



## Deutschland

### O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH

(incorporated with limited liability under the laws of the Federal Republic of Germany,  
having its corporate domicile in Munich, Federal Republic of Germany)

#### € • • per cent Notes due 2018

unconditionally and irrevocably guaranteed by

#### Telefónica Deutschland Holding AG

(a stock corporation incorporated under the laws of the Federal Republic of Germany,  
having its corporate domicile in Munich, Federal Republic of Germany)

Issue Price: • per cent

O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH (the "Issuer") will issue on 22 November 2013 (the "Issue Date") EUR • • per cent Notes due 2018 (the "Notes") under the unconditional and irrevocable guarantee (the "Guarantee") of Telefónica Deutschland Holding AG (the "Guarantor"). The Notes will be redeemed at par on 22 November 2018 (the "Maturity Date"). The Notes will bear interest from and including 22 November 2013 to, but excluding, the Maturity Date at a rate of • per cent *per annum*, payable annually in arrears on 22 November in each year, commencing on 22 November 2014.

This prospectus (the "Prospectus") constitutes a prospectus within the meaning of Article 5.3 of the Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 as amended from time to time (the "Prospectus Directive"). This Prospectus will be published in electronic form together with all documents incorporated by reference on the website of the Luxembourg Stock Exchange (www.bourse.lu). This Prospectus has been approved by the *Commission de Surveillance du Secteur Financier* of the Grand Duchy of Luxembourg (the "CSSF") in its capacity as competent authority under the Luxembourg law relating to prospectuses for securities, as amended (*Loi du 10 juillet 2005 relative aux prospectus pour valeurs mobilières* – the "Prospectus Law"), which implements the Prospectus Directive into Luxembourg law. The Issuer has requested the CSSF to provide the competent authorities in the Federal Republic of Germany ("Germany"), The Netherlands and the Republic of Austria ("Austria") and may request to provide competent authorities in additional host Member States within the European Economic Area with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Law (the "Notification").

Application has been made for the Notes to be listed on the official list of the Luxembourg Stock Exchange and to be admitted to trading on the regulated market of the Luxembourg Stock Exchange, which is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on Markets in Financial Instruments, as amended.

Fitch Ratings has assigned to the Guarantor a Long-Term Issuer Default Rating (IDR) of "BBB" with a Stable Outlook. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Notes are issued in bearer form with a denomination of € 1,000 each.

The Notes have been assigned the following securities codes: ISIN XS 0912992160, Common Code 091299216, WKN A1TM8X.

The issue price, the aggregate principal amount of the Notes to be issued, the rate of interest, the number of notes to be issued and the yield of the issue will be included in the Pricing Notice (as defined in "Subscription, Sale and Offer of the Notes" below) which will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu) on or as soon as possible after the pricing date which is expected to be 15 November 2013.

*Joint Lead Managers*

Bayerische Landesbank

BofA Merrill Lynch

Commerzbank

UBS Investment Bank

## RESPONSIBILITY STATEMENT

Each of O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH (the "**Issuer**") with its corporate domicile in Munich, Germany and Telefónica Deutschland Holding AG (the "**Guarantor**", together with its direct and indirect subsidiaries and joint ventures at the date of this Prospectus collectively also referred to as "**we**", "**our**" or "**us**") having its corporate domicile in Munich, Germany, accepts responsibility for the information contained in and incorporated by reference into this Prospectus including the English language translations of the Terms and Conditions and the Guarantee and hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect its import.

Each of the Issuer and the Guarantor further confirms that (i) this Prospectus contains all information with respect to the Issuer as well as to the Guarantor and their respective subsidiaries and affiliates and to the Notes which is material in the context of the issue and offering of the Notes, including all information which, according to the particular nature of the Issuer, the Guarantor and the Notes is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and the Guarantor and of the rights attached to the Notes; (ii) the statements contained in this Prospectus relating to the Issuer, the Guarantor and the Notes are in every material particular true and accurate and not misleading; (iii) there are no other facts in relation to the Issuer, the Guarantor or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in the Prospectus misleading in any material respect; and (iv) reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

As per Article 7(7) of the Prospectus Law, the CSSF gives no undertaking as to the economic and financial soundness of the issue of the Notes and the quality or solvency of the Issuer.

This Prospectus contains financial and other information on E-Plus Mobilfunk GmbH & Co. KG and its direct and indirect subsidiaries (the "**E-Plus Group**") (the "**E-Plus Group Information**") which has been taken from sources that Koninklijke KPN N.V. ("**KPN**" and, together with its direct and indirect subsidiaries, the "**KPN Group**") and the E-Plus Group have made publicly available, including a shareholders' circular dated 21 August 2013 (including an addendum to such circular dated 29 August 2013) available on KPN's website ([www.kpn.com](http://www.kpn.com)) and press releases of E-Plus Mobilfunk GmbH & Co. KG on its results for 2012 and the first half year of 2013 available on the website of the E-Plus Group (<http://eplus-gruppe.de/>). The Issuer has accurately reproduced the E-Plus Group Information. However, neither the Issuer, nor the Guarantor, nor the Joint Lead Managers (as defined below) have verified the E-Plus Group Information. In particular, neither the Issuer, nor the Guarantor or Telefónica, S.A. had been able to perform a due diligence on the E-Plus Group with a scope and to such extent as would have been necessary to verify the E-Plus Group Information. Neither the Issuer, nor the Guarantor, nor the Joint Lead Managers therefore assumes responsibility for the accuracy and completeness of the E-Plus Group Information.

## CONSENT TO USE THE PROSPECTUS

Each Joint Lead Manager (together, the "**Joint Lead Managers**") and/or each further financial intermediary subsequently reselling or finally placing Notes is entitled to use the Prospectus in Germany, The Netherlands, Luxembourg and Austria, for the subsequent resale or final placement of the Notes during the offer period commencing on 15 November 2013 and ending on 22 November 2013, provided however, that the Prospectus is still valid in accordance with Article 11 of the Luxembourg act relating to prospectuses for securities (*Loi relative aux prospectus pour valeurs mobilières*) which implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (as amended by Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010). The Issuers accept responsibility for the information given in the Prospectus also with respect to such subsequent resale or final placement of the relevant Notes.

The Prospectus may only be delivered to potential investors together with all supplements published before such delivery. Any supplement to the Prospectus is available for viewing in electronic form on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

When using the Prospectus, each Joint Lead Manager and/or relevant further financial intermediary must make certain that it complies with all applicable laws and regulations in force in the respective jurisdictions.

**In the event of an offer being made by a Joint Lead Manager and/or a further financial intermediary, the Joint Lead Manager and/or the further financial intermediary shall provide information to investors on the terms and conditions of the offer at the time of that offer.**

**Any Joint Lead Manager and/or further financial intermediary using the Prospectus has to state on its website that it uses the Prospectus in accordance with this consent and the conditions attached thereto.**

## NOTICE

No person is authorised to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor or the Joint Lead Managers (as defined in "SUBSCRIPTION, SALE AND OFFER OF THE NOTES"). Neither the delivery of this Prospectus nor any offering or sale of any Notes made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor or any of its affiliates since the date of this Prospectus, or that the information herein is correct at any time since its date.

This Prospectus contains certain forward-looking statements, in particular statements using the words "believes", "anticipates", "intends", "expects" or other similar terms. This applies in particular to statements under the caption "GENERAL INFORMATION ON THE ISSUER – Business", under the caption "GENERAL INFORMATION ON THE GUARANTOR - Business" and under the caption "ACQUISITION OF THE E-PLUS GROUP" and statements elsewhere in this Prospectus relating to, among other things, the future financial performance, potential synergies to be realised in connection with the planned acquisition of the E-Plus Group, plans and expectations regarding developments in the business of the Issuer and the Guarantor, as the case may be. These forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that may cause the actual results, including the financial position and profitability of the Issuer and the Guarantor, as the case may be, to be materially different from or worse than those expressed or implied by these forward-looking statements. Neither the Issuer nor the Guarantor do assume any obligation to update such forward-looking statements and to adapt them to future events or developments.

This Prospectus should be read and understood in conjunction with any supplement hereto and with any other documents incorporated herein by reference.

To the fullest extent permitted by law, neither the Joint Lead Managers nor any other person mentioned in this Prospectus, except for the Issuer and the Guarantor, is responsible for the information contained in this Prospectus or any other document incorporated herein by reference, and accordingly, and to the extent permitted by the laws of any relevant jurisdiction, none of these persons accepts any responsibility for the accuracy and completeness of the information contained in any of these documents. The Joint Lead Managers have not independently verified any such information and accept no responsibility for the accuracy thereof.

Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer and of the Guarantor. This Prospectus does not constitute an offer of Notes or an invitation by or on behalf of the Issuer, the Guarantor or the Joint Lead Managers to purchase any Notes. Neither this Prospectus nor any other information supplied in connection with the Notes should be considered as a recommendation by the Issuer, the Guarantor or the Joint Lead Managers to a recipient hereof and thereof that such recipient should purchase any Notes.

This Prospectus does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

The offer, sale and delivery of the Notes and the distribution of this Prospectus in certain jurisdictions are restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. In particular, the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and are subject to U.S. tax law requirements. Subject to certain limited exceptions, the Notes may not be offered, sold or delivered within the United States of America ("**United States**") or to U.S. persons. For a further description of certain restrictions on offerings and sales of the Notes and distribution of this Prospectus (or of any part thereof) see "**SUBSCRIPTION, SALE AND OFFER OF THE NOTES – Selling Restrictions.**"

**IN CONNECTION WITH THE ISSUE OF THE NOTES, UBS LIMITED (OR PERSONS ACTING ON ITS BEHALF) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT UBS LIMITED (OR PERSONS ACTING ON ITS BEHALF) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN AT ANY TIME AFTER THE ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE DATE OF THE RECEIPT OF THE PROCEEDS OF THE ISSUE BY THE ISSUER AND 60 CALENDAR DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL LAWS, DIRECTIVES, REGULATIONS AND RULES OF ANY RELEVANT JURISDICTION.**

In this Prospectus all references to "**€**", "**EUR**" or "**Euro**" are to the currency introduced at the start of the third stage of the European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the Euro, as amended.

## CONTENTS

RESPONSIBILITY STATEMENT .....	.ii
CONSENT TO USE THE PROSPECTUS .....	.iii
NOTICE .....	.iii
SUMMARY .....	- 1 -
GERMAN TRANSLATION OF THE SUMMARY .....	- 16 -
RISK FACTORS .....	- 34 -
USE OF PROCEEDS .....	- 53 -
INFORMATION ON THE GUARANTOR .....	- 54 -
INFORMATION ON THE ISSUER .....	- 88 -
TERMS AND CONDITIONS .....	- 93 -
DESCRIPTION OF RULES REGARDING RESOLUTIONS OF HOLDERS .....	- 115 -
TAXATION .....	- 116 -
SUBSCRIPTION, SALE AND OFFER OF THE NOTES .....	- 124 -
GENERAL INFORMATION / INCORPORATION BY REFERENCE .....	- 127 -
NAMES AND ADDRESSES .....	- 1 -

## SUMMARY

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

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

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

Section A – Introduction and warnings		
<b>A.1</b>	<b>Introduction</b>	<p><b>Warning that:</b></p> <ul style="list-style-type: none"> <li>• this Summary should be read as an introduction to the Prospectus;</li> <li>• any decision to invest in the Notes should be based on consideration of the Prospectus as a whole by the investor;</li> <li>• where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus, before the legal proceedings are initiated; and</li> <li>• civil liability attaches only to the Issuer which has tabled the Summary including any translation thereof, but only if the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such the Notes.</li> </ul>
<b>A.2</b>	<b>Consent</b>	<p>Each Joint Lead Manager and/or each further financial intermediary subsequently reselling or finally placing the Notes is entitled to use the Prospectus for the subsequent resale or final placement of the Notes in Luxembourg, the Federal Republic of Germany, The Netherlands and the Republic of Austria during the offer period for the subsequent resale or final placement of the Notes from 15 November 2013 to 22 November 2013.</p> <p>The Prospectus may only be delivered to potential investors together with all supplements published before such delivery.</p> <p>When using the Prospectus, each Joint Lead Manager and/or relevant further financial intermediary must make certain that it complies with all applicable laws and regulations in force in the respective jurisdictions.</p> <p><b>In the event of an offer being made by a Joint Lead Manager and/or a further financial intermediary, the Joint Lead Manager and/or the further financial intermediary shall provide information to investors on the terms and conditions of the Notes at the time of that offer.</b></p>

Section B – O <sub>2</sub> Telefónica Deutschland Finanzierungs GmbH as Issuer		
<b>B.1</b>	<b>Legal and commercial name of the Issuer</b>	Legal and commercial name of the Issuer is O <sub>2</sub> Telefónica Deutschland Finanzierungs GmbH (formerly named Telefónica Deutschland Finanzierungs GmbH) (the " <b>Issuer</b> ").
<b>B.2</b>	<b>Domicile, legal form, legislation, country of incorporation</b>	The Issuer is incorporated as a limited liability company ( <i>Gesellschaft mit beschränkter Haftung</i> ) organised and operating under the laws of the Federal Republic of Germany. Its business address is Georg-Brauchle-Ring 23-25, 80992 Munich, Federal Republic of Germany.
<b>B.4b</b>	<b>Trends</b>	Not applicable; there are no trends affecting the Issuer.
<b>B.5</b>	<b>Description of the Group and the Issuer's position within the Group</b>	Telefónica Germany GmbH & Co. OHG directly holds 100% of the shares in the Issuer. 100% of Telefónica Germany GmbH & Co. OHG's shares are directly and indirectly held by Telefónica Deutschland Holding AG (the " <b>Guarantor</b> "; the Guarantor together with its direct and indirect subsidiaries and joint ventures: " <b>Telefónica Deutschland</b> ", hereafter also referred to as " <b>we</b> " and " <b>our</b> "). 76.83% of the Guarantor's shares are held by Telefónica Germany Holdings Limited which is an indirectly wholly owned subsidiary of

		Telefónica, S.A. (Telefónica, S.A. collectively with its direct and indirect subsidiaries – excluding Telefónica Deutschland: "Telefónica Group").										
<b>B.9</b>	<b>Profit forecast or estimate</b>	Not applicable; no profit forecast or estimate is made.										
<b>B.10</b>	<b>Qualifications in the audit opinion on the historical financial information</b>	Not applicable; there are no qualifications.										
<b>B.12</b>	<b>Selected historical key financial information</b>	<p>The selected historical key financial information of the Issuer below as of 6 March 2013 was taken from the Issuer's audited opening balance sheet dated as of 6 March 2013, prepared in accordance with the provisions of the German Commercial Code (<i>Handelsgesetzbuch; HGB</i>):</p> <table> <thead> <tr> <th><b>Selected Financial Information</b></th> <th><b>6 March 2013 in €</b></th> </tr> </thead> <tbody> <tr> <td>Bank balances</td> <td>25,000</td> </tr> <tr> <td><b>Total Assets</b></td> <td><b>25,000</b></td> </tr> <tr> <td>Unregistered capital contribution</td> <td>25,000</td> </tr> <tr> <td><b>Total Equity and Liabilities</b></td> <td><b>25,000</b></td> </tr> </tbody> </table>	<b>Selected Financial Information</b>	<b>6 March 2013 in €</b>	Bank balances	25,000	<b>Total Assets</b>	<b>25,000</b>	Unregistered capital contribution	25,000	<b>Total Equity and Liabilities</b>	<b>25,000</b>
<b>Selected Financial Information</b>	<b>6 March 2013 in €</b>											
Bank balances	25,000											
<b>Total Assets</b>	<b>25,000</b>											
Unregistered capital contribution	25,000											
<b>Total Equity and Liabilities</b>	<b>25,000</b>											
	<b>A statement that there has been no material adverse change in the prospects of the issuer since the date of its last published audited financial statements or a description of any material adverse change.</b>	There has been no material adverse change in the prospects of O <sub>2</sub> Telefónica Deutschland Finanzierungs GmbH since 6 March 2013.										
	<b>A description of significant changes in the financial or trading position subsequent to the period covered by the historical financial information.</b>	There has been no significant change in the financial or trading position of O <sub>2</sub> Telefónica Deutschland Finanzierungs GmbH since 6 March 2013.										
<b>B.13</b>	<b>Recent Events</b>	With effect as of 7 November 2013, the legal and commercial name of the Issuer has been changed to "O <sub>2</sub> Telefónica Deutschland Finanzierungs GmbH".										
<b>B.14</b>	<p>Please see Element B.5.</p> <p><b>Dependence upon other entities within the group</b></p>	<p>O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH is a wholly-owned subsidiary of Telefónica Germany GmbH &amp; Co. OHG. It is dependent upon its owner Telefónica Germany GmbH &amp; Co. OHG.</p>										
<b>B.15</b>	<b>A description of the issuer's principal activities.</b>	The Issuer's sole business activity is the provision of liquid funds to finance the business operations of companies within Telefónica Deutschland by among others, the issuance of bonds.										
<b>B.16</b>	<b>Controlling Persons</b>	O <sub>2</sub> Telefónica Deutschland Finanzierungs GmbH is a wholly-owned subsidiary of Telefónica Germany GmbH & Co. OHG. Telefónica Germany GmbH & Co. OHG directly holds all shares in the Issuer and exercises control over the Issuer directly.										
<b>B.17</b>	<b>Credit ratings assigned to the Issuer or its debt securities</b>	Not applicable; the Issuer or its debt securities have not been rated.										

**Section B –Telefónica Deutschland Holding AG as Guarantor**

<b>B.1</b>	<b>Legal and commercial name of the Guarantor</b>	Legal and commercial name of the Guarantor is Telefónica Deutschland Holding AG.
<b>B.2</b>	<b>Domicile, legal form, legislation, country of incorporation</b>	Telefónica Deutschland Holding AG is a German stock corporation (Aktiengesellschaft) incorporated under the laws of and domiciled in the Federal Republic of Germany. Its business address is Georg-Brauchle-Ring 23-25, 80992 Munich, Federal Republic of Germany.
<b>B.4b</b>	<b>Trends</b>	Telefónica Deutschland expects the German telecommunication market to remain active and competitive in the medium term, with significant impacts from mobile termination rate cuts, changing customers' communication behaviours, and the variability of device launches and replacement cycles. Telefónica Deutschland expects to be impacted by the variability of these diverging trends. Telefónica Deutschland has observed an increasing pressure on revenues throughout the year 2013 from competition, changing customers' communication behaviour and regulation and has further noticed a significant level of competition around smartphone Universal Mobile Telecommunications System ("UMTS" or "3G") tariffs and device bundles (bundled offers of tariff and device). Telefónica Deutschland believes that additional levers, such as the introduction of the Long Term Evolution ("LTE" or "4G") technology and convergent fixed-mobile data services will be key factors for its medium-term profitability as standalone business, with the recently announced acquisition of the business of E-Plus Mobilfunk GmbH & Co. KG and its direct and indirect subsidiaries (the " <b>E-Plus Group</b> "), which conducts the German mobile telecommunications business of Koninklijke KPN N.V. (subject to regulatory approval and merger clearance), amplifying this opportunity in the medium term.
<b>B.5</b>	<b>Description of the Group and the Guarantor's position within the Group</b>	Telefónica Germany Holdings Limited holds 76.83% of the shares in the Guarantor. Telefónica Germany Holdings Limited is indirectly wholly-owned by Telefónica, S.A.
<b>B.9</b>	<b>Profit forecast or estimate</b>	Not applicable; no profit forecast or estimate is made.
<b>B.10</b>	<b>Qualifications in the audit opinions on the historical financial information</b>	Not applicable; Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Munich Office, issued unqualified audit opinions on the consolidated financial statements of Telefónica Deutschland Holding AG as of and for the year ended 31 December 2012 and on the combined financial statements of Telefónica Deutschland Holding AG (formerly Telefónica Germany Verwaltungs GmbH) as of and for the years ended 31 December 2011, 2010 and 2009.
<b>B.12</b>	<b>Selected historical key financial information</b>	The selected key financial information of the Guarantor below as of and for the year ended 31 December 2011 was taken or derived from the Guarantor's audited combined financial statements as of and for the years ended 31 December 2011, 2010 and 2009, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, ("IFRS") taking into account the basis of preparation as set out in Note 1 to the combined financial statements (the " <b>Combined Financial Statements 2009-2011</b> "), and the selected key financial information as of and for the year ended 31 December 2012 from the Guarantor's audited consolidated financial statements as of and for the year ended 31 December 2012, prepared in accordance with IFRS and the additional requirements of German commercial law pursuant to Section 315a (1) German Commercial Code ( <i>Handelsgesetzbuch; HGB</i> ) (the " <b>Consolidated Financial Statements 2012</b> ") as well as for each of these years from the Guarantor's accounting records or internal management reporting systems. The selected key financial information of the Guarantor below as of 30 September 2013 and for the nine months ended 30 September 2013 and 30 September 2012 were taken or derived from the Guarantor's unaudited interim condensed consolidated financial statements as of and for the nine months ended 30 September 2013 prepared in accordance with IFRS on interim financial reporting (International Accounting Standard (IAS) 34) (the " <b>Unaudited Interim Condensed Consolidated Financial Statements</b> "), as well as for these nine month periods from the Guarantor's accounting records or internal management reporting systems. The Consolidated Financial Statements 2012 include the assets and liabilities, and the Consolidated Financial Statements 2012 as well as the Unaudited Interim Condensed Consolidated Financial Statements include the income and expenses and cash flows of the entities Group 3G UMTS Holding GmbH, Quam GmbH and Telefónica Global Services GmbH, together with its subsidiaries Telefónica Global Roaming GmbH, Telefónica

