Interim Group Report_

January 1 to September 30, 2013

Telefónica

Deutschland

Portrait of Telefónica Deutschland

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

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

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

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

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

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

The company's headquarters in Munich.

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

Financial Overview

Euros in millions

	January 1 to September 30		
	2013	**2012**	**% Chg**
Revenues	**3,671**	**3,871**	**(5.2)**
Wireless service revenues	2,246	2,359	(4.8)
Operating income before depreciation and amortization (OIBDA)	**864**	**936**	**(7.7)**
OIBDA margin	23.5%	24.2%	(0.6%-p.)
Operating income	**22**	**104**	**(79.1)**
Profit (loss) for the period from continuing operations	**(1)**	**108**	**n.m.**
Profit (loss) for the period from discontinued operations [1]	**0**	**535**	**(100.0)**
Profit (loss) for the period	**(1)**	**643**	**n.m.**
Basic earnings per share from continuing operations (in EUR) [2]	**(0.00)**	**0.10**	**n.m.**
CapEx	**(468)**	**(452)**	**3.4**
Operating cash flows (OIBDA-CapEx)	**396**	**484**	**(18.1)**
Free cash flows pre dividends from continuing operations [3]	**543**	**553**	**(1.8)**
Total accesses (in thousands)	**25,437**	**25,320**	**0.5**
Mobile accesses (in thousands)	19,576	19,114	2.4
Postpaid (%)	**52.7%**	**51.7%**	**1.0%-p.**
Total ARPU	**12.7**	**13.8**	**(7.9)**
Postpaid churn (%)	**1.4%**	**1.5%**	**(0.1%-p.)**
(%) non-SMS data over total data revenues	**65.5%**	**55.6%**	**9.9%-p.**
Employees	**6,006**	**6,271**	**(4.2)**
	September 30, 2013	**December 31, 2012**	**% Chg**
Net financial debt [4]	**745**	**842**	**(11.5)**
Leverage [5]	0.6x	0.7x	(8.2)

1 No discontinued operations in 2013.

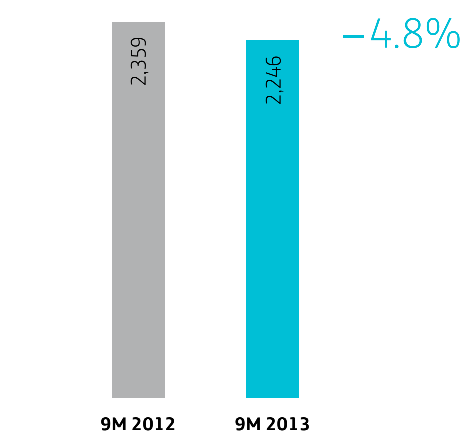
2 Basic earnings per share from continuing operations are calculated by dividing profit (loss) after taxes for the period from continuing operations through weighted average amount of outstanding ordinary shares of 1,117 Mio.

3 Free cash flow pre dividends from continuing operations are defined as operating cash flow minus working capital minus interest payments and tax expenses minus other changes.

4 Net financial debt includes all current and non-current interest-bearing financial assets and interest-bearing financial liabilities. Net financial debt is calculated as follows: non-current interest-bearing debt + non-current finance lease payables (EUR 7,192k in 2013 and EUR 4,985k in 2012) + current interest-bearing debt + current finance lease payables (EUR 2,561k in 2013 and EUR 3,964k in 2012) – the non-current "O_2 My Handy" receivables (EUR 61,461k in 2013 and EUR 93,770k in 2012) and since June 2013 the current portion of "O_2 My Handy" receivables (EUR 96,263k in 2013 and EUR 0k in 2012) – other current financial assets (EUR 442k in 2013 and EUR 101k in 2012) – cash and cash equivalents.
Note: The current portion of "O_2 My Handy" receivables is shown under trade and other receivables in the Consolidated Statement of Financial Position and the non-current portion of "O_2 My Handy" receivables is shown under other non-current financial assets in the Consolidated Statement of Financial Position.
The calculation of net financial debt as of December 31, 2012 did not include the current "O_2 My Handy" receivables of EUR 196,830k.

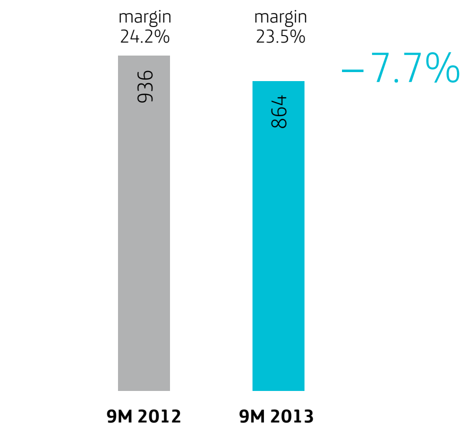
5 Leverage defined as net financial debt divided by LTM (Last Twelve Months) OIBDA (EUR 1,207m in 2013; EUR 1,279m in 2012) excluding non-recurring factors.

Wireless Service Revenues Euros in millions



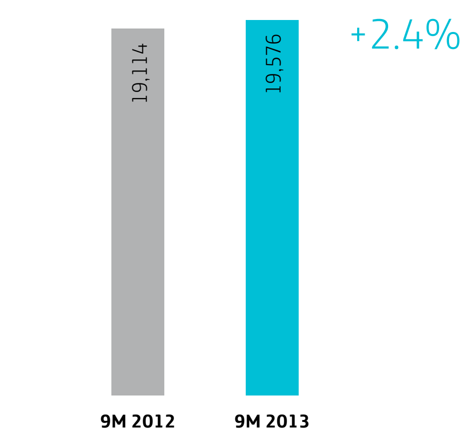
- Mainly driven by regulatory influences, lower revenues from incoming SMS and an increasing number of tariff migrations within our customer base.

OIBDA/OIBDA margin Euros in millions



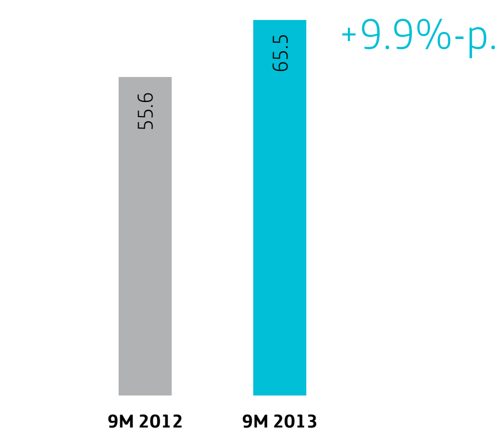
- Mainly driven by the revenue performance and focused spend in growth-related areas.

Wireless Accesses In thousands



- Postpaid segment being the main driver, with an increase of 4.3 percent in accesses.

Non-SMS Data over Total Data Revenues In %



- Increase in smartphone penetration being the main driver for increasing data volumes together, with a steady increase in the number of smartphone data tariffs within the customer base.

Highlights July-September 2013

Wireless

UMTS network upgraded

In addition to its Germany-wide LTE expansion, Telefónica Deutschland is also increasing capacity throughout the existing UMTS network. Since mid-September, a large number of 3G basis stations have been equipped with HSPA+ technology. At the same time, numerous locations in Germany are being upgraded with the “Dual Cell” data accelerator, which enables data rates of up to 42 MBit/s. Customers in areas with a high volume of traffic will especially benefit from the significant increase in bandwidth and faster mobile internet speeds.

New smartphones: iPhone access to Telefónica’s LTE network

Now that the iPhone 5s and iPhone 5c support 800 and 2,600 megahertz frequencies, owners of the latest-generation iPhones can use Telefónica’s fast LTE network for the first time. The new iPhones have been on sale in all O_2 shops and the online store since September and are also available through the O_2 My Handy payment model. A further smartphone highlight is the Nokia Lumia 1020 64 GB edition, exclusively available from O_2 since September. The device’s 41-megapixel sensor ensures outstanding camera capabilities.

Tariffs: O_2 Blue Basic and Fonic for 1860 Munich fans

The O_2 Blue Basic smartphone starter tariff is now more attractive than ever: Since September, the rate has included a monthly data volume of 200 megabytes with four times the speed. The number of free text messages has also been increased significantly. Also in September, Fonic launched a special offering for fans of the 1860 Munich soccer team: The Fonic Classic Tariff comes with a starting credit of 18.60 Euro and is available from fan-shops and the 1860 online store.

New LTE offerings

With more and more locations connected to Telefónica’s LTE network, in August the company introduced a number of attractive bundle offers for high-speed mobile internet: The complete LTE packages include a current LTE smartphone with a highly-competitive LTE flat rate. Additional discounts are available for young people and self-employed business people. Telefónica Deutschland has continued to expand its LTE network since connecting all high-speed areas in German cities in the middle of the year.

netzclub goes local – special offers and vouchers closer to customers

The netzclub ad-funded mobile phone tariff is expanding its offering: Since August, customers have been able to take advantage of its location-based offers. Users who sign up for the local service receive information on offers in their immediate vicinity directly on their mobile phone via text or multimedia message and can immediately redeem vouchers on the spot. This service is free for subscribers to netzclub, the only ad-funded mobile phone tariff in Germany.

netzclub local

For business customers: Wifi flat and new data packages

The availability of mobile internet is an increasingly important factor in the business world. In response to this, Telefónica Deutschland launched two new products in August: With its new Wifi flat rate, business customers enjoy unlimited mobile surfing at more than 3,000 WLAN hotspots in Germany. A specially-developed app helps users locate the closest hotspot. The second new product benefits business customers in Germany or travelling abroad who have reached their data transmission limit: It allows them to renew current data packages via standard text message, thereby assuring continued mobile internet access.

Mobile shopping and payment

With more and more people using smartphones and tablets for online shopping, the mobile version of the O_2 online store has been completely redesigned and optimized for touchscreens. There are also new options for mobile payment with mpass: The virtual mpass MasterCard can now be used for convenient payment in all online stores that accept MasterCard, as well as for regular shop purchases and mobile-to-mobile transfers.

Wireline

Connect: “Good” rating for O_2 fixed network

For the fourth consecutive year, trade magazine “connect” tested the quality of landline connections in Germany. It evaluated the so-called next-generation network connections that link IP telephony to the high-speed internet. O_2 earned the overall rating “good”. Editors praised its significant progress: “The Munich-based company is now one of the leading players, especially in the measurement of telephone service,” wrote “connect”. Although not evaluated in the rating, the company’s VDSL cooperation with Telekom, which will enable even higher bandwidths in the future, was viewed positively.

