

O2 Telefónica Deutschland Finanzierungs GmbH Munich

**Interim condensed financial statements and
interim management report**

30 June 2017

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

Statement of Financial Position as of 30 June 2017

Assets	30.06.2017 EUR	31.12.2016 EUR	Equity and liabilities	30.06.2017 EUR	31.12.2016 EUR
A. Fixed assets			A. Equity		
Financial assets			Nominal capital	25.000,00	25.000,00
Loans to affiliated companies	1.100.000.000,00	1.100.000.000,00		25.000,00	25.000,00
	1.100.000.000,00	1.100.000.000,00	B. Provisions		
B. Current assets			Other provisions	17.500,00	69.042,00
Receivables and other assets				17.500,00	69.042,00
Receivables from affiliated companies	11.532.853,32	11.901.655,32	C. Liabilities		
--thereof due from shareholders EUR 11,504,938.32 (previous year: EUR 11,879,825.22)--			1. Bonds	1.100.000.000,00	1.100.000.000,00
	11.532.853,32	11.901.655,32	--thereof with a remaining term of more than 1 years EUR 1,100,000,000.00 (previous year: EUR 1.100.000.000.00)--		
C. Prepaid expenses	3.597.100,00	4.497.400,00	2. Other liabilities	11.490,353,32	11.807,613,32
			--thereof with a remaining term of less than one year EUR 11.490.353,32 (previous year: EUR 11.807,613,32)--		
				1.111.490,353,32	1.111.807,613,32
			D. Deferred income		
				3.597,100,00	4.497,400,00
Total assets	1,115,129,953.32	1,116,399,055.32	Total equity and liabilities	1,115,129,953.32	1,116,399,055.32

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

**Income Statement
for the Reporting Period from 1 January 2017 to 30 June 2017**

	01.01.2017 - 30.06.2017	01.01.2016 - 30.06.2016
	EUR	EUR
1. Other operating income	103.390,21	120.401,56
2. Other operating exepenses	-103.390,21	-120.401,56
3. Other interest and similar income --thereof from affiliated companies EUR 12,549,342.48 (previous year: EUR 225,088,369.05)--	12.549.342,48	12.549.820,67
4. Interest and similar expenses	-12.549.342,48	-12.549.820,67
5. Profit/Loss before profit-and-loss transfer	0,00	0,00
6. Profit share to which Telefónica Germany GmbH & Co OHG entitled in event of profit transfer based on profit	0,00	0,00
7. Profit/Loss after profit-and-loss transfer	0,00	0,00

O2 Telefónica Deutschland Finanzierungs GmbH**Munich****Statement of Cash Flows
for the Financial Year from 1 January 2017 to 30 June 2017**

	01.01.2017- 30.06.2017	01.01.2016- 30.06.2016
	EUR	EUR
1. Cash flow from operating activities		
Increase (+)/decrease (-) in other provisions	-51.542,00	-4.760,00
Increase (+)/decrease (-) in inventories, trade accounts receivable and other assets	357.563,55	299.294,36
Increase (+)/decrease (-) in trade accounts payable and other liabilities	-317.260,00	-312.178,28
Cash flow from operating activities	-11.238,45	-17.643,92
2. Cash flow from investing activities		
Interest received (+)	11.875.000,00	11.875.000,00
Cash flow from investing activities	11.875.000,00	11.875.000,00
3. Cash flow from financing activities		
Interest paid (-)	-11.875.000,00	-11.875.000,00
Cash flow from financing activities	-11.875.000,00	-11.875.000,00
4. Cash and cash equivalents at the end of the period		
Cash-effective change in cash and cash equivalents	-11.238,45	-17.643,92
Cash and cash equivalents at the beginning of the period	21.508,40	33.875,21
Cash and cash equivalents at the end of the period	10.269,95	16.231,29
5. Composition of cash and cash equivalents		
Cash equivalents	10.269,95	16.231,29
Cash and cash equivalents at the end of the period	10.269,95	16.231,29

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

Statement of Changes in Equity

for the Financial Year from 1 January 2017 to 30 June 2017

	Nominal capital	Net income for the year	Equity
	EUR	EUR	EUR
As of 1 January 2017	25.000,00	0,00	25.000,00
As of 30 June 2017	25.000,00	0,00	25.000,00
As of 1 January 2016	25.000,00	0,00	25.000,00
As of 30 June 2016	25.000,00	0,00	25.000,00

O2 Telefónica Deutschland Finanzierungs GmbH, Munich

Condensed Notes to the Interim Financial Statements for the reporting period from 1 January 2017 to 30 June 2017

I. GENERAL INFORMATION ABOUT THE INTERIM FINANCIAL STATEMENTS

Telefónica Deutschland Finanzierungs GmbH, Munich, was established by notary deed on 26 February 2013 for the purpose of financing the Telefónica Deutschland Group. The nominal capital was paid in on 6 March 2013. Telefónica Deutschland Finanzierungs GmbH, Munich, was renamed O2 Telefónica Deutschland Finanzierungs GmbH, Munich, (referred to as “TDF” or the “Company”) with effect from 7 November 2013. The Company is registered in the commercial register of the local court in Munich under registration number HRB 204122.

