Interim Group Report

January 1 to June 30, 2013

Telefónica

Deutschland

Portrait of Telefónica Deutschland

With more than 25 million customer accesses and annual revenues of over EUR 5bn, Telefónica Deutschland is one of Germany's top three integrated telecommunications operators. Listed on the Frankfurt Stock Exchange since October 2012, the company is a leading provider of wireless and wireline services, including voice, data and value-added services, to private and business customers in Germany. The indirect majority shareholder is the Spanish group, Telefónica S.A. – one of the world's largest telecommunications operators.

Telefónica Deutschland is especially known for its core O_2 brand, which has successfully offered wireless and wireline products for private and business customers for many years. As part of its multi-brand strategy, Telefónica Deutschland also accesses additional customer groups through familiar secondary brands, such as Fonic, netzclub, TCHIBO mobil and Türk Telekom Mobile. Telefónica Deutschland is also a leading provider of wholesale services to customers such as 1&1, mobilcom/debitel, Drillisch and the cable operators Unitymedia KabelBW and Kabel Deutschland. The company also targets large multinational corporations through the group's "Telefónica Multinational Solutions" offering.

The company is a leading supplier of smartphone tariffs and products, particularly through its core O_2 brand. Nine out of ten mobile phones sold under this brand last year were smartphones. Telefónica Deutschland sets new standards in the German telecommunications market in this area with innovative and customer-friendly products: With its new "O_2 Blue All-In" wireless tariffs launched in March of this year, the company became the first German network provider to gear its entire rate portfolio towards customers' data needs.

The foundation for this is a competitive mobile network, among the most advanced in Europe. More than 30,000 base stations provide coverage for over 99 percent of the German population. Since 2010, Telefónica Deutschland has also been expanding the next-generation LTE mobile communications standard in Germany, which enables significantly faster mobile data transmission rates. All of Telefónica Deutschland's LTE high-speed areas have been live since July 2013. The next phase will see further densification of the LTE network throughout Germany. As an integrated operator, Telefónica Deutschland also offers wireline and DSL products, including high-speed VDSL access, which it provides through its long-term cooperation with Deutsche Telekom.

To secure its future growth, Telefónica Deutschland is also committed to active innovation management. Complementing the research conducted by the Telefónica Group's global innovation network, the company invests in a large number of projects in Germany. For example, through the Wayra Academy, which opened in Munich in 2012 and can support up to ten start-ups, Telefónica Deutschland gains access to new technologies and business models for the mobile internet.

The vision of Telefónica Deutschland and its roughly 6,000 employees is to improve people's quality of life and drive social progress through digital products and services. Through its "Think Big" initiative, the company is especially committed to helping young people, and has supported more than 1,300 projects in this field since 2010.

The company's headquarters in Munich.

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The figures in this report have been rounded in accordance with established business administration practice. If the reported figures are added together, the resulting totals could therefore be different from those reported in the tables.

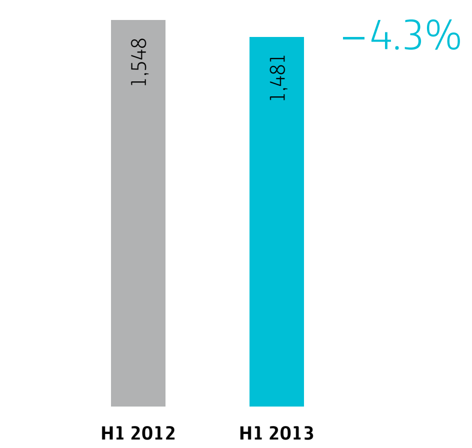
Financial Overview

Euros in millions

	January 1 to June 30		
	2013	**2012**	**% Chg**
Revenues	**2,445**	**2,554**	**(4.2)**
Wireless service revenues	1,481	1,548	(4.3)
Operating income before depreciation and amortization (OIBDA)	**572**	**597**	**(4.1)**
OIBDA margin	23.4%	23.4%	0.0%-p.
Operating income	**6**	**49**	**(87.8)**
Profit (loss) for the period from continuing operations	**(10)**	**55**	**> (100)**
Profit (loss) for the period from discontinued operations [1]	**–**	**244**	**n.m.**
Profit (loss) for the period	**(10)**	**299**	**> (100)**
Basic earnings per share from continuing operations (in EUR) [2]	**(0.01)**	**0.05**	**> (100)**
CapEx	**(296)**	**(271)**	**(9.4)**
Operating cash flows (OIBDA-CapEx)	**276**	**326**	**(15.4)**
Free cash flows pre dividends from continuing operations [3]	**345**	**152**	**> 100**
Net financial debt [4]	**940**	**842**	**11.6**
Leverage [5]	0.7x	0.7x	13.8
Total accesses (in thousands)	**25,343**	**25,159**	**0.7**
Mobile accesses	19,411	18,834	3.1
Postpaid (%)	**52.9%**	**51.6%**	**1.3%-p.**
Total ARPU	**12.6**	**13.7**	**(7.7)**
Postpaid churn (%)	**1.4%**	**1.5%**	**(0.1%-p.)**
(%) non-SMS data over total data revenues	**64.4%**	**54.4%**	**9.9%-p.**
Employees	**6,017**	**6,288**	**(4.3)**

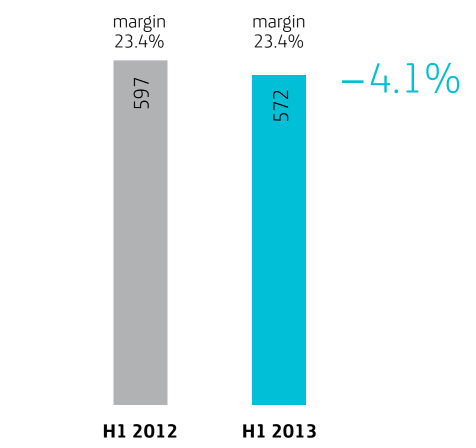
1 No discontinued operations in 2013.
2 Basic earnings per share from continuing operations were calculated by dividing profit from continuing operations through weighted average amount of outstanding ordinary shares (exclusive purchased treasury shares) amounting to 1,117,001. For better comparability the amount of weighted average outstanding ordinary shares of the financial year 2012 (exclusive purchased treasury shares) has also been used for the financial year 2013.
3 Free cash flows pre dividends from continuing operations are defined as Operating cash flows minus working capital minus interest payments and taxes minus other changes.
4 Net financial debt includes all current and non-current interest-bearing financial assets and liabilities which are immediately available for the group without any restrictions. Net financial debt is calculated as follows: non-current interest-bearing debt + non-current finance leasing payables (EUR 3,778k in 2013 and EUR 4,985k in 2012) + current interest-bearing debt + other current finance leasing payables (EUR 2,986k in 2013 and EUR 3,964k in 2012) – the non-current "O_2 My Handy" receivables (EUR 56,434k in 2013 and EUR 93,770k in 2012) and since June 2013 the current portion of "O_2 My Handy" receivables (EUR 97,199k in 2013 and EUR 0k in 2012) – other current financial assets (EUR 352k in 2013 and EUR 101k in 2012) – cash and cash equivalents.
Note: The current portion of "O_2 My Handy" receivables is shown under trade and other receivables in the Consolidated Statement of Financial Position and the non-current portion of "O_2 My Handy" receivables is shown under other non-current financial assets in the Consolidated Statement of Financial Position.
5 Leverage defined as net financial debt divided by LTM (Last Twelve Months) OIBDA (EUR 1,254m in 2013; EUR 1,279m in 2012) excluding non-recurring factors.

Wireless Service Revenues Euros in millions



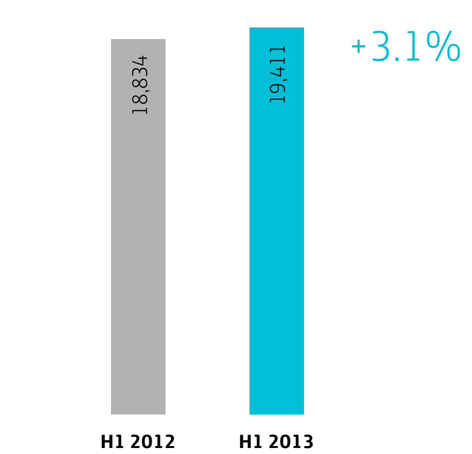
· Mainly driven by regulatory influences, lower revenue contribution from incoming SMS and tariff migrations of our customers.

OIBDA/OIBDA margin Euros in millions



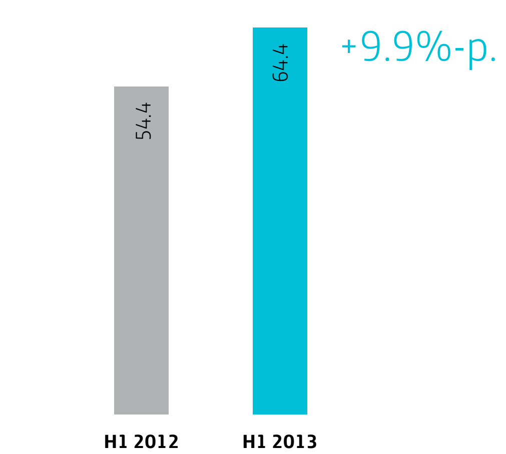
· Mainly driven by the revenue performance and focused spend in growth-related areas, partially offset by evolution of direct costs and additional efficiencies.

Wireless Accesses In thousands



· Mainly driven by the postpaid segment with plus 5.6% accesses.

Non-SMS Data over Total Data Revenues In %



· Mainly driven by increasing mobile data usage due to higher smartphone penetration and a continued increase of data-centric smartphone tariffs in the customer base.

Highlights
April-June 2013

Wireless

All LTE high-speed areas now on air

With the expansion of its high-speed area in Hamburg and the Ruhr cities of Duisburg, Essen, and Oberhausen, Telefónica Deutschland reached another milestone in the creation of the LTE network in the second quarter. Together with the metropolitan regions of Munich, Berlin, Frankfurt, Cologne, Nuremberg, Dresden, Leipzig, and Dusseldorf, all of Telefónica Deutschland's LTE high-speed areas are now connected to the high-speed mobile network. The next step will entail further densification of the LTE network across Germany.

Windows Phone 8 cooperation

Microsoft and Telefónica will collaborate more closely in Germany in the future to market Windows Phone 8 devices. This international marketing cooperation, which includes the UK, Spain, Brazil, Chile, and Mexico, as well as Germany, was announced by both companies on June 26. Through this cooperation, Telefónica will support alternative mobile operating platforms to challenge the current Android and iOS duopoly. Telefónica already announced that it would market smartphones with the Firefox operating platform in February 2013.

Multi-brand strategy with new product offerings

Telefónica Deutschland is expanding its multi-brand strategy with new rates and product offerings in response to growing demand in the prepaid segment: The ad-supported mobile phone tariff "netzclub" was revised and simplified, for example. The company also introduced a smartphone tariff for the TCHIBO mobil brand and, in May, an All-Net Flat rate for Fonic. New flat-rate packages for calls and data have also been available to customers of the successful "Türk Telekom Mobile" service since June. In cooperation with Star Communications, Telefónica is also offering two new mobile phone tariffs for calls to Poland and Russia.

New for business customers

Since April, O_2 business customers have been able to use the new EU+ Travel Option to make mobile calls, surf the internet, and send text messages more cheaply in many countries abroad. Instead of a price per minute, customers pay only a low one-time fee per call. Another new feature available to O_2 business customers since May is the option of a foreign landline number, which automatically forwards calls to the customer's German mobile phone number. With its "Signal Box" feature, Telefónica Deutschland also offers companies a new option for enhancing mobile phone reception in buildings such as offices.

Wireline

Expanded VDSL cooperation with Deutsche Telekom

Telefónica Deutschland and Deutsche Telekom are expanding their cooperation in the fixed network sector. Telefónica plans to increase its use of Telekom's new high-speed infrastructure for fixed line network products in the future and signed a Memorandum of Understanding to this effect in May. The cooperation will be based on VDSL and vectoring technologies, which enable significantly greater bandwidth than ADSL. Telefónica Deutschland customers will therefore gain access to best fixed network products, as well as mobile offerings. The cooperation has yet to be formalized in a binding contract and is currently being verified by the competent authorities.

International site networking with "Telefónica Global mWAN"

In June, Telefónica Deutschland launched a new solution for businesses seeking to network their international locations: With "Telefónica Global mWAN", companies can safely connect their subsidiaries in more than 170 countries, independent of local access technology, thanks to a Wide Area Network (WAN) managed by Telefónica Deutschland from end to end.

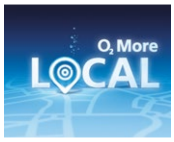
Innovation

New M2M solution for car insurance companies

An innovative new telematics solution from Telefónica Deutschland enables car insurance providers to tailor rates to customer driving behavior. The "Telefónica Insurance Telematics" solution is based on machine-to-machine technology (M2M) and analyses customer behavior in a safe and anonymous procedure, allowing responsible drivers to be rewarded with lower premiums.

