

Telefónica Deutschland
Interim Group Report
1 January to 30 June

2 0 1 5

**BUILDING
THE LEADING
DIGITAL
TELCO**

Telefónica

Deutschland

Portrait of Telefónica Deutschland_



Thorsten Dirks (CEO), Rachel Empey (CFO), Markus Haas (COO)
(from right to left)

Telefónica Deutschland is on the way to becoming Germany's leading digital telecommunications company. With the integration of the E-Plus Group, Telefónica Deutschland plans to systematically digitise its business model while giving its customers and partners the best possible access to the digital world. This centres on the best experience in terms of network, products and services, combined with excellent value for money. With around 43 million¹ mobile connections, Telefónica Deutschland is the leader in the German mobile telecommunications market. The company, which has also included the E-Plus Group since 1 October 2014, maintains more than 48 million¹ customer connections, making it one of the three leading integrated telecommunications providers in the German market. Revenues in 2014 amounted to EUR 7.79 billion². The company, which has been listed on the Frankfurt Stock Exchange since 2012, offers mobile and fixed services for private and business customers in Germany, including telephony, data and value-added services. The indirect majority shareholder is the Spanish company Telefónica, S.A. – one of the world's largest telecommunications providers.

The company's high-profile core brands include O₂ and BASE. As part of its multi-brand strategy, Telefónica Deutschland also reaches additional customer groups through a wide range of secondary and partner brands, including AY YILDIZ, blau Mobilfunk, FONIC, netzclub, Ortel Mobile, simyo and TCHIBO mobil.

Thanks to its successful multi-brand strategy, the company is a leading provider of smartphone tariffs and products. Telefónica Deutschland is setting standards in the German telecommunications market with its innovative, customer-friendly products. Telefónica Deutschland is also a leading provider of wholesale services. Large multinational business customers can also make use of Telefónica's group-wide product and service offering.

The foundation for this is two wireless networks that are among the most advanced in Europe. As part of the merger with the E-Plus Group and the resulting transformation and integration process, the company has begun combining the two existing networks to create an even more powerful joint wireless communications network. The first milestone for this undertaking was reached back in May with national roaming. Since then, the UMTS networks of O₂ and E-Plus have been interconnected and all customers have benefited from the pooled strength of both networks. Since 2010, the company has also been rolling out the new wireless communications standard LTE in Germany. This standard allows significantly higher mobile data transmission speeds. The plan is to expand mobile LTE outdoor coverage to approximately 75% of the population by the end of 2015. Customers of the E-Plus Group have been able to use LTE in selected cities since spring 2014. In addition, Telefónica Deutschland secured a spectrum of 60MHz at the wireless frequency auction in June 2015. The acquired frequencies will allow the high-speed network and the network capacity to be expanded and the monetisation of the growing data business to be further improved. Once allocated, the total capacity of 358MHz gives Telefónica an excellent starting point from which to continue offering its customers the best network experience.

¹ As of 30 June 2015. Total for Telefónica Deutschland including the E-Plus Group

² As of 31 December 2014. Combined total revenue in 2014 for Telefónica Deutschland and the E-Plus Group

As an integrated provider, Telefónica Deutschland also sells wireline and DSL products. This includes high-speed VDSL connections, which the company provides under a longstanding partnership with Deutsche Telekom, to reach almost 19 million German households. Telefónica Deutschland wants to bring technology to the people and help drive progress in society through digital products and services. With its

Think Big initiative, the company champions young people in particular and has supported around 2,900 projects in this area since 2010. As a socially responsible company, Telefónica Deutschland is also committed to shaping the future of mobile communications in Germany in a fair, ecologically responsible and forward-looking manner.

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Financial Highlights_

Financial Overview

(Euros in millions)	1 January to 30 June		
	2015	2014	% Change
Revenues	3,849	2,284	68.6
Mobile service revenues	2,735	1,435	90.7
Operating income before depreciation and amortisation (OIBDA)	845	486	74.0
OIBDA margin	22.0%	21.3%	0.7%-p.
Operating income/(loss)	(242)	(48)	> 100.0
Profit/(loss) for the period	(276)	(64)	> 100.0
Basic earnings per share (in Euros) ¹	(0.09)	(0.06)	61.3
CapEx ²	(463)	(266)	73.6
Operating cash flow (OIBDA-CapEx)	383	219	74.6
Free cash flow pre dividends and payments for spectrum³ and pre-acquisition of E-Plus net of cash acquired	94	397	(76.4)
Total accesses as of 30 June (in thousands)	48,041	25,116	91.3
Mobile accesses (in thousands)	42,617	19,436	> 100.0
Postpaid (%)	44.9%	54.1%	(9.3%-p.)
Total ARPU (in EUR)	10.7	12.3	(12.8)
Postpaid churn excl. M2M (%)	1.7%	1.4%	0.3%-p.
(%) non-SMS data over total data revenues	71.0%	72.3%	(1.2%-p.)
Employees as of 30 June	10,447	6,009	73.9
	As of 30 June 2015	As of 31 December 2014	% Change
Net financial debt ⁴	1,778	3	> 100.0
Leverage ⁵	1.2x	0.0x	> 100.0

- Basic earnings per share are calculated by dividing profit/(loss) after taxes for the period by the weighted average number of ordinary shares of 2,975 million for the year 2015 and 1,117 million for the year 2014.
- Excluding investments in spectrum in June 2015 amounting to EUR 1,194 million.
- Free cash flow pre dividends and payments for spectrum is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum amounting to EUR 976 million.
- Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.
 - Current and non-current financial assets include handset-receivables (current: EUR 317 million in 2015 and EUR 454 million in 2014; non-current: EUR 181 million in 2015 and EUR 236 million in 2014), positive fair value hedge for fixed interest financial liabilities (current: EUR 2 million in 2015 and EUR 2 million in 2014; non-current: EUR 10 million in 2015 and EUR 12 million in 2014) as well as loans to third parties (current: EUR 1 million in 2015 and EUR 1 million in 2014; non-current: EUR 1 million in 2015 and EUR 1 million in 2014)
 - Current and non-current net financial debt include bonds, promissory notes and registered bonds issued (EUR 1,414 million in 2015 and EUR 1,115 million in 2014), other loans (EUR 726 million in 2015 and EUR 726 million in 2014) as well as finance lease payables (current: EUR 279 million in 2015 and EUR 374 million in 2014; non-current: EUR 84 million in 2015 and EUR 197 million in 2014)

Note: Handset-receivables are shown under trade and other receivables in the Consolidated Statement of Financial Position. Pending payments for spectrum amounting to EUR 218 million are shown under accruals in the Consolidated Statement of Financial Position and are therefore not included in the net financial debt calculation.
- Leverage is defined as net financial debt divided by the OIBDA for the last twelve months before exceptional effects. Please note that solely for purposes of calculating the leverage for any twelve month period which includes historical periods prior to the closing of the Transaction, a combined⁶ OIBDA will be applied. This combined OIBDA includes the OIBDA of the E-Plus Group under Telefonica Deutschland Group accounting policies for the entire twelve month period as if the closing of the Transaction had occurred at the beginning of such twelve month period.
- Combined figures for 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland Group and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by material exceptional effects, such as capital gains or restructuring costs based on estimates made by Telefónica management and resulting in combined figures we believe are more meaningful as a comparable basis.

Mobile Service Revenues

(Euros in millions)

+90.7%H1 2015 **2,735**H1 2014 **1,435**

The change is mainly driven by the integration with the E-Plus Group. On a combined basis, mobile service revenue in the first half of 2015 grew 0.8% year-on-year, leveraging strong trading activity from prior quarters and LTE driven data monetisation

OIBDA/OIBDA Margin

(Euros in millions)

+74.0%H1 2015 **845** Margin 22.0%H1 2014 **486** Margin 21.3%

The change is mainly driven by the integration with the E-Plus Group. On a combined basis, OIBDA in the first half-year of 2015 reflects the focused commercial approach and first benefits from integration synergies. It includes a EUR 17 million gain from the sale of yourfone GmbH offset by restructuring costs of EUR 3 million

Mobile Accesses

(in thousands)

+119.3%H1 2015 **42,617**H1 2014 **19,436**

The change is mainly driven by the integration with the E-Plus Group. On a combined basis mobile accesses increased by 2.4% year-on-year with a stable 45% postpaid share

Non-SMS Data over Total Data Revenues

(in %)

-1.2%-p.H1 2015 **71.0**H1 2014 **72.3**

The change is mainly driven by the customer mix from the integration with the E-Plus Group. Continued focus on data monetisation across brands, leveraging higher smartphone penetration in the customer base and the increasing demand for LTE

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Highlights April to June 2015_

Products & Brands_

1 — O₂ in shops and BASE online: Telefónica Deutschland is standardising its high street presence

Telefónica Deutschland is standardising its high street presence. In the future, all shops will be run under the brand O₂. All BASE shops will gradually be converted into O₂ shops. BASE will then be marketed online. This endeavour is expected to have been fully implemented by the end of the year. Until the conversion of each of the individual BASE shops into O₂ shops has been completed, customers will still be able to conclude BASE contracts there. Nothing will change for BASE customers. BASE services, such as contract extensions, will still be offered in O₂ shops in the future. Telefónica Deutschland's aim is to become the ideal branch network, providing the best customer experience. Notwithstanding the planned changes, Telefónica Deutschland continues to pursue a focused multi-brand strategy.



2 — O₂ DSL Young tariff available for all customers

Surfing the web free of worries, playing the latest online game or streaming music, films and series – these days, there is one thing DSL customers expect above all from their internet connection: high and reliable speed. Customers who do not want an additional wireline all-network flat-rate product can now choose the new O₂ DSL Young tariff. It offers super-fast VDSL with speeds of up to 50,000 Kbit/s at a particularly attractive price. What was previously reserved for schoolgoers, students and young people under 25 has since 15 June been available to all new O₂ DSL customers.

3 — With O₂ and BASE: Samsung Galaxy S6, Sony Xperia Z3+, LG G4 and Huawei P8

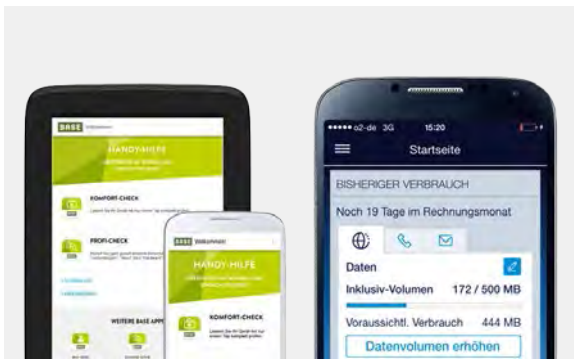
In the second quarter, O₂ and BASE customers were once again delighted with attractive new smartphones. For example, the coveted Samsung Galaxy S6 and Samsung Galaxy S6 edge went on sale in early April. The Huawei P8, which had been anticipated with similar excitement, has been available since mid-May. On receiving their parcels, the first online purchasers were surprised with a Huawei MediaPad T1 8.0 LTE tablet, which O₂ and BASE had thrown in free of charge. Other new smartphones that appeared in the first half of the year were the LG G4 and the Sony Xperia Z3+.



3 — Samsung Galaxy S6 and Samsung Galaxy S6 edge

4 — Everything at a glance with Telefónica's new service apps: BASE Handy-Hilfe App and Mein O₂ App

The free BASE Handy-Hilfe App and Mein O₂ App have been overhauled in order to offer wireless customers even better digital service with an appealing design, optimum performance and intuitive user guidance. From tariff management and information on the latest bill, to solving hardware problems, customers can thus enjoy full transparency and get the best out of their smartphones at the touch of a button.



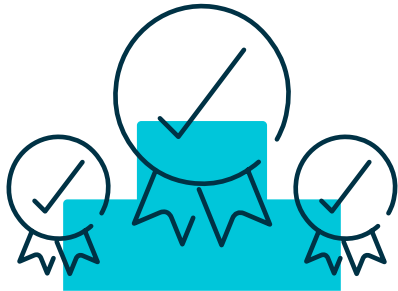
4 — New BASE und O₂ service apps

5 — Expanded sales network:

blau now also available at EDEKA and ROSSMANN

Back at the start of this year, Deutsche Post introduced the attractive blau mobile start packs and top-up cards into their branch product range. As of the second quarter, ROSSMANN and EDEKA have also included blau products as part of their offerings. As a Telefónica brand in Germany, blau has thus expanded its existing sales network by more than 20% and has become the brand with the highest availability in German retail.





6 — DISQ survey of mobile providers: blau wins “frequent caller” category

In the latest quality survey by the German Institute for Service Quality (DISQ), the mobile telecommunications brand blau won first place out of 21 providers in the “frequent caller” category. The pre-paid all-network flat rate costs less than the industry average and scores points with customer-friendly conditions, such as flexible cancellation after 30 days. The brand also knows how to impress in many other categories. For example, blau was awarded the top grade “good” for service and took second place out of 21 tested providers in the “infrequent caller” category.

7 — Launch of Germany's largest mobile payment initiative NFC-City Berlin

For Telefónica in Germany, mobile payment is an interesting growth market for the future. With innovative products and services, such as the BASE Wallet and the mobile payment system mpass, the company is in a good position in the market. As a logical consequence, the company has become a partner to support the NFC-City Berlin project, which was launched by GS1 Germany. The initiative, which Telefónica in Germany has joined alongside Deutsche Telekom, Vodafone Deutschland, Galeria Kaufhof, Kaiser's, Obi, Oh Angie, Penny, Real, Rewe and Temma, allows mobile payment via smartphone in all the cooperating partners' markets and stores. NFC-City Berlin is also open to additional retail partners interested in taking part in the project.

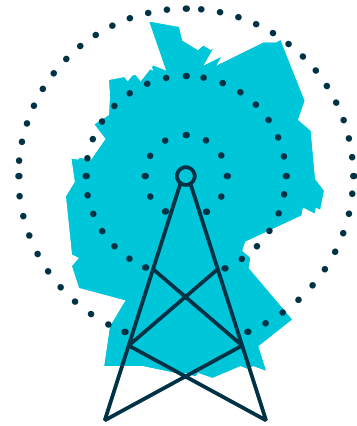


7 — Mobile payment initiative NFC-City Berlin

Network_

8 — Pooled strength of the UMTS networks: national roaming activated for all O₂ and E-Plus customers

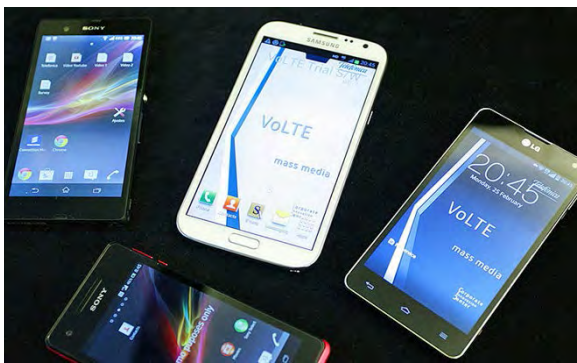
Since the UMTS network merger started at the end of March, Telefónica Deutschland has gradually activated regions for national roaming. Since May, all customers in the O₂ and E-Plus network in Germany have been automatically activated and are benefiting from an exceptional UMTS network experience. With the major technical project being completed on schedule, Telefónica now offers the densest UMTS coverage in urban areas and is expanding it in rural regions as well. The shared UMTS network infrastructure now reaches roughly 90% of the population in Germany.



9 — Excellent acoustic quality with HD Voice

9 — HD Voice now on the O₂ network: the new generation of sound quality on the telephone

In April, Telefónica in Germany launched HD Voice on the O₂ network, which means brilliant sound quality, crystal-clear transmission and a natural sound pattern like in person conversation. At the same time, the technology helps to suppress disruptive background noise; so, excellent acoustic quality is guaranteed even in loud environments. Customers can thus delight in the more natural and clear sound pattern even in noisy situations for instance when driving. In conversations with multiple participants, HD Voice ensures better audibility and thus greater clarity.



10 — VoLTE available on O₂'s entire LTE network

10 — Voice over LTE (VoLTE) on O₂'s LTE network

With voice-over-LTE (VoLTE) wireless technology, Telefónica in Germany's customers can now enjoy a significantly improved user experience. In addition to the high LTE data speeds, VoLTE ensures shorter call connection times and better voice connections in HD quality. At the same time, voice-over-LTE spares the battery of the device, as telephony and data transmission are now both processed on the LTE network, which requires considerably less network searching. The new technology is already available on O₂'s entire LTE network. Smartphone models will be activated for the technology as soon as the manufacturers provide VoLTE-ready firmware.

Company_

11 — Telefónica Deutschland Group secures valuable spectrum at mobile phone frequency auction

At the wireless frequency auction, Telefónica Deutschland Group secured a total spectrum of 60MHz. With these frequencies, the company can expand its high-speed network and the network capacity. The goal remains to offer customers the best network experience. The investment in the valuable frequency package is an important building block for further network expansion and focused data business. Using the spectrum at 700MHz and 1.8GHz acquired at the auction, the company will provide a denser LTE network both in major cities and in the countryside in order to offer customers all over Germany an even better experience using mobile data services. In rural broadband expansion, the spectrum at 700MHz from the so-called Digital Dividend 2 will augment the frequencies at 800MHz that the company acquired in 2010. The auctioned blocks in the 1.8GHz range also allow Telefónica Deutschland Group to establish an even more high-performance network and to expand the capacity of the network once again. Customers will thus benefit from significantly higher LTE speeds. The blocks in the 900MHz range will also ensure the high quality of the nationwide GSM network for voice, SMS and narrowband internet connections in the future.



