, each of KPN, Telefónica, S.A. and the Company may terminate the SPA.

In connection with the Acquisition KPN Mobile Germany and the Company have entered into retention bonus agreements that provide entitlement to certain of their employees to receive a stay bonus after Closing of the Acquisition for a six-month retention period. Furthermore, the Company has granted merger bonuses related to the Acquisition to certain management personnel, payable six months after Closing of the Acquisition.

3.3. Pro forma assumptions

3.3.1. Assumptions related to the Acquisition of the New E-Plus Group

Assumption: Date of Acquisition

For purposes of the pro forma consolidated income statements, it is assumed that Closing of the Acquisition occurred as of January 1, 2013, and for purposes of the pro forma consolidated statement of financial position, it is assumed that Closing of the Acquisition occurred as of June 30, 2014.

Assumption: Acquisition-related costs

In connection with the Acquisition of the New E-Plus Group, total legal, consulting and notary fees amounting to €21,283 thousand are assumed. These acquisition-related costs do not comprise transaction costs directly attributable to the Rights Offering and the Capital Increase against Contribution in Kind. Based on a preliminary analysis, €19,665 thousand (or 92.4%) of these costs are considered tax-deductible, whereas €1,618 thousand (or 7.6%) of these costs are considered not tax-deductible.

Assumption: Value of Consideration Shares

For purposes of the Pro Forma Consolidated Financial Information, it is assumed that the value of the Consideration Shares transferred by the Company to KPN Mobile Germany in connection with the Acquisition is determined based on the Company closing share price of €6.01 as of June 30, 2014.

3.3.2. Assumptions related to the financing of the Acquisition

3.3.2.1. Assumptions related to the Rights Offering

Assumption: Date of Rights Offering

For purposes of the pro forma consolidated income statements, it is assumed that the Rights Offering took place on January 1, 2013. For purposes of the pro forma consolidated statement of financial position, it is assumed that the Rights Offering took place on June 30, 2014.

Assumption: Composition of Rights Offering

It is assumed that, prior to the Acquisition of the New E-Plus Group, the Rights Offering was carried out by the Company against contribution in cash and that it resulted in gross proceeds of €3,622,352 thousand. The notional value of the common stock of the newly issued shares is assumed to be equal to the notional value of the common stock of the currently outstanding shares of €1.00. The subscription price is assumed to amount to €3.71 per share (based on a discount of 38.3% applied to the Company closing share price as of June 30, 2014), resulting in an amount of 976,375,256 shares issued in the Rights Offering.

Following the implementation of the Rights Offering, under the assumption that all shares are subscribed and the implementation of the capital increase through the issuance of 976,375,256 shares against contribution in cash was registered with the commercial register, the Company's common stock will amount to €2,093,321 thousand, divided into 2,093,320,656 shares with a notional amount of the common stock of €1.00 each.

Assumption: Transaction costs for the Rights Offering

It is assumed that directly attributable transaction costs for the implementation of the Rights Offering amount to €32,859 thousand (of which €5,121 thousand was already paid as of June 30, 2014). Based on a preliminary analysis, it is furthermore estimated that the directly attributable transaction costs are entirely tax-deductible, resulting in an income tax benefit (taking into account Telefónica Deutschland's statutory tax rate of 32%).

3.3.2.2. Assumptions related to the Capital Increase against Contribution in Kind

Assumption: Date of Capital Increase against Contribution in Kind

For purposes of the pro forma consolidated income statements, it is assumed that the Capital Increase against Contribution in Kind and Closing of the Acquisition occurred on January 1, 2013, respectively, i.e. that all other requirements for the implementation of the Acquisition of the New E-Plus Group described in the SPA were fulfilled on January 1, 2013, and all rights and obligations from the Acquisition described in the SPA effectively passed on to the Company on January 1, 2013. For purposes of the pro forma consolidated statement of financial position, these assumptions are considered effective as of June 30, 2014.

Assumption: Composition of Capital Increase against Contribution in Kind

It is assumed that the Capital Increase against Contribution in Kind will be implemented against contribution of the full direct and indirect ownership in the New E-Plus Group, whereby the shareholders' subscription rights are excluded. The notional value of the common stock of the newly issued shares of the Company is assumed to be equal to the notional value of the common stock of the currently outstanding issued shares of €1.00. It is assumed that a total of 694,057,048 new shares is issued in the implementation of the Capital Increase against Contribution in Kind.

Following the implementation of the Rights Offering and the Capital Increase against Contribution in Kind, assuming the full implementation of the Rights Offering and registration of the corresponding capital increase with the commercial register, 694,057,048 Consideration Shares (or 24.9% of the Company's total number of shares upon implementation of both, the Rights Offering and the Capital Increase against Contribution in Kind) will be issued to KPN Mobile Germany, the Company's common stock will amount to €2,787,378 thousand, divided into 2,787,377,704 shares with a notional amount of the common stock of €1.00 each. The Capital Increase against Contribution in Kind with regard to which subscription rights of existing shareholders are excluded would, on the basis of the preceding assumptions, lead to a dilution of shareholdings of existing shareholders. Such dilution is not taken into consideration for the Pro Forma Consolidated Financial Information.

Assumption: Transaction costs for the Capital Increase against Contribution in Kind

It is assumed that directly attributable transaction costs for the implementation of the Capital Increase against Contribution in Kind amount to €2,144 thousand (of which €165 thousand was already paid as of June 30, 2014). Based on a preliminary analysis, it is furthermore estimated that the directly attributable transaction costs are entirely tax-deductible, resulting in an income tax benefit (taking into account Telefónica Deutschland's statutory tax rate of 32%).

3.3.3. Other Assumptions

Assumption: Management bonus agreements

With respect to the management bonus agreements, it is assumed for purposes of the pro forma consolidated income statements that the retention bonus agreements of both KPN Mobile Germany and the Company vested for all eligible employees in the period from January 1, 2013 to December 31, 2013. It is furthermore assumed that the merger bonus agreements of the Company vested in their entire amounts in the period from January 1, 2013 to December 31, 2013. Based on a preliminary analysis, the related expenses are considered entirely tax-deductible. For purposes of the pro forma consolidated statement of financial position, it is assumed that the vesting period of these agreements will end on December 31, 2014, i.e. six months subsequent to assumed Closing as of June 30, 2014.

3.4. Pro forma presentation

3.4.1. Pro forma presentation of the Acquisition of the New E-Plus Group

Accounting for the Acquisition

The Acquisition of the New E-Plus Group is accounted for as a business combination in accordance with IFRS 3. According to IFRS 3 the actual initial consolidation of a business combination takes place at the time of acquisition, i.e. the time at which the acquiring company takes control of the acquired company or acquired business operation.

For purposes of the pro forma consolidated income statements, the pro forma initial consolidation of the New E-Plus Group was performed as of January 1, 2013, and for purposes of the pro forma consolidated statement of financial position, the pro forma initial consolidation of the New E-Plus Group was performed as of June 30, 2014.

Provisional Purchase Price Allocation

Due to the accounting for the Acquisition of the New E-Plus Group as a business combination in accordance with IFRS 3, the identifiable assets acquired and the liabilities assumed of the New E-Plus Group are required to be measured at their Acquisition date fair values in accordance with IFRS. For purposes of the Pro Forma Consolidated Financial Information, the purchase price allocation of the New E-Plus Group were undertaken on the basis of a provisional valuation of the acquired net assets at fair value as of June 30, 2014 (the "**Provisional PPA**").

Since the Acquisition constitutes a future transaction, the most current available financial information of the New E-Plus Group as of June 30, 2014 was used. The income effects from the development of the Provisional PPA were taken into account in the pro forma consolidated income statements for the periods from January 1, 2013 to December 31, 2013 and January 1, 2014 to June 30, 2014.

For tax purposes, a provisional re-measurement of tax bases of the assets acquired and the liabilities assumed for purposes of the Provisional PPA was undertaken as of June 30, 2014 (the **"Provisional Tax PPA"**). As the re-measurement of tax bases of the assets acquired and the liabilities assumed will be finalized only after the actual Acquisition date, it will differ from the Provisional Tax PPA.

The final purchase price allocation will be carried out based on the actual total consideration transferred and the fair values of the acquired net assets as of the actual future Acquisition date. Therefore, the final purchase price allocation of the New E-Plus Group will differ and might differ significantly from the Provisional PPA performed for purposes of the Pro Forma Consolidated Financial Information.

