PROSPECTUS DATED

October 16, 2012

NOT FOR GENERAL CIRCULATION

IN THE UNITED STATES OF AMERICA

Telefónica

Deutschland

Telefónica Deutschland Holding AG

Offering of 258,750,000 Ordinary No Par Value Registered Shares

This prospectus relates to an (i) initial public offering (the "**Offering**") of 225,000,000 ordinary no par value registered shares (the "**Base Shares**") and 33,750,000 ordinary no par value registered shares in connection with any potential over–allotments (the "**Greenshoe Shares**", and together with the Base Shares, the "**Offer Shares**") in Telefónica Deutschland Holding AG, a stock corporation (*Aktiengesellschaft*) organized under the laws of the Federal Republic of Germany (the "**Company**"), from the holdings of Telefónica Germany Holdings Limited (the "**Selling Shareholder**"), each Offer Share entitled to full dividend rights for the year ending December 31, 2012 as well as (ii) the admission to trading of all 1,116,945,400 ordinary no par value registered shares of the Company (the "**Shares**"), including the Offer Shares, on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange and on the sub–segment of the regulated market with additional post–admission obligations (*Prime Standard*) ("**Prospectus**"). The Selling Shareholder will receive all of the net proceeds from the sale of the Offer Shares in the Offering. The Company will not receive any proceeds from the sale of the Offer Shares.

The Offering consists of a public offering of the Offer Shares in the Federal Republic of Germany ("**Germany**") and the Grand Duchy of Luxembourg ("**Luxembourg**") and private placements of the Offer Shares to institutional investors in certain jurisdictions outside Germany and Luxembourg. In the United States of America (the "**United States**"), the Offer Shares will be offered for sale only to qualified institutional buyers ("**QIBs**") as part of a private placement in reliance on Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). Outside the United States, the Offer Shares will be offered and sold in compliance with Regulation S under the Securities Act ("**Regulation S**"). The Offer Shares have not been and will not be registered under the Securities Act.

Investing in shares of the Company involves certain risks. See "*Risk Factors*" beginning on page 43.

The Selling Shareholder will make available to J.P. Morgan Securities plc, London ("**J.P. Morgan**"), on behalf of the Underwriters (as defined herein), 33,750,000 additional Shares by way of a securities loan to cover potential over–allotments in connection with the Offering. The Selling Shareholder has also granted an option to J.P. Morgan, on behalf of the Underwriters, exercisable for 30 calendar days following the date on which the Shares commence trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange, to purchase 33,750,000 Shares at the offer price (the "**Offer Price**") (less agreed commissions) in connection with the Offering (the "**Greenshoe Option**") (see "*The Offering – Stabilization Measures, Over–Allotments and Greenshoe Option*").

Prior to the Offering, there has been no public market for the Shares. The Company intends to apply for admission of its entire share capital, consisting of 1,116,945,400 Shares, to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange and on the sub–segment of the regulated market with additional post–admission obligations (*Prime Standard*) under the symbol O2D. The Company expects that the Shares will be admitted to trading on the Frankfurt Stock Exchange on October 29, 2012 and that trading in the Shares will commence on October 30, 2012.

Offer Price Range: €5.25 to €6.50 per Offer Share

The offer period is expected to commence on October 17, 2012 and to end on October 29, 2012.

The Offer Shares have not been and will not be registered under the Securities Act and are being offered or sold in the United States only to, or for the account or benefit of, QIBs in reliance on the exemption from registration provided by Rule 144A under the Securities Act, and outside the United States to certain persons in offshore transactions in compliance with Regulation S. Prospective investors are hereby notified that sellers of the Offer Shares may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfers of the Offer Shares, see "*Transfer Restrictions*".

Delivery of the Offer Shares is expected to take place on or about November 1, 2012 through the book–entry facilities of Clearstream Banking AG, Eschborn, Germany, or Euroclear Bank S.A. against payment for the Offer Shares in immediately available funds.

This Prospectus has been prepared in the English language with a German–language summary in accordance with Commission Regulation (EC) No 809/2004 of April 29, 2004 and Commission Delegated Regulation (EU) No 486/2012 of March 30, 2012 as well as Commission Delegated Regulation (EU) No 862/2012 of June 4, 2012, both amending Regulation (EC) No 809/2004 and conforms to the requirements of the German Securities Prospectus Act (*Wertpapierprospektgesetz*). This Prospectus has been approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – "**BaFin**") after a review for completeness of the Prospectus, including a review for coherence and comprehensibility of the presented information, according to Section 13, paragraph 1 of the German Securities Prospectus Act, and notified to the Luxembourg Commission for the Supervision of the Financial Sector (*Commission de Surveillance du Secteur Financier* – "**CSSF**") in accordance with Section 18, paragraph 1 of the German Securities Prospectus Act and the European passport mechanism set forth in the Prospectus Directive (No 2003/71/EC).

Joint Global Coordinators and Joint Bookrunners

J.P. Morgan **UBS Investment Bank**

Joint Bookrunners

BofA Merrill Lynch **BNP PARIBAS** **Citigroup** **HSBC**

Co–Lead Managers

Banca IMI **BayernLB** **BBVA** **COMMERZBANK**

Banco Santander **Société Générale Corporate & Investment Banking**

IN CONNECTION WITH THE OFFERING, J.P. MORGAN AND ITS AFFILIATES MAY OVER–ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SHARES AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. SHORT SALES INVOLVE THE SALE BY THE STABILIZING MANAGER OF A GREATER NUMBER OF SHARES THAN THE UNDERWRITERS ARE REQUIRED TO PURCHASE IN THE OFFERING. STABILIZING TRANSACTIONS CONSIST OF BIDS OR PURCHASES MADE FOR THE PURPOSE OF PREVENTING OR RETARDING A DECLINE IN THE MARKET PRICE OF THE SHARES WHILE THE OFFERING IS IN PROGRESS. SUCH TRANSACTIONS SHALL BE CARRIED OUT IN ACCORDANCE WITH APPLICABLE RULES AND REGULATIONS. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED BY THE STABILIZING MANAGER AT ANY TIME WITHOUT PRIOR NOTICE AND MUST IN ANY EVENT BE DISCONTINUED 30 CALENDAR DAYS AFTER THE FIRST DAY OF TRADING OF THE SHARES ON THE FRANKFURT STOCK EXCHANGE. THESE TRANSACTIONS MAY BE EFFECTED ON THE FRANKFURT STOCK EXCHANGE, IN THE OVER–THE–COUNTER MARKET OR OTHERWISE.

The distribution of this Prospectus as well as the offer and sale of the Offer Shares in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus comes are required to inform themselves about and to observe any such restrictions. This Prospectus does not constitute an offer of, or an invitation to purchase, any of the Offer Shares in any jurisdiction in which such offer or invitation would be unlawful. Neither the Company nor any of the Underwriters accepts any legal responsibility for any violation by any person, whether or not a prospective investor, of any such restrictions.

The distribution of this Prospectus and the offer or sale of the Offer Shares in certain jurisdictions is restricted by law. No action has been or will be taken in any jurisdiction other than Germany and Luxembourg that would permit a public offering of the Shares or the possession, circulation or distribution of this Prospectus or any other material relating to us or the Shares in any jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the Shares may be distributed or published in or from any country or jurisdiction, except under circumstances that would result in compliance with any applicable rules and regulations of any such country or jurisdiction. Further information with regard to restrictions on offers and sales of the Offer Shares and the distribution of this Prospectus is set forth under "*Underwriting – Selling Restrictions*" and "*Transfer Restrictions*".

NOTICE TO U.S. INVESTORS

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY U.S. STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SHARES OR PASSED UPON THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421–B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421–B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATION OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CONTENTS

SUMMARY OF THE PROSPECTUS

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

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

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

<table>
<tr><th colspan="3">SECTION A – INTRODUCTION AND WARNINGS</th></tr>
<tr><td>A.1</td><td colspan="2">This summary should be read as an introduction to the Prospectus.

Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor.

Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the respective member states of the European Economic Area, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Telefónica Deutschland Holding AG, Munich (the "Company", and collectively with its direct and indirect subsidiaries and joint venture at the date of this Prospectus, "Telefónica Deutschland" or "we"; where the term "we" is used in a context that relates to the past, it comprises only the subsidiaries and joint venture of the Company at the date of this Prospectus and does not include entities that were subsidiaries or associate of the Company at the time, but are no longer subsidiaries or associate at the date of this Prospectus), along with J.P. Morgan Securities plc, London ("J.P. Morgan"), and UBS Limited, London ("UBS", and together with J.P. Morgan, the "Joint Global Coordinators"), Merrill Lynch International, London ("BofA Merrill Lynch"), BNP Paribas, Paris ("BNP PARIBAS"), Citigroup Global Markets Limited, London ("Citi"), and HSBC Trinkaus & Burkhardt AG, Düsseldorf ("HSBC"), (BofA Merrill Lynch, BNP PARIBAS, Citi and HSBC together with the Joint Global Coordinators, the "Joint Bookrunners") as well as Banca IMI S.p.A., Milan ("Banca IMI"), Bayerische Landesbank, Munich ("BayernLB"), Banco Bilbao Vizcaya Argentaria S.A., Bilbao ("BBVA"), COMMERZBANK Aktiengesellschaft, Frankfurt ("COMMERZBANK"), Banco Santander, S.A., Santander ("Santander") and Société Générale, Paris ("Société Générale") (Banca IMI, BayernLB, BBVA, COMMERZBANK, Santander and Société Générale together with the Joint Bookrunners, the "Underwriters") can be held liable for the content of the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or if it does not provide, when read together with the other parts of the Prospectus, all required key information in order to aid investors when considering whether to invest in such securities.</td></tr>
<tr><td>A.2</td><td>• Consent by the issuer or person responsible for drawing up the Prospectus to the use of the Prospectus for subsequent resale or final placement of securities by financial intermediaries.

• Indication of the offer period within which subsequent resale or final placement of securities by financial intermediaries can be made and for which consent to use the Prospectus is given.

• Any other clear and objective conditions attached to the consent which are relevant for the use of the Prospectus.

• Notice in bold informing investors that information on the terms and conditions of the offer by any financial intermediary is to be provided at the time of the offer by the financial intermediary.</td><td>Not applicable (consent of the Company regarding the use of the Prospectus for a subsequent resale or final placement of securities by financial intermediaries has not been granted.)</td></tr>
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<tr><th colspan="3">SECTION B – ISSUER</th></tr>
<tr><td>B.1</td><td>Legal and commercial name</td><td>Telefónica Deutschland Holding AG</td></tr>
<tr><td>B.2</td><td>Domicile/ Legal Form/ Legislation/ Country of incorporation</td><td>A stock corporation (Aktiengesellschaft) organized under the laws of the Federal Republic of Germany with its seat at Georg–Brauchle–Ring 23–25, 80992 Munich, Germany; registered with the commercial register of the local court (Amtsgericht) Munich under HRB 201055.</td></tr>
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B.3	**Current operations and principal business activities and principal markets in which the issuer competes**	We are the fastest–growing integrated telecoms network operator (based on 2011 mobile service revenues and operating income before depreciation and amortization ("**OIBDA**")) and the third largest telecommunications services provider in Germany (based on 2011 revenues) (*Source: published financial information of Deutsche Telekom, Vodafone and E–Plus.*), serving approximately 25 million customer accesses as of June 30, 2012. We offer mobile and fixed–line services providing voice, data and value–added services to consumer and business customers. In addition, we are one of the leading wholesale providers in Germany, offering access to our infrastructure and service capabilities to our wholesale partners. The Company is an indirect wholly owned subsidiary of Telefónica, S.A. (Telefónica, S.A., together with its direct and indirect subsidiaries – excluding the Company and its direct and indirect subsidiaries and joint-venture at the date of this Prospectus, the "**Telefónica Group**"), one of the largest telecommunications companies in the world. We operate a nationwide mobile network with Global System for Mobile Communications ("**GSM**" or "**2G**") coverage exceeding 99% of the German population, and a nationwide fixed–line network with Digital Subscriber Line ("**DSL**") access coverage to approximately 67% of German households. Our mobile network operates on the technology standards GSM, Universal Mobile Telecommunications System ("**UMTS**" or "**3G**") and, more recently, Long Term Evolution ("**LTE**" or "**4G**"). We market our products under a multi–brand strategy. We offer the majority of our post–paid and pre–paid mobile and fixed–line products and services through our core premium O_2 brand. We access additional customer groups through our secondary and partner brands as well as our wholesale channels. Secondary brands are fully–controlled brands, such as FONIC and netzclub or brands held through joint–ventures and strategic partnerships, such as Tchibo mobil and Türk Telekom Mobile. We market high–speed internet access and fixed–line telephony via DSL (under the standards Asymmetric Digital Subscriber Line 2+ ("**ADSL2+**") and very–high–bit–rate DSL ("**VDSL**")). We target our Small office/Home office ("**SoHo**") and small medium enterprise ("**SME**") business customers through our O_2 brand, and large national companies and multinational corporations through our Telefónica Multinational Solutions brand. In our wholesale service business, we offer mobile and fixed–line services to customers such as 1&1, mobilcom/debitel, Drillisch and the two major German cable operators Unitymedia/KabelBW and Kabel Deutschland. We offer our products through a diversified distribution platform comprising direct (nationwide network of self–operated and partnershops, premium partners, online and telesales) and indirect (retail/e–retail partnerships and dealers/cooperations) sales channels. In 2011, we recorded revenues of €5.0 billion and OIBDA of €1.1 billion, corresponding to year–on–year increases in revenues and OIBDA of 4.3% and 28.7%, respectively. We believe that the following strengths will enable us to execute our strategy: • We are an integrated network telecommunications provider in Germany, one of the strongest economies in Europe. • We are the third largest integrated network telecommunications provider in one of Europe's largest telecommunications markets. • We have a winning customer proposition through our powerful brand portfolio, innovative data solution, converged offers and strong distribution channels. • We have built a competitive network infrastructure and a strong spectrum position. • We benefit from Telefónica Group's scale and expertise. • Our strong financial track record is driving attractive top–line growth and cash flow generation. • We have a highly experienced management team.

		We aim to leverage our existing assets to capture market share in the mobile services market and drive growth through the following strategies: • We aim to leverage our strong multi–brand portfolio and high levels of customer satisfaction to increase market share. • We aim to monetize data opportunities through innovative products, digital services and LTE. • We intend to expand our convergence strategy to increase share of customer wallet and reduce churn. • We aim to seize the opportunity in the SoHo, SME and wholesale markets. • We intend to maintain competitive 3G and LTE networks with a "smart follower" strategy to capitalize on data growth opportunities. • We intend to drive profitable growth and efficiency to achieve enhanced cash flow generation. The German telecommunications market is one of the largest in Europe, generating overall total revenue of €47.9 billion in 2011. In 2011, 59% of total revenue was derived from fixed–line services, including voice and broadband, and 41% from mobile services, including voice and data. Germany is the largest mobile market by subscribers in the European Union ("**EU**") with 114.1 million SIM cards (penetration rate of approximately 140.0%) at the end of 2011 which is expected to increase to 119.6 million by 2014. Revenue from mobile services was €19.6 billion in 2011, with mobile voice accounting for €12.0 billion and mobile data accounting for €7.6 billion. Our primary competitors in the German mobile market comprise the three other mobile network operators ("**MNO**", namely Vodafone, Deutsche Telekom, and E–Plus) and a well–developed wholesale market including service providers and over 100 secondary brands. The German fixed–line market generated total revenue of €28.3 billion in 2011. After a period of price declines, revenue has stabilized and the market is expected to stay flat until 2014. Germany is the largest fixed broadband market in Europe with 28.6 million subscribers in 2011. DSL continues to be the dominant technology in the broadband market, but cable technology is increasingly popular in urban areas. The major fixed–line service provider in Germany is Deutsche Telekom, the incumbent. Our other major competitors in the broadband internet market are resellers of Deutsche Telekom's services, including United Internet, and alternative network operators such as Vodafone that rent the unbundled local loop ("**ULL**") from Deutsche Telekom. (*Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012.*)
B.4a	**Most significant recent industry trends affecting the issuer and industries in which it operates**	We believe the following to be significant industry trends which also affect our business activities: The demand for mobile data products and services is the main growth driver in the German mobile telecommunications market and is expected to overtake voice as the largest revenue contributor in the mobile market by 2014. This is further driven by an increasing demand for smartphones and other small screen devices, such as tablets, and the mass market roll–out of LTE technology anticipated in 2013/2014. There are further trends emerging in the German telecommunications market, including an increased demand for converged offerings (i.e. subscriptions of fixed and mobile services from one integrated operator), a strong push to monetize mobile data and a move to cloud services. In addition, MNOs are beginning to offer innovative digital services such as security solutions, financial services and advertising services. *(Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012.)*

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<tr><td>B.5</td><td>Description of group and the issuer's position within the group</td><td>The sole shareholder of the Company is Telefónica Germany Holdings Limited (the "Selling Shareholder"), which directly holds 100% of the Shares. O2 (Europe) Limited directly holds 100% of the shares in the Selling Shareholder. O2 (Europe) Limited is a direct wholly owned subsidiary of Telefónica, S.A.

The Company acts as a holding company and directly and indirectly holds a 100% interest in:
• Telefónica Germany GmbH & Co. OHG;
• Telefónica Germany Management GmbH;
• Wayra Deutschland GmbH;
• Telefónica Germany Online Services GmbH;
• Fonic GmbH;
• Telefónica Germany 1. Beteiligungsgesellschaft mbH; and
• Telefónica Germany Customer Services GmbH.

The Company further holds indirectly a 50% interest in:
• TCHIBO Mobilfunk Beteiligungs GmbH; and
• TCHIBO Mobilfunk GmbH & Co. KG.</td></tr>
<tr><td>B.6</td><td>Persons who, directly and indirectly, have an notifiable interest in the issuer's capital or voting rights</td><td>The Selling Shareholder directly holds 100% of the Shares. O2 (Europe) Limited directly holds 100% of the shares in the Selling Shareholder. O2 (Europe) Limited is a direct wholly owned subsidiary of Telefónica, S.A.</td></tr>
<tr><td></td><td>Different voting rights</td><td>Not applicable (there are no different voting rights).</td></tr>
<tr><td></td><td>Direct and indirect ownership of or control over the issuer and nature of such control</td><td>The Selling Shareholder directly holds 100% of the Shares. O2 (Europe) Limited directly holds 100% of the shares in the Selling Shareholder. O2 (Europe) Limited is a direct wholly owned subsidiary of Telefónica, S.A. Based on its indirect shareholding, Telefónica, S.A. can exercise considerable influence over our operations and business strategy.</td></tr>
<tr><td>B.7</td><td>Selected historical key financial information regarding the issuer, presented for each year of the period covered by the historical financial information (as of and for the years ended December 31, 2011, 2010 and 2009), and any subsequent interim financial period accompanied by comparative data from the same period in the prior year (as of and for the six months ended June 30, 2012 and 2011).</td><td>The following tables set forth our combined income statement, combined statement of financial position, combined statement of cash flows and certain other operational and financial data for the periods indicated. Our combined financial information presented as of and for the years ended December 31, 2011, 2010 and 2009 set forth below was derived from our audited combined financial statements for the years ended December 31, 2011, 2010 and 2009 prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS") taking into account the basis of preparation as set out in Note 1 to the combined financial statements and included elsewhere in this Prospectus. Our combined financial information presented as of June 30, 2012 and for the six months ended June 30, 2012 and 2011 set forth below was derived from our unaudited interim condensed combined financial statements as of and for the six months ended June 30, 2012 prepared in accordance with IFRS on interim financial reporting (IAS 34) taking into account the basis of preparation as set out in Note 1 and the presentation of the interim condensed combined financial statements as set out in Note 2 to the unaudited interim condensed combined financial statements and included elsewhere in this Prospectus. Operating results for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2012. The following tables also include certain operational data on a combined basis for the periods indicated. This operational data has been derived from management estimates, is not part of our financial statements or financial reporting systems, and has not been audited.</td></tr>
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		Our combined financial statements as of and for the years ended December 31, 2011, 2010 and 2009 and as of and for the six months ended June 30, 2012 were prepared for the purpose of this Offering. The combined financial statements include the assets and liabilities, expenses and income and cash flows of those direct and indirect subsidiaries and proportionately of this joint venture of the Company for the years ended December 31, 2011, 2010 and 2009 and for the six months ended June 30, 2012 and June 30, 2011, which are still subsidiaries and joint venture of the Company at the date of this Prospectus. "Net assets attributable to Telefónica Germany Group" contain the share capital, capital reserves and retained earnings of the Company and Telefónica Germany Management GmbH. For the other companies within the Telefónica Germany Group, the carrying amount of the investment in each subsidiary held by the Company and Telefónica Germany Management GmbH and their portion of net equity of each subsidiary are consolidated. The entities Telefónica Global Services GmbH, Telefónica Global Roaming GmbH, Telefónica Compras Electronicas S.L., Adquira España S.A., Group 3G UMTS Holding GmbH and Quam GmbH were subsidiaries or associate of the Company during the years ended December 31, 2011, 2010 and part of 2009 as well as the first six months of 2012, but they recently ceased to be members of our group due to the reorganization of our group prior to the Offering. For purposes of the combined financial statements, these entities have not been consolidated. *Where financial information in the following tables is labeled "audited", this means that it was taken or derived from our audited combined financial statements as of and for the years ended December 31, 2011, 2010 and 2009. The label "unaudited" is used in the following tables to indicate financial information that was taken or derived from our unaudited interim condensed combined financial statements as of and for the six months ended June 30, 2012 as well as from our accounting records or internal management reporting systems.* *The following figures were subject to rounding adjustments that were carried out according to established commercial standards. As a result, the figures stated in a table may not exactly add up to the total values that may also be stated in the table.*

COMBINED INCOME STATEMENT AND OTHER COMBINED FINANCIAL INFORMATION

The table below sets forth our combined income statement and other combined financial information for the years ended December 31, 2011, 2010 and 2009 and for the six months ended June 30, 2012 and 2011:

	For the year ended December 31,			For the six months ended June 30,	
	2011	**2010**	**2009**	**2012**	**2011**
	(in € thousands, unless otherwise indicated)				
	(audited, unless otherwise indicated)			*(unaudited)*	
Revenues:	**5,035,552**	**4,826,278**	**3,745,540**	**2,553,798**	**2,439,754**
Wireless Business	3,605,747	3,411,930	3,187,263	1,854,450	1,718,789
Wireless Service Revenues[1]	2,946,465	2,932,288	2,860,577	1,547,602	1,412,678
Handset Revenues	659,282	479,642	326,685	306,848	306,111
Wireline Business	1,425,740	1,411,861	558,277	697,325	719,056
Other	4,065	2,487	–	2,023	1,908
Other Income	60,991	88,859	92,102	30,278	31,938
Supplies	(2,047,139)	(1,906,492)	(1,360,254)	(1,025,602)	(975,970)
Personnel Expenses	(437,756)	(611,353)	(395,831)	(226,210)	(224,408)
Other Expenses[2]	(1,462,411)	(1,504,615)	(1,190,075)	(735,115)	(739,568)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)[3, 4]	**1,149,237**	**892,677**	**891,482**	**597,149**	**531,746**
Depreciation and Amortization	(1,082,189)	(988,165)	(922,872)	(547,748)	(509,675)
OPERATING RESULT	**67,048**	**(95,488)**	**(31,390)**	**49,401**	**22,071**
Finance Income	14,271	8,686	4,152	9,826	5,889
Exchange Gains	707	348	212	324	586
Finance Expenses	(8,389)	(9,931)	(5,424)	(4,602)	(4,058)
Exchange Losses	(559)	(870)	(1,286)	(1,090)	(323)
Net Financial Result	**6,030**	**(1,767)**	**(2,346)**	**4,458**	**2,094**
RESULT BEFORE TAX	**73,078**	**(97,255)**	**(33,736)**	**53,859**	**24,165**
Income Tax	(1,732)	(5,277)	152	1,283	(1,577)
RESULT FOR THE YEAR/PERIOD	**71,346**	**(102,532)**	**(33,584)**	**55,142**	**22,588**
Reconciliation from Operating Result to Operating Income before Depreciation and Amortization (OIBDA) and before Group Fees and OIBDA before Group Fees margin[3]					
OPERATING RESULT	**67,048**	**(95,488)**	**(31,390)**	**49,401**	**22,071**
Depreciation and Amortization	(1,082,189)	(988,165)	(922,872)	(547,748)	(509,675)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)[4]	**1,149,237**	**892,677**	**891,482**	**597,149**	**531,746**
Group Fees (unaudited)	70,232	52,205	26,928	31,528	26,138
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA) AND BEFORE GROUP FEES (unaudited)[3]	**1,219,469**	**944,882**	**918,410**	**628,677**	**557,884**
Revenues	5,035,552	4,826,278	3,745,540	2,553,798	2,439,754
OIBDA margin[5] (unaudited)	**22.8%**	**18.5%**	**23.8%**	**23.4%**	**21.8%**
OIBDA before Group Fees margin[5] (unaudited)	**24.2%**	**19.6%**	**24.5%**	**24.6%**	**22.9%**

1 Excluding the effect of substantial decreases in voice mobile termination rates ("**MTR**") over the periods, the growth in Wireless Service Revenues year–on–year would have been 7.1%, 3.8% and 1.6% for the year ended December 31, 2011, 2010 and 2009, respectively, and 9.6% and 6.1% for the six months ended June 30, 2012 and 2011, respectively, which are higher growth rates than the reported growth rates. The adjustment for decreases in voice MTR has been calculated, on a month–by–month basis, by assuming that, where the voice MTR has fallen from one period to the next, the higher voice MTR applies in both periods. For example, the effect of the reduction of voice MTR from €0.088 to €0.0714 as of March 31, 2009 on the comparison of the years ended December 31, 2010 and 2009 was eliminated by assuming a voice MTR of €0.088 for the first three months of 2010. The effect of the further reduction of voice MTR from €0.0714 to €0.0339 as of December 1, 2010 on the comparison of the years 2010 and 2011 was eliminated by assuming a voice MTR of €0.0714 for the first 11 months of 2011.

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

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

[4] OIBDA as reported in our combined financial statements contains the Group Fees as described in footnote 2 above and certain restructuring charges of €202 million recognized in 2010, and a €9 million restructuring charge recorded in 2009.

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

COMBINED STATEMENT OF FINANCIAL POSITION

The table below sets forth our combined statement of financial position as of December 31, 2011, 2010 and 2009 and as of June 30, 2012:

	As at December 31,			As at June 30,
	2011	**2010**	**2009**	**2012**
	(in € thousands)			
	(audited)			*(unaudited)*
ASSETS				
A) NON–CURRENT ASSETS	**7,900,175**	**8,427,878**	**6,248,527**	**7,624,600**
Goodwill	705,576	705,576	423,081	705,576
Intangible assets	3,658,137	3,956,504	2,510,684	3,465,076
Property, plant and equipment	3,118,869	3,347,953	2,895,662	3,035,073
Other non–current financial assets	5,560	5,335	6,412	5,559
Deferred tax assets	412,033	412,510	412,688	413,316
B) CURRENT ASSETS	**5,115,173**	**4,443,290**	**3,911,730**	**5,628,944**
Inventories	70,429	84,318	72,909	84,079
Trade and other receivables	1,010,279	1,284,110	914,967	1,359,877
Other current financial assets	2,885,897	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	1,148,568	188,965	37,957	1,299,091
TOTAL ASSETS (A+B)	**13,015,348**	**12,871,168**	**10,160,257**	**13,253,544**

	As at December 31,			As at June 30,
	2011	**2010**	**2009**	**2012**
	(in € thousands)			
	(audited)			*(unaudited)*
EQUITY AND LIABILITIES				
A) EQUITY	**11,756,290**	**11,421,311**	**9,221,577**	**11,811,795**
Net assets attributable to Telefónica Germany Group	11,754,945	11,420,119	9,219,652	11,810,450
Other components of equity	1,345	1,192	1,925	1,345
Total equity attributable to Telefónica Germany Group	11,756,290	11,421,311	9,221,577	11,811,795
B) NON-CURRENT LIABILITIES	**75,289**	**122,621**	**49,618**	**85,041**
Other payables	6,342	5,846	6,301	6,764
Non–current provisions	68,947	116,775	43,317	78,277
C) CURRENT LIABILITIES	**1,183,769**	**1,327,236**	**889,062**	**1,356,708**
Trade payables	785,580	811,936	599,309	992,606
Other payables	186,714	195,951	192,846	188,731
Current provisions	41,609	182,429	–	21,521
Deferred income	169,866	136,920	96,907	153,850
TOTAL EQUITY AND LIABILITIES (A+B+C)	**13,015,348**	**12,871,168**	**10,160,257**	**13,253,544**

COMBINED STATEMENT OF CASH FLOWS

The table below sets forth our combined statement of cash flows for the years ended December 31, 2011, 2010 and 2009 and for the six months ended June 30, 2012 and 2011:

	For the year ended December 31,			For the six months ended June 30,	
	2011	2010	2009	2012	2011
	(in € thousands)				
	(audited)			*(unaudited)*	
Result for the Year/Period	**71,346**	**(102,532)**	**(33,584)**	**55,142**	**22,588**
Adjustments to Result					
Net Finance Result	(5,882)	1,245	1,272	(5,224)	(1,831)
Losses on Disposal of Assets	(272)	(1,385)	(537)	(4)	(258)
Net Income Tax Result	1,732	5,277	(152)	(1,283)	1,577
Depreciation and Amortization	1,082,189	988,165	922,872	547,748	509,675
Change in Working Capital					
Trade and Other Receivables	273,831	(253,630)	(215,496)	(349,598)	15,550
Inventories	13,889	(752)	7,508	(13,650)	4,319
Other Current Assets	(3,831)	(4,965)	(807)	2,432	(2,576)
Trade and Other Payables	(41,707)	(1,746)	44,051	163,922	(135,060)
Other Current Liabilities and Provisions	(107,874)	105,660	7,218	(36,104)	(89,339)
Other Non–Current Assets and Liabilities	(51,983)	30,858	(417)	9,331	(27,320)
Interest received	11,065	5,522	1,751	7,430	4,671
Interest paid	(1,351)	(1,802)	(2,217)	(4,639)	(264)
Cash Flow from Operating Activities	**1,241,152**	**769,915**	**731,462**	**375,503**	**301,732**
Proceeds on Disposals of Property, Plant and Equipment and Intangible Assets	3,185	2,960	1,845	4	2,959
Payments on Investments in Property, Plant and Equipment and Intangible Assets	(547,289)	(2,088,798)	(819,114)	(223,343)	(325,041)
Payments on Investments in Companies, Net of Cash and Cash Equivalents Acquired	–	(844,060)	–	–	–
Cash Flow from Investing Activities	**(544,104)**	**(2,929,898)**	**(817,269)**	**(223,339)**	**(322,082)**
Proceeds from Equity	289,207	2,590,695	–	363	(502)
Repayment of Equity	(22,900)	(277,633)	(962)	–	–
Repayment of Borrowing/Debt	(3,752)	(2,071)	(2,520)	(2,003)	(1,854)
Cash Flow from Financing Activities	**262,555**	**2,310,991**	**(3,482)**	**(1,640)**	**(2,356)**
Net Increase (Decrease) in Cash and Cash Equivalents	**959,603**	**151,008**	**(89,289)**	**150,523**	**(22,706)**
Cash and Cash Equivalents at Beginning of Period	**188,965**	**37,957**	**127,246**	**1,148,568**	**188,965**
Cash and Cash Equivalents at End of Period	**1,148,568**	**188,965**	**37,957**	**1,299,091**	**166,259**

SELECTED OPERATIONAL INFORMATION

The table below sets forth certain information relating to selected operational information for the years ended December 31, 2011, 2010 and 2009 and for the six months ended June 30, 2012 and 2011:

	For the year ended December 31,			For the six months ended June 30,	
	2011	**2010**	**2009**	**2012**	**2011**
	(accesses in thousands, except as otherwise indicated)				
	(unaudited)				
Mobile Accesses:					
Post–paid	9,235.7	8,254.0	7,700.4	9,718.1	8,712.8
Pre–paid	9,144.5	8,795.2	7,807.0	9,116.1	9,035.1
Total	**18,380.1**	**17,049.2**	**15,507.4**	**18,834.2**	**17,748.0**
Fixed Accesses:					
Retail DSL	2,587.7	2,529.1	285.1	2,491.1	2,620.4
Wholesale ULL	1,042.4	1,116.5	1,316.8	1,088.8	1,118.2
Fixed Telephony	2,055.1	1,916.4	–	2,352.5	2,044.8
Narrowband and other	417.9	462.8	–	392.4	436.3
Total	**6,103.1**	**6,024.8**	**1,601.9**	**6,324.8**	**6,219.8**
Mobile ARPU (in €):					
Blended	13.6	14.8	15.6	13.7	13.4
Post–paid	21.9	23.8	26.1	21.6	21.5
Pre–paid	5.7	6.1	5.7	5.4	5.6
Data	5.6	5.0	4.7	6.1	5.4
Non–SMS over Data Revenues (%)	50.4	41.8	36.7	54.4	48.9
Data Contribution to blended ARPU (%)	41.3	33.6	29.9	44.5	40.7
Blended churn (%)	2.2	2.1	2.3	2.2	2.2
Post–paid churn (%)	1.7	1.8	1.8	1.5	1.7

	Description of significant change to the issuer's financial condition and operating results during or subsequent to the period covered by the historical key financial information.	• On December 3, 2009, we acquired all shares in Hamburg–based HanseNet Telekommunikation GmbH ("**HanseNet**"). At that time, HanseNet had more than two million fixed–line customers (as of closing on February 16, 2010) and annual revenues of more than €1 billion in the year ended December 31, 2009. The transaction was based on an agreed enterprise value of HanseNet of €900 million net of debt and cash. • Prior to the Offering, we sold to Telfisa Global B.V., an entity of Telefónica Group, all shares in Telefónica Global Activities Holdings B.V. (former Telefónica Chile Holding B.V.), through which we held all shares in Group 3G UMTS Holding GmbH, Quam GmbH, and Telefónica Global Services GmbH, together with Telefónica Global Services GmbH's subsidiaries Telefónica Global Roaming GmbH, Telefónica Compras Electronicas S.L. and its 40% interest in Adquira España S.A., subsequent to which these companies ceased to be members of our group. The divestment was accompanied by the distribution of profits by these entities to us in a total amount of €854.5 million in 2012. The assets and liabilities, results and cash flows of these former subsidiaries are not included in our combined financial statements. • On September 13, 2012, the shareholders' meeting of Telefónica Germany Verwaltungs GmbH, our predecessor company, declared a dividend distribution out of the Company's net retained profits in the total amount of €7.2 billion to O2 (Europe) Limited, the Company's sole shareholder at that time. A part of the resulting dividend payment claim was set off against an existing capital promise in the amount of €2.9 billion. The remaining amount of €4.3 billion was paid by the Company to O2 (Europe) Limited on September 14, 2012. • In order to finance the dividend distribution, Telefónica Germany GmbH & Co. OHG entered into a loan agreement dated September 12, 2012 with Telfisa Global B.V., as lender, regarding the aggregate sum of €1.25 billion.

		The following changes in the Company's financial condition and results of operations, as shown on the basis of Revenues and OIBDA occurred in the six months ended June 30, 2012 and 2011 and in the years ended December 31, 2012, 2011 and 2010: *Six months ended June 30, 2012 and 2011* Our total Revenues were €2,553.8 million for the six months ended June 30, 2012, an increase of €114.0 million, or 4.7%, from €2,439.8 million for the six months ended June 30, 2011. This growth in Revenues was mainly due to a strong increase in Wireless Service Revenues, which was partly offset by a decline in Wireline Business Revenues. Handset Revenues remained largely stable. Our OIBDA was €597.1 million for the six months ended June 30, 2012, an increase of €65.4 million, or 12.3%, from €531.7 million for the six months ended June 30, 2011. The increase in OIBDA was primarily attributable to increasing Wireless Service Revenues, as well as continued process efficiency improvements which have led to lower costs. *Years ended December 31, 2011 and 2010* Our total Revenues were €5,035.6 million for the year ended December 31, 2011, an increase of €209.3 million, or 4.3%, from €4,826.3 million for the year ended December 31, 2010. Revenues for the year ended December 31, 2011 were driven primarily by a strong demand for smartphones, particularly through the continued success of the "O_2 My Handy" model, which drove higher Handset Revenues, and the strong performance of Wireless Service Revenues due to the increased contribution of non–SMS data revenues. Total Revenues were also boosted by an increase in Wireline Business Revenues. Our OIBDA was €1,149.2 million for the year ended December 31, 2011, an increase of €256.6 million, or 28.7%, from €892.7 million for the year ended December 31, 2010. The main driver of the increase is the recognition of €202 million restructuring costs in 2010 related to our cost management program. The remaining increase in OIBDA was primarily attributable to growth in Revenues, along with the benefits of the finalized business restructuring program and increased scale and further efficiencies. *Years ended December 31, 2010 and 2009* Our total Revenues were €4,826.3 million for the year ended December 31, 2010, an increase of €1,080.8 million, or 28.9%, from €3,745.5 million for the year ended December 31, 2009. Revenues for the year ended December 31, 2010 were driven primarily by the strong performance of mobile services and a robust demand for smartphones, particularly through the continued success of the "O_2 My Handy" model. Total Revenues were also boosted due to the integration of the HanseNet business. Our OIBDA was €892.7 million for the year ended December 31, 2010, an increase of €1.2 million, or 0.1%, from €891.5 million for the year ended December 31, 2009. The OIBDA performance for the year ended December 31, 2009 was fuelled by growth in Revenues and efficiency improvements. The OIBDA performance for the year ended December 31, 2010 was impacted by the €202 million restructuring costs, which were offset by the increase in OIBDA from the integration of the HanseNet business and the termination of the roaming agreement with Deutsche Telekom.
B.8	**Selected key pro forma financial information**	Not applicable (no pro forma financials are required).
B.9	**Profit forecast or estimate**	Not applicable (no profit forecast or estimate has been made).
B.10	**Nature of any qualifications in the audit opinions on the historical financial information**	Not applicable (there are no qualifications).

B.11	**Insufficiency of the issuer's working capital for its present requirements**	Not applicable (the working capital is sufficient).

	SECTION C – SECURITIES	
C.1	**Type and class of the securities being offered and/or admitted to trading** **Security identification number**	Ordinary registered shares with no par value (*Namensstückaktien*) Ticker Symbol: O2D International Securities Identification Number ("**ISIN**"): DE000A1J5RX9 German Securities Code ("**WKN**"): A1J5RX
C.2	**Currency of the securities issue**	euro
C.3	**Number of shares issued and fully paid and issued but not fully paid / par value per share**	1,116,945,400 fully paid shares with no par value (the "**Shares**")
C.4	**Rights attached to the securities**	The Offer Shares carry full dividend rights for the year ending December 31, 2012. Each Share confers one vote at the Company's general shareholders' meeting (*Hauptversammlung*). There are no restrictions on voting rights. The Selling Shareholder does not have any different voting rights.
C.5	**Restrictions on the free transferability of the securities**	Not applicable (there are no restrictions).
C.6	**Application for admission to trading on a regulated market / identity of regulated markets where securities are to be traded**	The Company intends to apply for the admission of all 1,116,945,400 Shares to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange and on the sub-segment of the regulated market with additional post–admission obligations (*Prime Standard*).
C.7	**Dividend policy**	The management board (*Vorstand*) and the current members of the supervisory board (*Aufsichtsrat*) intend to make suggestions for the distribution of dividend to the general shareholders' meeting (*Hauptversammlung*) taking into account: (i) the profit for the year, (ii) historical and forecasted free cash–flow, (iii) distributable reserves available, (iv) benchmarking against other telecommunications companies, and (v) the leverage and financial condition of the Company. The Company aims to protect solvency by (a) refraining from paying dividends, distributing capital or capital reserves in cash or buying back shares, if the ratio of Net Financial Debt/OIBDA materially and consistently exceeds the Target Leverage (as defined below), and (b) restricting the use of new debt to pay dividends, allowing it only if the ratio of Net Financial Debt/OIBDA complies with the Target Leverage (as defined below). The Management Board and Supervisory Board intend to maintain the Company's leverage ratio (calculated by dividing Net Financial Debt by OIBDA) below 1.0 over the medium term (the "**Target Leverage**"). The Management Board intends to suggest to the General Shareholders' Meeting a cash dividend for the year ending December 31, 2012 of approximately €500 million, payable in 2013, and intends to increase the amount of dividends to be distributed in future years.

		The payment of dividends, if any, and the amounts and timing thereof, will depend on a number of factors, including future revenues, profits, financial conditions, general economic and business conditions, future prospects of the Company, applicable legal and regulatory requirements and such other factors as our Management Board may deem relevant. There can be no assurances that the Company's performance will allow us to pay dividends consistent with our dividend policy or that we will be able to increase dividend distributions over time. In particular, our ability to pay dividends may be impaired if any of the risks described in this Prospectus were to occur. Furthermore, our dividend policy is subject to change as our Management Board will revisit our dividend policy from time to time. There can be no assurance that in any given year a dividend will be proposed or declared.

	SECTION D – RISKS	
D.1	**Key risks that are specific to the issuer or its industry**	• Recessionary conditions in the Eurozone and, in particular, Germany, could adversely affect our business, financial condition and results of operations. • We are subject to extensive regulation which can and will continue to impact our business, financial condition and results of operations. • We are exposed to decreases in mobile and fixed–line termination rates and other rates such as roaming tariffs. • Delayed approvals of microwave frequency usage rights applications could materially adversely affect the performance and expansion of our mobile networks. • Our licenses and assigned frequency usage rights have finite terms, and any inability to renew or obtain new licenses and frequency usage rights necessary for our business could adversely affect our operations. • The German telecommunications market is characterized by high levels of competition from existing and potential new MNO, and factors beyond our control such as consumer trends for using new technology. • We face high levels of competition from mobile virtual operators ("**MVNO**") and branded resellers. • We face increasing competition from alternative telecommunications providers, such as cable companies and consumer electronics companies. • We are facing increasing competition from alternative telecommunications services, such as services over the top ("**OTT**"). • We may acquire or sell assets or enter into joint ventures which could potentially deliver less revenues, cash flows and earnings than anticipated. We may experience difficulties integrating acquired assets in a timely manner and we may not realize expected anticipated synergies. • The telecommunications industry has been, and will continue to be, affected by rapid technological change and we may not be able to effectively anticipate or react to these changes. • We may neither realize the expected level of demand for our products and services, nor the expected level or timing of revenues generated by those products and services, as a result of lack of market acceptance or technological change. • Constraints or prohibitions could impair our handset supplies or sales. Devices could have limited access to or be incompatible with our network. • The success of our business operations depends on our ability to attract and retain customers. • Sustained or repeated disruptions or damage to our mobile or fixed–line networks and technical systems may lead to the loss of customers or a decrease in revenues and require costly repairs.

		• Any failure to maintain or further develop our direct and indirect distribution channels or misinterpretation of customer's preferences as to distribution channels could adversely affect our ability to sustain and further grow our customer base. • Our business is capital intensive. We may not have sufficient liquidity or financing options available to fund or support our working capital. • We rely heavily on certain providers, including Deutsche Telekom for network infrastructure, BT Germany for equipment and services related to our sites, and network operators for roaming services. • Our reliance on outsourcing makes us vulnerable to failures and a lack of availability of certain essential operations and services. • A termination or failure to renew existing agreements or partnerships with MVNOs and branded resellers could damage our reputation and negatively impact our ability to diversify and grow our customer base. • We may suffer the loss of, or an inability to attract and retain, experienced management and other key personnel. • We may be subject to claims that we infringe the intellectual property rights of others and may be unable to adequately protect our own intellectual property rights. • We collect and process subscriber and other personal data as part of our business and undue use or leakage of such data could breach laws and regulations which could result in fines, loss of reputation and customer churn. • We may be adversely affected by alleged health risks associated with electromagnetic radio emissions and wireless communications devices and antennas. • Unexpected events may result in our insurance coverage being inadequate. • We could be obliged to pay additional taxes as a result of tax audits. • We may not be in a position to use the full amount of our tax losses carried forward. • Telefónica, S.A. will continue to exercise considerable influence over us and our operations, and the interests of Telefónica, S.A. may conflict with those of other shareholders. • We may have conflicts of interests with Telefónica Group companies. • We are dependent on Telefónica Group companies for essential services. Failure to renew existing service agreements with our parent company, Telefónica, S.A., at all or under mutually favorable terms, could adversely affect our business, financial conditions and results of operations. • We license the use of our primary brand O_2 from Telefónica Group and could be limited in our usage by the terms of the license agreement or for any other reason. • Our relationship with Telefónica Group could limit our ability to work with Telefónica Group's competitors. • Our market image is influenced by Telefónica Group's image.
D.3	**Key risks that are specific to the securities**	• Our Shares have not been publicly traded previously, and there can be no guarantee that the offer price will be commensurate with the listing price or that a liquid trading market in the Shares will develop or be maintained after the initial commencement of trading. • Our share price may fluctuate significantly due to a wide range of factors, many of which are beyond our control. • There is a risk that the Offering may be discontinued.

		• The sale of Shares by the Selling Shareholder could affect the share price. • The Company will not receive any net proceeds from the sale of the Offer Shares. • Future capital measures could result in a significant dilution of the shareholdings in the Company. • Our ability to pay dividends in the future depends on several factors, including asset impairments. • Investors with a reference currency other than the euro may become subject to certain foreign exchange risks when investing in our Shares. • Shareholders outside of Germany may not be able to participate in future rights offerings.

SECTION E – OFFER		
E.1	**Total net proceeds and estimate of total expenses of the offer, including estimated expenses charged to the investor by the issuer or the offeror**	The Selling Shareholder will receive all of the net proceeds from the sale of the Offer Shares. The Company will not receive any proceeds from the sale of the Offer Shares. Based on a price range of between €5.25 and €6.50, the gross sales proceeds of the Offering would be between €1,181,250,000 and €1,462,500,000, excluding Shares that may be sold upon an exercise of the Greenshoe Option (as defined below). The net sales proceeds will be the gross sales proceeds less the Underwriters' commissions and other costs and expenses from the sale of the Offer Shares, which will be borne by the Selling Shareholder. The amount of the net sales proceeds from the sale of the Offer Shares depends on the Offer Price and the number of Offer Shares actually placed, including Shares that may be sold upon an exercise of the Greenshoe Option (as defined below). No reliable estimate of the net sales proceeds or a range within which they will fall can be made until the Offer Price has been determined, at the earliest. The Company will give an updated estimate of the total net sales proceeds when it publishes the Offer Price. In addition, it is not possible at this time to reliably predict the costs of the Offering because neither the total number of Offer Shares that will be placed (including Shares that may be sold upon an exercise of the Greenshoe Option (as defined below)) nor the Offer Price (which together with the total number of placed Offer Shares determines the amount of the commissions) is currently known. The costs and expenses of the Offering and listing will comprise the commissions payable by the Selling Shareholder to the Underwriters and other expenses, such as the administrative and material fees for accounting, legal and other advisory services, printing and distribution of the Prospectus. The Selling Shareholder estimates the commissions to amount to approximately €33 million (based on the mid-point of the price range at €5.88 per Offer Share and the corresponding aggregate gross sales proceeds of approximately €1,322 million, excluding Shares that may be sold upon an exercise of the Greenshoe Option (as defined below)) and the other expenses to amount to approximately €7 million. Therefore, the expected net sales proceeds to the Selling Shareholder based on aggregate gross sales proceeds of approximately €1,322 million, excluding Shares that may be sold upon an exercise of the Greenshoe Option (as defined below), could amount to approximately €1,282 million. Neither the Company nor the Underwriters will charge expenses to investors. Investors will have to bear customary transaction and handling fees charged by their account–keeping financial institution.
E.2a	**Reasons for the offer, use of proceeds, estimated net amount of the proceeds**	The Offering is part of the asset portfolio management strategy of the Telefónica Group. Through the listing of the Shares on the Frankfurt Stock Exchange, Telefónica Group aims to increase the profile and market awareness of one of its most attractive assets. Telefónica Group also aims to improve our embedded value within Telefónica Group's market capitalization. In addition, the admission to trading of the Shares provides us with a higher degree of flexibility and direct access to capital markets and fully aligns with Telefónica Group's strategy to increase financial flexibility and reduce leverage.

		No reliable estimate of the net sales proceeds or a range within which they will fall can be made until the Offer Price has been determined, at the earliest. The Company will give an updated estimate of the total net sales proceeds when it publishes the Offer Price.
E.3	**Description of the terms and conditions of the offer**	
	Offering	The Offering consists of • 225,000,000 registered shares with no par value from the holdings of the Selling Shareholder (the "**Base Shares**"); and • 33,750,000 registered shares with no par value from the holdings of the Selling Shareholder in connection with a potential over–allotment (the "**Greenshoe Shares**", together with the Base Shares, the "**Offer Shares**"), each Offer Share representing a notional value of €1.00 of the share capital and with full dividend rights for the year ending December 31, 2012. The Offering consists of a public offering in Germany and Luxembourg and private placements of the Offer Shares to institutional investors in certain jurisdictions outside Germany and Luxembourg. In the United States, the Offer Shares will be offered for sale only to qualified institutional investors as part of a private placement in reliance on Rule 144A under the Securities Act. Outside the United States, the Offer Shares will be offered and sold in compliance with Regulation S under the Securities Act. All of the Offer Shares are from the holdings of the Selling Shareholder.
	Offer Period	The offer period, within which investors will be able to submit purchase orders for the Offer Shares, is expected to commence on October 17, 2012 and is expected to end on October 29, 2012, (the "**Offer Period**"). During the Offer Period, offers to purchase Offer Shares may be submitted by retail investors at the branch offices of the Underwriters and their associated institutions. On the last day of the Offer Period, retail investors will be able to submit offers to purchase Offer Shares until 12:00 noon (Central European Time) and institutional investors until 5:00 p.m. (Central European Time). The Company, the Selling Shareholder and the Joint Global Coordinators expressly reserve the right to close the order book prior to October 29, 2012 and announce an early end of the Offer Period. Purchase orders are freely revocable until the end of the Offer Period.
	Price Range and Offer Price	The price range within which purchase orders may be submitted is €5.25 to €6.50. Each purchase order must be placed for a minimum of 200 (two hundred) shares. Multiple subscriptions are admitted. However, the Underwriters reserve the right not to execute all orders in case of multiple subscriptions. Once the Offer Period has expired, the Selling Shareholder and the Joint Global Coordinators will jointly determine the Offer Price on October 29, 2012 on the basis of the order book prepared during the book–building process. The basis for the book–building process will be the price range. The determination of the Offer Price will depend on the purchase orders for the Offer Shares submitted by investors during the Offer Period and collected in the above–mentioned order book. The offers to purchase will be evaluated according to the bid price and the expected motivation of the respective investors. The Offer Price and the number of Offer Shares to be placed will be determined on this basis, taking into account the goal of maximizing the proceeds and whether, considering the demand for the Offer Shares indicated by the order book, the Offer Price and number of Offer Shares to be placed will reasonably support the expectation that the Share price will develop in a stable manner in the secondary market. In addition to the prices offered by investors and the number of investors interested in purchasing Offer Shares at a given price, the mix of investors in the Company that would result from a possible allotment at a particular price and the anticipated investor behavior will also be considered.

	Amendments to the Terms of the Offering	The Selling Shareholder, together with the Joint Global Coordinators, reserve the right to decrease the number of Offer Shares, to increase or decrease the upper limit and/or lower limit of the price range, and/or to extend or shorten the Offer Period. If any of the terms of the Offering are modified, the change will be published by means of an announcement through electronic information services such as Reuters or Bloomberg and on our website (www.telefonica.de) and to the extent required under the German Securities Trading Act (*Wertpapierhandelsgesetz*) and/or the German Securities Prospectus Act (*Wertpapierprospektgesetz*) as an ad–hoc notice and/or a supplement (*Nachtrag*) to the Prospectus. Investors who have submitted purchase orders will not be notified individually. Any changes to the number of Offer Shares or the price range or any extension or shortening of the Offer Period will not void purchase orders that have already been submitted. Investors who have already submitted purchase orders prior to the publication of a supplement will have the right provided under the German Securities Prospectus Act (*Wertpapierprospektgesetz*) to withdraw these orders within two business days following publication of the supplement (*Nachtrag*). Instead of withdrawing their purchase orders, investors may also amend these purchase orders submitted prior to publication of the supplement (*Nachtrag*) or submit new limited or unlimited purchase orders within two business days after publication of the supplement (*Nachtrag*).
	Delivery and Settlement of Offer Shares	Delivery of the Offer Shares against payment of the Offer Price and the customary securities commission is expected to take place two banking days following commencement of trading of the Offer Shares. The Offer Shares will be made available to shareholders as co–ownership interests in the respective global certificate. At the investor's option, Offer Shares purchased pursuant to this Offering will be credited to a securities deposit account maintained by J.P. Morgan at Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn, Germany, for the account of such investor or to the securities deposit account of a participant at Euroclear Systems or Clearstream Banking S.A., L–2967 Luxembourg.
	Over–Allotment/ Stabilization and Greenshoe Option	In connection with the Offering and the placement of the Offer Shares, J.P. Morgan or its affiliates will act as stabilization manager and may take measures aimed at stabilizing the stock exchange or market price of the Shares in order to offset any sales pressure that may exist (the "**Stabilization Measures**"). A stabilization manager is under no obligation to take Stabilization Measures. Therefore, there is no guarantee that any such Stabilization Measures will be initiated at all. If Stabilization Measures are initiated, they may be terminated at any time without prior notice. Such measures may be undertaken beginning as of the date of commencement of trading of the Shares on the regulated market (*regulierter Markt*) (*Prime Standard*) of the Frankfurt Stock Exchange and must be completed no later than the 30th calendar day after such date (the "**Stabilization Period**"). Stabilization Measures may lead to the stock exchange price of Shares being higher than they would have been in the absence of such measures. In addition, such measures may temporarily result in a stock exchange price at a level that is not sustainable. With regard to potential Stabilization Measures, investors may be allotted additional Shares in addition to the Offer Shares (the "**Over–Allotment**"). With regard to such potential Over–Allotment, 33,750,000 Shares of the Selling Shareholder will be made available to J.P. Morgan, on behalf of the Underwriters, by way of a securities loan. The Selling Shareholder has also granted J.P. Morgan, on the behalf of the Underwriters, the option of purchasing 33,750,000 Shares at the Offer Price, less agreed commissions (the "**Greenshoe Option**"). This option will expire 30 calendar days following the date of commencement of trading of the Shares.

		Within one week following the end of the Stabilization Period, information will be announced in the *Frankfurter Allgemeine Zeitung* and on our website at www.telefonica.de as to whether or not Stabilization Measures were taken, the date on which such Stabilization Measures commenced, the date on which the last stabilization transaction was taken, and the price range within which such stabilization occurred for each date on which a stabilization measure was implemented. The exercise of the Greenshoe Option, the date of such exercise and the number and type of Shares involved will also be published without undue delay (*unverzüglich*) in the manner described above for the publication of information regarding the implementation of Stabilization Measures following the end of the Stabilization Period.
	Selling Shareholder	Telefónica Germany Holdings Limited
	Greenshoe Shareholder	Telefónica Germany Holdings Limited
	General Allotment Criteria	No agreements exist between the Company, the Selling Shareholder and the Underwriters as to the allotment procedure prior to the commencement of the Offer Period. The Company, the Selling Shareholder and the Underwriters will comply with the "Principles for the Allotment of Share Issues to Private Investors" (*Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger*), which were issued on June 7, 2000 by the Exchange Expert Commission (*Börsensachverständigenkommission*) of the German Federal Ministry of Finance (*Bundesministerium der Finanzen*). After the Offer Period has ended, the Selling Shareholder and the Joint Global Coordinators will determine and publish the details of the allotment method in accordance with the "Principles for the Allotment of Share Issues to Private Investors".
	Joint Global Coordinators and Joint Bookrunners	J.P. Morgan and UBS
	Joint Bookrunners	BofA Merrill Lynch, BNP PARIBAS, Citi, HSBC
	Co–Lead Managers	Banca IMI, BayernLB, BBVA, COMMERZBANK, Santander, Société Générale
	Underwriters	The Joint Global Coordinators together with the Joint Bookrunners and Co–Lead Managers.
	Settlement Agent	J.P. Morgan
	Admission to and Commencement of Trading	The Company expects to apply for admission of all Shares of the Company to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange and, simultaneously, on the sub–segment thereof with additional post–admission obligations (*Prime Standard*) on October 17, 2012. An admission decision is expected to be granted on October 29, 2012. Commencement of trading is expected to take place on October 30, 2012.
E.4	**Interests that are material to the offer including conflicting interests**	Telefónica Germany Holdings Limited has an interest in the Offering because it will receive the net proceeds of the Offering. Telefónica, S.A. has an interest in the Offering as its indirectly wholly owned subsidiary Telefónica Germany Holdings Limited will receive the net proceeds from the Offering. The Underwriters have an interest in the Offering as each has entered into a contractual relationship with the Selling Shareholder and the Company in connection with the structuring, execution and implementation of the Offering. The compensation is incentive based and depends, among other factors, on the amount of the proceeds of the Offering. In connection with the Offering, the Underwriters and affiliated companies will be able to acquire Offer Shares for their own accounts and hold, purchase or sell for their own accounts and can also offer or sell these shares outside the Offering. The Underwriters do not intend to disclose the scope of such investments or transactions to the extent that this is not legally required.

E.5	**Name of the person or entity offering to sell the security /**	The Offer Shares will be offered by the Underwriters.
	Lock–up agreements: the parties involved; and indication of the period of the lock up	The Company has agreed with the Joint Global Coordinators that, for a period ending 180 calendar days after October 30, 2012, and without the prior written consent of the Joint Global Coordinators (such consent not to be unreasonably withheld or delayed), it will not: • announce or implement any capital increase from authorized capital (*genehmigtes Kapital*); • submit a resolution for any capital increase to the General Shareholders' Meeting (*Hauptversammlung*); • announce or effect the sale of any treasury shares; • announce, effect or submit a proposal to the General Shareholders' Meeting for the issuance of any financial instruments carrying conversion or option rights on the Shares; or • enter into any transaction in a way or act in a way that is economically similar to the actions listed above. This does not apply (a) to the issuance or sale, as applicable, of shares or other securities issued under employee participation programs or stock option plans to employees of the Company or its subsidiaries as well as (b) the issuance of shares against contributions in kind in connection with any acquisition, equity investment or joint venture directly to the partner in any such acquisition, equity investment or joint venture, provided that in case of clause (b) each person so acquiring shares issued by the Company shall have agreed in writing *vis-à-vis* the Joint Global Coordinators not to take any action in relation to the shares so acquired that the Selling Shareholder could not take in relation to the shares. The Selling Shareholder has agreed with each Joint Global Coordinator that, for a period ending 180 calendar days after October 30, 2012, it will not, without the prior written consent of the Joint Global Coordinators (such consent not to be unreasonably withheld or delayed): (i) offer, pledge, allot, sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any Shares or any other securities of the Company, including securities convertible into or exercisable or exchangeable for Shares; (ii) conclude any swap agreement that would transfer the economic risk of ownership of Shares to a third party; (iii) make any demand for, or exercise any right with respect to registration under U.S. securities laws of any Shares or any security convertible into or exercisable or exchangeable for Shares; (iv) except in relation to any increase in the share capital of the Company due to the exemptions from restrictions for the Company under (a) and (b) listed above, propose any increase in the Company's share capital to the General Shareholders' Meeting, vote in favor of such a proposed increase or otherwise support any proposal for the issuance of any security convertible into Shares or with option rights for Shares, whether directly or indirectly; or (v) enter into a transaction or perform any action economically similar to those described above. The selling restrictions under (i) through (v) above do not apply to disposals within the framework of a public takeover bid or purchase offer made by a third-party or pursuant to private sales (*i.e.*, other than through stock exchange trades or transactions similar to stock exchange trades, such as accelerated book-building offerings) to third parties provided that such party or parties assume *vis-à-vis* the Joint Global Coordinators the aforementioned selling restrictions. Further excluded from the selling restriction under (i) through (v) above are transactions with companies affiliated with the Selling Shareholder, as well as the conveyance of an indirect interest in the Company through the members of the management board or supervisory board, if the buyer is subject to the same selling restrictions as the respective seller.

E.6	**Amount and percentage of immediate dilution resulting from the offer**	Not applicable (no new shares of the Company will be issued as part of the Offering). The book value of shareholders' equity on a combined basis (and as adjusted due to the recent distribution of profits, the dividend payments to us of some of the entities recently carved–out from our group and the proceeds from the sale of all shares in Telefónica Global Activities Holding B.V., together with its subsidiaries and associate prior to the Offering) as of August 31, 2012 amounted to €6,234,127 thousands or €5.58 per Share (based on a number of 1,116,945,400 Shares). An investor purchasing Offer Shares at the mid-point of the price range at €5.88 per Offer Share would therefore be diluted by -5.00% or €-0.29, respectively (numbers have been rounded to second decimal place).
E.7	**Estimated expenses charged to the investor by the issuer or the offeror**	Neither the Company nor the Underwriters will charge expenses to investors. Investors will have to bear customary transaction and handling fees charged by their account–keeping financial institution.

ZUSAMMENFASSUNG

Zusammenfassungen setzen sich aus als "**Schlüsselinformationen**" bezeichneten geforderten Angaben zusammen. Diese Schlüsselinformationen sind in den Abschnitten A – E (A.1 – E.7) nummeriert.

Diese Zusammenfassung enthält all die geforderten Schlüsselinformationen, die in einer Zusammenfassung für diese Art von Wertpapieren und Emittenten einzubeziehen sind. Da gewisse Schlüsselinformationen nicht adressiert werden müssen, können Lücken in der Nummerierung der Schlüsselinformationen in dieser Zusammenfassung vorhanden sein.

Auch wenn grundsätzlich eine Schlüsselinformation aufgrund der Art der Wertpapiere und des Emittenten in der Zusammenfassung aufzuführen wäre, ist es möglich, dass hinsichtlich dieser Schlüsselinformation keine relevanten Angaben gemacht werden können. In einem solchen Fall wird eine kurze Beschreibung der Schlüsselinformation in die Zusammenfassung mit dem Hinweis "entfällt" aufgenommen.

<table>
<tr><th colspan="3">ABSCHNITT A – EINFÜHRUNG UND WARNHINWEISE</th></tr>
<tr><td>A.1</td><td colspan="2">Diese Zusammenfassung ist als Einführung zu diesem Prospekt zu lesen.

Jede Entscheidung des Anlegers über eine Investition in die Wertpapiere sollte sich auf eine Berücksichtigung des Prospekts als Ganzen stützen.

Für den Fall, dass vor einem Gericht Ansprüche aufgrund der in diesem Prospekt enthaltenen Informationen geltend gemacht werden, könnte der als Kläger auftretende Anleger nach den nationalen Rechtsvorschriften des jeweiligen Mitgliedsstaates des Europäischen Wirtschaftsraumes die Kosten für die Übersetzung des Prospekts vor Prozessbeginn zu tragen haben.

Telefónica Deutschland Holding AG, München (die "Gesellschaft", und zusammen mit ihren direkten und indirekten Tochtergesellschaften und dem Joint Venture zum Datum dieses Prospekts "Telefónica Deutschland" oder "wir"; soweit der Begriff "wir" in einem Zusammenhang verwendet wird, der sich auf die Vorgangenheit bezieht, umfasst dieser nur die Tochtergesellschaften und das Joint Venture der Gesellschaft zum Datum des Prospekt und beinhaltet keine Gesellschaften, die Tochtergesellschaften oder assoziiertes Unternehmen der Gesellschaft zu der Zeit waren, jedoch zum Datum des Prospekts keine Tochtergesellschaften oder assoziiertes Unternehmen der Gesellschaft mehr sind), gemeinsam mit J.P. Morgan Securities plc, London ("J.P. Morgan") und UBS Limited, London ("UBS", zusammen mit J.P. Morgan, die "Joint Global Coordinators"), Merrill Lynch International, London ("BofA Merrill Lynch"), BNP Paribas, Paris ("BNP PARIBAS"), Citigroup Global Markets Limited, London ("Citi"), und HSBC Trinkaus & Burkhardt AG, Düsseldorf ("HSBC") (BofA Merill Lynch, BNP PARIBAS, Citi und HSBC gemeinsam mit den Joint Global Coordinators, die "Joint Bookrunners") sowie Banca IMI S.p.A., Mailand ("Banca IMI"), Bayerische Landesbank, München ("BayernLB"), Banco Bilbao Vizcaya Argentaria S.A., Bilbao ("BBVA"), COMMERZBANK Aktiengesellschaft, Frankfurt ("COMMERZBANK"), Banco Santander, S.A., Santander ("Santander") und Société Générale, Paris ("Société Générale") (Banca IMI, BayernLB, BBVA, COMMERZBANK, Santander und Société Générale gemeinsam mit den Joint Bookrunners, die "Underwriters") können für den Inhalt dieser Zusammenfassung einschließlich der Übersetzung hiervon haftbar gemacht werden, jedoch nur für den Fall, dass die Zusammenfassung irreführend, unrichtig oder widersprüchlich ist, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, oder sie, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, nicht alle erforderlichen Schlüsselinformationen vermittelt, um Anleger bei der Prüfung der Frage, ob sie in die betreffenden Wertpapiere investieren sollten, behilflich zu sein.</td></tr>
<tr><td>A.2</td><td>• Zustimmung des Emittenten oder der für die Erstellung des Prospekts verantwortlichen Person zur Verwendung des Prospekts für die spätere Weiterveräußerung oder endgültige Platzierung von Wertpapieren durch Finanzintermediäre.

• Angabe der Angebotsfrist, innerhalb deren die spätere Weiterveräußerung oder endgültige Platzierung von Wertpapieren durch Finanzintermediäre erfolgen kann und für die die Zustimmung zur Verwendung des Prospekts erteilt wird.

• Alle sonstigen klaren und objektiven Bedingungen, an die die Zustimmung gebunden ist und die für die Verwendung des Prospekts relevant sind.

• Deutlich hervorgehobener Hinweis für die Anleger, dass Informationen über die Bedingungen des Angebots eines Finanzintermediärs von diesem zum Zeitpunkt der Vorlage des Angebots zur Verfügung zu stellen sind.</td><td>Entfällt (die Zustimmung der Gesellschaft zur Verwendung des Prospekts für die spätere Weiterveräußerung oder endgültige Platzierung von Wertpapieren durch Finanzintermediäre wurde nicht erteilt.)</td></tr>
</table>

ABSCHNITT B – EMITTENT		
B.1	**Juristische und kommerzielle Bezeichnung**	Telefónica Deutschland Holding AG
B.2	**Sitz und Rechtsform des Emittenten, das für den Emittenten geltende Recht und Land der Gründung der Gesellschaft**	Aktiengesellschaft errichtet nach deutschem Recht in München, Deutschland; Sitz: Georg–Brauchle–Ring 23–25, 80992 München, eingetragen im Handelsregister des Amtsgerichts München unter HRB 201055.
B.3	**Art der derzeitigen Geschäftstätigkeit und Haupttätigkeiten des Emittenten und Hauptmärkte**	Wir sind der am schnellsten wachsende integrierte Telekommunikationsanbieter, basierend auf Umsätzen aus Mobilfunkdienstleistungen und Betriebsergebnis vor Abschreibungen ("**OIBDA**") in 2011, sowie der drittgrößte Anbieter für Telekommunikationsdienstleistungen in Deutschland, basierend auf den Umsatzerlösen in 2011 (*Quelle: veröffentlichte Finanzinformationen von Deutsche Telekom, Vodafone and E–Plus.*), mit mehr als 25 Millionen Kundenanschlüssen zum 30. Juni 2012. Wir bieten Privat– und Geschäftskunden Mobilfunk– und Festnetzprodukte einschließlich Telefonie, Datendiensten sowie Mehrwertdiensten an. Darüber hinaus sind wir einer der führenden Großhandels, oder auch Wholesale–Service–Provider in Deutschland und bieten unseren Wholesale–Partnern Zugang zu unserer Infrastruktur und unseren Dienstleistungen. Die Gesellschaft ist eine indirekte 100%ige Tochtergesellschaft der Telefónica, S.A. (Telefónica, S.A. gemeinsam mit ihren direkten und indirekten Tochtergesellschaften – ausschließlich der Gesellschaft und ihrer direkten und indirekten Tochtergesellschaften und Joint–Venture zum Datum dieses Prospekts – "**Telefónica Gruppe**"), einem der größten Telekommunikationsunternehmen der Welt. Wir betreiben ein deutschlandweites Mobilfunknetz mit einer Global Systems for Mobile Communications ("**GSM**" oder "**2G**")–Netzabdeckung von mehr als 99% der deutschen Bevölkerung und ein deutschlandweites Festnetz mit einer Digital Subscriber Line ("**DSL**")–Abdeckung von ungefähr 67% der deutschen Haushalte. Unser Mobilfunknetz wird auf Basis der Technologie–Standards GSM, Universal Mobile Telecommunications System ("**UMTS**" oder "**3G**") und, seit neuestem, Long Term Evolution ("**LTE**" oder "**4G**") betrieben. Wir vertreiben unsere Produkte im Rahmen einer Mehrmarken, oder auch Multi–Brand–Strategie. Den Großteil unserer post–paid und pre–paid Mobilfunk– und Festnetz–Produkte und –Services bieten wir unter unserer Premium–Hauptmarke O_2 an. Wir erreichen weitere Kundengruppen durch unsere Zweit– und Partnermarken sowie durch unsere Wholesale–Kanäle. Zweitmarken sind vollständig kontrollierte Marken wie FONIC und netzclub oder Marken, die durch Joint–Ventures und strategische Partnerschaften gehalten werden, wie Tchibo mobil und Türk Telekom Mobile. Wir vertreiben ebenfalls high–speed Internetanschlüsse und Festnetztelefonie über DSL (unter den Standards Asymmetric Digital Subscriber Line 2+ ("ADSL2+") und very–high–bit–rate DSL ("**VDSL**")). Wir adressieren unsere Small office/Home office ("**SoHo**") und kleinen und mittelständischen Geschäftskunden ("**SME**") über unsere O_2–Marke sowie große multinationale Unternehmen über unsere Marke Telefónica Multinational Solutions. Im Rahmen unseres Wholesale–Geschäfts bieten wir Mobilfunk– und Festnetz–Dienstleistungen für Kunden wie 1&1, mobilcom/debitel, Drillisch und die zwei großen deutschen Kabelanbieter Unitymedia/KabelBW und Kabel Deutschland an. Wir bieten unsere Produkte über eine diversifizierte Vertriebsplattform an, die direkte (landesweites Netzwerk selbst betriebener Shops und Partnershops, Premium Partner, Online und Telesales) und indirekte (Einzelhandel/Partnerschaften mit Internethändlern und Händler/Kooperationen) Vertriebskanäle umfasst. Im Geschäftsjahr 2011 konnten wir Umsatzerlöse von €5,0 Milliarden und OIBDA von €1,1 Milliarden verzeichnen, was einem Anstieg der Umsatzerlöse und des OIBDA von 4,3% und 28,7% gegenüber dem Vorjahr entspricht.

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

- Wir sind ein integrierter Telekommunikationsanbieter in Deutschland, einer der stärksten Volkswirtschaften in Europa.
- Wir sind der drittgrößte integrierte Telekommunikationsanbieter in einem von Europas größten Telekommunikationsmärkten.
- Wir verfügen über ein überzeugendes Kundenangebot aufgrund unseres starken Marken–Portfolios, innovativen Datendiensten, konvergierten Angeboten und etablierten Distributionskanälen.
- Wir haben eine wettbewerbsfähige Netzinfrastruktur und eine starke Marktposition durch unser Frequenzspektrum.
- Wir profitieren von der Größe und Expertise der Telefónica Gruppe.
- Unsere starke finanzielle Erfolgshistorie führt zu attraktivem Umsatzwachstum und Cashflow–Generierung.
- Wir haben ein sehr erfahrenes Management–Team.

Wir beabsichtigen, unsere vorhandenen Stärken einzusetzen, um Marktanteile im Mobilfunk–Markt zu gewinnen und Wachstum durch die folgenden Strategien voranzutreiben:

- Wir beabsichtigen, unser starkes Multi–Brand–Portfolio und den hohen Grad an Kundenzufriedenheit zu nutzen, um unseren Marktanteil auszubauen.
- Wir zielen darauf ab, die Wachstumsmöglichkeiten im Bereich Datendienste durch innovative Produkte, digitale Dienste und LTE zu monetarisieren.
- Wir beabsichtigen, unsere Konvergenz–Strategie weiter auszubauen, um unseren Anteil an den Ausgaben unserer Kunden zu erhöhen und Kundenabwanderung zu verringern.
- Wir beabsichtigen, die Wachstumsmöglichkeiten bei SoHo, SME und Wholesale–Märkten zu nutzen.
- Wir haben uns zum Ziel gesetzt, unsere 3G und LTE Netzwerke mit einer "smart follower" Strategie wettbewerbsfähig zu halten, um die Wachstumsmöglichkeiten im Bereich Datendienste auszuschöpfen.
- Wir streben profitables Wachstum und Effizienzsteigerungen an, die zu einer gesteigerten Cashflow–Generierung führen.

Der Telekommunikationsmarkt in Deutschland ist einer der größten in Europa. In 2011 wurden Gesamtumsätze in Höhe von €47,9 Milliarden generiert. Davon trugen Festnetz–Dienstleistungen, einschließlich Telefonie und Breitband, mit 59% sowie Mobilfunk–Dienstleistungen, einschließlich Telefonie und Daten, mit 41% zum Gesamtumsatz bei.

Der deutsche Mobilfunk–Markt ist mit 114,1 Millionen SIM Karten (Penetrationsrate von ca. 140,0 %) zum Ende des Jahres 2011 der größte in der Europäischen Union ("**EU**"). Die Anzahl der SIM–Karten wird voraussichtlich bis 2014 auf 119,6 Millionen ansteigen. Umsätze von Mobilfunk–Dienstleistungen beliefen sich in 2011 auf €19,6 Milliarden, von denen Mobilfunktelefonie €12 Milliarden und mobile Datendienste €7,6 Milliarden zum Umsatz beitrugen.

Unsere wesentlichen Wettbewerber im deutschen Mobilfunk–Markt sind die weiteren drei Mobilfunknetzbetreiber (Vodafone, Deutsche Telekom und E–Plus) sowie Serviceprovider und weitere 100 sekundäre Marken im etablierten Wholesale–Markt.

Der deutsche Festnetz–Markt generierte einen Gesamtumsatz von €28,3 Milliarden in 2011. Nach einer Phase von Preisrückgängen haben sich die Umsätze stabilisiert und der Festnetz–Markt wird voraussichtlich bis 2014 auf dem derzeitigen Niveau verbleiben. Der deutsche Festnetz–Breitband–Markt ist mit 28,6 Millionen Kunden in 2011 der größte in Europa. DSL ist auch weiterhin die vorherrschende Technologie im Breitband–Markt, während die Kabel–Technologie in Stadtgebieten zunehmend beliebter wird.

		Der Hauptanbieter von Festnetz–Dienstleistungen in Deutschland ist die Deutsche Telekom. Unsere weiteren wesentlichen Wettbewerber im Breitband–Internet–Markt sind Reseller von Dienstleistungen der Deutschen Telekom, einschließlich United Internet sowie alternative Netzwerkbetreiber wie Vodafone, die die "letzte Meile" von der Deutschen Telekom mieten. (*Quelle: Yankee Group Research, EMEA ConnectedView Forecast, Juni 2012.*)
B.4a	**Wichtigste jüngste Trends, die den Emittenten und die Märkte, auf denen er agiert, beeinflussen**	Wir glauben, dass die folgende Darstellung wichtige Branchentrends aufführt, die sich auch auf unsere Geschäftsaktivitäten auswirken: Die Nachfrage nach mobilen Datenprodukten und –dienstleistungen ist der wesentliche Wachstumstreiber des deutschen Mobilfunk–Telekommunikationsmarktes. Die Nachfrage nach mobilen Datendiensten wird voraussichtlich ab 2014 Mobilfunk–Telefonie als größten Umsatzträger im Mobilfunk–Markt ablösen. Dieser Trend wird weiter von einer steigenden Nachfrage nach Smartphones und anderen mobilen Geräten wie Tablets gefördert sowie des Ausbaus, oder auch Roll–Out der LTE Technologie im Massenmarkt voraussichtlich in 2013/2014. Weitere Trends, die im deutschen Telekommunikationsmarkt hervortreten, beinhalten eine zunehmende Nachfrage nach konvergenten Angeboten (zum Beispiel, Mobilfunk– und Festnetz–Dienstleistungen von einem einzigen integrierten Netzwerkbetreiber zu beziehen), verstärkte Anstrengungen, mobile Datendienste zu monetisieren und eine Entwicklung in Richtung "cloud services". Mobilfunknetzbetreiber bieten darüber hinaus zunehmend innovative digitale Dienstleistungen wie Sicherheitslösungen sowie Finanz– und Werbedienstleistungen an. *(Quelle: Yankee Group Research, EMEA ConnectedView Forecast, Juni 2012.)*
B.5	**Beschreibung der Gruppe und der Stellung des Emittenten innerhalb dieser Gruppe**	Der alleinige Aktionär der Gesellschaft ist Telefónica Germany Holdings Limited (der "**Altaktionär**"), die direkt 100% der Aktien der Gesellschaft hält. O2 (Europe) Limited hält direkt 100% der Anteile am Altaktionär. O2 (Europe) Limited ist eine direkte 100%ige Tochtergesellschaft der Telefónica, S.A. Die Gesellschaft ist eine Holdinggesellschaft und hält direkt und indirekt 100% der Anteile an: • Telefónica Germany GmbH & Co. OHG; • Telefónica Germany Management GmbH; • Wayra Deutschland GmbH; • Telefónica Germany Online Services GmbH; • Fonic GmbH; • Telefónica Germany 1. Beteiligungsgesellschaft mbH; und • Telefónica Germany Customer Services GmbH. Die Gesellschaft hält weiter indirekt jeweils 50% der Anteile an: • TCHIBO Mobilfunk Beteiligungs GmbH; und • TCHIBO Mobilfunk GmbH & Co. KG.
B.6	**Direkte und indirekte Aktionäre des Emittenten**	Der Altaktionär hält direkt 100% der Aktien der Gesellschaft. O2 (Europe) Limited hält direkt 100% der Anteile am Altaktionär. O2 (Europe) Limited ist eine direkte 100% Tochtergesellschaft der Telefónica, S.A.
	Unterschiedliche Stimmrechte	Entfällt (es bestehen keine unterschiedlichen Stimmrechte).
	Direkte oder indirekte Beteiligung am oder Beherrschung des Emittenten, Art der Beherrschung	Der Altaktionär hält direkt 100% der Aktien der Gesellschaft. O2 (Europe) Limited hält direkt 100% der Anteile am Altaktionär. O2 (Europe) Limited ist eine direkte 100%ige Tochtergesellschaft der Telefónica, S.A. Aufgrund der indirekten Beteiligung an der Gesellschaft kann Telefónica, S.A. wesentlichen Einfluss auf die Geschäftstätigkeit und Strategie der Gesellschaft ausüben.

B.7	**Ausgewählte wesentliche historische Finanzinformationen über den Emittenten, die für jedes Geschäftsjahr des von den historischen Finanzinformationen abgedeckten Zeitraums (*die zum 31. Dezember 2011, 2010 und 2009 endenden Geschäftsjahre*) und für jeden nachfolgenden Zwischenberichtszeitraum vorgelegt werden sowie Vergleichsdaten für den gleichen Zeitraum des vorangegangenen Geschäftsjahres (*Sechsmonatszeiträume zum 30. Juni 2012 und 2011*).**	*Die folgenden Tabellen stellen unsere kombinierte Gewinn– und Verlustverrechnung, die kombinierte Bilanz, kombinierte Kapitalflussrechnung und bestimmte weitere Betriebs– und Finanzdaten für die angegebenen Zeiträume dar. Unsere nachfolgend für die zum 31. Dezember 2011, 2010 und 2009 endenden Geschäftsjahre dargestellten kombinierten Finanzdaten sind unserem geprüften kombinierten Abschluss für die zum 31. Dezember 2011, 2010 und 2009 endenden Geschäftsjahre entnommen, der gemäß den International Financial Reporting Standards, wie sie in der Europäischen Union anzuwenden sind (“**IFRS**”), unter Berücksichtigung der in Anhangangabe 1 zum kombinierten Abschluss dargestellten Grundlagen der Erstellung aufgestellt wurde und an anderer Stelle in diesem Prospekt enthalten ist. Unsere nachfolgend dargestellten kombinierten Finanzangaben zum 30. Juni 2012 und für die Sechsmonatszeiträume zum 30. Juni 2012 und 2011 wurden unserem ungeprüften verkürzten kombinierten Zwischenabschluss für den zum 30. Juni 2012 endenden Sechsmonatszeitraum entnommen, der gemäß IFRS für Zwischenberichterstattung (IAS 34) unter Berücksichtigung der in Anhangangabe 1 dargestellten Grundlagen der Erstellung und der in Anhangangabe 2 zum ungeprüften verkürzten kombinierten Zwischenabschluss erläuterten Darstellung des verkürzten kombinierten Zwischenabschlusses aufgestellt wurde und in diesem Prospekt an anderer Stelle enthalten ist. Die Ertragslage für den zum 30. Juni 2012 endenden Sechsmonatszeitraum erlaubt nicht unbedingt Rückschlüsse auf die für das gesamte Geschäftsjahr zum 31. Dezember 2012 zu erwartenden Ergebnisse. Die folgenden Tabellen enthalten auch bestimmte Betriebsdaten auf einer kombinierten Basis für die angegebenen Zeiträume. Diese Betriebsdaten entstammen Kalkulationen des Managements und sind nicht Teil unserer Abschlüsse oder Finanzberichterstattungssysteme und wurden nicht geprüft.* *Unsere kombinierten Abschlüsse für die zum 31. Dezember 2011, 2010 und 2009 endenden Geschäftsjahre und für den Sechsmonatszeitraum zum 30. Juni 2012 wurden für dieses Angebot erstellt. Der kombinierte Abschluss enthält die Vermögenswerte und Verbindlichkeiten, Aufwendungen und Erträge und Cashflows derjenigen direkten und indirekten Tochtergesellschaften und anteilig desjenigen Joint Ventures der Gesellschaft für die zum 31. Dezember 2011, 2010 und 2009 endenden Geschäftsjahre und die Sechsmonatszeiträume zum 30. Juni 2012 und 2011, die zum Datum dieses Prospekts weiterhin Tochtergesellschaften und Joint Venture der Gesellschaft sind. „Das auf die Telefónica Germany Gruppe entfallende Nettovermögen” beinhaltet das gezeichnete Kapital, die Kapitalrücklagen und Bilanzgewinn der Gesellschaft und der Telefónica Germany Management GmbH. Für die anderen Gesellschaften der Telefónica Germany Gruppe wurden die jeweiligen Beteiligungsbuchwerte der von der Gesellschaft und der Telefónica Germany Management GmbH gehaltenen Gesellschaften und deren anteiliges Nettoeigenkapital konsolidiert. Die Gesellschaften Telefónica Global Service GmbH, Telefónica Global Roaming GmbH, Telefónica Germany Electronicas S.L., Adquira España S.A., Group 3G UMTS Holding GmbH und Quam GmbH waren während der Geschäftsjahre 2011, 2010 und teilweise 2009 sowie innerhalb des Sechsmonatszeitraums zum 30. Juni 2012 Tochtergesellschaften oder assoziiertes Unternehmen der Gesellschaft, wurden jedoch kürzlich im Rahmen der Reorganisation der Gruppe vor dem Angebot aus unserer Gruppe ausgegliedert. Für Zwecke der kombinierten Abschlüsse wurden diese Gesellschaften nicht konsolidiert.* *Sind Finanzdaten in den nachstehenden Tabellen als “geprüft” gekennzeichnet, so bedeutet dies, dass sie unserem geprüften kombinierten Abschluss für die zum 31. Dezember 2011, 2010 und 2009 endenden Geschäftsjahre entnommen oder daraus abgeleitet wurden. Die Kennzeichnung “ungeprüft” wird in den nachstehenden Tabellen zur Kenntlichmachung von Finanzdaten verwendet, die unserem ungeprüften verkürzten kombinierten Zwischenabschluss für den zum 30. Juni 2012 endenden Sechsmonatszeitraum oder unserem Rechnungswesen oder unserer internen Managementberichterstattung entnommen oder daraus abgeleitet wurden.* *Die nachfolgenden Zahlenangaben wurden nach etablierten kaufmännischen Grundsätzen gerundet. Additionen der Zahlenangaben in einer Tabelle können daher zu anderen als den ebenfalls in der Tabelle dargestellten Summen führen.*

Kombinierte Gewinn– und Verlustverrechnung und sonstige kombinierte Finanzinformationen

Die folgende Tabelle stellt unsere kombinierte Gewinn– und Verlustrechnung und sonstige kombinierte Finanzinformationen für die zum 31. Dezember 2011, 2010 und 2009 endenden Geschäftsjahre und die Sechsmonatszeiträume zum 30. Juni 2012 und 2011 dar:

	Für das Geschäftsjahr endend zum 31. Dezember			**Für den Sechsmonatszeitraum endend zum 30. Juni**	
	2011	**2010**	**2009**	**2012**	**2011**
	(in Tausend €, sofern nicht anders angegeben)				
	(geprüft, sofern nicht anders angegeben)			*(ungeprüft)*	
Umsatzerlöse:	**5.035.552**	**4.826.278**	**3.745.540**	**2.553.798**	**2.439.754**
Umsatzerlöse aus Mobilfunk	3.605.747	3.411.930	3.187.263	1.854.450	1.718.789
Umsatzerlöse aus Mobilfunkdienstleistungen[1]	2.946.465	2.932.288	2.860.577	1.547.602	1.412.678
Umsatzerlöse aus Mobilfunk Hardware	659.282	479.642	326.685	306.848	306.111
Umsatzerlöse aus Festnetz/DSL	1.425.740	1.411.861	558.277	697.325	719.056
Sonstige	4.065	2.487	–	2.023	1.908
Sonstige Erträge	60.991	88.859	92.102	30.278	31.938
Materialaufwand und bezogene Leistungen	–2.047.139	–1.906.492	–1.360.254	–1.025.602	–975.970
Personalaufwand	–437.756	–611.353	–395.831	–226.210	–224.408
Sonstige Aufwendungen[2]	–1.462.411	–1.504.615	–1.190.075	–735.115	–739.568
Betriebsergebnis vor Abschreibungen (OIBDA)[3, 4]	**1.149.237**	**892.677**	**891.482**	**597.149**	**531.746**
Abschreibungen	–1.082.189	–988.165	–922.872	–547.748	–509.675
Betriebsergebnis	**67.048**	**–95.488**	**–31.390**	**49.401**	**22.071**
Finanzerträge	14.271	8.686	4.152	9.826	5.889
Währungsgewinne	707	348	212	324	586
Finanzaufwendungen	–8.389	–9.931	–5.424	–4.602	–4.058
Währungsverluste	–559	–870	–1.286	–1.090	–323
Finanzergebnis	**6.030**	**–1.767**	**–2.346**	**4.458**	**2.094**
Ergebnis vor Steuern	**73.078**	**–97.255**	**–33.736**	**53.859**	**24.165**
Ertragsteuern	–1.732	–5.277	152	1.283	–1.577
Jahresergebnis/Periodenergebnis	**71.346**	**–102.532**	**–33.584**	**55.142**	**22.588**
Überleitung vom Betriebsergebnis zum Betriebsergebnis vor Abschreibungen (OIBDA) und vor Gruppengebühren und OIBDA vor Gruppengebühren–Marge[3]					
Betriebsergebnis	**67.048**	**–95.488**	**–31.390**	**49.401**	**22.071**
Abschreibungen	–1.082.189	–988.165	–922.872	–547.748	–509.675
Betriebsergebnis vor Abschreibungen (OIBDA)[4]	**1.149.237**	**892.677**	**891.482**	**597.149**	**531.746**
Gruppengebühren (ungeprüft)	70.232	52.205	26.928	31.528	26.138
Betriebsergebnis vor Abschreibungen (OIBDA) und vor Gruppengebühren (ungeprüft)[3]	**1.219.469**	**944.882**	**918.410**	**628.677**	**557.884**
Umsatzerlöse	5.035.552	4.826.278	3.745.540	2.553.798	2.439.754
OIBDA–Marge[5] (ungeprüft)	**22,8%**	**18,5%**	**23,8%**	**23,4%**	**21,8%**
OIBDA vor Gruppengebühren–Marge[5] (ungeprüft)	**24,2%**	**19,6%**	**24,5%**	**24,6%**	**22,9%**

[1] Unter Ausschluss des Effekts umfangreicher Senkungen der Sprachterminierungsentgelte ("**MTR**") hätte das Wachstum der Umsatzerlöse aus Mobilfunkdienstleistungen auf Basis eines Jahr–zu–Jahr Vergleichs jeweils 7,1%, 3,8% und 1,6% für die Jahre 2011, 2010 und 2009 sowie jeweils 9,6% und 6,1% für die zum 30. Juni 2012 und 2011 endenden Sechsmonatszeiträume betragen, welches höhere Wachstumsraten als die berichteten Wachstumsraten sind. Die Bereinigung um die Auswirkungen der MTR Absenkungen wurde dadurch vorgenommen, dass bei jedem Monat innerhalb der Vergleichszeiträume die MTR des entsprechenden Monats aus dem Vergleichszeitraum angesetzt wurde, wenn diese höher war als die MTR des relevanten Monats. Die Auswirkungen der MTR Absenkung von €0,088 auf €0,0714 ab dem 31. März 2009 auf den Vergleich der Jahre 2009 und 2010 wurde dadurch ausgeglichen, dass für die ersten drei Monate des Jahres 2010 eine MTR von €0,088 unterstellt wurde. Die Auswirkungen der MTR Absenkung von €0,0714 auf €0,0339 ab dem 1. Dezember 2010 auf den Vergleich der Jahre 2010 und 2011 wurde dadurch ausgeglichen, dass für die ersten elf Monate des Jahres 2011 eine MTR von €0,0714 unterstellt wurde.

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

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

[4] Im OIBDA, wie in unserem kombiniertem Abschluss berichtet, sind die in Fußnote 2 beschriebenen Gruppengebühren sowie bestimmte Restrukturierungsaufwendungen von €202 Millionen, die in 2010 anfielen, und €9 Millionen Restrukturierungsaufwendungen, die in 2009 anfielen, enthalten.

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

Kombinierte Bilanz

Die folgende Tabelle stellt unsere kombinierte Bilanz zum 31. Dezember 2011, 2010 und 2009 und zum 30. Juni 2012 dar:

	31. Dezember			**30. Juni**
	2011	**2010**	**2009**	**2012**
	(in Tausend €)			
	(geprüft)			*(ungeprüft)*
AKTIVA				
A) LANGFRISTIGE VERMÖGENSWERTE	**7.900.175**	**8.427.878**	**6.248.527**	**7.624.600**
Geschäfts– oder Firmenwert	705.576	705.576	423.081	705.576
Immaterielle Vermögenswerte	3.658.137	3.956.504	2.510.684	3.465.076
Sachanlagen	3.118.869	3.347.953	2.895.662	3.035.073
Sonstige langfristige finanzielle Vermögenswerte	5.560	5.335	6.412	5.559
Latente Steueransprüche	412.033	412.510	412.688	413.316
B) KURZFRISTIGE VERMÖGENSWERTE	**5.115.173**	**4.443.290**	**3.911.730**	**5.628.944**
Vorräte	70.429	84.318	72.909	84.079
Forderungen aus Lieferungen und Leistungen und sonstige Forderungen	1.010.279	1.284.110	914.967	1.359.877
Sonstige kurzfristige finanzielle Vermögenswerte	2.885.897	2.885.897	2.885.897	2.885.897
Zahlungsmittel und Zahlungsmitteläquivalente	1.148.568	188.965	37.957	1.299.091
BILANZSUMME (GESAMT) (A+B)	**13.015.348**	**12.871.168**	**10.160.257**	**13.253.544**
	31. Dezember			**30. Juni**
	2011	**2010**	**2009**	**2012**
	(in Tausend €)			
	(geprüft)			*(ungeprüft)*
PASSIVA				
A) EIGENKAPITAL	**11.756.290**	**11.421.311**	**9.221.577**	**11.811.795**
Auf die Telefónica Germany Gruppe entfallendes Nettovermögen	11.754.945	11.420.119	9.219.652	11.810.450
Sonstige Eigenkapitalbestandteile	1.345	1.192	1.925	1.345
Gesamtes, auf die Telefónica Germany Gruppe entfallendes Eigenkapital	11.756.290	11.421.311	9.221.577	11.811.795
B) LANGFRISTIGE SCHULDEN	**75.289**	**122.621**	**49.618**	**85.041**
Sonstige Verbindlichkeiten	6.342	5.846	6.301	6.764
Langfristige Rückstellungen	68.947	116.775	43.317	78.277
C) KURZFRISTIGE SCHULDEN	**1.183.769**	**1.327.236**	**889.062**	**1.356.708**
Verbindlichkeiten aus Lieferungen und Leistungen	785.580	811.936	599.309	992.606
Sonstige Verbindlichkeiten	186.714	195.951	192.846	188.731
Kurzfristige Rückstellungen	41.609	182.429	–	21.521
Passiver Rechnungsabgrenzungsposten	169.866	136.920	96.907	153.850
BILANZSUMME (A+B+C)	**13.015.348**	**12.871.168**	**10.160.257**	**13.253.544**

Kombinierte Kapitalflussrechnung

Die folgende Tabelle stellt unsere kombinierte Kapitalflussrechnung für die zum 31. Dezember 2011, 2010 und 2009 endenden Geschäftsjahre und die Sechsmonatszeiträume zum 30. Juni 2012 und 2011 dar:

	Für das Geschäftsjahr endend zum 31. Dezember			Für den Sechsmonatszeitraum endend zum 30. Juni	
	2011	**2010**	**2009**	**2012**	**2011**
	(in Tausend €)				
	(geprüft)			*(ungeprüft)*	
Jahres–/Periodenergebnis	**71.346**	**–102.532**	**–33.584**	**55.142**	**22.588**
Anpassung des Ergebnisses					
Finanzergebnis	–5.882	1.245	1.272	–5.224	–1.831
Verluste aus Abgängen von Vermögenswerten	–272	–1.385	–537	–4	–258
Ertragsteueraufwand/–ertrag	1.732	5.277	–152	–1.283	1.577
Abschreibungen	1.082.189	988.165	922.872	547.748	509.675
Veränderung des Working Capital					
Forderungen aus Lieferungen und Leistungen und sonstige Forderungen	273.831	–253.630	–215.496	–349.598	15.550
Vorräte	13.889	–752	7.508	–13.650	4.319
Sonstige kurzfristige Vermögenswerte	–3.831	–4.965	–807	2.432	–2.576
Verbindlichkeiten aus Lieferungen und Leistungen und sonstige Verbindlichkeiten	–41.707	–1.746	44.051	163.922	–135.060
Sonstige kurzfristige Verbindlichkeiten und Rückstellungen	–107.874	105.660	7.218	–36.104	–89.339
Sonstige langfristige Vermögenswerte und Verbindlichkeiten	–51.983	30.858	–417	9.331	–27.320
Erhaltene Zinsen	11.065	5.522	1.751	7.430	4.671
Gezahlte Zinsen	–1.351	–1.802	–2.217	–4.639	–264
Cashflow aus der betrieblichen Tätigkeit	**1.241.152**	**769.915**	**731.462**	**375.503**	**301.732**
Erlöse aus Abgängen von Sachanlagen und immateriellen Vermögenswerten	3.185	2.960	1.845	4	2.959
Auszahlungen für Investitionen in Sachanlagen und immaterielle Vermögenswerten	–547.289	–2.088.798	–819.114	–223.343	–325.041
Auszahlungen für Investitionen in Unternehmen, abzüglich erworbener Zahlungsmittel und Zahlungsmitteläquivalente	–	–844.060	–	–	–
Cashflow aus der Investitionstätigkeit	**–544.104**	**–2.929.898**	**–817.269**	**–223.339**	**–322.082**
Erlöse aus Einzahlungen in das Eigenkapital	289.207	2.590.695	–	363	–502
Rückzahlung aus dem Eigenkapital	–22.900	–277.633	–962	–	–
Tilgung von Darlehen/Schulden	–3.752	–2.071	–2.520	–2.003	–1.854
Cashflow aus der Finanzierungstätigkeit	**262.555**	**2.310.991**	**–3.482**	**–1.640**	**–2.356**
Nettozunahme (–abnahme) der Zahlungsmittel und Zahlungsmitteläquivalente	**959.603**	**151.008**	**–89.289**	**150.523**	**–22.706**
Zahlungsmittel und Zahlungsmitteläquivalente zum Beginn der Periode	**188.965**	**37.957**	**127.246**	**1.148.568**	**188.965**
Zahlungsmittel und Zahlungsmitteläquivalente zum Ende der Periode	**1.148.568**	**188.965**	**37.957**	**1.299.091**	**166.259**

Ausgewählte Operative Informationen

Die folgende Tabelle stellt ausgewählte operative Informationen für die zum 31. Dezember 2011, 2010 und 2009 endenden Geschäftsjahre und die Sechsmonatszeiträume zum 30. Juni 2012 und 2011 dar:

	Für das Geschäftsjahr endend zum 31. Dezember			**Für den Sechsmonatszeitraum endend zum 30. Juni**	
	2011	**2010**	**2009**	**2012**	**2011**
	(Anschlüsse in Tausend, sofern nicht anders angegeben)				
	(ungeprüft)				
Mobilfunkanschlüsse:					
Post–paid	9.235,7	8.254,0	7.700,4	9.718,1	8.712,8
Pre–paid	9.144,5	8.795,2	7.807,0	9.116,1	9.035,1
Total	**18.380,1**	**17.049,2**	**15.507,4**	**18.834,2**	**17.748,0**
Festnetzanschlüsse:					
Retail DSL	2.587,7	2.529,1	285,1	2.491,1	2.620,4
Wholesale ULL	1.042,4	1.116,5	1.316,8	1.088,8	1.118,2
Festnetztelefonie	2.055,1	1.916,4	–	2.352,5	2.044,8
Schmalband und andere	417,9	462,8	–	392,4	436,3
Gesamt	**6.103,1**	**6.024,8**	**1.601,9**	**6.324,8**	**6.219,8**
Mobilfunk ARPU (in €):					
Durchschnitt	13,6	14,8	15,6	13,7	13,4
Post–paid	21,9	23,8	26,1	21,6	21,5
Pre–paid	5,7	6,1	5,7	5,4	5,6
Datentransfer	5,6	5,0	4,7	6,1	5,4
Nicht auf SMS entfallender Anteil des Datenumsatzes (%)	50,4	41,8	36,7	54,4	48,9
Anteil Datentransfer am durchschnittlichen ARPU (%)	41,3	33,6	29,9	44,5	40,7
Churn Durchschnitt (%)	2,2	2,1	2,3	2,2	2,2
Post–pay Churn (%)	1,7	1,8	1,8	1,5	1,7

	Beschreibung der wesentlichen Veränderungen der Finanzlage und des Betriebsergebnisses des Emittenten in oder nach dem von den wesentlichen historischen Finanzinformationen abgedeckten Zeitraum.	• Am 3. Dezember 2009 haben wir sämtliche Anteile der in Hamburg ansässigen HanseNet Telekommunikation GmbH ("**HanseNet**") erworben. Zu dem Zeitpunkt hatte HanseNet mehr als zwei Millionen Festnetz–Kunden (zum Zeitpunkt des Closings am 16. Februar 2010) und jährliche Umsatzerlöse von mehr als € 1 Milliarde im Geschäftsjahr endend zum 31. Dezember 2009. Die Transaktion basierte auf einem vereinbarten Unternehmenswert HanseNets von €900 Millionen ohne liquide Mittel und Schulden. • Im Vorfeld des Angebots verkauften wir an Telfisa Global B.V., ein Unternehmen der Telefónica Gruppe, alle Anteile an Telefónica Global Activities Holdings B.V. (zuvor Telefónica Chile Holding B.V.), durch die wir alle Anteile an Group 3G UMTS Holding GmbH, Quam GmbH und Telefónica Global Services GmbH (einschließlich Telefónica Global Services GmbHs Tochtergesellschaften Telefónica Global Roaming GmbH, Telefónica Compras Electronicas S.L. und dessen 40% Beteiligung an Adquira España S.A.) gehalten haben; damit sind diese Gesellschaften nicht mehr Teil unserer Gruppe. Die Desinvestition wurde von der Ausschüttung von Gewinnen dieser Gesellschaften an uns in der Höhe von €854,5 Millionen im Geschäftsjahr 2012 begleitet. Die Vermögenswerte und Verbindlichkeiten, Jahresergebnisse und Kapitalflussrechnung dieser vormaligen Tochtergesellschaften sind nicht in unseren kombinierten Abschlüssen enthalten.

- Am 13. September 2012 beschloss die Gesellschafterversammlung der Telefónica Germany Verwaltungs GmbH, unsere Vorgängergesellschaft, eine Dividendenausschüttung aus dem Bilanzgewinn der Gesellschaft an O2 (Europe) Limited, den alleinigen Aktionär der Gesellschaft zu diesem Zeitpunkt, in Höhe von €7,2 Milliarden. Ein Teil des entstandenen Dividendenzahlungsanspruch wurde mit einer bestehender Kapitalzusage in Höhe von €2,9 Milliarden verrechnet. Der verbleibende Betrag in Höhe von €4,3 Milliarden wurde von der Gesellschaft an O2 (Europe) Limited am 14. September 2012 ausgezahlt.
- Zur Finanzierung der Dividendenausschüttung hat Telefónica Germany GmbH & Co. OHG am 12. September 2012 mit Telfisa Global B.V. als Darlehensgeber, einen Darlehensvertrag hinsichtlich eines Betrags in Höhe von €1,25 Milliarden abgeschlossen.

In den zum 30. Juni 2012 und 2011 endenden Sechsmonatszeiträumen sowie in den zum 31. Dezember 2011, 2010 und 2009 endenden Geschäftsjahren sind die folgenden Änderungen der Finanzlage und Ertragslage der Gesellschaft, aufgezeigt anhand der Umsatzerlöse und OIBDA, eingetreten:

Zum 30. Juni 2012 und 2011 endende Sechsmonatszeiträume

Unsere gesamten Umsatzerlöse betrugen in dem zum 30. Juni 2012 endenden Sechsmonatszeitraum €2.553,8 Millionen, ein Anstieg von €114,0 Millionen bzw. 4,7% im Vergleich zu €2.439,8 Millionen in dem zum 30. Juni 2011 endenden Sechsmonatszeitraum. Dieses Umsatzerlöswachstum war hauptsächlich durch einen hohen Anstieg von Umsatzerlösen aus Mobilfunkdienstleistungen bedingt, der teilweise durch einen Rückgang der Umsatzerlöse aus Festnetz/DSL ausgeglichen wurde. Umsatzerlöse aus Mobilfunk Hardware blieben weitgehend stabil.

Unser OIBDA betrug €597,1 Millionen in dem zum 30. Juni 2012 endenden Sechsmonatszeitraum, ein Anstieg von €65,4 Millionen bzw. 12,3% im Vergleich zu €531,7 Millionen in dem zum 30. Juni 2011 endenden Sechsmonatszeitraum. Der Anstieg in OIBDA beruhte im Wesentlichen auf steigenden Umsatzerlösen aus Mobilfunkdienstleistungen sowie anhaltenden Prozess–Effizienzsteigerungen, die zu geringeren Kosten führten.

Zum 31. Dezember 2011 und 2010 endende Geschäftsjahre

Unsere gesamten Umsatzerlöse betrugen in dem zum 31. Dezember 2011 endenden Geschäftsjahr €5.035,6 Millionen, ein Anstieg von €209,3 Millionen bzw. 4,3% verglichen mit €4.826,3 Millionen in dem zum 31. Dezember 2010 endenden Geschäftsjahr. Die Umsatzerlöse in dem zum 31. Dezember 2011 endenden Geschäftsjahr wurden im Wesentlichen durch eine hohe Nachfrage nach Smartphones vorangetrieben, insbesondere durch den anhaltenden Erfolg des "O_2 My Handy" Modells, welches zu höheren Umsatzerlösen aus Mobilfunk Hardware führte, sowie einer starken Entwicklung von Umsatzerlösen aus Mobilfunkdienstleistungen aufgrund des gestiegenen Beitrags des nicht auf SMS entfallenden Anteils des Datenumsatzes. Die gesamten Umsatzerlöse wurden auch durch einen Anstieg der Umsatzerlöse aus Festnetz/DSL gesteigert.

Unser OIBDA betrug €1.149,2 Millionen in dem zum 31. Dezember 2011 endenden Geschäftsjahr, ein Anstieg von €256,6 Millionen bzw. 28,7%, verglichen mit €892,7 Millionen in dem zum 31. Dezember 2010 endenden Geschäftsjahr. Der wesentliche Faktor für den Anstieg ist die Bildung von €202 Millionen Restrukturierungskosten in 2010 in Bezug auf unser Programm zur Kostenkontrolle. Der verbleibende Anstieg des OIBDA ist im Wesentlichen auf Umsatzerlöswachstum zurückzuführen, einhergehend mit den Vorteilen eines abgeschlossenen Restrukturierungsprogramms und erhöhten Skaleneffekten und Effizienzsteigerungen.

		Zum 31. Dezember 2010 und 2009 endende Geschäftsjahre Unsere gesamten Umsatzerlöse betrugen €4.826,3 Millionen in dem zum 31. Dezember 2010 endenden Geschäftsjahr, ein Anstieg von €1.080,8 Millionen bzw. 28,9%, verglichen mit €3.745,5 Millionen in dem zum 31. Dezember 2009 endenden Geschäftsjahr. Umsatzerlöse in dem zum 31. Dezember 2009 endenden Geschäftsjahr wurden im Wesentlichen von der starken Entwicklung von Mobilfunkdienstleistungen und der robusten Nachfrage nach Smartphones vorangetrieben, insbesondere durch den anhaltenden Erfolg des "O_2 My Handy" Modells. Die gesamten Umsatzerlöse wurden durch die Integration des HanseNet–Geschäfts gesteigert. Unser OIBDA betrug €892,7 Millionen in dem zum 31. Dezember 2010 endenden Geschäftsjahr, ein Anstieg von €1,2 Millionen bzw. 0,1%, verglichen mit €891,5 Millionen in dem zum 31. Dezember 2009 endenden Geschäftsjahr. Die OIBDA–Performance in dem zum 31. Dezember 2009 endenden Geschäftsjahr wurde durch ein Umsatzerlöswachstum und Effizienzsteigerungen verbessert. Die OIBDA–Performance in dem zum 31. Dezember 2010 endenden Geschäftsjahr wurde von €202 Millionen Restrukturierungskosten beeinflusst, die durch den OIBDA–Anstieg aufgrund der Integration des HanseNet–Geschäfts und die Kündigung des Roaming–Vertrags mit der Deutschen Telekom kompensiert wurde.
B.8	**Ausgewählte Pro–forma–Finanzangaben**	Entfällt (es sind keine Pro–forma Finanzangaben erforderlich).
B.9	**Gewinnprognosen und –schätzungen**	Entfällt (es gibt keine Gewinnprognosen oder –schätzungen).
B.10	**Art etwaiger Einschränkungen der Bestätigungsvermerke zu den historischen Finanzinformationen**	Entfällt (es bestehen keine Einschränkungen der Bestätigungsvermerke).
B.11	**Erklärung, ob das Geschäftskapital des Emittenten ausreicht, um die bestehenden Anforderungen zu erfüllen**	Entfällt (das Geschäftskapital ist ausreichend).

ABSCHNITT C – WERTPAPIERE		
C.1	**Art und Gattung der angebotenen und/oder zum Handel zuzulassenden Wertpapiere** **Wertpapierkennung**	Namensstückaktien Ticker Symbol: O2D International Securities Identification Number ("ISIN"): DE000A1J5RX9 Wertpapierkennnummer ("WKN"): A1J5RX
C.2	**Währung der Wertpapieremission**	Euro
C.3	**Zahl der ausgegebenen und voll eingezahlten Aktien und der ausgegebenen, aber nicht voll eingezahlten Aktien** **Nennwert pro Aktie bzw. Angabe, dass die Aktien keinen Nennwert haben**	1.116.945.400 voll eingezahlte nennwertlose Stückaktien.