11 — Awarding of certification after mobile phone frequency auction



12 — Drillisch Group acquires up to 301 shop locations from Telefónica Deutschland Group

Telefónica Deutschland Group and Drillisch have agreed on the extent and the details of the planned acquisition of shops. The Drillisch Group – specifically yourfone GmbH – has acquired shop locations from Telefónica Deutschland Group by purchasing a company founded for this purpose. This relates to 102 proprietary shops. The agreement also allows for Yourfone to operate up to 199 locations as partner shops in the near term and to acquire these locations from Telefónica Deutschland Group. Along with the proprietary shop locations, Yourfone has also taken over around 300 employees. In addition, further back-office and field employees have switched to the Drillisch Group in order to advance the establishment of the retail organisation there. Following the acquisition of E-Plus, Telefónica Deutschland Group has around 1,750 of its own shops and partner shops. The analysis of shop coverage showed that some of the locations are in direct proximity to each other and therefore offer no added service value for Telefónica customers. As already announced, Telefónica Deutschland Group will therefore reduce the number of shops by a total of one third over the next five years.



13 — New Bitkom President: Thorsten Dirks

13 — Telefónica Deutschland CEO

Thorsten Dirks is the new Bitkom President

The German Association for Information Technology, Telecommunications and New Media (Bitkom) has elected Thorsten Dirks as its new President. The CEO of Telefónica Deutschland has set himself the target of further strengthening Bitkom's role as a driver of interconnection and digitalisation. He sees the central challenges of the next few years as the digitalisation of the economy, the expansion of broadband networks and the establishment of intelligent infrastructures. Dirks was elected unanimously at the Bitkom annual conference in Berlin and took up his post on 1 July 2015. For the next two years, Dirks will speak on behalf of the approximately 1,500 members of the digital industry represented in Bitkom.

14 — Annual General Meeting

The shareholders of Telefónica Deutschland Holding AG met for the first time since the merger with the E-Plus Group on 12 May 2015 in Munich. At the Annual General Meeting at Alte Kongresshalle in Theresienhöhe, the shareholders approved the proposals of the Management Board and Supervisory Board with a large majority. The key points of the Management Board speech were the corporate strategy to becoming Germany's leading digital telecommunications company, business performance in 2014 and the outlook for the current financial year. In addition, the shareholders approved the distribution of profit proposed by the Management and Supervisory Boards. For the financial year 2014, the shareholders of Telefónica Deutschland Holding AG receive a cash dividend of EUR 714 million (previous year: EUR 525 million), respectively EUR 0.24 per share – with around three times as many entitled shares as in the previous year.

14 — Management board of Telefónica Deutschland Holding AG



15 — Telefónica Deutschland included in the GERMAN GENDER INDEX

Telefónica Deutschland was recently included in the GERMAN GENDER INDEX and holds second place among the 50 publicly traded German companies listed there. This is a guide for private and institutional investors who want to invest in companies with high gender diversity. This means a particularly balanced ratio of female to male managers has been established in the Management and Supervisory Boards. At Telefónica Deutschland, a third of the Management Board and currently 6 of 16 members of the Supervisory Board are women. Telefónica Deutschland is thus exceeding the target set by the German government of over 30% female Supervisory Board members in German stock corporations. The GERMAN GENDER INDEX was launched on 22 April 2015 by the Hanover Stock Exchange.

Condensed
Interim Group
Management Report_
for the Period from
1 January to
30 June 2015

1.

Basic Information on the Group_

1.1 Business Model of the Group**1.1.1 Structure of the Telefónica Deutschland Group**

Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland") is a public stock corporation (AG) 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 is the calendar year (1 January to 31 December).

The company is listed on the regulated market of the Frankfurt Stock Exchange. The securities identification number (Wertpapierkennnummer – WKN) is A1J5RX, the ISIN (International Securities Identification Number) is DE000A1J5RX9.

Share capital

The share capital amounts to EUR 2,974,554,993 and is divided into the same number of no-par-value registered shares.

In general, each non-par share grants one vote at the Shareholders' Meeting.

Authorised capital

Telefónica Deutschland Holding AG's Authorised Capital 2012/I as of 30 June 2015 amounted to EUR 292,808,507.

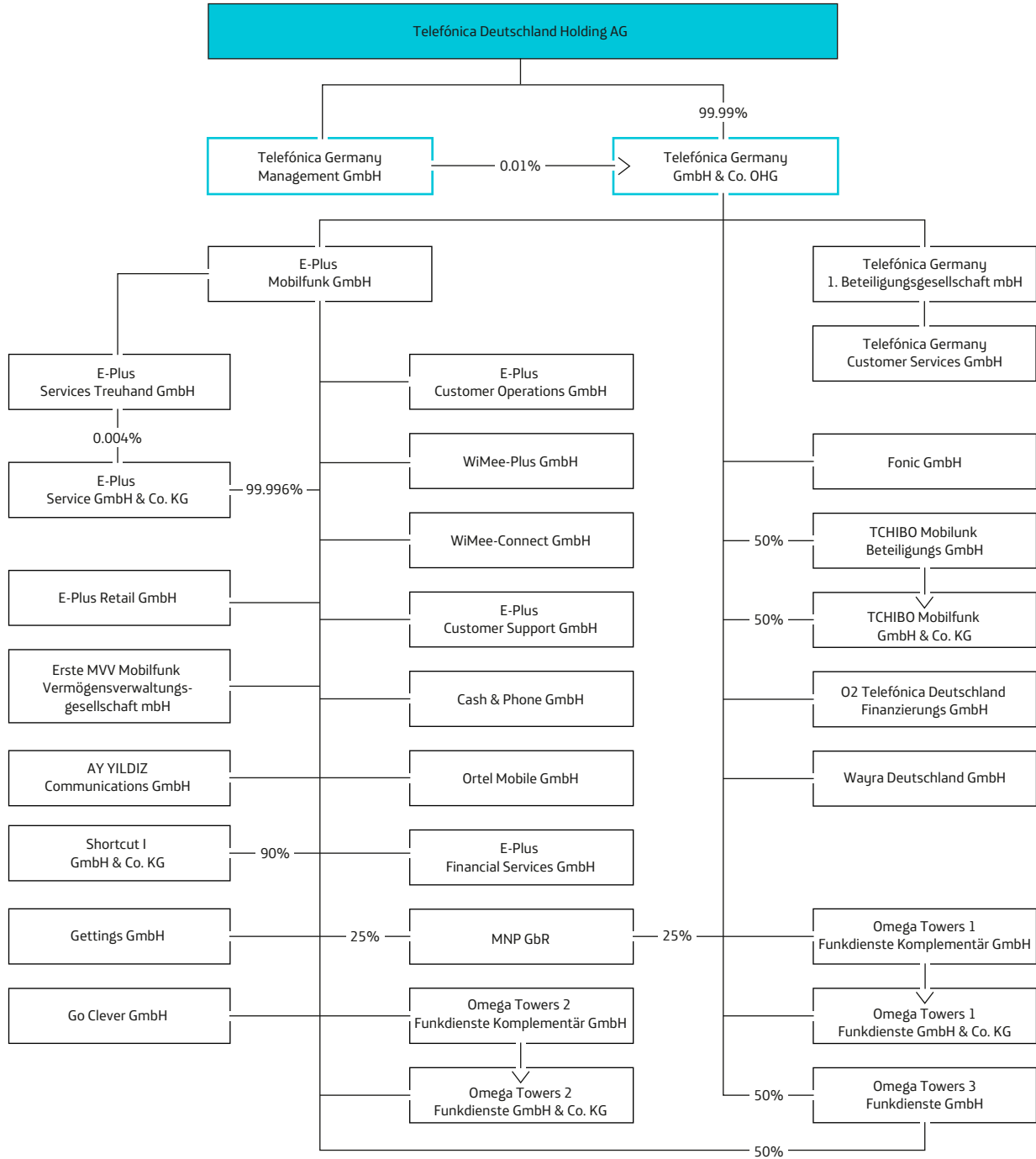
Conditional capital

As of 30 June 2015, Telefónica Deutschland Holding AG's Conditional Capital 2014/I amounted to EUR 558,472,700.

Group structure of the Telefónica Deutschland Group

Telefónica Deutschland Holding AG is the parent company of Telefónica Deutschland Group. It is included in the Consolidated Financial Statements of the ultimate parent company, Telefónica, S.A., Madrid, Spain (Telefónica, S.A.; its group is: the Telefónica, S.A. Group). The direct parent company of the Telefónica Deutschland Group is Telefónica Germany Holdings Limited, a wholly owned subsidiary of O2 (Europe) Limited, Slough, United Kingdom, (O2 (Europe) Limited) and an indirect subsidiary of Telefónica, S.A.

As of 30 June 2015, the companies included in the Consolidated Financial Statements of the Telefónica Deutschland Group were organised as shown in the following organisation chart:



In the second quarter simyo GmbH, E-Plus 1. Beteiligungsgesellschaft mbH and BLAU Mobilfunk GmbH were merged with Telefónica Germany GmbH & Co. OHG with effect as of 30 June 2015. Blau Service GmbH was merged with BLAU Mobilfunk GmbH prior to this.

During the reporting period, from 7 May to 29 June 2015, Telefónica Germany Shoptransfer AG – a company founded for the transfer of sales and marketing resources, which in turn held Telefónica Germany Retail Ausgliederungs GmbH, entered into the commercial register on 18 May 2015 – belonged to Telefónica Deutschland Group. On the basis of a share transfer agreement on 29 June 2015, yourfone GmbH assumed all shares in Telefónica Germany Shoptransfer AG and thus indirectly in Telefónica Germany Retail Ausgliederungs GmbH as well.

Management and governing bodies

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

Management Board

The members of the Management Board are appointed by the Supervisory Board for a period of no more than five years and can be re-appointed without limitation, in each case for no more than five years. The Supervisory Board can recall a Management Board member before the end of his term in office for cause, such as a gross violation of duty or in the event of a vote of no-confidence at a General Meeting. Other reasons for termination, such as a mutual termination agreement, are also possible. The Supervisory Board can nominate one Management Board member as the Chairperson for the Management Board and another Management Board member as the Deputy Chairperson. On 30 June 2015, the Management Board of the company comprised three members:

- Thorsten Dirks, CEO (Chief Executive Officer)
- Rachel Empey, CFO (Chief Financial Officer)
- Markus Haas, COO (Chief Operating Officer)

Supervisory Board

In accordance with section 11 para. 1 of the Articles of Association of the company, sections 95 and 96 of the German Stock Corporation Act and section 7 of the Mitbestimmungsgesetz (MitbestG – German Co-Determination Act), the Supervisory Board comprises sixteen members, eight of whom are shareholder representatives and eight employee representatives.

All current shareholder representatives on the Supervisory Board were appointed for the period until the end of the Annual General Meeting that resolves on the discharge for the financial year, ending on 31 December 2016.

1.1.2 Business activities

With more than 48 million customer connections as of 30 June 2015, the Telefónica Deutschland Group, also including the E-Plus Group since 1 October 2014, is one of the three leading integrated network operators in Germany. Additionally, we are the market leader in the German wireless market with around 43 million mobile customer connections as of 30 June 2015 according to customer accesses. Telefónica Deutschland Group offers private and business customers voice, data and value added services in wireless communications and wireline network. In addition, the Telefónica Deutschland Group ranks 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 the Telefónica, S.A. Group, one of the biggest telecommunications companies in the world.

Since the merger with the E-Plus Group, we operate two nationwide wireless communications networks reaching the majority of the German population with GSM and UMTS. Since the start of the network consolidation at the end of March 2015, Telefónica Deutschland Group has gradually activated regions for national roaming between the UMTS networks of O₂ and E-Plus and, since the end of May 2015, national roaming has been automatically enabled for all our customers in Germany. Telefónica Deutschland Group therefore offers the densest UMTS coverage in urban regions, expanding it further in rural areas. The combined UMTS network infrastructure now reaches roughly 90% of the population in Germany. They benefit from the combined strength of the O₂ and E-Plus network and can make use of an even better experience for mobile data applications.

In order to improve the network experience beyond using mobile data on UMTS, Telefónica Deutschland Group is also constantly driving forward the expansion of its LTE network. By the end of this year the company is anticipating a nationwide LTE coverage rate of around 75%.

At the mobile phone frequency auction that ended mid-June, Telefónica Deutschland Group secured a total spectrum of 60MHz. With the frequencies acquired at auction, the company can expand its high-speed network and the network capacity and therefore continue offering its customers the best network experience as part of its strategy.

We also offer a nationwide wireline network. Our strategic partnership with Telekom Deutschland GmbH, Bonn, expands our wireline network coverage to 98% and, in addition, enables us to serve almost 19 million households with high-speed DSL Internet access and data transmission rates of up to 50Mbit/s. The contract for the expansion of the wireline network cooperation with Telekom Deutschland GmbH grants us access to the high-speed network of Deutsche Telekom and the ability to offer our customers products with transmission rates of currently up to 100Mbit/s via the new vectoring technology.

Our sales and marketing approach follows a systematic multi-brand strategy in order to address a broad range of customer segments with our products and services. We offer the majority of our wireless communications products in the postpaid customer segment via our brands O₂ and BASE. Fixed communication products and bundles are offered via our premium brand O₂. We continually strive for an improvement of the market positioning of our premium brands, particularly in order to gain high-value customers in the consumer and business customer segment. For several years now, our strategic focus has been on the sale of data-centric wireless telecommunications contracts to smartphone users. Smartphone users already accounted for 76% of the customer base of the post-paid customer brand O₂ as of 30 June 2015. On the back of their use of wireless data services, together with an increasing interest in the new wireless communications standard LTE, these customers generate very high revenues compared to users without a smartphone. We are also seeing rising interest in smartphones and the use of wireless data in the prepaid area.

As such, we also offer special prepaid tariffs for smartphone users.

We have been selling mobile phones and other hardware to our O₂ customers at fixed prices, independently of wireless communications contracts, for example via our successful "O₂ 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 instalments. For the customer, this approach provides price transparency with regards to the cost of both the mobile phone and the telecommunications services contract. Customers can choose from a large variety of mobile phones including the latest premium devices and benefit from attractive payment conditions. We also offer bundled services with hardware in addition to wireless-only services for customers of the former E-Plus brands. Customers have the choice between buying or renting a device at attractive conditions. Our main suppliers of mobile phones are the manufacturers Samsung, Apple, Microsoft, HTC, Sony and Huawei. We focus on the sale of smartphones with Internet capability, which represent the majority of mobile phones sold to our postpaid customers in the first half of 2015. In the same period, the share of LTE-enabled smartphones in relation to all smartphones sold is rising constantly. We are serving the growing demand for wireless data services among customers of our secondary brands and wholesale partners via a large range of affordable entry-level smartphones.

With our secondary and partner brands and through our wholesale channels, we reach further groups of customers that we do not target with our O₂ and BASE brands. Our secondary brands include blau Mobilfunk, Fonix, simyo, AY YILDIZ, Ortel Mobile and netzclub, which are fully controlled by us, as well as brands from joint ventures and strategic partnerships such as TCHIBO mobil. Our multi-brand approach

enables us to address a broad spectrum of customers and to maximise and also efficiently control our sales range with customised product offerings, sales and marketing.

As part of the wholesale business, we offer wireless services for customers such as MedionMobile (AldiTalk), ADAC, MTV, mobilcom/debitel, WhatsApp and cable providers.

In addition, as part of the antitrust approval process in connection with the merger with the E-Plus Group, we have committed to selling at least 20% of our future wireless network capacity via mobile bitstream access ("MBA") to MS Mobile Service GmbH ("Drillisch") before completing the merger. Drillisch also has the option to acquire up to 10% of additional network capacity (section 3 Report on Events after the Reporting Period).

A relevant market trend is digital applications that make our customers' lives easier and more secure in many areas. We enable our customers, via mobile phone, to handle central things of everyday life such as mobile paying, music and video streaming, playing games on your mobile phone, to monitor the condition of your car or to control power usage in their homes.

In wireline business, we offer our wholesale partners a range of "unbundled local loop" (ULL) services, including wireline telephony and high-speed Internet. Furthermore, we offer value added services such as billing services or the management of telephone numbers and SIP accounts. This comprehensive portfolio enables our wholesale partners to independently serve their consumers and, at the same time, gives us the opportunity to increase our range and leverage economies of scale.

In the B2B area, small office/home office (SoHo) as well as small and medium-sized enterprises (SMEs) are addressed through our premium brand O₂, for example with our innovative product "O₂ Unite".

Large international businesses are addressed through the Telefónica brand. Furthermore, we support B2B customers to make better use of digital media in order to place commercials precisely and to analyse customer behaviour anonymously.

We market our products using a diversified sales platform. This includes direct sales channels such as our nationwide network of independently operated franchise and premium partner shops, online and telesales plus indirect sales channels such as partnerships in retail/online retail and retailers/cooperations.

1.2 Goals and Strategies

Following the merger of the Telefónica Deutschland Group and the E-Plus Group effective 1 October 2014, we are now one of the leading telecommunications providers in the German market.