In November 2013, TDF issued a five-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 600,000 thousand and a maturity on 22 November 2018 in the regulated market of the Luxembourg Stock Exchange.

Furthermore, in February 2014, TDF issued a seven-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 500,000 thousand and a maturity on 10 February 2021 in the regulated market of the Luxembourg Stock Exchange.

The interim financial statements of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, for the reporting period from 1 January 2017 to 30 June 2017 have been prepared in accordance with the accounting principles of the German Commercial Code (HGB) in the Version of the Accounting Directive Implementation Act (BilRUG) as well as the GmbH Act (Act relating to limited liability companies, GmbHG).

As of 30 June 2017, the Company is classified as a large corporation in accordance with section 264d in conjunction with section 267 (3) HGB.

The financial year of the Company corresponds to the calendar year.

The income statement has been prepared using the nature of expense method in accordance with section 275 (2) HGB. The classification has been adjusted according to the regulations of the German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz, BilRUG). There were no content-related reclassifications among profit and loss line items. Additions of the figures may result in sums different from those shown in the tables.

II. ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim financial statements for the interim period ending 30 June 2017 are in accordance with the provisions of sections 242 to 256a and sections 264 to 288 of the HGB as well as the relevant provisions of the GmbHG. The accounting policies did not change year on year. In the fiscal year 2016 the regulations of BilRUG have been applied for the first time.

The interim statement of financial position presented in these interim financial statements relates to information as of 30 June 2017, which is compared against information as of the previous year-end, 31 December 2016. The income statement as well as the result covers the interim six-month periods ended 30 June 2017 and 30 June 2016 respectively.

Based on the existing profit and loss transfer agreement with Telefónica Germany GmbH & Co. OHG, Munich, the result from ordinary business activities for the interim period is already presented as expected profit and loss transfer. The expense from an expected profit transfer is provided for and recognised as other provisions, the income from a loss compensation is presented as receivable from Telefónica Germany GmbH & Co. OHG, Munich.

III. NOTES TO THE BALANCE SHEET

1. Financial assets

The financial assets as of 30 June 2017 consist of two loans in the amount of EUR 600,000 thousand and EUR 500,000 thousand respectively, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying five- and seven-year bonds which TDF issued on 22 November 2013 and 10 February 2014 respectively. The loans have fixed terms until the date of maturity of the underlying bonds on 22 November 2018 and 10 February 2021 respectively and are repayable in one amount on the due date, including all interest and costs which have not yet been paid. The underlying interest rates are 1.875% and 2.375% respectively and are payable annually on 22 November and 10 February respectively.

Please see the statement of changes in fixed assets for further information:

Statement of Changes in Fixed Assets for the Period from 01 January 2017 to 30 June 2017

	Acquisition costs				Accumulated depreciation				Carrying amounts	
	01.01.2017	Additions	Disposals	30.06.2017	01.01.2017	Additions	Disposals	30.06.2017	30.06.2017	01.01.2017
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Financial assets										
Loans to affiliated companies	1.100.000.000,00	0,00	0,00	1.100.000.000,00	0,00	0,00	0,00	0,00	1.100.000.000,00	1.100.000.000,00
	1.100.000.000,00	0,00	0,00	1.100.000.000,00	0,00	0,00	0,00	0,00	1.100.000.000,00	1.100.000.000,00

2. Receivables and other assets

The receivables due from affiliated companies amount to EUR 11,533 thousand (31 December 2016: EUR 11,902 thousand), EUR 11,505 thousand (31 December 2016: EUR 11,880 thousand) are attributable to receivables due from the shareholder Telefónica Germany GmbH & Co. OHG, Munich. These comprise claims to interest from loans issued to the shareholder in the amount of EUR 11,495 thousand (31 December 2016: EUR 11,495 thousand). The maturity of these receivables is less than one year.

3. Prepaid expenses

This item includes the updated disagios from the issuance of the bonds for the five-year bond issued in November 2013 and for the seven-year bond issued in February 2014. Issuing fees for the five-year bond and for the seven-year bond are also included. All elements are released on a pro-rata basis over the terms of the underlying bonds until 22 November 2018 and 10 February 2021 respectively.

4. Nominal capital

The nominal capital remains unchanged, amounts to EUR 25,000.00 and is fully paid. It is held entirely by Telefónica Germany GmbH & Co. OHG, Munich.

5. Provisions

Other provisions in the amount of EUR 18 thousand (31 December 2016: EUR 69 thousand) mainly results from consultancy and audit fees.

6. Liabilities

The liabilities include two bonds with a nominal value of EUR 1,100,000 thousand in total. Thereof the five-year bond amounts to EUR 600,000 thousand, with a maturity on 22 November 2018. Besides, the seven-year bond amounts to EUR 500,000 thousand with a maturity on 10 February 2021, constituting a liability with a remaining period of less than five years. Both bonds are guaranteed by Telefónica Deutschland Holding AG, Munich.

The other liabilities include interest payable in relation to the bonds in the amount of EUR 11,490 thousand (31 December 2016: EUR 11,808 thousand).

7. Deferred income

Deferred income results from the updated differences between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich. The deferred items are released over the term of the underlying five- and seven-year loan.