C.4	**Mit den Wertpapieren verbundene Rechte**	Die Angebotsaktien sind für das Geschäftsjahr endend zum 31. Dezember 2012 voll gewinnanteilsberechtigt. Jede Aktie der Gesellschaft berechtigt zur Abgabe einer Stimme auf der Hauptversammlung der Gesellschaft. Die Stimmrechte der Aktionäre unterliegen keiner Einschränkung. Der Selling Shareholder hat keine abweichenden Stimmrechte.
C.5	**Beschreibung aller etwaigen Beschränkungen für die freie Übertragbarkeit der Wertpapiere**	Entfällt (es bestehen keine Beschränkungen der Übertragbarkeit).
C.6	**Antrag auf Zulassung zum Handel an einem geregelten Markt / Nennung der geregelten Märkte, auf denen die Wertpapiere gehandelt werden sollen.**	Die Gesellschaft beabsichtigt, am 17. Oktober 2012 die Zulassung ihres gesamten Aktienkapitals, bestehend aus 1.116.945.400 Aktien, zum Handel am regulierten Markt der Frankfurter Wertpapierbörse und gleichzeitig am dortigen Teilbereich mit weiteren Zulassungsfolgepflichten (*Prime Standard*) zu beantragen.
C.7	**Dividendenpolitik**	Der Vorstand und die derzeitigen Mitglieder des Aufsichtsrates beabsichtigen, der Hauptversammlung vorzuschlagen, bei der Beschlussfassung über die Ausschüttung einer Dividende (i) den Jahresüberschuss, (ii) historische und geplante verfügbare Cashflows, (iii) ausschüttungsfähige Gewinnrücklagen, (iv) einen Benchmarkvergleich anderer Telekommunikationsunternehmen und (v) den Verschuldungsgrad und Finanzlage der Gesellschaft zu berücksichtigen. Die Gesellschaft beabsichtigt, ihre Zahlungsfähigkeit zu sichern, indem a) keine Auszahlung von Dividenden, Ausschüttung von Kapital oder Kapitalrücklagen in bar oder Rückkauf von Aktien vorgenommen werden, soweit das Verhältnis von Nettofinanzschulden/OBIDA einen Zielverschuldungsgrad (wie nachstehend definiert) wesentlich und beständig überschreitet und b) die Verwendung neuer Schulden zur Zahlung von Dividenden eingeschränkt wird, indem dies nur möglich ist, soweit Verhältnis von Nettofinanzschulden/OBIDA mit dem Zielverschuldungsgrad (wie nachstehend definiert) übereinstimmt. Der Vorstand und der Aufsichtsrat beabsichtigen, den Verschuldungsgrad der Gesellschaft (errechnet durch Nettofinanzschulden geteilt durch OIBDA) mittelfristig unter 1,0 zu halten (der "**Zielverschuldungsgrad**"). Der Vorstand beabsichtigt, der Hauptversammlung eine Dividendenzahlung in bar für das Geschäftsjahr endend zum 31. Dezember 2012, zahlbar im Geschäftsjahr endend zum 31. Dezember 2013, von ca. €500 Millionen vorzuschlagen und beabsichtigt, die auszuschüttende Dividende innerhalb der nächsten Jahre zu erhöhen. Die Ausschüttungen von Dividenden, soweit erfolgend, sowie deren Höhe und Ausschüttungszeitpunkt wird von einer Vielzahl von Faktoren abhängig sein, einschließlich zukünftiger Umsatzerlöse, Gewinne, Finanzlage, allgemeinen volkswirtschaftlichen und wirtschaftlichen Bedingungen, zukünftigen Aussichten der Gesellschaft, anwendbarer gesetzlicher und aufsichtsrechtlicher Anforderungen und weiterer Faktoren, die der Vorstand für relevant hält. Es kann nicht gewährleistet werden, dass die Leistungsfähigkeit der Gesellschaft eine mit unserer Dividendenpolitik übereinstimmende Ausschüttung von Dividenden ermöglichen wird oder das wir in der Lage sein werden, Dividendenausschüttungen mit der Zeit zu erhöhen. Insbesondere könnte unsere Fähigkeit, Dividenden auszuschütten, dadurch beeinträchtigt werden, dass sich eines der in diesem Prospekt beschriebenen Risiken verwirklichen könnte. Weiterhin unterliegt unsere Dividendenpolitik Änderungen, da unser Vorstand die Dividendenpolitik von Zeit zu Zeit überprüfen wird. Es kann nicht gewährleistet werden, dass in einem jeweiligen Jahr Dividenden vorgeschlagen oder beschlossen werden.

ABSCHNITT D – RISIKEN		
D.1	**Zentrale Risiken, die dem Emittenten oder seiner Branche eigen sind**	• Rezessive Rahmenbedingungen in der Eurozone und insbesondere in Deutschland könnten sich wesentlich nachteilig auf unsere Geschäftstätigkeit sowie Finanz– und Ertragslage auswirken. • Wir unterliegen einer umfangreichen Regulierung, die unsere Geschäftstätigkeit sowie Finanz– und Ertragslage beeinflusst hat und beeinflussen wird. • Wir sind Reduzierungen in Mobil– und Festnetz–Terminierungsentgelten und anderer Gebühren wie Roamingtarifen ausgesetzt. Solche Reduzierungen könnten sich wesentlich nachteilig auf unsere Geschäftstätigkeit sowie Finanz– und Ertragslage auswirken. • Die verzögerte Genehmigung von Anträgen auf Frequenzzuteilung für Richtfunkanwendungen könnte sich wesentlich nachteilig auf die Leistungsfähigkeit und Erweiterung unserer Mobilfunknetzwerke auswirken. • Unsere Lizenzen und Frequenznutzungsrechte haben eine begrenzte Laufzeit. Falls wir nicht in der Lage sind, Lizenzen und Frequenznutzungsrechte zu verlängern oder neue zugeteilt zu bekommen, könnte sich dies wesentlich nachteilig auf unsere Geschäftstätigkeit auswirken. • Der Telekommunikationsmarkt in Deutschland ist von einem hohen Niveau an Wettbewerb von bestehenden und möglichen neuen Mobilfunknetzbetreibern sowie Faktoren außerhalb unserer Kontrolle, wie zum Beispiel Konsumtrends nach dem Gebrauch neuer Technologien, gekennzeichnet. • Wir sind hohem Wettbewerb von Betreibern virtueller Mobilfunknetze und Wiederverkäufer unter eigenen Marken (sog. Branded Reseller) ausgesetzt. • Wir begegnen zunehmendem Wettbewerb von alternativen Telekommunikationsanbietern wie Kabelgesellschaften und Unterhaltungselektronik–Anbietern. • Wir begegnen zunehmendem Wettbewerb von alternativen Telekommunikationsdienstleistungen, wie internetbasierten Dienstleistungen (sog. “services over–the–top”). • Wir könnten Vermögenswerte erwerben oder verkaufen oder Joint Venture eingehen, die möglicherweise weniger Umsatzerlöse, Cashflows und Erträge generieren als angenommen. Wir könnten Schwierigkeiten ausgesetzt sein, diese Vermögenswerte zeitgerecht zu integrieren, und erwartete Synergien könnten sich nicht realisieren. • Die Telekommunikationsindustrie ist und wird weiterhin einem schnellen technologischen Wandel unterworfen sein. Wir könnten nicht in der Lage sein, diesen Wandel effektiv zu antizipieren oder darauf zu reagieren. • Wir könnten aufgrund einer fehlenden Marktakzeptanz oder technologischen Wandels nicht in der Lage sein, die erwartete Nachfrage nach unseren Produkten und Dienstleistungen oder den daraus erwarteten Umfang oder zeitliche Abstimmung der generierten Umsatzerlöse zu realisieren. • Einschränkungen oder Verbote könnten unseren Verkauf oder die Lieferung von Mobilfunkgeräten beinträchtigen. Mobilfunkgeräte könnten eingeschränkten Zugang zu unseren Mobilfunknetzen haben oder damit inkompatibel sein. • Der Erfolg unserer Geschäftstätigkeit hängt von unserer Fähigkeit ab, Kunden zu gewinnen und zu halten.

		• Anhaltende oder wiederholte Störungen oder Schäden unserer Mobilfunk– oder Festnetze und technischen Systemen könnte zu Kundenverlusten und einem Umsatzrückgang führen sowie aufwendige Reparaturen erfordern. • Falls wir nicht in der Lage sind, unsere direkten und indirekten Distributionskanäle zu erhalten oder weiter auszubauen oder die Kundenpräferenzen hinsichtlich Distributionskanälen richtig zu interpretieren, könnte sich dies nachteilig auf unsere Fähigkeit ausüben, unsere Kundenbasis zu erhalten und zu erweitern. • Die Ausübung unserer Geschäftstätigkeit ist kapitalintensiv. Unsere Liquidität könnte nicht ausreichen oder es könnten Finanzierungsoptionen nicht im entsprechenden Maß verfügbar sein, um unser Betriebskapital zu finanzieren oder zu unterstützen. • Wir unterliegen einer starken Abhängigkeit von gewissen Dienstleistern, wie der Deutschen Telekom hinsichtlich unserer Netzwerkinfrastruktur, BT Germany hinsichtlich Ausstattung und Dienstleistungen für unsere Standorte sowie Netzwerkbetreibern für Roaming–Dienstleistungen. • Unsere Abhängigkeit von Outsourcing macht uns anfällig für Versagen oder fehlende Verfügbarkeit von jenen ausgelagerten wesentlichen Tätigkeiten und Dienstleistungen. • Die Beendigung oder Nichtverlängerung von bestehenden Verträgen oder Partnerschaften mit Betreibern virtueller Mobilfunknetze und Branded Resellern könnte unseren Ruf und unsere Fähigkeit schädigen, unsere Kundenbasis zu diversifizieren und zu erweitern. • Der Verlust von oder das Unvermögen, erfahrene Führungskräfte und anderes wichtiges Personal einzustellen oder zu halten, könnte sich negativ auf unsere Geschäftstätigkeit ausüben. • Wir könnten das geistige Eigentum Dritter verletzen oder nicht in der Lage sein, unser geistiges Eigentum adäquat zu schützen. • Sensible Kunden– und andere personenbezogene Daten sind ein wichtiger Teil unseres täglichen Geschäfts und ein unberechtigtes Weitergeben solcher Daten könnte gegen Gesetze und Vorschriften verstoßen, wodurch Strafen, Reputationsverlust sowie Kundenverlust eintreten und unsere Geschäftstätigkeit negativ beeinflusst werden kann. • Wir könnten nachteilig durch angebliche Gesundheitsrisiken in Verbindung mit elektromagnetischen Radiowellen und drahtlosen Kommunikationsgeräten und Antennen beeinflusst werden. • Unerwartete Ereignisse können dazu führen, dass unser Versicherungsschutz nicht ausreichend sein könnte. • Wir könnten verpflichtet sein, zusätzliche Steuern oder Abgaben infolge von Betriebsprüfungen zu leisten. • Wir könnten außer Stande sein, unsere Verlustvorträge in vollem Umfang zu nutzen. • Telefónica, S.A. wird weiter umfangreichen Einfluss auf uns und unsere Geschäftstätigkeit ausüben. Die Interessen Telefónica, S.A.'s können den Interessen unserer weiteren Aktionäre entgegenstehen. • Unsere Interessen könnten denen der Gesellschaften der Telefónica Gruppe entgegenstehen. • Wir sind von Gesellschaften der Telefónica Gruppe hinsichtlich wesentlicher Dienstleistungen abhängig. Ein Unvermögen, bestehenden Dienstleistungsverträge mit unserer Muttergesellschaft Telefónica zu verlängern oder zu gegenseitig akzeptablen Bedingungen abzuschließen, könnte sich wesentlich nachteilig auf unsere Geschäftstätigkeit sowie Finanz– und Ertragslage auswirken.

		• Die Verwendung unserer Hauptmarke O_2 unterliegt einer Lizenz von der Telefónica Gruppe, die Verwendung könnte Einschränkungen aufgrund der Lizenzvereinbarung oder anderer Gründe unterliegen. • Unsere Beziehung zur Telefónica Gruppe könnte unsere Fähigkeit einschränken, mit Wettbewerbern der Telefónica Gruppe zu arbeiten. • Unser Image im Markt wird von dem Image der Telefónica Gruppe beeinflusst.
D.3	**Zentrale Risiken, die den Wertpapieren eigen sind**	• Unsere Aktien wurden bisher nicht öffentlich gehandelt und es kann nicht garantiert werden, dass der Angebotspreis dem Börsenpreis entspricht oder dass sich ein liquider Handel nach Handelsaufnahme entwickelt oder ein solcher beibehalten werden kann. • Unser Aktienkurs kann aufgrund einer Vielzahl von Faktoren erheblichen Schwankungen ausgesetzt sein, von denen viele außerhalb unserer Einflussnahme sind. • Das Angebot könnte abgebrochen werden. • Künftige Verkäufe von Aktien durch den Altaktionär könnten sich nachteilig auf den Aktienkurs auswirken. • Der Gesellschaft wird kein Erlös aus dem Verkauf der Angebotsaktien zufließen. • Künftige Kapitalmaßnahmen können eine erhebliche Verwässerung der Beteiligungen der Gesellschaft zur Folge haben. • Die Zahlung künftiger Dividenden ist von einer Vielzahl von Faktoren abhängig, einschließlich Wertminderungen des Anlagevermögens. • Investoren mit einer anderen Referenzwährung als Euro sind bestimmten Wechselkursrisiken ausgesetzt, wenn sie in die Aktien investieren. • Aktionäre außerhalb Deutschlands könnten nicht an künftigen Bezugsrechtsemissionen teilnehmen.

ABSCHNITT E – ANGEBOT		
E.1	**Gesamtnettoerlöse und geschätzte Gesamtkosten der Emission/des Angebots, einschließlich der geschätzten Kosten, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden**	Der Altaktionär wird die gesamten Nettoerlöse aus dem Verkauf der Angebotsaktien erhalten. Der Gesellschaft wird kein Erlös aus dem Verkauf der Angebotsaktien zufließen. Basierend auf einer Preispanne zwischen €5,25 und €6,50 würde der Bruttoverkaufserlös des Angebots zwischen €1.181.250.000 und €1.462.500.000 betragen, ausschließlich der Aktien, die im Rahmen einer Ausübung der Greenshoe Option (wie nachstehend definiert) verkauft werden könnten. Der Nettoverkaufserlös ergibt sich aus dem Bruttoverkaufserlös abzüglich der Provision der Underwriters und anderen Aufwendungen und Ausgaben aus dem Verkauf der Angebotsaktien, die von dem Altaktionär zu tragen sind. Die Höhe des Nettoverkaufserlöses aus dem Verkauf der Angebotsaktien ist abhängig vom Angebotspreis und der Gesamtzahl der tatsächlich verkauften Aktien, einschließlich der Aktien, die bei der Ausübung der Greenshoe Option (wie nachstehend definiert) verkauft werden könnten. Eine verlässliche Schätzung des Nettoverkaufserlöses oder der Spanne, innerhalb welcher sich dieser bewegen wird, ist frühestens nach Festlegung der Angebotspreisspanne möglich. Die Gesellschaft wird eine aktualisierte Schätzung des Nettoverkaufserlöses im Rahmen der Veröffentlichung des Angebotspreises abgeben. Des Weiteren lassen sich aufgrund der Abhängigkeit der Kosten von der derzeit unbekannten Gesamtzahl der angebotenen Aktien (einschließlich Aktien, die gegebenenfalls bei einer Ausübung der Greenshoe Option (wie nachstehend definiert) verkauft werden) und dem derzeit unbekannten Angebotspreis (der zusammen mit den angebotenen Aktien die Höhe der Provisionen bestimmt) die Kosten des Angebots zum gegenwärtigen Zeitpunkt nicht verlässlich vorhersagen. Die Kosten und Aufwendungen des Angebots

		und der Notierung werden die vom Altaktionär an die Underwriters zu zahlenden Provisionen sowie weitere Aufwendungen wie administrative und wesentliche Kosten für Dienstleistungen im Bereich Rechnungslegung, Rechtsberatung und sonstige Beratungsdienstleistungen sowie Druck– und Distributionskosten des Prospekts umfassen. Der Altaktionär schätzt, dass die Provisionen ca. €33 Millionen (basierend auf einem Angebotspreis in Höhe von €5,88 pro Angebotsaktie, der der Mitte der Preisspanne entspricht, und einem dementsprechenden Bruttoverkaufserlös in Höhe von ca. €1.322 Millionen und unter Außerachtlassung von Aktien, die im Rahmen der Ausübung der Greenshoe Option (wie nachstehend definiert) verkauft werden könnten) und die weiteren Aufwendungen bis zu ca. €7 Millionen betragen werden. Der erwartete Nettoverkaufserlös des Altaktionärs, basierend auf einem Bruttoverkaufserlös in Höhe von ca. €1.322 Millionen (unter Außerachtlassung von Aktien, die im Rahmen der Ausübung der Greenshoe Option (wie nachstehend definiert) verkauft werden könnten), könnte ca. €1.282 Millionen betragen. Weder die Gesellschaft noch die Underwriters werden Anlegern Kosten in Rechnung stellen. Anleger müssen jedoch selbst solche Gebühren tragen, die ihre eigene depotführende Bank ihnen für den Kauf und das Halten von Wertpapieren in Rechnung stellt.
E.2a	**Gründe für das Angebot, Zweckbestimmung der Erlöse, geschätzte Nettoerlöse**	Das Angebot ist Teil der Portfoliomanagement–Strategy der Telefónica Gruppe. Die Telefónica Gruppe beabsichtigt, durch die Zulassung der Aktien der Gesellschaft zum Handel an der Frankfurter Wertpapierbörse das Profil und Marktbewusstsein eines ihrer attraktivsten Vermögenswerte zu erhöhen. Telefónica Gruppe beabsichtigt weiter, unseren inneren Vermögenswert innerhalb der Marktkapitalisierung der Telefónica Gruppe zu verbessern. Zusätzlich bietet uns die Zulassung zum Handel unserer Aktien einen höheren Grad an Flexibilität und direkten Zugang zu Kapitalmärkten und deckt sich vollständig mit der Strategie der Telefónica Gruppe, finanzielle Flexibilität zu erhöhen und Verschuldung zu verringern. Eine verlässliche Schätzung des Nettoverkaufserlöses oder der Spanne, innerhalb welcher sich dieser bewegen wird, ist frühestens nach Festlegung der Angebotspreisspanne möglich. Die Gesellschaft wird eine aktualisierte Schätzung des Nettoverkaufserlöses im Rahmen der Veröffentlichung des Angebotspreises abgeben.
E.3	**Beschreibung der Angebotskonditionen** **Angebot**	 Das Angebot besteht aus • 225.000.000 nennwertlose Namenstückaktien aus dem Bestand des Altaktionärs (die "**Basisaktien**"); und • 33.750.000 nennwertlose Namensstückaktien aus dem Bestand des Altaktionärs in Verbindung mit einer möglichen Mehrzuteilung (die "**Greenshoe Aktien**", gemeinsam mit den Basisaktien, die "**Angebotsaktien**"), jede Angebotsaktie mit einem rechnerischen Anteil am Grundkapital von jeweils €1,00 und voller Gewinnanteilberechtigung für das zum 31. Dezember 2012 endende Jahr. Das Angebot besteht aus einem öffentlichen Angebot in der Bundesrepublik Deutschland und Luxemburg sowie einer Privatplatzierung der Angebotsaktien an institutionelle Anleger in bestimmten Jurisdiktionen außerhalb der Bundesrepublik Deutschlands und Luxemburgs. In den Vereinigten Staaten von Amerika werden die Angebotsaktien nur an qualifizierte institutionelle Investoren im Rahmen einer Privatplatzierung gemäß Rule 144A des Securities Act of 1933 (Security Act) zum Kauf angeboten. Außerhalb der Vereinigten Staaten von Amerika werden die Angebotsaktien gemäß der Regulation S des Securities Act angeboten und verkauft. Alle Angebotsaktien stammen aus dem Bestand des Altaktionärs.

	Angebotszeitraum	Der Zeitraum, innerhalb dessen Anleger Kaufangebote für die Angebotsaktien abgeben können (“**Angebotszeitraum**”), beginnt voraussichtlich am 17. Oktober 2012 und endet voraussichtlich am 29. Oktober 2012. Während des Angebotszeitraums können Privatanleger Angebote zum Kauf der Angebotsaktien in den Geschäftsstellen der Underwriters und ihrer angeschlossenen Institute abgeben. Am letzten Tag des Angebotszeitraums können Privatanleger Angebote zum Kauf der Angebotsaktien bis 12:00 Uhr (MEZ) und institutionelle Anleger bis 17:00 Uhr (MEZ) abgeben. Der Altaktionär und die Joint Global Coordinators behalten sich ausdrücklich das Recht vor, das Orderbuch vor dem 29. Oktober 2012 zu schließen und das frühere Ende des Angebotszeitraums zu verkünden. Kaufangebote sind bis zum Ende des Angebotszeitraums frei widerrufbar.
	Preisspanne und Angebotspreis	Die Preispanne, innerhalb derer Kaufangebote abgegeben werden können, beträgt €5,25 bis €6,50. Jedes Kaufangebot muss sich auf eine Mindestanzahl von 200 (zweihundert) Aktien beziehen. Mehrfachzeichnungen sind zulässig. Die Underwriters behalten sich jedoch vor, im Falle von Mehrfachzeichnungen nicht alle Kaufangebote auszuführen. Nach Ende des Angebotszeitraums werden der Altaktionär und die Joint Global Coordinators den Angebotspreis am 29. Oktober 2012 auf Grundlage des während des Bookbuilding–Verfahrens erstellten Orderbuchs gemeinsam festlegen. Die Preisspanne wird die Grundlage des Bookbuilding–Verfahrens bilden. Die Festlegung des Angebotspreises wird von den Kaufangeboten für die Angebotsaktien, die die Anleger während des Angebotszeitraums abgegeben haben und im oben genannten Orderbuch gesammelt werden, abhängig sein. Die Kaufangebote werden unter Berücksichtigung des Gebotspreis und der erwarteten Motivation der jeweiligen Anleger ausgewertet. Der Angebotspreis und die Anzahl der zu verkaufenden Angebotsaktien wird auf dieser Grundlage unter der weiteren Berücksichtigung einer Erlösmaximierung und der Frage, ob, unter Betrachtung der im Orderbuch angezeigten Nachfrage nach den Angebotsaktien, der Angebotspreis und die Zahl der Angebotsaktien die Erwartungshaltung angemessen unterstützt, dass sich der Kurs der Aktien im Sekundärmarkt stabil entwickeln wird, festgelegt. Neben den von Anlegern gebotenen Preisen und der Anzahl der Anleger, die ein Interesse am Kauf der Angebotsaktien zu einem bestimmten Preis zeigen, wird auch der Mix der Anleger in der Gesellschaft, der sich aus einer möglichen Zuteilung zu einem bestimmten Preis ergibt, und das erwartete Anlegerverhalten berücksichtigt.
	Änderungen der Angebotsbedingungen	Der Altaktionär und die Joint Global Coordinators behalten sich das Recht vor, die Anzahl der Angebotsaktien zu verringern, die Obergrenze und/oder die Untergrenze der Preisspanne anzuheben oder zu senken, und/oder den Angebotszeitraum zu verlängern oder zu verkürzen. Soweit die Bedingungen des Angebots geändert werden, wird die Änderung über elektronische Medien wie Reuters oder Bloomberg und auf unserer Webseite (www.telefonica.de) veröffentlicht und, soweit vom Wertpapierhandelsgesetz und Wertpapierprospektgesetz verlangt, als Ad–hoc–Mitteilung und/oder als Nachtrag zu diesem Prospekt bekanntgegeben. Eine individuelle Benachrichtigung der Anleger, die Kaufangebote abgegeben haben, erfolgt nicht. Jede Änderung der Anzahl der Angebotsaktien oder der Preisspanne oder jede Verlängerung oder Verkürzung des Angebotszeitraums führt nicht zur Nichtigkeit der Kaufangebote, die bereits abgeben wurden. Anleger, die Kaufangebote vor der Veröffentlichung eines Nachtrages abgegeben haben, haben gemäß Wertpapierprospektgesetz das Recht, diese Angebote innerhalb von zwei Geschäftstagen nach Veröffentlichung des Nachtrages zurückzuziehen. Anstatt ihre Kaufangebote zurückzuziehen, können Anleger diese Kaufangebote, die vor Veröffentlichung des Nachtrages abgegeben wurden, auch ändern oder neue beschränkte oder unbeschränkte Kaufangebote innerhalb von zwei Geschäftstagen nach Veröffentlichung des Nachtrages abgeben.

	Lieferung und Abrechnung der Angebotsaktien	Die Lieferung der Angebotsaktien gegen Zahlung des Angebotspreises und der üblichen Effektenprovision erfolgt voraussichtlich zwei Bankarbeitstage nach Notierungsaufnahme der Angebotsaktien. Die Angebotsaktien werden den Aktionären als Miteigentumsanteile an der jeweiligen Globalurkunde zur Verfügung gestellt. Nach Wunsch des Anlegers werden die im Rahmen des Angebots erworbenen Angebotsaktien entweder auf einem von J.P. Morgan geführten Depotkonto bei der Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn zugunsten des betreffenden Anlegers oder auf dem Depotkonto eines Teilnehmers der Euroclear Bank S.A./N.V., als Betreiberin der Euroclear Systems, oder Clearstream Banking S.A., L–2967 Luxemburg, gutgeschrieben.
	Mehrzuteilung/Stabilisierung und Greenshoe Option	Im Zusammenhang mit dem Angebot und der Platzierung der Angebotsaktien werden J.P. Morgan oder ihre verbundenen Unternehmen als Stabilisierungs-manager fungieren und eventuell Maßnahmen zur Stabilisierung des Börsen– oder Marktpreis der Aktien der Gesellschaft ergreifen, um einem etwaigen Verkaufsdruck entgegenzuwirken (die "**Stabilisierungsmaßnahmen**"). Ein Stabilisierungsmanager unterliegt keiner Verpflichtung, Stabilisierungs-maßnahmen zu ergreifen. Es besteht daher keine Garantie, dass solche Stabilisierungsmaßnahmen überhaupt eingeleitet werden. Sollten Stabilisierungsmaßnahmen eingeleitet werden, können diese zu jeder Zeit ohne vorherige Ankündigung beendet werden. Solche Maßnahmen können mit dem Zeitpunkt der Notierungsaufnahme der Aktien der Gesellschaft am regulierten Markt (*Prime Standard*) der Frankfurter Wertpapierbörse eingeleitet und müssen spätestens am darauf folgenden 30. Kalendertag abgeschlossen werden (der "**Stabilisierungszeitraum**"). Stabilisierungsmaßnahmen können dazu führen, dass der Börsenkurs der Aktien der Gesellschaft höher ist, als es ohne solche Maßnahmen der Fall wäre. Des Weiteren kann sich vorübergehend ein Börsenkurs auf einem Niveau ergeben, das nicht dauerhaft ist. Angesichts möglicher Stabilisierungsmaßnahmen können Anlegern zusätzliche Aktien über die Angebotsaktien hinaus zugeteilt werden (sog. Mehrzuteilung). Im Hinblick auf eine solche Mehrzuteilung, werden 33.750.000 Aktien des Altaktionärs J.P. Morgan als Stabilisierungsmanager, im Namen der Underwriters, im Wege einer Wertpapierleihe zur Verfügung gestellt. Der Altaktionär hat J.P. Morgan, im Namen der Underwriters, daneben die Option eingeräumt, diese Aktien zum Angebotspreis abzüglich vereinbarter Provisionen zu kaufen (die "**Greenshoe Option**"). Diese Greenshoe Option erlischt innerhalb von 30 Kalendertagen nach Notierungsaufnahme der Aktien. Innerhalb einer Woche nach dem Ende des Stabilisierungszeitraums werden Informationen in der *Frankfurter Allgemeinen Zeitung* und auf unserer Web-seite (www.telefonica.de) darüber veröffentlicht, ob Stabilisierungsmaßnah-men ergriffen wurden, das Datum des Beginns von Stabilisierungsmaß-nahmen, das Datum der letzten Stabilisierungsmaßnahme und für jeden Tag, an dem Stabilisierungsmaßnahmen ergriffen wurden, die Preisspanne, innerhalb der die Stabilisierungsmaßnahmen erfolgten. Weiterhin wird die Ausübung der Greenshoe Option, das Ausübungsdatum sowie die Anzahl und die Art der betroffenen Aktien unverzüglich nach dem Ende des Stabilisier-ungszeitraums in der oben beschriebenen Weise bekanntgegeben wie die Angaben zur Vornahme der Stabilisierungsmaßnahmen.
	Altaktionär	Telefónica Germany Holdings Limited
	Greenshoe Aktionär	Telefónica Germany Holdings Limited
	Allgemeine Zuteilungskriterien	Es bestehen vor dem Beginn der Angebotszeitraum keine Vereinbarung über das Zuteilungsverfahren zwischen der Gesellschaft, dem Altaktionär und keinem der Underwriter.

		Die Gesellschaft, der Altaktionär und die Underwriters werden die "Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger" beachten, die von der Börsensachverständigenkommission des Bundesministeriums der Finanzen am 7. Juni 2000 herausgegeben wurden. Nach dem Ende des Angebotszeitraums werden der Altaktionär und die Joint Global Coordinators die Einzelheiten des Zuteilungsverfahrens gemäß den "Grundsätzen für die Zuteilung von Aktienemissionen an Privatanleger" festlegen und veröffentlichen.
	Joint Global Coordinators und Joint Bookrunners	J.P. Morgan, UBS
	Joint Bookrunners	BofA Merrill Lynch, BNP PARIBAS, Citi, HSBC
	Co–Lead Managers	Banca IMI, BayernLB, BBVA, COMMERZBANK, Santander, Société Générale
	Underwriters	Die Joint Global Coordinators gemeinsam mit den Joint Bookrunners und Co–Lead Managers.
	Settlement Agent	J.P. Morgan
	Zulassung zum Börsenhandel und zur Börsennotierung	Ein Antrag auf Zulassung aller Aktien der Gesellschaft zum Handel am Regulierten Markt an der Frankfurter Wertpapierbörse und gleichzeitig im dortigen Teilbereich des regulierten Markts mit weiteren Zulassungsfolgepflichten (Prime Standard) wird voraussichtlich am 17. Oktober 2012 von gestellt. Die Zulassungsentscheidung wird voraussichtlich am 29. Oktober 2012 erfolgen. Der Handel wird voraussichtlich am 30. Oktober 2012 aufgenommen.
E.4	**Beschreibung aller Interessen, die Emission/das Angebot von wesentlicher Bedeutung sind, einschließlich Interessenkonflikten**	Telefónica Germany Holdings Limited hat ein Interesse an dem Angebot, da Telefónica Germany Holdings Limited den Erlös aus dem Angebot erhalten wird. Telefónica, S.A. hat ein Interesse an dem Angebot, da die indirekte 100%ige Tochtergesellschaft Telefónica Holdings Limited den Erlös aus dem Angebot erhalten wird. Die Underwriters haben ein Interesse an dem Angebot, da beide in einer vertraglichen Beziehung im Rahmen der Strukturierung, der Ausführung und Umsetzung des Angebots zu dem Altaktionär und der Gesellschaft stehen. Die Vergütung ist leistungsbasiert und unter anderem von der Höhe der Verkaufserlöse abhängig. Im Rahmen des Angebots werden die Underwriters und ihre verbundene Unternehmen die Möglichkeit haben, Angebotsaktion für eigene Rechnung zu erwerben und zu halten, für eigene Rechnung zu kaufen und zu verkaufen und können weiterhin diese Aktien außerhalb des Angebots anbieten oder verkaufen. Die Underwriters beabsichtigen nicht, den Umfang solcher Investitionen oder Transaktionen über die rechtlich geforderten Rahmen hinaus bekanntzugeben.

E.5	**Name der Person/des Unternehmens, die/das das Wertpapier zum Verkauf anbietet** **Bei Lock–up–Vereinbarungen die beteiligten Parteien und die Lock–up–Frist**	Die Angebotsaktien werden von den Underwriters angeboten. Die Gesellschaft hat sich gegenüber den Joint Global Coordinators verpflichtet, für die Dauer von 180 Kalendertagen nach dem 30. Oktober 2012 und nicht ohne die vorherige schriftliche Zustimmung der Joint Global Coordinators (wobei diese Zustimmung nicht ohne vernünftigen Grund verweigert oder verzögert werden darf): • keine Kapitalerhöhung aus genehmigtem Kapital anzukündigen oder durchzuführen, • der Hauptversammlung keine Kapitalerhöhung zur Beschlussfassung vorzuschlagen, • keinen Verkauf eigener Aktien anzukündigen oder durchzuführen, • der Hauptversammlung nicht die Begebung von Finanzinstrumenten vorzuschlagen oder anzukündigen, die Wandlungs- oder Optionsrechte bezogen auf die Aktien der Gesellschaft beiinhalten, • kein Geschäft mit wirtschaftlich ähnlicher Wirkung durchzuführen. Das Vorstehende gilt nicht (a) für die Begebung oder Veräußerung von Aktien oder anderen Wertpapieren, die unter Mitarbeiterbeteiligungsprogrammen oder Stock-option Programmen an Mitarbeiter der Gesellschaft oder ihrer Tochtergesellschaften ausgegeben werden, sowie für (b) die Begebung von Aktien der Gesellschaft gegen Sacheinlagen im Zusammenhang mit einer Akquisition, Kapitalbeteiligung oder einem Joint Venture, sofern in dem Fall von (b) jede Person, die auf diesem Weg Aktien der Gesellschaft erwirbt, sich gegenüber den Joint Global Coordinators schriftlich verpflichtet, keine Handlung bezüglich dieser Aktien vorzunehmen, die der Altaktionär bezüglich der Aktien ebenfalls nicht vornehmen könnte. Der Altaktionär hat sich gegenüber jedem Joint Global Coordinator verpflichtet, für die Dauer von 180 Kalendertagen nach dem 30. Oktober 2012 ohne die vorherige schriftliche Zustimmung der Joint Global Coordinators (wobei diese Zustimmung nicht ohne vernünftigen Grund verweigert oder verzögert werden darf), **(i)** weder direkt noch indirekt Aktien der Gesellschaft oder andere Wertpapiere, die in Aktien der Gesellschaft wandelbar, ausübbar oder tauschbar sind, anzubieten, zu verpfänden, zuzuteilen, zu verkaufen, sich zu deren Verkauf vertraglich zu verpflichten, und auch keine Optionen oder Kontrakte zu deren Kauf zu verkaufen, Optionen zu deren Verkauf zu kaufen, Optionen, Rechte oder Optionsscheine zu deren Erwerb einzuräumen und diese auch nicht anderweitig zu übertragen oder zu veräußern; **(ii)** keine Swap-Vereinbarung abzuschließen, mit denen das wirtschaftliche Risiko des Eigentums an den Aktien der Gesellschaft an Dritte übertragen wird; **(iii)** weder die Registrierung von Aktien der Gesellschaft oder anderen Wertpapieren, die in Aktien der Gesellschaft wandelbar, ausübbar oder tauschbar sind, nach US–amerikanischen Wertpapierrecht zu verlangen noch ein Recht hierzu auszuüben; **(iv)** außer in Bezug auf Kapitalerhöhungen der Gesellschaft im Rahmen der Ausnahmen von Beschränkungen für die Gesellschaft unter oben genannten (a) und (b), weder der Hauptversammlung eine Erhöhung des Grundkapitals der Gesellschaft vorzuschlagen, noch einen Vorschlag zu unterstützen, der die Begebung von Wertpapieren mit direktem oder indirektem Wandlungs- oder Optionsrecht bezogen auf die Aktien der Gesellschaft zur Folge hat; oder **(v)** eine der oben genannten Transaktionen einzugehen oder eine der oben genannten wirtschaftlich ähnliche Transaktion durchzuführen. Die vorstehenden Veräußerungsbeschränkungen unter (i) bis (v) gelten nicht für Veräußerungen von Aktien im Rahmen eines öffentlichen Übernahmeangebots oder Kaufangebote, die von Dritten oder aufgrund privater Veräußerungen (das heißt, anderer als börsenmäßiger Handel oder

		börsenmäßigen Handels ähnlichen Transaktionen, so wie beschleunigte Book-Building-Verfahren) an Dritte abgegeben werden, sofern dieser Dritte oder die Dritten gegenüber den Joint Global Coordinators die vorstehenden Veräußerungsbeschränkungen übernimmt bzw. übernehmen. Weiterhin gelten die vorstehenden Veräußerungsbeschränkungen unter (i) bis (v) nicht für Transaktionen mit Tochtergesellschaften des Altaktionärs sowie nicht für die Übertragung einer indirekten Beteiligung an der Gesellschaft durch Mitglieder des Vorstands oder des Aufsichtsrats, wenn und soweit der Erwerber den gleichen Veräußerungsbeschränkungen unterliegt wie der betreffende Veräußerer.
E.6	**Betrag und Prozentsatz der aus dem Angebot resultierenden unmittelbaren Verwässerung**	Entfällt (es werden keine neuen Aktien der Gesellschaft im Rahmen des Angebots angeboten). Der Nettobuchwert des Eigenkapitals auf einer kombinierten Basis (und angepasst aufgrund der kürzlichen Ausschüttung von Gewinnen, der Dividendenzahlung an uns von einigen der kürzlich ausgegliederten Tochtergesellschaften unserer Gruppe und des Erlös des Verkaufs aller Anteile an Telefónica Global Activities Holdings B.V. einschließlich derer Tochtergesellschaften und Beteiligung vor dem Angebot) betrug zum 31. August 2012 €6.234.127 Tausend oder €5,58 pro Aktie (basierend auf einer Aktienanzahl von 1.116.945.400 Aktien). Investoren, die Angebotsaktien zu der Mitte der Preisspanne bei €5,88 pro Angebotsaktie kaufen, würden demnach um -5,00% bzw. €-0,29 verwässert (Angaben wurden auf die zweite Dezimalstelle gerundet).
E.7	**Schätzung der Kosten, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden**	Weder die Gesellschaft noch die Underwriters werden Anlegern Ausgaben in Rechnung stellen. Anleger müssen jedoch selbst solche Gebühren tragen, die ihre eigene depotführende Bank ihnen für den Kauf und das Halten von Wertpapieren in Rechnung stellt.

RISK FACTORS

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

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

The Company, together with its direct and indirect subsidiaries and joint venture at the date of this Prospectus, is referred to as "we" or "Telefónica Deutschland". Where the term "we" is used in a context that relates to the past, it comprises only the subsidiaries and joint venture of the Company as at the date of this Prospectus and does not include entities that were subsidiaries or associate of the Company at the time, but are no longer subsidiaries or associate of the Company at the date of this Prospectus. Telefónica, S.A. collectively with its direct and indirect subsidiaries – excluding the Company together with its direct and indirect subsidiaries at the date of this Prospectus – is referred to as ***"Telefónica Group"****.*

RISKS RELATED TO OUR BUSINESS AND OUR INDUSTRY

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

The Eurozone debt crisis and general economic slowdown in parts of Europe from, among other factors, lower consumer confidence, falling gross domestic product, rising unemployment and uncertainty, may adversely impact macroeconomic conditions in Germany. As we operate exclusively in Germany, the success of our business is closely tied to the market environment and health of the German economy and cannot be offset by developments in other markets.

Macroeconomic factors may impair growth prospects in the German telecommunications market in terms of the penetration of new value–added services and traffic, Average Revenue Per User ("**ARPU**") and number of customers and, in particular, the volume of business customers. Recessionary conditions may also increase the number of defaults and/or delays in payments from our customers, increase churn and prevent us from attracting new customers.

Reduced German consumer spending, including on telecommunications services and products, may adversely impact our customer numbers and revenues as customers may no longer deem critical the services we offer. For example, there has been a trend by German consumers to disconnect fixed–line telephony, as consumers rely primarily on mobile telecommunications and view fixed–line telephony as an expendable discretionary expense. Consumers might also spend less on an incremental basis, such as by placing fewer calls.

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

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

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

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

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

The FNA may impose obligations on us in relation to, among other things, the granting of network access to other operators, requirements to keep and obtain frequency allocations, tariff reductions, consumer protection measures, and privacy including data protection and public safety provisions. The FNA may further subject the use of assigned frequencies to additional obligations. For example, according to a roll-out obligation with regard to 800 MHz, each mobile network operator has to provide 50% population coverage by the beginning of 2016, which we still have to fulfill. If we fail to fulfill this obligation, FNA has the right to revoke the respective frequency usage rights, which may have a material adverse effect on our business.

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

If we fail to comply with applicable regulations or obligations imposed by the FNA, we may be subject to sanctions, which may have an adverse effect on our business. We could also be affected by regulatory actions carried out by antitrust or competition bodies. These authorities could prohibit certain actions, such as new acquisitions or specific practices, create obligations or impose heavy fines. Any such regulatory measures could have a material adverse effect on our business, financial condition and results of operations.

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

The application of the Telecommunications Act may lead to an FNA review of, and decrease in, our fixed–line call termination rates and, based on the consulted draft regulation decision of May 2, 2012, an *ex–ante* regulation. Our current mobile call termination rates expire on November 30, 2012 and the FNA could order the rates to be lowered in the impending rate approval process.

Wholesale mobile network termination rates have decreased across Europe in the last several years, with considerable reductions in Germany (cuts of over 50% since December 2010), and various related reviews of such rates and court proceedings on regulatory measures which are still pending. The European Commission intends to further reduce mobile and fixed–line call termination rates significantly and has issued a recommendation on the calculation of such rates by the respective National Regulatory Authority ("**NRA**"), which must be fully applied by 2013. The Commission has also recommended that rate asymmetry between network operators be eliminated. We expect a significant decrease in voice mobile termination rates ("**MTR**") by the end of 2012.

Other services with regulated prices in Europe include international call roaming, short message service ("**SMS**") and data services. The European Parliament and Council have approved the new Roaming III regulation which aims to set ceilings on tariffs for voice calls and SMS retail and wholesale services between July 2012 and July 2014, with subsequent further reductions. Roaming III also regulates retail and wholesale data roaming charges and lays down rules to increase pricing transparency and improve the provision of information on charges to roaming customers. From July 2014, mobile network operators ("**MNOs**") will be required to separate the sale of roaming services from their domestic services, enabling customers to choose a different network operator for calls made in other Member States. From July 1, 2012 mobile virtual network operators ("**MVNOs**") have had the right to access other operators' networks at wholesale prices in order to provide roaming services.

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

Delayed approvals of microwave frequency usage rights applications could materially adversely affect the performance and expansion of our mobile networks.

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

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

Our mobile operations rely on the availability of frequency spectrum. The use of frequencies requires a prior frequency assignment by the FNA. The FNA assigns frequency usage rights either on a general or an individual basis. Frequency usage rights are usually awarded by auction and have finite terms. In April and May 2010, the FNA auctioned off additional frequencies in the 800 MHz, 1,800 MHz, 2,000 MHz and 2,600 MHz bands for wireless network access for the provision of telecommunications services (*drahtloser Netzzugang zum Angebot von Telekommunikationsdiensten*). The related technology neutral definition includes the provision of mobile telecommunications services under the new LTE standard. Four mobile network operators (including us) participated in the auction. We were awarded blocks in all spectrum bands except one. These frequency usage rights expire in 2025. The legal basis for this frequency auction was a general order issued by the President Chamber of the FNA on October 12, 2009 (*Präsidentenkammerentscheidung*). For various reasons several mobile telecommunications, cable TV and radio providers have filed complaints against the order and auction awards. We are not involved as a party in these proceedings. However, an annulment of the President Chamber's decision of October 12, 2009 could have an adverse effect on us because the FNA may consequently be required to reallocate frequency usage rights.

Our frequency usage rights in the 900/1,800 MHz bands expire on December 31, 2016. The FNA launched a public consultation regarding these frequencies on November 22, 2011. The agency asked all interested companies for their future spectrum needs in these two bands, which are currently part of our Global System for Mobile Communications ("**GSM**" or "**2G**") licenses and those of the three other German mobile network operators. The FNA has stated that it intends to decide on the next steps for the future use of 900/1,800 MHz spectrum and make new assignments of frequency usage rights effective from January 1, 2017. The FNA may extend the terms of GSM licenses and frequency usage rights or allocate frequency usage via an award or auction. We cannot guarantee that the process for the renewal of GSM licenses will be completed successfully or on the most beneficial terms for us. We may further wrongly assess our need of respective frequency spectrum. The failure to obtain 900/1,800 MHz frequency usage rights after December 31, 2016 could adversely affect our operations.

Any participation in an auction may result in us not being able to renew licenses or obtain new frequency usage rights on equivalent or satisfactory terms, or at all. Even if we are successful in an auction, the renewal of any licenses or assignment of frequency usage rights may come at significant cost particularly in the case of highly valuable licenses or frequency usage rights such as those used for our GSM, UMTS and LTE networks. As the FNA may auction off frequency usage rights to the highest bidder, the costs thereof may be excessive. Furthermore, payments for the extension of licenses or future frequency usage rights may be required to be effected much earlier than the actual usage of such rights. An auction can also facilitate the entry of new competitors into the relevant markets, which could result in our inability to obtain any new frequency usage rights due to another auction participant placing a higher bid. Failure to obtain new licenses or frequency usage rights would make us unable to pursue our mobile business operations as a significant part of our mobile services are carried out via our mobile network.

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

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

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

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

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

Our future competitive position in the mobile and fixed–line telecommunications market in Germany will be affected by factors such as pricing, network speed and reliability, services offered, customer support and our ability to be technologically adept and innovative. Increasing competitive pressure due to factors beyond our control, such as consolidation among market participants and consumer trends for the use of new technology, could lead to a loss of our market share. Our possible inability to compete with other network operators and alternative services could have a material adverse effect on our business, financial condition and results of operations.

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

Competitive pressure in the German mobile telecommunications market is increasing due to the proliferation of MVNOs and branded resellers, particularly in the pre–paid market but also in the post–paid market. MVNOs enter into commercial agreements with network operators for network access which they sell to their own customers. MVNOs have been growing in Germany mostly due to their aggressive pricing strategies. Branded resellers enter into agreements with network operators for the sale of contracts to other customers. Although these "re–sold" contracts are generally ultimately entered into by the network operator and the customer, they usually provide less revenue and lower margins to the network operator than contracts not involving branded resellers. As we enter into such contracts with MVNOs and branded resellers, the expected increase in their market shares could reduce our margins and revenues.

Aggressive pricing strategies from MVNOs or branded resellers on our own network or on other networks, pressure from MVNOs and branded resellers for contract terms that are more favorable to them, or the conversion of MVNOs into mobile network operators through the acquisition of spectrum, including at an auction, could also increase the competitive pressure on us and reduce our market share.

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

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

Cable network operators and fixed–line carriers exert increasing competitive pressure in the German fixed–line telecommunications market. We expect a further increase in competition from cable network operators, which are, unlike us, able to provide private homes and smaller companies throughout Germany with telecommunications products that require them neither to build out their own networks nor to lease unbundled local loop (**"ULL"**) lines from Deutsche Telekom or other fixed–line carriers.

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

We are facing increasing competition from alternative telecommunications services, such as OTT.

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

With the growing share of smartphones among the German mobile subscriber base, there is an increasing number of customers using OTT services. All mobile network operators are currently competing with OTT service providers that leverage on existing infrastructures and are often not required to implement capital–intensive business models associated with traditional mobile technologies. OTT service providers have in recent years become more sophisticated players, and technological developments have led to a significant improvement in the quality of their service, particularly the speech quality. In addition, market participants with strong brand capability and financial strengths, such as Apple, Google and Microsoft, have turned their attention to the provision of OTT services. In the long term, if non–traditional mobile voice and data services or similar services continue to increase in popularity and if we and other mobile network operators are not able to successfully address this competition, this could cause declines in our ARPU, subscriber base and profitability. This could have a material adverse effect on our business, financial condition and results of operations.

We may acquire or sell assets or enter into joint ventures which could potentially deliver less revenues, cash flows and earnings than anticipated. We may experience difficulties integrating acquired assets in a timely manner and we may not realize expected anticipated synergies.

We may experience difficulties in integrating newly acquired assets and companies and the anticipated benefits of such acquisitions or joint ventures may not be realized fully (or at all) and may take longer to realize than expected. Upon making significant acquisitions in the future, our performance will depend in part on whether we can successfully integrate such acquisitions in an effective and efficient manner. Such integration will be a complex, time consuming and expensive process and involve a number of risks, including the costs and expenses associated with any unexpected difficulties with respect to such assets and companies. Even if we are able to integrate newly acquired assets and companies successfully, this integration may not result in the realization of the full benefits of synergies, cost savings, revenues and cash flow enhancements, growth, operational efficiencies and other benefits that we expect.

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

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

Our competitors or potential new market entrants may introduce new or technologically superior telecommunications services before we do. In particular, Deutsche Telekom, due to its strong position and financial capacity, has the ability to create new market standards by quickly introducing new advanced technologies, such as HSPA and LTE mobile networks. To compete effectively with our competitors, we need to successfully market our products and services and respond to both commercial actions by competitors and other competitive factors affecting these markets. This involves anticipating and adapting promptly to technological changes, changes in consumer preferences and general economic, political and social conditions. Furthermore, this means that we must invest in the development of new products, technology and services so that we can continue to compete effectively with current or future competitors, which may reduce the revenues margins we obtain. In a rapidly developing technological landscape, we may not be able to accurately predict which technology will prove to be the most economical, efficient or capable of attracting customers or stimulating usage, or how rapidly any competitor focuses on a particular new technology. Thus, if we develop or implement a technology that does not achieve widespread commercial success or that is not compatible with other newly developed technologies, demand for our products and services may be negatively affected.

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

We may neither realize the expected level of demand for our products and services, nor the expected level or timing of revenues generated by those products and services, as a result of lack of market acceptance or technological change.

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

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

Constraints or prohibitions could impair our handset supplies or sales. Devices could have limited access to or be incompatible with our network.

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

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

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

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

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

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

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

Sustained or repeated disruptions or damage to our mobile or fixed–line networks and technical systems may lead to the loss of customers or a decrease in revenues and require costly repairs.

Our business is dependent on the functioning of our mobile and fixed–line networks and on certain central systems and service platforms. If any part of our mobile or fixed–line network is subject to a flood, fire or other natural disaster, long periods of extreme cold, acts of terrorism, power loss or other catastrophes, our operations and customer relations could be materially and adversely affected. Unanticipated network interruptions as a result of system failures whether accidental or otherwise, including those due to network, hardware or software failures, which affect the quality of or cause an interruption in our service, could lead to customer dissatisfaction and increased churn, reduced revenues and traffic, costly repairs, penalties or other measures imposed by regulatory authorities and could harm our reputation. Any such events or incidents could have a material adverse effect on our business, financial condition and results of operations.

Any failure to maintain or further develop our direct and indirect distribution channels or misinterpretation of customer’s preferences as to distribution channels could adversely affect our ability to sustain and further grow our customer base.

Our sales strategy uses a mix of direct and indirect distribution channels in order to grow our customer base. We distribute our products and services directly through a network of approximately 930 O_2 shops, approximately 170 of those being self–operated O_2 shops, the O_2 internet portal and further direct marketing channels. We also depend on third parties in connection with our indirect distribution channel through which we distribute our products and services through O_2 partner shops, premium partner shops and a network of non–exclusive distributors, including Saturn and Mediamarkt.

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

Furthermore, we may not be able to correctly identify emerging customers' preferences as to distribution channels for our products and services. We have perceived a shift in retail customers' purchase behaviors steadily preferring the O_2 online store over O_2 shops. We are aligning our selling strategy by offering special discounts on products and services purchased via our O_2 online portal. However, we may misinterpret any future changes in customers' preferences as to distribution channels, which could lead to reduced revenues or customer acceptance.

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

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

Our business is capital intensive and requires significant amounts of investments. We have implemented an extensive capital expenditure program that will continue to require significant cash outlays in the foreseeable future, including the maintenance and optimization of our mobile and fixed–line network as well as further investments in the High–Speed Package Access ("**HSPA**") coverage and LTE technology. In addition, costs associated with frequency usage rights needed in order to operate our existing networks and technologies, and costs and rental expenses related to their deployment as well as costs associated with our fixed–line network, are a significant portion of our cost base and subject to increases.

We believe that we will be able to meet our financial obligations for the next 12 months. Currently, we have negotiated favorable payment and delivery terms with our suppliers and have in place cash pooling arrangements and factoring agreements to support our working capital. However, there can be no assurance that such arrangements or agreements will be available in the future or on satisfactory terms. Furthermore, we may not be able to generate sufficient cash flows in the future to meet our capital expenditure needs. Therefore, we may require additional sources of working capital in connection with our continued growth, our planned strategy, market developments or the development of new technologies. Consequently, we may need to raise additional debt or equity financing in amounts that could be substantial.

Our ability to raise additional capital to fund our operations can be further influenced by factors such as changing market interest rates, restrictive covenants in our debt instruments or negative changes in our credit rating or the credit rating of our majority shareholder. Future debt agreements we may enter into may include provisions restricting our ability to raise financing or to make certain business changes. Our exposure to the credit risks of our customers could also make it difficult for us to collect accounts receivables and thus impact our working capital position.

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

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

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

We also depend on BT Germany in connection with the installation and operation of our IT and communications equipment and supporting infrastructure as well as with housing of our core sites and access sites.

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

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

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

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

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

A termination or failure to renew existing agreements or partnerships with MVNOs and branded resellers could damage our reputation and negatively impact our ability to diversify and grow our customer base.

We compete with MVNOs and branded resellers, but also depend on them to expand our reach to new customers. Our MVNOs and branded reseller partners, however, may terminate their relationships with us or discontinue their services on relatively short notice, including, in the case of MVNOs, to start offering their services through the network of one of our competitors. Additionally, we may, in the future, be unable to renew our existing agreements with MVNOs or branded resellers on commercially favorable terms. Failure to maintain existing, or attract new, MVNO partners and branded resellers could prevent us from further growing and diversifying our customer base, which may impair our ability to grow and increase market share. The risks associated with our dependence on MVNOs and branded resellers could have a material adverse effect on our business, financial condition and results of operations.

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

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

We may be subject to claims that we infringe the intellectual property rights of others and may be unable to adequately protect our own intellectual property rights.

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

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

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

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

We collect and process subscriber and other personal data as part of our business and undue use or leakage of such data could breach laws and regulations, that could result in fines, loss of reputation and customer churn.

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

We may inadvertently infringe laws prohibiting aggressive phone marketing methods, known as "cold calling" and other direct marketing methods. Within the EU, the Directive on Privacy in Electronic Communications, and within Germany, the UWG (*Gesetz gegen den unlauteren Wettbewerb*) and the Telecommunications Act (*Telekommunikationsgesetz*), make it unlawful for us to approach prospective customers for direct marketing purposes via telephone without the express prior written consent of the customer. Consumer protection associations or entities monitoring the conditions we impose on, and our interactions with, our customers could file claims against us seeking, among other things, the disgorgement of profits allegedly made through the breach of these laws.

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

Violation of data protection laws may result in fines and customer churn, as well as an irrecoverable loss of our reputation in the market. In addition, data leakage may lead to the obligation to inform the individuals affected.

We may be adversely affected by alleged health risks associated with electromagnetic radio emissions and wireless communications devices and antennas.

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

In May 2011, the specialized cancer research body of the World Health Organization's International Agency for Research on Cancer classified the electromagnetic fields in mobile telephony as "possibly carcinogenic", a classification which also includes products such as coffee and pickled foods. The World Health Organization subsequently indicated, in its fact sheet no. 193 published in June 2011, that to date it cannot be confirmed that the use of a mobile telephone has adverse effects on health, although it was announced that in 2012 a formal assessment of this risk will be conducted, taking into account all scientific evidence available. There can be no assurance that further medical research and studies will not establish a link between electromagnetic signals or radio frequency emissions and health concerns.

Irrespective of the scientific evidence that may be obtained and even though we have considered these risks and have an action plan to ensure compliance with codes of good practice and relevant regulations, this concern, which may affect the capacity to capture or retain customers or may discourage the use of the mobile telephone, should not be disregarded. The actual or perceived risks of mobile and wireless telecommunications devices, press reports about health risks or consumer litigation relating to such risks could negatively impact our subscriber base and result in decreased mobile usage or increased litigation costs and other expenses.

Since popular concerns about radio frequency emissions may discourage the use of wireless devices, governmental authorities may impose significant restrictions on the location and operation of antennas or cell sites and the usage of our wireless devices, telephones or products using wireless technology, which could lead to our inability to further expand and upgrade our mobile network. Additionally, should the FNA lower the limits on exposure to electromagnetic fields, we would have to invest in network reconstruction in order to adhere to such guidelines.

The actual or perceived health risks associated with electromagnetic radio emissions and wireless communications devices and antennas and the resulting costs and lowered usage as well as new measures potentially adopted by regulatory authorities in this respect could have a material adverse effect on our business, financial condition and results of operations.

Unexpected events may result in our insurance coverage being inadequate.

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

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

We have considered in our combined financial statements certain tax–related risks of which we are aware. However, tax claims may exceed these provisions as a result of tax audits to which we are regularly subject. The most recent tax audit of the

Company, Telefónica Germany Management GmbH and Telefónica Germany GmbH & Co. OHG ("**OHG**") relating to the fiscal years up to and including 2003 regarding corporate income and trade tax has been finalized. The final audit conference (*Schlussbesprechung*) has already taken place. No material findings were made. Amended final tax assessment notices have been issued until 2003. The final amended corporate income tax assessment for the Company and Telefónica Germany Management GmbH has not been issued and is, therefore, still subject to revision (*Vorbehalt der Nachprüfung*). The tax audit regarding value–added taxes is completed for the periods up to and including 2002 and amended final tax assessments notices have been issued.

The Company, Telefónica Germany Management GmbH and OHG are currently subject to a tax audit for the fiscal years from and including 2004 up to and including 2007. Since the fiscal year 2004 and 2003 for value added tax purposes, respectively, all tax assessments regarding value–added, corporate income and trade tax of the Company, Telefónica Germany Management GmbH and OHG are subject to revision (*Vorbehalt der Nachprüfung*). Accordingly, tax audits relating to these fiscal years may lead to tax assessments resulting in higher tax payments. This could have a material adverse effect on our business, financial condition and results of operations.

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

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

As of December 31, 2011, OHG had trade tax losses carried forward in the amount of €11.0 billion. However, as it is a limited partnership, it is not subject to corporate income tax. Only its partners are subject to corporate income tax. As of December 31, 2011, corporate income tax losses carried forward, in the amount of €11.0 billion, were attributed to the Company and Telefónica Germany Management GmbH as partners of OHG (due to the transparency of an OHG for income tax purposes). The tax losses carried forward could be forfeited in the future, in part or in full, at the level of the Company, Telefónica Germany Management GmbH or OHG if, *inter alia*, an acquirer, a person affiliated with such acquirer or a group of acquirers with similar interest acquires directly or indirectly more than 25% of the Company's shares within five years. The tax losses carried forward and losses existing at the time the threshold is exceeded will be forfeited on a pro rata basis. If such an acquisition relates to more than 50% of the Company's shares, the tax losses carried forward will be forfeited completely. As a consequence, the Company, Telefónica Germany Management GmbH and OHG may no longer be able to use tax losses, or may only be able to use them to a limited extent. This will result in a higher tax burden. Irrespective of the above, if we decide to implement a change in the partnership structure this could result in the forfeiture of trade tax losses carried forward as well.

Losses incurred in any one year may be carried back for corporate income tax purposes to the immediately preceding assessment period up to an amount of €511,500. Trade tax losses cannot be carried back. Any remaining losses regarding corporate income tax and trade tax are carried forward and may only be offset within certain restrictions against profits from future years ("minimum taxation"). Up to €1 million of taxable profits may be offset against existing tax losses carried forward without restriction. Taxable profits in excess of €1 million may be offset against existing losses carried forward for corporate income and trade tax purposes, but this offset is limited to 60% of the taxable profits (above €1 million) in each tax assessment period.

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

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

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

Following the Offering, Telefónica, S.A. will continue to have the indirect voting majority necessary to exercise considerable influence over us, including to adopt all resolutions of the General Shareholders' Meeting and to authorize all matters requiring shareholder approval. Such matters include the election and removal of the shareholders' representatives on the Supervisory Board (who elect Management Board members), any proposed capital increase or issuance of convertible bonds and similar instruments, amendments to our articles of association, dividend distributions, corporate mergers and demergers, and sales involving all or nearly all of the Company's assets. Telefónica, S.A. will also be able to exercise considerable influence on our business and strategy. You will only have very limited influence (essentially, only through information, counter–proposal and speaking rights) on shareholders' resolutions. The interests of Telefónica, S.A. may conflict with the interests of other shareholders.

We may have conflicts of interests with Telefónica Group companies.

As our controlling shareholder, Telefónica, S.A. can exercise considerable influence over our operations and business strategy. Telefónica, S.A. also owns controlling equity interests in other companies within the telecommunications industry. Telefónica, S.A. therefore already competes with us to a certain extent. As the telecommunications industry continues to consolidate and converge, other companies within the Telefónica Group may begin to compete with us. Due to the fact that we are part of the Telefónica Group, business activities and strategies of individual Telefónica Group companies may result in conflicts of interest. When conflicts of interest arise, Telefónica, S.A., as our parent company, and the respective Telefónica

Group companies must address and resolve them, balancing the conflicting interest of the Telefónica Group to resolve conflicts of interest against one of the parties concerned. The demarcation between the activities of Telefónica, S.A. and its other Telefónica Group members on the one hand and our activities on the other hand may have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

In addition, we participate in the cash management system used by the Telefónica Group under deposit and cash management agreements. Based on agreements, the cash surplus available in our bank accounts which are included in the cash pool is transferred to master bank accounts held by a Telefónica Group finance subsidiary which also includes cash balances of other Telefónica Group entities. Any claims for the repayment of deposits made under the deposit and cash management agreement can be off-set against liabilities under loans granted to us by Telfisa Global B.V. ("**TGB.V.**"), including, in case of OHG, the existing loan facility of €1.25 billion, subject only to the general legal rules for the set-off of claims. In addition, our remaining repayment claims under the deposit and cash management agreements may not be fully recoverable if Telefónica, S.A. defaults. The occurrence of any of the aforementioned risks could have a material adverse effect on our business, financial condition and results of operations.

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

We currently market the vast majority of our products and services under the O_2 brand and intend to continue to do so in the future. The O_2 brand has significant positive brand recognition from suppliers, customers and employees. We license the use of the O_2 brand from the Telefónica Group. Rights to use the O_2 brand are provided under a license agreement together with a group cost sharing agreement, both dated October 15, 2007, with O_2 Holdings Limited, the owner of the brand rights and an entity in the Telefónica Group. The term of the license is indefinite, but it may be terminated for good cause, including if we experience a hostile take–over. If we were unable to continue to use the O_2 brand due to a termination of the license or for any other reason, significant time, effort and resources would be required to establish a new brand identity. This could cause a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

RISKS RELATED TO THE OFFERING OF THE SHARES

Our Shares have not been publicly traded previously, and there can be no guarantee that the Offer Price will be commensurate with the listing price or that a liquid trading market in the Shares will develop or be maintained after the initial commencement of trading.

Prior to the Offering, there was no public trading in our Shares. The Offer Price for the Offer Shares may not be indicative of the prices that will prevail on the trading market. We cannot forecast to what extent investors' interest in our Shares will foster trading or whether a liquid trading market will develop. Investors may not be able to sell our Shares quickly or at or near the purchase price fixed for the Offering or the daily stock exchange price. Such sales may be particularly challenging if no active trading market in our Shares develops after the Offering. There can be no assurance as to the liquidity of any trading in the Shares or that an active market for the Shares will develop.

Our share price may fluctuate significantly due to a wide range of factors, many of which are beyond our control.

The price of our Shares may fluctuate significantly as a result of a variety of factors, including our actual or anticipated financial performance; changes in earnings forecasts; the operating and share price performance of other companies in the industry and markets in which we operate; our level of debt; our liquidity; new products or services offered by us or our competitors; changes in or failure to meet stock analysts' expectations; legislative and regulatory developments affecting our business, supply and demand for our Shares; changes in general market conditions and other factors beyond our control. Moreover, the general volatility of share prices may create pressure on the share price even if there might be no reason for this in our operations or earnings potential.

There is a risk that the Offering may be discontinued.

The underwriting agreement will specify that the Joint Global Coordinators, on behalf of the Underwriters, may terminate the underwriting agreement under certain circumstances. In the event of a termination of the underwriting agreement, the Offering will not take place. Any allotments of Offer Shares to investors which have already occurred will be void, and investors will not have any claim to delivery of those Offer Shares. Any claims in respect of subscription fees which have already been paid and costs incurred by investors in connection with the subscription will be based solely on the legal relationship between the investors and the institution to which they submitted their purchase orders. Investors who have made short sales bear the risk that they will not be able to satisfy their obligations to deliver the shares.

The sale of Shares by the Selling Shareholder could affect the share price.

Following the Offering, assuming the placement of all Offer Shares, the Selling Shareholder will hold approximately 80% of our share capital (or approximately 77% if the Greenshoe Option is fully exercised) and an equivalent percentage of voting rights in the Company. The Selling Shareholder has agreed with the Joint Global Coordinators that, for a period ending 180 calendar days after October 30, 2012, it will not dispose of Shares other than the Greenshoe Shares and Shares purchased in the open market following the Offering. If the Selling Shareholder, who has entered into such lock–up agreement, sells substantial amounts of Shares on the open market following the expiration of the lock–up agreement, or if the market anticipates that such sales might occur, our share price could decrease.

The Company will not receive any net proceeds from the sale of the Offer Shares.

The Selling Shareholder will receive all of the net proceeds from the sale of the Offer Shares. The Company will not receive any net proceeds from the sale of the Offer Shares. Accordingly, neither the registered share capital nor the liquidity of the Company will be increased. In case the Offer Price for the Offer Shares exceeds the underlying net asset value of the Shares, shareholders' interest in the Company may be subject to economic dilution.

Future capital measures could result in a significant dilution of the shareholdings in the Company.

We may require additional capital in the future to finance our business operations and growth. Both the raising of additional capital through the issuance of new shares and the potential exercise of conversion or option rights by the holders of convertible debentures or option debentures that may be issued in the future could lead to a dilution of existing shareholder interests at the time of such issue, conversion or exercise. In addition, the acquisition of other companies or investments in companies in exchange for newly issued shares in the Company, as well as the exercise of stock options by employees in the context of any future stock option programs, could lead to such dilution.

Our ability to pay dividends in the future depends on several factors, including asset impairments.

The decision of our General Shareholders' Meeting as to whether to distribute dividends in the future depends on a number of factors, including, among other things, our results of operations and our financial and capital expenditure requirements, as well as on the availability of distributable profits and reserves based on the unconsolidated financial statements of the Company prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*, "**HGB**"). If the Company does not have distributable profits available in accordance with HGB, no dividends may be paid out. Furthermore, future loan agreements may contain restrictions in respect of the distribution of dividends by the Company.

We review, on an annual basis (or more frequently if circumstances require), the value of assets and cash–generating units, to assess whether their carrying values can be supported by projected future cash flows, including, in some cases, synergies included in acquisition costs. Potential changes in the regulatory, business, economic or political environment may result in the need to introduce changes to estimates made and recognize impairment losses in goodwill, intangible assets or fixed assets. Although the recognition of impairments of property, plant and equipment, intangible assets and financial assets results in a non–cash charge on the income statement, it could adversely affect the results of our operations and our ability to pay dividends.

Investors with a reference currency other than the euro may become subject to certain foreign exchange risks when investing in our Shares.

The Company's equity capital is denominated in euro, and all dividends on the Shares will be paid in euro. Investors whose reference currency is other than the euro may be adversely affected by any reduction in the value of the euro or any redenomination of the euro relative to the respective investor's reference currency. In addition, such investors could incur additional transaction costs in converting euro or such redenominated currency into another currency. Investors whose reference currency is other than the euro are therefore urged to consult their financial advisors.

Shareholders outside of Germany may not be able to participate in future rights offerings.

Under German corporate law, shareholders generally have preferential subscription rights (*Bezugsrechte*) relating to any shares issued in a capital increase, in proportion to their shareholding. Due to restrictions in other jurisdictions, including the United States, shareholders outside of Germany may be prohibited, under applicable law, or excluded under the terms of the capital increase, from participating in future capital increases. In addition, shareholders may not be able to participate in potential future capital increases if they not have the funds necessary to subscribe for new shares or if the preferential subscription rights are excluded. This could result in dilution of those shareholders' proportionate interests in our Company. Open–market purchases to counteract such dilution could be on terms less favorable than those offered to other shareholders in connection with a capital increase.

GENERAL INFORMATION

RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

Telefónica Deutschland Holding AG, Munich (the "**Company**", and collectively with its direct and indirect subsidiaries and joint venture at the date of this Prospectus, "**Telefónica Deutschland**" or "**we**"), along with J.P. Morgan Securities plc, London ("**J.P. Morgan**"), and UBS Limited, London ("**UBS**", and together with J.P. Morgan, the "**Joint Global Coordinators**"), Merrill Lynch International, London ("**BofA Merrill Lynch**"), BNP Paribas, Paris ("**BNP PARIBAS**"), Citigroup Global Markets Limited, London ("**Citi**"), and HSBC Trinkaus & Burkhardt AG, Düsseldorf ("**HSBC**") (BofA Merrill Lynch, BNP PARIBAS, Citi and HSBC together with the Joint Global Coordinators, the "Joint Bookrunners"), as well as Banca IMI S.p.A., Milan ("**Banca IMI**"), Bayerische Landesbank, Munich ("**BayernLB**"), Banco Bilbao Vizcaya Argentaria S.A., Bilbao ("**BBVA**"), COMMERZBANK Aktiengesellschaft, Frankfurt ("**COMMERZBANK**"), Banco Santander, S.A., Santander ("**Santander**") and Société Générale, Paris ("**Société Générale**") (Banca IMI, BayernLB, BBVA, COMMERZBANK, Santander and Société Générale together with the Joint Bookrunners, the "Underwriters"), assume responsibility for the content of this Prospectus pursuant to Section 5, paragraph 4 of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) and declare that the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and that no material circumstances have been omitted. Notwithstanding Section 16 of the German Securities Prospectus Act, neither the Company nor the Joint Global Coordinators are required by law to update this Prospectus.

PURPOSE OF THIS PROSPECTUS

For purposes of the public offering of Shares, this Prospectus relates to the Company's ordinary registered shares with no par value, each representing a notional value of €1.00 of the Company's share capital and with full dividend rights for the entire year (*Geschäftsjahr*) ending December 31, 2012 (the "**Offer Shares**"), consisting of:

- 225,000,000 ordinary registered shares with no par value from the holdings of the Selling Shareholder (the "**Base Shares**"); and
- 33,750,000 ordinary registered shares with no par value from the holdings of the Selling Shareholder in connection with a potential over–allotment (the "**Greenshoe Shares**").

For purposes of admission to trading of the Shares on the Frankfurt Stock Exchange, this Prospectus relates to 1,116,945,400 Shares with no par value, each representing a notional value of €1.00 of the Company's share capital and with full dividend rights for the entire year (*Geschäftsjahr*) ending December 31, 2012, which comprises the entire existing share capital of the Company to date.

ABBREVIATIONS FOR TELEFÓNICA DEUTSCHLAND AND TELEFÓNICA GROUP COMPANIES

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

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

1 Telefónica Group

2 Telefónica Deutschland

FORWARD–LOOKING STATEMENTS

This Prospectus contains various forward–looking statements that reflect management's current views with respect to future events and anticipated financial and operational performance. A forward–looking statement is any statement that does not relate to historical facts or events. Other forward–looking statements can be identified in the context in which the statements are made. Forward–looking statements appear in a number of places in this Prospectus, including, without limitation, in the sections entitled "*Risk Factors*", "*Dividend Policy and Earnings per Share*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Business*" and "*Recent Developments and Outlook*" and include, among other things, statements relating to:

- our strategy, outlook and growth prospects;
- our operational and financial targets and dividend policy;
- our liquidity, capital resources and capital expenditure;

- our planned investments;
- the expectations as to future growth in demand for our products and services;
- general economic trends and trends in the markets and industries in which we operate;
- the impact of regulations on us and our operations;
- the competitive environment in which we operate; and
- the outcome of legal proceedings.

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

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

Additional factors that could cause our actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*".

These forward–looking statements speak only as of the date of this Prospectus. We do not expressly undertake any obligation to publicly update or revise any forward–looking statements, whether as a result of new information, future events or otherwise, other than as required by law or regulation. Accordingly, prospective investors are cautioned not to place undue reliance on any of the forward–looking statements contained herein.

PRESENTATION OF FINANCIAL INFORMATION AND NON–IFRS FINANCIAL DATA

Unless otherwise indicated, financial information contained in this Prospectus has been prepared in accordance with IFRS. In this Prospectus, the term "**combined financial statements**" refers to our audited combined financial statements as of and for the years ended December 31, 2011, 2010 and 2009, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("**IFRS**"), taking into account the basis of preparation as set out in Note 1 to our combined financial statements, and our unaudited interim condensed combined financial statements as of and for the six months ended June 30, 2012 prepared in accordance with IFRS on interim financial reporting (IAS 34) taking into account the basis of preparation as set out in Note 1 and the presentation of the interim condensed combined financial statements as set out in Note 2 to the unaudited interim condensed financial statements.

Our combined financial statements as of and for the years ended December 31, 2011, 2010 and 2009 and as of and for the six months ended June 30, 2012 were prepared for the purpose of this Offering. The combined financial statements include the assets and liabilities, expenses and income and cash flows of those direct and indirect subsidiaries and proportionately of this joint venture of the Company for the years ended December 31, 2011, 2010 and 2009 and for the six months ended June 30, 2012 and 2011, which are still subsidiaries and joint venture of the Company at the date of this Prospectus. "Net assets attributable to Telefónica Germany Group" contain the share capital, capital reserves and retained earnings of the Company and Telefónica Germany Management GmbH. For the other companies within the Telefónica Germany Group the carrying amount of the investment in each subsidiary held by the Company and Telefónica Germany Management GmbH and their portion of net equity of each subsidiary are consolidated. The entities TGS, TGR, Telefónica Compras Electronicas S.L., Adquira España S.A., G3G and Quam were subsidiaries or associate of the Company during the years ended December 31, 2011, 2010 and part of 2009 and the first six months of 2012, but they recently ceased to be members of our group due to the reorganization of our group prior to the Offering (see "*General Information on the Company – Recent Corporate Developments*"). For purposes of the combined financial statements, these entities have not been consolidated. For more information about the combined financial statements and the basis of their preparation, see Note 1 to our audited combined financial statements on page F–21 et seq. and Note 1 and Note 2 to our unaudited interim condensed combined financial statements on page F–8.

This Prospectus contains:

- our unaudited interim condensed combined financial statements as of and for the six months ended June 30, 2012 with comparative financial information for the six months ended June 30, 2011 (IFRS on interim financial reporting (IAS 34) taking into account the basis of preparation as set out in Note 1 and the presentation of the interim condensed combined financial statements as set out in Note 2 to the unaudited interim condensed combined financial statements);
- our audited combined financial statements as of and for the years ended December 31, 2011, 2010 and 2009 (IFRS taking into account the basis of preparation as set out in Note 1 to the audited combined financial statements); and
- the Company's audited financial statements as of and for the year ended December 31, 2011 (HGB).

Where financial information in this Prospectus is labeled "audited", this means that it was taken or derived from our audited combined financial statements as of and for the years ended December 31, 2011, 2010 and 2009. The label "unaudited" is used in this Prospectus to indicate financial information that was taken or derived from our unaudited interim condensed combined financial statements as of and for the six months ended June 30, 2012 as well as from the Company's accounting records or internal management reporting systems.

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

INFORMATION DERIVED FROM THIRD PARTIES

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

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

- Datastream, "Consumer Confidence EU Average", dated August 15, 2012;
- Deutsche Telekom, press release "Contingent Model: Telekom gains cooperation partner", http://www.telekom.com, dated August 17, 2012;
- Economist Intelligence Unit ("**EIU**"), "Germany – Selected Series from 2008 to 2013", http://www.eiu.com, dated August 8, 2012;
- EIU, "EU 27 – Selected Series from 2005 to 2015", http://www.eiu.com, dated July 31, 2012;
- European Commission, "Consumer Confidence Indicator Germany", Bloomberg Data, dated July 31, 2012;
- European Commission, "MEMO/12/316", http://ec.europa.eu dated May 10, 2012;
- Eurostat, "Population at January 1 (in persons)", http://epp.eurostat.ec.europa.eu, dated September 11, 2012;
- Eurostat, "Population density (inhabitants per km2)", http://epp.eurostat.ec.europa.eu, dated September 11, 2012;
- FNA, consultation document of the "Identification of post–2016 demand for spectrum, in the 900 MHz and 1800 MHz frequency bands for wireless access (Project 2016) BK1–11/003", dated May 2012;
- FNA, press release, "Coverage requirement in 800 MHz band fulfilled in Saxony–Anhalt and Thuringia", http://www.bundesnetzagentur.de, http://www.bundesnetzagentur.de, dated June 25, 2012;
- FNA, publication "BK 1a–09/002", http://www.bundesnetzagentur.de, dated October 22. 2010;
- German Federal Office of Statistics (*Statistisches Bundesamt*), "Key Figures Germany", https://www.destatis.de, September 11, 2012;
- German Federal Office of Statistics (*Statistisches Bundesamt*), press release "*Erstmals mehr als 16 Millionen Menschen mit Migrationshintergrund in Deutschland*", https://www.destatis.de, July 14, 2010;
- Millward Brown Germany, "O_2 Brand and Communication Tracking – Private Customers Mobile", dated January 2012 and July 2012;
- Mobile World, "Quarterly Market Share", dated August 31, 2012;
- Pyramid Research, "Western Europe Forecast Insights – Mobile Data", dated June 2012;
- Published financial information of Deutsche Telekom, Vodafone and E–Plus (quarterly and annual reports as of December 31, 2011 and fiscal year 2011/2012, respectively);

- TeleGeography Inc., GlobalComms Database, "Mobile Market in Germany", dated August 29, 2012, "Germany Broadband Market Share", dated August 29, 2012 and "Germany Broadband Subscribers", dated August 29, 2012; and
- Yankee Group Research, "EMEA ConnectedView Forecast" for Denmark, France, Germany, Sweden and United Kingdom, dated June 2012.

We have accurately reproduced such third–party information and, as far as we are aware and are able to ascertain from information published by these third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Market studies are frequently based on information and assumptions that may not be exact or appropriate, and their methodology is by nature forward looking and speculative. The Prospectus also contains estimates made by us based on third–party market data, which in turn is based on published market data or figures from publicly available sources. The Company commissioned mm customer strategy GmbH to regularly produce a market study of our business and market position ("**Convergence Study**"), the key findings of which were published on September 19, 2012 at http://www.mm–strategy.com, and which we also cite in this Prospectus. All statistics and market data in this study are derived from third–party sources or are produced by mm customer strategy GmbH. We did not verify or modify any of the third–party statistics or other statistics provided by mm customer strategy GmbH.

Neither we, the Selling Shareholder nor the Underwriters have verified the figures, market data or other information on which third parties have based their studies nor have any of us verified the external sources on which our own estimates are based. Neither we, the Selling Shareholder nor the Underwriters can therefore guarantee or assume responsibility for the accuracy of the information from third–party studies presented in this Prospectus or for the accuracy of the information on which these estimates are based.

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

DOCUMENTS AVAILABLE FOR INSPECTION

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

- the Company's articles of association (*Satzung*) (the "**Articles of Association**");
- our audited combined financial statements under IFRS taking into account the basis of preparation as set out in Note 1 to the combined financial statements as of and for the years ended December 31, 2011, 2010 and 2009;
- our unaudited interim condensed combined financial statements under IFRS on the interim financial reporting (IAS 34) taking into account the basis of preparation as set out in Note 1 and the presentation of the interim condensed combined financial statements as set out in Note 2 to the unaudited interim condensed combined financial statements as of and for the six months ended June 30, 2012; and
- the Company's audited financial statements under the HGB as of and for years ended December 31, 2011.

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

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

FINANCIAL YEAR AND AUDITORS

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

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Munich Office, Arnulfstrasse 59, 80636 Munich, Germany ("**E&Y**"), independent auditors, have audited in accordance with Section 317 of the HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer in Deutschland e.V.,* "**IDW**") our combined financial statements as of and for the years ended December 31, 2011, 2010, and 2009 prepared in accordance with IFRS taking into account the basis of preparation as set out in Note 1 to the combined financial statements and the financial statements of the Company as of and for the year ended December 31, 2011, prepared in accordance with the HGB, and issued in each case an unqualified audit opinion. E&Y is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

ENFORCEMENT OF CIVIL LIABILITIES

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

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

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

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

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

EXCHANGE RATE INFORMATION

The following table sets forth, for the periods and dates indicated, the high, low, average and period–end noon buying rates in the City of New York for wire transfers between the euro and the U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York expressed as U.S. dollars per €1.00. We make no representation that the euro or U.S. dollar amounts referred to in this Prospectus have been, could have been or could, in the future, be converted into U.S. dollars or euros, as the case may be, at any particular rate, if at all.

Period	**U.S. dollars per €1.00**			
Year ended December 31,	**High**	**Low**	**Average[1]**	**End**
2007	1.4862	1.2904	1.3711	1.4603
2008	1.6010	1.2446	1.4726	1.3919
2009	1.5100	1.2574	1.3935	1.4332
2010	1.4536	1.1959	1.3261	1.3269
2011	1.4875	1.2926	1.3931	1.2973
Month				
January 2012	1.3192	1.2682	1.2910	1.3053
February 2012	1.3463	1.3087	1.3238	1.3359
March 2012	1.3336	1.3025	1.3208	1.3334
April 2012	1.3337	1.3064	1.3160	1.3229
May 2012	1.3226	1.2364	1.2806	1.2364
June 2012	1.2703	1.2420	1.2541	1.2668
July 2012	1.2620	1.2062	1.2278	1.2315
August 2012	1.2583	1.2149	1.2406	1.2578

1 The average of the noon buying rates on the last business day of each fiscal year or month during the relevant period.

On September 28, 2012 the noon buying rate in the City of New York for wire transfers between the euro and the U.S. dollar as certified for customers purposes by the Federal Reserve Bank of New York was $1.2856 to €1.00.

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

THE OFFERING

SUBJECT MATTER OF THE OFFERING

The Offering (including any potential over–allotment) relates to ordinary registered shares with no par value, each representing a notional value of €1.00 of our share capital and with full dividend rights for the year ending December 31, 2012 consisting of the following Offer Shares:

- 225,000,000 Base Shares from the holdings of the Selling Shareholder; and
- 33,750,000 Greenshoe Shares from the holdings of the Selling Shareholders in connection with a potential over–allotment.

The Company's entire existing share capital totals €1,116,945,400. Accordingly, approximately 20% of the Shares will be offered (approximately 23% including the Shares available for potential over–allotments). The Offering consists of a public offering of the Offer Shares in Germany and Luxembourg and private placements of the Offer Shares in certain jurisdictions outside Germany and Luxembourg. In the United States, the Offer Shares will be offered for sale to QIBs as part of a private placement in reliance on Rule 144A under the Securities Act. Outside the United States, the Offer Shares will be offered in compliance with Regulation S under the Securities Act.

The Selling Shareholder intends to sell 225,000,000 Shares in the Offering. In addition, the Selling Shareholder will make a certain number of Shares available to J.P. Morgan, on behalf of the Underwriters, by way of a securities loan to cover potential over–allotments in connection with the Offering. The Selling Shareholder has also granted an option to J.P. Morgan, on behalf of the Underwriters, exercisable for 30 calendar days following the date on which the Shares commence trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange, to purchase 33,750,000 additional Shares at the Offer Price (less agreed commissions) in connection with the Offering (see "*The Offering – Stabilization Measures*, *Over–Allotments* and *Greenshoe Option*"). Following completion of the Offering, and assuming full placement of the Offer Shares and full exercise of the Greenshoe Option, the portion of our share capital held by the Selling Shareholder will be at least approximately 77% (see "*Shareholder Structure* (*Prior to and After the Offering*)").

In the Offering, the Selling Shareholder will receive all proceeds (less agreed commissions and expenses) from the sale of the Offer Shares and any Greenshoe Shares sold in connection with a potential over–allotment, if any. The Company will not receive any proceeds from the sale of the Offer Shares.

The Underwriters are J.P. Morgan and UBS, acting as Joint Global Coordinators and Joint Bookrunners, BofA Merrill Lynch, BNP PARIBAS, Citi and HSBC, acting as Joint Bookrunners, as well as Banca IMI, BayernLB, BBVA, COMMERZBANK, Santander and Société Générale as Co–Lead Managers.

EXPECTED TIMETABLE FOR THE OFFERING

October 16, 2012	Approval of the Prospectus by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – "**BaFin**")
	Notification of the approved Prospectus to the Luxembourg Commission for the Supervision of the Financial Sector (*Commission de Surveillance du Secteur Financier*)
	Publication of the Prospectus on our website
October 17, 2012	Commencement of the offer period
October 29, 2012	End of the offer period for retail investors (natural persons) at 12:00 noon (CET) and for institutional investors at 5:00 p.m. (CET)
	Determination of the Offer Price and allotment; publication of the Offer Price and the final number of Offer Shares as an ad–hoc release through an electronic information system and on the Company's website
	Admission to trading
October 30, 2012	First day of trading
November 1, 2012	Book–entry delivery of the Offer Shares against payment of the Offer Price

This Prospectus and any supplements hereto will be published on our website at www.telefonica.de. This Prospectus and any supplements hereto are also available in printed form, without charge and during normal business hours, at our offices and at the German offices of the Joint Global Coordinators J.P. Morgan and UBS.

PRICE RANGE, OFFER PERIOD, OFFER PRICE AND ALLOTMENT

The price range within which purchase orders may be submitted is between €5.25 and €6.50. The Offering will be denominated in euro and the offer period, within which investors will have the possibility to submit purchase orders for the Offer

Shares, is expected to commence on October 17, 2012 and is expected to end on October 29, 2012 (the "**Offer Period**"). Interested investors are asked to pay attention to publications on our website at www.telefonica.de for further details of the Offering. During the Offer Period, offers to purchase Offer Shares may be submitted by retail investors at the branch offices of the Underwriters and their associated institutions. On the last day of the Offer Period, retail investors will be able to submit offers to purchase Offer Shares until 12:00 noon (Central European Time) and institutional investors until 5:00 pm (Central European Time). The Selling Shareholder and the Joint Global Coordinators expressly reserve the right to close the order book prior to October 29, 2012 and announce an early end of the Offer Period. Each purchase order must be placed for a minimum of 200 (two hundred) shares.

The Selling Shareholder, together with the Joint Global Coordinators, reserve the right to decrease the number of Offer Shares, to increase or decrease the upper limit and/or lower limit of the price range, and/or to extend or shorten the Offer Period. If any of the terms of the Offering are modified, the change will be published by means of an announcement through electronic information services such as Reuters or Bloomberg and on our website (www.telefonica.de) and, to the extent required under the German Securities Trading Act (*Wertpapierhandelsgesetz*) and/or the German Securities Prospectus Act (*Wertpapierprospektgesetz*), as an ad–hoc notice and/or a supplement (*Nachtrag*) to this Prospectus. Investors who have submitted purchase orders will not be notified individually. Any changes to the number of Offer Shares or the price range or any extension or shortening of the Offer Period will not void purchase orders that have already been submitted.

Investors who have already submitted purchase orders prior to the publication of the supplement have the right provided under the German Securities Prospectus Act (*Wertpapierprospektgesetz*) to withdraw these offers within two working days (including Saturdays) following publication of the supplement, if the significant new factor or material mistake relating to the information included in the Prospectus that requires the publication of the supplement has occurred prior to the final closing of the Offering and the delivery of the Offer Shares. Instead of withdrawing their purchase orders, investors may also amend these purchase orders submitted prior to publication of the supplement (*Nachtrag*) or submit new limited or unlimited purchase orders within two business days after publication of the supplement (*Nachtrag*).

Once the Offer Period has expired, the Selling Shareholder and the Joint Global Coordinators will jointly determine the Offer Price on October 29, 2012 on the basis of the order book prepared during the book–building process. The basis for the book–building process will be the price range. The determination of the Offer Price will depend on the purchase orders for the Offer Shares submitted by investors during the Offer Period and collected in the above–mentioned order book. The offers to purchase will be evaluated according to the bid price and the expected motivation of the respective investors. The Offer Price and the number of Offer Shares to be placed will be determined on this basis, taking into account the goal of maximizing the proceeds and whether, considering the demand for the Offer Shares indicated by the order book, the Offer Price and number of Offer Shares to be placed will reasonably support the expectation that the share price will develop in a stable manner in the secondary market. In addition to the prices offered by investors and the number of investors interested in purchasing Offer Shares at a given price, the mix of investors in us that would result from a possible allotment of Offer Shares to investors at a particular price and the anticipated investor behavior will also be considered.

Purchase orders are freely revocable until the end of the Offer Period.

Once the Offer Price has been determined, the Offer Shares will be allotted to investors based on the orders submitted. The Offer Price and the number of Offer Shares to be placed is expected to be published on October 29, 2012 by means of an ad–hoc notice on an electronic information system and on our website (www.telefonica.de). Investors who have submitted purchase orders with one of the Joint Global Coordinators will be able to obtain information from that Joint Global Coordinator about the Offer Price and the number of Offer Shares allotted to them on the banking day following the determination of the Offer Price. Book–entry delivery of the allotted Offer Shares against payment of the Offer Price is expected to occur two banking days following the commencement of trading of Shares. Should the placement volume prove to be insufficient to satisfy all orders placed at the Offer Price, the Joint Global Coordinators reserve the right to reject purchase orders, or to accept them in part only. Multiple subscriptions are admitted. However, the Underwriters reserve the right to not execute all orders in case of multiple subscriptions.

GENERAL ALLOTMENT CRITERIA

No agreements exist between the Company, the Selling Shareholder and the Underwriters as to the allotment procedure prior to the commencement of the Offer Period. The Company, the Selling Shareholder and the Underwriters will comply with the "Principles for the Allotment of Share Issues to Private Investors" (*Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger*), which were issued on June 7, 2000 by the Exchange Expert Commission (*Börsensachverständigenkommission*) at the German Federal Ministry of Finance (*Bundesministerium der Finanzen*). After the Offer Period has ended, the Selling Shareholder and the Joint Global Coordinators will determine and publish the details of the allotment method in accordance with the "Principles for the Allotment of Share Issues to Private Investors".

DELIVERY AND SETTLEMENT OF THE OFFER SHARES

Delivery of the Offer Shares against payment of the Offer Price and the customary securities commission is expected to take place two banking days following commencement of trading of the Offer Shares. The Offer Shares will be made available to shareholders as co–ownership interests in the respective global certificate. J.P. Morgan is acting as Settlement Agent.

At the investor's option, Offer Shares purchased pursuant to this Offering will be credited to the securities deposit account maintained by J.P. Morgan at Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn, Germany, for the account of such investor, or to the securities deposit account of a participant in Euroclear Bank S.A./N.V., 1, Boulevard Roi Albert II, 1120 Brussels, Belgium, as the operator of the Euroclear Systems, or to Clearstream Banking S.A., 42 Avenue J.F. Kennedy, 1855 Luxembourg.

STABILIZATION MEASURES, OVER–ALLOTMENTS AND GREENSHOE OPTION

In connection with the placement of the Offer Shares, J.P. Morgan or its affiliates will act as stabilization manager in connection with the Offering and may take measures aimed at stabilizing the stock exchange or market price of Shares in order to offset any sales pressure and demand for the Offer Shares that may exist (the "**Stabilization Measures**").

A stabilization manager is under no obligation to take Stabilization Measures. Therefore, there is no guarantee that any such Stabilization Measures will be initiated at all. If Stabilization Measures are initiated, they may be terminated at any time without prior notice. Such measures may be undertaken beginning as of the date of commencement of trading of the Shares on the regulated market (*regulierter Markt*) (*Prime Standard*) of the Frankfurt Stock Exchange and must be completed no later than the 30th calendar day after such date (the "**Stabilization Period**").

Stabilization Measures may lead to the stock exchange price of the Shares being higher than it would have been in the absence of such measures. In addition, such measures may temporarily result in a stock exchange price at a level that is not sustainable.

With regard to potential Stabilization Measures, investors may be allotted additional shares in addition to the Offer Shares (an over–allotment). With regard to such potential over–allotment, 33,750,000 shares of the Selling Shareholder will temporarily be made available to J.P. Morgan, on behalf of the Underwriters, by way of a securities loan. The Selling Shareholder has also granted J.P. Morgan, on behalf of the Underwriters, the option of purchasing these Shares at the Offer Price less agreed commissions (the "**Greenshoe Option**"). This option will expire 30 calendar days following the date of commencement of trading of the Shares.

Within one week following the end of the Stabilization Period, information will be announced in the *Frankfurter Allgemeine Zeitung* and on our website at www.telefonica.de as to whether a Stabilization Measure was taken or not, the date on which Stabilization Measures commenced, the date on which the last Stabilization Measure was implemented, and the price range within which such stabilization occurred for each date on which a Stabilization Measure was implemented. The exercise of the Greenshoe Option, the date of such exercise and the number of Shares involved will also be published without undue delay (*unverzüglich*) in the manner described above for the publication of information regarding the implementation of Stabilization Measures following the end of the Stabilization Period.

GENERAL AND SPECIFIC INFORMATION ON THE SHARES

Voting Rights

Each Share confers one vote at the Company's General Shareholders' Meeting (*Hauptversammlung*). There are no restrictions on voting rights. The Selling Shareholder does not hold any different voting rights.

Dividend and Share in the Liquidation Proceeds

The Shares carry full dividend rights for the year ending December 31, 2012 and an entitlement to receive the payment of dividends, if any, for the first time in 2013. The holders of Offer Shares also have an interest in any liquidation proceeds proportionate to the notional amount of the share capital attributable to their Shares.

Form and Certification of Shares

Pursuant to the Company's Articles of Association, the Shares in the Company are issued as registered shares (*Namensaktien*) with no par value (*Stückaktien*). The Shares will be represented by one global certificate without dividend coupons, which will be deposited with Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn, Germany. Any right of shareholders to an individual certification of their Shares is excluded in the Company's Articles of Association. If Shares are issued, the form and content of certificates representing such Shares will be determined by the Management Board with the consent of the Supervisory Board.

German Securities Code (WKN)/International Securities Identification Number (ISIN)/Ticker Symbol

German Securities Identification Number (WKN)	A1J5RX
International Securities Identification Number (ISIN)	DE000A1J5RX9
Ticker Symbol	O2D

TRANSFERABILITY

The Shares are freely transferable. Except for the restrictions set forth under *"Market Protection Agreement (Lock–up)"* below, there are no prohibitions with respect to the disposal or the transferability of the Shares.

MARKET PROTECTION AGREEMENT (LOCK–UP)

Pursuant to the underwriting agreement entered into with the Underwriters and the Selling Shareholder on the date of this Prospectus, the Company has agreed that it will not, without the prior written consent of the Joint Global Coordinators (such consent not to be unreasonably withheld or delayed), for a period ending 180 calendar days after October 30, 2012:

- announce or implement any capital increase from authorized capital (*genehmigtes Kapital*);
- submit a resolution for any capital increase to the General Shareholders' Meeting (*Hauptversammlung*);
- announce or effect the sale of any treasury shares;
- announce, effect or submit a proposal to the General Shareholders' Meeting for the issuance of any financial instruments carrying conversion or option rights on the Shares; nor
- enter into any transaction in a way or act in a way that is economically similar to the actions listed above.

This does not apply (a) to the issuance or sale, as applicable, of shares or other securities issued under employee participation programs or stock option plans to employees of the Company or its subsidiaries as well as (b) the issuance of shares against contributions in kind in connection with any acquisition, equity investment or joint venture directly to the partner in any such acquisition, equity investment or joint venture, provided that in case of clause (b) each person so acquiring shares issued by the Company shall have agreed in writing vis-à-vis the Joint Global Coordinators not to take any action in relation to the shares so acquired that the Selling Shareholder could not take in relation to the shares.

The Selling Shareholder has agreed with each Joint Global Coordinator that it will not, without the prior written consent of the Joint Global Coordinators (such consent not to be unreasonably withheld or delayed), for a period ending 180 calendar days after October 30, 2012:

(i) offer, pledge, allot, sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any Shares or any other securities of the Company, including securities convertible into or exercisable or exchangeable for Shares;

(ii) conclude any swap agreement that would transfer the economic risk of ownership of Shares to a third party;

(iii) make any demand for or exercise any right with respect to registration under U.S. securities laws of any Shares or any security convertible into or exercisable or exchangeable for Shares;

(iv) except in relation to any increase in the share capital of the Company due to the exemptions from restrictions for the Company under (a) and (b) listed above, propose any increase in the Company's share capital to the General Shareholders' Meeting, vote in favor of such a proposed increase or otherwise support any proposal for the issuance of any security convertible into Shares, with option rights for Shares, whether directly or indirectly; or

(v) enter into a transaction or perform any action economically similar to those described above.

The selling restrictions under (i) through (v) above do not apply to disposals within the framework of a public takeover bid or purchase offer made by a third-party or pursuant to private sales (*i.e.*, other than through stock exchange trades or transactions similar to stock exchange trades, such as accelerated book-building offerings) to third parties provided that such party or parties assume *vis-à-vis* the Joint Global Coordinators the aforementioned selling restrictions. Further excluded from the selling restriction under (i) through (v) above are transactions with companies affiliated with the Selling Shareholder, as well as the conveyance of an indirect interest in the Company through the members of the Management Board or Supervisory Board, if the buyer is subject to the same selling restrictions as the respective seller.

ADMISSION TO TRADING AND COMMENCEMENT OF TRADING OF SHARES

We intend to apply for admission of the Shares to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange and, simultaneously, on the sub–segment of the regulated market with additional post–admission obligations (*Prime Standard*) on October 17, 2012. An admission decision is expected to be granted on October 29, 2012. Commencement of trading is expected to take place on October 30, 2012.

DESIGNATED SPONSORS

J.P. Morgan and UBS (the "**Designated Sponsors**") will assume the function of designated sponsors of the Shares trading on the Frankfurt Stock Exchange, being entitled to designate an authorized third party to perform their functions. Pursuant to the designated sponsor agreements between the Designated Sponsors and us, the Designated Sponsors will, among other things, place limited buy and sell orders for Shares in the electronic trading system of the Frankfurt Stock Exchange during regular trading hours. This is intended to improve liquidity of trading for the Shares.

INTERESTS OF THIRD PARTIES INVOLVED IN THE OFFERING

Telefónica Germany Holdings Limited has an interest in the Offering because it will receive the net proceeds of the Offering.

Telefónica, S.A. has an interest in the Offering as its indirectly wholly owned subsidiary Telefónica Germany Holdings Limited will receive the net proceeds from the Offering.

The Underwriters have an interest in the Offering as each has entered into a contractual relationship with us and Telefónica Germany Holdings Limited in connection with the structuring and execution of the Offering. The compensation is incentive–based and depends, among other factors, on the amount of the offer proceeds. In addition, J.P. Morgan and UBS have been appointed to act as designated sponsors for the Company's Shares.

In connection with the Offering, the Underwriters and affiliated companies will be able to acquire Offer Shares for their own accounts and hold, purchase or sell for their own accounts and can also offer or sell these Shares outside of the Offering. The Underwriters do not intend to disclose the scope of such investments or transactions to the extent that this is not legally required.

Some of the Underwriters or their affiliates have business relations with us, including financing, or may perform services for us and/or Telefónica Group in the ordinary course of business.

REASONS FOR AND COSTS OF THE OFFERING

The Offering is part of the asset portfolio management strategy of the Telefónica Group. Through the listing of the Shares on the Frankfurt Stock Exchange, Telefónica Group aims to increase the profile and market awareness of one of its most attractive assets. Telefónica Group also aims to improve our embedded value within Telefónica Group's market capitalization. In addition, the admission to trading of the Shares provides us with a higher degree of flexibility and direct access to capital markets and fully aligns with Telefónica Group's strategy to increase financial flexibility and reduce leverage.

The Selling Shareholder will receive the net sales proceeds from the sale of the Offer Shares including any of Greenshoe Shares sold in connection with a potential over–allotment, if any. Based on the price range of between €5.25 and €6.50 the gross sales proceeds of the Offering would be between €1,181,250,000 and €1,462,500,000, excluding Shares that may be sold upon the exercise of the Greenshoe Option. The net sales proceeds will be the gross sales proceeds less the Joint Global Coordinators' commissions and other costs and expenses from the sale of the Offer Shares, which will be borne by the Selling Shareholder. The amount of the net sales proceeds from the sale of the Offer Shares depends on the Offer Price and the number of Offer Shares actually placed, including Shares that may be sold upon an exercise of the Greenshoe Option. No reliable estimate of the net sales proceeds or a range within which they will fall can be made until the Offer Price has been determined, at the earliest. The Company will give an updated estimate of the net sales proceeds when it publishes the Offer Price.

In addition, it is not possible at this time to reliably predict the costs of the Offering because neither the total number of Offer Shares that will be placed (including Shares that may be sold upon an exercise of the Greenshoe Option) nor the Offer Price (which together with the total number of placed Offer Shares determines the amount of the commissions) is currently known. The costs and expenses of the Offering and listing will comprise the commissions payable by the Selling Shareholder to the Underwriters and other expenses, such as the administrative and material fees for accounting, legal and other advisory services, printing and distribution of the Prospectus.

The Selling Shareholder estimates the commissions (including the full payment of an incentive fee) to the Joint Global Coordinators payable by the Selling Shareholder to amount to up to approximately €33 million (based on the mid-point of the price range at €5.88 per Offer Share and the corresponding aggregate gross sales proceeds of approximately €1,322 million, excluding Shares that may be sold upon an exercise of the Greenshoe Option) and the other expenses to amount to approximately €7 million; such other expenses will be borne by the Selling Shareholder. Accordingly, total costs and expenses are estimated to be up to approximately €40 million. Therefore, the expected net sales proceeds to the Selling Shareholder based on aggregate gross sales proceeds of approximately €1,322 million, excluding Shares that may be sold upon an exercise of the Greenshoe Option, could amount to approximately €1,282 million.

DIVIDEND POLICY AND EARNINGS PER SHARE

DIVIDEND RIGHTS AND DIVIDEND POLICY

The shares of individual shareholders in the profit of the Company are determined in accordance with the number of Shares they hold in the registered capital (Section 60, paragraph 1 of the German Stock Corporation Act).

The adoption of resolutions regarding the distribution of dividends on the Shares for a given financial year is the responsibility of the General Shareholders' Meeting (*Hauptversammlung*) held during the following financial year, which resolves on the utilization of the Company's distributable profits on the basis of the non–binding proposal of the Management Board (*Vorstand*) and the Supervisory Board (*Aufsichtsrat*). If the Selling Shareholder holds an effective or, depending on its presence at the General Shareholders' Meeting, a factual majority of the voting rights present or represented at the General Shareholders' Meeting, it may exercise further influence on the utilization of the Company's profits and/or the dividend's policy (see "*Risk Factors – Risks Related to our Relationship with Telefónica, S.A. – Telefónica, S.A. will continue to exercise considerable influence over us and our operations, and the interests of Telefónica, S.A. may conflict with those of other shareholders*.").

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

Dividends resolved at the General Shareholders' Meeting are payable on the first business day after such meeting, unless the dividend resolution provides otherwise. Dividend claims are subject to a three–year limitation period.

The Management Board (*Vorstand*) and the current members of the Supervisory Board (*Aufsichtsrat*) intend to make suggestions for the distribution of dividend to the General Shareholders' Meeting (*Hauptversammlung*) taking into account: (i) the profit for the year, (ii) historical and forecasted free cash–flow, (iii) distributable reserves available, (iv) benchmarking against other telecommunications companies, and (v) the leverage and financial condition of the Company. The Company aims to protect solvency by (a) refraining from paying dividends, distributing capital or capital reserves in cash or buying back shares, if the ratio of Net Financial Debt/OIBDA materially and consistently exceeds the Target Leverage (see "*Capitalization and Indebtedness*"), and (b) restricting the use of new debt to pay dividends, allowing it only if the ratio of Net Financial Debt/ OIBDA complies with the Target Leverage.

The Management Board intends to suggest to the General Shareholders' Meeting a cash dividend for the year ending December 31, 2012 of approximately €500 million, payable in 2013, and intends to increase the amount of dividends to be distributed in future years.

The payment of dividends, if any, and the amounts and timing thereof, will depend on a number of factors, including future revenues, profits, financial conditions, general economic and business conditions, future prospects of the Company, applicable legal and regulatory requirements and such other factors as our Management Board may deem relevant. There can be no assurances that the Company's performance will allow us to pay dividends consistent with our dividend policy or that we will be able to increase dividend distributions over time. In particular, our ability to pay dividends may be impaired if any of the risks described in this Prospectus were to occur. See "*Risk Factors*". Furthermore, our dividend policy is subject to change as our Management Board will revisit our dividend policy from time to time. There can be no assurance that in any given year a dividend will be proposed or declared.

Because the Company does not conduct any operations of its own, the payment of dividends depends primarily on the profit of its operating subsidiaries and their ability to distribute dividends to the Company.

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

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

EARNINGS PER SHARE

Earnings per share are calculated by dividing results attributable to our shareholders by the number of Shares outstanding. The following summary shows our result for the year on the basis of our audited combined financial statements under IFRS, taking into account the basis of the preparation as set out in Note 1 to the combined financial statements for the years ended December 31, 2011, 2010 and 2009, the earnings per share (rounded to two decimal points), and the dividends declared by the Company as of and for the years ended December 31, 2011, December 31, 2010 and December 31, 2009.

	Year ended December 31,		
	2011	**2010**	**2009**
	(unaudited, unless otherwise indicated)		
Result for the year (in € thousands) (audited)	71,346	(102,532)	(33,584)
Assumed number of shares on December 31[1]	1,116,945,400	1,116,945,400	1,116,945,400
Earnings per share (in €)[2]	0.06	(0.09)	(0.03)
Dividends declared (in € thousands)[3]	7,185,896	–	–
Dividends per share (in €)[2]	6.43	–	–

[1] For better comparability with future financial information, the current number of shares in the Company of 1,116,945,400 has been used.

[2] Giving effect to the assumed number of 1,116,945,400 shares.

[3] The dividend declared for 2011 is of exceptional nature. On September 14, 2012, an amount of approximately €4.3 billion was paid in cash while the remainder of approximately € 2.9 billion was settled by way of a set–off with an existing capital promise.

CAPITALIZATION AND INDEBTEDNESS

The Management Board and Supervisory Board intend to maintain the Company's leverage ratio (calculated by dividing Net Financial Debt by OIBDA) below 1.0 over the medium term (the "Target Leverage"). Net Financial Debt will be measured as borrowed money less interest bearing financial assets, cash and cash equivalents, taking into account the value of financial derivatives and hedges, in order to assess compliance with the Target Leverage.

The Management Board and the Supervisory Board will review the calculation of the Target Leverage for the above purposes and ensure that the calculation is effected in compliance with standard market practice and is adjusted for one–time effects and special factors (such as write–downs with no cash impact).

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

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

The data presented in the following table shows, on a combined basis, the Telefónica Germany Group's capitalization as of August 31, 2012 on a historical basis (first column), which has been derived from our accounting records, and as adjusted (second column). The data presented in the "adjusted" column has been prepared on the basis that our recent distribution of profits, the dividend payments to us of some of the entities recently carved–out from our group and the loans granted to us by TGB.V. prior to the Offering (as described below in more detail) had already been effected as of August 31, 2012.

CAPITALIZATION

	As of August 31, 2012	**As of August 31, 2012 (adjusted)**
	(in € thousands)	
	(unaudited)	*(unaudited)*
Total current liabilities	**1,410,323**	**1,660,323**
of which guaranteed	–	–
of which secured	–	–
unguaranteed/unsecured	1,410,323	1,660,323
Total non–current liabilities	**82,606**	**1,082,606**
of which guaranteed	–	–
of which secured	–	–
unguaranteed/unsecured	82,606	1,082,606
Total liabilities[1]	**1,492,928**	**2,742,928**
Equity	**12,019,807**	**6,234,127**
of which: net assets attributable to the Telefónica Germany Group	–	–
of which: other components of equity	–	–
Total capitalization[2]	**13,512,735**	**8,977,055**

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

2 Total capitalization represents the sum of current liabilities, non–current liabilities and total equity.

The book value of the Shareholders' Equity on a combined basis (as adjusted) as of August 31, 2012, as shown in the second column in the table "Capitalization" above, was €6,234,127 thousand or €5.58 per Share (based on a number of 1,116,945,400 Shares). An investor purchasing Offer Shares at the mid-point of the price range at €5.88 per Offer Share would therefore be diluted by -5.00% or €-0.29, respectively (numbers have been rounded to second decimal place).

NET INDEBTEDNESS

The following table shows, on a combined basis, the Telefónica Germany Group's net financial indebtedness (i.e., current financial liabilities less liquidity and current financial receivables) as of August 31, 2012 on a historical basis (first column) which has been derived from our accounting records and as adjusted (second column). The data presented in the "adjusted" column has been prepared on the basis that our recent distribution of profits, the dividend payments to us of some of the entities recently carved–out from our group and the loans granted to us by TGB.V. prior to the Offering (as described below in more detail) had already been effected as of August 31, 2012.

	As of August 31, 2012	**As of August 31, 2012 (adjusted)**
	(in € thousands)	
	(unaudited)	*(unaudited)*
Cash and cash equivalents	1,674,171	24,388
Trading Securities	–	–
Liquidity[1]	**1,674,171**	**24,388**
Current financial receivables[2]	**2,885,897**	**–**
Current bank debt	–	–
Current portion of non–current debt	–	250,000
Other current financial debt	4,901	4,901
Current financial debt[3]	**4,901**	**254,901**
Current net financial debt[4]	**(4,555,167)**	**230,513**
Non–current bank loans	–	–
Bonds issued	–	–
Other non–current loans	5,886	1,005,886
Non–current financial indebtedness[5]	**5,886**	**1,005,886**
Net financial indebtedness[6]	**(4,549,281)**	**1,236,399**

1 Cash and cash equivalents plus trading securities.

2 Current financial receivables disclosed in our combined financial statements as "Other current financial assets" pertain to an existing capital promise.

3 Current bank debt plus current portion of non–current debt plus other current financial debt (only including interest–bearing debt).