We are the market leader in the German wireless market with around 43 million wireless customer connections as of 30 June 2015 according to customer accesses. Our goal is to focus on both customer retention, by means of an improved network, service and customer experience, and also the systematic monetisation of rising data usage, and future technologies such as LTE. We also intend to expand our market position in small office/home office (SoHo) and small and medium-sized enterprises (SMEs), and to take advantage of new opportunities in wholesale and partner business. Overall, our goals and strategies follow the clear vision of **building the leading digital telecommunications company** in Germany.

Building ...

We see the merger of the two companies not just as a chance to achieve economies of scale, but rather as a unique opportunity to create a new company that radically changes its business model and actively shapes the market. We are guided by two overarching principles for action in this transformation process: **simplification and digitisation**. As part of the merger, we are striving to fundamentally simplify processes, structures and platforms. Simple and flexible structures help us to offer our customers simple and bespoke solutions, to respond quickly and stay ahead of the competition. We also wish to offer our customers a clearly structured product portfolio and user-friendly, easily accessible services.

With the challenger mentality inherited from both companies, we also want to set the pace in the industry. Both companies were already known for innovation and setting new trends in the market in the past. These included establishing multi-brand strategies and new types of tariff models, in addition to introducing and operating brands for partners from other industries.

... the leading ...

Our transformation into the leading digital telecommunications company is to be based on **three core strategic elements**. Firstly, we are striving to offer our customers the best network experience where they need it most. Second, we will aim to convince them with the best customer experience in all areas – from services, tariffs and devices, to customer service. And thirdly, we are aiming for cost leadership among the competition so that we can make attractive offerings with excellent value for money.

We are striving for the **best network experience** by consistently aligning the network infrastructure to customer requirements. The network quality from a customer's perspective must at least match or even exceed that of the competition. This applies especially to urban areas where customers with particularly intensive data usage are concentrated. We intend to achieve this primarily through synergies from the merger and smart investments in further network development. If customer data usage patterns change, for in-

stance if they consume higher data volumes, we allow customers to simply raise their data contingents and increase the overall network capacity available.

Attractive data services and the utmost in transparency and responsibility in implementing processes are key for offering the **best customer experience**. We intend to systematically gear our tariffs, hardware and services to the needs of our customers. In addition to the network experience, state-of-the-art devices and simple, comprehensible tariff structures also make a significant contribution to a positive customer experience and long-term customer satisfaction. Customers should also experience excellent service that is consistently aligned to their requirements throughout the entire customer relationship, starting from first contact and at each individual interface with the Telefónica Deutschland Group.

Lasting **cost leadership** is the third core element of our strategy. With the merger with the E-Plus Group, we are aiming to leverage synergies across the board and to achieve substantial economies of scale in business operations. This applies to the network infrastructure as well as the sales organisation, customer service and administration. Furthermore, because customer acquisition and customer service are increasingly shifting to digital channels, a reduction in customer service costs over time is expected. Looking to the future, we hope to manage the majority of customer contacts via digital channels in a few years' time. The organisation of the company is to remain lean overall, thus maintaining the learned culture of cost discipline. Cost leadership will enable us to offer customers consistently excellent value for money.

... digital ...

We utilise the combination of two strong partners as a unique opportunity to advance digitisation more quickly and more systematically than our competitors, thus optimally meeting evolving customer needs for future wireless communications. We expect to gain two major benefits from digitalisation:

Firstly, digitisation brings us closer to our customers and what they need. As many people use their smartphone as the hub of their mobile life, mobile communications companies can get closer to their customers than companies in almost any other sector. This supports the development of new and innovative offerings that set us apart from the competition. Both partners have already successfully proven their capacity for innovation in the past, for example with mobile-music and video-streaming offerings and the world's first mobile communications partnership with the mobile communication service WhatsApp. Experience shows that customers who enjoy the tangible benefits of these applications in their everyday life use them more and more intensively over time. This leads to rising data consumption, from which we benefit in the long term.

Secondly, digitisation makes it possible for us to establish lean, efficient platforms along the entire process chain within the company. These are to be based on simple, standardised structures and processes, ranging from providing the service at the “back end” to the customer interface at the “front end”. This way, we aim to maintain cost leadership on the market and offer our customers an excellent, reliable and individual customer experience at attractive conditions. In the area of information systems, for example, we plan to establish state-of-the-art, flexible IT platforms. These platforms will be used as a shared “factory” with the highest level of operational stability by the three customer segments B2C (consumers), B2B (business customers) and B2P (partners), and can lead to significant cost benefits. They also allow us to develop and launch new offerings within a short space of time. Simple and efficient integration of partner brands will be another competitive advantage of the new IT infrastructure. Furthermore, internal digitisation will allow for a better understanding of customers’ requirements. Effective customer relationship management should also be part of our systematically digital business model. We use the knowledge gained from this firstly to closely tailor our offerings to customers’ requirements and to control marketing measures precisely. Secondly, it will add to the information base for important business decisions, such as investing in the network infrastructure and planning location for fixed points of sale.

... telco

We see a **high-performing network infrastructure** as a key future success factor. Following the merger of the Telefónica Deutschland Group with the E-Plus Group, the network will be developed over the coming years so that it combines the best quality for customers with high efficiency. As we, in line with many market studies, are firmly convinced that mobile data usage will continue to increase dynamically, a high-performing and optimally sized wireless network is at the heart of the network infrastructure. In addition, we offer customers additional value in the form of high-speed wireline services as needed.

We invest intelligently in network expansion and flexibly gear network performance to the future requirements of the mass market, for example with the ongoing nationwide roll-out of the LTE network. We will continue to use outsourcing partnerships to an appropriate extent for the operation and expansion of the network so as to keep our own organisation lean and consolidate our cost leadership. We always maintain exactly the network structure needed to meet current customer requirements while offering the best network experience. This way we can achieve our goal of ensuring the best customer experience together with attractive profitability.

In **brand management and sales**, we focus on a clear brand architecture and a multi-channel sales approach that is consistently geared towards customers’ requirements. The

brands are intended to address their respective target groups with clear, differentiated selling propositions. They acquire and retain customers in the competitive environment with new types of products, innovative partnerships and winning value for money. In marketing and sales, we strive for an optimal mix of digital and stationary channels. Depending on their preferences, customers can gather information on products and tariffs, purchase devices, book tariffs or make service requests either online or in-store. All channels are supposed to be closely interconnected, so that customers can, for example, choose a smartphone or tablet online and then have it set up for in-store collection. New types of concept stores will increase customer loyalty to the brands. In marketing, we intend to use all cross-media formats and channels, including innovative content platforms. Customers will also be able to access all service functions via online channels. These will be supplemented with an appropriate physical presence.

Implementing the vision

In order to implement the strategic vision successfully and rapidly, we will focus on the three strategic priorities of momentum, integration and transformation (“MIT”) in the coming months.

Momentum: The top priority is a continued systematic focus on actively shaping market developments and interacting with our customers in order to compete successfully in the market, stabilise revenues from wireless services and improve profits. One key factor here is the monetisation of rising data usage and higher demand for LTE, supported by improved network quality. In the consumer segment, our focus is shifting away from acquiring new customers and towards retaining existing valuable customers. By contrast, our focus in the business customer segment is on acquiring new customers.

Integration: In order to take advantage of the synergies of the merger and the economies of scale of the two companies as quickly as possible, the internal integration already began in the fourth quarter of 2014. The goal is to incorporate the best of both worlds (the Telefónica Deutschland Group and the E-Plus Group) in the extended company. By the middle of 2015, the company has already achieved important milestones in the implementation of integration and transformation projects and already benefited in the second quarter 2015 from synergies of the integration.

With regard to the network, this means selecting the best locations from the two networks so as to offer optimal coverage. Once the integration is complete, the new joint network will have approximately 25,000 wireless network sites in Germany. Investments in the nationwide LTE roll-out will be increased and the expansion will therefore progress at a faster pace. The mobile spectrum assets and the network sites are combined in such a way that our customers can be offered the best network experience in future. This applies especially to urban areas where customers with particu-

larly intensive data usage are concentrated. We plan to complete this process of consolidation within five years.

A key milestone in this journey was the mobile phone frequency auction that ended at the end of June 2015, in which Telefónica Deutschland Group secured a total valuable spectrum of 60MHz.

We acquired two paired blocks in the 700MHz range, two paired blocks in the 900MHz range and two paired blocks in the 1.8GHz range. Using the spectrum at 700MHz and 1.8GHz, we will provide a denser LTE network both in major cities and in the countryside in order to offer our customers all over Germany an even better experience using mobile data services. In rural broadband expansion, the spectrum at 700MHz from the so-called Digital Dividend 2 will augment the frequencies at 800MHz that the company acquired in 2010. The auctioned blocks in the 1.8GHz range also allow us to establish an even more high-performance network with more capacity. Our customers will thus benefit significantly from higher LTE speeds. The blocks in the 900MHz range will also ensure the high quality of the nationwide GSM network for voice, SMS and narrowband internet connections in the future.

With its existing and newly acquired frequencies, Telefónica Deutschland Group still holds a balanced share in the frequencies below 1GHz (area coverage) and a leading position in 1.8GHz frequencies and beyond (capacity coverage). The investment in the valuable frequency package is therefore an important building block for further network expansion and focused data business.

During the integration of our two network infrastructures, national roaming will support customers' positive network experience.

Since End of March 2015 we merged the UMTS networks of the former Telefónica Deutschland Group (O₂) and the E-Plus Group (E-Plus) and national roaming has been automatically activated for all our customers in Germany gradually until the end of May 2015. For the first time, this milestone of network integration bundles the strength of both our networks. As a result, we offer the customers of all our brands and partner brands the densest UMTS network infrastructure in urban areas and a considerably expanded coverage in rural

areas. This step improves the user experience for wireless data services even in areas where our customers do not yet have LTE and thus demonstrably increases customer satisfaction.

With the launch of voice-over-LTE (VoLTE) wireless technology in the middle of April 2015, Telefónica Deutschland Group's customers can now benefit from shorter call setups and higher speech quality in HD quality. The new technology is already available throughout the O₂ LTE network. In addition to the high LTE data speeds, VoLTE ensures maximum convenience when telephoning and enhances the positive LTE experience for customers on the O₂ network. We expect that more and more smartphones will support VoLTE and will then activate these in our network accordingly.

Sales capability is one of the biggest strengths of the new Telefónica Deutschland Group for maintaining momentum, defending market share and achieving its strategic goals. The merger enables us to offer our customers throughout Germany the best experience with one of the largest and best-performing branch networks in the industry. In addition, the sales units of the E-Plus Group and the Telefónica Deutschland Group will be combined over an extended consolidation process. A key milestone is to harmonize the branding of our shops by the end of the year. In the future, all shops will operate under the O₂ brand. In the course of the migration, all BASE shops will successively be converted into O₂ shops. This is expected to be fully implemented by the end of the year.

Also, the shop network has been analysed based on the criteria of location and performance. We intend to reduce the current sales network by around a third of the currently roughly 1,800 stores.

In this context, we have agreed to transfer some of our shop locations to Drillisch as part of the agreement concluded with Drillisch in the summer of 2014. Drillisch has selected 301 shops and partner shops which will transitioned to the new owner beginning June 2015.

Transformation: Initiatives to simplify, digitise and amend the business model will accompany integration and day-to-day business, continuously advancing the digital transformation.

2.

Economic Report from 1 January to 30 June 2015_

2.1 Overall Economic and Industry Conditions

2.1.1 Economic environment

Overall economic environment in Germany

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

(Source: Deutsche Bundesbank (German Central Bank), German Federal Statistical Office, GfK)

1 — GDP growth 2012–2014 for Germany and the euro area

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

General trends in the German telecommunications market

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

The strong demand for wireless data usage and increasing smartphone and tablet penetration open up further opportunities for growth for mobile telecommunications network operators continuing into the future. Smartphones and tablets are becoming the trailblazers for the digital revolution in Germany. At the same time, the monetisation of the wireless data business will continue to gain substantial importance for mobile telecommunications providers.

According to the industry association BITKOM, the increasing availability of cloud services is responsible for a profound change in information technology. In cloud computing, IT services are used as demanded via decentralised computers that are connected through data networks (in the "cloud") instead of on local computers.

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

The German mobile telecommunications market

With more than 112.4 million customers (SIM cards) at the end of June 2015, the German mobile telecommunications market is the largest in the EU. The notional wireless penetration rate was 140%, meaning that each German citizen has an average of 1.4 mobile SIM cards. The customer growth in the first half year 2015 is primarily attributable to the postpaid sector. Overall, postpaid customers made up 52% of total connections as of the end of June 2015. This share had been 50% at the end of June 2014.

The mobile telecommunications market remained dynamic in the first half of 2015 and was characterised by intense competition, primarily driven by the strong demand for smartphones and the increasing number of attractive smartphone tariffs. Wireless media use is leading to further increases in wireless data use and rising sales volumes and

revenues, particularly for smartphones and tablet PCs. A total of 393 million gigabytes of data were transferred on mobile networks in 2014 (2013: 267 million gigabytes). According to the German Association for Consumer and Communication Electronics (gfu), around 7.8 million tablet PCs (an increase of 10.3% year-on-year) and around 25 million smartphones (an increase of 4.8% year-on-year) were sold in 2014.

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

The German mobile telecommunications market is an established market. Following the merger of the Telefónica Deutschland Group with the E-Plus Group, it consists of three network operators and several service providers and MVNOs. As of the end of June 2015, the Telefónica Deutschland Group had a market share of 37.9% with around 43 million connections in total, making it the largest German mobile telecommunications network operator in terms of customer connections.

(Source: company data, German Association for Consumer and Communication Electronics (gfu), German Federal Network Agency annual report)

The German wireline market

Intense competition also prevails on the German market for wireline broadband services. The number of subscriber lines increased by approximately 4% year-on-year and the customer base grew to approximately 29.6 million by the end of March 2015. The share of DSL connections here is almost 80%. The significance of VDSL continued to grow in 2014. According to the German Federal Network Agency, around 12% of all DSL connections use VDSL technology.

(Source: Analysys Mason: Telecoms Market Matrix Western Europe Q1 2015, German Federal Network Agency annual report)

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

2.1.2 Regulatory influences on the Telefónica Deutschland Group

The following section shows the material new decisions and additions to the Group Management Report for the financial year that ended 31 December 2014 in the section "Regulatory influences on the Telefónica Deutschland Group".

Development of the GSM licences

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

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

Decisions on mobile termination rates (MTR)

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

Decisions on fixed termination rates (FTR)

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

Transparency regulation of the Federal Network Agency

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

"Digital Single Market" initiative of the European Commission

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

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

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

2.2 Overview of the First Half of the Year 2015

The acquisition of the E-Plus Group as of 1 October 2014 has changed the scope of operations of the Telefónica Deutschland Group significantly. As the integration of the E-Plus Group is progressing rapidly, we do not consider the separate reporting of the results of operations of the former E-Plus Group appropriate.

To allow a better comparison, selected indicators are presented in this section exclusively on a combined basis¹.

In the first half of 2015 Telefónica Deutschland Group delivered on key integration milestones and already benefitted from integration synergies in the second quarter of 2015. The company showed a solid operating performance in revenue and OIBDA that is a reflection of the ongoing success of our data monetization strategy together with our conscious strategy to drive value through the development of the existing customer base, in particular in the premium consumer brands. Adding to this is the value-based approach to handset sales from the beginning of the year. At the same time, the German mobile market continued to be active with a largely stable pricing environment. As such, Telefónica Deutschland reiterates its confidence for the delivery of the 2015 outlook and the synergy targets.

Mobile service revenue showed a positive performance in the first half of 2015, increasing 0.8% year-on-year to total EUR 2,735 million, which is in line with our expectations. The increase is reflecting the Company strategy and also driven by the strong trading activity in previous quarters and increasing data usage from our customers, leveraging the demand for LTE. Other effects, such as the lower usage of traditional text messaging and the renewal of expired long-term contracts to lower prices within the premium brand customer base are having a less dilutive impact than seen in prior quarters. In line with our vision to become the Leading Digital Telco in Germany, we will put an even stronger focus on the development of our customer base and continue to be the value-for-money choice for our customers and partners while keeping a strong view on data monetisation. As such, mobile service revenue in the first six months of the year confirm the full-year outlook of broadly stable year-on-year mobile service revenue from a combined figure of EUR 5,528 million in 2014.

Operating Income before Depreciation and Amortisation (OIBDA) in the first half-year 2015 amounted to EUR 845 million. Excluding the exceptional effects (a EUR 17 million gain from the sale of yourfone GmbH in the first quarter and restructuring costs of EUR 3 million in the second quarter)

¹ Combined figures for 2014 are based on estimates and are the result of the aggregation and subsequent consolidation of the Telefónica Deutschland Group and the E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by material exceptional effects, such as capital gains or restructuring costs based on estimates made by Telefónica Deutschland management, resulting in combined figures that we believe are more meaningful as a comparable basis. The combined financials are not necessarily indicative of results that would have occurred if the business had been a separate standalone entity during the year presented or of future results of the business. The presentation of the combined financial information is based on certain assumptions and is intended for illustrative purposes only. The combined information describes a hypothetical situation and thus, due to its nature, the presentation does not reflect the actual results of operations. The assumed acquisition date was the start of the 2014 calendar year.