		<p>Compras Electronicas S.L., and the indirectly held 40% interest in Adquira España S.A. until 1 October 2012 when these entities ceased to be direct and indirect subsidiaries or associates of the Guarantor. According to IFRS 5 "Non-current assets held for sale and discontinued operations" the income and expenses and cash flows of these sold entities are separately disclosed in the consolidated income statement of the Consolidated Financial Statements 2012 and of the Unaudited Interim Condensed Consolidated Financial Statements, respectively, as profit after taxes from discontinued operations and in the consolidated statement of cash flows of the Consolidated Financial Statements 2012 and of the Unaudited Interim Condensed Consolidated Financial Statements, respectively, as cash flow from operating activities from discontinued operations, cash flow from investing activities from discontinued operations and cash flows from financing activities from discontinued operations, respectively. However, according to IFRS 5 "Non-current assets held for sale and discontinued operations" the assets and liabilities of these sold entities are not separately disclosed in the comparative financial information as of 31 December 2011 in the consolidated statement of financial position of the Consolidated Financial Statements 2012.</p> <p>The Combined Financial Statements 2009-2011 do not include the assets and liabilities, income and expenses and cash flows of the sold entities mentioned above.</p> <p>Where financial information in the following table is labelled "audited", this means that it was taken or derived from the Combined Financial Statements 2009-2011 or from the Consolidated Financial Statements 2012. The label "unaudited" is used in the following table to indicate financial information that was not taken or derived from the Combined Financial Statements 2009-2011 or Consolidated Financial Statements 2012.</p>																																																																									
		<p>The table below sets forth certain selected income and cash flow information of Telefónica Deutschland for the years ended 31 December 2012 and 2011 and for the nine months ended 30 September 2013 and 2012:</p>																																																																									
<table border="1"> <thead> <tr> <th></th><th colspan="2">For the year ended 31 December</th><th colspan="2">For the nine months ended 30 September</th></tr> <tr> <th></th><th>2012</th><th>2011</th><th>2013</th><th>2012</th></tr> <tr> <th></th><th>(in € thousand, unless otherwise indicated)</th><th>(in € thousand, unless otherwise indicated)</th><th>(in € thousand, unless otherwise indicated)</th><th>(unaudited)</th></tr> <tr> <th></th><th>(audited, unless otherwise indicated)</th><th>(audited, unless otherwise indicated)</th><th>(audited)</th><th></th></tr> </thead> <tbody> <tr> <td><b>Revenues:</b>.....</td><td>5,212,838</td><td>5,035,552</td><td>3,670,691</td><td>3,870,768</td></tr> <tr> <td>Wireless Business .....</td><td>3,845,053</td><td>3,605,747</td><td>2,728,737</td><td>2,831,543</td></tr> <tr> <td>    Wireless Service Revenues<sup>1</sup>.....</td><td>3,151,838</td><td>2,946,465</td><td>2,246,366</td><td>2,359,265</td></tr> <tr> <td>    Handset Revenues.....</td><td>693,215</td><td>659,282</td><td>482,371</td><td>472,278</td></tr> <tr> <td>Wireline Business .....</td><td>1,363,203</td><td>1,425,740</td><td>937,597</td><td>1,035,810</td></tr> <tr> <td>Other .....</td><td>4,582</td><td>4,065</td><td>4,357</td><td>3,415</td></tr> <tr> <td><b>OPERATING INCOME BEFORE DEPRECIATION AND AMORTISATION (OIBDA):</b>.....</td><td>1,279,074</td><td>1,149,237</td><td>864,062</td><td>936,200</td></tr> <tr> <td><b>PROFIT OR LOSS FOR THE YEAR/PERIOD FROM CONTINUING OPERATIONS/RESULT FOR THE YEAR<sup>2</sup> .....</b></td><td>307,523</td><td>71,346</td><td>(823)</td><td>108,349</td></tr> <tr> <td>Basic earnings per share from continuing operations/basic earnings per share (2011 unaudited)<sup>3</sup> (€) .....</td><td>0.28</td><td>0.06</td><td>(0.00)</td><td>0.10</td></tr> <tr> <td><b>OPERATING CASH FLOW (OIBDA- CapEx) FROM CONTINUING OPERATIONS/OPERATING CASH FLOW (OIBDA-CapEx) (unaudited)<sup>4</sup> .....</b></td><td>670,233</td><td>591,586</td><td>396,399</td><td>484,084</td></tr> <tr> <td><b>FREE CASH FLOW PRE DIVIDENDS FROM CONTINUING OPERATIONS/FREE CASH FLOW PRE DIVIDENDS (unaudited)<sup>5</sup> .....</b></td><td>675,957</td><td>697,048</td><td>543,567</td><td>552,946</td></tr> </tbody> </table>		For the year ended 31 December		For the nine months ended 30 September			2012	2011	2013	2012		(in € thousand, unless otherwise indicated)	(in € thousand, unless otherwise indicated)	(in € thousand, unless otherwise indicated)	(unaudited)		(audited, unless otherwise indicated)	(audited, unless otherwise indicated)	(audited)		<b>Revenues:</b> .....	5,212,838	5,035,552	3,670,691	3,870,768	Wireless Business .....	3,845,053	3,605,747	2,728,737	2,831,543	Wireless Service Revenues <sup>1</sup> .....	3,151,838	2,946,465	2,246,366	2,359,265	Handset Revenues.....	693,215	659,282	482,371	472,278	Wireline Business .....	1,363,203	1,425,740	937,597	1,035,810	Other .....	4,582	4,065	4,357	3,415	<b>OPERATING INCOME BEFORE DEPRECIATION AND AMORTISATION (OIBDA):</b> .....	1,279,074	1,149,237	864,062	936,200	<b>PROFIT OR LOSS FOR THE YEAR/PERIOD FROM CONTINUING OPERATIONS/RESULT FOR THE YEAR<sup>2</sup> .....</b>	307,523	71,346	(823)	108,349	Basic earnings per share from continuing operations/basic earnings per share (2011 unaudited) <sup>3</sup> (€) .....	0.28	0.06	(0.00)	0.10	<b>OPERATING CASH FLOW (OIBDA- CapEx) FROM CONTINUING OPERATIONS/OPERATING CASH FLOW (OIBDA-CapEx) (unaudited)<sup>4</sup> .....</b>	670,233	591,586	396,399	484,084	<b>FREE CASH FLOW PRE DIVIDENDS FROM CONTINUING OPERATIONS/FREE CASH FLOW PRE DIVIDENDS (unaudited)<sup>5</sup> .....</b>	675,957	697,048	543,567	552,946
	For the year ended 31 December		For the nine months ended 30 September																																																																								
	2012	2011	2013	2012																																																																							
	(in € thousand, unless otherwise indicated)	(in € thousand, unless otherwise indicated)	(in € thousand, unless otherwise indicated)	(unaudited)																																																																							
	(audited, unless otherwise indicated)	(audited, unless otherwise indicated)	(audited)																																																																								
<b>Revenues:</b> .....	5,212,838	5,035,552	3,670,691	3,870,768																																																																							
Wireless Business .....	3,845,053	3,605,747	2,728,737	2,831,543																																																																							
Wireless Service Revenues <sup>1</sup> .....	3,151,838	2,946,465	2,246,366	2,359,265																																																																							
Handset Revenues.....	693,215	659,282	482,371	472,278																																																																							
Wireline Business .....	1,363,203	1,425,740	937,597	1,035,810																																																																							
Other .....	4,582	4,065	4,357	3,415																																																																							
<b>OPERATING INCOME BEFORE DEPRECIATION AND AMORTISATION (OIBDA):</b> .....	1,279,074	1,149,237	864,062	936,200																																																																							
<b>PROFIT OR LOSS FOR THE YEAR/PERIOD FROM CONTINUING OPERATIONS/RESULT FOR THE YEAR<sup>2</sup> .....</b>	307,523	71,346	(823)	108,349																																																																							
Basic earnings per share from continuing operations/basic earnings per share (2011 unaudited) <sup>3</sup> (€) .....	0.28	0.06	(0.00)	0.10																																																																							
<b>OPERATING CASH FLOW (OIBDA- CapEx) FROM CONTINUING OPERATIONS/OPERATING CASH FLOW (OIBDA-CapEx) (unaudited)<sup>4</sup> .....</b>	670,233	591,586	396,399	484,084																																																																							
<b>FREE CASH FLOW PRE DIVIDENDS FROM CONTINUING OPERATIONS/FREE CASH FLOW PRE DIVIDENDS (unaudited)<sup>5</sup> .....</b>	675,957	697,048	543,567	552,946																																																																							
		<p><sup>1</sup> Adjusted for the effect of substantial decreases in voice mobile termination rates ("MTR") in December 2012, Wireless Service Revenues would have been € 9 million higher in the year ended 31 December 2012 and € 91.8 million higher in the nine months ended 30 September 2013 (MTR cut from € 0.0339 until 30 November 2012 to € 0.0185 after 1 December 2012).</p> <p><sup>2</sup> Result for the year 2011 as disclosed in the Combined Financial Statements 2009-2011. No discontinued operations in 2013.</p> <p><sup>3</sup> Basic earnings per share from continuing operations for 2012 are calculated as profit attributable to ordinary equity holders of the</p>																																																																									

		<p>parent from continuing operations (equal to the profit for the year from continuing operations) for 2012 divided by the weighted average number of ordinary shares for 2012 in the amount of 1,117,001 thousand. Basic earnings per share for 2011 (unaudited) are calculated as result for the year 2011 divided by the weighted average number of ordinary shares of 2012. For comparability purposes, the 2012 weighted average number of ordinary shares also has been used for the year 2011. Basic earnings per share from continuing operations for the nine months ended 30 September 2013 and 2012 are calculated as profit or loss attributable to ordinary equity holders of the parent from continuing operations (equal to the profit or loss for the period from continuing operations) divided by the weighted average number of ordinary shares for the nine months ended 30 September 2013 in the amount of 1,116,945 thousand. For comparability purposes, the weighted average number of ordinary shares for the nine months ended 30 September 2013 also has been used for nine months ended 30 September 2012.</p> <p><sup>4</sup> Operating cash flow (OIBDA-CapEx) from continuing operations for 2012 as well as for the nine months ended 30 September 2013 and 2012 is calculated as OIBDA from continuing operations minus Capital Expenditures ("CapEx") from continuing operations. Operating cash flow (OIBDA-CapEx) for 2011 is calculated as OIBDA minus Capital Expenditures (CapEx). CapEx is defined as additions of property, plant and equipment and intangible assets derived from the composition of and movements in property, plant and equipment and intangible assets information. CapEx from continuing operations in 2012 amount to €608,841k, CapEx in 2011 amount to €557,651k and CapEx from continuing operations in the nine months ended 30 September 2013 and 2012 amount to €467,663k and €452,116k, respectively.</p> <p><sup>5</sup> Free cash flow pre dividends from continuing operations for 2012 and the nine months ended 30 September 2013 and 2012 is defined as the sum of cash flow from operating activities from continuing operations and cash flow from investing activities from continuing operations derived from the Consolidated Financial Statements 2012 and the Unaudited Interim Condensed Consolidated Financial Statements, respectively. Free Cash flow pre dividends for 2011 is defined as the sum of cash flow from operating activities and cash flow from investing activities derived from the Combined Financial Statements 2009-2011.</p>
	<b>A statement that there has been no material adverse change in the prospects of the Guarantor since the date of its last published audited financial statements or a description of any material adverse change.</b>	There has been no material adverse change in the prospects of Telefónica Deutschland Holding AG since 31 December 2012.
	<b>A description of significant changes in the financial or trading position subsequent to the period covered by the historical financial information.</b>	There has been no significant change in the financial or trading position of Telefónica Deutschland Holding AG since 30 September 2013.
<b>B.13</b>	<b>Recent Events</b>	<p>On 2 May 2013, Telefónica Deutschland and Telekom Deutschland GmbH signed a "memorandum of understanding" broadening their cooperation with regard to fixed-line services and providing for Telefónica Deutschland's expanded access to the advanced network infrastructure of Telekom Deutschland (the so-called "next generation access platform" or NGA platform) enabling Telefónica Deutschland to offer its customers high-speed internet products with data transfer rates of up to 100Mbit/s. In June 2013, the Federal Cartel Office (<i>Bundeskartellamt</i>) has confirmed that the cooperation is not subject to merger control clearance. The proceeding for the clearance of the envisaged cooperation by the Federal Network Agency has been initiated in October 2013 and is expected to be finalised by the end of 2013. The start of the cooperation, which is still subject to final and binding agreement with Telekom Deutschland GmbH, which is currently envisaged to be entered into by the end of 2013, is scheduled for 2014. The completion of the transition from Telefónica Deutschland's Asymmetrical Digital Subscriber Line ("ADSL") infrastructure to the NGA platform of Deutsche Telekom is expected for 2019.</p> <p>In a German law governed sale and purchase agreement dated 23 July 2013, as amended on 26 August 2013 and 28 August 2013, between Koninklijke KPN N.V. ("KPN" and, together with its direct and indirect subsidiaries, the "KPN Group"), Telefónica, S.A. and the Guarantor (the "SPA"), the Guarantor agreed to purchase all assets, certain liabilities and business activities of the E-Plus Group which conducts the business activities of KPN Group on the German telecommunications market (the "Transaction").</p> <p>Upon consummation of the Transaction, KPN will receive (i) € 3.7 billion in cash from the Guarantor (this cash component to be financed by a capital increase of the Guarantor against contribution in cash via a public rights offering) and (ii) shares to be issued by the Guarantor. The shares to be issued to KPN shall represent 24.9% of the Guarantor's total issued share capital following the implementation of (i) the capital increase against contributions in cash mentioned above and (ii) a further increase in the capital against</p>

		<p>contribution in kind of the E-Plus Group leading to the shares to be issued to KPN. The SPA further provides that upon KPN having obtained the shares in the Guarantor corresponding to a shareholding of 24.9%, Telefónica, S.A. shall at the consummation of the SPA purchase from KPN such number of shares in the Guarantor as corresponds to 4.4% of the then current total issued share capital of the Guarantor. Furthermore, the SPA provides for a call option for Telefónica, S.A. granted by KPN pursuant to which Telefónica, S.A., on the date which is one year after consummation of the SPA, may exercise the call option relating to shares in the Guarantor corresponding to up to 2.9% of the then current share capital of the Guarantor. The exercise price values the shares in the Guarantor corresponding to 2.9% of the then current share capital of the Guarantor at € 510 million. Telefónica, S.A. will pay to KPN a cash payment of € 1.3 billion for the 4.4% shares in the Guarantor to be purchased at the consummation of the SPA as well as for the call option. As a result, KPN will receive in total € 5 billion in cash and 20.5% in the Guarantor's total issued share capital (17.6% in the Guarantor's total issued share capital in case of full exercise of the call option, respectively). The consummation of the Transaction is subject to the occurrence of a number of conditions precedent, including merger clearance, the absence of a material adverse change with regard to the E-Plus Group and fulfillment of certain German corporate law requirements relating to the capital increase by the Guarantor against contribution in kind. The Transaction was approved by an extraordinary shareholders' meeting of KPN on 2 October 2013. With regard to the merger clearance, the Guarantor expects a very thorough review of the Transaction comparable to the merger clearance proceedings conducted for comparable transactions in other member states of the European Union. In addition, the Transaction will also not materialise should KPN receive and accept an offer for the E-Plus Group prior to 1 December 2013 which is deemed to be superior (as this term is defined in the SPA). The Guarantor must pay to KPN a break-fee of € 100 million, if the SPA is not consummated as a result of the European Commission or the German Federal Cartel Office (<i>Bundeskartellamt</i>) or any other governmental authority having jurisdiction in respect of the consummation of the SPA should not approve the consummation of the SPA.</p> <p>The Guarantor expects that the Transaction will unlock significant synergy effects in particular with respect to distribution, customer service and network infrastructure and operations, with incremental value from additional revenues and other synergies. The total value of synergies to be unlocked over time is estimated to be approximately € 5.0 - 5.5 billion net of integration costs. The total value of synergies was calculated as the net present value of the Transaction computed as the sum of the present values of forecasted future cash flows including the so-called "terminal value" (present value of expected future cash flows beyond the explicit forecast horizon) after tax.</p> <p>On 12 September 2013, Telefónica Germany GmbH &amp; Co. OHG sold its subsidiary Telefónica Germany Online Services GmbH in which our web hosting business activities are concentrated to Host Europe GmbH. The closing of this transaction was effected on 31 October 2013.</p> <p>On 16 October 2013, we entered into an agreement with Versatel on the sale of certain of our owned and leased fibre assets in the area of Hamburg together with related wholesale- and business customer contracts to Versatel. Merger clearance was granted on 11 November 2013. The sale which is still subject to regulatory approval is expected to be completed by the end of 2013.</p> <p>The management board (<i>Vorstand</i>) of the Guarantor intends to suggest to the Guarantor's General Shareholders' Meeting a cash dividend for the year ending 31 December 2013 of approximately € 525 million, payable in 2014.</p>
<b>B.14</b>	Please see Element B.5.	
	<b>Dependence upon other entities within the group</b>	The Guarantor is dependent on its ultimate holding company Telefónica, S.A.
<b>B.15</b>	<b>A description of the Guarantor's principal activities.</b>	<p>The Guarantor is the holding company of Telefónica Deutschland. Telefónica Deutschland is the third largest telecommunications services provider in Germany (based on 2012 revenues), serving approximately 25.4 million customer accesses as of 30 September 2013. We offer mobile and fixed-line services providing voice, data and value-added services to consumer and business customers. In addition, we are one of the leading wholesale telecommunications services providers in Germany, offering access to our mobile and fixed-line infrastructure and service capabilities to our wholesale partners. We are part of Telefónica Group, one of the largest telecommunications companies in the world.</p> <p>We operate a nationwide mobile network with Global System for Mobile Communications ("GSM" or "2G") coverage exceeding 99% of the German population, a nationwide</p>

		<p>mobile network with 3G coverage of approximately 74% of the German population and a nationwide fixed-line network with Digital Subscriber Line ("DSL") access coverage to approximately 67% of German households. Based on our agreement with Telekom Deutschland GmbH with regard to the very-high-bit-rate DSL ("VDSL") contingency model, we are able to serve more than 11 million households with up to 50 MBit/s. Our mobile network operates on the technology standards GSM or 2G, UMTS or 3G and, more recently, <b>LTE</b> or <b>4G</b>.</p> <p>We market our products under a multi-brand strategy. We offer the majority of our post-paid and pre-paid mobile and fixed-line products and services through our core premium O<sub>2</sub> brand. We access additional customer groups through our secondary and partner brands as well as our wholesale channels. Secondary brands include our own netzclub brand and fully controlled brands such as FONIC or brands held through joint ventures and strategic partnerships such as Tchibo mobil and Türk Telekom Mobile. We market high-speed internet access and fixed-line telephony via DSL (under the standards Asymmetrical Digital Subscriber Line 2+ ("ADSL2+") and VDSL). We target our small and home office ("SoHo") and small and medium-sized enterprise ("SME") business customers through our O<sub>2</sub> brand, and large, national companies and multinational corporations through our Telefónica Multinational Solutions brand. In our wholesale service business, we offer mobile and fixed-line services to customers such as 1&amp;1, mobilcom/debitel, Drillisch and the two major German cable operators. We offer our products through a diversified distribution platform comprising direct (nationwide network of self-operated shops and O<sub>2</sub> partner shops, premium partners, online and telesales) and indirect (retail/e-retail partnerships and dealers/cooperations) sales channels.</p> <p>In 2012, we recorded revenues of € 5.2 billion (in the nine months ended 30 September 2013 € 3.7 billion) and OIBDA of € 1.3 billion (in the nine months ended 30 September 2013 € 864 million), corresponding to year-on-year increases in revenues of 3.5% (decrease of 5.2% in the nine months ended 30 September 2013 compared to the nine months ended 30 September 2012) and OIBDA of 11.3% (decrease of 7.7% in the nine months ended 30 September 2013 compared to the nine months ended 30 September 2012), respectively.</p> <p>With consummation of the Transaction, the Guarantor will acquire the E-Plus Group which will be integrated into Telefónica Deutschland. The E-Plus Group, headquartered in Düsseldorf, Germany, provides customers in Germany with multi-brand mobile telecommunication services, offering postpaid and prepaid services targeted at multiple market segments. The E-Plus Group is the third largest mobile services provider in Germany by number of subscribers, approximately 24.4 million as of 30 June 2013, and fourth largest by service revenue (€ 3,149 million for the financial year ended 31 December 2012). Total revenue of the E-Plus Group amounted to € 3,393 million for 2012. EBITDA in the E-Plus Group amounted to € 1,289 million for 2012. The E-Plus Group's multi-brand portfolio includes E-Plus and BASE as well as various other brands such as a youth-focused brand (yourfone) and a no-frills brand (Blau). Wholesale partners of the E-Plus Group include MedionMobile (AldiTalk), ADAC, MTV and the Nature and Biodiversity Conservation Union of Germany (NABU). (Sources: <i>Shareholders' Circular dated 21 August 2013 for the purpose of the Extraordinary General Meeting of Shareholders of KPN held on 2 October 2013; E-Plus Group press release on financial results of second quarter in 2013.</i>)</p> <p>Assuming the Transaction had taken place as of 31 December 2012 or 1 January 2012, respectively, Telefónica Deutschland would have served approximately 43 million aggregated customers and recorded aggregated revenues (prior to consolidation) of € 8.6bn (based on 2012 revenues of Telefónica Deutschland and E-Plus Group).</p>
<b>B.16</b>	<b>Controlling Persons</b>	Telefónica, S.A. indirectly holds 76.83% of the shares in the Guarantor. Telefónica, S.A. has controlling influence over the Guarantor.