Innovation

Promotion Pad for digital advertising

Telefónica Deutschland introduced a complete digital advertising package for companies in September. The Promotion Pad from O_2 allows retailers, restaurant owners, service stations and hotels to present special offers, customer information and news on digital screens in their sales areas. The content is generated online by the retailer and automatically updated via mobile phone network. The Promotion Pad, developed by the company’s innovation division, Telefónica Digital, is a bundle package including hardware and service, offered in three different versions.

Wayra accelerator program: new startups chosen

In August, three new startups were selected from more than 3,000 in a new round of applications for the Wayra Academy in Munich, which forms part of Telefónica’s accelerator program: “Naymit” is an app which allows users to pin and name places without a street name or number on a map and add photos and a description. “ImmoMatch” is a platform that applies the principles of online dating sites to the property market to match the requirements of landlords and renters. “Hapticom” is developing the world’s first smartphone for deaf-blind persons.

Company

Agreement on acquisition of E-Plus

Telefónica Deutschland plans to acquire E-Plus, the German mobile telecommunications business of the Dutch group KPN. An agreement to this effect was signed and announced to the market on July 23. With a total of 43 million customers and combined revenues of 8.6 billion Euro (end of 2012), Telefónica Deutschland will become one of the leading telecommunications providers in Germany. Implementation of the transaction is subject to certain closing conditions, including approval by Telefónica Deutschland shareholders and the appropriate supervisory authorities. The transaction is expected to close by mid-2014. René Schuster, CEO of Telefónica Deutschland: “Our customers will be able to enjoy a comprehensive range of telecommunications services tailored to their needs.”

Sale of Telefónica Germany Online Services

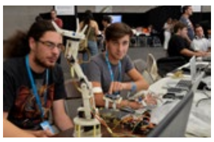
As it focuses on its core business, Telefónica Deutschland has decided to withdraw from its hosting business. In September, agreement was reached on the sale of all activities combined in its Telefónica Germany Online Services GmbH subsidiary to Host Europe Group. Host Europe Group claims to be Europe’s leading hosting provider with more than five million registered domains.

O_2 World celebrates fifth anniversary

Germany’s most advanced multi-purpose arena, the O_2 World in Berlin, celebrated its fifth anniversary in September. The arena has hosted no fewer than 665 musical, artistic, cultural and sporting events and welcomed more than six million visitors since opening in 2008.

Young people Think Big at Campus Party

More than 10,000 young people from all across Europe travelled to London in September for the Campus Party, the world’s largest technology festival. The event was also attended by 20 young people from Germany, who were invited by Think Big to attend a three-day creative workshop. Think Big is the youth program of Telefónica Fundación and the German Children and Youth Foundation, in conjunction with O_2. The aim is to promote initiative among young people.



Interim Group Management Report of Telefónica Deutschland Holding AG

for the period January 1 to September 30, 2013

Overview of the period January to September 2013

- At the end of September 2013, Telefónica Deutschland Group had 25.4 million customer accesses, a year-on-year increase of 0.5 percent.
- Mobile accesses further increased by 2.4 percent year-on-year to 19.6 million with an improving customer mix. Postpaid customer base increased by 0.4 million (4.3 percent) year-on-year to reach a share of 52.7 percent at the end of September (+1.0 percentage points).
- Mobile data continued to be the main driver for revenue performance with non-SMS data revenues growing by 22.9 percent year-on-year in the January to September period, resulting in a ratio of non-SMS data over total data revenues of 65.5 percent (+9.9 percentage points year-on-year).
- Wireless service revenues – excluding the impact from mobile termination rate cuts – declined by 0.9 percent year-on-year. This is caused by a continuing combination of trading momentum, pricing and changes in customer behavior around SMS substitution in the quarter, with trends stabilizing on a sequential basis. Mobile data continued to be the main growth lever (+22.9 percent year-on-year in non-SMS data) for the business, leveraging more favorable tariff mix adoption from new and existing customers.
- OIBDA margin was down year-on-year in the January to September 2013 period to 23.5 percent (24.2 percent in the same period of 2012), mainly influenced by revenue flow-through and focused spend in growth-related areas.
- Free cash flow pre dividends from continuing operations (FCF) amounted to EUR 543m (compared with EUR 553m from the corresponding period in 2012).
- Consolidated net financial debt stood at EUR 745m at the end of September 2013, resulting in a leverage ratio* of 0.6x.
- Smartphone penetration in the O_2 consumer brand increased by 12.8 percentage points year-on-year to reach 69.8 percent in the postpaid segment; in prepaid it reached 17.3 percent at the end of September (+7.1 percentage points year-on-year).
- Postpaid churn rate for postpaid customers is stable at 1.4 percent (-0.1 percentage points year-on-year).
- Ongoing deployment of the high-speed LTE network is on track. Since the end of June, 4G (the high-speed network of the fourth generation) has been available in all metropolitan areas.
- Shares in Telefónica Deutschland Holding AG have been included in the TecDAX stock index since March 18, 2013 and in the MSCI-Index since June 1, 2013.
- “BBB” rating with stable outlook from Fitch Ratings since January 16, 2013.

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* Leverage is defined as net financial debt divided by LTM (Last Twelve Months) OIBDA excluding non-recurring factors.

1. Basic information about the group

1.1. Business model

1.1.1. Structure of Telefónica Deutschland Group

Telefónica Deutschland Holding AG (hereinafter referred to as “Telefónica Deutschland” and formerly known as “Telefónica Germany Verwaltungs GmbH”) is a German stock corporation (AG).

The company’s change of legal form from a German limited liability company (GmbH) into a German stock corporation was approved by a resolution at the annual general meeting held on September 18, 2012 and was entered in the Commercial Register on September 26, 2012. Since that date, the company has been a German stock corporation.

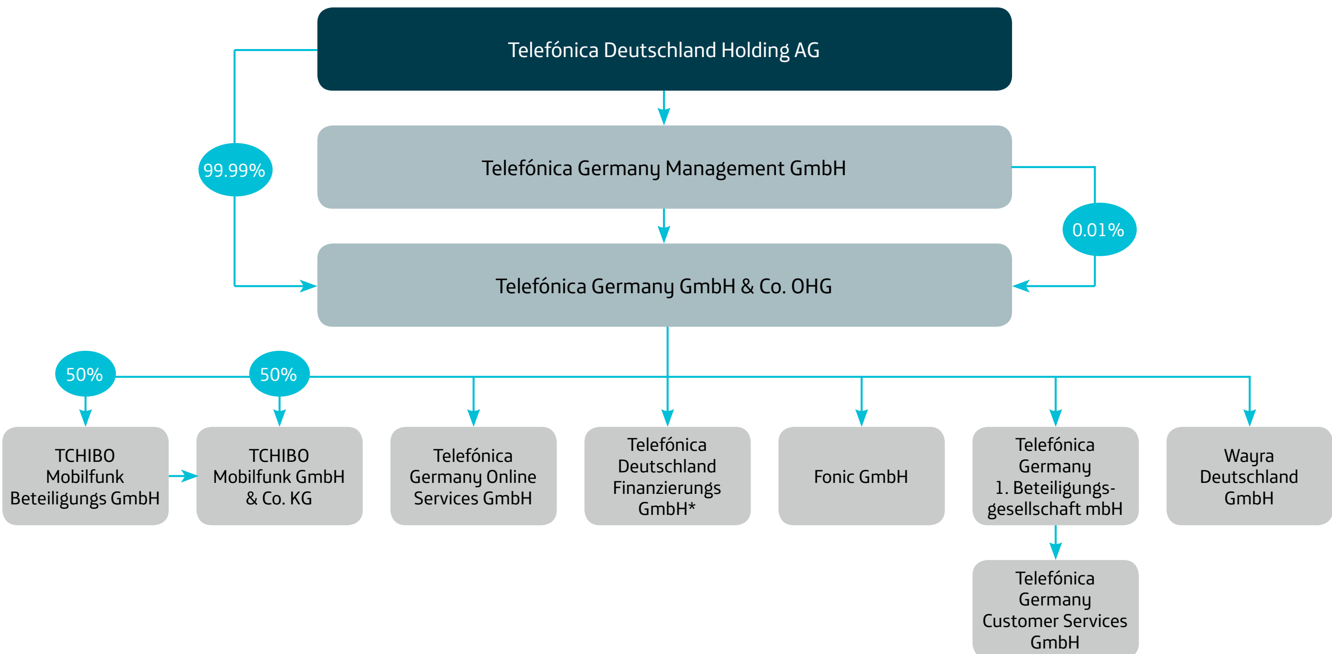
The legal and business name is “Telefónica Deutschland Holding AG”. The company’s registered office is situated in Munich, Germany. Telefónica Deutschland Holding AG is entered in the Commercial Register of the local court in Munich under registration number HRB 201055. The company’s business address is Georg-Brauchle-Ring 23-25, 80992 Munich, Germany (telephone number +49 (0)89 24420; www.telefonica.de). Its financial year is the same as the calendar year (January 1 to December 31). Telefónica Deutschland Holding AG was established for an unlimited period of time.

The company successfully completed its initial public offering on the Regulated Market of the Frankfurt Stock Exchange. The first day of trading was October 30, 2012 and the issue price was EUR 5.60 per share. The WKN (securities identification number) is A1J5RX, the ISIN (International Securities Identification Number) DE000A1J5RX9. The registered share capital of Telefónica Deutschland Holding AG as of September 30, 2013 amounted to EUR 1,116,945,400. It is divided into 1,116,945,400 registered no-par-value shares, each representing a notional amount of the registered share capital equivalent to EUR 1.00. Telefónica Germany Holdings Limited, Slough, United Kingdom, holds 76.83 percent of the shares, the remaining 23.17 percent being free-float shares. Each share confers one vote at the company’s annual general meeting.

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

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

The following organization chart shows the structure of Telefónica Deutschland Group as of September 30, 2013:



* „Telefónica Deutschland Finanzierungs GmbH“ was renamed into „O_2 Telefónica Deutschland Finanzierungs GmbH“ on November 7, 2013.

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

On September 12, 2013 Telefónica Germany GmbH & Co. OHG and Host Europe GmbH entered into an agreement for the sale of Telefónica Germany Online Services GmbH ("TOS"). In connection with this sale, the control and profit-and-loss transfer agreement between TOS and Telefónica Germany GmbH & Co. OHG were terminated by mutual consent.

Based on the information available at September 30, 2013, the deal is expected to be completed in the fourth quarter of 2013 with the transfer of all the shares in TOS to Host Europe Group.

(For further details, please see section 3. Events after the Reporting Period.)

