Telefonica
Deutschland

Interim Group Report_

for the Period from January 1 to June 30, 2014

Portrait of Telefónica Deutschland_

Telefónica Deutschland headquarter in Munich

With more than 25 million customer accesses and annual revenues in 2013 of EUR 4.9bn, Telefónica Deutschland is the third largest integrated network operator in Germany. Listed on the Frankfurt Stock Exchange since 2012, the company is a leading provider of wireless and wireline services, including voice, data and value-added services, to private and business customers in Germany. The indirect majority shareholder is the Spanish company Telefónica S.A. – one of the world's largest telecommunications operators.

Telefónica Deutschland is especially known for its core brand O_2, which has been successfully offering wireless and wireline products for private and business customers for many years. As part of its multi-brand strategy, Telefónica Deutschland also addresses additional customer groups through familiar secondary and partner brands, such as Fonic, netzclub and TCHIBO mobil. Telefónica Deutschland is also a leading provider of wholesale services to customers such as 1&1, mobilcom/debitel, Drillisch and cable operators.

The company is a leading provider of smartphone tariffs and products, particularly through its core brand O_2. Telefónica Deutschland sets new standards in the German telecommunications market in this area with innovative and customer-friendly products: With its "O_2 Blue All-in" wireless tariffs launched in 2013, the company became the first German network provider to gear its entire rate portfolio towards customers' data needs.

The foundation for this is a competitive mobile network, which is among the most advanced in Europe. More than 30,000 base stations provide coverage for over 99 percent of the German population with GSM. Since 2010, Telefónica Deutschland has also been expanding the new mobile communications standard LTE in Germany, which enables significantly faster mobile data transmission rates. As of end of June 2014, Telefónica Deutschland's LTE network reached over 50 percent of the German population and the roll-out continues. As an integrated operator, Telefónica Deutschland also offers wireline and DSL products. This includes high-speed VDSL access, which it provides through its long-term cooperation with Deutsche Telekom and covers almost 15 million German households.

To secure its future growth, Telefónica Deutschland is also committed to active innovation management. Complementing the research conducted by the Telefónica S.A.'s global innovation network, the company invests in a large number of projects in Germany. The vision of Telefónica Deutschland with its roughly 6,000 employees is to improve people's quality of life and drive social progress through digital products and services. Through its "Think Big" initiative, the company is especially committed to helping young people, and has supported around 2,000 projects in this field since 2010.

Content_

The following figures 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.

Financial Highlights_

Financial Overview

(Euros in millions)	January 1 to June 30 2014	2013	% Change
Revenues	2,284	**2,445**	**(6.6)**
Wireless service revenues	1,435	1,481	(3.1)
Operating income before depreciation and amortization (OIBDA)	486	**572**	**(15.1)**
OIBDA margin	21.3%	23.4%	(2.1%-p.)
Operating income	(48)	**6**	**>(100)**
Profit for the period	(64)	**(10)**	**>100**
Basic earnings per share (in Euros)[1]	(0.06)	**(0.01)**	**>100**
CapEx	(266)	**(296)**	**(10.1)**
Operating cash flow (OIBDA–CapEx)	219	**276**	**(20.5)**
Free cash flow pre dividends[2]	397	**345**	**15.1**
Total accesses (in thousands)	25,116	**25,343**	**2.2**
Mobile accesses (in thousands)	19,436	19,411	0.1
Postpaid (%)	54.1%	**52.9%**	**1.2%-p.**
Total ARPU	12.3	**12.6**	**(2.6)**
Postpaid churn (%)	1.4%	**1.4%**	**0.0%-p.**
(%) non-SMS data over total data revenues	72.3%	**64.4%**	**7.8%-p.**
Employees	6,009	**6,017**	**(0.1)**

	As of June 30 2014	As of December 31 2013	% Change
Net financial debt[3]	634	**468**	**35.7**
Leverage[4]	0.6x	0.4x	45.9

1 Basic earnings per share from continuing operations are calculated by dividing profit (loss) after taxes for the period by the weighted average number of ordinary shares of 1.116.945k.

2 Free cash flow pre dividends is defined as the sum of cash flow from operating activities and cash flow from investing activities.

3 Net financial debt includes all current and non-current interest-bearing financial assets and interest-bearing financial liabilities. Net financial debt is calculated as follows: non-current interest-bearing debt (EUR 1,812,596k in 2014 and EUR 1,342,584k in 2013) + non-current finance lease payables (EUR 43,913k in 2014 and EUR 1,340k in 2013) + current interest-bearing debt (EUR 12,687k in 2014 and EUR 102,059k in 2013) + current finance lease payables (EUR 15,254k in 2014 and EUR 1,649k in 2013) minus the non-current "O_2 My Handy" receivables (EUR 92,234k in 2014 and EUR 83,209k in 2013) and since June 2013 the current portion of "O_2 My Handy" receivables (EUR 151,233k in 2014 and EUR 188,013k in 2013) minus loans to third parties included in other current financial assets (EUR 464k in 2014 and EUR 458k in 2013) and minus cash and cash equivalents (EUR 1,006,275k in 2014 and EUR 708,545k in 2013).
Note: The current portion of "O_2 My Handy" receivables is shown under trade and other receivables in the Consolidated Statement of Financial Position and the non-current portion of "O_2 My Handy" receivables is shown under other non-current financial assets in the Consolidated Statement of Financial Position.

4 Leverage is defined as net financial debt divided by LTM (Last Twelve Months) OIBDA (EUR 1.150m in 2014; EUR 1.237m in 2013) excluding non-recurring factors.

Wireless Service Revenues
(Euros in millions)

–3.1%

H1 2014	1,435	
H1 2013	1,481	

Steady increasing LTE adoption in the postpaid segment not yet offsetting the impact from tariff renewals to lower price levels and the decline of SMS volumes.

OIBDA/OIBDA Margin
(Euros in millions)

–15.1%

H1 2014	486	margin 21.3%
H1 2013	572	margin 23.4%

Decline of OIBDA and OIBDA margin mainly driven by the impact from lower revenues and year-on-year higher commercial spend to drive trading performance.

Wireless Accesses
(In thousands)

+0.1%

H1 2014	19,436
H1 2013	19,411

Increase of postpaid accesses by 2.5% year-on-year to 10.5 million (54.1% share) compensates the decline of prepaid accesses.

Non-SMS Data over Total Data Revenues
(In %)

+7.8%-p.

H1 2014	72.3
H1 2013	64.4

Mobile data continued to be a significant driver for revenue performance, following the increase in smart-phone penetration and LTE as a driver for the growing demand for mobile data services.

Highlights April–June 2014_

1 — LTE-rollout

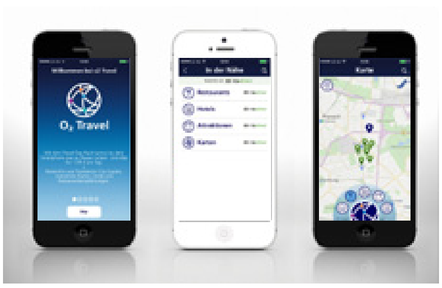
Wireless_

1 — LTE-rollout is making good progress
Telefónica Deutschland is rapidly expanding the new mobile technology LTE: By the end of June the high-speed network of the next generation reached over 50 percent of the German population. In the metropolitan areas around big cities, Telefónica Deutschland's LTE network covers 90 percent of the population. As a next step the LTE network will be further densified through the rollout in smaller and medium-sized cities as well by optimizing the indoor coverage. More and more customers are using the new technology: By April, Telefónica Deutschland sold already more than one million LTE-enabled smartphones to O_2 contract customers.

2 — Mobile data roaming for O_2 customers in the EU
Since May, O_2 customers can even more easily use their smartphones during vacations abroad. All O_2 Blue All-in tariffs now include a mobile data package for Internet surfing in EU countries. The smallest tariff O_2 Blue All-in S offers a monthly data volume of 50 MB while the XL and Premium tariffs even include 500 MB. So customers don't need to do without services like Facebook, Twitter or Google Maps while abroad. Also, the O_2 Blue Professional tariffs for self-employed include data packages for EU countries abroad. Customers without the new O_2 Blue All-in tariffs have the opportunity to buy low-priced daily data packages for surfing the Internet abroad.

2 — Data packages for EU countries abroad

3 — O_2 Travel App with recommendations and travel information
Complementary to the new data packages for EU countries abroad, Telefónica Deutschland launched a travel app for smartphones. O_2 Travel App offers customers interesting information and restaurant tips as well as a monitor for the data usage while abroad. The free app includes information about 450 cities within the EU, compiled by the travel specialist TripAdvisor. Customers can also exactly monitor the data usage while travelling abroad and, if needed, book additional day packages.



3 — O_2 Travel App

Wireline_

4 — Cooperation for cloud-based telephone systems for business customers

In June, Telefónica Deutschland launched a new cloud-based telephone system for business customers. Digital Phone from O_2 is a joint cooperation with NFON, a leading provider for cloud telephone systems. The new product offers up to 160 high-end functions as well as flat rates for calls to all German mobile phone and landline networks. Compared to traditional hardware switchboards Digital Phone from O_2 has lower costs and the system can easily be adapted to the changing needs of a company. Through the usage of redundant data centres Digital Phone from O_2 has the highest standards of reliability and speech quality.

4 — Cloud-based telephone systems

5 — O_2 DSL All-in Professional

5 — New fixed-net tariffs for self-employed and small businesses

Telefónica Deutschland started new fixed-net tariffs for self-employed and small businesses in June. With the new O_2 DSL All-in Professional tariffs business customers get unlimited calls in the German fixed-net as well as to all German mobile networks. Additionally, the tariffs include DSL Internet flat rates with different bandwidths – with the super-fast VDSL-tariff O_2 DSL All-in L Professional reaching download rates of up to 50 Megabit per second. Customers can adapt the tariff to their individual needs through a number of options like flat rates for calling abroad. They can also call the O_2 Business Hotline at any time with their questions.

Innovation_

6 — Telefónica Deutschland provides mobile Internet connections for Tesla e-cars

The popular electric limousine, Tesla Model S, is using the networks of Telefónica for its mobile Internet connection in Germany. An agreement between the company Tesla and Telefónica as well as other partners of the M2M World Alliance that covers many European countries, was announced in April. Telefónica Deutschland is providing the mobile Internet connections for Tesla's in-car infotainment system as well as for telematics. This enables services like online navigation, music streaming via the Internet and surfing websites during the drive. Also the remote diagnostic system of the car, that monitors in real-time the systems and security of the car and sends information to Tesla, is running on Telefónica Deutschland's most modern mobile network.

6 — Mobile Internet for Tesla Model S

Company_

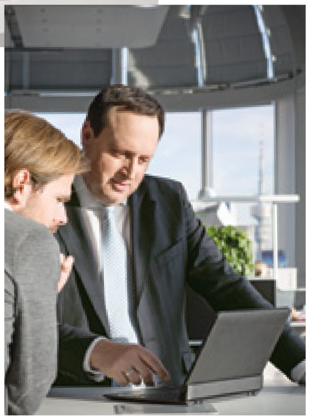
7 — EU gives conditional approval for acquisition of E-Plus Group

At the beginning of July Telefónica Deutschland received the European Commission's conditional clearance to acquire the E-Plus Group from the Dutch telecommunication corporation KPN. After the fulfilment of the conditions Telefónica Deutschland will be able to go ahead to form a leading digital telecommunication provider in Germany. In the course of the merger clearance process, Telefónica Deutschland has agreed to a set of remedies, which fully addresses the European Commission's competition concerns. At the same time Telefónica Deutschland confirmed the expected synergies from the transaction with a net present value of more than 5 billion Euro. The closing of the transaction is expected during the 3rd quarter of 2014.