O_2 More Local

Telefónica Deutschland has extended its successful customer benefit program, O_2 More, to include location-based services. O_2 mobile customers have been using the free O_2 More Local service to access information on attractive offers in their area in real-time via text or multimedia messages since May. The corresponding vouchers are redeemed directly in stores.



Smart M2M

In June, Telefónica Deutschland launched an innovative solution on a new platform to allow business customers to manage their M2M communication. "Smart M2M" enables web-based management of M2M modules and integrates previously incompatible devices from different manufacturers for better integration of data into business processes.

Wayra: Ten new startup spots in Munich

While the first young startups are successfully completing their time at the Wayra Academy in Munich, the next round of applications has already begun: Ten spots are available for startups in the internet and new technologies field. The story also continues for the first generation of Munich startups: Eight of the startups presented themselves to investors at the first Investor demoDay in June. The Wayra Academy forms part of Telefónica's global incubator initiative.

Company

First Annual General Meeting a success

On 7 May, the first Annual General Meeting was held in the Event Arena of the Munich Olympiapark. In their speeches to shareholders, the board discussed the company's current situation and its strategy for growth through mobile data services. The Annual General Meeting voted to pay a dividend of EUR 0.45 per share for the 2012 financial year.

Personnel changes

Peter Rampling was appointed Managing Director of Telefónica Digital in Germany, the Czech Republic, and Slovakia in April. This position has been newly created to reinforce development of digital activities at the company's national subsidiaries. As part of this move, Telefónica Deutschland also tied its activities in Marketing and Service & Sales units. Michiel van Eldik will lead the new central marketing business unit as Chief Marketing Officer. John McGuigan will manage all sales and service activities as the new Chief Service & Sales Officer.

O_2 Live Concept Store opens in Berlin

With the opening of its first O_2 Live Concept Store in Berlin on June 7, Telefónica Deutschland presents a window on the digital future. The Concept Store is part of Telefónica's new multi-channel strategy for even greater customer focus. The 300m² store invites customers to explore a wide range of experiences and try out the latest devices, products and services. They can also participate in exciting events and workshops, such as app labs and website design classes.

Global Millennial Survey

In early June, Telefónica published the findings of the first „Telefónica Global Millennial Survey" – the world's largest survey of the generation of 18 to 30-year-olds. German millennials believe that technology creates more opportunities for all. However, more than half feel that the political system does not represent their values and beliefs.
Full results can be found at: www.telefonica.de/millennials.

Think Big School: a very special school day at Telefónica

Telefónica's pan-European "Think Big School" program encourages innovation and entrepreneurship among schoolchildren. At project days at locations in Munich, Nuremberg, Hamburg, Rostock, and Bremen, pupils work with employees to develop new ideas. Telefónica aims to reach 50,000 schoolchildren by 2015. The company not only helps young people use new technologies to reach their goals, however. Since 2012, it has also donated more than 3,500 products to non-profit organizations and was recognized as "IT Donor 2013" in April.

Interim Group Management Report of Telefónica Deutschland Holding AG

as of January 1 to June 30, 2013

Overview of the first half of the financial year 2013

- Total mobile accesses continued growing by 3.1 percent year-on-year, reaching 19.4 million at the end of June.
- Customer mix improving by 1.3 percentage points year-on-year to a postpaid penetration of customer base of 52.9 percent.
- Total customer accesses stood at 25.3 million, a year-on-year increase of 0.7 percent.
- Wireless data revenues continue to be the main growth lever for the business, with non-SMS data revenues accelerating growth to 24.4 percent year-on-year.
- Wireless service revenues declined by 4.3 percent year-on-year, driven by regulatory factors, lower revenue contribution from incoming SMS and the effect of tariff migrations.
- OIBDA margin in the first half year was flat year-on-year at 23.4 percent. Total OIBDA decreased by 4.1 percent year-on-year driven by revenue evolution and increased commercial spend.
- Free cash flows pre dividends from continuing operations reached 345 million Euros in the first half of 2013 (from 152 million Euros in 2012).
- Consolidated net financial debt at the end of the period stood at 940 million Euros, resulting in a leverage ratio of 0.7x.
- Smartphone penetration continuing to grow by 6.1 percent year-on-year to reach 28.8 percent at the end of June.
- Postpaid churn further improved to 1.4 percent in the first half of 2013.
- Ongoing deployment of LTE network on track, with all metropolitan areas covered by this new high-speed technology at the end of June.
- Shares of Telefónica Deutschland Holding AG trading on TecDAX since March 18, 2013 and in the MSCI-Index since June 1, 2013.
- "BBB" rating with stable outlook from Fitch Ratings from January 16, 2013.

1. Basic information about the group

1.1. Business model

1.1.1. Structure of Telefónica Deutschland Group

Telefónica Deutschland Holding AG (hereinafter referred to as "Telefónica Deutschland" and formerly known as "Telefónica Germany Verwaltungs GmbH") is a German stock corporation (AG). The company's change of legal form from a German limited liability company (GmbH) into a German stock corporation was approved by a resolution at the annual general meeting held on September 18, 2012 and was entered in the Commercial Register on September 26, 2012. Since that date, the company has been a German stock corporation.

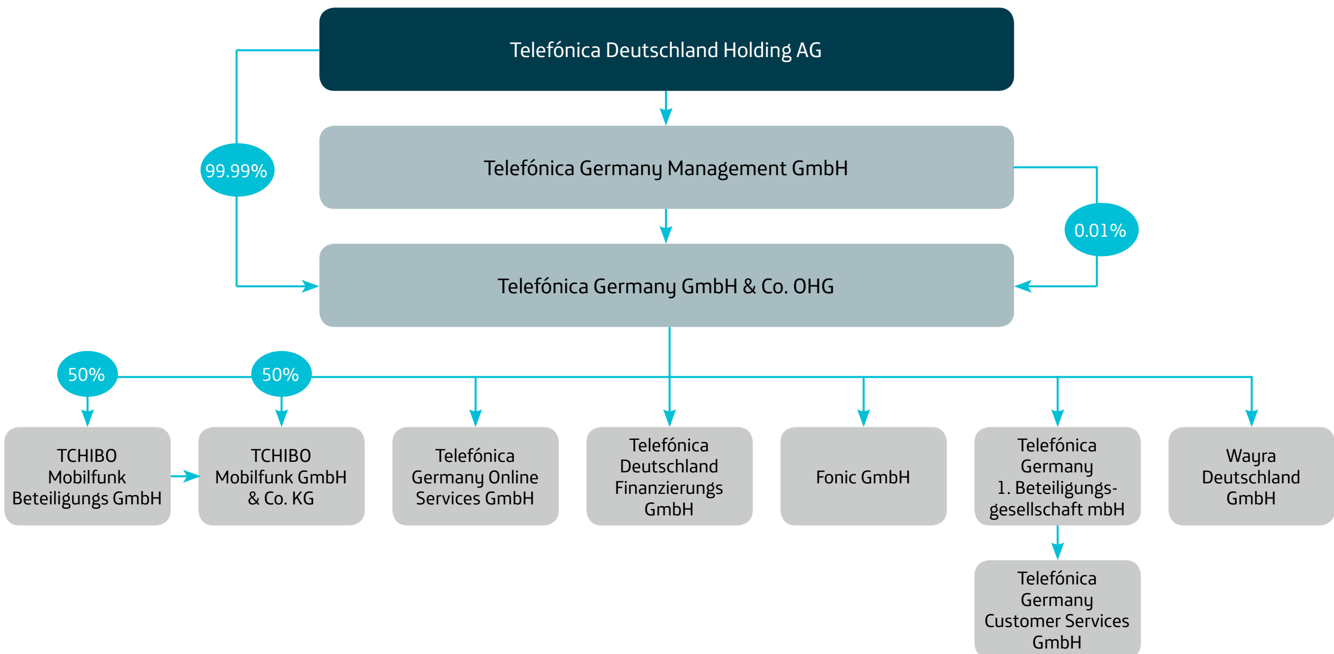
The legal and business name is "Telefónica Deutschland Holding AG". The company's registered office is situated in Munich, Germany. Telefónica Deutschland Holding AG is entered in the Commercial Register of the local court in Munich under registration number HRB 201055. The company's business address is Georg-Brauchle-Ring 23-25, 80992 Munich, Germany (telephone number +49 (0) 89 2442-0; www.telefonica.de). Its financial year is the same as the calendar year (January 1 to December 31). Telefónica Deutschland Holding AG was established for an unlimited period of time.

The company successfully completed its initial public offering on the Regulated Market of the Frankfurt Stock Exchange. The first day of trading was October 30, 2012 and the issue price was EUR 5.60 per share. The WKN (securities identification number) is A1J5RX, the ISIN (International Securities Identification Number) DE000A-1J5RX9. The registered share capital of Telefónica Deutschland Holding AG as of June 30, 2013 amounted to EUR 1,116,945,400. It is divided into 1,116,945,400 registered no-par-value shares, each representing a notional amount of the registered share capital equivalent to EUR 1.00. Telefónica Germany Holdings Limited, Slough, United Kingdom, holds 76.83 percent of the shares, the remaining 23.17 percent being free-float shares. Each share confers one vote at the company's annual general meeting.

Telefónica Deutschland Holding AG has authorized capital allowing the management board of the company, subject to the consent of the supervisory board, to increase the registered share capital on one or more occasions in the period up to September 17, 2017 by a total amount of up to EUR 558,472,700 by issuing new no-par-value registered shares. Telefónica Deutschland Holding AG also has conditional capital of EUR 558,472,700 at its disposal to enable it to grant shares in connection with the exercise of option or conversion rights or with the fulfillment of conversion obligations.

Telefónica Deutschland Group (Telefónica Deutschland together with its subsidiaries and its investments in associates and joint operations) is included in the consolidated financial statements of its ultimate parent, Telefónica, S.A., Madrid, Spain.

The following organization chart shows the structure of Telefónica Deutschland Group as of June 30, 2013.



Telefónica Deutschland Finanzierungs GmbH, which has its registered office in Munich and was entered in the Commercial Register of the local court in Munich on March 14, 2013, was founded during the reporting period as a subsidiary of Telefónica Germany GmbH & Co. OHG pursuant to the articles of incorporation dated February 26, 2013.

Corporate organs
The company's decision-making bodies are the management board, the supervisory board, and the annual general meeting. The powers of these decision-making bodies are determined by the German Stock Corporation Act (Aktiengesetz, AktG), the company's articles of association and the by-laws of both the management board and the supervisory board.

Management board
The members of the management board are appointed by the supervisory board for a maximum term of five years and may be re-appointed for a maximum of five years. The supervisory board may revoke the appointment of a management board member prior to the expiration of his or her term of appointment for good cause, such as gross breach of duties, or if the annual general meeting passes a vote of no confidence in the management board member concerned. The supervisory board may appoint one management board member as chairperson or spokesperson and another member as deputy chairperson or spokesperson. The members of the management board of the company have been appointed until September 17, 2015.

The company's management board currently has three members:

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

Supervisory board
In accordance with the company's articles of association, sections 95 and 96 of the AktG, and section 7 of the German Codetermination Act (Mitbestimmungsgesetz, MitbestG), the supervisory board has twelve members, of which six are shareholder representatives and six are employee representatives. Unless the annual general meeting has set a shorter term, the term served by each supervisory board member, as well as the term served by each substitute member, if elected, expires at the end of the annual general meeting that votes on the formal approval of the actions of the members of the supervisory board for the fourth financial year following the commencement of the member's term of office, not including the financial year in which the term commences. All shareholder representatives on the supervisory board were elected until the end of the annual general meeting that votes on formal approval of the members' actions for the financial year ending December 31, 2016. On May 29, 2013, six employee representatives were elected together with four substitutes for four of these representatives. Substitutes take the place of representatives who step down from the supervisory board before the end of their term of office.

1.1.2. Products and services

Telefónica Deutschland Group offers wireless and wireline services providing voice, data, and value-added services to private and business customers. In addition, Telefónica Deutschland Group is one of the leading wholesale providers in Germany, offering wholesale partners access to our infrastructure and services.

We operate a nationwide mobile network with GSM coverage reaching more than 99 percent and UMTS 74 percent of the German population. Our wireless network supports the GSM, UMTS, and, more recently, also the LTE technology standards. In addition, we operate a countrywide wireline network. Our strategic cooperation with Telekom Deutschland GmbH, Bonn, has expanded our wireline coverage to 95 percent and also enables us to supply more than 11 million households with high-speed DSL internet access, delivering data transfer rates of up to 50 MBit/s. We also intend to take our wireline partnership with Telekom Deutschland GmbH to a further level and have signed a "memorandum of understanding" with this in mind. In the future, we want to make more use of the advanced infrastructure of Telekom Deutschland GmbH for the benefit of our wireline products and offer our customers high-speed internet products over this infrastructure with data transfer rates of up to 100Mbit/s.