OIBDA for the six months period would have been EUR 831 million, which represents a 9.8% year-on-year growth on a combined basis (+13.5% year-on-year in the second quarter). This is the result of our focused commercial approach and the first benefits from integration synergies, which are already driving more than 40% of the OIBDA year-on-year development in the second quarter. This evolution is in line with our expectation and the outlook to deliver a >10% year-on-year increase of OIBDA from a combined¹ basis of EUR 1,461 million before exceptional effects. As expected, synergies from the integration of E-Plus Group will primarily add to the financial performance in the second half of the year.

Capital expenditures (CapEx), excluding the investments for spectrum in the first half of 2015, amounted to EUR 463 million, 5.6% higher year-on-year on a combined basis. Telefónica Deutschland Group maintained a clear focus on the accelerated deployment of the LTE-network, giving priority to urban areas. As a result of the introduction of 3G national roaming from the beginning of April 2015, customers have already started to experience first tangible results from the combination of the two networks. CapEx evolution without exceptional effects is in line with our expectation and on track to deliver the 2015 outlook of a high single digit percentage decline versus the combined¹ figure of EUR 1,161 million in 2014.

In the mobile phone frequency auction, Telefónica Germany Group was able to secure a valuable portfolio of mobile licenses in June 2015, in particular in the frequency bands above 1GHz that are commonly used to provide capacity expansions in high-speed mobile networks. The company has acquired a 60MHz-package in the frequency ranges 700MHz, 900MHz and 1.8GHz for a total of EUR 1,198 million.

Significant events

Integration and transformation

The change in the legal form of E-Plus Mobilfunk into a limited liability company (GmbH) was entered in the Commercial Register on 26 January 2015. On 4 February 2015, a profit transfer agreement was concluded with Telefónica Germany GmbH & Co. OHG effective 1 January 2015, with the result that E-Plus Mobilfunk GmbH, including its income tax group subsidiary companies, has been included in the income tax group of the Telefónica Deutschland Group effective 1 January 2015.

yourfone

The sale of yourfone GmbH to Drillisch was closed on 2 January 2015. The Telefónica Deutschland Group reported net inflows of EUR 61 million from the sale in the first half of 2015 and generated a gain on disposal of EUR 17 million, which was recognised in the Consolidated Income Statement under other income.

Framework redundancy plan

In February 2015, the Management Board and Works Councils of the Telefónica Deutschland Group agreed on a framework redundancy plan that will apply until the end of 2018. Based on the regulations set out in this plan, the implementation of the 2015 redundancy programme, for around 800 FTEs, began in the first quarter of 2015 as planned and was almost completely finished by the end of the second quarter of 2015. Thus, the Telefónica Deutschland Group is ensuring clarity for the employees and continues to drive the integration in the context of the acquisition of the E-Plus Group completed at the beginning of October.

Placement of promissory notes/registered bonds

On 13 March 2015, the Telefónica Deutschland Group completed an initial placement of promissory notes and registered bonds. The transaction was announced on 2 February 2015 with a target volume of EUR 250 million but was implemented at a volume of EUR 300 million due to the high oversubscription.

The promissory notes were issued in unsecured tranches with terms of five, eight and ten years, with both fixed and floating interest rates. The registered bonds were issued in unsecured tranches with terms of 12, 15 and 17 years with fixed interest rates. All tranches were issued by Telefónica Germany GmbH & Co. OHG, Munich.

The EUR 52 million fixed rate tranche with a term of five years bears interest at 0.961%; the EUR 60.5 million floating rate tranche bears interest at 6-months Euribor + 65 bps. The EUR 19.5 million fixed rate tranche with a term of eight years bears interest at 1.416%; the EUR 1.5 million floating rate tranche bears interest at 6-months Euribor + 85 bps. The EUR 29.5 million fixed rate tranche with a term of ten years bears interest at 1.769%; the EUR 9 million floating rate tranche bears interest at 6-months Euribor + 105 bps. The tranches maturing in 12, 15 and 17 years have volumes of EUR 3 million, EUR 33 million and EUR 92 million respectively and bear interest at 2.000%, 2.250% and 2.375%. All tranches were issued at par.

The promissory notes and registered bonds can be transferred at a minimum amount of EUR 500 thousand. The issue proceeds of the overall transaction will be used for general business purposes.

Changes in the Supervisory Board of Telefónica Deutschland

María Pilar López Álvarez left the Supervisory Board of Telefónica Deutschland with effect as of the end of the Annual General Meeting on 12 May 2015.

Laura Abasolo García de Baquedano was elected as her successor. Her term in office ends with the Shareholders' Meeting that resolves on the discharge regarding the financial year 2016.

Shareholders' Meeting/dividend

The Annual General Meeting of Telefónica Deutschland for the 2014 financial year took place on 12 May 2015. In addition to presenting the Annual Financial Statements of Telefónica Deutschland, including the Group Management Report and the Consolidated Financial Statements, and electing a new member of the Supervisory Board, inter alia a dividend of EUR 0.24 per entitled share, EUR 713,893,198.32 in total, was resolved. The dividend was paid to the shareholders on 13 May 2015.

Mobile phone frequency auction: Telefónica Deutschland Group secures valuable spectrum

By decision of the German Federal Network Agency on 22 April 2015, the Telefónica Deutschland Group was admitted to the auction of frequencies in the ranges 700MHz, 900MHz, 1.8GHz and 1.5GHz. The auction began on 27 May 2015 and ended on 19 June 2015.

At the mobile phone frequency auction: Telefónica Deutschland Group acquired two paired blocks in the 700MHz range, two paired blocks in the 900MHz range and two paired blocks in the 1.8GHz range for a total of approximately EUR 1,198 million. The first instalment of the frequency costs of around EUR 976 million was paid on 26 June 2015. The two outstanding instalments of approximately EUR 111 million each for the spectrum in the 700MHz range are due on 1 July 2016 and 2017.

National roaming

Until the end of May 2015, the UMTS networks of the former Telefónica Deutschland Group (O₂) and the E-Plus Group (E-Plus) were opened up to all customers of the group, bundling the strength of both networks for the first time. As a result, the customers of all own brands and partner brands can be offered the densest UMTS network infrastructure in urban areas and the most widespread coverage in rural areas. This step improves the user experience of wireless data services even in areas where our customers do not yet have LTE.

Conclusion of new supplier agreements to expand wireless communications network

In the second quarter of 2015, Telefónica Deutschland Group concluded agreements with various suppliers for equipment and services for the Telefónica Deutschland Group wireless communications network. Thus, a further requirement was created for the implementation of the integration of the wireless communications networks of the E-Plus Group and the previous Telefónica Deutschland Group (O₂), and for the further accelerated roll-out of LTE. Under these agreements, from 2015 to 2018, the suppliers will provide radio access network equipment and services in the field of network roll-out and network maintenance for Telefónica Deutschland Group.

2.2.1 Results of operations

The acquisition of the E-Plus Group as of 1 October 2014 has changed the results of operations of the Telefónica Deutschland Group significantly. As the integration of the E-Plus Group is progressing rapidly, we do not consider the separate reporting of the results of operations of the former E-Plus Group appropriate.

To allow a better comparison, selected indicators are presented below on a combined¹ basis:

Revenues amounted to a total of EUR 3,849 million in the first half of 2015. Combined¹, revenues in the first half of 2014 would have been EUR 3,772 million. Revenues from mobile services amounted to EUR 2,735 million in the first half of 2015 and in the first half of 2014 EUR 2,713 million on a combined¹ basis.

Operating income before depreciation and amortisation (OIBDA) before exceptional effects amounted to EUR 831 million in the first half of 2015 and in the first half of 2014 EUR 757 million on a combined¹ basis.

Please see table 3 on page 27 for a presentation of business performance compared to the previous year.

2.2.1.1 Revenues

Revenues of EUR 3,849 million were generated in the first half of 2015. This corresponds to an increase of EUR 1,566 million or 68.6% against the previous year. The increase in revenues is primarily attributable to growth in wireless business as a result of the merger with the E-Plus Group as of 1 October 2014. Including the combined¹ figures for the first half of 2014, growth would amount to EUR 77 million or 2.1%. In particular, this is due to the rise in handset revenues. Revenues from wireline/DSL were lower on account of a smaller DSL customer base. Revenues continued to be positively influenced by a growth in the mobile data business.

— **Tab. 2, page 26**

Wireless business

Mobile Revenues, comprising mobile service revenues and handset sales, amounted to EUR 3,321 million in the first half of 2015. This corresponds to an increase against the same period of the previous year of EUR 1,622 million or 95.5%.

Mobile service revenues are largely based on basic fees and the fees levied for voice (including incoming and outgoing calls), messaging (including SMS and MMS) and mobile data services in addition to the revenues from service contracts. In addition to roaming revenues, mobile service revenues include access and interconnection fees that are paid by other service providers for calls and SMS delivered via our network. In the first half of 2015, mobile services revenues amounted to EUR 2,735 million. This corresponds to a year-on-year increase of EUR 1,301 million or 90.7% and is due in particular to the expanded customer base as a result of the merger with the E Plus Group. Including the combined¹ figures for the

first half-year 2014, growth would amount to EUR 23 million or 0.8%.

The positive development is the result of the focus on measures for customer retention and customer acquisition. Our mobile customer base increased by 492 thousand in the first half of 2015 (increase in the first half-year 2014 combined: 489 thousand).

This also benefited from the launch of national roaming in April 2015, which allows our customers to use both mobile communications networks of O₂ and E-Plus. Furthermore, there has been consistently strong demand for data services (e.g. mobile Internet, service applications and other data content) further boosted by the increase in LTE network coverage.

Handset revenues are subject to fluctuation, particularly as they are dependent on the launch of new mobile devices. Handset revenues of EUR 586 million were generated in the first half of 2015. Alongside the additional revenues resulting from the merger with the E-Plus Group, increased sales figures for mobile devices, including to mobile partners, also contributed to the year-on-year increase of EUR 321 million or 121.5%. Handset revenues include the income from the sale of mobile phones as part of the "O₂ My Handy" model, the hardware portion of bundle packages (hardware bundled offerings) for the former E-Plus brands and cash sales. In addition, handset revenues include further components from wireless business such as activation fees and accessories.

Wireline business

Revenues of EUR 521 million were generated in wireline and DSL business in the first half of 2015. This corresponds to a decline of EUR 59 million or 10.2% against the previous year. Good demand for our "O₂ DSL All-in" tariffs in addition to the continuing positive customer development in the VDSL business partially offset the reduction in the customer base and the overall intensely competitive market conditions. Fixed and DSL revenues mainly comprise DSL revenues, wireline revenues, activation fees for DSL business and the sale of DSL hardware. Furthermore, they include revenues from DSL

service business with large customers and termination rates paid by other telecommunications companies.

Other revenues

Other revenues relate to new business such as advertising and financial services, for example the mobile service "O₂ More Local" or the mobile payment system "mpass". This item increased by EUR 3 million year-on-year to revenues of EUR 7 million in the first half of 2015, in particular as a result of the increase in mobile marketing activities.

2.2.1.2 Net profit for the period

Operating expenses, comprising supplies, personnel expenses and other expenses, increased by EUR 1,246 million or 67.7% to EUR 3,087 million in the first half of the 2015 financial year compared to the same period of the previous year. The growth in operating expenses is primarily due to the merger with the E-Plus Group as of 1 October 2014.

Supplies mainly include the interconnection costs which arise when our customers are connected with other mobile communications networks. Furthermore, this item reflects the costs for the devices sold, in particular the sales as part of the "O₂ My Handy" model, for example. Additionally, it contains the expenses for leased lines unbundled local loops (ULL) access charges and the costs for the leasing of space for network installations. In the first half of 2015, supplies amounted to EUR 1,306 million. This corresponds to a year-on-year increase of EUR 423 million or 47.9%, due in particular to the merger with the E-Plus Group. The expenses for handsets sold increased to a smaller degree than the corresponding revenues from mobile hardware.

Personnel expenses were up by EUR 131 million or 61.6% to EUR 345 million in the first half of 2015 compared to the same period of the previous year, mainly as a result of the higher expenses following the merger with the E-Plus Group. Over the course of the first half of the year, the rise in personnel expenses was reduced on account of the lower number of FTEs in the context of integration-based measures.

2 — Revenue breakdown

(Euros in millions)	1 January to 30 June			
	2015	2014	Change	% Change
Mobile business	3,321	1,699	1,622	95.5
Mobile service revenues	2,735	1,435	1,301	90.7
Handset revenues	586	264	321	> 100.0
Wireline business	521	581	(59)	(10.2)
Other revenues	7	4	3	85.2
Revenues	3,849	2,284	1,566	68.6

Other expenses include primarily commission paid to retailers, marketing costs, expenses for customer service and the outsourcing of administrative activities, expenses for hardware and the maintenance of the IT infrastructure, leasing expenses for facilities and space and energy costs. Other expenses amounted to EUR 1,436 million in the first half of 2015, an increase of EUR 691 million or 92.8% as against the first half of 2014. This rise was due in particular to the higher costs as a result of the merger with the E-Plus Group. Initial savings were achieved within the new group by focusing on commercial expenditure, especially in customer acquisition. By contrast, there were increased expenses for customer retention.

OIBDA after exceptional effects amounted to EUR 845 million in the first half of 2015, up by EUR 360 million or 74.0% compared to the same period of the previous year resulting from the merger with the E-Plus Group. The resulting OIBDA margin was above the previous year's level at 22.0% (first half-year 2014: 21.3%). Including the combined¹ figures for the first half of 2014, growth would amount to EUR 89 million or 11.8%.

Adjusted for exceptional effects, OIBDA of EUR 831 million was generated in the first half of 2015 (first half-year 2014: EUR 486 million). The exceptional effects in the first half of 2015 relate to the non-recurring result on the disposal of yourfone GmbH of EUR 17 million and restructuring expenses resulting from the merger with the E-Plus Group of EUR 3 million. Adjusted for these exceptional effects, the year-on-year increase would have come to 71.0%. The focus on our customer base led to higher expenses for customer retention and customer care. By contrast, there were savings from integration-based measures. Including the combined¹

figures for the first half of 2014, growth of OIBDA would amount to EUR 74 million or 9.8%.

At 21.6%, the resulting OIBDA margin before exceptional effects would be higher than the previous year's level of 20.1% on a combined¹ basis in the first half of 2014. This reflects the higher revenues generated, a lower cost level as a result of integration-based measures and savings on customer acquisition within the new group.

Depreciation and amortisation increased by EUR 553 million or 103.6% year-on-year to EUR 1,087 million in the reporting period in comparison to the previous year (first half-year 2014: EUR 534 million). This increase is particularly due to the inclusion of the E-Plus Group, the amortisation of customer relationships as a result of this, as well as the shorter useful life resulting from the merger of the two networks (for further information please refer to the notes on intangible assets and property, plant and equipment in section 2.2.3 Net assets).

In comparison to the first six months of the previous year, operating income declined by EUR 194 million or 401.7% to EUR –242 million (first half-year 2014: EUR –48 million).

The net financial expense as of 30 June 2015 amounted to EUR 34 million (first half-year 2014: EUR 16 million). This is primarily due to the company's higher level of net debt compared to the same period of the previous year. Net financial expense mainly includes interest for the bonds issued in November 2013 and February 2014, interest as a result of the private placement of promissory notes and registered bonds on 13 March 2015, as well as interest on the finance lease commitment.

Telefónica Deutschland Group did not record any positive taxable income in the first six months of 2015.