IV. NOTES TO THE INCOME STATEMENT

Other operating income and expenses

Other operating income amounting to EUR 103 thousand (30 June 2016: EUR 120 thousand) mainly results from cost transfers to Telefonica Germany GmbH & Co. OHG, Munich. Other operating expenses that relate to the transferred costs amount to EUR 103 thousand (30 June 2016: EUR 120 thousand) and mainly consist of bank charges, audit and consultancy fees.

Financial result

Other interest and similar income in the amount of EUR 12,549 thousand (30 June 2016: EUR 12,550 thousand) mainly result from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich, EUR 11,649 thousand (30 June 2016: EUR 11,650 thousand)). Furthermore, EUR 900 thousand (30 June 2016: EUR 900 thousand) result from the release of the deferred income.

Interest and similar expenses in the amount of EUR 12,549 thousand (30 June 2016: EUR 12,550 thousand) include interest expense from the bonds of EUR 11,649 thousand (30 June 2016: EUR 11,650 thousand) and the release of prepaid expenses in relation to the two disagios of EUR 900 thousand (30 June 2016: EUR 900 thousand) until the date of maturity of the bonds.

VI. ADDITIONAL DISCLOSURES ON THE NOTES

Report of events after the reporting period

Change in management at O2 Telefónica Deutschland Finanzierungs GmbH

As of July 31, 2017, Rachel Empey left the Telefónica Deutschland Group and thus also stepped down from the management of O2 Telefónica Deutschland Finanzierungs GmbH, Munich. Markus Rolle moved to the management of TDF as of August 01, 2017.

There were no more significant events after the reporting period.

Consolidated Financial Statements

The company that prepares the Interim Group Report for the smallest group of companies in which the Company is included is Telefónica Deutschland Holding AG, Munich. The Interim Group Report is published in the Federal Gazette and can be viewed there and on the website www.telefonica.de. The Interim Group Report of Telefónica Deutschland AG, Munich, is included in the Interim Group Report of the Spanish parent company, Telefónica S.A., Madrid, Spain. Telefónica S.A., Madrid, Spain, prepares the Interim Group Report for the largest group of companies. These Interim Consolidated Financial Statements are available from Telefónica S.A., Madrid, Spain, and are published online at www.telefonica.com.

Cost reimbursement agreement

There is an agreement between TDF and Telefónica Germany GmbH & Co. OHG, Munich, for costs to be transferred to the shareholder.

Profit and loss transfer agreement

On 20 March 2013, TDF signed a control agreement with the controlling company Telefónica Germany GmbH & Co. OHG, Munich. In addition, on 20 March 2013, TDF also signed a profit and loss transfer agreement with Telefónica Germany GmbH & Co. OHG, Munich. This has been recorded in the Commercial Register on 2 April 2013.

The result at the end of the financial year 2017 will be transferred to or taken over by Telefónica Germany GmbH & Co. OHG, Munich.

Munich, 10 August 2017

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Markus Haas

Markus Rolle

Albert Graf

Interim Management Report

O2 Telefónica Deutschland Finanzierungs GmbH, Munich

Management Report for the Interim Reporting Period from 1 January 2017 to 30 June 2017

1. Business and General Conditions

O2 Telefónica Deutschland Finanzierungs GmbH based in Munich, (referred to as “TDF” or the “Company”) acts as the financing company for the Telefónica Deutschland Group and its operating entities. The following overall economic and legal conditions for the operating entities are thus indirectly also relevant for TDF.

Solid economic development in Germany

The German economy remains on its growth path: According to calculations by the German Federal Statistical Office, gross domestic product (GDP) adjusted for calendar effects increased by 0.6 % in the first quarter of 2017 compared with Q4 2016. Positive effects on a quarter-on-quarter comparison came from both domestic and abroad. German consumers displayed extremely positive sentiment in the first months of 2017 despite global economic setbacks. In May 2017, the indicator of economic expectations improved for the third time in succession to reach the highest level for two years. Income expectations also continued to improve on the back of the extremely positive situation on the German labour market: According to the German Federal Statistical Office, 43.7 million people were employed in Germany in the first quarter of 2017.

Trends on the German telecommunications market bring growth potential

The telecommunications industry is a major trailblazer for digitalisation, a process that is advancing and changing the world for the long term. This is leading to various trends in the telecommunications market:

The use of mobile devices such as smartphones, tablet computers and wearables is extremely important. The smartphone has developed from a communications device into a universal mobile companion. 61 % of people cannot imagine life without a smartphone, and the figure for 14- to 29-year-olds is as high as 70 %. Numerous services and apps, such as messaging and surfing the Internet, are now considered to be indispensable by a majority of Germans. On the one hand, smartphones are replacing products like digital compact cameras, mobile navigation devices and mp3 players. On the other hand, they are driving development on the market as interconnection with other devices opens up new growth areas. The smartphone is establishing itself as the control centre for other networked devices, and the range of potential applications is growing with every passing year. For example, smartphones can be used for the wireless transfer of music to multi-room systems, or smart TVs can be operated using an app. Household devices can also be activated and controlled remotely by smartphone. Wearables introduce additional functions and intelligent sensors to the smartphone concept.