Our product sales are consistently based on a multi-brand strategy so that our products are aimed at as many customer segments as possible. We offer most of our postpaid and prepaid wireless products, wireline products, and bundled packages through our core O_2 brand. We strive to continuously improve the market position of our O_2 brand, especially to gain private and business customers in the premium segment. For the past few years now, we have focused our strategy particularly on selling wireless postpaid contracts to smartphone users. In comparison to users without smartphones this customer group generates above-average revenues based on its use of mobile data services and greater enthusiasm for the new LTE wireless communications standard. Interest in smartphones and the use of mobile data services is also growing among prepaid product customers. In the second quarter of 2013, we responded to this trend with a special prepaid tariff for smartphone users.

For several years, we have been selling wireless communication devices and other hardware at fixed prices through our successful "O_2 My Handy" model. This model allows customers to choose whether they pay the entire price immediately or just make a down-payment and pay the balance over twelve or 24 monthly installments. This makes the cost of a mobile phone and wireless services transparent for the customer. Customers can choose from a wide variety of mobile phones, including the most advanced premium smartphones, and enjoy attractive payment terms. Our main mobile phone suppliers are Samsung, Apple, Nokia, HTC, and Sony Mobile Communications. The main focus of our "O_2 My Handy" model was and is to sell internet-ready smartphones, which represented 98 percent of the mobile phones we sold to postpaid customers in the first half of 2013. Some 25 percent of these smartphones sold by us are already compatible with the new LTE wireless communications standard. The "O_2 My Handy" model is also used by customers of our secondary brands and wholesale partners. We provide a large range of low-cost entry-level smartphones to satisfy the growing demand for mobile data services in these customer segments.

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

We target the self-employed (SOHO market) and small and medium-sized businesses (SMEs) via our core O_2 brand but channel our activities aimed at large multinationals through the "Telefónica Multinational Solutions" brand. We use a wide variety of sales platforms to market our products, including direct sales channels such as our nationwide network of independently managed O_2 franchise shops and premium partner shops, online sales and telesales, as well as indirect sales through retail/e-retail alliances and dealers/partnerships.

1.2. Objectives and strategies

We aim to build on the success we have achieved to date, increase our share of the wireless communications market, and drive growth based on the strategic priorities set out below.

Exploit the multi-brand portfolio and achieve outstanding customer satisfaction
Our objective is to use our core O_2 brand and our strong portfolio of secondary and partner brands to continue to expand our share of the German telecommunications market. In addition, we are continuously looking for potential strategic partnerships that will enable us to address special niche markets or segments with new brands.

Based on our customer service, customer loyalty, and customer satisfaction programs, we aim to continue offering our customers a consistent level of high-quality service in the future, ensuring transparency and thereby enhancing customer confidence. Our aspiration is to be one of the most popular brands with the most satisfied customers in the German telecommunications market. We are in no doubt that our high customer satisfaction statistics will reduce the churn rate and encourage more people to recommend us. We are also striving to make better use of our direct sales channels in order to optimize the process and the cost of acquiring new customers.

Monetize data opportunities through innovative products and digital services
We intend to expand on the existing strength of our core O_2 brand and to boost revenues based on the increasing use of data generated by the rapidly rising number of smartphone users. Successful performance in this regard depends on the following key prerequisites: the ongoing expansion of our LTE network and the suitability of our portfolio of data usage tariffs, which are based on the individual data requirements of our postpaid and prepaid customers. We are continuously extending our range of digital services, i.e., our value-added services, in order to increase revenues and enhance the appeal of our products for smartphone users. These services include wireless finance services, innovative communications tools, and wireless security solutions.

Expand our convergence strategy to increase share of customer spending and reduce churn rates
We plan to continue to focus on convergence between wireless and wireline services in order to increase average revenue per user (ARPU), reduce churn in the wireless business, and reduce customer acquisition costs. The core component of our convergence strategy is targeted cross-selling, which consists of encouraging customers, who currently only make use of either wireless or wireline services, to purchase additional products and services. We offer discounted prices when customers buy certain product combinations comprising wireless and/or wireline services from us in order to exploit the full cross-selling potential offered by our customer base.

Seize the opportunity in the SoHo, SME, and wholesale markets
Our core O_2 brand targets the self-employed and small, medium, and large national business customers, whereas "Telefónica Multinational Solutions" aims its activities at major international companies and is operated in cooperation with the Telefónica, S.A. Group. We want customers to perceive our core O_2 brand as a business customer brand. We aim to differentiate ourselves from our competitors and expand our market share by offering excellent value for money, customized offerings, attractive bundled packages, and outstanding customer service.

In the wholesale segment, we use innovations to improve our services, profits, and competitive strength in order to secure and expand our market share.

Maintain competitive 3G and LTE networks
We expect the use of LTE in Germany to rise significantly in the period up to the end of 2013, with mass take-up forecast for 2014. In line with the requirements of the German Federal Network Agency (FNA – Bundesnetzagentur, BNetzA) towns and districts with little or

no broadband coverage had to be prioritized during the initial rollout of the technology. This requirement has been satisfied in all 16 federal states and we are therefore now able to develop an LTE network strategy based primarily on commercial considerations. As at mid-year 2013, we were providing LTE coverage in all major urban areas in Germany and were also continuing to invest in the new technology. At the same time, 3G data use is also continuing to grow, as a consequence of which we are dividing our capital investment equally between LTE and 3G.

Strong cash flows driven by profitable growth and efficiency enhancements
We aim to achieve profitable growth by maximizing our operational efficiency. This means actively managing our customer base and ARPU levels, focusing on data use, a greater number of direct distribution channels, online and digital customer care, as well as efficiency initiatives. The goal of these initiatives is to optimize our processes, increase our network performance capabilities, and streamline our IT systems.

2. Economic report for the period January 1 to June 30, 2013

2.1. Economic and sector-specific conditions

2.1.1. Economic environment

Economic environment in Germany
In the face of the current economic crisis, the German economy, which is the largest in Europe, has shown itself to be fairly robust to date. Real growth in Germany's gross domestic product (GDP) amounted to 0.7 percent in 2012, considerably better than the negative growth of 0.5 percent throughout the European Union (EU) on average. According to various economic forecasting organizations, the economic situation in Germany in the first half of 2013 has remained stable, albeit with a weaker first quarter, primarily due to bad weather, but with a significant upturn in the second quarter.

(Source: German Federal Statistical Office, FocusEconomics Consensus Forecast Euro Area, July 2013, Deutsche Bundesbank monthly report, June 2013, BMWi, monthly report 7/2013, ifo Institute)

General trends on the German telecommunications market
Various trends are evident in the German telecommunications market. Convergent products and services are becoming increasingly popular. The strong demand for wireless data and rising smartphone penetration present a number of attractive growth opportunities for wireless network operators. Smartphones are one of the most notable features of Germany's digital transformation. Monetization of wireless data will continue to become more and more important to wireless network operators. The increasing availability of cloud services is revolutionizing the information technology sector, according to the industry association Bitkom. Cloud computing enables customers to take advantage of on-demand IT services using data networks instead of relying on local computers. A further trend is the growing market for machine-to-machine (M2M) communications, which offer numerous application possibilities.

(Source: Source: Bitkom, Yankee Group Research, Global ConnectedView Forecast, December 2012)

The German wireless market
The German wireless market, with 112.7 million wireless accesses (i.e., SIM cards), was the EU's largest market at the end of March 2013. The total number of wireless users has remained more or less steady over the last few years. However, a slight shift has been apparent in favor of higher-value contract customers: The number of postpaid customers at the end of March 2013 was 53.7 million, an increase of 6 percent on the number at the end of March 2012. These customers accounted for 48 percent of the total number of

wireless market customers at the end of March 2013, up from 45 percent at the end of March 2012.

(Source: company data)

The increasing availability of smartphones and smartphone tariffs led to fierce competition in the German wireless market in 2012, and this level of competition continued throughout the first half of 2013. At the same time, the steadily growing demand for smartphones and data services was also reflected in strong sustained growth in revenues from wireless data in the first quarter of 2013. However, the growth in data use did not offset the impact from a fall in conventional communication services business such as telephony and SMS caused by a slump in prices, the effects of regulation, and substitution by other services. As a result, wireless service revenues from the German market declined by 3.2 percent year-on-year compared to the first quarter of 2012. If the effect from the drop in mobile termination rates in December 2012 is disregarded, wireless revenues would only have contracted by 0.7 percent in the first quarter of 2013.

The German wireless market is well developed, with four wireless network operators. As of March 31, 2013, Telefónica Deutschland Group held a market share of 17.1 percent based on 19.3 million accesses. The equivalent market share as of March 31, 2012 was 16.4 percent based on 18.6 million accesses.

(Source: company data)

The German wireline market

The German market for wireline broadband services remains fiercely competitive. At the end of 2012, Germany had around 26 million wireline broadband accesses. DSL continues to be the main connection technology, accounting for approximately 85 percent of the market followed by broadband accesses using cable network operators, accounting for 15 percent. Germany's largest DSL service provider is Bonn-based Deutsche Telekom AG, the dominant telecommunications service provider in Germany. Telefónica Deutschland Group and other key players in the broadband internet market lease unbundled access to the local loop from Deutsche Telekom AG.

(Source: Federal Network Agency Annual Report for 2012; TeleGeography Global Comms database, Deutscher Breitbandmarkt 2012 [Germany's broadband market 2012])

2.1.2. Regulatory influences on Telefónica Deutschland Group

The section below outlines the main updates and new decisions since the situation described in the "Regulatory influences on Telefónica Deutschland Group" section of the Consolidated Group Management Report for the financial year ended December 31, 2012.

Decisions concerning mobile and fixed termination rates (MTR/FTR)

MTR

On January 31, 2013, the FNA notified the European Commission of its preliminary decision in November 2012 to fix Telefónica Deutschland Group's MTR at EUR 0.0185/min. after December 1, 2012 and then EUR 0.0179/min. from December 1, 2013 onward.

On March 1, 2013, the European Commission initiated procedures under Article 7a of the EU's Electronic Communications Framework Directive and wrote to the FNA, expressing serious doubts about the preliminary approved rates, which were more than 80 percent higher than the EU average. This average is determined using a pure BU-LRIC model in compliance with the European Commission's recommendation on termination rates. The FNA had three months after receipt to respond to the serious doubts letter. Within that timeframe it could remedy the issues concerning the European Commission or keep to its original decision. At the end of the three-month period, the FNA had neither withdrawn nor amended its preliminary decision, so the European Commission issued a recommendation under the Article 7a procedure on June 27, 2013, in which it requested the FNA to amend or withdraw the preliminary decision. The FNA had until July 27, 2013 to amend or withdraw the preliminary decision, or indeed to retain it and impose it with a definitive ruling; it had to notify the European Commission of its ruling by that deadline. The Federal Network Agency issued its definitive ruling on July 19, 2013 and retained the preliminary MTRs set in November 2012. The decision has been backdated to December 1, 2012 and replaces the preliminary ruling of November 2012. The European Commission has threatened legal action for the event that the Federal Network Agency retains its decision, as has now happened.

FTR

On November 30, 2012, the FNA issued a preliminary decision regarding the fixed termination rates (FTRs) for Telekom Deutschland GmbH, in which it reduced the local FTRs by 20 percent. The European Commission was subsequently notified of the decision. On April 8, 2013, the European Commission sent a serious doubts letter to the FNA in which it stated that the preliminary approved termination rates were three times higher than the EU average. The FNA had three months after receipt to respond to the serious doubts letter. Within that timeframe it could remedy the issues concerning the European Commission or uphold its original decision. A final decision is expected for the third quarter of 2013.

Due to regulatory requirements, Telekom Deutschland GmbH's FTRs will also impact the alternate network operators. On May 21, 2013, the FNA notified the European Commission of the relevant drafts for the regulatory decisions and FTR approvals. On June 21, 2013, the European Commission again wrote to the FNA expressing serious doubts because the approach selected by the FNA resulted in termination rates in Germany that were considerably higher than the EU average. The FNA had three months after receipt to respond to the serious doubts letter. Within that timeframe it could remedy the issues concerning the European Commission or uphold its original decision. A final decision is expected for the third or fourth quarter of 2013.

Final FNA decision on local loop access charges

On June 26, 2013, the FNA published its final decision on access charges for the local loop, also called the "last mile". This decision allows Telekom Deutschland GmbH to charge its competitors EUR 10.19 per month for access to the local loop connected to the main distribution frame (MDF), effective July 1, 2013. The previous charge was EUR 10.08 per month. The MDF is a central termination point in a telephone exchange on the network of Telekom Deutschland GmbH, from which individual copper lines run to end users (local loops). However, the decision also specifies that Telekom Deutschland GmbH may in future only charge its competitors EUR 6.79 per month for access to local loops at a serving area interface (SAI) instead of the EUR 7.17 charged previously.