4 Current financial debt minus current financial receivables minus liquidity.

5 Non–current bank loans plus bonds issued plus other non–current loans (only including interest–bearing debt).

6 Current net financial debt plus non–current financial indebtedness.

The distribution of profits by TGS in the amount of €550.8 million and TGR in the amount of €146.4 million to OHG on September 12, 2012 in connection with the divestment of TGS and TGR, the proceeds from the sale of all shares in Telefónica Global Activities Holdings B.V. (former Telefónica Chile Holding B.V.) through which we held all shares in our former subsidiaries, G3G, Quam, and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its 40% interest in Adquira España S.A. for €703.0 million under a sales purchase agreement dated September 27, 2012, the distribution of profits by the Company to O2 (Europe) Limited (the sole shareholder of the Company at the time the payments were made) in the amount of €7.2 billion pursuant to a resolution of the Company's shareholders' meeting dated September 13, 2012 and the granting of loans to us by TGB.V. an entity of Telefónica Group, in the amount of €1.25 billion and €703.0 million, on September 12, 2012, (see "*General Information on the Company – Recent Corporate Developments" and "Related Party Transactions – Financing Agreements*") occurred after August 31, 2012. Had these events already occurred as of August 31, 2012, they would have had the effects on our combined financial position shown in the "(adjusted)" column of the tables "Capitalization" and "Net Indebtedness". The effects of the events on the items of our combined statement of financial position are described in more detail below:

The adjustment of Cash and cash equivalents from €1.67 billion by €1.65 billion to €24.4 million is attributable to the cash portion of €4.30 billion of the profit distribution by the Company to O2 (Europe) Limited in a total amount of €7.19 billion. Furthermore, OHG refinanced this cash portion of €4.3 billion by the receipt of dividend payments by OHG from TGS of €550.8 million and TGR of €146.4 million in September 2012 and the disbursement of the loans from TGB.V. in the amounts of €1.25 billion and €703.0 million. The loan granted by TGB.V. in the amount of €703.0 million was repaid on October 1, 2012 using the proceeds from the sale of all shares in Telefónica Global Activities Holdings B.V. through which we held all shares in our former subsidiaries, G3G, Quam, and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its 40% interest in Adquira España S.A. The dividend distributions of profits from G3G and Quam are already reflected in the historical financial information as of August 31, 2012.

The adjustment of Current Financial Receivables from €2.89 billion by €2.89 billion to €0 is due to the fact that parts of the profit distribution payable by the Company to O2 (Europe) Limited in the amount of €7.2 billion was set–off against an existing capital promise of €2.89 billion.

The adjustment of Equity from €12.0 billion by €5.8 billion to €6.2 billion is attributable to the effect of the distribution of profit by the Company to O2 (Europe) Limited in a total amount of €7.2 billion. This decrease is partly offset by the distribution of profits by TGS (€550.8 million) and TGR (€146.4 million) to OHG as well as the proceeds in the amount of €703.0 million in connection with the sale of all shares in Telefónica Global Activities Holdings B.V. through which we held all shares in our former subsidiaries, G3G, Quam, and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its 40% interest in Adquira España S.A.

The adjustment of Other Non–Current Loans or Total Non–Current Liabilities is attributable to the long–term portion in the amount of €1 billion of the loan granted by TGB.V. to the Company in the total amount of €1.25 billion.

The adjustment of Current Portion of Non–Current Debt or Total Current Liabilities is attributable to the short–term portion in the amount of €250.0 million of the loan granted by TGB.V. to the Company in the total amount of €1.25 billion.

INDIRECT, CONTINGENT INDEBTEDNESS AND OTHER FINANCIAL COMMITMENTS

As of August 31, 2012 we did not have material indirect or contingent liabilities.

STATEMENT OF WORKING CAPITAL

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

NO SIGNIFICANT CHANGE

Except for the recent distribution of profits, the dividend payment to us of some of the entities recently carved–out from our group (see "*General Information on the Company – Recent Corporate Developments*") and the loans granted to us by TGB.V. prior to the Offering (see "*Related Party Transactions – General; Dependence Report – Financing Agreement*"), there have been no significant changes in our financial or trading position between June 30, 2012 and the date of this Prospectus.

SELECTED COMBINED FINANCIAL AND OTHER INFORMATION

The following tables set forth our combined income statement, combined statement of financial position, combined statement of cash flows and certain other operational and financial data for the periods indicated. Our combined financial information presented as of and for the years ended December 31, 2011, 2010 and 2009 set forth below was derived from our audited combined financial statements for the years ended December 31, 2011, 2010 and 2009 prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS") taking into account the basis of preparation as set out in Note 1 to the combined financial statements and included elsewhere in this Prospectus. Our combined financial information presented as of June 30, 2012 and for the six months ended June 30, 2012 and 2011 set forth below was derived from our unaudited interim condensed combined financial statements as of and for the six months ended June 30, 2012 prepared in accordance with IFRS on interim financial reporting (IAS 34) taking into account the basis of preparation as set out in Note 1 and the presentation of the interim condensed combined financial statements as set out in Note 2 to the unaudited interim condensed combined financial statements and included elsewhere in this Prospectus. Operating results for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2012. The following tables also include certain operational data on a combined basis for the periods indicated. This operational data has been derived from management estimates, is not part of our financial statements or financial reporting systems, and has not been audited.

Our combined financial statements as of and for the years ended December 31, 2011, 2010 and 2009 and as of and for the six months ended June 30, 2012 were prepared for the purpose of this Offering. The combined financial statements include the assets and liabilities, expenses and income and cash flows of those direct and indirect subsidiaries and proportionately of this joint venture of the Company for the years ended December 31, 2011, 2010 and 2009 and for the six months ended June 30, 2012 and June 30, 2011, which are still subsidiaries and joint venture of the Company at the date of this Prospectus. "Net assets attributable to Telefónica Germany Group" contain the share capital, capital reserves and retained earnings of the Company and Telefónica Germany Management GmbH. For the other companies within the Telefónica Germany Group the carrying amount of the investment in each subsidiary held by the Company and Telefónica Germany Management GmbH and their portion of net equity of each subsidiary are consolidated. The entities TGS, TGR, Telefónica Compras Electronicas S.L., Adquira España S.A., G3G and Quam were subsidiaries or associate of the Company during the years ended December 31, 2011, 2010 and part of 2009 as well as the first six months of 2012, but they recently ceased to be members of our group due to the reorganization of our group prior to the Offering. For purposes of the combined financial statements, these entities have not been consolidated. For more information about the combined financial statements and the basis of their preparation, see Note 1 to our audited combined financial statements on page F–21 et seq. and Note 1 and Note 2 to our unaudited interim condensed combined financial statements on page F–8.

Where financial information in the following tables is labeled "audited", this means that it was taken or derived from our audited combined financial statements as of and for the years ended December 31, 2011, 2010 and 2009. The label "unaudited" is used in the following tables to indicate financial information that was taken or derived from our unaudited interim condensed combined financial statements as of and for the six months ended June 30, 2012 as well as from our accounting records or internal management reporting systems.

The following figures were subject to rounding adjustments that were carried out according to established commercial standards. As a result, the figures stated in a table may not exactly add up to the total values that may also be stated in the table.

COMBINED INCOME STATEMENT AND OTHER COMBINED FINANCIAL INFORMATION

The table below sets forth our combined income statement and other combined financial information for the years ended December 31, 2011, 2010 and 2009 and for the six months ended June 30, 2012 and 2011:

	For the year ended December 31,			For the six months ended June 30,	
	2011	**2010**	**2009**	**2012**	**2011**
	(in € thousands, unless otherwise indicated)				
	(audited, unless otherwise indicated)			*(unaudited)*	
Revenues:	**5,035,552**	**4,826,278**	**3,745,540**	**2,553,798**	**2,439,754**
Wireless Business	3,605,747	3,411,930	3,187,263	1,854,450	1,718,789
Wireless Service Revenues[1]	2,946,465	2,932,288	2,860,577	1,547,602	1,412,678
Handset Revenues	659,282	479,642	326,685	306,848	306,111
Wireline Business	1,425,740	1,411,861	558,277	697,325	719,056
Other	4,065	2,487	–	2,023	1,908
Other Income	60,991	88,859	92,102	30,278	31,938
Supplies	(2,047,139)	(1,906,492)	(1,360,254)	(1,025,602)	(975,970)
Personnel Expenses	(437,756)	(611,353)	(395,831)	(226,210)	(224,408)
Other Expenses[2]	(1,462,411)	(1,504,615)	(1,190,075)	(735,115)	(739,568)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)[3, 4]	**1,149,237**	**892,677**	**891,482**	**597,149**	**531,746**
Depreciation and Amortization	(1,082,189)	(988,165)	(922,872)	(547,748)	(509,675)
OPERATING RESULT	**67,048**	**(95,488)**	**(31,390)**	**49,401**	**22,071**
Finance Income	14,271	8,686	4,152	9,826	5,889
Exchange Gains	707	348	212	324	586
Finance Expenses	(8,389)	(9,931)	(5,424)	(4,602)	(4,058)
Exchange Losses	(559)	(870)	(1,286)	(1,090)	(323)
Net Financial Result	**6,030**	**(1,767)**	**(2,346)**	**4,458**	**2,094**
RESULT BEFORE TAX	**73,078**	**(97,255)**	**(33,736)**	**53,859**	**24,165**
Income Tax	(1,732)	(5,277)	152	1,283	(1,577)
RESULT FOR THE YEAR/PERIOD	**71,346**	**(102,532)**	**(33,584)**	**55,142**	**22,588**
Reconciliation from Operating Result to Operating Income before Depreciation and Amortization (OIBDA) and before Group Fees and OIBDA before Group Fees margin[3]					
OPERATING RESULT	**67,048**	**(95,488)**	**(31,390)**	**49,401**	**22,071**
Depreciation and Amortization	(1,082,189)	(988,165)	(922,872)	(547,748)	(509,675)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)[4]	**1,149,237**	**892,677**	**891,482**	**597,149**	**531,746**
Group Fees (unaudited)	70,232	52,205	26,928	31,528	26,138
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA) AND BEFORE GROUP FEES (unaudited)[3]	**1,219,469**	**944,882**	**918,410**	**628,677**	**557,884**
Revenues	5,035,552	4,826,278	3,745,540	2,553,798	2,439,754
OIBDA margin[5] (unaudited)	**22.8%**	**18.5%**	**23.8%**	**23.4%**	**21.8%**
OIBDA before Group Fees margin[5] (unaudited)	**24.2%**	**19.6%**	**24.5%**	**24.6%**	**22.9%**

[1] Excluding the effect of substantial decreases in voice mobile termination rates ("**MTR**") over the periods, the growth in Wireless Service Revenues year–on–year would have been 7.1%, 3.8% and 1.6% for the year ended December 31, 2011, 2010 and 2009, respectively, and 9.6% and 6.1% for the six months ended June 30, 2012 and 2011, respectively, which are higher growth rates than the reported growth rates. The adjustment for decreases in voice MTR has been calculated, on a month–by–month basis, by assuming that, where the voice MTR has fallen from one period to the next, the higher voice MTR applies in both periods. For example, the effect of the reduction of voice MTR from €0.088 to €0.0714 as of March 31, 2009 on the comparison of the years ended December 31, 2010 and 2009 was eliminated by assuming a voice MTR of €0.088 for the first three months of 2010. The effect of the further reduction of voice MTR from €0.0714 to €0.0339 as of December 1, 2010 on the comparison of the years 2010 and 2011 was eliminated by assuming a voice MTR of €0.0714 for the first 11 months of 2011.

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

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

[4] OIBDA as reported in our combined financial statements contains the Group Fees as described in footnote 2 above and certain restructuring charges of €202 million recognized in 2010, and a €9 million restructuring charge recorded in 2009.

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

COMBINED STATEMENT OF FINANCIAL POSITION

The table below sets forth our combined statement of financial position as of December 31, 2011, 2010 and 2009 and as of June 30, 2012:

	As at December 31,			As at June 30,
	2011	**2010**	**2009**	**2012**
	(in € thousands)			
	(audited)			*(unaudited)*
ASSETS				
A) NON–CURRENT ASSETS	**7,900,175**	**8,427,878**	**6,248,527**	**7,624,600**
Goodwill	705,576	705,576	423,081	705,576
Intangible assets	3,658,137	3,956,504	2,510,684	3,465,076
Property, plant and equipment	3,118,869	3,347,953	2,895,662	3,035,073
Other non–current financial assets	5,560	5,335	6,412	5,559
Deferred tax assets	412,033	412,510	412,688	413,316
B) CURRENT ASSETS	**5,115,173**	**4,443,290**	**3,911,730**	**5,628,944**
Inventories	70,429	84,318	72,909	84,079
Trade and other receivables	1,010,279	1,284,110	914,967	1,359,877
Other current financial assets	2,885,897	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	1,148,568	188,965	37,957	1,299,091
TOTAL ASSETS (A+B)	**13,015,348**	**12,871,168**	**10,160,257**	**13,253,544**

	As at December 31,			As at June 30,
	2011	**2010**	**2009**	**2012**
	(in € thousands)			
	(audited)			*(unaudited)*
EQUITY AND LIABILITIES				
A) EQUITY	**11,756,290**	**11,421,311**	**9,221,577**	**11,811,795**
Net assets attributable to Telefónica Germany Group	11,754,945	11,420,119	9,219,652	11,810,450
Other components of equity	1,345	1,192	1,925	1,345
Total equity attributable to Telefónica Germany Group	11,756,290	11,421,311	9,221,577	11,811,795
B) NON–CURRENT LIABILITIES	**75,289**	**122,621**	**49,618**	**85,041**
Other payables	6,342	5,846	6,301	6,764
Non–current provisions	68,947	116,775	43,317	78,277
C) CURRENT LIABILITIES	**1,183,769**	**1,327,236**	**889,062**	**1,356,708**
Trade payables	785,580	811,936	599,309	992,606
Other payables	186,714	195,951	192,846	188,731
Current provisions	41,609	182,429	–	21,521
Deferred income	169,866	136,920	96,907	153,850
TOTAL EQUITY AND LIABILITIES (A+B+C)	**13,015,348**	**12,871,168**	**10,160,257**	**13,253,544**

COMBINED STATEMENT OF CASH FLOWS

The table below sets forth our combined statement of cash flows for the years ended December 31, 2011, 2010 and 2009 and for the six months ended June 30, 2012 and 2011:

	For the year ended December 31,			For the six months ended June 30,	
	2011	2010	2009	2012	2011
	(in € thousands)				
	(audited)			*(unaudited)*	
Result for the Year/Period	**71,346**	**(102,532)**	**(33,584)**	**55,142**	**22,588**
Adjustments to Result					
Net Finance Result	(5,882)	1,245	1,272	(5,224)	(1,831)
Losses on Disposal of Assets	(272)	(1,385)	(537)	(4)	(258)
Net Income Tax Result	1,732	5,277	(152)	(1,283)	1,577
Depreciation and Amortization	1,082,189	988,165	922,872	547,748	509,675
Change in Working Capital					
Trade and Other Receivables	273,831	(253,630)	(215,496)	(349,598)	15,550
Inventories	13,889	(752)	7,508	(13,650)	4,319
Other Current Assets	(3,831)	(4,965)	(807)	2,432	(2,576)
Trade and Other Payables	(41,707)	(1,746)	44,051	163,922	(135,060)
Other Current Liabilities and Provisions	(107,874)	105,660	7,218	(36,104)	(89,339)
Other Non–Current Assets and Liabilities	(51,983)	30,858	(417)	9,331	(27,320)
Interest received	11,065	5,522	1,751	7,430	4,671
Interest paid	(1,351)	(1,802)	(2,217)	(4,639)	(264)
Cash Flow from Operating Activities	**1,241,152**	**769,915**	**731,462**	**375,503**	**301,732**
Proceeds on Disposals of Property, Plant and Equipment and Intangible Assets	3,185	2,960	1,845	4	2,959
Payments on Investments in Property, Plant and Equipment and Intangible Assets	(547,289)	(2,088,798)	(819,114)	(223,343)	(325,041)
Payments on Investments in Companies, Net of Cash and Cash Equivalents Acquired	–	(844,060)	–	–	–
Cash Flow from Investing Activities	**(544,104)**	**(2,929,898)**	**(817,269)**	**(223,339)**	**(322,082)**
Proceeds from Equity	289,207	2,590,695	–	363	(502)
Repayment of Equity	(22,900)	(277,633)	(962)	–	–
Repayment of Borrowing/Debt	(3,752)	(2,071)	(2,520)	(2,003)	(1,854)
Cash Flow from Financing Activities	**262,555**	**2,310,991**	**(3,482)**	**(1,640)**	**(2,356)**
Net Increase (Decrease) in Cash and Cash Equivalents	**959,603**	**151,008**	**(89,289)**	**150,523**	**(22,706)**
Cash and Cash Equivalents at Beginning of Period	**188,965**	**37,957**	**127,246**	**1,148,568**	**188,965**
Cash and Cash Equivalents at End of Period	**1,148,568**	**188,965**	**37,957**	**1,299,091**	**166,259**

SELECTED OPERATIONAL INFORMATION

The table below sets forth certain information relating to selected operational information for the years ended December 31, 2011, 2010 and 2009 and for the six months ended June 30, 2012 and 2011:

	For the year ended December 31,			For the six months ended June 30,	
	2011	2010	2009	2012	2011
	(accesses in thousands, except as otherwise indicated)				
	(unaudited)				
Mobile Accesses:					
Post–paid	9,235.7	8,254.0	7,700.4	9,718.1	8,712.8
Pre–paid	9,144.5	8,795.2	7,807.0	9,116.1	9,035.1
Total	**18,380.1**	**17,049.2**	**15,507.4**	**18,834.2**	**17,748.0**
Fixed Accesses:					
Retail DSL	2,587.7	2,529.1	285.1	2,491.1	2,620.4
Wholesale ULL	1,042.4	1,116.5	1,316.8	1,088.8	1,118.2
Fixed Telephony	2,055.1	1,916.4	–	2,352.5	2,044.8
Narrowband and other	417.9	462.8	–	392.4	436.3
Total	**6,103.1**	**6,024.8**	**1,601.9**	**6,324.8**	**6,219.8**
Mobile ARPU (in €):					
Blended	13.6	14.8	15.6	13.7	13.4
Post–paid	21.9	23.8	26.1	21.6	21.5
Pre–paid	5.7	6.1	5.7	5.4	5.6
Data	5.6	5.0	4.7	6.1	5.4
Non–SMS over Data Revenues (%)	50.4	41.8	36.7	54.4	48.9
Data Contribution to blended ARPU (%)	41.3	33.6	29.9	44.5	40.7
Blended churn (%)	2.2	2.1	2.3	2.2	2.2
Post–paid churn (%)	1.7	1.8	1.8	1.5	1.7

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the results of our operations and financial condition based on our audited combined financial statements as of and for the years ended December 31, 2011, 2010 and 2009, prepared in accordance with IFRS taking into account the basis of preparation as set out in Note 1 to the combined financial statements, and our unaudited interim condensed combined financial statements as of and for the six months ended June 30, 2012, prepared in accordance with IFRS on interim financial reporting (IAS 34) taking into account the basis of preparation as set out in Note 1 and the presentation of the interim condensed combined financial statements as set out in Note 2 to the unaudited interim condensed combined financial statements.

Our combined financial statements as of and for the years ended December 31, 2011, 2010 and 2009 and as of and for the six months ended June 30, 2012 were prepared for the purpose of this Offering. The combined financial statements include the assets and liabilities, expenses and income and cash flows of those direct and indirect subsidiaries and proportionately of this joint venture of the Company for the years ended December 31, 2011, 2010 and 2009 and for the six months ended June 30, 2012 and 2011, which are still subsidiaries and joint venture of the Company at the date of this Prospectus. "Net assets attributable to Telefónica Germany Group" contain the share capital, capital reserves and retained earnings of the Company and Telefónica Germany Management GmbH. For the other companies within the Telefónica Germany Group the carrying amount of the investment in each subsidiary held by the Company and Telefónica Germany Management GmbH and their portion of net equity of each subsidiary are consolidated. The entities TGS, TGR, Telefónica Compras Electronicas S.L., Adquira España S.A., G3G and Quam were subsidiaries or associate of the Company during the years ended December 31, 2011, 2010 and part of 2009 as well as the first six months of 2012, but they recently ceased to be members of our group due to the reorganization of our group prior to the Offering (see "General Information on the Company – Recent Corporate Developments"). For purposes of the combined financial statements, these entities have not been consolidated. For more information about the combined financial statements and the basis of their preparation, see Note 1 to our audited combined financial statements on page F–21 et seq. and Note 1 and Note 2 to our unaudited interim condensed combined financial statements on page F–8.

Where financial information in tables is labeled "audited", this means that it was taken or derived from our audited combined financial statements as of and for the years ended December 31, 2011, 2010 and 2009. The label "unaudited" is used in tables to indicate financial information that was taken or derived from our unaudited interim condensed combined financial statements as of and for the six months ended June 30, 2012 as well as from the Company's accounting records or internal management reporting systems.

You should read this discussion in conjunction with the combined financial statements and the accompanying notes included elsewhere in the Prospectus. A summary of the critical accounting policies that have been applied to our combined financial statements is set forth below in "–Critical Accounting Policies." You should also review the information in the section "–Presentation of Financial Information."

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

It should be noted that amounts in the discussion below have been rounded.

OVERVIEW

We are the fastest–growing integrated telecoms network operator (based on 2011 mobile service revenues and OIBDA) and the third largest telecommunications services provider in Germany (based on 2011 revenues), serving approximately 25 million customer accesses as of June 30, 2012. We offer mobile and fixed–line services providing voice, data and value–added services to consumer and business customers. In addition, we are one of the leading wholesale providers in Germany, offering access to our infrastructure and service capabilities to our wholesale partners. We are part of the Telefónica Group, one of the world's largest telecommunications companies.

We operate a nationwide mobile network with GSM coverage exceeding 99% of the German population, and a nationwide fixed–line network with DSL access coverage to approximately 67% of German households. Our mobile network operates on the technology standards GSM or 2G, UMTS or 3G, and, more recently, LTE or 4G.

We market our products under a multi–brand strategy, offering the majority of our post–paid and pre–paid mobile and fixed–line products and services through our core premium O_2 brand. We access additional customer groups through our secondary and partner brands as well as our wholesale channels. Secondary brands are fully–controlled brands, such as FONIC and netzclub or brands held through joint–ventures and strategic partnerships, such as Tchibo mobil and Türk Telekom Mobile. We market high–speed Internet access and fixed–line telephony via DSL (under the standards ADSL2+ and VDSL). In our wholesale service business, we offer mobile and fixed–line services to customers, such as 1&1, mobilcom/debitel, Drillisch and the two major German cable operators.

We target our small and home office ("**SoHos**"), small and medium–sized enterprise ("**SMEs**") customers, and large, national companies through our O_2 brand and multinational corporations with our Telefónica Multinational Solutions offering.

We also provide wholesale mobile, fixed–network and value–added services in Germany and our financial position and results of operations are materially impacted by the revenues we receive from our wholesale arrangements. We have experienced strong growth in our sales to businesses, primarily in SoHos and SMEs, with new services delivering additional benefits to our customers. This strong top–line growth has been achieved despite the impact of declining voice mobile termination rates ("**MTR**").

We offer our products through a diversified distribution platform, including both direct sales channels (comprising our nationwide network of self–operated and franchised O_2 shops and premium partner shops, online and telesales) and indirect sales channels (such as retail/e–retail partnerships and dealers/cooperations).

One of our strategic aims is to cross–sell products and services to customers who currently use only mobile or fixed–line services, because this increases our share in customers' spending and we believe that it also reduces our risk of churn. In addition, cross–selling allows for the acquisition of new accesses at comparatively low customer acquisition costs. To exploit the cross–selling potential in our customer base, we offer discounts to customers who purchase both mobile and fixed–line services.

For the year ended December 31, 2011, we generated Revenues of €5.0 billion and OIBDA of €1.1 billion corresponding to a year–on–year increase from the year ended December 31, 2010 of 4.3% and 28.7%, respectively. During that period, Wireless Service Revenues, Handset Revenues and Wireline Business Revenues comprised 58.5%, 13.1% and 28.3% of our total Revenues, respectively. Between 2009 and 2011, our Revenues increased at a compound annual growth rate of 15.9%. We also improved our share in the German mobile services market from 14.5% in 2009 to 14.9% in 2010 and 15.0% in 2011 based on our own published customer data and customer data published by the three other mobile network operators in Germany.

Consumer

We offer O_2 branded mobile services on both a post–paid and pre–paid basis to our customers. Under the O_2 brand, we sell mainly mobile voice, messaging and data services and bundled tariffs (where such bundles include mobile and fixed–line service offerings) to customers on a post–paid and pre–paid basis. On a post–paid basis, customers can choose between a contract with a fixed term of 24 months and a contract without a fixed duration. A multi–card option allows our customers to use three SIM cards with identical Mobile Subscriber ISDN Number ("**MSISDN**") under one contract. Customers can choose between a variety of tariffs, providing for different base fees and prices per service unit combined with different flat fees and capped amounts for mobile voice, messaging and/or mobile data services. In recent years, we have placed a strong strategic emphasis on selling mobile post–paid services marketed under the O_2 brand to smartphone users. We believe that smartphone customers typically are young and technologically savvy who produce above–average revenues through extensive usage of mobile services on the go. Through our "O_2 My Handy" model launched in May 2009, we sell handsets and other hardware to our customers for a fixed price either for the immediate payment of the total purchase price or for an up–front payment of part of the total purchase price and 12 or 24 subsequent monthly installments.

Mobile services under our secondary brands are also generally offered on a post–paid and pre–paid basis to our customers, although we primarily sell pre–paid mobile voice and messaging services under our secondary brands and, to a lesser extent, post–paid tariffs, mobile data services and bundled tariffs.

We also offer fixed–line telephony and high–speed Internet access via DSL to our customers. DSL is offered under the ADSL2+ and VDSL standards. To a limited extent, we still operate a legacy of narrowband accesses. Customers of our fixed–line services have access to value–added services, such as security solutions, video on demand and Internet data storage capacity. The majority of our fixed–line DSL and narrowband customers have resulted from the acquisition of HanseNet Telekommunikation GmbH ("**HanseNet**"), which included more than 2.1 million DSL accesses, 1.8 million fixed–line telephony accesses and 0.4 million narrowband accesses. Many of our current fixed–line accesses are still operating under the former HanseNet brand Alice; however, we have stopped promoting Alice and are in the process of transitioning these accesses to the O_2 brand. Fixed–line customers have the option to choose a tariff that includes mobile data services, which we actively promote to our fixed–line customers as part of our convergence strategy.

Business

We target the entire range of business customers from SoHos and SMEs to large national and international corporate customers. We offer our mobile and fixed–line products and services to SoHos and SMEs through the O_2 brand, and we leverage the Telefónica Group for larger business customers (see "*Business – Brands and Marketing*"). We are committed to differentiating ourselves from competitors through our distinct customer service approach and our high flexibility in tailoring solutions to individual needs.

We tailor our range of products and services to the types of business customers that use them. SoHos and SMEs are addressed with standardized mobile and fixed–line services and tariffs based on a discount scheme, including bundled benefits, depending on the number of accesses per customer. To large companies and global corporations, we offer tailored integrated solutions combining mobile and fixed–line services and wide area networks. We also market innovative M2M–telemetry solutions (e.g., for vending machines, fleet and facility management) to our business customers (see "*Business – Products and Services – Digital Innovations*").

As of June 30, 2012, more than 90% of our business customers were SoHos and SMEs, but our business customers also include larger corporations, such as Adecco Personaldienstleister, MTU Aero Engines, Seidensticker and Zalando.

Wholesale

We offer an extensive portfolio of mobile, fixed–line and value–added services to our wholesale partners. As of June 30, 2012, we had approximately 2.0 million mobile accesses and approximately 1.1 million fixed–line accesses in our wholesale business area (including accesses where the service contract is between the end–user and the wholesale partner).

Depending on the type of cooperation with our wholesale partners, we provide either: (i) mobile voice, messaging and data services to the end–user under a services contract between the end–user and us; or (ii) access to our mobile network and infrastructure (including the use of roaming arrangements and the termination of voice, data traffic and messages) to the wholesale partner to enable it to service the end–user. The service level agreed with our wholesale partners may also include additional services, such as billing, mediation, customer service, collection of the consumption data, handset management, SIM card logistics and reservation of phone numbers contingents. Depending on the agreed level of our involvement, wholesale partners either resell our existing tariffs, market jointly–developed individual tariffs or use their own tariffs.

To our fixed–line wholesale partners we provide ULL services, including fixed–line telephony and high–speed Internet access. In addition, we provide voice termination services to other network operators. The wholesale partner can also receive further services, such as billing, mediation, customer service, collection of consumption data, management of phone numbers and SIP accounts. All fixed–line accesses in the "Wholesale" business area are governed by service contracts directly between the wholesale partner and the end–user.

We provide our wholesale partners with a choice of value–added services with end–to–end solutions based on our infrastructure, such as Premium Voice and Data (mainly used for televoting) or Bulk SMS–services (dissemination of large numbers of SMS) into our wholesale partners' customer base.

COMPARABILITY OF FINANCIAL DATA

O_2 My Handy Model

Through our "O_2 My Handy" model launched in May 2009, we sell handsets and other hardware to our customers for a fixed price either for the immediate payment of the total purchase price or for an up–front payment of part of the total purchase price and 12 or 24 subsequent monthly installments. The model is increasingly popular, with 98% of total handsets sold under "O_2 My Handy" during the six months ended June 30, 2012. Through "O_2 My Handy" we separate the sale of handsets from the sale of services and do not allocate handset revenues to Wireless Service Revenues. This shift from Wireless Service Revenues to Handset Revenues impacts a variety of our financial measures, including ARPU. Due to the fact that most of our competitors continue to subsidize handsets, it is difficult to compare our results with theirs, including our revenues from mobile services and mobile hardware, working capital requirements and exposure to handset prices. Our Handset Revenues have increased significantly during the years ended December 31, 2011, 2010 and 2009 and we target them to continue to grow in the short term.

In connection with the "O_2 My Handy" monthly payments, we started in 2011 putting in place factoring agreements with certain financial institutions for the sale of the associated accounts receivable to provide support to our working capital. Thus, we receive immediate payment from "O_2 My Handy" contracts upon entering into a factoring agreement with the financial institutions for those receivables. We entered into our first factoring arrangement in November 2011 with a net cash contribution of €228 million for 2011, we entered into our second such arrangement in March 2012 with a planned net cash contribution of €37 million for 2012 and we entered into our third such arrangement in September 2012 with a planned net cash contribution of €137 million for 2012. We plan on entering into additional factoring arrangements from time to time; however, should we be unable to enter into such arrangements with factoring partners, this may have a significant impact on our working capital and cash flow position.

Acquisition of HanseNet

On February 16, 2010, we completed the acquisition of all shares in Hamburg–based HanseNet from Telecom Italia S.p.A. (and several of its affiliates). HanseNet was a telecommunications services provider offering fixed–line telephony, Internet access, mobile and IPTV network services in Germany mainly under the trademark Alice. At the time of the acquisition, HanseNet had more than 2.1 million DSL accesses, 1.8 million fixed telephony accesses and 0.4 million narrowband accesses, as well as annual revenues of more than €1 billion in 2009. The purchase price in the acquisition agreement was based on an enterprise value of €900 million net of debt and cash. Upon the acquisition of the shareholding, the purchase price was allocated to the assets acquired and the liabilities and the contingent liabilities assumed using generally accepted valuation methods for each type of asset and/or liability based on the best available information (see "*– Cost Management Program*" below and "*– Reorganization of Our Group*").

As of February 16, 2010, the operations of HanseNet have been included in our combined financial statements using the full consolidation method. Thus, our combined financial statements do not include HanseNet's operations as of and for the year ended December 31, 2009, and its results are only included in our combined financial statements for the period after February 16, 2010. HanseNet was merged into our subsidiary OHG in 2011. The contributions to our Revenues and OIBDA of the HanseNet operations for the period from February 16, 2010 to December 31, 2010 amounted to €783 million and €77 million, respectively.

There were no other business combinations or acquisitions in the years 2011, 2010 and 2009, or during the first half of 2012.

Cost Management Program

After the acquisition of HanseNet, we undertook a cost management program to maximize the efficiency of the organization and to streamline the integration of HanseNet into our business. This cost management program resulted in the redundancy of around 900 employees, and the closure of seven facilities during 2011. Our average headcount (full–time equivalent) was 5,315, 6,280 and 4,900 in 2011, 2010 and 2009 respectively, and was 5,001 during the first six months of 2012. Further cost management initiatives include efficiency improvements in the network and in our IT infrastructure, as well as examining and revising our travel guidelines and other administrative policies and budgets. In connection with this program, we recognized €202 million of restructuring costs in the third quarter of 2010.

Reorganization of Our Group

As part of the reorganization of our group in preparation for this Offering, we sold and transferred to TGB.V. on September 27, 2012 with effect of October 1, 2012, 0.00 a.m. all shares in Telefónica Global Activities Holdings B.V. through which we held all shares in our former subsidiaries, G3G, Quam, and TGS, together with TGS's subsidiaries TGR, Telefónica Compras Electronicas S.L. and its 40% interest in Adquira España S.A. The agreed purchase price amounted to €703 million which was used to repay the loan in the amount of €703 million granted by TGB.V. on September 12, 2012 (see "*General Information on the Company – Recent Corporate Developments*"). The assets and liabilities, results and cash flows of these former subsidiaries are not included in our combined financial statements.

KEY FACTORS AFFECTING PERFORMANCE AND RESULTS OF OPERATIONS

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

General Economic Conditions

As the global financial crisis spread to non–financial sectors of the world economy, economies worldwide have shown significant signs of weakness. Many European countries have experienced an economic slowdown, which has included a general contraction in consumer spending resulting from, among other factors, reduced consumer confidence, falling gross domestic product, rising unemployment rates and uncertainty in the macroeconomic environment. The telecommunications sector has been comparably less affected by the current global financial and economic crisis. In addition, the German economy has demonstrated itself to be relatively robust through the recent economic crisis as compared to other European economies.

Germany is one of Europe's largest telecommunications markets, with revenues from telecommunications services reaching €47.9 billion in 2011. (*Source: Yankee Group Research.*) In addition, the telecommunications regulatory environment in Germany is relatively stable and predictable.

If there is a change in the German economy that impacts the telecommunications market, consumers may spend less on an incremental basis, such as by placing fewer calls. In addition, challenging economic conditions may continue to weigh on the growth prospects in the German telecommunications market in terms of penetration of new value–added services and traffic, ARPU and number of subscribers and, in particular, the volume of business subscribers.

Major Factors Impacting Our Business

Multi–branding

We follow a multi–brand strategy which enables us to target a broad range of consumers and maximize our sales reach. The positioning and marketing approach of each brand is tailored to the target consumer group and follows our international branding guidelines. O_2 is our premium brand through which we market the full scope of our pre–paid and post–paid mobile and fixed–line products and services. Our secondary brands include: FONIC for cost–conscious customers who use basic mobile services only and do not require extensive customer service; the Tchibo mobil brand is aimed at visitors of points of sales operated by Tchibo; Türk Telekom Mobile for the large Turkish community in Germany; and the netzclub brand is targeted to users of social media. In connection with the acquisition of HanseNet, we acquired the right to use the brand Alice until February 15, 2013 (see "*General Information – Group Structure*" and "*General Information – Recent Corporate Developments*"). Many of our existing fixed–line accesses still operate under the Alice brand, but we have stopped using it and are in the process of transitioning the existing accesses operated under the Alice brand to the O_2 brand. The brands of wholesale partners, such as 1&1 and mobilcom/debitel, and the brands of the cable operators Unitymedia/KabelBW and Kabel Deutschland are positioned and marketed by these partners.

Wholesale Partners

We offer an extensive portfolio of mobile, fixed–line and value–added services to our wholesale partners. We believe that there is potential for further growth in the Service Provider market in Germany. However, the decline in market share of Service Providers is expected to result in increased competition and put downward pressure on prices.

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

As of June 30, 2012, we had approximately 2.0 million mobile accesses in our wholesale business and approximately 1.1 million fixed–line accesses in our wholesale business. The reason for the decline in recent years of the number of fixed–line wholesale business accesses is the internalization of the former HanseNet lines in 2010 and a disconnection of inactive lines in the last quarter of 2011. We expect the DSL–infrastructure to remain the dominant technology in the market, however, the increasing popularity of cable technology in urban areas might have an impact on our wholesale results.

Tariffs

We continually introduce innovative tariffs to tailor our pricing to existing and emerging trends in customer behavior. Such trends include the uptake of tiered data tariffs and customers switching to higher bandwidth tariffs. Tariff pricing for products and services offered to customers in the telecommunications markets in Germany has decreased in recent years, especially in mobile and fixed–line voice markets and the fixed–line Internet business, partially driven by significant cuts in voice MTRs. Further voice MTR cuts, increasing competitive pressure in these markets and technological progress may cause prices for telecommunications services and broadband Internet to continue to decline.

Convergence

We focus on converged mobile and fixed–line service bundles in order to increase our share in customer spending, reduce mobile churn and reduce subscriber acquisition costs. We anticipate greater demand for converged product offerings from our customers, and we therefore plan to continue to attract customers by maximizing the potential of our compelling bundled offerings. We have many customers with only a single product or service from our range of offerings, which we believe presents us with a significant opportunity to target those customers and to cross–sell to them our other products and services. In addition, our data shows that converged customers have significantly lower churn rates. We believe that our convergence strategy will allow us to protect our growth in mobile services, extract additional value from existing customers, lower our acquisition costs and reduce churn.

Network Upgrade

We have significantly invested in our network which we believe will enable us to capture the anticipated growth in mobile data services. With the growing penetration of smartphones and an increasing demand for data services, upgrading and maintaining our network is critical to the provision of our services to our customers. Our mobile network consists of more than 20,000 physical sites with GSM, UMTS and/or LTE base stations. The current network population coverage is 99% for mobile voice and 98% for mobile data services. The perception of our network quality is an important factor for us to be able to retain our subscribers, and therefore is a driver of our churn. The quality of our network represents a key element in our ability to maintain our subscriber base and attract new customers.

Our recent investment in the LTE next–generation mobile 4G network and the acquisition of the 4G spectrum license has had a direct impact on the level of our expenses and the capital expenditures we have incurred each year. We began the rollout of LTE across our network in 2011 and launched its capabilities to our customers.

In 2009 and 2010, we further expanded our operations with the acquisition of HanseNet, Telecom Italia's German broadband unit, which offered telephony and Internet services through its fixed–line network. We completed the integration of HanseNet into our network in 2011.

Taxation

As of December 31, 2011, OHG had trade tax losses carried forward in the amount of €11.0 billion. As OHG is a limited partnership, it itself is not subject to corporate income tax. Only its partners are subject to corporate income tax. As of December 31, 2011, corporate income tax losses carried forward in the amount of €11.0 billion were attributed to the Company and Telefónica Germany Management GmbH as partners of OHG as of December 31, 2011 due to the transparency of an OHG as limited partnership for income tax purposes. For these trade and corporate income tax losses carried forward no deferred tax assets have been recognized in our combined financial statements. The deferred tax assets/liabilities only include temporary differences.

The income statement differences between the IFRS profit (profit before tax) and the taxable profit (under German tax accounting provisions) in respect of the amortization of our UMTS license and goodwill amount to approximately €780 million *per annum* up to 2015 and decrease to approximately €320 million *per annum* thereafter until 2020. The impact of these income statement differences is that the taxable profit will be lower than the IFRS profit and we expect not to have to pay income and trade taxes before the year starting January 1, 2016.

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

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

Seasonality

Our business is not significantly affected by seasonal trends as the introduction of the "O_2 My Handy" model led to broadly stable acquisition costs quarter on quarter, and the overall market development in general has also led to broadly stable trading quarter on quarter.

Key Factors Affecting Wireless Service Revenues

General

Our Wireless Service Revenues are affected by, among other factors, our customer base as measured by accesses and the traffic on our network as determined by customer usage. Our subscriber base is driven by market dynamics (including demographics, technical innovation and changing customer behavior), gross connections (our ability to capture new subscribers), market share and our churn rate (our ability to retain existing customers, see: "– *Churn*"). Our Wireless Service Revenues are also driven by ARPU, or average revenue per user. Key performance indicators show particularly strong momentum in the number of mobile accesses, with a continuing trend towards a more favorable post–paid subscriber mix, and a steady increase in the portion of revenues from mobile data services. The rise in use of data services is linked to the growth in popularity of smartphones and mobile computing devices, such as tablets. Additionally, increased mobile broadband penetration and the uptake of tiered data tariffs have influenced our Wireless Service Revenues, in particular ARPU. Wireless Service Revenues are also affected by macro–economic trends, such as competition–driven price evolution and general macro–economic conditions.

Subscriber Base

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

Our mobile accesses increased significantly in the year ended December 31, 2009, when we added 1.3 million accesses to reach a total access base of 15.5 million. Mobile post–paid customers generated 56.0% of this growth, increasing by approximately 730,000 accesses in the year ended December 31, 2009 to reach 7.7 million accesses, accounting for 49.7% of our total mobile accesses. This was mainly driven by the success of innovative propositions, such as "O_2 My Handy", offset by the fact that a significant number of pre–paid subscribers were disconnected from the subscriber base. Our secondary brands and wholesale partners' activity also contributed positively to customer growth, as did the FONIC brand.

The total mobile access base reached 17.0 million accesses at the end of 2010, an increase of 9.9% from the year ended December 31, 2009. Net additions stood at 1.5 million in the year ended December 31, 2010, an increase of 17.8% from the year ended December 31, 2009. By December 31, 2010 post–paid accesses accounted for 48.4% of our total mobile base, a decrease of 1.3 percentage points from the year ended December 31, 2009.

The total mobile access base reached 18.4 million lines at the end of 2011, an increase of 7.8% from the year ended December 31, 2010. Net additions stood at 1.3 million in the year ended December 31, 2011, a decrease of 13.7% from the year ended December 31, 2010. As a result of our focus on the post–paid segment, by December 31, 2011 post–paid accesses accounted for 50.2% of our total mobile access base, an increase of 1.8 percentage points from the year ended December 31, 2010.

As of June 30, 2012, we had approximately 18.8 million mobile accesses (consisting of 9.1 million pre–paid accesses and 9.7 million post–paid accesses).

Based on our own published customer data and customer data published by the three other mobile network operators in Germany, our subscriber market share of the mobile business was 16.1% in 2011, 15.7% in 2010 and 14.3% in 2009 and 16.6% at June 30, 2012. Our post–paid market share was 18.3% in 2011, 17.0% in 2010 and 16.1% in 2009 and 18.8% at June 30, 2012.

Smartphone Penetration

At 32.7%, smartphone penetration in Germany is relatively low compared to 35.2% in France and 39.1% in the United Kingdom, but with general telecommunication trends moving towards increased smartphone acquisition and an accompanying rise in data use, smartphone penetration in the German market is expected to increase in the coming years. (*Source: Yankee Group Research.*) We therefore believe that there is significant catch–up potential in the German market for mobile data services compared to other Western European mobile markets.

We believe smartphone sales and the usage of mobile data to continue their upward trend. We intend to maintain a strong 3G network to service our existing and future smartphone customer base while rolling out our LTE network, which we believe will provide our customers with a better customer experience and allow us to capitalize on the data growth opportunity in the long term. By the end of 2012, we aim to have a nationwide population outdoor coverage of approximately 15% with our LTE network and an additional potential population outdoor coverage of approximately 7% with sites that are built but have then not yet been connected. Our LTE technology is currently only available through our O_2 brand for a price premium. We intend to continue to limit the LTE network exclusively to our O_2 customers and to use it as a clear differentiator between our premium O_2 brand and our secondary and partner brands.

The following chart shows smartphone penetration of our mobile customer base (excluding Bigscreen and M2M):

	Smartphone Penetration[1]				
	For the year ended December 31,			For the six months ended June 30,	
	2011	2010	2009	2012	2011
	(in percentages) *(unaudited)*				
Smartphone Penetration	20.1	14.6	–	22.7	17.6

1 Smartphone penetration is calculated based on the number of customers with a smallscreen tariff (e.g., for smartphones) divided by the total mobile customer base, less M2M and customers with a bigscreen tariff (e.g., for Surfsticks, Dongles, Tablets). Smartphone penetration from Yankee Group Research is calculated as follows: number of total smartphones with data use divided by total registered mobile lines.

Churn

Churn refers to the percentage of subscriber disconnections during a given period, in our case monthly (see "*Glossary – Churn*"). The churn rates reflect in large part the attractiveness of our offers and pricing, the subscriber experience and perception of the brand, the perceived quality of our network (including its coverage) and the perceived quality of our services (including customer care), all as compared to other operators. Our churn rates may also be impacted by shifts in subscriber status (where a subscriber becomes active or inactive), subscription duration and other factors. We have adopted certain retention measures including customer reward programs, such as "O_2 Treats" and "More Appreciation", which are designed to reduce our churn (see "*Business – Brands and Marketing*").

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

	Mobile Churn (Monthly)				
	For the year ended December 31,			For the six months ended June 30,	
	2011	2010	2009	2012	2011
	(in percentages) *(unaudited)*				
Blended Churn	2.2	2.1	2.3	2.2	2.2
Post–Paid Churn	1.7	1.8	1.8	1.5	1.7

Our Blended Churn rate declined to 2.1% in the year ended December 31, 2010, an improvement of 0.2 percentage points from the year ended December 31, 2009, as a result of our brand portfolio, innovative data solutions, converged offerings and strong distribution channels, which contributed to our improved customer satisfaction levels. Post–Paid Churn in the year ended December 31, 2010 was stable compared to the year ended December 31, 2009, standing at 1.8%.

The Blended Churn rate was 2.2% in the year ended December 31, 2011, an increase of 0.1 percentage points from the year ended December 31, 2010, primarily because of a slight increase in pre–paid churn. In the year ended December 31, 2011, the Post–Paid Churn rate improved by 0.1 percentage points from the year ended December 31, 2010 to reach 1.7%. This was the result of our active policy of retaining customers and our enhanced portfolio of products and services.

The Blended Churn rate was 2.2% in the six months ended June 30, 2012, unchanged from the six months ended June 30, 2011. The Post–Paid Churn rate in the six months ended June 30, 2012 was 1.5%, which represented a decrease of 0.2 percentage points compared to the six months ended June 30, 2011. This was due to improved customer satisfaction resulting from our efforts in customer service to improve our product ranges and customer experience.

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

Average Revenue Per User (ARPU)

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

	Mobile ARPU (Monthly)				
	For the year ended December 31,			For the six months ended June 30,	
	2011	2010	2009	2012	2011
	(in €, unless otherwise indicated) *(unaudited)*				
Blended ARPU	13.6	14.8	15.6	13.7	13.4
Pre–Paid	5.7	6.1	5.7	5.4	5.6
Post–Paid	21.9	23.8	26.1	21.6	21.5
Data ARPU	5.6	5.0	4.7	6.1	5.4
Non–SMS As a Percentage of Data Revenues	50.4%	41.8%	36.7%	54.4%	48.9%
Voice ARPU	8.0	9.8	11.0	7.6	7.9
Total Mobile Voice Traffic (in million minutes)	27,993	25,543	23,257	14,763	13,877

Blended ARPU

Blended ARPU for mobile voice and data combined for the year ended December 31, 2009 was €15.6. Blended ARPU for the year ended December 31, 2010 declined by 5.5% from the year ended December 31, 2009 to €14.8. Excluding the impact from voice MTR, blended ARPU would have decreased by 4.6% in the year ended December 31, 2010. The voice MTR rate until March 2009 was €8.8 cents, from April 2009 to November 2010 it was €7.1 cents and from December 2010 to June 2012 it has been €3.4 cents, representing a reduction of approximately 53% from 2010 and 62% from 2009.

Blended ARPU declined by 7.8% in the year ended December 31, 2011, as compared to the year ended December 31, 2010, after the steep cut in voice MTR from December 2010. Excluding regulatory impacts, Blended ARPU would have declined by 1.6% in the year ended December 31, 2011, mainly driven by pre–paid and despite the growth in data ARPU.

Blended ARPU for the six months ended June 30, 2012 stood at €13.7, which represented an increase of 2.4% as compared to the six months ended June 30, 2011. This was due to a rise in non–SMS data use and further smartphone penetration. Smartphone penetration increased by 5.1 percentage points from 17.6% as at June 30, 2011 to 22.7% as at June 30, 2012.

An important factor in the overall decline in Blended ARPU is the impact of our "O_2 My Handy" model, which is shifting the impact of our sale of handsets from Wireless Service Revenues to Handset Revenues.

Voice ARPU

Voice ARPU in the year ended December 31, 2010 decreased by 10.4% from the year ended December 31, 2009 to €9.8, primarily due to mobile termination rate cuts and continued usage optimization from customers partially offset by a favorable change in the customer mix. Voice ARPU performance was mainly affected by regulation and declined by 18.5% in the year ended December 31, 2011 compared to the year ended December 31, 2010. An important factor in the overall decline in Voice ARPU is the impact of our "O_2 My Handy" model, which is shifting the impact of our sale of handsets from Wireless Service Revenues to Handset Revenues. Voice ARPU for the six months ended June 30, 2012 was €7.6, a decrease of €0.3 or 4.2% from the six months ended June 30, 2011.

Data ARPU

Data ARPU stood at €4.7 for the year ended December 31, 2009. Data ARPU increased by 6.1% in the year ended December 31, 2010 to €5.0, which reflected the growing usage of data services on smartphones and tablets. Data ARPU increased by 13.2% in the year ended December 31, 2011 from the year ended December 31, 2010 and reached €5.6 as a result of increased mobile broadband penetration and the increased subscription for tiered data tariffs. Data ARPU for the six months ended June 30, 2012 was €6.1 and continued to increase by €0.7 or 12.0% from the six months ended June 30, 2011.

Data Service Revenues

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

Data service revenues as a percentage of Wireless Service Revenues were 40.6%, 33.1% and 29.4% for 2011, 2010 and 2009 respectively and was 43.9% for the six months ended June 30, 2012. Non–SMS data revenues were 50.4%, 41.8% and 36.7% of total data revenue for 2011, 2010 and 2009, respectively, and were 54.4% for the six months ended June 30, 2012.

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

Mobile Traffic Volume

In terms of usage, mobile voice traffic in the year ended December 31, 2010 grew by 9.8% from the year ended December 31, 2009 to 25,543 million minutes, driven by the larger customer base and increased usage of voice packages from pre–paid customers. Mobile voice traffic posted growth of 9.6% in the year ended December 31, 2011, driven by our customer base growth and increased overall usage. Mobile traffic increased in the six months ended June 30, 2012 to 14,763 million minutes, representing a 6.4% increase compared to the six months ended June 30, 2011. This was due to a growing subscriber base.

Access Interconnection Fees

Access and interconnection fees paid and received contribute to our mobile revenues and costs. We receive revenues from other operators for voice and messages terminated on our network, and we are required to pay fees to other mobile operators for calls terminated on their mobile networks, in each case both domestic and international. Access and interconnection fees are based on set mobile termination rates or voice MTR. MTR is set by the German regulator and has faced increasing downward pressure in the last few years. Decreasing MTR has a dual effect on our operations by decreasing the revenues received from other operators for calls on our network while also decreasing inter–connection costs in our supplies line as our payments to other operators decrease. We expect the regulator to announce additional MTR cuts in November 2012 which will come into effect at the end of 2012. In 2011, the contribution to revenues from voice interconnection on our network was 7% of our Wireless Service Revenues, with a slightly lower associated interconnection cost.

The table below is an overview of the impact of MTR cuts in our Wireless Service Revenues for the years ended December 31, 2011, 2010 and 2009 and for the six months ended June 30, 2012 and 2011:

	Voice MTR Impacts				
	For the year ended December 31,			**For the six months ended June 30,**	
	2011	**2010**	**2009**	**2012**	**2011**
	(€ in millions except percentages) *(unaudited)*				
Wireless Service Revenues	2,946.5	2,932.3	2,860.6	1,547.6	1,412.7
Voice MTR Cut Impact[1]	194.8	36.3	54.8	–	102.3
Wireless Service Revenues excluding Voice MTR Cut	3,141.3	2,968.6	2,915.4	1,547.6	1,515.0
Wireless Service Revenues Growth excluding Voice MTR Cut	7.1%	3.8%	1.6%	9.6%	6.1%

1 The Voice MTR Cut Impact as adjusted for decreases in voice MTR has been calculated, on a month–by–month basis, by assuming that, where the voice MTR has fallen from one period to the next, the higher voice MTR applies in both periods. So the effect of the reduction of voice MTR from €0.088 to €0.0714 as of March 31, 2009 on the comparison from the years ended December 31, 2009 and 2010 was eliminated by assuming a voice MTR of €0.088 for the first three months of 2010. The effect of the further reduction of voice MTR from €0.0714 to €0.0339 as of December 1, 2010 on the comparison of the years 2010 and 2011 was eliminated by assuming a voice MTR of €0.0714 for the first 11 months of 2011.

Key Factors Affecting Wireline Business Revenues

Subscribers

Our fixed–line business continued to grow in the year ended December 31, 2010 reaching 2.5 million accesses. This was mainly due to HanseNet's competitive product portfolio and new opportunities arising from our integrated distribution model. Wholesale broadband accesses declined in the year ended December 31, 2010 by 15.2% from the year ended December 31, 2009 to 1.1 million lines at December 31, 2010 due to the internalization of former HanseNet lines. However, in organic terms, wholesale broadband accesses increased by 15.3% from the year ended December 31, 2009 to the year ended December 31, 2010.

We recently implemented a number of measures to improve the profitability of our fixed–line operations. We have increased the share of subscribers for our Alice M tariff from 55% in January 2012 to 74% in May 2012. Compared to the Alice S tariff, the Alice M tariff provides for a higher priced flat rate for larger data volumes. A reduction in free services and pricing adjustments have led to an increase in ARPU with respect to new fixed–line customers in the three months ended March 31, 2012 by 5.1% compared to the three months ended March 31, 2011. We carried out approximately seven million direct sales transactions in 2011 and direct sales which provide for below average acquisition costs constituted 88% of our total sales in the three months ended March 31, 2012, up from 80% in the same quarter during the three months ended March 31, 2011.

Accesses in our retail broadband fixed Internet services stood at 2.6 million at December 31, 2011, growing 2.3% from the year ended December 31, 2010. Accesses in our fixed wholesale services totaled 1.0 million at the end of 2011, a 6.6% decline from the year ended December 31, 2010, due to the disconnection of 78,000 inactive lines in December. As of June 30, 2012, we had approximately 6.4 million accesses in our fixed–line telephony and Internet services (comprising 2.4 million telephony, 3.6 million DSL and wholesale ULL, and the remainder to narrowband and subscribers of certain value–added services). This represented a total increase of 5.0% for the six months ended June 30, 2012 compared to 24.0 million total accesses for the six months ended June 30, 2011, broken down into an increase of 6.1% for accesses to our mobile service, a decrease of 2.9% for accesses to our retail fixed services and 2.6% for accesses to our wholesale fixed service.

RECENT DEVELOPMENTS

We have made significant progress this year implementing our smartphone strategy of focusing on revenues from data services, with a new tiered smartphone tariff structure enhancing customer value with integrated voice, data and SMS package launched in January. We also signed a long–term network cooperation agreement with Deutsche Telekom, which provides us with access to its fiber transport network for 3G and 4G. This will ensure our network capacity to capture the strong growth in the mobile data market. For additional information about recent developments, see "*Recent Developments and Outlook*".

Dividend Payment

On September 13, 2012, the general shareholder's meeting of Telefónica Germany Verwaltungs GmbH, our predecessor company, declared a dividend for the year ended December 31, 2011 in the total amount of approximately €7.2 billion to O2 (Europe) Limited, the Company's sole shareholder at the time. A part of the resulting dividend payment claim was set–off against an existing capital promise in the amount of approximately €2.9 billion (remaining undrawn from two capital promises made in 2003 and 2004, in an aggregate amount of approximately €5.2 billion). The remaining amount of approximately €4.3 billion was paid by the Company to O2 (Europe) Limited on September 14, 2012 (see "*Information on the Company – Recent Corporate Developments*"). For the effect of this dividend payment on our financial position, see "*Capitalization and Indebtedness*".

Financing Arrangements

In order to finance a dividend payment this year, our subsidiary OHG entered into a loan agreement dated September 12, 2012 with TGB.V. as lender, pursuant to which TGB.V. has agreed to provide a commercial loan facility (the "**Facility**") in the aggregate sum of €1.25 billion. See "*Long Term Financing Arrangements*" for details of this loan agreement. See "*Capitalization and Indebtedness*" for the effect of, among other things, this financing arrangement on our financial position.

We have also entered into bilateral credit facilities for a total amount of €710 million (see "*Material Contracts — Financing Arrangements*").

PRESENTATION OF FINANCIAL INFORMATION

Revenues

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

Wireless Service Revenues

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

Handset Revenues

Handset Revenues is comprised of the sale of mobile devices under the "O_2 My Handy" model as well as cash sales. The revenues under the "O_2 My Handy" model are discounted as we receive payments from customers in monthly installments, which are paid out over a 12– or 24–month period. Furthermore, one–time revenues payments, such as activation fees for the wireless business (primarily for post–paid), hardware for bundled pre–paid SIM and handset packages or post–paid contracts as well as accessories are included.

Wireline Business

Wireline Business is principally comprised of:

- retail DSL service revenues, retail DSL activation fees, revenues for DSL–related hardware and non–recurring charges (e.g. charges for address change, number portation, etc.);
- service and hardware revenues from Pay TV service;

- revenues from wholesale ULL, also called wholesale DSL, revenues derived from the sale of our DSL network and services as well as hardware to other providers who then repackage and resell it to the end consumer;
- carrier traffic revenues related to the sale and trading of minutes between carriers to connect their customers calls through other operators networks; and
- revenues derived from hosting client content on our data center infrastructure and providing accompanying management services, such as the use of our data center infrastructure to host applications designed and operated by third parties.

Wireline Business also comprises fixed–line telephony revenues.

Other

Other comprises revenues derived from the vertical business, including mobile advertising from our wholesale business, and fees received from mobile payment services.

Other Income

Other Income is principally comprised of own work capitalized, or the capitalized benefit received from network improvement measures.

Supplies

Supplies primarily include:

- interconnection costs relating to costs incurred when connecting our subscribers to other mobile networks;
- costs associated with hardware procurement, such as SIM cards, mobile phones and related accessories; and
- costs associated with providing connectivity to consumer and business customers, such as leased lines and purchases of ULL, or unbundled local loop connectivity, primarily from Deutsche Telekom.

Personnel Expenses

Personnel Expenses primarily include wages, sales commissions, social security, employees' termination benefits and costs for temporary workers.

Other Expenses

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

Depreciation and Amortization

Depreciation and Amortization relate to property, plant and equipment and intangible assets, including the amortization of the acquisition costs for the 4G spectrum license.

Finance Income

Finance Income is principally derived from the arrangements under the deposit and cash pooling agreement (see "*–Deposit and Cash Management Agreements*"). It also includes the reversal of the discount from "O_2 My Handy" hardware contracts over time, as well as interest attributed to our pension program.

Exchange Gains

Exchange Gains are due to differences in exchange rates between the euro, pound sterling and the U.S. dollar and are not significant. Occasionally in the past, we have undertaken small and short duration hedging positions with members of the Telefónica Group. However, these positions are infrequent and also not substantial.

Finance Expenses

Finance Expenses are principally derived from the arrangements under the deposit and cash pooling agreement. See "*–Deposit and Cash Management Agreements*". Additional Finance Expenses result primarily from interest expenses attributable to the full consolidation of HanseNet and from interest expenses for asset retirement provisions for dismantling equipment in the future and for the pension plan.

Exchange Losses

Exchange Losses are due to differences in exchange rates between the euro, pound sterling and the U.S. dollar, and are not significant.

Income Tax

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

RESULTS OF OPERATIONS

The table below shows our combined results of operations for the years ended December 31, 2011, 2010 and 2009 and the six months ended June 30, 2012 and 2011.

	For the year ended December 31,			For the six months ended June 30,	
	2011	**2010**	**2009**	**2012**	**2011**
	(in € thousands, unless otherwise indicated)				
	(audited, unless otherwise indicated)			*(unaudited)*	
Revenues:	**5,035,552**	**4,826,278**	**3,745,540**	**2,553,798**	**2,439,754**
Wireless Business	3,605,747	3,411,930	3,187,263	1,854,450	1,718,789
Wireless Service Revenues[1]	2,946,465	2,932,288	2,860,577	1,547,602	1,412,678
Handset Revenues	659,282	479,642	326,685	306,848	306,111
Wireline Business	1,425,740	1,411,861	558,277	697,325	719,056
Other	4,065	2,487	–	2,023	1,908
Other Income	60,991	88,859	92,102	30,278	31,938
Supplies	(2,047,139)	(1,906,492)	(1,360,254)	(1,025,602)	(975,970)
Personnel Expenses	(437,756)	(611,353)	(395,831)	(226,210)	(224,408)
Other Expenses[2]	(1,462,411)	(1,504,615)	(1,190,075)	(735,115)	(739,568)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)[3, 4]	**1,149,237**	**892,677**	**891,482**	**597,149**	**531,746**
Depreciation and Amortization	(1,082,189)	(988,165)	(922,872)	(547,748)	(509,675)
OPERATING RESULT	**67,048**	**(95,488)**	**(31,390)**	**49,401**	**22,071**
Finance Income	14,271	8,686	4,152	9,826	5,889
Exchange Gains	707	348	212	324	586
Finance Expenses	(8,389)	(9,931)	(5,424)	(4,602)	(4,058)
Exchange Losses	(559)	(870)	(1,286)	(1,090)	(323)
Net Financial Result	**6,030**	**(1,767)**	**(2,346)**	**4,458**	**2,094**
RESULT BEFORE TAX	**73,078**	**(97,255)**	**(33,736)**	**53,859**	**24,165**
Income Tax	(1,732)	(5,277)	152	1,283	(1,577)
RESULT FOR THE YEAR/PERIOD	**71,346**	**(102,532)**	**(33,584)**	**55,142**	**22,588**
Reconciliation from Operating Result to Operating Income before Depreciation and Amortization (OIBDA) and before Group Fees and OIBDA before Group Fees margin[3]					
OPERATING RESULT	**67,048**	**(95,488)**	**(31,390)**	**49,401**	**22,071**
Depreciation and Amortization	(1,082,189)	(988,165)	(922,872)	(547,748)	(509,675)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)[4]	**1,149,237**	**892,677**	**891,482**	**597,149**	**531,746**
Group Fees (unaudited)	70,232	52,205	26,928	31,528	26,138
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA) AND BEFORE GROUP FEES (unaudited)[3]	**1,219,469**	**944,882**	**918,410**	**628,677**	**557,884**
Revenues	5,035,552	4,826,278	3,745,540	2,553,798	2,439,754
OIBDA margin[5] (unaudited)	**22.8%**	**18.5%**	**23.8%**	**23.4%**	**21.8%**
OIBDA before Group Fees margin[5] (unaudited)	**24.2%**	**19.6%**	**24.5%**	**24.6%**	**22.9%**

1 Excluding the effect of substantial decreases in voice mobile termination rates ("**MTR**") over the periods, the growth in Wireless Service Revenues year–on–year would have been 7.1%, 3.8% and 1.6% for 2011, 2010 and 2009, respectively, and 9.6% and 6.1% for the six

months ended June 30, 2012 and 2011, respectively, which are higher growth rates than the reported growth rates (see "– *Key Factors Affecting Performance and Results of Operations – Key Factors Affecting Wireless Service Revenues – Access Interconnection Fees*"). The adjustment for decreases in voice MTR has been calculated, on a month–by–month basis, by assuming that, where the voice MTR has fallen from one period to the next, the higher voice MTR applies in both periods. For example, the effect of the reduction of voice MTR from €0.088 to €0.0714 as of March 31, 2009 on the comparison from the years ended December 31, 2009 and 2010 was eliminated by assuming a voice MTR of €0.088 for the first three months of 2010. The effect of the further reduction of voice MTR from €0.0714 to €0.0339 as of December 1, 2010 on the comparison of the years 2010 and 2011 was eliminated by assuming a voice MTR of €0.0714 for the first 11 months of 2011.

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

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

4 OIBDA as reported in our combined financial statements contains the Group Fees as described in footnote 2 above and certain restructuring charges of €202 million recognized in 2010, and a €9 million restructuring charge recorded in 2009.

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

SIX MONTHS ENDED JUNE 30, 2012 AS COMPARED TO SIX MONTHS ENDED JUNE 30, 2011

Revenues

Our total Revenues were €2,553.8 million for the six months ended June 30, 2012, an increase of €114.0 million, or 4.7%, from €2,439.8 million for the six months ended June 30, 2011. This growth in Revenues was mainly due to a strong increase in Wireless Service Revenues, which was partly offset by a decline in Wireline Business Revenues. Handset Revenues remained largely stable.

The table below sets forth our Revenues for the six months ended June 30, 2012 as compared to the six months ended June 30, 2011.

	For the six months ended June 30, (unaudited)				Change	
	2012	% of total Revenues	2011	% of total Revenues	Amount	%
	(€ in thousands, except percentages)					
Revenues:						
Wireless Business	1,854,450	72.6	1,718,789	70.4	135,661	7.9
Wireless Service Revenues	1,547,602	60.6	1,412,678	57.9	134,924	9.6
Handset Revenues	306,848	12.0	306,111	12.5	737	0.2
Wireline Business	697,325	27.3	719,056	29.5	(21,731)	(3.0)
Other	2,023	0.1	1,908	0.1	115	6.0
Total Revenues	**2,553,798**	**100.0**	**2,439,754**	**100.0**	**114,044**	**4.7**

Wireless Service Revenues were €1,547.6 million for the six months ended June 30, 2012, an increase of €134.9 million, or 9.6%, from €1,412.7 million for the six months ended June 30, 2011. The increase in Wireless Service Revenues was primarily attributable to customer base expansion and ARPU growth, on the back of increased smartphone penetration. Non–SMS data revenues, a key driver of Wireless Service Revenues, grew by €93.2 million, or 33.7%, accounting for 23.9% of Wireless Service Revenues.

Handset Revenues were €306.8 million for the six months ended June 30, 2012, a slight increase of €0.7 million, or 0.2%, from €306.1 million for the six months ended June 30, 2011.

Wireline Business revenues were €697.3 million for the six months ended June 30, 2012, a decrease of €21.7 million, or 3.0%, from €719.1 million for the six months ended June 30, 2011. The decrease in Wireline Business revenues was primarily attributable to the lower access base due to a decline in our fixed–line business, which was partly offset by an increase in carrier voice revenues.

Other revenues were €2.0 million for the six months ended June 30, 2012, an increase of €0.1 million, or 6.0% from €1.9 million for the six months ended June 30, 2011.

Other Income

Other Income was €30.3 million for the six months ended June 30, 2012, a decrease of approximately €1.6 million, or 5.0%, from €31.9 million for the six months ended June 30, 2011. The decrease in Other Income was primarily attributable to the decrease in our capitalized work.

Supplies

Supplies expenses were €1,025.6 million for the six months ended June 30, 2012, an increase of €49.6 million, or 5.1%, from €976.0 million for the six months ended June 30, 2011. The increase in Supplies expenses was primarily attributable to an increase in interconnection costs due to increased mobile customer usage, effects of the enlarged network (in particular increased sites and accompanying costs, including leased lines to connect those sites) and a slight increase in Wireline Business costs resulting from increased demand and associated bandwidth increases.

Personnel Expenses

Personnel Expenses were €226.2 million for the six months ended June 30, 2012, an increase of €1.8 million, or 0.8%, from €224.4 million for the six months ended June 30, 2011. The increase in Personnel Expenses was primarily attributable to the effect of an increase in staff salaries, which was offset by the effect of the overall decrease in the number of staff in 2012 due to the implementation of our cost management program.

Other Expenses

Other Expenses were €735.1 million for the six months ended June 30, 2012, a decrease of €4.5 million, or 0.6%, from €739.6 million for the six months ended June 30, 2011. The decrease in Other Expenses was primarily attributable to the effects of the cost management program, which included the consolidation of locations resulting in an overall reduction in facility costs and other efficiency gains, which was offset by an increase in energy costs.

Depreciation and Amortization

Depreciation and Amortization were €547.7 million for the six months ended June 30, 2012, an increase of €38.0 million, or 7.5%, from €509.7 million for the six months ended June 30, 2011. The increase in Depreciation and Amortization was primarily attributable to amortization for the 4G spectrum license. Although the license was acquired in 2010, it was not utilized until after June 30, 2011 and therefore impacted Depreciation and Amortization in the six months ended June 30, 2012.

Finance Income

Finance Income was €9.8 million for the six months ended June 30, 2012, an increase of €3.9 million, or 66.1%, from €5.9 million for the six months ended June 30, 2011. The increase in Finance Income was primarily attributable to interest received from higher cash deposits from our cash pooling arrangement and a slight increase in interest income in the pension plan, which was slightly offset by a small decrease in interest income from "O_2 My Handy" contracts.

Exchange Gains

Exchange Gains were €0.3 million for the six months ended June 30, 2012, a decrease of €0.3 million, or 50%, from €0.6 million for the six months ended June 30, 2011.

Finance Expenses

Finance Expenses were €4.6 million for the six months ended June 30, 2012, an increase of €0.5 million, or 12.2%, from expenses of €4.1 million for the six months ended June 30, 2011. The increase in Finance Expenses was primarily attributable to interest expenses related to the asset retirement provisions for dismantling equipment in the future, as well as pensions–related interest expenses.

Exchange Losses

Exchange Losses were €1.1 million for the six months ended June 30, 2012, an increase of €0.8 million, or 266.7%, from €0.3 million for the six months ended June 30, 2011.

Income Tax

The following table sets forth our Income Tax for the six months ended June 30, 2012 as compared to the six months ended June 30, 2011.

	(unaudited) For the six months ended June 30,		Change	
	2012	**2011**	**Amount**	**%**
	(€ in thousands, except percentages)			
Current Tax	–	–	–	–
Deferred Tax	1,283	(1,577)	2,860	n/a
Total Income Tax	**1,283**	**(1,577)**	**2,860**	**n/a**

Total Income Tax was a benefit of €1.3 million for the six months ended June 30, 2012, an increase of €2.9 million from an Income Tax expense of €1.6 million for the six months ended June 30, 2011. The increase in total Income Tax was attributable to a change in determination of recoverability of deferred taxes.

Operating Income Before Depreciation and Amortization and Before Group Fees (OIBDA Before Group Fees) and Operating Income Before Depreciation and Amortization (OIBDA)

Our OIBDA Before Group Fees was €628.7 million for the six months ended June 30, 2012, an increase of €70.8 million, or 12.7%, from €557.9 million for the six months ended June 30, 2011. Our OIBDA was €597.1 million for the six months ended June 30, 2012, an increase of €65.4 million, or 12.3%, from €531.7 million for the six months ended June 30, 2011. The increase in OIBDA was primarily attributable to increasing Wireless Service Revenues, as well as continued process efficiency improvements which have led to lower costs.

OIBDA Before Group Fees margin for the six months ended June 30, 2012 stood at 24.6%, an increase of 1.7 percentage points compared to the six months ended June 30, 2011. OIBDA margin for the six months ended June 30, 2012 stood at 23.4% an increase of 1.6 percentage points compared to the six months ended June 30, 2011.

YEAR ENDED DECEMBER 31, 2011 AS COMPARED TO YEAR ENDED DECEMBER 31, 2010

Revenues

Our total Revenues were €5,035.6 million for the year ended December 31, 2011, an increase of €209.3 million, or 4.3%, from €4,826.3 million for the year ended December 31, 2010. Revenues for the year ended December 31, 2011 were driven primarily by a strong demand for smartphones, particularly through the continued success of the "O_2 My Handy" model, which drove higher Handset Revenues, and the strong performance of Wireless Service Revenues due to the increased contribution of non–SMS data revenue. Total Revenues were also boosted by an increase in Wireline Business Revenues.

The table below sets forth our Revenues for the year ended December 31, 2011 as compared to the year ended December 31, 2010.

	For the year ended December 31,				Change	
	2011	**% of total Revenues**	**2010**	**% of total Revenues**	**Amount**	**%**
	(€ in thousands, except percentages)					
Revenues:						
Wireless Business	3,605,747	71.6	3,411,930	70.7	193,818	5.7
Wireless Service Revenues	2,946,465	58.5	2,932,288	60.8	14,177	0.5
Handset Revenues	659,282	13.1	479,642	9.9	179,640	37.5
Wireline Business	1,425,740	28.3	1,411,861	29.3	13,880	1.0
Other	4,065	0.1	2,487	0.1	1,577	63.4
Total Revenues	**5,035,552**	**100.0**	**4,826,278**	**100.0**	**209,274**	**4.3**

Wireless Service Revenues were €2,946.5 million for the year ended December 31, 2011, an increase of €14.2 million, or 0.5%, from €2,932.3 million from the year ended December 31, 2010. Total mobile data revenues in the year ended December 31, 2011 increased by 23.5% compared to the year ended December 31, 2010, accounting for 40.6% of Wireless Service Revenues. This increase in Wireless Service Revenues was primarily attributable to growth of our mobile subscriber base of 7.8% and the growing contribution of mobile data services owing to the continued growth in non–SMS data revenues, which increased by 48.9% from the year ended December 31, 2010 to reach 50.4% of total data revenues, versus 41.8% in the year ended December 31, 2010. The strong increased growth in non–SMS data revenues more than offset the decrease in voice revenues, which resulted primarily from a higher than 50% decrease in MTRs which came into effect at the end of 2010. Excluding the effect of decreasing voice MTR, Wireless Service Revenues would have increased 7.1%.

Handset Revenues were €659.3 million for the year ended December 31, 2011, an increase of €179.6 million, or 37.5%, from €479.6 million for the year ended December 31, 2010. The increase in Handset Revenues was primarily attributable to an increase of 26.0% in handsets sold through "O_2 My Handy", partly attributable to the availability of Apple's iPhone from the end of 2010 and also to an overall increase in the average price per handset.

Wireline Business revenues were €1,425.7 million for the year ended December 31, 2011, an increase of €13.9 million, or 1.0%, from €1,411.9 million for the year ended December 31, 2010. The increase in Wireline Business revenues was primarily attributable to an increase in fixed–line revenues of 30.2%, which was partially offset by a 2.4% decrease in retail DSL service revenues as well as lower DSL hardware revenues.

Other revenues were €4.1 million for the year ended December 31, 2011, an increase of €1.6 million, or 63.4% from €2.5 million for the year ended December 31, 2010.

Other Income

Other Income was €61.0 million for the year ended December 31, 2011, a decrease of €27.9 million, or 31.4%, from €88.9 million for the year ended December 31, 2010. The decrease in Other Income was primarily attributable to the decrease in our capitalized work.

Supplies

Supplies expenses were €2,047.1 million for the year ended December 31, 2011, an increase of €140.6 million, or 7.4%, from €1,906.5 million for the year ended December 31, 2010. The increase in Supplies expenses was primarily attributable to the increase in volume and purchase price of the new handsets, which was partially offset by the reduction in interconnection costs due to reduced voice MTR. In the fixed business, lower Wireline Business associated costs and a decrease in the overall wholesale customer base, which was not fully offset by an increase in the retail customer base, also contributed to the overall increase.

Personnel Expenses

Personnel Expenses were €437.8 million for the year ended December 31, 2011, a decrease of €173.6 million, or 28.4%, from €611.4 million for the year ended December 31, 2010. The decrease in Personnel Expenses was primarily attributable to the restructuring costs recognized in 2010 and to a significant reduction in the number of personnel due to our cost management program.

Other Expenses

Other Expenses were €1,462.4 million for the year ended December 31, 2011, a decrease of €42.2 million, or 2.8%, from €1,504.6 million for the year ended December 31, 2010. The decrease in Other Expenses was primarily attributable to a small decrease in commercial costs (including a decrease in the commission paid to dealers to generate sales), a decrease in network maintenance and energy costs and a small decrease in IT costs as a result of upgrading to integrate the more complex HanseNet system.

Depreciation and Amortization

Depreciation and Amortization were €1,082.2 million for the year ended December 31, 2011, an increase of €94.0 million, or 9.5%, from €988.2 million for the year ended December 31, 2010. The increase in Depreciation and Amortization was primarily attributable to the depreciation of the 4G spectrum license (which we did not have in 2010) as well as the continuing effect of the 3G network roll out, which was implemented in 2009 and 2010.

Finance Income

Finance Income was €14.3 million for the year ended December 31, 2011, an increase of €5.6 million, or 64.3%, from €8.7 million for the year ended December 31, 2010. The increase in Finance Income was primarily attributable to cash positions under the cash pooling arrangement and accompanying interest income and as well as an increase in interest income due to the "O_2 My Handy" model and pension arrangements.

Exchange Gains

Exchange Gains were €0.7 million for the year ended December 31, 2011, an increase of €0.4 million, or 133.3%, from €0.3 million for the year ended December 31, 2010. The increase in Exchange Gains was primarily attributable to currency fluctuations.

Finance Expenses

Finance Expenses were €8.4 million for the year ended December 31, 2011, a decrease of €1.5 million, or 15.2%, from €9.9 million for the year ended December 31, 2010. The decrease in Finance Expenses was primarily attributable to a positive cash position in 2011 under the cash pooling arrangement.

Exchange Losses

Exchange Losses were €0.6 million for the year ended December 31, 2011, a decrease of €0.3 million, or 33.3%, from €0.9 million for the year ended December 31, 2010.

Income Tax

The following table sets forth our Income Tax for the year ended December 31, 2011 as compared to the year ended December 31, 2010.

	For the year ended December 31,		Change	
	2011	**2010**	**Amount**	**%**
	(€ in thousands, except percentages)			
Current Tax	–	–	–	–
Deferred Tax	(1,732)	(5,277)	3,545	67.2
Total Income Tax	**(1,732)**	**(5,277)**	**3,545**	**67.2**

Total Income Tax expense was €1.7 million for the year ended December 31, 2011, a decrease of €3.5 million, or 67.2%, from an Income Tax expense of €5.3 million for the year ended December 31, 2010. The decrease in total Income Tax was attributable to the change in determination of recoverability of deferred taxes.

Operating Income Before Depreciation and Amortization and Before Group Fees (OIBDA Before Group Fees) and Operating Income Before Depreciation and Amortization (OIBDA)

Our OIBDA Before Group Fees was €1,219.5 million for the year ended December 31, 2011, an increase of €274.6 million, or 29.1%, from €944.9 million for the year ended December 31, 2010. Our OIBDA was €1,149.2 million for the year ended December 31, 2011, an increase of €256.6 million, or 28.7%, from €892.7 million for the year ended December 31, 2010.

The main driver of the increase is the recognition of €202 million restructuring costs in 2010 related to our cost management program. The remaining increase in OIBDA was primarily attributable to growth in Revenues, along with the benefits of the finalized business restructuring program and increased scale and further efficiencies.

OIBDA before Group Fees margin for the year ended December 31, 2011 stood at 24.2%, an increase of 4.6 percentage points compared to the year ended December 31, 2010. OIBDA margin for the year ended December 31, 2011 stood at 22.8%, an increase of 4.3 percentage points compared to the year ended December 31, 2010.

YEAR ENDED DECEMBER 31, 2010 AS COMPARED TO YEAR ENDED DECEMBER 31, 2009

Revenues

Our total Revenues were €4,826.3 million for the year ended December 31, 2010, an increase of €1,080.8 million, or 28.9%, from €3,745.5 million for the year ended December 31, 2009. Revenues for the year ended December 31, 2010 were driven primarily by the strong performance of mobile services and a robust demand for smartphones, particularly through the continued success of the "O_2 My Handy" product. Total Revenues were also boosted by the integration of the HanseNet DSL and fixed–line business.

The table below sets forth our revenues for the year ended December 31, 2010 as compared to the year ended December 31, 2009.

	For the year ended December 31,				Change	
	2010	**% of total Revenues**	**2009**	**% of total Revenues**	**Amount**	**%**
	(€ in thousands, except percentages)					
Revenues:						
Wireless Business	3,411,930	70.7	3,187,263	85.1	224,667	7.0
Wireless Service Revenues	2,932,288	60.8	2,860,577	76.4	71,711	2.5
Handset Revenues	479,642	9.9	326,685	8.7	152,956	46.8
Wireline Business	1,411,861	29.3	558,277	14.9	853,584	152.9
Other	2,487	0.1	–	–	2,487	–
Total Revenues	**4,826,278**	**100.0**	**3,745,540**	**100.0**	**1,080,738**	**28.9**

Wireless Service Revenues were €2,932.3 million for the year ended December 31, 2010, an increase of €71.7 million, or 2.5%, from €2,860.6 million for the year ended December 31, 2009. The increase in Wireless Service Revenues was primarily due to an increased customer contract base and the positive contribution of mobile data services thanks to the continued growth in non–SMS data revenues, which increased by 31.4% from the year ended December 31, 2009 to reach 41.8% of total data revenues, versus 36.7% in the year ended December 31, 2009. Total mobile data revenues in the year ended December 31, 2010 increased by 15.4% compared to the year ended December 31, 2009, accounting for 33.1% of Wireless Service Revenues. These increases were partially offset by a decrease in voice revenues. Excluding the effect of decreasing voice MTR, Wireless Service Revenues would have increased by 3.8%.

In addition, we created a strategic shift in revenues from wireless service to hardware with the implementation of our "O_2 My Handy" model, where we no longer report the revenues from hardware sales as Wireless Service Revenues, but instead report the revenues as Handset Revenues upon purchase by our customers (see "*– O_2 My Handy Model*", above, and "*Business – Products and Services – O_2 My Handy*").

Handset Revenues were €479.6 million for the year ended December 31, 2010, an increase of €153.0 million, or 46.8%, from €326.7 million for the year ended December 31, 2009. The increase in Handset Revenues was primarily attributable to the roll out of the "O_2 My Handy" model in 2010, and the corresponding shift in revenues to Handset Revenues, in addition to a substantial increase in the volume of handset sales and an increase in the average price per handset as smartphones began to penetrate the market.

Wireline Business revenues were €1,411.9 million for the year ended December 31, 2010, an increase of €853.6 million, or 152.9%, from €558.3 million for the year ended December 31, 2009. The increase in Wireline Business revenues was primarily attributable to the integration of the HanseNet business and a small increase in the existing DSL customer base prior to the acquisition.

Other revenues were €2.5 million for the year ended December 31, 2010, an increase of €2.5 million, from €0 for the year ended December 31, 2009.

Other Income

Other Income was €88.9 million for the year ended December 31, 2010, a decrease of €3.2 million, or 3.5%, from €92.1 million for the year ended December 31, 2009.

Supplies

Supplies expenses were €1,906.5 million for the year ended December 31, 2010, an increase of €546.2 million, or 40.2%, from €1,360.3 million for the year ended December 31, 2009. The increase in Supplies expenses was primarily attributable to the increased costs associated with the full consolidation of HanseNet.

Personnel Expenses

Personnel Expenses were €611.4 million for the year ended December 31, 2010, an increase of €215.6 million or 54.5%, from €395.8 million for the year ended December 31, 2009. The increase in Personnel Expenses was primarily attributable to the restructuring costs for the cost management program included in 2010.

Other Expenses

Other Expenses were €1,504.6 million for the year ended December 31, 2010, an increase of €314.5 million, or 26.4%, from €1,190.1 million for the year ended December 31, 2009. The increase in Other Expenses was primarily attributable to the HanseNet acquisition, including higher network and IT costs and higher DSL commercial costs from the acquisition of new customers for DSL services.

Depreciation and Amortization

Depreciation and Amortization were €988.2 million for the year ended December 31, 2010, an increase of €65.3 million, or 7.1%, from €922.9 million for the year ended December 31, 2009. The increase in Depreciation and Amortization was primarily attributable to the HanseNet acquisition.

Finance Income

Finance Income was €8.7 million for the year ended December 31, 2010, an increase of €4.5 million, or 107.1%, from €4.2 million for the year ended December 31, 2009. The increase in Finance Income was primarily attributable to higher cash balances and accompanying interest income, as well as increases in interest income in "O_2 My Handy" and our pension arrangements.

Exchange Gains

Exchange Gains were €0.3 million for the year ended December 31, 2010, an increase of €0.1 million, or 50.0%, from €0.2 million for the year ended December 31, 2009.

Finance Expenses

Finance Expenses were €9.9 million for the year ended December 31, 2010, an increase of €4.5 million, or 83.3%, from €5.4 million for the year ended December 31, 2009. The increase in Finance Expenses was primarily attributable to the full consolidation of HanseNet and a slight increase in pensions-related expenses.

Exchange Losses

Exchange Losses were €0.9 million for the year ended December 31, 2010, a decrease of €0.4 million, or 30.8%, from €1.3 million for the year ended December 31, 2009.

Income Tax

The following table sets forth our Income Tax for the year ended December 31, 2010 as compared to the year ended December 31, 2009.

	For the year ended December 31,		Change	
	2010	**2009**	**Amount**	**%**
	(€ in thousands, except percentages)			
Current Tax	–	–	–	–
Deferred Tax	(5,277)	152	(5,429)	n/a
Total Income Tax	**(5,277)**	**152**	**(5,429)**	**n/a**

Total Income Tax expense was €5.3 million for the year ended December 31, 2010, an increase of €5.4 million, from an Income Tax benefit of €0.2 million for the year ended December 31, 2009. The decrease in total Income Tax was attributable to the change in determination of recoverability of deferred taxes.

Operating Income Before Depreciation and Amortization and Before Group Fees (OIBDA Before Group Fees) and Operating Income Before Depreciation and Amortization (OIBDA)

OIBDA before Group Fees was €944.9 million for the year ended December 31, 2010, an increase of €26.5 million, or 2.9%, from €918.4 million for the year ended December 31, 2009. Our OIBDA was €892.7 million for the year ended December 31, 2010, an increase of €1.2 million, or 0.1%, from €891.5 million for the year ended December 31, 2009.

The OIBDA performance for the year ended December 31, 2009 was fuelled by growth in Revenues and efficiency improvements as a result of the national roaming activity reaching a conclusion at the year–end following the successful rollout of our own network. The OIBDA performance for the year ended December 31, 2010 was impacted by the €202 million restructuring costs, which were offset by the increase in OIBDA from the integration of the HanseNet business and the termination of the roaming agreement with Deutsche Telekom.

OIBDA margin before Group Fees for the year ended December 31, 2010 stood at 19.6%, a decrease of 4.9 percentage points compared to the year ended December 31, 2009. The OIBDA margin for the year ended December 31, 2010 was 18.5%, which was negatively impacted by the consolidation of HanseNet, which had a lower OIBDA margin. The OIBDA margin for the year ended December 31, 2009 was 23.8%.

LIQUIDITY AND CAPITAL RESOURCES

General

Our historical liquidity needs have arisen primarily from the need to finance capital expenditures for the maintenance and expansion of our operations, including deployment of new technologies, expansion of network coverage and acquisition of new spectrum licenses. Our principal source of funds has been cash flows from operating activities and equity contribution from O2 (Europe) Limited, our parent company, with the latter in particular being used to finance extraordinary investments like the acquisition of HanseNet in 2010 and the 4G spectrum license acquired in the same year. After the date of the last combined statement of financial position presented in this Prospectus, we have entered into bilateral facilities with various financial institutions which will contribute to enhance our liquidity position (see "*Material Contracts – Financing Agreements*"). Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control.

After the date of the last combined statement of financial position presented in this Prospectus, a substantial payment was made to our parent, O2 (Europe) Limited. See "*– Recent Developments*". See also "*Capitalization and Indebtedness*" to show the effect on our combined statement of financial position.

As of June 30, 2012, we had total cash and cash equivalents of €1,299.1 million, and as of August 31, 2012 unused committed credit lines for an amount of €710 million (see "*Material Contracts – Financing Agreements*").

Cash Flows

The table below sets out our combined statement of cash flows for the years ended December 31, 2011, 2010 and 2009 and the six months ended June 30, 2012 and 2011.

	For the year ended December 31,			For the six months ended June 30,	
	2011	**2010**	**2009**	**2012**	**2011**
	(in € thousands)				
	(audited)			*(unaudited)*	
Result for the Year/Period	**71,346**	**(102,532)**	**(33,584)**	**55,142**	**22,588**
Adjustments to Result					
Net Finance Result	(5,882)	1,245	1,272	(5,224)	(1,831)
Losses on Disposal of Assets	(272)	(1,385)	(537)	(4)	(258)
Net Income Tax Result	1,732	5,277	(152)	(1,283)	1,577
Depreciation and Amortization	1,082,189	988,165	922,872	547,748	509,675
Change in Working Capital					
Trade and Other Receivables	273,831	(253,630)	(215,496)	(349,598)	15,550
Inventories	13,889	(752)	7,508	(13,650)	4,319
Other Current Assets	(3,831)	(4,965)	(807)	2,432	(2,576)
Trade and Other Payables	(41,707)	(1,746)	44,051	163,922	(135,060)
Other Current Liabilities and Provisions	(107,874)	105,660	7,218	(36,104)	(89,339)
Other Non–Current Assets and Liabilities	(51,983)	30,858	(417)	9,331	(27,320)
Interest received	11,065	5,522	1,751	7,430	4,671
Interest paid	(1,351)	(1,802)	(2,217)	(4,639)	(264)
Cash Flow from Operating Activities	**1,241,152**	**769,915**	**731,462**	**375,503**	**301,732**
Proceeds on Disposals of Property, Plant and Equipment and Intangible Assets	3,185	2,960	1,845	4	2,959
Payments on Investments in Property, Plant and Equipment and Intangible Assets	(547,289)	(2,088,798)	(819,114)	(223,343)	(325,041)
Payments on Investments in Companies, Net of Cash and Cash Equivalents Acquired	–	(844,060)	–	–	–
Cash Flow from Investing Activities	**(544,104)**	**(2,929,898)**	**(817,269)**	**(223,339)**	**(322,082)**
Proceeds from Equity	289,207	2,590,695	–	363	(502)
Repayment of Equity	(22,900)	(277,633)	(962)	–	–
Repayment of Borrowing/Debt	(3,752)	(2,071)	(2,520)	(2,003)	(1,854)
Cash Flow from Financing Activities	**262,555**	**2,310,991**	**(3,482)**	**(1,640)**	**(2,356)**
Net Increase (Decrease) in Cash and Cash Equivalents	**959,603**	**151,008**	**(89,289)**	**150,523**	**(22,706)**
Cash and Cash Equivalents at Beginning of Period	**188,965**	**37,957**	**127,246**	**1,148,568**	**188,965**
Cash and Cash Equivalents at End of Period	**1,148,568**	**188,965**	**37,957**	**1,299,091**	**166,259**

Six Months Ended June 30, 2012 as Compared to Six Months Ended June 30, 2011

For the six months ended June 30, 2012, cash flow from operating activities increased by €73.8 million, or 24.4%, to €375.5 million, from €301.7 million for the six months ended June 30, 2011. The increase was primarily due to an increase in the result for the six months ended June 30, 2012, higher depreciation and a change in working capital of €10.8 million from the six months ended June 30, 2011 to the six months ended June 30, 2012.

For the six months ended June 30, 2012, cash outflow from investing activities decreased by €98.7 million, or 30.7%, to €223.3 million from €322.1 million for the six months ended June 30, 2011. The decrease was primarily due to lower capital expenditures in the second half of 2011 compared to 2010 resulting in lower capital expenditure liabilities for the year ended December 31, 2011 and subsequent lower capital expenditure cash out in the six months ended June 30, 2012 compared to the six months ended June 30, 2011.

For the six months ended June 30, 2012, cash outflow from financing activities decreased by €0.7 million, or 30.4%, to €1.6 million from €2.4 million for the six months ended June 30, 2011.

Year Ended December 31, 2011 as Compared to Year Ended December 31, 2010

For the year ended December 31, 2011, cash flow from operating activities increased by €471.2 million, or 61.2%, to €1,241.2 million, from €769.9 million for the year ended December 31, 2010. The increase was primarily due to an increase in the result for the year of €173.9 million, increasing depreciation and amortization of €94.0 million and various changes in working capital, of which the closing of the factoring for the "O_2 My Handy" payment scheme with a net cash contribution of €228 million in November and December 2011 provided the most significant impact to improve working capital which changed by €206.9 million from the year ended December 31, 2010 to the year ended December 31, 2011.

For the year ended December 31, 2011, cash outflow from investing activities decreased by €2,385.8 million, to €544.1 million, from €2,929.9 million for the year ended December 31, 2010. The decrease was primarily due to the extraordinary investments made in 2010 for the HanseNet acquisition and the 4G spectrum license, as well as lower investments in our network following the completion of the access network rollout in the year ended December 31, 2010.

For the year ended December 31, 2011 cash flow from financing activities decreased by €2,048.4 million to €262.6 million, from €2,311.0 million for the year ended December 31, 2010. The decrease was due to the extraordinary financings provided in 2010 for the acquisition of HanseNet and the 4G spectrum license.

Year Ended December 31, 2010 as Compared to Year Ended December 31, 2009

For the year ended December 31, 2010, cash flow from operating activities increased by €38.4 million, or 5.2%, to €769.9 million, from €731.5 million for the year ended December 31, 2009 due to a change in working capital by €33.4 million from the year ended December 31, 2009 to the year ended December 31, 2010.

For the year ended December 31, 2010 cash outflow from investing activities increased by €2,112.6 million to €2,929.9 million, from €817.3 million for the year ended December 31, 2009. The increase was primarily due to the acquisition of HanseNet and the spectrum licenses acquired for €1,378.6 million in 2010.

For the year ended December 31, 2010 cash flow from financing activities increased by €2,314.5 million to €2,311.0 million, from a cash outflow of €3.5 million for the year ended December 31, 2009. The increase was primarily due to the equity provided by parent company from the capital promise for the acquisition of HanseNet and the spectrum licenses referred to under "*– Investing Activities*".

DEPOSIT AND CASH MANAGEMENT AGREEMENTS

We have been and, following the Offering, will remain a party to the cash management system used by the Telefónica Group. In this regard we entered into certain deposit and cash management agreements with TGB.V. Cash throughout the Telefónica Group is centralized through these arrangements, allowing us to benefit from the economies of scale from the overall Telefónica Group as well as, among other things, from the in–house liquidation of payables and receivables between us and the participating members of the Telefónica Group. Under the cash pooling arrangements, the entire cash surplus available on those of our bank accounts which are included in the cash pool is automatically transferred on a daily basis to master bank accounts held by TGB.V. In addition, we are also able to use other ways to deposit funds on the cash pool account and settle receivables from, and payables to, Telefónica Group companies and third parties via the cash pool. We are able to draw from this pooled account certain amounts exceeding the amount of our cash contributions, up to a maximum amount of €40 million, which helps us to satisfy our working capital requirements. The amount which may be included in the cash pool is capped at an amount equal to our 18–month free cash flow. In addition, we are entitled to make cash deposits for periods between one and up to 12 months in separate accounts. For positive balances in the cash pool account, we are paid a rate of interest set by a reference rate (Libor or Euribor, depending on the relevant currency), plus/less a margin based on market prices. For deposits made in separate accounts for a period between one and up to 12 months we agree with Telefónica Group on the applicable interest rate in each individual case. Similarly, we will be charged interest when we borrow money from the pool exceeding our contributed cash amounts. The interest rate for borrowings is based on a reference rate (Libor or Euribor, depending on the relevant currency), plus a margin based on market prices. The deposit and cash management agreements are automatically renewed every calendar year unless terminated by either party prior to the end of a contractual year upon 30 business days' notice or immediately in certain circumstances, such as failure to make payments requested under the agreement or if we reasonably believe that our repayment claims under the arrangements are not fully recoverable. Subject only to the general legal rules for the set–off of claims, any claims for the repayment of deposits made under the deposit and cash management agreement can be off–set against liabilities under loans granted to us by TGB.V., including, in the case of OHG, the existing loan facility of €1.25 billion granted by TGB.V. on September 12, 2012. In addition, we have significant information rights under the deposit and cash management agreements with regard to the financial condition of Telefónica, S.A. and TGB.V. This helps us to determine whether we may continue participating in the cash pooling or whether any termination rights are triggered and should be exercised. Telefónica, S.A. has guaranteed TGB.V.'s obligations under the cash pool arrangements (see "*Related Party Transactions*").

LONG–TERM FINANCING ARRANGEMENTS

Our subsidiary OHG entered into a loan agreement dated September 12, 2012 with the Telefónica Group entity TGB.V. as lender, pursuant to which TGB.V. has agreed to provide a loan facility (the "**Facility**") of €1.25 billion bearing interest at the rate of 3–month Euribor plus a margin of 120 basis points, increasing by 40 basis points per year, accruing on a daily basis after drawdown of funds on the basis of a 360 day year. The Facility has a repayment schedule of 20% per year until 2017. OHG has the right to prepay the Facility, in whole or in part in a minimum amount of €100,000, on any interest payment date or subject to payment of a market–based breakage fee. The Facility is also subject to a mandatory prepayment in the event that OHG obtains financing that matures after September 13, 2017, in the amount of 25% of the proceeds received from such financing which will be applied as a prepayment of the Facility. Default interest of an additional 2 percentage points on top of the applicable interest rate will apply in case OHG fails to comply with any of its payment obligations under the loan agreement for any reason. The loan agreement contains certain restrictive covenants, including with respect to disposals of assets, creation of liens, and mergers and consolidations. Upon an event of default, the Facility will be accelerated and all amounts owing under the Facility will become immediately due for repayment. Events of default under the loan agreement include, among others, breach of the loan agreement, in particular a payment breach, an insolvency or similar event, a breach of payment obligations with respect to other indebtedness, and if OHG experiences a change of control (see "*Related Party Transactions*").

We have signed bilateral credit facilities with several banks for a total amount of €710 million, which currently remain undrawn. (See "*Material Contracts – Financing Agreements*").

We intend to broaden our financing options following the Offering, which could include accessing the debt capital markets whilst maintaining the Target Leverage described under "*Capitalization and Indebtedness*". In connection with such options, we may obtain credit ratings from certain ratings agencies.

As of June 30, 2012, the principal future payment obligations from our long–term financing arrangements, after giving effect to the €1.25 billion loan granted by TGB.V. on September 12, 2012 (see "*Related Party Transactions*"), would have been as follows:

	Payment Due by Period (unaudited) (in € million)					
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Senior Credit Facilities	–	250.0	250.0	250.0	250.0	250.0
Debt Relating to Capital Leases	2.7	4.0	2.3	2.0	0.7	–
Total	**2.7**	**254.0**	**252.3**	**252.0**	**250.7**	**250.0**

CERTAIN OTHER CONTRACTUAL COMMITMENTS

The following table summarizes our contractual obligations as of June 30, 2012, excluding those contractual obligations as set forth above under "*– Long–term Financing Arrangements Giving Effect to the Transactions*." The information presented in this table reflects management's estimates of the contractual maturities of our obligations, which may differ significantly from the actual maturities of these obligations:

Payments Due by Period (unaudited)	**Less than 1 year**	**5 years**	**More than 5 years**	**Total**
Operating Lease Obligations	111,221	973,345	963,393	2,047,959
Purchase Obligations	272,382	–	–	272,382
Total Contractual Obligations	383,603	973,345	963,393	2,320,341

CAPITAL EXPENDITURES AND INVESTMENTS

The following table shows our capital expenditures, defined as additions of property, plant and equipment and intangible assets, for the years ended December 31, 2011, 2010 and 2009 and for the six months ended June 30, 2012 and 2011:

	For the year ended December 31,			**(unaudited) For the six months ended June 30,**	
	2011	**2010**	**2009**	**2012**	**2011**
	(€ in thousands)				
Property, Plant and Equipment	375,323	453,830	585,212	199,561	152,870
Intangible Assets	182,328	1,603,046	211,932	71,326	90,569
Total Capital Expenditures	557,651	2,056,876	797,144	270,887	243,389

Six Months Ended June 30, 2012

For the six months ended June 30, 2012, our capital expenditures amounted to €270.9 million, of which €199.6 million related to property, plant and equipment and €71.3 million related to intangible assets, an increase of 11.3% from the six months ended June 30, 2012, which was €243.4 million. Capital expenditures during the six months ended June 30, 2012 mainly related to the acceleration of our LTE network deployment and 3G capacity.

Year Ended December 31, 2011

For the year ended December 31, 2011, our capital expenditures amounted to €557.6 million, of which €375.3 million related to property, plant and equipment and €182.3 million related to intangible assets. This represented a decline of 72.9% in our capital expenditures for the year ended December 31, 2011 compared to the year ended December 31, 2010, due to our investments in the spectrum licenses acquired for €1,378.6 million in 2010.

Capital expenditures during the year ended December 31, 2011 mainly related to investments in 3G capacity and start of the LTE network deployment. The start of LTE "white spot" rollout was offset by reduced 2G and fixed–line investment. The cost of the network rollout is mitigated with 99% of sites using our existing infrastructure.

Year Ended December 31, 2010

For the year ended December 31, 2010, our capital expenditures totaled €2,056.8 million, of which €453.8 million related to property, plant and equipment and €1,603.0 million related to intangible assets. Capital expenditures during the year ended December 31, 2010 represented a 158% increase over the year ended December 31, 2009 due to our investments in the spectrum licenses of €1,378.6 million in 2010, offset by decreased capital expenditures from the completion of our network rollout in 2009.

Year Ended December 31, 2009

For the year ended December 31, 2009, our capital expenditures totaled €797.1 million, of which €585.2 million related to property, plant and equipment and €211.9 million related to intangible assets. Capital expenditures during the year ended December 31, 2009 declined following the completion of our own mobile network rollout.

OFF BALANCE SHEET ARRANGEMENTS

We provide operating guarantees granted by external financial counterparts which are offered in course of normal commercial activity especially with regard to antenna sites rental contracts. These guarantees amounted to €35.8 million, €35.8 million and €37.4 million as of December 31, 2011, 2010 and 2009, respectively. The following table summarizes our off balance sheet arrangements as of December 31, 2011, 2010 and 2009 and as of June 30, 2012 and does not include certain liabilities with respect to hedging arrangements:

				(unaudited)
	As of December 31,			**As of June 30,**
	2011	**2010**	**2009**	**2012**
	(€ in millions)			
Guarantees Granted by External Financial Counterparts	35.8	35.8	37.4	36.3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including interest rate, foreign currency exchange rate, credit and liquidity risks associated with our underlying assets, liabilities, forecast transactions and firm commitments. Telefónica Treasury is responsible for managing exposure to market risk that arises in connection with operations and financial activities, including interest rate, foreign currency exchange rate, credit and liquidity risks. See "Related Party Transactions" for further details.

We are exposed to various financial market risks as a result of our business. However, due to our regionally focused operations, we are not materially affected by a foreign exchange risk. We are subject to credit risk from the operating business (trade receivables) as well as from receivables from Telefónica Group. Furthermore, we will be exposed to interest rate risk with regard to any drawings under our recently entered into bilateral facilities with various financial institutions and our Senior Credit Facility bearing a floating rate interest. (See "*– Long Term Financing Agreements*")

Furthermore, we are exposed to liquidity risks relating to our credit risks and market risks or a weakening of our operating business or financial market disturbances.

We have guidelines in place for risk management procedures and for the use of financial instruments, including a clear segregation of duties with regard to financial activities, settlement, accounting and the related controlling. Derivative financial instruments are only contracted as an exception. However, these instruments are always contracted with Telefónica Treasury and we have established guidelines derived from best practice standards for risk assessment procedures and supervision concerning the use of financial derivatives.

The following sections discuss our significant exposures to market risk. The following discussions do not address other risks that we face in the normal course of business, including country risk and legal risk.

Interest Rate Risk

We will be exposed to market risks as a result of changes in interest rates, particularly in relation to floating–rate indebtedness, including borrowings under the Senior Credit Facilities. Financial liabilities issued at floating rates will expose us to cash–flow interest rate risk, while financial liabilities issued at fixed rates expose us to fair value interest rate risk.

We will regard fluctuations in interest rates in our indebtedness as part of our market risk exposures. We do not currently have any hedging agreements in place with respect to floating–rate indebtedness.

To manage the exposure to changes in interest rates and to lower the overall costs of financing, we expect to generally use interest rate swaps to exchange the interest rate exposure on the underlying liabilities from a floating interest rate to a fixed interest rate.

Foreign Exchange Risk

Our financial reporting currency is the euro. We prepare our financial statements, including those of our subsidiaries, in euros and therefore our combined financial statements are not exposed to foreign exchange translation risks. We are exposed to foreign exchange transaction risks; however, as we only operate in Germany, these foreign exchange transaction risks are limited and only arise in relation to our business relationships with suppliers or business partners in countries that use currencies other than the euro. The primary foreign currencies that we use are the U.S. dollar and pound sterling. As we are funded solely through cash generated from business activities and equity, we are not exposed to exchange risks from debt denominated in currencies other than the euro. The facilities we have recently entered into are also denominated in euro.

The net exposure on foreign currency risk at the balance sheet dates December 31, 2011, 2010 and 2009 amounted to €134,000, €4.5 million and €335,000, respectively. For material identified foreign currency risks, derivatives are contracted with Telefónica Treasury. At the balance sheet dates December 31, 2011, 2010 and 2009 no foreign currency derivatives existed. There were no material gains or losses from foreign exchange derivatives incurred during the years ended December 31, 2011, 2010 and 2009. The effects before tax on the income statement and equity of a simultaneous parallel appreciation, as well as depreciation of all foreign currencies of 10% against the euro at the balance sheet dates December 31, 2011, 2010 and 2009, are not material.

Credit Risk

Credit risk is the risk of financial loss arising from counterparty's inability to repay or service debt in accordance with the contractual terms. Credit risk includes both the direct risk of default and the risk of a deterioration of creditworthiness as well as concentration risks. Our maximum exposure to credit risk is initially represented by the carrying amounts of the financial assets (without consideration of guarantees or collateral, if available).

We consider managing commercial credit risk as crucial to meeting our sustainable business and customer base growth targets in a manner that is consistent with our risk management policy. We have appropriate credit policies, procedures and authorization guidelines in place to manage and monitor credit risk.

This approach to manage credit risk is based on continuous monitoring of the risk assumed and the resources necessary. In particular, attention is given to those clients that could cause a material impact on our combined financial statements for which depending on the segment and type of relation appropriate credit management instruments like credit insurance or collateral may be used to mitigate exposure to credit risk. The assets acquired as a result of these credit insurances or collaterals during the years 2011, 2010 and 2009 were not material. In order to control credit risk, we regularly perform an ageing analysis of trade accounts receivables and books allowances for doubtful accounts receivables with similar exposure to credit risk.

Where we have entered into foreign currency derivatives, all trades have been conducted with Telefónica Treasury according to Telefónica Group policy only.

With regard to our cash surpluses we have entered into cash pooling agreements and deposit agreements with Telefónica Group subsidiaries according to Telefónica Group policy and place most of our cash surpluses with those institutions (see " – *Deposit and Cash Management Agreements*" and "*Related Party Transactions*").

At the years ended December 31, 2011, 2010 and 2009, financial assets with Telefónica Group, as counterparty, amounted to €4,031 million, €3,043 million and €2,971 million respectively.

Our credit risk is principally associated with receivables from sales and services, billed and unbilled, which, as of June 30, 2012, amounted to approximately €1,112 million. We seek to minimize credit risk through a preventative credit check process that ensures that all subscribers requesting new products and services or changes to existing services are reliable and solvent. We also seek to minimize credit risk by preferring contracts that provide for the use of automatic payment methods with the aim of reducing the underlying credit risk. This control is carried out at the subscriber acceptance phase through the use of internal and external information.

We additionally use timely pre– and post–subscriber acquisition measures for the purpose of credit collection, such as the following:

- sending reminders to subscribers;
- employing measures for the collection of overdue receivables, separated by strategy, portfolio and subscriber profiles; and
- measuring and monitoring debt status through reporting tools.

The result of this effective action is that we have a limited amount of credit losses. Additionally, as a general rule, we have a limited level of credit concentration as the consequence of diversifying our product and services portfolio to our subscribers.

The following table provides the aging analysis of billed trade receivables as of June 30, 2012.

	(unaudited) As of June 30, 2012	
	Gross Amount	(Provision)
	(€ in thousands)	
Unbilled Trade Receivables	**257,234**	**4,733**
Billed Trade Receivables:	**854,416**	**113,375**
Current	692,965	43,402
Expired from 1–30 days	45,718	2,924
Expired from 31–60 days	9,125	2,529
Expired from 61–90 days	24,649	2,928
Expired from 91 days and beyond	81,959	61,592
Total Trade Receivables	**1,111,650**	**118,108**
Total Other Receivables	**9,607**	**0**
Total Receivables	**1,121,257**	**118,108**

We also receive guarantees, including securities issued by primary banks, as collateral for the obligations resulting from supplies to, and receivables from, dealers.

On the dealer side, we have a certain degree of concentration offset by bank guarantees and credit limits delivered by credit insurers. Concentration of credit risk relating to accounts receivable from subscribers is limited due to their large number. For accounts receivable from foreign telecommunications operators, the concentration of credit risk is also limited due to netting agreements with accounts payable to these companies, prepayment obligations, imposed bank guarantees and credit limits delivered by credit insurers.

Credit risk relating to cash and cash equivalents, derivative financial instruments and financial deposits and money market funds arises from the risk that the counterparty becomes insolvent and, accordingly, is unable to return the deposited funds or execute the obligations under the derivative transactions as a result of the insolvency. To mitigate this risk, wherever possible we conduct transactions and deposit funds with investment–grade rated financial institutions and monitor and limit the concentration of our transactions with any single party.

Our maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event the counterparty fails to perform its obligations in relation to each class of recognized financial assets is the carrying amount of those assets as indicated on our balance sheet.

As of June 30, 2012, we had cash and cash equivalents amounting to €1,299 million.

Due to the diverse portfolio of the products and services we provide, credit concentrations are limited. In general, a certain degree of credit risk concentration may be found in the business that we carry out with dealers and domestic and international operators.

Liquidity Risk

We are also exposed to liquidity risk if a mismatch arises between our financing needs (including operating and financial expense, investment, debt redemptions and dividend commitments) and our sources of finance (including revenues, divestments, credit lines from financial institutions and capital market transactions). See "– *Long–Term Financing Arrangements*".