7 — Conditional approval for acquisition of E-Plus Group

8 — Thorsten Dirks
Chief Executive Officer (CEO)

Rachel Empey
Chief Financial Officer (CFO)



Markus Haas
Chief Operating Officer (COO)

8 — Supervisory Board nominates future management

In the context of the conditional clearance by the European Commission of the acquisition of E-Plus Group by Telefónica Deutschland, the Supervisory Board of Telefónica Deutschland Holding AG has resolved on the conclusion of a Management Board agreement with Thorsten Dirks as future CEO. The 51-year old will take over his office with the closing of the acquisition of E-Plus by Telefónica Deutschland. The future Management Board consisting of Thorsten Dirks, Rachel Empey and Markus Haas will lead the company after closing of the acquisition, which is expected in Q3. Markus Haas as COO will be in charge for joint operations and Rachel Empey as CFO will take responsibility for finance and strategy. Headquarters of the company will remain in Munich. A decision about the future development of the individual locations will be made in the period after closing.

9 — Annual General Meeting resolves higher dividend

In May, the Annual General Meeting of Telefónica Deutschland Holding AG took place in Munich. Representing the Management Board, Chief Financial Officer Rachel Empey presented the annual financial statement for the financial year 2013 and explained the strategy as a digital telecommunication company. “With our strategic focus on the mobile data business we expand our position in the market continuously and continue with our success. Therefore we are investing in our future growth, focusing on the future technology LTE,” said Empey. Following the proposal of the Management Board a dividend for the financial year 2013 of 0.47 Euro per share (financial year 2012: 0.45 Euro) was resolved with a large majority. The share capital present at the Annual General Meeting was about 88 percent.

9 — Telefónica Deutschland headquarter in Germany

10 — #YouCanDo

10 — New campaign refreshes O_2 brand

In April, Telefónica Deutschland launched a new campaign to refresh the core brand O_2, making it even more attractive for customers. With the hashtag-slogan #YouCanDo customers are encouraged to fully utilize the possibilities of the digitization. In the centre of the campaign is a competition, at which participants share the best moments of their life as a so-called biopic through texts, pictures and videos. The best story will be produced as a professional short film and shown in cinemas. For this, Telefónica Deutschland teamed up with some of the best German movie directors. As of beginning of June around 3,000 participants took part by submitting their inspiring stories.

11 — Hundreds of new O_2 Gurus support customer services
Telefónica Deutschland is extending its successful customer service program O_2 Guru. Since June, several hundreds of the digital consultants are helping O_2 customers at various touch points. The O_2 Gurus are answering all questions around the digital life as personal consultants in shops, as hardware-specialists at the hotline or in videos, blogs and messaging boards. In a pilot project the O_2 Gurus can also be addressed through a video chat. As experts in technology O_2 Gurus are not only answering questions about the usage of devices, they are also handing out tips how to get most out of a new device and point out new trends and interesting content. The O_2 Guru programme was originally started at the Concept Store in Berlin, which celebrated its first year anniversary in June.

11 — O_2 Gurus

12 — Deutscher Preis für Onlinekommunikation in the category Corporate Responsibility for Think Big

12 — Awards for Telefónica Deutschland
Telefónica Deutschland received two important awards: In May, the youth programme Think Big was awarded the Deutscher Preis für Onlinekommunikation (German award for Online Communication) in the category Corporate Responsibility. The joint initiative of Telefónica Deutschland and the Deutsche Kinder- und Jugendstiftung was praised in the laudation as “Germany’s biggest and only ‘user generated’ campaign for youth engagement”. The company was also awarded by Great Place to Work as one of the best employers in Germany. As the best telecommunications company Telefónica Deutschland ranked forth in the category of companies above 5,000 employees, behind Volkswagen Financial Service, Techniker Krankenkasse and Philips Deutschland.

13 — Ten years engagement for sustainability
Ten years ago at the World Environment Day in June 2004, Telefónica Deutschland started its engagement for sustainability and the protection of the environment. At that time the company for the first time received the certification for the environmental management norm ISO 14001 and pledged itself to a process of the improvement of its ecological balance. As one of the first telecommunication companies in Germany Telefónica Deutschland also launched a comprehensive mobile phone recycling programme. Since then a lot has been achieved: The shops are using paper bags instead of plastic bags. The usage of electric energy and other resources was significantly reduced. Through the digital strategy the paper consumption could be reduced by 68 percent between 2010 and 2013. One target is, to reduce the energy consumption for each fixed-net and mobile connection by 2015 by 30 percent.

Interim Group Management Report_

for the Period from January 1 to June 30, 2014

Overview of the Period from January to June 2014_

— At the end of June 2014, Telefónica Deutschland Group had 25.1 million customer accesses, broadly stable year-on-year with a decline of 0.9%. The mobile access base remained stable (+0.1% year-on-year) at 19.4 million, while fixed line accesses declined by 4.2% year-on-year to 5.7 million.

— Smartphone penetration reached 33.1% as per end of June 2014, further improving by 4.3 percentage points over the previous year (72.1% in the O_2 consumer postpaid segment and 21.3% in the O_2 consumer prepaid segment) with an encouraging share of LTE enabled devices sold over total (approximately 86% in the second quarter). At the end of April 2014 the mark of 1 million LTE enabled handsets sold in the O_2 consumer postpaid segment was exceeded.

— Retail fixed broadband accesses stood at 2.2 million at the end of June 2014 (–4.5% year-on-year) after a net loss of 53 thousand in the first half of 2014.

— Telefónica Deutschland Group's operating revenues totaled EUR 2,284m in the January to June 2014 period, a decline of 6.6% year-on-year. This is resulting from an improving trend in the second quarter (–4.4% year-on-year) compared to a decline of 8.8% in the first quarter.

— Wireless service revenue ex-MTR decreased by 3.0% year-on-year (–3.1% year-on-year in reported terms); with the second quarter showing an improving trend. The O_2 consumer postpaid segment continued to be the main driver of revenue performance with a good commercial traction of the new propositions available in the market: refreshed "O_2 Blue All-in portfolio" and "O_2 Unite".

— Mobile data in the first half of 2014 reached EUR 704m and a share of 49% (+0.9 percentage points year-on-year) of wireless service revenues with SMS revenues continuing to see a negative trend. The trend however stabilized in comparison to prior quarters.

— Non-SMS data revenues registered growth of 10.6% year-on-year in the first six months, representing 72.3% of total data revenues, a plus of 7.8 percentage points compared to the same period of prior year.

- Since April 8, 2014 the refreshed data centric “O_2 Blue All-in” portfolio is available in the German market. Access to LTE in included in all tariffs and the “O_2 Blue All-in Premium” – a tariff for high usage customers – was introduced. Just in time for the holiday season, from May onwards the integrated roaming packages are live and allow for carefree surfing while abroad.
- Launch of a revolutionary new proposition for the business segment from March 10, 2014: “O_2 Unite” – a single company tariff with a pool of minutes, SMS and data volume for all employees.
- OIBDA margin showed a moderate decline (2.1 percentage points year-on-year) and OIBDA reached EUR 486m in the first half of 2014 (–15.1% year-on-year), mainly driven by the flow-through from revenues and the increased commercial spend to drive commercial performance.
- CapEx amounted to EUR 266m, lower year-on-year by 10.1%, reflecting the focused investments into LTE network deployment and a different year-on-year phasing of investments.
- Free cash flow pre dividends (FCF) reached EUR 397m for the six months period, as compared to EUR 345m in 2013. The conversion of operating cash flow into free cash flow is the result of a positive change in working capital mainly as a result of the increase of non-current deferred income due to other advance payments received.
- Consolidated net financial debt at the end of June 2014 reached EUR 634m, compared to EUR 468m as of December 31, 2013. The leverage ratio increased to 0.6x, staying significantly below the target ratio of a maximum of 1.0x.
- Telefónica Deutschland Group continued its successful positioning in the debt capital market and achieved a very attractive funding and spread levels, with a 2.375% coupon in the 7-Year issuance in February. These transactions strengthened the Company’s liquidity position, extending its maturity profile while diversifying its investor base.

1. Fundamentals of the Group_

1.1 Business Model of the Group

1.1.1 Structure of Telefónica Deutschland Group

Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland") 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)892442-0; 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) 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. 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 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 registered shares (Conditional Capital 2014/I).

The extraordinary General Meeting on February 11, 2014 and the annual General Meeting on 20 May, 2014 had 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.

Telefónica Deutschland Holding AG is the parent company of the Telefónica Deutschland Group. It is included in the condensed consolidated interim 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, UK (O2 (Europe) Limited) and an indirect subsidiary of Telefónica, S.A.

As of June 30, 2014, the companies included in the Interim Consolidated Financial Statements of Telefónica Deutschland Group were organized as shown in the organization chart on page 15.

On July 23, 2013, Telefónica Deutschland, Telefónica, S.A. und Koninklijke KPN N.V. (KPN) concluded an agreement for the acquisition of KPN's German mobile communications business E-Plus by Telefónica Deutschland. 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 closing of the transaction is expected in the third quarter 2014 (section 5 Acquisition of E-Plus).

Management and governing bodies

The company's governing bodies are the Management Board, the Supervisory Board and the General Meeting. The powers of these governing bodies are determined by the German Stock Corporation Act (Aktiengesetz – AktG), the Articles of Association of the company and the by-laws of both the Management Board and the Supervisory Board.

Management Board

The members of the Management Board are appointed by the Supervisory Board for a maximum term of five years and may be re-appointed without limitation, in each case for a maximum of five years. The Supervisory Board may revoke the appointment of a Management Board member prior to the expiration of his or her term for good reason, such as the gross breach of fiduciary duties or if the General Meeting adopts a no-confidence resolution in relation to the Management Board member in question. There are further possibilities of termination, such as a mutual termination agreement. The Supervisory Board may nominate one Management Board member as chair or spokesperson for the Management Board and another Management Board member as vice-chair or vice-spokesperson. The members of the Management Board of the company were in general appointed for the period until September 17, 2015.

At the reporting date of June 30, 2014, the Management Board of the company consisted of two members:

— Rachel Empey, CFO (Chief Financial Officer)
— Markus Haas, CSO (Chief Strategy Officer)

On January 31, 2014, René Schuster left in mutual agreement as CEO and member of the Management Board. Since February 1, 2014, Rachel Empey and Markus Haas have jointly taken over the responsibilities of the CEO in addition to their responsibilities to date.