This ruling resulted in the first increase in years in the access charges for local loops on the MDF and runs counter to the trends in other EU member states. The European Commission had recently recommended a range of between EUR 8.00 and EUR 10.00 for access charges to local loops connected to the MDF, but in the context of the notification procedure did not express any serious concerns about the draft decision advised by the FNA, enabling the FNA to issue a definitive decision.

Telefónica Deutschland Group's current wireline business is based mainly on local loops connected to the MDF.

Project 2016: Provision of GSM frequencies and other frequencies suitable for the expansion of wireless broadband

The allocations of the 900MHz and 1800MHz GSM frequency bands to the four wireless network operators expire on December 31, 2016. The FNA has initiated a project known as "Project 2016" to address the issue of the decision on how frequency usage rights are to be allocated from January 1, 2017 onward. In connection with this project, the FNA published a draft consultation document on June 24, 2013 containing a proposal for discussion relating to the provision of frequencies in the 900/1800MHz bands as well as in the 700MHz and 1.5GHz bands.

Under this proposal, the four current wireless network operators would each be reserved a block of 2x5MHz frequencies in the 900MHz frequency band (referred to as reserved frequencies) and these blocks would not be allocated as part of an auction. It is also proposed that the remaining frequency usage rights in the 900/1800MHz frequency bands that expire on December 31, 2016, together with the frequencies in the 700MHz and 1.5GHz frequency bands, be offered to the highest bidders in an auction.

Interested parties have now been invited to submit their responses to the draft consultation document to the FNA by October 4, 2013.

2.2. Business performance

Telefónica Deutschland Group's financial and operational performance in the first half year of 2013 reflects the consistent execution of its strategy in a more complex competitive environment, with a significant impact on the revenues coming from mobile termination rate cuts. The German mobile market was increasingly focused on commercial activities around postpaid smartphone tariffs and customer retention in the high-end segment.

First half-year results are a reflection of the overall transition process to a data-centric, digital-oriented future for which Telefónica Deutschland as a challenger in the market is very well positioned.

In the first six months of 2013, total revenues declined by 4.2 percent year-on-year, mainly due to the impact from regulation and the underlying performance of the wireless and wireline businesses.

OIBDA declined by 4.1 percent year-on-year driven by revenue evolution and focused spend in growth-related areas, partially compensated by evolution of direct costs and efficiencies from ongoing transformation of the business to a more data-centric and agile organization. As a result, OIBDA margin was stable at 23.4 percent.

Investments in the network increased by 9.4 percent year-on-year, securing future growth with accelerated investments in the development of both the LTE and the 3G networks.

2.3. Results of operations

Interim Consolidated Income Statement

Euros in millions

	January 1 to June 30			
	2013	2012	Change	% Chg
Revenues	**2,445**	**2,554**	**(108)**	**(4.2)**
Other income	38	30	8	26.1
Operating expenses	(1,911)	(1,987)	76	3.8
Supplies	(974)	(1,028)	54	5.2
Personnel expenses [1]	(208)	(206)	(1)	(0.6)
Other expenses [1]	(729)	(752)	23	3.1
Operating income before depreciation and amortization (OIBDA)	**572**	**597**	**(25)**	**(4.1)**
OIBDA margin	**23.4%**	**23.4%**	**n.m.**	**0.0%-p.**
Depreciation and amortization	(566)	(548)	(19)	(3.4)
Operating income	**6**	**49**	**(43)**	**(87.8)**
Net financial income (expense)	(16)	4	(21)	> (100)
Profit (loss) before tax from continuing operations	**(10)**	**54**	**(64)**	**> (100)**
Income tax	0	1	(1)	(98.7)
Profit (loss) for the period from continuing operations	**(10)**	**55**	**(65)**	**> (100)**
Profit (loss) after taxes from discontinued operations [2]	**–**	**244**	**n.m.**	**n.m.**
Profit (loss) for the period	**(10)**	**299**	**(309)**	**> (100)**

[1] Reclassification of external personnel expenses into other expenses.
[2] No discontinued operations in 2013.

Revenue breakdown

Euros in millions

	January 1 to June 30			
	2013	2012	Change	% Chg
Revenues	**2,445**	**2,554**	**(108)**	**(4.2)**
Wireless business	**1,816**	**1,854**	**(38)**	**(2.1)**
Wireless service revenues	1,481	1,548	(66)	(4.3)
Handset revenues	335	307	28	9.2
Wireline business	**626**	**697**	**(71)**	**(10.2)**
Other revenues	**3**	**2**	**1**	**33.4**

2.3.1. Revenues

Revenues of EUR 2,445m were generated in the first half of the 2013 financial year, down by EUR 108m or 4.2 percent year-on-year. The decline was attributable to the lower MTR and the associated drop in wireless service revenues, as well as to a contraction in the customer base for the wireline/DSL business. Excluding the MTR reduction, the year-on-year decrease in revenues would have been much lower, at 1.9 percent. The strong growth sustained in the mobile data business, together with rising handset revenues, had a positive impact on total revenues.

Wireless business revenues
Wireless business revenues, consisting of wireless service revenues and handset revenues, amounted to EUR 1,816m in the first half of financial year 2013, down by EUR 38m or 2.1 percent on the corresponding period in 2012. If the MTR reduction had not been included, these revenues would have increased by 1.2 percent.

Wireless service revenues are largely generated by base fees and fees for voice (including incoming and outgoing calls), messaging (including SMS and MMS), and wireless data services, plus revenues from service contracts. Wireless service revenues include roaming revenues, as well as access and interconnection fees that other providers pay for calls and SMS routed via our network.

Wireless service revenues for the first half of the 2013 financial year amounted to EUR 1,481m, which equated to a year-on-year decrease of EUR 66m or 4.3 percent. Adjusted for the impact of the MTR reduction, revenues would almost have reached the level achieved in the first six months of 2012 (minus 0.4 percent). ARPU declined to EUR 12.60 in the first half of 2013, compared with EUR 13.70 in the prior-year period. This is due to the challenging market and competitive environment, which led to diminishing revenues from voice telephony, but the drop in the number of SMS sent is attributable to a change in user behavior. This was partially offset by our growing customer base in the high-value postpaid segment, whose sustained high level of demand for data services (such as wireless internet, service applications, and other data content) had a positive impact on wireless service revenues. The continuing successful monetization of the data business was reflected in the increase in data revenues, which were up by 5.0 percent year-on-year. The growth driver in this case was the non-SMS data business, which expanded by 24.4 percent. The non-SMS data business accounted for 64.4 percent of total data revenues in the first half of the 2013 financial year (H1 2012: 54.4 percent). These developments prompted the company to update its portfolio of integrated wireless products with the addition of the "O_2 Blue All-in" postpaid tariffs and the "O_2 Loop Smart" prepaid tariff in order to give further impetus to increasing data use.

Handset revenues climbed to EUR 335m, a rise of EUR 28m or 9.2 percent year-on-year. This growth was attributable to the continuing success of the attractive smartphone packages offered as part of the "O_2 My Handy" model. Handset revenues include revenues from the sale of mobile phones using the "O_2 My Handy" model and cash sales. Revenues also include other components from the wireless business (mainly postpaid), such as hardware for bundled products comprising prepaid SIM cards and mobile phone hardware or postpaid contracts, as well as accessories.

Wireline business revenues / DSL
The company's wireline and DSL business generated EUR 626m in revenues in the first half-year 2013, which equated to a decrease of EUR 71m or 10.2 percent year-on-year. The contraction in the customer base resulting from the fiercely competitive market overall was partially offset by the growth in customer numbers in the VDSL business. Revenues from the wireline and DSL business consist mainly of revenues from the DSL service business, revenues from the wireline business, activation fees from the DSL business, and DSL hardware sales. Wireline business revenues also include revenues from DSL service business with major customers, from termination rates paid by other telecommunications companies, and from hosting services.

Other revenue
Other revenue relates to new businesses, such as advertising and financial services (for example, the mobile "mpass" payment system). Other revenue rose to EUR 3m in the first half of the 2013 financial year, a year-on-year increase of 33.4 percent. This was mainly attributable to growth in wireless marketing activities.

2.3.2. Profit or loss for the period

In the first half of financial year 2013, the company generated an OIBDA of EUR 572m, which equated to a decrease of EUR 25m or 4.1 percent year-on-year. However, the OIBDA margin remained steady year-on-year at 23.4 percent. This was attributable to a number of factors, including the increase in the contribution from the wireless data business and the continuing focus on efficiency enhancements. These compensating factors offset the increase in device costs under the "O_2 My Handy" model.

Operating expenses in the first half-year were reduced to EUR 1,911m, a year-on-year decrease of EUR 76m or 3.8 percent. The savings were made primarily in supplies but also in other expenses.

Supplies mainly include interconnection costs relating to costs incurred when connecting our customers to other mobile networks and the cost of devices sold, particularly devices sold under the "O_2 My Handy" model. This item also includes the cost of leased lines, unbundled local loop access charges, and the cost of leasing space to accommodate network installations. In the first half of the 2013 financial year, supplies amounted to EUR 974m, a fall in expenses of EUR 54m or 5.2 percent compared with the corresponding period in 2012. As a result of the MTR decrease, fees payable for routing calls via third-party networks also declined. The impact from this fall in expenses was partly offset by the higher cost of devices sold.

Personnel expenses saw a slight increase of EUR 1m or 0.6 percent in the first half of financial year 2013 to EUR 208m.

Other expenses relate mainly to commissions paid to dealers, marketing costs, the cost of servicing customers and outsourcing of administrative work, costs of hardware and maintenance of IT infrastructure, leasing costs for systems and installation space, as well as energy costs. In the first half of the 2013 financial year, other expenses totaled EUR 729m, a year-on-year decrease of EUR 23m or 3.1 percent. This decrease was achieved primarily due to lower customer acquisition costs due to the acquisition of a lower number of new customers compared with the equivalent period in 2012, streamlined commercial activities, and the lower level of valuation allowances necessary for uncollectible receivables.

For the first six months of the current financial year, Telefónica Deutschland Group reported a **net financial expense** of EUR 16m, whereas the equivalent figure in the first six months of 2012 was net financial income of EUR 4m. This change was primarily attributable to higher finance costs as a result of a loan drawn down in September 2012 by Telefónica Germany GmbH & Co. OHG, Munich, from Telfisa Global B.V., Amsterdam, Netherlands ("TGB.V.").

Telefónica Deutschland Group did not report any material tax expense in the first half-year 2013, nor in the equivalent period in 2012.

The loss for the period of EUR 10m (H1 2012: profit for the period of EUR 299m) is explained by the aforementioned effects.

2.4. Financial position

2.4.1. Financing analysis

The following table shows the breakdown of the company's net financial debt.

Consolidated net financial debt evolution

Euros in millions

	June 30 2013	December 31 2012	Change	% Chg
Cash and cash equivalents	163	324	(160)	(49.5)
A Liquidity	**163**	**324**	**(160)**	**(49.5)**
B Current financial assets [1]	**98**	**0**	**97**	**> 100**
Current interest-bearing debt	251	251	(0)	(0.0)
Other current liabilities	3	4	(1)	(24.7)
C Current financial debt	**254**	**255**	**(1)**	**(0.4)**
D=C-A-B Current net financial debt	**(7)**	**(69)**	**62**	**89.6**
E Non-current financial assets	**56**	**94**	**(37)**	**(39.8)**
Non-current interest-bearing debt	1,000	1,000	0	–
Other non-current payables	4	5	(1)	(24.2)
F Non-current financial debt	**1,004**	**1,005**	**(1)**	**(0.1)**
G=F-E Non-current net financial debt	**947**	**911**	**36**	**4.0**
H=D+G Net financial debt [2]	**940**	**842**	**98**	**11.6**

[1] Current portion of "O_2 My Handy" receivables in the amount of EUR 196,830k in 2012 has not been considered in the calculation of the net financial debt in the year 2012.