3 — Consolidated Income Statement

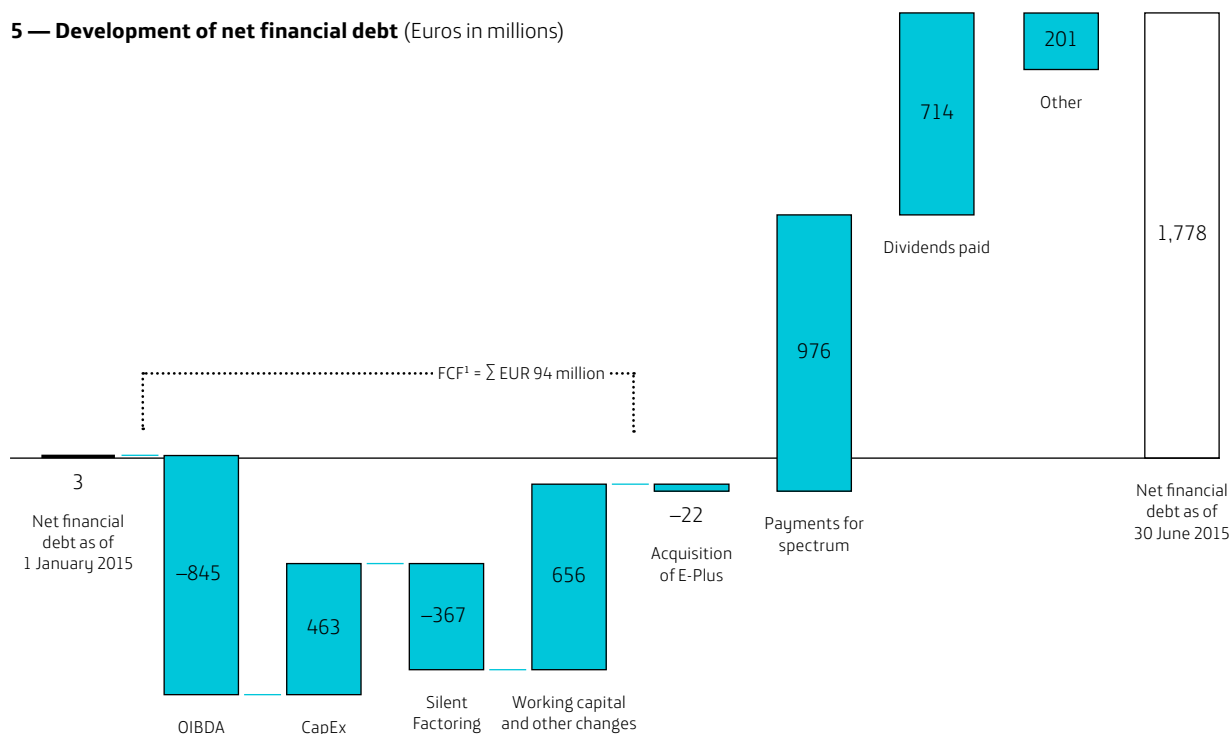
(Euros in millions)	1 January to 30 June			
	2015	2014	Change	% Change
Revenues	3,849	2,284	1,566	68.6
Other income	83	43	40	92.1
Operating expenses	(3,087)	(1,841)	(1,246)	67.7
Supplies	(1,306)	(883)	(423)	47.9
Personnel expenses	(345)	(213)	(131)	61.6
Other expenses	(1,436)	(745)	(691)	92.8
Operating income before depreciation and amortisation (OIBDA)	845	486	360	74.0
OIBDA margin	22.0%	21.3%		0.7% p.
Depreciation and amortisation	(1,087)	(534)	(553)	> 100.0
Operating income	(242)	(48)	(194)	> 100.0
Net financial income/(expense)	(34)	(16)	(18)	> 100.0
Profit/(loss) before tax for the period	(276)	(64)	(212)	> 100.0
Income tax	0	0	(0)	> 100.0
Total profit/(loss) for the period	(276)	(64)	(212)	> 100.0

4 — Consolidated net financial debt

(Euros in millions)	As of 30 June 2015	As of 31 December 2014	Change	% Change
A Liquidity	214	1,702	(1,488)	(87.4)
B Current financial assets	319	456	(137)	(30.1)
C Current financial debt	517	612	(94)	(15.4)
D=C-A-B Current net financial debt	(16)	(1,547)	1,531	(99.0)
E Non-current financial assets	191	250	(59)	(23.6)
F Non-current financial debt	1,985	1,800	185	10.3
G=F-E Non-current net financial debt	1,794	1,550	244	15.7
H=D+G Net financial debt¹	1,778	3	1,775	> 100.0

- 1 Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.
- B + E** Current and non-current financial assets include handset-receivables (current: EUR 317 million in 2015 and EUR 454 million in 2014; non-current: EUR 181 million in 2015 and EUR 236 million in 2014), positive fair value hedge for fixed interest financial liabilities (current: EUR 2 million in 2015 and EUR 2 million in 2014; non-current: EUR 10 million in 2015 and EUR 12 million in 2014) as well as loans to third parties (current: EUR 1 million in 2015 and EUR 1 million in 2014; non-current: EUR 1 million in 2015 and EUR 1 million in 2014)
- C + F** Current and non-current net financial debt include bonds, promissory notes and registered bonds issued (EUR 1,414 million in 2015 and EUR 1,115 million in 2014), other loans (EUR 726 million in 2015 and EUR 726 million in 2014) as well as finance lease payables (current: EUR 279 million in 2015 and EUR 374 million in 2014; non-current: EUR 84 million in 2015 and EUR 197 million in 2014)
- Note: Handset-receivables are shown under trade and other receivables in the Consolidated Statement of Financial Position.
Pending payments for spectrum amounting to EUR 218 million are shown under accruals in the Consolidated Statement of Financial Position and are therefore not included in the net financial debt calculation.

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



- 1 Free cash flow pre dividends and payments for spectrum as well as pre-acquisition of E-Plus net of cash acquired.

The above mentioned effects resulted in a loss for the period of EUR 276 million for the first six months of 2015 compared to the same period of the previous year when the loss for the period amounted to EUR 64 million.

2.2.2 Financial position

2.2.2.1 Finance analysis

Net financial debt

Table 4 on page 28 shows the composition of net financial debt – i.e. the net amount of interest-bearing financial liabilities less cash and cash-equivalents and interest-bearing financial assets and receivables.

Compared to 31 December 2014, net financial debt increased by EUR 1,775 million to EUR 1,778 million as of 30 June 2015, resulting in a leverage ratio² of 1.2x.

The increase in net financial debt during the first six months of 2015 was mainly attributable to the dividend payment for the financial year 2014 of EUR 714 million as well as the payment of the obligations due from the mobile phone frequency auction in the amount of EUR 976 million.

2.2.2.2 Liquidity analysis

Consolidated Statement of Cash Flows

The following is an analysis of the cash flow development of Telefónica Deutschland Group for the first six months of the financial years 2015 and 2014. Total cash flows from operating, investing and financing activities comprise the respective cash flows. — **Tab. 6**

² Leverage ratio is defined as the net financial debt divided by adjusted LTM (Last Twelve Months) OIBDA. Solely for purposes of calculating the leverage for any twelve month period which includes historical periods prior to the closing of the merger with E-Plus, a combined OIBDA will be applied. This combined OIBDA includes the OIBDA of the E-Plus Group under Telefónica Deutschland Group's accounting policies for the entire twelve month period as if the closing of the transaction had occurred at the beginning of the twelve months.

Cash flow from operating activities

Cash flow from operating activities for the first six months in 2015 was EUR 632 million and thus EUR 75 million lower than the amount of the previous year (first half-year 2014: EUR 707 million). The main impact relates to the increase of non-current deferred income in the six-months period ended 30 June 2014 in the amount of EUR 264 million, mainly caused by other advanced payments for future service to be received. Furthermore in 2015, this decrease principally results from a change in working capital which is mainly driven by prepayments; partly offset by movements in other working capital lines plus a significant increase in OIBDA (first half-year 2015: EUR 845 million) in the amount of EUR 360 million in comparison to the prior year (first half-year 2014: EUR 486 million).

Cash flow from investing activities

Cash flow from investing activities amounted to EUR –1,492 million in the first six months of 2015. Compared to the first six months 2014, the cash outflow increased by EUR 1,181 million (first half-year 2014: EUR –311 million).

Payments for investments in property, plant and equipment and intangible assets³ in the first six months of the financial year 2015 totaled EUR 1,575 million (first half-year 2014: EUR 304 million). These are mainly related to investments for the acquisition of mobile phone frequency usage rights, the roll-out of the 4G network (LTE), the expansion of the 3G technology capacities, improvement of performance as well as improved coverage of the mobile networks.

³ Investments respectively CapEx (first half-year 2015: EUR 463 million; first half-year 2014: EUR 266 million) plus payments on investments in mobile phone frequency auction (first half-year 2015: EUR 976 million; first half-year 2014: EUR 0 million) plus the change in liabilities for investments made (first half-year 2015: EUR 168 million; first half-year 2014: EUR –3 million) and plus the change in reserve for outstanding invoices for investments (first half-year 2015: EUR –32 million; first half-year 2014: EUR 41 million) results in payments in investments for property, plant and equipment and intangible assets (first half-year 2015: EUR 1,575 million; first half-year 2014: EUR 304 million).

6 — Condensed Consolidated Statement of Cash Flows

(Euros in millions)	1 January to 30 June	
	2015	2014
Cash and cash equivalents at the beginning of the period	1,702	709
Cash flow from operating activities	632	707
Cash flow from investing activities	(1,492)	(311)
Cash flow from financing activities	(628)	(99)
Net increase/(decrease) in cash and cash equivalents	(1,488)	298
Cash and cash equivalents at the end of the period	214	1,006

Cash flow from financing activities

Cash flow from financing activities amounted to EUR –628 million in the first six months of the financial year 2015. The cash outflows thus increased in comparison to the previous year (first half-year 2014: EUR –99 million) by EUR –529 million. The cash outflows from financing activities is mainly due to the dividend payments of EUR 714 million and the settlement of existing leasing liabilities. This was partly offset by the cash inflow from financing activities due to the promissory note issued in March 2015 in the nominal amount of EUR 300 million.

Cash and cash equivalents

Due to the cash inflows/outflows described above, cash and cash equivalents decreased in comparison to the reporting date as of 31 December 2014 by EUR 1,488 million. Cash and Cash equivalents amounted to EUR 214 million as of 30 June 2015 (31 December 2014 : EUR 1,702 million).

Free cash flow

The free cash flow⁴ before dividends and payments for spectrum and before the acquisition of E-Plus decreased by EUR 303 million and amounts to EUR 94 million in the six-month period ended 30 June 2015 (first half-year 2014: EUR 397 million). This development resulted primarily from the decrease in the change in working capital by EUR 497 million, which was only partially offset by the increase in operating cash flow⁵ (OpCF) of EUR 164 million and payments received for the sale of companies in the amount of EUR 61 million.

The change in working capital for the six-months period ended 30 June 2015 (EUR –306 million) is lower than in the first half of 2014 (EUR 191 million). This is particularly due to the increase of non-current deferred income, mainly caused by other advanced payments for future service to be received during the first six months of the previous year and also results from the increase in advance payments for rent for antenna locations and the usual movements of working capital.

⁴ See Annual Report 2014, p. 34

⁵ OIBDA minus CapEx (excluding investments in spectrum)

7 — Reconciliation of cash flow and OIBDA minus CapEx

(Euros in millions)	1 January to 30 June			
	2015	2014	Change	% Change
OIBDA	845	486	360	74.0
– CapEx ¹	(463)	(266)	(196)	73.6
= Operating cash flow (OpCF)²	383	219	164	74.6
+ Silent Factoring ²	367	153	214	>100.0
+/- Other working capital movements	(672)	39	(711)	>(100.0)
Change in working capital	(306)	191	(497)	>(100.0)
+/- Gains/(losses) from sale of companies	(17)	–	(17)	(100.0)
+/- Proceeds from sale of companies	61	(0)	62	>(100.0)
+/- Proceeds from sale of fixed assets and other effects	–	1	(1)	(100.0)
+ Net interest payments	(27)	(7)	(20)	>100.0
+ Taxes paid	0	–	0	100.0
+/- Proceeds/Payment on financial assets	(0)	(7)	7	(95.6)
= Free cash flow pre dividends and payments for spectrum³ as well as pre-acquisition of E-Plus net of cash acquired	94	397	(303)	(76.4)
+ Acquisition of E-Plus net of cash acquired	22	–	22	100.0
= Free cash flow pre dividends and payments for spectrum³	116	397	(281)	(70.8)
– Payments for spectrum	(976)	–	(976)	(100.0)
– Dividends ⁴	(714)	(525)	(189)	36.0
= Free cash flow post dividends	(1,574)	(128)	(1,446)	>100.0

¹ Excluding investments in spectrum in June 2015 amounting to EUR 1,194 million.

² Full impact (YTD) of silent factoring in the six month period in 2015 of EUR 367 million and of EUR 153 million in the six month period 2014 (transactions have been executed in January, March and June 2015 respectively in March, June and September of the year 2014).

³ Free cash flow pre dividends and payments of spectrum is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum amounting to EUR 976 million.

⁴ Dividend payment of EUR 714 million in May 2015. Dividend payment of EUR 525 million in May 2014.

The increase in operating cash flow is the result of higher OIBDA compared to the first half of 2014 (first half-year 2015: EUR 845 million; first half-year 2014: EUR 486 million) that, less the capital expenditure in the first six months excluding investments in spectrum (first half-year 2015: EUR 463 million; first half-year 2014: EUR 266 million) led to an improved result.

2.2.3 Net assets

The analysis of the asset and capital structure in table 8 compares the assets and liabilities as of 30 June 2015 with the figures as of 31 December 2014.

The group reports total assets of EUR 16,942 million as of 30 June 2015 (31 December 2014: EUR 17,887 million).

Intangible assets

Intangible assets, including goodwill amount to EUR 9,136 million as of 30 June 2015 (31 December 2014: EUR 8,355 million). The increase in comparison to the previous year amounted to EUR 781 million or 9.3% and mainly results from the acquisition of frequency usage rights. At the mobile phone frequency auction, Telefónica Deutschland Group acquired two paired blocks in the 700MHz range, two paired blocks in the 900MHz range and two paired blocks in the 1.8GHz range for a total consideration of around EUR 1,198 million (discounted carrying amount of EUR 1,194 million). This was offset by the amortisation of intangible assets with

a finite useful life. The amortisation charge amounted to EUR 575 million for the six-months period ended 30 June 2015 (first half-year 2014: EUR 225 million).

Property, plant and equipment

Property, plant and equipment amount to EUR 4,771 million as of 30 June 2015 (31 December 2014: EUR 5,029 million). A year-on-year decline of EUR 259 million or 5.1% was therefore reported. Additions to property, plant and equipment in the period under review amounted to EUR 337 million (first half-year 2014: EUR 208 million) and mainly related to investments in connection with an accelerated network expansion including the optimisation of UMTS (3G), the further enhanced LTE roll-out, the expansion of IP technologies and the expansion of mobile data services with even faster download times.

Furthermore, there was a reduction in non-current provisions in relation to decommissioning, dismantling and shutdown obligations in the amount of EUR 24 million, mainly due to current interest rate trends.

The effect of the additions was offset by a depreciation charge of EUR 512 million (first half-year 2014: EUR 309 million).

Investments (CapEx)

As a result of the acquisition of the E-Plus Group as of 1 October 2014, the level of business activities of Telefónica Deutschland Group has changed significantly. As the integration of E-Plus Group is progressing rapidly, a separate disclosure of

8 — Consolidated Statement of Financial Position

(Euros in millions)	As of 30 June 2015	As of 31 December 2014	Change	% Change
Goodwill and other intangible assets	9,136	8,355	781	9.3
Property, plant and equipment	4,771	5,029	(259)	(5.1)
Trade and other receivables	1,640	1,750	(110)	(6.3)
Deferred tax assets	581	581	–	–
Other financial assets	65	68	(3)	(4.5)
Other non-financial assets	370	213	156	73.3
Inventories	166	104	62	60.1
Cash and cash equivalents	214	1,702	(1,488)	(87.4)
Assets held for sale	–	85	(85)	(100.0)
Total assets = Total equity and liabilities	16,942	17,887	(945)	(5.3)
Interest-bearing debt	2,505	2,415	90	3.7
Provisions	915	1,028	(113)	(11.0)
Trade and other payables	2,362	2,302	60	2.6
Other non-financial liabilities	28	18	10	58.4
Deferred income	730	704	26	3.7
Liabilities held for sale	–	40	(40)	(100.0)
Equity	10,401	11,380	(979)	(8.6)

investments (CapEx) of the former E-Plus Group is not appropriate in our view.

To allow a better comparison, CapEx is also disclosed on a combined¹ basis as follows: CapEx amounted to EUR 1,658 million in the first half of 2015 compared to EUR 439 million on a combined¹ basis in the first half of 2014. The increase mainly results from the acquisition of frequency usage rights (see Intangible assets). The focus of investment activity remains the accelerated expansion of the LTE network.

Trade and other receivables

Compared to the previous year, trade and other receivables are below the previous year's figure and amount to EUR 1,640 million as of 30 June 2015 (31 December 2014: EUR 1,750 million). The decrease by EUR 110 million or 6.3% is primarily due to the decline in handset receivables from EUR 690 million to EUR 523 million, mainly as a result of silent factoring for the "O₂ My Handy" model in the six-month period ended 30 June 2015.

Other financial assets

Other financial assets declined slightly compared to the previous year by EUR 3 million or 4.5% and amount to EUR 65 million as of 30 June 2015 (31 December 2014: EUR 68 million). Other financial assets essentially comprise the positive fair value of two interest rate swaps, equity investments in start-up enterprises, a silent factoring deposit and claims for reimbursement under insurance policies.

Other non-financial assets

Other non-financial assets amount to EUR 370 million as of 30 June 2015 (31 December 2014: EUR 213 million). The increase by EUR 156 million or 73.3% is mainly due to the increase in advance payments for rent of antenna locations.

Inventories

Inventories amount to EUR 166 million as of 30 June 2015 (31 December 2014: EUR 104 million). The increase of EUR 62 million or 60.1% is essentially caused by the launch of new products.

Cash and cash equivalents

Cash and cash equivalents amount to EUR 214 million as of 30 June 2015 (31 December 2014: EUR 1,702 million). This decrease of EUR 1,488 million or 87.4% is due to several effects. (Section 2.2.2.2 Liquidity analysis).

Interest-bearing debt

Interest-bearing debt increased by EUR 90 million or 3.7% from EUR 2,415 million as of 31 December 2014 to EUR 2,505 million as of 30 June 2015. In particular, this increase is a result of the private placement of promissory notes and registered bonds at a nominal amount of EUR 300 million on 13

March 2015. This was countered by the decline in obligations from finance leases in the amount of EUR 208 million.

Provisions

Compared to 31 December 2014 (EUR 1,028 million), provisions declined by EUR 113 million or 11% to EUR 915 million as of 30 June 2015. This decrease is essentially due to the utilisation of restructuring provisions of around EUR 54 million and a reclassification in the amount of EUR 25 million to trade and other payables. The reduction in provisions was also caused by the decline in provisions for the dismantling and removal of assets of EUR 27 million and the decline in pension provisions of EUR 7 million, which are due almost exclusively to current interest rate trends.