Acquisition-related costs

Legal, consulting and notary fees in connection with the Acquisition were classified as acquisition-related costs in accordance with IFRS 3.53 and consequently accounted for as expenses.

Value of Consideration Shares

For purposes of the Pro Forma Consolidated Financial Information, the value of the Consideration Shares transferred by the Company to KPN Mobile Germany in connection with the Acquisition was determined based on the Company closing share price of €6.01 as of June 30, 2014. Taking into consideration the other assumptions applied to the Rights Offering and to the Capital Increase against Contribution in Kind, the value of the Consideration Shares was computed as follows:

June 30, 2014	
Number of outstanding shares before Rights Offering and Capital Increase against Contribution in Kind	1,116,945,400
* Closing share price on June 30, 2014 (€ per share)	6.01
A) Market capitalization of the Company before Rights Offering and Capital Increase against Contribution in Kind (€ in thousands)	**6,712,842**
Number of shares to be issued via Rights Offering	976,375,256
* Subscription Price Rights Offering (€ per share)	3.71
B) Gross proceeds from Rights Offering (€ in thousands)	**3,622,352**
Number of outstanding shares after consummation of Rights Offering[1)]	2,093,320,656
* Diluted share price after Rights Offering (€ per share)	4.94
Market capitalization of the Company after consummation of Rights Offering (€ in thousands) (A+B)	**10,335,194**
Number of shares issued as Consideration Shares as part of Capital Increase against Contribution in Kind (24.9%)	694,057,048
* Diluted share price after Rights Offering (€ per share)	4.94
Value of the Consideration Shares (€ in thousands)[2)]	**3,428,642**

1) Includes rounding adjustments.

2) For purposes of the Pro Forma Consolidated Financial Information, the calculation of the value of the Consideration Shares transferred to KPN Mobile Germany does not take into account any dilutive or anti-dilutive effect on the Company share price which might result from the contribution in kind of the full direct and indirect ownership in the New E-Plus Group. The actual value of the Consideration Shares in accordance with IFRS 3 will depend on the Company share price at the future Acquisition date.

Value of total consideration

The Cash Component is subject to a cash consideration adjustment mechanism based on the net debt position and the working capital of New E-Plus Group as of December 31, 2013 on a consolidated basis in accordance with IFRS and in line with past accounting practice. In accordance with the process defined in the SPA, the cash component of the purchase price is to be reduced by a preliminary amount of €63,982 thousand. The Company can contest the preliminary adjusted cash consideration and initiate a procedure which may lead to a reduction of such amount. For purposes of the Pro Forma Consolidated Financial Information, the total consideration provided by the Company in connection with the Acquisition was determined as follows:

June 30, 2014	**€ in thousands**
Cash Component	3,700,000
Cash consideration adjustment	(63,982)
Consideration Shares	3,428,642
Total consideration for the New E-Plus Group	**7,064,660**

Goodwill

Taking into account the pro forma assumptions outlined in this section, the total consideration transferred in accordance with IFRS amounted to €7,064,660 thousand. Compared with the net fair value amount of identifiable assets acquired and liabilities assumed amounting to €6,011,928 thousand, the total consideration transferred in accordance with IFRS resulted in a pro forma goodwill of €1,052,732 thousand, recognized in the pro forma consolidated statement of financial position as summarized in the following table:

June 30, 2014	**€ in thousands**	
Historical assets of the New E-Plus Group		5,464,629
Elimination of the historical goodwill of the New E-Plus Group		(151,305)
Fair value adjustments to intangible assets due to the Provisional PPA		2,832,148
from customer relationships	*2,555,948*	
from frequency usage rights	*125,724*	
from trademarks / usage rights	*150,476*	
Fair value adjustments to property, plant and equipment due to the Provisional PPA		(421,210)
from network equipment	*(55,444)*	
from own work capitalized	*(213,519)*	
from other plant and equipment	*(87,565)*	
from assets under construction	*(64,682)*	
Adjustment of deferred tax assets due to the Provisional PPA		487,973
Total identifiable assets acquired at fair value		**8,212,235**
Historical liabilities of the New E-Plus Group		1,454,332
Fair value adjustments due to the Provisional PPA		5,512
from non-current provisions related to dismantling obligations	*19,173*	
from deferred income related to connection fees	*(13,661)*	
Adjustment of deferred tax liabilities due to the Provisional PPA		740,463
Total liabilities assumed at fair value		**2,200,307**
Total consideration for the New E-Plus Group		7,064,660
Net fair value amount of identifiable assets acquired and liabilities assumed		6,011,928
Goodwill from the Acquisition of the New E-Plus Group		**1,052,732**

The final goodwill resulting from the Acquisition will be determined by the actual purchase price allocation that will be carried out at the actual future Acquisition date.

Income tax

Telefónica Deutschland will be required to pay income tax on any income realized by the New E-Plus Group using its statutory tax rate. For purposes of the Pro Forma Consolidated Financial Information, based on a preliminary analysis, it is estimated that Telefónica Deutschland's statutory tax rate remained unaffected as a result of the Acquisition. As such, the tax gross-up represents the effects from a change in the statutory tax rate from 15.41% (trade tax rate of the Original E-Plus Group) to 32% (combined corporate and trade tax statutory rate of Telefónica Deutschland).

The Company, based on a preliminary analysis, furthermore estimated to benefit from tax losses carried forward at the New E-Plus Group that arise after completion of the Pre-Closing Restructuring as of January 1, 2013 for purposes of the pro forma consolidated income statements and as of June 30, 2014 for purposes of the pro forma consolidated statement of financial position.

3.4.2 Pro forma presentation of the financing of the Acquisition

Rights Offering

Since the SPA specifies the Rights Offering for the financing of the Cash Component as a condition for the Acquisition and therefore being directly attributable to the Acquisition, the Rights Offering was considered for purposes of the Pro Forma Consolidated Financial Information.

Capital Increase against Contribution in Kind

Since the SPA specifies the Capital Increase against Contribution in Kind in form of the transfer of the full direct and indirect ownership in the New E-Plus Group to the Company with all new shares stemming from such capital increase being subscribed for by KPN Mobile Germany as a part and condition for the Acquisition and therefore being directly attributable to the Acquisition, the Capital Increase against Contribution in Kind was considered for purposes of the Pro Forma Consolidated Financial Information.

Transaction costs for the Rights Offering and the Capital Increase against Contribution in Kind

The transaction costs for the Rights Offering and the Capital Increase against Contribution in Kind were recognized directly in equity in accordance with IFRS.

4. Pro forma consolidated income statement for the period from January 1, 2013 to December 31, 2013

4.1. Presentation of the pro forma consolidated income statement for the period from January 1, 2013 to December 31, 2013

January 1 to December 31, 2013	Historical Financial Information					
€ in thousands	**Telefónica Deutschland**	**New E-Plus Group**	**Total**	**Pro forma explanation**	**Pro forma adjustments**	**Pro forma consolidated income statement**
Revenues	4,913,881	3,252,166	8,166,047	(1)	(223,867)	7,942,180
Other income	169,022	56,695	225,717		-	225,717
Supplies	(1,957,980)	(1,027,359)	(2,985,339)	(1)	230,796	(2,754,543)
Personnel expenses	(418,647)	(254,376)	(673,023)	(5)	(11,856)	(684,879)
Other expenses	(1,469,176)	(1,339,501)	(2,808,677)	(1), (4)	(21,983)	(2,830,660)
Operating income before depreciation and amortization (OIBDA)	**1,237,100**	**687,625**	**1,924,725**		**(26,910)**	**1,897,815**
Depreciation and amortization	(1,131,749)	(838,585)	(1,970,334)	(2)	(164,396)	(2,134,730)
Operating income	**105,351**	**(150,960)**	**(45,609)**		**(191,306)**	**(236,915)**
Finance income	6,349	8,578	14,927		-	14,927
Exchange gains	635	108	743		-	743
Finance costs	(33,409)	(48,675)	(82,084)		-	(82,084)
Exchange losses	(548)	(72)	(620)		-	(620)
Net financial income/ (expense)	**(26,972)**	**(40,061)**	**(67,033)**		**-**	**(67,033)**
Profit/(loss) before tax from continuing operations	**78,379**	**(191,021)**	**(112,642)**		**(191,306)**	**(303,948)**
Income tax	(567)	-	(567)	(2), (3), (4), (5)	95,766	95,199
Profit/(loss) after taxes for the year from continuing operations	**77,813**	**(191,021)**	**(113,209)**		**(95,540)**	**(208,749)**
Total profit/(loss) for the year	**77,813**	**(191,021)**	**(113,209)**		**(95,540)**	**(208,749)**
Profit/(loss) for the year attributable to owners of the parent	**77,813**	**(191,021)**	**(113,209)**		**(95,540)**	**(208,749)**
Profit/(loss) for the year	**77,813**	**(191,021)**	**(113,209)**		**(95,540)**	**(208,749)**
Earnings per share						
Basic earnings per share (in €)[a]	0.07					(0.07)
Diluted earnings per share (in €)[a]	0.07					(0.07)

[a] Pro forma basic and diluted earnings per share were calculated based on the pro forma loss attributable to owners of the parent for the period from January 1 to December 31, 2013 and on the amount of 2,787,377,704 shares outstanding during the entire reporting period upon implementation of both the Rights Offering and the Capital Increase against Contribution in Kind as of January 1, 2013 as further described in section 3.3.2.1. and 3.3.2.2. of the Pro Forma Consolidated Financial Information.