Supervisory Board

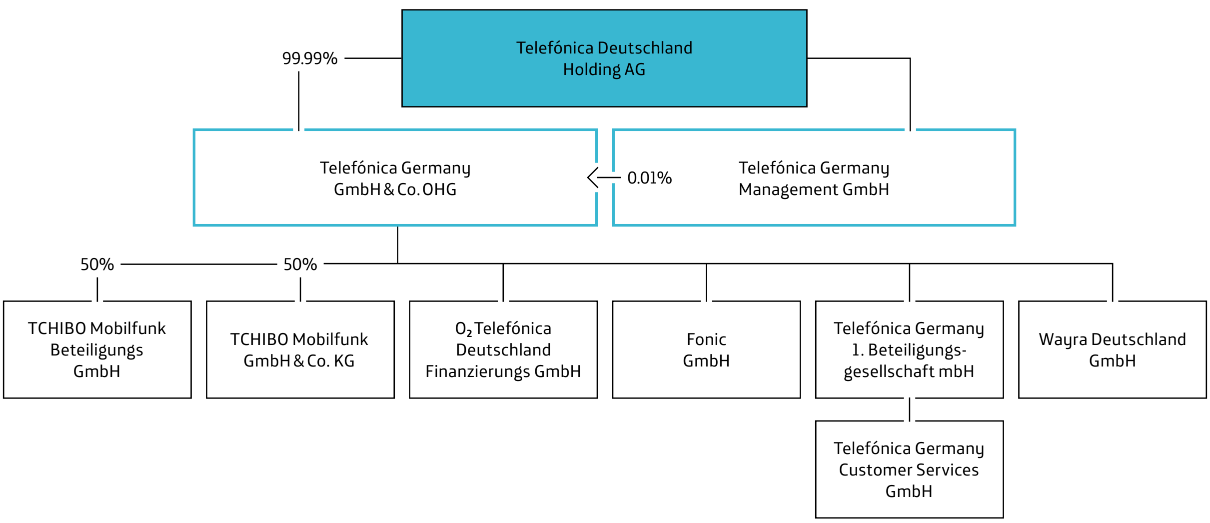
Pursuant to the Articles of Association of the company, sections 95, 96 of the German Stock Corporation Act and section 7 of the German Co-Determination Act (Mitbestimmungsgesetz), the Supervisory Board consists of twelve members, six of which are shareholder representatives and six of which are employee representatives.

The annual General Meeting on May 20, 2014, 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 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 in the annual General Meeting on May 20, 2014 Sally Anne Ashford und Antonio Manuel Ledesma Santiago as members of the Supervisory Board of Telefónica Deutschland Holding AG.

If the General Meeting does not set a shorter term at the election of shareholder representatives in the Supervisory Board, then the Supervisory Board members and potential substitute members are elected until the end of the General Meeting that resolves on the discharge of the Supervisory Board for the fourth financial year after the commencement of the term of office; the financial year in which the term of office begins is not counted.

All current shareholder representatives in the Supervisory Board were appointed for the period up to the end of the General Meeting, which resolves on the discharge for the financial year ending December 31, 2016; Sally Anne Ashford und Antonio Manuel Ledesma Santiago were appointed for the period up to the end of the General Meeting, which resolves on the discharge for the second year after the commencement of their term of office.



1.1.2 Business activity

Telefónica Deutschland Group is the third largest integrated network operator in Germany (based on 2013 reported revenues), with more than 25 million customer accesses as of June 30, 2014. Telefónica Deutschland Group offers private and business customers voice, data and added value services in wireless communications and wireline networks. In addition, Telefónica Deutschland Group is among the leading wholesale providers in Germany. We offer our wholesale partners access to our infrastructure and to our services. We are a part of Telefónica, S.A. Group, one of the biggest telecommunications corporations in the world.

We operate a nation-wide mobile communications network reaching over 99% of the German population with GSM and approximately 75% with UMTS as of June 30, 2014. The expansion of our LTE network is in full swing we already have more than 50% of the population covered with the new high-speed wireless communications technology.

In addition, we operate a nation-wide wireline network. Our strategic partnership with Telekom Deutschland GmbH, Bonn, expands our wireline network coverage to 98% and furthermore enables us to service almost 15 million households with high-speed DSL internet access and data transmission rates of up to 50Mbit/s. On December 20, 2013 we concluded a contract for the expansion of the wireline network cooperation with Telekom Deutschland GmbH. It will grant us access to Telekom's high-speed internet and the possibility to offer our customers products with transmission rates of up to 100Mbit/s in connection with the new Vectoring Technology. The cooperation was approved by the Federal Network Agency on March 18, 2014. The contracts came into effect on this date. The Federal Cartel Office is also assessing the cooperation. A decision is expected for the second half of the year 2014.

Our sales and marketing approach is based on a strong multi-brand strategy that addresses a broad range of customer segments with our products and services. We offer the majority of our postpaid and prepaid wireless and wireline communications products and bundled offers via our core brand O_2. We continually strive for an improvement in the market positioning of O_2, particularly in order to gain premium customers in the private and business customer segment. For a number of years our strategic focus has particularly been the sale of wireless postpaid services to smartphone users. This group of customers, which as of June 30, 2014 comprises already 72.1% of the O_2 postpaid customer base, generates above-average revenues in comparison to users without a smartphone through the use of mobile data services and an elevated interest in the new wireless communications standard LTE. The interest in smartphones and the use of wireless data is also growing in the prepaid area. As of June 30, 2014, 21.3% of our O_2 prepaid customers are already using a smartphone. For this reason we also offer special prepaid tariffs for smartphone users.

For several years we have been selling mobile phones and other hardware independently of wireless communications charges at fixed prices via our successful "O_2 My Handy" model. Here the customer can choose whether to pay the entire price upfront or to make a down-payment and pay the remaining purchase price in twelve or 24 monthly installments. This provides price transparency to the customer with regards to the cost of both the mobile phone and the wireless communications services. Customers have a large choice of mobile phones, including the latest premium devices, with attractive payment conditions. Our main suppliers of mobile phones are Samsung, Apple, Nokia, HTC, Sony and Huawei. With the "O_2 My Handy" model we predominantly focus on the sale of smartphones with internet capability, which represents 96% of the mobile phones sold to our postpaid customers in the first half of the year of 2014. The share of LTE enabled smartphones for the same period amounted to approximately 82% of total smartphones sold. In addition, the "O_2 My Handy" model is also used by customers of our secondary brands and our wholesale partners. We are serving the growing demand for wireless data services in these customer segments via a large range of cheap entry-level smartphones.

With secondary and partner brands and via our wholesale channels we reach further groups of customers, whom we do not appeal with our core brand O_2. Our secondary brands include the brands Fonic and netzclub, which are fully controlled by us, as well as brands from joint operations and strategic partnerships such as, for example, TCHIBO mobil. We also market high-speed DSL internet access and wireline telephony. Our multi-brand approach enables us to address a broad spectrum of customers and to maximize our sales range through customized product offers, sales and marketing.

As part of the wholesale business we offer wireless communications, wireline and added value services for customers such as 1&1, mobilcom/debitel, Drillisch as well as cable service providers. In the wireline area we make a range of Unbundled Local Loop (ULL) services, including wireline telephony and high-speed internet, available to our wholesale partners. Furthermore, we offer added value services such as, for example, services or the management of telephone numbers and SIP accounts. This comprehensive portfolio enables our wholesale partners to independently service their end-customers and at the same time gives us the opportunity to increase our range and to achieve economies of scale.

Small office/home office (SoHo) as well as small and medium-size business customers (SME) are addressed via our core brand O_2, large international businesses via the brand Telefónica. We market our products via a diversified sales platform. This includes direct selling channels like our nation-wide network of independently operated O_2 franchise and premium partner shops, online and telesales as well as indirect selling channels like partnerships in retail trade/online retail trade and retailers/cooperations.

1.2 Goals and Strategies

Rapid technological progress and a sharply increasing digitalization are characteristic developments in the telecommunications market. We are convinced that this opens attractive business opportunities by aligning our offer so that it fits perfectly with our customers' needs. As one of the leading digital telecommunications corporations we want to play our part in making the opportunities of digital technology available to everyone.

It is against this background, that we pursue our objective to further enhance our successful competitive position and generating profitable growth opportunities. The following strategic priorities will support us in achieving our goals:

Capitalize on multi-brand portfolio and high level of customer satisfaction

Our goal is to strengthen our position in the German telecommunications market with our core brand O_2 and with a strong portfolio of secondary and partner brands. Furthermore, we are continuously analyzing potential strategic partnerships in order to address special niche markets or customer segments with new brands.

With a comprehensive customer service, customer loyalty and customer satisfaction programs we want to provide our customers with a consistently high-value service, ensure transparency and thus increase customer confidence. We claim to be one of the most beloved telecommunications service providers with the most satisfied customers on the German telecommunications market. We are convinced that our high customer satisfaction values reduce termination rates and increase recommendation rates.

We want to offer an uncomplicated, reliable and personalized customer experience at all points of customer contact (so-called touch points) and across all sales channels. To achieve this, we will use our customer insights more efficiently and offer our customers targeted products and services, that correspond with their needs. Here it is our endeavor to provide them with as seamless a transition as possible between the various channels. At the same time, we will strengthen the service in our shops and expand selling via our customer service channel. In this way, we can use all existing touch points to generate additional revenues.

We are expanding our online and e-care capacity, so that our customers can comfortably resolve their questions and problems via various channels. This includes our internet portal, the wireless portal, the support community, self-service, and social media. For this we are strengthening the digital services in our customer loyalty, telesales and service teams and also enhance the online systems in our shops. In addition, we are supporting a change of thinking to essentially digital behavior. So, as to support this process, we have developed a new multi-channel comprehensive customer-journey as a strategic manual for interaction with our customers. This will increase customer satisfaction and, in addition, minimize customer service costs.

Generally speaking, we are striving for an increased profitability by continuously improving our operating efficiency in order to guarantee a strong cash flow. Important levers here are the active management of our customer base and the ARPU performance (ARPU: average revenue per user) with the focus on data use, as well as the launch of various efficiency initiatives. The goal of these measures is the optimization of processes, the increase of network performance and the trimming of our IT systems as well as the intensified incorporation of direct marketing channels in order to optimize the process and the costs of acquiring customers.

Monetize mobile data and fixed broadband/convergence opportunities across all segments

We intend, primarily with our core brand O_2, to ramp up mobile service revenues through increasing data use due to the quickly growing number of smartphone users. In this way we will compensate for losses in the classic communications services such as telephony and SMS due to price slumps, regulatory effects and substitution with other services. The central criteria for success in this connection are the expansion of our LTE network, which is progressing, and our portfolio of tariffs, which is designed for data use and aligns itself with the individual data demand of our postpaid and prepaid customers.

In addition, our cooperation with Telekom Deutschland GmbH mentioned in section 1.1.2 Business activity, will allow us to offer high-speed internet products in the wireline area in the future with transmission rates of up to 100Mbit/s. Such an offer strengthens both our market position in the wireline area as well as our convergence strategy and will generate additional revenues.

We assume that there will be growing demand for converged product offerings. Therefore, in the future we would like to focus even stronger on converged offers of wireless communications and wireline services in order to increase the average revenue per user (ARPU), to reduce the churn rates in wireless communications and our customer acquisition costs. The core of our convergence strategy is targeted cross-selling into the existing customer base. We achieve this by selling additional products and services to our customers who currently make use of only wireless communications or wireline services as well as gaining further wireless connections within households. In order to exhaust the cross-selling potential of our customer base we offer price reductions when customers purchase certain combinations of products from wireless communications and/or wireline services from us.