<b>B.17</b>	<b>Credit ratings assigned to the Guarantor or its debt securities</b>	Fitch Ratings has assigned to the Guarantor a Long-Term Issuer Default Rating (IDR) of 'BBB' with a Stable Outlook. <sup>1</sup>
<b>B.18</b>	<b>Nature and scope of Guarantee</b>	Telefónica Deutschland Holding AG guarantees unconditionally and irrevocably the due payment of interest and principal and additional amounts for the Notes.
<b>B.19</b>	<b>Summary Information relating to the Guarantor</b>	Please see Section B – Telefónica Deutschland Holding AG as Guarantor above.

### Section C – Securities

<b>C.1</b>	<b>Type and class of the securities, including any security identification number.</b>	<p><b>Class</b> The Issuer's € 100 per cent notes due 2018 (the "Notes") constitute unsecured obligations of the Issuer.</p> <p><b>Security Identification Number(s)</b> ISIN: XS0912992160 Common Code: 091299216 WKN: A1TM8X</p>
<b>C.2</b>	<b>Currency of the securities issue.</b>	The Notes are issued in Euro.
<b>C.5</b>	<b>Restrictions on the free transferability of the securities.</b>	Not applicable. The Notes are freely transferable.
<b>C.8</b>	<b>Rights attached to the Notes, ranking of the Notes and limitations to the rights attached to the Notes</b>	<p><b>Rights attached to the Notes</b> Each holder of the Notes has the right vis-à-vis the Issuer to claim payment of interest and nominal when such payments are due in accordance with the terms and conditions of the Notes.</p> <p><b>Status of the Notes (ranking)</b> The obligations under the Notes constitute unsecured and unsubordinated obligations of the Issuer ranking <i>pari passu</i> among themselves and <i>pari passu</i> with all other unsecured and unsubordinated obligations of the Issuer, unless such obligations are accorded priority under mandatory provisions of statutory law.</p> <p><b>Redemption</b> Unless previously redeemed, or purchased and cancelled, each Note will be redeemed at its specified denomination on the Maturity Date.</p> <p><b>Early Redemption for Taxation Reasons</b> Early redemption will be permitted if the Issuer has or will become obliged to pay certain additional amounts in respect of the Notes as a result of any change in the tax laws of Germany.</p> <p><b>Early Redemption at the Option of the Issuer following a Change of Control Event</b> Early redemption will be permitted at the option of the Issuer if a change of control event has occurred.</p> <p><b>Negative Pledge</b> The Terms and Conditions of the Notes contain a negative pledge provision.</p> <p><b>Events of Default</b> The Terms and Conditions of the Notes provide for events of default entitling Holders to demand immediate redemption of the Notes.</p> <p><b>Cross Default</b> The Terms and Conditions of the Notes provide for cross default provisions.</p>

<sup>1</sup> Fitch Ratings is established in the European Community and is registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, amended by Regulation (EC) No 513/2011 of the European Parliament and of the Council of 11 March 2011 (the "CRA Regulation"). The European Securities and Markets Authority publishes on its website ([A credit rating assesses the creditworthiness of an entity and informs an investor therefore about the probability of the entity being able to redeem invested capital. It is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.](http://www.esma.europa.eu/page>List-registered-and-certified-CRAs</a>) a list of credit rating agencies registered in accordance with the CRA Regulation. That list is updated within five working days following the adoption of a decision under Article 16, 17 or 20 CRA Regulation. The European Commission shall publish that updated list in the Official Journal of the European Union within 30 days following such update.</p>
</div>
<div data-bbox=)

		<p><b>Resolutions of Holders</b> The Notes provide for resolutions of Holders.</p> <p><b>Governing Law</b> The Notes are governed by German law.</p>
C.9		<p>Please see Element C.8</p>
	<p><b>Interest / Fixed Rate Notes / Floating Rate Notes / Zero Coupon Notes / Maturity Date / Yield</b></p>	<p>The Notes bear interest from 22 November 2013 at a fixed rate of • per cent <i>per annum</i> payable in arrears on 22 November of each year. In case of a change of control event, the interest rate shall increase to • per cent. <i>per annum</i>.</p> <p><b>Maturity Date</b> Unless previously redeemed in whole or in part or purchased and cancelled, the Notes shall be redeemed on 22 November 2018.</p> <p><b>Yield</b> The yield equals • per cent <i>per annum</i>, provided that the interest rate is not increased because of a change of control event.</p> <p><b>Representative of Holder</b> Not applicable, no representative of the Holders has been appointed in the Terms and Conditions.</p>
C.10		<p>Please see Element C.9</p>
	<p><b>Derivative Component in the Interest Payment</b></p>	Not applicable, there is no derivative component in the interest payment.
C.11	<p><b>Application for the admission to trading</b></p>	Application has been made for the Notes to be listed on the official list of the Luxembourg Stock Exchange and to be admitted to trading on the regulated market of the Luxembourg Stock Exchange.

<p><b>Section D - Risks</b></p>		
D.2	<p><b>Key information on the key risks that are specific to the Issuer.</b></p>	<p>The Issuer acts at present solely to facilitate the financing of Telefónica Germany GmbH &amp; Co. OHG. Its main assets will be loans to be granted to Telefónica Germany GmbH &amp; Co. OHG. The Issuer's continued operations will depend on the ability of Telefónica Germany GmbH &amp; Co. OHG to meet its payment obligations under these loans. All debt securities of the Issuer (such as the Notes) are wholly and unconditionally guaranteed by the Guarantor in respect of principal and interest payments. This guarantee is governed by the laws of the Federal Republic of Germany.</p>
D.2	<p><b>Key information on the key risks that are specific to the Guarantor.</b></p>	<p>Macroeconomic factors may impair consumer spending and growth prospects in the German telecommunications market in general and negatively affect our market penetration of new value-added services and traffic, our number of customers, the Average Revenue Per User ("ARPU") of our customers, and, in particular, our volume of business customers. Recessionary conditions may also increase the number of defaults and/or delays in payments from our customers, increase churn and prevent us from attracting new customers.</p> <p>Under the key word "digital single market", the European Commission has published a draft regulation on 11 September 2013 containing different measures which are intended to improve the framework for investments into modern broadband networks and create favourable parameters for a strong European telecommunications sector. The initiative also includes measures which would have an immediate adverse effect on network operators' revenues such as measures with regard to incoming roaming calls within the EU and EU-wide long-distance calls. An estimate as to when and to which extent the "digital single market" initiative finally will be adopted cannot be given.</p> <p>As we have been designated by the Federal Network Agency ("FNA", <i>Bundesnetzagentur</i>) as a network operator with significant market power in the voice call termination markets for both mobile and fixed-line services, we are subject to the strict regulatory provisions of the German Telecommunications Act (<i>Telekommunikationsgesetz</i>). The effects of such regulation include, <i>inter alia</i>, our obligation to provide access on a non-discriminatory, fair and reasonable basis to other network operators to our mobile and fixed-line networks on the basis of conditions that are determined by the FNA in Germany. The FNA may also impose obligations on us in relation to, among other things, requirements to keep and obtain frequency allocations, tariff reductions, consumer protection measures, and privacy including data protection</p>

	<p>and public safety provisions. If we fail to comply with applicable regulations or obligations imposed by the FNA, we may be subject to sanctions, which may have an adverse effect on our business. We could also be affected by regulatory actions carried out by antitrust or competition bodies. These authorities could prohibit certain actions, such as new acquisitions or specific practices, create obligations or impose heavy fines. We expect this extensive regulation to continue to impact our business, financial condition and results of operations.</p> <p>The FNA is authorised under Article 43a sect. 3 of the German Telecommunications Act to adopt parameters for the transparent description of services in telecommunications contracts. In May 2013, the FNA has published key issues and encouraged a self-regulation of telecommunication services providers which include, <i>inter alia</i>, the introduction of measures to avoid so called "bill shocks" (such as price caps or warning SMS) or to measure and inform about the actual broadband performance capability of mobile and fixed-line broadband connections. Market participants are currently developing a respective self-regulation of which initial key issues have been presented to the FNA on 4 September 2013. More transparency on service details and thus on service and network quality could lead to customer churn and limit our marketing possibilities. Together with price caps and warning SMS, this could result in reduced revenues which could have a material adverse effect on our business, financial condition and result of operations.</p> <p>We are exposed to decreases in mobile and fixed-line termination rates and other rates such as roaming tariffs. Wholesale mobile network termination rates ("MTR") have decreased across Europe in the last several years, with considerable reductions in Germany (cuts of over 50% since December 2010), and various related reviews of such rates and court proceedings on regulatory measures which are still pending. Other services with regulated prices in Europe include international call roaming, roaming short message service ("SMS") and data services. Regulators could at any time adopt measures to further lower roaming tariffs and MTR or fixed-line termination rates or require us to provide third-party access to our networks at reduced prices. Any future decreases of such tariffs and charges could have a material adverse effect on our business, financial condition and results of operations.</p> <p>Our business depends on the expansion and upgrade of our existing network as an essential part of our business. We may not be able to acquire or build the envisioned or required number of network sites or position them in appropriate locations in a timely or cost effective manner. As certain regulatory approvals are required in order for us to use or change our spectrum or frequency usage rights, we are reliant on obtaining such approvals to maintain, expand and improve our networks. We also depend on the FNA to assign microwave frequency usage rights (<i>Richtfunkfrequenzen</i>) for backhaul transport connectivity, which is the wireless transportation from a local antenna site to our fixed-line backbone network components. Currently, the FNA is not able to provide approvals within the applicable deadline in a volume according to our operational requirements based on which we have experienced delays in building out our LTE network and in upgrading our 3G capacity. A failure to build new network sites in a timely or sufficient manner and, in particular, further delayed approvals of microwave frequency usage rights applications could materially adversely affect the performance and expansion of our mobile networks.</p> <p>Our licenses and assigned frequency usage rights have finite terms. Our frequency usage rights in the 900/1,800 MHz bands expire on 31 December 2016. It is currently unclear whether these frequency usage rights will be prolonged or auctioned off to the highest bidder. We could be unable to renew or obtain our licenses and frequency usage rights necessary for our business upon expiration of their terms or we may have to make significant investments to maintain our licenses, both of which could materially adversely affect our operations and financial position.</p> <p>The German telecommunications market is characterised by high levels of competition from existing and potential new mobile network operators and factors beyond our control such as consumer trends for using new technology. We face high levels of competition from mobile virtual network operators and branded resellers and alternative telecommunications providers, such as cable companies, consumer electronics companies and non-traditional mobile voice and data services based on new mobile VoIP technologies, in particular so-called over the top ("OTT") applications such as Skype, Google Talk and Facebook. These OTT applications are often free of charge, accessible, for example, via smartphones and enable their users to access potentially unlimited messaging and voice services over the internet. Users</p>
--	--

	<p>can thereby bypass more expensive traditional voice and messaging services (such as SMS/MMS) provided by mobile network operators like us, who are only able to charge the internet data usage for such services. Our possible inability to compete effectively in this intense and potentially intensifying competitive environment could have a material adverse effect on our business, financial condition and results of operations.</p> <p>We may acquire or sell assets or enter into joint ventures or other business relationships which could potentially deliver less revenues, cash flows and earnings than anticipated. We may experience difficulties integrating acquired assets in a timely manner and we may not realise expected anticipated synergies.</p> <p>The telecommunications industry has been, and will continue to be, affected by rapid technological change and we may not be able to effectively anticipate or react to these changes.</p> <p>Cooperations or joint ventures with other market participants could not be approved by the competent authorities for regulatory or competition reasons which could lead to higher investments and limited product offers.</p> <p>There is a risk that we will not succeed in making customers sufficiently aware of existing and future value-added services or in creating customer acceptance of these services at prices we would want to charge, that we will not identify market trends or changes in customer demand correctly or that we will not be able to bring new services to market as quickly or price-competitively as our competitors. In addition, rapid technological progress, and the trend towards technological convergence bring about the danger that new and established information and telecommunications technologies or products may not only fail to complement one another, but in some cases may even substitute one another. Due to these risks we may neither realise the expected level of demand for our products and services, nor the expected level or timing of revenues generated by those products and services.</p> <p>Our business success depends on our ability to provide customers with handsets in line with their preferences. We supply third-party handsets to our customers. Certain of our supply contracts contain provisions on minimum purchase volume requirements. If we fail to order handsets or smartphones in the agreed volumes, we may be subject to contractual penalties or liability claims. Furthermore, the market for smartphones is currently experiencing ongoing patent claims in connection with the use of certain operating systems in smartphones as well as with alleged copying of designs and infringement of intellectual property rights. Sales bans as an outcome of patent litigation could hinder us from providing our customer with certain handset models. Handsets or smartphones may also be incompatible with our network, if for example such smartphones operated only on frequency spectrums for which we had not been assigned the respective frequency usage rights, or if such smartphones are designed to perform better on, or give preferential access to, the network infrastructures of our competitors. These constraints or prohibitions could impair our handset sales.</p> <p>The success of our business operations depends on our ability to attract and retain customers. In addition, we may not be able to meet the contractual obligations of our larger business customers due to external circumstances, which could lead to terminations of business customer contracts.</p> <p>Sustained or repeated disruptions or damage to our mobile or fixed-line networks and technical systems may lead to the loss of customers or a decrease in revenues and require costly repairs.</p> <p>Any failure to maintain or further develop our direct and indirect distribution channels or misinterpretation of customer's preferences as to distribution channels could adversely affect our ability to sustain and further grow our customer base.</p> <p>Our business is capital intensive. We have implemented an extensive capital expenditure program that will continue to require significant cash outlays in the foreseeable future, including the maintenance and optimisation of our mobile and fixed-line network as well as further investments in the LTE technology. We may not have sufficient liquidity or financing options available to fund or support our working capital.</p> <p>We rely heavily on certain providers, including Deutsche Telekom for network infrastructure, BT Germany for equipment, services related to our sites and in connection with the installation and operation of our IT and communications</p>
--	--

	<p>equipment and supporting infrastructure as well as with housing of our core sites and access sites, and network operators for roaming services. Consequently, our ability to offer our services depends on the performance of those providers or could be adversely affected by our increasing competition with those providers. We might not be able to find suitable alternative providers in case of a termination of the respective service agreements which could materially adversely affect our business, financial condition and results of operations.</p> <p>Over recent years, we have outsourced parts of our operations, including most of our technical services, the maintenance of our networks and significant parts of our call centres and accounting functions and we intend to continue with this strategy. This makes us vulnerable to failures and a lack of availability of certain essential operations and services.</p> <p>A termination or failure to renew existing agreements or partnerships with mobile virtual network operators and branded resellers could damage our reputation and negatively impact our ability to diversify and grow our customer base.</p> <p>Competition for the type of qualified employees that we need to successfully run and develop our business is intense. The loss of, qualified employees or an inability to attract, retain and motivate highly skilled employees required for the operation of our business may have an adverse effect on our business.</p> <p>We use technologies that are protected by third parties. Increasing dependence of the telecommunications equipment industry on proprietary technology may increase the possibility that we will be exposed to litigation or other proceedings to defend against claimed infringements of, or disputes in relation to, the intellectual property rights of others. Furthermore, we may be forced to acquire additional and costly technologies in the future or to pay additional royalties for currently used technologies.</p> <p>We could infringe data, consumer protection and competition laws which could result in fines, loss of reputation and customer churn.</p> <p>We may be adversely affected by the mandatory implementation of new payment formats pursuant to the Single Euro Payments Area ("SEPA") in particular in connection with directly debiting customers.</p> <p>We may be adversely affected by public perception of alleged health risks associated with electromagnetic radio emissions and wireless communications devices and antennas.</p> <p>We have various insurance policies necessary for our ongoing business operations and believe that our current level of coverage is sufficient and customary in the industry to protect against risks associated with our business activities. However, unexpected events may result in our insurance coverage being inadequate.</p> <p>We could be obliged to pay additional taxes as a result of tax audits. The most recent tax audit of the Guarantor, Telefónica Germany Management GmbH and Telefónica Germany GmbH &amp; Co. OHG ("OHG") relating to the financial years up to and including 2003 regarding corporate income and trade tax has been finalised. The Guarantor, Telefónica Germany Management GmbH and OHG are currently subject to a tax audit for the financial years from and including 2004 up to and including 2007. This tax audit and future tax audits relating to financial years 2008 <i>et seq.</i> may lead to tax assessments resulting in higher tax payments. Changes in tax laws or in the interpretation of tax laws by courts or tax authorities may also have a material adverse effect on our business, financial condition and results of operations.</p> <p>We may not be in a position to use the full amount of our tax losses carried forward. As of 31 December 2012, Telefónica Deutschland had trade tax losses carried forward in the amount of € 11.6 billion and corporate income tax losses carried forward in the amount of € 11.5 billion, the latter were primarily attributed to the Guarantor and Telefónica Germany Management GmbH as partners of OHG (due to the transparency of an OHG for income tax purposes). Thereof, trade tax and corporate income tax losses carried forward of Telefónica Deutschland amounted to € 11.2 billion, respectively, as of 31 December 2012 for which no deferred tax assets were recognised. The tax losses carried forward could be forfeited in the future, in part or in full, at the level of the Guarantor, Telefónica Germany Management GmbH or OHG if, <i>inter alia</i>, an acquirer, a person affiliated with such acquirer or a group of acquirers with similar interest acquires directly or indirectly more than 25% of the Guarantor's shares within five years. The tax losses carried forward and losses</p>
--	--