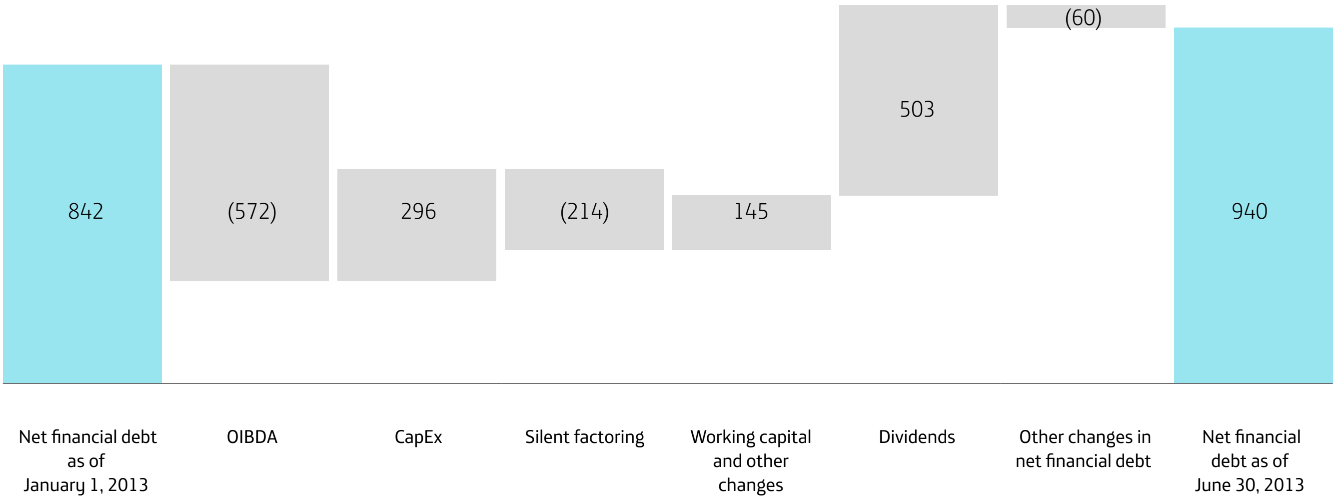
[2] Net financial debt includes all current and non-current interest-bearing financial assets and liabilities which are immediately available for the group without any restrictions. Net financial debt is calculated as follows: non-current interest-bearing debt + non-current finance leasing payables (EUR 3,778k in 2013 and EUR 4,985k in 2012) + current interest-bearing debt + other current finance leasing payables (EUR 2,986k in 2013 and EUR 3,964k in 2012) – the non-current "O_2 My Handy" receivables (EUR 56,434k in 2013 and EUR 93,770k in 2012) and since June 2013 the current portion of "O_2 My Handy" receivables (EUR 97,199k in 2013 and EUR 0k in 2012) – other current financial assets (EUR 352k in 2013 and EUR 101k in 2012) – cash and cash equivalents.
Note: The current portion of "O_2 My Handy" receivables is shown under trade and other receivables in the Consolidated Statement of Financial Position and the non-current portion of "O_2 My Handy" receivables is shown under other non-current financial assets in the Consolidated Statement of Financial Position.

As of June 30, 2013, net financial debt – i.e., loans less cash and cash equivalents, financial assets, and receivables – amounted to EUR 940m. This equated to an increase of EUR 98m or 11.6 percent compared with the position as of December 31, 2012. The increase in net financial debt over the first half of the year largely resulted from the lower balance of cash and cash equivalents as of June 30, 2013, which in turn was mainly attributable to the dividend payment of EUR 503m in May 2013. This contraction in liquidity caused by the dividend payment was partially offset by the execution of silent factoring for "O_2 My Handy" receivables in financial year 2013. A further factor with a compensating effect on the current net financial debt arose from the first-time inclusion of current "O_2 My Handy" receivables in current financial assets.

The following chart illustrates the change in net financial debt during the first six months of the 2013 financial year.

Net financial debt evolution

Euros in millions



2.4.2. Liquidity analysis

Interim Consolidated Statement of Cash Flows

Euros in millions

	January 1 to June 30	
	2013	**2012**
Cash and cash equivalents at beginning of period	**324**	**1,351**
Cash flows from operating activities from continuing operations	664	376
Cash flows from operating activities from discontinued operations [1]	–	192
Cash flows from operating activities	**664**	**568**
Cash flows from investing activities from continuing operations	(320)	(223)
Cash flows from investing activities from discontinued operations [1]	–	(0)
Cash flows from investing activities	**(320)**	**(223)**
Cash flows from financing activities from continuing operations	(505)	(2)
Cash flows from financing activities from discontinued operations [1]	–	0
Cash flows from financing activities	**(505)**	**(2)**
Net (decrease)/increase in cash and cash equivalents	**(160)**	**343**
Cash and cash equivalents at end of period	**163**	**1,693**

[1] No discontinued operations in 2013.

Consolidated Statement of Cash Flows

The following is an analysis of the changes in the liquidity of Telefónica Deutschland Group during the first six months of the 2013 and 2012 financial years. Total cash flows from operating, investing, and financing activities for the 2012 financial year comprise cash flows from both continuing and discontinued operations. Cash flows from discontinued operations include cash inflows from the following companies, which were sold effective as of October 1, 2012 and thus were no longer part of Telefónica Deutschland Group: Group 3G UMTS Holding GmbH, Munich, Quam GmbH, Munich, Telefónica Global Services GmbH, Munich, Telefónica Global Roaming GmbH, Munich, and Telefónica Compras Electrónicas, S.L., Madrid, Spain.

Cash flows from operating activities
Cash flows from operating activities for the first six months of the 2013 financial year amounted to EUR 664m, a year-on-year increase of EUR 96m despite the fact that the figure for 2013 did not include the contribution from the operating activities discontinued in 2012. This increase in the first six months of the 2013 financial year was the result of an improvement in working capital, which in turn was attributable especially to the increased use of silent factoring (EUR 214m) compared with first six months of the 2012 financial year (EUR 61m). Some of this improvement was offset by a fall in the profit or loss for the period in the first half of 2013.

Cash flows from investing activities
Cash flows from investing activities in the first six months of the 2013 financial year amounted to minus EUR 320m. Net cash outflows thus rose by EUR 97m or 43.2 percent year-on-year (H1 2012: minus EUR 223m). CapEx* (additions to intangible assets and property, plant, and equipment) in the first six months of the 2013 financial year totaled EUR 296m (H1 2012: EUR 271m). This equated to an increase of 9.4 percent. As in the 2012 financial year, the purpose of the higher capital spending was to secure our future growth by expanding our LTE network and 3G capacities.

Cash flows from financing activities
Cash flows from financing activities in the first six months of the 2013 financial year amounted to minus EUR 505m (H1 2012: minus EUR 2m). This meant there was a year-on-year increase in net cash outflows of EUR 503m, which was largely attributable to the dividend payment of EUR 503m.

Cash and cash equivalents
As of June 30, 2013, cash and cash equivalents had declined by EUR 160m compared with the figure as of December 31, 2012. This decrease was primarily attributable to the dividend payment, although some of the impact from the dividend payment was offset by the increased use of silent factoring. Cash and cash equivalents as of June 30, 2013 amounted to EUR 163m.

* Capital expenditure of EUR 308m on property, plant, and equipment and intangible assets as shown in the Consolidated Statement of Cash Flows (H1 2012: EUR 223m) plus the changes of EUR 7m in capital expenditure payables (H1 2012: minus EUR 5m) plus the changes in CapEx accruals (liabilities for outstanding invoices related to capital spending on intangible assets and property, plant, and equipment) of minus EUR 16m (H1 2012: EUR 38m) plus the change of minus EUR 2m in finance lease liabilities (H1 2012: EUR 15m) produces the CapEx figure of EUR 296m (H1 2012: EUR 271m). Ultimately, the CapEx figure equates to the additions to intangible assets and property, plant, and equipment.

Reconciliations of cash flows and OIBDA minus CapEx

Euros in millions

	January 1 to June 30			
	2013	2012	Change	% Chg
OIBDA	**572**	**597**	**(25)**	**(4.1)**
- CapEx	(296)	(271)	(26)	(9.4)
= Operating cash flow (OpCF)	**276**	**326**	**(50)**	**(15.4)**
+ Silent factoring	214	61	153	> 100
+/- Other working capital movements	(123)	(237)	114	48.0
Change in working capital	**91**	**(176)**	**267**	**n.m.**
+/- Gains (losses) from sale of fixed assets and other effects	0	(1)	1	n.m.
+ Net interest payments	(10)	3	(13)	> (100)
+ Payment on financial investments	(12)	0	(12)	n.m.
= Free cash flows pre dividends from continuing operations	**345**	**152**	**192**	**> 100**
-/+ Equity movements	(503)	0	(503)	n.m.
= Free cash flows post dividends from continuing operations	**(158)**	**152**	**(310)**	**> (100)**
+ Free cash flows post dividends from discontinued operations [1,2]	–	192	n.m.	n.m.
= Total free cash flows post dividends	**(158)**	**344**	**(502)**	**> (100)**

[1] No discontinued operations in 2013.
[2] OIBDA from discontinued operations of EUR 250m minus change in working capital of discontinued operations of EUR 60m plus other changes of EUR 2m.

Free cash flows
Free cash flows pre dividends from continuing operations rose by EUR 192m year-on-year and after the first six months of the 2013 financial year stood at EUR 345m (June 30, 2012: EUR 152m). The main reason for this increase was the higher contribution from the change in working capital* amounting to EUR 267m. Free cash flows pre dividends were reduced by a number of factors including the increase in CapEx of EUR 26m, payment on financial investments for a security retention in connection with silent factoring amounting to EUR 12m and the change in net interest payments of minus EUR 13m resulting from the financing costs in connection with the group's new capital structure.

Free cash flows post dividends from continuing operations only fell by EUR 310m to minus EUR 158m despite the dividend payment of EUR 503m.

The free cash flows post dividends from discontinued operations amounting to EUR 192m from the first six months of the 2012 financial year were mainly attributable to the operating business.

* Vice versa corrected for CapEx correction (see footnote on page 20)

2.5. Net assets

Interim Consolidated Statement of Financial Position

Euros in millions

	As of June 30 2013	As of December 31 2012	Change	% Chg
Intangible assets	3,782	3,983	(201)	(5.1)
Property, plant and equipment	2,905	2,973	(68)	(2.3)
Trade and other receivables	1,006	1,009	(3)	(0.3)
Other assets	743	781	(38)	(4.9)
Cash and cash equivalents	163	324	(160)	(49.5)
Total assets = Total equity and liabilities	**8,598**	**9,070**	**(472)**	**(5.2)**
Interest-bearing debt	1,251	1,251	(0)	(0.0)
Provisions	87	89	(2)	(2.4)
Trade and other payables	1,190	1,147	44	3.8
Deferred income	163	154	9	6.1
Equity	5,906	6,429	(523)	(8.1)

Intangible assets
As of June 30, 2013, intangible assets (including goodwill) amounted to EUR 3,782m, EUR 201m lower than the equivalent figure as of December 31, 2012. This decrease was largely the result of the amortization of EUR 261m recognized during the reporting period. Some of the decrease was offset by software additions in the reporting period amounting to EUR 60m.

Property, plant and equipment
Most of the decrease of EUR 68m in property, plant, and equipment to EUR 2,905m as of June 30, 2013 was attributable to depreciation on technical equipment and machinery (EUR 251m) and on buildings (EUR 36m). The impact from this expense was largely offset by additions to technical equipment and machinery (EUR 220m).

Trade and other receivables
As of June 30, 2013, trade and other receivables amounted to EUR 1,006m, a decline of EUR 3m on the figure as of December 31, 2012. This change was mainly caused by lower revenues in the first half of 2013 compared with the second half of 2012. Some of the impact from this change was offset by an increase in the level of current advance payments made to third parties as of June 30, 2013 compared with December 31, 2012.

Other assets
Compared with the figure as of December 31, 2012, other assets fell by EUR 38m to EUR 743m as of June 30, 2013. The primary reason was a drop of EUR 37m in non-current receivables under the "O_2 My Handy" model. Silent factoring was used to reduce these receivables to EUR 56m as of June 30, 2013. The impact of this decrease was partially offset by a EUR 12m increase in security retentions related to these transactions, to EUR 27m as of June 30, 2013. In addition, inventories fell by EUR 14m during the course of normal operating activities to EUR 71m as of June 30, 2013.

Cash and cash equivalents
Cash and cash equivalents after the first six months of the 2013 financial year totaled EUR 163m as against EUR 324m as of December 31, 2012. The decrease of EUR 160m or 49.5 percent was attributable to a number of factors. (For further details, please see section 2.4.2. Liquidity analysis).

Interest-bearing debt
In the first six months of the 2013 financial year, there were no changes in interest-bearing debt, which amounted to EUR 1,251m (including accrued interest) as of June 30, 2013. On September 12, 2012, Telefónica Germany GmbH & Co. OHG entered into agreements with TGB.V., the funding provider for Telefónica, S.A. Group, for loans totaling EUR 1,250m.

Trade and other payables
As of June 30, 2013, trade and other payables amounted to a total of EUR 1,190m, a year-on-year increase of EUR 44m or 3.8 percent (June 30, 2012: EUR 1,147m). This increase was largely attributable to electricity and rental expenses not yet invoiced.

Equity
As of June 30, 2013, equity had declined to EUR 5,906m, a decrease of EUR 523m or 8.1 percent. This decrease was largely accounted for by the dividend payment of EUR 503m in the second quarter of 2013.

3. Events after the reporting period

Telefónica Deutschland and Royal KPN N.V. ("KPN") have announced on July 23, 2013 that they have signed an agreement on the acquisition of KPN's German mobile telecommunications business E-Plus.