In addition to connecting people, the intelligent connection of things via the internet (IoT) offers numerous application and growth opportunities, such as Industry 4.0, connected cars, smart health, smart energy and smart cities. Another trend is data analytics, which is facilitating new insights as well as new business models.

Demand for mobile data services and increased competition drives market development

With 117.5 million customers (SIM cards) at the end of March 2017, the German mobile telecommunications market is the largest in the EU. The notional mobile penetration rate was 143 %, i.e. each German citizen has an average of 1.4 mobile SIM cards. The customer growth from January to March 2017 remained attributable primarily to the more valuable postpaid sector. Overall, postpaid customers made up 53.4 % of total connections as of the end of March 2017. This share had been 52.5 % at the end of March 2016.

The mobile telecommunications market continued to develop dynamically in the first half of 2017, driven primarily by the strong demand for attractive smartphones and smartphone tariffs. According to a survey by the industry association Bitkom, 78 % of German citizens aged 14 or older used a smartphone as of the start of 2017. However, a slowdown in the growth of the smartphone market can be observed, driven by its increasing saturation and the fact that smartphones are being used for longer. According to the German Association for Consumer and Communication Electronics (gfu), around 6.85 million smartphones were sold in the period from January to March 2017, equating to a drop of over 2 % compared with the same period of the previous year.

Mobile media use resulted in growing mobile data usage. According to the German Federal Network Agency (BNetzA), 918 million GB of data were transmitted on mobile networks in 2016, or 60 % more than in 2015 (575 million GB).

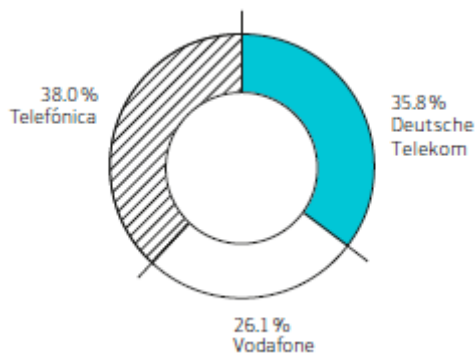
The increasing penetration of mobile end-devices with internet capability, such as smartphones or tablets, and the increasing use of mobile data services are also evident in the strong growth of revenues from mobile data in the German market: according to figures from Ovum, mobile data revenues increased by 10 % in 2016 compared with the previous year, with year-on-year growth of 13 % forecast for 2017. By contrast, revenues from mobile telephony and SMS have fallen, driven by price decline, regulatory effects and changes in customer behaviour.

Sources: Company Data, Analysys Mason, Bundesbank, Bitkom, BMWi, Federal Statistical Office

The German mobile telecommunications market is an established market

Following the merger of the Telefónica Deutschland Group with the E-Plus Group, the German mobile telecommunications market consists of three network operators and several service providers and mobile virtual network operators (MVNO). As of the end of March 2017, the Telefónica Deutschland Group had a market share of 38.0 % with 44.7 million connections. It is therefore the largest German mobile telecommunications network operator in terms of number of customer connections.

Market share in the mobile telecommunications market per customer (in %) at the end of March 2017



Source: Company data/quarterly reports

German fixed line market characterised by strong competition

Intense competition also still prevails on the German market for fixed line broadband services. The number of connections increased by 3.1 % compared to the previous year; the customer base therefore grew to 31.5 million by the end of December 2016. This growth was driven in particular by cable and VDSL lines. Cable connections now account for more than 23 % of this figure. VDSL is also enjoying strong growth. According to BNetzA figures, around 7.2 million customers were using VDSL at the end of 2016, 50 % more than one year earlier. The increased customer demand for more bandwidth is also reflected in the data volume generated per broadband connection and month. According to BNetzA, this increased by 28 % compared with 2015 to 60 GB per connection.

Sources: Analysys Mason, BNetzA

Regulatory influences on the Telefónica Deutschland Group

The following section shows the material new decisions and additions to the Group Management Report for the financial year ended 31 December 2016 in the section “Regulatory influences on the Telefónica Deutschland Group”.

Frequencies

BNetzA continues procedure for the provision of new frequencies for the further expansion of digital infrastructures

In March 2017, the Telefónica Deutschland Group and other interested parties issued statements in good time on the points of reference for the provision of frequencies for the expansion of digital radio infrastructures that were opened up for commentary by BNetzA. Developing the points of reference, BNetzA published on 27 June 2017 a cornerstone paper and initiated a proceeding to evaluate the needs for frequencies with nationwide allocations in the bands of 2 GHz and 3.6 GHz. Inter alia, the cornerstones at 2 GHz adhere to the joint allocation of the frequencies expiring end of 2020 and end of 2025; at 3.6 GHz on the one side it is intended to allocate a part of the frequencies regionally and on

the other side it is planned to implement reciprocal co-usage rights between nationwide and regional allocations as well as a demand-oriented coverage with 5G. The owners of nationwide allocations shall be obligated to allow co-usage of capacity and services for the provision of diverse business models in a non-discriminating way. For frequencies above 24 GHz, BNetzA intends to implement an application procedure for 26 GHz. The Telefónica Deutschland Group and other interested parties have the opportunity to register their frequency demand and to comment on the cornerstones by 30 September 2017. The Telefónica Deutschland Group will do so in good time.