We are convinced that our convergence strategy enables us to secure our position in the wireless communications market, increase the profitability of our wireline services and reduce termination rates.

Differentiate O_2 as the best value-for-money LTE brand in the German market

We assume that, due to the broad offering of LTE capable devices, LTE use will significantly increase in Germany in 2014. The LTE technology significantly enhances the wireless user experience. The reasons for this are the maximal download speed of currently up to 75Mbit/s, shorter reaction times and unrestricted surfing through improved latency as well as better coverage in internal spaces due to the 800MHz frequency. That gives us the opportunity to target quality-oriented high-value customers. At the moment we are positioning LTE within our O_2 premium tariffs with a surcharge compared to 3G tariffs in order to fully exhaust the potential. Due to the improved user experience, LTE customers are prone to significantly higher data usage than 3G customers, which in turn enables new monetizing approaches such as e.g. the targeted upselling of data packages in excess of the data volume contained in the contract.

In the first half of the year 2014, we have achieved significant progress in the expansion of our LTE network. We are covering already more than 50% of the population with the new high-speed wireless communications technology. We will drive the expansion of our LTE network onwards and continue to increase the population coverage. We will expand our LTE network in accordance with the market demand and will concentrate on blanket network coverage in large cities. In addition, our LTE strategy will in the medium term lead to lower investment expenditures because, with increasing LTE use, the data traffic can be redirected from UMTS to LTE. At the same time, the 3G data traffic also continues to grow, so we will divide our investments between LTE and 3G. It is our goal to increase revenues in the wireless data business through the constant expansion of our network and the thereby increased population coverage.

Seize opportunities in the Business Segment and for Digital Services

We address freelancers (SoHo) as well as small, medium-sized (SME) and large national businesses with our core brand O_2. The brand Telefónica, in contrast, is aimed at large international customers. For our core brand O_2, it is our goal to be perceived by our customers more strongly as a business customer brand as well. We want to increase our market share and our revenues by even more effectively monetizing wireless data use which is also growing strongly in the BSB segment and to distinguish ourselves from our competitors via powerful marketing, innovative products (among others selected cloud, security and IT services), the best cost-performance ratio as well as strong customer service.

To increase revenues and make our products even more attractive for smartphone users across all segments, we are continually expanding our offer with digital added-value services. These include, among others, wireless financial services as well as innovative wireless communications, entertainment and security solutions.

2. Economic Report of the Period from January 1 to June 30, 2014_

2.1 Overall Economic and Sector-Specific Conditions

2.1.1 Economic environment

Overall economic environment in Germany

The German economy recorded stable development in 2013 with stronger economic growth than in other Euro countries. Real growth in German gross domestic product (GDP) amounted to 0.4% in 2013 considerably better than the negative growth of 0.4% throughout the European Union (EU) on average.

After a strong first quarter 2014 the German economy started more moderate into the second quarter of 2014 due to an unusual weaker spring economy after the bland climate of the winter. In total the revival of the German economy continued solidly. The driving force here is the continued healthy domestic demand.

(Source: German Central Bank, Federal Ministry of Economic Affairs and Energy (Bundesministerium für Wirtschaft und Energie - BMWi))

General trends on the German telecommunications market

In the German telecommunications sector, alongside continuing customer demand for more bandwidth, various other trends can be observed. Thus convergent products and services are becoming ever more popular.

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

With Cloud Computing the use of IT services occurs according to demand via decentralized computers that are connected via data networks (in the "Cloud") instead of on local computers.

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

The German telecommunications market

In Germany the number of connections (i.e. SIM cards) increased from 112.7 million at the end of March 2013 to 116.2 million at the end of March 2014. The German mobile telecommunications market is thus, measured by the number of customers, the biggest within the EU. The mobile penetration increased from the end of March 2013 from 140% to 144% at the end of March 2014. The customer growth in the first quarter 2014 is primarily attributed to the postpaid sector. Postpaid customers made up 49% of the total connections at the end of March 2014. At the end of the first quarter 2013 the proportion was still 48%.

The mobile telecommunications market was very dynamic in 2013 as well as in the first quarter 2014 and characterized by intense competition, primarily driven by the strong demand for smartphones and the increasing number of smartphone tariffs. According to the industry association BITKOM, by May 2014 around 55% of all mobile phone owners aged 14 and older use a smartphone. At the same time, according to BITKOM, the number of tablets sold increased from 4.4 million in 2012 to around 8 million in 2013.

The increasing penetration of wireless end-devices with internet capability such as smartphones or tablets and the increasing use of mobile data services also showed itself in the strong growth of revenues from mobile data on the German market: In 2013, according to Analysys Mason, mobile data revenues increased by about 19% in comparison to the previous year. By contrast, revenues from mobile telephony and SMS declined, driven by price decline, regulatory effects and changed customer behavior.

The German mobile telecommunications market is an established market with four mobile telecommunications network operators. As of March 31, 2014, the Telefónica Deutschland Group held, with 19.3 million connections, a market share of 16.6%.

(Source: Company data, Analysys Mason, BITKOM)

The German fixed broadband market
Intense competition prevails on the German market for fixed broadband services as well. The number of subscriber lines increased in comparison to the previous year by approximately 3% and the customer base grew by the end of March 2014 to approximately 28.8 million. The proportion of DSL connections here is 81%.
(Source: Analysys Mason: Telecoms Market Matrix Western Europe Q1 2014, July 2014)

The largest DSL provider in Germany is the Deutsche Telekom AG in Bonn, the dominant telecommunications service provider. Telefónica Deutschland Group and other significant players on the broadband internet market rent the unbundled subscriber lines (Unbundled Local Loop, ULL) from Deutsche Telekom AG.

2.1.2 Regulatory influences on Telefónica Deutschland Group

The following outlines the main amendments and new decisions made since the situation reported in the section "Regulatory influences on the Telefónica Deutschland Group" of the Group Management Report for the financial year ended December 31, 2013.

Decree of transparency by the Federal Network Agency
On the basis of Article 20 of the Universal Service Directive, in 2012 changes were made to section 43a of the Telecommunications Act (Telekommunikationsgesetz – TKG) regarding the transparent description of services in telecommunications contracts. The Federal Network Agency is empowered under section 43a para. 3 TKG to make corresponding standards. In May 2013 the Federal Network Agency set out key points to that effect and at the same time suggested that businesses self-regulate. Leading associations of the telecommunications industry and their members – among them Telefónica Deutschland Group – have developed a voluntary agreement and submitted it to the Federal Network Agency, which has as its object the information that must be provided to the consumer in future before, during and after conclusion of the contract. In February 2014, the proposal was considered by the Federal Network Agency to be insufficient; a public authority draft decree has since been drawn up and has been submitted to a hearing. Telefónica Deutschland Group as well as leading associations of the telecommunications industry submitted their comments at the end of March 2014. The Federal Network Agency currently revises the draft of the decree. It is expected that the decree will come into effect in the second half of the year 2014. Due to extended implementation deadlines, parts of the decree will probably come into effect in the first half of the year 2015.

Mobile Termination Rates
The mobile termination rates agreed by the Federal Network Agency concerning calls within the mobile network of the Telefónica Deutschland Group as well as of other mobile network provider expire at the end of November 2014. Telefónica Germany GmbH & Co. OHG submitted an application on April 28, 2014 to the Federal Network Agency concerning the authorization of new mobile termination rates for the consequent period following December 1, 2014. A decision is expected not later than end of November 2014.

Telekom Deutschland GmbH's VDSL contingent model and planned expansion on the wireline cooperation
In July 2012, the Federal Network Agency approved Telekom Deutschland GmbH's so-called VDSL contingent model. With this model Telekom Deutschland GmbH grants its competitors VDSL bit stream access on the basis of agreed access quotas. In December 2012, Telefónica Germany GmbH & Co. OHG executed a fee model of this kind with Telekom Deutschland GmbH and offers VDSL to its customers on this basis. With the offer of VDSL Telefónica Deutschland Group receives access to about 15 million households and thus promotes a further form of competitive wireline structures. Telefónica Germany GmbH & Co. OHG concluded a contract with Telekom Deutschland GmbH on December 20, 2013 to expand the wireline network cooperation. It comprises on the one hand a further development of the contingent model ("Migration contract") by Telekom Deutschland, which will be offered by Telekom Deutschland identically to all service providers, and a bilateral agreement ("Transformation contract"). The cooperation comprises the intensified use of Telekom's high-speed infrastructure by Telefónica Deutschland Group for its wireline products. As part of this cooperation, Telefónica Deutschland Group will be able to implement the transition from its own ADSL infrastructure to an NGA platform that is fit for the future. The transition is expected to be fully completed by 2019. Telefónica Deutschland Group will continue to use Telekom's VDSL and vectoring wholesale products.

The Federal Network Agency confirmed that the cooperation complies with the Telecommunications Act in its draft decision of December 17, 2013. The draft decision was publicly reviewed and notified to the European Commission. The European Commission responded on March 13, 2014 and did not express serious doubts. The Federal Network Agency published thereafter its final decision on March 18, 2014 and confirmed its draft judgment from December 2013. With the final decision of the Federal Network Agency, the cooperation came into effect on March 18, 2014. The Federal Cartel Office is also reviewing the cooperation and a decision is expected in the second half of the year 2014. The commencement of the contract, however, is not subject to the decision of the Federal Cartel Office.

The future development of the GSM licenses
The GSM licenses, which authorize the use of the frequency spectrum in the frequency sectors 900MHz and 1,800MHz, expire at the end of 2016. The Federal Network Agency is currently working on a decision about the future of these frequencies. In November 2012, the Federal Network Agency released an information paper in which four possible scenarios with regard to the future of the spectrum were illustrated. The possibilities extend from an extension to an isolated allocation of the GSM licenses through to scenarios, in which the allocation of the GSM spectrum is made together with additional spectra, which are expected to be available in the coming years. The Federal Network Agency has released a draft decision on the basis of the submissions on the information paper. Comments regarding the draft could be submitted up to October 4, 2013. Telefónica Germany GmbH & Co. OHG also made use of this opportunity. The comments were published on the internet site of the Federal Network Agency.

In order to prepare for the decision in connection with the laws governing telecommunications for the envisaged merger between Telefónica Deutschland and E-Plus Mobilfunk GmbH & Co. KG the President's Chamber of the Federal Network Agency referred within a draft decision as of June 13, 2014 to seek for an assignment process for the frequencies in the 900MHz and 1800MHz bands as well as additional frequencies already in 2014 and to start this process already in the fourth quarter of 2014 (Section 3 Events after the Reporting Period).

"Digital Single Market" Initiative of the European Commission
Under the catchphrase "digital single market", on September 11, 2013 the European Commission adopted a package containing various measures, which should improve the framework conditions for investments in modern broadband networks and should create more favorable framework conditions for a strong European telecommunications sector. The draft regulations contain, in part, positive elements, which could improve the competitiveness of the sector in the long-term, such as, in particular, the suggestions for a stronger coordination of frequency assignments and the rules for frequency auctions. At the same time however, the package contains measures that have a direct negative effect on the revenues of network operators such as e.g. regarding roaming and international long distance calls or which mean additional costs and a further regulation and limitation on the freedom to contract, such as stricter provisions for customer protection. The package was and will be commented upon by member states as well as businesses. It is also being discussed in European Parliament committees and those committees view the measures for the regulation of roaming, among other things, critically. Meanwhile the European Parliament has come to an agreement regarding its position and submitted the voting result to the European Council and the European Commission. Due to the elections for the European Parliament which had taken place in May 2014, the change of the presidency in mid 2014 and the continuing discussions about that subject in all European institutions the completion of the legislative procedure is anticipated at the earliest at the end of 2014.