With this transaction Telefónica Deutschland will become a leading telecommunications company in Germany with a total of 43m customers and combined revenues of EUR 8.6bn (as of end 2012). Telefónica Deutschland expects significant synergy effects in particular with respect to distribution, customer service and network, with incremental value from additional revenue and other synergies. The enlarged company will be very well positioned to build one of the most modern high-speed networks in Germany. Various well established brands, the right infrastructure for fixed and mobile offers and a strong customer base will enable Telefónica Deutschland to further accelerate its growth strategy in a highly competitive market. With these assets the company will be well placed to deliver great experiences for all customers.

KPN shall receive a cash consideration of EUR 3.7bn and newly issued shares. The cash consideration payable to KPN is to be financed via a share capital increase of Telefónica Deutschland. Telefónica, S.A. will subscribe the issued shares proportionately to its current shareholding in Telefónica Deutschland. The new shares to be issued to KPN as further contribution will arise from a capital increase in kind providing KPN with a stake of 24.9 percent in Telefónica Deutschland after both capital increases. Subsequently, Telefónica, S.A. shall acquire shares amounting to 7.3 percent in Telefónica Deutschland from KPN. This will finally result in a shareholding of Telefónica, S.A. in Telefónica Deutschland of 65.0 percent and KPN of 17.6 percent, while the free float will be at 17.4 percent.

The execution of the transaction requires the approval of the general meeting of KPN and Telefónica Deutschland. Furthermore the transaction is subject to authority approvals and other customary closing conditions. The transaction is expected to be closed in mid 2014.

There were no other events subject to reporting after the reporting period.

4. Opportunities and risks report, outlook

4.1. Opportunities

In the opinion of our management and as of the time of preparing this report, there are no material changes to the opportunities presented in the "Opportunities" section of the Group Management Report for the financial year ended December 31, 2012.

Hence, there have been no relevant changes to the internally recorded opportunities compared with those in the Group Management Report for the financial year ended December 31, 2012.

4.2. Risks

There have been no fundamental changes in the overall risk position compared with that as of December 31, 2012 ("The risks" section). However, there have been some changes in specific risk exposures compared with the position at the end of 2012 and these changes are described below.

Introduction of SEPA procedures in 2014
Following the transposition of the EU's Single Euro Payments Area (SEPA) migration regulation (Regulation (EU) No. 260/2012) into national law, new provisions will apply from 2014 to financial transaction processes, particularly those involving credit transfers and direct debits. Telefónica Deutschland Group will also have to bring its internal processes, systems, and customer contracts in line with the new provisions and processes by February 1, 2014. An internal project has been initiated to ensure that the considerable technical, legal, and organizational adjustments have been completed by the deadline date. Telefónica Deutschland Group is exposed to the following potential risks if completion of the project is delayed because of unexpected problems:

- Considerable administrative costs if customer direct debit instructions have to be obtained again or retrospectively;
- Delayed collection of receivables resulting from invoice runs after February 2014 if direct debit instructions have not been obtained or internal processes have been inadequately adjusted;
- Restrictions or additional administrative expense to map the new procedures for obtaining direct debit instructions in online sales.

In order to mitigate the risk completely, we are working in close collaboration with Germany's Federal Financial Supervisory Authority (BaFin) and relevant banks to agree in advance alternative or transitional solutions that could be implemented if the necessary changes are not completed on time.

Rejection by the German Cartel Office (Bundeskartellamt) or the Federal Network Agency ("FNA" – Bundesnetzagentur, BNetzA) of the proposed collaboration between Telefónica Germany GmbH & Co. OHG and Telekom Deutschland GmbH for the joint use of VDSL and vectoring access technology
In May 2013, Telefónica Deutschland Holding AG announced that Telefónica Germany GmbH & Co. OHG intended to enter into an agreement with Telekom Deutschland GmbH for the joint use of Telekom Deutschland GmbH's DSL infrastructure. This agreement would give Telefónica Deutschland Group access to the VDSL infrastructure of Telekom Deutschland GmbH and all further future developments of this technology, thereby securing the group's future ability to offer competitive wireline broadband products that would always be state-of-the-art. The proposed collaboration agreement is subject to approval by the FNA and the German Cartel Office. If approval were not granted by the authorities, this could mean that the group would have to make additional capital investment in its own wireline infrastructure or that the group would be limited in its ability to offer technically-competitive products in the future.

We are in close contact with the relevant authorities to prevent these risks from materializing.

4.3. Outlook for Telefónica Deutschland Group until December 31, 2013

4.3.1. Economic outlook for Germany

The general conditions for the German economy remain favorable and it is therefore predicted that the positive economic growth in Germany will continue throughout 2013 at a rate of around 0.4 percent. Consumer sentiment also continues to be optimistic according to the German GfK ("Gesellschaft für Konsumforschung") research organization. A stable job market and labor contracts that benefit consumers are boosting income prospects for individuals. Businesses also anticipate an improvement in the economy, as demonstrated by the second successive increase in ifo's monthly Business Climate Index.

(Source: BMWi, Deutsche Bundesbank, GfK press release, ifo Institute, FocusEconomics Consensus Forecast Euro Area, July 2013)

4.3.2. Market expectations

The telecommunications market in Germany will continue to be driven by strong demand from customers for speed and quality, as well as seamless and permanent online connectivity for smartphones and other data-centric devices. The next generation (4G) of mobile data networks based on LTE-800 technology is already a commercial reality in Germany, with different networks being deployed by the three licensees at different stages of development. Core brands have established a similar commercial framework, structuring data-centric tariffs around volume and speed levels at a premium price over similar propositions based on the previous technology generation (3G), based on UMTS-2100.

According to forecasts by market researchers at EITO (European Information Technology Observatory), 28 million smartphones are likely to be sold in Germany in 2013, an increase of 29 percent on 2012. Smartphones are expected to account for more than 80 percent of total mobile phone sales this year and this percentage will continue to rise.

Regulation is mainly affecting mobile voice termination and roaming, and this, together with the transition to a more data-centric environment, is shaping the evolution of total revenues and profitability in the market. Changes in customer behavior, such as the generalized usage of alternative messaging to SMS, and increased competition in the more mature mobile 3G space is negatively affecting revenue and margin performances of current players. We nevertheless expect 4G to improve financials in the medium term, based on the rate of adoption of new devices and related tariffs.

The fixed market is also evolving in the same direction as mobile, based on the deployment of two competing high-speed technologies (Cable and VDSL), with an increasing demand for convergent solutions from customers.

4.3.3. Expectations for Telefónica Deutschland Group to December 31, 2013

In the opinion of our management and as of the time of preparing this report, the outlook presented in the Annual Report 2012 of Telefónica Deutschland still reflects the Company's medium-term expectations. Its strategy remains focused on gaining scale in the market, driven by an innovative multi-brand, data-centric approach.

The commercialization of 4G tariffs and devices (based on LTE-800), the strategic alignment with Telekom Deutschland GmbH for the provision of convergent services, and the progression of different transformation activities in place will be key for the future development of its relative position in the market and financial performance.

It is our expectation that the mobile market will continue to show a significant level of competition around smartphone 3G tariffs and devices. As such, 2013 is to be considered as a transition year to a new competitive environment based on 4G.

5. Significant transactions with related parties

For information on significant transactions with related parties, please refer to the “Related parties” section in the Condensed Notes for the period January 1 to June 30, 2013.

Munich, August 13, 2013

Telefónica Deutschland Holding AG
The management board

René Schuster | Rachel Empey | Markus Haas

Interim Consolidated Financial Statements

Consolidated Statement of Financial Position

Euros in thousands

Assets		Note	As of June 30 2013 (unaudited)	As of December 31 2012
A)	**Non-current assets**		**7,357,639**	**7,652,337**
	Goodwill		705,576	705,576
	Intangible assets		3,075,961	3,277,456
	Property, plant and equipment		2,904,995	2,973,440
	Other non-current financial assets	8	89,916	114,675
	Deferred tax assets		581,191	581,191
B)	**Current assets**		**1,240,596**	**1,417,469**
	Inventories		71,085	84,671
	Trade and other receivables		1,005,719	1,009,031
	Other current financial assets	8	352	101
	Cash and cash equivalents		163,440	323,666
Total assets (A+B)			**8,598,234**	**9,069,807**

Equity and liabilities		Note	As of June 30 2013 (unaudited)	As of December 31 2012
A)	**Equity**		**5,906,423**	**6,428,793**
	Common stock		1,116,946	1,116,946
	Additional paid-in capital		430	430
	Retained earnings		4,787,566	5,309,936
	Other components of equity		1,481	1,481
	Equity attributable to owners of the parent		5,906,423	6,428,793
B)	**Non-current liabilities**		**1,090,154**	**1,091,576**
	Non-current interest-bearing debt	8	1,000,000	1,000,000
	Other payables	8	7,617	9,193
	Non-current provisions		82,537	82,382
C)	**Current liabilities**		**1,601,657**	**1,549,438**
	Current interest-bearing debt	8	250,868	250,878
	Trade payables	8	1,006,446	918,458
	Other payables	8	176,223	219,130
	Current provisions		4,729	7,000
	Deferred income		163,391	153,972
Total equity and liabilities (A+B+C)			**8,598,234**	**9,069,807**

Consolidated Income Statement (unaudited)

Euros in thousands

	Note	April 1 to June 30		January 1 to June 30	
		2013	2012	2013	2012
Revenues	8	1,215,535	1,295,356	2,445,419	2,553,798
Other income		22,633	15,390	38,192	30,278
Supplies		(472,937)	(521,754)	(974,483)	(1,028,284)
Personnel expenses [1]	8	(102,515)	(102,050)	(207,589)	(206,342)
Other expenses [1]	8	(368,529)	(369,953)	(729,111)	(752,301)
Operating income before depreciation and amortization (OIBDA)		**294,186**	**316,989**	**572,428**	**597,149**
Depreciation and amortization		(286,302)	(279,445)	(566,387)	(547,748)
Operating income		**7,885**	**37,544**	**6,040**	**49,401**
Finance income		666	4,846	3,391	9,826
Exchange gains		170	276	296	325
Finance costs		(6,075)	(2,447)	(19,744)	(4,602)
Exchange losses		16	(473)	(175)	(1,090)
Net financial income (expense)	**8**	**(5,222)**	**2,203**	**(16,232)**	**4,459**
Profit (loss) before tax from continuing operations	**4**	**2,663**	**39,746**	**(10,191)**	**53,860**
Income tax		(1)	409	17	1,282
Profit (loss) for the period from continuing operations		**2,662**	**40,155**	**(10,174)**	**55,142**
Profit (loss) for the period from discontinued operations	**8**	**–**	**138,959**	**–**	**244,095**
Profit (loss) for the period		**2,662**	**179,114**	**(10,174)**	**299,237**
Profit (loss) for the period attributable to owners of the parent		**2,662**	**179,114**	**(10,174)**	**299,237**
Profit (loss) for the period		**2,662**	**179,114**	**(10,174)**	**299,237**
Earnings per share					
Basic earnings per share in EUR					
- from continuing operations		0.00	0.04	(0.01)	0.05
- from discontinued operations		–	0.12	–	0.22
Diluted earnings per share in EUR					
- from continuing operations		0.00	0.04	(0.01)	0.05
- from discontinued operations		–	0.12	–	0.22

[1] Reclassification of external personnel expenses into other expenses. Refer to Notes, section 8.