Our approach to managing liquidity is to ensure that we always have sufficient liquidity to meet our obligations when due, under both normal and stressed conditions. In practice, this translates into two key principles:

- We must be able to pay all commitments over the next 12 months without accessing new borrowing or accessing the capital markets (although drawing upon credit lines arranged with banks, accessing own cash in the pooling system and factoring receivables), assuming budget projections are met; and
- Our average maturity of net financial debt should be longer than the time needed to repay it in full if the free cash flows generated were dedicated for this sole purpose In general, we manage our liquidity risk by monitoring our cash flows and rolling liquidity reserve forecast in order to ensure that we have sufficient committed facilities to meet our liquidity needs. Mandatory repayment of the Senior Credit Facilities occurs in the event that OHG obtains alternate long term financing that matures after September 30, 2017. However, we have to apply only 25% of the proceeds received from such new long term financing to pre–pay the Facility. Further, we expect that the interest rate and currency hedges we will enter into as part of the transactions may contain clauses that enable the counterparty to terminate the contract in advance (i.e., break clauses).

We manage our liquidity in close coordination with Telefónica Group and we have entered into deposit and cash management agreements with Telefónica Group subsidiaries according to Telefónica Group policy and place most of our cash surpluses with these institutions. These deposit and cash management agreements will remain in place (see "*Related Party Transactions – General; Dependence Report – Deposit and Cash Management Agreements*").

We use the cash inflows we generate through our operating business as well as the possibility of factoring receivables to reduce our liquidity risk.

CRITICAL ACCOUNTING ESTIMATES

Our combined financial statements present assets and liabilities as presented in the authorized consolidated financial statements of Telefónica, S.A. for the years ended December 31, 2011, 2010 and 2009 prepared under IFRS as adopted by the EU. Estimates in accordance with IFRS used in preparation of Telefónica, S.A.'s consolidated financial statements, remain unchanged for purposes of preparation of the combined financial statements. Circumstances which provide new information to past events but have arisen subsequent to the respective reporting dates are not adjusted for. If estimates contain an error, the error is corrected to appropriately reflect the situation at the respective date.

BASIS OF PREPARATION OF THE COMBINED FINANCIAL STATEMENTS

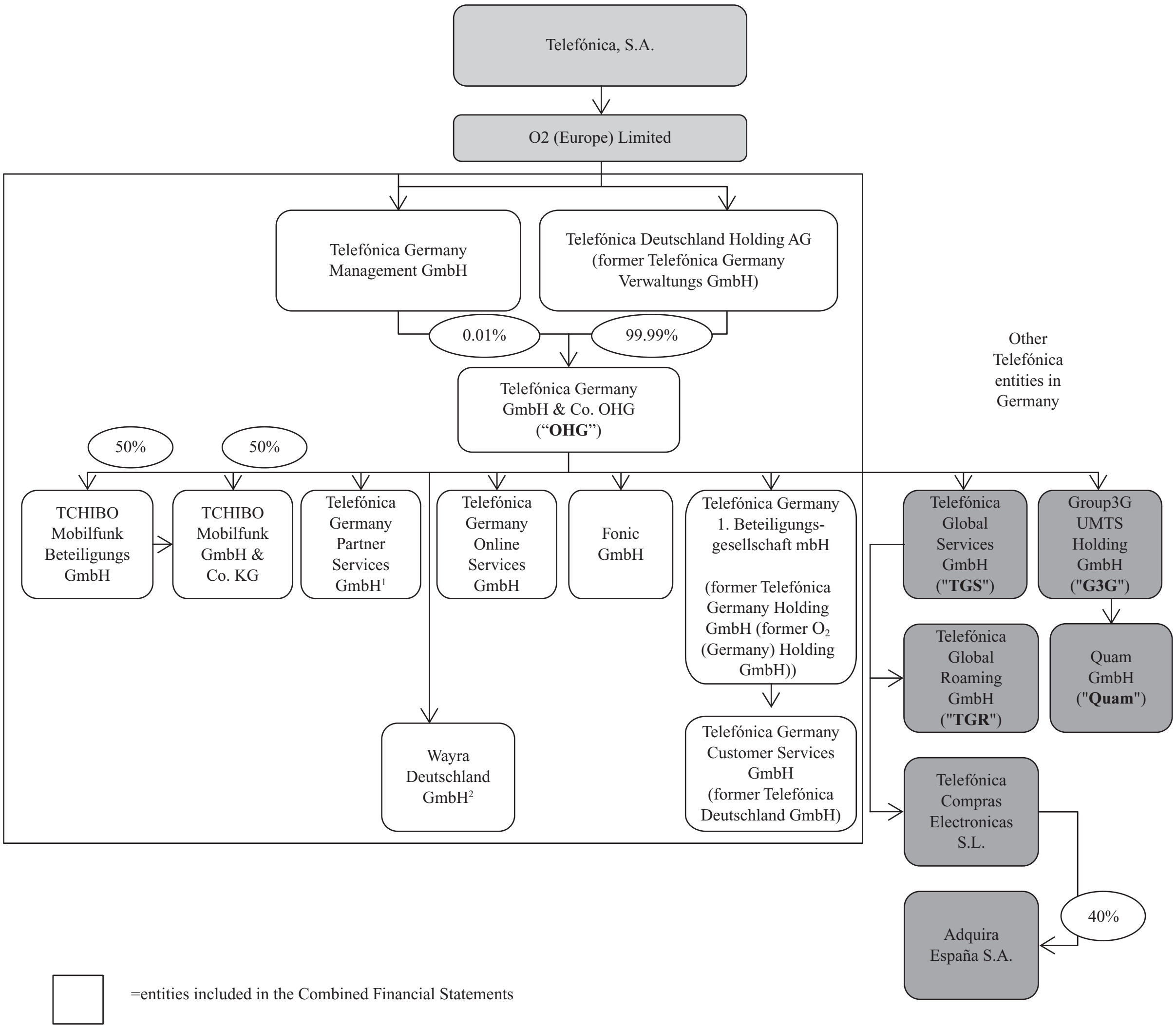
Background and Purpose of the Combined Financial Statements

At the end of May, 2012 Telefónica, S.A. announced its plans to publicly list Telefónica Deutschland, Telefónica, S.A.'s German business. According to the European Prospectus Regulation No. 809/2004 (the "**European Prospectus Regulation**"), the Prospectus issued by the Telefónica Deutschland shall include historical financial information covering the latest three financial years, i.e. the year ended December 31, 2011 and the two prior years ended December 31, 2010 and 2009. Also, according to the European Prospectus Regulation, Telefónica Deutschland has a "Complex Financial History". Therefore, the combined financial statements consisting of the combined statements of financial position, combined income statements, combined statements of comprehensive income, combined statements of changes in equity, combined statements of cash flows and notes to the combined financial statements as of and for financial years ended December 31, 2011, 2010 and 2009 were prepared.

The purpose of these combined financial statements is to provide general purpose historical financial information of our group for the inclusion in the Prospectus for the Offering and the admission of the Shares to trading on a regulated market. Therefore, the combined financial statements present only the historical financial information of those entities that will be part of our group at the time of the intended initial public offering.

Scope of the Entities included in the Combined Financial Statements

As of December 31, 2011, the legal entities of Telefónica, S.A. in Germany are organized as illustrated in the following organizational chart:



[1] merged with OHG in the meantime

[2] registered with commercial register after June 30, 2012

Only the entities contained within the box as shown in the chart will be included in the intended public listing. Hence, our group consists of:

- Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH");
- Telefónica Germany GmbH & Co. OHG;
- Telefónica Germany Partner Services GmbH ([1] – merged with OHG),
- Wayra Deutschland GmbH ([2] – registered with commercial register after June 30, 2012);
- Telefónica Germany Online Services GmbH;
- Fonic GmbH;
- Telefónica Germany 1. Beteiligungsgesellschaft mbH (former "Telefónica Germany Holding GmbH");
- Telefónica Germany Customer Services GmbH (former "Telefónica Deutschland GmbH");
- Telefónica Germany Management GmbH;
- TCHIBO Mobilfunk Beteiligungs GmbH; and
- TCHIBO Mobilfunk GmbH & Co. KG.

For the years ended December 31, 2011, 2010 and 2009, all of the entities of our group were under common control of Telefónica, except for TCHIBO Mobilfunk Beteiligungs GmbH and TCHIBO Mobilfunk GmbH & Co. KG which are under joint control.

The following legal reorganization took place before the Offering:

- The contribution of shares of Telefónica Germany Management GmbH to Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") was resolved upon on September 18, 2012 and registered with the commercial register on September 25, 2012.
- Transfer of a loan to one of the other Telefónica, S.A. entities in Germany to another subsidiary of Telefónica, S.A.
- The sale by Telefónica Deutschland of TGS and G3G as well as their subsidiaries as shown in the chart above, that were formerly held by us in an arms–length transaction to a subsidiary of Telefónica, S.A.

The impact of the legal reorganization on the preparation of the combined financial statements is described in the basis of presentation below.

Presentation of the Combined Financial Statements

Taking into account the specifics to be considered in preparing combined financial statements, which are explained below, our combined financial statements of Telefónica Deutschland have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union ("**EU**").

These combined financial statements will constitute our first financial statements in accordance with IFRS. We have applied IFRS 1, First–Time Adoption of International Financial Reporting Standards (**"IFRS 1**") in its adoption of IFRS. In particular, we have applied IFRS 1.D16 (b), as we were acquired after Telefónica, S.A.'s date of transition to IFRSs. However, the accounting principles used by us for the preparation of our combined financial statements do not differ from those used in the preparation of the financial information for the Telefónica, S.A. consolidated financial statements in accordance with IFRS as adopted by the EU with the exception of certain provisions under IFRS 1 with respect to the transition date of January 1, 2009.

The combined financial statements have been prepared by measuring assets and liabilities at the carrying amounts, based on our date of transition to IFRSs.

All intra–group balances within the combined group, income and expenses, unrealized gains and losses resulting from transactions between the entities of our group are eliminated in the combined financial statements. Due to the preparation of combined financial statements the presentation of our equity differs from the presentation of equity as prescribed by IAS 1. The presentation of "Net assets attributable to Telefónica Germany Group" and "Other components of equity" corresponds with the classical presentation of equity in combined financial statements. Net assets attributable to our group contain share capital, capital reserves and retained earnings of Telefónica Deutschland Holding AG and Telefónica Germany Management GmbH. For the other companies within our group the carrying amount of the investment in each subsidiary held by Telefónica Deutschland Holding AG and Telefónica Germany Management GmbH and their portion of net equity of each subsidiary are consolidated. The net assets attributable to our group also include undistributed profits of companies comprising the combined group – less interim dividends paid against profit for the year – actuarial gains and losses, and the impact of the asset ceiling on defined–benefit plans.

Material transactions with the other German entities of Telefónica, S.A. and its subsidiaries, which are directly or indirectly controlled by Telefónica, S.A., are disclosed as transactions with related parties. For the purpose of the Combined Financial Statements the other German entities (see organizational chart on the preceding page) are treated as subsidiaries of Telefónica Group. Accordingly, all transactions with "Other Telefónica entities in Germany" are presented as transactions with related parties.

The carrying amounts of the investments in G3G and TGS held directly by OHG have been eliminated against the equity of our group.

On March 31, 2010, Telefónica, S.A. and OHG entered into a loan assignment agreement under which Telefónica, S.A. transferred a receivable against G3G to OHG for consideration paid by OHG to Telefónica, S.A. in the amount of EUR 243 million. As explained above, this loan will not be part of Telefónica Deutschland in the initial public offering. Therefore, the consideration paid is accounted for as a distribution to shareholders in 2010.

Entities of TGG entered into profit and loss transfer agreements with TGS, TGR, G3G, and Quam. Cash received from these entities under the respective profit and loss transfer agreements were included as a contribution in equity in the respective fiscal year. Amounts paid are reflected as capital contributions.

All German subsidiaries below OHG including entities outside of our group were part of the German tax group with the exception of TCHIBO Mobilfunk Beteiligungs GmbH and TCHIBO Mobilfunk GmbH & Co. KG. In 2010, HanseNet also was not part of the German tax group. Current and deferred income taxes of entities of our group are measured under the assumption that the German tax group covered only those entities included in the combined financial statements. The current and deferred tax effects of all other entities were treated as contributions to or distributions within equity.

Any taxable losses were assessed to determine whether it is probable that taxable profits will be available against which the unused tax losses can be utilized. The assessment did not take into account any results from entities or activities that are not part of our group.

ACCOUNTING POLICIES

The principal accounting policies used in preparing the combined financial statements are as follows:

Foreign currency transactions

Monetary transactions denominated in foreign currencies are translated to Euros at the exchange rates prevailing on the transaction date.

Monetary assets and liabilities in foreign currency are translated at the closing rate at the date of the statement of financial position.

All realized and unrealized exchange gains or losses are recognized in the combined income statement.

Goodwill

- For acquisitions occurring after January 1, 2010, the effective date of Revised IFRS 3, Business combinations, goodwill represents the excess of acquisition cost over the fair values of identifiable assets acquired and liabilities assumed at the acquisition date. Acquisition date is the date on which control is transferred to Telefónica Deutschland. Cost of acquisition is the sum of the fair value of consideration delivered and the value attributed to existing non–controlling interests. For each business combination, we determine the value of non–controlling interests at either their fair value or their proportional part of the net identifiable assets acquired. After initial measurement, goodwill is carried at cost, less any accumulated impairment losses. Whenever an equity interest is held in the acquiree prior to the business combination (business combinations achieved in stages), the carrying value of such previously held equity interest is remeasured at its acquisition–date fair value and the resulting gain or loss, if any, is recognized in profit or loss.
- For acquisitions after January 1, 2004, the IFRS transition date, and prior to January 1, 2010, the effective date of Revised IFRS 3, Business combinations, goodwill represents the excess of the acquisition cost over the acquirer's interest, at acquisition date, in the fair values of identifiable assets, liabilities and contingent liabilities acquired from a subsidiary or joint venture. After initial measurement, goodwill is carried at cost, less any accumulated impairment losses.

In all cases, goodwill is recognized as an asset denominated in the currency of the company acquired.

Goodwill is not amortized but tested for impairment annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable.

The impairment test is constituted at the lowest level, at which goodwill is monitored. This is the segment level for the respective cash generating unit. We have only one segment.

Intangible assets

Intangible assets are stated at acquisition or production cost, less any accumulated amortization or any accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefit embodied in the asset to which it relates. All other expenditure on internally generated goodwill and brands is recognized in profit or loss as incurred.

The useful lives of intangible assets are assessed individually to be either finite or indefinite. Intangible assets with finite lives are amortized systematically over the useful economic life and assessed for impairment whenever events or changes indicate that their carrying amount may not be recoverable. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, or more frequently in the event of indications that their carrying amount may not be recoverable. Intangible assets that have not been completed yet are subject to an annual impairment test or more frequently in the event of indications that their carrying amount may not be recoverable.

Useful lives, amortization methods and residual values are revised annually at year end and, where appropriate, adjusted prospectively.

Service concession arrangements and licenses

These arrangements relate to the acquisition cost of the licenses granted to us by the public authorities to provide telecommunications services and to the value assigned to licenses held by certain companies at the time they were included in our group.

These concessions are amortized on a straight–line basis over the duration of related licenses from the moment commercial exploitation commences.

Other Intangibles (Customer base)

The other Intangible primarily represents the allocation of acquisition costs attributable to customers acquired in business combinations, as well as the acquisition value of this type of assets in a third–party acquisition entailing consideration. Amortization is on a straight–line basis over the estimated period of the customer relationship.

Software

Software, including self–generated software, is stated at cost and amortized on a straight–line basis over its useful life, generally estimated to be between two and five years.

Property, plant and equipment

Property, plant and equipment is stated at cost less any accumulated depreciation and any accumulated impairment in value. Land is not depreciated.

Cost includes external and internal costs comprising warehouse materials used, direct labor used in installation work and the allocable portion of the indirect costs required for the related investment. The latter two items are recorded as income under "Other income – Own work capitalized". Cost includes, where appropriate, the initial estimate of decommissioning, retirement and site reconditioning costs when we are under the obligation to incur such costs due to the use of the asset.

Interest and other financial expenses (borrowing cost) incurred and directly attributable to the acquisition or construction of qualifying assets are capitalized. Qualifying assets at our group are those assets that require at least 18 month of time to bring the assets to their intended use or sale. In the past we had no qualifying assets.

The costs of expansion, modernization or improvement leading to increased productivity, capacity, efficiency or to a lengthening of the useful lives of assets are capitalized when recognition requirements are met.

Upkeep and maintenance costs are expensed as incurred.

If an asset consists of multiple components with different useful lives, each part of the asset having a significant acquisition value is depreciated separately over the term of the useful life of the individual component (component approach).

We assess the need to write down, if appropriate, the carrying amount of each item of property, plant and equipment to its recoverable amount, whenever there are indications that the asset's carrying amount exceeds the higher of its fair value less costs to sell or its value in use. The impairment will be reversed if the factors giving rise to the impairment disappear.

We depreciate our property, plant and equipment, net of its residual values, once they are in full working condition using the straight–line method based on the assets' estimated useful lives, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

	Years of estimated useful life
Buildings	5 – 20
Plant and machinery (incl. Telephone installations, networks and subscriber equipment)	5 – 20
Furniture, tools and other items	2 – 10

Assets' estimated residual values, depreciation methods and periods are reviewed, and adjusted if appropriate, prospectively at each year end.

Impairment of property, plant and equipment, goodwill and intangible assets

Non–current assets, including property, plant and equipment, goodwill and intangible assets are evaluated at each reporting date for indications of impairment losses. Wherever such indications exist, or in the case of assets which are subject to an annual impairment test, recoverable amount is estimated. An asset's recoverable amount is the higher of fair value less costs to sell and value in use.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired. In this case, the carrying amount is written down to recoverable amount and the resulting loss is taken to the combined income statement. Future depreciation or amortization charges are adjusted for the asset's new carrying amount over its remaining useful life. Each asset is assessed individually for impairment, unless the asset does not generate cash inflows that are largely independent of those from other assets.

The potential impairment loss regarding goodwill is determined by assessing the recoverable amount of the cash generating unit (or group of cash–generating units) to which the goodwill relates when originated. If this recoverable amount is less than the carrying amount, an irreversible impairment loss is recognized in profit and loss. If the impairment loss recognized for the cash generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through the pro–rata reduction of the carrying amounts of the assets allocated to the cash generating unit. Our group comprises one single cash generating unit, which represents the single reportable segment. We determine the recoverable amount of a cash generating unit based on its fair value less costs to sell, unless a higher value in use can be determined.

In assessing fair value less costs to sell, the estimated future cash flows deriving from the asset or its cash generating unit, as applicable, are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The following pre–tax discount rates were taken as a basis:

Rates	As at December 31, 2011	As at December 31, 2010	As at December 31, 2009	As at January 01, 2009
Pre–tax discount rates	8.00%	7.63%	9.07%	10.30%

The discounted cash flow calculations use projections based on the current business plan as of the respective dates of impairment testing. The business plans have been approved by management and are also used for internal purposes. The business plan generally covers a period of three years. Cash flows beyond the planning horizon are extrapolated using an expected constant growth rate of 0.5%

Key assumptions on which management has based its determination of fair value less cost to sell include the development of Revenue, churn rates, capital expenditure, operating expenditure, market share, growth rates and discount rates.

We conducted scenario analysis concerning the key value drivers capital expenditure to revenue ratio and OIBDA margin to determine sensitivity. Within a reasonable range a change in key assumptions would not cause the carrying amount to exceed the recoverable amount.

When there are new events or changes in circumstances that indicate that a previously recognized impairment loss no longer exists or has been decreased, a new estimate of the asset's recoverable amount is made. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited to the net carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss and the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Lease contracts

The determination of whether an arrangement is, or contains a lease is based on the substance of the agreement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the agreement conveys a right to us to use the asset.

Leases where the lessor does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the combined income statement on a straight–line basis over the lease term.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased item to us. These are recognized at the inception of the lease, in accordance with its nature and the associated liability, at the lower of the present value of the minimum lease payments or the fair value of the leased property. Lease payments are apportioned between finance costs and reduction of the principal of lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are reflected in the combined income statement over the lease term.

In firm sale and leaseback transactions resulting in a finance lease, the asset sold is not derecognized and the capital received is considered financing for the asset during the lease term. However, when the sale and leaseback transaction results in an operating lease, and it is clear that both the transaction and subsequent lease income are established at fair value, the asset is derecognized and any gain or loss generated on the transaction is recognized.

Investments in joint ventures

Our investments in companies over which it exercises joint control with third parties are accounted for using the proportionate consolidation. Therefore, the Combined Financial Statements include the share of the assets that we jointly control and the share of the liabilities which are incurred in the course of pursuing the joint operation. The Combined Statement of Comprehensive Income includes the expenses that we incur and the share of the income that we earn from the joint operation.

We combine our share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in our Combined Financial Statements.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments in the form of financial assets and financial liabilities are generally presented separately. Financial instruments are recognized as soon as we become a party to the contractual provisions of the financial instrument. All normal purchases and sales of financial assets are recognized in the combined statement of financial position on the trade date, i.e. the date that we commit to purchase or sell the financial asset. Upon initial recognition, financial instruments are measured at fair value. Transaction costs directly attributable to acquisition or issuance are considered in determining the carrying amount if the financial instruments are not measured at fair value through profit or loss.

For the purpose of subsequent measurement, financial instruments are allocated to the categories "Financial assets at fair value through profit or loss", "Loans and receivables", "Available–for–sale financial assets", "Financial liabilities measured at amortized cost" as well as "Financial liabilities at fair value through profit or loss". We do not allocate financial instruments to the category "held to maturity".

Financial Assets

Financial assets primarily comprise receivables from Telefónica, S.A., trade receivables, receivables from banks and cash and cash equivalents.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include those financial assets designated as held for trading. They comprise derivatives, which are not classified as hedging instruments in hedge accounting. Gains or losses on financial assets held for trading are recognized in profit or loss.

Loans and receivables

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as financial receivables from Telefónica, S.A. or trade receivables. After initial recognition, loans and receivables are subsequently carried at amortized cost using the effective interest method less any impairment losses. Gains and losses are recognized in the combined income statement when the loans and receivables are derecognized or impaired. Interest effects on the application of the effective interest method are also recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents consist primarily of receivables from cash pooling agreements with Telefónica Finanzas S.A., Spain, (Telfisa) and deposit agreements with TGB.V., Netherlands, receivables from banks and cash on hand with an original term of up to three months. Cash and cash equivalents correspond with the classification in the Combined Statement of Cash Flows.

Available–for–sale financial assets

Available–for–sale financial assets are non–derivative financial assets that are designated as available–for–sale or that are not classified in any of the preceding categories. This category comprises assets incurred by us to meet our pension obligations but which do not qualify as plan assets under IAS 19.

After initial measurement, available–for–sale financial assets are measured at fair value, with unrealized gains or losses being recognized in other comprehensive income. If objective evidence of impairment exists, these changes are recognized in profit or loss. Upon disposal of financial assets, the accumulated gains and losses recognized in other comprehensive income/loss resulting from measurement at fair value are recognized in profit or loss.

Impairment of financial assets

At each reporting date, the carrying amounts of financial assets other than those to be measured at fair value through profit or loss are assessed to determine whether there is objective evidence of impairment. Objective evidence may exist for example if a debtor faces serious financial difficulties or is unwilling to pay.

For financial assets classified as available for sale, objective evidence for an impairment exists if there is a significant or prolonged decline in the fair value of the instrument.

Loans and receivables

The amount of the impairment loss on loans and receivables is measured as the difference between the carrying amount of the asset and the present value of expected future cash flows (excluding expected future credit losses that have not been incurred), discounted at the original effective interest rate of the financial asset. The amount of the impairment loss is recognized in profit or loss. If, in a subsequent reporting period, the amount of the impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognized, the impairment loss recorded in prior periods is reversed and recognized in profit or loss. Impairment losses on loans and receivables (e.g. trade receivables) are recorded using allowance accounts. When receivables are assessed as uncollectible, the impaired asset is derecognized.

Available–for–sale financial assets

If an available–for–sale financial asset is impaired, the difference between its cost (net of any principal payment and amortization) and its current fair value (less any impairment loss previously recognized in the combined income statement) is reclassified from the combined statement of comprehensive income to the combined income statement. Reversals with respect to equity instruments classified as available–for–sale are recognized in the combined statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively attributed to an event occurring after the impairment losses were recognized in the combined income statement.

Financial liabilities

Financial liabilities primarily include trade payables, other payables and derivative financial liabilities.

Financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Derivatives, which are not used as hedging instruments in hedge accounting, are classified as held for trading. Gains or losses on liabilities held for trading are recognized in profit or loss.

Financial liabilities measured at amortized cost

After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognized on an effective interest basis.

Derivative financial instruments and hedge accounting

Generally, we use derivative financial instruments only to manage foreign currency risks. For material identified foreign currency risks, derivatives are contracted with Telefónica, S.A. Group treasury. Derivative financial instruments are measured at fair value upon initial recognition and at each subsequent reporting date. The fair value of listed derivatives is equal to their positive or negative market value. If a market value is not available, fair value is calculated using standard financial valuation models such as discounted cash flow or option pricing models. Derivatives are presented as assets if their fair value is positive and as liabilities if the fair value is negative. Changes in the fair value of derivative financial instruments are recognized periodically in profit or loss. We do not apply hedge accounting as set out in IAS 39.

Derecognition of financial assets and liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and we have transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in statement of combined comprehensive income is recognized in profit or loss. If we retain substantially all the risks and rewards of ownership of a transferred asset, we continue to recognize the financial asset and recognize a collateralized borrowing for proceeds received. If we do not retain nor transfer substantially all risks and rewards, and retain control, we continue to recognize the transferred asset to the extent of its continuing involvement. Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Inventories

Inventories for consumption and replacement are stated at the lower of cost and net realizable value. Cost is determined on the basis of weighted average cost and comprises direct materials and where applicable, direct labor cost and overhead that has been incurred in bringing the inventory to its present location and condition. The estimates of net realizable value are based on the most reliable evidence available at the time estimates are made of the amount the inventories are expected to realize. These estimates take into consideration the fluctuations of price or costs and the purpose for which the inventory is held.

Obsolete, defective or slow–moving inventories have been written down to estimated net realizable value. When the circumstances that previously caused inventories to be written down no longer exist, the amount of the write–down is reversed, so that the new carrying amount is the lower of cost and revised net realizable value.

Provisions

Pensions and other employee benefit obligations

Provisions required to cover the accrued liability for defined–benefit pension plans are determined using "the projected unit credit" actuarial valuation method. The calculation is based on demographic and financial assumptions for the country considering the macroeconomic environment. The discount rates are determined based on market yield curves. Plan assets are measured at fair value. Actuarial gains and losses on post–employment defined–benefit plans are recognized immediately in other comprehensive income and all expenses related to defined benefit plans in personnel expenses. When the calculation results in a benefit, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

A defined contribution plan is a post–employment benefit plan under which an entity pays fixed contributions and has no legal or constructive obligation to pay further amounts. For defined–contribution pension plans, the obligations are limited to the payment of the contributions, which are taken to the combined income statement as occurred.

Provisions for post–employment benefits (e.g. early retirement or other) are calculated individually based on the terms agreed with the employees.

Other provisions

Provisions are recognized when we have a present obligation (legal or constructive), as a result of a past event that can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are measured at managements/directors best estimate of the expenditure required to settle the obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted, and the corresponding increase in the provision due to the passage of time is recognized as a finance cost. When we expect some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the combined income statement net of any reimbursement.

Provisions for restructuring are recognized if there is a detailed, formal plan that provides for the individual measures and has been adopted by the appropriate managing bodies. In addition, implementation is expected to begin as soon as possible and a valid expectation has been raised in those affected that the restructuring will be carried out.

Provisions for decommissioning, retirement and site reconditioning costs are recognized if we have a legal or constructive obligation to dismantle the relevant items after their utilization. The estimated costs are recognized as an asset and a provision. Changes in the timing or estimation of the costs are reflected in the asset and in the provision, respectively.

Income tax

The income tax expense of each year includes both current and deferred taxes. Current and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination or items directly recognized in equity or in other comprehensive income.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The main temporary differences arise due to discrepancies between the tax bases and carrying amounts of property, plant and equipment, intangible assets, and non–deductible provisions, as well as differences in the fair value and tax bases of net assets acquired from a subsidiary, associate or joint venture.

Furthermore, deferred tax assets arise from unused tax credits carryforwards.

We determine deferred tax assets and liabilities by applying the tax rates that will be effective when the corresponding asset is received or the liability is settled, based on tax rates and tax laws that are enacted (or substantively enacted) at the reporting date.

Deferred tax assets and liabilities are not discounted to present value and are classified as non–current, irrespective of the date of their reversal.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities on investments in subsidiaries, branches, associates and joint ventures are not recognized if the parent company is in a position to control the timing of the reversal and if the reversal is unlikely to take place in the foreseeable future.

Deferred income tax relating to items directly recognized in equity is recognized in equity. Deferred tax assets and liabilities arising from the initial recognition of the purchase price allocation of business combinations impact the amount of goodwill. However, subsequent changes in tax assets acquired in a business combination are recognized as an adjustment to profit or loss.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenues and expenses

Revenues and expenses are recognized on the combined income statement based on an accruals basis; i.e. when the goods or services represented by them take place, regardless of when actual payment or collection occurs.

We principally obtain revenues from providing the following telecommunications services: traffic, connection fees, regular (normally monthly) network usage fees, interconnection, network and equipment leasing, handset sales and other services such as pay TV and value–added services (e.g. text or data messaging) and maintenance. Products and services may be sold separately or in promotional packages (bundled).

Revenues from calls carried on our networks (traffic) entail an initial call establishment fee plus a variable call rate, based on call length, distance and type of service. Both wireline and wireless traffic is recognized as Revenues as service is provided. For prepaid calls, the amount of unused traffic generates a deferred Revenue recognized in "Trade and other payables" on the combined statement of financial position. Prepaid cards generally expire within 12 months and any deferred Revenue from prepaid traffic is taken directly to the combined income statement when the card expires as we have no obligation to provide service after this date.

Revenues from traffic sales and services at a fixed rate over a specified period of time (flat rate) is recognized on a straight–line basis over the period of time covered by the rate paid by the customer.

Interconnection Revenues from wireline– wireless and vice versa calls and other customer services is recognized in the period in which the calls are made.

Revenues from handset and equipment sales is recognized once the sale is considered complete, i.e., generally when delivered to the end customer. Revenue from installment sales is recognized in the amount of the discounted future receipts.

Wireless customers are offered to participate in loyalty campaigns whereby customers obtain points for the telephone traffic they generate. The amount assigned to points awarded is recognized as deferred income until the points are exchanged and recognized as sales or services according to the product or service chosen by the customer. This exchange can be for discounts on the purchase of handsets, traffic or other types of services depending on the number of points earned and the type of contract involved. The combined statements of financial position include the related deferred Revenue, based on an estimate of the value of the points accumulated at year–end, under "Trade and other payables."

Bundle packages, which include different elements, are sold in the wireline, wireless and internet businesses. They are assessed to determine whether it is necessary to separate the separately identifiable elements and apply the corresponding Revenue recognition policy to each element. Total package revenue is allocated among the identified elements based on their respective fair values (i.e. the fair value of each element relative to the total fair value of the package). However, amounts contingent upon delivery of undelivered elements are not allocated to delivered elements.

All expenses related to mixed promotional packages are taken to the combined income statement as incurred.

Use of estimates, assumptions and judgments

The key assumptions concerning the future and other relevant sources of uncertainty in estimates at the reporting date that could have a significant impact on the combined financial statements within the next year are discussed below. The estimated and associated assumptions are based on historical experience and other factors that are considered to be relevant.

A significant change in the facts and circumstances on which these estimates and related judgments are based could have a material impact on our results and financial position.

Unforeseeable development outside management's control may cause actual amounts to differ from the original estimates. In the case the underlying assumptions, and if necessary the carrying amounts of the pertinent assets and liabilities, will be adjusted accordingly.

Changes are recognized in the period in which they occur, and also in late periods if changes affect both the reporting period and the subsequent ones.

Property, plant and equipment, intangible assets and goodwill

The accounting treatment of investments in property, plant and equipment and intangible assets entails the use of estimates to determine the useful life for depreciation and amortization purposes and to assess fair value at their acquisition dates for assets acquired in business combinations.

Determining useful life requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict.

When an item of property, plant and equipment or an intangible asset is considered to be impaired, the impairment loss is recognized in the combined income statement for the period. The decision to recognize an impairment loss involves estimates of the timing and amount of the impairment, as well as analysis of the reasons for the potential loss. Furthermore, additional factors, such as technological obsolescence, the suspension of certain services and other circumstantial changes are taken into account.

We evaluate our cash–generating units' performance regularly to identify potential goodwill impairments. Determining the recoverable amount of the cash–generating units to which goodwill is allocated also entails the use of assumptions and estimates and requires a significant element of judgment.

Deferred income taxes

We assess the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on our ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of taxable earnings, which are sourced from internal projections and are continuously updated to reflect the latest trends.

The recognition of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realization of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments of our group could differ from the estimates made by us as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

Tax loss carryforwards and deductible temporary differences have been determined under the probable criteria.

Provisions

Provisions are recognized when we have a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. This obligation may be legal or constructive, deriving from, inter alia, regulations, contracts, normal practices or public commitments that lead third parties to reasonably expect that we will assume certain responsibilities. The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, bearing in mind all available information at the reporting date, including the opinions of independent experts such as legal counsel or consultants.

Given the uncertainties inherent in the estimates used to determine the amount of provisions, actual outflows of resources may differ from the amounts recognized originally on the basis of the estimates.

Revenue recognition

Bundled offers

Bundled offers that combine different elements are assessed to determine whether it is necessary to separate the different identifiable components and apply the corresponding revenue recognition policy to each element. Total package revenue is allocated among the identified elements based on their respective fair values.

Determining fair values for each identified element requires estimates that are complex due to the nature of the business.

A change in estimates of fair values could affect the apportionment of revenue among the elements and, as a result, the date of recognition of revenue.

Combination methods

The combined financial statements have been prepared by aggregating the net assets of Telefónica Deutschland Holding AG and Telefónica Germany Management GmbH and its direct and indirect subsidiaries

- Telefónica Germany GmbH & Co. OHG,
- Telefónica Germany Partner Services GmbH,
- Telefónica Germany Online Services GmbH,
- Fonic GmbH,
- Telefónica Germany 1. Beteiligungsgesellschaft mbH and
- Telefónica Germany Customer Services GmbH.

The financial condition and operations of TCHIBO Mobilfunk Beteiligungs GmbH and TCHIBO Mobilfunk GmbH & Co. KG, a joint venture of OHG, are reflected proportionately with 50% in the Combined Financial Statements. Therefore the IFRS financial information reported to Telefónica, S.A. as of December 31, 2011, 2010, 2009 and 2008 as reported to Telefónica, S.A. have been used and modified as described under see Note 1 to our audited combined financial statements on page F–21 *et seq*.

Subsidiaries are entities controlled by us, by Telefónica Deutschland Holding AG and by Telefónica Germany Management GmbH. Control exists if one of the companies has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the combined financial statements from the date that control commences until the date that control ceases.

Deferred taxes for temporary differences resulting from combination processes are recognized in profit or loss.

On loss of control, we derecognize the assets and liabilities of the subsidiary, any non–controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If we retain any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available–for–sale financial asset depending on the level of influence retained.

Share–based payments

For equity–settled share option plans, fair value at the grant date is measured by applying statistical techniques or using benchmark securities. The cost is recognized, together with a corresponding increase in equity, over the vesting period. At each subsequent reporting date, the company reviews its estimate of the number of options it expects to vest, with a corresponding adjustment to equity. Obligations arising from cash–settled share–based payment transactions are recognized as a liability and measured at fair value at each reporting date.

NEW ACCOUNTING STANDARDS

The accounting policies applied in the preparation of the combined financial statements for the year ended December 31, 2011 are consistent with the policies used in the preparation of our combined financial statements for the year ended December 31, 2010 and 2009, except for the application of new standards, amendments to standards and interpretations published by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC), and adopted by the European Union, noted below:

New standards and IFRIC interpretations issued but not effect as of December 31, 2011

At the date of preparation of the accompanying combined financial statements, the following IFRS, amendments and IFRIC interpretations had been published, but their application was not mandatory:

Standards and amendments		**Mandatory application: annual periods beginning on or after**
IFRS 9	*Financial instruments*	January 1, 2015
IFRS 10	*Consolidated financial statements*	January 1, 2013
IFRS 11	*Joint arrangements*	January 1, 2013
IFRS 12	*Disclosures of interests in other entities*	January 1, 2013
IFRS 13	*Fair value measurement*	January 1, 2013
Revised IAS 19	*Employee benefits*	January 1, 2013
Revised IAS 27	*Separate financial statements*	January 1, 2013
Revised IAS 28	*Investments in associates and joint ventures*	January 1, 2013
Amendments to IFRS 7	*Disclosures – Offsetting of financial assets and liabilities*	January 1, 2013
	Disclosures – Transition to IFRS 9	January 1, 2015
Amendments to IAS 1	*Presentation of items of other comprehensive income*	July 1, 2012
Amendments to IAS 12	*Deferred tax: Recovery of underlying assets*	January 1, 2012
Amendments to IAS 32	*Offsetting of financial assets and liabilities*	January 1, 2014
Improvements to IFRS (2011)	*Amendments to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34*	January 1, 2013
Interpretations		**Mandatory application: annual periods beginning on or after**
IFRIC 20	*Stripping costs in the production phase of a surface mine*	January 1, 2013

Except for the revised IAS 19, Amendments to IFRS 7, Disclosures: Transfer of financial assets, and Amendments to IAS 1, Presentation of items of other comprehensive income, none of the above mentioned standards amendments or interpretations have been endorsed by the European Union. Telefónica Deutschland is currently assessing the impact of the application of these standards, amendments and interpretations.

Based on the analyses made to date, Telefónica Deutschland estimates that their adoption will not have a significant impact on the combined financial statements in the initial period of application. However, the changes introduced by IFRS 9 will affect the accounting for financial instruments and transactions with financial assets carried out on or after January 1, 2015.

AUDITED FINANCIAL STATEMENTS OF THE COMPANY IN ACCORDANCE WITH HGB AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

In the balance sheet of financial statements of the Company in accordance with HGB as of and for the year ended December 31, 2011 Total Assets increased from €8,522 million as of December 31, 2010 by €4,747 million to €13,269 million as of December 31, 2011 mainly due an increase in Interests in Affiliated Companies. Equity increased from €8,204 million as of December 31, 2010 by €4,747 million to €12,951 million as of December 31, 2011. As of December 31, 2011, the Company's Equity comprises Subscribed Capital of €1,117 million and a Balance Sheet Profit of €11,834 million.

The increase in Interests in Affiliated Companies during the year ended December 31, 2011 was a result of a reversal of impairment recorded in the amount of €4,747 million for the Company's interest in OHG, which has been recorded as a gain in the income statement within the position Other Income and lead to an increase in Equity.

Our recent distribution of profits, the dividend payments to us of some of the entities recently carved–out from our group and the loans granted to us by TGB.V. prior to the offering (see "*General Information on the Company – Recent Corporate Developments*") had the following effects on our Balance Sheet Profit: Our Balance Sheet Profit (*Bilanzgewinn*) is reduced by an amount corresponding to the dividend payment in the amount of €7.19 billion from €12.95 billion to €5.76 billion comprising of €1.12 billion subscribed capital and of €4.64 billion Balance Sheet Profit.

INTRODUCTION

German Macro Environment

Germany is the most populated nation in the European Union ("**EU**"), with a resident population of approximately 82 million in 2011. According to Eurostat, Germany recorded a population density of 229 inhabitants per square kilometer in 2010, higher than the EU average of 116.6. In 2010, the foreign population in Germany was estimated to be 8.8%, representing various ethnic origins including an estimated 3 million people of Turkish origin. (*Source: German Federal Office of Statistics* (*Statistisches Bundesamt*).)

Germany is Europe's largest economy and has been relatively resilient through the recent economic crisis, experiencing consistent GDP growth over the last few years. Real GDP growth in 2011 was 3.1% compared to 1.6% across the EU. Current projections for real GDP growth in 2012 are 0.7% (0.6% in 2013) for Germany, higher than the EU average of 0.4% in 2012 (0.6% in 2013). Germany is one of the wealthiest countries in the EU with an estimated GDP per capita during 2011 of €31,500 and a projected increase to €32,100 in 2012, higher than the EU average of €25,200 in 2011 and €25,900 forecasted for 2012. (*Source: EIU, European Commission, Datastream.*)

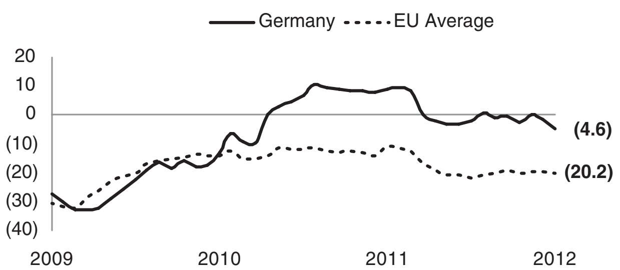
Real GDP Growth (%)						
	2008	**2009**	**2010**	**2011**	**2012E**	**2013E**
Germany	0.8	(5.1)	3.6	3.1	0.7	0.6
EU Average	0.2	(4.3)	2.0	1.6	(0.4)	0.6

Germany has a strong sovereign AAA credit rating with S&P (rated Aaa by Moody's in July 2012) and a stable political system. In addition, Germany has one of the lowest unemployment rates in Europe, currently hitting decade lows. The unemployment rate declined to 6.0% in 2011, a trend which is expected to continue into 2012 with analysts currently projecting a further drop to 5.5%. This compares favorably with the EU average, which has remained consistently higher, recording an unemployment rate of 9.7% in 2011, which is expected to increase to 10.3% in 2012. (*Source: EIU, European Commission, Datastream*.)

Unemployment (%)					
	2008	**2009**	**2010**	**2011**	**2012E**
Germany	7.6	7.7	7.1	6.0	5.5
EU Average	7.2	9.2	9.8	9.7	10.3

Consumer spending is another indicator that sets Germany apart from most countries in the EU. Germany has shown growing levels of consumer spending, with a compound annual growth rate ("**CAGR**") between 2010 and 2013 expected to reach 2.9% compared to the projected EU average of 2.6%. Private consumption per head is expected to be €18,600 in 2012, higher than the EU average of €15,100. Consumer confidence in Germany remains relatively robust despite the European sovereign debt crisis and is higher than the EU average (based on a European Commission consumer survey as of July 2012). (*Source: EIU, European Commission, Datastream.*)

Consumer Confidence



German Telecommunications Market

Germany is one of the largest telecommunications markets in Europe both in terms of accesses and revenue. The German telecommunications sector generated revenue of €47.9 billion during 2011. Of this €19.6 billion (41.0%) is derived from mobile services, including voice and data and €28.3 billion (59.0%) from fixed–line services. (*Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012.*) The market is divided between the Business–to–Consumer ("**B2C**"), which accounts for 68.0% of the market and Business–to–Business ("**B2B**"), which accounts for 32.0%.

The German telecommunications market is experiencing an increased demand for converged product offerings, i.e., subscriptions of fixed-line and mobile services from one integrated operator. The fully integrated operators, Deutsche Telekom, Telefónica Deutschland and Vodafone, are pursuing strategies of bundling and cross–selling and offer packages of mobile services, broadband and fixed-line telephony. The addressable market for converged services is already significant in Germany, and is growing. At the end of November, 2011, 65% of mobile customers (based on active SIMs) had already access to converged offers; also 73% of mobile revenues came from converged propositions at that time. The trend towards converged single–provider usage of mobile and fixed–line products among German households is continuing. The share of converged households using mobile and fixed–line products of the same provider has increased from 31% of all households in February 2010 to 34% in November 2011. Integrated mobile and fixed–line operators can benefit from a convergence strategy by various levers, particularly relating to lower levels of customer churn and leverage opportunities. On average, converged households have a lower churn intention regarding both mobile and fixed–line products compared to non–converged households. When switching providers, households tend to choose providers which are already used by the household. Only very few households simultaneously switch both mobile and fixed–line products to a provider which is completely new to the household. Furthermore, integrated operators can leverage "magnet effects" in high–value multi–person households. The total household telecommunication spendings and usage of especially mobile products typically increase with the number of people living in one household; in addition, children can be efficiently acquired as future subscribers by offering compelling converged family offers to their parents. (*Source: Convergence Study.*)

The telecommunications regulatory environment in Germany has been relatively stable since the liberalization of the sector began over 20 years ago. The sector is governed by the German Telecommunications Act and certain regulations that supplement the Telecommunications Act. The Telecommunications Act replaced a 1996 Act, which paved the way for market liberalization and the licensing of rival operators to compete with the incumbent Deutsche Telekom and brought the German telecommunications market in line with the EU's legislative framework for telecommunications. The Federal Network Agency ("**FNA**") is responsible for the regulation of the German telecommunications market. It is an independent legal body, whose central role is to regularly assess Deutsche Telekom's and other participants' market power and stimulate competition in the market, which includes the control of network access and interconnection and the approval or review of tariffs, including mobile termination rates ("**MTRs**") (see "*– Regulation*").

The FNA announced in August 2012 that although the regulated MTRs are to be based on an efficient cost approach it will take account of the EU's recommendation on mobile and fixed–line termination rates, to take effect on December 1, 2012. This is expected to result in a reduction of the voice MTRs charged by all mobile network operators. The rates for SMS wholesale termination services will not fall under this regulation. However, retail rates are regulated pursuant to European provisions.

EU Regulations capping retail charges for roaming apply to voice, SMS and data roaming and will be lowered on an annual basis until 2014. The new roaming regulation will apply until 2022. (*Source: EU MEMO/12/316, May 2012.*)

The GSM licenses which grant the right to use frequency spectrum in the 900 MHz and 1,900 MHz band expire at the end of 2016. The FNA is currently assessing the demand for these frequencies in order to decide whether to extend the existing frequency usage rights or to launch an auction procedure. A decision is expected in 2013. (*Source: FNA consultation document BK1–11/003, May 2012.*)

GERMAN MOBILE MARKET

Introduction

Germany is the largest mobile market by subscribers in the EU with 114.1 million accesses (i.e., SIM cards) and a penetration rate of approximately 140.0% at the end of 2011. Mobile penetration rates exceeded 100.0% in 2006 and since then have seen an increase of approximately six percentage points per year. There are currently 63.4 million pre–paid accesses in Germany, representing 55.6% of total accesses, while post–paid accounts for 50.7 million accesses and 44.4% of the total accesses. (*Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012.*)

The total number of mobile SIM cards in the German market is expected to increase to 119.6 million by 2014, which can be attributed to additional SIM cards being used for business and personal purposes and the use of multiple SIM cards in a growing range of portable devices including handsets, tablets, e–readers and laptops. This will equate to a penetration of 148.0%, with the split between pre–paid and post–paid services expected to remain relatively stable in the future (56% were for pre–paid and 44% for post–paid in 2011, forecast to be 55.5% for pre–paid and 44.5% for post–paid in 2014). (*Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012.*)

Post–paid subs 2011						
	Germany	**UK**	**Denmark**	**Sweden**	**France**	**Switzerland**
Post–paid subs as a percentage of total mobile subs	44.0	50.0	88.0	66.0	72.0	57.0

In terms of mobile service revenue, voice services still account for the majority of the total revenue with €12.0 billion in 2011, while data services accounted for €7.6 billion. The German market for mobile services is expected to continue to grow in the coming years, with revenue expected to increase by 1.0[1]% annually between 2011 and 2014. This projected increase in mobile services revenue is partially driven by increased penetration of smartphones and small screen devices such as tablets, as well as consumption of mobile data services. Although mobile voice is expected to decline by a CAGR of 6.5%, mobile data is projected to increase by a CAGR of 11.1% to 2014.

ARPU is substantially lower for voice and data in Germany compared to other European markets (both messaging and non–messaging), offering room for growth.

ARPU 2011 (€ per month)						
	Germany	**UK**	**Denmark**	**Sweden**	**France**	**Switzerland**
Voice	9.0	12.8	17.1	16.5	19.0	25.6
Data:	5.6	9.5	6.4	7.3	10.5	13.7
Messaging	2.4	5.5	1.6	2.0	4.5	5.0
Non–messaging	3.3	4.1	4.8	5.2	6.0	8.7

In the German market, there are currently four operators with their own mobile network (mobile network operator or MNO). All four MNOs currently provide mobile broadband services over their UMTS networks after launching W–CDMA–based services in 2004. Since then, all four MNOs have gradually rolled out different technologies supporting significantly higher data rates than W–CDMA such as HSDPA, HSUPA and most recently HSPA+.

In the German spectrum auction that took place in April to May 2010, Deutsche Telekom, Vodafone, E–Plus and Telefónica Deutschland acquired new spectrum (frequency usage rights) for nearly €4.4 billion from the FNA. Part of the auctioned spectrum was the Digital Dividend (800 MHz) which was formerly used by German broadcasters and which will now be used to deploy mobile broadband services via LTE. LTE supersedes the UMTS standard and provides a significantly higher bandwidth and lower latency times. This technology therefore, is expected to act as market catalyst for mobile broadband. The 800 MHz band is considered to be the most suitable to deploy nationwide LTE in Germany. E–Plus did not acquire any blocks within the 800 MHz band. (*Source: FNA publication BK 1a–09/002.*)

As part of the terms of the 2010 spectrum auctions, the FNA established a set of rollout obligations which mandated Deutsche Telekom, Vodafone and Telefónica Deutschland to start their LTE roll–out in the 800 MHz band in rural areas not already served by broadband ("**white spots**") before deploying LTE technology in urban areas. With the exception of the German state of Brandenburg the rural coverage obligations in Germany have now been fulfilled and the MNOs have already started to provide urban areas with LTE. (*Source: FNA press release, June 25, 2012.*) Furthermore, commercial activity has already been started by Deutsche Telekom, Vodafone and Telefónica Deutschland and management expects mass market adoption in 2013/2014.

Mobile Players and Competitive Environment

The German mobile market is well–developed, divided between four MNOs: Deutsche Telekom, E–Plus, Telefónica Deutschland, and Vodafone Germany. In terms of accesses, Vodafone is the leading network operator as of June 2012 with 35.8 million accesses (31.5%), followed by Deutsche Telekom with 35.5 million accesses (31.2%), E–Plus with 23.5 million accesses (20.7%) and Telefónica Deutschland with 18.8 million accesses (16.6%). Deutsche Telekom has the greatest market share in post–paid subscriptions, standing at 35.9% as of June 2012, remaining constant since June 2010 (when it was 35.8%). In the same period, Vodafone's share of the post–paid subscription market has declined (by 3.2 percentage points to 30.3%), and market shares have increased for Telefónica Deutschland (by 2.3 percentage points to 18.8%) and E–Plus (by 0.8 percentage points to 15.0%). In contrast to other European markets where a new entrant has gained significant market share in recent years (e.g., Denmark, Sweden, United Kingdom and France), there has not been a new network operator entering the German mobile market since 2006. At present, there are no signs of a fifth MNO entering the market based on the outcome of the recent spectrum auction that took place in 2010. (*Source: Company information.*)

Mobile Market in Germany						
	Total Market Share			**No. of Subscribers (millions)**		
	Q2 2012	**Q2 2011**	**Q2 2010**	**Q2 2012**	**Q2 2011**	**Q2 2010**
Vodafone	31.5%	32.8%	32.4%	35.8	36.0	34.9
Deutsche Telekom	31.2%	31.4%	34.3%	35.5	34.5	37.0
E–Plus	20.7%	19.6%	18.2%	23.5	21.5	19.6
Telefónica Deutschland	16.6%	16.2%	15.1%	18.8	17.7	16.3

[1] It should be noted that the forecast provided by Yankee Group Research for the future development of the German mobile telecommunications market does not take into account the significant cuts in MTRs expected to be imposed by the FNA at the end of 2012 and in future years.

In addition to the four established mobile network operators, Germany has a very well–developed wholesale market, including service providers and over 100 secondary brands, which account for a significant share of the market. In 2011, this segment accounted for 40.7 million subscriptions (35.7% of total subscriptions) and in 2012 it is expected to increase to 45.3 million out of the projected 116.8 total subscriptions (38.8%). Most of the growth in subscribers in this segment is expected to come from secondary brands, which in some cases are also controlled or owned by the four MNOs. Secondary brands of the MNOs include, for example, FONIC (Telefónica Deutschland), congstar (Deutsche Telekom) and blau Mobilfunk (E–Plus). Mobile offerings are available from large retail chains, including Aldi (using E–Plus), Tchibo mobil (joint venture with Telefónica Deutschland), Edeka (using Vodafone's network) and Lidl (using Telefónica Deutschland's network). Brands targeted at the international calling market include Lebara mobile, TURKCELL (both using Deutsche Telekom's network), Lycamobile (using Vodafone's network) and Türk Telekom Mobile (a product of Telefónica Deutschland and the Türk Telekom Group). Cable operators such as Kabel Deutschland and Unitymedia/KabelBW have also established mobile operations using Telefónica Deutschland's network. Mobile Service Providers still hold a significant share of the mobile market despite their gradual decline in recent years (from 17% in 2010 to 16% in 2011 and 14% forecasted in 2012). After the acquisition of debitel by freenet in 2008, the key remaining players are the freenet group (comprising *inter alia* mobilcom/debitel) and the Drillisch group. The terms of the MNOs' UMTS licenses prohibit the licensees from acquiring a mobile service provider that provides services for another MNO. In effect, this prevents MNOs from attempting to take over the mobile service providers while they serve more than one MNO. (*Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012, Pyramid Research, Mobile Data June 2012, Western Europe Forecast Insights.*)

Total numbers of SIM cards (millions) (year–end)			
	2012E	**2011**	**2010**
MNOs	71.5	73.4	73.1
Secondary / Partner Brands / Wholesale Mobile	28.7	23.0	17.7
Service Providers	16.6	17.7	18.1
TOTAL	116.8	114.1	108.9

Mobile Voice

Mobile voice currently represents the largest segment of mobile service revenue with €12.0 billion as of 2011. Mobile voice revenue are expected to decline at a rate of 6.5% annually down to €9.9 billion by 2014 partly due to increasing competition from non–traditional mobile voice services based on VoIP technologies. Over–the–top ("**OTT**") applications such as Skype, which are generally free of charge and accessible via smartphones, have the potential to gradually substitute traditional voice services carried over circuit–switch networks. In addition, in recent years in Germany, there have been considerable reductions to regulated mobile voice termination rates. Mobile voice termination rates are expected to fall further in late 2012, when the FNA has said it will set the regulated rates with reference to the European Commission's 2009 recommendation on fixed and mobile termination rates. International roaming rates are also falling due to ongoing regulatory pressure from the EU.

Despite the expected negative trend in mobile voice revenue, there are limited downsides in the German market, in comparison to other European markets. Voice ARPU in Germany is currently €9.1 per month compared to France with €19.0 per month. Monthly minutes of use ("**MoU**") in Germany is also significantly lower than in peer countries with 118 minutes average MoU in 2011 compared to 241 minutes in Sweden or 243 minutes in France. (*Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012.*)

	Germany	**UK**	**Denmark**	**Sweden**	**France**	**Switzerland**
Voice ARPU 2011 (€ per month)	9.1	12.8	17.1	16.5	19.0	25.6
MoU	118	178	192	241	243	122

Mobile Data

Mobile data services include traditional messaging services carried over the circuit–switch network (SMS) as well as messaging and non–messaging services carried over the packet–switch network and the Internet (non–SMS mobile data).

There is significant catch–up potential in the German market for mobile data services compared to other Western European mobile markets. Smartphone penetration is relatively low at 32.7% compared to 35.2% in France and 39.1% in the United Kingdom, but with general telecommunication trends moving towards increased smartphone acquisition and an accompanying rise in data use, the German market is expected to increase to approximately 37% of total mobile service revenue in 2014. At €5.6 per month, the data ARPU in Germany is also significantly lower than that achieved in the United Kingdom and France, where data ARPU is €9.5 and €10.5 per month respectively, however data ARPU in Germany is expected to increase to €7.2 per month in 2014. These positive factors are expected to help deliver an 11.1% compounded annual growth rate in mobile data revenue between 2011 and 2014 in data–related mobile service revenue. (*Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012.*)

Messaging

Traditional messaging services, such as SMS, have historically represented an attractive source of revenue and cash flow generation for mobile network operators due to the relatively high margins and low network utilization. However, in recent years, many European countries have experienced a strong substitution effect on SMS services due to the rapid expansion of OTT services, such as WhatsApp or Facebook Messenger, which enable users to access potentially unlimited messaging services over the Internet. In addition, there remains some uncertainty around SMS termination rates, which are not regulated. Despite the introduction of these OTT applications in Germany, the impact on SMS messaging has been limited and relatively stable messaging trends are still observed in the market in 2012. The potential substitution effect on SMS has so far been mitigated by the general move from MNOs towards bundling products that include SMS and integrated tariffs. According to Yankee Group Research, revenue from messaging are expected to fall from €3.09 billion in 2012 to an estimated €2.88 billion in 2014. (*Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012.*)

Non–Messaging

Non–SMS mobile data is a key future growth driver in the mobile market and is being targeted by all four MNOs in the German market. In 2011, the contribution of non–messaging mobile data to total mobile service revenue was €4.4 billion, and is expected to increase at a compound annual growth rate of 19.2% to €7.5 billion by 2014. Mobile data is expected to replace mobile voice as the largest revenue contributor in the mobile market by 2014 with 51.0% of the total mobile service revenue, compared to 39.0% in 2011. This increase is primarily due to an increase in non–SMS mobile data traffic driven by the increased take–up of smartphones and other small screen devices, such as tablets, as well as the technological evolution to super–fast mobile broadband with LTE.

We believe that mass market roll–out of LTE technology anticipated in 2013/2014 is expected to contribute to non–messaging mobile data growth as it brings positive effects on customer experience and allows premium data pricing for MNOs. According to Yankee, by 2014 non–messaging mobile data will account for 37.0% of mobile revenue. (*Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012.*)

Non–messaging data revenue percentage of total mobile service revenue (%)				
	2011	**2012E**	**2013E**	**2014E**
Germany	22.5	27.5	32.2	37.0
UK	18.3	22.5	26.7	30.6
France	20.4	25.3	30.8	36.3
Sweden	22.0	25.6	29.0	32.3
Denmark	20.5	23.8	27.0	30.1
Switzerland	22.1	24.1	25.5	26.4

GERMAN FIXED–LINE MARKET

Introduction

The German fixed–line market is split between voice (63.0%, or €17.5 billion) and broadband (37.0%, or €10.8 billion) representing a total revenue of €28.3 billion in 2011. There has been a slow down in price decline which has stabilized revenue and the market is expected to stay flat until 2014 with a compound annual growth rate of 0.5%. (*Source: Yankee Group Research, EMEA ConnectedView Forecast 2012.*)

The main broadband access line technologies are digital subscriber line ("**DSL**") and cable. DSL continues to be the dominant technology in the broadband market, with 23.6 million of the total 28.6 million subscribers in 2011 using DSL, generating revenue of €8.4 billion. Both the number of subscribers and the revenue from fixed–line is expected to remain stable over the next three years. The use of cable technology is increasingly popular in urban areas and is expected to increase from 4.1 million subscribers in 2011 to 5.2 million subscribers out of the 30.3 million projected subscribers in the German fixed broadband market in 2014, representing a compound annual growth rate of 8% and generating a steady increase in revenue. Alternative means of connection, such as direct fiber connection, are becoming more prevalent. In 2011, fiber connected

200,000 broadband customers in Germany, by 2014 that number is expected to be 500,000, representing a compound annual growth rate of 34%. (*Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012.*) In addition, regulation now enables competitors to access Deutsche Telekom's super–fast VDSL network via a "contingency model" (see "*– General Trends in the German Telecommunications Market*"). In recent years, there has been a significant investment in VDSL network infrastructure, primarily by Deutsche Telekom, with its network coverage reaching 11 million people in 50 cities across Germany by August 2012. (*Source: Deutsche Telekom press release, August 17, 2012.*)

Triple–play packages are offered by the majority of broadband service providers. These bundle fixed telephony, broadband Internet access and IPTV/digital TV. Quadruple–play packages which add mobile services are also available from some fixed–line network operators and cable network operators such as Kabel Deutschland and Unitymedia/KabelBW.

Fixed–line internet/Broadband

Germany is the largest fixed broadband market in Europe, with 28.6 million subscribers by the end of 2011. This is expected to rise steadily to 30.3 million by 2014. The total revenue from fixed broadband was €10.8 billion in 2011 and is expected to remain stable until 2014. (*Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012.*)

Due to rapid growth over recent years, broadband internet penetration in German homes has accelerated and increased to approximately 68.0% of all homes at the end of 2011, according to Yankee. Compared to other European countries, this penetration level is still relatively low. (*Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012.*)

Broadband internet Penetration (%)				
	Germany	**UK**	**Denmark**	**France**
2011	68.0	74.0	76.0	82.0
2012E	69.0	74.0	76.0	83.0
2013E	70.0	74.0	76.0	85.0
2014E	70.0	75.0	76.0	85.0

Market Players and Competitive Environment

The broadband services market in Germany is highly competitive. The major DSL service provider in Germany is Deutsche Telekom, the incumbent telecommunications service provider. Other major competitors in the broadband internet market are, for example, United Internet, and alternative network operators such as Vodafone and Telefónica Deutschland that rent the unbundled local loop ("**ULL**") from Deutsche Telekom. (*Source: Germany Broadband Subscribers GlobalComms.*)

Fixed Broadband Market in Germany						
	Total Market Share (%)			**Number of Subscribers (millions)**		
	Q2 2012	**Q2 2011**	**Q2 2010**	**Q2 2012**	**Q2 2011**	**Q2 2010**
Deutsche Telekom	44.4	45.5	46.1	12.4	12.2	11.8
Vodafone	12.0	12.9	13.5	3.3	3.4	3.5
Telefónica Deutschland	8.9	9.8	9.4	2.5	2.6	2.4
United Internet	11.9	12.4	12.9	3.3	3.3	3.3
Main Cable Operators[1]	13.4	11.0	8.8	3.8	2.9	2.3
Others	9.3	8.3	9.3	2.6	2.2	2.4

[1] Main cable operators include subscribers from Kabel Deutschland and Unitymedia/KabelBW.

Alternative Network Operators

With the liberalization of the German telecommunications market in 1998, the FNA required Deutsche Telekom to open up the last mile of its network, i.e., the copper wire from the main distribution frame (MDF) to the customer's premises, to further competition through ULL. In Germany, a significant number of ULL operators have evolved from infrastructure–based operators created by major utility companies or by Deutsche Bahn AG. These companies had already built extensive private networks in advance of liberalization. In approximately 100 German cities, local utility companies constructed city networks which provide local alternative infrastructure. The MNOs, Vodafone and Telefónica Deutschland use Deutsche Telekom's regulated ULL products to connect fixed–line customers.

Resellers

Voice resellers were the first competitors to emerge in the German fixed–line telecommunications market. The resale model has been developed subsequently in the dial–up and broadband internet markets. Today, pure resellers primarily offer broadband access and VoIP using a facilities–based carrier's infrastructure. United Internet is the only relevant remaining reseller in the market with an 11.9% subscriber share of the fixed broadband market as of June 2012. (*Source: GlobalComm Q2 2012.*)

Cable Companies

In Germany, cable operators offer high speed internet connections as a result of rapid modernization of cable networks in recent years. Cable operators had a subscriber market share of 13.5% as of June 2012. (*Source: GlobalComm Q2 2012.*) Cable revenue is expected to continue to increase steadily from €1.0 billion in 2011 to €1.3 billion in 2014. However, broadband and telephony service deployment in the cable market is constrained by a number of complicating factors, including the structural separation of the network into four distribution levels and the need to upgrade a significant number of distribution networks in the home. (*Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012.*)

Fixed–line Telephony

In the German market for consumer fixed–line telephony, Deutsche Telekom remains the biggest provider. The fixed–line telephony market is increasingly under pressure from resellers, alternative carriers, mobile substitution and alternative access technologies such as VoIP services offered via DSL or other broadband internet connections, and service providers such as Skype.

GENERAL TRENDS IN THE GERMAN TELECOMMUNICATIONS MARKET

The German telecommunications sector is experiencing a number of clear trends which are set to extend into the future. First, there is a strong movement towards convergence. This is promoted in the industry through bundled offers, including triple–play and quadruple–play packages. In connection with this trend and fixed–line services, Deutsche Telekom is currently offering to the market a new VDSL bitstream contingency model which is based on a commitment and risk sharing approach including an upfront payment allowing other provider to connect a defined number of households for a more attractive monthly bitstream price with bandwidths of up to 50 Mbit/s. Second, there is a strong push by all four MNOs in the German market to monetize mobile data. The symbiotic growth in mobile data usage and smartphone penetration presents upside opportunities for MNOs. Third, it is expected that there will be a move to cloud services, where services such as Customer Relationship Management (CRM) systems and e–mail are hosted remotely rather than on dedicated servers within enterprises. This move has increased data traffic between enterprises and data centers and has resulted in a corresponding increase demand for network capacity. Finally, the market for machine–to–machine communications is growing. By 2014, the machine–to–machine communications market revenue in Germany is expected to grow to €155 million, up from €97 million in 2011. (*Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012.*)

MNOs are beginning to offer innovative digital services in addition to their core connectivity services, which will drive future growth. Telefónica Deutschland, supported by Telefónica S.A., has identified the following five innovative trends which have already had an impact on revenue which we anticipate to continue:

- Launching and commercializing tools allowing for additional communication features on mobile handsets, such as multi–media content sharing and cloud services;
- Machine–to–machine solutions (i.e., automated data communication between two devices via a mobile network), such as tracking & tracing and vending machines;
- Security solutions such as antivirus, anti–phishing and URL filtering;

and more broadly:

- Financial services, including, for example, direct–to–bill services that enable users to pay for digital goods through their mobile phone bill and certain insurance products such as handset insurance and internet insurance; and
- Advertising services, such as offering customers the opportunity to communicate their product offers through messaging and e–mail, or offering advertising space on telephone bills.

BUSINESS

Our combined financial statements as of and for the years ended December 31, 2011, 2010 and 2009 and as of and for the six months ended June 30, 2012 were prepared for the purpose of this Offering. The combined financial statements include the assets and liabilities, expenses and income and cash flows of those direct and indirect subsidiaries and proportionately of this joint venture of the Company for the years ended December 31, 2011, 2010 and 2009 and for the six months ended June 30, 2012 and 2011, which are still subsidiaries and joint venture of the Company at the date of this Prospectus. "Net assets attributable to Telefónica Germany Group" contain the share capital, capital reserves and retained earnings of the Company and Telefónica Germany Management GmbH. For the other companies within the Telefónica Germany Group the carrying amount of the investment in each subsidiary held by the Company and Telefónica Germany Management GmbH and their portion of net equity of each subsidiary are consolidated. The entities TGS, TGR, Telefónica Compras Electronicas S.L., Adquira España S.A., G3G and Quam were subsidiaries or associate of the Company during the years ended December 31, 2011, 2010 and part of 2009 as well as the first six months of 2012, but they recently ceased to be members of our group due to the reorganization of our group prior to the Offering (see "General Information on the Company – Recent Corporate Developments"). For purposes of the combined financial statements, these entities have not been consolidated. For more information about the combined financial statements and the basis of their preparation, see Note 1 to our audited combined financial statements on page F–21 et seq. and Note 1 and Note 2 to our unaudited interim condensed combined financial statements on page F–8.

OVERVIEW

We are the fastest–growing integrated telecoms network operator (based on 2011 mobile service revenues and OIBDA) and the third largest telecommunications services provider in Germany (based on 2011 revenues), serving approximately 25 million customer accesses as of June 30, 2012. We offer mobile and fixed–line services providing voice, data and value–added services to consumer and business customers. In addition, we are one of the leading wholesale providers in Germany, offering access to our mobile and fixed–line infrastructure and service capabilities to our wholesale partners. We are part of Telefónica Group, one of the largest telecommunications companies in the world.

We operate a nationwide mobile network with GSM coverage exceeding 99% of the German population, a nationwide mobile network with UMTS coverage of approximately 73% of the German population and a nationwide fixed–line network with DSL access coverage to approximately 67% of German households. Our mobile network operates on the technology standards GSM or 2G, UMTS or 3G and, more recently, LTE or 4G.

We market our products under a multi–brand strategy. We offer the majority of our post–paid and pre–paid mobile and fixed–line products and services through our core premium O_2 brand. We access additional customer groups through our secondary and partner brands as well as our wholesale channels. Secondary brands are fully controlled brands such as FONIC and netzclub or brands held through joint ventures and strategic partnerships such as Tchibo mobil and Türk Telekom Mobile. We market high–speed internet access and fixed–line telephony via DSL (under the standards ADSL2+ and VDSL). We target our SoHo and SME business customers through our O_2 brand, and large, national companies and multinational corporations through our Telefónica Multinational Solutions brand. In our wholesale service business, we offer mobile and fixed–line services to customers such as 1&1, mobilcom/debitel, Drillisch and the two major German cable operators. We offer our products through a diversified distribution platform comprising direct (nationwide network of self–operated shops and O_2 partner shops, premium partners, online and telesales) and indirect (retail/e–retail partnerships and dealers/cooperations) sales channels.

In 2011, we recorded Revenues of €5.0 billion and OIBDA of €1.1 billion, corresponding to year–on–year increases in Revenues and OIBDA of 4.3% and 28.7%, respectively.

STRENGTHS

We believe that the following strengths will enable us to execute our strategy (see "– *Strategy*").

We are an integrated network telecommunications provider in Germany, one of the strongest economies in Europe

We are a single country telecommunications provider operating in Germany, one of the strongest economies in Europe. Germany has the highest GDP in Europe, a strong sovereign credit rating, a low public debt, a healthy fiscal balance and a stable political system.

Amid the European sovereign debt crisis, Germany's economy has remained resilient with real GDP growth of 3.1% in 2011, forecast GDP growth of 0.7% for 2012 and 0.6% for 2013 (European average: 1.6% for 2011, (0.4)% for 2012 and 0.6% for 2013), a low unemployment rate of 6% in 2011 which is forecast to decrease further to 5.5% in 2012 and private consumption per capita forecast to be €18,600 in 2012, higher than the EU average of €15,100. (*Source: EIU, European Commission, Datastream.*) These strong macroeconomic parameters support the German telecommunications market which is expected to grow from €47.9 billion in 2011 to €49.0 billion in 2014. (*Source: Yankee Group Research, EMEA Connected View Forecast, June 2012.*)

Third largest integrated network telecommunications provider in one of Europe's largest telecommunications markets

Germany is one of Europe's largest telecommunications markets, with revenues from telecommunications services reaching €47.9 billion in 2011. (*Source: Yankee Group Research*.) We are the third largest integrated network telecommunications provider in Germany based on 2011 revenues. (*Source: published financial information of Deutsche Telekom, Vodafone and E–Plus*.) We believe our market position and size, serving approximately 25 million accesses as of June 30, 2012, enable us to capitalize on the anticipated growth opportunities presented by one of Europe's largest telecommunications markets, in particular for mobile data services.

Increasing consumer spending in the German mobile telecommunication market is being driven, in part, by increased usage of smartphones and digital trends. Germany holds significant market catch–up and growth potential for data, with a relatively low smartphone penetration of 32.7% compared to other developed western European telecommunications markets, and blended data ARPU of €5.6 in 2011. (*Source: Yankee Group Research.*)

Drivers of data growth include not only increasing smartphone and tablet devices usage, but also a rising demand for accesses, connectivity and bandwidth, and mobile internet requirements with increasingly higher speeds. Our network assets, including access to LTE, are in place to continue exploiting the growth opportunities presented by these trends for data usage in Germany. Moreover, due to the recent award of frequency usage rights over the LTE–capable spectrum, we benefit from regulatory clarity in the German telecommunications market as to spectrum availability. In addition, the telecommunications regulatory environment in Germany is relatively stable and predictable as compared to other countries.

Winning customer proposition through our powerful brand portfolio, innovative data solutions, converged offers and strong distribution channels

The strength of our customer proposition is built on our powerful brand portfolio, innovative data solutions, converged offers and strong distribution channels.

We have a powerful multi–brand portfolio comprising our own brands as well as established secondary or partner brands. We derive the most leverage from our core premium O_2 brand, which we have positioned as one of the most loved brands in Germany with the "happiest" customers through attractive value–for–money propositions. In fact, the O_2 brand has ranked highly in numerous customer satisfaction surveys (see "*–Brands and Marketing – Brands*"). Alongside our O_2 brand, our multi–brand approach enables us to target a broad range of consumers and maximize our sales reach. Our secondary brands are positioned to target customers of varying age groups, ethnicities, interests and profiles. This is further complemented by brands used in our strong wholesale partnerships, with service providers, cable operators and retailers.

Our early focus on data through innovative tariff solutions, smartphone shipments, and the development of converged offerings has translated into proven monetization of growth in data traffic. We have successfully introduced innovative tariffs which enable us to attract and retain customers as well as monetize increased usage. For example, O_2 Blue and O_2 on tariffs are recent pricing initiatives that contain single flat rates for voice and data services which customers can combine in line with their individual needs. These smartphone tariffs were introduced in early 2012 and are one of the key drivers of our mobile data monetization success. Another proposition to attract users of data services is the "O_2 My Handy" model, which separates handset prices from contracts for mobile services in a transparent way. We are also using the "O_2 My Handy" model for our secondary brands, especially for a portfolio of low–budget smartphones, in order to meet the increasing demand for data services in these customer segments.

We are one of only three mobile network operators in Germany that have acquired usage rights for the 800 MHz frequency band which is most suited to provide future mobile broadband services on the next generation LTE network. LTE technology's higher data transmission speeds and capacity allow us to meet the increasing demands of customers for new types of digitized media, such as streaming media, games, videos and social media applications. Our converged service offerings combining mobile offers with fixed–line broadband propositions further increase our sales reach and share in customers' spending and reduce the risk of customer churn. Additionally, we offer customers certain innovative products including through Telefónica Digital, such as TU Me, an application combining messaging, VoIP and photo–sharing features.

Our customers also benefit from our extensive distribution reach with a well–balanced channel split. We use direct sales as the main contributor to our total sales revenues. We distribute our O_2 branded products and services through a well–established nationwide network of self–operated O_2 shops and O_2 partner shops situated in locations with high foot traffic. Our innovative online portal is well designed for the best customer experience with comprehensive self–care functionality and integrated social media applications, among other features. For our secondary brands, we also leverage retail and online channels. The main retail distribution arrangement relates to approximately 380 Media Markt and Saturn locations. We are the only German MNO with a direct sales presence that exclusively sell our products and services in Media Markt and Saturn stores. We intend to increase our use of the online channel both for sales and customer care in order to prepare us for an increasingly digitalized future. We also benefit from long–standing relationships with strong distribution partners that have extensive retail distribution coverage and the nationwide distribution networks of our wholesale partners.

Competitive network infrastructure and strong spectrum position

We believe that our network infrastructure assets leave us well positioned to capitalize on the opportunity provided by strong growth in data usage in the German market.

In mobile services, we operate a state–of–the–art network with nationwide 2G coverage exceeding 99% of the German population and 3G coverage of approximately 73% of the German population. Over the past several years, we have made considerable investments in updating and upgrading our entire mobile network infrastructure. For example, a significant part of our mobile network was equipped with HSPA technology, a technology extending and improving the performance of 3G/ UMTS networks, and we are now building, in parallel, the next–generation 4G/LTE network. We believe that our ongoing deployment of the LTE network, along with our strong spectrum position, will enable us to capitalize on the growth in the usage of mobile data.

In order to cope with mobile traffic growth, we signed a backhaul transportation deal with Deutsche Telekom regarding the use of its infrastructure, in particular, its fiber optic infrastructure in December 2011. We believe it will be able to maintain or even increase its level of performance or efficiency when tested by larger operational demands and will allow our mobile network to transmit data at greater speeds and benefit from a larger capacity. This scalable and flexible cooperation with Deutsche Telekom allows us to connect up to 2,000 concentration points (the first point at which individual end–user connections are brought to a single point in the network). (see "*–Network – Infrastructure – Transport Network*")

Our fixed–line services have an extensive reach with DSL access available to approximately 67% of households across the country, mainly through our own extensive ULL platform. By purchasing bit stream products, we have extended the coverage to 95%. Our current transport network consists of more than 27,000 microwave links and approximately 13,000 kilometers of owned and leased fixed–lines, integrating both the mobile and fixed access networks.

Benefit from Telefónica Group's scale and expertise

Upon completion of the Offering, we will benefit from access to international capital markets and from operating as a public company. However, we will still be part of the Telefónica Group and, as such, will continue to benefit from the Telefónica Group's scale of operation and expertise in various areas. These benefits include the ability to source various items, including network equipment under the Telefónica Group's global purchasing contracts as well as being able to access a selection of suppliers who are continuously evaluated with regards to performance and quality. As part of the Telefónica Group, we have strong combined procurement power and access to premium handsets. We also benefit from the global product and service offerings available from the Telefónica Group for our large corporate clients and multinational companies. We take advantage of global roaming agreements of Telefónica Group. Furthermore, we derive cost benefits from shared functions available from the Telefónica Group at attractive pricing.

We are able to leverage the global business divisions of Telefónica Digital to provide additional growth in several key areas in Germany, including financial services, advertising, communications, M2M and security. We receive support in such areas as digital services and IT which enables us to leverage the Telefónica Group's scale and competitive advantages. We also gain access to best in class business practices and benefit from knowledge sharing within the Telefónica Group.

Finally, we continue to have access to the Telefónica brands and the O_2 brand through license agreements with Telefónica Group.

Strong financial track record driving attractive growth and cash flow generation

We have been steadily growing our subscriber base across all business areas since we first began providing telecommunications services to the German market. Our growth in Revenues has been driving our strong cash flow generation.

In 2011, our Revenues reached €5.0 billion and our OIBDA reached €1.1 billion, with our OIBDA less capital expenditures at €591.6 million. These figures represent increases from €3.7 billion, €891.5 million and €94.3 million in 2009, for Revenues, OIBDA and OIBDA less capital expenditures, respectively, which amounted to a compound annual growth rate ("**CAGR**") of 15.9% for Revenues and 13.5% for OIBDA for the years ended December 31, 2011, 2010 and 2009. The improvements in OIBDA were primarily due to increased post–paid mobile services subscriber base, growth in mobile data, the impact of the integration of the HanseNet business, and the optimization of our non–commercial cost base by measures such as the redundancy program implemented in 2010 and efficiency improvements in the network and information technology areas (see "*– Employees and Pension Obligations*").

As a result of our growth in Revenues and OIBDA, we have experienced increasing cash flows over the years 2009 to 2011 despite significant capital expenditures (including the acquisition of spectrum licenses) of €3.4 billion in the aggregate (including €1.4 billion for the acquisition of spectrum licenses). Cash flows were also boosted by factors such as efficient cash management and a favorable tax position including significant tax losses carried forward (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources*").

This steady growth has continued during the six months ended June 30, 2012. In this period, our Revenues reached €2.6 billion and our OIBDA reached €0.6 billion. These figures represent significant improvements of 4.7% for Revenues and 12.3% for OIBDA compared to the six months ended June 30, 2011, where the Company reached Revenues of €2.4 billion and OIBDA of €0.5 billion.

The increase in OIBDA during the six months ended June 30, 2012 was primarily attributable to increasing Wireless Service Revenues, as well as continued process efficiency improvements.

Highly experienced management team

We have a highly experienced and skilled management team combining international and regional talent. With an average of 20 years of industry experience, the depth and breadth of our management's combined expertise is a valuable asset which continues to drive our growth and operational excellence. Our management team has an established track record of driving growth and sustainable cash flow generation. In addition, our management team has a proven track record of successfully launching, and swiftly bringing to market, new and innovative mobile product offerings, such as the "O_2 My Handy" model and innovative data tariffs, including O_2 Blue and O_2 on.

STRATEGY

We aim to leverage our existing assets to capture market share in the mobile services market and drive growth through the following strategies:

Leverage our strong multi–brand portfolio and high levels of customer satisfaction to increase market share

We aim to use our core O_2 brand and our strong portfolio of secondary brands (FONIC, netzclub, Tchibo mobil and Türk Telekom Mobile) and partner brands to build on our position in the German telecommunications market. Our multi–brand approach enables us to target a broad range of consumers and maximize our sales reach through tailored product offerings, marketing and distribution. In addition, we intend to continue to explore strategic partnerships to add brands which target specific niches or consumer segments.

We continuously seek to improve the positioning of O_2, our core premium brand, to attract premium consumer and business customers for post–paid mobile, fixed–line and converged services. Our aspiration is to be the most loved brand with the most satisfied customers in the German telecommunications market. This includes offering customer insight driven propositions and providing outstanding service through all customer touch–points. This includes, for example, re–designing O_2 shops to offer a better customer experience and introducing In–Store O_2 Gurus, our experts who answer customers' technical questions and other queries in our O_2 shops. We also aim to increase the personalization and interactivity of our digital offerings through online customer service representatives and videos. We aim to provide customers with convenient and easy–to–use services and innovative loyalty schemes.

With our customer service, retention and satisfaction programs, we intend to continue to provide our customers with consistently high–quality customer service and maintain transparency, thereby generating trust with our customers. We believe our high levels of customer satisfaction decrease churn and increase the rate at which our current customers recommend us to new potential customers. Our focus on care for our customers includes innovative O_2 loyalty rewards, such as small gifts or discount vouchers, and opportunities to pre–purchase tickets for events, gain priority entry to and enjoy food and beverage discounts at our O_2 World multi–use indoor arenas. We intend to continue to develop innovative customer loyalty initiatives in order to maintain and further improve our high levels of customer satisfaction.

Monetize data opportunities through innovative products, digital services and LTE

We aim to monetize the current opportunities for growth in data products and services through innovative product offerings, further development of our digital services and the rollout of our LTE network. In order to sustain our mobile services growth, which we expect to be our main growth driver over the next few years, we intend to continue our strategic focus on the provision of mobile services to smartphone users who generally generate sustainable, above average ARPU.

Flexible and competitive customer driven products like the O_2 Blue tariff portfolio aggregating different voice and SMS flat rates as well as data flat rates in different data volumes and speeds and our "O_2 My Handy" model are key factors in supporting this strategic objective. We believe that the "O_2 My Handy" model helps to drive our smartphone sales and has various customer benefits, including creating price transparency by separating the sales of hardware from the provision of mobile services.

Our initial focus in the mobile data area has already translated into successful monetization of data traffic growth. We believe there is significant growth potential in this area in Germany due to low smartphone penetration and a marked increase in the demand for newly developed digital media. We intend to leverage our large and growing smartphone customer base to monetize mobile data revenues, as smartphone users are increasingly accessing the internet and a range of digital media through their smartphones.

We also expect our value–added services offering, which is expanding and includes financial services, innovative communication tools and mobile security solutions, to further increase our attractiveness for smartphone users. Our digital initiatives, including tariffs and innovative products around Telefónica Digital, are intended to drive revenues by exploiting the data growth in the German market. We aim to position ourselves at the center of our customers' digital world.

As a result of the roll–out of LTE technology, we believe that the trend in the German telecommunications market towards increased smartphone and data usage will continue. With the expected decrease in mobile voice revenues and messaging services, mobile data service revenues are becoming increasingly important. Our recent investment in LTE spectrum is intended to address this opportunity. The larger bandwidth and faster mobile data speeds we plan to offer will be designed to retain and attract customers through increased capacity and innovative services and products.

Expand our convergence strategy to increase share of customer wallet and reduce churn

We intend to continue to focus on converged mobile and fixed–line service bundles in order to increase our share in customer spending, reduce mobile churn and reduce subscriber acquisition costs. We anticipate greater demand for converged product offerings from our customers, and we therefore plan to continue to attract customers by maximizing the potential of bundled offerings through base fee discounts and tariff community options offering free voice and messaging services between a fixed–line access and all mobile devices of an entire household. We have many customers with only a single product or service from our range of offerings, which we believe presents us with a great opportunity to target those customers and to cross–sell to them from our other products and services. In addition, our data shows that converged customers have significantly lower churn rates. We believe that our convergence strategy will allow us to protect our growth in mobile services, extract additional value from existing customers, lower our acquisition costs, increase the profitability of our fixed–line services and reduce churn. (*Source: Convergence Study*.)

Seize the opportunity in the SoHo, SME and wholesale markets

We believe that there is significant opportunity to grow our revenues from business customers, in particular SoHos and SMEs. We target small and medium–sized and large national business customers with our core O_2 brand and larger international companies with our Telefónica Multinational Solutions brand in partnership with the Telefónica Group. We intend to raise customers' perception of our core O_2 brand as a business brand. We aim to increase our market share by differentiating ourselves from our competitors by providing good value for money, tailored propositions and bundled benefits and focusing on customer service as a differentiator.

Opportunities to gain market share among larger business customers include providing managed services, which we see as a key growth driver in the German telecommunications market. Such managed services include WAN and LAN, and PBX management. We also intend to expand our product offerings to business customers to include selective cloud, security and IT consulting services.

Through specialized and tailored service offerings to wholesale partners, we aim to increase revenues and improve margins. We offer an extensive portfolio of mobile and fixed–line services to our wholesale partners to enable them to service their end–customers, which allows us to increase our reach and leverage scale. When required, we assist our wholesale partners in developing tariffs for their end–users. To our fixed–line wholesale partners we provide a range of ULL services, including fixed–line telephony and high–speed internet access, as well as other add–on services, such as billing, the management of phone numbers and SIP–accounts. All accesses in this area are governed by service contracts directly between the wholesale partner and the end–user. While our wholesale offering has relatively lower margins, it also has lower accompanying capital expenditures requirements which result in a positive impact on operating cash flow levels. We aim to use innovation to improve services, profitability and competitiveness in our wholesale business to maintain and increase our market share.

Maintain competitive 3G and LTE networks with a "smart follower" strategy to capitalize on data growth opportunities

We expect smartphone sales and the usage of mobile data to continue their upward trend. We intend to maintain a competitive 3G network to service our existing and future smartphone customer base while rolling out our LTE network, which we believe will provide our customers with a better experience and allow us to capitalize on the opportunity presented by the growth in data usage in the long term.

We believe demand for LTE technology in Germany will increase significantly in 2013 and 2014. During the roll–out of the LTE network, the German regulator required certain towns and districts with little or no broadband coverage (also known as "white spots") to be prioritized and this requirement has now been fulfilled for the majority of federal states. Therefore, we are able develop our LTE network strategy based primarily on commercial considerations.

Our LTE technology is currently only available through our O_2 brand, for a price premium. We intend to continue to limit the LTE network exclusively to our O_2 customers and to use it as a clear differentiator between our premium O_2 brand and our secondary and partner brands.

Drive profitable growth and efficiency to achieve enhanced cash flow generation

We intend to drive profitable growth by maximizing operating efficiencies. This will entail continuously actively managing our customer base and our ARPU levels, with a focus on data usage as well as reducing operating costs through various measures, including the increased share of direct distribution channels, online and digital customer care, efficiency initiatives to optimize processes, realizing network synergies, and streamlining our IT systems.

We aim to leverage the current strength of our core O_2 brand and to monetize the rise in data usage and smartphone users, especially through the ongoing roll–out of our LTE network and through increased convergence. (*Source: Convergence Study*.) We intend to increase the use of direct distribution channels to optimize our acquisition process and costs.

We are pursuing several parallel initiatives aimed at improving our overall efficiency and, in particular, transitioning our business to become a more efficient and agile telecommunications operator. We plan to increase self–care options for our customers and renegotiate partnership models, tariffs and terms with our partners and suppliers, which is underpinned by our ability to continuously capitalize on the advantages of being part of Telefónica Group by globally sourcing certain goods and services.

In relation to our network, we aim to achieve further efficiency improvements with outsourcing programs. In recent years, we have outsourced parts of our operations, including most of our technical services and the maintenance of our networks. In addition, our continuing investments in our network and the recently concluded fiber deal with Deutsche Telekom will allow us to absorb increased data usage, optimize capital expenditure and increase revenues and cash flows.

With the aim of maintaining the competitiveness of our fixed–line services, we are currently exploring possibilities of co–operating with other German fixed–line network operators. Such cooperation could include our usage of the cooperation partner's fixed–line network infrastructure and, potentially, the disposal of parts of our own network infrastructure.

With regards to our IT systems, we intend to continue stabilizing costs and streamlining functions in order to become more efficient and agile.

HISTORY

The foundation of our Company dates back to 1995 when we started as a joint venture, VIAG Interkom, between the German utility conglomerate VIAG AG and British Telecom plc (joined later by Telenor ASA), to provide services in the German mobile and fixed–line telecommunications market. In 1997, VIAG Interkom was awarded a GSM license to build a 2G network to provide mobile voice, messaging and data services. In 1999, VIAG Interkom launched the first integrated mobile and fixed–line services offering in the German market.

With the acquisition of UMTS licenses for a 3G network in 2000, VIAG Interkom was able to improve the mobile services offered to our customer base, which grew to exceed one million that year. In 2001, British Telecom plc bought out the former interests in VIAG Interkom that were owned by the German utility company E.ON and Telenor ASA, renamed our mobile business "O_2 Germany", which started operating as a subsidiary of mmO_2 plc and in 2002 began offering products and services under the "O_2" brand to the German market. mmO_2 plc was later renamed O_2 plc.

In 2006, Telefónica, S.A. purchased O_2 plc, including its O_2 mobile networks and operations in Germany, and this was subsequently integrated into Telefónica, S.A.'s existing German operations. That year we launched our O_2 DSL services and our customer base exceeded 10 million. In 2007, we introduced FONIC, our main secondary discount brand, to the German market. In 2010, we further expanded our fixed–line operations with the acquisition of HanseNet, Telecom Italia's German broadband unit, which provides fixed–line telephony, internet, broadband and pay TV services in Germany, including its fixed–line network. In 2010, we also completed the development of an independent and competitive 2G and 3G network and acquired the LTE spectrum licenses. In 2011, we completed the integration of HanseNet's operations into our existing O_2 Germany operations and commenced the roll–out of our LTE network.

PRODUCTS AND SERVICES

We offer comprehensive mobile and fixed–line services for consumers and business customers and an extensive portfolio of mobile, fixed–network and value–added services to wholesale partners.

As of June 30, 2012, we had more than 25 million accesses comprising approximately 18.8 million mobile service accesses (9.7 million on a post–paid and 9.1 million on a pre–paid basis) and approximately 6.4 million fixed–line telephony and high–speed internet accesses (2.4 million telephony, 3.6 million DSL and wholesale ULL and 0.4 million narrowband and subscribers of certain value–added services).

Consumers

Our core business is our consumer business and this primarily comprises providing customers with mobile voice, messaging and data services and fixed–line telephony as well as high–speed internet access. In addition, we provide innovative value–added services such as security solutions and mobile financial services.

These products and services are marketed under our core O_2 brand and secondary brands. The latter are fully controlled brands such as FONIC and netzclub or brands managed through joint ventures and strategic partnerships such as Tchibo mobil and Türk Telekom Mobile.

As of November 2011, approximately 27% of households subscribing for O_2 or Alice branded services subscribed for converged services (i.e. for both O_2 and Alice branded services). We anticipate greater demand for converged product offering from our customers, and we therefore plan to continue to attract customers by maximizing the potential of bundled offerings through base fee discounts and tariff community options offering free voice and messaging services between fixed–line access and all mobile devices of an entire household. In addition, our data shows that churn rates for our converged customers are up to 50% lower than for our other customers. We believe that our convergence strategy will allow us to protect our growth of mobile services, extract additional value from existing customers, lower our acquisition costs, increase the profitability of our fixed–line services and reduce churn. (*Source: Convergence Study*.)

Mobile Services to Consumers

O_2 and secondary brands

Under the O_2 brand, we mainly sell mobile voice, messaging and data services and bundled tariffs (mobile and fixed–line services) to customers on a post–paid basis, but we also market pre–paid services. A multicard option allows our customers to use one contract for up to three SIM cards. They can choose between a large variety of tariffs providing for different base fees and prices per service unit combined with different flat fees and capped amounts for mobile voice, messaging and/or mobile data services. In recent years, we have placed a strong strategic emphasis on selling mobile post–paid services marketed under the O_2 brand to smartphone users. We believe that smartphone customers are typically young and technologically savvy and that they normally deliver above average revenues.

Mobile services under our secondary brands are generally also offered on a post–paid and pre–paid basis. However, we primarily sell pre–paid mobile voice, data and messaging services under our secondary brands, while post–paid tariffs, mobile data services and bundled tariffs are sold to a lesser extent. A large proportion of pre–paid customers of our FONIC brand has opted for payments by automated recharge of their call–up credits by way of direct debit from their bank account. Based on these payment terms, those customers are regarded as quasi post–paid customers. Services under our Türk Telekom Mobile brand are directed to the Turkish community living in Germany by offering a "one country" tariff for both Turkey and Germany. Services under the Tchibo mobil brand address the Tchibo community, and customers can receive additional Tchibo benefits such as "coffee beans" points which can be spent in a Tchibo–store.

O_2 My Handy

Through our "O_2 My Handy" model launched in May 2009, we sell handsets and other hardware to our customers for a fixed price either for the immediate payment of the total purchase price or for an up–front payment of part of the total purchase price and 12 or 24 subsequent monthly installments. Unlike many of our competitors, we no longer subsidize the purchase of handsets when bundled with a mobile services contract. This provides the customer with price transparency with respect to the costs of the handset and the costs of the mobile services. Customers are able to acquire a wide range of mobile phones, including premium handsets, based on attractive payment terms. Our main suppliers of handsets are Samsung, Apple, Nokia, HTC and Sony Ericsson. Our focus for the "O_2 My Handy" model has been and continues to be on smartphones, which comprise approximately 90% of the handsets we sold in the six months ended June 30, 2012.

The "O_2 My Handy" model is also used for our secondary brands, especially for a portfolio of low–budget smartphones, in order to meet the increasing demand for data services in these customer segments as well as, in part, for our wholesale partners.

Fixed–line Services to Consumers

We also offer fixed–line telephony and high–speed internet access via DSL to our customers. DSL is offered under the ADSL2+ and VDSL standards. To a very small extent, we also still operate a legacy of narrowband accesses. Customers of our fixed–line services have access to value–added services such as security solutions, video on demand and internet data storage capacity. The majority of our fixed–line DSL and narrowband customers result from the acquisition of HanseNet. Many of our current fixed–line accesses are still operating under the "Alice" brand which we acquired from HanseNet; however, we have stopped promoting Alice and are now in the process of transitioning these accesses to the O_2 brand.

Fixed–line customers have the option to choose a tariff that includes mobile data services.

Business

We target the entire range of business customers from SoHo and SME to large national and international corporate customers. We offer our products and services to SoHos and SMEs through the O_2 brand, and we leverage the Telefónica Group for larger business customers (see "– *Brands and Marketing*"). We are committed to differentiating ourselves from competitors through our distinct customer service approach and our high flexibility in tailoring solutions to individual needs.

We tailor our range of products and services to the types of business customers that use them. SoHos and SMEs are addressed with standardized mobile and fixed–line services and tariffs based on a discount scheme depending on the number of contracts per customer and bundled benefits. To large companies and global corporations, we offer tailored integrated solutions combining mobile and fixed–line services and WANs. We also market innovative M2M– telemetry solutions (e.g., for vending machines, fleet and facility management) to our business customers (see "– *Digital Innovation*"). Through our "O_2 Hardware Only" model, we sell handsets and other hardware to our business customers against immediate purchase price payment or against payment of 12 or 24 monthly installments.

As of June 30, 2012, more than 90% of our business customers were SoHos and SMEs, but our business customers also include larger corporations such as Adecco Personaldienstleister, MTU Aero Engines, Seidensticker and Zalando.

Mobile Services for Businesses

We offer our business customers mobile voice, messaging and data services with tariffs tailored to the type of customer and optional value–added services such as BlackBerry Enterprise Server. BlackBerry Enterprise Server is a software and hardware service providing e–mail push, automated synchronization of data on the customer network server and the handset, and access to the customer network server via the handset. We also offer VPN Link solutions enabling cost–free calls from fixed–line to mobile customer accesses, mobile conferencing services, mobile security solutions, a multicard option for up to five mobile devices and dual lines (one SIM and one handset with two contracts and tariffs).

Fixed– line Services for Businesses

Fixed–line services for business customers range from combined DSL voice and internet access bundles for SoHos to high–speed internet access and leased lines (which permanently connect two customer sites with data transmission speeds of between 2 Mbit/s and 100 Mbit/s and allow for constant high–speed and high quality data transmission between these customer sites), managed WANs (secure fixed–line connections of multiple customer sites) and data center services for large corporate customers. In addition, we offer fixed–line voice services and primary rate interfaces, enabling business customers to connect their telephone system to the fixed–line access in certain regions of Germany. These core services we provide to our business customers are complemented by optional value–added–services such as hosted e–mail, website builders, service numbers and call center solutions.

Wholesale

We offer a comprehensive portfolio of mobile, fixed–line and value–added services to our wholesale partners. As of June 30, 2012, we had approximately 2.0 million mobile accesses and approximately 1.1 million fixed–line accesses (including accesses where the service contract is between the end–customer and the wholesale partner).

Mobile Services for Wholesale Partners

Depending on the type of cooperation with our wholesale partners, we provide either: (i) mobile voice, messaging and data services to the end–customer under a services contract between the end–customer and us; or (ii) access to our mobile network and infrastructure (including the usage of roaming arrangements and the termination of voice minutes, data traffic and messages) to the wholesale partner to enable it to service the end–customer. The service level agreed with our wholesale partners may also include additional services such as billing, customer service, collection of consumption data, handset management, SIM–card logistics and reservation of blocks of phone numbers. Depending on the agreed level of our involvement, wholesale partners either resell our existing tariffs, market jointly developed individual tariffs or use their self–developed tariffs.

Fixed–line Services Wholesale Partners

To our fixed–line wholesale partners we provide ULL services, including fixed–line telephony and high–speed internet access. In addition, we provide voice termination services to other network operators. Optionally, the wholesale partner can also receive further services such as billing, customer service, collection of consumption data, the management of phone numbers and SIP accounts. As of June 30, 2012, we had approximately 1.1 million fixed–line accesses under wholesale partnerships, the majority of which are attributable to our cooperation with 1&1.

All fixed–line accesses in our wholesale business are governed by service contracts directly between the wholesale partner and the end–customer.

Value–Added Services for Wholesale Partners

We provide our wholesale partners a choice of value–added services with end–to–end solutions based on our infrastructure, such as Premium Voice and Data (mainly used for televoting) or Bulk SMS–services (dissemination of large numbers of SMS).

Digital Innovation

In order to leverage our strong position in the German mobile services market and monetize additional growth opportunities, we have recently launched or intend to launch the following digital innovations which have been or are primarily developed centrally within Telefónica Digital, a division of Telefónica Group:

- Financial Services: Activities in the financial services field include direct–to–bill, a service that enables users to pay for digital goods through their mobile phone bill. Further, we offer mpass, a mobile payment method that allows customers to pay for online purchases with their handset, together with Deutsche Telekom and Vodafone. In addition, we offer certain insurance products such as handset insurance and internet insurance, a legal protection for the handset and the user's internet identity. Planned financial services include an O_2 branded credit card and the mobile wallet, a service allowing customers to make contactless payments with handsets, using digital expression copies of the cards they are currently carrying in their physical wallets. We are also planning to offer micro credits for customers of our pre–paid brands.

- Advertising Services: We communicate product offers of customers using advertising services to our customer base through messaging and e–mail (**"push–campaigns"**). Push–campaigns with special offers can be selectively addressed to specific groups of customers. For example, push–campaigns can be sent to customers located in precise areas based upon their proximity to certain shops or restaurants. Push–campaigns only address customers that have agreed to receive messages and e–mails with product offers (**"opt–in"**). In addition, we sell advertising space to third parties who place advertisements on our internet portal and on the telephone statements we send to our subscribers.

- Communications: We are exploring opportunities to launch tools such as RCS–e that allow for additional communication features in handsets, such as multi–media content sharing. To this end, we recently launched "TU Me", a mobile app developed by Telefónica Group that enables communication and content sharing via smartphones.

- M2M: We offer together with Telefónica Digital M2M solutions (i.e., automated data communication between two devices via a mobile network) tailored to individual customer requirements. The M2M offer consists of managed connectivity via a telemetry platform, enhanced by industry–specific solutions, e.g., fleet management, tracking & tracing, vending machines, time recording, insurance telematics and energy management. Our strength lies in customizing solutions to customers' needs and in the possibility of drawing on the experience of Telefónica Group to deliver globally scalable solutions. We are currently evaluating together with Telefónica Digital options of re–organizing our existing M2M business and our cooperation with Telefónica Digital with regard to M2M.

- Security: We offer security solutions such as antivirus, anti–phishing and URL filtering for mobile and fixed–line business customers and recently launched these services for consumers as well. Upcoming services will include anti–theft, child protection and security solutions for converged services.

BRANDS AND MARKETING

We believe O_2 is a strong premium brand. Our secondary brands such as FONIC, netzclub, Tchibo mobil and Türk Telekom Mobile enable us to additionally target a broad range of consumers and maximize our sales reach in order to increase our revenues potential. The positioning and marketing approach for each brand is tailored to the targeted consumer group.

Brands

O_2 is our premium brand through which we market the full range of our post–paid and pre–paid mobile and fixed–line products and services. We aim to position the O_2 brand as the most "loved" brand with the "happiest" customers through attractive value–for–money propositions. We track customer satisfaction for the O_2 brand and competitor brands on a monthly basis and conduct more than 20,000 consumer interviews a year for mobile and fixed–line services. The O_2 brand has ranked highly in the following customer satisfaction surveys: Focus Money (No. 1 as fairest network provider 2012), Die WELT ("Service Champion 2011" in the area of "mobile service (network operators)") and Connect (No. 2 Prepaid Provider of the year 2012, No. 1 Prepaid Provider of the year 2011). Furthermore, in Kundenmonitor Deutschland 2011, the O_2 brand ranked highest among the four network operators Telekom, Vodafone, O_2 and EPlus in Customer Satisfaction in 2011 (some non–network operator brands preceded in this survey).

There are four pillars of our O_2 brand strategy: "More Simplicity", "More Care", "More Trust" and "More Appreciation". The first is to deliver "More Simplicity" with customer insight driven propositions. For example, O_2 offers its customers the flexibility of a choice of mobile and fixed–line products with a one–month commitment as well as the standard 24–month commitment. This is also supported by taking an approach that delivers "More Care" and "More Trust". We aim to deliver "More Care" by delivering outstanding service at all touch points with the customer, including over the phone, online or face to face with one of the O_2 Gurus, a product and technical expert who provides support to customers particularly on hardware–related questions and problems in selected O_2 shops. We believe building "More Trust" is about being consistent and transparent. We aim to provide a reliable network, for example, with LTE, in a transparent way. We share online with our customers where our strengths and weaknesses lie. Transparency is also supported in tariffs by the fact that we no longer subsidize the purchase of consumer handsets. Having delivered simple consistent products and services, we provide "More Appreciation" to reward our customers, aimed at increasing customer satisfaction and recommendation rates and to lower churn. In our "O_2 Worlds" in Berlin and Hamburg, O_2 customers can get two–for–the–price–of–one tickets for music, sports or other events. O_2 customers can also get two–for–the–price–of–one cinema tickets for cinemas throughout Germany. We also provide "O_2 Treats" for post–paid customers and top–up surprises for all pre–paid customers.

We fully own FONIC, our largest secondary brand. We only market mobile services on a pre–paid basis under the FONIC brand. Launched in 2007, it has one of the largest customer base among German mobile services discount brands. Between January 1, 2009 and January 1, 2011, the number of FONIC branded accesses increased by a CAGR of 35%. It is positioned to appeal to cost–conscious customers who only use basic mobile services and do not require extensive customer care. In terms of pricing, FONIC branded services are positioned at the upper end of the price range of mobile services distributed under discount brands in Germany.

Under our 50/50 joint venture with German retail–chain Tchibo, we market mobile services on a pre–paid basis under the Tchibo mobil brand since 2004 (see "– *Material Contracts*"). The brand is owned by Tchibo and is positioned to appeal to the Tchibo customer base. The product offering was recently expanded to smartphones. By the end of 2011, the number of Tchibo branded accesses was approximately 1.5 million subscribers.

Türk Telekom Mobile branded mobile services are offered under a strategic partnership with the Turkish incumbent network operator Türk Telekom. The Türk Telekom Mobile brand is owned by Türk Telekom. The mobile service offer allows for the use of our German mobile network and the Turkish mobile network of Türk Telekom with only one SIM card. Customers can therefore use mobile voice, messaging and data services in Germany and Turkey without roaming costs and at a comparatively modest price. The service was launched on a pre–paid basis in August 2011 and on a post–paid basis in August 2012 (see "– *Material Contracts*"). The brand is positioned to attract the large Turkish community in Germany.

With the netzclub brand, we specifically target social media users with mobile services on a pre–paid basis. The netzclub offering is advertising–sponsored which leads to additional revenues from advertising customers. This is possible because all netzclub subscribers give their permission to be provided with push marketing. The netzclub brand was launched in May 2010.

In connection with the acquisition of HanseNet, we acquired the right to use the Alice brand until February 2013. Many of our existing fixed–line accesses still operate under the "Alice" brand. However, we have stopped promoting the "Alice" brand and are in the process of transitioning the existing accesses operated under the Alice brand to the O_2 brand.

Our wholesale partners' brands, such as 1&1 and the brands of the cable operators Unitymedia/KabelBW and Kabel Deutschland, are positioned and marketed by these partners.

Marketing

We carry out various general and customized marketing measures.

Our advertising approach for the O_2 brand reflects the brand's strategy and our position as a market challenger. Advertising is executed in all core media. Regional marketing activities such as outdoor advertising and local promotional events are tailored to the local target groups and competitive situation. We have specifically targeted regions where we have a below average market share with regional marketing measures. The ongoing roll–out of our LTE network is accompanied by regional product campaigns through all regional communication channels, such as billboard advertising, which focus on LTE–capable smartphones, tablets and high–speed data transmission with LTE. Significant marketing activity is also focused on the existing customer base to increase customer satisfaction, reduce churn and use cross–selling potential, such as selling fixed–line services to a mobile subscriber or vice versa. Our current nationwide campaign features a raccoon to point out the price premium charged by competitors as well as the advantages of the O_2 services. We use regional marketing activities to target potential business customers, primarily SoHos and SMEs through the O_2 brand. Our average monthly marketing spend for our O_2 brand during the period from July 2011 to June 2012 amounted to €4.7 million. During this period, we achieved an ad awareness of 28%. (*Source: Millward Brown.*)

The FONIC marketing strategy reflects the positioning of the brand as a market leader in the discount segment and is centered on the brand's commitment towards truth, transparency and simplicity. This is reflected in the marketing slogan "That's the truth" ("*Das ist die Wahrheit*"), which underscores that the brand stands for simple, fair and easy to understand mobile pre–paid services. Advertising activities are split between television as the main focus and online marketing.

Marketing of Tchibo mobil is focused on the Tchibo community and uses the slogan "*Das gibt es nur bei Tchibo*" (only available at Tchibo).

The Türk Telekom Mobile marketing strategy reflects the needs of the biggest ethnic community in Germany by emphasizing "one SIM–card for two countries". Most marketing materials are bilingual and focus on channels and locations specific to the Turkish community.

Marketing measures in connection with the brand netzclub include tutorial videos shown on the netzclub internet portal and a channel on the website "YouTube" explaining the concept of advertising–sponsorship, basic products and the "ad–funded tariff". We further employ viral marketing for our netzclub brand by using social media to distribute our marketing videos.

SALES AND DISTRIBUTION

We use direct and indirect distribution channels to increase customer growth. In 2011, approximately 30% of our total sales transactions were attributable to our online portal and telesales, 25% to O_2 partner shops, 15% to our self–operated O_2 shops, 15% to large retail distributors, 10% to distributors and cooperation partners and the remaining 5% to other distribution channels. Transactions are defined as the purchase of a product or service or the renewal of an existing contract.

Consumers

We conduct direct sales of core branded offers to consumers via five channels: self–operated shops, partner shops, premium partner shops and online and telesales. Our self–operated shops, partner shops and online channels are the largest direct sales channels. As of June 30, 2012, we had approximately 170 self–operated shops, staffed with approximately 900 sales representatives. These shops are located in highly frequented and strategically important areas, such as high streets in urban centers, and offer exclusively O_2 branded products and services. We estimate that these shops had an aggregate of approximately one million visitors per month in the first six months of 2012.

Our partner shops are operated by franchisees ("**O_2 Partnershops**"), but are branded the same way as self–operated shops, such that O_2 Partnershops are not readily distinguishable from self–operated shops. They also offer exclusively O_2 products. As of June 30, 2012, we had approximately 760 O_2 Partnershops. We estimate that these shops had an aggregate of approximately 1.7 million visitors per month in the first six months of 2012. Both the self–operated shops and O_2 Partnershops focus on winning post–paid customers with good credit quality, but also acquire pre–paid customers and DSL customers.

Our premium partner shops are independently operated stores that offer O_2 products and services as well as the products and services of other telecommunications services providers. We require the majority of the products for sale in a premium partner shop to be our O_2 products. As of June 30, 2012, we had 240 premium partners operating shops. We estimate that these shops had an aggregate of approximately 500,000 visitors per month in the six months ended June 30, 2012. Premium partners obtain O_2 products and services through our strategic distributors.