	<p>existing at the time the threshold is exceeded could be forfeited on a pro rata basis. If such an acquisition relates to more than 50% of the Guarantor's shares, the tax losses carried forward could be forfeited completely. The tax loss carried forward could also be forfeited as a result of a decision to implement a change in the partnership structure. The potential forfeiture of losses carried forward could result in a higher tax burden in future tax assessment periods (once the Guarantor achieves taxable profits).</p> <p>Pursuant to the German law governed SPA, KPN, Telefónica, S.A. and the Guarantor agreed on the Transaction. The closing of the Transaction is subject to the occurrence or waiving of conditions precedent, some of which cannot be waived. Those conditions precedent include, <i>inter alia</i>, merger clearance by the European Commission (or, in case of a reference of the review of the Transaction to the relevant Member State, the German Federal Cartel Office (<i>Bundeskartellamt</i>)), no occurrence of a material adverse change with regard to the E-Plus Group and fulfillment of certain German corporate law requirements in respect of a capital increase by the Guarantor against contribution in kind. If merger clearance should not be granted, the Transaction will fail. Furthermore, the Guarantor must pay to KPN € 100 million as break fee if the Transaction does not take place as a result of the European Commission or the German Federal Cartel Office (<i>Bundeskartellamt</i>) or any other governmental authority having jurisdiction in respect of the consummation of the SPA not approving the Transaction. The Transaction could also fail or be delayed due to legal challenges against the resolutions of the Guarantor's extraordinary shareholder's meeting in connection with the Transaction. It cannot be excluded that the public rights offering could be subject to execution risks, for example, caused by unfavourable market conditions. Should any of the conditions precedent of the SPA not be satisfied or waived on or before 1 March 2015, each of KPN, Telefónica, S.A. and the Guarantor may terminate the SPA and consequently, the Transaction will fail. In addition, the Guarantor will have to pay a break fee in the amount of €50 million to KPN, should the Guarantor fail to have the capital increases envisaged to implement the Transaction registered with the commercial register prior to 1 March 2015. The Transaction could fail due to a potential superior competing offer for the acquisition of the E-Plus Group made to KPN. Failure of the Guarantor to exert its contractual right to match such superior offer by making an improved offer will result in the Transaction to fail. For Telefónica Deutschland, a failure of the Transaction may entail reputational damage (e.g., at the stock and bond markets) as well as financial disadvantages caused, <i>inter alia</i>, by the efforts and the costs incurred in connection with the Transaction.</p> <p>The Transaction could be subject to additional and possibly detrimental restrictions or conditions imposed by the European Commission or, if the case was referred to Germany, the German Federal Cartel Office (<i>Bundeskartellamt</i>) or the FNA which could have a material adverse effect on Telefónica Deutschland's business, financial condition and results of operations.</p> <p>The Transaction might prove less successful than anticipated, the combined businesses might not develop as expected and revenues and earnings goals may not be achieved. In addition, the acquisition of the E-Plus Group is subject to the risk of delays in the acquisition and combination process of both businesses or higher costs than originally planned, and/or that any intended synergy effects cannot be realised to the extent planned or cannot be realised at all. We are also exposed to risks arising from problems within the E-Plus Group that have not been detected during the due diligence preceding the Transaction.</p> <p>The combination of the businesses of the E-Plus Group and Telefónica Deutschland will require a large amount of the time and attention of both companies' management. Should these issues divert the management from other responsibilities, the operational business could be negatively impacted.</p> <p>Both, Telefónica Deutschland and E-Plus Group, depend on their key employees for the successful combination of the businesses of E-Plus Group and Telefónica Deutschland, the implementation of a common strategy and the further carrying out of business operations all of which could be negatively affected or delayed if either of Telefónica Deutschland or E-Plus Group were to lose key employees or know how due to their combination which could have a material adverse effect on Telefónica Deutschland's business, financial condition and results of operations.</p>
--	--

		<p>Any material delays in the combination of the businesses of the E-Plus Group and Telefónica Deutschland may adversely influence the unlocking of estimated synergy effects or lead to decreasing customer satisfaction, to an increase in customer churn or lead to additional tax obligations which could have a material adverse effect on Telefónica Deutschland's business, financial condition and results of operations. Telefónica Deutschland estimates that the Transaction will unlock synergies of € 5.0 to 5.5 billion. It cannot be excluded that those synergies cannot be realised in part or at all due to, for example, additional restrictions or conditions imposed on Telefónica Deutschland or the E-Plus Group. Furthermore, it cannot be excluded that the assumptions used as basis for the estimated synergy effects turn out to be inappropriate or incorrect.</p> <p>As the majority shareholder, Telefónica, S.A. is able to exercise considerable influence over us and our operations, and the interests of Telefónica, S.A. may conflict with those of Holders.</p> <p>We may have conflicts of interests with Telefónica Group companies.</p> <p>We are dependent on Telefónica Group for essential services, such as the licenses of the Telefónica and the O<sub>2</sub> brand, the ability to source network equipment under the Telefónica Group's global purchasing contracts and access to premium devices and cost benefits from shared services and functions at attractive prices. In addition, we participate in the cash management system used by the Telefónica Group under deposit and cash management agreements. Failure to renew existing agreements with our parent company, Telefónica, S.A., at all or under mutually favourable terms, or a default of Telefónica Group in performing its obligations under these agreements could adversely affect our business, financial condition and results of operations.</p> <p>We license the use of our primary brand O<sub>2</sub> from Telefónica Group. Although the term of the license is indefinite, it may be terminated for good cause, including if we experience a hostile take-over. If we were unable to continue to use the O<sub>2</sub> brand due to a termination of the license or for any other reason, significant time, effort and resources would be required to establish a new brand identity.</p> <p>Our relationship with Telefónica Group could limit our ability to work with Telefónica Group's competitors.</p> <p>Our market image is influenced by Telefónica Group's image. Negative publicity or problems associated with Telefónica Group could be detrimental to our image.</p>
D.3	<b>Key information on the key risks that are specific to the securities.</b>	<p><b>Notes may not be a suitable investment for all investors</b></p> <p>The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances.</p> <p><b>Liquidity Risk</b></p> <p>There can be no assurance that a liquid secondary market for the Notes will develop or, if it does develop, that it will continue. In an illiquid market, an investor might not be able to sell his Notes at any time at fair market prices. The possibility to sell the Notes might additionally be restricted by country specific reasons.</p> <p><b>Risk of early redemption</b></p> <p>The Notes may be redeemed at the option of the Issuer for reasons of taxation or following a change of control event, as more fully described in the Terms and Conditions. In the event that the Issuer exercises the option to redeem the Notes, the Holders might suffer a lower than expected yield and might not be able to reinvest the funds on the same terms.</p> <p><b>No Early Redemption option for holders in case of Change of Control</b></p> <p>The terms and conditions do not provide for the right of the holders to request early redemption of the Notes in case of a change of control.</p> <p><b>Market Price Risk</b></p> <p>The holder of a Note is exposed to the risk of an unfavourable development of market prices of his Notes which materialises if such holder sells the Notes prior to the final maturity of such Notes.</p> <p><b>Creditworthiness of the Guarantor</b></p> <p>The market value of the Notes may suffer if the likelihood deteriorates that the Guarantor has the ability to fully comply with all obligations inflicted by the Notes on the due date or if the perception of the Guarantor's creditworthiness impairs.</p> <p><b>Currency Risk</b></p> <p>The holder of a Note denominated in a foreign currency is exposed to the risk of changes in currency exchange rates which may affect the yield of such Notes.</p>

	<p><b>Fixed Rate Notes</b>  The holder of a fixed rate note ("Fixed Rate Note") is exposed to the risk that the price of such Fixed Rate Note falls as a result of changes in the market interest rate.</p> <p><b>Resolutions of Holders</b>  The holder of a Note is subject to the risk of being outvoted in a meeting of Holders or the taking of votes without meeting and to lose rights against the Issuer in the case that other holders agree pursuant to the Terms and Conditions of the Notes to amendments of the Terms and Conditions of the Notes by majority vote.</p> <p><b>Holders' Representative</b>  Since the Notes provide for the appointment of a Holders' representative (<i>gemeinsamer Vertreter</i>), it is possible that a Holder may be deprived of its individual right to pursue and enforce its rights under the Terms and Conditions against the Issuer.</p> <p><b>No restriction on the amount of debt which the Issuer may incur in the future</b>  There is no restriction on the amount of debt which the Issuer may issue which ranks equal to the Notes.</p>
--	---

## Section E – Offer

<b>E.2b</b>	<b>Reasons for the offer and use of proceeds when different from making profits and/or hedging certain risks.</b>	The Issuer intends to transfer the net proceeds from the offering of the Notes by way of an upstream-loan to its shareholder Telefónica Germany GmbH & Co. OHG which intends to use the net proceeds for its general business purposes.
<b>E.3</b>	<b>Terms and conditions of the offer.</b>	The Notes will be offered during an offer period which will commence not earlier than 15 November 2013 and will be open until the Issue Date subject to a shortening or extension of the offer period. The issue price, the aggregate principal amount of the Notes to be issued, the rate of interest, the number of notes to be issued and the yield of the issue will be included in a notice which will be filed with the CSSF and the Luxembourg Stock Exchange and published on its website on or as soon as possible after the pricing date which is expected to be 15 November 2013 (the "Pricing Notice"). The denomination of the Notes is € 1,000. There are no conditions to which the offer is subject. Investors may submit their offers to buy Notes, using the information system Bloomberg or any other commonly used information systems or, following the publication of the Pricing Notice, through banking institutions in Luxembourg, Germany, The Netherlands or Austria. Any investor who has submitted an order in relation to the Notes whose order is accepted will receive a confirmation by electronic mail, fax or through commonly used information systems relating to the respective allotment of Notes. Delivery of allocated Notes will be affected via book-entry against payment of the Issue Price.
<b>E.4</b>	<b>A description of any interest that is material to the issue/offer including conflicting interests.</b>	Telefónica Germany GmbH & Co. OHG will receive the proceeds from the issue of the Notes based on an upstream-loan and hence, has an interest in the offer. Otherwise there are no interests known to the issuer (including conflicting ones) which other parties may have in the issue.
<b>E.7</b>	<b>Estimated expenses charged to the investor by the issuer or the offeror.</b>	Not applicable. The Issuer will not charge any expenses or taxes. Each investor has, however, to inform himself about taxes or expenses he (or she) may be subject to, e.g. deposit fees.

## GERMAN TRANSLATION OF THE SUMMARY

### ZUSAMMENFASSUNG

Zusammenfassungen setzen sich aus Offenlegungspflichten zusammen, die als "Elemente" bekannt sind. Diese Elemente sind in die Abschnitte A – E (A.1 – E.7) nummeriert.

Diese Zusammenfassung (die "**Zusammenfassung**") enthält alle Elemente, die in eine Zusammenfassung für diese Art von Schuldverschreibungen und Emittenten aufzunehmen sind. Da einige Elemente nicht zu berücksichtigen sind, kann die Nummerierung Lücken aufweisen.

Auch wenn ein Element wegen der Art der Wertpapiere und des Emittenten in die Zusammenfassung aufgenommen werden muss, ist es möglich, dass bezüglich dieses Elements keine relevante Information gegeben werden kann. In einem solchen Fall ist in der Zusammenfassung eine kurze Beschreibung des Elements unter Bezeichnung als "entfällt" enthalten.

#### **Abschnitt A – Einleitung und Warnhinweise**

<b>A.1</b>	<b>Einführung</b>	<p><b>Warnhinweise, dass:</b></p> <ul style="list-style-type: none"> <li>• die Zusammenfassung als Einleitung zum Prospekt verstanden werden sollte;</li> <li>• sich der Anleger bei jeder Entscheidung in die Schuldverschreibungen zu investieren, auf den Prospekt als Ganzen stützen sollte;</li> <li>• ein Anleger, der wegen der in dem Prospekt enthaltenen Angaben Klage einreichen will, nach den nationalen Rechtsvorschriften seines Mitgliedstaats möglicherweise für die Übersetzung des Prospekts aufkommen muss, bevor das Verfahren eingeleitet werden kann; und</li> <li>• zivilrechtlich nur die Emittentin haftet, die die Zusammenfassung samt etwaiger Übersetzungen vorgelegt und übermittelt hat, und dies auch nur für den Fall, dass die Zusammenfassung verglichen mit den anderen Teilen des Prospekts irreführend, unrichtig oder inkohärent ist oder verglichen mit den anderen Teilen des Prospekts wesentliche Angaben, die in Bezug auf Anlagen in die betreffenden Wertpapiere für die Anleger eine Entscheidungshilfe darstellen, vermissen lassen.</li> </ul>
<b>A.2</b>	<b>Zustimmung</b>	<p>Jeder Joint Lead Manager und/oder jeder weitere Finanzintermediär, der die emittierten Schuldverschreibungen nachfolgend weiter verkauft oder endgültig platziert, ist berechtigt, den Prospekt für den späteren Weiterverkauf oder die endgültige Platzierung der Schuldverschreibungen in Luxemburg, der Bundesrepublik Deutschland, den Niederlanden und der Republik Österreich während der Angebotsperiode für den späteren Weiterverkauf oder die endgültige Platzierung vom 15 November 2013 bis 22 November 2013 zu verwenden.</p> <p>Der Prospekt darf potentiellen Investoren nur zusammen mit sämtlichen bis zur Übergabe veröffentlichten Nachträgen übergeben werden.</p> <p>Bei der Nutzung des Prospektes hat jeder Joint Lead Manager und/oder jeweiliger weiterer Finanzintermediär sicherzustellen, dass er alle anwendbaren, in den jeweiligen Jurisdiktionen geltenden Gesetze und Rechtsvorschriften beachtet.</p> <p><b>Für den Fall, dass ein Joint Lead Manager und/oder weiterer Finanzintermediär ein Angebot macht, informiert dieser Joint Lead Manager und/oder weiterer Finanzintermediär die Anleger zum Zeitpunkt der Angebotsvorlage über die Anleihebedingungen der Schuldverschreibungen.</b></p>

#### **Abschnitt B – O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH als Emittentin**

<b>B.1</b>	<b>Gesetzliche kommerzielle Bezeichnung des Emittenten.</b>	Der gesetzliche und kommerzielle Name der Emittentin ist O <sub>2</sub> Telefónica Deutschland Finanzierungs GmbH (vormals Telefónica Deutschland Finanzierungs GmbH) (die "Emittentin").
<b>B.2</b>	<b>Sitz / Rechtsform / geltendes Recht/ Land der Gründung</b>	O <sub>2</sub> Telefónica Deutschland Finanzierungs GmbH ist eine nach dem Recht der Bundesrepublik Deutschland gegründete Gesellschaft mit beschränkter Haftung. Sie hat ihren Sitz unter der Adresse Georg-Brauchle-Ring 23-25, 80992 München, Bundesrepublik Deutschland.
<b>B.4b</b>	<b>Bereits bekannte Trends, die sich auf den Emittenten und die Branchen, in denen sie tätig ist, auswirken</b>	Entfällt; es bestehen keine Trends, die sich auf die Emittentin auswirken.

<b>B.5</b>	<b>Beschreibung der Gruppe und der Stellung des Emittenten innerhalb dieser Gruppe</b>	Telefónica Germany GmbH & Co. OHG hält 100% der Anteile an der Emittentin. Telefónica Deutschland Holding AG (die "Garantin"; die Garantin zusammen mit allen direkten und indirekten Tochtergesellschaften und Joint Ventures: "Telefónica Deutschland", im Folgenden auch als "wir" und "unser" bezeichnet) hält, direkt und indirekt, 100% der Telefónica Germany GmbH & Co. OHG. 76,83% der Aktien der Garantin werden von Telefónica Germany Holdings Limited gehalten, einer indirekten Tochtergesellschaft der Telefónica, S.A. (Telefónica, S.A. gemeinsam mit allen direkten und indirekten Tochtergesellschaften – unter Ausschluss von Telefónica Deutschland: "Telefónica Gruppe").
<b>B.9</b>	<b>Gewinnprognosen oder – schätzungen</b>	Entfällt; es ist keine Gewinnprognose oder -schätzung verfügbar.
<b>B.10</b>	<b>Art etwaiger Einschränkungen im Bestätigungsvermerk zu den historischen Finanzinformationen.</b>	Entfällt; es bestehen keine Einschränkungen.
<b>B.12</b>	<b>Ausgewählte wesentliche historische Finanzinformationen</b>	
		Die nachstehenden ausgewählten wesentlichen Finanzinformationen der Emittentin vom 6. März 2013 wurden der geprüften Eröffnungsbilanz der Emittentin vom 6. März 2013 entnommen, die nach den Vorschriften des Handelsgesetzbuches (HGB) erstellt wurden.
	<b>Ausgewählte Finanzinformationen</b>	<b>6. März 2013 in €</b>
	Guthaben bei Kreditinstituten	25.000
	Summe Aktiva	<b>25.000</b>
	Zur Durchführung der Gründung geleistete Einlage	25.000
	Summe Passiva	<b>25.000</b>
	<b>Eine Erklärung, dass sich die Aussichten des Emittenten seit dem Datum des letzten veröffentlichten geprüften Abschlusses nicht wesentlich verschlechtert haben, oder beschreiben Sie jede wesentliche Verschlechterung.</b>	Seit dem 6. März 2013 sind keine wesentlichen nachteiligen Veränderungen in den Aussichten der O2 Telefónica Deutschland Finanzierungs GmbH eingetreten.
	<b>Eine Beschreibung wesentlicher Veränderungen bei Finanzlage oder Handelsposition des Emittenten, die nach dem von den historischen Finanzinformationen abgedeckten Zeitraum eingetreten sind.</b>	Seit dem 6. März 2013 sind keine wesentlichen Veränderungen in der Finanzlage oder der Handelsposition der O2 Telefónica Deutschland Finanzierungs GmbH eingetreten.
<b>B.13</b>	<b>Letzte Entwicklungen</b>	Mit Wirkung vom 7. November 2013 wurde der rechtliche und kommerzielle Name der Emittentin in "O2 Telefónica Deutschland Finanzierungs GmbH" geändert.
<b>B.14</b>	Bitte siehe Punkt B.5.	
	<b>Angabe zur Abhängigkeit von anderen Unternehmen innerhalb der Gruppe</b>	O2 Telefónica Deutschland Finanzierungs GmbH ist eine 100%ige Tochter der Telefónica Germany GmbH & Co. OHG. Sie ist abhängig von der Telefónica Germany GmbH & Co. OHG.
<b>B.15</b>	<b>Beschreibung der Haupttätigkeiten des Emittenten.</b>	Der ausschließliche Geschäftszweck der Emittentin ist die Bereitstellung liquider Mittel zur Finanzierung der Geschäftstätigkeiten der Gesellschaften von Telefónica Deutschland, u.a. durch die Begebung von Schuldverschreibungen.

<b>B.16</b>	<b>Beteiligung; Beherrschungsverhältnis</b>	O2 Telefónica Deutschland Finanzierungs GmbH ist eine 100%ige Tochter der Telefónica Germany GmbH & Co. OHG. Telefónica Germany GmbH & Co. OHG hält alle Anteile an der Emittentin direkt und übt direkt Kontrolle über die Emittentin aus.
<b>B.17</b>	<b>Kreditratings des Emittenten oder seiner Schuldtitel</b>	Entfällt. Es gibt weder für die Emittentin noch für die Schuldtitel ein Rating.

#### Abschnitt B – Telefónica Deutschland Holding AG als Garantin

<b>B.1</b>	<b>Gesetzliche und kommerzielle Bezeichnung der Garantin.</b>	Der gesetzliche und kommerzielle Name der Garantin ist Telefónica Deutschland Holding AG.
<b>B.2</b>	<b>Sitz / Rechtsform / geltendes Recht/ Land der Gründung</b>	Telefónica Deutschland Holding AG ist eine nach dem Recht der Bundesrepublik Deutschland gegründete deutsche Aktiengesellschaft. Sie hat ihren Sitz unter der Adresse Georg-Brauchle-Ring 23-25, 80992 München, Bundesrepublik Deutschland.
<b>B.4b</b>	<b>Bereits bekannte Trends, die sich auf die Garantin und die Branchen, in denen sie tätig ist, auswirken</b>	Telefónica Deutschland erwartet, dass der deutsche Telekommunikationsmarkt mittelfristig von hoher Aktivität und Wettbewerb gekennzeichnet sein wird, mit wesentlichen Einflüssen durch Reduzierungen der Mobilfunkterminierungsentgelte, sich verändernden Kommunikationsverhaltens der Kunden und der Variabilität von Markteinführungen neuer Geräte und Austauschzyklen. Telefónica Deutschland erwartet, von der Variabilität dieser divergierenden Trends beeinflusst zu werden. Telefónica Deutschland hat weiterhin während des Jahres 2013 einen zunehmenden Druck auf Umsatzerlöse durch Wettbewerb, sich veränderndes Kundenverhalten und Regulierung beobachtet und starken Wettbewerb um Universal Mobile Telecommunications System ("UMTS" oder "3G") Smartphone-Tarife und gebündelte Angebote von Tarifen und Geräten festgestellt. Telefónica Deutschland nimmt an, dass zusätzliche Hebel wie die Einführung der Long Term Evolution ("LTE" oder "4G") Technologie und konvergente Festnetz-Mobile Daten-Dienstleistungen wesentliche Faktoren für ihre mittelfristige Profitabilität als Stand-Alone-Unternehmen sein werden, wobei der kürzlich angekündigte Erwerb des Geschäfts der E-Plus Mobilfunk GmbH & Co. KG und ihrer direkten und indirekten Tochtergesellschaften (die "E-Plus Gruppe"), die das deutsche Mobilfunkgeschäft von Koninklijke KPN N.V. ausübt (vorbehaltlich der regulatorischen Genehmigung und Fusionskontrolle), diese Möglichkeit mittelfristig verstärken wird.
<b>B.5</b>	<b>Beschreibung der Gruppe und der Stellung der Garantin innerhalb dieser Gruppe</b>	Telefónica Germany Holdings Limited hält 76,83% der Aktien der Garantin. Telefónica Germany Holdings Limited ist eine indirekte Tochtergesellschaft der Telefónica, S.A.
<b>B.9</b>	<b>Gewinnprognosen oder -schätzungen</b>	Entfällt; es wird keine Gewinnprognose oder -schätzung veröffentlicht.
<b>B.10</b>	<b>Art etwaiger Beschränkungen in den Bestätigungsvermerken zu den historischen Finanzinformationen.</b>	Entfällt; die Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Niederlassung München, hat den Konzernabschluss der Telefónica Deutschland Holding AG für das zum 31. Dezember 2012 endende Geschäftsjahr sowie den kombinierten Abschluss der Telefónica Deutschland Holding AG (vormals Telefónica Germany Verwaltungs GmbH) für die zum 31. Dezember 2011, 2010 und 2009 endenden Geschäftsjahre jeweils mit uneingeschränkten Bestätigungsvermerken versehen.
<b>B.12</b>	<b>Ausgewählte wesentliche historische Finanzinformationen</b>	Die nachstehend ausgewählten wesentlichen Finanzinformationen der Garantin für das zum 31. Dezember 2011 endende Geschäftsjahr wurden dem geprüften kombinierten Abschluss der Garantin für die zum 31. Dezember 2011, 2010 und 2009 endenden Geschäftsjahre, der gemäß den International Financial Reporting Standards, wie sie in der Europäischen Union anzuwenden sind, ("IFRS") unter Berücksichtigung der in Anhangangabe 1 zum kombinierten Abschluss dargestellten Grundlagen der Erstellung aufgestellt wurde, (der "Kombinierte Abschluss 2009-2011") sowie die ausgewählten wesentlichen Finanzinformationen für das zum 31. Dezember 2012 endende Geschäftsjahr dem geprüften Konzernabschluss der Garantin für das zum 31. Dezember 2012 endende Geschäftsjahr, der gemäß IFRS und den ergänzend nach § 315a Abs. 1 HGB anzuwendenden handelsrechtlichen Vorschriften aufgestellt wurde, (der "Konzernabschluss 2012") sowie dem Rechnungswesen oder der internen