Consolidated Statement of Comprehensive Income (unaudited)

Euros in thousands

	April 1 to June 30		January 1 to June 30	
	2013	2012	2013	2012
Profit (loss) for the period	**2,662**	**179,114**	**(10,174)**	**299,237**
Other comprehensive income (loss)				
Items that may be reclassified subsequently to profit (loss)				
Gains (losses) on measurement of available-for-sale investments	–	–	–	–
Income tax impact	–	–	–	–
Items that will not be reclassified to profit (loss)				
Remeasurements of defined benefit plans	(9,571)	–	(9,571)	–
Income tax impact	–	–	–	–
Total other comprehensive income (loss)	**(9,571)**	**–**	**(9,571)**	**–**
Total comprehensive income (loss) recognized in the period	**(6,909)**	**179,114**	**(19,745)**	**299,237**
Total comprehensive income (loss) for the period attributable to owners of the parent	(6,909)	179,114	(19,745)	299,237
Total comprehensive income (loss)	**(6,909)**	**179,114**	**(19,745)**	**299,237**

Consolidated Statement of Cash Flows (unaudited)

Euros in thousands

	January 1 to June 30	
	2013	**2012**
Cash flows from operating activities		
Profit (loss) for the period	**(10,174)**	**299,237**
Adjustments to profit		
Net financial result	16,353	(5,224)
Gains on disposal of assets	(6)	(5)
Net income tax expense	(17)	(1,282)
Depreciation and amortization	566,387	549,473
Change in working capital		
Trade and other receivables	3,312	(308,944)
Inventories	13,586	(13,650)
Other current assets	(6,306)	2,867
Trade and other payables	56,998	62,294
Other current liabilities and provisions	7,147	(11,596)
Other non-current assets and liabilities	27,490	(8,908)
Interest received	2,237	8,151
Interest paid	(12,535)	(4,639)
Total cash flows from operating activities	**664,472**	**567,773**
Cash flows from operating activities from discontinued operations	**–**	**192,269**
Cash flows from operating activities from continuing operations	**664,472**	**375,504**
Cash flows from investing activities		
Proceeds on disposals of property, plant and equipment and intangible assets	12	4
Payments on investments in property, plant and equipment and intangible assets	(307,753)	(223,432)
Payments made on financial investments not included under cash equivalents	(12,147)	–
Total cash flows from investing activities	**(319,888)**	**(223,428)**
Cash flows from investing activities from discontinued operations	**–**	**(89)**
Cash flows from investing activities from continuing operations	**(319,888)**	**(223,339)**
Total cash flows from financing activities		
Proceeds from borrowing/debt	–	386
Repayment of borrowing/debt	(2,186)	(2,003)
Dividends paid	(502,625)	–
Total cash flows from financing activities	**(504,811)**	**(1,617)**
Cash flows from financing activities from discontinued operations	**–**	**24**
Cash flows from financing activities from continuing operations	**(504,811)**	**(1,641)**
Net increase (decrease) in cash and cash equivalents	**(160,226)**	**342,728**
Cash and cash equivalents at beginning of period	**323,666**	**1,350,651**
Cash and cash equivalents at end of period	**163,440**	**1,693,379**

Consolidated Statement of Changes in Equity (unaudited)

Financial position as of January 1, 2012
Profit (loss) for the period
Total comprehensive income (loss)
Other movements
Financial position as of June 30, 2012

Financial position as of January 1, 2013
Profit (loss) for the period
Total other comprehensive income (loss)
Total comprehensive income (loss)
Dividends
Financial position as of June 30, 2013

Euros in thousands

Common stock	Additional paid-in capital	Retained earnings	Other components of equity: Available-for-sale investments	Equity attributable to owners of the parent	Total equity
1,116,946	**–**	**11,164,353**	**1,345**	**12,282,644**	**12,282,644**
–	–	299,237	–	299,237	299,237
–	**–**	**299,237**	**–**	**299,237**	**299,237**
–	–	386	–	386	386
1,116,946	**–**	**11,463,976**	**1,345**	**12,582,267**	**12,582,267**
1,116,946	**430**	**5,309,936**	**1,481**	**6,428,793**	**6,428,793**
–	–	(10,174)	–	(10,174)	(10,174)
–	–	(9,571)	–	(9,571)	(9,571)
–	**–**	**(19,745)**	**–**	**(19,745)**	**(19,745)**
–	–	(502,625)	–	(502,625)	(502,625)
1,116,946	**430**	**4,787,566**	**1,481**	**5,906,423**	**5,906,423**

Condensed Notes

1. General

The registered office of Telefónica Deutschland Holding AG (hereinafter "Telefónica Deutschland", formerly "Telefónica Germany Verwaltungs GmbH" prior to September 26, 2012) is located at Georg-Brauchle-Ring 23-25, 80992, Munich, Germany.

The majority shareholder of Telefónica Deutschland, holding 76.83 percent of its shares, is Telefónica Germany Holdings Limited, Slough, United Kingdom, an indirect, wholly-owned subsidiary of Telefónica, S.A., Madrid, Spain (referred to as "Telefónica, S.A." and, together with its subsidiaries, associates, and joint arrangements, "Telefónica, S.A. Group"). The remaining 23.17 percent of the shares are free-floating.

The Interim Consolidated Financial Statements (hereinafter "Consolidated Financial Statements") of Telefónica Deutschland have been prepared for the period January 1 to June 30, 2013 and include Telefónica Deutschland as well as its direct and indirect subsidiaries and joint operations (together referred to as "Telefónica Deutschland Group" or "group").

Up until September 30, 2012, Telefónica Deutschland Group was comprised of two reportable segments according to IFRS 8:
- Telecommunications,
- Global Services.

The entities of the reportable segment "Global Services" (consisting of Telefónica Global Services GmbH, Munich ("TGS"), Telefónica Global Roaming GmbH, Munich ("TGR"), Telefónica Compras Electronicas, S.L., Madrid, Spain, and its forty-percent interest in Adquira España, S.A., Madrid, Spain ("Adquira") as well as Group 3G UMTS Holding GmbH, Munich ("G3G") and Quam GmbH, Munich ("Quam") were sold, effective October 1, 2012. Thus, Telefónica Deutschland Group consists of only one reportable segment as of June 30, 2013 (although both of the above segments still existed in the period covered by the 2012 comparative data). For further information, please refer to the Notes to the Consolidated Financial Statements for the year ended December 31, 2012 (Note 4, Segment Reporting).

Telefónica Deutschland Group is one of three integrated network operators in Germany that operate a wireline and a wireless network. It offers its private and business customers in both postpaid and prepaid segments wireless service products and data services using technologies such as Global Packet Radio Service ("GPRS"), Universal Mobile Telecommunications System ("UMTS") and Long Term Evolution ("LTE") as well as Digital Subscriber Line ("DSL") and Very High Speed Digital Subscriber Line ("VDSL") services. For further information, please refer to the Notes to the Consolidated Financial Statements for the year ended December 31, 2012 (Note 1, Reporting Entity).

Telefónica Deutschland Group is a sub-group within the group Telefónica, S.A., Madrid, Spain, and is included in the consolidated financial statements prepared by the latter.

2. Significant events and transactions

First annual general meeting and dividend distribution

Telefónica Deutschland Holding AG's first annual general meeting was held on May 7, 2013. During the meeting, the shareholders formally approved the actions of the supervisory and management boards and appointed the Munich office of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, which has its registered office in Stuttgart, as auditors for the group and for Telefónica Deutschland Holding AG. Additionally the annual general meeting resolved to pay a dividend of EUR 0.45 per dividend-bearing share, equating to a total distribution of EUR 502,625,430.00.

"Memorandum of Understanding" to expand cooperation on fixed-line network

In May 2013, the Telefónica Deutschland Group concluded a "Memorandum of Understanding" on the expansion of its cooperation in fixed-line network with Telekom Deutschland GmbH, via Telefónica Germany GmbH & Co. OHG. This covers increased future utilization of Telekom Deutschland GmbH's high-speed infrastructure by Telefónica Deutschland for its fixed-line network products. Within the framework of this cooperation, Telefónica Deutschland will be able to implement the transition from its own ADSL infrastructure to a sustainable NGA platform. Telefónica Deutschland will continue to make use of Telekom Deutschland GmbH's ramp-up VDSL and vectoring products. The migration is provisionally set for completion in 2019. The cooperation is to be put before the relevant authorities, such as the German Federal Network Agency and the German Cartel Office. The cooperation still requires a definitively binding contract with Telekom Deutschland GmbH. This contract is currently set to be concluded at the end of 2013, with cooperation scheduled to begin during 2014.

The proposed cooperation agreement is subject to approval by the German Federal Network Agency and the German Cartel Office. If approval were not granted by the authorities, this could require the group to make additional capital investment in its own wireline infrastructure or that it would be limited in its ability to offer technically competitive products in the future.

Formation of a new company

Telefónica Germany GmbH & Co. OHG established Telefónica Deutschland Finanzierungs GmbH on February 26, 2013 pursuant to its articles of association. The company was entered in the Commercial Register on March 14, 2013 with share capital of EUR 25k.

3. Basis of preparation of the Interim Consolidated Financial Statements

These Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting. Accordingly, the Interim Consolidated Financial Statements do not contain all of the information and disclosures required for a complete set of consolidated financial statements and should thus be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2012.

These Interim Consolidated Financial Statements were approved for publication by Telefónica Deutschland's management board on August 13, 2013.

These Interim Consolidated Financial Statements for the period ended June 30, 2013 are unaudited.

Unless otherwise stated, the figures in these Interim Consolidated Financial Statements are rounded and refer to thousands of euros (k EUR). For further information, please refer to the Notes to the Consolidated Financial Statements for the year ended December 31, 2012 (Note 2, Basis of Preparation).

In preparing these Interim Consolidated Financial Statements, the management board had to make certain judgments, estimates, and assumptions related to both the application of accounting policies and the reported amounts of the company's assets, liabilities, income and expenses. Actual amounts may be different from these estimates.

The material assumptions made by the management in applying Telefónica Deutschland Group's accounting policies and the main causes of estimation uncertainty during the preparation of these Interim Consolidated Financial Statements were the same as those assumptions and causes of estimation uncertainty in the Consolidated Financial Statements for the year ended December 31, 2012. For further information, please refer to the Consolidated Financial Statements for the year ended December 31, 2012 (Note 2, Basis of Preparation).

4. Segment reporting

Segment information

The accounting policies underlying the segment information remain the same as the accounting policies described in Note 3, Accounting Policies, in the Notes to the Consolidated Financial Statements for the year ended December 31, 2012.

Operating income before depreciation and amortization (OIBDA) before group fees ("adjusted OIBDA")

The group uses operating income before depreciation and amortization (OIBDA) as a performance indicator. OIBDA is calculated by excluding depreciation of property, plant, and equipment and amortization of intangible assets from operating income. This eliminates the impact of capital spending on property, plant, and equipment and intangible assets, over which management board has no direct control in the short term.

"Adjusted OIBDA" is calculated in the same way as OIBDA, but excludes group fees.

For further information, please refer to the Notes to the Consolidated Financial Statements for the year ended December 31, 2012 (Note 4, Segment Reporting).

Group fees

Group fees represent fees paid to Telefónica, S.A. Group under a range of agreements covering management and consulting services, licenses, cost sharing, and other services.

The following tables show the reportable segments and the reconciliation to Telefónica Deutschland Group's results for the first six months of the 2013 and 2012, as well as for the second quarter of 2013 and 2012:

	April 1 to June 30, 2013 (unaudited)					April 1 to June 30, 2012 (unaudited)
Euros in thousands	Telecommunications = Group	Telecommunications	Global Services (discontinued)	Total	Reconciliations	Group
Revenues	1,215,535	1,295,356	151,425	1,446,781	(151,423)	1,295,356
Thereof: Revenues from external customers	1,215,535	1,295,356	145,890	1,441,246	(145,890)	1,295,356
Thereof: Revenues from transactions with other operating segments	–	–	5,534	5,534	(5,534)	–
Adjusted OIBDA	309,846	334,027	138,755	472,782	(138,755)	334,027

	January 1 to June 30, 2013 (unaudited)					January 1 to June 30, 2012 (unaudited)
Euros in thousands	Telecommunications = Group	Telecommunications	Global Services (discontinued)	Total	Reconciliations	Group
Revenues	2,445,419	2,553,798	264,873	2,818,671	(264,873)	2,553,798
Thereof: Revenues from external customers	2,445,419	2,553,798	255,052	2,808,850	(255,052)	2,553,798
Thereof: Revenues from transactions with other operating segments	–	–	9,821	9,821	(9,821)	–
Adjusted OIBDA	603,475	628,677	240,604	869,281	(240,604)	628,677

Reconciliations

Euros in thousands

	April 1 to June 30 (unaudited)	
	2013	2012
Adjusted OIBDA reportable segments	309,846	472,782
- Adjusted OIBDA from discontinued operations	–	138,755
= Adjusted OIBDA of group (continuing operations)	**309,846**	**334,027**
- Group fees	(15,660)	(17,038)
= OIBDA of group (continuing operations)	**294,186**	**316,989**
- Depreciation and amortization	(286,301)	(279,445)
= Operating income (continuing operations)	**7,884**	**37,543**
+/- Net financial income (expense)	(5,222)	2,203
= Profit (loss) before tax from continuing operations	**2,663**	**39,746**

Euros in thousands

	January 1 to June 30 (unaudited)	
	2013	2012
Adjusted OIBDA reportable segments	603,475	869,281
- Adjusted OIBDA from discontinued operations	–	240,604
= Adjusted OIBDA of group (continuing operations)	**603,475**	**628,677**
- Group fees	(31,047)	(31,528)
= OIBDA of group (continuing operations)	**572,428**	**597,149**
- Depreciation and amortization	(566,387)	(547,748)
= Operating income (continuing operations)	**6,040**	**49,401**
+/- Net financial income (expense)	(16,232)	4,459
= Profit (loss) before tax from continuing operations	**(10,191)**	**53,860**

5. Accounting policies

The Interim Consolidated Financial Statements for the period ended June 30, 2013 have been prepared in accordance with the same accounting policies as those used to prepare the Consolidated Financial Statements for the year ended December 31, 2012, with the exception of the changes described below. For further details, please refer to the Notes to the Consolidated Financial Statements for the year ended December 31, 2012 (Note 3, Accounting Policies), which form the basis of these Interim Consolidated Financial Statements.