4.2. Explanation of the pro forma adjustments to the pro forma consolidated income statement of the Company for the period from January 1, 2013 to December 31, 2013

January 1 to December 31, 2013 **€ in thousands**	**Intercompany elimination**	**Provisional PPA**	**Income tax adjustments**	**Acquisition-related costs**	**Management bonus agreements**	**Total pro forma adjustments for the period January 1 to December 31, 2013**
Pro forma explanation	(1)	(2)	(3)	(4)	(5)	
Revenues	(223,867)	-	-	-	-	(223,867)
Other income	-	-	-	-	-	-
Supplies	230,796	-	-	-	-	230,796
Personnel expenses	-	-	-	-	(11,856)	(11,856)
Other expenses	(6,929)	-	-	(15,054)	-	(21,983)
Operating income before depreciation and amortization (OIBDA)	**-**	**-**	-	**(15,054)**	**(11,856)**	**(26,910)**
Depreciation and amortization	-	(164,396)	-	-	-	(164,396)
Operating income	**-**	**(164,396)**	**-**	**(15,054)**	**(11,856)**	**(191,306)**
Finance income	-	-	-	-	-	-
Exchange gains	-	-	-	-	-	-
Finance costs	-	-	-	-	-	-
Exchange losses	-	-	-	-	-	-
Net financial income/ (expense)	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(loss) before tax from continuing operations	**-**	**(164,396)**	**-**	**(15,054)**	**(11,856)**	**(191,306)**
Income tax	**-**	52,607	34,914	4,451	3,794	95,766
Profit/(loss) after taxes for the year from continuing operations	**-**	**(111,789)**	**34,914**	**(10,603)**	**(8,062)**	**(95,540)**
Total profit/(loss) for the year	**-**	**(111,789)**	**34,914**	**(10,603)**	**(8,062)**	**(95,540)**

Pro forma adjustments with a continuing effect

The following pro forma adjustments to the pro forma consolidated income statement for the period from January 1, 2013 to December 31, 2013 with a continuing effect on the results of operations of Telefónica Deutschland arose from the Acquisition of the New E-Plus Group:

(1) Intercompany elimination

Supply and service relationships between Telefónica Deutschland and the New E-Plus Group were eliminated for purposes of the Pro Forma Consolidated Financial Information. Revenues between Telefónica Deutschland and the New E-Plus Group were mainly generated from access, termination and interconnection fees charged by Telefónica Deutschland or the New E-Plus Group, respectively, for calls and SMS terminated on the network to the New E-Plus Group or Telefónica Deutschland, respectively. Furthermore, both Telefónica Deutschland and the New E-Plus Group generated rental income from sublease agreements for tower space and for shop areas to each other, presented as a deduction to 'other expenses'.

For the period from January 1, 2013 to December 31, 2013, total intercompany revenues of €223,867 thousand and intercompany rental income of €6,929 thousand (presented as deduction to 'other expenses') and the corresponding costs for supplies of €230,796 thousand were eliminated for purposes of the pro forma consolidated income statement.

(2) Provisional PPA

The fair value adjustments for intangible assets made in connection with the Provisional PPA resulted in additional straight-line amortization for identified customer relationships (€256,821 thousand based on remaining useful lives between 5 and 11 years), additional straight-line amortization for trademarks and usage rights (€6,405 thousand based on remaining useful lives of 10 and 20 years) as well as in reduced straight-line amortization for frequency usage rights (€25,345 thousand based on remaining useful lives between 2 and 12 years) for the period from January 1, 2013 to December 31, 2013.

The fair value adjustments for property, plant and equipment made in connection with the Provisional PPA resulted in reduced straight-line depreciation for network equipment (€34,924 thousand determined based on an average remaining useful life of around 5 years and under consideration of the adjustments for changes related to the unification of the network of KPN Mobile Germany and the Company), reduced straight-line depreciation for own work capitalized (€32,257 thousand based on an average remaining useful life of around 7 years) and reduced straight-line depreciation for other plant and equipment (€6,303 thousand based on an average remaining useful life of around 14 years) for the period from January 1, 2013 to December 31, 2013.

The total additional net amortization and depreciation expenses recognized in connection with the Provisional PPA amounted to €164,396 thousand for the period from January 1, 2013 to December 31, 2013. As a result of this pro forma adjustment, income tax benefits in the amount of €52,607 thousand were recognized in the pro forma consolidated income statement for the period from January 1, 2013 to December 31, 2013, estimated based on the statutory tax rate of Telefónica Deutschland of 32%.

(3) Income tax adjustments

Based on a preliminary analysis the Company estimated to benefit from tax losses carried forward at the New E-Plus Group that arose after completion of the Pre-Closing Restructuring throughout the period from January 1, 2013 to December 31, 2013. Consequently, deferred tax income amounting to €34,914 thousand was recognized for the period from January 1, 2013 to December 31, 2013 using Telefónica Deutschland's statutory tax rate including the tax gross-up effects from the change in the statutory tax rate.

Pro forma adjustments with a one-off effect

The following pro forma adjustments to the pro forma consolidated income statement for the period from January 1, 2013 to December 31, 2013 with a one-off effect on the results of operations of Telefónica Deutschland arose from the Acquisition of the New E-Plus Group:

(4) Acquisition-related costs

Total legal and consultancy fees associated with the Acquisition of the New E-Plus Group were assumed to amount to €21,283 thousand. Of these acquisition-related costs, €6,229 thousand were already incurred and reflected in the historical consolidated income statement of the Company for the period from January 1, 2013 to December 31, 2013. For purposes of the pro forma consolidated income statement for the period from January 1, 2013 to December 2013, it was assumed that the entire legal and consulting fees associated with the acquisition of the New E-Plus Group were incurred as of January 1, 2013. As a result, additional acquisition-related costs of €15,054 thousand were recognized in other expenses for purposes of the pro forma consolidated income statement for the period from January 1, 2013 to December 31, 2013.

As a result of this pro forma adjustment, income tax benefits in the amount of €4,451 thousand were recognized in the pro forma consolidated income statement for the period from January 1, 2013 to December 31, 2013, calculated based on the statutory tax rate of Telefónica Deutschland of 32% and based on the preliminary estimate that 92.4% of the additional acquisition-related costs recognized for the period from January 1, 2013 to December 31, 2013 were tax-deductible.

(5) Management bonus agreements

Based on the assumptions that the retention bonus agreements entered into with certain employees of both the New E-Plus Group and the Company as well as the merger bonus agreements entered into with management personnel of the Company vested in the period from January 1, 2013 to December 31, 2013, additional personnel expenses of €11,856 thousand were recognized in the pro forma consolidated income statement for the period from January 1, 2013 to December 31, 2013.

As a result of this pro forma adjustment, income tax benefits in the amount of €3,794 thousand were recognized in the pro forma consolidated income statement for the period from January 1, 2013 to December 31, 2013, calculated based on the statutory tax rate of Telefónica Deutschland of 32% and based on the preliminary estimate that all expenses for bonus agreements recognized for the period from January 1, 2013 to December 31, 2013 were tax-deductible.