	<p>Managementberichterstattung der Garantin entnommen oder aus diesen bzw. dieser abgeleitet. Die nachstehend ausgewählten wesentlichen Finanzinformationen der Garantin zum 30. September 2013 und für die zum 30. September 2013 und 30. September 2012 endenden Neunmonatszeiträume wurden dem ungeprüften verkürzten Konzernzwischenabschluss der Garantin für den zum 30. September 2013 endenden Neunmonatszeitraum, der in Übereinstimmung mit IFRS für Zwischenberichterstattung (International Accounting Standard (IAS) 34) aufgestellt wurde, (der <b>"Ungeprüfte Verkürzte Konzernzwischenabschluss"</b>) sowie dem Rechnungswesen oder der internen Managementberichterstattung der Garantin entnommen oder aus diesen bzw. dieser abgeleitet.</p> <p>Der Konzernabschluss 2012 enthält die Vermögenswerte und Schulden und der Konzernabschluss 2012 sowie der Ungeprüfte Verkürzte Konzernzwischenabschluss enthalten die Erträge und Aufwendungen sowie Cash Flows der Gesellschaften Group 3G UMTS Holding GmbH, Quam GmbH und Telefónica Global Services GmbH, gemeinsam mit ihren Tochtergesellschaften Telefónica Global Roaming GmbH, Telefónica Compras Electronicas S.L., und die indirekt gehaltenen 40% der Anteile in Adquira España S.A. bis zum 1. Oktober 2012, ab dem diese Gesellschaften insgesamt keine direkten oder indirekten Tochtergesellschaften bzw. assoziierte Unternehmen der Garantin mehr sind. Die Erträge und Aufwendungen und Cash Flows dieser veräußerten Gesellschaften sind entsprechend IFRS 5 "Zur Veräußerung gehaltene langfristige Vermögenswerte und aufgegebene Geschäftsbereiche" in der Konzerngewinn- und Verlustrechnung des Konzernabschlusses 2012 und des Ungeprüften Verkürzten Konzernzwischenabschlusses als Gewinn nach Steuern aus aufgegebenen Geschäftsbereichen und in der Konzernkapitalflussrechnung des Konzernabschlusses 2012 und des Ungeprüften Verkürzten Konzernzwischenabschlusses als Cash Flows aus der betrieblichen Tätigkeit aus aufgegebenen Geschäftsbereichen, Cash Flows aus der Investitionstätigkeit aus aufgegebenen Geschäftsbereichen und Cash Flows aus der Finanzierungstätigkeit aus aufgegebenen Geschäftsbereichen jeweils gesondert ausgewiesen. In den Vergleichsangaben zum 31. Dezember 2011 der Konzernbilanz des Konzernabschlusses 2012 sind hingegen die Vermögenswerte und Schulden dieser veräußerten Gesellschaften entsprechend IFRS 5 "Zur Veräußerung gehaltene langfristige Vermögenswerte und aufgegebene Geschäftsbereiche" nicht gesondert ausgewiesen.</p> <p>Der Kombinierte Abschluss 2009-2011 enthält nicht die Vermögenswerte und Schulden, Erträge und Aufwendungen sowie Cash Flows der oben angeführten veräußerten Gesellschaften.</p> <p>Sind Finanzinformationen in der nachstehenden Tabelle als "geprüft" gekennzeichnet, so bedeutet dies, dass sie dem Kombinierten Abschluss 2009-2011 oder dem Konzernabschluss 2012 entnommen oder daraus abgeleitet wurden. Die Kennzeichnung "ungeprüft" wird in der nachstehenden Tabelle zur Kennzeichnung von Finanzinformationen verwendet, die nicht aus dem Kombinierten Abschluss 2009-2011 oder dem Konzernabschluss 2012 entnommen oder daraus abgeleitet wurden.</p>
--	--

	Die nachstehende Tabelle gibt ausgewählte Informationen zu Ertragsgrößen und Cash Flows von Telefónica Deutschland für die zum 31. Dezember 2012 und 2011 endenden Geschäftsjahre sowie die zum 30. September 2013 und 2012 endenden Neunmonatszeiträume wieder:
--	--

	Für das zum 31. Dezember endende Geschäftsjahr		Für den zum 30. September endenden Neunmonatszeitraum	
	2012	2011	2013	2012
	(in € tausend, sofern nicht anders angegeben)	(in € tausend, sofern nicht anders angegeben)	(geprüft, sofern nicht anders angegeben)	(ungeprüft)
<b>Umsatzerlöse:</b> .....	5.212.838	5.035.552	3.670.691	3.870.768
Umsatzerlöse aus Mobilfunk .....	3.845.053	3.605.747	2.728.737	2.831.543
Umsatzerlöse aus Mobilfunkdienstleistungen <sup>1</sup> .....	3.151.838	2.946.465	2.246.366	2.359.265
Umsatzerlöse aus Mobilfunk-Hardware .....	693.215	659.282	482.371	472.278
Umsatzerlöse aus Festnetz/DSL.....	1.363.203	1.425.740	937.597	1.035.810
Sonstige .....	4.582	4.065	4.357	3.415
<b>BETRIEBSERGEWINIS VOR ABSCHREIBUNGEN (OIBDA):</b> .....	<b>1.279.074</b>	<b>1.149.237</b>	<b>864.062</b>	<b>936.200</b>
<b>ERGEWINIS/ERGEWINIS NACH STEUERN AUS FORTZUFÜHRENDEN GESCHÄFTSBEREICHEN/JAHRESERGEWINIS<sup>2</sup> .....</b>	<b>307.523</b>	<b>71.346</b>	<b>(823)</b>	<b>108.349</b>
Unverwässertes Ergebnis je Aktie aus fortzuführenden Geschäftsbereichen/unverwässertes Ergebnis je Aktie (2011 ungeprüft) <sup>3</sup> (€).....	0,28	0,06	(0,00)	0,10
<b>OPERATIVER CASH FLOW (OIBDA-CapEx) AUS FORTZUFÜHRENDEN GESCHÄFTSBEREICHEN/OPERATIVER CASH FLOW (OIBDA-CapEx) (ungeprüft)<sup>4</sup>.....</b>	<b>670.233</b>	<b>591.586</b>	<b>396.399</b>	<b>484.084</b>
<b>FREE CASH FLOW VOR DIVIDENDENZAHLUNG AUS FORTZUFÜHRENDEN GESCHÄFTSBEREICHEN/FREE CASH FLOW VOR DIVIDENDENZAHLUNG (ungeprüft)<sup>5</sup> .....</b>	<b>675.957</b>	<b>697.048</b>	<b>543.567</b>	<b>552.946</b>

<sup>1</sup> Bereinigt um den Effekt aus dem erheblichen Rückgang von Mobilfunkterminierungsentgelten (*mobile termination rates - "MTR"*) im Geschäftsjahr endend am 31 Dezember 2012 wären die Umsatzerlöse aus Mobilfunkdienstleistungen im Jahr 2012 €9 Millionen höher und im zum 30. September 2013 endenden Neunmonatszeitraum € 91,8 Millionen höher gewesen (MTR-Kürzung von €0,0339 bis 30. November 2012 auf €0,0185 ab dem 1. Dezember 2012).

<sup>2</sup> Jahresergebnis 2011 wie im Kombinierten Abschluss 2009-2011 ausgewiesen. In 2013 gibt es keine aufgegebenen Geschäftsbereiche.

<sup>3</sup> Das unverwässerte Ergebnis je Aktie aus fortzuführenden Geschäftsbereichen für 2012 wurde berechnet als zuzurechnendes Ergebnis der Inhaber von Stammaktien des Mutterunternehmens aus fortzuführenden Geschäftsbereichen (entspricht dem Ergebnis aus fortzuführenden Geschäftsbereichen) für 2012 dividiert durch die durchschnittliche gewichtete Anzahl der ausgegebenen Stammaktien für 2012 von 1.117.001 Tausend. Das unverwässerte Ergebnis je Aktie für 2011 (ungeprüft) ist berechnet als Jahresergebnis 2011 dividiert durch die durchschnittlich gewichtete Anzahl der ausgegebenen Stammaktien des Jahres 2012. Für Zwecke der Vergleichbarkeit wurde auch für das Jahr 2011 die durchschnittliche gewichtete Anzahl der ausgegebenen Stammaktien des Jahres 2012 zugrunde gelegt. Das unverwässerte Ergebnis je Aktie aus fortzuführenden Geschäftsbereichen für die zum 30. September 2013 und 2012 endenden Neunmonatszeiträume wurde berechnet als den Eigentümern des Mutterunternehmens zuzurechnendes Periodenergebnis aus fortzuführenden Geschäftsbereichen (entspricht dem Ergebnis nach Steuern aus fortzuführenden Geschäftsbereichen) dividiert durch die durchschnittliche gewichtete Anzahl der ausgegebenen Stammaktien für den zum 30. September 2013 endenden Neunmonatszeitraum von 1.116.945 Tausend. Für Zwecke der Vergleichbarkeit wurde auch für den zum 30. September 2012 endenden Neunmonatszeitraum die durchschnittliche gewichtete Anzahl der ausgegebenen Stammaktien des zum 30. September 2013 endenden Neunmonatszeitraum zugrunde gelegt.

<sup>4</sup> Der Operative Cash Flow (OIBDA-CapEx) aus fortzuführenden Geschäftsbereichen für 2012 und für die zum 30 September 2013 und 2012 endenden Neunmonatszeiträume ist berechnet als OIBDA aus fortzuführenden Geschäftsbereichen minus Investitionen ("CapEx") aus fortzuführenden Geschäftsbereichen. Der Operative Cash Flow (OIBDA-CapEx) für 2011 ist berechnet als OIBDA minus Investitionen (CapEx). CapEx ist definiert als Zugänge zu Sachanlagen und immateriellen Vermögenswerten abgeleitet aus den Informationen zur Zusammensetzung und Veränderungen der Sachanlagen und der immateriellen Vermögenswerte. CapEx aus fortzuführenden Geschäftsbereichen in 2012 beläuft sich auf T€ 608.841, CapEx in 2011 beläuft sich auf T€ 557.651 und CapEx aus fortzuführenden Geschäftsbereichen in den zum 30. September 2013 und 2012 endenden Neunmonatszeiträumen beläuft sich jeweils auf T€467.663 und T€452.116.

<sup>5</sup> Der Free Cash Flow vor Dividendenzahlungen aus fortzuführenden Geschäftsbereichen für 2012 und für die zum 30. September 2013 und 2012 endenden Neunmonatszeiträume ist definiert als die Summe des Cash Flow aus der betrieblichen Tätigkeit aus fortzuführenden Geschäftsbereichen und des Cash Flow aus der Investitionstätigkeit aus fortzuführenden Geschäftsbereichen jeweils abgeleitet aus dem Konzernabschluss 2012 und dem Ungeprüften Verkürzten Konzernzwischenabschluss. Der Free Cash Flow vor

		Dividendenzahlungen für 2011 ist definiert als die Summe des Cash Flow aus der betrieblichen Tätigkeit und des Cash Flow aus der Investitionstätigkeit abgeleitet aus dem Kombinierten Abschluss 2009-2011.
	<b>Eine Erklärung, dass sich die Aussichten der Garantin seit dem Datum des letzten veröffentlichten geprüften Abschlusses nicht wesentlich verschlechtert haben, oder beschreiben Sie jede wesentliche Verschlechterung.</b>	Seit dem 31. Dezember 2012 sind keine wesentlichen nachteiligen Veränderungen in den Aussichten der Telefónica Deutschland Holding AG eingetreten.
	<b>Eine Beschreibung wesentlicher Veränderungen bei Finanzlage oder Handelsposition der Garantin, die nach dem von den historischen Finanzinformationen abgedeckten Zeitraum eingetreten sind.</b>	Seit dem 30. September 2013 sind keine wesentlichen Veränderungen in der Finanzlage oder der Handelsposition der Telefónica Deutschland Holding AG eingetreten.
<b>B.13</b>	<b>Letzte Entwicklungen</b>	<p>Telefónica Deutschland und die Telekom Deutschland GmbH haben am 2. Mai 2013 ein "memorandum of understanding" zur Ausweitung ihrer Kooperation hinsichtlich Festnetzdienstleistungen abgeschlossen. Diese umfasst den erweiterten Zugang für Telefónica Deutschland zu der zukunftsfähigen Netzwerkinfrastruktur von Telekom Deutschland (die sogenannte "next generation access platform" oder NGA-Plattform), wodurch Telefónica Deutschland ihren Kunden Hochgeschwindigkeits-Internetprodukte mit Datenübertragungsraten von bis zu 100Mbit/s anbieten kann. Das Bundeskartellamt hat im Juni 2013 bestätigt, dass die Kooperation nicht der Fusionskontrolle unterliegt. Das Verfahren vor der Bundesnetzagentur wurde im Oktober 2013 eröffnet und wird voraussichtlich bis Ende 2013 beendet sein. Der Beginn der Kooperation, die noch eines endgültig bindenden Vertrags mit Telekom Deutschland GmbH bedarf, dessen Abschluss für das Ende des Jahres 2013 vorgesehen ist, ist für das Jahr 2014 geplant. Der Übergang von Telefónica Deutschlands Asymmetrical Digital Subscriber Line ("ADSL")-Infrastruktur hin zur NGA-Plattform der Deutschen Telekom soll voraussichtlich im Jahr 2019 vollständig abgeschlossen sein.</p> <p>Aufgrund eines Kaufvertrags nach deutschem Recht vom 23. Juli 2013, geändert am 26. August 2013 und am 28. August 2013, zwischen Koninklijke KPN N.V. ("KPN", gemeinsam mit ihren direkten und indirekten Tochtergesellschaften, die "KPN Gruppe"), Telefónica, S.A. und der Garantin (das "SPA") wird die Garantin sämtliche Vermögenswerte, bestimmte Verbindlichkeiten und Geschäftsaktivitäten der E-Plus Gruppe, die die Geschäftstätigkeiten der KPN Gruppe auf dem deutschen Telekommunikationsmarkt ausüben, erwerben (die "Transaktion").</p> <p>Mit Vollzug der Transaktion wird KPN (i) €3,7 Milliarden in bar von der Garantin (diese Barkomponente wird durch eine Barkapitalerhöhung der Garantin im Rahmen eines öffentlichen Bezugsangebots finanziert) sowie (ii) von der Garantin auszugebende Aktien erhalten. Die an KPN auszugebenden Aktien werden 24,9% des gesamten ausstehenden Grundkapitals der Garantin nach Durchführung (i) der obengenannten Barkapitalerhöhung und (ii) einer weiteren Sachkapitalerhöhung (Einbringung der E-Plus Gruppe), im Rahmen derer die Aktien an KPN ausgegeben werden, entsprechen. Das SPA sieht weiter vor, dass Telefónica, S.A. von KPN nach KPNs Erhalt der Aktien der Garantin, die einem Anteil am dann bestehenden Grundkapital der Garantin von 24,9% entsprechen, eine solche Anzahl an Aktien, die einem Anteil am dann bestehenden Grundkapital der Garantin von 4,4% entsprechen, erwerben wird. Darüber hinaus gewährt KPN gemäß des SPA Telefónica, S.A. eine Call-Option, im Rahmen derer Telefónica, S.A. an dem Tag nach Ablauf eines Jahres nach Ausführung des SPA zur Ausübung der Call-Option in Bezug auf den Erwerb einer solchen Anzahl von Aktien berechtigt ist, die einem Anteil an dem dann ausstehenden Grundkapital der Garantin von 2,9% entspricht. Der Ausübungspreis bewertet die Aktien der Garantin, die einer Anzahl von bis zu 2,9% des dann ausstehenden Grundkapitals der Garantin entsprechen, mit €510 Millionen. Telefónica, S.A. wird KPN für die 4,4% Aktien der</p>

		<p>Garantin, die bei Durchführung des SPA zu erwerben sind, und für die Call-Option €1,3 Milliarden in bar bezahlen. Im Ergebnis erhält KPN insgesamt €5 Milliarden in bar und 20,5% des gesamten ausstehenden Grundkapitals der Garantin (bzw. 17,6% des gesamten ausstehenden Grundkapitals der Garantin im Falle der vollen Ausübung der Call-Option). Der Vollzug der Transaktion ist aufschiebend bedingt durch den Eintritt verschiedener Bedingungen, einschließlich der Zustimmung der zuständigen Kartellbehörde, dem Nicht-Eintritt einer wesentlich nachteiligen Änderung hinsichtlich der E-Plus Gruppe und der Einhaltung bestimmter deutscher aktienrechtlicher Vorschriften im Zusammenhang mit der Sachkapitalerhöhung der Garantin. Die Transaktion wurde am 2. Oktober 2013 von der außerordentlichen Hauptversammlung von KPN genehmigt. Hinsichtlich der Zustimmung der zuständigen Kartellbehörde erwartet die Garantin eine umfangreiche Prüfung der Transaktion vergleichbar mit den im Rahmen ähnlicher Verfahren in anderen Mitgliedsstaaten der Europäischen Union durchgeföhrten Zustimmungsverfahren. Darüber hinaus wird die Transaktion nicht vollzogen, sollte KPN ein Kaufangebot für die E-Plus Gruppe, das als überlegen anzusehen ist (überlegen – so wie im SPA definiert), vor dem 1. Dezember 2013 erhalten und annehmen. Die Garantin muss an KPN eine sogenannte Break-Fee in Höhe von €100 Millionen für den Fall zahlen, dass das SPA nicht ausgeführt werden kann, weil die Europäische Kommission oder das Bundeskartellamt oder eine andere, hinsichtlich der Ausführung des SPA zuständige Regulierungsbehörde die Ausführung des SPA nicht genehmigt. Die Garantin nimmt an, dass die Transaktion signifikante Synergieeffekte insbesondere in Bezug auf Vertrieb, Kundenservice und Netzwerkinfrastruktur und -betrieb sowie einen Wertzuwachs aus zusätzlichen Umsatzerlösen und andere Synergien freisetzen wird. Der Gesamtwert der über die Zeit freizusetzenden Synergien nach Abzug der Integrationskosten wird dabei auf € 5,0 - 5,5 Milliarden geschätzt. Der Gesamtwert der Synergien wurde auf Basis des Kapitalwerts der Transaktion berechnet, der sich aus der Summe der Gegenwartswerte der prognostizierten zukünftigen Kapitalflüsse einschließlich dem sogenannten "Endwert" (Gegenwartswert der erwarteten zukünftigen Kapitalflüsse jenseits des ausdrücklichen Prognosezeitraums) nach Steuern berechnet.</p> <p>Am 12. September 2013 hat Telefónica Germany GmbH &amp; Co. OHG ihre Tochtergesellschaft Telefónica Germany Online Services GmbH, in der unsere Webhosting-Geschäftstätigkeiten gebündelt waren, an Host Europe GmbH verkauft. Der Verkauf wurde am 31. Oktober 2013 abgeschlossen.</p> <p>Wir haben am 16. Oktober 2013 einen Vertrag mit Versatel hinsichtlich des Verkaufs bestimmter Teile unseres eigenen und gemieteten Glasfasernetzes im Stadtgebiet Hamburg einschließlich der dazugehörigen Wholesale- und Geschäftskundenverträge an Versatel abgeschlossen. Die fusionskontrollrechtliche Freigabe wurde am 11. November 2013 erteilt. Der Verkauf, der noch der regulatorischen Genehmigung bedarf, wird voraussichtlich zum Ende des Jahres 2013 abgeschlossen.</p> <p>Der Vorstand der Garantin beabsichtigt, der Hauptversammlung der Garantin eine Bardividende in Höhe von ca. € 525 Millionen für das Geschäftsjahr 2013 vorzuschlagen, zahlbar in 2014.</p>
<b>B.14</b>	Bitte siehe Punkt B.5.	
	<b>Angabe zur Abhängigkeit von anderen Unternehmen innerhalb der Gruppe</b>	Die Garantin ist von ihrer ultimativen Muttergesellschaft Telefónica, S.A. abhängig.
<b>B.15</b>	<b>Beschreibung der Haupttätigkeiten der Garantin.</b>	Die Garantin ist die Muttergesellschaft von Telefónica Deutschland. Telefónica Deutschland ist der drittgrößte Telekommunikationsanbieter in Deutschland (basierend auf Umsatzerlösen in 2012), mit mehr als 25,4 Millionen Kundenanschlüssen zum 30 September 2013. Wir bieten Privat- und Geschäftskunden Mobilfunk- und Festnetzprodukte einschließlich Telefonie, Datendiensten sowie Mehrwertdiensten an. Darüber hinaus sind wir einer der führenden Großhandels-, oder auch Wholesale-Service-Provider in Deutschland und bieten unseren Wholesale-Partnern Zugang zu unserer Mobil- und Festnetzinfrastruktur und unseren Dienstleistungen. Wir sind Teil

der Telefónica Gruppe, einem der größten Telekommunikationsunternehmen der Welt. Wir betreiben ein deutschlandweites Mobilfunknetz mit einer Global Systems for Mobile Communications ("GSM" oder "2G")-Netzabdeckung von mehr als 99% der deutschen Bevölkerung, ein deutschlandweites Mobilfunknetz mit einer 3G-Netzabdeckung von ungefähr 74% der deutschen Bevölkerung und ein deutschlandweites Festnetz mit einer Digital Subscriber Line ("DSL")-Abdeckung von ungefähr 67% der deutschen Haushalte. Aufgrund unserer Vereinbarung mit der Deutschen Telekom GmbH hinsichtlich eines very-high-bit-rate DSL ("VDSL")-Kontingentmodells können wir mehr als 11 Millionen Haushalten Tarife mit Übertragungsraten von bis zu 50 MBit/s anbieten. Unser Mobilfunknetz wird auf Basis der Technologie-Standards GSM oder 2G, UMTS oder 3G und, seit neuestem, LTE oder 4G betrieben.