In addition to signing up new customers, all of these physical shops play an important role in customer service. The majority of customers who enter our stores are existing customers who want to prolong their contracts, have service requests or would like to buy additional products or services. In order to deliver excellent service at the point of sale, we offer a novel service called "O_2 Guru", whereby a product and technical expert provides support to customers particularly on hardware–related questions and problems in selected O_2 shops. In addition, customers can access online self–service tools in the shops or watch O_2 Guru videos online at home. All distribution channels use the contact to the existing customers to increase the share of customers' spending by offering the converged O_2 products and additional services.

We also sell our products and services directly through our O_2 online portal. We estimate that our O_2 online portal had an average of approximately 16 million visits per month during the six months ended June 30, 2012. We use various methods to drive online traffic towards our O_2 online portal, including via eBay, social media applications such as Facebook, search–engine marketing and our affiliates. In addition, we sell our products through telesales, where we estimate that we had approximately 250,000 contacts per month in the six months ended June 30, 2012.

We also conduct consumer sales through indirect channels, which take place through large retailers, e–retail and distributors and cooperation partners.

The main retail distribution arrangement relates to approximately 380 Media Markt and Saturn locations. On the basis of an innovative revenue sharing agreement, we are the only German MNO with a direct sales presence that exclusively sell our products and services in Media Markt and Saturn stores.

As of June 30, 2012, we had distribution arrangements with approximately 20 e–retailers in all areas of online business.

For distribution via distributors and cooperation partners, we focus on six strategic distributors and two cooperation partners (as of June 30, 2012). In total, our distributors and cooperation partners serve more than 10,000 points of sale as well as a number of sub–distributors.

Handsets are distributed through the "O_2 My Handy" model via all of our O_2 branded distribution channels and indirect retail sales channels (for example, Media Markt and Saturn).

FONIC branded services are mainly sold through the stores of a number of distribution partners such as the German retailers real, DM and Rossmann, but also via the FONIC online portal. netzclub branded services are sold exclusively via the netzclub online portal. Sales activity relating to jointly managed mobile secondary brands Tchibo mobil and Türk Telekom Mobile are closely coordinated with the respective cooperation partners. Tchibo mobil branded services are mainly sold through Tchibo stores and Tchibo shops–in shop, but also through the Tchibo online portal. Türk Telekom Mobile post–paid and pre–paid services are offered via a large number of distributors in Germany and via the Türk Telekom Mobile online portal.

Our strategy is to create a model based increasingly around digital sales and services, across all of our distribution channels and customer touch points. We consider our non–physical distribution channels (online and telesales) to be strong value creators and our strategy is to grow the volume and share of transactions in these channels. Our physical distribution channels remain important and we are developing solutions to bring the digital experience to life for our customers in stores (for example, through initiatives such as "click and collect" – where customers can order devices online and collect it later in the nearest store – as well as further increasing the use of tablet devices by our sales advisors) while improving cost efficiency.

Business

We are one of the three major providers of telecommunication services to business customers in the German market. Our goal is to further enhance growth and gain market share in business sales.

Our approach to business sales to SoHos and small SMEs is to leverage the existing O_2 distribution channels, namely O_2 shops, the O_2 online portal and telesales used to target consumers. We also have dedicated SoHo business experts present in our O_2 shops. We additionally target smaller SME customers, or businesses with up to 100 employees through indirect sales channels.

Because of the high level of complexity of such sales projects, larger SME customers and large, mainly national, companies are individually targeted by our dedicated sales managers on the basis of a key account management system. Sales activity in the form of cross–selling to existing large corporate customers or achieving contract extensions is also supported by our in–house sales representatives, who are dedicated sales managers responsible for customer service and care.

For global corporations, we also leverage the relationships of Telefónica Group with large multinational corporations in order to approach their German business. Our sales activity in this area is also based on a key account management system. In cases where the target customer has its headquarters in Germany, we lead and coordinate sales activities, whereas in other cases we merely support the sales activity of the member of Telefónica Group leading and coordinating the sales pitch.

Wholesale

We believe the key success factor in this area is our partner management and our close cooperations with our partners. This means that we seek to combine our telecommunications expertise with the distinct sales and marketing expertise of our partners in order to offer products that meet the demands of the market and address the large market for customers who seek telecommunications services without frills and are outside the focus of our own brands. As of June 30, 2012, we co–operated with ten main wholesale partners on the provision of mobile services and with five main wholesale partners on the provision of fixed–line services.

Mobile

We have three different types of cooperation arrangements with wholesale partners:

Branded Sales

Under a branded sales cooperation with a wholesale partner, we provide mobile voice, messaging and data services under the brand of the wholesale partner. The contractual relationship to provide the services, however, is typically between us and the end–customer. Under this model, the wholesale partner is usually in charge of sales and marketing only and markets the mobile services to its own customer base at its own points of sale. Wholesale partners include Kabel Deutschland. Under our cooperation with Kabel Deutschland, mobile services contracts are entered into by the end–customer and Kabel Deutschland.

Service Providers on a Retail Model

Wholesale partners that are referred to as "Service Providers" market mobile services under their own brand, have a direct mobile services contract with the end–customer and typically handle the customer relationship, customer billing, the collection of consumption data and handset management themselves, but sell mobile services on the basis of our tariffs. Service partners with a retail model include Freenet with the brand mobilcom/debitel, one of the largest providers of mobile services without an own mobile network in Germany.

Service Providers on a Wholesale Model

In a wholesale model, a Service Provider buys voice, messaging and data termination services from us but handles all sales and marketing activities as well as end–customer–related topics such as customer service and billing itself. In this model, the Service Provider also sells the mobile services to the end–customer on the basis of its own tariffs. If the service provider so wishes, we may take over the responsibility for customer service, billing and customer relationship management. This model is the basis for the cooperation with our wholesale partners Drillisch and Unitymedia/KabelBW.

Fixed–line

Our largest wholesale partner of fixed–line services is the internet service provider United Internet, which markets its services under the 1&1 brand. It sells fixed–line telephony and high–speed internet access under direct contractual relationship with the end–customers.

CUSTOMER SERVICE AND RETENTION

We believe that quality customer service increases customer satisfaction, reduces customer churn and can be a key competitive advantage in the wireless industry. Therefore, retaining existing customers is critical to the financial performance of mobile service providers and an essential element of our business strategy.

We have customer service representatives available by telephone at five German in–house locations in Hamburg, Rostock, Bremen, Nuremberg and Munich. We also have a number of outsourcing partners located in Germany and one located in Argentina. These partners are responsible for a significant share of the overall voice volumes, approximately three quarters of all consumer voice volume is outsourced. Our main outsourcing partners are Arvato, with approximately 2,200 people providing services to us, and SNT, with approximately 1,000 persons. Outsourcing partners also provide invoice production, print, postage, back–office, credit check and collection services.

Customer Service for Consumers

Our customer service, retention and satisfaction programs aim to provide customers with convenient and easy to use products and services in order to promote long–term relationships and minimize churn. Our customer service strategy is to grow the proportion of customer service delivered digitally through apps, internet portals, device self–service as well as to leverage social media to complement the service experience delivered over the phone and in the shop. To this end, we have already implemented a number of “e–Care” tools such as the recently launched private support function through Facebook. We believe that this approach will continue to improve customer satisfaction and further decrease churn.

One of the main key performance indicators which we use to steer our customer service operations is the monthly average contact rate. Over the last couple of years this rate has decreased: for subscribers of post–paid mobile services from an average contact rate of 16% in 2010 to 12% in the first six months of 2012, and for subscribers of fixed–line services from an average of 53% in 2010 to 35% in the first six months of 2012. The higher contact rate for subscribers of fixed–line services is a result of the high complexity of the installation process.

One of the reasons for the decrease of the contact rates is the increased use of online self service support, also driven by the young demographics of our customer base. Customers can interact with us at any time through our online self–service support, which allows them to view and amend their contract terms and personal data such as bank account details and address, view and analyze their monthly bills and purchase additional services. Our online self–service support includes interactive applications, the use of social media and messaging services, and applications accessible from a customer’s handset.

We believe that high–quality complaint handling improves customer satisfaction. For this reason, we have dedicated complaint handling teams in Nuremberg and Hamburg. These teams personally contact the customer – regardless of the format of the complaint (written, voice or digital) – to ensure quick reaction times and fast solutions. We document complaints in order to identify issues and report them internally to relevant departments so as to address the cause of the complaint. Through this, we already reduced the number of customer complaints and will continue to develop this approach in the future.

Another driver of customer satisfaction is quality in billing. Our billing quality assurance teams located in Munich and Hamburg ensure that invoices are correct, transparent and easy to understand and are produced on time. For the production and dispatching of different bill types, we co–operate with external partners. To minimize billing costs, we encourage customers to use e–billing. As of June 30, 2012, the portion of our customers using e–billing had significantly increased to approximately 73% of the mobile services customers in our business area “Consumers” and approximately 92% of our fixed–line services customers.

In order to minimize and control customer credit risks, we have set up a customer credit risk management system. It consists of credit check, fraud, high–spend and dealer monitoring and different credit collection methods. For the evaluation of customer credit risks, external information sources (for example, Schufa) are used. We believe that because of these measures our rate of bad debt is comparatively low. Regarding overdue invoices, various credit collection strategies are applied, depending on the value and risk of the customer. Customer credit risk management is located in Bremen, Nuremberg, Munich, Hamburg and Rostock. If open invoices cannot be collected, the cases are handed over to an external collection agency.

In order to retain our customers, we aim to constantly deepen our understanding of our customers' needs and improve customer loyalty. We place a stronger emphasis on customers with whom we generate high revenues. For purposes of our retention activities, we categorize customers into the following groups: "at risk", "contract renewal", "save desk" and "win back". Whenever customers who are classified as "high risk" contact us, they are directly transferred to a special team with a focus on retention. They receive special treatment from this team, such as offers and problem solutions, with the purpose of increasing customer satisfaction and obtaining a contract extension. We contact customers whose contracts are about to expire through several channels such as messages and e–mail in order to achieve a contract extension. The main response channel of customers is the inbound hotline. Customers who call the care hotline to ask for a cancellation of their contracts are transferred to the "save desk". Here, customers receive special treatment in the form of offers and problem solutions, to improve customer satisfaction and prolong the contract. We attempt to contact customers that already terminated their services contract through several outbound communication channels in order to trigger inbound calls with the purpose of winning back the customer.

Customer Service for Businesses

A number of consumer initiatives, particularly around process capability improvement and e–care, are also applied to customers in our business area "Business". In addition, the business customer service has some extra features to cater for the specific needs of a business customer.

Customer service for SMEs and large national and multinational corporate customers is broken down into five areas: service management, premium and VIP service, expert service, tech support business, and general hotlines.

The goal of our service management activities is to maintain active relationships with corporate customers through dedicated sales managers that provide contract management services, prepare usage reports and reports on service level agreements, offer frequent project review meetings, create service improvement plans and conduct escalation management.

Our premium and VIP service comprise of dedicated service contacts for high revenues customers in the SME business segments, with high availability and more individualized customer focus.

To certain selected business customers we provide expert services through a dedicated service representative in charge of handling all customer issues.

Our tech support business handles business specific technical requests such as VPN Voice design and administration and handset support for Blackberry and iPhone handsets for corporate applications.

We also operate dedicated 24/7 hotlines to cater to the needs of business customers as well as sales partners.

Customer Service for Wholesale Partners

With regard to wholesale cooperation models where we are in charge of managing the customer service and retention activities, we perform the same activities and services as we do for consumers (see "*– Customer Services for Consumers*").

Where the first–line customer support (i.e., the initial interaction with the customer) is managed by the cooperation partner, we only provide "second line" support on more complicated technical matters.

NETWORK INFRASTRUCTURE

We are one of the three integrated telecoms network operators, with nationwide mobile and fixed–line networks in Germany. We believe that we have a competitive network infrastructure and a sufficient amount of frequency spectrum to enable us to cope with future capacity and service quality requirements. Furthermore, we benefit from Telefónica Group's buying power and its global expertise in network design and operations.

Network Strategy

We have invested significantly in our network infrastructure over the past years. Our current infrastructure has been developed through continuous organic as well as non–organic growth. In particular, the mergers of Telefónica Deutschland GmbH and Telefónica O_2 Germany GmbH & Co. OHG in 2009 and the acquisition of HanseNet in 2010 extended our transport and fixed–line network significantly. We have integrated the mobile and fixed–line networks and are in the process of leveraging synergies from the joint infrastructure usage for both our mobile and our fixed–line network. To complete the integration of the acquired network infrastructure, we are working on several projects aimed at optimizing our network tools and processes. We have decreased our headcount in the network infrastructure department from January 1, 2009 to June 30, 2012, by 38% and thereby significantly improved headcount efficiency of our network operations.

Our mobile access network strategy is based on three pillars. The basic needs of our customers are fulfilled through our GSM, or 2G, network, which provides nationwide voice and basic data services. The UMTS, or 3G, network, with its higher data capacity, covers cities and the surrounding areas. Finally, we are deploying our LTE network to cope with the growing demand for mobile broadband capacity. The mobile access network is supplemented by our fixed–access network, which has been constructed to efficiently reach as large a portion of the population as possible. This is achieved by using our own infrastructure and bit stream access products. Our core and service network is also up to the latest technology standards. It consists of IP–based service and core platforms which are ready to provide integrated and converged services.

Mobile Access Network

We operate a mobile access network based on GSM (with mobile data enhancement EDGE) and UMTS (with high speed data enhancement HSPA) standards as well as the new LTE, or 4G, standard.

Our mobile network consists of more than 20,000 physical sites with GSM, UMTS and/or LTE base stations. The current network population coverage is 99% for mobile voice and 98% for mobile data services. The table below provides an overview of our GSM and UMTS population coverage.

Mobile technology standard	Population Coverage (outdoor)[1]
GSM	99% (data 98%)
UMTS	73%

1 Population coverage refers to the percentage of the population in Germany.

GSM

Our GSM network was launched on October 1, 1998. At the time of the launch, the mobile network did not have nationwide coverage, so we had to rely on national roaming services from other mobile operators. Since 1999, the national roaming was limited to the network of one other operator and completely ceased in January 2010. In 2001, we introduced, as the first German mobile network operator, the new GSM mobile data standard GPRS, which enabled mobile data rates of up to 55.6 kbit per second. After having been awarded additional frequency usage rights in 2006, the GSM network was expanded into rural areas and, as of 2008, the GSM network was upgraded by implementing the EDGE standard.

UMTS

Since 2004, our customers have been able to use UMTS. In 2006, we added the upgraded HSDPA standard which was further complemented by HSUPA, and eventually extended to the HSPA standard. The average user speed for HSPA is approximately 1 Mbit/s and the theoretical user speed under ideal conditions is 14.4 Mbit/s. We use our 2,100 MHz frequency band to provide UMTS. Due to the strong growth of data traffic coming from new devices like smartphones and tablet computers, we are currently upgrading the capacity of our UMTS network in all relevant areas, including radio links, connection to fiber points of presence and the exchange of first generation UMTS network elements. The emphasis of this network upgrade lies on capacity expansion and not on the extension of coverage.

Although the voice and data volume traffic that we transport through our network increased significantly during 2010, 2011 and the six months ended June 30, 2012, the accessibility rate of our network remained high and the portion of UMTS sites with a utilization rate of above 90% remained low.

LTE

After having acquired additional spectrum, particularly in the 800 MHz band, we started to build a next–generation network based on the new LTE technology in 2011. The average user speed for LTE (downlink) is approximately 5 to 10 Mbit/s and a theoretical user speed of up to 75 Mbit/s would be possible under ideal conditions. Furthermore, in comparison with an UMTS network cell at 2,100 MHz, an LTE network cell at 800 MHz provides better indoor coverage and covers a larger area. To provide additional capacity for future customer needs, LTE cells with 2,600 MHz can be implemented, providing theoretical user speeds of up to 150 Mbit/s. By the end of 2012, we aim to have a nationwide population outdoor coverage of approximately 15% with our LTE network and an additional potential population outdoor coverage of approximately 7% with sites that are built but have then not yet been connected.

Fixed Access Network

We also operate a fixed–line network and offer fixed–line network–based broadband connections and connection bundles with speeds of up to 16 Mbit/s using ADSL2+ technology. We upgraded parts of our fixed–line network to the VDSL technology and, for the use of certain business customers, to the SHDSL technology.

The fixed–line network is connected mainly via leased fiber connections from third–party carriers and utilities. The exception is Hamburg, where we operate our own fiber network in the access as well as in the backbone infrastructure. We also selectively offer fiber–based services in the way of fiber to the building ("**FTTB**") to a limited number of business customers.

Our fixed–line network has a population coverage of approximately 67% for DSL services and fixed–line telephony, using unbundled local loops primarily from Deutsche Telekom. By purchasing bit stream products, we have extended the coverage to 95%.

Core and Service Network

Our core and service network provides integrated service layer architecture in order to realize converged services. Thus, the network is ready to handle mobile LTE traffic and is ready to provide VoIP services. The network is based on a Multiprotocol Label Switching ("**MPLS**") architecture and has been built on fiber infrastructure. Our backbone is capable of handling up to 1.3 Tbit/s.

Furthermore, we are developing a future mobile voice solution for our LTE network, which is going to be based on an IP Multimedia Subsystem ("**IMS**") architecture, which at present is used for fixed–line voice service. In order to be able to offer popular data packages to customers as well as actively manage traffic in the network, we implemented Policy Charging and Ruling Function ("**PCRF**") and Deep Packet Inspection ("**DPI**") platforms.

Transportation Network

Our transportation network consists of more than 27,000 microwave links and approximately 13,000 kilometers of owned and leased fixed–lines. To transport the traffic through the backbone and between the base station and the core network, we also use our own fixed–line network infrastructure and leased lines. However, to cope with mobile traffic growth, fiber connections have to come closer to the edge of the network. Therefore, we have designed a network structure with 2,000 points of concentration that aggregate the traffic from the more than 20,000 physical sites. These points of concentration will be connected with fiber to the core network. For this purpose, we signed a scalable transportation agreement with Deutsche Telekom regarding the use of its fiber optic infrastructure. This cooperation with Deutsche Telekom allows us to connect the required points of concentration.

Network Implementation

In order to further improve the efficiency of our network implementation, we recently outsourced the civil works and implementation of our system technology to three local service providers.

Each provider is responsible for a different geographical area.

Another outsourcing partner manages the central warehouse, including modules to be deployed or decommissioned and spare parts. It also manages the repair of broken modules of system vendors.

The two main suppliers of infrastructure equipment for our mobile access network are Nokia Siemens Networks and Huawei Technologies. To ensure continuously high network quality with the introduction of new network elements or network features, internal tests with well–defined success criteria are executed on an end–to–end basis.

Network Operations

Our network operations are structured according to three levels. On the first level, the key task is the monitoring of network performance 24 hours a day. This includes solving basic incidents which can be solved remotely and addressing remaining problems to the field force partner unit or the second level teams.

On the second level, the key task is the resolution of more complex incidents or problems during normal office hours and on–call. For each technology area a dedicated team of experts is available to address the issue.

The third level team is typically the support team of the major vendors, which has access to very specific knowledge, including the involvement of the research and development units.

Similar to the network implementation, we continually aim to improve the efficiency of our operations processes. We have established a close relationship with partners to allow efficient, high quality operations of the network. There is an agreement between us and Telefónica Czech Republic pursuant to which we monitor the mobile networks in Germany, the Czech Republic and Slovakia, whereas Telefónica Czech Republic monitors the fixed–line networks in such countries. The field services for the fixed–line and mobile network have been outsourced to the service partner Huawei Technologies. This cooperation includes the integration of new network elements and implementation of changes.

LICENSES AND FREQUENCIES

Since the implementation of the new German Telecommunications Act in 2004, it is no longer required to hold a license to operate a public communications network. The licensing regime was replaced by the obligation to notify the FNA prior to operating a public telecommunications network or providing publicly available telecommunications services on a profit–oriented basis. However, the use of mobile frequencies still requires prior frequency assignment.

We hold paired frequency spectrum in the amount of 2 x 67.25 MHz and unpaired spectrum in the amount of 29.2 MHz (overall 163.7 MHz). The following table gives an overview of our frequency spectrum.

Frequency range	**Amount of frequency spectrum (in MHz)**
800 MHz (paired)	2 x 10
900 MHz (paired)	2 x 5
1,800 MHz (paired)	2 x 17.4
2,000 MHz (paired)	2 x 14.85
2,600 MHz (paired)	2 x 20
Amount of paired frequency spectrum	2 x 67.25
2,000 MHz (unpaired)	19.2
2,600 MHz (unpaired)	10
Amount of frequency spectrum (overall)	163.7

We obtained our first frequencies in 1998 under the former authorization regime as part of our GSM license. Our GSM license comprises the 1,800 MHz frequency band granted in 1998 as well as frequency usage rights for the 900 MHz band granted in February 2006 (GSM 900: 2 x 5 MHz and GSM 1,800: 2 x 17.4 MHz). The GSM licenses and the corresponding frequency usage rights expire on December 31, 2016. On October 21, 2011, the FNA decided not to redistribute spectrum in the 900 MHz frequency, allowing us to keep our allotted spectrum. Recently, the FNA launched a public consultation to identify demand for spectrum in the 900 MHz and 1,800 MHz frequencies starting in 2017. A decision is expected in 2013. The consultation could result in an allocation procedure (auction) or in an extension of the spectrum usage rights. The Company deems an extension more likely than an auction.

In August 2000, we obtained our UMTS license. The UMTS license comprises frequency usage rights in the amount of 2 x 10 MHz in the frequency range of 2,000 MHz. It expires on December 31, 2020.

In April and May 2010, the FNA auctioned off additional frequencies in the 800 MHz, 1,800 MHz, 2,000 MHz and 2,600 MHz bands, with four mobile network operators participating in the auction. The spectrum in the range of 790 MHz to 862 MHz was freed as a result of the switchover from analogue to digital television (Digital Dividend). The auction was based on a decision of the President Chamber of the FNA on October 12, 2009 (*Präsidentenkammerentscheidung*). During this auction, we acquired 2 x 10 MHz in the 800 MHz band, 2 x 20 MHz in the 2,600 MHz band (paired), 10 MHz in the 2,600 MHz band (unpaired), 2 x 5 MHz in the 2,000 MHz band (paired), and 19.2 MHz in the 2,000 MHz band (unpaired). These licenses expire in December 31, 2025. The assigned frequencies may be used for wireless network access by using any technology, otherwise known as technology neutrality.

During the auction, the 800 MHz frequencies proved to be the most valuable despite the fact that the assignments of the 800 MHz frequencies involve progressive coverage and roll–out obligations. Prior to the auction, the federal states in Germany specified towns and districts with little or no broadband coverage, which were grouped into four priority levels depending on their number of inhabitants. When using the 800 MHz frequencies, network operators are obligated to provide broadband connections to towns and cities in line with the individual priority levels. Towns and districts with less than 5,000 inhabitants have top priority (level 1) for mobile broadband provision. As soon as the coverage requirement has been met in all four levels, assignees may use the 800 MHz frequencies freely in the respective federal state. All technologies implemented (wireless, DSL, cable, etc.) are considered for the determination whether the requirement has been met. At the end of August 2012, the coverage requirements were fulfilled in all federal states for which there had been requirements except for Brandenburg. We and the other holders of frequency usage rights are therefore able to freely use the 800 MHz frequencies in these federal states. According to a further roll–out obligation with regard to 800 MHz, each mobile operator has to provide 50% population coverage by the beginning of 2016, which we still have to fulfill. In case we fail to fulfill this obligation, FNA has, in principle, the right to revoke the respective frequency usage rights.

Roll–out requirements also exist for the new frequencies in the 1,800 MHz and 2,600 MHz spectrum ranges: 25% population coverage by the beginning of 2014 and 50% by the beginning of 2016. As GSM and UMTS also count toward these coverage targets, we have already met these requirements.

INFORMATION TECHNOLOGY SYSTEMS

Our business operations are highly dependent on the functionalities, availability and further development of sophisticated and advanced IT systems. Our IT systems are integral to our business and provide capabilities for all fixed, mobile and digital services, such as online services point–of–sales support, third party integration of sales channels and resellers, service provisioning, billing, customer relationship management, data warehousing and enterprise resource management, and workplace support.

IT Service Operations

We strive to ensure constant system availability which is critical for our business operations. Service management and governance functions are performed in–house, while infrastructure operations are outsourced and hosted in redundant and geographically distinct datacenters. We introduced SAP as a managed service operation at the beginning of 2012.

IT Service Development

We use carefully selected software systems to increase our efficiency, including internally developed software, open–source software and third–party commercial software. We select established suppliers and innovative software development methods to prevent cost and time intensive product and service development.

IT Outsourcing

We outsource more than two–thirds of our total IT services, including services such as the operation of data centers, desktop services, application maintenance and software analysis and development. To this end, we concluded outsourcing agreements with leading European and global IT services providers. Even though we have transferred a significant portion of our IT services to outsourcing partners, we believe the quality of our IT services remains high and is ensured by sourcing quality management.

Differentiating IT — Agility and Digital Enabling

We continuously improve our software development methodologies to quickly react in a flexible and efficient way to changing market demands. In particular, agile development has helped us to significantly reduce the time–to–market for market critical services like new tariffs and online services.

In the last several years, we have invested in our IT architecture to improve the efficiency of our IT services through increased standardization, simplification, consolidation and virtualization as well as effectiveness through seamless integration of third parties and digital OTT services.

INTELLECTUAL PROPERTY RIGHTS

As of June 30, 2012, we owned more than 1,600 internet domains, several other trademarks and 36 families of patents and patent applications. Most of those patents and patent applications are protected or seek protection for Germany and as a European patent only.

The “O_2” and “O_2 My Handy” brands which we use are owned by O_2 Holdings Limited and licensed to us for the use in Germany under a group trademark license agreement dated October 15, 2007. This agreement has an indefinite term. The license is granted without consideration, but we are obliged to bear certain general and specific brand costs according to a separate cost sharing agreement (see “*Related Party Transactions*”).

All “Telefónica” brands which we use are owned by Telefónica, S.A. and may be used by us in Germany on the basis of a trademark user license agreement dated January 1, 2011. The agreement has an indefinite term. We pay a royalty fee for the use of the brands (see “*Related Party Transactions*”).

The license to use the “Alice” brands in Germany granted to us by Telecom Italia will expire on February 15, 2013. We are in the process of transferring existing accesses using the “Alice” brand to the “O_2” brand.

The “Türk Telekom Mobile” and “Tchibo mobil” brands are owned by our respective cooperation partners.

Our cooperation partner YOC is the current owner of the “netzclub” brands. YOC is contractually obliged to transfer the “netzclub” brands to us and the process for transfer of the brand has been initiated and is currently ongoing.

In addition to the brands mentioned above, the trademarks “Loop” and “FONIC” are significant relevant trademarks we currently use. We own these two trademarks. They are registered for use in the EC.

EMPLOYEES AND PENSION OBLIGATIONS

The table below provides a breakdown of the number of our employees (full time equivalents, “FTE”) as at December 31, 2011, 2010 and 2009 and June 30, 2012, respectively:

Category of employees[1]	**June 30, 2012**	**2011**	**2010**	**2009**
Commercial	2,882	2,833	3,626	2,560
Infrastructure Units	1,522	1,559	1,974	1,899
Central and Admin	592	618	662	570
Total	**4,996**	**5,010**	**6,261**	**5,029**

1 FTE numbers do not include employees of TGS and TGR entities, which were carved out from our group prior to the Offering (see “*General Information on the Company – Recent Corporate Developments*”). The calculation of FTEs includes part time employees in proportion to their worktime and excludes employees to which we did not pay wages at the relevant point in time, such as persons absent due to long–term sick leave or on parental leave.

All of our employees are employed in Germany.

We are no longer subject to any collective agreements with unions. All agreements were terminated with effect as of June 30, 2012 in order to allow for more flexible and company–specific rules. As of June 30, 2012, less than 5% of our employees have employment contracts that are linked to collective agreements with unions.

Subsequent to the conversion of Telefónica Verwaltungs GmbH into Telefónica Deutschland Holding AG, the Company is subject to the German Co–Determination Act (*Mitbestimmungsgesetz*).

In connection with the integration of HanseNet in 2010 and 2011, approximately 700 customer service employees at three sites were outsourced to a third party. Additionally, a redundancy program was set up pursuant to which we reduced staff by approximately 900 employees and closed seven sites.

We provide a defined contribution pension plan for all employees with a permanent contract.

Various human resource functions are outsourced to Telefónica Group's human resources center located in Dublin, Ireland. The human resource center primarily handles administrative matters such as contracting and case management involving routine matters (see "*Related Party Transactions*"). Our payroll is also outsourced to a third–party service provider.

We believe that our employee relations are good. We placed third in the 2012 national survey of the Great Place to Work Institute in the category of companies with more than 5,000 employees. This is the fourth year in a row that we have placed among the top five in this category.

PROPERTY AND LEASES

As of June 30, 2012, we leased 26 properties (17 offices, one day–care center, one emergency power supply site and seven parking sites). We also subleased four office properties, two cafeterias and two parking sites.

We leased approximately 170 self–operated shops, approximately 330 partnershops and subleased approximately 290 shop properties. We do not own any real estate. The aggregate rental area is approximately 130,000 square meters. Our headquarters in Munich is the largest rented site with approximately 75,000 square meters.

As of June 30, 2012, we used more than 20,000 antenna sites for our mobile network. We lease almost all of the antenna sites (either wholly or a space on the site) under operating lease agreements.

CORPORATE RESPONSIBILITY, ENVIRONMENTAL AND HEALTH MATTERS

Responsibility is an integral aspect of our corporate culture and our business processes. The leading role of our parent company Telefónica, S.A. in the area of sustainability provides both commitment and motivation. We are in a continuous dialogue with our employees, customers, suppliers and the community with the aim of achieving strategic and targeted commitment. The findings of these dialogues and the results of reputational analyses have been used to formulate our corporate responsibility strategy. We have defined three focus areas for our corporate responsibility strategy:

- through our European social programme "Think Big" we empower young people to act creatively and autonomously developing their own projects for their communities using digital technologies;
- we are providing access to telecommunications services for people with disabilities and promoting social inclusion within the community through new communication technologies; and
- we take clear responsibility for climate and environment by enhancing the energy efficiency of our business and expanding the range of environmentally friendly products and services. We intend to reduce electricity consumption by 2015 by 30% per equivalent access in our network and by 10% per employee in our offices, call centers and shops compared to the year 2007. Our concept "Green electricity" helps to reduce CO2: Approximately 60% of our electricity are from renewable energy sources. We are also committed to an efficient and ecological use of resources throughout the life–cycle of our products and services. We have a handset recycling program in place since 2005.

We are subject to a variety of laws and regulations relating to land use and environmental protection, including those governing the clean–up of contaminated sites. While we could incur costs, such as clean–up costs, fines and third–party claims for property damage or personal injury, as a result of violations of environmental laws and regulations, we believe that we are in substantial compliance with the applicable requirements of such laws and regulations.

We believe that the principal environmental risks arising from our current operations relate to the potential for electromagnetic pollution. We have constructed our network to achieve radiation emission ranges lower than the minimum levels currently permitted by German regulations. Should the FNA lower the limits on emissions of electromagnetic fields in the future, we may have to invest in network reconstruction in order to adhere to the more restrictive guidelines (see "*Risk Factors – Risks related to our Business and our Industry – We may be adversely affected by alleged health risks associated with electromagnetic radio emissions and wireless communications devices and antennas*.").

MATERIAL CONTRACTS

The following summarizes material contracts concluded outside the ordinary course of our business entered into in the past two years (2011 and 2010) and the current year (2012) to which we are a party as well as those material contracts entered into earlier, but which still have a material effect on us.

In addition to the contracts described below, we also consider the sales purchase agreement with Telekom Italia on the acquisition of HanseNet described under "*General Information on the Company – Recent Corporate Developments – Acquisition of HanseNet* " as well as the sales purchase agreement with TGB.V. relating to the sale of all shares in Telefónica Global Activities Holdings B.V. through which we held all shares in our former subsidiaries, G3G, Quam, and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and its 40% interest in Adquira España S.A. entered into on September 27, 2012 described under "*General Information on the Company – Recent Corporate Developments – Carve out*" to be material. Furthermore, we consider the contracts relating to the licensing of the O_2 brand, the licensing of the Telefónica brand, wholesale roaming services and intra–group roaming discounts with numerous Telefónica Group entities, reciprocal network monitoring services with Telefónica Czech Republic, a.s., the multinational sales activities with Telefónica Multinational Solutions, the procurement agreement with TGS, the deposit and cash management agreements and financing agreements with TGB.V., and the indemnification and reimbursement agreement with Telefónica Germany Holdings Limited, all described under section "*Related Party Transactions – General; Dependence Report", to be material*.

Backhaul Contract with Deutsche Telekom

In order to enhance our mobile backhaul capacity and to avoid a costly expansion of our own network, we entered into an agreement with Deutsche Telekom on December 23, 2011 related to the use of parts of Deutsche Telekom's fiber–infrastructure in Germany to backhaul mobile data traffic. The first operative connection under this agreement was in April 2012. Under this agreement, Deutsche Telekom provides transportation of our mobile data from one of our local points of concentration to our fixed–line network components. The agreement may not be terminated for without cause prior to December 31, 2031. After that date, the agreement may be terminated with six months' prior written notice, effective at the end of each calendar year. The current intention is to connect approximately 2,000 points of concentration sites to Deutsche Telekom's fiber infrastructure. In most cases, Deutsche Telekom is obligated to deliver the link to our network within six months after we have placed an order. If we fail to order the agreed amount of connections, a contractual penalty will be due. The same is applicable to Deutsche Telekom if it fails to provide the connections in time. We are required to make a one–time payment for the point of concentration site connection and monthly payments for the use of the connection.

ULL Contracts with Deutsche Telekom

We have entered into standard agreements with Deutsche Telekom regarding access to Deutsche Telekom's ULL. Because our network does not have many access lines to customer premises, such lines and other wholesale products of Deutsche Telekom (including bit stream access) are essential for our fixed–line business. These agreements can be terminated by either party at any time with three months' prior written notice. However, Deutsche Telekom is under the regulatory obligation to grant access to its ULL at a rate regulated by the FNA. Therefore, in the event of a termination of the agreement, Deutsche Telekom is obligated to provide us with an alternative contract offer to secure service continuity.

Agreement with BT Germany

Due to the joint corporate history of Telefónica Deutschland and BT Germany GmbH & Co. OHG ("**BT**"), we still have a strong contractual relationship with BT. Viag Interkom has been the legal predecessor of both, BT and Telefónica Deutschland. Viag Interkom started in 1995 as a mobile and fixed network services operator and has been split into BT (fixed network activities) and Telefónica Deutschland (mobile network activities) in 2001. BT and Telefónica Deutschland are still partially operating under a framework agreement that has been set up in 2003 to cover our contractual relationship.

The most important products BT supplies to us are "Telehousing Services" and "Private Lines". With regard to the Telehousing Services, we entered into a framework agreement with BT on July 25, 2003. Under this agreement, BT provides us with accommodation or floor space, respectively, for the installation and operation of our IT and communications equipment and the supporting infrastructure. In order keep the relevant floor spaces separated, we conclude individual contracts. We are currently located in 16 of BT's core sites and in 15 of BT's access sites (in total approximately 90% of our core sites). As these sites are formally sites of BT, BT also has the authority to access these sites. Nearly 2,500 floor spaces are in service. The minimum period for individual contracts for the core floor spaces is until September 30, 2015. The minimum period for all other floor spaces depends on the provisions in the individual contracts.

Furthermore, on July 25, 2003, we entered into a framework agreement with BT regarding Private Lines which encompasses the provision of leased lines and in–house cabling. The contract period under this frame agreement is either six or 12 months for each individual contract.

Agreement with Tchibo

On February 24, 2004, we entered into a framework joint venture agreement with TCHIBO GmbH, Hamburg, regarding a 50/50 joint venture for the distribution of telecommunications services. Pursuant to the joint venture, we provide telecommunication services and TCHIBO GmbH provides marketing and customer acquisition services and the granting of trademark licenses required for distribution purposes. We are the exclusive contractual partner of end–customers and TCHIBO GmbH receives a commission for each mobile services contract procured. The agreement has a minimum term until

December 31, 2014 and will automatically be extended for successive periods of two years each unless terminated with six months' notice prior to the end of a renewal period. According to a supplementary agreement, the parties agreed not to exercise such termination right prior to the end of 2014.

Agreement with Türk Telekom

On August 1, 2011, we entered into a cooperation agreement with Türk Telekomünikasyon Euro GmbH i.Gr, Frankfurt ("**Türk Telekom**"), regarding telecommunications services and the evaluation of setting up a joint venture after August 1, 2012. Under the agreement, we are required to develop a special tariff package to be offered in Germany that consists of our mobile telecommunications services, including roaming, together with services provided by various affiliates of Türk Telekom as subcontractors. With respect to Wi–Fi and roaming services, affiliates of Türk Telekom (for example, Avea and TTNet) will provide these directly. The services offered under the Türk Telekom Mobile brand primarily relate to Turkey. Türk Telekom is required to market and sell this tariff package in Germany using our brands together with certain Türk Telekom brands in a co–branding style. We will enter into all agreements with end–customers subscribing to these tariff packages.

Türk Telekom will receive a fee in the form of a profit share percentage of the total net profit we generate with the subscribers of the tariff package, less an "adjustment amount". The initial profit share percentage of Türk Telekom is 35%, which will be adjusted at the end of 2012 according to the value contribution which each party has brought into the cooperation up until that point.

The agreement has an initial term of three years and can be terminated with six months' notice. The agreement will automatically renew for successive one–year periods unless terminated with three months' notice prior to the end of a renewal period. The agreement contains a mutual exclusivity obligation which will remain in force for a period of 12 months after termination.

Financing Agreements

OHG has undrawn committed credit lines with maturity beyond one year in a total amount of €710 million. In August and September 2012, OHG, as borrower, entered into revolving credit facility agreements with several banks.

INSURANCE

We maintain insurance coverage primarily with Telefónica Insurances S.A., an insurance company which is part of the Telefónica Group and registered in Luxembourg (see "*Related Party Transactions*").

We are insured by, among others, an all–risks material damages and business interruption policy, including cyber risk and crime, general liability, pure financial loss, media contents liability, and policies for accident insurance for employees, car fleet insurance and credit insurance. We believe that our existing insurance coverage, including the amounts of coverage and the terms, provides reasonable protection, taking into account the costs for the insurance coverage and the potential risks to business operations. However, we are not able to guarantee that no losses will be incurred or that no claims will be filed against us, which exceed the type and scope of the existing coverage.

LEGAL PROCEEDINGS

From time to time we are party to various governmental, legal and arbitration proceedings arising in the ordinary course of our business. Other than as discussed below, we are currently not, nor have been in the past 12 months, party to any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) which may have, or have had in the recent past, significant effects on our financial position or profitability.

On February 2, 2006, the NRA issued an administrative act pursuant to which we were assigned frequency usage rights in the amount of 5 MHz in the 900 MHz band and had to relinquish frequencies in the 1,800 MHz band in the same amount under a frequency swap. The administrative act included an obligation to grant DB Netz AG (a subsidiary of Deutsche Bahn AG) the right to use parts of the frequency spectrum for the European Train Control System when needed. E–Plus Mobilfunk GmbH & Co. KG received a similar administrative act. Airdata AG filed a claim against the administrative acts before the Administrative Court of Cologne (*Verwaltungsgericht Köln*) in December 2006 seeking to annul the administrative act and to initiate a new frequency allocation procedure. We took part in this administrative proceeding as a third party (*Beigeladene*). In the first instance, the Administrative Court of Cologne dismissed the claim. However, the court decided that its decision may be re–assessed by a court of the second instance due to the complexity and importance of the case. In June 2009, the Higher Administrative Court of North–Rhine Westphalia (*Oberverwaltungsgericht NRW*) also dismissed the case and denied the admission to the third instance. Airdata AG filed an appeal against the denial of admission and was granted access to the third instance, the Federal Administrative Court (*Bundesverwaltungsgericht*) in March 2010. The Federal Administrative Court dismissed the claim on January 26, 2011. Airdata AG appealed the dismissal to the Federal Constitutional Court (*Bundesverfassungsgericht*), which is still pending. We estimate that we would have to incur additional costs of approximately €200 million for new network planning, purchasing equipment and implementing an interim solution, should Airdata be successful with its complaint. Other companies, such as DB Netz AG, have also challenged the above–mentioned administrative acts. Those claims were dismissed with binding and final effect at earlier stages.

Commencing in December 2006, we filed several administrative claims with the Administrative Court of Cologne (*Verwaltungsgericht Köln*) against administrative acts in which the FNA set mobile termination rates for certain periods. In our claims we requested higher maximum mobile termination rates and contested the methodology of the calculation of the rates set by the FNA. For example, on December 30, 2010 and March 7, 2011, we filed an administrative claim with the Administrative Court of Cologne (*Verwaltungsgericht Köln*) against a preliminary administrative act of October 26, 2010, in which the FNA approved mobile termination rates in the amount of 3.36 cents per minute, and an administrative act of February 24, 2012 in which the FNA finally approved maximum mobile termination rates in the amount of 3.39 cents per minute with retroactive effect from December 1, 2010 through November 30, 2012. Most of the administrative claims are still pending. However, even if we prevail in these proceedings, we will not be able to retroactively claim the difference between the higher mobile termination rates set forth in our interconnection agreements and the lower rates set by the FNA because the relevant periods lie in the past. However, we believe that if we succeed, the FNA would possibly change its future methodology for setting mobile termination rates.

Appeals are pending against the decision of the President Chamber of the FNA of October 12, 2009, pursuant to which we obtained the spectrum position that we use for the deployment of our LTE network and the related auction proceeding. For various reasons, several mobile telecommunications, cable TV and radio providers filed complaints against the decision with the Administrative Court of Cologne (*Verwaltungsgericht Köln*). We are not involved in these proceedings. The Administrative Court of Cologne has already ruled on most of the proceedings and has rejected them in the first instance. After decisions of the Administrative Court Cologne and the Higher Administrative Court (*Oberverwaltungsgericht*), the Federal Administrative Court (*Bundesverwaltungsgericht*) ruled in March 2011 on two legal proceedings filed by E–Plus Mobilfunk GmbH & Co. KG and Airdata AG. Essentially, the Federal Administrative Court found that the facts relevant to the decision were insufficiently investigated and referred the proceedings back to the Administrative Court of Cologne for further investigation.

REGULATION

Our operations are subject to sector–specific telecommunications regulations and general competition law, as well as to a variety of other regulations.

TELECOMMUNICATIONS REGULATION

The liberalization of the German telecommunications sector began over twenty years ago with Postreform I. The liberalization was in line with the EC policy at that time which intended to break up monopolistic structures in the European telecommunications markets. Postreform I was followed by Postreform II in 1994 which *inter alia* effected a constitutional change, allowing for the privatization of Deutsche Telekom, the former state owned telecommunication monopolist. In 1996, the initial Telecommunications Act came into force. Since the break off of Deutsche Telekom's last monopoly (voice telephony) on January 1, 1998, the telecommunications market in Germany is regarded as liberalized.

Today, Telecommunications services and the operation of telecommunication networks are subject to the regulatory regime of the German Telecommunications Act (*Telekommunikationsgesetz*, "*Telecommunications Act*") of June 22, 2004 as amended on May 3, 2012 and certain regulations that supplement the Telecommunications Act.

The Telecommunications Act implements the European Regulatory Framework for Electronic Communications Networks and Services which was amended in November 2009 (the "**Framework**"). The Framework consists of, amongst other provisions, the Framework Directive (2002/21/EC), the Authorization Directive (2002/20/EC), the Access Directive (2002/19/EC), the Universal Service Directive (2002/22/EC) and the Directive on Privacy and Electronic Communications (2002/58/EC).

In November 2009, the European Parliament, following a proposal by the European Commission, passed legislation amending certain directives within the Framework in order to strengthen competition and consumer rights in Europe's telecom markets and to facilitate access to high–speed broadband internet connections. The changes to the existing Framework came into effect on December 19, 2009, and had to be transposed into national law. This led to an amendment of the Telecommunications Act which entered into force in May 2012.

The Telecommunications Act contains provisions regarding, among other things: (i) the establishment and powers of the regulatory body; (ii) notification requirements; (iii) the granting of rights of way; (iv) the allocation of frequencies; (v) access obligations; (vi) the regulation of rates; (vii) abusive behavior; (viii) consumer protection; and (ix) data protection and public safety. Some of these obligations only apply to providers which have significant market power in their respective markets. Other obligations apply or might be imposed by the German Federal Network Agency (the "**FNA**") even if those operators do not have significant market power.

The Regulatory Body

The FNA is, amongst other things, responsible for the regulation of the German telecommunications market. It disposes of significant powers regarding the enforcement of telecommunications laws and regulations. These powers include the authority to impose network access and interconnection obligations on network operator and to approve or review the charges as well as general business terms and conditions of providers. Furthermore, the FNA is the competent authority to assign wireless spectrum and supervise frequencies as well as to impose universal service obligations. The FNA's decisions may be challenged in the relevant administrative courts. With respect to general cartel law compliance, the Federal Cartel Office ("**FCO**") may impose obligations on us.

Notification Requirements

The operation of telecommunication networks and the provision of telecommunications services no longer require a license from a regulatory body. However, commercial operators of public telecommunication networks and commercial providers of publicly available telecommunication services must notify the FNA of the commencement, any modification and the termination of their business activities. However, the use of mobile frequencies still requires prior frequency assignment.

Granting of Rights of Way

Operators of public telecommunications networks that wish to use public streets, squares, bridges and public waters for the laying and operating of telecommunications lines must file applications with the FNA for the granting of related rights of way. Subsequently, the FNA must determine whether the applicant has demonstrated sufficient professional expertise, reliability and financial capability to operate telecommunications lines.

We hold rights of way for the Federal Republic of Germany. The rights were originally granted to Bayernwerk Netkom GmbH and handed over to Viag Interkom GmbH & Co. within the contract on license transfer (*Lizenzübertragungsvertrag*) between those two parties dated December 22, and December 23, 1998.

The Class 3 License Nr. 9603020 (dated October 29, 1996) holds limited rights of way for the area of the federal states of Bavaria and Thuringia as well as the city of Frankfurt am Main and the city area (*Stadtkreis*) of Leipzig. With Document 9703020 (dated July 16, 1997), the area has been extended nationwide to the Federal Republic of Germany.

The Way of Rights Document of the – now deleted – HanseNet Telekommunikation GmbH (Nr. 98 08 0039 has been handed back to the FNA in 2011.

For the construction of new lines, we need the consent of the relevant bearer of the public easement (*Träger der Wegebaulast*) of the related public streets, squares, bridges and public waters.

Allocation of Frequencies

Due to the population's increasing demand for mobile communication services, not least because of the new technical possibilities emerging based on new mobile transmission standards such as UMTS or LTE and new devices and application such as smartphone or tablets, the demand for bandwidth is constantly increasing and more and more telecommunications traffic is handled over mobile networks. A precondition for technically coping with this development is the availability of an adequate frequency spectrum.

Therefore, the allocation and the use of frequencies as a scarce resource are strictly regulated. The main legal provisions are stipulated in the Telecommunications Act and the related ordinances such as the Frequency Plan (*Frequenzplan*) which describes the usage of frequency spectrum. The frequency regulation regime aims, among other things, to secure an efficient and interference–free use of frequencies. Unlike the usage of frequencies within a mobile telecommunications network, the frequency use within coaxial and other landline or fixed cable is permitted without a frequency allocation by the FNA pursuant to the Telecommunications Act.

Frequency assignment means authorization by a public authority or by legal provisions to use particular frequencies under specified conditions. According to the Telecommunications Act, the FNA can assign frequency usage rights on a general or an individual basis. The FNA assigns frequencies individually where it considers a general assignment is not feasible. Frequency usage rights are assigned for a particular purpose in accordance with the Frequency Plan and in a non–discriminatory manner on the basis of transparent and objective procedures.

Where there is insufficient frequency available across the spectrum for assignment to all interested parties, the FNA may order that the assignment is to be based on award proceedings. As a general rule, frequency usage rights are awarded by auction. In exceptional cases, when an auction is not likely to achieve the regulatory goals (for example, when it is likely to have anti–competitive effects), the FNA may choose to run a tender proceeding. So far, the FNA has only conducted auctions and no tender proceedings under the current Telecommunications Act.

A transfer of individually allocated frequency usage rights is possible, but requires prior consent by the FNA. The FNA is obliged to consent if the transferee fulfills the requirements of the initial allocation, a distortion of competition in the relevant product and geographic market is not to be feared, and the efficient and interference–free use of frequencies is secured. In addition, each change of frequency rights, such as a change in the ownership of the holder of the frequency usage right, must be reported to the FNA without undue delay. Finally, the FNA can permit and set rules for the trading of frequencies. So far, no such rules have been established.

Since the start of our business in Germany, we have been granted frequency usage rights in all relevant parts of the spectrum.

In 1998, we obtained a GSM license and the according frequency usage rights for the 1,800 MHz frequency band and in February 2006, we obtained the frequency usage rights for the 900 MHz band (GSM 900 2 x 5 MHz and GSM 1,800 2 x 17.4 MHz). These licenses are for a set period of time, although they may be renewed. The GSM licenses and the corresponding frequency usage rights expire on December 31, 2016. On October 21, 2011, amid the process for reframing, the regulator adopted the decision not to redistribute spectrum in the 900 MHz frequency, allowing us to keep our allotted spectrum for the period originally granted.

Recently, the FNA launched a public consultation to identify demand for spectrum in the 900 MHz and 1,800 MHz frequencies from 2017. A decision in this respect is expected for 2013. The procedure may result in an auction procedure or in a prolongation of the current spectrum usage rights.

In August 2000, we obtained a UMTS license which expires on December 31, 2020 (2 x 10 MHz).

In April and May 2010, the FNA auctioned off additional frequencies in the 800 MHz, 1,800 MHz, 2,000 MHz and 2,600 MHz ranges, with four mobile network operators (including us) participating in the auction. The spectrum in the range of 790 MHz to 862 MHz has been freed as a result of the switchover from analogue to digital television. The legal basis for this frequency auction was a general order issued by the President Chamber of the FNA on October 12, 2009 (*Präsidentenkammerentscheidung*). In May 2010, after a spectrum auction procedure, Telefónica Deutschland acquired 10 MHz in the 800 MHz band (Digital Dividend), 20 MHz in the 2,600 MHz band (paired), 10 MHz in the 2,600 MHz band (unpaired), 5 MHz in the 2,000 MHz band (paired), and 20 MHz in the 2,000 MHz band (unpaired). These frequency usage rights expire in 2025. The assigned frequency usage rights may be used for wireless network access by using any technology ("technology neutrality") (see "*Business – Legal Proceedings*").

Regulatory Framework for undertakings with Significant Market Power

The FNA may impose obligations in relation to, for example, network access (including interconnection, unbundled access and access to certain services and facilities), rate regulation, separate accounting for interconnection services, transparency and non–discrimination on network operators that are designated as having significant market power. Independent of its respective market power, every public telecommunications network operator which controls access to end customers has to make, upon request, an interconnection offer to other public telecommunications network operators to, *inter alia*, secure the service interoperability.

We have been designated as having significant market power in the fixed–line voice termination market and the mobile voice call termination market.

These designations with respect to us are based on the relevant underlying current market definitions and market analyses. With regard to the fixed–line voice termination market, regulatory obligations were imposed on us pursuant to a ruling by the FNA on September 7, 2009 with respect to market three (call termination on individual public telephone networks provided at a fixed location) of the Commission recommendation 2007/879/EC of December 17, 2007 on relevant product and service markets ("**Commission Recommendation on Product Markets**").

With regard to the mobile voice termination market, regulatory obligations were imposed on us pursuant to a ruling by the FNA on December 5, 2008 as supplemented on September 1, 2009 with respect to market seven (voice call termination on individual mobile networks) of the recommendation 2007/879/EC. For more information regarding the consequences of such determination, see "*– Access Obligations and Rate Regulation for Telecommunications Services*", below.

Following the imposition of regulatory obligations, the FNA shall, as a rule, submit draft market definitions, draft market analyses and draft regulatory obligations every three years. Notwithstanding changes in the Commission Recommendation on Product Markets, it has to be expected that FNA will maintain its designations of us having significant market power in the fixed–line voice termination market and the mobile voice call termination market.

INTERCONNECTION AND ACCESS OBLIGATIONS

The FNA may impose on operators of public telecommunications networks with significant market power the obligation to grant other companies access to their services or to their networks. In particular, the FNA may impose the obligation to grant access for certain telecommunications services on an unbundled basis. This means the operator must offer access to its network or its services in a manner that does not force the other party to purchase any services that it does not require.

Among other things, the FNA is authorized to impose on operators the obligation (i) to grant access to certain network components and certain facilities as designated by the FNA, and (ii) to offer the re–sale of their telecommunications services on a wholesale basis.

Under certain conditions, the FNA may also impose access obligations if the operators do not have significant market power but control end–user access. Regardless of whether or not an operator has significant market power, it is obliged to offer any other operator, upon its request, the interconnection of both parties' networks provided that the interconnection is technically feasible.

We are obliged to provide access on a non–discriminatory, fair and reasonable basis to other network operators both with regard to our fixed–line and our mobile network. The basis of such obligations are the FNA rulings of September 1, 2009 and December 5, 2008 described above. With regard to our mobile network, this includes the obligation to interconnect with other telecommunications networks and to terminate calls via our mobile network to our end customers.

In addition, the FNA has ordered us to publish a reference offer with regard to interconnection with mobile networks. In its ruling of April 4, 2012 the FNA reviewed and amended our respective reference offer. With regard to our fixed–line network, no obligation to interconnection was imposed on us in the FNA ruling of September 7, 2009. However, it is likely that forthcoming regulatory orders for fixed–line networks operated by alternative operators might include the obligation to interconnect with other networks.

RATE REGULATION

The rates charged by operators of public telecommunication networks on which the FNA has imposed access obligations may be subject to rate regulation under the Telecommunications Act. Rate regulation consists of either ex–ante–rate regulation or ex–post–rate–regulation of the relevant rates. However, FNA may also decide not to impose rate regulation irrespective of an access obligation imposed on the network operator.

Under the ex–ante–rate–regulation, FNA's approval of the rates charged by the operator is required prior to their application. The Telecommunications Act provides for two basic approaches to prior approvals of rates: price–cap regulation and individual approvals on the basis of the costs of efficient service provision (the "**efficient costs approach**"). Under these two types of ex–ante regulation, the FNA shall in addition not issue a rate approval in case the rates amount to an abuse of the operator's significant market power. Under the current Telecommunications Act, the FNA is entitled to conduct rate approval procedures, *inter alia*, in accordance with other methods. The FNA considers that, on this statutory basis, rate approval procedures may follow the efficient cost–approach. A different approach to the efficient cost approach is the pure LRIC (pure long run incremental costs) approach set out in the Commission Recommendation 2009/396/EC of May 7, 2009 on Fixed and Mobile Termination Rates ("**Commission Recommendation on Termination Rates**"). In contrast to the efficient cost–approach, the Pure LRIC approach requires that costs not related to the wholesale termination service – for example, non–traffic–related costs and costs incurred by the network operators irrespective of the wholesale termination service – shall be disregarded for the purpose of setting termination rates.

If rates are subject to ex–post rate regulation by the FNA, the relevant rates do not need to pass a review process before the operator having significant market power charges those to other network operators or service providers. However, the FNA may prohibit rates if, after carrying out a review at a later stage, the FNA comes to the conclusion that charging such rates amounts to an abuse of the operator's significant market power.

We are subject to ex–ante–rate regulation with regard to our fees for call termination to our mobile network (voice MTR) according to the FNA ruling of December 5, 2008 described above. At present, this rate regulation is based on the efficient costs–approach. FNA might in future change its ex–ante regulation to the Pure LRIC approach according to the Commission Recommendation on Termination Rates or to a modified efficient cost–approach considering the bottom–up calculation method of the Commission Recommendation on Termination Rates. Under the FNA ruling of September 7, 2009, our rates for call termination into our fixed–line network (fixed–line termination rates, "**FTR**") are subject to ex post–rate regulation. According to current practice, the rates for call termination services in our network are reciprocal with to the corresponding rates of Deutsche Telekom. It is expected that Deutsche Telekom's call termination rates might decrease in the course of the forthcoming rate regulation procedures by FNA, in particular, if FNA will take account of the Commission Recommendation on Termination Rates. On the basis of FNA's current practice of reciprocal FTRs, this might lead to a corresponding decrease of Telefónica Deutschland's call termination rates. Furthermore, the FNA has recently published a consultation draft which proposes an ex–ante rate regulation for alternative network operators, including Telefónica Deutschland.

FIXED–LINE PHONE REGULATION, INTERCONNECTION, CALL TERMINATION

With respect to the provision of (narrowband) phone services based on a self–operated fixed–line telecommunications network, the previously mentioned provisions of the Telecommunications Act regarding notification, granting of rights of way, access obligations, regulation of rates and abusive behavior also apply. In particular, if a network operator is designated either to have significant market power in the relevant market or to control end–user access, the FNA may impose access obligations on the company, order the interconnection with other network operators and regulate the rates charged.

We are deemed to have significant market power pursuant to the FNA ruling of September 7, 2009 described above. Under the ruling, the rates we charge in this market are subject to ex–post regulation by the FNA, i.e., remuneration does not need to pass a review process before we charge those to other network operators. However, the FNA may prohibit applied rates if, after carrying out a review at a later stage, the FNA concludes that such rates are abusive. The current practice is that the rates for call termination services in Telefónica Deutschland's network are reciprocal with the corresponding rates of Deutsche Telekom. In addition, all call termination agreements must be non–discriminatory and respect certain transparency standards. The FNA has recently published a consultation draft which proposes an ex–ante rate regulation for alternative network operators, including us.

MOBILE PHONE REGULATION, INTERCONNECTION, CALL TERMINATION

With respect to the commercial provision of mobile phone services based on a self–operated mobile telecommunications network, the previously mentioned provisions of the Telecommunications Act regarding notification, granting of rights of way, access obligations, regulation of fees and abusive behavior also apply. In particular, if a network operators company is deemed either to have significant market power in the relevant market or to control end–user access, the FNA may impose access obligations on the company, order the interconnection with other network operators and regulate the rates charged.

We are deemed to have significant market power pursuant to the FNA ruling of December 5, 2008 described above. Under the ruling, the rates we charge in this market are subject to an ex–ante–regulation by the FNA, i.e., remuneration does need to pass a review process before Telefónica Deutschland charges it to other network operators.

On February 24, 2011, pursuant to decision BK 3a–10/100, the FNA ruled with retroactive effect from December 1, 2010 that the rates which we are entitled to charge for termination to our own mobile telecommunications network is 3.39 cent per minute ("mobile termination rates"). The mobile termination rates for the other three German network operators are as follows: Vodafone D2 GmbH: 3.36 cent per minute; E–Plus Mobilfunk GmbH & Co. KG: 3.36 cent per minute, and Telekom Deutschland GmbH: 3.38 cent per minute. The mobile termination rates had been provisionally approved with decision dated November 30, 2010, as for the first time a final decision could not be made before a national consultation procedure and an EU Commission opinion. This process was completed in 2011. The final rates were marginally higher than those proposed and provisionally approved at the end of November 2010 but still significantly lower than the prior rates. Our previous per–minute rate was 7.14 cent per minute. The decisions of the FNA regarding the determination of mobile termination rates are usually challenged through court proceedings by us and the other mobile network operators.

The new rates will expire on November 30, 2012. The FNA announced on December 2, 2011, that we still have significant market power on the market seven (voice call termination on individual mobile networks) of the recommendation 2007/879/EC and opened a proceeding (BK 1–10/001) to impose regulatory remedies by regulatory order and subsequently start the approval process for our mobile termination rates as of December 1, 2012. The FNA may further lower mobile termination rates in the future. The FNA announced in August 2012 that although the regulated voice MTR are to be based on an efficient cost approach, it will take account of the Commission Recommendation on Termination Rates, to take effect on December 1, 2012. This is expected to result in a reduction of the voice MTRs charged by all mobile network operators. The regulatory order as well as the decision on the determination of mobile termination rates and further regulatory remedies may be challenged before the respective administrative courts.

FIXED AND MOBILE TERMINATION RATE RECOMMENDATION

In May 2009, the European Commission issued a recommendation on the regulatory treatment of fixed and mobile termination rates in the EU. The recommendation defined the details for the cost calculation of termination rates by the relevant National Regulatory Authorities (the "**NRAs**"). With the recommendation, the Commission intends to harmonize cost standards for mobile termination rates throughout the EU.

In this respect, the Commission stated the intention to further reduce termination rates by the end of 2012, while also eliminating asymmetry between operators. Although the recommendation is not legally binding, NRAs have to take the utmost account of the recommendation while still being able to reflect national circumstances. In particular, mobile operators could therefore be subject to further pressure to lower termination rates in the future.

ABUSIVE BEHAVIOR

In addition, the Telecommunications Act provides for a general prohibition of abusive behavior in the telecommunication markets by operators of telecommunication networks or providers of telecommunication services with significant market power.

In particular, such abuse includes discriminatory and restrictive practices. The FNA may prohibit abusive behavior and declare the relevant agreements void. The FNA may also confiscate profits generated from abusive behavior if certain conditions are met. Moreover, the FNA has the authority to impose an administrative fine on any company that fails to comply with its rulings regarding abusive behavior.

INTERCONNECTION AGREEMENTS WITH DEUTSCHE TELEKOM

Alternative fixed and mobile phone service providers generally enter into interconnection agreements with Deutsche Telekom in order to allow their customers to call subscribers of other fixed and mobile telecommunications networks and to be called by third parties. The fees Deutsche Telekom charges for its interconnection services are subject to an ex–ante review by the FNA. In addition, the FNA has ordered Deutsche Telekom to publish a reference interconnection offer.

INTERCONNECTION WITH DEUTSCHE TELEKOM’S FIXED NETWORK

We have entered into three independent agreements with Deutsche Telekom regarding the interconnection with Deutsche Telekom’s fixed network. After the acquisition of HanseNet in 2010, the fixed networks of former HanseNet as well as ours – for the purpose of interconnection with Deutsche Telekom – are still treated as two separate networks and underlie two independent contracts (Fixed/Fixed 1 and Fixed/Fixed2). The third interconnection agreement concerns the interconnection of Deutsche Telekom’s fixed network and our mobile network (Fixed/Mobile). Agreement Fixed/Fixed 1 was signed in 2003 according to Deutsche Telekom’s regulated standard offer at that time. Deutsche Telekom has the right to terminate the agreement with a six months’ notice period. However, Telekom is obliged to offer a substitution contract that matches the regulatory requirements imposed by FNA (i.e., revised standard offer).

Agreement Fixed/Fixed 2 (former HanseNet) was signed in 2002 by means of an order by the FNA. Deutsche Telekom has the right to terminate the agreement with six months’ notice. However, Deutsche Telekom is obliged to offer a substitution contract that matches the regulatory requirements imposed by the FNA (i.e., current standard offer).

Agreement Fixed/Mobile was signed in 2003 according to Deutsche Telekom’s regulated standard offer at that time. Telekom has the right to terminate the agreement with six months’ notice. However, Deutsche Telekom is obliged to offer a substitution contract that matches the regulatory requirements imposed by the FNA (i.e., revised standard offer).

INTERCONNECTION WITH DEUTSCHE TELEKOM’S MOBILE NETWORK

In addition to the fixed network interconnection, we have entered into an interconnection contract with Deutsche Telekom regarding mobile networks. On the basis of that contract, both mobile networks are directly interconnected.

Furthermore, Telefónica Deutschland’s mobile network has direct interconnection agreements with the following network operators: BT (Germany) GmbH & Co. oHG, Cable&Wireless Telecommunications Services GmbH, COLT Technology Services GmbH, E–Plus Mobilfunk GmbH & Co. KG, Telefónica Czech Republic a.s., Telefónica Ireland Ltd., Telefónica UK, Telekom Austria TA AG, Verizon Deutschland GmbH, Vodafone D2 GmbH, WIND Telecomunicazioni S.p.A.

INTERNET ACCESS

In connection with the commercial provision of internet access services to end customers via a self–operated fixed–line telecommunications network, the same provisions of the Telecommunications Act apply as set out above. The regulations under the Telecommunications Act do not differentiate between the content (phone or internet data) transmitted via the telecommunications network.

We were not deemed to have significant market power within the market for internet access services. This end customer market is also not listed in the current recommendation 2007/879/EC. Therefore, we are not subject to any competitive regulation regarding the internet access market.

WHOLESALE BROADBAND SERVICES

As for the commercial provision of wholesale broadband services, the same provisions of the Telecommunications Act apply as set out above.

We were not deemed to have significant market power within the market for wholesale broadband services. Therefore, we are not subject to any competitive regulation with regard to the internet access market.

CONSUMER PROTECTION

Pursuant to the Telecommunications Act, we are obliged to comply with various provisions for the special protection of consumers. The protection of consumers was further strengthened by the above–mentioned reform of the Framework. According to the definition in the German Civil Code (*Bürgerliches Gesetzbuch*), which is applicable here, "consumer" refers to every natural person who enters into a legal transaction for a purpose that is outside his trade, business or profession.

The consumer protection provisions in the Telecommunications Act concern, among other things, (i) the formation of agreements and the mandatory information to be provided in such agreements, (ii) the subject matter, maximum duration and the termination of contracts as well as certain rights and obligations of the contracting parties and of third parties engaged in telecommunications traffic, (iii) quality of service, (iv) details of delivery periods, (v) the obligation for waiting loops (*Warteschleifen*) to be free of charge, (vi) automatic price announcements, (vii) specific obligations toward disabled end–users, (viii) the operator's liability *vis–à–vis* the end–users, (ix) the way in which reference is made to standard terms and conditions and fees, (x) requirements deriving from the Universal Service Directive, (xi) entries in directories and directory enquiry service databases, (xii) the blocking of the subscriber's line, (xiii) billing and (xiv) out–of–court dispute resolution procedures for customers.

Consumer protection provisions are also contained in other statutes, such as the German Civil Code or Act Against Unfair Competition (*Gesetz gegen den unlauteren Wettbewerb*). According to the latter, it is, among other things, unlawful to approach prospective customers for direct marketing purposes via a phone without the express prior consent of the subscriber. Fines may be charged in case of an infringement.

NUMBER PORTABILITY AND CONTINUITY OF SERVICE

In the case of a change of the provider by the customer, each public phone network operator is obliged to allow for number portability. Customers must be able to retain their phone number, in the case of geographic numbers, at a specific location and in the case of non–geographic numbers at any location. The relevant telecommunication service must not be discontinued for more than one calendar day. Customers of mobile telephone service providers may transfer their mobile telephone number to another provider at any time. The duration of their telephone service contract with the original provider is not affected by such transfer. We believe that number portability is advantageous to market participants like us that are in the position of a challenger.

Pursuant to the former version of the Telecommunication Act, telecommunications service providers were allowed to align the number portation with the duration of the contract. This is no longer possible for mobile numbers. Thus, the new regulation may lead to a higher churn rate.

NUMBERING ISSUES

The FNA is the competent authority for the administration of numbering issues. It is responsible for structuring and configuring the national number space in Germany. The FNA also allocates (telephone) numbers to telecommunications network operators, telecommunications service providers and end–users.

When we are allocated numbers (for example, local or mobile numbers for end–customers), we are obliged to comply with certain conditions (for example, with regard to the transfer of numbers), as set out in the respective number allocation rules issued by the FNA. Furthermore, we must observe certain statutory provisions with regard to premium–rate numbers. The FNA is authorized to impose fines in order to enforce our regulations on numbering.

NETWORK NEUTRALITY

The revised Telecommunications Act includes a new provision that applies to all telecommunication network providers and grants the German government discretionary authority to impose an ordinance specifying general requirements of non–discriminatory data traffic and non–discriminatory access to content and applications. Whether the German government will issue such an ordinance depends on ongoing public discussions on net neutrality as well as actual developments in the market. So far, the Federal Network Agency has not issued any regulations regarding net neutrality.

PRIVACY OF TELECOMMUNICATIONS – DATA PROTECTION AND PUBLIC SAFETY

Each provider of telecommunications services is obliged to maintain telecommunications privacy. This means that the content and detailed circumstances of telecommunications, in particular, the fact of whether or not a person is or was engaged in a telecommunications activity must not be disclosed to third parties.

In addition, each operator is obliged to protect the personal data of telecommunications subscribers and users in connection with the collection and use of such data.

Furthermore, any person offering publicly available phone services for domestic calls is obliged to provide all users with free access to emergency services by either using the European–wide emergency call number "112", or the national emergency call number "110", by sending the corresponding emergency signals.

Moreover, each provider of telecommunication services is obliged to make appropriate technical arrangements and other measures in order to protect the privacy of telecommunications and personal data. In addition, providers of either public telecommunication networks or of publicly available telecommunication services must make appropriate technical arrangements and other measures (i) to protect its telecommunications and data processing systems against disruptions, which would result in considerable harm to telecommunications networks and services, and (ii) to control potential risks for the security of telecommunication networks and services. In addition, each provider is obliged to nominate a security commissioner (*Sicherheitsbeauftragten*) and to draw up a security concept (*Sicherheitskonzept*) setting out (a) which public telecommunications networks are operated and which publicly available telecommunications services are provided, (b) any potential hazards, and (c) which technical arrangements or other safeguards have been made or put in place or are planned.

Providers of publicly available telecommunication services are obliged to notify violations of the protection of personal data to the FNA, the Federal Commissioner for Data Protection and Freedom of Information (*Bundesbeauftragter für den Datenschutz und die Informationsfreiheit*) and, in certain circumstances, the individuals affected by the violation.

INTERCEPTION AND INFORMATION REQUESTS FROM LAW ENFORCEMENT AUTHORITIES

Each operator of a telecommunications system on which publicly available telecommunications services are provided must provide, at its own expense, technical facilities for telecommunications interception by law enforcement authorities. The administrative and procedural details of the telecommunications interception are specified in the revised telecommunications interception regulation (*Telekommunikations–Überwachungsverordnung*), whereas the technical details (for example, relating to transmission protocols) are specified in the relevant technical guidelines relating to the telecommunications interception regulation. The FNA regularly updates the technical guidelines in order to reflect developments in technology, such as the use of e–mail and VoIP, for example.

For each interception measure ordered by the competent authorities, the operator of the telecommunications system receives a monetary compensation. The amount and the provision for such compensation are stipulated in the German Law on Payment and Compensation by Judiciary Authorities (*Justizvergütungs– und –entschädigungsgesetz*).

Each operator of a telecommunications network or provider of telecommunications services used to be obliged to collect and store certain data for a certain period of time with regard to the telecommunications traffic across its network in order to comply with statutory provisions related to law enforcement. Following a decision of the Federal Constitutional Court of March 2, 2010, the legal basis for such storage is now unconstitutional and void. Therefore, there is currently no storage obligation and there will not be one in the future unless the legislature passes a constitutional amendment regarding data storage. However, such a storage obligation could lead to significant costs for us and the other mobile network operators.

INTERNATIONAL ROAMING

In July 2009, a new EU roaming regulation came into force and expanded the existing roaming regulation to SMS and data roaming services. This amended 2009 regulation expired on June 30, 2012. On May 30, 2012, the Council of the European Union adopted a new, recast Roaming Regulation, which replaced the 2009 regulation ("**Roaming III**"). This new Roaming Regulation entered into force on July 1, 2012 and will apply until June 30, 2022.

Under Roaming III, the current retail price caps on voice and SMS calls have been reduced and a new retail cap on data services has been introduced. Wholesale price caps will also be progressively reduced and new structural measures are being introduced to improve competition.

From July 1, 2014, customers will be able to buy their domestic and roaming services separately, from different operators, while keeping the same phone number. In addition, since July 1, 2012 MVNO's have the right to access other operator's networks at wholesale prices in order to provide roaming services. The Regulation also lays down rules aimed at increasing price transparency and improving the provision of information on charges to roaming customers.

With respect to retail prices, the new rules pursuant to Roaming III which entered into force on July 1, 2012 are, among others, as follows:

- 29 cents per minute to make a call;
- 8 cents per minute to receive a call;
- 9 cents to send a text message; and
- 70 cents per Megabyte (MB) to download data or browse the internet while travelling abroad (charged per Kilobyte used).

These regulated retail price caps will progressively go down so that by July 1, 2014, roaming consumers will be paying no more than 19 cents per minute to make a call, a maximum of 5 cents per minute to receive a call, a maximum of 6 cents to send a text message and a maximum of 20 cents per MB to download data or browse the internet while travelling abroad.

In terms of wholesale caps, the current caps were reduced in July 1, 2012 to 25 cents per MB for data, to 14 cents per minute for voice and to 3 cents per SMS. There will be further reductions on July 1, 2013 and on July 1, 2014, such that they will then be 5 cents per MB for data, 5 cents per minute for voice and 2 cents per SMS.

ANTITRUST REGULATION AND COMPETITION LAW

We are subject to the general antitrust regulations of the EU and Germany on the prohibition of the abuse of a market dominant position as well as the distortion of competition through agreements or collusive behavior by market participants.

Under Articles 101 and 102 of the EU Treaty and the implementing European Regulations as well as under the provisions of the German Act against Restraints of Competition (*Gesetz gegen Wettbewerbsbeschränkungen*), if the Federal Cartel Office (*Bundeskartellamt*, "**FCO**") or the European Commission determines that a company has a dominant position in a market or distorts competition through agreements or collusive behavior, they are entitled to prohibit such practices and to impose various measures, including fines or disgorgement of projects generated by such behavior. The European Commission enforces these rules in cooperation with the national competition authorities (i.e., the FCO in Germany). The FCO may also directly enforce such rules. In addition, the national courts have jurisdiction over alleged violations of European Union competition law. Moreover, third parties may initiate civil proceedings against companies that willfully or negligently violate provisions of the German Act against Restraints of Competition to obtain compensation for damages suffered, provided that these provisions were intended to protect the interests of such third parties.

The European Merger Regulation requires that all mergers, acquisitions and joint ventures involving participants meeting a certain turnover threshold be submitted to the EU Commission for review, rather than to national authorities, i.e., the FCO in Germany. Concentrations are prohibited if they pose the risk of creating or strengthening a dominant position on a relevant market.

GENERAL INFORMATION ON THE COMPANY

FORMATION, LEGAL NAME AND CORPORATE HISTORY

Telefónica Deutschland Holding AG is a German stock corporation (*Aktiengesellschaft*) organized and operating under German law. The Company was founded as a German limited liability company (*Gesellschaft mit beschränkter Haftung*) by KPMG Unternehmensberatung GmbH by notarial deed No. 409/1995–s dated November 29, 1995 by notary public Dr. Klaus Fischer. The Company's change of legal form from a German limited liability company (*Gesellschaft mit beschränkter Haftung*) into a German stock corporation (*Aktiengesellschaft*) was resolved by the General Shareholders' Meeting on September 18, 2012 and was registered in the commercial register on September 26, 2012. Since that date, the Company has existed as a German stock corporation (*Aktiengesellschaft*).

The legal and business name (*Firma*) is "Telefónica Deutschland Holding AG". The legal seat (*Satzungssitz*) is in Munich, Germany. Telefónica Deutschland Holding AG is registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) in Munich under registration number HRB 201055. The Company has its business address at Georg–Brauchle–Ring 23–25, 80992 Munich, Germany (telephone number: +49 (0) 89 2442–0; www.telefonica.de). Its financial year is the calendar year (January 1 through December 31). Telefónica Deutschland Holding AG has been established for an unlimited period of time.

BUSINESS PURPOSE

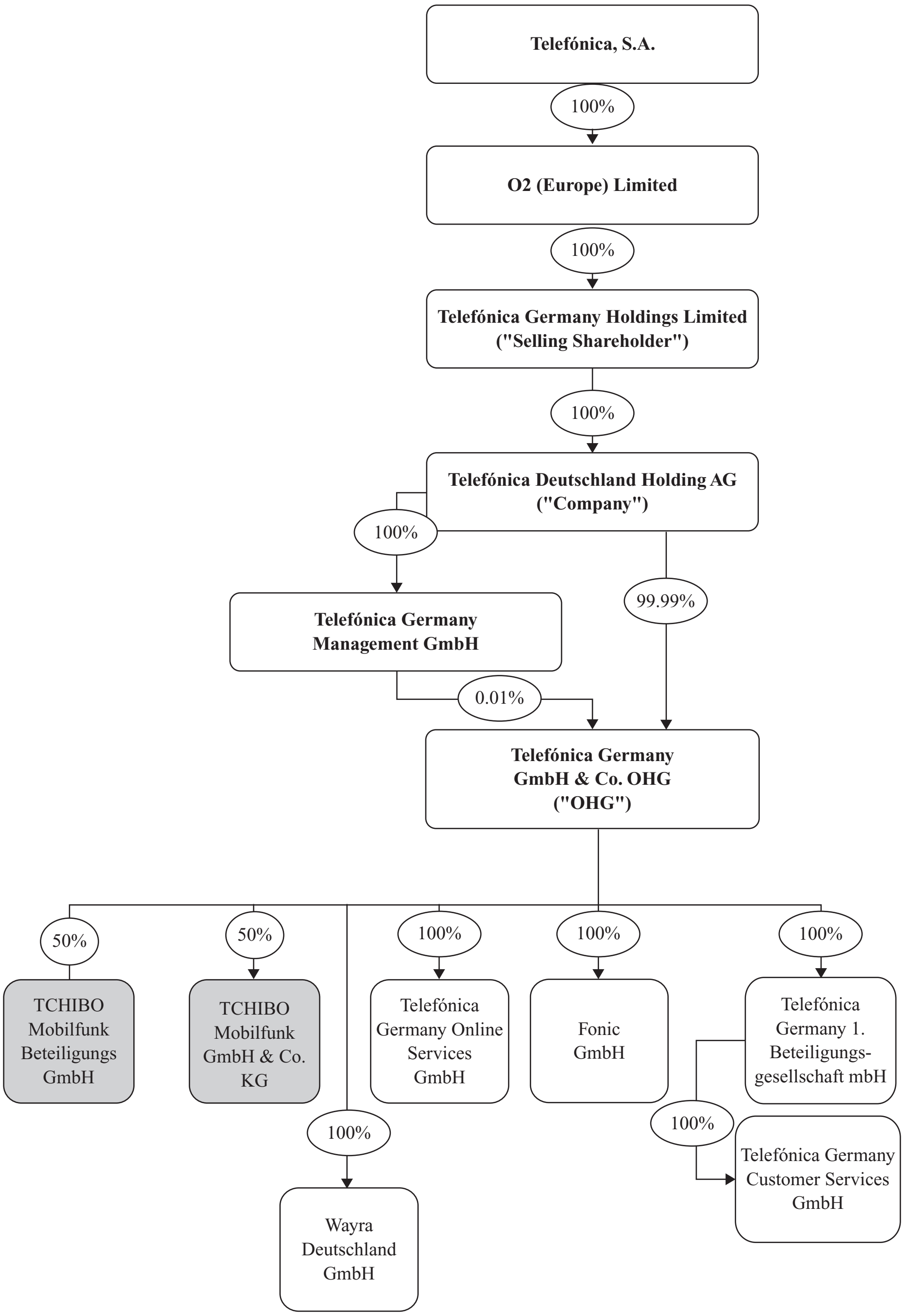
The business purpose (*Unternehmensgegenstand*) of the Company as set forth in Section A "General Provisions" paragraph 2 of its Articles of Association (*Satzung*) is:

(i) The object of the Company is to engage in Germany and abroad in the areas of telecommunications and information technology, multimedia, information and entertainment, mobile payment and other payment solutions as well as the provision of distribution and brokerage services and any services connected or related with any of these areas, including the distribution of hardware and insurance solutions.

(ii) The Company is entitled to carry out all measures and business transactions which appear necessary and useful to achieve and realize the object of the Company as described in (i). In particular it may for this purpose establish branches in Germany and abroad; it may found or acquire companies of the same or similar type in Germany and abroad, or acquire an interest in such companies; it may demerge parts of its business to associated companies, including joint ventures with third parties, sell interests in other companies, conclude enterprise agreements, or limit itself to the management of shareholdings. Furthermore, the Company may itself operate in the fields of business set forth in sub–clause (i) above.

GROUP STRUCTURE

The following table shows the current group structure of Telefónica Deutschland and the Company's direct and indirect shareholder:



Information on Holdings

The table below provides an overview of the Company's operating subsidiaries at the date of the Prospectus:

Legal name, seat[1]	Business area	Interest held by us *(unaudited)*
Telefónica Germany Management GmbH	The purpose of the company is to acquire and manage interest in other companies, particularly in Telefónica Germany GmbH & Co. OHG, and to take over the position of a personally liable shareholder and to manage the business operations of these companies. The company is authorized to perform all legal transactions and other activities which it deems necessary or useful for attaining its corporate purpose. The company is particularly authorized to establish branch offices or subsidiaries in Germany and to acquire or hold interest in identical or similar companies.	100%
Telefónica Germany GmbH & Co. OHG	The objective of the partnership is the provision of national and transborder telecommunication services of any kind in Germany over fixed, wireless and other networks, in particular, the transmission of voice, data and visual images in Germany.	99.99% of interest held by the Company; 0.01% of interest held by Telefónica Germany Management GmbH
Wayra Deutschland GmbH	The purpose of the company is the commercial support of companies in their business development, the acquisition, holding and disposal of shares in companies and the letting of premises besides provision of infrastructure services and IT services.	100%
Telefónica Germany Online Services GmbH	The purpose of the company is the supply and marketing of services in online–media, in particular of hosting services.	100%
Fonic GmbH	Provision of telecommunication services of any kind using any transmission technique in particular for transmission of voice, data and pictorial displays.	100%
Telefónica Germany 1. Beteiligungsgesellschaft mbH	The purpose of the company is the acquisition and management of equity interest in undertakings in the field of telecommunication.	100%
TCHIBO Mobilfunk Beteiligungs GmbH	The purpose of the company is the acquisition and management of equity interest in undertakings in particular as personally liable partner in TCHIBO Mobilfunk GmbH & Co. KG.	50%
TCHIBO Mobilfunk GmbH & Co. KG	Marketing and sales of mobile telecommunication services provided by third parties.	50%
Telefónica Germany Customer Services GmbH	The purpose of the company is i.a. the planning, implementation, operation, marketing of services in the field of telecommunication.	100% held by Telefónica Germany 1. Beteiligungsgesellschaft mbH

1 The legal seat of all subsidiaries is Munich, Germany.

The Company further holds approximately 20% of the interest in MNP Deutschland GbR, Düsseldorf. The purpose of MNP Deutschland GbR is to operate a centralized master–routing–database which saves data for the portability of mobile phone numbers in Germany. The total share capital of MNP Deutschland GbR amounted to €751,922.02 as of December 31, 2011, the book value of the Company's interest in MNP Deutschland GbR amounted to €124,579.83 as of December 31, 2011.

RECENT CORPORATE DEVELOPMENTS

Acquisition of HanseNet

On December 3, 2009, Telefónica Germany Customer Services GmbH, with OHG as guarantor, entered into a share purchase agreement with Telecom Italia S.p.A. (and several of its affiliates) on the acquisition of all shares in Hamburg–based Hanse-Net and certain existing shareholder loans. HanseNet was a communication services provider active in Germany mainly under the DSL trademark "Alice". HanseNet had more than two million fixed–line customers (as of closing on February 16, 2010), and annual revenues of more than €1 billion in 2009. The transaction was based on an agreed enterprise value of HanseNet of €900 million net of debt and cash and closed on February 16, 2010. On March 31, 2011, HanseNet was subsequently merged into OHG. The transaction included HanseNet's right to continue using the "Alice" trademark until February 15, 2013.

Carve Out

Prior to the Offering, G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and our indirectly held 40% interest in Adquira España S.A., ceased to be members of our group as a result of the following transactions:

Based on a sales purchase agreement dated September 27, 2012, effective October 1, 2012, 0.00 a.m., OHG sold to TGB.V., having its corporate seat in the Netherlands, an indirect 100% subsidiary of Telefónica, S.A., all its shares in Telefónica Global Activities Holdings B.V. (former Telefónica Chile Holding B.V.), having its corporate seat in the Netherlands, for a total purchase price of €703 million. The purchase price was determined on the basis of a valuation report provided by an international accounting firm. Telefónica Global Activities Holdings B.V. is a shell company acquired by OHG for the purpose of the transaction described below.

Prior to the sale of all its shares in Telefónica Global Activities Holdings B.V., OHG had (i) contributed to TGR, through TGS, all of its rights and obligations under a loan agreement with G3G, and (ii) contributed to Telefónica Global Activities Holdings B.V. all of its shares in its directly and indirectly held subsidiaries G3G, Quam and TGS, together with its subsidiaries TGR, Telefónica Compras Electronicas S.L. and our indirectly held 40% interest in Adquira España S.A.

As of September 30, 2012, 12.00 p.m., all existing profit and loss transfer agreements between OHG and each of G3G, Quam, TGS and TGR were terminated. Creditors of G3G, Quam, TGS and TGR are entitled to request OHG to provide security for claims against one of these entities which have been established (*begründet*) prior to registering the termination of the respective profit and loss transfer agreements in the commercial register. Prior to such termination, prepayments on expected profits were made under these agreements in the total amount of €854.5 million in 2012 (net of a prepayment on an expected loss balance obligation arising from the profit and loss transfer agreements).

The final amounts of the profit transfer obligations of the four entities and for any loss balancing obligation of OHG for the short fiscal year ended September 30, 2012, will depend on the annual financial statements of G3G, Quam, TGS and TGR as adopted by their respective shareholders in the future. In the event that the finalized annual financial statements will show deviations from the pre–paid amounts, OHG may receive additional payments from such entities or may have to repay prepayments received or make additional loss compensation payments. Pursuant to the sales purchase agreement with TGB.V., the total net amount of any additional profit transfer payments to OHG as well as the total net amount of any repayments or additional loss compensation to be compensated by OHG shall be fully neutralized from a financial perspective by a corresponding adjustment of the purchase price for the shares in Telefónica Global Activities Holdings B.V.

Dividend Payment

On September 13, 2012, the shareholders' meeting of the Company declared a dividend for the year ended December 31, 2011, in the total amount of €7.2 billion. A part of the resulting dividend payment claim was set–off against an existing capital promise in the amount of €2.9 billion (remaining undrawn from two capital promises made in 2003 and 2004, in an aggregate amount of €5.2 billion). The remaining amount of €4.3 billion was paid by the Company to O2 (Europe) Limited on September 14, 2012.

The Company funded this dividend payment through a withdrawal of capital reserves of OHG. To this end, OHG, *inter alia*, used available cash and intra–group loans granted and paid out by TGB.V., an entity of the Telefónica Group, in the amount of €1.25 billion and €703 million based on two loan agreements dated September 12, 2012, respectively (see "*Related Party Transactions*"). OHG repaid the intra–group loan in the amount of €703 million using the proceeds from the sale of the shares in Telefónica Global Activities Holdings B.V. on October 1, 2012.

NOTICES, SETTLEMENT AGENT, PAYING AGENT

In accordance with the Company's Articles of Association (*Satzung*), notices of the Company will be made in the German Federal Gazette (*Bundesanzeiger*), which is accessible at www.bundesanzeiger.de. Publications required by stock exchange laws will be made via electronic information systems, will be available for download from our website or published in a national journal designated for such purposes by the Frankfurt Stock Exchange.

Notices in connection with the approval of the Prospectus or regarding supplements to the Prospectus will be made in accordance with the provisions of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) and will be published in the form intended for prospectuses, i.e., on our website at www.telefonica.de and will be available as a printed version at our offices and at the offices of J.P. Morgan and UBS. The settlement agent is J.P. Morgan, 25 Bank Street, London E14 5JP, United Kingdom.

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

DESCRIPTION OF SHARE CAPITAL

SHARE CAPITAL AND SHARES, DEVELOPMENT OF THE SHARE CAPITAL OVER THE LAST THREE YEARS

The registered share capital of the Company (*gezeichnetes Grundkapital*) amounts to €1,116,945,400 and is divided into 1,116,945,400 Shares with no–par value and a notional amount of the registered share capital of €1.00 each. The Company's registered share capital is fully paid up.

In accordance with the Articles of Association, as amended, all of the Shares have been issued as ordinary registered shares with no par value. All Shares are represented by a global share certificate deposited with Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn, Germany. Holders of Shares have co–ownership rights to the global share certificate. In accordance with Section 6 (1) of the Articles of Association, the Management Board determines the form of the share certificates with the approval of the Supervisory Board. Section 6 (2) of the Articles of Association excludes shareholders' rights to individual share certificates, to the extent that the rules of the stock exchange on which the Shares are listed do not require individual certification. The Shares are freely transferable.

Prior to the conversion of the Company to a German stock corporation (*Aktiengesellschaft*), it existed as a German private limited liability company (*Gesellschaft mit beschränkter Haftung*), registered with the commercial register of the local court of Munich under registration number HRB 121 389. Over the last three years, the registered share capital of the Company was increased from €1,113,845,300 three times by €1,000,000 each, based on shareholders' resolutions passed on February 10, 2010, April 28, 2010 and May 21, 2010, respectively, and by €100,000 based on a shareholders' resolution passed on September 22, 2010. As of September 29, 2010, following the registration of the last of the capital increases referred to above, the registered share capital amounted to €1,116,945,300.

On September 18, 2012, the extraordinary General Shareholders' Meeting of the Company resolved on an increase of the registered share capital of the Company by €100 in return for the transfer of all shares in Telefónica Germany Management GmbH to the Company and the change of the legal form of the Company from a German private limited liability company (*Gesellschaft mit beschränkter Haftung*) to a German stock corporation (*Aktiengesellschaft*). The capital increase and the change of legal form as resolved by the General Shareholders' Meeting on September 18, 2012 were registered in the commercial register on September 25, 2012 and September 26, 2012, respectively. Since that date, the Company has existed as a German stock corporation (*Aktiengesellschaft*) with a registered share capital of €1,116,945,400.

AUTHORIZED SHARE CAPITAL

The authorized capital of the Company currently amounts to €558,472,700. According to Section 4 (3) of the Company's Articles of Association, the Management Board is authorized to increase the registered share capital of the Company with the consent of the Supervisory Board on one or more occasions through September 17, 2017, by a total amount of up to €558,472,700 by issuing up to 558,472,700 new no–par value registered shares against contributions in cash and/or in kind (Authorized Capital 2012/I).

The Company's Management Board is further authorized, subject to the consent of the Supervisory Board, to exclude the subscription right of the shareholders

- for fractional amounts;
- if the capital is increased against contributions in kind for the purpose, directly or indirectly, of acquiring companies, parts of companies, participations in companies, or other assets;
- if the new shares are issued against contributions in cash provided that the issue price of the new shares is not significantly lower than the stock exchange price of the shares of the Company already listed at the time when the issue price is finally determined, which time should be as close in time as possible to the placement of the new shares, and the pro rata amount of the registered share capital attributable to the new shares does not exceed 10% at the time such authorization becomes effective or at the time it is exercised. Any shares shall count towards this limit (a) that are issued or sold subject to the exclusion of the shareholders' subscription right in direct or analogous application of Section 186 (3) sentence 4 of the German Stock Corporation Act during the term of such authorization, and (b) that are or can be issued to satisfy subscription rights or conversion obligations arising from convertible bonds and/or warrant bonds, profit participation rights and/or income bonds (or any combination of these instruments) (together the "**Convertible Bonds**"), provided that such Convertible Bonds are issued subject to the exclusion of the shareholders' subscription rights in application of Section 186 (3) sentence 4 of the German Stock Corporation Act following the date on which this authorization becomes effective; and
- to the extent necessary in order to be able to grant new no–par value registered shares to holders or creditors of Convertible Bonds issued by the Company or any company in which the Company directly or indirectly holds an equity interest ("**Subsidiaries**") upon their exercise of conversion or option right or fulfillment of conversion obligation, and (b) to the extent necessary in order to grant holders of option or convertible rights or creditors of Convertible Bonds with conversion obligations that have been or will be issued by the Company or Subsidiaries a subscription right to new shares in the amount to which they would be entitled to as shareholders upon exercise of the option or conversion rights or fulfillment the conversion obligations.

The Management Board is also authorized to determine, with the consent of the Supervisory Board, the further details of the capital increases under the Authorized Capital 2012/I and their implementation.

CONTINGENT CAPITAL

By resolution dated October 5, 2012, the Company's General Shareholders' Meeting adopted the following contingent capital:

The registered share capital of the Company is increased conditionally by up to €558,472,700 by issuing up to 558,472,700 new no–par value registered shares ("**Contingent Capital 2012/I**"). The conditional capital increase serves the purpose of granting registered shares to the holders or creditors of convertible and/or warrant bonds, which are issued by the Company or a Subsidiary until October 4, 2017 against contribution in cash based on the authorization granted by the General Shareholders' Meeting on October 5, 2012 under agenda item 1 and which provides for a conversion or option right to shares in the Company or stipulates a conversion obligation. The new shares from the Contingent Capital 2012/I may be issued only at a conversion or option price which meets the requirements stipulated in the authorization. The conditional capital increase shall be carried out only to the extent that option or conversion rights are exercised or the holders or creditors required to convert their Convertible Bonds, fulfill their conversion obligation and to the extent that no compensation in cash is granted and no shares owned by the Company or new shares from an utilization of authorized capital are used to satisfy the conversion or option rights or conversion obligations. The new no–par value registered shares shall participate in the profit from the beginning of the financial year in which they are issued due to the exercise of option or conversion rights or the fulfillment of conversion obligations. The Management Board is authorized to determine the further details of the conditional capital increase and its execution.

AUTHORIZATION TO ISSUE CONVERTIBLE BONDS, WARRANT BONDS, PROFIT–PARTICIPATION RIGHTS AND / OR INCOME BONDS

By resolution dated October 5, 2012, the General Shareholders' Meeting adopted the following authorization: The Management Board is authorized, subject to the approval of the Supervisory Board, to issue, directly or via a Subsidiary, on one or more occasions unregistered or registered Convertible Bonds with or without limited maturity in an aggregate nominal value of up to €1,500,000,000 and to grant the holders or creditors of Convertible Bonds conversion or option rights to shares of the Company representing a fraction of the registered share capital of up to €558,472,700 in total, subject to the more detailed terms and conditions of such bond terms. The Convertible Bonds can also be issued against a contribution in kind for the purpose of, directly or indirectly, acquiring companies, participations in companies, parts of companies or other assets. The Convertible Bonds can be issued in euro or – the equivalent amount – in another legal currency, for instance of an OECD country. They can also be issued, in case the borrowings serve our financial interests, by a Subsidiary; in such case, the Management Board is authorized, subject to the approval of the Supervisory Board, to guarantee the Convertible Bonds and to make any declarations and perform any actions that are necessary for a successful issuance and to grant the holders conversion or option rights to shares of the Company. The individual issuances can be subdivided in each case into equally ranking fractional Convertible Bonds. The Management Board is authorized in compliance with the principles set forth in the authorization to define the further details of the issue and characteristics of the Convertible Bonds, including the terms and conditions of the issuance, or to do so by agreement with the governing bodies of affiliated companies issuing the Convertible Bonds. This relates specifically to the interest rate, type of return, issuance amount, maturity, and denomination, the conversion and option period, the calculation of the conversion or option price on the basis of the parameters stipulated in the authorization, the stipulation of a premium cash payment, the compensation or adding together of residual amounts, cash payment (including in part) instead of delivery of shares, delivery of existing instead of the issue of new shares, adjustment clauses in case of economic dilution and extraordinary events.

AUTHORIZATION TO ACQUIRE AND SELL TREASURY SHARES

By resolution dated October 5, 2012, the General Shareholders' Meeting authorized the Company to acquire own shares in accordance with Section 71(1), number 8 of the German Stock Corporation Act through October 4, 2017 as follows: The Management Board is, subject to approval of the Supervisory Board, authorized to repurchase up to 10% of the Company's registered share capital existing at the date of the resolution. The repurchase for the purpose of trading in treasury shares is not allowed. The aggregate number of the Company's shares repurchased under this authorization and any other treasury shares previously acquired and still held in treasury by the Company or attributable to the Company may at any time not exceed 10% of the then existing registered share capital. This authorization may be exercised in whole or in part, once or multiple times, by the Company or any of its consolidated Subsidiaries, or by third parties on behalf of the Company or its consolidated Subsidiaries. Any repurchase of treasury shares shall be accomplished either by acquisitions on the stock exchange or through a public share purchase offer to all shareholders. If the treasury shares are to be acquired on the stock exchange, the purchase price (excluding ancillary purchase costs) paid by the Company may not exceed the share price as determined by the opening auction on the XETRA trading platform (or a respective successor system) on the trading day by more than 20% or less than 20%. If the treasury shares are acquired through a public offering, the offered purchase price or the limits of the purchase price range per share may not exceed or be less than the closing price on the XETRA–trading platform (or a respective successor system) of the third trading day prior to the public announcement of the offer by more than 20%. In case there are changes in the relevant trading price that are not insignificant following the announcement, the offer may be adjusted. In this case the trading price on the third trading day prior to the public announcement of an adjustment, if any, shall be decisive. The volume of the offer can be restricted. In case the total subscription exceeds the stipulated volume, the acceptance must be pro–rata to the shares offered. The offer may provide that small amounts of shares of up to 1,000 tendered shares per shareholder can be given preference. Besides selling treasury shares over the stock exchange or through a public sales offer to all shareholders, the Management Board is authorized to also use treasury shares repurchased on the basis of the authorization as follows:

- they may be redeemed without an additional resolution by the General Shareholders' Meeting being required for such redemption or its implementation;
- such treasury shares may, subject to the approval of the Supervisory Board, be offered and transferred to third parties against non–cash contributions, particularly in connection with business combinations or the acquisition of companies or interests therein;
- such treasury shares may, with the approval of the Supervisory Board, be sold to third parties against payment in cash if the price (excluding incidental transaction costs) at which such treasury shares are to be sold is not significantly lower than the market price of the shares in the Company on the trading day. The relevant price is thereby the price of the shares in the Company on the XETRA trading platform (or a respective successor system) at the time of the determination of the price. The aggregate volume of shares to be sold under this authorization must not exceed the maximum amount for exclusion of subscription rights of 10% of the registered share capital existing neither at the time the authorization becomes effective nor at the time it is exercised. This figure shall take into account any Company shares issued or sold by the Company during the period of effectiveness of the authorization to exclude the subscription right in direct or analogous application of Section 186 (3) sentence 4 of the German Stock Corporation Act. In addition, this amount shall also take into account any shares issued or still to be issued in order to satisfy conversion or option rights provided that the respective convertible bonds or warrant bonds have been issued during the duration of the authorization to exclusion of the subscription right pursuant to this provision; or
- they can be used to satisfy the conversion or option rights or conversion obligations rights arising from the Convertible Bonds, issued by the Company or a Subsidiary. These authorizations to the use and retirement of treasury shares may be exercised as a whole or partly, once or multiple times, individually or jointly. A subscription right of the shareholders on their own shares affected therefrom shall be excluded insofar as these shares are used in accordance with the preceding authorizations.

The subscription right of the shareholders with respect to treasury shares so disposed of can be excluded insofar as these shares are used in accordance with the preceding authorizations. In addition, the Management Board may exclude the subscription right of the shareholders with the approval of the Supervisory Board in the event of an offer to the shareholders to acquire treasury shares to the extent that such shares shall be offered to grant a subscription right to creditors or holders of Convertible Bonds issued by the Company or a Subsidiary in the amount that would be available to the respective holder or creditor after the exercise of their conversion or option rights.

GENERAL PROVISIONS GOVERNING ALLOCATION OF PROFITS AND DIVIDEND PAYMENTS

For provisions governing the allocation of profits and the requirements and procedures for the payment of dividends, see "*Dividend Policy and Earnings per Share*". Pursuant to Section 29 (2) of the Company's Articles of Association, the General Shareholders' Meeting may resolve to use the distributable profit to issue a dividend in kind instead of or in addition to a cash dividend.

In case of a capital increase, the entitlement to dividends for new shares can be determined in deviation from Section 60 (2) of the German Stock Corporation Act (Section 5 (3) of the Company's Articles of Association).

GENERAL PROVISIONS RELATING TO THE LIQUIDATION OF THE COMPANY

Apart from liquidation as a result of insolvency proceedings, the Company may be liquidated only with a vote of 75% or more of the registered share capital represented at the General Shareholders' Meeting at which such a vote is taken. Pursuant to the German Stock Corporation Act, in the event of a company's liquidation, any assets remaining after all of a company's liabilities have been settled will be distributed pro rata among its shareholders. The German Stock Corporation Act provides certain protections for creditors which must be observed in the event of liquidation.

GENERAL PROVISIONS GOVERNING CHANGES IN THE SHARE CAPITAL

According to the German Stock Corporation Act, the registered share capital of a stock corporation may be increased against contributions in cash or in kind by resolution of the general shareholders' meeting which must be adopted by a simple majority of the votes cast and a majority of at least three–quarters of the registered share capital represented at the adoption of the resolution, unless the company's articles of association require a different majority; if the registered share capital is increased by issuing non–voting preference shares or the subscription rights of the shareholders are excluded, the articles of association may only require a larger majority. Pursuant to the articles of association, an increase of the registered share capital against contributions in cash or in kind requires a simple majority of the votes cast and a simple majority of the registered share capital represented at the adoption of the resolution, unless preference shares are issued or the subscription rights of shareholders are excluded.

The general shareholders' meeting may also create authorized capital. The creation of authorized capital requires a resolution with a majority of three–quarters of the registered share capital represented at the adoption of the resolution which authorizes the management board to issue shares up to a certain amount within a period of no more than five years. The nominal amount of the authorized capital may not exceed 50% of the registered share capital existing at the time of the authorization.

In addition, the general shareholders' meeting may create conditional capital for the issuance of shares to holders of convertible bonds or other securities that grant the holder the right to subscribe for shares, of shares that serve as consideration in a merger with another company, or of shares that were offered to executives and employees; a resolution with a majority of three–quarters of the registered share capital represented is required in each case. The nominal amount of the conditional capital may not exceed 10%, if the conditional capital is created for the purpose of issuing shares to executives and employees, or, in all other cases, 50% of the registered share capital existing at the time the resolution is adopted.

A resolution on the reduction of the registered share capital requires a majority of three quarters of the registered share capital represented when the resolution is adopted.

If a change in the registered share capital results in an increase or decrease in the voting rights, the total number of voting rights must be published by the company and the BaFin must be informed, as required by Section 26a of the German Securities Trading Act (*Wertpapierhandelsgesetz*), at the end of the month in which the increase or decrease occurred. The shareholders may be subject to disclosure requirements according to the German Securities Trading Act (*Wertpapierhandelsgesetz*) (see "*– Disclosure Requirements for Shareholdings and Takeover Bids*").

GENERAL PROVISIONS GOVERNING SUBSCRIPTION RIGHTS

According to the German Stock Corporation Act, each shareholder has, in principle, a right to subscribe for the new shares issued within the scope of a capital increase (including securities convertible into shares, securities with warrants to purchase shares, securities with profit participation or participation certificates) to maintain their existing share in the registered share capital. Subscription rights are freely transferable and may be traded on German stock exchanges during a fixed period before the expiration of the subscription period. Pursuant to the German Stock Corporation Act, the subscription period may not be shorter than two weeks. The general shareholders' meeting may exclude subscription rights with a majority of the votes cast and, at the same time, at least three–quarters of the registered share capital represented at the adoption of the resolution. An exclusion of subscription rights further requires a report of the management board, which must show, in order to justify the exclusion of subscription rights, that the company's interest in excluding the subscription rights outweighs the interest of the shareholders in the subscription rights being granted. In the absence of such objective justification, an exclusion of subscription rights may be permissible for an issuance of new shares if:

- the company increases the capital against cash contributions;
- the amount of the capital increase does not exceed 10% of the existing registered share capital; and
- the issuance price of the new shares is not substantially lower than the stock exchange price.

It is not considered an exclusion of subscription rights if new shares are acquired by a credit institution, which undertakes to offer the new shares to those persons who would otherwise have subscription rights.

EXCLUSION OF MINORITY SHAREHOLDERS

Pursuant to the provisions in Sections 327a *et seq*. of the German Stock Corporation Act regarding the "squeeze–out" process, the general shareholders' meeting of a stock corporation may resolve upon the request of a shareholder holding at least 95% of the registered share capital (the "**Main Shareholder**") on the transfer of the shares of the remaining minority shareholders to the Main Shareholder in exchange for granting adequate cash compensation.

The amount of the cash compensation to be granted to the minority shareholders must take into account "the circumstances of the company" at the time the resolution is adopted by the general shareholders' meeting. The amount of the compensation is determined by the full value of the enterprise which is normally determined using the capitalized earnings method (*Ertragswertverfahren*).

The shareholding requirements for a squeeze–out are lowered if the squeeze–out takes place in connection with the merger of a subsidiary into the parent company. According to Section 62 (5) of the German Transformation Act (*Umwandlungsgesetz*), the general shareholders' meeting of a transferring stock corporation may, within three months after the signing of the merger agreement, adopt a squeeze–out resolution in accordance with Section 327a of the German Stock Corporation Act if the acquiring company is a German stock corporation, partnership limited by shares (*Kommanditgesellschaft auf Aktien*) or European public company (*Societas Europea*) that holds at least 90% of the registered share capital. After registration of the squeeze–out with the commercial register, the merger can be implemented without a further resolution by the general shareholders' meeting of the subsidiary.

In addition to the squeeze–out process under the German Stock Corporation Act summarized above, the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs– und Übernahmegesetz*) permits the squeeze–out under the law on takeovers. Under these provisions, a bidder holding at least 95% of the voting registered share capital in a target company (within the meaning of the German Securities Acquisition and Takeover Act) after a public takeover offer or mandatory offer can generally file a motion with the district court (*Landgericht*) of Frankfurt am Main for the transfer of the other voting shares in exchange for the grant of adequate compensation by means of a court order within three months after expiration of the acceptance period. A resolution of the general shareholders' meeting is not necessary. The type of compensation must correspond to the consideration in the takeover offer or the mandatory offer; cash compensation must always be offered as an alternative. The consideration offered in connection with the takeover or mandatory offer is deemed to be reasonable if the bidder has acquired shares equal to at least 90% of the registered share capital affected by the offer. In addition, shareholders have a sell–out right. During squeeze–out proceedings under the law on takeovers initiated upon the motion of the bidder, the provisions on a squeeze–out under stock corporation law do not apply, and they are only applicable after a final conclusion of the squeeze–out proceedings under takeover law.

Pursuant to the provisions in Sections 319 *et seq.* of the German Stock Corporation Act regarding the "integration process" (*Eingliederung*), the general shareholders' meeting of a stock corporation can resolve upon the integration into another company if the future principal company holds at least 95% of the shares in the company to be integrated. The existing shareholders in the integrated company have a claim for reasonable compensation which must as a general rule be granted in the form of own shares in the principal company. The amount of the compensation must be determined using the "merger value ratio" (*Verschmelzungswertrelation*) between the two companies, i.e., the exchange ratio which would be considered reasonable in the event of merging the two companies. In contrast to the rules governing squeeze–outs, integration is only possible if the future principal company is a stock corporation domiciled in Germany.

DISCLOSURE REQUIREMENTS FOR SHAREHOLDINGS AND TAKEOVER BIDS

Following the Offering and admission of the Company's Shares to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Prime Standard*), the Company will be subject to the provisions of the German Securities Trading Act.

The German Securities Trading Act provides that any shareholder who, through acquisition, sale or otherwise, reaches 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the voting rights in a listed company whose country of origin is Germany must notify the respective company and the BaFin without undue delay, but no later than four trading days after the event, of having reached, exceeded or fallen below the threshold values and must also disclose the amount of its current share of the voting rights. The prescribed time limit commences at the time when the shareholder required to give the notification has actual knowledge or should have had knowledge under the circumstances that its share of voting rights reached, exceeded or fell below the stated thresholds.

Except for the threshold at 3%, corresponding disclosure obligations towards the company and the BaFin apply for reaching, exceeding, or falling below the above mentioned threshold values when the relevant shareholder holds financial instruments that (i) grant the holder the right to unilaterally acquire, under a legally binding agreement, previously issued voting shares of an issuer whose country of origin is Germany (Section 25 of the German Securities Trading Act), or (ii) are designed to enable its holder or a third party to acquire previously issued voting shares of an issuer whose country of origin is Germany (Section 25a of the German Securities Trading Act). The voting rights from shares and voting rights obtainable through financial instruments will be aggregated.

The company must publish this notification without undue delay, but no later than three trading days after receipt of the notification in accordance with Section 20 of the German Securities Trading Reporting and Insider List Ordinance (*Wertpapierhandelsanzeige– und Insiderverzeichnisverordnung*) and submit this to the company register (*Unternehmensregister*) maintained electronically by the German Federal Ministry of Justice within the meaning of Section 8b of the HGB for storage without undue delay, but not prior to the publication.

The German Securities Trading Act contains various rules in connection with this requirement which are supposed to ensure that the shareholding is attributed to the person who actually controls the voting rights relating to the shares. For example, shares held by a third person will be attributed to another person if that other person exercises control over the person holding the shares. This also applies to shares which are held by a third person on behalf of another person or a person controlled by such other person as well as voting rights which the person can exercise free of instructions as a proxy. Any arrangements regarding the exercise of voting rights in a general shareholders' meeting will be considered "acting in concert" and result in the mutual attribution of voting rights, unless limited to a single arrangement regarding different matters, repeated arrangements regarding a single matter or coordination with regard to several items on the agenda of a single general shareholders' meeting. Also, coordination outside the general shareholders' meeting may constitute "acting in concert" and result in the mutual attribution of voting rights if the shareholders intend to change the target company's strategic direction permanently and substantially, for example, by a fundamental change in the business model or the disposition of significant parts of the target company's business.