2.2 Overview of the First Half of the Year 2014

Telefónica Deutschland Group continued to execute its data monetization strategy in a market that has not seen significant changes of dynamics within the first six months of operations in 2014. There is still a high level of competition around bundles of smartphone tariffs and devices with a clear focus on value maximization leveraging increased customers' demand for LTE. Following the refresh of the "O_2 Blue All-in" tariff portfolio for the consumer segment in April and the launch of a unique new tariff model "O_2 Unite" for the business segment at the end of the first quarter, the company saw good commercial traction of these propositions in the market, increasing the share of gross additions from its core brand. The operating and financial performance of Telefónica Deutschland Group reflects the execution of its strategy in these market dynamics, and also the ongoing shift in communications' behavior from customers, adopting a more digital lifestyle, and the current regulatory framework.

Wireless service revenues reached EUR 1,435m in the first six months, declining 3.0% year-on-year ex MTR cut and 3.1% in reported terms. In the second quarter the company saw an improvement of trends for wireless service revenues with a year-on-year decline of 2.5% ex MTR cuts compared with a decline of 3.4% year-on-year in each of the two prior quarters. This year-on-year performance is better than expected.

Telefónica Deutschland Group is taking advantage from its value-for-money approach to premium LTE services and continued commercial investments to gain trading momentum in the market. In line with our expectations, the resulting OIBDA margin in the first half of 2014 showed a moderate year-on-year decline of 2.1 percentage points to reach 21.3%, which is in line with expectations.

In terms of investments, the LTE network rollout continued to be the main priority for Telefónica Deutschland Group in the first half of 2014, balancing investments from other areas. As expected, Capital Expenditures were lower year-on-year due to a different investment planning, and also taking into account the envisaged integration with E-Plus. CapEx totaled EUR 266m, a decline of 10.1% year-on-year compared with the first six months of 2013.

Significant events

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, the Telefónica, S.A. shall acquire from KPN a share of 4.4% of the 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 the items "Extraordinary General Meeting" and "Annual General Meeting and dividend payment".

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 (Section 3 Events after the Reporting Period).

The completion of the transaction is expected in the third quarter 2014.

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. 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 (Section 3 Events after the Reporting Period).

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 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 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 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.

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. 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 the 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 (Section 3 Events after the Reporting Period).

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.

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 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 150m 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 3-month Euribor on the nominal amount and receives a fixed interest rate of 1.268% on the same amount in return.

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, the Telefónica Deutschland Group 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 antitrust 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.

The performance of the business is further detailed in the following sections.

2.2.1 Results of operation

2.2.1.1 Revenues

In the first half of the year 2014 total revenues of EUR 2,284m were achieved. This corresponds to a reduction of EUR 162m or 6.6% in comparison to the prior year period whereat the decrease of revenues slowed down in the second quarter in comparison to the first quarter of 2014. The development in wireless business revenues is in particular driven by lower handset revenues as well as a change in customer behavior for wireless telephony services. The reduction of mobile termination rates (MTR) impacts the decline in revenues to a lower extent. Without the reduction in the MTR the decrease in total revenues in comparison to the prior year period would have been slightly lower with 6.5%. In the wireline business lower revenues 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.

1 — Consolidated Income Statement

	January 1 to June 30			
(Euros in millions)	2014	2013	Change	% Change
Revenues	**2,284**	**2,445**	**(162)**	**(6.6)**
Other income	43	38	5	12.6
Operating expenses	(1,841)	(1,911)	70	(3.7)
Supplies	(883)	(974)	92	(9.4)
Personnel expenses	(213)	(208)	(6)	2.7
Other expenses	(745)	(729)	(16)	2.2
Operating income before depreciation and amortization (OIBDA)	**486**	**572**	**(87)**	**(15.1)**
OIBDA margin	**21.3%**	**23.4%**		**(2.1%-p.)**
Depreciation and amortization	(534)	(566)	32	(5.7)
Operating income	**(48)**	**6**	**(54)**	**>(100)**
Net financial income/(expense)	(16)	(16)	0	(1.3)
Profit/(loss) before tax for the period	**(64)**	**(10)**	**(54)**	**>100**
Income tax	0	0	(0)	(20.4)
Total profit/(loss) for the period	**(64)**	**(10)**	**(54)**	**>100**

Wireless business revenues
Wireless business revenues, comprising revenues from wireless communications services and hardware, amounted to EUR 1,699m in the first half of financial year 2014. This corresponds to a decrease by EUR 117m in comparison to the prior year period or 6.4%.

The wireless service revenues are largely generated by base fees and the fees levied for voice, short message, and wireless data services as well as the revenues from service contracts. Alongside roaming revenues, wireless service revenues include access and interconnection fees that were paid for by other service providers for calls and SMS delivered via our network.

In the first half of the financial year 2014 wireless service revenues amounted to EUR 1,435m and decreased compared to the previous year by EUR 46m or 3.1%. Adjusted for the impact of the MTR reduction, a lower decline of 3.0% would have been recorded. Without MTR the wireless service revenues decreased in the second quarter of the financial year 2014 by 2.5%. With EUR 12.3, the average revenue per customer (ARPU) was lower than prior year's level (2013: EUR 12.6) but improved in comparison to the first quarter of the financial year 2014 (Q1: EUR 12.1). On the one hand this decrease compared to the prior year is due to the demanding market and competitive environment, which led to decreasing revenues for voice telephony. On the other hand, the change in costumer behavior led to a lower number of text messages sent and received. Our growing customer base in the valuable postpaid segment (plus 2.5% in comparison to the first half of the year 2013) had a positive effect as well as increasingly in the prepaid segment with a noted stronger demand for data services (e.g. wireless internet, service applications and other data content).

The successful continuation of the monetization of the data business was reflected in the growth in data revenues without SMS, which grew by 10.6% in the first half of the financial year 2014 compared to the first half of the year 2013 and whose share of total data revenues reached 72.3% (2013: 64.4%). Our integrated portfolio of wireless service products is a result of this development aligned with the growing importance of data tariffs (i.e. upgrading of "O_2 Blue All-in" tariffs with LTE).

Handset revenues are volatile depending particularly on the timing of new device launches. In the first half of the year 2014 handset revenues reached EUR 264m and decreased by EUR 71m or 21.1% compared to the prior year period whereof EUR 60m result from the first quarter of the financial year 2014. This is mainly due to special offers (e.g. 50% discount on selected mobile devices) and to lower sales volumes for mobile devices particularly in the first quarter. Handset revenues include the income from the sale of mobile devices as part of the "O_2 My Handy" model as well as cash sales. In addition handset revenues include components from the wireless communications business such as activation fees (mainly postpaid), hardware for bundled products from prepaid SIM cards and mobile phone hardware or postpaid contracts as well as accessories.

2 — Breakdown of revenues

	January 1 to June 30			
(Euros in millions)	2014	2013	Change	% Change
Wireless business	**1,699**	**1,816**	**(117)**	**(6.4)**
Wireless service revenues	1,435	1,481	(46)	(3.1)
Handset revenues	264	335	(71)	(21.1)
Wireline business	**581**	**626**	**(46)**	**(7.3)**
Other revenues	**4**	**3**	**1**	**36.5**
Revenues	**2,284**	**2,445**	**(162)**	**(6.6)**

Wireline business revenues
In the first half of the financial year 2014 revenues of EUR 581m were achieved in the wireline and DSL businesses. This corresponds to a decrease by EUR 46m or 7.3% in comparison to the prior year period. Good demand for our “O_2 DSL All-in” tariffs as well as the continuing positive customer development in the VDSL business partially offset the reduction in the customer base and the overall intensely competitive market conditions. Wireline revenues comprise mainly revenues from the DSL service business, revenues from the wireline business, activation fees from the DSL business as well as the sale of DSL hardware. Furthermore, they contain revenues from the DSL service business with large customers and from termination rates paid by other telecommunications companies.

Other revenues
Other revenues relate to new business such as advertising and financial services, e.g. the wireless specials service “O_2 More Local” or the mobile payment system “mpass”. In the first half of the financial year 2014 revenues increased to EUR 4m in comparison the prior period.

2.2.1.2 Profit or loss for the period
In the first half of the financial year 2014 an OIBDA of EUR 486m was achieved. This corresponds to a decline of EUR 87m or 15.1% in comparison to the prior year period, in particular driven by the adverse development of revenues as well as by increased commercial spend for customer acquisition on the market. Accordingly OIBDA margin decreased compared to the prior year period by 2.1 basis points to 21.3%. The increased contribution from the wireless data business as well as the focus on efficiency had an opposing effect on the operating income.

Operating expenses, comprising supplies as well as personnel expenses and other expenses, have been reduced by EUR 70m or 3.7% to EUR 1,841m in the first half of financial year 2014. The savings can be seen primarily in supplies, whereby the increased spending in the commercial area, in particular for special offers for mobile hardware and customer acquisition and retention measures, were able to be compensated.

Supplies mainly include interconnection costs, which arise when our customers are connected with other wireless communications networks. Furthermore, this amount reflects the costs for sold devices, in particular the sales as part of the “O_2 My Handy” model. In addition, these line items contain the expenses for leased lines and the unbundled local loops (ULL) access charges as well as the costs for the leasing of space for network installations. In the first half of the financial year 2014 supplies amounted to EUR 883m. This corresponds to a decrease by EUR 92m or 9.4% in comparison to the prior year period. In particular, due to lower sales volume of mobile devices the corresponding hardware cost of sales decreased. The reduced number of text messages sent led to a decrease in access and interconnection costs.

Personnel expenses increased in the first half of financial year 2014 by EUR 6m or 2.7% to EUR 213m as a result of general salary and wage increases.

Other expenses include primarily commission paid to retailers, marketing costs, expenses for customer service and the outsourcing of administrative tasks, expenses for hardware and the maintenance of the IT infrastructure, leasing expenses for facilities and space as well as energy costs. In the first half of the financial year 2014, other expenses amounted to EUR 745m, which corresponds to an increase of EUR 16m or 2.2% in comparison to the first half of the financial year 2013. The increase is due to higher costs for customer acquisition and customer retention measures.

Depreciation and amortization decreased by 5.7% to EUR 534m. This is mainly driven by fully written-off assets (mainly within software).

Operating income declined by EUR 54m to EUR –48m (2013: EUR 6m).

Net financial result as of June 30, 2014 amounted to EUR –16m (2013: EUR –16m), broadly stable year-on-year.

Telefónica Deutschland Group did not report material income tax expenses in the six months period ending June 30, 2014 nor in the comparative period.

As a result of the above-mentioned effects profit after taxes for the period in the six months ending June 2014 was EUR –64m, compared to EUR –10m for the six months period ending June 2013.