Trade and other payables

Trade and other payables amount to EUR 2,362 million as of 30 June 2015. This marks an increase of EUR 60 million or 2.6% compared to 31 December 2014 (EUR 2,302 million) and is due to the increase in trade payables of EUR 37 million from EUR 2,108 million as of 31 December 2014 to EUR 2,145 million as of 30 June 2015 and the increase in other payables from EUR 194 million as of 31 December 2014 to EUR 217 million as of 30 June 2015.

The increase in trade payables is mainly due to the increase in non-current trade payables against third parties in the amount of EUR 218 million, which results from the outstanding payment obligations from the mobile phone frequency auction. Offsetting this development, current trade payables against third parties declined by EUR 205 million.

Other non-financial liabilities

Other non-financial liabilities amount to EUR 28 million as of 30 June 2015 (31 December 2014: EUR 18 million). These include wage tax and social security contributions in particular.

Deferred income

Deferred income increased by EUR 26 million or 3.7% compared to 31 December 2014 and amount to EUR 730 million as of 30 June 2015. The item essentially includes advance payments received for future services to be received of EUR 265 million and advance payments received for prepaid credit of EUR 298 million.

Equity

Equity declined by EUR 979 million or 8.6% as of 30 June 2015 to EUR 10,401 million. The change in equity is mainly due to the dividend payment of EUR 714 million on 12 May 2015 and the loss for the period of EUR 276 million. This was offset by the remeasurement of defined benefit plans in the amount of EUR 11 million.

3.

Report on Events after the Reporting Period_

Transfer of mobile network sites

In the course of its network integration, Telefónica Deutschland Group is transferring 7,700 mobile network sites to Deutsche Telekom. A corresponding agreement was signed on 17 July 2015. As planned, the company realises part of the announced synergies from the network integration with this transaction. Furthermore, Telefónica Deutschland can utilise resources which would have been required to dismantle these redundant sites to accelerate the roll-out of its LTE network. Telefónica Deutschland Group can continue to use these sites without restriction until they are no longer needed in the course of the integration of the O₂ and E-Plus networks. The implementation of the transaction is expected to result in restructuring expenses for network optimisation in the mid-double digit millions. Financial impacts from the transfer have already been included within the communicated synergy expectations related to the network integration.

Start of use of network capacity by Drillisch

As part of the merger with the E-Plus Group and the merger clearance process, Telefónica Deutschland Group committed to sell some of its network capacity. In 2014 Telefónica Deutschland Group had signed an MBA MVNO ("Mobile Bitstream Access Mobile Virtual Network Operator") agreement on this with Drillisch (Annual Report 2014, Section 2.2 Overview of the Financial Year – Significant events). Since 1 July 2015, Drillisch can now access the network capacity of Telefónica Deutschland Group as planned according to the agreed mobile bitstream access model.

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

4.

Risk and Opportunity Management_

In the Group Management Report for the 2014 financial year we presented certain risks that could have a significant, disadvantageous impact on our business, our net assets, financial position and result of operations and our reputation. Furthermore, in this report we described our main opportunities and the design of our risk management system.

In the reporting period we identified the following significant risk in addition to those already presented in the Group Management Report for the 2014 financial year.

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

Furthermore, the following matters were identified in the reporting period that result in a change to the risks described in the Group Management Report:

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

The Federal Network Agency's auction of frequencies in the ranges of 700MHz, 900MHz, 1.5GHz and 1.8GHz ended on 19 June 2015. At the mobile phone frequency auction, Telefónica Deutschland Group acquired two paired blocks in the 700MHz range, two paired blocks in the 900MHz range and two paired blocks in the 1.8GHz range with a term until the end of 2033. Together with the frequencies for UMTS and LTE services acquired in previous frequency auctions (with terms until 2020 and 2025 respectively), Telefónica Deutsch-

land Group now has sufficient frequencies for the long term to achieve the services offered and its strategic goals. Furthermore, on 10 June 2015, the Administrative Court of Cologne ruled that the Federal Network Agency's ruling on Telefónica Deutschland Group handing back GSM frequencies is to be reversed; hence, these frequencies can still be used according to their runtimes. The decision is not yet final and the Federal Network Agency appealed against this in July 2015. As a result of this, the risk described in the Group Management Report under the heading "Licences and frequencies" has been reduced.

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

Furthermore, the risk also described therein concerning another network provider entering the market in the context of the allocation of frequencies no longer applies. However, in connection with the significant reduction in the risk situation in relation to frequency resources, it should be added that according to our knowledge the company Airdata AG, Stuttgart, und Liquid Broadband AG, Frankfurt am Main, had appealed against the decision of the presidential chamber of the Federal Network Agency that set out the conditions for the auction. In the event of a positive ruling, this could lead to the mobile phone frequency auction having to be repeated under changed conditions. This would lead to the risks described above applying again.

In the reporting period we did not identify any further significant opportunities in addition to those already presented in the Group Management Report for the 2014 financial year.

Other risks and opportunities not currently known to us or that we presently consider to be immaterial could also influence our business activities. We do not anticipate the occurrence of any risks that, individually or in combination with other risks, could endanger the future of our company as a going concern.

5.

Outlook for the Telefónica Deutschland Group_

5.1 Economic Outlook for Germany until 31 December 2015

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

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

A rise in economic performance of 1.5% is forecast for the euro area in 2015.

(Source: GfK Consumer Index, Deutsche Bundesbank, FocusEconomics Consensus Forecast Euro Area)

9 — GDP growth 2013–2015 for Germany and the euro area

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

5.2 Market Expectations

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

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

(Source: Company data, Analysys Mason)

5.3 Expectations for the Telefónica Deutschland Group

At present, there are no facts that the forecasts as published in the Group Management Report 2014 (Annual Report 2014, page 90 et seq.) have changed significantly. Financial outlook

for the year 2015 remains unchanged, including operating cash flow savings of approximately 30% of the expected run-rate of synergies in year five of integration.

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

10 — Summary of the financial outlook for 2015

	Base line for 2014 ¹ (Euros in millions)	First half-year 2015 ² (y-o-y pct. growth) (in %)	Outlook for 2015 ³
Mobile Service Revenues	5,528	0.8	Broadly stable
OIBDA	1,461	9.8	>10
CapEx	1,161	5.6	High single digit pct. decline

¹ Combined figures for 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by material exceptional effects, such as capital gains or restructuring costs based on estimates made by Telefónica management and resulting in combined figures we believe are more meaningful as a comparable basis. Financials also exclude material one-offs, such as capital gains or restructuring costs (EUR 414 million in 2014).

² Year-on-year comparisons are based on combined figures for 2014. OIBDA in the first quarter of 2015 excludes EUR 17 million from a capital gain related to the sale of yourfone GmbH. In the second quarter of 2015, it excludes EUR 3 million restructuring costs, mainly related to the shop consolidation process.

³ All expected regulatory effects (MTR cuts and others) are included in the outlook. Restructuring costs from the integration of E-Plus Group are excluded from OIBDA Outlook. CapEx excludes investments in spectrum and includes specific restructuring investments.

6.

Material Related Party Transactions_

For information on material transactions with related parties please see the section "Related Parties" in the condensed

Notes to the Interim Consolidated Financial Statements as of 30 June 2015.

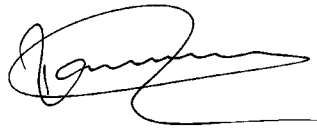
Munich, 13 August 2015

Telefónica Deutschland Holding AG

The Management Board



Thorsten Dirks



Rachel Empey



Markus Haas

Interim Condensed
Consolidated Financial
Statements_
for the period
1 January to
30 June 2015

Consolidated Statement of Financial Position_

Assets (Euros in millions)	Notes	As of 30 June 2015	As of 31 December 2014
A) Non-current assets		14,883	14,393
Goodwill		1,607	1,629
Other intangible assets	[6a]	7,529	6,726
Property, plant and equipment		4,771	5,029
Trade and other receivables	[6b]	181	236
Other financial assets		52	49
Other non-financial assets	[6c]	163	142
Deferred tax assets		581	581
B) Current assets		2,059	3,494
Inventories		166	104
Trade and other receivables	[6b]	1,460	1,513
Other financial assets		13	19
Other non-financial assets	[6c]	207	71
Cash and cash equivalents		214	1,702
Assets held for sale		–	85
Total assets (A+B)		16,942	17,887

Equity and Liabilities (Euros in millions)	Notes	As of 30 June 2015	As of 31 December 2014
A) Equity		10,401	11,380
Subscribed capital		2,975	2,975
Additional paid-in capital		4,800	4,800
Retained earnings		2,627	3,606
Equity attributable to owners of the parent		10,401	11,380
B) Non-current liabilities		3,146	2,912
Interest-bearing debt	[6d]	1,985	1,800
Trade and other payables	[6e]	237	19
Provisions	[6f]	623	787
Deferred income		302	305
C) Current liabilities		3,395	3,595
Interest-bearing debt	[6d]	520	615
Trade and other payables	[6e]	2,126	2,283
Provisions	[6f]	292	241
Other non-financial liabilities		28	18
Deferred income		428	400
Liabilities held for sale		–	40
Total equity and liabilities (A+B+C)		16,942	17,887

Consolidated Income Statement_

(Euros in millions)	Notes	1 April to 30 June		1 January to 30 June	
		2015	2014	2015	2014
Revenues	[7]	1,949	1,162	3,849	2,284
Other income		36	22	83	43
Supplies		(646)	(455)	(1,306)	(883)
Personnel expenses		(166)	(105)	(345)	(213)
Other expenses		(723)	(372)	(1,436)	(745)
Operating income before depreciation and amortisation (OIBDA)		450	252	845	486
Depreciation and amortisation		(532)	(267)	(1,087)	(534)
Operating income		(82)	(15)	(242)	(48)
Finance income		3	2	5	4
Exchange gains		(0)	0	1	0
Finance costs		(20)	(10)	(38)	(20)
Exchange losses		0	(0)	(3)	(0)
Net financial income/(expense)		(18)	(8)	(34)	(16)
Profit/(loss) before tax		(100)	(24)	(276)	(64)
Income tax		0	(0)	0	0
Total profit/(loss) for the period		(100)	(24)	(276)	(64)
Profit/(loss) for the period attributable to owners of the parent		(100)	(24)	(276)	(64)
Profit/(loss) for the period		(100)	(24)	(276)	(64)
Earnings per share					
Basic earnings per share in EUR		(0.03)	(0.02)	(0.09)	(0.06)
Diluted earnings per share in EUR		(0.03)	(0.02)	(0.09)	(0.06)

Consolidated Statement of Comprehensive Income_

(Euros in millions)	1 April to 30 June		1 January to 30 June	
	2015	2014	2015	2014
Profit/(loss) for the period	(100)	(24)	(276)	(64)
Other comprehensive income/(loss)				
Items that will not be reclassified to profit/(loss)	48	(8)	11	(11)
Remeasurement of defined benefit plans	48	(8)	11	(11)
Total other comprehensive income/(loss)	48	(8)	11	(11)
Total comprehensive income/(loss)	(51)	(32)	(265)	(75)
Total comprehensive income/(loss) for the period attributable to owners of the parent	(51)	(32)	(265)	(75)
Total comprehensive income/(loss)	(51)	(32)	(265)	(75)

Consolidated Statement of Changes in Equity_

(Euros in millions)	Subscribed capital	Additional paid-in capital	Retained earnings	Total equity attributable to owners of the parent	Equity
Financial position as of 1 January 2014	1,117	0	4,882	5,999	5,999
Profit/(loss) for the period	–	–	(64)	(64)	(64)
Other comprehensive income/(loss)	–	–	(11)	(11)	(11)
Total comprehensive income/(loss)	–	–	(75)	(75)	(75)
Dividends	–	–	(525)	(525)	(525)
Other movements	–	–	0	0	0
Financial position as of 30 June 2014	1,117	0	4,282	5,399	5,399
Financial position as of 1 January 2015	2,975	4,800	3,606	11,380	11,380
Profit/(loss) for the period	–	–	(276)	(276)	(276)
Other comprehensive income/(loss)	–	–	11	11	11
Total comprehensive income/(loss)	–	–	(265)	(265)	(265)
Dividends	–	–	(714)	(714)	(714)
Other movements	–	–	(0)	(0)	(0)
Financial position as of 30 June 2015	2,975	4,800	2,627	10,401	10,401

Consolidated Statement of Cash Flows_

(Euros in millions)	1 January to 30 June	
	2015	2014
Cash flow from operating activities		
Profit/(loss) for the period	(276)	(64)
Adjustments to profit/(loss)		
Net financial income/(expense)	34	16
Gains on disposal of assets	(17)	(0)
Income tax	(0)	(0)
Depreciation and amortisation	1,087	534
Change in working capital and others		
Other current and non-current assets	(116)	(92)
Other non-current liabilities and provisions	(134)	211
Other current liabilities and provisions	81	109
Taxes paid	0	–
Interest received	8	4
Interest paid	(36)	(11)
Cash flow from operating activities	632	707
Cash flow from investing activities		
Proceeds on disposals of property, plant and equipment and intangible assets	–	1
Payments on investments relating to mobile phone frequency auctions	(976)	–
Payments on investments in property, plant and equipment and other intangible assets	(599)	(304)
Proceeds on disposals of companies ¹	61	–
Acquisition of E-Plus net of cash acquired	22	–
Proceeds/payments made on financial assets	(0)	(7)
Cash flow from investing activities	(1,492)	(311)
Cash flow from financing activities		
Payments made for capital increase costs	(6)	(3)
Proceeds from interest-bearing debt	300	570
Repayment of interest-bearing debt	(209)	(141)
Dividends paid	(714)	(525)
Cash flow from financing activities	(628)	(99)
Net increase/(decrease) in cash and cash equivalents	(1,488)	298
Cash and cash equivalents at the beginning of the period	1,702	709
Cash and cash equivalents at the end of the period	214	1,006

¹ A cash and cash equivalent balance of EUR 16 million was included in assets held for sale as of 31 December 2014 and was transferred in the transaction. Therefore, the net cash received amounted to EUR 45 million.

Condensed Notes to the Interim Condensed Consolidated Financial Statements_ for the period 1 January to 30 June 2015

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 1 January to 30 June 2015 and comprise Telefónica Deutschland Holding AG (also referred to as “Telefónica Deutschland”) and its subsidiaries as well as joint operations (together referred to as “Telefónica Deutschland Group” or “Group”).

Telefónica Deutschland Holding AG is a stock 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](http://www.telefonica.de)). Telefónica Deutschland Holding AG was established for an indefinite period.

The financial year is the calendar year (1 January to 31 December).

The company is listed on the regulated market of the Frankfurt Stock Exchange. The securities identification number (Wertpapierkennnummer – WKN) is A1J5RX, the ISIN (International Securities Identification Number) is DE000A1J5RX9.

As of 30 June 2015, Telefónica Deutschland Holding AG has share capital of EUR 2,974,554,993, divided into 2,974,554,993 no-par-value registered shares, each accounting for a pro rata amount of share capital of EUR 1.00. In general, each non-par share grants one vote at the Shareholders' Meeting.

As of 30 June 2015, 16.9% of the shares were in free float. 62.6% were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned

subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.). The remaining 20.5% were held by Koninklijke KPN N.V., The Hague, Netherlands (KPN).

As of 30 June 2015, Telefónica Deutschland Holding AG had Authorised Capital 2012/I of EUR 292,808,507.

As of 30 June 2015, Telefónica Deutschland Holding AG had Conditional Capital 2014/I of EUR 558,472,700.

Telefónica Deutschland Holding AG is the parent company of Telefónica Deutschland Group. It is included in the Interim Consolidated Financial Statements (Telefónica, S.A. Group) of the ultimate holding company, Telefónica, S.A., Madrid, Spain. The parent company of Telefónica Deutschland Holding AG is Telefónica Germany Holdings Limited, a wholly owned subsidiary of O2 (Europe) Limited, Slough, United Kingdom (O2 (Europe) Limited), and an indirect subsidiary of Telefónica, S.A.

Telefónica Deutschland Group, which since 1 October 2014 has also contained E-Plus Mobilfunk GmbH, Duesseldorf (E-Plus) and its direct and indirect subsidiaries (E-Plus Group), has been one of the three leading integrated network operators in Germany since the acquisition of E-Plus. Telefónica Deutschland Group offers private and business customers voice, data and value added services in wireless communications and wireline networks. In addition, Telefónica Deutschland Group is among the leading wholesale providers in Germany. Wholesale partners are offered access to the Group's infrastructure and services. Telefónica Deutschland Group is part of the Telefónica, S.A. Group, one of the biggest telecommunications corporations in the world.

Since the acquisition of E-Plus Group, two nationwide wireless telecommunications networks have been in operation. Since the start of the network consolidation at the end of March 2015, Telefónica Deutschland Group has gradually activated regions for national roaming between the O₂ and E-Plus UMTS networks and, since the end of May 2015, national roaming has been automatically enabled for all our customers in Germany. Telefónica Deutschland Group therefore offers the densest UMTS coverage in urban areas and is expanding it further in rural regions. The shared UMTS network infrastructure now reaches roughly 90% of the population in Germany. They benefit from the combined strength of the O₂ and E-Plus network and can make use of an even better experience for mobile data applications.