If the disclosure is not made, the shareholder is precluded from exercising the rights relating to these shares (including voting rights and the right to receive dividends) in accordance with the provision of Section 28 of the German Securities Trading Act. If the disclosure requirements are violated in a willful or grossly negligent manner, any rights relating to the shares will be suspended for a six month period even if accurate and complete disclosure is ultimately made. Furthermore, a fine can be imposed in the case of non–compliance with the disclosure requirements. The Articles of Association of the Company do not contain any provisions which extend beyond the legally prescribed duties to notify shareholdings. With regard to the current shareholdings (see "*Shareholder Structure (Prior to and After the Offering)*").

Moreover, a shareholder holding 10% or more of the voting rights relating to shares of an issuer must inform the issuer of its intentions and the sources of its capital, in each case within 20 trading days from such shareholder acquiring the relevant percentage of the shares. In particular, the shareholder must, at the issuer's request, disclose whether it intends to (i) pursue any strategic objectives with respect to the company (as opposed to profits from trading in the shares), (ii) acquire further voting rights within the following 12 months, (iii) exert any influence or control over the company's management or supervisory board, and (iv) make any changes to the company's capital structure (by incurring additional debt). However, the company may waive that obligation in its articles of association (*Satzung*). If the above objectives change, such change needs to be disclosed to the issuer within 20 trading days of such change.

Furthermore, under the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs– und Übernahmegesetz*), any shareholder whose portion of voting rights reaches or exceeds 30% of the voting rights of the company must publish this fact, including the percentage of his share of the voting rights, without undue delay and no later than seven calendar days after the fact by announcing this on the internet and by means of an electronic information distribution system for financial information and must subsequently submit a public mandatory offer directed at all holders of ordinary shares of the company unless an exemption from this obligation has been granted. The German Securities Acquisition and Takeover Act contains a number of provisions which are supposed to ensure that the shareholding is attributed to the person who actually controls the voting rights relating to the shares. If the notification about reaching or exceeding the 30% threshold or the submission of the public mandatory offer does not occur, during the time such submission occurs, the shareholder is precluded from exercising any rights relating to these shares (including the voting rights and the right to receive dividends) and must pay interest to the shareholders of the target company. Furthermore, a fine can be imposed in these situations. Shareholders who already hold at least 30% of the voting rights in the company or to whom at least 30% of the voting rights in the company are attributed prior to the admission of the shares to trading on the regulated market are exempt from these requirements.

The German Securities Trading Act (*Wertpapierhandelsgesetz*) requires persons who perform management functions in a listed stock corporation ("**Executives**") to notify the company and the BaFin within five business days about their own transactions with shares in the company or related financial instruments, especially derivatives.

This also applies to persons who have a close relationship to the Executives. The company is required to publish such a notification without undue delay after receipt and to send the publication to the BaFin and the companies register after the publication. The obligation does not apply if the total amount of transactions of an Executive and the persons having a close relationship with this Executive does not exceed an amount of €5,000 in a single calendar year. Executives, within the meaning of the German Securities Trading Act, include members of a management body, administrative body or supervisory body of the company as well as other persons who regularly have access to insider information as defined in the German Securities Trading Act and who are authorized to make material corporate decisions.

The following persons are defined as having a close relationship with an Executive: spouses, civil partners, children entitled to support and other relatives who have lived in the same household as the Executive for at least one year at the time the transaction requiring notification occurs. Legal entities in which the aforementioned persons exercise management responsibility are also subject to the notification requirement. The provision also applies to those legal entities, companies and organizations which are directly or indirectly controlled by an Executive or a person having a close relationship to an Executive which were established for the benefit of such a person or whose economic interests generally correspond to those of such a person.

A fine can be imposed in the case of culpable non–compliance with the notification requirements.

MANAGEMENT AND GOVERNING BODIES

The Company's governing bodies are the Management Board (*Vorstand*), the Supervisory Board (*Aufsichtsrat*) and the General Shareholders' Meeting (*Hauptversammlung*). The powers of these governing bodies are determined by the German Stock Corporation Act (*Aktiengesetz*), the Company's Articles of Association and the by–laws of both the Management Board and the Supervisory Board.

In general, the management board is responsible for managing the company in accordance with applicable law, the company's articles of association and its by–laws. The management board represents the company in dealings with third parties.

The Management Board is responsible for the management of the entire Company and decides on fundamental questions of business policy, company strategy and on annual long–term planning. Further, it bears responsibility for the preparation of the quarterly and half–year financial reports and the annual financial statements and the consolidated financial statements of the Company, ensures compliance with the legal provisions and the Company's internal guidelines, and works towards adherence to these throughout Telefónica Deutschland's group companies. In particular, it ensures that adequate risk management and risk control systems are set up within the Company.

The Management Board is obligated to report to the Supervisory Board on a regular basis, in detail and in a timely manner on the business situation, in particular the business policy, the company planning, including financial, investment and personnel planning, the profitability of the Company, the course of business, the Company's risk situation and risk management as well as on transactions significant to profitability and liquidity.

Simultaneous membership on the management board and supervisory board of a German stock corporation is not permitted under German law, however, simultaneous membership that results from a member of the supervisory board taking a seat on the management board of the same German stock corporation for a maximum period of one year is permissible in exceptional cases. During this period, such individual may not perform any duties for the supervisory board.

The supervisory board determines the exact number of members of the management board. Pursuant to the Company's Articles of Association, the Management Board comprises at least one member. It also appoints them and is entitled to dismiss them for good cause (*aus wichtigem Grund*). As set out in the German Stock Corporation Act, the supervisory board advises on, and oversees, the management board's management of the company, but is not itself authorized to manage the company. The articles of association or the by–laws of the supervisory board or management board must, however, designate the types of transactions that may only be made with the approval of the supervisory board unless the delay of such transaction until the approval of the supervisory board has been granted would involve significant disadvantages for the company or its subsidiaries. The supervisory board may issue a general authorization for a specific type of business in advance.

Members of the management board and supervisory board owe duties of loyalty and due care to the company. Each member of these governing bodies must consider a broad spectrum of interests, particularly those of the company and its shareholders, employees and creditors. In addition, the management board must also take into consideration the shareholders' rights to equal treatment and equal access to information. If members of the management board or supervisory board breach their duties, they may be individually or jointly and severally with the other members of the management board or the supervisory board liable to the company for compensatory damages, as the case may be.

Under German law, a shareholder generally has no right to proceed directly against members of the management board or supervisory board if he believes they have breached their duties to the company. In general, only the company has the right to enforce claims for damages against the members of the management board or supervisory board. With respect to claims against supervisory board members, the company is represented by the management board, and with respect to claims against management board members, the company is represented by the supervisory board. Under a decision of the German Federal Supreme Court (*Bundesgerichtshof*), the supervisory board is required to assert damages claims that are likely to succeed against the management board unless significant interests of the company conflict with the pursuit of such claims and outweigh the reasons for bringing such claim. If the governing body authorized to represent the company decides not to pursue a claim, the company's claims for damages against members of the management board or supervisory board must nevertheless be asserted if the general shareholders' meeting adopts a resolution to this effect by a simple majority. The general shareholders' meeting may appoint a special representative to assert the claims. Shareholders whose shares cumulatively make up 10% of the share capital or a pro rata share of €1 million may also petition the court to appoint a special representative. In addition, the general shareholders' meeting may appoint auditors (special auditors) to audit transactions, particularly management transactions, by simple majority vote. If the general shareholders' meeting rejects a motion to appoint a special auditor, the court must appoint a special auditor upon the petition of shareholders whose shares cumulatively constitute 1% of the share capital at the time the petition is filed or constitute a pro rata share of €100,000 if facts exist that justify the suspicion that the transaction was accompanied by dishonesty or gross violations of the law or the articles of association. If the general shareholders' meeting appoints a special auditor, the court must appoint another special auditor upon the petition of shareholders whose shares cumulatively constitute 1% of the share capital at the time the petition is filed or constitute a pro rata share of €100,000 if this appears necessary due to the identity of the special auditor who was appointed. Shareholders and shareholder associations can solicit other shareholders to file a petition, jointly or by proxy, for a special audit, for the appointment of a special representative, or to convene a general shareholders' meeting or exercise voting rights in a general shareholders' meeting in the shareholders' forum of the German Federal Gazette (*Bundesanzeiger*), which is also accessible via the website of the German Company Register (*elektronisches Unternehmensregister*). If there are facts that justify a strong suspicion that the company was harmed by dishonesty or a gross violation of law or the articles of association, shareholders who collectively hold 1% of the share capital or a pro rata share of €100,000 may also, under certain conditions, seek damages from members of the company's governing bodies in their own names through court proceedings seeking leave to file a claim for damages. Such claims become inadmissible if the company itself files a claim for damages.

The company may only waive or settle claims for damages against members of the management board or supervisory board three years after such claims arose if the shareholders approve this at the general shareholders' meeting by simple majority vote and if a minority of the shareholders whose shares cumulatively constitute 10% of the share capital does not object to the minutes.

Under German law, individual shareholders and all other persons are prohibited from using their influence on the company to cause a member of the management board or the supervisory board to take an action detrimental to the company. A shareholder with a controlling influence may not use that influence to cause the company to act contrary to its own interests unless there is a domination agreement (*Beherrschungsvertrag*) between the shareholder and the company and the influence remains within the bounds of certain mandatory provisions of law or compensation is paid for the disadvantages that arise. Any person who uses his influence on the company to cause a member of the management board or the supervisory board, an authorized signatory (*Prokurist*), or an authorized agent (*Handlungsbevollmächtigter*) to act to the detriment of the company or its shareholders must compensate the company for the resulting losses. Moreover, in this context, the members of the management board and supervisory board are jointly and severally liable if they have acted in violation of their duty of due care.

MANAGEMENT BOARD

General Provisions on the Management Board

The supervisory board may appoint one management board member as chairman or spokesman and another member as deputy chairman or spokesman.

Members of the management board are appointed by the supervisory board for a maximum term of five years. Members of the management board may be re–appointed an unlimited number of times, in each case for a maximum of five years. The supervisory board may revoke the appointment of a management board member prior to the expiration of his or her term for good cause, such as for gross breach of fiduciary duties or if the general shareholders' meeting adopts a no–confidence resolution in relation to the management board member in question.

The supervisory board, or, if the supervisory board has not done so, the management board with the approval of the supervisory board, may issue by–laws for the management board (*Geschäftsordnung des Vorstands*). For specific types of transactions of the company or controlled and affiliated companies, in particular those that fundamentally change the company's earnings prospects or its risk exposure, the respective by–laws must specify that such transactions require the prior consent of the supervisory board. By–laws for the Management Board were passed by a resolution of the Supervisory Board on September 18, 2012. According to the by–laws, certain transactions (for example, capital expenditure projects above a specific amount, the acquisition and disposal of companies and of real property above a specific amount) require the consent of the Supervisory Board.

According to its Articles of Association (*Satzung*), the Company is legally represented by two members of the Management Board acting jointly or by one member of the Management Board acting jointly with one authorized signatory (*Prokurist*). If only one person is appointed to the Management Board, that person is entitled to represent the Company solely. The Supervisory Board can grant individual power of representation to individual members or to all members of the Management Board and exempt individual members or all members of the Management Board from the prohibition against multiple representations (Section 181, second alternative, German Civil Code), Section 112 of the German Stock Corporation Act not being hereby affected.

Members of the Management Board

The Management Board of the Company currently comprises three members. The following table shows the members of the Management Board as of the date of this Prospectus, their date of birth, the date on which they were initially appointed, the date on which their current appointment is scheduled to end, their position as well as their other positions in administrative, management and supervisory bodies and as partners in partnerships outside the Company during the past five year; unless stated otherwise below, these memberships are current:

Name	Date of birth	Initially appointed on	Appointed until	Responsibilities	Current and former membership of management boards and supervisory boards and comparable governing bodies or partnerships in the previous five years
René Schuster	December 17, 1961	September 18, 2012	September 17, 2015	CEO (Chief Executive Officer)	Member of Telefónica Europe Executive Committee; Telefónica Europe Advisory Board; Telefónica Europe Project Approvals Committee
				(Vorstands–vorsitzender)	Board member of Telefónica Global Transformation Committee
					Board member of "*Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V.*"
					Non–executive director for SurfControl (FTSE 250), audit committee member, chairman of remuneration committee
					Non–executive director for Hudson Highland (NASDAQ) audit committee member, nominations committee member
					Non–executive director for Davis Services Group (FTSE) audit committee member
Rachel Empey	June 16, 1976	September 18, 2012	September 17, 2015	CFO (Chief Financial Officer)	–
Markus Haas	March 31, 1972	September 18, 2012	September 17, 2015	CSO (Chief Strategy Officer)	Since May 2011, member of the board of "Association of Telecommunications and value–added Service Provider"
					Since August 2012, member of the board of "*Bundesverband Breitbandkommunikation e.V.*"
					From December 2009 until September 2012: Member of the board of Telefónica Global Roaming GmbH and Telefónica Global Services GmbH

René Schuster was appointed CEO of Telefónica Germany GmbH & Co. OHG in June 2009. Prior to this, he assumed leading roles in the telecommunications and IT industry for many years. He started his career in the middle of the eighties as development engineer at Robert Bosch GmbH. Subsequently, he was Managing Partner at KPMG responsible for the Consumer and Industrial Advisory Services Business across Europe. René Schuster was CEO of Compaq UK & Ireland and after the acquisition of Compaq by Hewlett Packard ("HP"), he was responsible for world wide consulting & systems integration, world wide sales, pre–sales, industry sales and software for HP. He was also responsible for all of HP Services in India and Japan. He then joined Vodafone as Global Marketing, Sales and Services Director, establishing many new products and market segments for Vodafone's 23 Markets and 32 Partner Networks.

Rachel Empey was appointed Managing Director Finance (CFO) at Telefónica Germany GmbH & Co. OHG in October 2011. Prior to this, she was Vice President Controlling at Telefónica O2 Germany. She joined the German Telefónica operations from Telefónica Europe in Slough where she led a central team as Group Controller from 2007 to 2009. Previously, she spent about four years in various finance positions at O2 UK, including a key role in negotiating the purchase of the 300–store retail chain “The Link”. She started her career at Ernst & Young, Lucent Technologies and Weir Group. Rachel Empey is also member of the Institute Chartered Accountants of England and Wales.

Markus Haas was appointed Managing Director at Telefónica Germany GmbH & Co. OHG in May 2009. As Managing Director Corporate Affairs & Strategy, he is responsible for legal affairs, regulation, strategy & innovation, auditing as well as roaming services. He started his career with us in 1998 – at that time Viag Interkom – as “*Referent Recht und Regulierung*”, followed by a position as executive assistant to the Managing Director, subsequently Head of the Division Regulatory Affairs, and – prior to his current position – as Vice President Legal & Regulatory Affairs. Key projects at Telefónica Deutschland have been the spectrum auction in 2010, network sharing initiatives and several M&A activities including the acquisition of HanseNet. Markus Haas is also a member in the Board of the industry associations “Association of Telecommunications and value–added Service Provider” (VATM) and “*Bundesverband Breitbandkommunikation e.V.*” (BREKO).

Compensation of Management Board Members

The current service contracts of the Management Board members of the Company were concluded on September 18, 2012 and will each expire on September 17, 2015.

The aggregate compensation paid to the members of our Management Board for the year ended December 31, 2011, amounted to €2,190,116. This amount includes fixed salary, cash bonus, long–term incentives, pension supplements and the monetary benefit of disturbance and accommodation allowances, compensation of costs of UK national insurance, relocation, home leave flights, school fees and employer expenses.

The compensation of the members of the Management Board consists of a fixed portion and a variable portion. The fixed portion is paid in 12 equal monthly installments. The variable portion was previously based on two variable, performance–based components.

The first variable component was a cash bonus. Under the prior service contracts, the cash bonus was calculated as a percentage of the relevant fixed component, depending on the achievement of certain business performance targets by Telefónica Deutschland, Telefónica Europe and Telefónica, S.A., as well as personal performance targets. The business performance targets were weighted among Telefónica Germany, Telefónica Europe and Telefónica, S.A. 70%, 15% and 15%, respectively. It is the intention to continue this practice with respect to the cash bonus.

The second variable component was the participation in various share and investment plans:

(i) Performance Share Plan 2010 of Telefónica, S.A., pursuant to which shares in Telefónica, S.A. were awarded to members of the Management Board in 2010 depending on the achievement of certain targets, and subject to a three year vesting period ending in 2013. Conditions for vesting include: the individual remains employed by a Telefónica Group company at the end of such period; and the change in share price of Telefónica, S.A.’s shares over the vesting period aggregated with dividends paid on such shares during such period (the “**Total Share Return S.A.**”) is at least equal to the median total share return reflected in a benchmark index of global telecommunications companies. 30% of the awarded shares will vest if the Total Share Return S.A. equals the median performance of such companies. The amount of vested shares increases on a sliding scale, up to 100% if the Total Share Return S.A. is in the upper quartile of the benchmark index. If the Total Share Return S.A. is below the median of the benchmark index, the awarded shares do not vest and will lapse; and

(ii) Performance and Investment Plan 2011, pursuant to which shares in Telefónica, S.A. were granted to members of the Management Board in 2011 depending on the achievement of certain targets, and subject to a three year vesting period ending in 2014. The award and vesting criteria are the same as the Performance Share Plan 2010, subject to an optional co–investment right. This option allows a member of the Management Board to receive an additional award in the amount of 25% of the awarded shares, if such member holds a number of shares in his or her account at the end of the vesting period equal to 25% of the awarded shares; and

(iii) Performance and Investment Plan 2012, pursuant to which shares in Telefónica, S.A. will be granted to members of the Management Board depending on the achievement of certain targets, and subject to a three year vesting period ending in 2015. This plan has not yet been approved by the remuneration committee of Telefónica, S.A. and the Supervisory Board of the Company, which approvals are required in order to implement such plan. It is intended to structure the plan to have the same terms as the Performance and Investment Plan 2011; and

(iv) a global employee share plan of Telefónica, S.A., pursuant to which the members of the Management Board will, if they purchase shares in Telefónica, S.A. with a minimum value of €300, receive a matching number of shares as a benefit; subject to an annual maximum amount of shares with a value of €1,200.

As of the completion of the Offering, the variable portion of the compensation will consist of three variable, performance–based components pursuant to a long term incentive plan (“**LTIP**”) approved by the remuneration committee of Telefónica, S.A. and the Supervisory Board of the Company. The first variable component of the compensation is a cash bonus that continues the practice with respect to cash bonus payments described above. The second variable component of the compensation is the participation in the Performance and Investment Plan 2012 described above, whereby the amount of shares awarded under this plan will be approximately half of the amount awarded under past performance and investment plans. The third component is a deferred cash bonus. The amount of the deferred cash bonus depends on the achievement of certain business performance as well as personal targets. The weighting of the business performance targets for the deferred cash bonus is the same as for the cash bonus payment described above. Payment of the deferred cash bonus will be deferred for a three year period and will only occur if certain conditions are met. These conditions are (i) continued employment in the Telefónica Group and (ii) the change in share price of the Company's shares over the vesting period aggregated with dividends paid on such shares during such period (the "**Total Share Return AG**"), as compared to the total share return of the 30 companies comprising the DAX, being at least at the median of such companies. 50% of the deferred cash bonus will be paid if the Total Share Return AG equals the median performance, with such payment increasing on a sliding scale up to 100% if the Total Share Return AG falls into the upper quartile of the performance of the DAX companies.

The Company believes it has structured the variable components of future compensation so that the related awards depend on a sustainable development of the Company in accordance with Section 87 German Stock Corporation Act. As such, the performance targets for the LTIP described above have been structured so that the performance of the Company is weighted at least 60% for the calculation of awards under this plan.

According to a shareholders' resolution adopted on October 5, 2012, we will not disclose the individual compensation for each member of the Management Board during the five year period ending October 4, 2017 in the notes to our financial statements, in accordance with Section 286 (5) German Commercial Code.

As of the completion of the Offering, the aggregate fixed portion of the compensation of the members of the Management Board will be €1,356,000 annually.

The members of the Management Board receive either a pension allowance equal to 20% of the fixed component of his or her remuneration or a pension commitment.

In addition, the members of the Management Board are entitled to further benefits such as usage of company cars, continued payment of fixed salary in case of sickness, disability or death, and contributions to health insurance. The Company is also obligated to provide Director & Officer insurance for each member of the Management Board, subject to the statutory deductible. Furthermore, some members of the Management Board are entitled to additional benefits such as tax equalization, accommodation allowances, home flights, and life and accident insurance.

Upon termination of employment, the service contract of one member of the Management Board provides, under certain conditions, for a benefit in the form of a transition payment of up to the amount of one fixed annual salary. The other two members will have the option, under certain conditions, to continue employment at an affiliate of the Company.

In the event of a specified type of change of control of the Company, the members of the Management Board will have a right to terminate their service contracts and to receive a compensation in the amount of one fixed annual salary and the amount of the last annual bonus received, but at most the compensation that would have been payable up to the end of the relevant service contract.

The members of the Management Board are subject to customary post–contractual non–competition obligations.

Shareholdings of the Management Board Members

None of the members of the Management Board holds shares in the Company or options on shares in the Company.

René Schuster holds 151 shares of Telefónica, S.A. He is further entitled to be granted, without consideration, 42,971 shares of Telefónica, S.A. on June 30, 2013 and 35,787 shares of Telefónica, S.A. on June 30, 2014, respectively, if certain conditions are met.

Rachel Empey holds 4,208 shares of Telefónica, S.A. She is further entitled to be granted, without consideration, 4,804 shares of Telefónica, S.A. on June 30, 2013 and 6,175 shares of Telefónica, S.A. on June 30, 2014, respectively, if certain conditions are met.

Markus Haas holds 2,677 shares of Telefónica, S.A. He is further entitled to be granted, without consideration, 6,320 shares of Telefónica, S.A. on June 30, 2013 and 6,387 shares of Telefónica, S.A. on June 30, 2014, respectively, if certain conditions are met.

Conflicts of Interest

René Schuster holds other positions within Telefónica Group that are outside our group. René Schuster and Rachel Empey both have employment agreements with entities of Telefónica Group, which are suspended as long as they are members of the Company's Management Board and can be reinstated thereafter if certain conditions are met. In addition, the variable components of the Management Board members' remuneration depend in part on the performance of Telefónica Europe and Telefónica Group. Therefore, conflicts of interest could arise for all members of the Management Board between their duties towards Telefónica Group and its interest as the Company's main shareholder on the one hand and their duties as members of the Management Board and our interests on the other hand. However, as mentioned above, the cash variable components of the Management Board members' remuneration depend to a larger extent on the business performance of the Company.

SUPERVISORY BOARD

General Provisions on the Supervisory Board

In accordance with the Company's Articles of Association and Sections 95 and 96 of the German Stock Corporation Act, the Supervisory Board will consist of 12 members (six shareholder representatives and six employee representatives). Given the number of employees employed by Telefónica Deutschland, the Company anticipates that it will become subject to statutory co–determination pursuant to the German Co–Determination Act (*Mitbestimmungsgesetz*). Currently, the Supervisory Board only consists of six shareholder representatives. The election of the employee representatives to the Supervisory Board will take place in accordance with the provisions of the German Co–Determination Act (*Mitbestimmungsgesetz*) following completion of the mandatory status proceedings which were initiated on October 5, 2012. The shareholder representatives are elected by the shareholders at the general shareholders' meeting.

Unless the general shareholders' meeting has set a shorter term, the term of each supervisory board member, as well as the term of each substitute member, if elected, expires at the end of the general shareholders' meeting discharging the members of the supervisory board for the fourth fiscal year following the commencement of the member's term of office, not including the fiscal year in which the term commences. The election of a successor for a member leaving his or her office before the end of his or her term of office is valid for the remainder of the term of office of the departing member, unless the general shareholders' meeting has determined a shorter term of office of the successor.

Any supervisory board member elected by the shareholders may be removed by means of a resolution of the general shareholders' meeting with a simple majority of the votes cast by the shareholders in the general shareholders' meeting. Any member of the supervisory board may resign from office without good cause by giving written notice to the chairman of the supervisory board and the management board with a notice period of at least one month. With the consent of the chairman of the supervisory board, this notice period can be waived. The resignation may take immediate effect with good cause.

The General Shareholders' Meeting may appoint substitute members for one or more supervisory board members, who, in accordance with specific determinations by the General Shareholders' Meeting, may become members of the supervisory board if elected supervisory board members leave office before the end of their term. The term of the substitute member expires as soon as a successor for the departing supervisory board member is appointed, but no later than the expiration of the departing supervisory board member's term.

The shareholder of the Company elected the following members of the first Supervisory Board.

- Mr. Jose María Álvarez–Pallete López,
- Ms. María Pilar López Álvarez,
- Mr. Angel Vilá Boix,
- Ms. Patricia Cobián González,
- Mr. Christoph Herbert Günter Steck, and
- Mr. Enrique Medina Malo.

Mr. Jose María Álvarez–Pallete López and Mr. Christoph Steck both resigned from their office by each submitting a resignation letter dated October 3, 2012.

The supervisory board elects one of its members as chairman and one of its members as deputy chairman. On September 18, 2012, Mr. Álvarez–Pallete Lopez was initially appointed as chairman, however, resigned from his office by submitting a resignation letter dated October 3, 2012. On October 5, 2012, Mrs. Eva Castillo Sanz was appointed as new member of the Supervisory Board and chairwoman. Further on September 18, 2012, Ms. López Álvarez was appointed as deputy chairwoman. Following the election of employee representatives, the deputy chairman will be an employee representative. Should the chairman or the deputy chairman leave office prior to the expiration of his or her term, the Supervisory Board must without delay elect a new chairman or deputy chairman to fill the remaining term of the departing chairman or deputy chairman.

Under mandatory statutory provisions and the Articles of Association, the Supervisory Board is authorized to establish by–laws and form committees of at least three individuals from among its members. The Supervisory Board's by–laws were approved by the Supervisory Board on October 5, 2012. The Supervisory Board is authorized to make amendments to the Articles of Association that only affect their wording. As a rule, the supervisory board is expected to hold quarterly meetings and must hold at least two meetings within each six month period. Meetings of the supervisory board are usually called by its chairman with ten days' advance notice. The day on which the notice is sent and the day of the meeting itself are not included when calculating this period. In urgent cases, the chairman can shorten the notice period within reason.

The Articles of Association provide that at least half of the Supervisory Board members must participate in voting on a resolution to constitute a quorum. Any member who is present but abstains from voting is deemed to have participated in the vote. Absent members may participate in the casting of votes pursuant to Section 108 (3) of the German Stock Corporation Act. Unless otherwise required by law or by the Articles of Association, resolutions of the supervisory board are passed by a simple majority of the votes cast. For purposes of passing a resolution, abstentions do not count as votes cast. If a vote in the supervisory board results in a tie, the chairman has a casting vote if the resolution is resolved upon again. The Articles of Association provide that, on the chairman's instruction, resolutions may be passed without a meeting by written notice including by facsimile, oral vote by telephone, or a vote by other conventional means of electronic communication.

The German Stock Corporation Act provides that at least one independent member of the supervisory board of publicly traded companies must have expertise in the fields of accounting or auditing, that is an independent financial expert. On the Supervisory Board, Michael Hoffmann who was elected on October 5, 2012 as new member of the Supervisory Board, has the required financial expertise and independence.

Members of the Supervisory Board

The Supervisory Board currently comprises six members. The following table lists the members of the Supervisory Board as of the date of this Prospectus, the date on which they were first appointed, as well as their other positions in administrative, management and supervisory bodies and as partners in partnerships outside the Company over the past five years; unless stated otherwise below, these memberships are current:

Name	Date of birth	Initially appointed on	Appointed until	Responsibilities	Other memberships in administrative, management or supervisory bodies or as partner in partnerships in the previous five years
Eva Castillo Sanz	November 23, 1962	October 5, 2012	2017	Chairwoman	• Telefónica, S.A., Member of the Board • Telefonica Europe, plc, Chairman of the Board • Telefónica Czech Republic, a.s., Deputy Chairman of the Supervisory Board • Old Mutual, Plc., Member of the Board • Bankia S.A., Member of the Board • Comillas – ICAI Foundation, Member of the Board
María Pilar López Álvarez	June 13, 1970	September 18, 2012	2017	Deputy Chairwoman	• Telefonica Europe, plc, Director • Telefónica Czech Republic, a.s., Member of the Supervisory Board, Vice Chairperson of the Audit Committee and Member of the Nomination and Remuneration Committee • mmO2 plc, Director • O2 Holdings Limited, Director • O2 (Europe) Limited, Director
Angel Vilá Boix	July 29, 1964	September 18, 2012	2017	Member	• Telefónica, S.A., Chief Financial Officer and Corporate Development Officer, Responsibility: Finance and Corporate Development • Telefónica Czech Republic, Member of Supervisory Board • Telco S.P.A., Vice chairman • Telefónica de Contenidos, Chairman • D.T.S. Distribuidora de Televisión Digital, Board Member • Until September 2011: Managing Director Corporate Development of Telefónica, S.A.

					• Until September 2011: Board Member of Atento S.A. • Until September 2011: M.E.I.F. Advisory Panel Member of Macquarie Infrastructure and Real Assets (Europe) Limited
Patricia Cobián González	February 27, 1975	September 18, 2012	2017	Member	• Telefónica Czech Republic, Member of Supervisory Board, Vice Chairperson Nomination and Remuneration Committee • Telefónica Europe, Director • Until September 2009: CEO Business Manager of Telefónica Europe • Until December 2008: SVP Strategy & Development of O2 Group
Michael Hoffmann	September 13, 1961	October 5, 2012	2017	Member	• Lekkerland AG, CEO
Enrique Medina Malo	April 4, 1972	September 18, 2012	2017	Member	• Telefónica Czech Republic, a.s., substitute Member of the Supervisory Board, Member of the Nomination and Remuneration Committee, Member of the Ethics and Corporate Social Responsibility Committee • Telefonica Europe, plc, Member of the Board • mmO2 plc, Director • O2 Holding limited, Director • O2 (Europe) Limited, Director • Wayra UK Limited, Director

[1] All Supervisory Board members are appointed until the end of the ordinary General Shareholders' Meeting held in 2017 for the year ended December 31, 2016.

Eva Castillo Sanz was initially appointed on October 5, 2012. Ms. Castillo holds BA degrees in Business, Economics and Law from Universidad Pontificia de Comillas (ICADE, E– 3) in Madrid. Until December 2009, she headed Merrill Lynch Global Wealth Management business operations in Europe, the Middle East and Africa (EMEA). She is a member of the Merrill Lynch EMEA Executive Committee, the Global Wealth Management Executive and Operating Committees. Prior to the mentioned position, she served as head of Merrill Lynch Global Markets & Investment Banking in Iberia as well as President of Merrill Lynch Spain (October 2003), and before that as Chief Operating Officer for Equity Markets in Europe, Middle East and Africa. Ms. Castillo joined Merrill Lynch in 1997 as head of Equity Markets for Spain and Portugal. In 1999, she was promoted to Country Manager for Spain and Portugal and in 2000 she became CEO of Merrill Lynch Capital Markets España. Before joining Merrill Lynch, she worked for Goldman Sachs in London for five years in the International Equity Markets Department. Prior to this, she worked for five years at the Spanish broker Beta Capital in the Sales and Equity Research Department.

María Pilar López Álvarez was initially appointed on September 18, 2012. Ms. López Álvarez is a Business Studies graduate who joined the Telefónica Group in 1999 in Telefónica de España's Strategic Planning Department. In May 2000, she was appointed Director of Management Control at Telefónica, S.A. In 2002, she joined Telefónica Móviles S.A. heading the company's Management Control. In October 2006, she was promoted to Director of Strategy and Business Development at Telefónica España followed by an appointment in 2007 as Chief Financial Officer of Telefónica Europe.

Angel Vilá Boix was initially appointed on September 18, 2012. He holds a degree in Industrial Engineering and a MBA from Columbia Business School and joined Telefónica in 1997. In 1998 he was promoted as CFO of Latam Holding. In 1999 he joined Telefónica, S.A. as General Manager of Corporate Development. Previously he was General Manager of Grupo Planeta, Business Development Manager at Ferrovial and consultant at McKinsey & Co.

Patricia Cobián González was initially appointed on September 18, 2012. Ms. Cobián González holds a MsC in Industrial Engineering and joined Telefónica Europe in 2006 as Vice President Strategy & Development before she moved to her current position as Matthew Key's Business Manager in January 2009. Between 1999 and 2006, she worked for as consultant atMcKinsey&Co in Madrid, New York and London. Prior to that, Ms. Cobián González worked for Hewlett–Packard's Financial Services Division.

Michael Hoffmann was initially appointed on October 5, 2012. Michael Hoffmann started his business career at Hewlett Packard more than 20 years ago. From 2007 until October 2009, he worked as Senior Vice President for HP Imaging & Printing Group and was responsible for businesses totalling a revenue of approximately $16 billion and 6,000 employees. After leaving HP, he joined Carl Zeiss Vision International GmbH (the lense–making business of Carl Zeiss AG) as CEO where he was responsible for restructuring the business, building a mid–term strategy and improving operational execution. In December 2011, he was appointed CEO at Lekkerland AG & Co. KG where he is responsible to set the new company strategy and lead Lekkerland into a new phase of profitable growth and expansion across Europe.

Enrique Medina Malo was initially appointed on September 18, 2012. Mr. Medina Malo holds a law degree from Carlos III University of Madrid and was admitted to the Spanish Government Legal Services in 1997. Until 2006, he served as State Lawyer for the Public Administration, Ministry of Science and Technology, Ministry of Industry and Energy and the High Court of Cataluña. From 2002 to 2004 he was appointed General Director for Legislation of the Ministry of Science & Technology. He joined Telefónica in 2006 as Public Law Manager and later Telecommunications and Information Society Legal Affairs Manager responsible for regulation and competition legal issues. He has been Chief Legal Officer of the Spanish Broadcasting Corporation. Since 2008, he is the Chief Legal Officer of Telefónica, S.A.

Supervisory Board Committees

Under the Company's Articles of Association, the Supervisory Board may form committees from among its members. Under the Supervisory Board's by–laws, the Supervisory Board shall form an Audit Committee, a Nomination Committee and a Mediation Committee. Other committees may be formed, if necessary. The Supervisory Board's decision–making authority may be delegated to these committees to the extent permitted by law. The following committees have been established by the Supervisory Board:

Audit Committee

The Audit Committee is responsible for the preparation of advice and resolution of accounting matters. This includes questions relating to accounting and risk management and the requisite independence of the external auditor and commissioning an external auditor. At least one member of the Audit and Finance Committee shall be an independent member having expertise knowledge in the fields of accounting and annual auditing within the meaning of Section 107 (4) German Stock Corporation Act. At present, this is Michael Hoffmann. The Audit Committee comprises four members. The by–laws of the Supervisory Board provide that the Audit Committee shall comprise of two shareholders representatives (one of which shall be the independent member of the Supervisory Board, who will chair the Audit Committee) and, once they have joined the Supervisory Board, two employees' representatives. The by–laws of the Supervisory Board further provide that the independent member of the Supervisory Board shall have the casting vote.

Name	Position
Michael Hoffmann	Chairman
María Pilar López Álvarez	Deputy Chairman
Patricia Cobián González	Member
Angel Vilá Boix	Member

Nomination Committee

The Nomination Committee is responsible for proposing to the Supervisory Board suitable candidates for recommendation to the General Shareholders' Meeting for election. The Nomination Committee comprises three members. According to the by–laws of the Supervisory Board, all of the members shall be shareholders' representatives and the Chairman has the casting vote.

Name	Position
Patricia Cobián González	Chairman
María Pilar López Álvarez	Deputy Chairman
Enrique Medina Malo	Member

Mediation Committee

In accordance with Section 31 (3) sentence 1 of the German Co–Determination Act (*Mitbestimmungsgesetz*), the Mediation Committee (*Vermittlungsausschuss*) is responsible for making a proposal to the Supervisory Board recommending the appointment of a particular candidate, if the required majority of two–thirds of the votes cast by the Supervisory Board is not achieved in respect of the appointment of Management Board members within one month after the vote. The same applies if the removal of certain Management Board members from office does not achieve the required majority in the first round of voting.

The members of the Mediation Committee will be appointed following the election of the employee representatives to the Supervisory Board. It comprises four members. Under the German Co–Determination Act (*Mitbestimmungsgesetz*) the Mediation Committee shall comprise of two shareholders' representatives (one being the Chairman of the Supervisory Board) and two employees' representatives (one of them being the Deputy Chairman of the Supervisory Board). The Chairman of the Supervisory Board will chair this Committee.

Compensation of Supervisory Board Members

Pursuant to the Articles of Association, the members of the Supervisory Board will receive a fixed compensation payable after the end of the fiscal year in the amount of €20,000 per annum. The chairman of the Supervisory Board will receive €80,000 and the deputy chairman €40,000. The chairman of the Audit Committee will additionally receive €50,000 unless the chairman of the Supervisory Board or his deputy chair this committee. Members of the Supervisory Board who hold their office in the Supervisory Board or who hold the office as chairman or chairman of a committee only during a part of the fiscal year will receive a corresponding portion of the compensation to be determined *pro rata temporis*.

In addition to the compensation paid pursuant to the foregoing paragraphs the Company will reimburse the members of the Supervisory Board for their out–of–pocket expenses incurred in the performance of their duties as Supervisory Board members as well as the value–added tax on their compensation and out–of–pocket expenses, if applicable.

The Company has entered into directors' and officers' insurance in its name, covering the members of the Management Board and Supervisory Board, based on prevailing market conditions.

Shareholding and Options

None of the members of the Supervisory Board holds shares in the Company or options on shares in the Company.

Enrique Medina Malo holds 31,178 shares of Telefónica, S.A. He is further entitled to be granted, without consideration, 7,711 shares of Telefónica, S.A. on June 30, 2013 and 7,487 shares of Telefónica, S.A. on June 30, 2014, respectively, if certain conditions are met.

Eva Castillo Sanz holds 97,089 shares of Telefónica, S.A.

Patricia Cobián González holds 9,612 shares of Telefónica, S.A. She is further entitled to be granted, without consideration, 6,423 shares of Telefónica, S.A. on June 30, 2013 and 5,237 shares of Telefónica, S.A. on June 30, 2014, respectively, if certain conditions are met.

María Pilar López Álvarez holds 39,453 shares of Telefónica, S.A. She is further entitled to be granted, without consideration, 23,891 shares of Telefónica, S.A. on June 30, 2013 and 23,100 shares of Telefónica, S.A. on June 30, 2014, respectively, if certain conditions are met.

Angel Villá Boix holds 95,391 shares of Telefónica, S.A. He is further entitled to be granted, without consideration, 27,244 shares of Telefónica, S.A. on June 30, 2013 and 54,265 shares of Telefónica, S.A. on June 30, 2014, respectively, if certain conditions are met.

Michael Hoffmann does not hold any shares of or options on shares of Telefónica, S.A.

Conflicts of Interest

All members of the Supervisory Board, except for Michael Hoffmann, also hold other positions within the Telefónica Group that are outside our group. Therefore, conflicts of interest could arise for the members of the Supervisory Board, except for Michael Hoffmann, between their duties towards Telefónica Group and its interest as the main shareholder on the one hand and their duties as members of the Supervisory Board and our interests on the other.

CERTAIN INFORMATION ON THE MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Over the last five years, no member of the Company's administrative, management or supervisory bodies, in particular, no member of the Management Board and Supervisory Board:

- was convicted in relation to fraudulent offences;
- was associated with any bankruptcies, receiverships or liquidations in any of the capacities set out above;
- was publicly incriminated and/or sanctioned by statutory or regulatory authorities (including designated professional bodies); or
- has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

At present, the Company has not granted sureties or loans to members of the Management Board and the Supervisory Board, nor has it assumed any guarantees for them.

Members of the Management Board and the Supervisory Board may be contacted at the Company's business address at Georg–Brauchle–Ring 23–25, 80992 Munich, Germany.

GENERAL SHAREHOLDERS' MEETING

A general shareholders' meeting may, at the election of the governing body initiating the meeting, be held in the town where the company's registered office is located or in a town in Germany with more than 100,000 inhabitants.

General shareholders' meetings are convened by the management board. The supervisory board must convene a general shareholders' meeting whenever the interests of the company so require. Upon request of shareholders holding an aggregate of 5% or more of the registered share capital, the management board is obligated to call a general shareholders' meeting. The annual general shareholders' meeting, which decides on the discharge of the management board and the supervisory board, profit distributions, appointment of the auditor and the approval of the financial statements must be held within the first eight months of each financial year.

According to the Stock Corporation Act, the company is required to publish the invitation to the general shareholders' meeting in the Federal Gazette (*Bundesanzeiger*) at least 30 days before the day of the meeting and no less than 30 days before notice of attendance has to be given. To take part in the general shareholders' meetings, shareholders must give due notice of their attendance. The deadline for giving the notice of attendance for the general shareholders' meeting is published with the invitation but must expire earlier than 7 days prior to the general shareholders' meeting.

According to Section 23 of the Company's Articles of Association, shareholders who wish to attend the annual General Shareholders' Meeting and exercise their right to vote must register with the Company by giving notice of attendance. This registration must be made in text form (*Textform*) in accordance with Section 126b German Civil Code in German or English and must reach the Company at the address stated in the invitation at least six days prior to the General Shareholders' Meeting. The day of the receipt of the registration and the day of the General Shareholders' Meeting are not counted for this purpose. The registration deadline for attending the meeting is published concurrently with the notice of meeting.

Each Share entitles its holder to one vote at the General Shareholders' Meeting. Shareholders can vote their shares by proxy. Unless otherwise stipulated by mandatory statutory provisions or provisions of the articles of association, resolutions of the general shareholders' meeting are adopted by a simple majority of the votes cast or, if a capital majority is required, by a simple majority of the registered share capital represented or the adoption of a resolution with a larger majority is prescribed by law or by the Company's Articles of Association.

Under the German Stock Corporation Act, resolutions of fundamental importance (*grundlegende Bedeutung*) require both a majority of votes cast and a majority of at least 75% of the registered share capital represented at the vote on the resolution. Resolutions of fundamental importance include:

- capital increases if shareholders' subscription rights are excluded;
- capital decreases;
- the creation of authorized or contingent capital;
- transformations pursuant to the German Transformation Act (*Umwandlungsgesetz*), including mergers, divisions, transfers of assets (*Vermögensübertragung*) and changes in legal form;
- an agreement to transfer all of the company's assets pursuant to Section 179a of the German Stock Corporation Act;
- the execution of enterprise agreements (*Unternehmensverträge*), such as controlling and profit–and–loss–transfer agreements; and
- the dissolution of the company.

CORPORATE GOVERNANCE

The German Corporate Governance Code (*Deutscher Corporate Governance Kodex*), in its current version of May 15, 2012 (the "**Code**"), contains recommendations and suggestions for managing and supervising German companies listed on a stock exchange. The Code contains provisions relating to shareholders and the general shareholders' meeting, the management board, the supervisory board, and to transparency, accounting policies and auditing. There is no obligation to comply with the recommendations and suggestions of the Code. However, the German Stock Corporation Act requires the management board and supervisory board of a listed company to make an annual declaration that it follows and will follow the recommendations of the Code or which of the recommendations were or will not be followed. The declaration must be published on the Company's website.

The Company has not complied with the recommendations and suggestions contained in the Code prior to or at the date of this Prospectus, because it has not been listed on any stock exchange and therefore the Code did not apply to the Company.

After the Offering and admission to trading of the Company's Shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Prime Standard*), the Company will annually issue and publish a declaration in compliance with Section 161 of the German Stock Corporation Act, and make it available on its website. The Management Board and Supervisory Board of the Company identify with the goals of the Code to foster responsible and transparent corporate management and control, oriented to a sustained increase in company value.

The Management Board and Supervisory Board intend to largely follow the recommendations and suggestions of the Code. Details will be agreed upon between the Management Board and the Supervisory Board.

SHAREHOLDER STRUCTURE (PRIOR TO AND AFTER THE OFFERING)

The following table provides an overview of the shareholding structure of the Company prior to the Offering and following the Offering, assuming the placement of all of the Offer Shares:

	Shareholdings					
	Prior to the Offering		**Following the Offering (without exercise of the Greenshoe Option)**		**Following the Offering (with full exercise of the Greenshoe Option)**	
Name of shareholder	**Ordinary registered shares**	**in%**	**Ordinary registered shares**	**in%**	**Ordinary registered shares**	**in%**
Telefónica Germany Holdings Limited[1]	1,116,945,400	100	891,945,400	79.86	858,195,400	76.83
Freefloat	0	0	225,000,000	20.14	258,750,000	23.17
Total	**1,116,945,400**	**100**	**1,116,945,400**	**100**	**1,116,945,400**	**100**

1 Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica, S.A.

TELEFÓNICA, S.A.

Telefónica, S.A. is one of the largest telecommunications companies in the world in terms of market capitalization and number of customers. From its consolidated position in the sector, and with telephony fixed and mobile broadband as key areas that support future growth, the company focuses its strategy on securing its leadership in the digital world. Present in 26 countries and with a customer base of more than 310 million customers, Telefónica, S.A. has a strong presence in Europe and Latin America, important industrial alliances and a leading global scale which positions the company to capture growth opportunities. Telefónica, S.A. is a fully publicly traded company with more than 1.5 million direct shareholders, and its ordinary shares are traded on various stock markets, including London and New York.

RELATED PARTY TRANSACTIONS

GENERAL; DEPENDENCE REPORT

The Selling Shareholder currently owns all of and, subsequent to the Offering, will own a majority of, the Shares in the Company and, by virtue of its shareholding, controls and, subsequent to the Offering, will control the Company within the meaning of the relevant provisions of the German Stock Corporation Act.

We maintain several relationships with entities in the Telefónica Group. With respect to these relationships, the Company will be required to prepare an annual report on its dependence (*Abhängigkeitsbericht*). All of our legal transactions in the preceding financial year with, or at the instruction or in the interest of, entities in the Telefónica Group, and all other measures taken or not taken by us at the instruction or in the interest of such entities must be included in the report. With respect to each transaction, the information on the mutual consideration involved and, with respect to any measures taken or not taken, the reasons for such measures and the benefits for, and detriments to, us, in each case, must be included. If we have been compensated for detriments suffered, details of how such detriments were actually compensated during the financial year or to which benefits we have been granted a legal claim must be provided. At the end of the report, the Management Board must state whether we, under the circumstances known to us at the time at which the transaction or measure was or was not effected or taken, received adequate compensation and were adversely affected by taking or not taking the measure. To the extent that we were adversely affected, the Management Board must state whether the detriments have been compensated.

The auditor of the Company must examine the dependence report and confirm in a report that the dependence report is correct. The Supervisory Board must examine the dependence report, comment on the auditor's report and report to the General Shareholders' Meeting with regard to the results of its examination.

We have entered into a number of transactions with entities in the Telefónica Group pursuant to which we either receive products, rights and/or services from, or provide products, rights and/or services to, such entities. Such transactions relate to (i) management consultancy and services, (ii) our use of the Telefónica and O_2 brands in Germany, (iii) cost sharing in relation to areas of innovation, (iv) the coordination by a Telefónica Group entity of wholesale roaming services with third parties and discounts on roaming tariffs among Telefónica Group entities, (v) technology and software services and development by a Telefónica Group entity, (vi) insurance coverage from the Telefónica Group entity Telefónica Insurances S.A. (for the consideration paid by us for items (i) through (vi) together, the "**Group Fees**", see the line "Group Fees" of the table under "*Selected Combined Financial and Other Information – Combined Income Statement and Other Financial Information*"), (vii) network monitoring for us by a Telefónica Group entity and by us for a Telefónica Group entity, (viii) central functions services as well as operational and support functions we provide to certain Telefónica Group entities, (ix) outsourcing of our procurement function to a Telefónica Group entity, (x) services in respect of multinational sales activities, (xi) network connection services and (xii) operational human resources services. We believe all of the products, rights and services that we received from Telefónica Group entities and that Telefónica Group entities received from us, were provided on an arm's length basis on terms substantially similar to those available from other providers in the market. In each of 2009, 2010, 2011 and the six months ended June 30, 2012, we paid to companies in the Telefónica Group an aggregate of €134.6 million, €145.7 million, €130.1 million and €58.9 million, respectively, for products, rights and services we received from them. In each of 2009, 2010, 2011 and the six months ended June 30, 2012, we received from companies in the Telefónica Group an aggregate of €204.6 million, €67.4 million, €80.4 million and €29.4 million, respectively, for products, rights and services that we provided to them. In addition we are part of a Telefónica Group wide cash pooling arrangement, and have entered into two loan facility agreements dated September 12, 2012 with the Telefónica Group entity TGB.V. as lender, in the amounts of €1,250 million and €703 million, the latter of which we already repaid on October 1, 2012. Following is a summary of the relationships.

Management Services

We concluded a services agreement with O_2 Limited (now O_2 Holdings Limited) dated August 12, 2002, pursuant to which we are able to procure management consultancy and support services from Telefónica Group entities in the UK and Spain in the following areas: legal, business development, strategy, global projects, corporate communications, finance, human resources, system support, information systems, insurance and technology. The term of the agreement is indefinite, but it may be terminated by either party with one month's written notice. For management services, we paid an aggregate of €10.3 million, €14.8 million and €11.0 million, respectively, in each of 2009, 2010 and 2011.

Telefónica Brand

We license Telefónica brand rights from Telefónica, S.A. pursuant to a license agreement dated January 1, 2011, for which we pay a royalty fee. Telefónica, S.A. manages the Telefónica trademarks and grants us rights to use and sublicense such trademarks in Germany in order to promote our products and services and to be identified as part of the Telefónica Group. The license is of unlimited duration and may only be terminated for good cause or if Telefónica, S.A. reduces its shareholding in the Company to under 51%. If the license is terminated due to a breach by us of the license agreement, we will have a period of at least six months to wind down use of the related brand rights. In connection with the license, we have also agreed to indemnify Telefónica, S.A. against losses incurred from third party claims relating to our use of the trademarks under the license agreement or losses caused by our failure to comply with applicable laws and regulations in Germany, our breach of the license agreement and our unauthorized use of the trademarks. For the use of the Telefónica brand, we paid an aggregate of €15.1 million, €19.8 million and €19.6 million, respectively, in each of 2009, 2010 and 2011.

O_2 Brand

We license the O_2 brand from O_2 Holdings Limited pursuant to a license agreement and participate in a group cost share agreement with O_2 Holdings Limited and other Telefónica Group entities, both dated October 15, 2007. O_2 Holdings Limited owns and is responsible for, and bears the costs of central management and development and protection of, the O_2 brand rights. The other parties, including us, contribute to the costs incurred by O_2 Holdings Limited as owner and manager of such brand rights. We do not pay a royalty for the use of the O_2 brand pursuant to the license agreement. The license territory is Germany and the license includes the right to sublicense. The terms of both the cost share agreement and license agreement are indefinite, and each may only be terminated for good cause, including if we experience a hostile take–over. If the license and/or the group cost share agreement are terminated due to a breach by us of the license agreement and/or group cost share agreement or due to a change of control – other than in the event of a hostile take–over – we will have a minimum period of six months to wind down use of the related brand rights. In the event of a change of control, other than a hostile take–over, there will be a renegotiation of the license terms but no termination of the license, whereas the cost share agreement may also be terminated due to a change of control that is not a hostile take–over. For the use of the O_2 brand, we paid an aggregate of €1.4 million, €1.4 million and €1.5 million respectively in each of 2009, 2010 and 2011.

This license is of critical importance to our business. If it is terminated, we could be materially adversely affected (see "*Risk Factors – Risks Related to our Relationship with Telefónica, S.A. – We license the use of our primary brand O_2 from Telefónica Group and could be limited in our usage by the terms of the license agreement or for any other reason*.").

Areas of Innovation

The Telefónica Group has several departments, which we call "areas of innovation", that are working on the development of new business opportunities and technologies in areas including the following: financial services, advertising services, communications, M2M and security (see "*Business – Products and Services – Digital Innovation*"). We participate in a cost share arrangement pursuant to which the related development and coordination costs are shared among the Telefónica Group entities that stand to benefit from such developments. A formalized agreement between us and O_2 Holdings Limited regarding the arrangement is currently under negotiation. For costs related to areas of innovation, we paid an aggregate of €15.5 million in 2011 and did not make payments for such costs in 2009 and 2010.

Wholesale Roaming Services and Intragroup Roaming Discounts

We have entered into a service agreement with TGR effective as of December 5, 2009, pursuant to which TGR manages our wholesale roaming business with third parties as well as our mutual roaming discounts with Telefónica Group entities. Among other things, TGR negotiates roaming discount agreements with third party roaming partners on our behalf. The agreement regulates our right to be granted discounts by roaming partners and our obligation to grant discounts to such partners. TGR provides guarantees of the minimum revenues levels and minimum total discounts that we can expect to receive. It also carries out traffic steering and monitoring activities.

With respect to roaming arrangements with Telefónica Group entities, we have GSMA–standard based international roaming agreements with all such entities. Pursuant to the service agreement, TGR negotiates mutual discount agreements with such entities on our behalf. In this regard, we grant discounts on incoming roaming fees to the related Telefónica Group entities and these entities grant us discounts on roaming fees with respect to our outbound traffic. TGR negotiates and agrees on our behalf the amount of such discounts with the other group entities on an annual basis. The discount arrangement may be terminated according to the terms and conditions regulated under each arrangement. In addition, the discount arrangement among the relevant parties expires if the underlying roaming agreement between such parties expires.

The service agreement remains in effect until December 31 of each calendar year ("**Eligible Term**") and is tacitly renewed for one year periods unless either party serves written notice to the other party at least six months before the expiration of the then existing Eligible Term. Termination is also possible for good cause or due to a change of control of one of the parties. We paid an aggregate of €16.2 million and €20.8 million in 2010 and 2011, respectively, to TGR for such services. We did not make a payment for such services in 2009.

Based on an agreement dated May 1, 2012, we have outsourced certain settlement and paying services in relation to wholesale roaming services to TGB.V., which also provides such services to other Telefónica Group entities. Under this agreement, TGB.V. collects fees on our behalf and provides other services related thereto.

Technology, Software and Network Services

We have entered into an agreement dated December 13, 2010 with Telefónica Global Technology, S.A.U. ("**TGT**") regarding the provision of its SAP system. Pursuant to the agreement, TGT provides us the license for various functions of the SAP software, including, among others, management of collections, recoveries, finance, agencies, late payments and customer help desk, budgeting planning and consolidation, logistics and point of sale, internal audit, and human resources. In addition, TGT provides the following services: prevention services, corrective, adaptive, evolutionary, and master data maintenance services, management service for new projects, operating services, SAP management services, user support services and access service. For the software and services, we are required to pay TGT a market–based fee. The initial term of the agreement is until December 31, 2014, subject to five automatic renewals of one year periods, unless terminated with six months' notice by either party. The agreement may also be terminated for good cause, including due to a change of control. Upon any such termination, we will have a period of one year to transition the services to a new provider.

We entered into a further agreement with TGT dated May 3, 2011 regarding the provision and operation of our desktop workplace and e–mail system. Pursuant to the agreement, TGT provides us the software as well as the tools, network connectivity, and IP communications services. For the software and services, we are required to pay TGT a market–based fee. The initial term of the agreement is until December 31, 2015, subject to five automatic renewals of one year periods, unless terminated by us with six months' notice prior to expiration of the initial term or any renewal period. The agreement may also be terminated by either party for cause, or by TGT if we experience a change of control. Upon any such termination, we will have a period of one year to transition the services to a new provider.

We have entered into an agreement with Telefónica Global Applications S.L. ("**TGA**") dated August 1, 2011, pursuant to which TGA has the responsibility to work with developers on our behalf regarding the development, marketing and distribution of mobile applications. TGA's obligations include selecting applications to be licensed to us and contracting with application developers for specific applications, interfacing in all respects with developers regarding the development of mobile applications, obtaining licenses to applications from developers and providing sublicenses for such applications to us. We are required to pay a market–based fee for the services. The initial term of the agreement is for two years, subject to automatic renewal for one year periods. TGA may terminate the agreement for any reason with four months' prior written notice and may terminate sublicenses for applications if the underlying license is terminated by TGA or the developer or expires.

We have entered into two agreements with Telefónica Czech Republic, a.s. ("**Telefónica Czech**") pursuant to one of which Telefónica Czech provides monitoring services for our fixed networks and pursuant to the other of which we provide monitoring services for Telefónica Czech's mobile network, each dated August 29, 2011. For the monitoring of our fixed network, we are required to pay Telefónica Czech a market–based fee. For the monitoring of its mobile network, Telefónica Czech is required to pay us a market–based fee. Each agreement has an initial term until December 31, 2015. The parties will mutually inform each other 12 months prior to expiration whether they wish to negotiate and agree to an extension of the agreements. The agreements may only be terminated for good cause during the initial term, including due to a change of control.

We have entered into an interconnection agreement with Telefónica Group entity Jajah, Inc., Silicon Valley, California, USA ("**Jajah**") pursuant to which we provide Jajah with connections to our network and Jajah provides us connections to Jajah's network for the purpose of termination of telecommunications traffic in the respective networks, as well as for the conducting of telecommunications traffic via the network of one party into the telecommunications network of a third party that is connected to such party's network. For the mutual services provided under the agreement, the parties pay each other market–based fees. The agreement is for an unspecified duration and, other than for good cause, can be terminated by either party with three months' prior written notice.

Insurance

We maintain policies for all material damages and business interruption (including cyber risk and crime) insurance and general liability, pure financial losses, and media contents liability insurance, from Telefónica Insurances S.A., which is an insurance company in the Telefónica Group registered in Luxembourg. The insurance program is managed and implemented by the broker Pleyade S.A., in Madrid, which is also part of the Telefónica Group. We pay Telefónica Insurances S.A. market–based premiums for the insurance coverage, and, for the brokerage services, we pay market–based fees to Pleyade S.A. (see "*Business – Insurance*").

Multinational Sales Activities

We benefit from the multinational sales activities coordinated by the Telefónica Group global unit Telefónica Multinational Solutions ("**TMS**"). TMS has its own central budget and employees at the Telefónica, S.A. level and each of the participating Telefónica Group entities dedicates a number of employees and resources to TMS activities. The function of TMS is to manage the relationship with the top 200 worldwide major customers ("**MNCs**") of the Telefónica Group and to offer MNCs global products by operating across Telefónica Group units in various jurisdictions. The goal of each local TMS group, having a relationship with an MNC, is to conclude a master agreement for Telefónica Group services with such MNC. The services to be provided under the master agreement are then performed by other Telefónica Group entities in addition to the entity holding the master agreement (the "**Lead Operator**"). The Lead Operator receives a market–based percentage of the turnover generated by the other Telefónica Group entities that perform such services. As such, with respect to any MNC that has concluded a master agreement, we either pay fees to another Telefónica Group entity if it is the Lead Operator for such MNC or other Telefónica Group entities pay fees to us if we are the Lead Operator for such MNC.

We and other Telefónica Group entities are collaborating with the business unit Telefónica Global Solutions for the development of a managed wide area network ("**mWAN**"). Pursuant to the collaboration, Telefónica Global Solutions will develop and offer a global mWAN service for all Telefónica Group entities, including a service for corporate clients in the German market. We will commit to solely rely on the new mWAN service for offers to certain customers once it becomes available.

Human Resources Services

We have entered into a services agreement with the Ireland–based Telefónica Europe People Services Limited, effective October 10, 2010, for the provision of operational human resources, payroll and employment related services to us. For these services, we are required to pay Telefónica Europe People Services Limited a market–based fee. The agreement is for a period of three years from the effective date. Either party may terminate the agreement at any time by giving the other party six months' prior notice. The agreement may also be terminated for good cause.

Central Functions Services and Support Functions

We have entered into a framework agreement with TGS dated January 1, 2010 and a framework agreement with TGR dated October 20, 2010. Pursuant to these framework agreements, we conclude individual service agreements with TGR and TGS, pursuant to which we provide central services as well as operational and support functions to TGR and TGS. Individual agreements have been concluded for, among others, facility, finance and accounting, human resources, IT, legal, risk management and internal audit services. For the services provided under these individual agreements, TGR and TGS pay us market–based fees. The individual agreements concluded under the framework agreements are generally for an indefinite term and may generally be terminated with three months' notice.

Procurement

We have entered into a services agreement with TGS dated October 6, 2010, pursuant to which we have outsourced our procurement process to TGS. Pursuant to the agreement, TGS conducts the purchase of all kinds of goods and services and performs all related procurement processes including tenders, evaluations and negotiations on our behalf. TGS also performs upfront planning, supplier management, contract management and reporting for us. For these services, we are required to pay TGS a market–based fee. The agreement is for an indefinite term and can be terminated by us with six months' prior notice. The agreement may also be terminated for good cause.

Deposit and Cash Management Agreements

We have been and, following the Offering, will remain a party to the cash management system used by the Telefónica Group. In this regard we entered into certain deposit and cash management agreements with TGB.V. Cash throughout the Telefónica Group is centralized through these arrangements, allowing us to benefit from the economies of scale from the overall Telefónica Group as well as, among other things, from the in–house liquidation of payables and receivables between us and the participating members of the Telefónica Group. Under the cash pooling arrangements, the entire cash surplus available on those of our bank accounts which are included in the cash pool is automatically transferred on a daily basis to master bank accounts held by TGB.V. In addition, we are also able to use other ways to deposit funds on the cash pool account and settle receivables from, and payables to, Telefónica Group companies and third parties via the cash pool. We are able to draw from this pooled account certain amounts exceeding the amount of our cash contributions, up to a maximum amount of €40 million, which helps us to satisfy our working capital requirements. The amount which may be included in the cash pool is capped at an amount equal to our 18–month free cash flow. In addition, we are entitled to make cash deposits for periods between one and up to 12 months in separate accounts. For positive balances in the cash pool account, we are paid a rate of interest set by a reference rate (Libor or Euribor, depending on the relevant currency), plus/less a margin based on market prices. For deposits made in separate accounts for a period between one and up to 12 months we agree with Telefónica Group on the applicable interest rate in each individual case. Similarly, we will be charged interest when we borrow money from the pool exceeding our contributed cash amounts. The interest rate for borrowings is based on a reference rate (Libor or Euribor, depending on the relevant currency), plus a margin based on market prices. The deposit and cash management agreements are automatically renewed every calendar year unless terminated by either party prior to the end of a contractual year upon 30 business days' notice or immediately in certain circumstances, such as failure to make payments requested under the agreement or if we reasonably believe that our repayment claims under the arrangements are not fully recoverable. Subject only to the general legal rules for the set–off of claims, any claims for the repayment of deposits made under the deposit and cash management agreement can be off–set against liabilities under loans granted to us by TGB.V., including, in the case of OHG, the existing loan facility of €1.25 billion. In addition, we have significant information rights under the deposit and cash management agreements with regard to the financial condition of Telefónica, S.A. and TGB.V. This helps us to determine whether we may continue participating in the cash pooling or whether any termination rights are triggered and should be exercised. Telefónica, S.A. has guaranteed TGB.V.'s obligations under the cash pool arrangements.

Financing Agreement

Our subsidiary OHG entered into a loan agreement dated September 12, 2012 with the Telefónica Group entity TGB.V. as lender, pursuant to which TGB.V. has agreed to provide a loan facility (the "**Facility**") of €1.25 billion bearing interest at the rate of 3–month Euribor plus a margin of 120 basis points, increasing by 40 basis points per year, accruing on a daily basis after drawdown of funds on the basis of a 360 day year. The Facility has a repayment schedule of 20% per year until 2017. OHG has the right to prepay the Facility, in whole or in part in a minimum amount of €100,000, on any interest payment date or subject to payment of a market–based breakage fee. The Facility is also subject to a mandatory prepayment in the event that OHG obtains financing that matures after September 13, 2017, in the amount of 25% of the proceeds received from such financing which will be applied as a prepayment of the Facility. Default interest of an additional 2 percentage points on top of the applicable interest rate will apply in case OHG fails to comply with any of its payment obligations under the loan agreement for any reason. The loan agreement contains certain restrictive covenants, including with respect to disposals of assets, creation of liens, and mergers and consolidations. Upon an event of default, the Facility will be accelerated and all amounts owing under the Facility will become immediately due for repayment. Events of default under the loan agreement include, among others, breach of the loan agreement, in particular a payment breach, an insolvency or similar event, a breach of payment obligations with respect to other indebtedness, and if OHG experiences a change of control. For the impact of the loan agreement on our financial position and results of operations, see "*Capitalization and Indebtedness" and "Management's Discussion & Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Long–term Financing Arrangements*".

We entered into a short–term loan agreement dated as of September 12, 2012 with TGB.V., as lender. Pursuant to such loan agreement, we borrowed an amount of €703 million from TGB.V., which amount was entirely repaid as of October 1, 2012 (see "*General Information on the Company – Recent Corporate Developments – Dividend Payment*".).

Indemnification and Cost Reimbursement Agreement

In preparation for the Offering, we entered into an indemnification and cost reimbursement agreement with the Selling Shareholder. Under this agreement, the Selling Shareholder agreed (i) to indemnify us from certain liability risks and (ii) to assume the transaction costs, in each case arising out of or in connection with this Offering.

UNDERWRITING

INTRODUCTION

On the date of this Prospectus, the Company, the Selling Shareholder and the Underwriters entered into an underwriting agreement (the "**Underwriting Agreement**") relating to the offer and sale of the Offer Shares in connection with the Offering. The Offering consists of 225,000,000 Base Shares from the Selling Shareholder and an additional 33,750,000 Greenshoe Shares from the Selling Shareholder.

The Offering consists of a public offering of the Offer Shares in Germany and Luxembourg and private placements of the Offer Shares in certain jurisdictions outside of Germany and Luxembourg. The Offering is expected to begin on October 17, 2012 and is expected to end on October 29, 2012. In the United States of America, the Offer Shares will be offered for sale by the Underwriters to QIBs as part of a private placement in compliance with Rule 144A under the Securities Act. Outside the United States of America, the Offer Shares will be offered and sold in reliance on Regulation S under the Securities Act. Any offer and sale of the Offer Shares in the United States in compliance with Rule 144A will be made by broker–dealers who are registered as such under the U.S. Securities Exchange Act of 1934.

The Offer Price for each Offer Share is expected to be determined jointly by the Selling Shareholder, after consultation with the Company, and the Joint Global Coordinators on October 29, 2012 on the basis of an order book prepared during the book-building process.

UNDERWRITERS

Pursuant to the terms of the Underwriting Agreement and subject to certain conditions, each Underwriter will agree to use its best efforts to offer the percentage of Offer Shares set forth below opposite the Underwriter's name:

Underwriters		**Percentage of Offer Shares**
J.P. Morgan Securities plc	25 Bank Street London E14 5JP United Kingdom	23
UBS Limited	1 Finsbury Avenue London EC2M 2PP United Kingdom	23
Merrill Lynch International	2 King Edward Street London EC1A 1HQ United Kingdom	11
BNP PARIBAS	16, boulevard des Italiens 75009 Paris France	11
Citigroup Global Markets Limited	Citigroup Centre, 33 Canada Square Canary Warf London E14 5LB United Kingdom	11
HSBC Trinkaus & Burkhardt AG	Königsallee 21/23, 40212 Düsseldorf Germany	11
Banca IMI S.p.A.	Largo Mattioli n.3 20121 Milano Italy	1.6667
Bayerische Landesbank	Brienner Str. 18 80333 München Germany	1.6667
Banco Bilbao Vizcaya Argentaria S.A.	Plaza de San Nicolás 4 48005 Bilbao Spain	1.6667
COMMERZBANK Aktiengesellschaft	Kaiserstraße 16 (Kaiserplatz) 60311 Frankfurt/Main Germany	1.6667
Banco Santander, S.A.	Paseo Pereda, 9–12. 39004 Santander Spain	1.6667
Société Générale	29 Boulevard Haussmann 75009 Paris France	1.6667

COMMISSIONS

The Underwriters will offer the Offer Shares at the Offer Price. The Selling Shareholder will pay the Underwriters a base fee of 1.375% of the aggregate gross proceeds of the Offering. In addition to the base fee, the Selling Shareholder will pay the Underwriters a discretionary fee of up to 1.125% of the aggregate gross proceeds of the Offering, payable entirely at the sole discretion of the Selling Shareholder. The decision to pay any discretionary fee and its amount are within the sole discretion of the Selling Shareholder. The Selling Shareholder has also agreed to reimburse the Underwriters for certain expenses incurred by them in connection with the Offering. See also "*Related Party Transactions*".

GREENSHOE OPTION AND SHARE LOAN

To cover potential over–allotments, the Selling Shareholder will make available 33,750,000 additional ordinary shares of the Company to the Underwriters by way of a security loan. In addition, the Selling Shareholder has granted the Underwriters an option to acquire 33,750,000 ordinary shares of the Company at the Offer Price less agreed commissions (the "**Greenshoe Option**"). The Greenshoe Option will terminate 30 calendar days after the Offer Price has been published.

TERMINATION AND INDEMNITY

The Underwriting Agreement will provide that the Underwriters may, under certain circumstances, terminate the Underwriting Agreement, including after the Offer Shares have been allotted and listed, up to the time of delivery and settlement. These circumstances include in particular the following events: (i) Telefónica Deutschland has sustained a loss or interference with respect to its business which is adverse for Telefónica Deutschland or there has been any other adverse change, or any development involving a prospective adverse change, in or affecting the general affairs, business, prospects, management, consolidated financial position, shareholders' equity or results of operations of Telefónica Deutschland; (ii) there has occurred any of the following: (A) a suspension or material limitation in trading in securities generally on the Frankfurt Stock Exchange, the London Stock Exchange or the New York Stock Exchange (other than for technical reasons); (B) a general moratorium on commercial banking activities in Frankfurt, London or New York declared by the relevant authorities or a material disruption in commercial banking or securities settlement, payment or clearance services in Germany, the United Kingdom or the United States; (C) a change or development involving a prospective change in German taxation adversely affecting the Company, the shares of the Company or the transfer thereof; (D) the outbreak or escalation of hostilities, the occurrence of any acts of terrorism or any other calamity or crisis which have an adverse effect on the financial markets in the Federal Republic of Germany, the United Kingdom or the United States; or (E) any change in national or international financial, political or economic conditions or currency exchange rates or currency controls involving the Federal Republic of Germany, the United Kingdom or the United States.

If the Underwriting Agreement is terminated, the Offering will not take place, in which case any allocations of Shares to investors will be invalidated and investors will not have any claim to delivery of Shares. Any claims with respect to subscription fees paid and costs incurred in connection with subscriptions will be governed solely by the legal relationship between the respective investor and the institution with which the purchase order was placed. Investors who engage in short–selling bear the risk of being unable to satisfy their delivery obligations.

The Company and the Selling Shareholder will agree in the Underwriting Agreement to indemnify the Underwriters against certain liabilities that may arise in connection with the Offering, including liabilities under applicable securities laws.

SELLING RESTRICTIONS

General

No public offer is being made and no one has taken any action that would, or is intended to, permit a public offering of the Offer Shares to be made in any country or jurisdiction, other than the Federal Republic of Germany and the Grand Duchy of Luxembourg, where any such action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this offer document nor any other offering material or advertisement in connection with the Offer Shares may be distributed or published in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction. It is the responsibility of any person who receives a copy of this document to satisfy himself or herself as to full observance of the laws of any relevant territory in respect of any actions he or she may take, including obtaining of any requisite governmental or other consent or the observance of any requisite formalities and the payment of any issue, transfer or other taxes due in such territory.

United States

The Offer Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Offer Shares are only to be offered and sold outside the United States in offshore transactions in compliance with Regulation S under the Securities Act, and within the United States to persons reasonably believed to be QIBs in reliance upon Rule 144A under the Securities Act.

United Kingdom

Any offer or sale of the Offer Shares may only be made to persons in the United Kingdom who are "qualified investors" or otherwise in circumstances that do not require publication by the Company of a prospectus pursuant to section 85(1) of the UK Financial Services and Markets Act 2000. Any investment or investment activity to which this offer document relates is available only to, and will be engaged in only with, investment professionals falling within Article 19(5), or fall within section 49(2)(a) to (d) ("high net worth; unincorporated associations, etc.") of the UK Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or other persons to whom such investment or investment activity may lawfully be made available (together, "relevant persons"). Persons who are not relevant persons should not take any action on the basis of this offer document and should not act or rely on it.

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Underwriter will represent and agree that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of the Offer Shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Offer Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Offer Shares to the public in that Relevant Member State at any time:

- directed exclusively to any legal entity which is authorized or regulated to operate in the financial markets or whose sole corporate purpose is to invest in securities;
- directed exclusively to any legal entities that have met two or more of the following criteria as shown in their most recent annual or consolidated financial statements: (1) an average of at least 250 employees during the last financial year; (2) total assets of more than €43,000,000; and (3) annual net revenue of more than €50,000,000
- to fewer than 100 natural or legal persons or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive (as defined below), 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive subject to obtaining the prior consent of the Joint Global Coordinators nominated by the Company for any such offer; or
- in any other circumstances which do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive by the Company.

For the purposes of this provision, the expression an "offer to the public" in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares, as such expression may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. For the purposes of this provision, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State; and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Each person in a Relevant Member State, other than persons receiving offers contemplated in the Prospectus in Germany, who receives any communication in respect of, or who acquires any Offer Shares under, the offers contemplated hereby will be deemed to have represented, warranted and agreed to and with each of the Managers, the Selling Shareholder and us that:

1. it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
2. in the case of any Offer Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Offer Shares acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in other circumstances falling within Article 3(2) of the Prospectus Directive and the prior consent of the Joint Global Coordinators has been given to the offer or resale; or (ii) where Offer Shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Offer Shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this provision, the expression an "offer" in relation to any of the Offer Shares in any Relevant Member States means the communication in any form and by any means of sufficient information on the terms of the offer and any Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

TRANSFER RESTRICTIONS

The Offer Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Offer Shares are only to be offered and sold outside the United States in offshore transactions in compliance with Regulation S under the Securities Act, and within the United States to persons reasonably believed to be QIBs in reliance upon Rule 144A under the Securities Act. Terms used in this section are used as defined in Regulation S and/or Rule 144A.

Each purchaser of shares outside the United States in compliance with Regulation S will be deemed to have represented and agreed that it has received a copy of this offer document and such other information as it deems necessary to make an informed investment decision and that:

1. the purchaser is authorized to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations;
2. the purchaser acknowledges that the Offer Shares have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state of the United States, and, subject to certain exceptions, may not be offered or sold within the United States;
3. the purchaser and the person, if any, for whose account or benefit the purchaser is acquiring the Offer Shares, was located outside the United States at the time the buy order for the Offer Shares was originated and continues to be located outside the United States and has not purchased the Offer Shares for the account or benefit of any person in the United States or entered into any arrangement for the transfer of the Offer Shares or any economic interest therein to any person in the United States;
4. the purchaser is not an affiliate of the Company or a person acting on behalf of such affiliate;
5. the Offer Shares have not been offered to it by means of any “directed selling efforts” as defined in Regulation S;
6. the purchaser acknowledges that the Company shall not recognize any offer, sale, pledge or other transfer of the Offer Shares made other than in compliance with the above–stated restrictions;
7. the purchaser is not engaged in the business of distributing securities or, if it is in such business, it did not acquire the Offer Shares from the Company or an affiliate thereof in the initial distribution of the Offer Shares;
8. if it is acquiring any of the Offer Shares as a fiduciary or agent for one or more accounts, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and
9. the purchaser acknowledges that we, the Underwriters and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Each purchaser of the Offer Shares within the United States purchasing pursuant to an exemption from the registration requirements of the U.S. Securities Act will be deemed to have represented and agreed that it has received a copy of this offer document and such other information as it deems necessary to make an informed investment decision and that:

1. the purchaser is authorized to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations;
2. the purchaser acknowledges that the Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to restrictions on transfer;
3. the purchaser: (i) is a qualified institutional buyer (as defined in Rule 144A under the U.S. Securities Act); (ii) is aware that the sale to it is being made pursuant to an exemption from the registration requirements of the U.S. Securities Act; and (iii) is acquiring such Offer Shares for its own account or for the account of a qualified institutional buyer;
4. the purchaser is aware that the Offer Shares are being offered in the United States in a transaction not involving any public offering in the United States within the meaning of the Securities Act;
5. if in the future, the purchaser decides to offer, resell, pledge or otherwise transfer such Offer Shares, or any economic interest therein, such Offer Shares or any economic interest therein may be offered, sold, pledged or otherwise transferred only (i) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) in compliance with Regulation S under the Securities Act, or (iii) in accordance with Rule 144 under the U.S. Securities Act (if available), in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction;
6. the purchaser acknowledges that the Offer Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act and no representation is made as to the availability of the exemption provided by Rule 144 for resales of any Offer Shares;
7. the purchaser will not deposit or cause to be deposited such Offer Shares into any depositary receipt facility established or maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility, so long as such Offer Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act;

8. the purchaser acknowledges that we shall not recognize any offer, sale, pledge or other transfer of the Offer Shares made other than in compliance with the above–stated restrictions;

9. if it is acquiring any of the Offer Shares as a fiduciary or agent for one or more accounts, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of such account; and

10. the purchaser acknowledges that we, the Underwriters and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

TAXATION

TAXATION IN THE FEDERAL REPUBLIC OF GERMANY

General

The following section describes certain material German tax principles that may become relevant when acquiring, holding or transferring shares. This section is not a comprehensive or complete description of all German tax aspects that may be relevant for shareholders. It is based on the German tax laws applicable as of the date of this Prospectus and on the provisions of double taxation treaties entered into between Germany and other countries as of this date. In both areas the law, double taxation treaties and the opinion of the tax authorities may change, possibly also with retroactive effect.

Potential purchasers of the Company's shares should consult their tax advisors with respect to the tax consequences of acquiring, holding and transferring shares and with respect to the procedure to be complied with to obtain a refund of German withholding tax paid (*Kapitalertragsteuer*). The specific tax situation of each shareholder can only be addressed adequately by means of individual tax advice.

Taxation of the Company

In Germany, corporations are generally subject to corporate income tax at a rate of 15% plus a 5.5% solidarity surcharge (*Solidaritätszuschlag*) thereon (in total 15.825%). In the pertinent case, the income of Telefónica Germany GmbH & Co. OHG will be attributed to the Company for corporate income tax purposes due to the transparency of an OHG as limited partnership for income tax purposes.

Dividends and other shares in profits which corporations receive from domestic or foreign corporations are generally exempt from corporate income tax. However, 5% of such income qualifies as non–deductible business expenses and is therefore subject to corporate income tax at a rate of 15% (plus solidarity surcharge of 5.5% thereon). The same generally applies to capital gains from the disposition of shares in domestic or foreign corporations. Capital losses are not deductible for tax purposes. Withdrawals from German subsidiary partnerships are not subject to corporate income tax at the level of corporations.

In addition, German corporations are subject to trade tax (*Gewerbesteuer*) on their business income, i.e. income that has been generated at their German places of business and is subject to certain adjustments for trade tax purposes. The trade tax depends on the municipalities in which the corporations maintain permanent establishments. The trade tax rate amounts to 7 to 17.5% of the trade taxable income (*Gewerbeertrag*) depending in each case on the trade tax assessment rate (*Hebesatz*) of the relevant municipality. All entities of our group are subject to trade tax; for purposes of the trade tax, Telefónica GmbH & Co. OHG is not regarded as transparent and is subject to trade tax itself.

For the purposes of trade tax, dividends received from shares in domestic and foreign corporations and capital gains from the disposition of shares in other corporations are generally treated in the same manner as for corporate income tax purposes. However, dividends are, in general, 95% tax–exempt only if the corporations have held at least 15% of the distributing company's registered share capital ("trade tax participation exemption privilege") as of the beginning of the relevant assessment period (*Erhebungszeitraum*). Additional restrictions apply to dividends received from foreign corporations.

With regard to the possibility of deducting net interest expenses, the interest barrier (*Zinsschranke*) applies. The interest barrier restricts the deductibility of interest expenses exceeding the interest earnings of the relevant financial year ("net interest expenses") to 30% of the earnings before interest, taxes, depreciation and amortisation ("creditable EBITDA") determined for corporate income tax and trade tax purposes. The non–deductible part of the interest expenses can be carried forward to future fiscal years ("interest carried forward") and might reduce the taxable profit of the Company in the future if the interest expenses in such period are deductible under the interest barrier. In addition, a five year EBITDA carried forward applies according to which a positive difference between the creditable EBITDA and the net interest expenses may be carried forward for five financial years so that future net interest expenses, within certain limits, can be set off against the EBITDA carried forward in future years. However, there is a risk that the interest carried forward might be forfeited in case of a change of ownership on the basis of the same rules as applicable to losses carried forward (see below). The interest barrier will not apply if the net interest expenses are less than €3 million in one tax assessment period or in the event the Company complies with the "escape clause" or if the Company is not part of a group, provided there is no harmful shareholder debt financing. The escape clause stipulates the complete deductibility of interest expenses in the event that the Company's equity ratio is not lower than that of the group. For this purpose the equity ratios of the financial statements at the end of the preceding business year are relevant. Only in case that there is no harmful shareholder debt financing, the escape clause will be applicable. A harmful shareholder debt financing is existing if the shareholder (holding directly or indirectly more than 25% of the shares) or any related party hereto or any third party who has a right of recourse against the shareholder or a related party hereto receives interest exceeding 10% of the negative interest balance (difference between interest income and interest expenses) from the respective corporation or from another affiliated company. For trade tax purposes 25% of the interest expenses have to be added back to the trade earnings.

Corporate income tax losses incurred by the Company in one year may be carried back to the immediately preceding assessment period up to an amount of €511,500. Trade tax losses cannot be carried back. Any remaining losses regarding corporate income tax and trade tax may only be offset within certain restrictions against profits from future years ("minimum taxation"). Up to an amount of €1 million taxable profits may be offset against existing tax losses carried forward without limitation. Taxable profits in excess of €1 million may be offset against existing tax losses carried forward for corporate income and trade tax purposes only by 60%. Unused tax losses carried forward may, in principle, be carried forward indefinitely and are subject to the above described minimum taxation rules when determining future taxable profits. However, to the extent an acquirer, a person affiliated with such acquirer or a group of acquirers with similar interests acquires directly or indirectly more than 25% of the Company's shares within five years, the tax losses carried forward and current losses existing at the time the threshold is exceeded will be forfeited on a pro rata basis, unless there is an acquisition of more than 50%, in which case the tax losses carried forward will be forfeited completely. As an exception, in case of an above–described harmful transfer of shares, tax losses carried forward in an amount equal to certain built–in gains of the Company may still be upheld.

Taxation of Shareholders

Shareholders are subject to tax in particular in connection with the holding of shares (taxation of dividends), the disposal of shares (taxation of capital gains) and the gratuitous transfer of shares (inheritance and gift tax).

Taxation of Dividends

Withholding Tax

The full amount of a dividend distributed by the company, excluding an amount that is paid from the Company's deposit account (*steuerliches Einlagenkonto*), is subject to German withholding tax at a rate of 25% plus a solidarity surcharge of 5.5% on the withholding tax, resulting in an aggregate rate of 26.375%. The basis for the withholding tax is the dividend approved for distribution by the company's general shareholder meeting.

Withholding tax is withheld and remitted to the German tax authorities by the disbursing agent (*auszahlende Stelle*), i.e., the bank, financial services institution, securities trading enterprise or securities trading bank (each as defined in the German Banking Act (*Kreditwesengesetz*) and in each case including a German branch of a foreign enterprise, but excluding a foreign branch of a German enterprise) that holds or administers the underlying shares in custody and disburses or credits the dividend income from the underlying shares or disburses or credits the dividend income from the underlying shares on delivery of the dividend coupons or disburses such dividend income to a foreign agent or the central securities depository (*Wertpapiersammelbank* in terms of the German Depositary Act (*Depotgesetz*)) holding the underlying shares in a collective deposit, if such central securities depository disburses the dividend income from the underlying shares to a foreign agent, regardless of whether or not a holder must report the dividend for tax purposes and regardless of whether or not a holder is a resident of Germany.

The Company is principally not liable for the withholding of taxes at the source.

The shareholder is the person liable to withholding tax (*Steuerschuldner*). The Company or the disbursing agent are liable for the withholding tax which they are obliged to withhold and remit to the German tax authorities, unless they prove that they did not breach their duties on purpose or negligently. The withholding tax can be claimed from the shareholder, if (i) the dividends have not been shortened correctly, if (ii) the shareholder knows that the withholding tax has not been withheld correctly and he did not disclose this to the competent tax authority immediately, if (iii) the dividends have been wrongfully distributed without withholding the withholding tax.

Such withholding tax is levied and withheld irrespective of whether and to what extent the dividend distribution is taxable at the level of the shareholder and whether the shareholder resides inside or outside Germany. Certain exceptions may apply to corporations in another EU Member State to which the EU Parent/Subsidiary Directive (2011/96/EU of November 30, 2011) applies. A partial exemption may also be available under a respective double taxation treaty. In these cases the restrictive preconditions according to Section 50d (3) Income Tax Act have to be fulfilled. Application forms may be obtained from the German Federal Tax Office (*Bundeszentralamt für Steuern*), An der Kuppe 1, 53225 Bonn, Germany (www.bzst.bund.de), as well as from German embassies and consulates.

Dividends to a corporation domiciled outside of Germany are subject to a reduced withholding tax (irrespective of any double taxation treaties) in the event the shares do not constitute an asset of a permanent establishment in Germany nor an asset for which a permanent representative has been appointed in Germany. In this case, 2/5 of the withholding tax will be refunded upon application. The refund requires that the corporation fulfils the preconditions of Section 50d (3) Income Tax Act. Refund application forms may be obtained from the German Federal Central Tax Office (*Bundeszentralamt für Steuern*), An der Kuppe 1, 53225 Bonn, Germany (www.bzst.bund.de), as well as from German embassies and consulates. A further reduction or refund under an applicable double taxation treaty is possible.

For shareholders resident in Germany (i.e., shareholders whose residence, habitual abode, management, or domicile is located in Germany) holding their shares as business assets as well as for shareholders residing outside Germany (foreign shareholders) holding their shares in a permanent establishment or a fixed base in Germany, or as assets for which a permanent representative has been appointed in Germany, the tax withheld is credited against the shareholders' personal income tax or corporate income tax liability. Such crediting of withholding tax requires a certificate within the meaning of Section 45a (2), (3) Income Tax Act.

Any tax withheld in excess of the shareholders' personal tax liability is refunded. The same principles apply to the solidarity surcharge.

In case of church tax the taxpayer may choose between withholding at source or declaring the church tax in the assessment procedure. For capital income received after December 31, 2013 the paying agent will ask about the church tax duty by way of an automatic data transfer with the German Central Tax Office. In general, the church tax will be withheld at source. The taxpayer may contradict this procedure. Consequently, he will have to declare the church tax in the assessment procedure. If the church tax will be withheld together with the withholding tax, the withholding tax will be reduced by 25% of the church tax levied on the withholding tax.

Shareholders resident in Germany

In case of shareholders (individuals, partnerships and corporations) subject to German taxation on their worldwide income (i.e., persons whose place of residence or usual place of abode or, in case of corporations, its statutory seat or place of management is situated in Germany) the dividend payments are subject to German taxation.

Taxation of Dividend Income of Investors Resident in Germany Holding their Shares as Private Assets (Privatvermögen)

For individual shareholders resident in Germany holding their shares as private assets dividends are subject to the final flat tax (*Abgeltungsteuer*). Under this regime dividend income of private investors will be taxed at the principal final flat tax rate of 25% plus a 5.5% solidarity surcharge thereon (aggregate tax burden: 26.375%) and church tax if applicable. Except for an annual lump sum allowance (*Sparerpauschbetrag*) of €801 (€1,602 for married couples filing jointly), private investors will not be entitled to deduct expenses incurred in connection with the capital investments from their dividend income. In certain cases, however, upon election and filing of an annual income tax return, the dividend payments may be taxed at the shareholder's individual tax rate if this results in a lower income tax burden. The withholding tax will then be credited against the income tax. Private investors are not entitled to deduct expenses incurred in connection with the capital investments from their income except of the annual lump sum allowance even if they opt for taxation at their individual tax rate. This option may be exercised only for all capital income from capital investments received in the relevant assessment period uniformly and married couples filing jointly may only jointly exercise the option.

Taxation of Dividend Income of Investors Resident in Germany Holding their Shares as Business Assets (Betriebsvermögen)

If shares are held as business assets of a shareholder, the taxation depends on whether the shareholder is a corporation, a sole proprietor, or a partnership (*Mitunternehmerschaft*). Withholding tax (including the solidarity surcharge thereon) withheld and remitted to the German tax authorities is credited against the respective shareholder's individual or corporate income tax liability or, if in excess thereof, is refundable to the shareholder. The flat tax regime does not apply to shares held as business assets.

Corporations. Dividend distributions to corporate shareholders are generally exempt from corporate income tax. However, 5% of the tax–exempt dividend income is deemed to be a non–deductible business expense for tax purposes and is therefore subject to corporate income tax (plus solidarity surcharge thereon) and trade tax. Business expenses actually incurred in connection with the shares are entirely tax deductible. Currently, there is no minimum shareholding percentage or holding period required. However, dividends are fully subject to trade tax after deduction of related business expenses, unless the corporation has held at least 15% of the Company's registered share capital as from the beginning of the relevant assessment period. In the latter case, 5% of the dividends will be subject to trade tax. Special rules for banks, financial services institutions, financial enterprises, life and health insurance companies, and pension funds, are described below.

Sole Proprietors. If the shares are held by a sole proprietor as business assets, the "partial income method" (*Teileinkünfteverfahren*) applies. Accordingly, for income tax purposes, generally 60% of the dividend distributions are taxable. Correspondingly, 60% of the business expenses related to the dividend income are deductible for tax purposes (subject to any other restrictions on deductibility). In addition, dividends are entirely subject to trade tax if the shares are held as a business asset of a permanent establishment in Germany and if the shareholder does not hold at least 15% of the share capital of the Company at the beginning of the relevant assessment period. The trade tax levied – depending on the municipal trade tax rate and the individual tax situation – is partly or entirely credited against the shareholder's personal income tax liability by means of a lump–sum tax credit system.

If the shareholder is subject to church tax, such tax may become due as well.

Partnerships. If shares are held by a partnership, personal income tax or corporate income tax is levied only at the level of each partner. If a partner is subject to corporate income tax, dividends are generally tax–exempt to 95% (see: "*Taxation of Shareholders – Taxation of Dividend Income by Investors Resident in Germany Holding their Shares as Business Assets – Corporations*"). If the partner is subject to personal income tax, the partial income method (*Teileinkünfteverfahren*) applies and 60% of the dividends are taxable and 60% of the business expenses related to dividend income are deductible (see: "*Taxation – Taxation in the Federal Republic of Germany – Taxation of Shareholders – Taxation of Dividend Income by Investors Resident in Germany Holding their Shares as Business Assets (Betriebsvermögen) – Sole Proprietors*"). If the shares are attributable to the permanent establishment of a commercial business of the partnership (i.e., if the partnership is generally subject to trade tax), the dividends will also be subject to trade tax, unless the partnership has held at least 15% of the Company's registered share capital as from the beginning of the relevant assessment period so that 5% of dividends will be subject to trade tax to the extent corporations are partners, and are exempt from trade tax to the extent individuals are partners. If the partner is an individual, the trade tax paid by the partnership may generally be credited, fully or partly, against his or her individual income tax. Special rules for banks, financial services institutions, financial enterprises, life and health insurance companies, and pension funds, are described below.

Shareholders not Resident in Germany

For foreign shareholders who do not hold their shares in a permanent establishment or a fixed base in Germany, or as an asset for which a permanent representative has been appointed in Germany, the German tax liability is, in principle, satisfied upon deduction of withholding tax (possibly reduced by way of a refund under a double taxation treaty or EU Parent/Subsidiary Directive (2011/96/EU of November 30, 2011) or 2/5 of the withholding tax may be refunded in some cases.)

However, shareholders who hold their shares in a permanent establishment or a fixed base in Germany, or as business assets for which a permanent representative has been appointed in Germany, are subject to the same rules described above for shareholders resident in Germany. The tax withheld and remitted (including solidarity surcharge thereon) is credited against the shareholder's individual or corporate income tax liability or, if in excess thereof, will be refunded to the shareholder.

Taxation of Capital Gains

Withholding tax

Subject to the qualifications set out below, capital gains are generally subject to withholding tax at a rate of 25% plus a solidarity surcharge of 5.5% thereon (in total: 26.375%), if the shares are kept or administered in a custodial account maintained by a German resident bank or a German resident financial services institution, also including a German branch of a foreign bank or foreign financial services institution, a German securities trading firm or a German securities trading bank as a disbursing agent and the capital gains are paid out or credited by this disbursing agent.

The Company is principally not liable for the withholding of taxes at the source.

The shareholder is the person liable to withholding tax (*Steuerschuldner*). The Company or the disbursing agent are liable for the withholding tax which they are obliged to withhold and remit to the German tax authorities, unless they prove that they did not breach their duties on purpose or negligently. The withholding tax can be claimed from the shareholder, if (i) the dividends have not been shortened correctly, if (ii) the shareholder knows that the withholding tax has not been withheld correctly and he did not disclose this to the competent tax authority immediately, if (iii) the dividends have been wrongfully distributed without withholding the withholding tax.

Generally, such rule applies regardless of whether and to what extent the capital gains may be exempt from taxation and irrespective of the shareholder being resident in Germany or not, provided that tax would not be withheld, under certain conditions in case of shares held as business assets in Germany. The tax base for the withholding tax is generally calculated as the difference between the proceeds received upon the disposition (less the expenses directly related to the disposition of the shares) and the acquisition costs. If the shares were not acquired from the same disbursing agent by whom they have been held ever since, a different basis of calculation equal to 30% of the proceeds from the disposition may apply, with the same withholding tax rate (in total: 26.375%) unless the shareholder provides proof of the acquisition costs and the account is moved from a disbursing agent from an EU member state or a contracting state of the EEA Agreement. If the shareholder is subject to church tax, the shareholder may also apply for the withholding of the church tax.

Shareholders Resident in Germany

In case of shareholders (individuals, partnerships and corporations) subject to German taxation on their worldwide income (i.e., persons whose place of residence or usual place of abode or, in case of corporations, statutory seat or place of management is situated in Germany) capital gains received from the disposition of shares will be subject to German taxation.

Taxation of Capital Gains of Investors Resident in Germany Holding their Shares as Private Assets (Privatvermögen)

Any gains from the sale or redemption of the shares will be subject to a final flat tax (*Abgeltungsteuer*) of 25% plus a solidarity surcharge of 5.5% thereon resulting in an aggregate tax burden of 26.375% and church tax if applicable. Except for an annual lump sum allowance (*Sparerpauschbetrag*) of €801 (€1,602 for married couples filing jointly) private investors will not be entitled to deduct expenses incurred in connection with the capital investments from their capital gains. In certain cases, however, upon election and filing of an annual income tax return, the capital gains may be taxed at the shareholder's individual tax rate if this results in a lower income tax burden. The tax withheld at source is then credited against the individual income tax liability assessed or, in excess of such liability, refunded. The deduction of actual expenses related to the capital gains (other than the expenses directly related to the disposition of the shares which can be deducted when calculating the capital gains) is excluded in that case as well. The option may only be exercised for all capital gains and income from capital investments received in the relevant assessment period uniformly and married couples filing jointly may only exercise the option jointly.

Losses from the disposition of the shares may only be offset against other capital gains resulting from the disposition of shares in the Company and in other stock corporations. Offsetting of overall losses with other income (e.g. business or rental income) and other capital income is not possible. Such losses are to be carried forward and to be offset against positive capital gains deriving from the sale of shares in future years.

The general flat tax will not apply if the seller of the shares or, in case of gratuitous transfer, its legal predecessor has held, directly or indirectly, at least 1% of the share capital of the Company at any time during the five years prior to the disposal. 60% of the capital gains are taxed upon this disposal. Correspondingly, only 60% of related expenses are deductible for tax purposes.

Taxation of Capital Gains of Investors Resident in Germany Holding their Shares as Business Assets (Betriebsvermögen)

If shares are held as business assets of a shareholder, the taxation of capital gains realised upon disposal depends on whether the shareholder is a corporation, a sole proprietor, or a partnership:

Corporations. Capital gains realised by a corporate shareholder upon disposal of shares are generally exempt from corporate income tax and trade tax. Capital gains for this purpose is the amount by which the selling price or the equivalent value after deduction of selling costs exceeds the tax base at the time of disposal. However, 5% of the capital gain is deemed to be a non–deductible business expense and is therefore subject to corporate income and trade tax. Losses or other profit reductions relating to the sold shares are not tax deductible.

Sole Proprietors. If the shares are held by sole proprietors, pursuant to the partial income method (*Teileinkünfteverfahren*), 60% of the capital gains realised upon disposal are subject to income tax and solidarity surcharge. Correspondingly, 60% of the business expenses related to such capital gains and 60% of any losses incurred upon disposal of shares are tax deductible. In addition, 60% of the capital gains are subject to trade tax if the sole proprietor is subject to trade tax. However, trade tax is partly or entirely credited against the shareholder's personal income tax liability depending on the applicable municipal trade tax rate and individual circumstances. If the shareholder is subject to church tax, such tax may become due as well.

Partnerships. If the shareholder is a partnership, taxation depends on whether the partners are subject to personal income tax or corporate income tax: If the partners are subject to corporate income tax, any capital gains are generally tax exempt in amount of 95% (see: "*Taxation of Shareholders – Taxation of Capital Gains of Investors Resident in Germany Holding Their Shares as Business Assets – Corporations*"). If the partners are subject to personal income tax, the partial income method (*Teileinkünfteverfahren*) applies and 60% of the capital gains are taxable (see "*Taxation – Taxation in the Federal Republic of Germany – Taxation of Shareholders – Taxation of Capital Gains of Investors Resident in Germany Holding Their Shares as Business Assets – Sole Proprietors*"). For information on the deductibility of business expenses relating to capital gains and disposal losses for partners who are subject to corporate income tax see also "*Taxation of Shareholders – Taxation of Capital Gains of Investors Resident in Germany Holding Their Shares as Business Assets (Betriebsvermögen) – Corporations" and see above "Taxation of Shareholders – Taxation of Capital Gains of Investors Resident in Germany Holding Their Shares as Business Assets – Sole Proprietors*" for information with respect to partners who are subject to personal income tax. In addition, 60% of the capital gains are subject to trade tax at the level of a partnership if the partnership is liable to trade tax and the partners are individuals and 5% of the capital gains are subject to trade tax if partners are corporations. However, the trade tax paid at the level of a partnership may partly or entirely be credited – depending on the applicable municipal trade tax rate and individual circumstances – against the personal income tax liability of the partners who are individuals.

Special rules for banks, financial services institutions, financial enterprises, life and health insurance companies, and pension funds, are described below.

Shareholders Not Resident in Germany

Capital gains realised upon disposal of shares by a shareholder resident outside Germany are only subject to German income tax (plus solidarity surcharge) in the event (i) the shares are held in a permanent establishment or through a fixed base in Germany, or held as assets for which a permanent representative has been appointed in Germany or (ii) the shareholder or, in case of a gratuitous transfer, its legal predecessor has held, directly or indirectly, at least 1% of the share capital of the Company at any time during the five year period prior to the disposal. In this case:

- 5% of the capital gain is subject to corporate income tax and solidarity surcharge, if the shareholder is a corporation; and
- 60% of the capital gain is taxed in all other cases.

However, some of the German double taxation treaties provide for a complete exemption from German taxation (except in case (i)) in such cases and assign the right to tax to the shareholder's State of residence. In this case, no withholding tax is assessed upon the sale provided sufficient proof of the foreign tax status is given. Otherwise, withholding tax of 25% plus 5.5% solidarity surcharge thereon (in total 26.375%) may be levied in the event a disbursing agent keeps or administers or carries out the sale of the shares and pays or credits the capital income unless capital gains are attributed to German business assets and additional documentation requirements are met. In these cases, for foreign corporations, withholding tax may be refunded by 2/5 if certain preconditions are met.

Capital gains realised upon disposal of shares held in a permanent establishment or through a fixed base in Germany, or held as assets for which a permanent representative has been appointed in Germany, are subject to the same rules as described above for shareholders resident in Germany.

Special Rules for Banks, Financial Services Institutions, Financial Institutions, Life and Health Insurance Companies, and Pension Funds

To the extent banks and financial services institutions hold shares that are attributable to their trading book pursuant to Section 1a of the German Banking Act (*Kreditwesengesetz*) neither the standard tax exemption for corporations nor the partial income method (*Teileinkünfteverfahren*) applies to dividend income received or to capital gains or losses realised upon the disposal of shares, i.e. dividend income and capital gains are fully subject to corporate income tax or personal income tax and, if applicable, in principle to trade tax. The same applies to shares that were acquired by financial institutions within the meaning of the German Banking Act in order to realise short–term proprietary trading gains (this applies to banks, financial services institutions and financial institutions domiciled in another Member State of the European Community or another contracting party to the EEA Agreement). The standard tax exemption for corporations neither applies to dividends received nor to capital gains or losses if the shares are attributable to the capital investments (*Kapitalanlagen*) of life and health insurance companies or pension funds. The aforementioned exceptions do not apply to dividends within the scope of the EU Parent/Subsidiary Directive (2011/96/EU of November 30, 2011).

Inheritance and Gift Tax

The transfer of shares by way of gift or succession is, in principle, subject to German inheritance and gift tax in particular if one of the following criteria is met:

(i) The testator, donor, heir, donee, or any other beneficiary has his or her residence or habitual abode, registered domicile or place of management in Germany at the time of the transfer or is a German Citizen who has not stayed abroad for more than five years without having a residence in Germany;

(ii) Irrespective of these personal circumstances, the shares are held as business assets for which a permanent establishment is maintained or a permanent representative is appointed in Germany; or

(iii) At the time of succession or donation, the testator or donor held, either alone or with other closely related persons, directly or indirectly, at least 10% of the registered share capital of the Company. In some cases participation under 10% may also lead to German inheritance and gift tax.

The few double taxation treaties on inheritance and gift tax which Germany has entered into generally provide that German inheritance or gift tax is levied only in case (i) and, with certain restrictions, in case (ii). Special provisions apply to certain German expatriates and former German Citizens.

Other Taxes

In general, no German capital transfer tax, value–added tax, stamp duty, or similar tax is levied on the acquisition, sale, or other forms of transferring shares. However, an entrepreneur may opt for value–added tax being levied on a transaction that is normally tax–exempt if the transaction is executed for the enterprise of another entrepreneur. Net wealth tax (*Vermögensteuer*) is currently not levied in Germany.

Potential Future Changes in Tax Law

Currently, the German Annual Tax Act 2013 is drafted by the German government. At this point, the German Bundesrat has proposed amendments to the draft of the German Annual Tax Act 2013 providing for the elimination of the 95% exemption for dividends and capital gains derived from portfolio–investments, i.e. shareholdings in subsidiaries of less than 10%. Pursuant to the proposals, the 95% exemption shall no longer apply and the dividends and capital gains shall be fully subject to German corporate income tax at a rate of 15%, unless the corporate shareholder's share in the equity capital of the respective company represents 10% or more of the share capital of the company. Should this provision be enacted, corporate shareholders could only benefit from the 95% tax exemption described above (see: "*Taxation of Shareholders – Taxation of Dividend Income by Investors Resident in Germany Holding their Shares as Business Assets – Corporations" and "Taxation of Shareholders – Taxation of Capital Gains of Investors Resident in Germany Holding Their Shares as Business Assets – Corporations*") if their shareholding in the Company exceeds 10%. The proposed change is combined with a number of other proposed modifications to the loss carryforward rules and the calculation of EBITDA for purposes of the interest barrier rule relating to dividends which are taxable under the new rule.

However, since the draft of the German Annual Tax Act is still part of the legislative procedure, it cannot be predicted if and to what extent amendments will be made to the draft.

TAXATION IN THE GRAND DUCHY OF LUXEMBOURG

General

The following is an overview of certain material Luxembourg tax consequences of purchasing, owning and disposing of the shares. It does not purport to be a comprehensive description of all of the tax considerations that might be relevant to an investment decision. It is included herein solely for preliminary information purposes. It is not intended to be, nor should it be construed to be, legal or tax advice. It is a description of the essential material Luxembourg tax consequences with respect to the shares and may not include tax considerations that arise from rules of general application or that are generally assumed to be known to shareholders. This overview is based on the laws in force in Luxembourg law on the date of this Prospectus and is subject to any change in law that may take effect after such date. Prospective shareholders should consult their professional advisors with respect to particular circumstances, the effects of state, local or foreign laws to which they may be subject and as to their tax position.

Please be aware that the residence concept used under the respective headings applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l'emploi*), as well as personal income tax (*impôt sur le revenu*) generally. Corporate shareholders may further be subject to net wealth tax (impôt sur la fortune) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Luxembourg Tax Residency of the Shareholders

A shareholder will not become resident, nor be deemed to be resident, in Luxembourg by reason only of the holding and/or disposing of the shares or the execution, performance or enforcement of his/her rights thereunder.

Withholding Tax

Dividend payments made to the shareholders by a non–resident company, as well as liquidation proceeds and capital gains derived by shareholders from the shares of a non–resident company, are not subject to a withholding tax in Luxembourg.

The Company is principally not liable for the withholding of taxes at the source.

Income Tax

Luxembourg resident shareholders

Dividends and other payments derived from the shares by resident individual shareholders, who act in the course of the management of either their private wealth or their professional/business activity, are subject to income tax at the ordinary progressive rate. A tax credit may be generally granted for foreign withholding taxes, provided it does not exceed the corresponding Luxembourg tax. Under current Luxembourg tax laws, there is a 50% income tax exemption of the gross amount of dividends received by resident individual shareholders from (i) a Luxembourg resident fully–taxable company limited by share capital (*société de capitaux*), (ii) a company limited by share capital (*société de capitaux*) resident in a State with which Luxembourg has concluded a double tax treaty and liable to a tax corresponding to Luxembourg's corporate income tax or (iii) a company resident in a EU Member State and covered by article 2 of the amended EU Parent–Subsidiary Directive.

Capital gains realized on the disposal of the shares by resident individual shareholders, who act in the course of the management of their private wealth, are not subject to income tax, unless said capital gains qualify either as speculative gains or as gains on a substantial participation. Capital gains are deemed to be speculative and are subject to income tax at ordinary rates if the shares are disposed of within six months after their acquisition or if their disposal precedes their acquisition. Speculative gains are subject to income tax at ordinary rates. A participation is deemed to be substantial where a resident individual shareholder holds or has held, either alone or together with his spouse or partner and/or minor children, directly or indirectly at any time within the five years preceding the disposal, more than 10% of the share capital of the company whose shares are being disposed of. A shareholder is also deemed to hold a substantial participation if he acquired free of charge, within the five years preceding the transfer, a participation that was constituting a substantial participation in the hands of the alienator (or the alienators in case of successive transfers free of charge within the same five–year period). Capital gains realized on a substantial participation more than six months after the acquisition thereof are according to the half–global rate method, (i.e., the average rate applicable to the total income is calculated according to progressive income tax rates and half of the average rate is applied to the capital gains realized on the substantial participation). A disposal may include a sale, an exchange, a contribution or any other kind of alienation of the participation.

Capital gains realized on the disposal of the shares by resident individual shareholders, who act in the course of their professional/business activity, are subject to income tax at ordinary rates. Taxable gains are determined as being the difference between the price for which the shares have been disposed of and the lower of their cost or book value.

Luxembourg corporate residents

Dividends and other payments derived from the shares by Luxembourg resident fully–taxable companies are subject to income taxes, unless the conditions of the participation exemption regime, as described below, are satisfied. If these conditions are not met, under current Luxembourg tax laws, 50% of the gross amount of dividends received by Luxembourg resident fully–taxable companies from (i) a Luxembourg resident fully–taxable company limited by share capital (*société de capitaux*), (ii) a company limited by share capital (*société de capitaux*) resident in a state with which Luxembourg has concluded a double tax treaty and liable to a tax corresponding to Luxembourg's corporate income tax or (iii) a company resident in a EU member state and covered by Article 2 of the amended EU Parent–Subsidiary directive are exempt from income tax. A tax credit may generally be granted for foreign withholding taxes, provided it does not exceed the corresponding Luxembourg tax.

Under the participation exemption regime, dividends derived from the shares may be exempt from income taxes at the level of the shareholder if cumulatively (i) the shareholder is a qualified parent ("**Qualified Parent**"), (ii) the distributing company is a qualified subsidiary ("**Qualified Subsidiary**") and (iii) at the time the dividend is put at the shareholder's disposal, the shareholder has held or commits itself to hold for an uninterrupted period of 12 months a qualified shareholding ("**Qualified Shareholding**"). A Qualified Parent means either a Luxembourg resident fully–taxable company, a Luxembourg permanent establishment of a company covered by Article 2 of the amended EU Parent–Subsidiary Directive, a Luxembourg permanent establishment of a company limited by share capital (*société de capitaux*) resident in a country having a tax treaty with Luxembourg, a Luxembourg permanent establishment of a limited company (*société de capitaux*) or a co–operative company (*société de capitaux*) resident in the EEA other than a EU Member State. A Qualified Subsidiary means a Luxembourg fully–taxable company, an entity covered by Article 2 of the amended EU Parent–Subsidiary Directive or a non–resident company limited by share capital (*société de capitaux*) liable to a tax corresponding to Luxembourg corporate income tax. A Qualified Shareholding means shares representing a participation of at least 10% in the share capital of us or a participation of an acquisition price of at least €1.2 million. Liquidation proceeds are assimilated to a received dividend and may be exempt under the same conditions. Shares held through a tax transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Capital gains realized by a Luxembourg fully–taxable resident company on the shares are subject to income tax at ordinary rates, unless the conditions of the participation exemption regime, as described below, are satisfied. Under the participation exemption regime, capital gains realized on the shares may be exempt from income tax at the level of the shareholder if cumulatively (i) the shareholder is a Qualified Parent, (ii) the distributing company is a Qualified Subsidiary and (iii) at the time the capital gain is realized, the shareholder has held or commits itself to hold for an uninterrupted period of 12 months shares representing a participation of at least 10% in the share capital of us or a participation of an acquisition price of at least €6 million. Taxable gains are determined as being the difference between the price for which the shares have been disposed of and the lower of their cost or book value.