Telecommunications market

BNetzA consults on specific details of transparency requirements under the Telecom-Single-Market-Regulation (TSM-R)

Since 30 April 2016, TSM-R has required provisions on the transparency of contracts with end customers to be taken into account, among other things. BEREC, a body of European regulators, published guidelines for implementing the provisions on 30 August 2016. In this context, BNetzA published a consultation on 12 April 2017 with the aim of specifying the details of unclear legal terms in TSM-R with regard to download speeds for fixed line broadband connections and making these terms easier to apply. In May 2017, several associations submitted a joint statement in good time; the Telefónica Deutschland Group was one of the parties to this statement.

Transparency regulation issued by BNetzA comes into force

The regulation issued by BNetzA to strengthen the position of consumers, which contains measures aimed at increasing the transparency of mobile and fixed line telephone and internet services, came into force to a large extent on 1 June 2017; the remaining provisions will follow on 1 December 2017. Among other things, the regulation includes provisions on cost control, the review and documentation of contractually agreed data transfer rates and the provision of information on contract content to customers prior to conclusion. The new provisions are applied by the Telefónica Deutschland Group.

Amendments to section 111 TKG under the Act for Better Information Sharing to Combat International Terrorism in force since 1 July 2017

Section 111 of the Telekommunikationsgesetz (TKG – German Telecommunications Act) stipulates which customer data must be collected and stored before a connection is activated. Since 1 July 2017, this standard requires the accuracy of the customer data collected to be checked by means of certain identification documents or other methods determined by the BNetzA in the meantime before a prepaid SIM card is activated. The Telefónica Deutschland Group has taken these amendments into account in its business processes.

Charges

Roaming surcharges in general abolished since 15 June 2017

The TSM-R, which came into force in November 2015, sets out changes to the existing roaming regulation. On 1 February 2017, the EU bodies agreed on the regulation of maximum wholesale

charges. As a result, roaming surcharges for end customers on top of their domestic tariff ("roam like at home") were in general abolished as of 15 June 2017; surcharges in the amount of the maximum wholesale charges that also came into force on 15 June 2017 may only be charged above a fair use threshold. The European Commission finally adopted the details of this fair use threshold in December 2016. On 27 March 2017, BEREC, a body of European regulators, published guidelines for implementing the roaming provisions that have been in force since 15 June 2017.

BNetzA issues final approval for MTR and preliminary approval for FTR

By way of a resolution dated 6 March 2017, BNetzA issued final approval for the mobile termination rates (MTR) for which preliminary approval had initially been granted on 30 November 2016. Rates of 1.1 euro cents per minute have been in force since 1 December 2016. These will be reduced further to 1.07 euro cents per minute from 1 December 2017 and 0.95 euro cents per minute from 1 December 2018. These rates were approved symmetrically for all mobile network operators. They will remain in force until 30 November 2019. The rates were approved on the basis of the new cost benchmark, pureLRIC. All in all, the reductions are less pronounced than initially anticipated.

The fixed termination rates (FTR) of 0.24 euro cents per minute expired at the end of December 2016. By way of a resolution dated 25 January 2017, BNetzA issued preliminary approval for rates of 0.1 euro cents per minute for the subsequent period. These rates were approved symmetrically for all regulated fixed network operators. They apply with preliminary effect from 1 January 2017 to 31 December 2018. In February 2017, the European Commission expressed doubts as to whether the preliminary rate approval granted for Telekom Deutschland in December 2016, is reconcilable with EU law, and therefore initiated more detailed proceedings in order to examine the rates and the cost calculation method in greater detail. The preliminary rates for the other network operators, including the Telefónica Deutschland Group, were determined on the basis of a comparison with the rates preliminarily approved for Telekom Deutschland.

BNetzA initiates consultation and market study on fibre optic infrastructures

On 14 March 2017, BNetzA launched a consultation entitled "Issues of rate regulation for FttH/B-based wholesale products in the context of the rollout of high-capacity fibre optic infrastructures" in order to determine how regulation can support the accelerated rollout of fibre optic networks. The consultation relates to the rate-related aspects of regulation. The outcome could involve a move away from the current cost-based regulation in future. Any changes to the regulatory benchmark are expected to be introduced at the end of 2018 at the earliest. In May 2017, BNetzA began a simultaneous market study to establish the need for regulation and the existence of significant market power. This study also encompasses the markets 3a (= wholesale local access provided at a fixed location) and 3b (= wholesale central access provided at a fixed location for mass-market products). The central point of this study will be the question of whether FttH/B-based wholesale products can still be allocated to the Germany-wide connection market that also includes copper-based connections and cable connections. This study is a prerequisite for any rate regulation. The first draft decisions are expected to be published in the fourth quarter of 2017 at the earliest, with the first decisions no earlier than the second quarter of 2018.