On July 23, 2013 Telefónica Deutschland, Telefónica, S.A. and Koninklijke KPN N.V. ("KPN") entered into an agreement under which Telefónica Deutschland will acquire KPN's German mobile telecommunications business E-Plus. KPN will receive a consideration of EUR 3.7bn in cash and newly issued shares. The cash consideration payable to KPN is to be funded by an increase in Telefónica Deutschland's capital for cash. Telefónica, S.A. will subscribe the issued shares in proportion to its current shareholding in Telefónica Deutschland. The new shares to be issued to KPN as the additional consideration will be created by means of a non-cash capital increase, providing KPN with a stake of 24.9 percent in Telefónica Deutschland after the capital increases.

In accordance with the agreement dated July 23, 2013 as amended August 26 and 28, 2013, Telefónica, S.A. will then acquire from KPN a 4.4 percent interest in Telefónica Deutschland for EUR 1.3bn. Telefónica, S.A. will also enter into a call option contract with KPN, as a result of which Telefónica, S.A. will have the right to acquire from KPN a further interest in Telefónica Deutschland of up to 2.9 percent. This right may be exercised one year after the date of the call option agreement at an exercise price of up to EUR 0.51bn. This means that, ultimately, Telefónica, S.A. will own a 62.1 percent shareholding in Telefónica Deutschland, or a 65.0 percent shareholding if it exercises the call option in full, and KPN's holding will be 20.5 percent, or 17.6 percent if Telefónica, S.A. fully exercises the call option. The proportion of free-float shares will then be 17.4 percent. As of September 30, 2013, the implementation of this deal still required approval by the annual general meetings of both KPN and Telefónica Deutschland. It was also subject to consent from the relevant authorities and other customary closing conditions. The deal is expected to be completed in mid-2014.

(For further details, please see section 3. Events after the Reporting Period.)

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

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

The company's management board currently has three members:

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

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

1.1.2. Products and services

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

We operate a nationwide mobile network with GSM coverage reaching more than 99 percent and UMTS 74 percent of the German population. The expansion of our LTE network is in full swing and we already cover more than 30 percent of the population with the new high-speed wireless technology. In addition, we operate a countrywide wireline network. Our strategic cooperation with Telekom Deutschland GmbH, Bonn, has expanded our wireline coverage to 95 percent and also enables us to supply more than 11 million households with high-speed DSL internet access, delivering data transfer rates of up to 50 MBit/s. We also intend to take our wireline partnership with Telekom Deutschland GmbH to a further level and have signed a “memorandum of understanding” with this in mind. This will enable us to make more use of the advanced infrastructure of Telekom Deutschland GmbH in the future and, based on the new vectoring technology, offer our customers high-speed internet products over this infrastructure with data transfer rates of up to 100 MBit/s.

Our product sales are consistently based on a multi-brand strategy so that our products are aimed at as many customer segments as possible. We offer most of our postpaid and prepaid wireless products, wireline products, and bundled packages through our core O_2 brand. We strive to continuously improve the market position of our O_2 brand, especially to gain private and business customers in the premium segment. For the past few years now, we have focused our strategy particularly on selling wireless postpaid contracts to smartphone users. Compared with non-smartphone users, this customer group, which accounts for 54 percent of our postpaid customer base, generates above-average revenues based on its use of wireless data services and greater enthusiasm for the new LTE wireless communications standard. Interest in smartphones and the use of wireless data services is also growing among prepaid product customers. A smartphone is already used by 28 percent of our prepaid customers. For this reason, we also offer special prepaid tariffs for smartphone users.

For several years, we have been selling wireless communication devices and other hardware at fixed prices independently of any wireless tariff through our successful “O_2 My Handy” model. This model allows customers to choose whether they pay the entire price immediately or just make a downpayment and pay the balance over twelve or 24 monthly installments. This makes the cost of a mobile phone and wireless services transparent for the customer. Customers can choose from a wide variety of mobile phones, including the most advanced premium smartphones, and enjoy attractive payment terms. Our main mobile phone suppliers are Samsung, Apple, Nokia, HTC, and Sony Mobile Communications. The main focus of our “O_2 My Handy” model was and is to sell internet-ready smartphones. 96 percent of the mobile phones that were sold to postpaid customers in the third quarter of 2013 fell into this category. Some 52 percent of these smartphones sold by us are already compatible with the new LTE wireless communications standard. Customers of our secondary brands and wholesale partners also use the “O_2 My Handy” model. We provide a large range of low-cost entry-level smartphones to satisfy the growing demand for mobile data services in these customer segments.

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

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

1.2. Objectives and strategies

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

Exploit the multi-brand portfolio and achieve outstanding customer satisfaction

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

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

Monetize data opportunities through innovative products and digital services

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

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

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

In the wholesale segment, we focus on innovative business models to improve our services, profits, and competitive strength in order to secure and expand our market share.

Maintain competitive 3G and LTE networks
Given the broad range of LTE-capable devices now available, we expect the use of LTE in Germany to rise significantly in the period up to the end of 2013, with mass market take-up forecast for 2014. In line with the requirements of the German Federal Network Agency (FNA – Bundesnetzagentur, BNetzA), towns and districts with little or no broadband coverage at all had to be prioritized during the initial rollout of the technology. This requirement has been satisfied in all 16 federal states and we are therefore now able to develop an LTE network strategy based primarily on commercial considerations. As at the end of September 2013, we were already providing LTE coverage for just under one third of the German population and were also continuing to invest in the new technology. At the same time, 3G data use is also continuing to grow, as a consequence of which we are ensuring that there is an appropriate balance in our capital investment between LTE and 3G.

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

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

2.1. Economic and sector-specific conditions

2.1.1. Economic environment

Economic environment in Germany
In the face of the current economic crisis, the German economy, which is the largest in Europe, has shown itself to be fairly robust to date. Real growth in Germany's gross domestic product (GDP) amounted to 0.7 percent in 2012, considerably better than the negative growth of 0.5 percent throughout the European Union (EU) on average. Over the first nine months of 2013, an upturn in the economic situation continued to drive further growth in German GDP despite a weaker first quarter, primarily caused by bad weather.

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

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

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

The German wireless market
The German wireless market, with 113.6 million wireless accesses (i.e., SIM cards), was the EU's largest market at the end of June 2013. The total number of wireless users has remained more or less steady over the last few years. However, a slight shift has been apparent in favor of higher-value contract customers: The number of postpaid customers at the end of June 2013 was 54.3 million, an increase of 5 percent on the number at the end of June 2012. These customers accounted for 48 percent of the total number of wireless market customers at the end of June 2013, up from 46 percent at the end of June 2012.

(Source: Company data)

The increasing availability of smartphones and smartphone tariffs led to fierce competition in the German wireless market in 2012, and this level of competition continued throughout the first nine months of 2013. At the same time, the steadily growing demand for smartphones and data services was also reflected in strong sustained growth in revenues from wireless data in the second quarter of 2013. However, the growth in data use did not offset the impact from a fall in conventional communication services business such as telephony and SMS caused by a slump in prices, the effects of regulation, and substitution by other services. As a result, wireless service revenues from the German market in the second quarter of 2013 declined by 3.4 percent compared with the corresponding quarter in 2012. If the effect from mobile termination rates cuts in December 2012 is disregarded, wireless revenues would only have contracted by 0.6 percent in the second quarter of 2013.

The German wireless market is well developed, with four wireless network operators. As of June 30, 2013, Telefónica Deutschland Group held a market share of 17.1 percent based on 19.4 million accesses. The equivalent market share as of June 30, 2012 had been 16.6 percent based on 18.8 million accesses.

(Source: Company data)

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

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

2.1.2. Regulatory influences on Telefónica Deutschland Group

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

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

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

On March 1, 2013, the European Commission initiated procedures under Article 7a of the EU's Electronic Communications Framework Directive and wrote to the FNA, expressing serious doubts about the preliminary approved rates, which were more than 80 percent higher than the EU average. This average is determined using a pure BU-LRIC model in compliance with the European Commission's recommendation on termination rates. The FNA neither withdrew nor amended its preliminary decision, so the European Commission issued a recommendation under the Article 7a procedure on June 27, 2013, in which it requested the FNA to amend or withdraw the preliminary decision. The FNA had until July 27, 2013 to amend or withdraw the preliminary decision, or indeed to retain it and impose it with a definitive ruling; it had to notify the European Commission of its ruling by that deadline. The Federal Network Agency issued its definitive ruling on July 19, 2013 and retained the preliminary MTRs set in November 2012. The decision was backdated to December 1, 2012 and replaced the preliminary ruling of November 2012. The European Commission threatened that, if the Federal Network Agency retained its decision, as has now happened, it would take legal action. However, no such action has been initiated to date.

FTR
On November 30, 2012, the FNA issued a preliminary decision regarding the fixed termination rates (FTRs) for Telekom Deutschland GmbH, in which it reduced the local FTRs by 20 percent. After notifying the European Commission, the FNA confirmed this decision by a definitive ruling on August 30, 2013.

Due to regulatory requirements, Telekom Deutschland GmbH's FTRs will also impact the alternative network operators. On May 21, 2013, the FNA notified the European Commission of the relevant drafts for the regulatory decisions and FTR approvals. On June 21, 2013, the European Commission again wrote to the FNA, as in the case of the regulatory order for Telekom Deutschland GmbH, expressing serious doubts because the approach selected by the FNA resulted in termination rates in Germany that were considerably higher than the EU average. The FNA had three months after receipt to respond to the serious doubts letter. Within that timeframe it could remedy the issues concerning the European Commission or uphold its original decision. At the end of this period, the European Commission would make a recommendation within a further period of one month. In response to this recommendation, the FNA would then be able to issue the definitive regulatory order. A final decision is expected in the fourth quarter of 2013.

Final FNA decision on local loop access charges

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

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

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

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

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

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

Interested parties were invited to submit their responses to the draft consultation document to the FNA by October 4, 2013. Telefónica Deutschland Group took part in this consultation procedure and submitted its comments on October 4.

Transparency
Based on Article 20 of the Universal Service Directive, amendments were made during the course of 2012 to section 43a of the German Telecommunications Act (Telekommunikationsgesetz, TKG) relating to the transparent description of services in telecommunications agreements. Under section 43a (3) of the TKG, the FNA is authorized to lay down appropriate standards. In May 2013, the FNA specified core principles in this regard and at the same time proposed a system of self-regulation for businesses. These core principles include, for example, the introduction of measures such as pricing ceilings and SMS warnings, to prevent bill shocks for customers, and action to measure and disclose the bandwidth actually achievable from wireless and wireline broadband connections. Leading telecommunications industry associations and their members – including Telefónica Deutschland Group – are currently working out a voluntary code relating to the information to be provided to consumers in the future before, during, and after the process in which an agreement is signed. The first core principles were submitted to the FNA on September 4, 2013 for approval. Further details are expected to be discussed over the next few months and the first changes implemented from the second quarter of 2014.