Wir vertreiben unsere Produkte im Rahmen einer Mehrmarken-, oder auch Multi-Brand-Strategie. Den Großteil unserer post-paid und pre-paid Mobilfunk- und Festnetz-Produkte und -Services bieten wir unter unserer Premium-Hauptmarke O<sub>2</sub> an. Wir erreichen weitere Kundengruppen durch unsere Zweit- und Partnermarken sowie durch unsere Wholesale-Kanäle. Zweitmarken umfassen unsere eigene Marke netzclub und vollständig kontrollierte Marken wie FONIC oder Marken, die durch Joint-Ventures und strategische Partnerschaften gehalten werden, wie Tchibo mobil und Türk Telekom Mobile. Wir vertreiben ebenfalls high-speed Internetanschlüsse und Festnetztelefonie über DSL (unter den Standards Asymmetric Digital Subscriber Line 2+ ("ADSL2+") und VDSL). Wir adressieren unsere Small office/Home office ("SoHo") und kleinen und mittelständischen Geschäftskunden ("SME") über unsere O<sub>2</sub>-Marke sowie große multinationale Unternehmen über unsere Marke Telefónica Multinational Solutions. Im Rahmen unseres Wholesale-Geschäfts bieten wir Mobilfunk- und Festnetz-Dienstleistungen für Kunden wie 1&1, mobilcom/debitel, Drillisch und die zwei großen deutschen Kabelanbieter an. Wir bieten unsere Produkte über eine diversifizierte Vertriebsplattform an, die direkte (landesweites Netzwerk selbst betriebener Shops und Partnershops, Premium Partner, Online und Telesales) und indirekte (Einzelhandel/Partnerschaften mit Internethändlern und Händler/Kooperationen) Vertriebskanäle umfasst.

Im Geschäftsjahr 2012 konnten wir Umsatzerlöse von € 5,2 Milliarden (in dem zum 30. September 2013 endenden Neunmonatszeitraum € 3,7 Milliarden) und OIBDA von € 1,3 Milliarden (in dem zum 30. September 2013 endenden Neunmonatszeitraum € 864 Millionen) verzeichnen, was einem Anstieg der Umsatzerlöse von 3,5% (Abnahme von 5,2% in dem zum 30. September 2013 endenden Neunmonatszeitraum verglichen mit dem zum 30. September 2012 endenden Neunmonatszeitraum) und des OIBDA von 11,3% (Abnahme von 7,7% in dem zum 30. September 2013 endenden Neunmonatszeitraum verglichen mit dem zum 30. September 2012 endenden Neunmonatszeitraum) gegenüber dem Vorjahr entspricht.

Mit Vollzug der Transaktion wird die Garantin die E-Plus Gruppe erwerben und diese in Telefónica Deutschland integrieren. Die E-Plus Gruppe mit Sitz in Düsseldorf, Deutschland, bietet ihren Kunden in Deutschland Multi-Brand-Mobilfunkdienstleistungen an, die auf unterschiedliche Marktsegmente gerichtete post-paid und pre-paid Dienstleistungen umfassen. Die E-Plus Gruppe ist basierend auf einer Kundenzahl von ungefähr 24,4 Millionen zum 30. Juni 2013 der drittgrößte sowie basierend auf Umsatzerlösen aus Mobilfunkdienstleistungen der viertgrößte Mobilfunkanbieter in Deutschland (die Umsatzerlöse aus Mobilfunkdienstleistungen betrugen für das Geschäftsjahr 2012 €3.149 Millionen). Die gesamten Umsatzerlöse der E-Plus Gruppe beliefen sich auf €3.393 Millionen für das Geschäftsjahr 2012. Das EBITDA der E-Plus Gruppe betrug für das Geschäftsjahr 2012 €1.289 Millionen. Das Multi-Brand-Portfolio der E-Plus Gruppe umfasst die Marken E-Plus und BASE sowie verschiedene andere Marken wie eine auf Jugendliche ausgerichtete Marke (yourfone) und eine no-frills (Discount-) Marke (Blau). Wholesale-Partner der E-Plus Gruppe beinhalten MedionMobile (AldiTalk), ADAC, MTV und den Naturschutzbund Deutschland (NABU). (Quellen: *Brief an die Aktionäre vom 21. August 2013 zum Zwecke der außerordentlichen Hauptversammlung von KPN am 2. Oktober 2013; E-Plus Gruppe Pressemitteilung zu den Ergebnissen des zweiten Quartals 2013.*)

Unter der Annahme, dass die Transaktion bereits am 31. Dezember 2012 bzw. 1. Januar 2012 stattgefunden hätte, würde Telefónica Deutschland ungefähr aggregierten 43 Millionen Kunden ihre Dienstleistungen anbieten und aggregierte Umsatzerlöse (vor Konsolidierung) von €8,6 Milliarden erzielen (basierend auf Umsatzerlösen für das Geschäftsjahr 2012 von Telefónica Deutschland und der E-Plus Gruppe).

<b>B.16</b>	<b>Beteiligung; Beherrschungsverhältnis</b>	Telefónica, S.A. hält indirekt 76,83% der Aktien der Garantin. Telefónica, S.A. hat einen beherrschenden Einfluss auf die Garantin.
<b>B.17</b>	<b>Kreditratings der Garantin oder ihrer Schuldtitel</b>	Die Garantin hat von Fitch Ratings ein 'BBB' "Long-Term Issuer Default Rating" (IDR) mit stabilem Ausblick ( <i>with a Stable Outlook</i> ) erhalten. <sup>1</sup>
<b>B.18</b>	<b>Beschreibung von Art und Umfang der Garantie</b>	Die Garantin garantiert unbedingt und unwiderruflich die pünktliche Zahlung von Zinsen, von Kapital sowie etwaigen zusätzlichen Beträgen, die unter den Schuldverschreibungen zu zahlen sind.
<b>B.19</b>	<b>Zusammenfassende Angaben zum Garantiegeber</b>	Siehe vorstehende Angaben unter Abschnitt B – Telefónica Deutschland Holding AG als Garantin.

<b>Abschnitt C – Wertpapiere</b>		
<b>C.1</b>	<b>Gattung und Art der Wertpapiere, einschließlich der Wertpapierkennnummer (WKN).</b>	<p><b>Gattung</b> Die € • • % Schuldverschreibungen der Emittentin fällig 2018 (die "Schuldverschreibungen") begründen nicht besicherte Verbindlichkeiten der Emittentin.</p> <p><b>Wertpapierkennnummer</b> ISIN: XS0912992160 Common Code: 091299216 WKN: A1TM8X</p>
<b>C.2</b>	<b>Währung der Wertpapier-emission.</b>	Die Schuldverschreibungen sind in Euro begeben
<b>C.5</b>	<b>Beschränkungen der freien Übertragbarkeit</b>	Entfällt. Die Schuldverschreibungen sind frei übertragbar.
<b>C.8</b>	<b>Rechte, die mit den Schuld-verschreibungen verbunden sind, Rangfolge der Schuldverschreibung en und Einschränkungen der mit den Schuldverschreibung en verbundenen Rechte</b>	<p><b>Rechte, die mit den Schuldverschreibungen verbunden sind</b> Jeder Inhaber von Schuldverschreibungen hat aus ihnen das Recht, Zahlungen von Zinsen und Kapital von der Emittentin zu verlangen, wenn diese Zahlungen gemäß den Anleihebedingungen fällig sind.</p> <p><b>Status der Schuldverschreibungen (Rangfolge)</b> Die Schuldverschreibungen begründen nicht besicherte und nicht nachrangige Verbindlichkeiten der Emittentin, die untereinander und mit allen anderen nicht besicherten und nicht nachrangigen Verbindlichkeiten der Emittentin gleichrangig sind, soweit diesen Verbindlichkeiten nicht durch zwingende Bestimmungen ein Vorrang eingeräumt wird.</p> <p><b>Rückzahlung</b> Soweit nicht zuvor bereits zurückgezahlt oder angekauft und entwertet, wird jede Schuldverschreibung zum Betrag ihrer festgelegten Stückelung am Fälligkeitstag zurückgezahlt.</p> <p><b>Vorzeitige Rückzahlung aus Steuergründen</b> Eine vorzeitige Rückzahlung der Schuldverschreibungen aus steuerlichen Gründen ist zulässig, falls die Emittentin zur Zahlung zusätzlicher Beträge auf die Schuldverschreibungen als Folge einer Änderung der deutschen Steuergesetze verpflichtet ist.</p> <p><b>Vorzeitige Rückzahlung nach Wahl der Emittentin infolge eines</b></p>

<sup>1</sup> Fitch Ratings hat seinen Sitz in der Europäischen Gemeinschaft und ist gemäß der Verordnung (EG) Nr. 1060/2009 des Europäischen Parlaments und des Rates vom 16. September 2009 über Ratingagenturen, geändert durch Verordnung (EU) Nr. 513/2011 des Europäischen Parlaments und des Rates vom 11. März 2011, (die "Ratingagentur-Verordnung") registriert. Die Europäische Wertpapier und Marktaufsichtsbehörde veröffentlicht auf ihrer Webseite ([www.esma.europa.eu/page/List-registered-and-certified-CRAs](http://www.esma.europa.eu/page/List-registered-and-certified-CRAs)) ein Verzeichnis der nach der Ratingagentur-Verordnung registrierten Ratingagenturen. Dieses Verzeichnis wird innerhalb von fünf Werktagen nach Annahme eines Beschlusses gemäß Artikel 16, 17 oder 20 der Ratingagentur-Verordnung aktualisiert. Die Europäische Kommission veröffentlicht das aktualisierte Verzeichnis im Amtsblatt der Europäischen Union innerhalb von 30 Tagen nach der Aktualisierung.

Ein Kreditrating ist eine Einschätzung der Kreditwürdigkeit einer Rechtsperson und informiert den Anleger daher über die Wahrscheinlichkeit mit der die Rechtsperson in der Lage ist, angelegtes Kapital zurückzuzahlen. Es ist keine Empfehlung Wertpapiere zu kaufen, zu verkaufen oder zu halten und kann jederzeit durch die Ratingagentur geändert oder zurückgenommen werden.

		<p><b>Kontrollwechselereignisses</b> Eine vorzeitige Rückzahlung der Schuldverschreibungen nach Wahl der Emittentin ist zulässig, falls ein Kontrollwechselereignis eintritt.</p> <p><b>Negativerklärung</b> Die Anleihebedingungen der Schuldverschreibungen enthalten eine Negativverpflichtung.</p> <p><b>Kündigungsgründe</b> Die Anleihebedingungen der Schuldverschreibungen sehen Kündigungsgründe vor, die die Gläubiger berechtigen, die unverzügliche Rückzahlung der Schuldverschreibungen zu verlangen.</p> <p><b>Cross Default</b> Die Anleihebedingungen der Schuldverschreibungen enthalten eine Cross-Default-Bestimmung.</p> <p><b>Gläubigerversammlung</b> Die Anleihebedingungen der Schuldverschreibung enthalten Bestimmungen zu Gläubigerbeschlüssen.</p> <p><b>Anwendbares Recht</b> Die Schuldverschreibungen unterliegen deutschem Recht.</p>
C.9	Bitte siehe Punkt C.8.	
	<p><b>Zinssatz / Festverzinsliche Schuldverschreibungen / Variabel verzinsliche Schuldverschreibungen / Nullkupon-Schuldverschreibungen / Fälligkeitstag / Rendite</b> Die Schuldverschreibungen sind vom 22. November 2013 an, zu einem festen Zinssatz von <math>\bullet\%</math> <i>per annum</i> fest verzinslich. Die Zinsen sind nachträglich am 22. November eines jeden Jahres zahlbar. Im Falle eines Kontrollwechselereignisses erhöht sich der Zinssatz auf <math>\bullet\%</math> <i>per annum</i>.</p> <p><b>Fälligkeitstag</b> Soweit nicht zuvor bereits ganz oder teilweise zurückgezahlt oder angekauft und entwertet, werden die Schuldverschreibungen zu ihrem Rückzahlungsbetrag am 22. November 2018 zurückgezahlt.</p> <p><b>Rendite</b> Die Rendite entspricht <math>\bullet\%</math> <i>per annum</i>, sofern sich der Zinssatz nicht aufgrund eines Kontrollwechselereignisses erhöht hat.</p> <p><b>Name des Vertreters der Inhaber der Schuldverschreibungen</b> Entfällt. In den Anleihebedingungen wurde kein gemeinsamer Vertreter bestimmt.</p>	
C.10	Bitte siehe Punkt C.9.	
	<p><b>Erläuterung wie der Wert der Anlage beeinflusst wird, falls die Schuldverschreibungen eine derivative Komponente bei der Zinszahlung aufweisen</b> Entfällt. Die Zinszahlung weist keine derivative Komponente auf.</p>	
C.11	<p><b>Antrag auf Zulassung zum Handel</b></p>	Für die Schuldverschreibungen ist ein Antrag auf Zulassung zum Börsenhandel im regulierten Markt ( <i>official list</i> ) der Luxemburger Wertpapierbörse gestellt worden.

<b>Abschnitt D – Risiken</b>		
D.2	<p><b>Zentrale Angaben zu den zentralen Risiken, die dem Emittenten eigen sind.</b></p>	Der Gegenstand der Geschäftstätigkeit der Emittentin beschränkt sich gegenwärtig ausschließlich auf die Finanzierung der Telefónica Germany GmbH & Co. OHG. Wichtigster Bestandteil des Vermögens der Emittentin werden an die Telefónica Germany GmbH & Co. OHG ausgereichte Darlehen sein. Der wirtschaftliche Bestand der Emittentin wird davon abhängig sein, dass Telefónica Germany GmbH & Co. OHG ihre Verpflichtungen aus diesen Darlehen erfüllen kann. Sämtliche Zins- und Kapitalzahlungen auf alle von der Emittentin begebenen Fremdkapitalwertpapiere (also auch die Schuldverschreibungen) sind in voller Höhe und uneingeschränkt durch

		die Garantin garantiert. Diese Garantie ist gemäß dem Recht der Bundesrepublik Deutschland vollstreckbar.
D.2	<b>Zentrale Angaben zu den zentralen Risiken, die der Garantin eigen sind.</b>	<p>Makroökonomische Faktoren können Verbraucherausgaben und Wachstumsaussichten des deutschen Telekommunikationsmarktes im Allgemeinen beeinträchtigen und einen negativen Einfluss auf unsere Marktdurchdringung der neuen Mehrwertdienste und Verkehr, unsere Kundenzahlen, den durchschnittlichen Umsatz pro User ("ARPU") unserer Kunden und insbesondere auf die Anzahl unserer Geschäftskunden haben. Rezessive Rahmenbedingungen könnten ebenso zu einer Steigerung der Zahlungsausfälle und/oder -verzögerungen unserer Kunden und der Kundenabwanderung führen und verhindern, dass wir neue Kunden gewinnen.</p> <p>Die EU-Kommission hat unter dem Stichwort "digital single market" am 11. September 2013 einen Verordnungsentwurf mit verschiedenen Maßnahmen veröffentlicht, welche die Rahmenbedingungen für Investitionen in moderne Breitbandnetze verbessern und günstigere Rahmenbedingungen für einen starken europäischen Telekommunikationssektor schaffen sollen. Der Verordnungsentwurf enthält jedoch auch Maßnahmen, die eine unmittelbare nachteilige Wirkung auf die Umsätze von Netzbetreibern haben könnten, wie z.B. der Wegfall von Entgelten für eingehende Roaming-Anrufe in der EU und der Absenkung der Entgelte für EU-weite Ferngespräche. Es ist derzeit noch nicht absehbar, wann und in welchem Umfang die "digital single market"-Verordnung final verabschiedet wird.</p> <p>Da wir von der Bundesnetzagentur ("BNetzA") als Netzbetreiber mit einer signifikanten Marktstärke im Anrufzustellungsmarkt für mobile und Festnetz-Dienste eingestuft werden, unterliegen wir den strengen Vorschriften des deutschen Telekommunikationsgesetzes. Die Auswirkungen dieser Regularien beinhalten unter anderem unsere Verpflichtung, anderen Netzbetreibern den Zugang zu unseren Mobilfunknetzen und unserem Festnetz auf einer nicht-diskriminierenden, fairen und vernünftigen Basis zu ermöglichen. Die Bedingungen hierzu wurden von der BNetzA in Deutschland festgelegt. Die BNetzA könnte uns auch weitere Verpflichtungen auferlegen, unter anderem Frequenzrechte zu erhalten und zu nutzen, Tarifreduktionen, Verbraucherschutzmaßnahmen sowie Verpflichtungen im Hinblick auf den Schutz der Privatsphäre, wie Datenschutzmaßnahmen und Maßnahmen zum Schutz der öffentlichen Sicherheit. Sollten wir die anwendbaren Regularien und Verpflichtungen, die von der BNetzA vorgegeben werden, nicht einhalten können, könnten uns Sanktionen auferlegt werden, die einen nachteiligen Einfluss auf unser Geschäft haben können. Es könnten ebenso behördliche Anordnungen durch Kartell- oder Wettbewerbsbehörden gegen uns ergehen. Diese Behörden könnten bestimmte Handlungen, wie Neuakquisitionen oder bestimmte Praktiken, verbieten, Verpflichtungen schaffen oder hohe Geldbußen verhängen. Wir erwarten, dass diese umfangreiche Regulierung unsere Geschäftstätigkeit sowie Finanz- und Ertragslage weiterhin beeinflussen wird.</p> <p>Die BNetzA ist nach § 43a Abs. 3 Telekommunikationsgesetz ermächtigt, Vorgaben hinsichtlich der transparenten Leistungsbeschreibung in Telekommunikationsverträgen zu machen. Die Bundesnetzagentur hat im Mai 2013 dahingehende Eckpunkte vorgelegt und gleichzeitig eine Selbstregulierung der Telekommunikationsunternehmen angeregt, die u.a. die Einführung von Maßnahmen zur Vermeidung sogenannter "Bill Shocks" (wie z.B. Preisobergrenzen, Warn-SMS) oder der Messung und Angabe der tatsächlich erreichbaren Bandbreite bei mobilen und stationären Breitbandanschlüssen beinhalten. Marktteilnehmer erarbeiten derzeit eine Selbstverpflichtung, von der erste Eckpunkte der BNetzA zur Abstimmung am 4. September 2013 vorgelegt wurden. Mehr Transparenz über Dienstmerkmale und folglich über die Dienst- und Netzwerkqualität könnte zu Abwanderung von Kunden und einer Einschränkung unserer Marketingmöglichkeiten führen. Zusammen mit Preisobergrenzen und Warn-SMS könnte dies zu niedrigeren Umsätzen führen, was sich wesentlich nachteilig auf unsere Geschäftstätigkeit sowie Finanz- und Ertragslage auswirken könnte.</p> <p>Wir sind Reduzierungen von Mobil- und Festnetz-Terminierungsentgelten und anderen Gebühren wie z.B. Roamingtarifen ausgesetzt. In den letzten Jahren sind die Terminierungsentgelte im Mobilbereich ("MTR") im Großhandel in Europa und vor allem in Deutschland (Einschritte von mehr als 50% seit Dezember 2010) gesunken und diverse Überprüfungen dieser Raten sowie Gerichtsverfahren zu regulatorischen Maßnahmen laufen noch. Andere Dienste, deren Preise in Europa reguliert werden,</p>