Telefónica Deutschland Group applies IAS 19R Employee Benefits, IAS 1R Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income, and IFRS 13 Fair Value Measurement from January 1, 2013 onward. Those standards are required to be adopted for annual periods beginning on or after January 1, 2013. Other new standards and interpretations that were required to be applied in annual periods beginning on or after January 1, 2013 had no relevance for the Telefónica Deutschland Group.

The presentation of the Consolidated Statement of Comprehensive Income has been adjusted in line with the requirements in IAS 1R (revised).

IAS 19R (revised) includes various new provisions relating to the accounting and reporting of employee benefits. Of particular relevance to Telefónica Deutschland Group was the replacement of the interest expense and the expected return on plan assets by a net interest amount. This is calculated by multiplying the net pension obligation or net debt by the discount rate determined at the beginning of the period. The net pension obligation is derived by subtracting the fair value of plan assets from the present value of the defined benefit obligations.

The changes resulting from the application of the revised IAS 19R have not had any material impact on the Interim Consolidated Financial Statements. Accordingly, the comparative figures for 2012 have not been restated.

IFRS 13 is a new standard introduced to ensure that fair value is measured on a consistent basis across all standards without extending the scope of application in these standards. Additionally IFRS 13 also includes enhanced disclosure requirements. IFRS 13 needs to be applied prospectively for financial years beginning on or after January 1, 2013. Initial application of IFRS 13 fair value measurement in the reporting period did not result in any material impact on the valuations in the Interim Consolidated Financial Statements.

Telefónica Deutschland Group early adopted IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities on January 1, 2013. Consequently, the group also adopted the associated changes to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures at the same time. The result of applying the classification requirements specified by IFRS 11 was that Telefónica Deutschland Group's two existing joint ventures, TCHIBO Mobilfunk GmbH & Co. KG, Hamburg, and TCHIBO Mobilfunk Beteiligungs GmbH, Hamburg, needed to be classified as joint operations as defined by IFRS 11. Ultimately, the accounting outcome was the same as that from the proportionate consolidation method previously applied in accordance with IAS 31. In all other respects, the early application of these IFRSs had no material impact on the Interim Consolidated Financial Statements for the period ended June 30, 2013.

6. Comparative information

The Consolidated Statement of Financial Position presented in these Interim Consolidated Financial Statements compares figures as of June 30, 2013 and December 31, 2012. The Consolidated Income Statement and the Consolidated Statement of Comprehensive Income compare figures for the six-month periods ended June 30, 2013 and June 30, 2012 and the figures for the second quarter in financial years 2013 and 2012. The Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity compare figures for the six-month periods ended June 30, 2013 and June 30, 2012.

To date, the trends in operating income have not shown any indication that the business is subject to significant seasonal fluctuations.

7. Related parties

As of June 30, 2013, there had been no material changes in the nature or amount of Telefónica Deutschland Group's transactions with related parties compared to December 31, 2012. For further details, please refer to the Notes to the Consolidated Financial Statements for the year ended December 31, 2012 (Note 11, Related Parties).

8. Selected explanatory notes

Selected explanatory notes to the Consolidated Statement of Financial Position

Financial assets and liabilities
As of June 30, 2013 the carrying value of significant financial assets and liabilities of Telefónica Deutschland Group is a reasonable approximated value for their fair value. As at the reporting date, no significant financial assets and liabilities are measured at fair value.

For further information, please refer to the Consolidated Financial Statements for the year ended December 31, 2012 (Note 16, Financial Assets and Liabilities).

Trade and other payables
The breakdown of trade and other payables is as follows:

	As of June 30, 2013 (unaudited)		As of December 31, 2012	
Euros in thousands	Non-current	Current	Non-current	Current
Trade payables	–	328,520	–	379,402
Accruals	–	458,724	–	328,254
Payables to related parties	–	219,202	–	210,802
Trade payables	**–**	**1,006,446**	**–**	**918,458**
Other payables	**7,617**	**176,223**	**9,193**	**219,130**
Total	**7,617**	**1,182,669**	**9,193**	**1,137,588**

The accruals mainly relate to obligations from outstanding invoices.

The breakdown of other payables is as follows:

Euros in thousands	As of June 30, 2013 (unaudited)	As of December 31, 2012
Current other payables		
Other creditors non-trade	59,105	63,665
Capital creditors	62,733	78,870
Other taxes and social security	31,188	41,535
Current other payables to related parties	20,211	31,096
Finance leasing	2,986	3,964
Total current	**176,223**	**219,130**
Non-current other payables		
Other creditors non-trade	3,839	4,208
Finance leasing	3,778	4,985
Total non-current	**7,617**	**9,193**
Total other payables	**183,840**	**228,323**

Selected explanatory notes to the Consolidated Income Statement

Discontinued operations

Effective October 1, 2012, Telefónica Deutschland Group sold as part of a single transaction:

- its entire Global Services segment and
- the following companies: Group 3G UMTS Holding GmbH and Quam GmbH.

The entities that were part of the transaction were reported as discontinued operations in 2012.

The following table shows the breakdown of the income statement figures attributable to discontinued operations for the first half of 2012:

Euros in thousands	April 1 to June 30 2012 (unaudited)	January 1 to June 30 2012 (unaudited)
Revenues	151,425	264,873
Other income	3,262	3,328
Finance income	18,146	25,010
Supplies	(144)	(291)
Personnel expenses	(5,666)	(11,296)
Other expenses	(4,590)	(6,191)
Depreciation and amortization	(869)	(1,729)
Financial charges	(17,755)	(23,833)
Profit (loss) before tax from discontinued operations	**143,809**	**249,872**
Income tax	(4,850)	(5,777)
Profit (loss) for the period from discontinued operations	**138,959**	**244,095**

Revenues

The breakdown of revenues is as follows:

	April 1 to June 30 (unaudited)		January 1 to June 30 (unaudited)	
Euros in thousands	2013	2012	2013	2012
Rendering of services	1,059,174	1,133,617	2,107,659	2,244,927
Other sales	156,361	161,739	337,760	308,871
Total	**1,215,535**	**1,295,356**	**2,445,419**	**2,553,798**

The breakdown of revenues by wireless and wireline/DSL business is shown in the following table:

	April 1 to June 30 (unaudited)		January 1 to June 30 (unaudited)	
Euros in thousands	2013	2012	2013	2012
Revenues				
Wireless business	**902,786**	**950,105**	**1,816,290**	**1,854,450**
Wireless service revenues	748,066	789,333	1,481,230	1,547,602
Handset revenues	154,720	160,772	335,060	306,848
Wireline business	**311,107**	**344,284**	**626,429**	**697,325**
Other revenues	**1,642**	**967**	**2,700**	**2,023**
Total	**1,215,535**	**1,295,356**	**2,445,419**	**2,553,798**

Personnel expenses and other expenses

In the first half of financial year 2013, personnel expenses amounted to EUR 207,589k (H1 2012: EUR 206,342k). In the second quarter 2013 these expenses amounted to EUR 102,515k (2012: EUR 102,050k). Since January 1, 2013, Telefónica Deutschland Group has reported expenses for external personnel services under other expenses. The comparative figures for the first half of 2012 have been reclassified accordingly. In the Consolidated Financial Statements for the year ended December 31, 2012, these expenses were reported under personnel expenses. Expenses for external personnel services in the first half of 2013 amounted to EUR 20,212k (H1 2012: EUR 20,432k). In the second quarter 2013 these expenses amounted to EUR 9,808k (2012: EUR 9,207k). The purpose of this change in presentation was to improve the transparency of the information reported in the Consolidated Financial Statements.

Net financial income (expense)

In the first six months of 2013, Telefónica Deutschland Group incurred a net financial expense of EUR 16,232k (H1 2012: net financial income of EUR 4,459k). In the second quarter 2013 the group incurred a net financial expense of EUR 5,222k (2012: EUR 2,203k). This change was primarily attributable to higher finance costs as a result of a loan drawn down in September 2012 by Telefónica Germany GmbH & Co. OHG, Munich, from Telfisa Global B.V., Amsterdam, Netherlands.

9. Events after the reporting period

Telefónica Deutschland and Royal KPN N.V. ("KPN") have announced on July 23, 2013 that they have signed an agreement on the acquisition of KPN's German mobile telecommunications business E-Plus.

With this transaction Telefónica Deutschland will become a leading telecommunications company in Germany with a total of 43m customers and combined revenues of EUR 8.6bn (as of end 2012). Telefónica Deutschland expects significant synergy effects in particular with respect to distribution, customer service and network, with incremental value from additional revenue and other synergies. The enlarged company will be very well positioned to build one of the most modern high-speed networks in Germany. Various well established brands, the right infrastructure for fixed and mobile offers and a strong customer base will enable Telefónica Deutschland to further accelerate its growth strategy in a highly competitive market. With these assets the company will be well placed to deliver great experiences for all customers.

KPN shall receive a cash consideration of EUR 3.7bn and newly issue shares. The cash consideration payable to KPN is to be financed via a share capital increase of Telefónica Deutschland. Telefónica, S.A. will subscribe the issued shares proportionately to its current shareholding in Telefónica Deutschland. The new shares to be issued to KPN as further contribution will arise from a capital increase in kind providing KPN with a stake of 24.9 percent in Telefónica Deutschland after both capital increases. Subsequently, Telefónica, S.A. shall acquire shares amounting to 7.3 percent in Telefónica Deutschland from KPN. This will finally result in a shareholding of Telefónica, S.A. in Telefónica Deutschland of 65.0 percent and KPN of 17.6 percent, while the free float will be at 17.4 percent.

The execution of the transaction requires the approval of the general meeting of KPN and Telefónica Deutschland. Furthermore the transaction is subject to authority approvals and other customary closing conditions. The transaction is expected to be closed in mid 2014.

No other reportable events occurred in the period after the reporting date.

Munich, August 13, 2013

Telefónica Deutschland Holding AG
The management board

René Schuster | 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 Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the group, and the Interim Group Management Report includes a fair review of the development and performance of the business, and the position of the group, together with a description of the material opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Munich, August 13, 2013

Telefónica Deutschland Holding AG
The management board

René Schuster Rachel Empey Markus Haas

Auditor's review report (Bescheinigung nach prüferischer Durchsicht)

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 cash flows, the consolidated statement of changes in equity and condensed notes, and the interim group management report of Telefónica Deutschland Holding AG, Munich, for the period from 1 January 2013 to 30 June 2013, which are part of the half-year 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 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) and in supplementary compliance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". 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 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

Glossary

3G	Third-generation mobile communications standard supporting higher transmission rates (see UMTS)
4G	Fourth-generation mobile communications (see LTE)
ADSL	Assymetrical Digital Subscriber Line (see DSL)
ARPU	Average Revenue per User
BaFin	German Federal Financial Supervisory Authority
Broadband	Refers to telecommunication in which a wide band of frequencies is available to transmit information
BU-LRIC	Bottom-up long-run-incremental costs: Cost accounting model for the wireless and wireline sector, based on a long-term view.
CapEx	Capital Expenditure: Additions in fixed and intangible assets (excl. goodwill)
Cloud Service	Cloud services are dynamic infrastructure, software or platform services provided online
Cross-selling	Marketing term denoting the sale of related or complementary products or services
DSL	Digital Subscriber Line, technology to transmit data in the local loop to private end-customers
FNA	Federal Network Agency: Bundesnetzagentur
FTR	Fixed Termination Rates
GPRS	Wireless technology for data transfer in GSM networks
GSM	Global System for Mobile Communications: This is the global standard for digital mobile communications.
H1	First half of the year
Hosting	Providing storage capacity via the Internet
iOS	Standard operating system for Apple products
Joint arrangement	Two or more companies founding a new enterprise for cooperation
LTE	Long Term Evolution: Further development of the UMTS/HSPA mobile communications standard
LTM	Last Twelve Months
M2M	Machine-to-machine communication, automatic exchange of information between machines
MMS	Multimedia Messaging Service

mpass	Mobile payment service
MTR	Mobile Termination Rates
NFC	Near Field Communication: a short-range wireless connectivity standard
NGA	Change of the existing wireless network to internet-platform technology
n.m.	not measured or not meaningful
OIBDA	Operating Income before Depreciation and Amortization
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
SIP	Session Initiation Protocol: an Internet Engineering Task Force (IETF) standard protocol for initiating an interactive user session that involves multimedia elements such as video, voice, chat, gaming and virtual reality
SIM	Subscriber Identity Module, a chipcard to insert into a mobile phone that identifies the user within the network
Smartphone	Wireless handset that can be used as a mobile phone, a web browser, and an e-mail reader simultaneously
SMS	Short Message Service
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 2 GHz
VDSL	Very High Speed Digital Subscriber Line: DSL technology with data transmission faster than ADSL over telephone lines
Wholesale	Selling services to third parties who sell them to their own end-customers either directly or after further processing

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