European Commission's digital single market initiative
On September 11, 2013, the European Commission approved a package of various measures aimed at creating what is described as a digital single market. The purpose of these measures is to improve the general conditions for investment in state-of-the-art broadband networks and create a more favorable framework for a strong European telecommunications sector. Parts of the draft regulation include positive elements that could improve the competitiveness of the sector over the long term. These elements include, in particular, proposals for greater coordination when issuing frequencies and establishing the rules for auctioning frequencies. At the same time, however, the package also includes measures that will have a direct negative impact on the revenue of network operators (measures relating to roaming and international long-distance calls, for example) or that will lead to additional costs and further regulation or limitation of contractual freedom (measures such as stricter provisions on customer protection). The legislative package has now been submitted to member states and businesses for their comments. It is not yet possible to predict when the package will become law or the form the individual measures will take.

2.2. Business performance

The operating and financial performance of Telefónica Deutschland Group in the January to September 2013 period reflects a continued execution of its strategy amidst a challenging and dynamic competitive environment. Revenue performance was significantly impacted by the cut in mobile termination rates as a result of a regulatory ruling. The German mobile market continues to be centered around smartphone adoption and smartphone-related products and services on the one side and a focus on customer retention activities in the high-end segment on the other side.

Results for the first nine months of 2013 are a reflection of the overall transition process toward a data-centric, digital-oriented future for which Telefónica Deutschland as a challenger in the German market is very well positioned.

Total revenues at the end of September stood at EUR 3,671m, a decline of 5.2 percent year-on-year, mainly driven by regulatory impacts and the underlying performance of the wireless and wireline business. Wireless service revenues amounted to EUR 2,246m in the first nine months of 2013 (down 4.8 percent year-on-year; down 0.9 percent excluding mobile termination rate cuts, with quarter-on-quarter trends stabilizing on a sequential basis).

Operating income before depreciation and amortization (OIBDA) reached EUR 864m in the first nine months of 2013 (down 7.7 percent year-on-year), mainly influenced by the revenue flow-through and focused spend in growth-related areas, such as customer retention and specific promotions, partially compensated by the evolution of direct costs (such as mobile termination and handset costs) and additional efficiencies from the ongoing transformation of the business to a more data-centric and agile organization. OIBDA margin was down 0.6 percentage points year-on-year in the January to September 2013 period to 23.5 percent.

CapEx increased by 3.4 percent year-on-year in the nine months to September, with a strong focus on the deployment of the LTE-based mobile network (in which investment was doubled relative to the previous year), while at the same time further investing into 3G network capacity.

2.3. Results of operations

Interim Consolidated Income Statement

Euros in millions

	January 1 to September 30			
	2013	2012	Change	% Chg
Revenues	**3,671**	**3,871**	**(200)**	**(5.2)**
Other income	64	45	18	40.3
Operating expenses	(2,870)	(2,980)	110	(3.7)
Supplies	(1,451)	(1,571)	120	(7.6)
Personnel expenses [1]	(312)	(307)	(5)	1.8
Other expenses [1]	(1,107)	(1,102)	(5)	0.4
Operating income before depreciation and amortization (OIBDA)	**864**	**936**	**(72)**	**(7.7)**
OIBDA margin	**23.5%**	**24.2%**	**(0)**	**(0.6%-p.)**
Depreciation and amortization	(842)	(832)	(10)	1.2
Operating income	**22**	**104**	**(82)**	**(79.1)**
Net financial income (expense)	(23)	3	(25)	n.m.
Profit (loss) before tax from continuing operations	**(1)**	**107**	**(108)**	**n.m.**
Income tax	0	1	(1)	(98.7)
Profit (loss) for the period from continuing operations	**(1)**	**108**	**(109)**	**n.m.**
Profit (loss) after taxes from discontinued operations [2]	**0**	**535**	**(535)**	**(100.0)**
Profit (loss) for the period	**(1)**	**643**	**(644)**	**n.m.**

[1] Reclassification of external personnel expenses into other expenses in 2013 and 2012. Refer to Interim Consolidated Financial Statements as of September 30, 2013 for further details.
[2] No discontinued operations in 2013.

Revenue breakdown

Euros in millions

	January 1 to September 30			
	2013	2012	Change	% Chg
Revenues	**3,671**	**3,871**	**(200)**	**(5.2)**
Wireless business revenues	**2,729**	**2,832**	**(103)**	**(3.6)**
Wireless service revenues	2,246	2,359	(113)	(4.8)
Handset revenues	482	472	10	2.1
Wireline business revenues	**938**	**1,036**	**(98)**	**(9.5)**
Other revenues	**4**	**3**	**1**	**27.6**

2.3.1. Revenues

Revenues of EUR 3,671m were generated in the first nine months of the 2013 financial year, down by EUR 200m or 5.2 percent year-on-year. The decline in revenues from wireless services was attributable to the lower MTR and the change in the general environment for wireless telephony services. In addition, lower revenues were generated by the wireline/DSL business as a result of a contraction in the customer base. Excluding the MTR reduction, the year-on-year decrease in revenues would have been much lower, at 2.8 percent. The strong growth sustained in the wireless data business, together with rising handset revenues, had a positive impact on total revenues.

Wireless business revenues
Wireless business revenues, consisting of wireless service revenues and handset revenues, amounted to EUR 2,729m in the first nine months of financial year 2013, down by EUR 103m or 3.6 percent on the corresponding period in 2012. If the MTR reduction had not been included, the decrease would only have been 0.4 percent.

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

Wireless service revenues for the first nine months of the 2013 financial year amounted to EUR 2,246m, which equated to a year-on-year decrease of EUR 113m or 4.8 percent. Adjusted for the impact of the MTR reduction, the year-on-year decrease would have been lower (0.9 percent). ARPU in the first nine months of 2013 declined to EUR 12.70 (compared with EUR 13.80 in the first nine months of 2012). This was attributable first to the challenging market and competitive environment, which led to falling revenues from voice telephony. Secondly, users are changing their behavior and sending a lower number of text messages. The effect from these trends was partially offset by our steadily growing customer base in the high-value postpaid segment, whose sustained high level of demand for data services (such as wireless internet, service applications, and other data content) had a positive impact on wireless service revenues. The continuing successful monetization of the data business was reflected in the increase in data revenues, which were up by 4.3 percent year-on-year. The growth driver in this case was the non-SMS data business, which expanded by 22.9 percent. The non-SMS data business accounted for 65.5 percent of total data revenues in the first nine months of the 2013 financial year (first nine months of 2012: 55.6 percent). These developments prompted the company to update its portfolio of integrated wireless products with the addition of the "O_2 Blue All-in", "O_2 Blue Basic", and the "Young People" range of postpaid tariffs, as well as the "O_2 Loop Smart" prepaid tariff in order to give further impetus to increasing data use.

In the first nine months of the 2013 financial year, handset revenues climbed to EUR 482m, a year-on-year increase of EUR 10m or 2.1 percent. This growth was attributable to the continuing success of the attractive smartphone packages offered as part of the "O_2 My Handy" model, for example, sales promotions involving the Nokia Lumia series, and the iPhone 5c and 5s launched in September. Handset revenues include revenues from the sale of mobile phones using the "O_2 My Handy" model and cash sales. Revenues also include other components from the wireless business (mainly postpaid), such as hardware for bundled products comprising prepaid SIM cards and mobile phone hardware or postpaid contracts, as well as accessories.

Wireline/DSL business revenues
The company's wireline and DSL business generated EUR 938m in revenues in the first nine months of 2013, which equated to a decrease of EUR 98m or 9.5 percent year-on-year. The contraction in the customer base resulting from the fiercely competitive market overall was partially offset by the continued growth in customer numbers in the VDSL business. Revenues from the wireline and DSL business consist mainly of revenues from the DSL service business, revenues from the wireline business, activation fees from the DSL business, and DSL hardware sales. Wireline business revenues also include revenues from DSL service business with major customers, from termination rates paid by other telecommunications companies, and from hosting services.

Other revenues
Other revenues relates to new business such as advertising and financial services (for example, the mobile "mpass" payment system). Other revenues rose to EUR 4m the first nine months of the 2013 financial year, a year-on-year increase of 27.6 percent. This was mainly attributable to growth in wireless marketing activities.

2.3.2. Profit or loss for the period

In the first nine months of financial year 2013, the company generated an OIBDA of EUR 864m, which equated to a decrease of EUR 72m or 7.7 percent year-on-year. The OIBDA margin declined by 0.6 percentage points year-on-year to 23.5 percent. This was attributable to the fall in revenues and an increase in commercial expenses, particularly those in connection with customer retention and targeted handset offers. Some of the decrease was offset by the increased contribution to revenues from the wireless data business and by the ongoing focus on efficiency enhancements.

Operating expenses in the first nine months of the financial year were reduced to EUR 2,870m, a year-on-year decrease of EUR 110m or 3.7 percent. The savings were made primarily in supplies.

Supplies mainly consist of interconnection costs relating to costs incurred when connecting our customers to other mobile networks and the cost of devices sold, particularly devices sold under the "O_2 My Handy" model. This item also includes the cost of leased lines, unbundled local loop access charges, and the cost of leasing space to accommodate network installations. In the first nine months of the 2013 financial year, supplies amounted to EUR 1,451m, a fall in expenses of EUR 120m or 7.6 percent compared with the corresponding period in 2012. As a result of the MTR decrease, fees payable for routing calls via third-party networks also declined. The impact from this fall in expenses was partly offset by the higher cost of devices sold.

Personnel expenses saw an increase of EUR 5m or 1.8 percent in the first nine months of financial year 2013 to EUR 312m as a consequence of general increases in salaries.

Other expenses relate mainly to commissions paid to dealers, marketing costs, the cost of servicing customers and outsourcing of administrative work, costs of hardware and maintenance of IT infrastructure, leasing costs for systems and installation space, as well as energy costs. In the first nine months of the 2013 financial year, other expenses totaled EUR 1,107m, a year-on-year increase of EUR 5m or 0.4 percent. Although lower customer acquisition costs were incurred as a result of the acquisition of fewer new customers compared with the equivalent period in 2012, this decrease was offset by an increase in the cost of customer retention programs. On the other hand, it was possible to reduce the valuation allowances necessary to cover uncollectible receivables compared with the level necessary in the corresponding period in 2012.