5. Pro forma consolidated income statement for the period from January 1, 2014 to June 30, 2014

5.1. Presentation of the pro forma consolidated income statement for the period from January 1, 2014 to June 30, 2014

January 1 to June 30, 2014	Historical Financial Information					
€ in thousands	**Telefónica Deutschland**	**New E-Plus Group**	**Total**	**Pro forma explanation**	**Pro forma adjustments**	**Pro forma consolidated income statement**
Revenues	2,283,663	1,578,903	3,862,566	(1)	(93,695)	3,768,871
Other income	43,022	24,708	67,730		-	67,730
Supplies	(882,649)	(507,660)	(1,390,309)	(1)	99,070	(1,291,239)
Personnel expenses	(213,284)	(145,661)	(358,945)	(5)	6,135	(352,810)
Other expenses	(744,959)	(672,289)	(1,417,248)	(1), (4)	(854)	(1,418,102)
Operating income before depreciation and amortization (OIBDA)	**485,792**	**278,001**	**763,793**		**10,656**	**774,449**
Depreciation and amortization	(533,988)	(361,130)	(895,118)	(2)	(82,222)	(977,340)
Operating income	**(48,195)**	**(83,129)**	**(131,324)**		**(71,566)**	**(202,890)**
Finance income	3,953	4,445	8,398		-	8,398
Exchange gains	161	18	179		-	179
Finance costs	(19,660)	(27,488)	(47,148)		-	(47,148)
Exchange losses	(474)	(33)	(507)		-	(507)
Net financial income/ (expense)	**(16,020)**	**(23,058)**	**(39,078)**		**-**	**(39,078)**
Profit/(loss) before tax	**(64,215)**	**(106,187)**	**(170,402)**		**(71,566)**	**(241,968)**
Income tax	14	–	14	(2), (3), (4), (5)	124,305	124,319
Total profit/(loss) for the period	**(64,201)**	**(106,187)**	**(170,388)**		**52,739**	**(117,649)**
Profit/(loss) for the period attributable to owners of the parent	**(64,201)**	**(106,187)**	**(170,388)**		**52,739**	**(117,649)**
Profit/(loss) for the period	**(64,201)**	**(106,187)**	**(170,388)**		**52,739**	**(117,649)**
Earnings per share						
Basic earnings per share (in €)[(a)]	(0.06)					0.04
Diluted earnings per share (in €)[(a)]	(0.06)					0.04

[(a)] Pro forma basic and diluted earnings per share were calculated based on the pro forma loss attributable to owners of the parent for the period from January 1 to June 30, 2014 and on the amount of 2,787,377,704 shares outstanding during the entire reporting period upon implementation of both the Rights Offering and the Capital Increase against Contribution in Kind as of January 1, 2013 as further described in section 3.3.2.1. and 3.3.2.2. of the Pro Forma Consolidated Financial Information.

5.2. Explanation of the pro forma adjustments to the pro forma consolidated income statement of the Company for the period from January 1, 2014 to June 30, 2014

January 1 to June 30, 2014 € in thousands	Intercompany elimination	Provisional PPA	Income tax adjustments	Acquisition-related costs	Management bonus agreements	Total pro forma adjustments for the period January 1 to June 30, 2014
Pro forma explanation	(1)	(2)	(3)	(4)	(5)	
Revenues	(93,695)	-	-	-	-	(93,695)
Other income	-	-	-	-	-	-
Supplies	99,070	-	-	-	-	99,070
Personnel expenses	-	-	-	-	6,135	6,135
Other expenses	(5,375)	-	-	4,521	-	(854)
Operating income before depreciation and amortization (OIBDA)	**-**	**-**	**-**	**4,521**	**6,135**	**10,656**
Depreciation and amortization	-	(82,222)	-	-	-	(82,222)
Operating income	**-**	**(82,222)**	**-**	**4,521**	**6,135**	**(71,566)**
Finance income	-	-	-	-	-	-
Exchange gains	-	-	-	-	-	-
Finance costs	-	-	-	-	-	-
Exchange losses	-	-	-	-	-	-
Net financial income/ (expense)	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(loss) before tax	**-**	**(82,222)**	**-**	**4,521**	**6,135**	**(71,566)**
Income tax	-	26,311	101,294	(1,337)	(1,963)	124,305
Total profit/(loss) for the period	**-**	**(55,911)**	**101,294**	**3,184**	**4,172**	**52,739**

Pro forma adjustments with a continuing effect

The following pro forma adjustments to the pro forma consolidated income statement for the period from January 1, 2014 to June 30, 2014 with a continuing effect on the results of operations of Telefónica Deutschland arose from the Acquisition of the New E-Plus Group:

(1) Intercompany elimination

Supply and service relationships between Telefónica Deutschland and the New E-Plus Group were eliminated for purposes of the Pro Forma Consolidated Financial Information. Revenues between Telefónica Deutschland and the New E-Plus Group were mainly generated from access, termination and interconnection fees charged by Telefónica Deutschland or the New E-Plus Group, respectively, for calls and SMS terminated on the network to the New E-Plus Group or Telefónica Deutschland, respectively. Furthermore, both Telefónica Deutschland and the New E-Plus Group generated rental income from sub-lease agreements for tower space and for shop areas to each other, presented within other expenses.

For the period from January 1, 2014 to June 30, 2014, total intercompany revenues of €93,695 thousand and intercompany rental income of €5,375 thousand (presented as deduction to 'other expenses') and the corresponding costs for supplies of €99,070 thousand were eliminated for purposes of the pro forma consolidated income statement.

(2) Provisional PPA

The fair value adjustments for intangible assets made in connection with the Provisional PPA resulted in additional straight-line amortization for identified customer relationships (€128,469 thousand based on average remaining useful lives between 5 and 11 years), additional straight-line amortization for trademarks and usage rights (€3,203 thousand based on remaining useful lives of 10 and 20 years) as well as in reduced straight-line amortization for frequency usage rights (€12,707 thousand based on remaining useful lives between 2 and 12 years) for the period from January 1, 2014 to June 30, 2014.

The fair value adjustments for property, plant and equipment made in connection with the Provisional PPA resulted in reduced straight-line depreciation for network equipment (€17,462 thousand determined based on an average remaining useful life of around 5 years and under consideration of the adjustments for changes related to the unification of the network of KPN Mobile Germany and the Company), reduced straight-line depreciation for own work capitalized (€16,129 thousand based on an average remaining useful life of around 7 years) and reduced straight-line depreciation for other plant and equipment (€3,152 thousand based on an average remaining useful life of around 14 years) for the period from January 1, 2014 to June 30, 2014.

The total additional net amortization and depreciation expenses recognized in connection with the Provisional PPA amounted to €82,222 thousand for the period from January 1, 2014 to June 30, 2014. As a result of this pro forma adjustment, income tax benefits in the amount of €26,311 thousand were recognized in the pro forma consolidated income statement for the period from January 1, 2014 to June 30, 2014, estimated based on the statutory tax rate of Telefónica Deutschland of 32%.

(3) Income tax adjustments

Based on a preliminary analysis the Company estimated to benefit from tax losses carried forward at the New E-Plus Group that arose after completion of the Pre-Closing Restructuring throughout the six-month period ended June 30, 2014. Consequently, deferred tax income amounting to €101,294 thousand was recognized for the period from January 1, 2014 to June 30, 2014 using Telefónica Deutschland's statutory tax rate including the tax gross-up effects from the change in the statutory tax rate.

Pro forma adjustments with a one-off effect

The following pro forma adjustments to the pro forma consolidated income statement for the period from January 1, 2014 to June 30, 2014 with a one-off effect on the results of operations of Telefónica Deutschland arose from the Acquisition of the New E-Plus Group:

(4) Acquisition-related costs

For purposes of the pro forma consolidated income statement for the period from January 1, 2014 to June 30, 2014, it was assumed that the entire legal and consulting fees associated with the acquisition of the New E-Plus Group were incurred as of January 1, 2013. As a result, acquisition-related costs of €4,521 thousand within other expenses, which were already reflected in the historical income statement of the Company for the six-month period ended June 30, 2014, were eliminated for purposes of the Pro Forma Consolidated Financial Information as they were already incurred in the period from January 1, 2013 to December 31, 2013.

Furthermore, related tax income of €1,337 thousand, calculated based on the statutory tax rate of Telefónica Deutschland of 32% and based on the preliminary estimate that 92.4% of the additional acquisition-related costs were tax-deductible, was eliminated.

(5) Management bonus agreements

For purposes of the pro forma consolidated income statement for the period from January 1, 2014 to June 30, 2014, it was assumed that the retention bonus agreements entered into with certain employees of both the New E-Plus Group and the Company as well as the merger bonus agreements entered into with management personnel of the Company vested in the period from January 1, 2013 to December 31, 2013. As a result, personnel expenses of €6,135 thousand, which were already reflected in the historical income statements of the Company and the New E-Plus Group for the six-month period ended June 30, 2014, were eliminated for purposes of the Pro Forma Consolidated Financial Information as they were already incurred in the period from January 1, 2013 to December 31, 2013. Furthermore, related tax income of €1,963 thousand, calculated based on the statutory tax rate of Telefónica Deutschland of 32% and based on the preliminary estimate that all expenses for bonus agreements recognized were tax-deductible, was eliminated.