In order to improve the network experience beyond using mobile data on UMTS, Telefónica Deutschland Group is also constantly driving forward the expansion of its LTE network. By the end of this year the company is anticipating a nationwide LTE coverage rate of around 75%.

At the mobile phone frequency auction that ended mid-June, Telefónica Deutschland Group secured a total spectrum of 60MHz. With the frequencies acquired at auction, the company can expand its high-speed network and the network capacity and therefore continue offering its customers the best network experience as part of its strategy.

A nationwide wireline network is also offered. The sales and marketing approach is based on a strong multi-brand strategy that addresses a broad range of customer segments with the product and services. The majority of the wireless communications products in postpaid customer area are offered via the brands O₂ and BASE. Wireline communications products and combined offers are offered via the premium brand O₂.

For several years, mobile phones and other hardware have also been sold under the O₂ brand independently of wireless communications charges at fixed prices, such as via the "O₂ 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 instalments. The customers of former E-Plus brands are also offered bundled hardware alongside bundled wireless communications and hardware offerings. The main suppliers of mobile phones are the manufacturers Samsung, Apple, Microsoft, HTC, Sony and Huawei.

With secondary and partner brands and via wholesale channels, Telefónica Deutschland Group reaches further groups of customers to whom the brands O₂ and BASE do not appeal. The secondary brands include the brands blau Mobilfunk, Fonix, simyo, AY YILDIZ, Ortel Mobile and netzclub, which are fully controlled, as

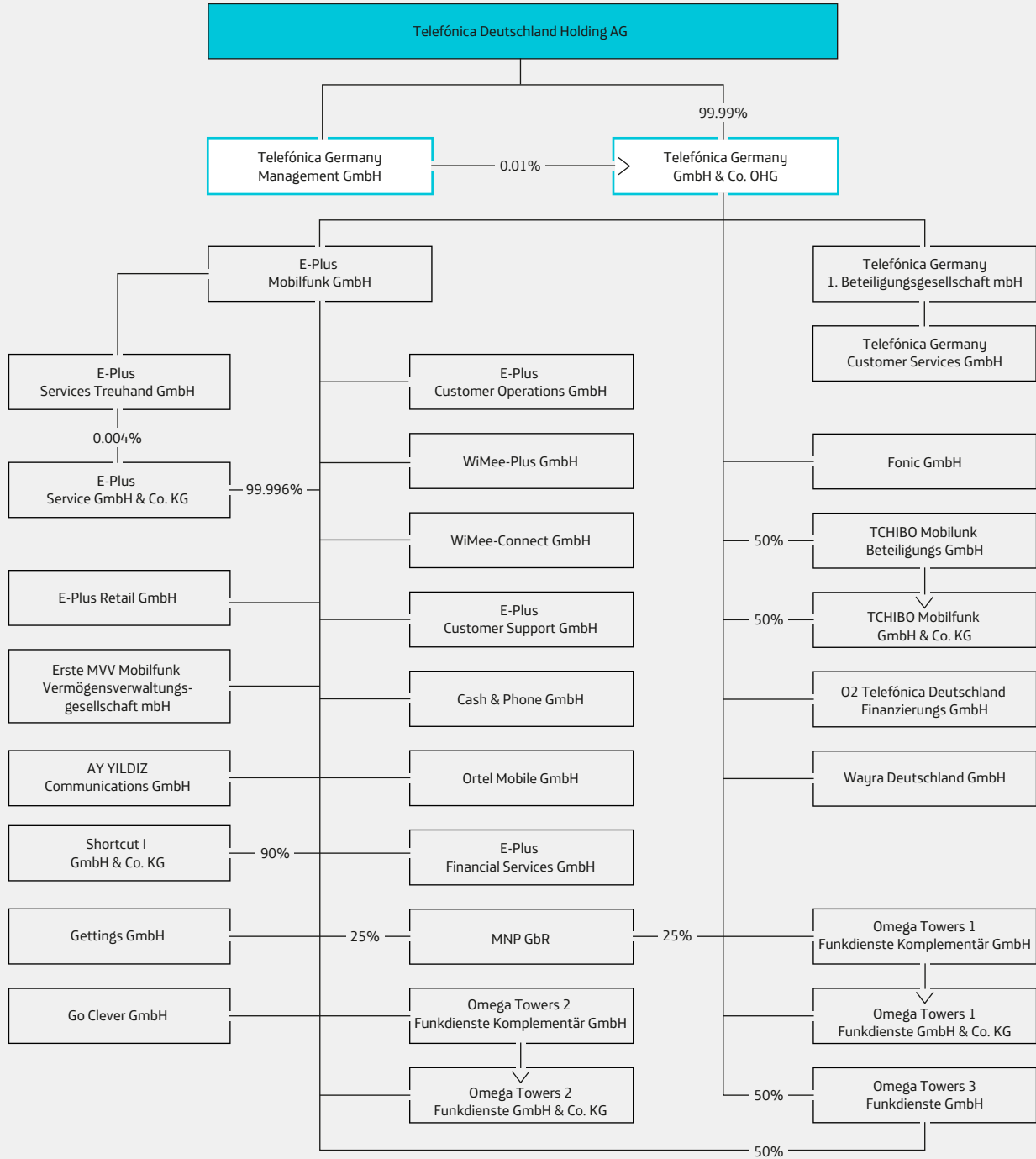
well as brands from joint operations and strategic partnerships such as TCHIBO mobil. The multibrand approach enables the Group to address a broad spectrum of customers and to maximise the sales range through customised product offers, sales and marketing. As part of the wholesale business, wireless communications services are offered for customers such as MedionMobile (AldiTalk), ADAC, MTV, mobilcom/debitel, WhatsApp and cable providers.

In the wireline area, a range of Unbundled Local Loop (ULL) services, including wireline telephony and high-speed Internet, are provided to wholesale partners. Furthermore, added value services such as billing services or the management of telephone numbers and SIP accounts are offered. This comprehensive portfolio enables the wholesale partners to independently service end-customers and at the same time provides the Group the opportunity to increase its range and to achieve economies of scale.

For business customers, small office/home office (SoHo) as well as small and medium-sized enterprises (SMEs) are addressed via the premium brand O₂, for example with the product "O₂ Unite". Large international businesses are addressed through the Telefónica brand. Additionally, business customers are supported to make better use of digital media to place commercials precisely and to analyse customer behaviour anonymously.

The products are marketed via a diversified sales platform. This includes direct selling channels like the nationwide network of independently operated 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.

As of 30 June 2015, the companies included in the Interim Condensed Consolidated Financial Statements of the Telefónica Deutschland Group were organised as shown in the following organisation chart:



In the second quarter simyo GmbH, E-Plus 1. Beteiligungsgesellschaft mbH and BLAU Mobilfunk GmbH were merged with Telefónica Germany GmbH & Co. OHG effective 30 June 2015. Blau Service GmbH was merged with BLAU Mobilfunk GmbH prior to this.

2.

Significant Events and Transactions in the Reporting Period

Integration and transformation

The change in the legal form of E-Plus Mobilfunk into a limited liability company (GmbH) was entered in the Commercial Register on 26 January 2015. On 4 February 2015, a profit transfer agreement was concluded with Telefónica Germany GmbH & Co. OHG effective 1 January 2015, with the result that E-Plus Mobilfunk GmbH, including its income tax group subsidiary companies, has been included in the income tax group of the Telefónica Deutschland Group effective 1 January 2015.

yourfone

The sale of yourfone GmbH to Drillisch was closed on 2 January 2015. The Telefónica Deutschland Group reported net inflows of EUR 61 million from the sale in the first half of 2015 and generated a gain on disposal of EUR 17 million, which was recognised in the Consolidated Income Statement under other income.

Framework redundancy plan

In February 2015, the Management Board and Works Councils of the Telefónica Deutschland Group agreed on a framework redundancy plan that will apply until the end of 2018. Based on the regulations set out in this plan, the implementation of the 2015 redundancy programme, for around 800 FTEs, began in the first quarter of 2015 as planned and was almost completely finished by the end of the second quarter of 2015. Thus, the Telefónica Deutschland Group is ensuring clarity for the employees and continues to drive the integration in the context of the acquisition of the E-Plus Group completed at the beginning of October.

Placement of promissory notes/registered bonds

On 13 March 2015, the Telefónica Deutschland Group completed an initial placement of promissory notes and registered bonds. The transaction was announced on 2 February 2015 with a target volume of EUR 250 million but was implemented at a volume of EUR 300 million due to the high oversubscription.

The promissory notes were issued in unsecured tranches with terms of five, eight and ten years, with both fixed and floating interest rates. The registered bonds were issued in unsecured tranches with terms of 12, 15 and 17 years with fixed interest rates. All tranches were issued by Telefónica Germany GmbH & Co. OHG, Munich.

The EUR 52 million fixed rate tranche with a term of five years bears interest at 0.961%; the EUR 60.5 million floating rate tranche bears interest at 6-months Euribor + 65 bps.

The EUR 19.5 million fixed rate tranche with a term of eight years bears interest at 1.416%; the EUR 1.5 million floating rate tranche bears interest at 6-months Euribor + 85 bps.

The EUR 29.5 million fixed rate tranche with a term of ten years bears interest at 1.769%; the EUR 9 million floating rate tranche bears interest at 6-months Euribor + 105 bps.

The tranches maturing in 12, 15 and 17 years have volumes of EUR 3 million, EUR 33 million and EUR 92 million respectively and bear interest at 2.000%, 2.250% and 2.375%. All tranches were issued at par.

The promissory notes and registered bonds can be transferred at a minimum amount of EUR 500 thousand. The issue proceeds of the overall transaction will be used for general business purposes.

Changes in the Supervisory Board of Telefónica Deutschland

María Pilar López Álvarez left the Supervisory Board of Telefónica Deutschland with effect as of the end of the Annual General Meeting on 12 May 2015.

Laura Abasolo García de Baquedano was elected as her successor. Her term in office ends with the Shareholders' Meeting that resolves on the discharge regarding the financial year 2016.

Shareholders' Meeting/dividend

The Annual General Meeting of Telefónica Deutschland for the 2014 financial year took place on 12 May 2015. In addition to presenting the Annual Financial Statements of Telefónica Deutschland, including the Group Management Report and the Consolidated Financial Statements, and electing a new member of the Supervisory Board, inter alia a dividend of EUR 0.24 per entitled share, EUR 713,893,198.32 in total, was resolved. The dividend was paid to the shareholders on 13 May 2015.

Mobile phone frequency auction: Telefónica Deutschland Group secures valuable spectrum

By decision of the German Federal Network Agency on 22 April 2015, the Telefónica Deutschland Group was admitted to the auction of frequencies in the ranges 700MHz, 900MHz, 1.8GHz and 1.5GHz. The auction began on 27 May 2015 and ended on 19 June 2015.

At the mobile phone frequency auction, Telefónica Deutschland Group acquired two paired blocks in the 700MHz range, two paired blocks in the 900MHz range and two paired blocks in the 1.8GHz range for a total of approximately EUR 1,198 million. The first instalment of the frequency costs of around EUR 976 million was paid on 26 June 2015. The two outstanding instalments of approximately EUR 111 million each for the spectrum in the 700MHz range are due on 1 July 2016 and 2017.

National roaming

Until the end of May 2015, the UMTS networks of the former Telefónica Deutschland Group (O₂) and the E-Plus Group (E-Plus) were opened up to all customers of the group, bundling the strength of both networks for the first time. As a result, the customers of all own brands and partner brands can be offered the densest UMTS network infrastructure in urban areas and the considerably expanded coverage in rural areas. This step improves the user experience of wireless data services even in areas where our customers do not yet have LTE.

Conclusion of new supplier agreements to expand wireless communications network

In the second quarter of 2015, Telefónica Deutschland Group concluded agreements with various suppliers for equipment and services for the Telefónica Deutschland Group wireless communications network. Thus, a further requirement was created for the implementation of the integration of the wireless communications networks of the E-Plus Group and the previous Telefónica Deutschland Group (O₂), and for the further accelerated roll-out of LTE. Under these agreements, from 2015 to 2018, the suppliers will provide radio access network equipment and services in the field of network roll-out and network maintenance for Telefónica Deutschland Group.

3.**Basis of Preparation**

These Interim Consolidated Financial Statements are prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. Accordingly, the Interim Consolidated Financial Statements do not contain all the information and disclosures required for a full set of consolidated financial statements, and should therefore be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2014. Therefore, for further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2014 (Note No. 3, Basis of Preparation).

These Interim Consolidated Financial Statements as of 30 June 2015 are unaudited.

Functional currency and presentation currency

These Interim Consolidated Financial Statements are presented in Euro, which is the functional currency of Telefónica Deutschland Group and all Telefónica Deutschland Group companies.

Unless stated otherwise, the figures in these Interim Consolidated Financial Statements are presented in millions of Euros (Euros in millions). The figures in these Interim Consolidated Financial Statements are

rounded according to established commercial principles. Additions of the figures can thus lead to amounts that deviate from those shown in the tables.

Other

The preparation of the Interim Consolidated Financial Statements requires that the management makes judgements, estimates and assumptions concerning the accounting policies applied and that influence the amount of the assets, liabilities, income and expenses reported. A significant change in the facts and circumstances on which these judgements, estimates and assumptions are based could materially affect Telefónica Deutschland Group's net assets, financial position and result of operations.

In preparing these Interim Consolidated Financial Statements of Telefónica Deutschland Group, the significant judgements made by the management regarding the application of accounting policies and main causes of estimation uncertainties were the same as applied in the Consolidated Financial Statements for the year ended 31 December 2014. Additionally, the changes shown under Note No. 4, Accounting Policies were applied, but do not have a material impact on the Group's net assets, financial position and result of operations.

For further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2014 (Note No. 4, Accounting Policies).

Comparative information

The Consolidated Statement of Financial Position presented in these Interim Consolidated Financial Statements relates to information as of 30 June 2015, which is compared against information as of 31 December 2014.

The Consolidated Income Statement and the Consolidated Statement of Comprehensive Income relate to the six- and three-month periods ended 30 June 2015 and 30 June 2014. The Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity compare the first six-month periods of 2015 and 2014.

As a result of the acquisition of E-Plus Group as of 1 October 2014, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity of Telefónica Deutschland Group have changed significantly, thus rendering a comparison difficult. As the integration of E-Plus Group is progressing rapidly, a separate reporting of the former E-Plus Group is not appropriate from our point of view.

Seasonal business activity

Previous earnings performance has provided no indication that the business activity is subject to material seasonal fluctuations.

4.

Accounting Policies

Starting 1 January 2015, Telefónica Deutschland Group applied the amendments to IAS 19, Defined Benefit Plans: Employee Contributions and the Annual Improvements to IFRSs 2010–2012. By way of regulation dated 17 December 2014, the European Union (EU) approved the required adoption of the amendments for financial years beginning on or after 1 February 2015. Early adoption was permitted. The IASB provides for adoption for financial years beginning on or after 1 July 2014.

Also effective 1 January 2015, the Group applied the Annual Improvements to IFRSs 2011–2013. By way of regulation dated 18 December 2014, the EU approved the obligatory adoption of the amendments for financial years beginning on or after 1 January 2015. The IASB provides for adoption for financial years beginning on or after 1 July 2014.

These amendments to the standards have no or no significant effect on the net assets, financial position or result of operations of the Group.

At the time of publication of the Interim Consolidated Financial Statements, the following standards and interpretations were published, but their application was not yet mandatory.

Standards and amendments	Application for financial years beginning on or after	
IFRS 14	Regulatory Deferral Accounts	1 January 2016 ¹
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016 ¹
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016 ¹
Amendments to IAS 16 and IAS 41	Bearer Plants	1 January 2016 ¹
Amendments to IAS 27	Equity Method in Separate Financial Statements	1 January 2016 ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016 ¹
Annual Improvements 2012–2014 Cycle	Amendments to IAS 19, IAS 34, IFRS 5 and IFRS 7	1 January 2016 ¹
Amendments to IFRS 10, IFRS 12 and IAS 28	Applying the Consolidation Exception	1 January 2016 ¹
Amendments to IAS 1	Presentation of Financial Statements: Disclosure initiative	1 January 2016 ¹
IFRS 15	Revenue from Contracts with Customers	1 January 2017 ^{1,2}
IFRS 9 and amendments to IFRS 7	Financial Instruments	1 January 2018 ¹

1 Endorsement by the EU is still outstanding; statement of compulsory application according to IASB.

2 On 22 July 2015, the IASB confirmed a one-year deferral of the effective date of the revenue Standard to 1 January 2018. The formal amendment to the Standard, specifying the new effective date, is expected to be issued in September.

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 31 December 2014 (Note No. 4, Accounting Policies). An assessment of the expected impact on the net assets, financial position and result of operations of the Group is provided there, which still applies to the Interim Consolidated Financial Statements as of 30 June 2015.

5.

Related Parties

As of 30 June 2015, the nature and amount of transactions by Telefónica Deutschland Group with related parties has not changed significantly in comparison to those disclosed in the Consolidated Financial Statements for the year ended 31 December 2014. For further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2014 (Note No. 13, Related Parties).