	<p>beinhalten internationales Anruf-Roaming, Kurzmitteilungsdienste ("SMS") und Datendienste. Regulierungsbehörden könnten jederzeit Maßnahmen verabschieden, um Roamingtarife und MTR oder Festnetz-Terminierungsentgelte weiter zu senken, oder uns verpflichten, Dritten Zugang zu unseren Netzen zu vergünstigten Preisen zu gewähren. Zukünftige Herabsenkungen solcher Tarife und Gebühren könnten sich wesentlich nachteilig auf unsere Geschäftstätigkeit sowie Finanz- und Ertragslage auswirken.</p> <p>Unsere Geschäftstätigkeit ist abhängig von der Ausweitung und dem Ausbau unserer bestehenden Netze als einem wesentlichen Teil unseres Geschäfts. Wir könnten nicht in der Lage sein, die angedachte oder benötigte Anzahl von Netzwerk-Standorten zu akquirieren oder zu bauen oder diese an angemessenen Standorten zeitnah und kosteneffektiv zu errichten. Da es für uns notwendig ist, bestimmte regulatorische Genehmigungen zu erhalten, um unser Spektrum oder unsere Frequenznutzungsrechte zu nutzen oder zu ändern, sind wir darauf angewiesen, solche Genehmigungen zu erhalten, um unsere Netzwerke aufrechtzuerhalten, auszuweiten und zu verbessern. Wir sind auch davon abhängig, dass uns die BNetzA Richtfunkfrequenzen für eine Verbindung zum Backhaul-Teil des Transportnetzes zuteilt. Darunter versteht man die kabellose Übertragung von einer lokalen Antenne zum sog. Backbone unseres Festnetzes. Derzeit ist die BNetzA nicht in der Lage, Genehmigungen innerhalb der geltenden Frist und in dem Umfang, der unseren operativen Erfordernissen entspricht, zu erteilen, weswegen wir beim Ausbau unseres LTE Netzwerks und der Modernisierung unserer 3G-Kapazitäten Verzögerungen erfahren haben. Sollten wir unsere neuen Netzwerk-Standorte nicht zeitnah oder in ausreichendem Umfang errichten können oder sollten die Genehmigung von Anträgen auf Frequenzzuteilung für Richtfunkanwendungen sich weiter verzögern, könnte sich dies wesentlich nachteilig auf die Leistungsfähigkeit und Erweiterung unserer Mobilfunknetzwerke auswirken.</p> <p>Unsere Lizzenzen und Frequenznutzungsrechte haben eine begrenzte Laufzeit. Unsere Frequenznutzungsrechte in den 900/1.800 MHz Bandbreiten laufen am 31. Dezember 2016 aus. Derzeit ist unklar, ob diese Frequenznutzungsrechte verlängert werden oder ob sie an den Meistbietenden versteigert werden. Wir könnten nicht in der Lage sein, die Lizzenzen und Frequenznutzungsrechte, die für unsere Geschäftstätigkeit notwendig sind, bei Ablauf ihrer Laufzeit zu verlängern oder neue zugeteilt zu bekommen, oder es könnten erhebliche Investitionen notwendig sein, um unsere Lizzenzen zu erhalten. Beides könnte sich wesentlich nachteilig auf unsere Geschäftstätigkeit und Finanzlage auswirken.</p> <p>Der Telekommunikationsmarkt in Deutschland ist durch intensiven Wettbewerb von bestehenden und möglichen neuen Mobilfunknetzbetreibern sowie Faktoren, die außerhalb unserer Kontrolle liegen, wie zum Beispiel Konsumtrends in Bezug auf Technologien, gekennzeichnet.</p> <p>Wir begegnen zunehmendem Wettbewerb von Betreibern virtueller Mobilfunknetze und Wiederverkäufern unter eigener Marke (sog. <i>Branded Reseller</i>), alternativen Telekommunikationsanbietern wie Kabelgesellschaften und Unterhaltungselektronik-Anbietern sowie nicht-traditionellen mobilen Sprach- und Datendiensten, die auf der neuen VoIP Technologie basieren, insbesondere sog. "over-the-top" ("OTT") Anwendungen wie Skype, Google Talk und Facebook. Diese OTT-Anwendungen sind oft kostenlos und zum Beispiel über Smartphones nutzbar und ermöglichen es ihrem Nutzer, potentiell unbegrenzt Nachrichten- und Sprachdienste über das Internet zu nutzen. Nutzer können daher teurere traditionelle Sprach- und Nachrichtendienste (wie SMS/MMS), die von Mobilfunkanbietern wie uns angeboten werden, umgehen und wir können nur die Kosten für die Internetnutzung für solche Dienste berechnen. Sollten wir nicht in der Lage sein, uns in dieser intensiven und möglicherweise noch intensiver werdenden Konkurrenzsituation effektiv zu behaupten, könnte sich dies wesentlich nachteilig auf unsere Geschäftstätigkeit und Ertrags- und Finanzlage auswirken.</p> <p>Wir könnten Vermögenswerte erwerben oder verkaufen oder Joint Ventures oder sonstige Geschäftsbeziehungen eingehen, die möglicherweise weniger Umsatzerlöse, Cash Flows und Erträge generieren als angenommen. Wir könnten Schwierigkeiten ausgesetzt sein, diese Vermögenswerte zeitgerecht zu integrieren, und erwartete Synergien könnten sich nicht realisieren.</p> <p>Die Telekommunikationsindustrie ist und wird weiterhin durch schnellen</p>
--	---

	<p>technologischen Wandel geprägt sein. Wir könnten nicht in der Lage sein, diesen Wandel effektiv zu antizipieren oder darauf zu reagieren.</p> <p>Kooperationen oder Joint Ventures mit anderen Marktteilnehmern könnten von der zuständigen Regulierungsbehörde aus regulatorischen oder Wettbewerbsgründen nicht genehmigt werden, was zu höheren Investitionen und eingeschränktem Produktangebot führen könnte.</p> <p>Es besteht das Risiko, dass es uns nicht gelingt, Kunden in ausreichendem Maße auf gegenwärtige oder künftige Mehrwertdienste aufmerksam zu machen oder Kundenakzeptanz für diese Dienste zu den Preisen, die wir berechnen möchten, zu erreichen. Außerdem besteht das Risiko, dass wir Markttrends oder Veränderungen der Kundenwünsche nicht zutreffend erkennen oder dass wir nicht in der Lage sind, neue Dienste ebenso schnell oder preisgünstig auf den Markt zu bringen, wie unsere Konkurrenten. Ferner bergen eine schnelle technologische Entwicklung und die fortschreitende technologische Konvergenz die Gefahr, dass neue und bestehende Informations- und Telekommunikationstechnologien oder -produkte sich nicht nur nicht gegenseitig ergänzen, sondern in manchen Fällen sogar gegenseitig ersetzen. Aufgrund dieser Risiken könnten wir weder in der Lage sein, die erwartete Nachfrage nach unseren Produkten und Dienstleistungen, noch die prognostizierte Höhe an Umsatzerlösen oder deren Entstehungszeitpunkt zu erreichen.</p> <p>Unser Geschäftserfolg hängt von unserer Fähigkeit ab, Kunden mit Mobiltelefonen, die ihren Präferenzen entsprechen, zu beliefern. Wir liefern Mobiltelefone von Drittanbietern an unsere Kunden. Einige unserer Lieferverträge enthalten Mindestabnahmeverpflichtungen. Falls wir die Mobiltelefone oder Smartphones nicht in der vereinbarten Menge abnehmen, könnten wir Vertragsstrafen und Haftungsansprüchen ausgesetzt sein. Des Weiteren gibt es auf dem Smartphone-Markt derzeit fortlaufend Patentstreitigkeiten hinsichtlich der Nutzung von bestimmten Betriebssystemen in Smartphones sowie aufgrund der angeblichen Nachahmung von Designs und aufgrund von Urheberrechtsverletzungen. Verkaufsverbote als Ergebnis von Patentstreitigkeiten könnten uns davon abhalten, unseren Kunden bestimmte Gerätemodelle zur Verfügung zu stellen. Mobiltelefone und Smartphones könnten inkompatibel zu unserem Netzwerk sein, falls zum Beispiel Smartphones nur in einem Frequenzspektrum arbeiten, für welches uns keine Frequenznutzungsrechte zugeteilt wurden oder falls solche Smartphones so gestaltet sind, dass sie in der Netzinfrastruktur unserer Konkurrenten besser arbeiten oder dort besseren Netzzugang haben. Entsprechende Einschränkungen oder Verbote könnten unseren Verkauf oder die Lieferung von Mobiltelefonen beinträchtigen.</p> <p>Der Erfolg unserer Geschäftstätigkeit hängt von unserer Fähigkeit ab, Kunden zu gewinnen und zu halten. Außerdem könnten wir aufgrund externer Umstände nicht in der Lage sein, unsere vertraglichen Verpflichtungen gegenüber unseren großen Geschäftskunden zu erfüllen, was zu der Beendigung von Geschäftskundenverträgen führen könnte.</p> <p>Anhaltende oder wiederholte Störungen oder Schäden unserer Mobilfunk- oder Festnetze und technischen Systeme könnten zum Verlust von Kunden und einem Umsatzrückgang führen sowie aufwendige Reparaturen erfordern.</p> <p>Falls wir nicht in der Lage sind, unsere direkten und indirekten Distributionskanäle zu erhalten oder weiter auszubauen oder die Kundenpräferenzen hinsichtlich Distributionskanälen richtig zu interpretieren, könnte sich dies nachteilig auf unsere Fähigkeit auswirken, unsere Kundenbasis zu erhalten und zu erweitern.</p> <p>Die Ausübung unserer Geschäftstätigkeit ist kapitalintensiv. Wir haben ein weitreichendes Investitionsprogramm eingeführt, das auch zukünftig den erheblichen Einsatz von Barmitteln erfordern wird. Dies beinhaltet die Aufrechterhaltung und Optimierung unserer Mobilfunknetze und unseres Festnetzes sowie Investitionen in die LTE-Technologie. Unsere Liquidität könnte nicht ausreichen oder es könnten Finanzierungsoptionen nicht in ausreichendem Maß verfügbar sein, um unsere Betriebsmittelanforderungen zu finanzieren.</p> <p>Wir unterliegen einer starken Abhängigkeit von gewissen Dienstleistern, wie der Deutschen Telekom hinsichtlich unserer Netzwerkinfrastruktur, BT Germany hinsichtlich Ausrüstung, Dienstleistungen für unsere Standorte, der Errichtung und dem Betrieb unserer IT und Kommunikationsausrüstung sowie der flankierenden Infrastruktur sowie den Betrieb unserer Kern- und Zugangsstandorte sowie Netzwerkbetreibern hinsichtlich Roaming-Dienstleistungen. Folglich ist unsere</p>
--	--

	<p>Fähigkeit, unsere Dienstleistungen anzubieten, von der Leistungsfähigkeit solcher Dienstleister abhängig oder könnte nachteilig durch unseren zunehmenden Wettbewerb mit diesen Dienstleistern beeinflusst werden. Wir könnten nicht in der Lage sein, passende alternative Dienstleister zu finden, sollten die jeweiligen Dienstleistungsverträge beendet werden, was wesentliche nachteilige Auswirkungen auf unsere Geschäftstätigkeit, Finanz- und Ertragslage haben könnte.</p> <p>In den vergangenen Jahren haben wir Teile unseres Betriebs, wie den Großteil unserer technischen Dienste, die Wartung unserer Netzwerke und erhebliche Teile unserer Call-Center- und Buchhaltungsaktivitäten, ausgelagert und beabsichtigen, diese Strategie weiter zu verfolgen. Das macht uns anfällig für die Fehlerhaftigkeit oder die fehlende Verfügbarkeit der ausgelagerten wesentlichen Tätigkeiten und Dienstleistungen.</p> <p>Die Beendigung oder Nichtverlängerung von bestehenden Verträgen oder Partnerschaften mit Betreibern virtueller Mobilfunknetze und Branded Resellern könnte unseren Ruf beschädigen und unsere Fähigkeit beeinträchtigen, unsere Kundenbasis zu diversifizieren und zu erweitern.</p> <p>Der Wettbewerb um qualifiziertes Personal, das wir benötigen, um unser Geschäft erfolgreich zu betreiben und zu entwickeln, ist intensiv. Der Verlust von oder das Unvermögen, erfahrene Führungskräfte und anderes wichtiges Personal einzustellen oder zu halten, könnte sich negativ auf unsere Geschäftstätigkeit auswirken.</p> <p>Wir verwenden Technologien, die für Dritte geschützt sind. Die wachsende Abhängigkeit der Industrie für Telekommunikationsausstattung von geschützten Technologien könnte die Wahrscheinlichkeit erhöhen, dass wir Rechtsstreitigkeiten oder anderen Verfahren zu geltend gemachten Schutz- oder Urheberrechtsverletzungen ausgesetzt sind. Außerdem könnten wir gezwungen sein, zukünftig zusätzliche und kostspielige Technologie-Lizenzen zu erwerben oder zusätzliche Lizenzgebühren für derzeit genutzte Technologien zu zahlen.</p> <p>Wir könnten gegen Daten-, Verbraucherschutz- sowie Wettbewerbsvorschriften verstößen, wodurch Strafen, Reputationsverlust sowie Kundenverlust eintreten könnten.</p> <p>Wir könnten nachteilig durch die zwingende Implementierung neuer Zahlungsformate aufgrund des "Einheitlichen Europäischen Zahlungsverkehrs" ("SEPA") insbesondere im Zusammenhang mit Lastschriftverfahren beeinträchtigt werden.</p> <p>Wir könnten durch die öffentliche Wahrnehmung angeblicher Gesundheitsrisiken elektromagnetischer Radiowellen und drahtloser Kommunikationsgeräte und Antennen nachteilig beeinträchtigt werden.</p> <p>Wir verfügen über Versicherungsschutz, der für die Fortführung unseres täglichen Geschäfts notwendig ist und wir gehen davon aus, dass unser derzeitiger Versicherungsschutz ausreichend und für die Industrie üblich ist, um uns gegen Risiken im Zusammenhang mit unserer Geschäftstätigkeit abzusichern. Nichtsdestotrotz können unerwartete Ereignisse dazu führen, dass unser Versicherungsschutz nicht ausreichend sein könnte.</p> <p>Wir könnten verpflichtet sein, zusätzliche Steuern oder Abgaben infolge von Betriebsprüfungen zu zahlen. Die aktuellste Betriebsprüfung der Garantin, der Telefónica Germany Management GmbH und der Telefónica Germany GmbH &amp; Co. OHG ("OHG") bezogen auf Körperschaftsteuer und Gewerbesteuer der Finanzjahre bis einschließlich 2003 wurde abgeschlossen. Die Garantin, die Telefónica Germany Management GmbH und die OHG unterliegen derzeit einer Betriebsprüfung der Finanzjahre von einschließlich 2004 bis einschließlich 2007. Diese Betriebsprüfung und zukünftige Betriebsprüfungen nachfolgender Finanzjahre könnten zu Steuerfestsetzungen führen, die höhere Steuerzahlungen nach sich ziehen. Veränderungen im Steuerrecht oder bei der Auslegung des Steuerrechts durch Gerichte oder Steuerbehörden könnten ebenfalls wesentliche negative Auswirkungen auf unsere Geschäftstätigkeit, Finanz- und Ertragslage haben.</p> <p>Wir könnten außer Stande sein, unsere steuerlichen Verlustvorträge in vollem Umfang zu nutzen. Zum 31. Dezember 2012 hatte Telefónica Deutschland gewerbesteuerliche Verlustvorträge in Höhe von € 11,6 Milliarden sowie körperschaftsteuerliche Verlustvorträge in Höhe von € 11,5 Milliarden. Letztere betreffen hauptsächlich die Garantin und die Telefónica Germany Management GmbH als Gesellschafter der OHG (aufgrund der Transparenz einer OHG für Körperschaftsteuerzwecke). Davon betrugen gewerbesteuerliche und körperschaftsteuerliche Verlustvorträge der</p>
--	--

	<p>Telefónica Deutschland jeweils € 11,2 Milliarden zum 31 Dezember 2012, für die keine latenten Steueransprüche ausgewiesen wurden. Die steuerlichen Verlustvorträge könnten in Zukunft vollständig oder teilweise auf der Ebene der Garantin, der Telefónica Germany Management GmbH oder der OHG unter anderem verfallen, falls ein Erwerber, eine mit diesem Erwerber verbundene Person oder eine Gruppe von Erwerbern mit ähnlichen Interessen indirekt oder direkt mehr als 25% der Anteile an der Garantin innerhalb von fünf Jahren erwerben. Steuerliche Verlustvorträge und Verluste, die zum Zeitpunkt der Überschreitung der Schwelle bestehen, könnten auf einer pro rata- Basis verfallen. Werden mehr als 50% der Anteile der Garantin erworben, können die steuerliche Verlustvorträge komplett verfallen. Die steuerlichen Verlustvorträge können ebenso, als Ergebnis einer Entscheidung die Gesellschaftsstruktur zu verändern, untergehen. Der mögliche Verfall steuerlicher Verlustvorträge könnte zu einer höheren Steuerlast bei zukünftigen Steuerfestsetzungen führen (sobald die Garantin zu versteuernde Gewinne erzielt).</p> <p>Gemäß des SPA nach deutschem Recht haben sich KPN, Telefónica, S.A. und die Garantin auf die Transaktion geeinigt. Der Vollzug der Transaktion ist bedingt durch den Eintritt von oder Verzicht auf bestimmte aufschiebende Bedingungen, von denen auf einige kein Verzicht erklärt werden kann. Diese Bedingungen umfassen unter anderem die Zustimmung der Europäischen Kommission (oder, im Falle eines Verweis der Prüfung der Transaktion an den zuständigen Mitgliedsstaat, des Bundeskartellamts), den Nicht-Eintritt einer wesentlichen nachteiligen Änderung hinsichtlich der E-Plus Gruppe und Erfüllung bestimmter deutscher aktienrechtlicher Anforderungen hinsichtlich der Sachkapitalerhöhung der Garantin. Sollte die Transaktion nicht von der zuständigen Kartellbehörde genehmigt werden, wird die Transaktion scheitern. Zusätzlich ist die Garantin verpflichtet, an KPN eine Break-Fee in Höhe von €100 Millionen für den Fall zu zahlen, dass das SPA als Resultat dessen nicht ausgeführt werden kann, dass die Europäische Kommission oder das Bundeskartellamt oder eine andere, hinsichtlich der Ausführung des SPA zuständige Regierungsbehörde die Ausführung des SPA nicht genehmigt. Die Transaktion könnte durch Anfechtungsklagen gegen die Beschlussfassungen der außerordentlichen Hauptversammlung der Garantin im Zusammenhang mit der Transaktion scheitern oder verzögert werden. Es kann nicht ausgeschlossen werden, dass das öffentliche Bezugsangebot Risiken in der Ausführung unterliegen könnte, z.B. bedingt durch ungünstige Marktbedingungen. Sollten die aufschiebenden Bedingungen nicht am oder vor dem 1. März 2015 eintreten oder darauf verzichtet werden, können KPN, Telefónica, S.A. und die Garantin jeweils das SPA kündigen und folglich wird die Transaktion scheitern. Außerdem hat die Garantin an KPN eine Break-Fee in Höhe von € 50 Millionen zu bezahlen, falls es ihr nicht gelingen sollte, die Eintragung der im Rahmen der Transaktion vorgesehenen Kapitalerhöhungen ins Handelsregister vor dem 1. März 2015 zu erwirken. Die Transaktion könnte aufgrund eines etwaigen überlegenen Konkurrenzangebots an KPN für den Erwerb der E-Plus Gruppe scheitern. Sollte die Garantin ihr vertragliches Recht nicht ausüben und solch einem etwaigen überlegenen Konkurrenzangebot nicht mit einem angepassten Angebot begegnen, wird die Transaktion scheitern. Für Telefónica Deutschland könnte ein Scheitern der Transaktion zur Rufschädigung (z.B., am Aktien- oder Anleihenmarkt) sowie zu finanziellen Nachteilen führen, die unter anderem aus der im Zusammenhang mit der Transaktion angefallenen Bemühungen und den entstandenen Kosten resultieren können.</p> <p>Die Transaktion könnte nur unter zusätzlichen, von der Europäischen Kommission oder, wenn der Fall nach Deutschland verwiesen wird, dem Bundeskartellamt oder der BNetzA auferlegten, möglicherweise nachteiligen Einschränkungen und Bedingungen durchgeführt werden, welche sich wesentlich nachteilig auf die Geschäftstätigkeit sowie Finanz- und Ertragslage der Telefónica Deutschland auswirken könnten.</p> <p>Die Transaktion könnte sich als weniger erfolgreich als erwartet erweisen, die zusammengeführten Unternehmen könnten sich nicht wie erwartet entwickeln und Umsatzerlös- und Ergebnisziele könnten nicht erreicht werden. Weiterhin unterliegt der Erwerb der E-Plus Gruppe dem Risiko von Verzögerungen in der Kombination der Geschäftstätigkeiten der E-Plus Gruppe und Telefónica Deutschlands oder höheren Kosten als ursprünglich geplant und/oder die beabsichtigten Synergieeffekte könnten nicht in Teilen oder im Ganzen wie geplant realisiert werden. Wir könnten Risiken aus nicht bereits im Rahmen der Transaktion vorhergehenden Due Diligence</p>
--	--