2. Areas of Operation

TDF was established as a wholly owned subsidiary of Telefónica Germany GmbH & Co. OHG, Munich, on 26 February 2013. It is thus part of the Telefónica Deutschland Group. TDF transacts major financing activities of the Telefónica Deutschland Group. The necessary resources can be financed and procured by way of issuing bonds eligible for trading on the capital market. The Company is authorised to carry out all activities and measures which appear to be appropriate to directly or indirectly serve the business purpose of the Telefónica Deutschland Group. In particular, TDF is authorised to establish and acquire other companies, to obtain equity participations in other companies, to manage such companies or restrict its activities to managing such participations.

On 22 November 2013, TDF issued a five-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 600,000 thousand and a maturity on 22 November 2018 in the regulated market of the Luxembourg Stock Exchange. The annual nominal interest of the bond is 1.875%. Furthermore, as of 10 February 2014 and in the same regulated market of the Luxembourg Stock Exchange, TDF issued a seven-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 500,000 thousand, an annual nominal interest of 2.375% and a maturity on 10 February 2021.

The bonds represent unsecured and senior liabilities of TDF, which are of equal ranking with each other and with all other unsecured and senior liabilities of TDF, unless these liabilities enjoy priority as a result of mandatory stipulations. Each bond is repaid on the due date in the amount of its specified denomination, unless it has been previously repaid or purchased and invalidated.

The bonds are guaranteed by Telefónica Deutschland Holding AG, Munich.

The net proceeds from each bond were directly passed from TDF to Telefónica Germany GmbH & Co. OHG, Munich, based on loan agreements with concurrent terms and conditions.

3. Net assets, results of operations and financial position

Net assets

The assets are presented in the following table:

Balance sheet item	30 Jun 2017 EUR thousand	31 Dec 2016 EUR thousand	Change EUR thousand
Financial assets	1,100,000	1,100,000	-
Receivables and other assets	11,533	11,902	-369
Prepaid expenses	3,597	4,497	-900
Total assets	1,115,130	1,116,399	-1,269

The financial assets as of 30 June 2017 consist of two loans in the amount of EUR 600,000 thousand and EUR 500,000 thousand respectively, granted by TDF to its shareholder Telefónica Germany

GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying five- and seven-year bonds which TDF issued on 22 November 2013 and 10 February 2014 respectively. The loans have fixed terms until the date of maturity of the underlying bonds on 22 November 2018 and 10 February 2021 respectively. The loans are repayable in one amount on the due date, including all interest and costs which have not yet been paid.

The decrease in receivables due from affiliated companies of EUR 11,533 thousand (31 December 2016: EUR 11,902 thousand) mainly derive from decreased interest receivables from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich, in the amount of EUR 11,505 thousand (31 December 2016: EUR 11,807 thousand). The underlying interest rates are 1.875% and 2.375% respectively and are payable annually on 22 November and 10 February respectively. The decrease in accumulated interest receivables is attributable to different payment dates and different interest rates of both loans. Furthermore, cash-pooling receivables due from Telfisa Global B.V, Amsterdam, the Netherlands decreased from EUR 22 thousand as of 31 December 2016 to EUR 10 thousand as of 30 June 2017.

As of 30 June 2017, prepaid expenses included the updated disgios from the issuance of the bonds for the five-year bond issued in November 2013 and for the seven-year bond issued in February 2014. The updated issuing fees are also included. The change in prepaid expenses resulted from the release of these elements on a pro-rata basis over the terms of the underlying bonds until 22 November 2018 and 10 February 2021 respectively.

Equity and liabilities are presented in the following table:

Balance sheet item	30 Jun 2017 EUR thousand	31 Dec 2016 EUR thousand	Change in EUR thousand
Equity	25	25	-
Bonds	1,100,000	1,100,000	-
Other provisions	18	69	-52
Other liabilities	11,490	11,808	-317
Deferred income	3,597	4,497	-900
Total equity and liabilities	1,115,130	1,116,399	-1,269

The company's share capital remains unchanged at EUR 25 thousand and is fully paid. It is held entirely by Telefónica Germany GmbH & Co. OHG, Munich.

The other provisions of EUR 18 thousand (31 December 2016: EUR 69 thousand) relate mainly to consultancy and audit fees.

The liabilities include two bonds with a nominal value of EUR 1,100,000 thousand in total. Thereof the five-year bond amounts to EUR 600,000 thousand, with a maturity on 22 November 2018. Both bonds had a remaining term of less than five years as of 30 June 2016 and are guaranteed by Telefónica Deutschland Holding AG, Munich.

The decrease in other liabilities by EUR 317 thousand derives entirely from the decrease in interest payable in relation to the bonds. The decrease in accumulated interest payables is attributable to different payment dates and different interest rates of both bonds.

Deferred income results from the updated differences between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich. The deferred items are released over the term of the underlying five- and seven-year loan.

Results of operations

For the interim financial reporting period ended 30 June 2017, TDF reported a result from ordinary business activities of EUR 0 (30 June 2016: EUR 0).