6. **Pro forma consolidated statement of financial position as of June 30, 2014**

6.1. Presentation of the pro forma consolidated statement of financial position as of June 30, 2014

As of June 30, 2014	**Historical Financial Information**					**Pro forma consolidated statement of financial position**
€ in thousands	**Telefónica Deutschland**	**New E-Plus Group**	**Total**	**Pro forma explanation**	**Pro forma adjustments**	
Assets						
A) Non-current assets	**6,935,334**	**4,371,969**	**11,307,304**		**3,107,649**	**14,414,953**
Goodwill	705,576	151,305	856,881	(3)	901,427	1,758,308
Intangible assets	2,717,326	1,732,092	4,449,418	(3)	2,832,148	7,281,566
Property, plant and equipment	2,818,161	2,298,921	5,117,082	(3)	(421,210)	4,695,872
Other non-current financial assets	110,748	173,516	284,264	(2), (3)	-	284,264
Deferred tax assets	583,523	16,135	599,659	(1), (2), (3), (4), (6), (7)	(204,716)	394,942
B) Current assets	**2,313,167**	**1,092,660**	**3,405,827**		**(38,755)**	**3,367,072**
Inventories	110,369	25,159	135,528		-	135,528
Trade and other receivables	1,171,811	712,748	1,884,559	(1), (2), (5)	(25,089)	1,859,470
Other current financial assets	24,713	-	24,713		-	24,713
Cash and cash equivalents	1,006,275	354,753	1,361,028	(1), (2)	(13,666)	1,347,362
Total assets (A+B)	**9,248,502**	**5,464,629**	**14,713,131**		**3,068,894**	**17,782,025**
Equity and liabilities						
A) Equity	**5,399,166**	**4,010,297**	**9,409,464**		**3,043,083**	**12,452,547**
Common stock	1,116,946	10,102	1,127,048	(1), (2), (3)	1,660,330	2,787,378
Additional paid-in capital	430	1,434,630	1,435,060	(1), (2), (3)	3,922,130	5,357,190
Retained earnings	4,280,108	2,568,047	6,848,155	(3), (4), (6), (7)	(2,541,859)	4,306,296
Other components of equity	1,683	(2,482)	(799)	(3)	2,482	1,683
Equity attributable to owners of the parent	**5,399,166**	**4,010,297**	**9,409,464**		**3,043,083**	**12,452,547**
B) Non-current liabilities	**2,262,739**	**349,524**	**2,612,263**		**15,374**	**2,627,637**
Non-current interest-bearing debt	1,812,596	-	1,812,596		-	1,812,596
Other payables	47,013	143,255	190,268		-	190,268
Non-current provisions	138,819	202,470	341,289	(3)	19,173	360,462
Deferred income	264,311	3,799	268,111	(3)	(3,799)	264,312
Deferred tax liabilities	-	-	-	(3), (7)	-	-
C) Current liabilities	**1,586,596**	**1,104,808**	**2,691,404**		**10,436**	**2,701,840**
Current interest-bearing debt	12,687	5,271	17,958		-	17,958
Trade payables	1,098,617	550,368	1,648,985	(5)	(17,726)	1,631,259
Other payables	289,143	339,036	628,179	(1), (2), (4)	40,251	668,430
Current provisions	3,155	13,669	16,824	(6)	(149)	16,675
Deferred income	182,995	196,464	379,459	(3), (5)	(11,940)	367,519
Total equity and liabilities (A+B+C)	**9,248,502**	**5,464,629**	**14,713,131**		**3,068,894**	**17,782,025**

6.2. Explanation of the pro forma adjustments to the pro forma consolidated statement of financial position of the Company as of June 30, 2014

As of June 30, 2014 **€ in thousands**	**Rights Offering**	**Payment of Cash Component and Capital Increase against Contribution in Kind**	**Provisional PPA and New E-Plus Group equity elimination**	**Acquisition-related costs**	**Inter-company elimination**	**Management bonus agreements**	**Income tax adjustments**	**Total pro forma adjustments as of June 30, 2014**
Pro forma explanation	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Assets								
A) Non-current assets	**10,515**	**7,065,346**	**(3,264,322)**	**3,114**	**-**	**(48)**	**(706,956)**	**3,107,649**
Goodwill	-	-	901,427	-	-	-	-	901,427
Intangible assets	-	-	2,832,148	-	-	-	-	2,832,148
Property, plant and equipment	-	-	(421,210)	-	-	-	-	(421,210)
Other non-current financial assets	-	7,064,660	(7,064,660)	-	-	-	-	-
Deferred tax assets	10,515	686	487,973	3,114	-	(48)	(706,956)	(204,716)
B) Current assets	**3,617,232**	**(3,636,183)**	**-**	**-**	**(19,804)**	**-**	**-**	**(38,755)**
Inventories	-	-	-	-	-	-	-	-
Trade and other receivables	(5,121)	(165)	-	-	(19,804)	-	-	(25,089)
Other current financial assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	3,622,352	(3,636,018)	-	-	-	-	-	(13,666)
Total assets (A+B)	**3,627,747**	**3,429,164**	**(3,264,322)**	**3,114**	**(19,804)**	**(48)**	**(706,956)**	**3,068,894**
Equity and liabilities								
A) Equity	**3,600,008**	**3,427,184**	**(4,010,297)**	**(7,419)**	**-**	**101**	**33,506**	**3,043,083**
Common stock	976,375	694,057	(10,102)	-	-	-	-	1,660,330
Additional paid-in capital	2,623,633	2,733,127	(1,434,630)	-	-	-	-	3,922,130
Retained earnings	-	-	(2,568,047)	(7,419)	-	101	33,506	(2,541,859)
Other components of equity	-	-	2,482	-	-	-	-	2,482
Equity attributable to owners of the parent	**3,600,008**	**3,427,184**	**(4,010,297)**	**(7,419)**	**-**	**101**	**33,506**	**3,043,083**

As of June 30, 2014 € in thousands	Rights Offering	Payment of Cash Component and Capital Increase against Contribution in Kind	Provisional PPA and New E-Plus Group equity elimination	Acquisition-related costs	Inter-company elimination	Management bonus agreements	Income tax adjustments	Total pro forma adjustments as of June 30, 2014
Pro forma explanation	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
B) Non-current liabilities	**-**	**-**	**755,837**	**-**	**-**	**-**	**(740,463)**	**15,374**
Non-current interest-bearing debt	-	-	-	-	-	-	-	-
Other payables	-	-	-	-	-	-	-	-
Non-current provisions	-	-	19,173	-	-	-	-	19,173
Deferred income	-	-	(3,799)	-	-	-	-	(3,799)
Deferred tax liabilities	-	-	740,463	-	-	-	(740,463)	-
C) Current liabilities	**27,739**	**1,980**	**(9,862)**	**10,533**	**(19,804)**	**(149)**	**-**	**10,436**
Current interest-bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	(17,726)	-	-	(17,726)
Other payables	27,739	1,980	-	10,533	-	-	-	40,251
Current provisions	-	-	-	-	-	(149)	-	(149)
Deferred income	-	-	(9,862)	-	(2,078)	-	-	(11,940)
Total equity and liabilities (A+B+C)	**3,627,747**	**3,429,164**	**(3,264,322)**	**3,114**	**(19,804)**	**(48)**	**(706,956)**	**3,068,894**

The following pro forma adjustments to the pro forma consolidated statement of financial position as of June 30, 2014 arose from the Acquisition of the New E-Plus Group:

(1) Rights Offering

For purposes of the pro forma consolidated statement of financial position as June 30, 2014, the pro forma adjustments on common stock and additional paid-in capital from the Rights Offering are calculated as follows:

June 30, 2014	€ in thousands, unless otherwise indicated
Number of shares to be issued via Rights Offering	976,375,256
* Subscription Price Rights Offering (€ per share)	3.71
Gross proceeds from Rights Offering	**3,622,352**
Increase of the Company's common stock from the Rights Offering	976,375
Residual amount	**2,645,977**
Directly attributable transaction costs for the Rights Offering	(32,859)
Income tax effect (32% statutory tax rate of the Company)	10,515
Allocation to additional paid-in capital from the Rights Offering	**2,623,633**

The gross cash inflow recognized in cash and cash equivalents was considered equal to the proceeds of the Rights Offering and amounted to €3,622,352 thousand. Directly attributable transaction costs for the capital increase in the amount of €32,859 thousand were deducted from equity within additional paid-in capital and presented as current other payables in the amount of €27,739 thousand and as reduction of trade and other receivables in the amount of €5,121 thousand to the extent already paid. The income tax effect related to the Rights Offering was based on the preliminary estimate that the directly attributable transaction costs were entirely tax-deductible. For purposes of the pro forma consolidated statement of financial position as of June 30, 2014, deferred tax assets amounting to €10,515 thousand were recognized, which increased additional paid-in capital in the corresponding amount.