2.2.2 Financial position

2.2.2.1 Finance analysis

3 — Consolidated net financial debt

(Euros in millions)	As of June 30 2014	As of December 31 2013	Change	% Change
Cash and cash equivalents	1,006	709	298	42.0
A Liquidity	**1,006**	**709**	**298**	**42.0**
B Current financial assets	**152**	**188**	**(37)**	**(19.5)**
Current interest-bearing debt	13	102	(89)	(87.6)
Other current liabilities	15	2	14	>100
C Current financial debt	**28**	**104**	**(76)**	**(73.1)**
D=C-A-B Current net financial debt	**(1,130)**	**(793)**	**(337)**	**42.4**
E Non-current financial assets	**92**	**83**	**9**	**10.8**
Non-current interest-bearing debt	1,813	1,343	470	35.0
Other non-current payables	44	1	43	>100
F Non-current financial debt	**1,857**	**1,344**	**513**	**38.1**
G=F-E Non-current net financial debt	**1,764**	**1,261**	**504**	**39.9**
H=D+G Net financial debt[1]	**634**	**468**	**167**	**35.7**

1 Net financial debt includes all current and non-current interest-bearing financial assets and interest-bearing financial liabilities. Net financial debt is calculated as follows: non-current interest-bearing debt (EUR 1,812,596k in 2014 and EUR 1,342,584k in 2013) + non-current finance lease payables (EUR 43,913k in 2014 and EUR 1,340k in 2013) + current interest-bearing debt (EUR 12,687k in 2014 and EUR 102,059k in 2013) + current finance lease payables (EUR 15,254k in 2014 and EUR 1,649k in 2013) minus the non-current “O_2 My Handy” receivables (EUR 92,234k in 2014 and EUR 83,209k in 2013) and since June 2013 the current portion of “O_2 My Handy” receivables (EUR 151,233k in 2014 and EUR 188,013k in 2013) minus loans to third parties included in other current financial assets (EUR 464k in 2014 and EUR 458k in 2013) and minus cash and cash equivalents (EUR 1,006,275k in 2014 and EUR 708,545k in 2013).
Note: The current portion of “O_2 My Handy” receivables is shown under trade and other receivables in the Consolidated Statement of Financial Position and the non-current portion of “O_2 My Handy” receivables is shown under other non-current financial assets in the Consolidated Statement of Financial Position.

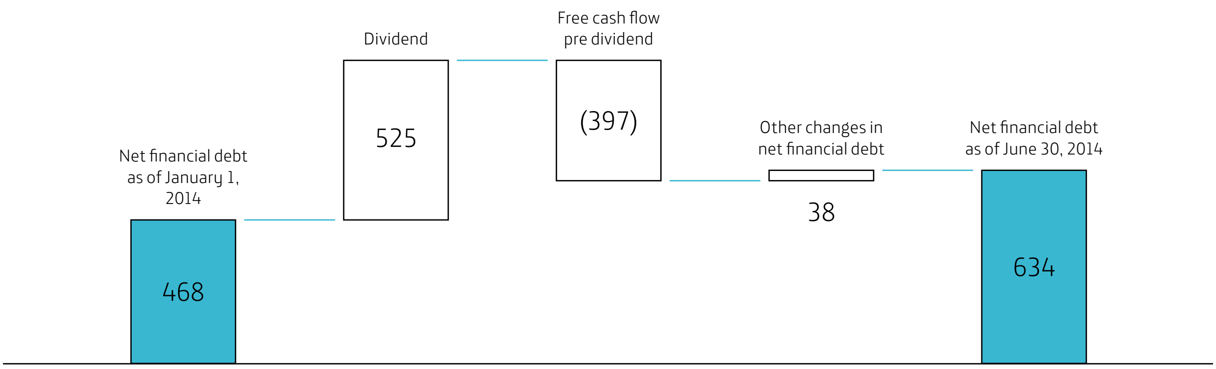
Net financial debt
The previous table shows the composition of net financial debt – i.e. interest-bearing debt less cash and cash equivalents, interest-bearing financial assets and receivables. Net financial debt increased by EUR 167m (35.7%) to EUR 634m compared to December 31, 2013, resulting in a leverage ratio[1] of 0.6x.

The increase in net financial debt over the half year period was mainly attributable to the dividend payment of EUR 525m. This contraction in liquidity caused by the dividend payment was mainly offset by the free cash flow pre dividend for the six month period 2014 (EUR 397m).

The following chart illustrates the development of net financial debt in the first six months of the financial year 2014.

1 Leverage is defined as net financial debt divided by LTM (Last Twelve Months) OIBDA (EUR 1,150m in 2014; EUR 1,237m in 2013) excluding non-recurring factors.

4 — Development of net financial debt (Euros in millions)



2.2.2.2 Liquidity analysis

Consolidated Statement of Cash Flows

The following is an analysis of Telefónica Deutschland Group's liquidity development for the first six months of the financial years 2014 and 2013. Total cash flows from operating, investing and financing activities comprise the respective cash flows.

Cash flow from operating activities

Cash flow from operating activities for the first six months of 2014 was EUR 707m and thus exceeded the amount of the first six months 2013 (EUR 664m) by EUR 43m. This increase results from an improvement in working capital in particular due to the increase of non-current deferred income in an amount of EUR 264m caused by increased other advance payments for future service to be received. This effect is partially offset by an increase of trade accounts receivables, other receivables and inventories. This improvement in working capital is partially compensated by a decrease in OIBDA of EUR 87m in comparison to the prior year (2014: EUR 486m).

Cash flow from investing activities

Cash flow from investing activities amounted to EUR –311m in the first six months of 2014. Compared to June 30, 2013, the cash outflow decreased by EUR 9m (2013: EUR –320m).

Payments on investments in property, plant and equipment and intangible assets[2] in the first six months of 2014 totaled EUR 304m (2013: EUR 308m). These related mainly to investments for the rollout of the 4G network (LTE), the expansion of the 3G technology capacities, improvement of performance as well as improved coverage of the wireless networks.

Cash flow from financing activities

Cash flow from financing activities amounted to EUR –99m in the first six months of 2014 (2013: EUR –505m). Thereby the cash outflow decreased by EUR 406m compared to the prior year period. The cash inflow from financing activities is mainly due to the bond issued in February 2014 and to payments received from sale-and-lease-back agreements. This was offset mainly by cash outflows from dividend payments of EUR 525m as well as the partial repayment of EUR 125m of the loan with an initial volume of EUR 1,250m, which Telefónica Germany GmbH & Co. OHG concluded with Telfisa Global B.V. as lender.

Cash and cash equivalents

As a result of the cash inflows/outflows described above, cash and cash equivalents amounted to EUR 1,006m as of June 30, 2014 to EUR 709m as of December 31, 2013 and to EUR 163m as of June 30, 2013, respectively.

2 Investment expenditure respectively CapEx (EUR 266m; 2013: EUR 296m) plus the change in liabilities for investments made (EUR –3m; 2013: EUR –7m) plus the change in reserves for outstanding invoices for investments (EUR 41m; 2013: EUR 16m) and plus other changes (EUR 0m; 2013: EUR 2m) result in payments on investments in property, plant and equipment and intangible assets of EUR 304m (2013: EUR 308m) as of June 30, 2014.

5 — Consolidated Statement of Cash Flows

	January 1 to June 30	
(Euros in millions)	2014	2013
Cash and cash equivalents at the beginning of the period	**709**	**324**
Cash flow from operating activities	707	664
Cash flow from investing activities	(311)	(320)
Cash flow from financing activities	(99)	(505)
Net increase/(decrease) in cash and cash equivalents	**298**	**(160)**
Cash and cash equivalents at the end of the period	**1,006**	**163**

Free cash flow

Free cash flow pre dividends (FCF) increased by EUR 52m and reached EUR 397m for the six months period 2014. Operating cash flow (OpCF) decreased by 20.5% amounting to EUR 219m. The conversion of operating cash flow into free cash flow is the result of a positive change in working capital, which increased from EUR 91m in 2013 to EUR 191m in 2014. This is mainly due to the increase of non-current deferred income, mainly caused by other advanced payments for future service to be received.

6 — Reconciliation of cash flow and OIBDA minus CapEx

	January 1 to June 30			
(Euros in millions)	**2014**	2013	Change	% Change
OIBDA	**486**	**572**	**(87)**	**(15.1)**
– CapEx	(266)	(296)	30	(10.1)
= Operating cash flow (OpCF)	**219**	**276**	**(57)**	**(20.5)**
+ Silent factoring[1]	153	214	(61)	(28.7)
+/– Other working capital movements	39	(123)	162	>(100)
Change in working capital	**191**	**91**	**100**	**>100**
+/– Gains/(losses) from sale of companies, fixed assets and other effects	(0)	(0)	(0)	>100
+/– Proceeds from sale of companies, fixed assets and other effects	1	–	1	100
+ Net interest payments	(7)	(10)	3	(30.3)
+ Payment on financial investments	(7)	(12)	5	(41.5)
= Free cash flow pre dividends[2]	**397**	**345**	**52**	**15.1**
+/– Equity movements[3]	(525)	(503)	(22)	4.4
= Free cash flow post dividends	**(128)**	**(158)**	**30**	**(18.8)**
= Total free cash flow post dividends	**(128)**	**(158)**	**30**	**(18.8)**

1 Full impact (YTD) of silent factoring in the six month period in 2014 of EUR 153m and EUR 214m in 2013 (transactions have been executed in January and March 2014 respectively in March and June 2013).
2 Free cash flow pre dividends is defined as the sum of cash flow from operating activities and cash flow from investing activities.
3 Dividend payment of EUR 525m in May 2014. Dividend payment of EUR 503m in May 2013.

2.2.3 Net assets

The following asset and capital structure analysis compares the existing assets and liabilities as of June 30, 2014 with the balances as of December 31, 2013.

As of June 30, 2014 the Group reported assets amounting to EUR 9,249m (2013: EUR 9,021m). This corresponds to an increase of 2.5%.

7 — Consolidated Statement of Financial Position

(Euros in millions)	As of June 30 2014	As of December 31 2013	Change	% Change
Goodwill and intangible assets	3,423	3,590	(167)	(4.6)
Property, plant and equipment	2,818	2,896	(77)	(2.7)
Trade and other receivables	1,172	1,035	137	13.2
Deferred tax assets	584	584	–	–
Other assets	246	209	37	17.8
Cash and cash equivalents	1,006	709	298	42.0
Total assets = Total equity and liabilities	**9,249**	**9,021**	**227**	**2.5**
Interest-bearing debt	1,825	1,445	381	26.3
Provisions	142	108	34	31.6
Trade and other payables	1,435	1,300	134	10.3
Deferred income	447	170	278	>100
Equity	**5,399**	**5,999**	**(600)**	**(10.0)**

Intangible assets

Intangible assets including goodwill amounted to EUR 3,423m as of June 30, 2014. The decrease compared to the year end 2013 is EUR 167m and is mainly due to the amortization of intangible assets with a finite useful life. The amount of amortization was EUR 225m. On the other hand there were additions of EUR 58m (mainly additions to software of EUR 43m).