The main profit and loss items are as follows:

Profit and loss item	1 Jan 2017	1 Jan 2016	Change
	30 Jun 2017	30 Jun 2016	
	EUR thousand	EUR thousand	EUR thousand
Other operating income	103	120	-17
Other operating expenses	-103	-120	17
Other interest and similar income	12,549	12,550	0
Interest and similar expenses	-12,549	-12,550	0
Profit/Loss before profit-and-loss transfer	0	0	0
Profit share to which Telefónica Germany GmbH & Co OHG entitled in event of profit transfer based on profit	0	0	0
Result of the Year after profit-and-loss transfer	0	0	0

The other operating income amounting to EUR 103 thousand (30 June 2016: EUR 120 thousand) mainly results from cost transfers to Telefonica Germany GmbH & Co. OHG, Munich. Other operating expenses that relate to the transferred costs amount to EUR 103 thousand (30 June 2016: EUR 120 thousand) and mainly consist of bank charges, audit and consultancy fees which have increased marginally in comparison to the previous period.

Other interest and similar income in the amount of EUR 12,549 thousand (30 June 2016: EUR 12,550 thousand) mainly result from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich, EUR 11,649 thousand (30 June 2016: EUR 11,650 thousand). Furthermore, EUR 900 thousand (30 June 2016: EUR 900 thousand) result from the release of the deferred income over the term of the underlying loan.

Interest and similar expenses in the amount of EUR 12,549 thousand (30 June 2016: EUR 12,550 thousand) include interest expense from the bonds of EUR 11,649 thousand (30 June 2016: EUR 11,650 thousand) and the release of prepaid expenses in relation to the two disagios of EUR 900 thousand (30 June 2016: EUR 900 thousand).

Financial position

Principles and aims of the finance management

The risk control and a central steering are core principles of the TDF finance management. The objectives of the finance management are to permanently provide sufficient financial liquidity and stability. Risk monitoring is used to anticipate potential risks and counteract them with according measures. We are not aware of any circumstances which would hinder TDF to meet its financial obligations.

The development of cash and cash equivalents as well as the corresponding cash flows are presented in the separately disclosed cash flow statement.

Cash and cash equivalents contain receivables from cash pooling with Telfisa Global B.V., Amsterdam, Netherlands.

During the interim reporting period from 1 January 2017 to 30 June 2017, TDF reported a negative cash flow from operating activities in the amount of EUR 11 thousand (30 June 2016: EUR 18 thousand). The development towards a negative cash flow in the comparative period mainly resulted from the decrease in provisions for consulting costs of EUR 52 thousand.

During the comparative period ended 30 June 2016, TDF reported a positive cash flow from investing activities in the amount of EUR 11,875 thousand that resulted from the interest payments from the borrower Telefónica Germany GmbH & Co. OHG, Munich.

The outgoing payments in the cash flow from financing activities amounted to EUR 11,875 thousand as of 30 June 2017 and resulted from the interest payments for the bonds issued.

As of 30 June 2017, TDF had an unused credit facility amounting to EUR 6 thousand (previous year: EUR 6 thousand).

4. Opportunity and Risk Report

TDF currently restricts its activities exclusively to financing the Telefónica Deutschland Group. The main elements of the assets of TDF are the loans granted to Telefónica Germany GmbH & Co. OHG, Munich. The economic existence of TDF is thus primarily dependent on whether Telefónica Germany GmbH & Co. OHG, Munich, is able to meet its obligations in relation to these loans. All interest and capital payments relating to all debt securities currently issued by TDF are secured by a full and unlimited guarantee by the guarantor Telefónica Deutschland Holding AG. These guarantees are enforceable in accordance with the law of the Federal Republic of Germany.

Accordingly, the risks and opportunities of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, as well as the measures and processes for handling risks and opportunities are essentially the same as those applicable for the Telefónica Deutschland Group, which are detailed in the management report as of 31 December 2016.

In view of the above and as of the time of preparing this report, management has identified no further significant risks or opportunities in the reporting period in addition to those already presented in the combined management report for the 2016 financial year. Other risks and opportunities not currently known to us or that we presently consider to be immaterial could also influence our business activities. We do not anticipate the occurrence of any risks that, individually or in combination with other risks, could endanger the future of our company as a going concern.

5. Forecast Report for the Interim Reporting Period 2017

The forecast report describes the probable development of TDF in the course of the second half year of 2017. The report contains comments and information regarding future events. Forward looking comments and information are based on expectations and assumptions of the Company at the time when this management and forecast report is published, on the basis of known and unknown opportunities and risks. The success of the Company, the business strategy and also the results of the Company are influenced by a wide range of factors outside the control of the Company.

If such opportunities or risks occur or if uncertain factors materialise, or if it becomes apparent that one of the underlying assumptions was not correct, the actual development of the Company may differ (positively as well as negatively) from the expectations and assumptions in the forward-looking comments and information set out in this forecast report. Forecasts available in the public domain regarding the development of the overall economy and the sector have only been detailed to an extent which is relevant for understanding the comments regarding the probable development of the Company. They must not impair the perception of the comments regarding the probable development of the Company.

As a result of the close personnel and economic links between TDF and the Telefónica Deutschland Group, TDF is subject to the same business and general conditions as well as the same regulatory environment as the Telefónica Deutschland Group. The future development of TDF is very much dependent on the capital requirements and the form of financing chosen by the Telefónica Deutschland Group. The assessment of the future development of TDF is therefore based on forecasts of the business developments of the Telefónica Deutschland Group, which is summarised as follows.