(2) Payment of Cash Component and Capital Increase against Contribution in Kind

The payment of the Cash Component and the Capital Increase against Contribution in Kind, i.e. the acquisition of full direct and indirect ownership in the New E-Plus Group by the Company, resulted in the following pro forma adjustments for purposes of the pro forma consolidated statement of financial position as of June 30, 2014: The ownership in the New E-Plus Group was recognized within other non-current financial assets in the amount of the total consideration of €7,064,660 thousand. The payment of the Cash Component amounting to €3,636,018 thousand by the Company was recognized as deduction to cash and cash equivalents. Under consideration of the gross proceeds from the Rights Offering of €3,622,352 thousand, the net decrease effect on cash and cash equivalents amounts to €13,666 thousand. The issuance of the Consideration Shares with a value of €3,428,642 thousand increased common stock by €694,057 thousand, reflecting 694,057,048 new shares with a notional amount of the common stock of €1.00 each, and additional paid-in capital amounting to €2,734,585 thousand, reflecting the share premium from the Capital Increase against Contribution in Kind.

In addition, directly attributable transaction costs for the Capital Increase against Contribution in Kind amounting to €2,144 thousand were recognized as reduction in additional paid-in capital and presented as current other payables in the amount of €1,980 thousand and as reduction of trade and other receivables in the amount of €165 thousand to the extent already paid. The income tax effect related to the Capital Increase against Contribution in Kind is based on the preliminary estimate that the directly attributable transaction costs were entirely tax-deductible. For purposes of the pro forma consolidated statement of financial position, deferred tax assets amounting to €686 thousand were recognized, which increased additional paid-in capital in the corresponding amount. The net pro forma adjustment to additional paid-in capital amounted to €2,733,127 thousand.

(3) Provisional PPA and New E-Plus Group equity elimination

As a result of the Provisional PPA in connection with the pro forma initial consolidation of the New E-Plus Group, a fair value adjustment of €2,832,148 thousand was determined for identifiable intangible assets. The fair value adjustment to intangible assets was attributable to intangible assets recognized for customer relationships in the amount of €2,555,948 thousand and trademarks and usage rights in the amount of €150,476 thousand, and fair value adjustments of frequency usage rights in the amount of €125,724 thousand.

The fair value adjustment to property, plant and equipment applied to the pro forma consolidated statement of financial position as of June 30, 2014 amounted to negative €421,210 thousand and is composed of fair value adjustments to network equipment (negative €55,444 thousand), own work capitalized (negative €213,519 thousand), other plant and equipment (negative €87,565 thousand) and assets under construction (negative €64,682 thousand).

Furthermore, additional liabilities amounting to €5,512 thousand were assumed as part of the fair value adjustment of the Provisional PPA, related to increased non-current provisions for dismantling obligations due to a shorter dismantling period assumed for certain mobile sites (€19,173 thousand) and decreased deferred income related to connection fees (€13,661 thousand, of which €9,862 thousand is current and €3,799 thousand is non-current deferred income).

The net fair value adjustment to deferred tax liabilities as a result of the Provisional PPA amounted to €252,490 thousand, composed of deferred tax assets amounting to €487,973 thousand relating to book-to-tax differences on goodwill and deferred tax liabilities amounting to €740,463 thousand relating to book-to-tax differences for net assets acquired.

As a result of the fair value adjustments of identifiable assets acquired and liabilities assumed related to the Provisional PPA, new goodwill of €1,052,732 thousand was recognized. Goodwill amounting to €151,305 thousand already recognized in the historical consolidated statement of financial position of the New E-Plus Group was eliminated.

Furthermore, the pro forma elimination of the historical equity of the New E-Plus Group against the carrying amount of the shareholding in the New E-Plus Group amounting to €7,064,660 thousand within other non-current financial assets resulted in reduced common stock of €10,102 thousand, reduced additional paid-in capital of €1,434,630 thousand and reduced retained earnings of €2,568,047 thousand and increased other components of equity of €2,482 thousand in the pro forma consolidated statement of financial position as of June 30, 2014.

(4) Acquisition-related costs

Total legal, consulting and notary fees associated with the Acquisition of the New E-Plus Group were assumed to amount to €21,283 thousand. Of these acquisition-related costs, €10,750 thousand were already incurred and reflected in the historical financial information of the Company as of June 30, 2014. For purposes of the pro forma consolidated statement of financial position as of June 30, 2014, it was assumed that the entire legal, consulting and notary fees associated with the acquisition of the New E-Plus Group were incurred as of June 30, 2014. As a result, additional acquisition-related costs of €10,533 thousand were recognized as current other payables.

As a result of this pro forma adjustment, deferred tax assets in the amount of €3,114 thousand were recognized in the pro forma statement of financial position as of June, 2014, calculated based on the statutory tax rate of Telefónica Deutschland of 32% and based on the preliminary estimate that 92.4% of the additional acquisition-related costs were tax-deductible.

The corresponding net pro forma adjustment on retained earnings resulted in a decrease of €7,419 thousand.

(5) Intercompany elimination

Supply and service relationships between Telefónica Deutschland and the New E-Plus Group were eliminated for purposes of the Pro Forma Consolidated Financial Information. Receivables, payables and deferred income between Telefónica Deutschland and the New E-Plus Group were mainly generated from access, termination and interconnection fees charged by Telefónica Deutschland or the New E-Plus Group, respectively, as well as from sublease agreements for tower space and for shop areas.

As of June 30, 2014, intercompany trade and other receivables amounting to €19,804 thousand, trade payables of €17,726 thousand and current deferred income of €2,078 thousand were eliminated for purposes of the pro forma consolidated statement of financial position.

(6) Management bonus agreements

For purposes of the pro forma consolidated statement of financial position as of June 30, 2014, the historical current provisions made in connection with the retention bonus agreements entered into with certain employees of both the New E-Plus Group and the Company as well as the merger bonus agreements entered into with management personnel of the Company were decreased by €149 thousand. This was based on the assumption that the benefits under these agreements are fully vested by December 31, 2014.

As a result of this pro forma adjustment, deferred tax assets were reduced by €48 thousand in the pro forma statement of financial position as of June 30, 2014, calculated based on the statutory tax rate of Telefónica Deutschland of 32% and based on the preliminary estimate that expenses related to the management bonus agreements were entirely tax-deductible. The corresponding net pro forma adjustment on retained earnings resulted in an increase of €101 thousand.

(7) Income tax adjustments

Due to the difference in statutory tax rates between Telefónica Deutschland (combined corporate and trade tax rate of 32%) and the New E-Plus Group (trade tax rate of 15.41%), additional deferred tax assets in the amount of €33,506 thousand were recognized, which increased retained earnings in the same amount. Furthermore, this pro forma adjustment includes the netting of deferred tax liabilities in the amount of €740,463 thousand (recognized in connection with the Provisional PPA) with deferred tax assets for purposes of the pro forma consolidated statement of financial position as of June 30, 2014. The net pro forma adjustment of the aforementioned effects resulted in the reduction of deferred tax assets of €706,956 thousand.

7. Additional pro forma consolidated financial information

7.1. Breakdown of pro forma revenues for the period from January 1, 2013 to December 31, 2013

7.1.1. Presentation, accounting and valuation adjustments related to revenues of the New E-Plus Group for the period from January 1, 2013 to December 31, 2013

January 1 to December 31, 2013		**Presentation adjustments**				**Accounting and valuation adjustments**		
€ in thousands	**E-Plus Group**	**Foreign exchange gains and losses**	**Rental income**	**Service provider contracts**	**Returned debits**	**Leasing of mobile devices**	**Deferred revenues one-off connection fees**	**New E-Plus Group**
Explanation		(1)	(2)	(3)	(4)	(5)	(6)	
Revenues	**3,142,707**	**(108)**	**(14,921)**	**21,388**	**(16,308)**	**115,609**	**3,799**	**3,252,166**
Wireless business	3,104,566	-	-	21,388	-	115,609	3,799	3,245,362
Wireless service revenues[(a)]	*2,972,041*	-	-	*21,388*	-	*(270,419)*	*3,799*	*2,726,809*
Handset revenues[(b)]	*132,525*	-	-	-	-	*386,028*	-	*518,553*
Wireline business	-	-	-	-	-	-	-	-
Other revenues	38,141	(108)	(14,921)	-	(16,308)	-	-	6,804

(a) Consists of 'revenues from services' (€2,972,041 thousand) as reported in the audited IFRS consolidated financial statements of KPN Mobile Germany as of and for the financial year ended December 31, 2013.