Luxembourg corporate residents benefiting from a special tax regime

Shareholders who are (i) undertakings for collective investment governed by the law of December 16, 2010, (ii) specialized investment funds governed by the law of February 13, 2007 or (iii) family wealth management companies governed by the law of May 11, 2007, are exempt from income tax in Luxembourg. Dividends derived from and capital gains realized on the Shares are thus not subject to income tax in their hands.

Taxation of Luxembourg Non–Resident Shareholders

Non–resident shareholders who have neither a permanent establishment nor a permanent representative in Luxembourg to which or whom the shares are attributable, are not liable to any Luxembourg income tax on income and gains derived from the Shares.

Non–resident shareholders which have a permanent establishment or a permanent representative in Luxembourg to which the shares are attributable, must include any income received, as well as any gain realized on the sale, disposal or redemption of shares, in their taxable income for Luxembourg tax assessment purposes. Taxable gains are determined as being the difference between the sale, repurchase or redemption price and the lower of the cost or book value of the shares sold or redeemed.

Net Wealth Tax

Luxembourg resident shareholders, as well as non–resident shareholders who have a permanent establishment or a permanent representative in Luxembourg to which the shares are attributable, are subject to Luxembourg net wealth tax on such shares, except if the shareholder is (i) a resident or non–resident individual, (ii) an undertaking for collective investment governed by the law of December 16, 2010, (iii) a securitization company governed by the law of March 22, 2004 on securitization, (iv) a company governed by the amended law of June 15, 2004 on venture capital vehicles, (v) a specialized investment fund governed by the law of February 13, 2007 or (vi) a family wealth management company governed by the law of May 11, 2007. The shares held in a Qualified Subsidiary by a Qualified Parent may further be exempt under the participation exemption, provided the shares represent a Qualified Shareholding.

Other Taxes

There is no Luxembourg registration tax, stamp duty, value–added tax, issuance tax, transfer tax or other similar tax or duty payable by the Shareholders in Luxembourg by reason only of the issuance or transfer of shares.

Under Luxembourg tax law, where an individual shareholder is a resident of Luxembourg for tax purposes at the time of his/her death, the shares are included in his/her taxable basis for inheritance tax purposes.

Gift tax may be due on a gift or donation of the shares, if the gift is recorded in a Luxembourg notarial deed or otherwise registered in Luxembourg.

TAXATION IN THE UNITED STATES OF AMERICA

General

The following discussion is a general summary under present law of certain U.S. federal income and medicare tax considerations relevant to the purchase, ownership and disposition of the Offer Shares. The summary is not a complete description of all tax considerations that may be relevant. It applies only to U.S. Holders (as defined below) that purchase Offer Shares in this offering, hold the Offer Shares as capital assets and use the U.S. dollar as their functional currency. It does not address the tax treatment of persons subject to special rules, such as financial institutions, brokers, dealers or traders, insurance companies, U.S. expatriates tax exempt entities, persons owning, actually or constructively, 10% or more of the total voting power or value of our share capital, persons holding Offer Shares as part of a hedge, straddle, conversion or constructive sale transaction, persons holding Offer Shares in connection with a permanent establishment in Germany or persons with “tax home” outside of the United States. It also does not address U.S. state and local tax considerations.

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, EACH PROSPECTIVE INVESTOR IS HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX CONSEQUENCES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY SUCH INVESTOR FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SUCH INVESTOR UNDER THE INTERNAL REVENUE CODE OF 1986 (AS AMENDED); (B) ANY SUCH DISCUSSION WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE MATTERS ADDRESSED HEREIN; AND (C) EACH SUCH INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

As used in this section, "U.S. Holder" means a beneficial owner of Offer Shares that, for U.S. federal income tax purposes, is (i) a U.S. citizen or individual resident of the United States, (ii) a corporation or other business entity treated as a corporation created or organized under the laws of the United States or its political subdivisions, (iii) a trust (A) subject to the control of a U.S. person and the primary supervision of a U.S. court or (B) in existence and treated as a U.S. person on August 20, 1996, that has a valid election in place under applicable Treasury Regulations to continue to be treated as a U.S. person, or (iv) an estate the income of which is subject to U.S. federal income tax without regard to its source.

The U.S. federal income tax treatment of a partner in a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) purchasing, owning and disposing of Offer Shares generally will depend on the status of the partner and the activities of the partnership. Partners in a prospective purchaser that is a partnership should consult their own tax advisors regarding the specific U.S. federal income tax consequences to them of the partnership's acquisition, ownership and disposition of Offer Shares.

The Company believes, and the following discussion assumes, that the Company is not and will not become a passive foreign investment company for U.S. federal income tax purposes. Because passive foreign investment company status depends upon our income and the composition of our assets from time to time and, if applicable, may have adverse tax consequences to U.S. Holders, U.S. Holders are urged to consult their own tax advisors regarding the tax consequences to them if we are characterized as a passive foreign investment company, including certain elections that may be available to mitigate such tax consequences.

Dividends

Distributions, if any, made with respect to the Offer Shares generally will constitute dividend income to the extent that such distributions are paid out of the Company's current or accumulated earnings and profits as determined under U.S. federal income tax principles. However, the Company does not intend to calculate earnings and profits under U.S. federal income tax principles. As a result, a U.S. Holder should expect that a distribution made with respect to the Offer Shares generally will be treated as a dividend.

Dividends on the Offer Shares (including the amount of any German tax withheld) should be included in a U.S. Holder's gross income as ordinary income. Dividends will not be eligible for the dividends–received deduction generally available to U.S. corporations. Dividends received in taxable years beginning before January 1, 2013, however, should qualify for the preferential tax rate available for qualified dividend income of individuals and certain other non–corporate U.S. Holders if the Offer Shares are regularly traded on the Frankfurt Stock Exchange or the Company is otherwise eligible for benefits under the income tax treaty between Germany and the United States and the holder meets certain holding period requirements. For subsequent years the preferential rate will expire absent passage of new legislation. Dividends paid in euros will be includable in income in a U.S. dollar amount based on the exchange rate in effect on the date of receipt whether or not the payment is converted into U.S. dollars at that time. Any gain or loss on a subsequent conversion of the euros into U.S. dollars (or other disposition of the euros) for a different U.S. dollar amount generally will be U.S. source ordinary income or loss and will not be treated as a dividend.

A U.S. Holder eligible for benefits under the income tax treaty between Germany and the United States may be entitled to claim a reduced 15% rate of German withholding tax on dividends. Each U.S. Holder should consult its own tax adviser about its eligibility for reduction of German withholding tax under the income tax treaty. Dividends paid on the Offer Shares generally will constitute foreign source income and generally will be considered "passive category" income in computing the foreign tax credit allowable to U.S. Holders under U.S. federal income tax laws. A U.S. Holder may be entitled to claim a deduction or a foreign tax credit (subject to applicable limitations) for non–U.S. withholding taxes. The rules relating to the treatment of non–U.S. taxes imposed on a U.S. Holder and foreign tax credits are complex, and U.S. Holders should consult their tax advisors about the impact of these rules in their particular situations.

Dispositions

A U.S. Holder will recognize capital gain or loss on the sale or other taxable disposition of Offer Shares in an amount equal to the difference between the U.S. Holder's adjusted tax basis in the Offer Shares and the U.S. dollar value of the amount realized from the disposition. A U.S. Holder's adjusted tax basis in the Offer Shares generally will be its U.S. dollar cost. For a U.S. Holder that uses foreign currency to purchase Offer Shares, the U.S. dollar cost of the Offer Shares will be the U.S. dollar value of the foreign currency purchase price determined by reference to the spot rate of exchange on the date of purchase or the settlement date if the Offer Shares are treated as traded on an established securities market and the U.S. Holder is either a cash basis taxpayer or an electing accrual basis taxpayer.

A U.S. Holder that receives foreign currency on the disposition of Offer Shares will realize an amount equal to the U.S. dollar value of the currency received at the spot rate on the date of disposition (or, so long as the Offer Shares are treated as traded on an established securities market and the U.S. Holder is a cash basis or electing accrual basis taxpayer, the settlement date). An accrual basis U.S. Holder that does not elect to determine the amount realized using the spot rate on the settlement date will recognize foreign currency gain or loss equal to the difference between the U.S. dollar value of the amount received based on the spot exchange rates in effect on the date of sale or other disposition and the settlement date. A U.S. Holder will have a tax basis in the currency received equal to the U.S. dollar value of the currency received on the settlement date. Any gain or loss on a subsequent conversion or disposition of the currency for a different U.S. dollar amount generally will be U.S. source ordinary income or loss.

Any gain or loss on the sale or other taxable disposition of Offer Shares generally will be treated as arising from U.S. sources. It will be long-term capital gain or loss if the holder has held the Offer Shares for more than one year. Regardless of a U.S. Holder's holding period, however, any loss may be long-term capital loss to the extent the U.S Holder has received a dividend qualified for the reduced tax rate discussed above that, when aggregated with other dividends in the same consecutive 85 day period, exceeds 10% of the U.S. Holder's basis in its Offer Shares. A U.S. Holder's ability to deduct capital losses is subject to significant limitations.

Medicare Tax

With respect to taxable years beginning after December 31, 2012, certain U.S. Holders, including certain individuals, estates, and trusts, will be subject to an additional 3.8% Medicare tax on "net investment income". For individual U.S. Holders, the additional Medicare tax applies to the lesser of (i) "net investment income," or (ii) the excess of "modified adjusted gross income" over $200,000 for unmarried individuals ($250,000 if married and filing jointly or $125,000 if married and filing separately). "Net investment income" generally equals the taxpayer's gross investment income reduced by the deductions that are allocable to such income. Investment income generally includes passive income such as interest, dividends, annuities, royalties, rents, and capital gains. U.S. Holders are urged to consult their own tax advisors regarding the implications of the additional Medicare tax resulting from an investment in the Offer Shares.

Information Reporting and Backup Withholding

Dividends on and proceeds from the sale or other disposition of the Offer Shares may be required to be reported to the U.S. Internal Revenue Service ("**IRS**") unless the holder is a corporation or other exempt recipient and, when required, establishes a basis for exemption. Backup withholding may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number on a properly executed IRS Form W-9 or otherwise establish a basis for exemption. Backup withholding is not an additional tax. A U.S. Holder can claim a credit against its U.S. federal income tax liability for amounts withheld under the backup withholding rules, and can claim a refund of amounts in excess of its tax liability by providing the appropriate information to the IRS. Prospective investors should consult their tax advisors about qualifying for an exemption from backup withholding.

Foreign Financial Asset Reporting

Individuals that own "specified foreign financial assets" with an aggregate value in excess of US$50,000 are generally required to file an information report with respect to such assets with their tax returns. "Specified foreign financial assets" include any financial accounts maintained with foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained with financial institutions: (i) stocks and securities issued by non U.S. persons, (ii) financial instruments and contracts held for investment that have non U.S. issuers or counterparties, and (iii) interests in foreign entities. The Offer Shares may be subject to these rules. Additionally, under certain circumstances, an entity may be treated as an individual for purposes of these rules. U.S. Holders are urged to consult their tax advisers regarding the application of this requirement to their ownership of the Offer Shares.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE OFFER SHARES IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.

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RECENT DEVELOPMENTS AND OUTLOOK

RECENT DEVELOPMENTS

Commercial

On September 14, 2012, we adapted our O_2 Blue portfolio to include LTE service to offer enhanced performance for mobile internet to customers with new generations of smartphones.

On September 21, 2012, we successfully launched the iPhone 5 in Germany with satisfactory levels of pre–orders and executed sales.

For digital financial services, we entered into a partnership with MasterCardPayPass and Wirecard allowing our mpass customers to pay with their handsets via Near Field Communication technology in more than 500,000 points of sale in Germany and worldwide.

Corporate & Capital Structure

On September 12, 2012 we (as borrower) entered into two loan agreements with TGB.V. an entity of Telefónica Group, (as lender) providing for loan facilities of €1.25 billion and €703 million (see "*Related Party Transactions – General; Dependence Report – Financing Agreements*"). Both loans were fully drawn on September 13, 2012. The loan facility in the amount of €703 million was repaid in full on October 1, 2012.

On September 13, 2012, the Company's shareholder declared a dividend for the year ended December 31, 2011, in the total amount of €7.2 billion. A part of the resulting dividend payment claim was set–off against an existing capital promise in the amount of €2.9 billion. We paid the remaining amount of €4.3 billion to O2 (Europe) Limited, the Company's sole shareholder at the time, on September 14, 2012.

As part of the reorganization of our group in preparation for this Offering, we sold and transferred to TGB.V. on September 27, 2012 with effect of October 1, 2012, 0.00 a.m. all shares in Telefónica Global Activities Holdings B.V. (former Telefónica Chile Holding B.V.) through which we held all shares in our former subsidiaries, G3G, Quam, and TGS, together with TGS's subsidiaries TGR, Telefónica Compras Electronicas S.L. and its 40% interest in Adquira España S.A.. The agreed purchase price amounted to €703 million; which was used to repay the loan in the amount of €703 million granted by TGB.V. on September 12, 2012 (see "*General Information on the Company – Recent Corporate Developments*").

For the impact of the loan agreement in the amount of €1.25 billion, the payment of the dividend and the reorganization of our group on our financial position and results of operations, see "*Capitalization and Indebtedness*" and "*Management's Discussion & Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Long–term Financing Arrangements*".

In August and September 2012, we (as borrower) entered into revolving credit facility agreements with several banks with maturities beyond one year with a total volume of €710 million. At the date of this Prospectus, these credit facilities have not been drawn. As of September 30, 2012, Telefónica Deutschland's net financial debt was approximately € 1.1 billion.

On September 19, 2012, we entered into a further factoring arrangement relating to receivables generated from the "O_2 My Handy" model. This resulted in a cash inflow of approximately €160 million as per September 25, 2012. For the year ending December 31, 2012, this transaction is expected to improve working capital by €137 million.

Effective as of September 26, 2012, Telefónica Germany Verwaltungs GmbH changed its legal form into a stock corporation (*Aktiengesellschaft*) and its name. The legal and business name of the Company is now Telefónica Deutschland Holding AG.

OUTLOOK

We intend to release our unaudited interim results for the three months ended September 30, 2012, in November of this year. We expect that the results for the third quarter of 2012 will reflect the continued execution of our strategy. We are content with our performance through this period, which is in line with internal expectations. We expect to be able to show good year–on–year growth in many metrics, including continued growth in post–paid customers. Our Wireless Service Revenues will continue to increase, although at a lower rate than in the previous quarters, on the back of a particularly strong result in the three months ended September 30, 2011. We expect OIBDA to deliver strong growth in line with previous quarters. We continue to invest to support our growth with deployment of LTE accelerating.

We are considering strategic options for our subsidiary Telefónica Germany Online Services GmbH in which we have bundled our web hosting activities. We think that Telefónica Germany Online Services GmbH is not a key contributor to our overall revenues and OIBDA.

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GLOSSARY

Access	Connection to any of the telecommunication services offered by Telefónica Germany. Because a single customer may contract for multiple services, to count the number of accesses, or services a customer has contracted for, as opposed to only counting the number of customers seems more accurate. For example, a customer who subscribes for fixed–line telephony services and broadband service represents two accesses rather than a single customer. The categories of accesses are: mobile accesses, fixed–line telephony accesses; DSL accesses; wholesale unbundled local loop, or ULL; fixed–line narrowband accesses; IPTV.
Act Against Unfair Competition	The German Act Against Unfair Competition (*Gesetz gegen den unlauteren Wettbewerb*).
ADSL2+	Asymmetric Digital Subscriber Line is a DSL based data communications technology that enables faster data transmission over copper telephone lines than a conventional voiceband modem can provide. ADSL2+ technology extends the capability of basic ADSL by doubling the number of downstream bits. The data rates can be as high as 24 Mbit/s downstream and up to 1.4 Mbit/s upstream.
App	Applications. An application, typically a small, specialized programme downloaded onto mobile devices.
ARPU	Average Revenue per User per month. ARPU is calculated by dividing total service revenues (excluding inbound roaming revenues) from sales to customers for the preceding 12 months by the weighted average number of accesses for the same period, divided by 12 months. ARPU is calculated using gross service revenues before deduction of wholesale discounts. Blended ARPU refers to the weighted average over all contract types (post– and pre–paid).
Branded Reseller	A branded reseller has neither a mobile license nor its own mobile infrastructure, but has a direct customer relationship with end–users. The branded reseller cannot handle network routing themselves and the branded reseller will not enter into roaming deals with foreign MNOs. The branded reseller cannot produce and distribute, for example, voice minutes and data traffic themselves and are not able to produce SMS or MMS messages. A typical branded reseller will not handle customer service, customer billing or collection of consumption data and handset management themselves. The branded reseller will primarily concentrate its activities around marketing and sales to end–users. The branded reseller's positive contribution to the value chain is (naturally) its "brand", but its distribution power will also be a central asset for many branded resellers.
Call termination rates	Call termination is the service required in order to terminate voice calls from the calling network to called locations (in fixed–line networks) or subscribers (in mobile networks) in the called network. The charging system in the European Union is based on calling party network pays, which means that the termination charge is set by the operator of the called network and paid by the operator of the calling network. Call termination rates are the charges set by the operator of the called network for the service of call termination.
Churn	Churn is the percentage of subscriber disconnections based on the average mobile customer base during a given period, in this Prospectus monthly averages are shown. Blended churn refers to the weighted average over all contract types (post– and pre–paid). Post–paid churn refers to the percentage of post–paid subscriber dis-connection as of average mobile post–paid customer base.

Cloud services	Services relating to cloud computing, the delivery of computing as a service rather than a product, whereby shared resources, software and information are provided to computers and other devices as a utility over a network (typically the internet).
Customer revenues	Service revenues less interconnection revenues.
Data Center	A Data Center is a facility used to house computer systems and associated components, such as telecommunications and storage systems. It generally includes redundant or backup power supplies, redundant data communications connections, environmental controls (for example, air conditioning, fire suppression) and security devices.
Digital Dividend	Refers to the amount of spectrum that has been freed up in the switchover from analogue to digital terrestrial TV.
DSL	Digital Subscriber Line is a family of technologies that provide internet access by transmitting digital data over a local telephone network.
EDGE	Enhanced Data rates for GSM Evolution is a digital mobile phone technology that allows improved data transmission rates as a backward–compatible extension of GSM
FCO	The German Federal Cartel Office (*Bundeskartellamt*).
FNA	The German Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railways (*Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen*).
GHz	Gigahertz.
G3G	Group 3G UMTS Holding GmbH.
GPRS	General Packet Radio Service is a packet oriented mobile data service on GSM.
Gross adds	The gross increase in the customer base measured in terms of accesses in a period.
GSM	Global System for Mobile communications, a standard set developed for digital cellular networks of the second generation, also referred to as "**2G**".
HSPA	A mobile broadband technology amalgamating the two 3G mobile telephony communications protocols HSDPA and HSUPA and allowing networks based on UMTS to have higher data transfer speeds and capacity.
HSDPA	High Speed Downlink Packet Access. HSDPA is a 3G mobile telephony communications protocol relating to the downlink of an UMTS mobile network.
HSUPA	High Speed Uplink Packet Access is a telephony communications protocol relating to the uplink of a UMTS mobile network.
Interconnection revenues	Revenues received from other operators which use Telefónica Deutschland's networks to connect to Telefónica Deutschland's customers.
ISP	Internet service provider.
IT	Information Technology is the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a microelectronics–based combination of computing and telecommunications.
IPTV	Internet Protocol Television is a system through which television services are delivered using the internet protocol suite over a packet–switched network such as the internet, instead of being delivered through traditional terrestrial, satellite signal, and cable television formats.
LAN	A Local Area Network is a network that interconnects devices in a limited area such as a home or an office building using network media.
LTE	Long Term Evolution is the fourth generation mobile access technology, also referred to as "**4G**", that based on the GSM/EDGE and UMTS/HSPA network technologies, increasing the capacity and speed using a different radio interface together with core network improvements.

Local loop	The physical circuit connecting the network termination point at the customer's premises to the main distribution frame or equivalent facility in the fixed public telephone network.
MB	Megabyte.
MDF	A Main Distribution Frame is a signal distribution frame for connecting equipment (inside plant) to cables and subscriber carrier equipment (outside plant).
MHz	Megahertz.
Mobile accesses	Includes accesses to mobile network for voice and/or data services (including connectivity). Mobile broadband includes internet access from devices used to make voice calls and smartphones (mobile internet), and internet access from devices that complement fixed broadband, such as PC cards/dongles, and enable large amounts of data to be downloaded on the move (mobile connectivity). Mobile accesses are categorized at post–paid or pre–paid accesses.
Mobile services	Mobile voice, messaging and data services.
M2M	Machine to Machine technologies allow both mobile and wired systems to communicate with other devices of the same ability. M2M uses a device (such as a sensor or meter) to capture an event (such as temperature, inventory level), which is relayed through a network (wireless, wired or hybrid) to an application (software program), that translates the captured event into meaningful information (for example, items that need to be restocked).
MNO	Mobile Network Operator.
MTR	Mobile Termination Rate is the rate charged for terminating calls on a mobile network.
MVNO	A Mobile Virtual Network Operator is not entitled to use spectrum for the provision of mobile services. Consequently, an MVNO must subscribe to an access agreement with a MNO in order to provide mobile access to our customers. An MVNO pays such MNO for using the infrastructure to facilitate coverage to their customers. An MVNO is characterized by having neither its own mobile license nor its own mobile infrastructure, but it does not have a direct customer relationship with the end–user. The MVNO is able to handle network routing and will typically have entered into roaming deals with foreign MNOs. The MVNO is often able to produce and distribute (for example) voice minutes and data traffic, typically by tagging onto its existing fixed–line operation, and the MVNO will typically be able to handle producing SMS and MMS messages. A typical MVNO will be able to handle customer service, customer billing and collection of consumption data and handset management. Furthermore, the MVNO will usually handle marketing and sales to end–users.
Narrowband	Narrowband is a term used to describe an internet connection speed that is most commonly associated with a dial–up connection. Using phone lines and transmitting over voice–grade frequencies, the highest effective speed a connection can provide is approximately 56k, which is 56,000 bits per second.
Net adds	Difference between the customer base measured in terms of accesses at the end of the period and the beginning of the period. "Difference" is relating to any variation in the customer base, increase or decrease, in the determined period.
Non SMS data revenues	Data revenues excluding SMS revenues (Revenues from MMS, mobile broadband, mobile internet, push email as well as premium services and solutions).
NRA	National Regulatory Authority.
OHG	Telefónica Germany GmbH & Co. OHG.
OIBDA	Operating income before depreciation and amortization.
Operating Revenues	Total revenues less other non–operating recurrent revenues, i.e. 3rd party rent.

	Formula: Operating Revenues = Total Gross Service Revenues + Handset Revenues.
OTT	Over The Top refers to video, television and other services provided over the internet rather than via a service provider's own dedicated, managed network. OTT is delivered directly from provider to using an open internet/broadband connection, independently of the viewer's without the need for carriage negotiations and without any infrastructure investment on the part of the provider. It is a "best effort" unmanaged method of content delivery via the internet that suits provider who are primarily broadcasters rather than ISPs.
OTT (over the top) services	Non–traditional mobile voice and data services based on new mobile VoIP technologies. OTT applications such as Skype, Google Talk and Facebook are often free of charge, accessible, for example, via smartphones and enable their users to access potentially unlimited messaging and voice services over the internet.
PBX	A Private Branch Exchange is a telephone exchange that serves a particular business or office, as opposed to one that a common carrier or telephone company operates for many businesses or for the general public.
Quam	Quam GmbH.
Revenues	Net sales and revenues from rendering of services.
RCS–e	Rich Communication Services enhanced refers to an industry effort focused on the use of IP multimedia subsystem for providing mobile phone communication services such as instant messages and video sharing.
Secondary brands	Fully controlled brands such as FONIC and netzclub or brands managed through joint ventures and strategic partnerships such as Tchibo mobil and Türk Telekom Mobile.
Service provider	A Service Provider has neither a mobile license nor its own mobile infrastructure, but does have a direct customer relationship with the end–user. A service provider is not able to handle Network Routing itself and a service provider will not enter into roaming deals with foreign MNOs. The service provider is not able to produce and distribute (for example) voice minutes and data traffic and cannot produce SMS or MMS messages. The service provider will typically handle customer relationships, customer billing consumption data and handset management. Additionally, the service provider will typically handle its own marketing and sales to end–users.
Service revenues	Revenues less revenues from handset sales and one–time fees (e.g., activation fees).
SHDSL	Single–pair High–speed Digital Subscriber Line is a form of DSL. Compared to ADSL, SHDSL provides equal transmit and receive (i.e., symmetric) data rates. Support of symmetric data rates made SHDSL a popular choice by businesses for PBX, VPN, web hosting and other data services.
SIP	Session Initiation Protocol is a defined signaling protocol widely used for controlling communication sessions such as voice and video calls over internet Protocol (IP). The protocol can be used for creating, modifying and terminating two–party (unicast) or multiparty (multicast) sessions.
SoHo	Small office Home office.
Smartphone penetration	Smartphone penetration is based on the number of customers with a smallscreen tariff (e.g., for smartphones) divided by the total mobile customer base less M2M, less customers with a bigscreen tariff (e.g., for Surfsticks, Dongles, Tablets). Smartphone penetration from Yankee Group Research is calculated as follows: number of total smartphones in use of data divided by total registered mobile lines.
SME	Small Medium Enterprise.
SMS	Short Message Service.
Tbit	Terrabyte.
Telecommunications Act	The German Telecommunications Act (*Telekommunikationsgesetz*) of June 22, 2004, as amended on June 2, 2012.

TGB.V.	Telfisa Global B.V.
TGR	Telefónica Global Roaming GmbH.
TGS	Telefónica Global Services GmbH.
ULL	Unbundled Local Loop are accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, "**fully UL**") or only DSL service (shared unbundled loop, "**shared UL**").
UMTS	Universal Mobile Telecommunications System is a third generation mobile cellular system for networks based on the GSM standard, also referred to as "**3G**".
VDSL	Very–high–bit–rate DSL.
VoIP	Voice over Internet Protocol commonly refers to the communication protocols, technologies, methodologies, and transmission techniques involved in the delivery of voice communications and multimedia sessions over Internet Protocol networks, such as the internet.
VPN	Virtual Private Networks stands for a technology for using the internet or another intermediate network to connect computers to isolated remote computer networks that would otherwise be inaccessible. A VPN provides security so that traffic sent through the VPN connection stays isolated from other computers on the intermediate network.
Wi–Fi	A popular technology that allows an electronic device to exchange data wirelessly over a computer network, including high–speed internet connections. WLANs often use Wi–Fi.
WAN	A Wide Area Network is a telecommunications network that covers a broad area (any network that links across metropolitan, regional or national boundaries).
W–CDMA	Wideband Code Division Multiple Access is an air interface standard found in 3G mobile telecommunications networks.
WLAN	A Wireless Local Area Network links two or more devices using a wireless distribution method, and usually providing a connection through an access point to the wider internet. This gives users the mobility to move around within a local coverage area and still be connected to the network.

FINANCIAL SECTION

Content

UNAUDITED INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS OF TELEFÓNICA GERMANY GROUP IN ACCORDANCE WITH IFRS ON INTERIM FINANCIAL REPORTING (IAS 34) TAKING INTO ACCOUNT THE BASIS OF PREPARATION AS SET OUT IN NOTE 1 AND THE PRESENTATION OF THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS AS SET OUT IN NOTE 2 TO THE UNAUDITED INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2012

INTERIM COMBINED STATEMENT OF FINANCIAL POSITION (THOUSANDS OF EUROS)

		As at June 30	As at December 31
ASSETS	**Note**	**2012**	**2011**
A) NON-CURRENT ASSETS		**7,624,600**	**7,900,175**
Goodwill		705,576	705,576
Intangible assets		3,465,076	3,658,137
Property, plant and equipment		3,035,073	3,118,869
Other non-current financial assets		5,559	5,560
Deferred tax assets		413,316	412,033
B) CURRENT ASSETS		**5,628,944**	**5,115,173**
Inventories		84,079	70,429
Trade and other receivables	Note 7	1,359,877	1,010,279
Other current financial assets	Note 6	2,885,897	2,885,897
Cash and cash equivalents	Note 6	1,299,091	1,148,568
TOTAL ASSETS (A+B)		**13,253,544**	**13,015,348**

		As at June 30	As at December 31
EQUITY AND LIABILITIES		**2012**	**2011**
A) EQUITY		**11,811,795**	**11,756,290**
Net assets attributable to Telefónica Germany Group		11,810,450	11,754,945
Other components of equity		1,345	1,345
Total equity attributable to Telefónica Germany Group		11,811,795	11,756,290
B) NON-CURRENT LIABILITIES		**85,041**	**75,289**
Other payables	Note 8	6,764	6,342
Non-current provisions		78,277	68,947
C) CURRENT LIABILITIES		**1,356,708**	**1,183,769**
Trade payables	Note 8	992,606	785,580
Other payables	Note 8	188,731	186,714
Current provisions		21,521	41,609
Deferred income		153,850	169,866
TOTAL EQUITY AND LIABILITIES (A+B+C)		**13,253,544**	**13,015,348**

INTERIM COMBINED INCOME STATEMENT
(THOUSANDS OF EUROS)

	Note	for the half-year ended June 30, 2012	2011
Revenues	Note 9	2,553,798	2,439,754
Other income		30,278	31,938
Supplies		-1,025,602	-975,970
Personnel expenses		-226,210	-224,408
Other expenses		-735,115	-739,568
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)		**597,149**	**531,746**
Depreciation and amortization		-547,748	-509,675
OPERATING RESULT		**49,401**	**22,071**
Finance income	Note 6	9,826	5,889
Exchange gains		324	586
Finance expenses		-4,602	-4,058
Exchange losses		-1,090	-323
Net financial result		**4,458**	**2,094**
RESULT BEFORE TAX		**53,859**	**24,165**
Income tax	Note 10	1,283	-1,577
RESULT FOR THE HALF-YEAR		**55,142**	**22,588**

INTERIM COMBINED STATEMENT OF COMPREHENSIVE INCOME (THOUSANDS OF EUROS)

		for the half-year ended June 30,	
	Note	**2012**	**2011**
Result for the half-year		**55,142**	**22,588**
Other comprehensive income/expense			
Gains/losses on measurement of available-for-sale investments		-	113
Income tax impact		-	-36
		-	77
Actuarial losses and impact of limit on assets for defined benefit pension plans		-	-253
Income tax impact		-	82
		-	-171
Total other comprehensive expense		**-**	**-94**
Total comprehensive income/expense recognized in the half-year		**55,142**	**22,494**

INTERIM COMBINED STATEMENT OF CHANGES IN EQUITY (THOUSANDS OF EUROS)

	Note	Net assets attributable to Telefónica Germany Group	Other components of equity Available-for-sale investments	Total equity
Balance at June 30, 2012		**11,810,450**	**1,345**	**11,811,795**
Result for the half-year		55,142	-	55,142
Other comprehensive income		-	-	-
Total comprehensive income		**55,142**	**-**	**55,142**
Increase in equity		363	-	363
Balance at December 31, 2011		**11,754,945**	**1,345**	**11,756,290**
Balance at June 30, 2011		**11,442,034**	**1,269**	**11,443,303**
Result for the half-year		22,588	-	22,588
Other comprehensive income/expense		-171	77	-94
Total comprehensive income		**22,417**	**77**	**22,494**
Decrease in equity		-502	-	-502
Balance at December 31, 2010		**11,420,119**	**1,192**	**11,421,311**

INTERIM COMBINED STATEMENT OF CASH FLOWS
(THOUSANDS OF EUROS)

		for the half-year ended June 30,	
	Note	2012	2011
Result for the half-year		**55,142**	**22,588**
Adjustments to Result			
Net finance result		-5,224	-1,831
Losses on disposal of assets		-4	-258
Net income tax result		-1,283	1,577
Depreciation and amortization		547,748	509,675
Change in Working Capital			
Trade and other receivables		-349,598	15,550
Inventories		-13,650	4,319
Other current assets		2,432	-2,576
Trade and other payables		163,922	-135,060
Other current liabilities and provisions		-36,104	-89,339
Other non current assets and liabilities		9,331	-27,320
Interest received		7,430	4,671
Interest paid		-4,639	-264
Cash Flow from Operating Activities		**375,503**	**301,732**
Proceeds on disposals of property, plant and equipment and intangible assets		4	2,959
Payments on investments in property, plant and equipment and intangible assets		-223,343	-325,041
Cash Flow from Investing Activities		**-223,339**	**-322,082**
Proceeds from equity		363	-502
Repayment of borrowing/debt		-2,003	-1,854
Cash Flow from Financing Activities		**-1,640**	**-2,356**
Net increase/decrease in cash and cash equivalents		**150,523**	**-22,706**
Cash and cash equivalents at beginning of period		**1,148,568**	**188,965**
Cash and cash equivalents at end of period		**1,299,091**	**166,259**

TELEFÓNICA GERMANY GROUP

SELECTED EXPLANATORY NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2012

Note 1. Basis of Preparation

Background and purpose of the Interim Condensed Combined Financial Statements

As at end of May, 2012 Telefónica, S.A., Madrid, Spain ("Telefónica") announced its plans to publicly list the Telefónica Germany Business ("Telefónica Germany Group" or "TGG"). According to the European Prospectus Regulation No. 809/2004, the prospectus issued by Telefónica Germany Group shall include historical financial information covering the latest three financial years, i.e. the year ended December 31, 2011 and the two prior years ended December 31, 2010 and 2009. Also, according to the European Prospectus Regulation, Telefónica Germany Group has a "Complex Financial History". Therefore, the Combined Financial Statements consisting of the Combined Statements of Financial Position, Combined Income Statements, Combined Statements of Comprehensive Income, Combined Statements of Changes in Equity, Combined Statements of Cash Flow and Notes to the Combined Financial Statements as of and for years ended December 31, 2011, 2010 and 2009 (the "Combined Financial Statements") were prepared.

Due to the intended floating date in connection with the European Prospectus Regulation No. 809/2004 Annex I 20.6.2, additional Interim Condensed Combined Financial Statements consisting of the Interim Combined Statement of Financial Position, Interim Combined Income Statement, Interim Combined Statement of Comprehensive Income, Interim Combined Statement of Changes in Equity, Interim Combined Statement of Cash Flows and Selected Explanatory Notes to the Interim Combined Financial Statements as of and for the six-month period ended June 30, 2012 (hereinafter the "Interim Combined Financial Statements") are necessary including the corresponding comparative six-month period ended June 30, 2011.

Telefónica Germany Group is managed centrally by the Management Board of the Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") located at Georg-Brauchle-Ring 23-25, 80992 München. The Company's change in legal form from a German limited liability company (*Gesellschaft mit beschränkter Haftung*) into a German stock corporation (*Aktiengesellschaft*) was resolved by the General Shareholders' Meeting on September 18, 2012 and was registered in the commercial register with the number 201055 at September 26, 2012.

Telefónica Germany Group comprises Telefónica`s operations in Germany. For further detailed information see also the Combined Financial Statements for the years ended December 31, 2011, December 31, 2010 and December 31, 2009.

Note 2. Presentation of the Interim Condensed Combined Financial Statements

Taking into account the specifics to be considered in preparing Interim Condensed Combined Financial Statements as of and for the six-month period ended June 30, 2012, which are explained in the Combined Financial Statements for the years ended December 31, 2011, December 31, 2010 and December 31, 2009, the Interim Condensed Combined Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. Therefore, they do not contain all the information and disclosures required in complete annual Combined Financial Statements and for adequate interpretation, should be read in conjunction with the Combined Financial Statements for the years ended December 31, 2011, December 31, 2010 and December 31, 2009.

The accompanying Interim Combined Financial Statements were approved by the management board of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") on October 2, 2012.

Unless indicated otherwise, the figures in these Interim Condensed Combined Financial Statements are expressed in thousands of euros and rounded. For further information concerning the basis of preparation see also the Combined Financial Statements for the years ended December 31, 2011, December 31, 2010 and December 31, 2009.

Preparing the Interim Combined Financial Statements requires Management to make judgment, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results might differ from these estimates.

In preparing these Interim Condensed Combined Financial Statements, significant judgments made by the Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Combined Financial Statements for the years ended December 31, 2011, December 31, 2010 and December 31, 2009.

Note 3. Comparison of information

Comparisons in the accompanying Interim Condensed Combined Financial Statements refer to the six-month periods ended June 30, 2012 and 2011, except in the Interim Combined Statement of Financial Position, which compares information at June 30, 2012 and at December 31, 2011.

There has been no change concerning the combined entities and the combination methods.

With respect to seasonality, the historical performance of combined results does not indicate that the operations, taken as a whole, are subject to significant variations between the first and second halves of the year.

The main events affecting comparability of the combined information for the six months ended June 30, 2012 are described below.

Note 4. Accounting policies

The accounting policies applied in the preparation of the Interim Condensed Combined Financial Statements as of and for the six month period ended June 30, 2012 are consistent with those used in the preparation of the Combined Financial Statements for the years ended December 31, 2011, December 31, 2010 and December 31, 2009, except for the adoption, on January 1, 2012, of the amendments to standards published by the International Accounting Standards Board (IASB) noted below:

- Amendments to IFRS 7, Financial Instruments: Disclosures - Transfers of financial assets

  This amendment enhances the disclosure required on the assignment and or transfer of financial assets to enable the Group's exposure to risk in this type of operations to be assessed together with the effects of such risks on its financial position. The adoption of this amendment has had no impact on the disclosures included in the Telefónica Germany Group's Interim Condensed Combined Financial Statements.

New standards and IFRIC interpretations issued but not effected as of June 30, 2012

At the date of preparation of the Interim Combined Financial Statements, the following IFRS and IFRIC interpretations had been published, but their application was not mandatory:

Standards, amendments and interpretations		**Mandatory application: annual periods beginning on or after**
IFRS 9	*Financial instruments*	January 1, 2015
IFRS 10	*Consolidated financial statements*	January 1, 2013
IFRS 11	*Joint arrangements*	January 1, 2013
IFRS 12	*Disclosures of interests in other entities*	January 1, 2013
IFRS 13	*Fair value measurement*	January 1, 2013
Revised IAS 19	*Employee benefits*	January 1, 2013
Revised IAS 27	*Separate financial statements*	January 1, 2013
Revised IAS 28	*Investments in associates and joint ventures*	January 1, 2013
Amendments to IAS 1	*Presentation of items of other comprehensive income*	July 1, 2012
Amendments to IAS 32	*Offsetting of financial assets and liabilities*	January 1, 2014
Amendments to IFRS 7	*Disclosures - Offsetting of financial assets and liabilities*	January 1, 2013
Amendments to IFRS 7	*Disclosures - Transition to IFRS 9*	January 1, 2015
Improvements to IFRSs 2009-2011		January 1, 2013
IFRIC 20	*Stripping costs in the production phase of a surface mine*	January 1, 2013

The Telefónica Germany Group is currently assessing the impact of the application of these standards, amendments and interpretations. Based on the analyses made to date, the Telefónica Germany Group estimates that their adoption will not have a significant impact on the combined financial statements in the initial period of application. However, the changes introduced by IFRS 9 will affect financial assets and transactions with financial assets carried out on or after January 1, 2015.

Note 5. Segment information

Telefónica Germany Group provides a combination of wireless and wireline internet and telephony services to residential and business customers.

Telefónica Germany Group operates only in one geographical area, the country of Germany.

Consistent with how the Key Management reviews the operating result, Telefónica Germany Group has only one operating segment. The Key Management as the chief operating decision maker as defined in IFRS 8 assesses the performance and allocates resources on a group-wide basis and not for the individual products or customer groups. The following indicators, different from accounting measures, are used by the Key Management in its decision making as they provide a better indication of its performance:

Operating income before depreciation and amortization ("OIBDA")

Operating income before depreciation and amortization ("OIBDA") is calculated by excluding depreciation and amortization from operating income to eliminate the impact of investments in fixed assets that cannot be directly controlled by management in the short term. OIBDA is considered to be more important for investors as it provides a gauge of operating performance and profitability using the same measures utilized by management. This metric also allows for comparisons with other companies in the telecommunications sector without consideration of their asset structure.

OIBDA is used to track the performance of the business and to establish operating and strategic targets. OIBDA is a commonly reported measure and is widely used among analysts, investors and other interested parties in the telecommunications industry, although not a measure explicitly defined in IFRS, and therefore, may not be comparable to similar indicators used by other companies. OIBDA should not be considered as an alternative to operating income as a measurement of our operating results or as an alternative to cash flows from operating activities as a measurement of our liquidity.

The following table presents the reconciliation of OIBDA to operating result for Telefónica Germany Group for the six months ended June 30, 2012 and 2011, respectively:

Thousands of euros	**for the half-year ended June 30,**	
	2012	**2011**
OIBDA	**597,149**	**531,746**
Depreciation and amortization	-547,748	-509,675
OPERATING RESULT	**49,401**	**22,071**

There is no customer of Telefónica Germany Group providing more than 10 percent of the Revenue. The increase in OIBDA results from improved business activities and enhanced cost reductions.

Note 6. Related parties

Transactions with Telefónica Group

The Interim Condensed Combined Financial Statements include transactions between Telefónica Germany Group and Telefónica Group (Telefónica, S.A. and its direct and indirect subsidiaries excluding Telefónica Germany Group), Telefónica Group's associated companies and joint ventures as well as Telefónica Germany Group's joint ventures. Transactions of Telefónica Germany Group with "Other Telefónica entities in Germany" are classified as related party transactions. A list of companies which are to be considered as "Other Telefónica entities in Germany" is defined in the Combined Financial Statements for the years ended December 31, 2011, December 31, 2010 and December 31, 2009 for the Telefónica Germany Group. Material transactions regarding purchases and sales of goods in the periods ended June 30, 2012 and June 30, 2011 are as follows:

Thousands of euros	**Sales of goods and services and other income**		**Purchases of goods and services and other expenses**	
	for the half-year ended June 30,		**for the half-year ended June 30,**	
	2012	**2011**	**2012**	**2011**
Telefónica Group	29,354	25,848	-58,905	-50,525

As at the respective balance sheet dates, receivables and liabilities from related parties were recognized with the following amounts:

	As at June 30,	**As at December 31,**
Thousands of euros	**2012**	**2011**
Receivables from Telefónica Group	**4,176,457**	**4,031,433**
therein:		
from cash pooling	1,285,947	1,141,097
from financial assets	2,885,897	2,885,897
from other items	4,613	4,439
Liabilities to Telefónica Group	**179,368**	**143,460**
therein:		
from other items	179,368	143,460

The amounts from cash pooling are related to the cash pooling agreement with Telefónica Germany Group and the Telfisa Global, B.V. The rise in finance income results mainly from a higher yield on cash deposits due to an increased receivable from cash pooling.

The receivables from "Financial Assets" result from an agreement between the O2 (Europe) Limited and the Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") under which the O2 (Europe) Limited promises a capital contribution amounting to kEUR 2,885,897 at the balance sheet date June 30, in the year 2012 and 2011.

Transactions with related individuals

During the period to which these accompanying Interim Condensed Combined Financial Statements refer, the managing directors did not perform any transactions with Telefónica Germany Group other than those in Telefónica Germany Group's normal trading activity and business.

Compensation and other benefits paid to members of the managing directors are detailed as follows:

	for the half-year ended June 30,	
Thousands of euros	**2012**	**2011**
Compensation	**3,882**	**4,380**
thereof:		
Short-term Employee benefits	1,368	1,256
Termination benefits	-	399
Share-based payments	-	-
Defined Benefit Obligation	**18,153**	**16,145**

Note 7. Trade and other receivables

The breakdown of this item in the Interim Combined Statement of Financial Position is as follows:

	As at June 30,	As at December 31,
Thousands of euros	**2012**	**2011**
Receivables from sales and services	1,111,650	897,187
Receivables from related parties (Note 6)	4,613	4,439
Other Receivables	9,607	19,409
Prepayments	352,115	201,895
Provisions for bad debts	-118,108	-112,651
Total Trade and other Receivables	**1,359,877**	**1,010,279**

The increase of the "Receivables from sales and services" results from a reduced factoring volume in the respective period.

Note 8. Payables

The composition of "Trade and other payables" is as follows:

	As at June 30,		As at December 31,	
Thousands of euros	**2012**		**2011**	
	Non-current	**Current**	**Non-current**	**Current**
Trade payables	-	351,637	-	259,293
Accruals	-	461,601	-	382,827
Payables to related parties (Note 6)	-	179,368	-	143,460
Trade payables	**-**	**992,606**	**-**	**785,580**
Other payables	6,764	188,731	6,342	186,714
Deferred income	-	153,850	-	169,866
Total	**6,764**	**1,335,187**	**6,342**	**1,142,160**

The detail of current "Other payables" is as follows:

	As at June 30,	As at December 31,
Thousands of euros	**2012**	**2011**
Current Other Payables		
Other creditors non trade	4,495	59,644
Capital creditors	138,309	100,606
Other taxes and social security	40,342	21,020
Finance Leasing	5,585	5,444
Total Current	**188,731**	**186,714**
Non-Current Other Payables		
Finance Leasing	6,764	6,342
Total Non-Current	**6,764**	**6,342**
Total Other Payables	**195,495**	**193,056**

Note 9. Revenues

The breakdown of "Revenues" is as follows:

	for the half-year ended June 30,	
Thousands of euros	**2012**	**2011**
Rendering of Services	2,244,927	2,131,734
Net Sales	308,871	308,019
Total	**2,553,798**	**2,439,754**

Revenues breakdown by Wireless Business and Wireline Business is as follows:

	for the half-year ended June 30,	
Thousands of euros	**2012**	**2011**
Revenues		
Wireline Business	697,325	719,056
Wireless Business	1,854,450	1,718,789
Wireless Service Revenues	*1,547,602*	*1,412,678*
Handset Revenues	*306,848*	*306,111*
Other	2,023	1,908
Total Revenues	**2,553,798**	**2,439,754**

Revenues principally comprise Wireless Service Revenues, Handset Revenues, and Wireline Revenues. Service Revenues comprise Wireless Service Revenues as well as Wireline Revenues.

Wireless Service Revenues

The vast majority of Wireless Service Revenues is comprised of customer base and tariff fees charged for voice (including incoming and outgoing calls), text (including SMS and MMS) and wireless data services and revenue from service contracts. Access and interconnection fees paid by other operators for calls and SMS terminated on our network are also included in Wireless Service Revenues, as well as visitor roaming revenue.

Handset Revenues

Handset Revenues is comprised of the sale of wireless devices under the "O2 My Handy" model as well as cash sales. The revenue under the "O2 My Handy" model is discounted as Telefónica Germany Group receives payments from customers in monthly installments, which are paid out over a 12- or 24-month period. Furthermore, one-time revenue payments, such as activation fees for the wireless business (primarily for post-paid), hardware for bundled pre-paid SIM and handset packages or post-paid contracts as well as accessories are included.

Wireline Business

Wireline Revenues are primarily comprised of retail DSL service revenue, retail DSL activation fees, revenue for DSL-related hardware and non-recurring charges (e.g. charges for address change, number portation, etc.), service and hardware revenue from Pay TV service, wholesale ULL, also called wholesale DSL, revenue derived from the sale of our DSL network and services as well as hardware to other providers who then repackage and resell it to the end consumer, carrier traffic revenue related to the sale and trading of minutes between carriers to connect their customers calls through other operators networks, as well as revenue derived from hosting client content on our data center infrastructure and providing accompanying management services, such as the use of our data center infrastructure to host applications designed and operated by third parties. DSL revenue also comprises fixline telephony revenues.

Other

Other Revenues comprise revenue derived from the vertical business.

Note 10. Income tax

The increase in total income tax benefit was attributable to change in determination of recoverability of deferred tax assets.

Note 11. Financial Instruments and Risk Management

Telefónica Germany Group is exposed to various financial market risks as a result of its business. However, due to Telefónica Germany Group's regional focused operations as well as its financing structure, Telefónica Germany Group's interest rate risk as well as foreign exchange risk is not affecting Telefónica Germany Group materially. Telefónica Germany Group is subject to credit risk from the operating business (trade receivables) as well as from receivables towards Telefónica, S.A. Group.

Furthermore, Telefónica Germany Group is exposed to liquidity risks relating to its credit risks and market risks or a weakening of its operating business or financial market disturbances.

If these financial risks materialize, they could adversely affect Telefónica Germany Group's financial position, cash flows and profitability.

Telefónica Germany Group has guidelines in place for risk management procedures and for the use of financial instruments, including a clear segregation of duties with regard to financial activities, settlement, accounting and the related controlling. Derivative financial instruments are only contracted as an exception. However, these instruments are always contracted with Telefónica, S.A. Group treasury and Telefónica Germany Group has established guidelines derived from best practice standards for risk assessment procedures and supervision concerning the use of financial derivatives.

All aspects of Telefónica Germany Group's financial risk management objectives and policies are consistent with those disclosed in the Combined Financial Statements for the years ended December 31, 2011, December 31, 2010 and December 31, 2009.

Note 12. Other information

As part of its ordinary business Telefónica Germany Group is involved in various proceedings both in and out of court. These proceedings are in total not material to the results of operations and financial position.

Note 13. Events after the reporting period

Capital promise

On March 28, 2003 and April 30, 2004 O2 (Europe) Limited issued a declaration of obligation to Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH"; former "O2 Germany Verwaltungs GmbH") under which O2 (Europe) Limited obliged itself to provide Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") by way of voluntary shareholder's contribution with an amount of kEUR 4,650,000 and kEUR 500,000 respectively. These amounts were to be remitted on first demand of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") and obligations have been unlimited in time. As of December 31, 2011 O2 (Europe) Limited contributed kEUR 2,264,104 of cash under the declarations of obligation.

On September 13, 2012 O2 (Europe) Limited and Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") cancelled the declarations of obligation. The outstanding receivable of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") against O2 (Europe) Limited resulting from the declaration of obligation amounting to kEUR 2,885,897 was set off against equity and presented as a distribution to shareholders in the statement of changes in equity.

Capital increase resolution

On September 18, 2012 O2 (Europe) Limited has increased the share capital of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") from EUR 1,116,945,300 by EUR 100 to EUR 1,116,945,400 in return for a contribution in kind. The increase of the share capital was made through the issue of a new share with a nominal amount of EUR 100, which was subscribed by O2 (Europe) Limited. The capital increase in kind was made in full through the contribution of all shares of Telefónica Germany Management GmbH into Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH").

Pre IPO dividend

On September 14, 2012 the pre-IPO dividend accounts for anticipated EUR 7,186m, of which EUR 4,300m has been considered as cash payments and EUR 2,886m as cancellation of declarations of obligation (see above).

Capital contribution

On September 18, 2012 the shares of Telefónica Germany Management GmbH have been contributed to Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH").

Establishment of a new company

Telefónica Germany GmbH & Co. OHG founded Wayra Deutschland GmbH with the shareholder contract dated July 2012. The company was officially entered in the commercial register on July 24, 2012 with a share capital of kEUR 25.

Transfer of companies

Effective as of September 14, 2012 Telefónica Germany GmbH & CO. OHG contributed its shares in the Group3G UMTS Holding GmbH and its subsidiary to the Telefónica Chile Holding B.V.. On September 18, 2012 Telefónica Germany GmbH & Co. OHG contributed its shares in Telefónica Global Services GmbH and its subsidiaries to its subsidiary Telefónica Chile Holding B.V..

Effective as of October 1, 2012, Telefónica Germany GmbH & CO. OHG sold its shares in Telefónica Chile Holding B.V., to Telfisa Global B.V., a subsidiary of Telefónica S.A, at arm's length. The sales price of Telefónica Chile Holding B.V. and its subsidiaries was EUR 703m. The profit and loss pooling agreements between Telefónica Germany GmbH & Co. OHG and Telefónica Global Services GmbH, respectively Group3G UMTS Holding GmbH had been cancelled upon the sale of Telefónica Chile Holding B.V..

IC-Loan with Telefónica Germany GmbH & CO. OHG

As of September 10, 2012 Telefónica Germany GmbH & CO. OHG has entered in loan agreements with Telefónica Germany Customer Services GmbH and Fonic GmbH, receiving EUR 9m and EUR 75m (total credit line: EUR 94m), respectively. Further intercompany loans are entered into with Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") (EUR 4m), Telefónica Germany Management GmbH (EUR 1m), Telefónica Germany 1. Beteiligungsgesellschaft mbH (EUR 3m), Telefónica Germany Partner Services GmbH (EUR 1,5m) as of September 13, 2012.

Loan with Telfisa Global B.V.

Telefónica Germany GmbH & CO. OHG has entered into loan agreements dated as of September 12, 2012 with Telfisa Global B.V. as lender in the amount of EUR 703m and EUR 1,250m.

Payment and cancellation of profit and loss transfer agreements

As of September 30, 2012, all existing profit and loss transfer agreements between Telefónica Germany GmbH & Co. OHG and each of Group3G UMTS Holding GmbH, Quam GmbH, Telefónica Global Services GmbH and Telefónica Global Roaming GmbH were terminated. Prior to such termination, prepayments on expected profits were made to respectively by Telefónica Germany GmbH & Co. OHG under these agreements for the first 9 months ended September 30, 2012.

Telefónica Global Services GmbH paid on September 12, 2012 EUR 317,098,145 as profit transfer for the year ended December 31, 2011 to Telefónica Germany GmbH & CO. OHG. For the year 2012 prepayments in the amount of EUR 233,746,354 on expected profits were made to Telefónica Germany GmbH & CO. OHG.

Telefónica Global Roaming GmbH transferred profit in the amount of EUR 146,372,899 to Telefónica Germany GmbH & CO. OHG for the year 2012 on September 12, 2012.

On August 23, 2012 Telefónica Germany GmbH & CO. OHG set off loss amounting to EUR 67,529,724 to Group3G UMTS Holding GmbH.

On August 23, 2012 Quam GmbH transferred EUR 20,928,712 of profit to Telefónica Germany GmbH & CO. OHG.

On August 9, 2012 Telefónica Global Services GmbH transferred EUR 40,000,000 of profit to Telefónica Germany GmbH & Co. OHG for the year ended December 31, 2010.

On August 9, 2012 Telefónica Global Roaming GmbH transferred EUR 163,836,038 of profit to Telefónica Germany GmbH & Co. OHG for the year ended December 31, 2011.

Change of legal form

As of September 26, 2012 Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") located in Georg-Brauchle-Ring 23-25, 80992 München has changed its name and legal form before the IPO into Telefónica Deutschland Holding AG. With the change in legal form, a Supervisory Board was established, which qualifies as Related Party. No related party transaction has been conducted with any member of this board in the respective period.

Equity

Telefónica Deutschland Holding AG has authorized capital allowing the company to increase the registered share capital until September 2017 by a total amount of up to EUR 558,472,700 by issuing new non-par value registered shares.

Financing Agreements

Telefónica Germany GmbH & Co. OHG has undrawn committed credit lines with maturity beyond one year in a total amount of EUR 710,000,000. In August and September 2012, Telefónica Germany GmbH & Co. OHG, as borrower, entered into revolving credit facility agreements with several banks.

AUDITED COMBINED FINANCIAL STATEMENTS OF TELEFÓNICA GERMANY GROUP IN ACCORDANCE WITH IFRS TAKING INTO ACCOUNT THE BASIS OF PREPARATION AS SET OUT IN NOTE 1 OF THE COMBINED FINANCIAL STATEMENTS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010 AND DECEMBER 31, 2009

TELEFÓNICA GERMANY GROUP
COMBINED STATEMENTS OF FINANCIAL POSITION AS AT
DECEMBER 31, 2011, DECEMBER 31, 2010, DECEMBER 31, 2009 AND JANUARY 1, 2009
(THOUSANDS OF EUROS)

		At December 31			At January 1
		2011	**2010**	**2009**	**2009**
ASSETS					
A) NON-CURRENT ASSETS	**Note**	**7,900,175**	**8,427,878**	**6,248,527**	**6,373,931**
Goodwill	Note 6	705,576	705,576	423,081	423,081
Intangible assets	Note 5	3,658,137	3,956,504	2,510,684	2,732,154
Property, plant and equipment	Note 7	3,118,869	3,347,953	2,895,662	2,801,228
Other non-current financial assets	Note 13	5,560	5,335	6,412	6,271
Deferred tax assets	Note 17	412,033	412,510	412,688	411,197
B) CURRENT ASSETS		**5,115,173**	**4,443,290**	**3,911,730**	**3,793,031**
Inventories		70,429	84,318	72,909	80,417
Trade and other receivables	Note 10	1,010,279	1,284,110	914,967	699,471
Other current financial assets	Note 13	2,885,897	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	Note 11	1,148,568	188,965	37,957	127,246
TOTAL ASSETS (A+B)		**13,015,348**	**12,871,168**	**10,160,257**	**10,166,962**

		At December 31			At January 01
		2011	**2010**	**2009**	**2009**
EQUITY AND LIABILITIES					
A) EQUITY	Note 12	**11,756,290**	**11,421,311**	**9,221,577**	**9,258,975**
Net assets attributable to Telefónica Germany Group		11,754,945	11,420,119	9,219,652	9,257,146
Other components of equity		1,345	1,192	1,925	1,829
Total equity attributable to Telefónica Germany Group		11,756,290	11,421,311	9,221,577	9,258,975
B) NON-CURRENT LIABILITIES		**75,289**	**122,621**	**49,618**	**42,444**
Other payables	Note 14	6,342	5,846	6,301	3,043
Non-current provisions	Note 15	68,947	116,775	43,317	39,401
C) CURRENT LIABILITIES		**1,183,769**	**1,327,236**	**889,062**	**865,543**
Trade payables	Note 14	785,580	811,936	599,309	557,722
Other payables	Note 14	186,714	195,951	192,846	218,132
Current provisions	Note 15	41,609	182,429	-	-
Deferred income	Note 14	169,866	136,920	96,907	89,689
TOTAL EQUITY AND LIABILITIES (A+B+C)		**13,015,348**	**12,871,168**	**10,160,257**	**10,166,962**

The accompanying Notes 1 to 22 and Appendix I and II are an integral part of these Combined Financial Statements.

TELEFÓNICA GERMANY GROUP
COMBINED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010, AND DECEMBER 31, 2009 (THOUSANDS OF EUROS)

		for the year ended December 31		
	Note	**2011**	**2010**	**2009**
Revenues	Note 18	5,035,552	4,826,278	3,745,540
Other income	Note 18	60,991	88,859	92,102
Supplies		-2,047,139	-1,906,492	-1,360,254
Personnel expenses		-437,756	-611,353	-395,831
Other expenses	Note 18	-1,462,411	-1,504,615	-1,190,075
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)		**1,149,237**	**892,677**	**891,482**
Depreciation and amortization	Note 18	-1,082,189	-988,165	-922,872
OPERATING RESULT		**67,048**	**-95,488**	**-31,390**
Finance income		14,271	8,686	4,152
Exchange gains		707	348	212
Finance expenses		-8,389	-9,931	-5,424
Exchange losses		-559	-870	-1,286
Net financial result		**6,030**	**-1,767**	**-2,346**
RESULT BEFORE TAX		**73,078**	**-97,255**	**-33,736**
Income tax	Note 17	-1,732	-5,277	152
RESULT FOR THE YEAR		**71,346**	**-102,532**	**-33,584**

The accompanying Notes 1 to 22 and Appendix I and II are an integral part of these Combined Financial Statements.

TELEFÓNICA GERMANY GROUP
COMBINED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010, AND DECEMBER 31, 2009
(THOUSANDS OF EUROS)

		for the year ended December 31		
THOUSANDS OF EUROS	**Note**	**2011**	**2010**	**2009**
Result for the year		**71,346**	**-102,532**	**-33,584**
Other comprehensive income/expense				
Gains / losses on measurement of available-for-sale investments	Note 13	225	-1,078	141
Income tax impact		-72	345	-45
		153	**-733**	**96**
Actuarial losses and impact of limit on assets for defined benefit pension plans	Note 15	-4,154	-14,784	-4,332
Income tax impact		1,327	4,721	1,384
		-2,827	**-10,063**	**-2,948**
Total other comprehensive expense		**-2,674**	**-10,796**	**-2,852**
Total comprehensive income/expense recognized in the year		**68,672**	**-113,328**	**-36,436**

The accompanying Notes 1 to 22 and Appendix I and II are an integral part of these Combined Financial Statements.

TELEFÓNICA GERMANY GROUP
COMBINED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010, AND DECEMBER 31, 2009
(THOUSANDS OF EUROS)

	Note	Net assets attributable to Telefónica Germany Group	Other components of equity	Total equity
			Available-for-sale investments	
Balance at December 31, 2011		**11,754,945**	**1,345**	**11,756,290**
Result for the year		71,346	-	71,346
Other comprehensive income/expense		-2,827	153	-2,674
Total comprehensive income		**68,519**	**153**	**68,672**
Increase in equity		266,307	-	266,307
Balance at December 31, 2010		**11,420,119**	**1,192**	**11,421,311**
Balance at December 31, 2010		**11,420,119**	**1,192**	**11,421,311**
Result for the year		-102,532	-	-102,532
Other comprehensive expense		-10,063	-733	-10,796
Total comprehensive expense		**-112,595**	**-733**	**-113,328**
Increase in equity		2,313,062	-	2,313,062
Balance at December 31, 2009		**9,219,652**	**1,925**	**9,221,577**
Balance at December 31, 2009		**9,219,652**	**1,925**	**9,221,577**
Result for the year		-33,584	-	-33,584
Other comprehensive income/expense		-2,948	96	-2,852
Total comprehensive income/expense		**-36,532**	**96**	**-36,436**
Decrease in equity		-962	-	-962
Balance at January 1, 2009		**9,257,146**	**1,829**	**9,258,975**

The accompanying Notes 1 to 22 and Appendix I and II are an integral part of these Combined Financial Statements.

TELEFÓNICA GERMANY GROUP
COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010 AND DECEMBER 31, 2009 (THOUSANDS OF EUROS)

		for the year ended December 31		
	Note	**2011**	**2010**	**2009**
Result for the Year		**71,346**	**-102,532**	**-33,584**
Adjustments to Result				
Net finance result		-5,882	1,245	1,272
Losses on disposal of assets	Note 18	-272	-1,385	-537
Net income tax result	Note 17	1,732	5,277	-152
Depreciation and amortization	Note 18	1,082,189	988,165	922,872
Change in Working Capital				
Trade and other receivables		273,831	-253,630	-215,496
Inventories		13,889	-752	7,508
Other current assets		-3,831	-4,965	-807
Trade and other payables		-41,707	-1,746	44,051
Other current liabilities and provisions		-107,874	105,660	7,218
Other non current assets and liabilities		-51,983	30,858	-417
Interest received		11,065	5,522	1,751
Interest paid		-1,351	-1,802	-2,217
Cash Flow from Operating Activities		**1,241,152**	**769,915**	**731,462**
Proceeds on disposals of property, plant and equipment and intangible assets		3,185	2,960	1,845
Payments on investments in property, plant and equipment and intangible assets		-547,289	-2,088,798	-819,114
Payments on investments in companies, net of cash and cash equivalents acquired	Note 4	-	-844,060	-
Cash Flow from Investing Activities		**-544,104**	**-2,929,898**	**-817,269**
Proceeds from equity		289,207	2,590,695	-
Repayment of equity		-22,900	-277,633	-962
Repayment of borrowing/debt		-3,752	-2,071	-2,520
Cash Flow from Financing Activities		**262,555**	**2,310,991**	**-3,482**
Net increase/decrease in cash and cash equivalents		**959,603**	**151,008**	**-89,289**
Cash and cash equivalents at beginning of period		**188,965**	**37,957**	**127,246**
Cash and cash equivalents at end of period		**1,148,568**	**188,965**	**37,957**

The accompanying Notes 1 to 22 and Appendix I and II are an integral part of these Combined Financial Statements.

(1) BASIS OF PREPARATION

Background and purpose of the combined financial statements

At the end of May, 2012 Telefónica, S.A., Madrid, Spain ("Telefónica") announced its plans to publicly list the Telefónica Germany Business ("Telefónica Germany Group" or "TGG"). According to the European Prospectus Regulation No. 809/2004 (the "European Prospectus Regulation"), the prospectus issued by the Telefónica Germany Group shall include historical financial information covering the latest three financial years, i.e. the year ended December 31, 2011 and the two prior years ended December 31, 2010 and 2009. Also, according to the European Prospectus Regulation, Telefónica Germany Group has a "Complex Financial History". Therefore, the Combined Financial Statements consisting of the Combined Statements of Financial Position, Combined Income Statements, Combined Statements of Comprehensive Income, Combined Statements of Cash Flow, Combined Statements of Changes in Equity and Notes to the Combined Financial Statements as of and for financial years ended December 31, 2011, 2010 and 2009 (the "Combined Financial Statements") were prepared.

Telefónica Germany Group comprises Telefónica's operations in Germany. Telefónica Germany Group is one of only three integrated network operators in Germany having both a wireline and wireless network. It offers its consumer retail and business customers post-paid and prepaid wireless communications products, along with wireless data services using Global Packet Radio Service ("GPRS"), Universal Mobile Telecommunications System ("UMTS") and Long Term Evolution ("LTE") technology, as well as, DSL wireline telephony and high-speed internet services.

Telefónica Germany Group follows a multi-branding strategy, which enables TGG to target a broad range of consumers and maximize its sales reach. The positioning and marketing of each brand is tailored to the target consumer group and follows TGG's international branding guidelines. O2 is TGG's premium brand through which TGG markets the full scope of TGG's pre-paid and post-paid wireless and wireline products and services. TGG's secondary brands include FONIC for cost-conscious customers who use basic wireless services only and do not require extensive customer service; the TCHIBO mobil brand is aimed at visitors of points of sales operated by TCHIBO; Türk Telekom for the large Turkish community in Germany; and the netzclub brand is targeted to users of social media.

Telefónica Germany Group primarily distributes its O2 branded services offering through a network of own operated and franchised shops, its wholesale and other distribution partners and via its O2 internet portal.

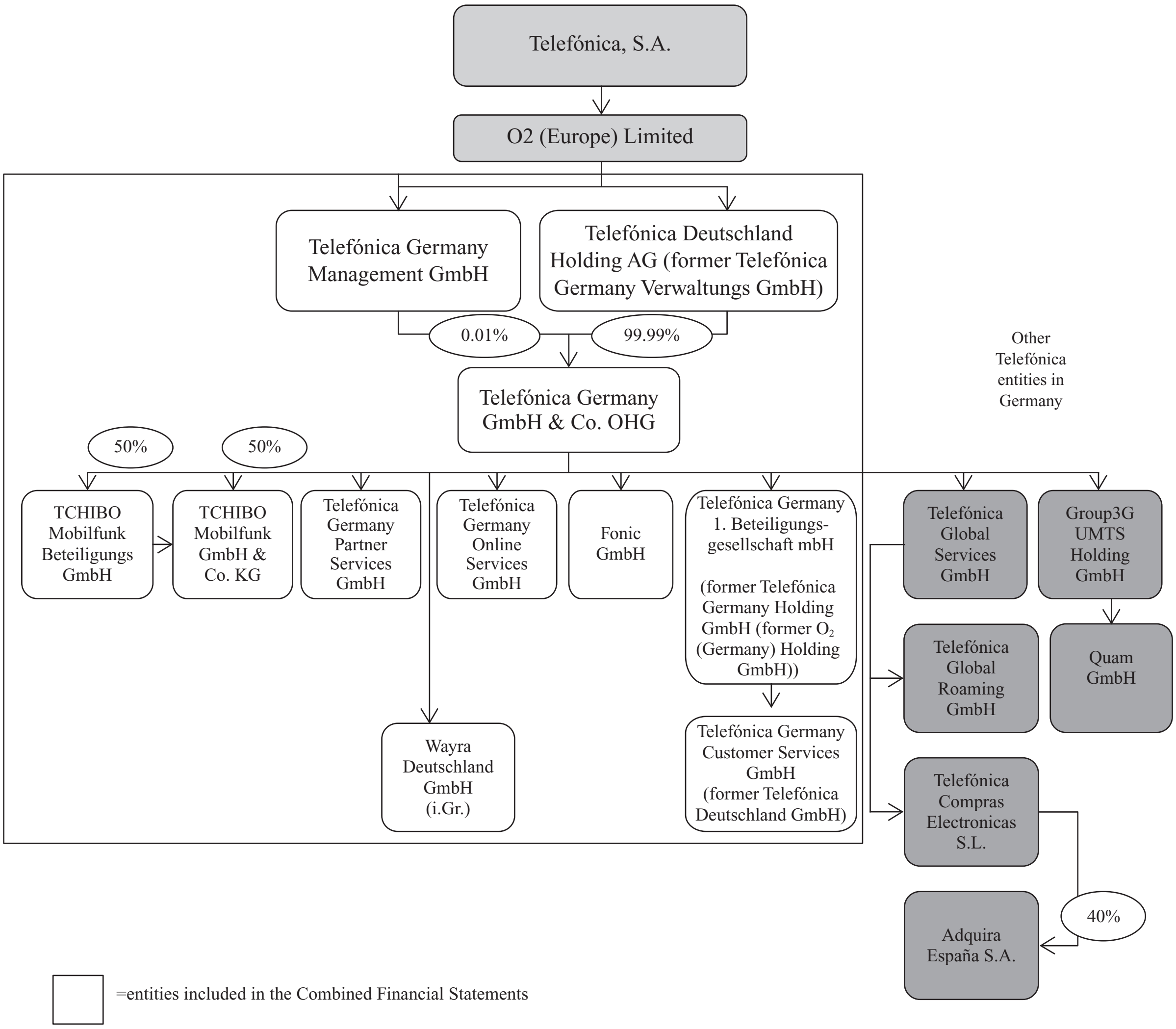
Telefónica Germany Group is managed centrally by the Management Board of the Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") located in Georg-Brauchle-Ring 23-25, 80992 München.

The Company's change in legal form from a German limited liability company (*Gesellschaft mit beschränkter Haftung*) into a German stock corporation (*Aktiengesellschaft*) was resolved by the Shareholders' Meeting on September 18, 2012 and was registered in the commercial register with the number 201055 on September 26, 2012.

The purpose of these Combined Financial Statements is to provide general purpose historical financial information of Telefónica Germany Group for the inclusion in the prospectus for the initial public offering and for the admission to the regulated market. Therefore, the Combined Financial Statements present only the historical financial information of those entities that will be part of Telefónica Germany Group at the time of the intended initial public offering.

Scope of the entities included in the combined financial statements

As of December 31, 2011, the legal entities of Telefónica in Germany are organized as illustrated in the following organizational chart (for historical development see Appendix II):



Only the entities described in the "Telefónica Germany Group" box as shown in the chart will be included in the intended public listing. Hence, Telefónica Germany Group consists of

- Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH")
- Telefónica Germany GmbH & Co. OHG
- Telefónica Germany Partner Services GmbH
- Wayra Deutschland GmbH (registered with commercial register after June 30, 2012)
- Telefónica Germany Online Services GmbH
- Fonic GmbH
- Telefónica Germany 1. Beteiligungsgesellschaft mbH
- Telefónica Germany Customer Services GmbH
- Telefónica Germany Management GmbH
- TCHIBO Mobilfunk Beteiligungs GmbH
- TCHIBO Mobilfunk GmbH & Co. KG

For the years ended December 31, 2011, 2010 and 2009, all of the entities of Telefónica Germany Group were under common control of Telefónica, except for TCHIBO Mobilfunk Beteiligungs GmbH and TCHIBO Mobilfunk GmbH & Co. KG which are under joint control.

The following legal reorganization took place before the intended initial public offering:

- The contribution of shares of Telefónica Germany Management GmbH to Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") was resolved upon on September 18, 2012 and registered with the commercial register on September 25, 2012.
- Transfer of a loan to one of the other Telefónica entities in Germany to another subsidiary of Telefónica, S.A.
- The sale by Telefónica Germany Group of Telefónica Global Services GmbH and Group3G UMTS Holding GmbH ("Group3G") as well as their subsidiaries as shown in the "Other Telefónica entities in Germany" chart above, that are legally held by Telefónica Germany Group in an arms-length transaction to a subsidiary of Telefónica, S.A.

The impact of legal reorganization on the preparation of the combined financial statements is described in the basis of preparation below.

Presentation of the Combined Financial statements

Taking into account the specifics to be considered in preparing combined financial statements which are explained below, the Combined Financial Statements of Telefónica Germany Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

These Combined Financial Statements will constitute Telefónica Germany Group's first financial statements in accordance with IFRS. Telefónica Germany Group has applied IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1") in its adoption of IFRS. In particular, the Group has applied IFRS 1.D16 (b), as the Group was acquired after Telefónica's date of transition to IFRSs. However, the accounting principles used by Telefónica Germany Group for the preparation of its Combined Financial Statements do not differ from those used in the preparation of the financial information for the Telefónica, S.A. Consolidated Financial Statements in accordance with IFRS as adopted by the EU with the exception of certain provisions under IFRS 1 with respect to the transition date of January 1, 2009.

The Combined Financial Statements have been prepared by measuring assets and liabilities at the carrying amounts, based on the Telefónica Germany Groups date of transition to IFRSs.

All intra-group balances within the combined group, income and expenses, unrealized gains and losses resulting from transactions between the Telefónica Germany Group entities are eliminated in the Combined Financial Statements. Due to the preparation of combined financial statements the presentation of equity for Telefónica Germany Group differs from the presentation of equity as prescribed by IAS 1. The presentation of "Net assets attributable to Telefónica Germany Group" and "Other components of equity" corresponds with the classical presentation of equity in combined financial statements. Net assets attributable to Telefónica Germany Group contain share capital, capital reserves and retained earnings of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") and Telefónica Germany Management GmbH. For the other companies within the Telefónica Germany Group the carrying amount of the investment in each subsidiary held by Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") and Telefónica Germany Management GmbH and their portion of net equity of each subsidiary are consolidated. The net assets attributable to Telefónica Germany Group also include undistributed profits of companies comprising the combined group – less interim dividends paid against profit for the year – actuarial gains and losses, and the impact of the asset ceiling on defined-benefit plans.

Material transactions with the other German entities of Telefónica, S.A. and its subsidiaries, which are directly or indirectly controlled by Telefónica, S.A., are disclosed as transactions with related parties. For the purpose of the Combined Financial Statements the other German entities (see organizational chart on the preceding page) are treated as subsidiaries of Telefónica. Accordingly, all transactions with "Other Telefónica entities in Germany" are presented as transactions with related parties.

The carrying amounts of the investments in Group3G UMTS Holding GmbH and Telefónica Global Services GmbH held directly by Telefónica Germany GmbH & Co. OHG have been eliminated against the equity of Telefónica Germany Group.

On March 31, 2010 Telefónica, S.A. and Telefónica Germany GmbH & Co. OHG entered into a loan assignment agreement under which Telefónica, S.A. transferred a receivable against Group3G UMTS Holding GmbH with a nominal value at the time of transfer of EUR 923 million to Telefónica Germany GmbH & Co. OHG. The consideration paid by Telefónica Germany GmbH & Co. OHG to Telefónica amounted to EUR 243 million. As explained above this loan will not be part of TGG in the initial public offering. Therefore, the consideration paid is accounted for as a distribution to shareholders in 2010.

Entities of TGG entered into Profit and Loss Transfer Agreements with Telefónica Global Services GmbH, Telefónica Global Roaming GmbH, Group3G UMTS Holding GmbH, and Quam GmbH. Cash received from these entities under the respective Profit and Loss Transfer Agreements were included as a contribution in equity in the respective fiscal year. Amounts paid are reflected as capital contributions.

All German subsidiaries below Telefónica Germany GmbH & Co. OHG including entities outside of Telefónica Germany Group were part of the German tax group with the exception of TCHIBO Mobilfunk Beteiligungs GmbH and TCHIBO Mobilfunk GmbH & Co. KG. In 2010, HanseNet Telekommunikation GmbH also was not part of the German tax group. Current and deferred income taxes of Telefónica Germany Group entities are measured under the assumption that the German tax group covered only those entities included in the combined financial statements. The current and deferred tax effects of all other entities were treated as contributions to or distributions within equity.

Any taxable losses were assessed to determine whether it is probable that taxable profits will be available against which the unused tax losses can be utilized. The assessment did not take into account any results from entities or activities that are not part of Telefónica Germany Group.

Estimates

The Combined Financial Statements present assets and liabilities as presented in the authorized Consolidated Financial Statements of Telefónica for the years ended December 31, 2011, 2010 and 2009 prepared under IFRS as adopted by the EU. Estimates in accordance with IFRS used in preparation of Telefónica`s Consolidated Financial Statements, remain unchanged for purposes of preparation of the Combined Financial Statements. Circumstances which provide new information to past events but have arisen subsequent to the respective reporting dates are not adjusted for. If estimates contain an error, the error is corrected to appropriately reflect the situation at the respective date.

Other

The Combined Financial Statements were authorized for issue by the Management Board of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") on October 2, 2012.

The Combined Statement of Financial Position is structured in current and non-current in accordance with IAS 1. The Combined income statement is presented in accordance with the nature of expense method. The Euro ("EUR" or "€") is the functional currency of all Telefónica Germany Group companies. The figures in these combined financial statements are expressed in thousands of Euros, unless otherwise indicated, and therefore rounded to three decimal places. Due to rounding differences figures might deviate by one thousand Euros.

The following exchange rates have been used at the respective year ends:

EURO/Foreign Currency	As at December 31, 2011	As at December 31, 2010	As at December 31, 2009	As at January 1, 2009
USD	1.294	1.336	1.441	1.392
GBP	0.835	0.861	0.888	0.953
CHF	1.216	1.250	1.484	1.484

(2) ACCOUNTING POLICIES

The principal accounting policies used in preparing the accompanying Combined Financial Statements are as follows:

a) Foreign currency transactions

Monetary transactions denominated in foreign currencies are translated to Euros at the exchange rates prevailing on the transaction date.

Monetary assets and liabilities in foreign currency are translated at the closing rate at the date of the Statement of Financial Position.

All realized and unrealized exchange gains or losses are recognized in the Combined Income Statement.

b) Goodwill

- For acquisitions occurring after January 1, 2010, the effective date of Revised IFRS 3, *Business combinations*, goodwill represents the excess of acquisition cost over the fair values of identifiable assets acquired and liabilities assumed at the acquisition date. Acquisition date is the date on which control is transferred to Telefónica Germany Group. Cost of acquisition is the sum of the fair value of consideration delivered and the value attributed to existing non-controlling interests. For each business combination, Telefónica Germany Group determines the value of non-controlling interests at either their fair value or their proportional part of the net identifiable assets acquired. After initial measurement, goodwill is carried at cost, less any accumulated impairment losses. Whenever an equity interest is held in the acquiree prior to the business combination (business combinations achieved in stages), the carrying value of such previously held equity interest is remeasured at its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss.
- For acquisitions after January 1, 2004, the IFRS transition date, and prior to January 1, 2010, the effective date of Revised IFRS 3, *Business combinations*, goodwill represents the excess of the acquisition cost over the acquirer's interest, at acquisition date, in the fair values of identifiable assets, liabilities and contingent liabilities acquired from a subsidiary or joint venture. After initial measurement, goodwill is carried at cost, less any accumulated impairment losses.

In all cases, goodwill is recognized as an asset denominated in the currency of the company acquired.

Goodwill is not amortized but tested for impairment annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable (see Note 2 e).

The impairment test is constituted at the lowest level, at which goodwill is monitored. This is the segment level for the respective cash generating unit (see Note 3). Telefónica Germany Group has only one segment.

c) Intangible assets

Intangible assets are stated at acquisition or production cost, less any accumulated amortization or any accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefit embodied in the asset to which it relates. All other expenditure on internally generated goodwill and brands is recognized in profit or loss as incurred.

The useful lives of intangible assets are assessed individually to be either finite or indefinite. Intangible assets with finite lives are amortized systematically over the useful economic life and assessed for impairment whenever events or changes indicate that their carrying amount may not be recoverable. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, or more frequently in the event of indications that their carrying amount may not be recoverable (see Note 2 e). Intangible assets that have not been completed yet are subject to an annual impairment test or more frequently in the event of indications that their carrying amount may not be recoverable.

Useful lives, amortization methods and residual values are revised annually at year end and, where appropriate, adjusted prospectively.

Service concession arrangements and licenses

These arrangements relate to the acquisition cost of the licenses granted to Telefónica Germany Group by the public authorities to provide telecommunications services and to the value assigned to licenses held by certain companies at the time they were included in Telefónica Germany Group.

These concessions are amortized on a straight-line basis over the duration of related licenses from the moment commercial exploitation commences.

Other Intangibles (Customer base)

The other Intangible primarily represents the allocation of acquisition costs attributable to customers acquired in business combinations, as well as the acquisition value of this type of assets in a third-party acquisition entailing consideration. Amortization is on a straight-line basis over the estimated period of the customer relationship.

Software

Software, including self-generated software, is stated at cost and amortized on a straight-line basis over its useful life, generally estimated to be between two and five years.

d) Property, plant and equipment

Property, plant and equipment is stated at cost less any accumulated depreciation and any accumulated impairment in value. Land is not depreciated.

Cost includes external and internal costs comprising warehouse materials used, direct labor used in installation work and the allocable portion of the indirect costs required for the related investment. The latter two items are recorded as income under "Other income - Own work capitalized". Cost includes, where appropriate, the initial estimate of decommissioning, retirement and site reconditioning costs when Telefónica Germany Group is under obligation to incur such costs due to the use of the asset.

Interest and other financial expenses (borrowing cost) incurred and directly attributable to the acquisition or construction of qualifying assets are capitalized. Qualifying assets at Telefónica Germany Group are those assets that require at least 18 month of time to bring the assets to their intended use or sale. In the past Telefónica Germany Group had no qualifying assets.

The costs of expansion, modernization or improvement leading to increased productivity, capacity, efficiency or to a lengthening of the useful lives of assets are capitalized when recognition requirements are met.

Upkeep and maintenance costs are expensed as incurred.

If an asset consists of multiple components with different useful lives, each part of the asset having a significant acquisition value is depreciated separately over the term of the useful life of the individual component (component approach).

Telefónica Germany Group assesses the need to write down, if appropriate, the carrying amount of each item of property, plant and equipment to its recoverable amount, whenever there are indications that the asset's carrying amount exceeds the higher of its fair value less costs to sell or its value in use. The impairment will be reversed if the factors giving rise to the impairment disappear (see Note 2 e).

Telefónica Germany Group depreciates its property, plant and equipment, net of its residual values, once they are in full working condition using the straight-line method based on the assets' estimated useful lives, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

	Years of estimated useful life
Buildings	5 – 20
Plant and machinery (incl. Telephone installations, networks and subscriber equipment)	5 – 20
Furniture, tools and other items	2 – 10

Assets' estimated residual values, depreciation methods and periods are reviewed, and adjusted if appropriate, prospectively at each year end.

e) Impairment of property, plant and equipment, goodwill and intangible assets

Non-current assets, including property, plant and equipment, goodwill and intangible assets are evaluated at each reporting date for indications of impairment losses. Wherever such indications exist, or in the case of assets which are subject to an annual impairment test, recoverable amount is estimated. An asset's recoverable amount is the higher of fair value less costs to sell and value in use.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired. In this case, the carrying amount is written down to recoverable amount and the resulting loss is taken to the combined income statement. Future depreciation or amortization charges are adjusted for the asset's new carrying amount over its remaining useful life. Each asset is assessed individually for impairment, unless the asset does not generate cash inflows that are largely independent of those from other assets.

The potential impairment loss regarding goodwill is determined by assessing the recoverable amount of the cash generating unit (or group of cash-generating units) to which the goodwill relates when originated. If this recoverable amount is less than the carrying amount, an irreversible impairment loss is recognized in profit and loss. If the impairment loss recognized for the cash generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through the pro-rata reduction of the carrying amounts of the assets allocated to the cash generating unit. Telefónica Germany Group comprises one single cash generating unit, which represents the single reportable segment. TGG determines the recoverable amount of a cash generating unit based on its fair value less costs to sell, unless a higher value in use can be determined.

In assessing fair value less costs to sell, the estimated future cash flows deriving from the asset or its cash generating unit, as applicable, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The following pre-tax discount rates were taken as a basis:

Rates	As at December 31, 2011	As at December 31, 2010	As at December 31, 2009	As at January 01, 2009
Pre-tax discount rates	8.00%	7.63%	9.07%	10.30%

The discounted cash flow calculations use projections based on the current business plan as of the respective dates of impairment testing. The business plans have been approved by management and are also used for internal purposes. The business plan generally covers a period of three years. Cash flows beyond the planning horizon are extrapolated using an expected constant growth rate of 0.5%

Key assumptions on which management has based its determination of fair value less cost to sell include the development of Revenue, churn rates, capital expenditure, operating expenditure, market share, growth rates and discount rates.

TGG conducted scenario analysis concerning the key value drivers capital expenditure to revenue ratio and OIBDA margin to determine sensitivity. Within a reasonable range a change in key assumptions would not cause the carrying amount to exceed the recoverable amount.

When there are new events or changes in circumstances that indicate that a previously recognized impairment loss no longer exists or has been decreased, a new estimate of the asset's recoverable amount is made. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited to the net carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss and the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

f) Lease contracts

The determination of whether an arrangement is, or contains a lease is based on the substance of the agreement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the agreement conveys a right to Telefónica Germany Group to use the asset.

Leases where the lessor does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the combined income statement on a straight-line basis over the lease term.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased item to Telefónica Germany Group. These are recognized at the inception of the lease, in accordance with its nature and the associated liability, at the lower of the present value of the minimum lease payments or the fair value of the leased property. Lease payments are apportioned between finance costs and reduction of the principal of lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are reflected in the combined income statement over the lease term.

In firm sale and leaseback transactions resulting in a finance lease, the asset sold is not derecognized and the capital received is considered financing for the asset during the lease term. However, when the sale and leaseback transaction results in an operating lease, and it is clear that both the transaction and subsequent lease income are established at fair value, the asset is derecognized and any gain or loss generated on the transaction is recognized.

g) Investments in joint ventures

Telefónica Germany Group's investments in companies over which it exercises joint control with third parties are accounted for using the proportionate consolidation. Therefore, the Combined Financial Statements include the share of the assets that Telefónica Germany Group jointly controls and the share of the liabilities which are incurred in the course of pursuing the joint operation. The Combined Statement of Comprehensive Income includes the expenses that Telefónica Germany Group incurs and its share of the income that it earns from the joint operation.

Telefónica Germany Group combines its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its Combined Financial Statements.

h) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments in the form of financial assets and financial liabilities are generally presented separately. Financial instruments are recognized as soon as Telefónica Germany Group becomes a party to the contractual provisions of the financial instrument. All normal purchases and sales of financial assets are recognized in the combined statement of financial position on the trade date, i.e. the date that Telefónica Germany Group commits to purchase or sell the financial asset. Upon initial recognition, financial instruments are measured at fair value. Transaction costs directly attributable to acquisition or issuance are considered in determining the carrying amount if the financial instruments are not measured at fair value through profit or loss.

For the purpose of subsequent measurement, financial instruments are allocated to the categories "Financial assets at fair value through profit or loss", "Loans and receivables", "Available-for-sale financial assets", "Financial liabilities measured at amortized cost" as well as "Financial liabilities at fair value through profit or loss". Telefónica Germany Group does not allocate financial instruments to the category "held to maturity".

Financial Assets

Financial assets primarily comprise receivables from Telefónica, S.A., trade receivables, receivables from banks and cash and cash equivalents.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include those financial assets designated as held for trading. They comprise derivatives, which are not classified as hedging instruments in hedge accounting. Gains or losses on financial assets held for trading are recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as financial receivables from Telefónica, S.A. or trade receivables. After initial recognition, loans and receivables are subsequently carried at amortized cost using the effective interest method less any impairment losses. Gains and losses are recognized in the combined income statement when the loans and receivables are derecognized or impaired. Interest effects on the application of the effective interest method are also recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents consist primarily of receivables from cash pooling agreements with Telefónica Finanzas S.A., Spain, (Telfisa) receivables from banks and cash on hand with an original term of up to three months. Cash and cash equivalents correspond with the classification in the Combined Statement of Cash Flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified in any of the preceding categories. This category comprises assets incurred by Telefónica Germany Group to meet its pension obligations but which do not qualify as plan assets under IAS 19.

After initial measurement, available-for-sale financial assets are measured at fair value, with unrealized gains or losses being recognized in other comprehensive income. If objective evidence of impairment exists, these changes are recognized in profit or loss. Upon disposal of financial assets, the accumulated gains and losses recognized in other comprehensive income/loss resulting from measurement at fair value are recognized in profit or loss.

Impairment of financial assets

At each reporting date, the carrying amounts of financial assets other than those to be measured at fair value through profit or loss are assessed to determine whether there is objective evidence of impairment. Objective evidence may exist for example if a debtor faces serious financial difficulties or is unwilling to pay.

For financial assets classified as available for sale, objective evidence for an impairment exists if there is a significant or prolonged decline in the fair value of the instrument.

Loans and receivables

The amount of the impairment loss on loans and receivables is measured as the difference between the carrying amount of the asset and the present value of expected future cash flows (excluding expected future credit losses that have not been incurred), discounted at the original effective interest rate of the financial asset. The amount of the impairment loss is recognized in profit or loss. If, in a subsequent reporting period, the amount of the impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognized, the impairment loss recorded in prior periods is reversed and recognized in profit or loss. Impairment losses on loans and receivables (e.g. trade receivables) are recorded using allowance accounts. When receivables are assessed as uncollectible, the impaired asset is derecognized.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, the difference between its cost (net of any principal payment and amortization) and its current fair value (less any impairment loss previously recognized in the combined income statement) is reclassified from the combined statement of comprehensive income to the combined income statement. Reversals with respect to equity instruments classified as available-for-sale are recognized in the combined statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively attributed to an event occurring after the impairment losses were recognized in the combined income statement.

Financial liabilities

Financial liabilities primarily include trade payables, other payables and derivative financial liabilities.

Financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Derivatives, which are not used as hedging instruments in hedge accounting, are classified as held for trading. Gains or losses on liabilities held for trading are recognized in profit or loss.

Financial liabilities measured at amortized cost

After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognized on an effective interest basis.

Derivative financial instruments and hedge accounting

Generally, Telefónica Germany Group uses derivative financial instruments only to manage foreign currency risks. For material identified foreign currency risks, derivatives are contracted with Telefónica, S.A. Group treasury. Derivative financial instruments are measured at fair value upon initial recognition and at each subsequent reporting date. The fair value of listed derivatives is equal to their positive or negative market value. If a market value is not available, fair value is calculated using standard financial valuation models such as discounted cash flow or option pricing models. Derivatives are presented as assets if their fair value is positive and as liabilities if the fair value is negative. Changes in the fair value of derivative financial instruments are recognized periodically in profit or loss. Telefónica Germany Group does not apply hedge accounting as set out in IAS 39.

Derecognition of financial assets and liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and Telefónica Germany Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset´s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in statement of combined comprehensive income is recognized in profit or loss. If Telefónica Germany Group retains substantially all the risks and rewards of ownership of a transferred asset, Telefónica Germany Group continues to recognize the financial asset and recognize a collateralized borrowing for proceeds received. If Telefónica Germany Group does not retain nor transfer substantially all risks and rewards, and retains control, it continues to recognize the transferred asset to the extent of its continuing involvement. Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

i) Inventories

Inventories for consumption and replacement are stated at the lower of cost and net realizable value. Cost is determined on the basis of weighted average cost and comprises direct materials and where applicable, direct labor cost and overhead that has been incurred in bringing the inventory to its present location and condition. The estimates of net realizable value are based on the most reliable evidence available at the time estimates are made of the amount the inventories are expected to realize. These estimates take into consideration the fluctuations of price or costs and the purpose for which the inventory is held.

Obsolete, defective or slow-moving inventories have been written down to estimated net realizable value. When the circumstances that previously caused inventories to be written down no longer exist, the amount of the write-down is reversed, so that the new carrying amount is the lower of cost and revised net realizable value.

j) Provisions

Pensions and other employee benefit obligations

Provisions required to cover the accrued liability for defined-benefit pension plans are determined using "the projected unit credit" actuarial valuation method. The calculation is based on demographic and financial assumptions for the country considering the macroeconomic environment. The discount rates are determined based on market yield curves. Plan assets are measured at fair value. Actuarial gains and losses on post-employment defined-benefit plans are recognized immediately in other comprehensive income and all expenses related to defined benefit plans in personnel expenses. When the calculation results in a benefit, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions and has no legal or constructive obligation to pay further amounts. For defined-contribution pension plans, the obligations are limited to the payment of the contributions, which are taken to the combined income statement as occurred.

Provisions for post-employment benefits (e.g. early retirement or other) are calculated individually based on the terms agreed with the employees.

Other provisions

Provisions are recognized when Telefónica Germany Group has a present obligation (legal or constructive), as a result of a past event that can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are measured at managements/directors best estimate of the expenditure required to settle the obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted, and the corresponding increase in the provision due to the passage of time is recognized as a finance cost. When Telefónica Germany Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the combined income statement net of any reimbursement.

Provisions for restructuring are recognized if there is a detailed, formal plan that provides for the individual measures and has been adopted by the appropriate managing bodies. In addition, implementation is expected to begin as soon as possible and a valid expectation has been raised in those affected that the restructuring will be carried out.

Provisions for decommissioning, retirement and site reconditioning costs are recognized if Telefónica Germany Group has a legal or constructive obligation to dismantle the relevant items after their utilization. The estimated costs are recognized as an asset and a provision. Changes in the timing or estimation of the costs are reflected in the asset and in the provision, respectively.

k) Income tax

The income tax expense of each year includes both current and deferred taxes. Current and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination or items directly recognized in equity or in other comprehensive income.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The main temporary differences arise due to discrepancies between the tax bases and carrying amounts of property, plant and equipment, intangible assets, and non-deductible provisions, as well as differences in the fair value and tax bases of net assets acquired from a subsidiary, associate or joint venture.

Furthermore, deferred tax assets arise from unused tax credits carryforwards.

Telefónica Germany Group determines deferred tax assets and liabilities by applying the tax rates that will be effective when the corresponding asset is received or the liability is settled, based on tax rates and tax laws that are enacted (or substantively enacted) at the reporting date.

Deferred tax assets and liabilities are not discounted to present value and are classified as non-current, irrespective of the date of their reversal.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities on investments in subsidiaries, branches, associates and joint ventures are not recognized if the parent company is in a position to control the timing of the reversal and if the reversal is unlikely to take place in the foreseeable future.

Deferred income tax relating to items directly recognized in equity is recognized in equity. Deferred tax assets and liabilities arising from the initial recognition of the purchase price allocation of business combinations impact the amount of goodwill. However, subsequent changes in tax assets acquired in a business combination are recognized as an adjustment to profit or loss.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

For further description of the combination methods see section n).

l) Revenues and expenses

Revenues and expenses are recognized on the combined income statement based on an accruals basis; i.e. when the goods or services represented by them take place, regardless of when actual payment or collection occurs.

Telefónica Germany Group principally obtains Revenue from providing the following telecommunications services: traffic, connection fees, regular (normally monthly) network usage fees, interconnection, network and equipment leasing, handset sales and other services such as pay TV and value-added services (e.g. text or data messaging) and maintenance. Products and services may be sold separately or in promotional packages (bundled).

Revenue from calls carried on Telefónica Germany Group´s networks (traffic) entail an initial call establishment fee plus a variable call rate, based on call length, distance and type of service. Both wireline and wireless traffic is recognized as Revenue as service is provided. For prepaid calls, the amount of unused traffic generates a deferred Revenue recognized in "Trade and other payables" on the combined statement of financial position. Prepaid cards generally expire within 12 months and any deferred Revenue from prepaid traffic is taken directly to the combined income statement when the card expires as Telefónica Germany Group has no obligation to provide service after this date.

Revenue from traffic sales and services at a fixed rate over a specified period of time (flat rate) is recognized on a straight-line basis over the period of time covered by the rate paid by the customer.

Interconnection Revenue from wireline-wireless and vice versa calls and other customer services is recognized in the period in which the calls are made.

Revenue from handset and equipment sales is recognized once the sale is considered complete, i.e., generally when delivered to the end customer. Revenue from installment sales is recognized in the amount of the discounted future receipts.

Wireless customers are offered to participate in loyalty campaigns whereby customers obtain points for the telephone traffic they generate. The amount assigned to points awarded is recognized as deferred income until the points are exchanged and recognized as sales or services according to the product or service chosen by the customer. This exchange can be for discounts on the purchase of handsets, traffic or other types of services depending on the number of points earned and the type of contract involved. The accompanying Combined Statements of Financial Position include the related deferred Revenue, based on an estimate of the value of the points accumulated at year-end, under "Trade and other payables."

Bundle packages, which include different elements, are sold in the wireline, wireless and internet businesses. They are assessed to determine whether it is necessary to separate the separately identifiable elements and apply the corresponding Revenue recognition policy to each element. Total package revenue is allocated among the identified elements based on their respective fair values (i.e. the fair value of each element relative to the total fair value of the package). However, amounts contingent upon delivery of undelivered elements are not allocated to delivered elements.

All expenses related to mixed promotional packages are taken to the combined income statement as incurred.

m) Use of estimates, assumptions and judgments

The key assumptions concerning the future and other relevant sources of uncertainty in estimates at the reporting date that could have a significant impact on the Combined Financial Statements within the next year are discussed below. The estimated and associated assumptions are based on historical experience and other factors that are considered to be relevant.

A significant change in the facts and circumstances on which these estimates and related judgments are based could have a material impact on Telefónica Germany Group's results and financial position.

Unforeseeable development outside management´s control may cause actual amounts to differ from the original estimates. In the case the underlying assumptions, and if necessary the carrying amounts of the pertinent assets and liabilities, will be adjusted accordingly.

Changes are recognized in the period in which they occur, and also in late periods if changes affect both the reporting period and the subsequent ones.

Property, plant and equipment, intangible assets and goodwill

The accounting treatment of investments in property, plant and equipment and intangible assets entails the use of estimates to determine the useful life for depreciation and amortization purposes and to assess fair value at their acquisition dates for assets acquired in business combinations.

Determining useful life requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict.

When an item of property, plant and equipment or an intangible asset is considered to be impaired, the impairment loss is recognized in the combined income statement for the period. The decision to recognize an impairment loss involves estimates of the timing and amount of the impairment, as well as analysis of the reasons for the potential loss. Furthermore, additional factors, such as technological obsolescence, the suspension of certain services and other circumstantial changes are taken into account.

Telefónica Germany Group evaluates its cash-generating units' performance regularly to identify potential goodwill impairments. Determining the recoverable amount of the cash-generating units to which goodwill is allocated also entails the use of assumptions and estimates and requires a significant element of judgment.

Deferred income taxes

Telefónica Germany Group assesses the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on Telefónica Germany Group's ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of taxable earnings, which are sourced from internal projections and are continuously updated to reflect the latest trends.

The recognition of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realization of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments of Telefónica Germany Group could differ from the estimates made by Telefónica Germany Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

Tax loss carryforwards and deductible temporary differences have been determined under the probable criteria.

Provisions

Provisions are recognized when Telefónica Germany Group has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. This obligation may be legal or constructive, deriving from inter alia regulations, contracts, normal practices or public commitments that lead third parties to reasonably expect that Telefónica Germany Group will assume certain responsibilities. The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, bearing in mind all available information at the reporting date, including the opinions of independent experts such as legal counsel or consultants.

Given the uncertainties inherent in the estimates used to determine the amount of provisions, actual outflows of resources may differ from the amounts recognized originally on the basis of the estimates.

Revenue recognition

Bundled offers

Bundled offers that combine different elements are assessed to determine whether it is necessary to separate the different identifiable components and apply the corresponding revenue recognition policy to each element. Total package revenue is allocated among the identified elements based on their respective fair values.

Determining fair values for each identified element requires estimates that are complex due to the nature of the business.

A change in estimates of fair values could affect the apportionment of revenue among the elements and, as a result, the date of recognition of revenue.

n) Combination methods

The Combined Financial Statements have been prepared by aggregating the net assets of the Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") and the Telefónica Germany Management GmbH and its direct and indirect subsidiaries

- Telefónica Germany GmbH & Co. OHG,
- Telefónica Germany Partner Services GmbH,
- Telefónica Germany Online Services GmbH,
- Fonic GmbH,
- Telefónica Germany 1. Beteiligungsgesellschaft mbH and
- Telefónica Germany Customer Services GmbH.

The financial condition and operations of TCHIBO Mobilfunk Beteiligungs GmbH and TCHIBO Mobilfunk GmbH & Co. KG, a joint venture of the Telefónica Germany GmbH & Co. OHG, are reflected proportionately with 50% in the Combined Financial Statements. Therefore the IFRS financial information reported to Telefónica, S.A. as of December 31, 2011, 2010, 2009 and 2008 as reported to Telefónica, S.A. have been used and modified as described under note (1).

Subsidiaries are entities controlled by Telefónica Germany Group, by Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") and by Telefónica Germany Management GmbH. Control exists if one of the companies has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the combined financial statements from the date that control commences until the date that control ceases.

Deferred taxes for temporary differences resulting from combination processes are recognized in profit or loss.

On loss of control, Telefónica Germany Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If Telefónica Germany Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

o) Share-based payments

For equity-settled share option plans, fair value at the grant date is measured by applying statistical techniques or using benchmark securities. The cost is recognized, together with a corresponding increase in equity, over the vesting period. At each subsequent reporting date, the company reviews its estimate of the number of options it expects to vest, with a corresponding adjustment to equity. Obligations arising from cash-settled share-based payment transactions are recognized as a liability and measured at fair value at each reporting date.

p) New IFRS and interpretations of the IFRS Interpretations Committee ("IFRS IC") issued but not yet effective as of December 31, 2011

The accounting policies applied in the preparation of the Combined Financial Statements for the year ended December 31, 2011 are consistent with those used in the preparation of Telefónica Germany Group's Combined Financial Statements for the year ended December 31, 2010 and 2009, except for the application of new standards, amendments to standards and interpretations published by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRS IC"), and adopted by the European Union, noted below:

New standards and IFRIC interpretations issued but not yet effective as of December 31, 2011

At the date of preparation of the accompanying Combined Financial Statements, the following IFRS, amendments and IFRIC interpretations had been published, but their application was not mandatory:

Standards and amendments		**Mandatory application: annual periods beginning on or after**
IFRS 9	*Financial instruments*	January 1, 2015
IFRS 10	*Consolidated financial statements*	January 1, 2013
IFRS 11	*Joint arrangements*	January 1, 2013
IFRS 12	*Disclosures of interests in other entities*	January 1, 2013
IFRS 13	*Fair value measurement*	January 1, 2013
Revised IAS 19	*Employee benefits*	January 1, 2013
Revised IAS 27	*Separate financial statements*	January 1, 2013
Revised IAS 28	*Investments in associates and joint ventures*	January 1, 2013
Amendments to IFRS 7	*Disclosures – Offsetting of financial assets and liabilities*	January 1, 2013
	Disclosures - Transition to IFRS 9	January 1, 2015
Amendments to IAS 1	*Presentation of items of other comprehensive income*	July 1, 2012
Amendments to IAS 12	*Deferred tax: Recovery of underlying assets*	January 1, 2012
Amendments to IAS 32	*Offsetting of financial assets and liabilities*	January 1, 2014
Improvements to IFRS (2011)	*Amendments to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34*	January 1, 2013

Interpretations		**Mandatory application: annual periods beginning on or after**
IFRIC 20	*Stripping costs in the production phase of a surface mine*	January 1, 2013

Except for the revised IAS 19, Amendments to IFRS 7, Disclosures: Transfer of financial assets, and Amendments to IAS 1, Presentation of items of other comprehensive income, none of the above mentioned standards amendments or interpretations have been endorsed by the European Union. Telefónica Germany Group is currently assessing the impact of the application of these standards, amendments and interpretations.

Based on the analyses made to date, Telefónica Germany Group estimates that their adoption will not have a significant impact on the Combined Financial Statements in the initial period of application. However, the changes introduced by IFRS 9 will affect the accounting for financial instruments and transactions with financial assets carried out on or after January 1, 2015.

(3) SEGMENT INFORMATION

In Telefónica, S.A.'s Consolidated Financial Statements for the year ended December 31, 2011, Telefónica Germany Group was a component belonging to Telefónica Europe operating segment of Telefónica, S.A. Telefónica Germany Group provides a combination of wireless and wireline internet and telephony services to residential and business customers. Note 18 provides a split-up of the revenue.

Telefónica Germany Group operates only in one geographical area, the country of Germany.

Consistent with how the Key Management reviews the operating results, Telefónica Germany Group has only one operating segment. The Key Management, being considered as the chief operating decision maker as defined in IFRS 8, assesses the performance and allocates resources on a group-wide basis and not for individual products or services or customer groups. The following indicators, different from accounting measures, are used by the Key Management in its decision making as they provide a better indication of its performance:

Operating income before depreciation and amortization (OIBDA)

Operating income before depreciation and amortization (OIBDA) is calculated by excluding depreciation and amortization from operating income to eliminate the impact of investments in fixed assets that cannot be directly controlled by management in the short term. OIBDA is considered to be more important for investors as it provides a gauge of operating performance and profitability using the same measures utilized by management. This metric also allows for comparisons with other companies in the telecommunications sector without consideration of their asset structure.

OIBDA is used to track the performance of the business and to establish operating and strategic targets. OIBDA is a commonly reported measure and is widely used among analysts, investors and other interested parties in the telecommunications industry, although not a measure explicitly defined in IFRS, and therefore, may not be comparable to similar indicators used by other companies. OIBDA should not be considered as an alternative to operating income as a measurement of our operating results or as an alternative to cash flows from operating activities as a measurement of our liquidity.

The following table presents the reconciliation of OIBDA to operating result for the Telefónica Germany Group for the years ended December 31, 2011, 2010 and 2009.

Thousands of euros	**for the year ended December 31**		
	2011	**2010**	**2009**
OIBDA	**1,149,237**	**892,677**	**891,482**
Depreciation and amortization	-1,082,189	-988,165	-922,872
OPERATING RESULT	**67,048**	**-95,488**	**-31,390**

There is no customer of Telefónica Germany Group providing more than 10 percent of the revenue.

(4) BUSINESS COMBINATIONS

Acquisition of HanseNet Telekommunikation GmbH (HanseNet)

On December 3, 2009, to increase its market share in the wireline services Telefónica Germany Customer Services GmbH (former "Telefónica Deutschland GmbH"), signed an agreement to acquire all of the shares of German company HanseNet Telekommunikation GmbH ("HanseNet"). HanseNet Telekommunikation GmbH was a telecommunications company offering wireline telephony, Internet, wireless and IPTV network services in Germany under the brand Alice. Telefónica Germany Group completed the acquisition of 100% of the shares of HanseNet Telekommunikation GmbH on February 16, 2010 and obtained control. Therefore, the acquisition date as defined by IFRS was February 16, 2010. The initial amount paid was approximately EUR 912m consisting of an enterprise value of EUR 900m and additional cash of EUR 12m. The initial amount included EUR 637m of refinanced debt, leaving an acquisition cost of EUR 275m, which was finally reduced by EUR 40m at completion of the transaction.

Upon the acquisition of this shareholding, the purchase price was allocated to the identifiable assets acquired and the liabilities assumed using generally accepted valuation methods for each type of asset and/or liability, based on the best available information.

The complete carrying amounts, fair values, goodwill and purchase consideration cost of the identifiable assets acquired and the liabilities assumed in this transaction at the date control was obtained are as follows:

Millions of euros	**HanseNet**	
	Carrying amount	**Fair value**
Goodwill	461	-
Other non-current assets	791	840
Current assets and deferred tax assets	191	235
Financial liabilities	(657)	(665)
Other liabilities	(303)	(457)
Value of net assets	483	(47)
Purchase consideration cost	-	(235)
Goodwill (Note 6)	**-**	**282**

The recognized goodwill results from expected synergies through the combination of the networks, potential savings of administrative functions, increase in purchasing power due to scale and potential benefits from the integrated approach. Additionally, growth in business is expected from the convergent offerings.

The acquired receivables concern the gross value of EUR 146m, the fair value of EUR 112m and cash flows not expected to be collected of EUR 34m.

In addition, the impact of this acquisition on cash and cash equivalents was as follows:

	Millions of euros
Cash and cash equivalents of the company acquired	28
Cash paid in the acquisition	(235)
Refinanced debt	(637)
Total net cash outflow	844

The contributions to Telefónica Germany Group's Revenue and OIBDA from the acquisition of HanseNet Telekommunikation GmbH in 2010 amounted to EUR 783m and EUR 77m, respectively. If HanseNet had been acquired on January 1, 2010 the contribution to revenue and OIBDA would have amounted to EUR 904m and EUR 93m, respectively.

Transaction costs in conjunction with the acquisition of the HanseNet Telekommunikation GmbH amounted to kEUR 4,993.

In 2011 the HanseNet Telekommunikation GmbH was merged into the Telefónica Germany GmbH & Co. OHG and Telefónica Deutschland GmbH was renamed into Telefónica Customer Services GmbH.

There were no other business combinations or acquisitions in the years 2011, 2010 and 2009.