Property, plant and equipment

Property, plant and equipment amount to EUR 2,818m as of June 30, 2014. Hence, a decrease of 2.7% or EUR 77m is reported compared to year end 2013. Additions to property, plant and equipment amounted to EUR 208m in the reporting period. These related mainly to investments for the rollout of the 4G network (LTE), the expansion of the 3G technology capacities, improvement of performance as well as improved coverage of the wireless networks. The impact of the additions is offset by depreciation of EUR 309m. Furthermore, property plant and equipment increased by EUR 24m along with the increase of the obligation for dismantling and removal of assets.

Trade and other receivables

Trade and other receivables increased compared to December 31, 2013 by 13.2% or EUR 137m and amounted to EUR 1,172m as of June 30, 2014. This is mainly due to the increase of advanced payments of EUR 76m.

Other assets

Other assets comprise inventories and other financial assets and increased by 17.8% or EUR 37m compared to December 31, 2013 and amounted to EUR 246m as of June 30, 2014. The primary reason were higher inventories in about EUR 21m (2013: EUR 89m) as well as an increase in non-current receivables under the "O_2 My Handy" model by EUR 9m to EUR 92m as of June 30, 2014 (2013: EUR 83m). Other assets comprise inventories and other financial assets.

Cash and cash equivalents

Cash and cash equivalents totaled EUR 1,006m as of June 30, 2014 (2013: EUR 709m) and comprise contributions in connection with the cash-pooling agreement with Telfisa Global B.V. in an amount of EUR 999m. The increase by 42.0% or EUR 298m is attributable to several effects. For further information please refer to section 2.2.2.2 Liquidity analysis.

Interest-bearing debt

Interest-bearing debt increased from EUR 1,445m as of December 31, 2013 by EUR 381m to EUR 1,825m. The increase resulted in particular from the issue of a bond in February 2014 by O_2 Telefónica Deutschland Finanzierungs GmbH with a nominal value of EUR 500m. Telefónica Germany GmbH & Co. OHG repaid EUR 125m with respect to the loan agreement of September 12, 2012 with the financing entity Telfisa Global B.V. as lender.

Provisions

Compared to December 31, 2013, provisions increased by 31.6% or EUR 34m to EUR 142m. The provision for dismantling and removal of assets increased from EUR 80m to EUR 103m. The increase is mainly attributable to the plan that the dismantling of parts of the network of Telefónica Deutschland Group is due earlier than expected. This change of parameters underlying the calculation leads to an additional increase of the provision of EUR 20m. Furthermore pension provisions increased from EUR 5m to EUR 17m.

Trade and other payables

Trade and other payables amounted to EUR 1,435m as of June 30, 2014. This corresponds to an increase of 10.3% or EUR 134m compared to December 31, 2013 (EUR 1,300m). This increase results particularly from a rise of other payables from EUR 226m as of December 31, 2013 to EUR 336m as of June 30, 2014 mainly due to an increase of payables from finance lease.

Deferred income

Deferred income increased in comparison to December 31, 2013 by 163.8% or EUR 278m and amounted to EUR 447m as of June 30, 2014. This is mainly due to the increase of non-current deferred income to EUR 264m resulting from other advance payments for future service to be received.

Equity

As of June 30, 2014 equity decreased by 10.0% or EUR 600m to EUR 5,399m. The change in equity is primarily attributable to the dividend payment from May 21, 2014 of EUR 525m.

3. 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 addresses 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 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 are 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.

4.
Risk and Opportunity Management_

As of the time of preparing this report, according to the assessment of our management, there are no material changes to the risks and opportunities presented in the Group Management Report for the financial year ended December 31, 2013, except for the change described below.

Wireline termination fees
At the end of February 2014 a provisional decision by the Federal Network Agency was issued against Telefónica Germany GmbH & Co. OHG regarding the local FTR application from November 20, 2013 with a duration to November 30, 2014. As expected, the fee corresponds to the fee of Telekom Deutschland AG. Currently, the decisions against some other, alternative operators and the commercial implementation of the decision relating to the interconnection agreements with the respective network operator are outstanding. Therefore, the economic effects of the decision cannot be finally assessed. Based on the volume of traffic affected and assuming that a significant lower termination rate is unlikely we see a moderate risk.

Changes in regulation with regard to consumer protection
Recently regulative initiatives on national and European level took place in order to strengthen the rights of consumers. Beside the potential impact of those initiatives especially on the roaming and termination fees, already described in previous management reports these initiatives also include additional requirements with regard to transparency on costs and terms of contract about telecommunication services. If we are unable to fulfill these requirements completely or not in time some of our distribution channels might face restrictions inheriting a high risk that we might not reach or only reach delayed our customer and revenue growth targets. To mitigate that risk we already initiated technical changes and prepared manual processes for us and the outsourcers used. Given the status of the mitigating actions we assume the risk to be low.

Hence, there have been no relevant changes to the internally recorded risks and opportunities since the last Group Management Report as of December 31, 2013, except for the change relating to wireline termination fees and the increased requirements for consumer protection.

For changes in risks and opportunities concerning the acquisition of E-Plus we refer to section 5 Acquisition of E-Plus.

5. Acquisition of E-Plus_

5.1 Overview

On July 23, 2013 the 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 shall be generated via a capital increase against contribution in kind. By this KPN will have a 24.9% stake in the 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, the Telefónica, S.A. shall acquire from KPN a share of 4.4% of the 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 the 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 the 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%.

Assuming the Transaction had taken place as of December 31, 2012, Telefónica Deutschland Group would have served approximately 44 million aggregated mobile accesses[3] and recorded aggregated revenues of EUR 8.1bn (based on 2013 released revenues of Telefónica Deutschland Group and the E-Plus Group; prior to consolidation and homogenisation of accounting). In our view, the combination of Telefónica Deutschland Group and the E-Plus Group will establish a mobile network operator generating significant economies of scale and with great potential in Europe's largest economy with a clear vision and commitment to compete against the incumbent market leaders across all segments. This company will have an enhanced customer proposition with a high quality wireless communications network, sufficient capacity to address increasing demands for high quality (data) services, and an extensive distribution network and a multi-brand strategy serving different customer needs.

5.2 Business of the E-Plus Group

The E-Plus Group, headquartered in Dusseldorf, Germany, provides customers in Germany with multi-brand wireless telecommunication services, offering postpaid and prepaid services targeted at multiple market segments. The E-Plus Group is the third largest wireless provider in Germany by number of subscribers, approximately 24.9 million[4] as of December 31, 2013. Total revenue of the E-Plus Group amounted to EUR 3,197m[4] for 2013. EBITDA in the E-Plus Group amounted to EUR 963m[4] for 2013. As of December 31, 2013, the E-Plus Group employed more than 4,000 full-time employees.

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), a no-frills brand (blau.de), and brands focused on affordable wireless services for various ethnic communities (Ay Yildiz and Ortel Mobile) and an online brand (Simyo), which provides SIM cards for mobile phones online with and without subscription. Wholesale partners of the E-Plus Group include MedionMobile (AldiTalk), ADAC, MTV and the Nature and Biodiversity Conservation Union of Germany (NABU). The BASE brand will be transferred to KPN prior to completion of the Transaction, it being agreed that Telefónica Deutschland after the Transaction may continue to use the BASE brand in Germany.

3 Aggregation of disclosed numbers for mobile customer accesses of the Telefónica Deutschland Group and the E-Plus Group as of December 31, 2013.
4 Press release E-Plus Mobilfunk GmbH & Co. KG from February 4, 2014.

5.3 Reasons for the Acquisition and Strategy

With the acquisition of the E-Plus Group, we intend to create a leading digital telecommunications company in the German market. Telefónica Deutschland and the E-Plus Group contemplate the merger as their best way to effectively compete in the mid- and long term. We believe that the Transaction will create a third market player – in addition to the two market leaders – well placed to serve the large group of high-value customers in the wireless telecommunications industry.

5.4 Estimated Synergy Effects

We estimate that the Transaction will realize significant synergy effects in the amount over EUR 5bn[5], particularly with respect to network, distribution and customer service, with incremental value from financial and tax synergies as well as additional revenue and other synergies.

Telefónica Deutschland expects to achieve those synergies by the following measures:

— Distribution and customer service synergies: the combination of both distribution networks will increase efficiency in distribution and customer service costs leveraging best practices and scale as well as channel management and overheads;
— Network Synergies: the combined businesses intend to pursue a rollout focusing on one common nationwide LTE network based on improved capital expenditure and operational expenditure and enhanced cash flow generation, which should allow the combined businesses to make the necessary investments. The combined businesses are also expected to benefit from an improved quality of their 3G networks due to the consolidation of both networks. Further consolidation will include the main, backhaul and core network with reduced operational expenditure from network integration (i.e., rentals, power, maintenance, transport costs, overheads) as well as site consolidation and rationalization, i.e., the reduction of mobile sites. The combined businesses will additionally benefit from increased efficiency by leveraging the scalable transmission agreement with Deutsche Telekom;
— Sales, Administration, and Overheads synergies: the combination of both entities is expected to lead to a reduction in these expenses due to process rationalization and a continued focus on becoming a leaner and more agile organization;
— Revenue and other synergies: the combined business intend to exploit SME opportunities from a broader and higher quality platform and will be able to utilize high-speed fixed broadband cross-selling opportunities across an enlarged customer base.

5.5 Status of the Transaction

The Transaction was approved by the extraordinary General Meeting of KPN on October 2, 2013. The General Meeting of Telefónica Deutschland agreed to the capital measures concerning the transaction in February 11 and May 20, 2014. The Transaction is, in particular, conditional upon the approval of the relevant antitrust authorities. The prenotification process had commenced soon after the sale of the E-Plus Group to Telefónica Deutschland had been announced, and the formal notification had been filed at the end of October 2013. In December 2013, the European Commission had initiated the so-called "second-phase investigation" and gave conditional regulatory clearance on July 2, 2014 (see section 3 Events after the Reporting Period). The completion of the transaction is expected in third quarter 2014. The transaction is subject to further standard closing conditions.

5.6 Risks from the Acquisition

Business risks

Risks if the transaction fails

To date of the drafting of this report the European Commission as the relevant cartel authority only granted a conditional clearance to the transaction which in addition includes further conditions. Receiving an unconditional clearance depends on the fulfillment of the condition precedent by Telefónica Deutschland Group. The documents providing prove of the adherence of the condition precedent are already with the European Commission. Therefore the risk of the transaction not taking place has reduced significantly but is not yet completely eliminated. However, should the responsible cartel authority not finally approve the transaction, the transaction will not take place. In this case we would be obliged to pay KPN a break-up fee. Should the condition precedent not eventuate on or before March 1, 2015 or if it is waived, KPN, Telefónica, S.A. and Telefónica Deutschland Holding AG can each terminate the agreement and as a result the transaction would fail. For the Telefónica Deutschland Group a failure of the transaction could lead to reputational damage (e.g. on the share or bond market) as well as to financial detriments, which, among other things, can result from

5 The total 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 so-called "terminal value" (present value of expected future cash flows beyond the explicit forecast horizon) after tax.

the accrued efforts and the costs arising in connection with the transaction.

Risks of cartel law approval with conditions and obligations

The approval of the transaction was associated with conditions and obligations by the European Commission. From that conditional clearance risk will arise if the conditions and obligations are not fulfilled:

- If a condition is not met the conditional clearance might not be valid anymore. If the transaction was carried out nevertheless the European Commission might place a ruling to roll back the transaction, take other actions to re-create the status quo before the transaction or might issue a new decision (e.g. approval under conditions and obligations, or even non-approval). In addition fines can be burdened on both companies.
- If the participating companies infringe an obligation the European Commission is able to decide on penalties and enforcement actions on them. In worst case the European Commission might even withdraw the approval decision given.