(b) Consists of 'sale of goods' (€132,525 thousand) as reported in the audited IFRS consolidated financial statements of KPN Mobile Germany as of and for the financial year ended December 31, 2013.

Explanation of the adjustments to the historical financial information related to revenues of the New E-Plus Group to harmonize the accounting policies

The following presentation, accounting and valuation adjustments were applied to the revenues of the New E-Plus Group for the period from January 1, 2013 to December 31, 2013 in order to apply consistent accounting policies:

(1) The presentation adjustment related to foreign exchange gains in the amount of negative €108 thousand (as further described in section 2.4.1.3. of the Pro Forma Consolidated Financial Information) was classified to other revenues.

(2) The presentation adjustment related to rental income from sublease agreements for tower space and for shop areas in the amount of negative €14,921 thousand (as further described in section 2.4.1.3. of the Pro Forma Consolidated Financial Information) was classified to other revenues.

(3) The presentation adjustment related to service provider contracts in the amount of €21,388 thousand (as further described in section 2.4.1.3. of the Pro Forma Consolidated Financial Information) was classified to wireless service revenues.

(4) The presentation adjustment related to returned debits in the amount of negative €16,308 thousand (as further described in section 2.4.1.3. of the Pro Forma Consolidated Financial Information) was classified to other revenues.

(5) The accounting and valuation adjustment related to the leasing of mobile devices resulted in additional handset revenues amounting to €386,028 thousand and lower wireless service revenues amounting to €270,419 thousand (as further described in section 2.4.2.4. of the Pro Forma Consolidated Financial Information). Consequently, wireless business revenues increased by €115,609 thousand.

(6) The accounting and valuation adjustment related to connection fees resulted in an increase of wireless service revenues in the amount of €3,799 thousand (as further described in section 2.4.2.4. of the Pro Forma Consolidated Financial Information).

7.1.2. Breakdown of pro forma revenues of Telefónica Deutschland for the period from January 1, 2013 to December 31, 2013

January 1 to December 31, 2013	**Historical Financial Information**			**Pro forma adjustment**	
€ in thousands	**Telefónica Deutschland**	**New E-Plus Group**	**Total**	**Intercompany elimination**	**Pro forma consolidated**
Pro forma explanation				(1)	
Revenues	**4,913,881**	**3,252,166**	**8,166,047**	**(223,867)**	**7,942,180**
Wireless business	3,673,043	3,245,362	6,918,405	(223,867)	6,694,538
Wireless service revenues	*2,989,294*	*2,726,809*	*5,716,103*	*(223,867)*	*5,492,236*
Handset revenues	*683,749*	*518,553*	*1,202,302*	-	*1,202,302*
Wireline business	1,234,958	-	1,234,958	-	1,234,958
Other revenues	5,880	6,804	12,684	-	12,684

Explanation of the pro forma adjustment related to pro forma revenues for the period from January 1, 2013 to December 31, 2013

(1) The pro forma adjustment with an effect on pro forma revenues of Telefónica Deutschland for the period from January 1, 2013 to December 31, 2013 is related to the elimination of supply and service relationships between Telefónica Deutschland and the New E-Plus Group. The resulting decrease in revenues of €223,867 thousand related to wireless service revenues of Telefónica Deutschland and the New E-Plus Group.

7.2. Breakdown of pro forma revenues for the period from January 1, 2014 to June 30, 2014

7.2.1. Presentation, accounting and valuation adjustments related to revenues of the New E-Plus Group for the period from January 1, 2014 to June 30, 2014

January 1 to June 30, 2014		**Presentation adjustments**				**Accounting and valuation adjustments**		
€ in thousands	**E-Plus Group**	**Foreign exchange gains and losses**	**Rental income**	**Service provider contracts**	**Returned debits**	**Leasing of mobile devices**	**Deferred revenues one-off connection fees**	**New E-Plus Group**
Explanation		(1)	(2)	(3)	(4)	(5)	(6)	
Revenues	**1,582,980**	**(18)**	**(7,337)**	**7,556**	**(8,182)**	**5,876**	**(1,972)**	**1,578,903**
Wireless business	1,560,333	-	-	7,556	-	5,876	(1,972)	1,571,793
Wireless service revenues[(a)]	*1,492,522*	-	-	*7,556*		*(164,704)*	*(1,972)*	*1,333,402*
Handset revenues[(b)]	*67,811*	-	-	-	-	*170,580*	-	*238,391*
Wireline business	-	-	-	-	-	-	-	-
Other revenues	22,647	(18)	(7,337)	-	(8,182)	-	-	7,110

(a) Consists of 'revenues from services' (€1,492,522 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

(b) Consists of 'revenues from the sale of goods' (€67,811 thousand) as reported in the unaudited IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014.

Explanation of the adjustments to the historical financial information related to revenues of the New E-Plus Group to harmonize the accounting policies

The following presentation, accounting and valuation adjustments were applied to the revenues of the New E-Plus Group for the period from January 1, 2014 to June 30, 2014 in order to apply consistent accounting policies:

(1) The presentation adjustment related to foreign exchange gains in the amount of negative €18 thousand (as further described in section 2.4.1.3. of the Pro Forma Consolidated Financial Information) was classified to other revenues.

(2) The presentation adjustment related to rental income from sublease agreements for tower space and for shop areas in the amount of negative €7,337 thousand (as further described in section 2.4.1.3. of the Pro Forma Consolidated Financial Information) was classified to other revenues.

(3) The presentation adjustment related to service provider contracts in the amount of €7,556 thousand (as further described in section 2.4.1.3. of the Pro Forma Consolidated Financial Information) was classified to wireless service revenues.

(4) The presentation adjustment related to returned debits in the amount of negative €8,182 thousand (as further described in section 2.4.1.3. of the Pro Forma Consolidated Financial Information) was classified to other revenues.

(5) The accounting and valuation adjustment related to the leasing of mobile devices resulted in additional handset revenues amounting to €170,580 thousand and lower wireless service revenues amounting to €164,704 thousand (as further described in section 2.4.2.4. of the Pro Forma Consolidated Financial Information). Consequently, wireless business revenues increased by €5,876 thousand.

(6) The accounting and valuation adjustment related to connection fees resulted in a decrease of wireless service revenues in the amount of €1,972 thousand (as further described in section 2.4.2.4. of the Pro Forma Consolidated Financial Information).

7.2.2. Breakdown of pro forma revenues of Telefónica Deutschland for the period from January 1, 2014 to June 30, 2014

January 1 to June 30, 2014	Historical Financial Information			Pro forma adjustment	
€ in thousands	**Telefónica Deutschland**	**New E-Plus Group**	**Total**	**Intercompany elimination**	**Pro forma consolidated**
Pro forma explanation				(1)	
Revenues	**2,283,663**	**1,578,903**	**3,862,566**	**(93,695)**	**3,768,871**
Wireless business	1,699,203	1,571,793	3,270,996	(93,695)	3,177,301
Wireless service revenues	*1,434,751*	*1,333,402*	*2,768,153*	*(93,695)*	*2,674,458*
Handset revenues	*264,452*	*238,391*	*502,843*	-	*502,843*
Wireline business	580,775	-	580,775	-	580,775
Other revenues	3,686	7,110	10,796	-	10,796

Explanation of the pro forma adjustment related to pro forma revenues for the period from January 1, 2014 to June 30, 2014

(1) The pro forma adjustment with an effect on pro forma revenues of Telefónica Deutschland for the period from January 1, 2014 to June 30, 2014 is related to the elimination of supply and service relationships between Telefónica Deutschland and the New E-Plus Group. The resulting decrease in revenues of €93,695 thousand related to wireless service revenues of Telefónica Deutschland and the New E-Plus Group.