Economic outlook

In their spring report, the economic institutes forecast growth in gross domestic product (GDP) of +1.5 % for 2017 (adjusted for calendar effects: +1.8 %). According to the economic institutes, private and public consumer spending will remain the pillars of the German economy in 2017. This will be driven in particular by growth in household purchasing power and the continued positive development of the labour market. The number of people in employment is expected to rise from 43.5 million at the end of 2016 to 44.1 million at the end of 2017.

Any escalation at international trouble spots still poses a risk to the consumer economy, and thus also to overall economic development in Germany. It also remains to be seen how the planned United Kingdom exit from the European Union (Brexit) will affect the European, and above all the German economy.

Growth in economic performance of 1.8 % is forecasted for the Euro area in 2017.

Sources: Gfk Konsumklima, Focus Economics, Bundesbank, BMWI

GDP Growth 2015-17 for Germany and the Euro area (adjusted for calendar effects)

In %	2015	2016	2017
Germany	1.7	1.8	1.8
Euro area	1.5	1.7	1.8

Market Expectations

In addition to connecting people, the intelligent connection of things via the internet (IoT) offers numerous application and growth opportunities, such as Industry 4.0, connected cars, smart health, smart energy and smart cities. Another trend is data analytics, which is facilitating new insights as well as new business models.

Smartphones and tablets are becoming the trailblazers for the digital revolution of an all-round digital lifestyle in Germany. At the same time, the growing proliferation of data-based communications services, i.e. “over-the-top” (OTT) applications such as WhatsApp, Skype, Facebook or Apple Facetime as well as music and video streaming providers, is increasing data usage.

This all means further growth in the transmitted data volume. This means that the monetisation of mobile data business will remain a strong focus of mobile telecommunications providers. Analysts expect data revenues to increase by 13 % in both 2017 and 2018.

At the same time, the negative trend for mobile voice and SMS in the “traditional telecommunications sector” will continue as a result of further price pressure and changing customer behaviour.

Sources: Ovum, Analysys Mason, Bitkom, BMWI

Expectations for Telefónica Deutschland Finanzierungs GmbH

As of 30 June 2017, there were no material changes in the net assets, financial position and results of operations compared to the end of 2016. For the period from 1 July to 31 December 2017, the management of TDF does not expect any material changes in the net assets, financial position and results of operations compared to the reporting period.

Expectations for the Telefónica Deutschland Group

At present, there are no facts that the forecasts as published in the Group Management Report 2016 have changed significantly. Financial outlook for the year 2017 remains unchanged, including cash flow savings of approximately EUR 160 million additional Opex-savings and revenue synergies as well as approximately EUR 80 million Capex-synergies.

6. Management Summary

In its capacity as a financing company, TDF currently restricts its activities exclusively to financing the Telefónica Deutschland Group. In 2013 and 2014 and in line with its business purpose, TDF successfully issued two bonds with a nominal value of EUR 600,000 thousand and EUR 500,000 thousand and a maturity on 22 November 2018 and 10 February 2021 respectively. TDF transferred the proceeds based on the same conditions in the form of two loans to Telefónica Germany GmbH & Co. OHG, Munich. The bonds are guaranteed by Telefónica Deutschland Holding AG, Munich. TDF currently does not have any own employees. Due to the close personnel and economic links, the probable business development of the Company as well as the main opportunities and risks correspond to those applicable for Telefónica Deutschland Holding AG, Munich. The management of TDF considers the overall business development to be favourable.

Munich, 10 August 2017

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Markus Haas

Markus Rolle

Albert Graf

Declaration of Statutory Representatives

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

Munich, 10. August 2017

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Managing Director
Mr. Markus Haas

Managing Director
Mr. Markus Rolle

Managing Director
Mr. Albert Graf



PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft
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To the attention of the Managing Directors of
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16 August 2017

Review Report

To O2 Telefónica Deutschland Finanzierungs GmbH, Munich

We have reviewed the Condensed Interim Financial Statements - comprising the balance sheet, income statement, statement of cash flows, statement of changes in equity and condensed notes - and the Interim Management Report of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, for the period from 1 January 2017 to 30 June 2017 which are part of the half-year financial report pursuant to § (Article) 37w WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the Condensed Interim Financial Statements in accordance with German commercial law and of the Interim Management Report in accordance with the provisions of the German Securities Trading Act applicable to interim management reports is the responsibility of the Company's Managing Directors. Our responsibility is to issue a review report on the Condensed Interim Financial Statements and on the Interim Management Report based on our review.

We conducted our review of the Condensed Interim Financial Statements and the Interim 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 or IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed interim financial statements have not been prepared, in all material respects, in accordance with German commercial law and that the interim management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

...

Based on our review, no matters have come to our attention that cause us to presume that the Condensed Interim Financial Statements have not been prepared, in all material respects, in accordance with German commercial law nor that the Interim Management Report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim management reports.

We issue this Review Report based on the engagement concluded with the Company. The contractual basis for this engagement are the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften as of January 1, 2017. These terms are appended hereto and are also binding upon third parties.

Munich, August 16, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Klaus Bernhard
Wirtschaftsprüfer
(German Public Auditor)

Stefano Mulas
Wirtschaftsprüfer
(German Public Auditor)