For the first nine months of the current financial year, Telefónica Deutschland Group reported a **net financial expense** of EUR 23m, whereas the equivalent figure in the first nine months of 2012 was net financial income of EUR 3m. This change was primarily attributable to higher finance costs as a result of a loan drawn down in September 2012 by Telefónica Germany GmbH & Co. OHG, Munich, from Telfisa Global B.V., Amsterdam, Netherlands ("TGB.V.").

Telefónica Deutschland Group did not report any material tax expense in the first nine months of 2013, nor in the equivalent period in 2012.

2.4. Financial position

2.4.1. Financing analysis

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

Consolidated net financial debt evolution

Euros in millions

	As of September 30	As of December 31		
	2013	2012	Change	% Chg
Cash and cash equivalents	108	324	(216)	(66.6)
A Liquidity	**108**	**324**	**(216)**	**(66.6)**
B Current financial assets [1]	**97**	**0**	**97**	**n.m.**
Current interest-bearing debt	251	251	0	0.1
Other current liabilities	3	4	(1)	(35.4)
C Current financial debt	**254**	**255**	**(1)**	**(0.4)**
D=C-A-B Current net financial debt	**49**	**(69)**	**118**	**n.m.**
E Non-current financial assets	**61**	**94**	**(33)**	**(34.9)**
Non-current interest-bearing debt	750	1,000	(250)	(25.0)
Other non-current payables	7	5	2	44.3
F Non-current financial debt	**757**	**1,005**	**(248)**	**(24.7)**
G=F-E Non-current net financial debt	**696**	**911**	**(215)**	**(23.6)**
H=D+G Net financial debt [2, 3]	**745**	**842**	**(97)**	**(11.5)**

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

[2] Net financial debt includes all current and non-current interest-bearing financial assets and interest-bearing financial liabilities. Net financial debt is calculated as follows: non-current interest-bearing debt + non-current finance lease payables (EUR 7,192k in 2013 and EUR 4,985k in 2012) + current interest-bearing debt + current finance lease payables (EUR 2,561k in 2013 and EUR 3,964k in 2012) – the non-current "O_2 My Handy" receivables (EUR 61,461k in 2013 and EUR 93,770k in 2012) and since June 2013 the current portion of "O_2 My Handy" receivables (EUR 96,263k in 2013 and EUR 0k in 2012) – other current financial assets (EUR 442k in 2013 and EUR 101k in 2012) – cash and cash equivalents.
Note: The current portion of "O_2 My Handy" receivables is shown under trade and other receivables in the Consolidated Statement of Financial Position and the non-current portion of "O_2 My Handy" receivables is shown under other non-current financial assets in the Consolidated Statement of Financial Position.

[3] Assets and liabilities classified as held for sale have not been considered in the calculation of net financial debt as of September 30, 2013.

As of September 30, 2013, net financial debt – i.e., loans less cash and cash equivalents, financial assets, and receivables – amounted to EUR 745m. This equated to a decrease of EUR 97m or 11.5 percent compared with the position as of December 31, 2012. The decline in net financial debt in the first nine months of 2013 was largely attributable to the partial redemption of a loan. Some of this impact was offset by the lower balance of cash and cash equivalents as of September 30, 2013, which in turn was mainly attributable to the dividend payment of EUR 503m in May 2013. This contraction in liquidity caused by the dividend payment was partially compensated by the use of silent factoring for "O_2 My Handy" receivables in the 2013 financial year. A further factor with a compensating effect on the current net financial debt arose from the inclusion of current "O_2 My Handy" receivables in current financial assets from the second quarter of 2013 onward.

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

Net financial debt evolution

Euros in millions

2.4.2. Liquidity analysis

Interim Consolidated Statement of Cash Flows

Euros in millions

	January 1 to September 30	
	2013	**2012**
Cash and cash equivalents at the beginning of period	**324**	**1,351**
Cash flows from operating activities from continuing operations	1,033	996
Cash flows from operating activities from discontinued operations [1]	0	349
Cash flows from operating activities	**1,033**	**1,345**
Cash flows from investing activities from continuing operations	(490)	(442)
Cash flows from investing activities from discontinued operations [1]	0	703
Cash flows from investing activities	**(490)**	**261**
Cash flows from financing activities from continuing operations	(756)	(2,350)
Cash flows from financing activities from discontinued operations [1]	0	445
Cash flows from financing activities	**(756)**	**(1,905)**
Net (decrease)/increase in cash and cash equivalents	**(212)**	**(299)**
Cash and cash equivalents at the end of period	**112**	**1,051**
Cash and cash equivalents of assets classified as held for sale at the end of the period	**4**	**145**
Cash and cash equivalents at the end of the period (excl. held for sale)	**108**	**905**

[1] No discontinued operations in 2013.

Consolidated Statement of Cash Flows

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

Cash flows from operating activities
Cash flows from operating activities for the first nine months of the 2013 financial year amounted to EUR 1,033m, a year-on-year decrease of EUR 312m as a result of the fact that the figure for 2013 does not include the contribution from the discontinued operations in 2012, which in 2012 amounted to EUR 349m. If the discontinued operations in 2012 are disregarded, there would have been an improvement of EUR 37m, largely attributable to the increased use of silent factoring.

Cash flows from investing activities
Cash flows from investing activities in the first nine months of the 2013 financial year amounted to minus EUR 490m. Net cash outflows thus rose by EUR 750m compared with the equivalent period in 2012 (first nine months of 2012: net inflows of EUR 261m), although the figure for 2012 included a contribution of EUR 703m from the disposal of the discontinued operations. CapEx* (additions to intangible assets and property, plant, and equipment) in the first nine months of the 2013 financial year totaled EUR 468m (first nine months of 2012: EUR 452m). This equated to an increase of 3.4 percent. As in the 2012 financial year, the purpose of the higher capital spending was to secure our future growth by expanding our LTE network and 3G capacities.

Cash flows from financing activities
Cash flows from financing activities in the first nine months of the 2013 financial year amounted to minus EUR 756m. This figure was largely attributable to a dividend payment of EUR 503m and the partial redemption of a loan. Compared with the cash flows from financing activities over the corresponding period in 2012, net cash outflows fell by EUR 1,149m (2012: net cash outflows of EUR 1,905m). The main reason for the higher cash outflows in the first nine months of 2012 was the pre-IPO dividend payment of EUR 4,300m, although this figure was partially offset by a loan drawdown.

Cash and cash equivalents
The balance of cash and cash equivalents as of September 30, 2013 was EUR 216m lower than the equivalent figure as of December 31, 2012. This decrease was primarily attributable to the dividend payment, although some of the impact from the dividend payment was offset by the increased use of silent factoring. Cash and cash equivalents as of September 30, 2013 amounted to EUR 108m. In addition, the disposal group held cash of EUR 4m.

* Capital expenditure of EUR 475m on property, plant, and equipment and intangible assets as shown in the Consolidated Statement of Cash Flows (EUR 475m, 2012 EUR 443m) plus the changes in capital expenditure payables (EUR 8m, 2012: EUR 42m) plus the changes in CapEx accruals (liabilities for outstanding invoices related to capital spending on intangible assets and property, plant, and equipment), (minus EUR 16m, 2012: minus EUR 33m) plus the change in finance lease liabilities (minus EUR 3m, 2012: EUR 0m) produces the CapEx figure of EUR 468m (2012: EUR 452m). Ultimately, the CapEx figure equates to the additions to intangible assets and property, plant, and equipment.

Reconciliations of cash flows and OIBDA minus CapEx

Euros in millions

	January 1 to September 30			
	2013	2012	Change	% Chg
OIBDA	**864**	**936**	**(72)**	**(7.7)**
- CapEx	(468)	(452)	(16)	3.4
= Operating cash flows (OpCF)	**396**	**484**	**(88)**	**(18.1)**
+ Silent factoring [1]	266	199	67	33.6
+/- Other working capital movements	(89)	(133)	44	(33.1)
Change in working capital	**177**	**66**	**111**	**> 100**
+/- Gains (losses) from sale of fixed assets and other effects	0	(1)	1	> (100)
+ Net interest payments	(15)	3	(18)	> (100)
+ Payment on financial investments	(15)	0	(15)	n.m.
= Free cash flows pre dividends from continuing operations	**543**	**553**	**(10)**	**(1.8)**
-/+ Equity movements [3]	(503)	(4,300)	3,797	(88.3)
= Free cash flows post dividends from continuing operations	**40**	**(3,747)**	**3,787**	**> (100)**
+ Free cash flows post dividends from discontinued operations [2, 4]	0	907	(907)	(100,0)
= Total free cash flows post dividends	**40**	**(2,840)**	**2,880**	**> (100)**

1 Full impact (YTD) of silent factoring in the nine-month period in 2013 of EUR 266m and EUR 199m in 2012 (transactions have been executed in March, June and September 2013, respectively in March and September of the year 2012).
2 No discontinued operations in 2013.
3 Pre-IPO dividend in 2012 of EUR 4.3bn. Dividend payment of EUR 503m in May 2013.
4 Free cash flows post dividends from discontinued operations in 2012 consists of EUR 349m plus net cash flows from the sale of discontinued operations of EUR 703m minus cash and cash equivalents of EUR 145m.

Free cash flows

Free cash flows pre dividends from continuing operations decreased by EUR 10m and after the first nine months of the 2013 financial year stood at EUR 543m (2012: EUR 553m). The main reason for this decrease was the higher contribution from the change in working capital* (excluding silent factoring) amounting to EUR 44m. Free cash flow benefited from the increased use of silent factoring, which had a positive impact of EUR 67m. On the other hand, free cash flows pre dividends were reduced by the increase in CapEx of EUR 16m, financial investment payments for a security retention in connection with silent factoring amounting to EUR 15m and the change in net interest payments of minus EUR 18m resulting from the financing costs in connection with the group's new capital structure.

Free cash flows post dividends from continuing operations improved by EUR 3,787m to EUR 40m. This was attributable to the pre-IPO dividend of EUR 4,300m paid in the 2012 financial year.

The free cash flows post dividends from discontinued operations amounting to EUR 907m from the first nine months of the 2012 financial year were mainly attributable to the sale price of EUR 703m.