(5) INTANGIBLE ASSETS

The composition of and movements in net intangible assets in the years ended December 31, 2011, 2010 and 2009 are as follows:

Thousands of euros	At December 31, 2010	Additions	Amortization	Disposals	Transfers and other	Acquisition of a subsidiary	At December 31, 2011
Service concession arrangements and licenses	1,843,927	-	-226,746	-	1,300,253	-	2,917,434
Software	490,379	155,067	-201,690	-39	-3,032	-	440,685
Other intangible assets	309,979	-	-43,399	-	13,088	-	279,668
Prepayments on intangible assets	1,312,219	27,261	-	-	-1,319,130	-	20,350
Net intangible assets	**3,956,504**	**182,328**	**-471,835**	**-39**	**-8,821**	**-**	**3,658,137**

Thousands of euros	At December 31, 2009	Additions	Amortization	Disposals	Transfers and other	Acquisition of a subsidiary	At December 31, 2010
Service concession arrangements and licenses	1,943,176	-	-177,626	-	78,377	-	1,843,927
Software	513,562	186,191	-223,564	-	-17,434	31,624	490,379
Other intangible assets	45,643	21,288	-94,034	-	-2,260	339,342	309,979
Prepayments on intangible assets	8,303	1,395,567	-	-	-91,651	-	1,312,219
Net intangible assets	**2,510,684**	**1,603,046**	**-495,224**	**-**	**-32,968**	**370,966**	**3,956,504**

Thousands of euros	At January 1, 2009	Additions	Amortization	Disposals	Transfers and other	Acquisition of a subsidiary	At December 31, 2009
Service concession arrangements and licenses	2,119,980	-	-176,804	-	-	-	1,943,176
Software	270,654	189,750	-219,759	-	272,917	-	513,562
Other intangible assets	23,875	7,603	-8,333	-2	22,500	-	45,643
Prepayments on intangible assets	317,645	14,579	-	-	-323,921	-	8,303
Net intangible assets	**2,732,154**	**211,932**	**-404,896**	**-2**	**-28,504**	**-**	**2,510,684**

The gross costs, accumulated amortization and impairment losses of intangible assets as at December 31, 2011, 2010 and 2009 are as follows:

	At December 31, 2011		
Thousands of euros	**Gross cost**	**Accumulated amortization**	**Net intangible assets**
Service concession arrangements and licenses	9,830,836	-6,913,402	2,917,434
Software	1,261,398	-820,713	440,685
Other intangible assets	383,709	-104,041	279,668
Prepayments on intangible assets	20,350	-	20,350
Net intangible assets	**11,496,293**	**-7,838,156**	**3,658,137**

	At December 31, 2010		
Thousands of euros	**Gross cost**	**Accumulated amortization**	**Net intangible assets**
Service concession arrangements and licenses	8,531,194	-6,687,267	1,843,927
Software	1,172,031	-681,652	490,379
Other intangible assets	419,950	-109,971	309,979
Prepayments on intangible assets	1,312,219	-	1,312,219
Net intangible assets	**11,435,394**	**-7,478,890**	**3,956,504**

	At December 31, 2009		
Thousands of euros	**Gross cost**	**Accumulated amortization**	**Net intangible assets**
Service concession arrangements and licenses	8,452,817	-6,509,641	1,943,176
Software	1,519,423	-1,005,861	513,562
Other intangible assets	62,967	-17,324	45,643
Prepayments on intangible assets	8,303	-	8,303
Net intangible assets	**10,043,510**	**-7,532,826**	**2,510,684**

	At January 1, 2009		
Thousands of euros	**Gross cost**	**Accumulated amortization**	**Net intangible assets**
Service concession arrangements and licenses	8,452,817	-6,332,837	2,119,980
Software	1,098,653	-827,999	270,654
Other intangible assets	41,200	-17,325	23,875
Prepayments on intangible assets	317,645	-	317,645
Net intangible assets	**9,910,315**	**-7,178,161**	**2,732,154**

Service concession arrangements and licenses:

Telefónica Germany GmbH & Co. OHG obtained a Global System for Mobile Communications ("GSM") license (2G) in February 2007. As at December 31, 2011 the license has a carrying amount of kEUR 1,994 (2010: kEUR 2,327; 2009: kEUR 2,685). The GSM licenses expire on December 31, 2016.

In August 2000 and in May 2010, Telefónica Germany GmbH & Co. OHG obtained UMTS licenses (3G) expiring on December 31, 2020. The carrying amount as at December 31, 2011 was kEUR 1,660,022 (2010: kEUR 1,841,598; 2009: kEUR 1,940,500).

In May 2010, Telefónica Germany GmbH & Co. OHG acquired LTE licenses (4G) expiring in 2025. The acquisition was recognized as "Additions" of prepayments on intangible assets and reclassified as concessions and licenses in 2011. The carrying amount as at December 31, 2011 was kEUR 1,255,392 (in 2010: kEUR 1,300,228).

The additions of assets shown as business combinations relate to the acquisition of HanseNet Telekommunikation GmbH in 2010.

There were no further significant additions of licenses in the years 2011, 2010 and 2009.

Software:

Software mainly includes licenses for Office and IT application software. The software is amortized on a straight-line basis over its useful life, generally estimated to be between two and five years.

Other intangible assets:

"Other intangible assets" includes mainly the amounts allocated to rights for brands and their use. As of 2010 "Other intangible assets" also includes the amounts allocated to the customer base of HanseNet Telekommunikation GmbH.

Intangible assets are also subject to impairment tests whenever there are indicators of a potential loss in value and, in any event, at the end of each year for intangible assets with indefinite useful lives. There was no impairment recognized in the Combined Financial Statements for 2011, 2010 and 2009 as a result of these impairment tests. Regarding parameters used in the impairment test, please see Note (2) e).

(6) GOODWILL

The movements in goodwill in the years 2011, 2010 and 2009 are as follows:

Thousands of euros	**2011**	**2010**	**2009**
Present value of goodwill at the beginning of the year	**705,576**	**423,081**	**423,081**
Acquisitions	-	282,495	-
Present value of goodwill at the end of the year	**705,576**	**705,576**	**423,081**

Goodwill as at January 1, 2009 amounting to kEUR 423,081 resulted from the acquisition of MediaWays GmbH by HighwayOne Germany GmbH, a subsidiary of Telefónica, S.A., as of September 30, 2002. On October 2, 2002 HighwayOne Germany GmbH and MediaWays GmbH merged into Telefónica Deutschland GmbH. On March 23, 2011 Telefónica Deutschland GmbH was changed to Telefónica Germany Customer Services GmbH.

The addition in 2010 is related to the acquisition of HanseNet Telekommunikation GmbH (see Note 4).

The impairment tests carried out did not identify the need to recognize any write-downs to goodwill at the 2011, 2010, 2009 and 2008 year ends as the recoverable amount, in all cases based on value in use, was higher than the carrying amount. Regarding parameters used in the impairment test, see Note (2) e).

In addition, sensitivity analyses were performed on changes reasonably expected to occur in the primary valuation variables, and the recoverable amount remained above the net carrying amount.

(7) PROPERTY, PLANT AND EQUIPMENT

The composition of and movements in the items comprising net "Property, plant and equipment" in December 31, 2011, 2010 and 2009 were the following:

Thousands of euros	Balance at 12/31/10	Additions	Depreciation	Disposals	Transfers and other	Acquisition of a subsidiary	Balance at 12/31/11
Land and buildings	59,054	6,501	-24,786	-54	-239	-	40,476
Plant and machinery	3,089,461	375,783	-533,543	-1,001	-13,623	-	2,917,077
Furniture, tools and other items	122,810	35,018	-52,025	-1,815	-2,655	-	101,333
Total PP&E in service	**3,271,325**	**417,302**	**-610,354**	**-2,870**	**-16,517**	**-**	**3,058,886**
PP&E in progress	76,628	-41,979	-	-4	25,338	-	59,983
Net PP&E	**3,347,953**	**375,323**	**-610,354**	**-2,874**	**8,821**	**-**	**3,118,869**

Thousands of euros	Balance at 12/31/09	Additions	Depreciation	Disposals	Transfers and other	Acquisition of a subsidiary	Balance at 12/31/10
Land and buildings	63,041	8,629	-16,699	-	4,083	-	59,054
Plant and machinery	2,635,389	478,612	-411,022	-692	-39,100	426,274	3,089,461
Furniture, tools and other items	123,618	50,913	-65,220	-851	-5,280	19,630	122,810
Total PP&E in service	**2,822,048**	**538,154**	**-492,941**	**-1,543**	**-40,297**	**445,904**	**3,271,325**
PP&E in progress	73,614	-84,324	-	-31	73,265	14,104	76,628
Net PP&E	**2,895,662**	**453,830**	**-492,941**	**-1,574**	**32,968**	**460,008**	**3,347,953**

Thousands of euros	Balance at 01/01/09	Additions	Depreciation	Disposals	Transfers and other	Acquisition of a subsidiary	Balance at 12/31/09
Land and buildings	61,160	12,378	-13,786	-21	3,310	-	63,041
Plant and machinery	2,551,268	541,855	-440,691	-1,026	-16,017	-	2,635,389
Furniture, tools and other items	140,536	50,788	-63,499	-164	-4,043	-	123,618
Total PP&E in service	**2,752,964**	**605,021**	**-517,976**	**-1,211**	**-16,750**	**-**	**2,822,048**
PP&E in progress	48,264	-19,809	-	-95	45,254	-	73,614
Net PP&E	**2,801,228**	**585,212**	**-517,976**	**-1,306**	**28,504**	**-**	**2,895,662**

The gross costs, accumulated depreciation and impairment losses of property, plant and equipment as at December 31, 2011, 2010, 2009 and at January 1, 2009 are as follows:

		Balance at December 31, 2011	
Thousands of euros	**Gross cost**	**Accumulated depreciation**	**Net PP&E**
Land and buildings	123,310	-82,834	40,476
Plant and machinery	5,690,850	-2,773,773	2,917,077
Furniture, tools and other items	349,677	-248,344	101,333
Total PP&E in service	**6,163,837**	**-3,104,951**	**3,058,886**
PP&E in progress	59,983	-	59,983
Net PP&E	**6,223,820**	**-3,104,951**	**3,118,869**

		Balance at December 31, 2010	
Thousands of euros	**Gross cost**	**Accumulated depreciation**	**Net PP&E**
Land and buildings	130,988	-71,934	59,054
Plant and machinery	5,420,148	-2,330,687	3,089,461
Furniture, tools and other items	330,472	-207,662	122,810
Total PP&E in service	**5,881,608**	**-2,610,283**	**3,271,325**
PP&E in progress	76,628	-	76,628
Net PP&E	**5,958,236**	**-2,610,283**	**3,347,953**

		Balance at December 31, 2009	
Thousands of euros	**Gross cost**	**Accumulated depreciation**	**Net PP&E**
Land and buildings	124,479	-61,438	63,041
Plant and machinery	4,772,498	-2,137,109	2,635,389
Furniture, tools and other items	323,043	-199,425	123,618
Total PP&E in service	**5,220,020**	**-2,397,972**	**2,822,048**
PP&E in progress	73,614	-	73,614
Net PP&E	**5,293,634**	**-2,397,972**	**2,895,662**

		Balance at January 1, 2009	
Thousands of euros	**Gross cost**	**Accumulated depreciation**	**Net PP&E**
Land and buildings	110,892	-49,732	61,160
Plant and machinery	4,649,728	-2,098,460	2,551,268
Furniture, tools and other items	305,389	-164,853	140,536
Total PP&E in service	**5,066,009**	**-2,313,045**	**2,752,964**
PP&E in progress	48,264	-	48,264
Net PP&E	**5,114,273**	**-2,313,045**	**2,801,228**

"Additions" for 2011, 2010 and 2009, totaling kEUR 375,323 (2011), kEUR 453,830 (2010) and kEUR 585,212 (2009), mainly reflect Telefónica Germany Group's investment (i.e. cell masts) made during the year to improve the capacity and coverage of the wireless networks.

The additions of assets shown as business combination relate to acquisition of HanseNet Telekommunikation GmbH in 2010 (Note 4). Property, plant and equipment deriving from finance leases amounted to kEUR 11,786 as at December 31, 2011 (kEUR 9,635 as at December 31, 2010 and kEUR 9,184 as at December 31, 2009). As at January 1, 2009 Telefónica Germany Group had finance leases amounting to kEUR 4,717. The most significant finance leases are disclosed in Note 20.

(8) JOINT VENTURES

Telefónica Germany GmbH & Co. OHG jointly controls the TCHIBO Mobilfunk Beteiligungs GmbH and the TCHIBO Mobilfunk GmbH & Co. KG. Both companies are recognized proportionally with 50% in the Combined Financial Statements.

The contributions to Telefónica Germany Group's Combined Statement of Financial Position as at December 31, 2011, 2010, 2009, as at January 1, 2009 as well as the contributions to the Combined Income Statements for 2011, 2010 and 2009 are as follows:

TCHIBO Mobilfunk Beteiligungs GmbH	**At December 31,**			**At January 1,**
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Combined Statement of Financial Position:				
Current assets	54	66	44	46
Non-current assets	-	-	-	-
Current liabilities	-36	-49	-27	-30
Non-current liabilities	-	-	-	-
Combined Income Statement:				
Income	-	-	-	
Expenses	-	-	-	

TCHIBO Mobilfunk GmbH & Co. KG	**At December 31,**			**At January 1,**
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Combined Statement of Financial Position:				
Current assets	14,617	28,483	29,752	19,083
Non-current assets	-	-	-	-
Current liabilities	-11,268	-25,187	-26,572	-16,195
Non-current liabilities	-	-	-	-
Combined Income Statement:				
Income	25,087	21,667	19,291	
Expenses	-25,034	-21,550	-18,991	

(9) RELATED PARTIES

Related party transactions include transactions between Telefónica Germany Group and Telefónica Group (Telefónica, S.A. and its direct and indirect subsidiaries excluding Telefónica Germany Group), Telefónica Group's associated companies and joint ventures as well as Telefónica Germany Group's joint ventures. Transactions of Telefónica Germany Group with "Other Telefonica entities in Germany" (as defined in Note 1) therefore also are classified as related party transactions.

O2 (Europe) Limited, a subsidiary of Telefónica, S.A., is the parent company of Telefónica Germany Group. Therefore Telefónica Group is a related party as Telefónica, S.A. (the ultimate parent) controls Telefónica Germany Group.

Transactions with Telefónica Group

Telefónica Germany Group has entered into a number of contractual relationships considered to be related party transactions.

Due to a service agreement with O2 Limited (now O2 (Europe) Limited), dated August 12, 2002 Telefónica Germany Group receives management consultancy and support services from Telefónica Group entities in the UK and Spain.

According to a license agreement dated January 1, 2011 Telefónica Germany Group is allowed to use brand rights from the Telefónica Group for which it pays a royalty fee.

Additionally, Telefónica Germany Group uses the O2 brand from O2 (Europe) Limited pursuant to a license agreement and participates in a group cost share agreement with O2 (Europe) Limited and other Telefónica Group entities, both dated October 15, 2007. O2 (Europe) Limited owns and is responsible for, and bears the costs of central management and development and protection of, the O2 brand rights.

Telefónica Group has several departments called "areas of innovation", that are working on the development of new business opportunities and technologies in the following areas: cloud computing, video and digital home, content delivery network, machine to machine, applications, financial services, mobile security and e-health. Telefónica Germany Group participates in a cost share arrangement pursuant to which the related development and coordination costs are shared among the Telefónica entities that stand to benefit from such developments.

Furthermore Telefónica Germany Group has entered into a service agreement with Telefónica Global Roaming GmbH ("TGR") effective as of December 5, 2009. TGR manages the wholesale roaming business with third parties as well as the mutual roaming discounts with Telefónica Group entities. With respect to roaming arrangements with Telefónica Group entities, the Company has GSMA-standard based international roaming agreements with all such entities.

Telefónica Germany Group benefits from multinational sales activities coordinated by the Telefónica global unit Telefónica Multinational Solutions ("TMS"). TMS has its own central budget and employees at the Telefónica, S.A. level and each of the participating Telefónica Group entities dedicates a number of employees and resources to TMS activities. Telefónica Germany Group and other Telefónica Group entities are collaborating with the business unit Telefónica Global Solutions for the development of a managed wide area network (mWAN). Due to the collaboration, Telefónica Global Solutions will develop and offer a global mWAN service for all Telefónica Group entities, including a service for the corporate clients in the German market.

Telefónica Germany Group has entered into an agreement dated December 13, 2010 with Telefónica Global Technology S.A.U. ("TGT") regarding the provision of its SAP system. TGT provides the company the license for various functions of the SAP software. There is a further agreement with TGT dated May 3, 2011 regarding the provision and operation of the company's desktop workplace and e-mail system. In accordance with the agreement, TGT provides the company the software as well as the tools, network connectivity, and IP communications services. Telefónica Germany Group has also entered into an agreement with Telefónica Global Applications S.L. ("TGA") dated August 1, 2011, pursuant to which TGA has the responsibility for working with developers on the company's behalf regarding the development, marketing and distribution of wireless applications and into two agreements with Telefónica Czech Republic, a.s. ("Telefónica Czech") Thus, Telefónica Czech provides monitoring services for the company's wireline networks and otherwise Telefónica Germany Group provides monitoring services for Telefónica Czech's wireless network, each dated August 29, 2011. The interconnection agreement with Telefónica Group entity Jajah, Inc. ("Jajah") provides Jajah with connections to the company's network and Jajah provides the Company connections to Jajah's network for the purpose of termination of telecommunications traffic in the respective networks, as well as for the conducting of telecommunications traffic via the network of one party into the telecommunications network of a third party that is connected to such party's network.

With the Ireland-based Telefónica European People Services Centre effective October 10, 2010, the Telefónica Germany Group has entered into a services agreement for the provision of operational human resources, payroll and employment related services to the Company.

Furthermore Telefónica Germany Group has entered into a framework agreement with Telefónica Global Services GmbH ("TGS") dated January 1, 2010 and a framework agreement with TGR dated October 20, 2010. Therefore Telefónica Germany Group concludes individual service agreements with TGR and TGS, that provides central services as well as operational and support functions to TGR and TGS.

Telefónica Germany Group acquired all of the shares of the German company HanseNet Telekommunikation GmbH as of February 16, 2010.

Due to a services agreement with TGS dated October 6, 2010, Telefónica Germany Group has outsourced its procurement process to TGS. TGS conducts the purchase of all kinds of goods and services and performs all related procurement processes including tenders, evaluations and negotiations on behalf of the Company.

Telefónica Germany Group receives policies for all material damages and business interruption (including cyber risk and crime) insurance and general liability, pure financial losses, and media contents liability insurance, from Telefónica Insurances S.A., which is an insurance company in the Telefónica Group registered in Luxembourg. The insurance program is managed and implemented by the broker Pleyade S.A., in Madrid, which is also part of the Telefónica Group.

Telefónica Germany Group has been within the cash management system used by the Telefónica Group under cash pooling and deposit agreements. Cash throughout the Telefónica Group is centralized through these arrangements, allowing them to benefit from the economies of scale from the overall Telefónica Group as well as from the in-house liquidation of payables and receivables between Telefónica Germany Group and the participating members of the Telefónica Group. Under the cash pooling arrangements, the entire cash surplus available on those of their bank accounts which are included in the cash pool is automatically transferred on a daily basis to master bank accounts held by Telefónica Finanzas S.A., Spain, (Telfisa), a Telefónica Group subsidiary.

In preparation for the public listing, Telefónica Germany Group entered into an indemnity and cost sharing agreement with Telefónica. Under this agreement, Telefónica agreed to indemnify Telefónica Germany Group from certain liability risks and to assume the transaction costs, in each case arising out of or in connection with public listing.

Sales of goods and services and other income as well as purchases of goods and services and other expenses from transactions with Telefónica Group in years 2011, 2010 and 2009 are presented in the following table:

Thousands of euros	**Sales of goods and services and other income**			**Purchases of goods and services and other expenses**		
	for the year ended December 31,			**for the year ended December 31,**		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Telefónica Group	80,361	67,394	204,550	-130.124	-145,674	-134,570

The other income includes interest income from cash pooling with an amount of EUR 3.5m (2010: EUR 0.6m of, 2009: EUR 0,4m).

The other expenses include group fees totaling kEUR 70,232 in 2011, kEUR 52,205 in 2010 and kEUR 26,928 in 2009.

Telefónica Germany Group's receivables from and payables to Telefónica Group are as follows:

Thousands of euros	At December 31, 2011	2010	2009	At January 1, 2009
Receivables from Telefónica Group	**4,031,433**	**3,042,715**	**2,970,998**	**3,038,256**
therein:				
from cash pooling	1,141,097	132,582	20,711	117,737
from financial assets	2,885,897	2,885,897	2,885,897	2,885,897
from other items	4,439	24,236	64,390	34,622
Liabilities to Telefónica Group	**143,460**	**136,508**	**154,917**	**10,298**
therein:				
from other items	143,460	136,508	154,917	10,298

Cash Pooling:

The amounts from cash pooling are related to the cash pooling agreement with Telefónica Finanzas S.A., Spain, (Telfisa).

Financial Assets:

The receivables from "Financial Assets" result from an agreement between the O2 (Europe) Limited and the Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") under which the O2 (Europe) Limited promises a capital contribution amounting to kEUR 2,885,897 at the balance sheet date December 31, in the year 2011, 2010, 2009 and at January 1, 2009.

Other Items:

The receivables and liabilities from other items mainly results from transaction of goods and services between Telefónica Germany Group and Telefónica Group. It includes receivables against Telefónica, S.A amounting to kEUR 981, kEUR 955, kEUR 27 and kEUR 287 as well as liabilities amounting to kEUR 5,575, kEUR 46, kEUR 23,105 and kEUR 23,223 at the balance sheet dates December 31, 2011, 2010, 2009 and at January 1, 2009, respectively.

The position liabilities to Telefónica Group comprise primarily liabilities which are sold by the suppliers of Telefónica Germany GmbH & Co. OHG to a factoring company in which Telefónica, S.A. has a participation.

Transactions with joint ventures

The most significant balances and transactions with joint ventures and their contributions to the Combined Statement of Financial Position and Combined Income Statement are detailed below.

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Receivables from TCHIBO Mobilfunk GmbH & Co. KG	**2,907**	**12,260**	**15,560**	**10,118**
therein:				
from other items	2,907	12,260	15,560	10,118
Liabilities to TCHIBO Mobilfunk GmbH & Co. KG	**698**	**1,089**	**1,101**	**1,140**
therein:				
from other items	698	1,089	1,101	1,140

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Receivables from TCHIBO Mobilfunk Beteiligungs GmbH	**9**	**20**	**-**	**9**
therein:				
from other items	9	20	-	9
Liabilities to TCHIBO Mobilfunk Beteiligungs GmbH	-	-	-	-
therein:				
from other items	-	-	-	-

Thousands of euros	Sales of goods and services and other income			Purchases of goods and services and other expenses		
	for the year ended December 31,			for the year ended December 31,		
	2011	2010	2009	2011	2010	2009
TCHIBO Mobilfunk GmbH & Co. KG	12,710	9,014	7,983	20,530	18,071	14,618

Thousands of euros	Sales of goods and services and other income			Purchases of goods and services and other expenses		
	for the year ended December 31,			for the year ended December 31,		
	2011	2010	2009	2011	2010	2009
TCHIBO Mobilfunk Beteiligungs GmbH	96	107	90	-	-	-

Transactions with pension entities

For information regarding the funding of the principal pension benefits please see Note 14.

Transactions with related individuals

Key management of Telefónica Germany Group is defined as those people having authority and responsibility for planning, directing and controlling the activities of Telefónica Germany Group within their function and within the interest of Telefónica, S.A. The key management, which comprises the managing directors of the Telefónica Germany GmbH & Co. OHG, Telefónica Management GmbH, Telefónica, S.A. and O2 (Europe) Limited consists of:

Name	**Position**	**Since Date**
Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH:		
Jaime Smith Basterra	Chief Executive Officer	till June, 2009
Antonio Botas Banuelos	Managing Director Product Development & Brand Management	till February, 2010
Thorsten Haeser	Managing Director Consumer Sales	between April, 2010 and September, 2010
Lutz Schüler	Managing Director Marketing & Sales	till January, 2010
Jens Prautzsch	Managing Director Strategy & Innovation	between February, 2010 and March, 2011
Robert Simmeth	Managing Director Service Technology (CIO)	between February, 2010 and July, 2011
Gregor Bieler	Managing Director Consumer Sales	till August, 2011
André Krause	Managing Director Finance (CFO)	till October, 2011
Johannes Pruchnow	Managing Director Business & Wholesale Service	between June, 2009 and July 2012
Carsten Wreth	Managing Director Service Technology (CIO)	till December, 2009
Andrea Fabiana Folgueiras	Managing Director Network Technology	since 2007
René Schuster	Chief Executive Officer	since June, 2009
Markus Haas	Managing Director Corporate Affairs & Strategy	since June, 2009
Joachim Kugoth	Managing Director Human Resources	since February, 2010
Peter Alec Rampling	Managing Director Marketing	since May, 2010
Michiel van Eldik	Managing Director Wholesale & Partner Management	since September, 2010
Rachel Clare Empey	Managing Director Finance (CFO)	since October, 2011
John Gerald McGuigan	Managing Director Consumer Sales	since October, 2011
Dr. Eckart Pech	Managing Director Service Technology	since October, 2011
Marc Irmisch	Vice President Small & Medium Enterprises & SoHo, Acting Lead of Business Unit	since June, 2012

Name	Position	For the years
Telefónica, S.A.:		
Mr. César Alierta Izuel	Board Member Telefónica, S.A., Chairman	2011, 2010 and 2009
Mr. Isidro Fainé Casas	Board Member Telefónica, S.A., Vice Chairman	2011, 2010 and 2009
Mr. Vitalino Manuel Nafría Aznar	Board Member Telefónica, S.A., Vice Chairman	2011, 2010 and 2009
Mr. Julio Linares López	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. José María Abril Pérez	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. José Fernando de Almansa Moreno-Barreda	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. José María Álvarez-Pallete López	Board Member Telefónica, S.A. (COO)	2011, 2010 and 2009
Mr. David Arculus	Board Member Telefónica, S.A.	2011, 2010 and 2009
Ms. Eva Castillo Sanz	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Carlos Colomer Casellas	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Peter Erskine	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Alfonso Ferrari Herrero	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Luiz Fernando Furlán	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Gonzalo Hinojosa Fernández de Angulo	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Pablo Isla Álvarez de Tejera	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Antonio Massanell Lavilla	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Ignacio Moreno Martínez	Board Member Telefónica, S.A.	2011
Mr. Francisco Javier de Paz Mancho	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr.Chang Xiaobing	Board Member Telefónica, S.A.	2009
Name	**Position**	**Since Date**
O2 (Europe) Ltd.:		
Robert John Harwood	Director	since July 2001
Maria Pilar Lopez Alvarez	Director	since November 2011
Enrique Medina Malo	Director	since November 2011
Francisco Jesus, Perez de Uriquen Muinelo	Director	since August 2012
David Melcon Sanchez-Friera	Director	since August 2007

During the years to which these accompanying Combined Financial Statements refer, the managing directors did not perform any transactions with Telefónica Germany Group other than those in Telefónica Germany Group's normal trading activity and business.

Compensation and other benefits paid to members of the managing directors are detailed as follows:

	For the year		
Thousands of euros	**2011**	**2010**	**2009**
Compensation	**8,447**	**7,702**	**7,990**
thereof:			
Short-term Employee benefits	2,200	2,219	3,811
Termination benefits	717	-	-
Share-based payments	834	1,021	803
Defined Benefit Obligation	**14,921**	**15,715**	**9,741**

The movements in share options for the key management are as follows:

in units	**2011**	**2010**	**2009**
Share options at beginning of the year	**273,164**	**224,240**	**129,164**
Exercise of share options	-55,208	-57,492	-45,768
Addition of share options	74,899	106,416	140,844
Share options at end of the year	**292,855**	**273,164**	**224,240**

(10) TRADE AND OTHER RECEIVABLES

The breakdown of this item in the Combined Statements of Financial Position is as follows:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Receivables from sales and services	897,187	1,103,266	753,301	588,039
Receivables from related Parties (Note 9)	4,439	24,236	64,390	34,622
Other Receivables	19,409	13,773	9,217	18,171
Prepayments	201,895	269,950	181,809	145,976
Provisions for bad debts	-112,651	-127,115	-93,750	-87,337
Total Trade and other Receivables	**1,010,279**	**1,284,110**	**914,967**	**699,471**

The breakdown of trade receivables is as follows:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Trade receivables billed	718,398	943,077	564,576	431,471
Trade receivables unbilled	178,789	160,189	188,725	156,568
Total	**897,187**	**1,103,266**	**753,301**	**588,039**

Accounts receivables that were neither past due nor impaired at the balance sheet dates December 31, 2011, 2010, 2009 and at January 1, 2009 amounted to kEUR 115,534, kEUR 199,793 and kEUR 102,125, kEUR 59,511 respectively. With regard to these receivables there were no indications of circumstances that may negatively affect their value at the respective balance sheet dates.

Accounts receivables include non-current receivables with a maturity of more than 12 months which amount to kEUR 89,889 as of December 31, 2011 (2010: kEUR 97,505; 2009: kEUR 59,753 and kEUR 0 as of January 1, 2009).

There are no accounts receivables that are past due at the balance sheet dates December 31, 2011, 2010, 2009 and January 1, 2009 but were not impaired.

In November 2011 Telefónica Germany GmbH & Co. OHG entered into an Asset Purchase Agreement for "o2myhandy" receivables in order to optimize working capital and to access an alternative source of funding. The sale had no significant impact on profit and loss and the buyer bears the majority of the credit risks of theses receivables. A small portion (less 5%) of the sold assets has not been derecognized due to Telefónica Germany's continuing involvement. The continuing involvement that needs to be recognized is the maximum risk that Telefónica Germany Group retains. It is represented by the maximum repurchase rate of defaulted receivables, the loss percentage and the late payment risk. Gains resulting from the collection of defaulted receivables remain within Telefónica Germany Group. The amount of assets that Telefónica Germany Group continues to recognize amounted to EUR 10.1m as of December 31, 2011 and the carrying amount of the associated liabilities amounted to EUR 10.7m.

The following tables show the reconciliation of changes in the allowances account for the years ended December 31, 2011, 2010 and 2009:

	Thousands of euros
Allowances as of December 31, 2011	**-112,651**
Additions	-47,223
Reductions	61,687
Allowances as of December 31, 2010	**-127,115**
Additions	-105,577
Reductions	72,212
Allowances as of December 31, 2009	**-93,750**
Additions	-27,406
Reductions	20,993
Allowances as of January 1, 2009	**-87,337**

(11) CASH AND CASH EQUIVALENTS

	For the year ended December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Cash at bank and in hand	7,471	56,383	17,246	9,509
Telfisa deposit	1,141,097	132,582	20,711	117,737
Total	**1,148,568**	**188,965**	**37,957**	**127,246**

Cash and cash equivalents mainly consist of deposits related to cash pooling agreement with Telefónica Finanzas S.A., Spain (Telfisa).

(12) EQUITY

As stated in Note 1, Telefónica Germany Group is legally owned by Telefónica, S.A., during the reporting periods. Due to the preparation of Combined Financial Statements the Telefónica Germany Groups equity is presented on a combined group structure and contains "Net assets attributable to Telefónica Germany Group" and "Other components of equity" (see Basis of preparation).

The subsidiaries within the group are held by Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") and Telefónica Germany Management GmbH. The respective company's portion of equity of each subsidiary within Telefónica Germany Group was eliminated. Therefore the equity of Telefónica Germany Group consists of the equity of these two companies.

Retained earnings

The net assets attributable to Telefónica Germany Group also include undistributed profits of companies comprising the combined group - less interim dividends paid against profit for the year - actuarial gains and losses, and the impact of the asset ceiling on defined-benefit plans.

(13) FINANCIAL ASSETS AND LIABILITIES

The following tables list the carrying values and fair values of all financial assets and financial liabilities held by Telefónica Germany Group in accordance with the valuation categories of IAS 39. For simplification purposes the carrying amount of current financial assets and current financial liabilities is assumed to be the respective fair value.

In addition the tables show the categorization of financial assets and liabilities according to the importance of the input factors used for their respective valuation. For this purpose three categories are defined:

- Level 1: Quoted prices of the respective financial asset or financial liability in active markets
- Level 2: Other directly observable input parameters which contribute to establishing the fair value based on a valuation model

- Level 3: Input parameters not based on observable market data

	At December 31, 2011						
		Measurement hierarchy					
Thousands of euros	**Available-for-sale**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Loans and receivables**	**Total carrying amount**	**Total fair value**
Other non-current financial assets	5,560	-	5,560	-	-	5,560	5,560
Trade and other receivables	-	-	-	-	808,384	808,384	808,384
Other current financial assets	-	-	-	-	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	-	-	-	-	1,148,568	1,148,568	1,148,568
Total financial assets	**5,560**	**-**	**5,560**	**-**	**4,842,849**	**4,848,409**	**4,848,409**

	At December 31, 2010						
		Measurement hierarchy					
Thousands of euros	**Available-for-sale**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Loans and receivables**	**Total carrying amount**	**Total fair value**
Other non-current financial assets	5,335	-	5,335	-	-	5,335	5,335
Trade and other receivables	-	-	-	-	1,014,160	1,014,160	1,014,160
Other current financial assets	-	-	-	-	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	-	-	-	-	188,965	188,965	188,965
Total financial assets	**5,335**	**-**	**5,335**	**-**	**4,089,022**	**4,094,357**	**4,094,357**

	At December 31, 2009						
		Measurement hierarchy					
Thousands of euros	**Available-for-sale**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Loans and receivables**	**Total carrying amount**	**Total fair value**
Other non-current financial assets	6,412	-	6,412	-	-	6,412	6,412
Trade and other receivables	-	-	-	-	733,158	733,158	733,158
Other current financial assets	-	-	-	-	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	-	-	-	-	37,957	37,957	37,957
Total financial assets	**6,412**	**-**	**6,412**	**-**	**3,657,012**	**3,663,424**	**3,663,424**

	At January 1, 2009						
		Measurement hierarchy					
Thousands of euros	**Available-for-sale**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Loans and receivables**	**Total carrying amount**	**Total fair value**
Other non-current financial assets	6,271	-	6,271	-	-	6,271	6,271
Trade and other receivables	-	-	-	-	553,495	553,495	553,495
Other current financial assets	-	-	-	-	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	-	-	-	-	127,246	127,246	127,246
Total financial assets	**6,271**	**-**	**6,271**	**-**	**3,566,638**	**3,572,909**	**3,572,909**

Trade and other receivables include non-current receivables with a maturity of more than 12 months which amount to kEUR 89,889 as of December 31, 2011 (2010: kEUR 97,505; 2009: kEUR 59,753 and kEUR 0 as of January 1, 2009).

Other non-current financial assets comprise solely available-for-sale financial assets incurred by Telefónica Germany Group to meet its pension obligations but do not qualify as plan assets under IAS 19. Telefónica Germany Group realized net gains from available-for-sale financial assets amounting to kEUR 225, kEUR -1,078 and kEUR 141 in the years 2011, 2010 and 2009, respectively, which were recognized directly in other comprehensive income.

Other current financial assets comprise solely a capital promise between the Telefónica Germany Group and O2 (Europe) Limited (see note 22).

	At December 31, 2011			
Thousands of euros	**Liabilities at amortized cost**	**Finance Leases**	**Total carrying amount**	**Total fair value**
Non-Current Liabilities	**-**	**6,342**	**6,342**	**6,342**
Other payables	-	6,342	6,342	6,342
Current Liabilities	**945,830**	**5,444**	**951,274**	**951,274**
Trade payables	785,580	-	785,580	785,580
Other payables	160,250	5,444	165,694	165,694
Total financial liabilities	**945,830**	**11,786**	**957,616**	**957,616**

	At December 31, 2010			
Thousands of euros	**Liabilities at amortized cost**	**Finance Leases**	**Total carrying amount**	**Total fair value**
Non-Current Liabilities	**-**	**5,846**	**5,846**	**5,846**
Other payables	-	5,846	5,846	5,846
Current Liabilities	**967,367**	**3,789**	**971,156**	**971,156**
Trade payables	811,936	-	811,936	811,936
Other payables	155,431	3,789	159,220	159,220
Total financial liabilities	**967,367**	**9,635**	**977,002**	**977,002**

Thousands of euros	At December 31, 2009			
	Liabilities at amortized cost	**Finance Leases**	**Total carrying amount**	**Total fair value**
Non-Current Liabilities	**-**	**6,301**	**6,301**	**6,301**
Other payables	-	6,301	6,301	6,301
Current Liabilities	**787,189**	**2,883**	**790,072**	**790,072**
Trade payables	599,309	-	599,309	599,309
Other payables	187,880	2,883	190,763	190,763
Total financial liabilities	**787,189**	**9,184**	**796,373**	**796,373**

Thousands of euros	At January 1, 2009			
	Liabilities at amortized cost	**Finance Leases**	**Total carrying amount**	**Total fair value**
Non-Current Liabilities	**-**	**3,043**	**3,043**	**3,043**
Other payables	-	3,043	3,043	3,043
Current Liabilities	**766,609**	**1,674**	**768,283**	**768,283**
Trade payables	557,722	-	557,722	557,722
Other payables	208,887	1,674	210,561	210,561
Total financial liabilities	**766,609**	**4,717**	**771,326**	**771,326**

Non-current trade payables comprise solely finance lease liabilities.

Current other payables comprise operating liabilities and finance lease liabilities amounting to kEUR 5,444; kEUR 3,789 and kEUR 2,883 at the balance sheet dates December 31, 2011, 2010, 2009 and kEUR 1,674 as at January 1, 2009, respectively.

Other current payables comprise financial liabilities mainly resulting from investments in fixed assets and amount to kEUR 160,250 as of December 31, 2011 (2010: kEUR 155,431; 2009: kEUR 187,880 and kEUR 208,887 as of January 1, 2009).

(14) TRADE AND OTHER PAYABLES

The composition of "Trade and other payables" is as follows:

	At December 31,						At January 1,	
	2011		2010		2009		2009	
Thousands of euros	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**
Trade payables	-	259,293	-	293,972	-	187,684	-	312,322
Accruals	-	382,827	-	381,456	-	256,708	-	235,102
Payables to related parties (Note 9)	-	143,460	-	136,508	-	154,917	-	10,298
Trade payables	**-**	**785,580**	**-**	**811,936**	**-**	**599,309**	**-**	**557,722**
Other payables	6,342	186,714	5,846	195,951	6,301	192,846	3,043	218,132
Deferred income	-	169,866	-	136,920	-	96,907	-	89,689
Total	**6,342**	**1,142,160**	**5,846**	**1,144,807**	**6,301**	**889,062**	**3,043**	**865,543**

"Accruals" mainly includes liabilities for provisions, liabilities for personal and liabilities for outstanding invoices.

"Deferred income" principally includes the amount of advance payments received on prepaid contracts and the accruals for future interests from installment purchases.

The detail of current "Other payables" is as follows:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Current Other Payables				
Other creditors non trade	59,644	57,598	53,944	55,916
Capital creditors	100,606	97,833	133,936	152,971
Other taxes and social security	21,020	36,731	2,083	7,571
Finance Leasing	5,444	3,789	2,883	1,674
Total Current	**186,714**	**195,951**	**192,846**	**218,132**
Non-Current Other Payables				
Finance Leasing	6,342	5,846	6,301	3,043
Total Non-Current	**6,342**	**5,846**	**6,301**	**3,043**
Total Other Payables	**193,056**	**201,797**	**199,147**	**221,175**

"Other creditors non trade" mainly includes liabilities from factoring and liabilities for deferred rent-free units.

"Capital creditors" mainly includes liabilities for outstanding invoices for non-current assets.

(15) PROVISIONS

The amounts of provisions are as follows:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Non-Current-Provisions				
Pensions	-	9,044	1,248	1,759
Other Provisions	68,947	107,731	42,069	37,642
Total	**68,947**	**116,775**	**43,317**	**39,401**
Current-Provisions				
Other Provisions	41,609	182,429	-	-
Total	**41,609**	**182,429**	**-**	**-**
Total Provisions	**110,556**	**299,204**	**43,317**	**39,401**

Employee benefits

Telefónica Germany Group has defined-benefit plans for its employees. The following tables present the main data of these plans:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Obligation	-55,158	-57,014	-37,625	-33,561
Assets	72,547	57,309	51,571	44,869
Net provision before asset ceiling	17,389	295	13,946	11,308
Asset ceiling	-16,713	-9,339	-15,194	-13,067
Net provision	-	-9,044	-1,248	-1,759
Net assets	676	-	-	-

At December 31, 2011 the amount of the defined benefit obligation arising from plans that are wholly unfunded amounts to kEUR 2,899 (2010: 3,122; 2009: 2,197 and 1,925 at January 1, 2009) and from plans that are wholly or partly funded amounts to kEUR 52,259 (2010: 53,892; 2009: 35,428 and 31,636 at January 1, 2009).

The development in the present value of obligations in 2011, 2010 and 2009 is as follows:

Thousands of euros	**2011**	**2010**	**2009**
Present value of obligation at the beginning of the year	**-57,014**	**-37,625**	**-33,561**
Current service cost	-2,840	-1,930	-1,770
Interest cost	-2,701	-2,283	-2,071
Actuarial gains and losses	6,597	-16,558	-465
Benefits paid	347	357	242
Transfer to other Companies	453	1,025	-
Present value of obligation at the end of the year	**-55,158**	**-57,014**	**-37,625**

Developments in the fair value of plan assets in 2011, 2010 and 2009 are as follows:

Thousands of euros	**2011**	**2010**	**2009**
Fair value of plan assets at the beginning of the year	**57,309**	**51,571**	**44,869**
Expected return on plan assets	2,827	2,616	2,175
Actuarial losses	-3,241	-3,352	-1,741
Employer contributions	16,276	8,973	6,657
Benefits paid	-174	-182	-195
Transfer to other companies	-589	-1,752	-
Others (Adjustment Management)	139	-565	-194
Fair value of plan assets at the end of the year	**72,547**	**57,309**	**51,571**

Plan assets comprise qualifying insurance policies for all periods.

Expenses recognized in profit or loss are shown as follows:

	As of December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Current service costs	2,840	1,930	1,770
Interest cost	2,701	2,283	2,071
Expected return on plan assets	-2,827	-2,616	-2,175
Total amount of expense	**2,714**	**1,597**	**1,666**

The actual return on plan assets for the year ended December 31, 2011, 2010 and 2009 amounts to kEUR 189, 1,344 and -574.

The amounts of actuarial gains and losses of these plans recognized directly in equity in accordance with their asset ceilings in 2011, 2010 and 2009, before the related tax effect, are as follows:

	As of December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Actuarial gains and losses	-3,219	20,638	2,205
Effect of the limit in IAS 19.58b	7,373	-5,854	2,127
Total amount of expense	**4,154**	**14,784**	**4,332**

The accumulated amount recognized in the other comprehensive income at December 31, 2011, 2010 and 2009 amounts to kEUR 29,762, 25,608 and 10,824.

The various companies combined within Telefónica Germany Group have defined-benefit post-employment plans, covered by qualifying assets.

The number of beneficiaries of these plans at December 31, 2011, 2010, 2009 and at January 1, 2009 are as follows:

	At December 31,			**At January 1,**
Employees	**2011**	**2010**	**2009**	**2009**
Combined Group	5,979	5,792	5,628	4,973

The following experience adjustments arised as of December 31, 2011, 2010 and 2009:

	As of December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Present value of defined benefit obligation	-55,158	-57,014	-37,625
Fair value of plan assets	72,547	57,309	51,571
Surplus in the plan	17,389	295	13,946
Experience adjustments arising from plan liabilities	-390	2,337	-365
Experience adjustments arising from plan assets	3,016	3,791	1,601

The main actuarial assumptions used in valuing these plans are as follows:

	At December 31,			At January 1,
Assumption	**2011**	**2010**	**2009**	**2009**
Nominal rate of salary increase	3.50%	1.00%	3.80%	3.25%-3.80%
Nominal rate of pension payment increase	2%	2%	2%	2%
Discount rate	5.30%	4.80%	6.10%	6.20%
Expected return on plan assets	4.25%-4.0%	4.25%-4.10%	4.25%-4.30%	4.25%-4.30%
- Support fund	4.25%	4.25%	4.25%	4.25%
- Direct commitments	4.00%	4.10%	4.30%	4.30%
Mortality tables	Prof. Klaus Heubeck (RT 2005 G)	Prof. Klaus Heubeck (RT 2005 G)	Prof. Klaus Heubeck (RT 2005 G)	Prof. Klaus Heubeck (RT 2005 G)

The best estimate of contributions expected to be paid to the plans during the year ending December 31, 2012 will amount to approximately kEUR 8,253. The expected return on assets is based on the expected return of the underlying insurance contracts.

Other provisions

"Other Provisions" includes provisions for dismantling and restructuring. The movement is as follows:

	Non Current			Current		Non Current & Current
Thousands of euros	**Dismantling**	**Restructuring**	**Total**	**Restructuring**	**Total**	**Total**
Other provisions at December 31, 2011	**58,602**	**10,345**	**68,947**	**41,609**	**41,609**	**110,556**
Additions	3,382	-	3,382	2,095	2,095	5,477
Utilization	-11,623	-26,106	-37,729	-149,561	-149,561	-187,290
Transfers	-	-6,646	-6,646	6,646	6,646	-
Unwinding of discount	2,209	-	2,209	-	-	2,209
Other provisions at December 31, 2010	**64,634**	**43,097**	**107,731**	**182,429**	**182,429**	**290,160**
Additions	1,048	-	1,048	153,457	153,457	154,505
Utilization	-1,295	-9,607	-10,902	-16,137	-16,137	-27,039
Acquisition of a subsidiary	37,938	36,307	74,245	45,109	45,109	119,354
Unwinding of discount	1,271	-	1,271	-	-	1,271
Other provisions at December 31, 2009	**25,672**	**16,397**	**42,069**	**-**	**-**	**42,069**
Additions	3,713	8,000	11,713	-	-	11,713
Utilization	-1,509	-7,024	-8,533	-	-	-8,533
Transfers	-	-69	-69	-	-	-69
Unwinding of discount	1,316	-	1,316	-	-	1,316
Other provisions at January 1, 2009	**22,152**	**15,490**	**37,642**	**-**	**-**	**37,642**

Provisions for dismantling obligations include the estimated costs for dismantling and removing an asset (e.g. mobile masts and other fixed assets), and restoring the site on which it is located. The expected timing of use depends on the respective agreements of site usage.

"Restructuring" mainly includes provisions for staff reduction plans and provisions for vacancies in rented properties. The expected timing of use covers periods from short to medium term depending on the respective restructuring events. The addition in 2010 is mainly related to the acquisition of HanseNet Telekommunikation GmbH and therefore new staff reduction plans.

The line "Acquisition of a subsidiary" in 2010 is related to the acquisition of HanseNet Telekommunikation GmbH (Note 4). The acquired provisions for restructuring include contingent liabilities of mEUR 9.8 in regard to outstanding settlement agreements with sales agents. As of December 31, 2011 the provision amounts to mEUR 6.3 and mEUR 8.1 as of December 31, 2010. The expected timing of use depends on the progress of settlement agreements with sales agents.

(16) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

General

Telefónica Germany Group is exposed to various financial market risks as a result of its business. However, due to Telefónica Germany Group´s regional focused operations as well as its financing structure, Telefónica Germany Group´s interest rate risk as well as foreign exchange risk is not affecting Telefónica Germany Group materially. Telefónica Germany Group is subject to credit risk from the operating business (trade receivables) as well as from receivables towards Telefónica, S.A. Group.

Furthermore, Telefónica Germany Group is exposed to liquidity risks relating to its credit risks and market risks or a weakening of its operating business or financial market disturbances.

If these financial risks materialize, they could adversely affect Telefónica Germany Group´s financial position, cash flows and profitability.

Telefónica Germany Group has guidelines in place for risk management procedures and for the use of financial instruments, including a clear segregation of duties with regard to financial activities, settlement, accounting and the related controlling. Derivative financial instruments are only contracted as an exception. However, these instruments are always contracted with Telefónica, S.A. Group treasury and Telefónica Germany Group has established guidelines derived from best practice standards for risk assessment procedures and supervision concerning the use of financial derivatives.

Market Risks

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the value of financial instruments or income of Telefónica Germany Group.

Foreign Exchange Risk

Telefónica Germany Group has determined the Euro as its financial reporting currency. All financial statements of Telefónica Germany Group´s subsidiaries are prepared in Euro and therefore, the Combined Financial Statement of Telefónica Germany Group is not exposed to foreign exchange translation risks. Besides translation risks, foreign exchange transaction risk exist, mainly arising from Telefónica Germany Group´s business activities in countries that use currencies other than the Euro. Since Telefónica Germany Group only offers telecommunication services in Germany exchange risks only arise to a very limited extent from Telefónica Germany Group´s business relations with suppliers or business partners in countries that use currencies other than Euro. US Dollar as well as British pound sterling are the major foreign currencies. Given its funding solely by self generated cash and equity no exchange risk from debt denominated in currencies other than the Euro occurs. The net exposure on foreign currency risk at the balance sheet dates December 31, 2011, 2010 and 2009 amounted to kEUR 134, kEUR 4,505 and kEUR 355, respectively.

For material identified foreign currency risks, derivatives are contracted with Telefónica, S.A. Group treasury. At the balance sheet dates December 31, 2011, 2010 and 2009 no foreign currency derivatives existed. There were no material gains or losses from foreign exchange derivatives incurred during the years ended December 31, 2011, 2010 and 2009. The effects before tax on the combined income statement and equity of a simultaneous parallel appreciation as well as depreciation of all foreign currencies of 10% against the Euro at the balance sheet dates December 31, 2011, 2010 and 2009, are not material.

Interest Rate Risk

Interest rate risks arise primarily from Telefónica Germany Group´s cash surpluses being deposited in cash pooling accounts with Telefónica Finanzas S.A., Spain, (Telfisa) and deposit accounts with Telfisa Global B.V., Netherlands. These accounts as well as the bank accounts bear variable interests.

The net exposure on variable interest for Telefónica Germany Group at the balance sheet dates December 31, 2011, 2010 and 2009 amounted to kEUR 1,148,568, kEUR 188,965 and kEUR 37,957 respectively mainly resulting from cash and cash equivalents deposited with Telefónica Finanzas S.A., Spain, (Telfisa) and with Telfisa Global B.V., Netherlands. Telefónica Germany Group did not enter into interest rate derivatives during the years ended December 31, 2011, 2010 and 2009.

The effects before tax on the combined income statement of a change in interest rates for variable-rate financial instruments of +/-100 basis points on the balance sheet dates December 31, 2011, 2010 and 2009 are shown in the table below. There is no impact recognized directly in equity. The minimum interest rate applied to take changes in interest rates into account was 0%. This analysis assumes that all other variables remain constant.

Thousands of euros	**Impact on combined income statement**		
	2011	**2010**	**2009**
+100bp	11,486	1,890	380
-100bp	11,141	1,077	84

Credit Risk

Credit risk is the risk of financial loss arising from counterparty’s inability to repay or service debt in accordance with the contractual terms. Credit risk includes both the direct risk of default and the risk of a deterioration of creditworthiness as well as concentration risks. Telefónica Germany Group’s maximum exposure to credit risk is initially represented by the carrying amounts of the financial assets (without consideration of guarantees or collateral, if available).

Telefónica Germany Group considers managing commercial credit risk as crucial to meet its sustainable business and customer base growth targets in a manner that is consistent with its risk management policy. Appropriate credit policies, procedures and authorization guidelines are established to manage and monitor credit risk.

This approach to manage credit risk is based on continuous monitoring of the risk assumed and the resources necessary. In particular, attention is given to those clients that could cause a material impact on Telefónica Germany Group´s Combined Financial Statements for which depending on the segment and type of relation appropriate credit management instruments like credit insurance or collateral may be used to mitigate exposure to credit risk. The assets acquired as a result of these credit insurances or collaterals during the years ended December 31, 2011, 2010 and 2009 were not material. In order to control credit risk, Telefónica Germany Group regularly performs an ageing analysis of trade accounts receivables and books allowances for doubtful accounts receivables with similar exposure to credit risk, only.

In case Telefónica Germany Group has entered into foreign currency derivatives, all trades have been conducted with Telefónica, S.A. Group treasury according to group policy only.

With regard to its cash surpluses Telefónica Germany Group has entered into cash pooling agreements with Telefónica Finanzas S.A., Spain, (Telfisa) and deposit agreements with Telfisa Global B.V., Netherlands according to Telefónica, S.A. Group policy and places most of its cash surpluses with these institutions.

These cash pooling and deposit agreements will remain in place after the IPO. Thus most of Telefónica Germany Group´s cash surpluses will be concentrated in these companies belonging to Telefónica, S.A. Group which is rated by international rating agencies with an investment grade rating. The remaining cash surplus is spread out over several German banks which are rated by international rating agencies with an investment grade rating.

At year-end 2011, 2010 and 2009 financial assets with Telefónica, S.A. Group as counterparty amounted to EUR 4,031m, EUR 3,043m, EUR 2,971m and as at January 1, 2009 EUR 3,038m, respectively.

Liquidity Risk

Liquidity risk comprises the risk that a company is unable to meet its financial obligations that are settled by delivering cash or another financial asset. Telefónica Germany Group´s approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions.

Telefónica Germany Group manages its liquidity closely coordinated with Telefónica, S.A. and has entered into cash pooling agreements with Telefónica Finanzas, S.A., Spain, (Telfisa) and deposit agreements with Telfisa Global B.V., Netherlands according to Telefónica, S.A. Group policy and places most of its cash surpluses with these institutions. These cash pooling and deposit agreements will remain in place after the IPO.

The cash inflows generated by Telefónica Germany Group´s operating business as well as the possibility of factoring receivables are used to reduce Telefónica Germany Group´s liquidity risk.

Furthermore Telefónica Germany Group could at any time demand by way of voluntary shareholder's contribution from Telefónica, S.A. Group up to EUR 2,886m from an unlimited and irrevocable obligation incurred by Telefónica, S.A. Group. Telefónica Germany Group uses a staggered approach to manage its liquidity. By monitoring its cash flows and working capital development for different periods and in close co-ordination with Telfisa Telefónica Germany Group reduces its liquidity risk.

Telefónica Germany Group did neither incur bank liabilities nor had there been any credit lines at the balance sheet dates December 31, 2011, 2010 and 2009.

At year-end 2011, 2010 and 2009 cash and cash equivalents amounted to EUR 1,148.6m, EUR 189.0m, EUR 38.0m and January 1, 2009 EUR 127.2m, respectively.

The following table shows the maturity profile of Telefónica Germany Group's financial liabilities based on contractual undiscounted payments:

At December 31, 2011					
	Total carrying amount	Gross cash outflow	remaining term		
Thousands of euros			**< 1 years**	**1 - 5 years**	**> 5 years**
Non-Current Liabilities	6,342	6,473	-	6,473	-
Other payables	6,342	6,473	-	6,473	-
Current Liabilities	972,294	972,517	972,517	-	-
Trade payables	785,580	785,580	785,580	-	-
Other payables	186,714	186,937	186,937	-	-
Total financial liabilities	**978,636**	**978,990**	**972,517**	**6,473**	**-**

At December 31, 2010					
	Total carrying amount	Gross cash outflow	remaining term		
Thousands of euros			**< 1 years**	**1 - 5 years**	**> 5 years**
Non-Current Liabilities	5,846	6,063	-	6,063	-
Other payables	5,846	6,063	-	6,063	-
Current Liabilities	1,007,887	1,008,189	1,008,189	-	-
Trade payables	811,936	811,936	811,936	-	-
Other payables	195,951	196,253	196,253	-	-
Total financial liabilities	**1,013,733**	**1,014,252**	**1,008,189**	**6,063**	**-**

At December 31, 2009					
			remaining term		
Thousands of euros	**Total carrying amount**	**Gross cash outflow**	**< 1 years**	**1 - 5 years**	**> 5 years**
Non-Current Liabilities	6,301	6,687	-	6,687	-
Other payables	6,301	6,687	-	6,687	-
Current Liabilities	792,155	792,481	792,481	-	-
Trade payables	599,309	599,309	599,309	-	-
Other payables	192,846	193,172	193,172	-	-
Total financial liabilities	**798,456**	**799,168**	**792,481**	**6,687**	-

At January 1, 2009					
			remaining term		
Thousands of euros	**Total carrying amount**	**Gross cash outflow**	**< 1 years**	**1 - 5 years**	**> 5 years**
Non-Current Liabilities	3,043	3,306	-	3,142	164
Other payables	3,043	3,306	-	3,142	164
Current Liabilities	775,854	776,027	776,027	-	-
Trade payables	557,722	557,722	557,722	-	-
Other payables	218,132	218,305	218,305	-	-
Total financial liabilities	**778,897**	**779,333**	**776,027**	**3,142**	**164**

Capital management

Telefónica Germany Group aims to ensure sustainability of the business and maximize the value to shareholders. Telefónica Germany Group monitors its cost of capital with a goal of optimizing its capital structure. Telefónica Germany Group monitors the equity ratio and the OIBDA. As of December 31, 2011, the equity ratio was 90.3% (2010: 88.8%; 2009: 90.8%; and January 1, 2009: 91.1%), while the OIBDA was EUR 1,149m (2010: EUR 893m; 2009: EUR 886m).

(17) INCOME TAX MATTERS

Combined tax group

Telefónica Germany Group has filed consolidated tax returns for certain companies of Telefónica Germany group. The consolidated tax group comprised 6 companies in 2011 (5 in 2010 and 5 in 2009). Regarding the included entities, see Note 1.

Current and deferred taxes

Total tax expense consists of current and deferred tax expense as follows:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Current tax (expense)	-	-	-
Deferred tax (expense)	-1,732	-5,277	152
Total tax (expense)	**-1,732**	**-5,277**	**152**

The movements in deferred taxes in 2011, 2010 and 2009 are as follows:

Thousands of euros	**2011**	**2010**	**2009**
Beginning of year balance	**412,510**	**412,688**	**411,197**
Deferred tax expense	-1,732	-5,277	152
Movement recognized directly in equity as shown in the consolidated statement of comprehensive income	1,255	5,065	1,339
Other	-	34	-
End of year balance	**412,033**	**412,510**	**412,688**

Tax loss carry forwards and temporary differences

Tax loss carry forwards for which no deferred tax assets have been recognized at December 31, 2011 amounted to kEUR 10,964,650 for corporate income tax and kEUR 11,039,602 for trade tax respectively (kEUR 10,365,410 and kEUR 10,496,929 in 2010 and kEUR 9,831,874 and kEUR 9,993,708 in 2009). No deferred tax assets have been recognized for temporary differences in the amount of kEUR 2,744,062 in 2011, kEUR 3,627,836 in 2010 and kEUR 4,262,789 in 2009. Tax loss carry forwards and deductible temporary difference have been determined under the probable criteria. Tax loss carry forwards of Telefónica Germany Group contain taxable income and losses surrendered by Telefónica Global Services GmbH, Telefónica Global Roaming GmbH, Group 3G UMTS Holding and Quam GmbH, which are not included in combined financial statements in the amount of kEUR 456,232 for 2011, kEUR 329,181 for 2010, and kEUR 4,511 for 2009.

Temporary differences are generated as a result of the difference between tax bases of the assets and liabilities and their respective carrying amounts. Deductible temporary differences give rise to deferred tax assets on the combined statement of financial position, whereas taxable temporary differences in tax bases give rise to deferred tax liabilities on the combined statement of financial position. The sources of deferred tax assets and liabilities from temporary differences and loss carry forwards recognized at December 31, 2011, 2010 and 2009 are as follows:

	At December 31		**At December 31**		**At December 31**		**Year started January 1**	
		2011		**2010**		**2009**		**2009**
Thousands of euros	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Goodwill and intangible assets	758,559	-84,125	1,031,572	-75,761	1,089,632	-241	779,261	-52,161
Tangible Assets	-	-286,945	37,670	-291,945	29	-272,737	431	-243,040
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	-
Trade and other receivables	444,238	-2,060	868,429	-1,816	723,060	-4,133	115,008	-92
Other current financial assets	5,211	-90,209	11,086	-83,667	25,153	-	34,628	-184,507
Debt, trade and other payables	92,459	-436,396	109,740	-1,220,408	80,836	-1,224,479	665	-40,896
Provisions including pension provisions	30,379	-1,581	29,545	-9,380	-	-6,310	-	-2,602
Other current financial assets	3,983	-21,480	10,018	-2,575	2,619	-740	4,602	-100
Tax loss carryforwards	-	-	-	-	-	-	-	-
Tax assets (liabilities)	1,334,828	-922,795	2,098,061	-1,685,551	1,921,328	-1,508,640	934,596	-523,399
Set off of tax	-922,795	922,795	-1,685,551	1,685,551	-1,508,640	1,508,640	-523,399	523,399
Net tax assets (liabilities)	**412,033**	**-**	**412,510**	**-**	**412,688**	**-**	**411,197**	**-**

Reconciliation of book profit before taxes to taxable income

The reconciliation between accounting profit and the income tax expense for 2011, 2010 and 2009 is as follows:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Accounting profit (loss) before tax	**73,078**	**-97,255**	**-33,736**
Tax expense at prevailing statutory rate (32%)	-23,334	31,053	10,772
Non-deductible expenses	-9,111	-7,854	-6,259
Change in unrecognized temporary differences and tax loss carryforwards	30,288	-28,408	-4,497
Other	425	-68	137
Income tax (expense)	**-1,732**	**-5,277**	**152**
Breakdown of current/deferred tax (expense)			
Current tax (expense)	-	-	-
Deferred tax (expense)	-1,732	-5,277	152
Total income tax (expense)	**-1,732**	**-5,277**	**152**

(18) REVENUES AND EXPENSES

Revenues

The breakdown of "Revenues" is as follows:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Rendering of Services	4,372,205	4,344,149	3,418,855
Net Sales	663,347	482,129	326,685
Total	**5,035,552**	**4,826,278**	**3,745,540**

Revenues breakdown by Wireless Business and Wireline Business is as follows:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Revenues			
Wireline Business	1,425,740	1,411,861	558,277
Wireless Business	3,605,747	3,411,930	3,187,263
Wireless Service Revenues	*2,946,465*	*2,932,288*	*2,860,577*
Handset Revenues	*659,282*	*479,642*	*326,685*
Other	4,065	2,487	-
Total Revenues	**5,035,552**	**4,826,278**	**3,745,540**

Revenues principally comprise Wireless Service Revenues, Handset Revenues and Wireline Revenues. Service Revenues comprise Wireless Service Revenues as well as Wireline Revenues.

Wireless Service Revenues

The vast majority of Wireless Service Revenues is comprised of customer base and tariff fees charged for voice (including incoming and outgoing calls), text (including SMS and MMS) and wireless data services and revenue from service contracts. Access and interconnection fees paid by other operators for calls and SMS terminated on our network are also included in Wireless Service Revenues, as well as visitor roaming revenue.

Handset Revenues

Handset Revenues is comprised of the sale of wireless devices under the "O2 My Handy" model as well as cash sales. The revenue under the "O2 My Handy" model is discounted as Telefónica Germany Group receives payments from customers in monthly installments, which are paid out over a 12- or 24-month period. Furthermore, one-time revenue payments, such as activation fees for the wireless business (primarily for post-paid), hardware for bundled pre-paid SIM and handset packages or post-paid contracts as well as accessories are included.

Wireline Business

Wireline Revenues are primarily comprised of retail DSL service revenue, retail DSL activation fees, revenue for DSL-related hardware and non-recurring charges (e.g. charges for address change, number portation, etc.); service and hardware revenue from Pay TV service; revenues from wholesale ULL, also called wholesale DSL, revenue derived from the sale of our DSL network and services as well as hardware to other providers who then repackage and resell it to the end consumer; carrier traffic revenue related to the sale and trading of minutes between carriers to connect their customers calls through other operators networks, as well as revenue derived from hosting client content on our data center infrastructure and providing accompanying management services, such as the use of our data center infrastructure to host applications designed and operated by third parties. DSL revenue also comprises fixline telephony revenues.

Other

Other Revenues comprise revenue derived from the vertical business.

Other income

The breakdown of "Other income" in 2011, 2010 and 2009 is as follows:

	for the year ended December 31		
Thousands of euros	**2011**	**2010**	**2009**
Ancillary income	249	399	334
Own work capitalized	60,471	87,074	91,231
Gain on disposal of assets	271	1,386	537
Total	**60,991**	**88,859**	**92,102**

Earnings per share

Telefónica Deutschland Holding AG, parent of the affiliated group, was formed subsequent to the reporting period presented in the combined financial statements and does therefore not have an EPS history. For information regarding the transformation under German company law please see Note 22.

Other expenses

Other expenses mainly consist of sales and marketing, infrastructure, management fee and other external services.

Operating leases

The estimated payment schedule operating leases, purchase and contractual commitments is as follows:

	At December 31,			**At January 1,**
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Operating lease obligations				
Less than 1 year	297,589	311,308	272,378	246,751
1 to 5 years	873,664	907,599	859,444	784,431
Over 5 years	861,077	740,976	737,740	738,362
Total	**2,032,330**	**1,959,883**	**1,869,562**	**1,769,544**
Purchase and other contractual obligations				
Less than 1 year	197,053	184,526	264,284	299,297
1 to 5 years	30,774	16,076	73,184	2,752
Over 5 years	-	-	-	-
Total	**227,827**	**200,602**	**337,468**	**302,049**

The following amounts have been recognized in the combined income statement:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Operate leasing expense	313,812	296,475	309,018

The operate leasing expenses mainly include expenses for real estate (i. e. office buildings and shops), cars and network equipment (i. e. leased lines and cell sites).

Telefónica Germany Group provides operating guarantees granted by external financial counterparts which are offered in course of normal commercial activity especially with regard to antenna sites rental contracts.

These guarantees amounted to EUR 35.8m, EUR 35.8m and EUR 37.4m as of December 31, 2011, 2010 and 2009 respectively.

Subleases

Telefónica Germany Group entered into various subleasing agreements for office buildings. The estimated payment schedule for subleases is as follows:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Sublease payments				
Less than 1 year	4,814	1,479	2,007	1,202
1 to 5 years	17,300	1,093	2,474	1,944
Over 5 years	17,698	-	85	-
Total	**39,812**	**2,572**	**4,566**	**3,146**

The following amounts have been recognized in the combined income statement:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Subleases income	3,663	2,241	1,676

The main finance lease transactions are described in Note 20.

Full-time equivalent (FTE) and employee benefits

a) FTE

The table below presents the breakdown of Telefónica Germany Group's average FTE in 2011, 2010 and 2009.

Average Headcount	**2011**	**2010**	**2009**
Combined Group	5,315	6,280	4,900

The increase in average headcount in 2010 is related to the acquisition of the HanseNet Telekommunikation GmbH.

b) Employee benefits

Expenses relating to defined contribution plan amount to EUR 16.5m in 2011 (2010: EUR 9.1m; 2009: EUR 6.7m).

Depreciation and amortization

The breakdown of "Depreciation and amortization" on the combined income statement is as follows:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Depreciation of property, plant and equipment	610,354	492,941	517,976
Amortization of intangible assets	471,835	495,224	404,896
Total	**1,082,189**	**988,165**	**922,872**

(19) OTHER INFORMATION

Contingent liabilities and assets

As part of its ordinary business Telefónica Germany Group is involved in various proceedings both in and out of court. These proceedings are in total not material to the results of operations and financial position.

(20) FINANCE LEASES

The finance leases of Telefónica Germany Group are presented in the Combined Financial Statements of the year 2011, 2010 and 2009 in the position "Property, Plant and Equipment" (Note 7) and are as follows:

Net carrying amount of lease assets	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Plant and machinery	11,786	9,635	9,184	4,717
Total	**11,786**	**9,635**	**9,184**	**4,717**

These commitments mainly arise from lease agreements for IT and office equipment for internal usage.

The breakdown of the minimum lease payments is as follows:

At December 31, 2011			
Present value of minimum lease payments in thousands of euros	**Minimum future lease payments obligation**	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
due within one year	5,667	223	5,444
due between one and five years	6,473	131	6,342
due in more than five years	-	-	-
Total	**12,140**	**354**	**11,786**

At December 31, 2010			
Present value of minimum lease payments in thousands of euros	**Minimum future lease payments obligation**	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
due within one year	4,096	307	3,789
due between one and five years	6,064	218	5,846
due in more than five years	-	-	-
Total	**10,160**	**525**	**9,635**

At December 31, 2009			
Present value of minimum lease payments in thousands of euros	**Minimum future lease payments obligation**	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
due within one year	3,209	326	2,883
due between one and five years	6,687	386	6,301
due in more than five years	-	-	-
Total	**9,896**	**712**	**9,184**

At January 1, 2009			
Present value of minimum lease payments in thousands of euros	**Minimum future lease payments obligation**	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
due within one year	1,847	173	1,674
due between one and five years	3,141	259	2,882
due in more than five years	164	3	161
Total	**5,152**	**435**	**4,717**

(21) SHARE-BASED PAYMENTS

At December 31, 2011 TGG has the following share-based payment arrangements:

Description of the share-based payment plans

"Performance Share Plan" (equity-settled)

The Performance Share Plan is a long-term incentive plan for managers and senior executives of Telefónica, S.A. and other Telefónica Group companies, Telefónica Germany included.

Under this plan, selected participants who met the qualifying requirements were given a certain number of Telefónica, S.A. shares as a form of variable compensation. As the shares are delivered by Telefónica, S.A., the parent company is the settling entity in accordance with IFRS 2.

It is divided into five phases, each three years long, the first beginning on July 1, 2006 and ending on June 30, 2009, the fifth on July 1, 2010. At the start of each phase the number of shares to be awarded to plan beneficiaries is determined based on their success in meeting targets set. The shares are delivered at the end date of each phase, subject to a number of conditions:

- The beneficiary must continue to work for the company throughout the three-year duration of each phase.
- The actual number of shares awarded at the end is calculated by multiplying the maximum number of shares assigned to each executive at the start of a phase by a percentage reflecting the performance of the Telefónica share. The performance is measured by comparing the Total Shareholder Return ("TSR"), which includes both share price and dividends, with the TSRs offered by a basket of listed telecom companies that comprise the comparison group. This will be 100% if the TSR of Telefónica is equal to or better than that of the third quartile of the Comparison Group and 30% if Telefónica's TSR is in line with the average. The percentage rises linearly for all points between these two benchmarks. If the TSR is below average no shares are awarded.

At June 30, 2009, the first phase of this plan ended, which entailed the following number of shares issued:

Phase	No. of shares deliverd	Grant-date fair value per unit	End date
1st phase July 1, 2006	144,289	6.43	June 30, 2009

At June 30, 2010, the second phase of this plan ended, which entailed the following number of shares issued:

Phase	No. of shares deliverd	Grant-date fair value per unit	End date
2nd phase July 1, 2007	109,830	7.70	June 30, 2010

At June 30, 2011, the third phase of this plan ended, which entailed the following number of shares issued:

Phase	No. of shares delivered	Grant-date fair value per unit	End date
3rd phase July 1, 2008	137,507	8.39	June 30, 2011

The number of the shares granted in each of the two outstanding phases at December 31, 2011 is as follows:

Phase	Maximum no. of shares to be issued	Grant-date fair value per unit	End date
4th phase July 1, 2009	179,398	8.41	June 30, 2012
5th phase July 1, 2010	179,244	9.08	June 30, 2013

The fair values of the equity instruments granted to employees were measured using the share price of Telefónica, S.A. shares at grant date under consideration of market conditions.

The plan has been valued using a Monte Carlo method, thereby incorporating the performance target as a market condition. This method involves generating share prices and TSRs for each company, based on its dividend yield and volatility, taking into account the cross correlations between stocks. The model is used to define the probability for the shares to vest and establish share price growth associated with different ranking positions.

The other than market vesting condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

Concerning expected dividends of the shares, which the employees do not receive until physical delivery of the shares, there is no compensation payment. This fact was incorporated in the measurement of the grand date fair value.

As this plan is an equity-settled plan, settled by Telefónica, S.A., employee expenses were recognized with a corresponding entry in equity as a contribution by parent.

There is a recharge agreement in place between Telefónica, S.A. and TGG concerning the shares delivered to employees in Germany. The recharge was accounted for by a debit to equity and a credit to liabilities against Telefónica, S.A. by analogy to the requirements for cash-settled share-based payments. This means that the valuation is adjusted at each reporting date and the amounts are recognized on a pro rata basis over the vesting period.

"Performance and Investment Plan" (equity-settled)

This plan will take effect following completion of the "Performance Share Plan" and addresses Telefónica group directors and executive officers.

It is divided into three phases, each three years long, the first beginning on July 1, 2011 and ending on June 30 2014, the third ending on July 1, 2013. At the start of each phase the number of shares to be awarded to plan beneficiaries is determined based on their success in meeting targets set. The shares will be delivered at the end date of each phase.

As the shares are delivered by Telefónica, S.A., the parent company is the settling entity in accordance with IFRS 2.

The calculation method used to determine the actual number of shares delivered is similar to the "Performance Share Plan". The condition, that each participant must still be a Telefónica Group employee at the delivery date for each phase, also applies.

In addition to this, the possibility of co-investing has been included for all the participants. Under the co-investment condition the participant must directly own 25 % of the number of shares assigned to him or her under the "Performance and Investment Plan". The shares must be owned at the first anniversary (or within fifteen months exclusively for the first cycle) of the starting date of each cycle, and the participant must hold those until the vesting date, in order to be entitled to receive an additional award of 25 % of the original number of shares. Consequently, the participant receives one free share for each co-invested share, subject to the Company's performance.

The first allocation of shares under this Plan was made on July 1, 2011. Therefore, the maximum number of shares assigned (including the amount of co-investment) under the Plan at December 31, 2011 is as follows:

Phase	**Maximum no. of shares to be issued**	**Grant-date fair value per unit**	**End date**
1st phase July 1, 2011	92,767	8.28	June 30, 2014

Phase	**No. of shares co-invested**	**End date**
1st phase July 1, 2011	21,549	June 30,2014

The fair values of the equity instruments granted to employees were measured using the share price of Telefónica, S.A. shares at grant date under consideration of market-conditions.

The market condition, which implies that a performance target of the Telefónica, S.A. share must be achieved, was incorporated in the measurement of the fair value by means of the Monte Carlo method as explained above.

The service condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

The co-investment condition, being a non-vesting condition, is taken into account when estimating the fair value of the awards at the measurement date. Additionally, the condition to hold the shares until the vesting date, which is another non-vesting condition, was incorporated in the fair value.

Concerning expected dividends of the matching shares, which the employees do not receive until physical delivery of the shares, there is no compensation payment. This fact was incorporated in the measurement of the fair value.

As this plan is an equity-settled plan, settled by Telefónica, S.A., employee expenses were recognized with a corresponding entry in equity as a contribution by parent.

There is a recharge agreement in place between Telefónica, S.A. and TGG concerning the shares delivered to employees in Germany. The recharge was accounted for by a debit to equity and a credit to liabilities against Telefónica, S.A. by analogy to the requirements for cash-settled share-based payments.

"Performance Cash Plan" (cash-settled)

This plan is operating under the same conditions like the "Performance Share Plan". It entails delivery to executives of a specific number of theoretical options in Telefónica, S.A. which, in the event, would be cash-settled at the end of each phase. The payment is equivalent to the market value of the shares on settlement date up to a maximum of three times the notional value of the shares at the delivery date.

As the payment is made by Telefónica Germany, it is the settling entity.

The value of theoretical options is established as the average share price in the 30 days immediately prior to the start of each phase, except for the first phase, where the average share price during the 30 days immediately prior to May 11, 2006 (12.83 euros) was taken as the reference.

The estimated duration of this plan is 7 years, with 5 phases, each of 3 years, commencing on July 1 of each year, starting in 2006.

Like the "Performance Share Plan", the performance rate for setting payments is measured based on the TSR on Telefónica shares with respect to the comparison group's TSRs, in line with the same criteria.

The fair value at December 31, 2011 of the options delivered in each phase in force at that time was 13.39 euros per option. This value is calculated by taking the Telefónica share price and including the estimated TSR and is updated at each year end.

The market condition, which implies that a performance target of the Telefónica, S.A. share must be achieved, was incorporated in the measurement of the fair value, by means of the Monte Carlo method as explained above.

The service condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

As this plan is a cash-settled plan, it was accounted for by recording employee expenses and a corresponding liability.

"Global Employee Share Plan" (equity-settled)

This plan is a share incentive plan for all employees of the Telefónica group worldwide, with certain exceptions. Under this plan, participants that meet the qualifying requirements are offered the possibility of acquiring Telefónica, S.A. shares and receiving the same number of shares free of charge at the end of the period.

As the shares are delivered by Telefónica, S.A., the parent company is the settling entity in accordance with IFRS 2.

The initial duration of the plan is intended to be two years. Employees subscribed to the plan can acquire Telefónica, S.A. shares through monthly installments of up to 100 euros up to a maximum of 1.200 euros over a twelve-month period of time (acquisition period). The shares are purchased at fair value at acquisition date. The employees participating in the plan are entitled to dividends on the shares they acquired. The delivery of shares will take place when the plan is consolidated, as at September 1, 2012, subject to a number of conditions:

- The beneficiary must continue to work for the company throughout the two-year duration of the plan (consolidation period), except for employees leaving for a good reason.
- The beneficiary must have retained the shares acquired for an additional twelve-month period after the end of the purchase period.

The acquisition period opened in August 2010, and at December 31, 2011, 2,844 employees had adhered to the plan.

At August 31, 2012, the vesting period of this plan will end, which entails the following number of shares assigned to participants:

As at December 31,	Maximum no. of rights for shares to be issued	Weighted average of grant date fair value per unit
2011	94,090	16.72
2010	47,045	18.07

The fair values of the equity instruments granted to employees were measured using the share price of Telefónica, S.A. shares at grant date.

The other than market vesting condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

The holding condition concerning the shares, which is a non-vesting condition, was incorporated in the fair value.

Concerning expected dividends of the shares, which the employees do not receive until physical delivery of the shares, there is no compensation payment. This fact was incorporated in the measurement of the fair value.

The GESP is an equity-settled plan and is therefore accounted for by a debit to employee expenses and a credit to equity.

There is a recharge agreement in place between O2 (Europe) Limited and TGG concerning the shares delivered to employees in Germany. The recharge agreement is recognized by deduction from equity and a corresponding liability to O2 (Europe) Limited.

Employee expenses

	At December 31,		
in thousands of euros	**2011**	**2010**	**2009**
Employee expenses arising from share-based payment transactions	3,504	3,276	3,883
Thereof from equity-settled plans	2,918	2,055	1,046
Liabilities arising from share-based payment transactions (without liabilities from recharge agreements)	587	1,221	2,837

(22) EVENTS AFTER THE REPORTING PERIOD

Capital promise

On March 28, 2003 and April 30, 2004 O2 (Europe) Limited issued a declaration of obligation to Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH", former "O2 Germany Verwaltungs GmbH") under which O2 (Europe) Limited obliged itself to provide Telefónica Germany Verwaltungs GmbH by way of voluntary shareholder's contribution with an amount of kEUR 4,650,000 and kEUR 500,000 respectively. These amounts were to be remitted on first demand of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") and obligations have been unlimited in time. As of December 31, 2011 O2 (Europe) Limited contributed kEUR 2,264,104 of cash under the declarations of obligation.

On September 13, 2012 O2 (Europe) Limited and Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") cancelled the declarations of obligation. The outstanding receivable of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") against O2 (Europe) Limited resulting from the declaration of obligation amounting to kEUR 2,885,897 was set off against equity and presented as a distribution to shareholders in the statement of changes in equity.

Capital increase resolution

On September 18, 2012 O2 (Europe) Limited has increased the share capital of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") from EUR 1,116,945,300 by EUR 100 to EUR 1,116,945,400 in return for a contribution in kind. The increase of the share capital was made through the issue of a new share with a nominal amount of EUR 100, which was subscribed by O2 (Europe) Limited. The capital increase in kind was made in full through the contribution of all shares of Telefónica Germany Management GmbH into Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH").

Pre IPO dividend

On September 14, 2012 the pre-IPO dividend accounts for anticipated EUR 7,186m, of which EUR 4,300m has been considered as cash payments and EUR 2,886m as cancellation of declarations of obligation (see above).

Capital contribution

On September 18, 2012 the shares of Telefónica Germany Management GmbH have been contributed to Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH").

Establishment of a new company

Telefónica Germany GmbH & Co. OHG founded Wayra Deutschland GmbH with the shareholder contract in July 2012. The company was officially entered in the commercial register on July 24, 2012 with a share capital of kEUR 25.

Transfer of companies

Effective as of September 14, 2012 Telefónica Germany GmbH & CO. OHG contributed its shares in the Group3G UMTS Holding GmbH and its subsidiary to the Telefónica Chile Holding B.V.. On September 18, 2012 Telefónica Germany GmbH & Co. OHG contributed its shares in Telefónica Global Services GmbH and its subsidiaries to its subsidiary Telefónica Chile Holding B.V..

Effective as of October 1, 2012 Telefónica Germany GmbH & Co. OHG sold its shares in Telefónica Chile Holding B.V., to Telfisa Global B.V., a subsidiary of Telefónica, S.A. at arm`s length. The sales price of Telefónica Chile Holding B.V. and its subsidiaries was EUR 703m. The profit and loss pooling agreements between Telefónica Germany GmbH & Co. OHG and Telefónica Global Services GmbH, respectively Group 3G UMTS Holding GmbH had been cancelled upon the sale of Telefónica Chile Holding B.V..

IC-Loan with Telefónica Germany GmbH & CO. OHG

As of September 10, 2012 Telefónica Germany GmbH & CO. OHG has entered in loan agreements with Telefónica Germany Customer Services GmbH and Fonic GmbH, receiving EUR 9m and EUR 75m (total credit line: EUR 94m), respectively. Further intercompany loans are entered into with Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") (EUR 4m), Telefónica Germany Management GmbH (EUR 1m), Telefónica Germany 1. Beteiligungsgesellschaft mbH (EUR 3m), Telefónica Germany Partner Services GmbH (EUR 1,5m) as of September 13, 2012.

Loan with Telfisa Global B.V.

Telefónica Germany GmbH & CO. OHG has entered into loan agreements dated as of September 12, 2012 with Telfisa Global B.V. as lender in the amount of EUR 703m and EUR 1,250m.

Payment and cancellation of profit and loss transfer agreements

As of September 30, 2012, all existing profit and loss transfer agreements between Telefónica Germany GmbH & Co. OHG and each of Group3G UMTS Holding GmbH, Quam GmbH, Telefónica Global Services GmbH and Telefónica Global Roaming GmbH were terminated. Prior to such termination, prepayments on expected profits were made to respectively by Telefónica Germany GmbH & Co. OHG under these agreements for the first 9 months ended September 30, 2012.

Telefónica Global Services GmbH paid on September 12, 2012 EUR 317,098,145 as profit transfer for the year ended December 31, 2011 to Telefónica Germany GmbH & CO. OHG. For the year 2012 prepayments in the amount of EUR 233,746,354 on expected profits were made to Telefónica Germany GmbH & CO. OHG.

Telefónica Global Roaming GmbH transferred profit in the amount of EUR 146,372,899 to Telefónica Germany GmbH & CO. OHG for the year 2012 on September 12, 2012.

On August 23, 2012 Telefónica Germany GmbH & CO. OHG set off loss amounting to EUR 67,529,724 to Group3G UMTS Holding GmbH.

On August 23, 2012 Quam GmbH transferred EUR 20,928,712 of profit to Telefónica Germany GmbH & CO. OHG.

On August 9, 2012 Telefónica Global Services GmbH transferred EUR 40,000,000 of profit to Telefónica Germany GmbH & Co. OHG for the year 2010.

On August 9, 2012 Telefónica Global Roaming GmbH transferred EUR 163,836,038 of profit to Telefónica Germany GmbH & Co. OHG for the year 2011.

Change of legal form

As of September 26, 2012 Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") located in Georg-Brauchle-Ring 23-25, 80992 München has changed its name and legal form before the IPO into Telefónica Deutschland Holding AG.

With the change in legal form, a Supervisory Board was established, which qualifies as Related Party. No related party transaction has been conducted with any member of this board in the respective period.

Equity

Telefónica Deutschland Holding AG has authorized capital allowing the company to increase the registered share capital until September 2017 by a total amount of up to EUR 558,472,700 by issuing new non-par value registered shares.

Financing Agreements

Telefónica Germany GmbH & Co. OHG has undrawn committed credit lines with maturity beyond one year in a total amount of EUR 710,000,000. In August and September 2012, Telefónica Germany GmbH & Co. OHG, as borrower, entered into revolving credit facility agreements with several banks.

APPENDIX I: COMPANIES COMPRISING TELEFÓNICA GERMANY GROUP

The table below lists the companies comprising Telefónica Germany Group as at December 31, 2011, 2010, 2009 and as at January 1, 2009.

Included for each company are the company name, the registered office, country, Telefónica Germany Group's effective shareholding and the company or companies through which the Telefónica Germany Group holds a stake.

Company name, registered office	Country	At December 31,			At January 01,
Parent companies:		**2011**	**2010**	**2009**	**2009**
Telefónica Germany Verwaltungs GmbH, München [1)]	Germany	na	na	na	na
Telefónica Germany Management GmbH, München [2)]	Germany	na	na	na	na
Subsidiaries					
Telefónica Germany GmbH & Co. OHG, München [3)]	Germany	100%	100%	100%	100%
Telefónica Germany Holding GmbH, München [4)]	Germany	100%	100%	100%	100%
Telefónica Germany Customer Services GmbH, München [5)]	Germany	100%	100%	100%	100%
Telefónica Germany Partner Services GmbH, München	Germany	100%	100%	100%	100%
Telefónica Germany Online Services GmbH, München [6)]	Germany	100%	0%	0%	0%
Fonic GmbH, München	Germany	100%	100%	100%	100%
HanseNet Telekommunikations GmbH, Hamburg	Germany	0%[8)]	100%[7)]	0%	0%
TCHIBO Mobilfunk Beteiligungs GmbH, Hamburg	Germany	50%	50%	50%	50%
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg	Germany	50%	50%	50%	50%

1) Former (till February 17, 2011) Telefónica O2 Germany Verwaltungs GmbH

2) Former (till February 17, 2011) Telefónica O2 Germany Management GmbH

3) Former Telefónica O2 Germany GmbH & Co. OHG

4) Former (till February 17, 2011) O2 (Germany) Holding GmbH

5) Former (till February 17, 2011) Telefónica Deutschland GmbH

6) Founded on May 27, 2011

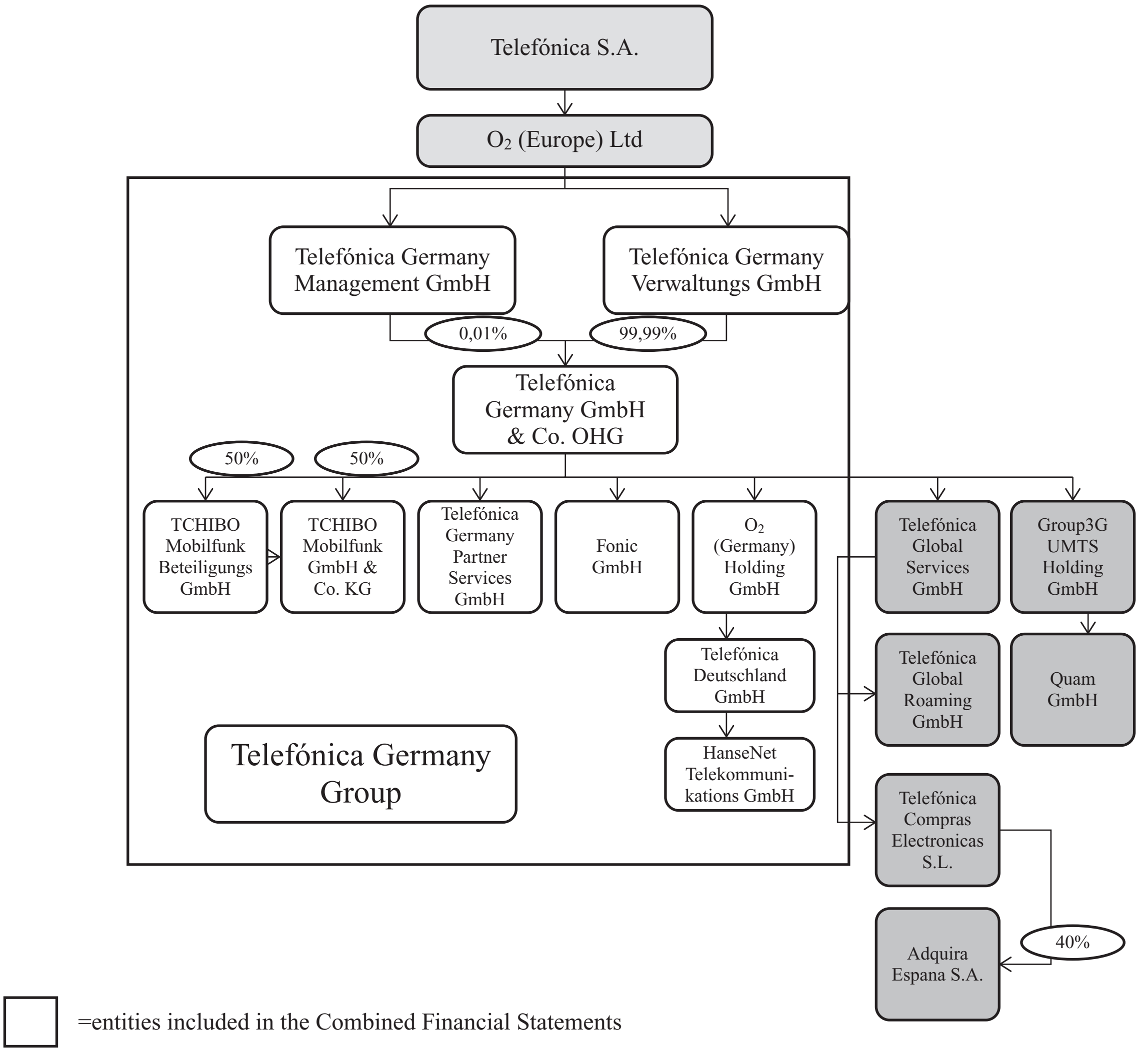
7) Acquired by Telefónica Deutschland GmbH effective at February 16, 2010

8) Merged into Telefónica Germany GmbH & Co. OHG as at March 4, 2011

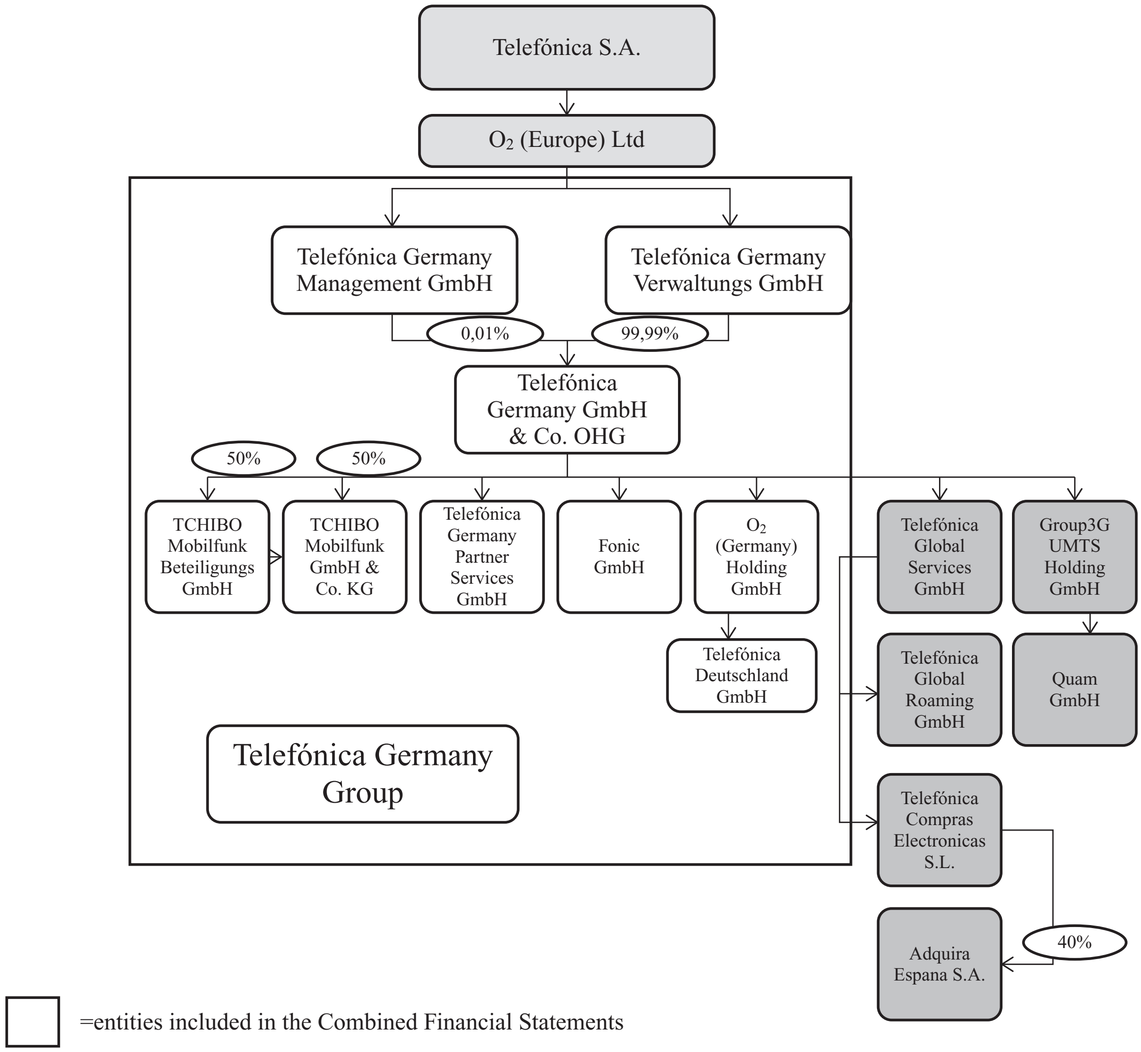
APPENDIX II: VISUAL ILLUSTRATION OF THE TELEFÒNICA GERMANY GROUP

The charts below show the companies comprising Telefónica Germany Group as in 2010 and 2009.

Companies comprising Telefónica Germany Group as of December 31, 2010:



Companies comprising Telefónica Germany Group as of January 1, and December 31, 2009:



Translation of the German-language audit opinion

AUDIT OPINION

To Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH")

We have audited the Combined Financial Statements prepared by Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH"), Munich, comprising the Combined Statements of Financial Position, the Combined Income Statements, the Combined Statements of Comprehensive Income, the Combined Statements of Cash Flows, the Combined Statements of Changes in Equity and the notes to the Combined Financial Statements, for the fiscal years from 1 January 2011 to 31 December 2011, 1 January 2010 to 31 December 2010 and 1 January 2009 to 31 December 2009. The preparation of the combined financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) taking into account the "Basis of Preparation" as set out in Note 1 to the Combined Financial Statements is the responsibility of the Company's management. In particular, the "Basis of Preparation" sets out the basis for determining the entities to be included in the Combined Financial Statements. Our responsibility is to express an opinion on the Combined Financial Statements based on our audit.

We conducted our audit of the Combined Financial Statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the combined financial statements in accordance with the applicable financial reporting framework are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the entities included in the Combined Financial Statements and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the combined financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the Combined Financial Statements, the determination of entities to be included in the Combined Financial Statements, the accounting and combination principles used and significant estimates made by management, as well as evaluating the overall presentation of the Combined Financial Statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Combined Financial Statements comply with IFRS as adopted by the European Union (EU) taking into account the "Basis of Preparation" as set out in Note 1 to the Combined Financial Statements and give a true and fair view of the net assets, financial position and results of operations of the entirety of entities included in the Combined Financial Statements in accordance with these requirements.

Munich, 2 October 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Bostedt	Weiß
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

AUDITED FINANCIAL STATEMENTS OF TELEFÓNICA GERMANY VERWALTUNGS GMBH IN ACCORDANCE WITH HGB AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

TELEFÓNICA GERMANY VERWALTUNGS GMBH
RESTATED BALANCE SHEET FOR THE YEAR ENDED DECEMBER 31, 2011

	At December 31	
	2011	**2010**
	EUR	**kEUR**
ASSETS		
A) FIXED ASSETS		
Interests in affiliated companies	10,375,941,761.17	5,628,487
I. Receivables and other assets		
1. Receivables to shareholders	2,885,896,413.00	2,885,896
2. Receivables to affiliated companies	4,213,053.19	4,178
3. Other assets	25,345.22	22
	2,890,134,811.41	2,890,096
II. Cash, bank deposits	3,100,000.00	3,100
	2,893,234,811.41	2,893,196
TOTAL ASSETS	**13,269,176,572.58**	**8,521,683**

	2011	**2010**
	EUR	**kEUR**
EQUITY AND LIABILITIES		
A) EQUITY		
I. Subscribed capital	1,116,945,300.00	1,116,945
II. Capital reserve	0.00	18,078,540
III. Loss carried forward	0.00	-10,991,597
IV. Profit of the year	0.00	8
V. Balance sheet profit	11,834,438,151.08	0
	12,951,383,451.08	**8,203,896**
B) Provisions		
Other provisions	11,000.00	5
C) LIABILITIES		
1. Liabilities to shareholders	206,090.21	206
2. Liabilities to affiliated companies	317,576,031.29	317,576
	317,782,121.50	**317,782**
TOTAL EQUITY AND LIABILITIES (A+B+C)	**13,269,176,572.58**	**8,521,683**

TELEFÓNICA GERMANY VERWALTUNGS GMBH
RESTATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2011

	2011 EUR	2010 kEUR
1. Other operating income	4,747,454,661.17	0
2. Other operating expenses	26,594.34	91
3. Other interest and similar income	67,061.61	61
4. Result from ordinary activities	4,747,495,128.44	-30
5. Income taxes	-7,406.31	38
6. Net income for the year	4,747,487,722.13	8
7. Loss carried forward	-10,991,589,790.56	
8. Withdrawal from capital reserve	18,078,540,219.51	
9. Net retained profit	11,834,438,151.08	

TELEFÓNICA GERMANY VERWALTUNGS GMBH
RESTATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

I. GENERAL INFORMATION FOR THE FINANCIAL STATEMENTS

The financial statements of Telefónica Germany Verwaltungs GmbH, formerly Telefónica O_2 Germany Verwaltungs GmbH, for the fiscal year January 1, to December 31, 2011 have been prepared in accordance with local accounting principles based on ”Handelsgesetzbuch” (HGB) and German ”GmbH-Gesetz” (GmbHG). The income statement has been prepared by using the nature of expense method in accordance with article 275 paragraph 2 HGB.

Within the meaning of article 267 paragraph 1 HGB the company is a small company at the balance sheet date. By preparing the notes the company has partially made use of the size-depending facilities of article 288 HGB.

II. SUBJECT OF THE RESTATEMENT OF THE FINANCIAL STATEMENTS

As a result of negotiations concerning a possible transaction in June and July 2012 there were external indicators showing a higher fair value of the interests in Telefónica Germany GmbH & Co. OHG (formerly Telefónica O_2 Germany GmbH & Co. OHG) at the balance sheet date, which caused a new evaluation of the original range of valuation results and as a consequence gave rise to a higher fair value at the balance sheet date. Hence, the fair value is now more oriented at the upper end of the original range of valuation results. This new evaluation was made, because of the in the meantime emerged external indicators it had to be assumed that the reversal of impairment has already taken place at the balance sheet date and as a consequence has to be considered in the financial statements. As a result, a reversal of impairment has been recorded according to article 253 paragraph 5 phrase 1 HGB in the amount of kEUR 4,747,455, which has been recorded as a gain in the income statement within the position other income.

Furthermore, based on shareholder resolution dating August 24, 2012 the capital reserve has been unwound according to § 270 paragraph 1 HGB to get it disposable for dividend distribution to shareholders. As a result of these changes in reserves, by now the balance sheet shows the position balance sheet profit instead of the formerly disclosed positions loss carried forward and profit for the year. For purpose of income statement profit for the year has been reconciled to the position balance sheet profit in accordance with article 158 AktG.

III. ACCOUNTING POLICIES

The accounting policies used in preparing the financial statements ending December 31, 2011 are in accordance with the provisions of articles 242 to 256 and 264 to 288 HGB. Accounting policies are mainly unchanged in comparison to prior year.

Financial assets are measured at historical cost minus necessary impairments to show lower fair values at the balance sheet date. The calculation of fair values at the balance sheet date is based on generally accepted measurement methods (regarding the provisions of IDW RS HFA 10). If the reasons for impairment do not exist any longer at the balance sheet date, impairment losses are reversed according to article 253 paragraph 5 phrase 1 HGB. Due to consideration of new findings within the reporting period, reversal of impairment loss led to an increase of book value of financial assets amounting to kEUR 4,747,455 and a corresponding increase of profit for the period.

Receivables, other assets and cash/cash equivalents are measured at their nominal values. For all risk exposure positions adequate allowances have been recorded.

Provisions consider all identifiable risks and uncertain liabilities and are measured at their settlement amounts by using reasonable business judgment. Discounting according to article 253 paragraph 2 HGB was not required.

Liabilities are accounted at their settlement amounts.

IV. NOTES TO THE BALANCE SHEET

The interests in affiliated companies concern the interests in Telefónica Germany GmbH & Co. OHG, Munich, whose general partner the company is. Impairment reversal has been accounted as a gain in fiscal year 2011 amounting to kEUR 4,747,455. This has led to the book value amounting to kEUR 10,375,942, which equals to historical costs (see comments in chapter II.).

Maturities of all receivables and other assets are shorter than one year.

Receivables to affiliated companies comprise only cash pooling receivables to Telefónica Finanzas S.A..

Receivables to the shareholder concern solely claims resulting from capital promise agreement.

Loss carried forward, that is included in the position balance sheet profit amounts to kEUR 10,991,590 at the balance sheet date.

Maturities of liabilities are shorter than one year. Liabilities are unsecured.

Liabilities to affiliated companies concern kEUR 317,495 (prior year kEUR 317,495) resulting from an obligation to pay the amount to the capital reserve of Telefónica Germany GmbH & Co. OHG (which also is a subsidiary of the company) and kEUR 81 clearing liabilities to other group companies.

Provisions amounting to kEUR 11 (prior year kEUR 5) concern the expenses for the voluntary audit.

V. OTHER INFORMATION

Management Board

In this fiscal year the management board consists of the following members:

Name	Function
Mr. Jens Prautzsch, Großkarolinenfeld	Managing Director Strategy & Innovation Telefónica Germany GmbH & Co. OHG recalled by resolution dated March 17, 2011
Mr. Robert Simmeth, Frankfurt am Main	Managing Director Service Technology (CIO), Telefónica Germany GmbH & Co. OHG recalled by resolution dated July 6, 2011
Mr. Gregor Bieler, Munich	Managing Director Consumer Sales, Telefónica Germany GmbH & Co. OHG appointed by resolution dated April 15, 2011 recalled by resolution dated August 4, 2011
Mr. André Krause, Munich	Managing Director Finance (CFO) Telefónica Germany GmbH & Co. OHG recalled in October, 2011
Mr. Joachim Kugoth, Baldham	Managing Director Human Resources, Telefónica Germany GmbH & Co. OHG
Mr. Peter Alec Rampling, Munich	Managing Director Marketing, Telefónica Germany GmbH & Co. OHG
Mrs. Rachel Clare Empey, Munich	Managing Director Finance (CFO) Telefónica Germany GmbH & Co. OHG appointed in October, 2011
Mr. Michiel Jantje van Eldik, Munich	Managing Director Wholesale & Partner Management, Telefónica Germany GmbH & Co. OHG
Mr. Dr. Eckart Pech, Munich	Managing Director Service Technology (CIO), Telefónica Germany GmbH & Co. OHG appointed in October, 2011
Mr. John Gerald McGuigan, Bratislava/Slowakei	Managing Director Consumer Sales Telefónica Germany GmbH & Co. OHG appointed by resolution dated September 30, 2011
Mrs. Andrea Fabiana Folgueiras, Buenos Aires	Managing Director Network Technology Telefónica Germany GmbH & Co. OHG
Mr. Carsten Wreth, Munich	Managing Director Service Technology (CIO) Telefónica Germany GmbH & Co. OHG recalled in December, 2009
Mr. Markus Haas, Munich	Managing Director Corporate Affairs & Strategy, Telefónica Germany GmbH & Co. OHG
Mr. Johannes Pruchnow, Munich	Managing Director Business & Wholesale Service Telefónica Germany GmbH & Co. OHG recalled by resolution dated July 10, 2012
Mr. René Schuster, Feldafing	Chief Executive Officer (CEO) Telefónica Germany GmbH & Co. OHG (Chairman of the management board)

List of investments according to article 285 number 11 respectively number 11a HGB

Name and legal form	Registered office	Interest %	Equity year end 2011 kEUR	Profit for the year 2011 (fiscal year) kEUR
Telefónica Germany GmbH & Co. OHG, formerly Telefónica O_2 Germany GmbH & Co. OHG	Munich	99.99	7,432,370	-64,135

Financial Instruments

Article 285 phrase 1 number 19 HGB demands special notes, respectively the explanation of the measurement methods to determine the fair values of derivative financial instruments. Financial instruments are assets and liabilities, which lead to cash inflows or to an addition or a decrease of other financial instruments based on underlying contracts.

The fair values of assets and liabilities agree with their book values.

Parent company / Consolidated financial statements

The company is a subsidiary of O2 (Europe) Ltd., London, and is included in the consolidated financial statements of O2 (Europe) Ltd. year ended December 2011, which have been prepared according to the International Financial Reporting Standards (IFRS) and which are obtainable at the residential seat of the parent company (Companies House Berkshire, register number 4247143). The consolidated financial statements of O2 (Europe) Ltd. are included in the consolidated financial statements of Telefónica, S.A., Madrid, which is the ultimate parent company of Telefónica Germany Verwaltungs GmbH (formerly Telefónica O2 Germany Verwaltungs GmbH). These consolidated financial statements are obtainable from the ultimate parent company (Commercial Register of Madrid, in Volume 12,534, Folio 21, Section 8, Page M-6164).

According to article 291 paragraph 1 HGB the company is exempted from the duty to prepare consolidated financial statements. The consolidated financial statements of Telefónica, S.A., Madrid, prepared in accordance with IFRS and in compliance with German law, are publicized in German language within the electronic public register ("elektronischer Bundesanzeiger").

Munich, 12 September 2012

Telefónica Germany Verwaltungs GmbH
- Management board -

Schuster, René

Haas, Markus

Empey, Rachel Clare

Translation of the German-language audit opinion

AUDIT OPINION

To Telefónica Germany Verwaltungs GmbH

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system of Telefónica Germany Verwaltungs GmbH, Munich, for the fiscal year from 1 January 2011 to 31 December 2011. The maintenance of the books and records and the preparation of the annual financial statements in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB [”Handelsgesetzbuch”: German Commercial Code] and German generally accepted Standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those Standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records and the annual financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting.

We issue this opinion on the basis of our audit of the financial statements, which was carried out according to Professional Standards and concluded on 25 May 2012, our supplementary audit which related to the release of the Company's entire capital reserve as well as the write-up of the carrying amount of the equity investment in Telefónica Germany GmbH & Co. OHG, Munich. We refer to the reasons for the amendments given by the Company in the restated notes to the financial statements in section II. “Subject of the restatement of the financial statements”. The supplementary audit has not led to any reservations.

Munich, 25 May 2012 / limited to the aforementioned changes: 12 September 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Bostedt	Grabmeyer
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

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SIGNATURES

Telefónica Deutschland Holding AG
signed Mr. René Schuster
(CEO, Chief Executive Officer)

Telefónica Deutschland Holding AG
signed Ms. Rachel Empey
(CFO, Chief Financial Officer)

Telefónica Deutschland Holding AG
signed Mr. Markus Haas
(CSO, Chief Strategy Officer)

J.P. Morgan Securities plc
signed Mr. Georg Willig

J.P. Morgan Securities plc
signed Mr. Martin Wiesmann

UBS Limited
signed Mr. Joachim von der Goltz

UBS Limited
signed Mr. Johannes Braeutigam

Merrill Lynch International
signed Mr. Georg Willig

Merrill Lynch International
signed Mr. Joachim von der Goltz

BNP Paribas
signed Mr. Joachim von der Goltz

BNP Paribas
signed Mr. Johannes Braeutigam

Citigroup Global Markets Limited
signed Mr. Joachim von der Goltz

Citigroup Global Markets Limited
signed Mr. Johannes Braeutigam

HSBC Trinkaus & Burkhardt AG
signed Mr. Georg Willig

HSBC Trinkaus & Burkhardt AG
signed Mr. Joachim von der Goltz

Banca IMI S.p.A.
signed Mr. Georg Willig

Banca IMI S.p.A.
signed Mr. Joachim von der Goltz

Bayerische Landesbank
signed Mr. Joachim von der Goltz

Bayerische Landesbank
signed Mr. Johannes Braeutigam

Banco Bilbao Vizcaya Argentaria S.A.
signed Mr. Joachim von der Goltz

Banco Bilbao Vizcaya Argentaria S.A.
signed Mr. Johannes Braeutigam

COMMERZBANK Aktiengesellschaft
signed Mr. Georg Willig

COMMERZBANK Aktiengesellschaft
signed Mr. Joachim von der Goltz

Banco Santander, S.A.
signed Mr. Georg Willig

Banco Santander, S.A.
signed Mr. Joachim von der Goltz

Société Générale
signed Mr. Joachim von der Goltz

Société Générale
signed Mr. Johannes Braeutigam