6. Selected Explanatory Notes to the Consolidated Statement of Financial Position

a) Other intangible assets

The other intangible assets comprise the following:

(Euros in millions)	Service concession arrangements and licenses	Customer bases	Software	Brand names	Others	Construction in progress/Prepayments on intangible assets	Other intangible assets
Net book value							
As of 31 December 2014	3,376	2,765	477	99	3	6	6,726
As of 30 June 2015	3,102	2,580	510	90	26	1,221	7,529

The increase in other intangible assets resulted primarily from the acquisition of frequency usage rights amounting to EUR 1,194 million, which are reported under construction in progress/prepayments on intangible assets. At the mobile phone frequency auction, Telefónica Deutschland Group acquired two paired blocks in the 700MHz range, two paired blocks in the 900MHz range and two paired blocks in the 1.8GHz range for a total of around EUR 1,198 million. The acquired frequencies at 900MHz and 1.8GHz can be used from 1 January 2017. The use of the acquired frequencies at 700MHz is expected from the date they are vacated by the broadcasting companies. For further information, please refer to Note No. 2, Significant Events and Transactions in the Reporting Period.

b) Trade and other receivables

The breakdown of this item of the Consolidated Statement of Financial Position is as follows:

(Euros in millions)	As of 30 June 2015		As of 31 December 2014	
	Non-current	Current	Non-current	Current
Trade receivables	195	1,579	252	1,702
Receivables from related parties	–	52	–	53
Other receivables	–	26	–	19
Provisions for bad debts	(14)	(197)	(16)	(261)
Trade and other receivables	181	1,460	236	1,513

c) Other non-financial assets

This item of the Consolidated Statement of Financial Position consists of:

(Euros in millions)	As of 30 June 2015		As of 31 December 2014	
	Non-current	Current	Non-current	Current
Prepayments	163	190	142	54
Prepayments to related parties	–	1	–	1
Tax receivables for indirect taxes	–	15	–	16
Other non-financial assets	163	207	142	71

The non-financial assets primarily relate to prepayments for rent for antenna locations.

d) Interest-bearing debt

The breakdown of this item of the Consolidated Statement of Financial Position is as follows:

(Euros in millions)	As of 30 June 2015		As of 31 December 2014	
	Non-current	Current	Non-current	Current
Bonds	1,102	11	1,103	12
Promissory notes and registered bonds	299	1	–	–
Loan liabilities	500	226	500	226
Finance leases	84	279	197	374
Contribution and compensation obligations	–	3	–	3
Interest-bearing debt	1,985	520	1,800	615

Interest-bearing debt contains two bonds that Telefónica Deutschland Group issued in November 2013, with a nominal value of EUR 600 million, and in February 2014, with a nominal value of EUR 500 million.

As of 30 June 2015, the interest-bearing debt contains promissory notes and registered bonds for which the current and non-current portion has a carrying amount of around EUR 300 million. On 13 March 2015, Telefónica Deutschland Group completed the private placement of promissory notes and registered bonds. For further information, please refer to Note No. 2, Significant Events and Transactions in the Reporting Period.

In addition, as of 30 June 2015, this item includes a loan of EUR 726 million, which Telefónica Deutschland Group borrowed in September 2012 at an original total value of EUR 1,250 million from Telfisa Global B.V., as well as finance lease liabilities and contribution and compensation obligations in conjunction with investments in start-ups.

e) Trade and other payables

The composition of trade and other payables is as follows:

(Euros in millions)	As of 30 June 2015		As of 31 December 2014	
	Non-current	Current	Non-current	Current
Trade payables against third parties	219	387	–	592
Accruals	15	1,305	16	1,246
Payables to related parties	–	219	–	254
Trade payables	234	1,911	16	2,092
Other creditors non-trade	3	96	3	80
Other payables to related parties	–	52	–	42
Other current other payables	–	66	–	70
Other payables	3	214	3	191
Trade and other payables	237	2,126	19	2,283

Non-current trade payables against third parties in particular comprise the outstanding payment obligations from the mobile phone frequency auction (Note No. 2, Significant Events and Transactions in the Reporting Period).

Current accruals mainly relate to outstanding invoices for goods and services and for non-current assets.

Current other creditors non-trade mainly consist of liabilities due to personnel.

Non-current other creditors non-trade mainly consist of liabilities for deferred rent-free units (non-current portion).

The other current payables especially include debtors with credit balances.

f) Provisions

The provisions are recognised at the following amounts:

(Euros in millions)	As of 30 June 2015		As of 31 December 2014	
	Non-current	Current	Non-current	Current
Pension obligations	82	–	89	–
Restructuring	70	254	179	220
Dismantling	448	26	492	9
Other provisions	23	12	27	12
Provisions	623	292	787	241

As of 30 June 2015, the composition of the provisions of Telefónica Deutschland Group had not changed significantly in comparison to 31 December 2014. For further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2014 (Note No. 5.12, Provisions).

7.

Selected Explanatory Notes to the Consolidated Income Statement

Revenues

Revenues are comprised as follows:

(Euros in millions)	1 April to 30 June		1 January to 30 June	
	2015	2014	2015	2014
Rendering of services	1,642	1,016	3,257	2,016
Other sales	307	146	593	268
Revenues	1,949	1,162	3,849	2,284

Revenues from the rendering of services include mobile service revenues as well as revenues from wireline business. 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 according to wireless business and wireline business is shown in the following table:

(Euros in millions)	1 April to 30 June		1 January to 30 June	
	2015	2014	2015	2014
Wireless business	1,685	872	3,321	1,699
Mobile service revenues	1,382	728	2,735	1,435
Handset revenues	303	144	586	264
Wireline business	260	287	521	581
Other revenues	3	2	7	4
Revenues	1,949	1,162	3,849	2,284

8.

Disposal Groups

On 29 June 2015, Telefónica Germany GmbH & Co. OHG and yourfone GmbH entered into an agreement regarding the sale of Telefónica Germany Shoptransfer AG, which was founded on 7 May 2015. Telefónica Germany Shoptransfer AG and its subsidiary Telefónica Germany Retail Ausgliederungs GmbH, founded on 18 May 2015, were founded in connection with the spin-off to transfer shops and associated assets, liabilities, personnel and contractual relationships. The companies' purpose mainly extends to sales activities in connection with wireless telecommunications contracts.

On 29 June 2015, the shares in Telefónica Germany Shoptransfer AG were transferred to yourfone GmbH. Through the sale of yourfone GmbH in February 2015 to Drillisch and the sale of Telefónica Germany Shoptransfer AG, Telefónica Deutschland Group met further EU Commission requirements that were set in connection with the acquisition of the E-Plus Group.

The sale of Telefónica Germany Shoptransfer AG had the following impact on the Group's net assets and financial position as of 30 June 2015.

(Euros in millions)	As of 30 June 2015
Property, plant and equipment	1.6
Trade and other receivables	0.1
Cash and cash equivalents	1.9
Prepaid expenses	0.1
Provisions	(3.8)
Net assets and liabilities	(0.0)
Net consideration received	0.0
Cash and cash equivalents disposed of	(1.9)
Net cash outflow	(1.9)

The sale of Telefónica Germany Shoptransfer AG resulted in a small gain on disposal that was recognised in the Consolidated Income Statement within other income.

9.

Other Obligations

Purchase and other contractual obligations

The following expected maturity dates apply for purchase and other contractual obligations:

(Euros in millions)	As of 30 June 2015	As of 31 December 2014
Less than 1 year	996	710
1 to 5 years	800	265
Over 5 years	706	710
Total purchase and other contractual obligations	2,502	1,685

Purchase and other contractual obligations increased during the reporting period compared to the Consolidated Financial Statements for the year ended 31 December 2014 mainly due to long-term purchase contracts with suppliers (Note No. 2, Significant Events and Transactions in the Reporting Period).

10.

Measurement Categories of Financial Assets and Financial Liabilities

In the following tables, the fair value of all financial assets and financial liabilities of Telefónica Deutschland Group are disclosed in accordance with the measurement categories from IAS 39 considering the requirements of IFRS 13.

As of 30 June 2015, 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 31 December 2014 (Note No. 10, Measurement Categories of Financial Assets and Financial Liabilities).

In addition, the tables show the categorisation of the financial assets and financial liabilities in accordance with the importance of the input factors that were used for their respective measurement. For this purpose three levels or measurement hierarchies are defined:

- Level 1: Primary market value: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: Significant other observable input parameters: inputs observable, either directly or indirectly, which are subject to certain limitations;
- Level 3: Significant unobservable input parameters: all unobservable inputs which might include the entity's own data as a starting point and which should be adjusted if reasonably available information indicates that other market participants would use different data.

As of 30 June 2015										
Financial assets										
Measurement hierarchy										
(Euros in millions)	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial 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	Not in the scope of IFRS 7 (measured at fair value)
Non-current trade and other receivables (Note No. 6b)	–	–	–	181	–	–	–	181	181	–
Other non-current financial assets	10	14	–	16	–	10	14	40	40	12
Current trade and other receivables (Note No. 6b)	–	–	–	1,460	–	–	–	1,460	1,460	–
Other current financial assets	2	–	–	11	–	2	–	13	13	–
Cash and cash equivalents	–	–	–	214	–	–	–	214	214	–
Total	12	14	–	1,881	–	12	14	1,907	1,907	12

As of 31 December 2014										
Financial assets										
Measurement hierarchy										
(Euros in millions)	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial 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	Not in the scope of IFRS 7 (measured at fair value)
Non-current trade and other receivables (Note No. 6b)	–	–	–	236	–	–	–	236	236	–
Other non-current financial assets	12	13	–	11	–	12	13	37	37	12
Current trade and other receivables (Note No. 6b)	–	–	–	1,513	–	–	–	1,513	1,513	–
Other current financial assets	2	–	–	17	–	2	–	19	19	–
Cash and cash equivalents	–	–	–	1,702	–	–	–	1,702	1,702	–
Total	14	13	–	3,480	–	14	13	3,507	3,507	12

As of 30 June 2015, EUR 10 million of the other non-current financial assets and EUR 2 million of the other current financial assets are classified as financial assets at fair value through profit or loss. These relate to swaps concluded in connection with the bond issue.

In addition, EUR 14 million in other non-current financial assets are classified as available for sale financial assets. These relate to investments in start-ups. These assets were measured according to level 3 as reliable measurement using a market price is not possible. These entities generate a start-up loss, and the existing business plans contain numerous unpredictable assumptions. For this reason, the measurement was made in accordance with IAS 39.46c at amortised costs.

All other financial assets as of 30 June 2015 were categorised as loans and receivables.

Please refer to the respective notes for further information.

As of 30 June 2015								
Financial liabilities								
(Euros in millions)	Measurement hierarchy						Total carrying amount	Total fair value
	Financial liabilities at fair value through profit or loss	Liabilities at amortised cost	Finance leases	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)		
Non-current interest-bearing debt (Note No. 6d)	357	1,543	84	–	357	–	1,985	2,034
Non-current trade and other payables (Note No. 6e)	–	237	–	–	–	–	237	237
Current interest-bearing debt (Note No. 6d)	3	239	279	–	–	3	520	520
Current trade and other payables (Note No. 6e)	–	2,126	–	–	–	–	2,126	2,126
Total	361	4,144	363	–	357	3	4,868	4,917

As of 31 December 2014								
Financial liabilities								
(Euros in millions)	Measurement hierarchy						Total carrying amount	Total fair value
	Financial liabilities at fair value through profit or loss	Liabilities at amortised cost	Finance leases	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)		
Non-current interest-bearing debt (Note No. 6d)	360	1,244	197	–	360	–	1,800	1,865
Non-current trade and other payables (Note No. 6e)	–	19	–	–	–	–	19	19
Current interest-bearing debt (Note No. 6d)	3	237	374	–	–	3	615	615
Current trade and other payables (Note No. 6e)	–	2,283	–	–	–	–	2,283	2,283
Total	363	3,783	571	–	360	3	4,717	4,782

As of 30 June 2015, EUR 357 million of the other non-current interest-bearing debt are classified as financial liabilities at fair value through profit or loss. These relate to a portion of the bonds, which are each accounted for as fair value hedges with one interest rate swap each.

The fair value of the bonds (non-current interest-bearing debt) is determined based on primary market values (unadjusted quoted prices in active markets).

As of 30 June 2015, the non-current and current interest-bearing debt contain promissory notes and registered bonds with a carrying value of around EUR 300 million, which are classified as liabilities at amortised cost.

Furthermore, EUR 3 million of the current interest-bearing debt are classified as financial liabilities at fair value through profit or loss as of 30 June 2015. These relate to contribution and compensation obligations in conjunction with investments in start-ups. These obligations were measured according to level 3 as reliable measurement; using a market price is not possible.

The non-current and current trade and other payables are classified as financial liabilities at amortised cost.

Please see the respective notes for further information.

11.

General financial market risks

The Telefónica Deutschland Group is exposed to various financial market risks as part of its business activity. Due to Telefónica Deutschland Group's regional focus of its activities, however, it is not significantly affected by e.g. foreign currency risks. The Telefónica Deutschland Group is exposed to the risk of default from operative business (trade receivables). Related parties receivables are mainly related to a subsidiary of Telefónica, S.A. Group.

In addition, there are liquidity risks for the Telefónica Deutschland Group that are connected with credit risks, market risks, a weakening of operative business or disruptions of the financial market.

If such financial risks occur, they may lead to negative impacts on the asset, financial and earnings position and the cash flow of the Telefónica Deutschland Group. The Telefónica Deutschland Group has developed guidelines for risk management processes and for the use of financial instruments including a clear separation of tasks with respect to financial activities, invoicing, financial reporting and associated controlling. Derivative financial instruments are used solely to manage the risks from trade and general corporate financing. The Telefónica Deutschland Group has developed guidelines derived from established standards for the evaluation of risks and monitoring with regards to the use of financial derivatives.

Liquidity risk

Liquidity risk includes the risk that a business cannot comply with its financial obligations, which are processed either in cash or with other financial assets. To manage liquidity risk, the Telefónica Deutschland Group ensures that it has sufficient liquidity at all times to fulfil its obligations, both under normal and under demanding circumstances. The Telefónica Deutschland Group works on its liquidity management closely with Telefónica, S.A. Group and, in accordance with the corporate policy, has concluded cash-pooling and deposit agreements with Telfisa Global B.V., Netherlands. It deposits the majority of its cash surpluses there. Liquidity risk is reduced by the inflowing funds generated by the operative business of the Telefónica Deutschland Group, by the opportunity to factor receivables and by maintaining (currently unused) credit facilities.

As of 30 June 2015, Telefónica Deutschland Group has current and non-current credit lines totalling EUR 1,000 million compared to year end 31 December 2014 totalling EUR 710 million.

For further information please refer to the annual report for the year ended 31 December 2014 (Note No. 17, Financial Instruments and Risk Management).

12.

Contingent Assets and Liabilities

As of 26 March 2015, Telefónica Deutschland Group assumed a directly enforceable guarantee for claims of Deutsche Leasing Information Technology GmbH against yourfone GmbH arising from a lease agreement concluded between the two companies for handsets. As of 30 June 2015, the directly enforceable guarantee amounted to EUR 13 million.

In the context of an ongoing tax audit, it was announced that the tax authorities' assessment with regards to the VAT treatment of prepaid contracts is different to the assessment of Telefónica Deutschland Group. The focus of the assessment is if VAT needs to be paid on erased credit balances of customers that were erased due to inactivity. The potential surplus amount is not material and will subsequently trigger interests.

For further information, please refer to the Consolidated Financial Statements as of 31 December 2014 (Note No. 18, Contingent Assets and Liabilities).

13.

Events after the Reporting Period**Transfer of mobile network sites**

In the course of its network integration, Telefónica Deutschland Group is transferring 7,700 mobile network sites to Deutsche Telekom. A corresponding agreement was signed on 17 July 2015. As planned, the company realises part of the announced synergies from the network integration with this transaction. Furthermore, Telefónica Deutschland can utilise resources which would have been required to dismantle these redundant sites to accelerate the roll-out of its LTE network. Telefónica Deutschland Group can continue to use these sites without restriction until they are no longer needed in the course of the integration of the O₂ and E-Plus networks. The implementation of the transaction is expected to result in restructuring expenses for network optimisation in the mid-double digit millions. Financial impacts from the transfer have already been included within the communicated synergy expectations related to the network integration.

Start of use of network capacity by Drillisch

As part of the merger with the E-Plus Group and the merger clearance process, Telefónica Deutschland Group committed to sell some of its network capacity. In 2014 Telefónica Deutschland Group had signed an MBA MVNO ("Mobile Bitstream Access Mobile Virtual Network Operator") agreement on this with Drillisch (Annual Report 2014, Section 2.2 Overview of the Financial Year – Significant events). Since 1 July 2015, Drillisch can now access the network capacity of Telefónica Deutschland Group as planned according to the agreed mobile bitstream access model.

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


Munich, 13 August 2015

Telefónica Deutschland Holding AG

The Management Board



Thorsten Dirks



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 Condensed 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, 13 August 2015

Telefónica Deutschland Holding AG

The Management Board



Thorsten Dirks



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 2015 to 30 June 2015, which are part of the six-monthly financial report pursuant to Sec. 37w WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the interim condensed 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, 13 August 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dahmen
Wirtschaftsprüfer
(German Public Auditor)

Vogel
Wirtschaftsprüferin
(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
bps	basispoints
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)
GHz	Gigahertz
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
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IDR	Issuer Default Rating
IFRS	International Financial Reporting Standards
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
MHz	Megahertz
MMS	Multimedia Messaging Service
MNO	Mobile Network Operator
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 that 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, 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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