* Vice versa corrected for CapEx correction (see footnote on page 21)

2.5. Net assets

Interim Consolidated Statement of Financial Position

Euros in millions

	As of September 30 2013	As of December 31 2012	Change	% Chg
Intangible assets	3,680	3,983	(303)	(7.6)
Property, plant and equipment	2,897	2,973	(77)	(2.6)
Trade and other receivables	925	1,009	(84)	(8.3)
Other assets	755	781	(26)	(3.3)
Cash and cash equivalents	108	324	(216)	(66.8)
Assets held for sale	13	0	13	>100.0
Total assets = Total equity and liabilities	**8,378**	**9,070**	**(692)**	**(7.6)**
Liabilities held for sale	2	0	2	>100.0
Interest-bearing debt	1,001	1,251	(250)	(20.0)
Provisions	103	89	13	14.8
Trade and other payables	1,194	1,147	47	4.1
Deferred income	162	154	8	5.4
Equity	5,916	6,429	(512)	(8.0)

Intangible assets
As of September 30, 2013, intangible assets (including goodwill) amounted to EUR 3,680m, a decrease of EUR 303m on the equivalent figure as of December 31, 2012. This decrease was largely the result of the amortization of EUR 392m recognized during the reporting period. Some of this amortization expense was offset by additions in the reporting period amounting to EUR 90m.

Property, plant and equipment
The decrease of EUR 77m in property, plant, and equipment to EUR 2,897m as of September 30, 2013 was largely attributable to depreciation of EUR 450m, with much of the effect from the depreciation expense being offset by additions amounting to EUR 378m.

Trade and other receivables
As of September 30, 2013, trade and other receivables amounted to EUR 925m, a decline of EUR 84m on the figure as of December 31, 2012. This change was mainly caused by lower revenues in the third quarter of 2013 compared with the fourth quarter of 2012. Some of the impact from this change was offset by an increase in the level of current advance payments made to third parties as of September 30, 2013 compared with December 31, 2012.

Other assets
Compared with the figure as of December 31, 2012, other assets fell by EUR 26m to EUR 755m as of September 30, 2013. The primary reason was a drop of EUR 32m in non-current receivables under the "O_2 My Handy" model. Silent factoring was used to reduce these receivables to EUR 62m as of September 30, 2013. The impact of this decrease was partially offset by a EUR 15m increase in security retentions related to these transactions, to EUR 30m as of September 30, 2013. In addition, inventories fell by EUR 7m during the course of normal operating activities to EUR 77m as of September 30, 2013.

Cash and cash equivalents
Cash and cash equivalents after the first nine months of the 2013 financial year totaled EUR 108m as against EUR 324m as of December 31, 2012. The decrease of EUR 216m or 66.8 percent was attributable to a number of factors. (For further details, please see section 2.4.2 Liquidity analysis.)

Assets and liabilities held for sale
The assets and liabilities held for sale relate to the disposal of Telefónica Germany Online Services GmbH, Munich. Please refer to our disclosures in the Condensed Notes to the Consolidated Financial Statements (Notes 2 and 8) for further information.

Interest-bearing debt
Compared with the figure as of December 31, 2012, interest-bearing debt fell by EUR 250m to EUR 1,001m. This change was attributable to the partial redemption of a loan.

Equity
As of September 30, 2013, equity had declined to EUR 5,916m, a decrease of EUR 512m or 8.0 percent. This decrease was largely accounted for by the dividend payment of EUR 503m in the second quarter of 2013.

3. Events after the reporting period

Approval of the KPN annual general meeting for the aquisition of E-Plus by Telefónica Deutschland
On October 2, 2013 the annual general meeting of KPN voted by a large majority to approve the aquisition of E-Plus.

(For further details, please see section 1.1.1 Structure of Telefónica Deutschland Group.)

Agreement regarding the sale of Telefónica Germany Online Services GmbH (TOS)
On October 31, 2013, after all the closing conditions had been satisfied, the shares in Telefónica Germany Online Services GmbH (TOS) were transferred to Host Europe Group.

(For further details, please see section 1.1.1 Structure of Telefónica Deutschland Group.)

Versatel and Telefónica Deutschland enter into long-term fiber-optic cooperation agreement
Versatel, a telecommunications company focusing on business and wholesale customers in Germany, is acquiring Telefónica Deutschland's Hamburg fiber-optic network, comprising some 93,000 kilometers of fiber in 1,000 kilometers of cable. In addition to the network, Versatel is also acquiring a newly-constructed data processing center. With this agreement, Telefónica Deutschland is securing long-term access to fiber-optic connections in Versatel's area of expansion. The agreement will also enable Telefónica Deutschland to continue to offer attractive telecommunications products to both business and private customers. The sale was subject to approval by the anti-trust authorities, whereby unconditional clearance was obtained with letter dated November 11, 2013, and is expected to be completed by the end of 2013.

Proposal for the financial year 2013 dividend
On November 7, 2013 the management board of Telefónica Deutschland has resolved and published its intention to propose a cash dividend for the financial year 2013 of approximately 525 million Euro in the next ordinary general meeting. This shows an increase in comparison to the dividend for the financial year 2012. This is supported by the strong conversion from operating results into free cash flow in the reporting period from January to September 2013 despite a decline in OIBDA and OIBDA margin.

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

4. Opportunities and risks report, outlook

4.1. Opportunities

As of the time of preparing this report, there was a significant addition to the opportunities presented in the "Opportunities" section of the Group Management Report for the financial year ended December 31, 2012, as follows:

On July 23, 2013 Telefónica Deutschland, Telefónica, S.A. and Koninklijke KPN N.V. ("KPN") entered into an agreement under which Telefónica Deutschland will acquire KPN's German mobile telecommunications business E-Plus. With this transaction Telefónica Deutschland will become a leading telecommunications company in Germany with a total of 43m customers and combined revenues of EUR 8.6bn (as of end 2012). Telefónica Deutschland expects significant economies of scale and synergy effects in particular with respect to distribution, customer service, and network, with incremental value from additional revenue and other synergies. The enlarged company will be very well positioned to build one of the most modern high-speed networks in Germany. Various well-established brands, the right infrastructure for wireline and wireless offers, and a strong customer base will enable Telefónica Deutschland to further accelerate its growth strategy in a highly-competitive market. With these assets, the company will be well-placed to deliver great experiences for all customers.

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

4.2. Risks

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

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

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

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

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

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

Further reduction in mobile termination rates (MTR)
As a result of the FNA decision regarding mobile termination rates (MTR) on July 19, 2013, as described in section 2.1.2 Regulatory influences on Telefónica Deutschland Group, the risk of a further MTR reduction for the period after December 1, 2012 and the period after December 1, 2013 has receded.

Failure of the deal for the acquisition of E-Plus by Telefónica Deutschland
The implementation of the agreement for the acquisition of KPN's E-Plus wireless business in Germany by Telefónica Deutschland, as described in section 1.1.1 Structure of Telefónica Deutschland Group, requires the consent of shareholders at the annual general meeting of Telefónica Deutschland. In addition, it is subject to approval by the relevant authorities and other normal closing conditions. If the deal were to collapse, be affected by significant delays, or only be approved subject to considerable conditions, there would be a risk that the company could incur contractual penalties and/or that it would be unable to exploit the possible synergies and potential revenues.

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

4.3.1. Economic outlook for Germany

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

(Source: BMWi, Deutsche Bundesbank, GfK press release, ifo Institute, IMK Macroeconomic Policy Institute, DIW Berlin (The German Institute for Economic Research))

4.3.2. Market expectations

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

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

In the opinion of our management, and as of the time of preparing this report, the outlook presented in the Annual Report 2012 of Telefónica Deutschland still reflects the company's medium-term expectations as a standalone business. The planned acquisition of KPN's German mobile business E-Plus (closing scheduled for mid 2014) will likely change its scope of operations and financial expectations.

We have observed an increasing pressure on revenues throughout the year 2013 from competition, changing customer behavior, and regulation. The company's strategy remains focused on gaining scale in the mobile market, driven by an innovative multi-brand, data-centric approach.

Additional levers, such as the introduction of LTE and convergent fixed-mobile data services will be key for medium-term profitability as standalone business, with the recently announced acquisition of E-Plus amplifying this opportunity in the medium term, when finally approved by shareholders and regulatory authorities.

The company continues monitoring the mobile market place in the second half of 2013 and still sees a significant level of competition around smartphone 3G tariffs and device bundles. With a short-term focus on value maximization in a transition year to the next technology cycle, the company already anticipates the need to keep flexibility in the market through targeted investments and allocation of resources. As a result, we expect 2013 OIBDA margin to be at or below prior year's level.

Operating results conversion to free cash flow (FCF*) remains strong, with a stable year-on-year FCF performance up to September already supporting the current shareholder remuneration policy.

* Free cash flow pre dividends from continuing operations are defined as operating cash flow minus working capital minus interest payments and tax expenses minus other changes.

5. Significant transactions with related parties

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

Munich, November 13, 2013

Telefónica Deutschland Holding AG
The management board

René Schuster | Rachel Empey | Markus Haas

Interim Consolidated Financial Statements

Consolidated Statement of Financial Position

Euros in thousands

Assets		Note	As of September 30 2013 (unaudited)	As of December 31 2012
A)	**Non-current assets**		**7,255,287**	**7,652,337**
	Goodwill		705,576	705,576
	Intangible assets		2,974,215	3,277,456
	Property, plant and equipment		2,896,540	2,973,439
	Other non-current financial assets	8	97,765	114,675
	Deferred tax assets		581,191	581,191
B)	**Current assets**		**1,123,204**	**1,417,469**
	Inventories		77,582	84,671
	Trade and other receivables		924,941	1,009,031
	Other current financial assets	8	442	101
	Cash and cash equivalents		107,543	323,666
	Assets held for sale	8	12,696	0
Total assets (A+B)			**8,378,491**	**9,069,806**

Equity and liabilities		Note	As of September 30 2013 (unaudited)	As of December 31 2012
A)	**Equity**		**5,916,321**	**6,428,793**
	Common stock		1,116,946	1,116,946
	Additional paid-in capital		430	430
	Retained earnings		4,797,464	5,309,936
	Other components of equity		1,481	1,481
	Equity attributable to owners of the parent		5,916,321	6,428,793
B)	**Non-current liabilities**		**860,295**	**1,091,575**
	Non-current interest-bearing debt		750,000	1,000,000
	Other payables	8	10,846	9,193
	Non-current provisions		99,449	82,382
C)	**Current liabilities**		**1,601,875**	**1,549,438**
	Current interest-bearing debt		250,889	250,878
	Trade payables	8	1,028,225	918,458
	Other payables	8	154,709	219,130
	Current provisions		4,121	7,000
	Deferred income		162,323	153,972
	Liabilities held for sale	8	1,608	0
Total equity and liabilities (A+B+C)			**8,378,491**	**9,069,806**

Consolidated Income Statement (unaudited)