7.3. Pro forma net financial debt of Telefónica Deutschland as of June 30, 2014

As of June 30, 2014	Historical Financial Information			Pro forma adjustment	
€ in thousands	**Telefónica Deutschland**	**New E-Plus Group**	**Total**	**Rights Offering, Payment of Cash Component and Capital Increase against Contribution in Kind**	**Pro forma consolidated**
Pro forma explanation				(1)	
Cash and cash equivalents	1,006,275	354,753	1,361,028	(13,666)	1,347,362
Liquidity	**1,006,275**	**354,753**	**1,361,028**	**(13,666)**	**1,347,362**
Current financial assets[1], [2]	**151,697**	**280,452**	**432,149**	**-**	**432,149**
Current interest-bearing debt[3]	12,687	-	12,687	-	12,687
Other current liabilities[4], [5]	15,254	314,936	330,190	-	330,190
Current financial debt[6]	**27,941**	**314,936**	**342,877**	**-**	**342,877**
Current net financial debt[7]	**(1,130,031)**	**(320,269)**	**(1,450,300)**	**13,666**	**(1,436,634)**
Non-current financial assets[8], [9]	**92,234**	**123,446**	**215,680**	**-**	**215,680**
Non-current interest-bearing debt	1,812,596	-	1,812,596	-	1,812,596
Other non-current payables[10], [11]	43,913	136,867	180,780	-	180,780
Non-current financial debt[12]	**1,856,509**	**136,867**	**1,993,376**	**-**	**1,993,376**
Non-current net financial debt[13]	**1,764,275**	**13,421**	**1,777,696**		**1,777,696**
Net financial debt[14]	**634,244**	**(306,848)**	**327,396**	**13,666**	**341,062**

(1) Current financial assets of Telefónica Deutschland is comprised of current portion of "O2 My Handy" receivables (€151,233 thousand) plus loan to third parties included in other current financial assets (€464 thousand).

(2) Current financial assets of New E-Plus Group is comprised of current lease receivables relating to mobile devices leased to customers in the amount of €280,452 thousand (as further described in section 2.4.2.3. and 2.4.2.4. of the Pro Forma Consolidated Financial Information).

(3) Current interest-bearing debt of New E-Plus Group in the amount of €5,271 thousand does not meet the Company's definition of net financial debt.

(4) Other current liabilities of Telefonica Deutschland is comprised of current finance lease payables.

(5) Other current liabilities of New E-Plus Group is comprised of current finance lease liabilities in the amount of €287,662 thousand as reported in the IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014 and the effects of the accounting policy alignment with regard to lease-out arrangements that increased current finance lease liabilities in the amount of €27,274 thousand (as further described in section 2.2.3., 2.4.2.3. and 2.4.2.4. of the Pro Forma Consolidated Financial Information).

(6) Current interest-bearing debt plus other current liabilities.

(7) Current financial debt minus current financial assets minus liquidity.

(8) Non-current financial assets of Telefonica is comprised of non-current "O2 My Handy" receivables.

(9) Non-current financial assets of New E-Plus Group is comprised of non-current lease receivables relating to mobile devices leased to customers in the amount of €123,446 thousand (as further described in section 2.4.2.3 and 2.4.2.4. of the Pro Forma Consolidated Financial Information).

(10) Other non-current payables of Telefonica Deutschland is comprised of non-current finance lease payables.

(11) Other non-current payables of New E-Plus Group is comprised of non-current finance lease liabilities in the amount of €107,178 thousand as reported in the IFRS interim condensed consolidated financial statements of KPN Mobile Germany as of and for the six-month period ended June 30, 2014 and the effects of the accounting policy alignment in regard to lease-out arrangements that increased non-current finance lease liabilities in the amount of €29,689 thousand (as further described in section 2.2.3., 2.4.2.3. and 2.4.2.4. of the Pro Forma Consolidated Financial Information).

(12) Non-current interest-bearing debt plus other non-current payables (only including interest-bearing payables).

(13) Non-current financial debt minus non-current financial assets.

(14) Current net financial debt plus non-current net financial debt.

Explanation of the pro forma adjustment related to pro forma net financial debt as of June 30, 2014

(1) The pro forma adjustment related to pro forma net decrease financial debt as of June 30, 2014 of Telefónica Deutschland represents the net decrease effect on cash and cash equivalents of the Rights Offering, Payment of the Cash Component and Capital Increase against Contribution in Kind amounting to €13,666 thousand (as further described in section 6.2. of the Pro Forma Consolidated Financial Information).

Munich, August 6, 2014

Telefónica Deutschland Holding AG
The Management Board

This auditor's report is an English-language translation of the German-language auditor's report (Bescheinigung) and is issued for the sole purpose of the public offerings in the Federal Republic of Germany and the Grand Duchy of Luxembourg and the admission of new ordinary non-par value registered shares of the Company to trading on the regulated market (regulierter Markt) of the Frankfurt Stock Exchange and on the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) and other regulated markets in the European Union or European Economic Area, as approved and notified. Therefore, this auditor's report is not appropriate in other jurisdictions and should not be used or relied upon for any other purpose.

AUDITOR'S REPORT TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

To Telefónica Deutschland Holding AG, Munich

We have audited whether the pro forma consolidated financial information as of June 30, 2014 of Telefónica Deutschland Holding AG, Munich, (the "Company") has been properly compiled on the basis stated in the pro forma notes and whether this basis is consistent with the accounting policies of the Company. The pro forma consolidated financial information comprises a pro forma consolidated income statement for the period from January 1, 2013 to December 31, 2013, a pro forma consolidated income statement for the period from January 1, 2014 to June 30, 2014, a pro forma consolidated statement of financial position as of June 30, 2014 as well as pro forma notes.

The purpose of the pro forma consolidated financial information is to present the material effects the transaction described in the pro forma notes would have had on the historical consolidated financial statements if the group had existed in the structure created by the transaction throughout the entire reporting period (pro forma consolidated income statements) or since June 30, 2014 (pro forma consolidated statement of financial position). As pro forma consolidated financial information reflects a hypothetical situation it is not entirely consistent with the presentation that would have resulted had the relevant events actually occurred at the beginning of the reporting period or at June 30, 2014.

The compilation of the pro forma consolidated financial information is the responsibility of the Company's management.

Our responsibility is, based on our audit, to express an opinion whether the pro forma consolidated financial information has been properly compiled on the basis stated in the pro forma notes and whether this basis is consistent with the accounting policies of the Company. The subject matter of this engagement does neither include an audit of the basic figures including their adjustments to the accounting policies of the Company, nor of the pro forma assumptions stated in the pro forma notes.

We have planned and performed our audit in accordance with the *IDW Auditing Practice Statement: Audit of Pro Forma Financial Information (IDW AuPS 9.960.1)* promulgated by the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW) in such a way that material errors in the compilation of the pro forma consolidated financial information on the basis stated in the pro forma notes and in the compilation of this basis consistent with the accounting policies of the Company are detected with reasonable assurance.

In our opinion, the pro forma consolidated financial information has been properly compiled on the basis stated in the pro forma notes. This basis is consistent with the accounting policies of the Company.

Munich, August 6, 2014

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Dahmen	Bauer
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

SIGNATURES

Telefónica Deutschland Holding AG
signed Ms. Rachel Empey
(CFO, Chief Financial Officer)

Telefónica Deutschland Holding AG
signed Mr. Markus Haas
(CSO, Chief Strategy Officer)

Citigroup Global Markets Limited
signed Mr. Andreas Bernstorff

HSBC Trinkaus & Burkhardt AG
signed Dr. Achim Schäcker

HSBC Trinkaus & Burkhardt AG
signed Mr. Cord Kunze

Morgan Stanley & Co. International plc
signed Mr. Adam Pickard

UBS Limited
signed Mr. Armin Heuberger

UBS Limited
signed Mr. Johannes Bräutigam

Merrill Lynch International
signed Mr. Cord Kunze

J.P. Morgan Securities plc
signed Mr. Johannes Bräutigam

Bayerische Landesbank
signed Mr. Johannes Bräutigam

Société Générale
signed Mr. Cord Kunze

Banco Bilbao Vizcaya Argentaria S.A.
signed Mr. Johannes Bräutigam

COMMERZBANK Aktiengesellschaft
signed Mr. Cord Kunze

BNP Paribas
signed Mr. Johannes Bräutigam

UniCredit Bank AG
signed Mr. Cord Kunze

Banco Santander, S.A.
signed Mr. Johannes Bräutigam

Mediobanca – Banca di Credito Finanziario S.p.A.
signed Mr. Johannes Bräutigam