These risks might in a worst-case scenario result in the transaction not being allowed to be executed or to be rolled back which could significantly detrimentally affect the business activity as well as the financial and earnings position of Telefónica Deutschland Group. In addition, in this case we would be possibly obliged to pay KPN a break-up fee. Additionally there is a potential risk of penalties to be paid when conditions and obligations are not fulfilled. The business risks associated with the transaction are considered to be critical.

Operational risks

The integration of the E-Plus Group will demand a lot of time and attention from the Management of both corporations. Should the integration efforts keep Management from other responsibilities, this could have detrimental effects on the business activity. Both the Telefónica Deutschland Group and the E-Plus Group are dependent on employees in key positions for a successful integration, the implementation of a common strategy and the further carrying out of the business activity. A loss of such employees and/or know how could delay or negatively influence the merger of the corporations, which could detrimentally affect the business activity as well as the financial and earnings position of the Telefónica Deutschland Group. Any significant delay in the integration of the E-Plus Group with Telefónica Deutschland Group could detrimentally influence or delay the attainment of the planned synergy effects or lead to a reduction in customer satisfaction associated with increased customer migration, which could significantly detrimentally affect the business activity as well as the financial and earnings position of the Telefónica Deutschland Group. The Management is aware of the operational risks of the transaction and has taken this into consideration in the organization of the pre-merger phase, particularly by training up special working groups as well as transferring operative responsibilities, which has reduced the overall risk to a minor level.

Further risks of the transaction

The acquisition of the E-Plus Group carries the risk that the price to be paid to KPN is seen to be too high by the market, that the transaction proves to be less successful than expected, that the combined corporations do not develop as expected by the market and that the service revenue and results targets pursued as part of the transaction are not attained. Furthermore the acquisition of the E-Plus Group is subject to the risk that Telefónica Deutschland Group may not be able to integrate the acquired companies as planned or only at higher costs than originally planned and/or the intended synergy effects cannot be realized as planned in whole or in part.

Furthermore we could be exposed to risks from problems that have not been revealed as part of the due diligence investigations preceding the transaction or which are only limited to the liability or warranty exemptions of the sales and purchase agreement. Additionally, different conclusions in view of interpretations of financial data might be caused by differently applied interpretations of accounting standards.

Due to the results provided for the purchase price adjustment according to the purchase price mechanism regulated in SPA with regard to the debt situation (working capital and net financial debt), it is not expected anymore that purchase price will increase.

As of the time of publication of this report Telefónica Deutschland has no detailed information about risks of the E-Plus Group. Therefore, it is not possible to provide full information about risks of the future combined company.

5.7 Opportunities of the Acquisition

In the event of a successful conclusion of the transaction Telefónica Deutschland Group anticipates significant economies of scale and synergy effects from this in particular in marketing, customer service and network as well as an increase in value from additional service revenues and would thus achieve a significant strengthening of its competitive position. The new corporation would be well positioned to construct one of the most modern high-speed wireless telecommunications networks in Germany. Our customers would benefit first and foremost from the improved network quality that would result from this. Established brands, the right infrastructure for wireline and wireless telecommunications as well as a large customer base would enable Telefónica Deutschland Group to proceed with their strategy in a competition-intensive market and to service all relevant customer segments.

6. Outlook for Telefónica Deutschland Group_

6.1 Economic Outlook for Germany until December 31, 2014

The most recent prognoses regarding the development of the Euro area indicate that the upward trend will continue in 2014. For the Euro area a rise in economic output by 1.0% is forecasted for 2014.

For 2014, the outlook for the German economy, according to the German Central Bank, continues to be positive and it expects a growth in the gross domestic product of 1.9%. Private consumption should remain an important driver considering continuing favorable general conditions for employment and income.
(Source: German Central Bank, Federal Ministry of Economic Affairs and Energy (Bundesministerium für Wirtschaft und Energie - BMWi))

6.2 Market Expectations

In 2014, the market development in Germany, one of the biggest telecommunications markets in Europe, will again be driven by rising customer demand for broadband services, in wireless telecommunications and also in the fixed network. The boom in smartphones and tablets as well as a growing demand for LTE are driving the growth in mobile data services. Thus the market for mobile internet will soon supersede mobile telephone calls as the most important driver of revenues for German mobile telecommunications service providers. At the same time the negative trend for mobile voice and SMS will continue through further price pressure and changed customer behavior.

The increasing demand for speed in wireless telecommunications and fixed networks with the strong demand for convergent solutions on the part of German consumers will similarly be a driver of growth.
(Source: Company data)

6.3 Expectations for Telefónica Deutschland Group

As the closing of the E-Plus 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 Group, we expect a significant increase in wireless service revenue 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 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 Group, 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 Group expects Capital Expenditures in the second half of 2014 to show a significant increase compared to the first half of 2014.

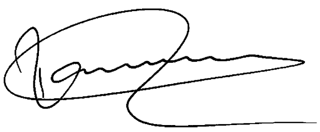
7.
Material Transactions with Related Parties_

For information on material transactions with related parties, please refer to the section "Related parties" in the Condensed Notes of the Interim Consolidated Financial Statements as of June 30, 2014.

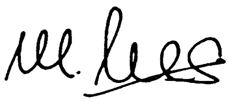
Munich, July 25, 2014

Telefónica Deutschland Holding AG

The Management Board



Rachel Empey



Markus Haas

Interim Condensed Consolidated Financial Statements_

for the period from January 1 to June 30, 2014

Consolidated Statement of Financial Position_

Assets (Euros in thousands)	Note	**As of June 30 2014**	As of December 31 2013
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 (Euros in thousands)	Note	**As of June 30 2014**	As of December 31 2013
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**

Consolidated Income Statement_

		April 1 to June 30		January 1 to June 30	
(Euros in thousands)	Note	**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)**

Consolidated Statement of Comprehensive Income_

(Euros in thousands)	Note	April 1 to June 30 2014	April 1 to June 30 2013	January 1 to June 30 2014	January 1 to June 30 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)**

Consolidated Statement of Changes in Equity_

(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**

Consolidated Statement of Cash Flows_

(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**

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

(Euros in thousands)	Financial assets									Non-financial assets
					Measurement hierachy					
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity assets	Loans and receiv-ables	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	
										As of June 30, 2014
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**

(Euros in thousands)	Financial assets									Non-financial assets
					Measurement hierachy					
	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	
										As of December 31, 2013
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

(Euros in thousands)	Financial liabilities: Financial liabilities at fair value through profit or loss	Financial liabilities: Financial liabilities at amortized costs	Financial liabilities: Finance Leases	Financial liabilities: Financial liabilities held-to-maturity	Measurement hierachy: Level 1 (Quoted prices)	Measurement hierachy: Level 2 (Other directly observable market inputs)	Measurement hierachy: Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	Non-financial liabilities
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

(Euros in thousands)	Financial liabilities: Financial liabilities at fair value through profit or loss	Financial liabilities: Financial liabilities at amortized costs	Financial liabilities: Finance Leases	Financial liabilities: Financial liabilities held-to-maturity	Measurement hierachy: Level 1 (Quoted prices)	Measurement hierachy: Level 2 (Other directly observable market inputs)	Measurement hierachy: Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	Non-financial liabilities
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:

(Euros in thousands)	As of June 30 2014	As of December 31 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 und 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			As of December 31 2013		
(Euros in thousands)	Minimum future lease payments obligation	Unamortized interest expense	Present value of minimum future lease payments obligation	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	1,732	83	1,649
Due between 1 and 5 years	45,672	1,758	43,913	1,367	27	1,340
Due in more than 5 years	–	–	–	–	–	–
Present value of minimum lease payments	**62,127**	**2,959**	**59,167**	**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:

(Euros in thousands)	As of June 30 2014	As of December 31 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

Responsibility Statement

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

Munich, July 25, 2014

Telefónica Deutschland Holding AG

The Management Board

Rachel Empey

Markus Haas

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

[signed]	[signed]
Dahmen	Vogel
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

Glossary_

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

3G	Third generation mobile communications standard (see UMTS)
4G	Fourth generation mobile communications standard (see LTE)
ADSL	Asymmetrical Digital Subscriber Line (see DSL)
ARPU	Average Revenue per User
Broadband	Refers to telecommunication in which a wide band of frequencies is available to transmit information
CapEx	Capital Expenditure: Additions in fixed and intangible assets
Carrier	Telecommunication network operator authorized by the federal network agency
CF	Cash flow
Cloud Service	Cloud services are dynamic infrastructure, software or platform services provided online
Convergence	Signifies the bundling of different digital services, which to some extent use different transmission technologies, into one product, e.g. wireless and wireline
Cross-selling	Marketing term denoting the sale of related or complementary products or services
DLD	Digital-Life-Design
DSL	Digital Subscriber Line: technology to transmit data in the local loop to private end-customers
EasT	Experts as Trainers: program for training and continuing education
EC	European Commission
EU	European Union
Euribor	Euro Interbank Offered Rate
FCF	Free cash flow
FNA	Federal Network Agency: Bundesnetzagentur
FTR	Fixed network Termination Rates
GDP	Gross Domestic Product
GfK	Consumer research association (Gesellschaft für Konsumforschung)
GPS	Global Positioning System
GSM	Global System for Mobile Communications: this is the global standard for digital mobile communications
HSPA	High-Speed Package Access
Hosting	Providing storage capacity via the internet
IDR	Issuer Default Rating

Internet	Worldwide network of computers on the basis of an IP (Internet Protocol) without any central network management
IPO	Initial public offering
IT	Information Technology
Joint Venture	Two or more companies founding a new enterprise for cooperation
LAN	Local Area Network: a group of computers and associated devices that share a common communications line or wireless link
Libor	London Interbank Offered Rate
Live Check	Website and app which customers can use to get location-based information on the current quality of the O_2 mobile communications network
LTE	Long Term Evolution: further development of the UMTS/HSPA mobile communications standard
M2M	Machine-to-Machine communication, automatic exchange of information between machines
MMS	Multimedia Messaging Service
mpass	Mobile payment service
MTR	Mobile termination rates
Multi-brand strategy	Enables Telefónica Deutschland to provide customers in all segments offers that suit their exact needs through various own and partner brands
MVNO	Mobile Virtual Network Operator
NFC	Near Field Communication: a short-range wireless connectivity standard
NGO	Non Governmental Organization
n.m.	not measured
NRA	National Regulatory Authority
O_2 My Handy	Monthly payment model for mobile phones and other devices
OIBDA	Operating Income before Depreciation and Amortization
OTT	Over The Top
PBX	Private Branch Exchange: a telephone system within an enterprise that switches calls between enterprise users on local lines while allowing all users to share a certain number of external phone lines
PIP	Performance and Investment Plan
POS	Point of Sale
Prepaid/Postpaid	In contrast to postpaid contracts, prepaid communication services are services for which credit has been purchased in advance with no fixed-term contractual obligations
Retail	Sale of goods and services to end users; as opposed to resale or wholesale business
Roaming	Using a communication device or subscriber identity in a different network other than one's home network

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

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