Euros in thousands

		July 1 to September 30		January 1 to September 30	
	Note	2013	2012	2013	2012
Revenues	8	1,225,272	1,316,970	3,670,691	3,870,768
Other income		25,310	14,978	63,502	45,256
Supplies		(476,614)	(542,658)	(1,451,097)	(1,570,942)
Personnel expenses [1]	8	(104,512)	(100,275)	(312,101)	(306,617)
Other expenses [1]	8	(377,822)	(349,964)	(1,106,933)	(1,102,265)
Operating income before depreciation and amortization (OIBDA)		**291,634**	**339,051**	**864,062**	**936,200**
Depreciation and amortization		(275,932)	(284,448)	(842,319)	(832,196)
Operating income		**15,702**	**54,603**	**21,743**	**104,004**
Finance income		1,488	3,271	4,879	13,097
Exchange gains		146	265	442	590
Finance costs		(7,908)	(5,030)	(27,652)	(9,632)
Exchange losses		(78)	(157)	(253)	(1,247)
Net financial income (expense)	**8**	**(6,352)**	**(1,651)**	**(22,584)**	**2,808**
Profit (loss) before tax from continuing operations	**4**	**9,350**	**52,952**	**(841)**	**106,812**
Income tax		1	255	18	1,537
Profit (loss) for the period from continuing operations		**9,351**	**53,207**	**(823)**	**108,349**
Profit (loss) for the period from discontinued operations	**8**	**–**	**291,024**	**–**	**535,119**
Profit (loss) for the period		**9,351**	**344,231**	**(823)**	**643,468**

Profit (loss) for the period attributable to owners of the parent	**9,351**	**344,231**	**(823)**	**643,468**
Profit (loss) for the period	**9,351**	**344,231**	**(823)**	**643,468**

Earnings per share				
Basic earnings per share in EUR				
- from continuing operations	0.01	0.05	(0.00)	0.10
- from discontinued operations	–	0.26	–	0.48
Diluted earnings per share in EUR				
- from continuing operations	0.01	0.05	(0.00)	0.10
- from discontinued operations	–	0.26	–	0.48

[1] Reclassification of external personnel expenses into other expenses in 2013 and 2012. Refer to notes, section 8.

Consolidated Statement of Comprehensive Income (unaudited)

Euros in thousands

	July 1 to September 30		January 1 to September 30	
	2013	2012	2013	2012
Profit (loss) for the period	**9,351**	**344,231**	**(823)**	**643,468**
Other comprehensive income (loss)				
Items that may be reclassified subsequently to profit (loss)				
Gains (losses) on measurement of available-for-sale investments	–	–	–	–
Income tax impact	–	–	–	–
Items that will not be reclassified to profit (loss)				
Remeasurements of defined benefit plans	547	–	(9,024)	–
Income tax impact	–	–	–	–
Total other comprehensive income (loss)	**547**	**–**	**(9,024)**	**–**
Total comprehensive income (loss) recognized in the period	**9,898**	**344,231**	**(9,847)**	**643,468**
Total comprehensive income (loss) for the period attributable to owners of the parent	9,898	344,231	(9,847)	643,468
Total comprehensive income (loss)	**9,898**	**344,231**	**(9,847)**	**643,468**

Consolidated Statement of Cash Flows (unaudited)

Euros in thousands

	January 1 to September 30	
	2013	**2012**
Cash flows from operating activities		
Profit (loss) for the period	**(823)**	**643,468**
Adjustments to profit		
Net financial income (expense)	22,773	(3,464)
Gains on disposal of assets	(6)	(4)
Net income tax expense	(18)	(1,537)
Depreciation and amortization	842,319	832,196
Change in working capital		
Trade and other receivables	80,745	292,948
Inventories	7,089	18,211
Other current assets	(8,246)	(533,886)
Trade and other payables	58,464	90,827
Other current liabilities and provisions	5,773	(15,553)
Other non-current assets and liabilities	39,917	17,755
Interest received	4,777	10,322
Interest paid	(19,645)	(6,700)
Total cash flows from operating activities	**1,033,119**	**1,344,582**
Cash flows from operating activities from discontinued operations	**–**	**349,070**
Cash flows from operating activities from continuing operations	**1,033,119**	**995,513**
Cash flows from investing activities		
Proceeds on disposals of property, plant and equipment and intangible assets	29	4
Payments on investments in property, plant and equipment and intangible assets	(474,616)	(442,847)
Proceeds on disposals of companies, net of cash and cash equivalents disposed	–	703,000
Payments made on financial investments not included under cash equivalents	(14,965)	–
Cash flows from investing activities	**(489,552)**	**260,157**
Cash flows from investing activities from discontinued operations	**–**	**702,725**
Cash flows from investing activities from continuing operations	**(489,552)**	**(442,567)**
Cash flows from financing activities		
Proceeds from borrowing/debt	–	2,398,060
Repayment of borrowing/debt	(253,175)	(2,953)
Dividends paid	(502,625)	(4,300,000)
Cash flows from financing activities	**(755,800)**	**(1,904,893)**
Cash flows from financing activities from discontinued operations	**–**	**445,060**
Cash flows from financing activities from continuing operations	**(755,800)**	**(2,349,953)**
Less cash and cash equivalents attributable to assets and liabilities held for sale	**(3,890)**	**(145,554)**
Net increase (decrease) in cash and cash equivalents	**(216,123)**	**(445,707)**
Cash and cash equivalents at beginning of period	**323,666**	**1,350,651**
Cash and cash equivalents at end of period (excluding cash and cash equivalents held for sale)	**107,543**	**904,944**

Consolidated Statement of Changes in Equity (unaudited)

Financial position as of January 1, 2012
Profit (loss) for the period
Total comprehensive income (loss)
Capital increase against contribution
Pre-IPO dividend
Financial position as of September 30, 2012

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

Euros in thousands

Common stock	Additional paid-in capital	Retained earnings	Other components of equity: available-for-sale investments	Equity attributable to owners of the parent	Total equity
1,116,946	**–**	**11,164,353**	**1,345**	**12,282,644**	**12,282,644**
–	–	643,468	–	643,468	643,468
–	**–**	**643,468**	**–**	**643,468**	**643,468**
–	430	(430)	–	–	–
–	–	(7,185,897)	–	(7,185,897)	(7,185,897)
1,116,946	**430**	**4,621,494**	**1,345**	**5,740,215**	**5,740,215**
1,116,946	**430**	**5,309,936**	**1,481**	**6,428,793**	**6,428,793**
–	–	(823)	–	(823)	(823)
–	–	(9,024)	–	(9,024)	(9,024)
–	**–**	**(9,847)**	**–**	**(9,847)**	**(9,847)**
–	–	(502,625)	–	(502,625)	(502,625)
1,116,946	**430**	**4,797,464**	**1,481**	**5,916,321**	**5,916,321**

Condensed Notes

1. General

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

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

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

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

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

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

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

2. Significant events and transactions

First annual general meeting and dividend distribution

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

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

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

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

Formation of a new company

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

Agreement on the acquisition of E-Plus

On July 23, 2013 Telefónica Deutschland, Telefónica, S.A. and Koninklijke KPN N.V. ("KPN") entered into an agreement under which Telefónica Deutschland will acquire KPN's German mobile telecommunications business E-Plus. KPN will receive a consideration of EUR 3.7bn in cash and newly issued shares. The cash consideration payable to KPN is to be funded by an increase in Telefónica Deutschland's capital for cash. Telefónica, S.A. will subscribe the issued shares in proportion to its current shareholding in Telefónica Deutschland. The new shares to be issued to KPN as the additional consideration will be created by means of a non-cash capital increase, providing KPN with a stake of 24.9 percent in Telefónica Deutschland after the capital increases.

In accordance with the agreement dated July 23, 2013, as amended August 26 and 28, 2013, Telefónica, S.A. will then acquire from KPN a 4.4 percent interest in Telefónica Deutschland for EUR 1.3bn. Telefónica, S.A. will also enter into a call option contract with KPN, as a result of which Telefónica, S.A. will have the right to acquire from KPN a further interest in Telefónica Deutschland of up to 2.9 percent. This right may be exercised one year after the date of the call option agreement at an exercise price of up to EUR 0.51bn. This means that, ultimately, Telefónica, S.A. will own a 62.1 percent shareholding in Telefónica Deutschland, or a 65.0 percent shareholding if it exercises the call option in full, and KPN's holding will be 20.5 percent, or 17.6 percent if Telefónica, S.A. fully exercises the call option. The proportion of free-float shares will then be 17.4 percent.

* „Telefónica Deutschland Finanzierungs GmbH" was renamed into „O_2 Telefónica Deutschland Finanzierungs GmbH" on November 7, 2013.

As of September 30, 2013, the implementation of this deal still required approval by the annual general meetings of both KPN and Telefónica Deutschland. It was also subject to consent from the relevant authorities and other customary closing conditions. The deal is expected to be completed in mid-2014.

For further information see Note 9, Events after the Reporting Period.

Agreement regarding the sale of Telefónica Germany Online Services GmbH (TOS)

On September 12, 2013 Telefónica Germany GmbH & Co. OHG and Host Europe GmbH entered into an agreement for the sale of Telefónica Germany Online Services GmbH ("TOS"). In connection with this sale, the control and profit-and-loss transfer agreement between TOS and Telefónica Germany GmbH & Co. OHG were terminated by mutual consent.

Based on the information available at September 30, 2013, the deal is expected to be completed in the fourth quarter of 2013 with the transfer of all the shares in TOS to Host Europe Group.

For further information see Note 9, Events after the Reporting Period.
The main assets and liabilities in Telefónica Germany Online Services GmbH are shown in Note 8.

3. Basis of preparation of the Interim Consolidated Financial Statements

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

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

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

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

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

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

4. Segment reporting and reconciliations

Segment information

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

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

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

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

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

Group fees

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

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

	July 1 to September 30, 2013 (unaudited)					July 1 to September 30, 2012 (unaudited)
Euros in thousands	Telecommunications = Group	Telecommunications	Global Services (discontinued)	Total	Reconciliations	Group
Revenues	1,225,272	1,316,970	147,749	1,464,719	(147,749)	1,316,970
Thereof: Revenues from external customers	1,225,272	1,316,970	139,906	1,456,876	(139,906)	1,316,970
Thereof: Revenues from transactions with other operating segments	–	–	7,843	7,843	(7,843)	–
Adjusted OIBDA	314,761	357,691	133,565	491,256	(133,565)	357,691

	January 1 to September 30, 2013 (unaudited)					January 1 to September 30, 2012 (unaudited)
Euros in thousands	Telecommunications = Group	Telecommunications	Global Services (discontinued)	Total	Reconciliations	Group
Revenues	3,670,691	3,870,768	412,622	4,283,390	(412,622)	3,870,768
Thereof: Revenues from external customers	3,670,691	3,870,768	394,958	4,265,726	(394,958)	3,870,768
Thereof: Revenues from transactions with other operating segments	–	–	17,664	17,664	(17,664)	–
Adjusted OIBDA	918,236	986,358	374,169	1,360,527	(374,169)	986,358

Reconciliations

Euros in thousands

	July 1 to September 30 (unaudited)	
	2013	**2012**
Adjusted OIBDA reportable segments	314,761	491,256
- Adjusted OIBDA from discontinued operations	–	133,565
= Adjusted OIBDA of group (continuing operations)	**314,761**	**357,691**
- Group fees	(23,127)	(18,640)
= OIBDA of group (continuing operations)	**291,634**	**339,051**
- Depreciation and amortization	(275,932)	(284,448)
= Operating income (continuing operations)	**15,702**	**54,603**
+/- Net financial income (expense)	(6,352)	(1,651)
= Profit (loss) before tax from continuing operations	**9,350**	**52,952**

Euros in thousands

	January 1 to September 30 (unaudited)	
	2013	**2012**
Adjusted OIBDA reportable segments	918,236	1,360,527
- Adjusted OIBDA from discontinued operations	–	374,169
= Adjusted OIBDA of group (continuing operations)	**918,236**	**986,358**
- Group fees	(54,174)	(50,158)
= OIBDA of group (continuing operations)	**864,062**	**936,200**
- Depreciation and amortization	(842,319)	(832,196)
= Operating income (continuing operations)	**21,743**	**104,004**
+/- Net financial income (expense)	(22,584)	2,808
= Profit (loss) before tax from continuing operations	**(841)**	**106,812**

5. Accounting policies

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

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

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

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

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

IFRS 13 is a new standard introduced to ensure that fair value is measured on a consistent basis across all standards without extending the scope of application in these standards. This standard also includes enhanced disclosure requirements. IFRS 13 has to be applied prospectively for annual periods beginning on or after January 1, 2013. Initial application of IFRS 13 in the reporting period did not have any material impact on the measurement of fair values carried out by Telefónica Deutschland Group.

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

6. Comparative information

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

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

7. Related parties

With the exception of the E-Plus deal (see "Agreement on the acquisition of E-Plus" in Note 2), there had been no material changes in the nature or amount of Telefónica Deutschland Group's transactions with related parties as of September 30, 2013 compared with December 31, 2012. For further details, please refer to the Notes to the Consolidated Financial Statements for the year ended December 31, 2012 (Note 11, Related Parties).

8. Selected explanatory notes

Selected explanatory notes to the Consolidated Statement of Financial Position

Financial assets and liabilities
As of September 30, 2013, the carrying amounts of the significant financial assets and liabilities held by Telefónica Deutschland Group represented a reasonable approximation of their fair values. As at the reporting date, no significant financial assets and liabilities were measured at fair value.

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

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

	As of September 30, 2013 (unaudited)		As of December 31, 2012	
Euros in thousands	Non-current	Current	Non-current	Current
Trade payables	–	299,857	–	379,402
Accruals	–	487,953	–	328,254
Payables to related parties	–	240,415	–	210,802
Trade payables	**–**	**1,028,225**	**–**	**918,458**
Other payables	**10,846**	**154,709**	**9,193**	**219,130**
Total	**10,846**	**1,182,934**	**9,193**	**1,137,588**

The accruals relate mainly to obligations in connection with outstanding invoices.

The breakdown of other payables is as follows:

Euros in thousands	As of September 30, 2013 (unaudited)	As of December 31, 2012
Current other payables		
Other creditors non-trade	48,317	63,665
Capital creditors	63,214	78,870
Other taxes and social security	14,078	41,535
Current other payables to related parties	26,539	31,096
Finance lease	2,561	3,964
Total current	**154,709**	**219,130**
Non-current other payables		
Other creditors non-trade	3,654	4,208
Finance lease	7,192	4,985
Total non-current	**10,846**	**9,193**
Total other payables	**165,555**	**228,323**

Assets and liabilities held for sale

The breakdown of significant assets and liabilities of Telefónica Germany Online Services GmbH (TOS), which are held for sale, is as follows:

Euros in thousands	As of September 30, 2013 (unaudited)
Intangible assets	267
Property, plant and equipment	5,194
Trade and other receivables	3,345
Cash and cash equivalents	3,890
Assets held for sale	**12,696**
Current trade and other payables	1,608
Liabilities held for sale	**1,608**

Selected explanatory notes to the Consolidated Income Statement

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

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

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

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

Euros in thousands	July 1 to September 30, 2012 (unaudited)	January 1 to September 30, 2012 (unaudited)
Revenues	147,749	412,622
Other income	5,073	8,401
Finance income	(184)	24,826
Supplies	(118)	(409)
Personnel expenses	(5,796)	(17,092)
Other expenses	(5,498)	(11,689)
Depreciation and amortization	(845)	(2,574)
Financial charges	905	(22,928)
Profit (loss) before tax from discontinued operations	**141,286**	**391,157**
Income tax	149,738	143,962
Profit (loss) for the period from discontinued operations	**291,024**	**535,119**

Revenues
The breakdown of revenues is as follows:

	July 1 to September 30 (unaudited)		January 1 to September 30 (unaudited)	
Euros in thousands	2013	2012	2013	2012
Rendering of services	1,076,304	1,150,148	3,183,963	3,395,075
Other sales	148,968	166,822	486,728	475,693
Total	**1,225,272**	**1,316,970**	**3,670,691**	**3,870,768**

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

	July 1 to September 30 (unaudited)		January 1 to September 30 (unaudited)	
Euros in thousands	2013	2012	2013	2012
Revenues				
Wireless business	**912,446**	**977,093**	**2,728,737**	**2,831,543**
Wireless service revenues	765,135	811,663	2,246,366	2,359,265
Handset revenues	147,311	165,430	482,371	472,278
Wireline business	**311,169**	**338,485**	**937,597**	**1,035,810**
Other revenues	**1,657**	**1,392**	**4,357**	**3,415**
Total	**1,225,272**	**1,316,970**	**3,670,691**	**3,870,768**

Personnel expenses and other expenses

In the first nine months of 2013, personnel expenses amounted to EUR 312,101k (2012: EUR 306,617k). In the third quarter 2013, these expenses amounted to EUR 104,512k (2012: EUR 100,275k). Since January 1, 2013, Telefónica Deutschland Group has reported expenses for external personnel services under other expenses. The comparative figures for the first nine months of 2012 have been reclassified accordingly. In the Consolidated Financial Statements for the year ended December 31, 2012, these expenses were reported under personnel expenses. Expenses for external personnel services in the first nine months of 2013 amounted to EUR 31,925k (2012: EUR 30,807k). In the third quarter 2013 these expenses amounted to EUR 11,713k (2012: EUR 10,375k). The purpose of this change in presentation was to improve the transparency of the information reported in the Consolidated Financial Statements.

Net financial income (expense)

In the first nine months of 2013, Telefónica Deutschland Group incurred a net financial expense of EUR 22,584k (2012: net financial income of EUR 2,808k). In the third quarter 2013, the group incurred a net financial expense of EUR 6,352k (2012: net financial expense of EUR 1,651k). This change was primarily attributable to higher finance costs as a result of a loan drawn down in September 2012 by Telefónica Germany GmbH & Co. OHG, Munich, from Telfisa Global B.V., Amsterdam, Netherlands.

9. Events after the reporting period

Update: Agreement on the acquisition of E-Plus
On October 2, 2013 the annual general meeting of KPN voted by a large majority to approve the sale of E-Plus.

Update: Agreement regarding the sale of Telefónica Germany Online Services GmbH (TOS)
On October 31, 2013, the shares in Telefónica Germany Online Services GmbH (TOS) were transferred to Host Europe Group; all the closing conditions having been satisfied.

Versatel and Telefónica Deutschland enter into long-term fiber-optic cooperation agreement
Versatel, a telecommunications company focusing on business and wholesale customers in Germany, is acquiring Telefónica Deutschland's Hamburg fiber-optic network, comprising some 93,000 kilometers of fiber in 1,000 kilometers of cable. In addition to the network, Versatel is also acquiring a newly-constructed data processing center. With this agreement, Telefónica Deutschland is securing long-term access to fiber-optic connections in Versatel's area of expansion. The agreement will also enable Telefónica Deutschland to continue to offer attractive telecommunications products to both business and private customers. The sale was subject to approval by the anti-trust authorities, whereby unconditional clearance was obtained with letter dated November 11, 2013, and is expected to be completed by the end of 2013.

Proposal for the financial year 2013 dividend
On November 7, 2013 the management board of Telefónica Deutschland has resolved and published its intention to propose a cash dividend for the financial year 2013 of approximately 525 million Euro in the next ordinary general meeting. This shows an increase in comparison to the dividend for the financial year 2012. This is supported by the strong conversion from operating results into free cash flow in the reporting period from January to September 2013 despite a decline in OIBDA and OIBDA margin.

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

Munich, November 13, 2013

Telefónica Deutschland Holding AG
The management board

René Schuster | Rachel Empey | Markus Haas

Responsibility statement

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

Munich, November 13, 2013

Telefónica Deutschland Holding AG
The management board

René Schuster | Rachel Empey | Markus Haas

Glossary

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

mpass	Mobile payment service
MTR	Mobile Termination Rates
NFC	Near Field Communication: a short-range wireless connectivity standard
NGA	Change of the existing wireless network to internet-platform technology
n.m.	not measured or not meaningful
OIBDA	Operating Income before Depreciation and Amortization
Prepaid/ Postpaid	In contrast to postpaid contracts, prepaid communication services are services for which credit has been purchased in advance with no fixed-term contractual obligations
Retail	Sale of goods and services to end users; as opposed to resale or wholesale business
Roaming	Using a communication device or subscriber identity in a different network other than one's home network
SIP	Session Initiation Protocol: an Internet Engineering Task Force (IETF) standard protocol for initiating an interactive user session that involves multimedia elements such as video, voice, chat, gaming and virtual reality
SIM	Subscriber Identity Module, a chipcard to insert into a mobile phone that identifies the user within the network
Smartphone	Wireless handset that can be used as a mobile phone, a web browser, and an e-mail reader simultaneously
SMS	Short Message Service
ULL	Unbundled Local Loop, bridges the distance between the local exchange and the termination point on the customer's premises or in their home, also known as the 'last mile'
UMTS	Universal Mobile Telecommunications Service: International mobile communications standard of the third generation which unites mobile multimedia and telematics service under the frequency spectrum of 2 GHz
VDSL	Very High Speed Digital Subscriber Line: DSL technology with data transmission faster than ADSL over telephone lines
Wholesale	Selling services to third parties who sell them to their own end-customers either directly or after further processing

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