		<p>offengelegten Problemstellungen innerhalb der E-Plus Gruppe ausgesetzt sein. Die Kombination der Geschäftstätigkeiten der E-Plus-Gruppe und Telefónica Deutschlands wird viel Zeit und Aufmerksamkeit der Geschäftsleitung beider Unternehmen in Anspruch nehmen. Sollte dieses die Geschäftsleitung von anderen Verantwortlichkeiten abhalten, könnte dies nachteilige Auswirkungen auf die Geschäftstätigkeit haben.</p> <p>Sowohl Telefónica Deutschland als auch die E-Plus Gruppe sind von Mitarbeitern mit Schlüsselpositionen hinsichtlich der erfolgreichen Kombination der Geschäftstätigkeiten der E-Plus Gruppe und Telefónica Deutschlands, der Umsetzung einer gemeinsamen Strategie und der weiteren Ausführung der Geschäftstätigkeit abhängig, welche jeweils oder insgesamt dadurch negativ beeinflusst oder verzögert werden könnten, sollten Telefónica Deutschland oder die E-Plus Gruppe Mitarbeiter mit Schlüsselpositionen oder Know-How aufgrund des Zusammenschlusses verlieren, was sich wesentlich nachteilig auf die Geschäftstätigkeit sowie Finanz- und Ertragslage der Telefónica Deutschland auswirken könnte.</p> <p>Jegliche wesentliche Verzögerungen bei der Kombination der Geschäftstätigkeiten der E-Plus-Gruppe und Telefónica Deutschlands könnte die Erreichung der geplanten Synergieeffekte nachteilig beeinflussen oder zu einer Minderung bei der Kundenzufriedenheit, einer erhöhten Kundenabwanderung oder zu zusätzlichen Steuerbelastungen führen, was sich wesentlich nachteilig auf die Geschäftstätigkeit sowie Finanz- und Ertragslage der Telefónica Deutschland auswirken könnte.</p> <p>Telefónica Deutschland erwartet, dass die Transaktion Synergien in Höhe von €5,0-5,5 Milliarden freisetzen wird. Es kann nicht ausgeschlossen werden, dass diese Synergien in Teilen oder im Ganzen nicht realisiert werden können aufgrund von z.B. weiteren Einschränkungen oder Konditionen, die Telefónica Deutschland oder der E-Plus-Gruppe auferlegt werden könnten. Weiterhin kann nicht ausgeschlossen werden, dass die Annahmen, die als Basis für die geschätzten Synergieeffekte herangezogen wurden, sich als unangemessen oder inkorrekt herausstellen.</p> <p>Als Mehrheitsaktionär kann die Telefónica, S.A. umfangreichen Einfluss auf uns und unsere Geschäftstätigkeit ausüben. Die Interessen der Telefónica, S.A. können den Interessen der Anleihegläubiger entgegenstehen.</p> <p>Unsere Interessen könnten denen der Gesellschaften der Telefónica Gruppe entgegenstehen.</p> <p>Wir sind von Gesellschaften der Telefónica Gruppe hinsichtlich wesentlicher Dienstleistungen abhängig. Dies betrifft Lizenzen der Marken Telefónica und O<sub>2</sub>, die Fähigkeit, Netzwerkausstattung unter den weltweiten Kaufverträgen der Telefónica Gruppe zu beziehen, und den Zugang zu hochwertigen Geräten und Kostenvorteilen durch gemeinsam genutzte Dienste und Funktionen zu attraktiven Preisen. Außerdem sind wir durch Einlagen und Cash-Management Verträge an das Cash-Management-System der Telefónica Gruppe angeschlossen. Ein Unvermögen, bestehende Dienstleistungsverträge mit unserer Muttergesellschaft Telefónica, S.A. zu verlängern oder zu gegenseitig akzeptablen Bedingungen abzuschließen, könnte sich wesentlich nachteilig auf unsere Geschäftstätigkeit sowie Finanz- und Ertragslage auswirken.</p> <p>Die Verwendung unserer Hauptmarke O<sub>2</sub> unterliegt einer Lizenz der Telefónica Gruppe. Obwohl die Laufzeit dieser Lizenz unbeschränkt ist, könnte diese aus wichtigem Grund, wie einer drohenden feindlichen Übernahme, beendet werden. Sollte es uns nicht möglich sein, die Marke O<sub>2</sub> aufgrund einer Beendigung der Lizenz oder aus anderen Gründen weiter zu nutzen, würde ein erheblicher Aufwand an Zeit, Bemühungen und Ressourcen notwendig werden, um eine neue Markenidentität zu schaffen.</p> <p>Unsere Beziehung zur Telefónica Gruppe könnte unsere Fähigkeit einschränken, mit Wettbewerbern der Telefónica Gruppe zusammen zu arbeiten.</p> <p>Unser Image im Markt wird vom Image der Telefónica Gruppe beeinflusst. Negative Presse oder Probleme im Zusammenhang mit der Telefónica Gruppe könnten sich schädlich auf unser Image auswirken.</p>
D.3	<b>Zentrale Angaben zu den zentralen Risiken, die den Wertpapieren eigen sind</b>	<p><b>Schuldverschreibungen als nicht geeignetes Investment für jeden Anleger</b></p> <p>Die Schuldverschreibungen sind unter Umständen nicht für jeden Anleger eine geeignete Kapitalanlage. Jeder potentielle Anleger in Schuldverschreibungen muss die Geeignetheit dieser Investition unter Berücksichtigung seiner eigenen Lebensverhältnisse einschätzen.</p>

	<p><b>Liquiditätsrisiko</b> Es besteht keine Gewissheit, dass ein liquider Sekundärmarkt für Schuldverschreibungen entstehen wird, oder sofern er entsteht, dass er fortbestehen wird. In einem illiquiden Markt könnte es sein, dass ein Anleger seine Schuldverschreibungen nicht jederzeit zu angemessenen Marktpreisen veräußern kann. Die Möglichkeit, Schuldverschreibungen zu veräußern, kann darüber hinaus aus landesspezifischen Gründen eingeschränkt sein.</p> <p><b>Risiko vorzeitiger Rückzahlung</b> Die Schuldverschreibungen können nach Wahl der Emittentin, wie in den Anleihebedingungen näher beschrieben, aus steuerlichen Gründen oder aufgrund eines Kontrollwechselereignisses vorzeitig zurückgezahlt werden. Falls die Emittentin von ihrem Recht zur vorzeitigen Rückzahlung Gebrauch macht, kann es dazu kommen, dass für die Gläubiger die Rendite niedriger als erwartet ausfällt und dass ihnen eine Re-Investition zu gleichen Bedingungen nicht möglich ist.</p> <p><b>Keine Wahl der Gläubiger zur vorzeitigen Rückzahlung bei Kontrollwechsel</b> Die Anleihebedingungen sehen kein Recht der Gläubiger vor, vorzeitige Rückzahlung der Schuldverschreibungen im Falle eines Kontrollwechsels zu verlangen.</p> <p><b>Marktpreisrisiko</b> Der Gläubiger von Schuldverschreibungen ist dem Risiko nachteiliger Entwicklungen der Marktpreise seiner Schuldverschreibungen ausgesetzt, welches sich verwirklichen kann, wenn dieser Gläubiger seine Schuldverschreibungen vor Endfälligkeit veräußert.</p> <p><b>Kreditwürdigkeit der Garantin</b> Der Marktpreis der Schuldverschreibungen könnte fallen, wenn sich die Wahrscheinlichkeit reduziert, dass die Garantin alle ihre Verpflichtungen aus den Schuldverschreibungen bei Fälligkeit vollständig erfüllen können oder wenn sich die öffentliche Wahrnehmung ihrer Kreditwürdigkeit verschlechtert.</p> <p><b>Währungsrisiko</b> Der Gläubiger von Schuldverschreibungen, die auf eine fremde Währung lauten ist dem Risiko ausgesetzt, dass Wechselkursschwankungen die Rendite solcher Schuldverschreibungen beeinflussen können.</p> <p><b>Festverzinsliche Schuldverschreibungen</b> Der Gläubiger von festverzinslichen Schuldverschreibungen ist dem Risiko ausgesetzt, dass der Kurs einer solchen festverzinslichen Schuldverschreibung infolge von Veränderungen des aktuellen Marktzinssatzes fällt.</p> <p><b>Gläubigerbeschlüsse</b> Ein Gläubiger von Schuldverschreibungen ist dem Risiko ausgesetzt überstimmt zu werden und seine Rechte gegen die Emittentin für den Fall zu verlieren, dass andere Gläubiger durch Mehrheitsbeschluss, in der Gläubigerversammlung oder bei einer Abstimmung ohne Gläubigerversammlung, beschließen, die Anleihebedingungen gemäß den Anleihebedingungen zu ändern</p> <p><b>Gemeinsamer Vertreter</b> Für den Fall der Bestellung eines gemeinsamen Vertreters für alle Gläubiger, kann ein einzelner Gläubiger die Möglichkeit verlieren seine Rechte, im Ganzen oder zum Teil, gegen die Emittentin geltend zu machen oder durchzusetzen.</p> <p><b>Keine Beschränkung hinsichtlich der zukünftigen Schuldenufnahme der Emittentin</b> Es gibt keine Beschränkung hinsichtlich der zukünftigen Emission von gleichrangigen Schuldverschreibungen durch die Emittentin.</p>
--	--

<b>Abschnitt E – Angebot</b>	
<b>E.2b</b>	<b>Gründe für das Angebot und Zweckbestimmung der Erlöse, sofern diese nicht in der Gewinnerzielung und/oder der Absicherung</b>

	<b>bestimmter Risiken liegen.</b>	
<b>E.3</b>	<b>Beschreibung der Angebots-konditionen.</b>	Die Schuldverschreibungen werden innerhalb einer Zeichnungsfrist angeboten, die nicht vor dem 15. November 2013 beginnt und bis zum Tag der Begebung dauern wird, vorausgesetzt es findet keine Verkürzung oder Verlängerung der Zeichnungsfrist statt. Der Ausgabepreis, der Gesamtnennbetrag der zu begebenden Schuldverschreibungen, die Anzahl der zu begebenden Schuldverschreibungen, der Zinssatz, der Nettoemissionserlös vor Berücksichtigung der Gesamtkosten sowie die Rendite werden in der Mitteilung berücksichtigt, welche bei der CSSF und der Luxemburger Wertpapierbörse eingereicht und auf deren Webseite ( <a href="http://www.bourse.lu">www.bourse.lu</a> ) am oder so bald wie möglich nach dem Tag der Preisfestsetzung, welcher der 15. November 2013 sein soll ("Pricing Notice"), veröffentlicht wird. Der Nennbetrag der Schuldverschreibungen beträgt € 1.000. Das Angebot unterliegt keinen Bedingungen. Anleger können ein Angebot zum Kauf der Schuldverschreibungen durch Nutzung des Informationssystems Bloomberg oder eines anderen üblicherweise verwendeten Informationssystems oder nach Veröffentlichung der Pricing Notice über Bankinstitutionen in Luxemburg, Deutschland, den Niederlanden oder Österreich übermitteln. Jeder Anleger, der ein Angebot bezüglich der Schuldverschreibungen abgegeben hat und dessen Angebot angenommen wurde, erhält bezüglich der Zuteilung der Schuldverschreibungen eine Bestätigung per E-Mail, Fax oder über ein anderes üblicherweise verwendetes Informationssystem. Die Lieferung zugeteilter Schuldverschreibungen erfolgt durch Buchung Zug-um-Zug gegen Zahlung des Emissionspreises.
<b>E.4</b>	<b>Beschreibung aller für die Emission/das Angebot wesentlichen, auch kollidierenden Interessen.</b>	Telefónica Germany GmbH & Co. OHG wird die im Rahmen der Platzierung der Schuldverschreibungen erzielten Erlöse aufgrund eines Darlehens erhalten und hat daher ein Interesse an der Emission. Ansonsten sind der Emittentin keine Interessen Dritter (einschließlich widerstreitender Interessen) bekannt.
<b>E.7</b>	<b>Schätzung der Ausgaben, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden.</b>	Nicht anwendbar. Die Emittentin wird keine Gebühren oder Steuern erheben. Jeder Investor muss sich aber selbst über Steuern oder Gebühren informieren, denen er unterliegen kann, wie zum Beispiel Depotgebühren.

## RISK FACTORS

Before deciding to purchase the Notes, investors should carefully review and consider the following risk factors and the other information contained in this Prospectus. The following statements are not exhaustive. Should one or more of the risks described below materialise, this may have a material adverse effect on the cash flows, results of operations and financial condition of the Issuer or the Guarantor. Moreover, if any of these risks materialises, the market value of the Notes and the likelihood that the Issuer will be in a position to fulfil its payment obligations under the Notes may decrease, in which case the Holders could lose all or part of their investments. Investors should note that the risks discussed below may not prove to be exhaustive and, therefore, may not be the only risks to which the Issuer and the Guarantor are exposed. Additional risks and uncertainties, which are currently not known to the Issuer or which the Issuer currently believes are immaterial, could likewise impair the business operations of the Issuer or the Guarantor and have a material adverse effect on their business, cash flows, results of operations and their financial condition. The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude of their potential impact on the cash flows, results of operations and financial condition of the Issuer or the Guarantor. In addition, investors should be aware that the risks described might combine and thus intensify one another.

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

### Risks relating to the Issuer

The Issuer acts at present solely to facilitate the financing of Telefónica Germany GmbH & Co. OHG. Its main assets will be one or more loans granted to Telefónica Germany GmbH & Co. OHG. The Issuer's continued operations will depend on the ability of Telefónica Germany GmbH & Co. OHG to meet its payment obligations under these loans. All debt securities of the Issuer (such as the Notes) are wholly, unconditionally and irrevocably guaranteed by the Guarantor in respect of principal and interest payments. This guarantee is enforceable under the laws of Germany. For the risk factors regarding the Guarantor, please see the section below.

### Risks relating to the Guarantor

## RISKS RELATED TO OUR BUSINESS AND OUR INDUSTRY

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

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

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

Reduced German consumer spending, including spending on telecommunications services and products, may adversely impact our customer numbers and revenues. For example, there has been a trend by German consumers to disconnect fixed-line telephony, as consumers rely primarily on mobile telecommunications and view fixed-line telephony as an expendable discretionary expense. Consumers might also spend less on an incremental basis, such as by placing fewer calls.

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

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

***The European Commission's "digital single market" initiative could adversely affect our business operations.***

Under the key word "digital single market", the European Commission has published a draft resolution on 11 September 2013 containing different measures which are intended to improve the framework for investments into modern broadband networks and to create favorable parameters for a strong European telecommunications sector. To some extent, the regulation draft contains positive elements which might improve the sector's long-term competitiveness such as the proposals for a stronger coordination of spectrum allocation and the rules for spectrum auctions. At the same time, the package also includes measures which would have an immediate adverse effect on network operators' revenues such as the abolition of roaming charges for incoming calls within the EU and the reduction of charges for EU-wide long-distance calls, or which would result in additional costs and lead to a further regulation and restriction of the contractual freedom such as stricter rulings on customer protection all of which could adversely affect our business operations. The European Commission is expected to review the initiative by 2 April 2014. An estimate as to when and to which extent the "digital single market" initiative finally will be adopted cannot yet be given as the European Parliament, the European Council, the Body of European Regulators of Electronic Communications (BEREC) and market participants could object to some main parts of the package.

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

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

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

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

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

If we fail to comply with applicable regulations or obligations imposed by the FNA, we may be subject to sanctions, which may have an adverse effect on our business.

We could also be affected by regulatory actions carried out by antitrust or competition bodies. These authorities could prohibit certain actions, such as new acquisitions or specific practices. For example, our recently announced plan to cooperate with Telekom Deutschland GmbH in the fixed-line area providing for an increased usage of Deutsche Telekom's high speed infrastructure by Telefónica Deutschland is subject to an approval of the FNA (see "*- Cooperations or joint ventures with other market participants could not be approved by the competent authorities due to regulatory or competition reasons leading to higher investments and limited product offers.*") In addition, these authorities could create obligations or impose heavy fines. Any such regulatory measures could have a material adverse effect on our business, financial condition and results of operations.

***Transparency requirements for the avoidance of "bill shocks" and on the performance capability of mobile and fixed-line broadband connections could lead to customer churn and reduced revenues.***

On the basis of Article 20 of the Universal Directive, Article 43a of the German Telecommunications Act has been amended in 2012 with regard to the transparent description of services in telecommunications contracts. The FNA is authorized under Article 43a sect. 3 of the Telecommunications Act to adopt respective parameters. In May 2013, the FNA has published key issues and encouraged a self-regulation of telecommunication services providers. The key is-

sues include, *inter alia*, the introduction of measures to avoid so called "bill shocks" (such as price caps or warning SMS) or to measure and inform about the actual broadband performance capability of mobile and fixed-line broadband connections. Leading associations of the telecommunications industry and their members – such as Telefónica Deutschland – are currently developing a self-regulation for the information that shall be provided to consumers prior to, at and following the conclusion of the contract. Initial key issues have been presented to the FNA on 4 September 2013. It is expected that further details will be discussed during the coming months and that initial amendments are implemented in the second quarter of 2014. More transparency on service details and thus on service and network quality could lead to customer churn and limit our marketing possibilities if we were subsequently not able to compete effectively. Together with price caps and warning SMS, this could result in reduced revenues which could have a material adverse effect on our business, financial condition and result of operations.

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

Wholesale mobile network termination rates have decreased across Europe in the last several years, with considerable reductions in Germany (cuts of over 50% during the period since December 2010), and various related reviews of such rates and court proceedings on regulatory measures which are still pending. The European Commission intends to further reduce mobile and fixed-line call termination rates significantly and has issued a recommendation on the calculation of such rates by the respective National Regulatory Authority ("NRA"), which must be fully applied by 2013. The European Commission has also recommended that rate asymmetry between network operators has to be eliminated. As a result, decisions of the FNA are subject to an approval by the European Commission (notification procedure). If the FNA is not fully compliant with the European Commission's recommendation, the notification procedure could lead to changes of preliminary decisions of the FNA. The European Commission could further initiate an infringement proceeding against Germany to enforce compliance of final FNA decision with its recommendation. Furthermore, third parties are allowed to comment on and initiate proceedings against the decisions of the FNA.

On 19 July 2013, the FNA published a final decision, based on the preliminary decision dated 16 November 2012, on mobile termination rates ("MTR") in which MTR have been reduced with effect as of 1 December 2012. The decision of the FNA was criticised and addressed with an "Art. 7a Proceeding" by the European Commission as the rates were considered as too high in comparison with average MTR in the EU. As stated above, the FNA's decision on MTR could be modified by infringement proceedings initiated by the European Commission or upon third party proceedings which could lead to further reductions of MTR. The FNA's decision on fixed-line network termination rates ("FTR") for Telekom Deutschland GmbH dated 30 August 2013 or its decision on FTR for alternative network operators (*alternative Teilnehmernetzbetreiber*), which also includes Telefónica Deutschland, expected by 21 November 2013, which were also criticised and addressed with an "Art. 7a Proceeding" by the European Commission, could also be subject to modifications.

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

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

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

The coverage, and therefore competitiveness, of our mobile network depends on our ability to maintain existing network sites and to establish new sites. Due to constant technological changes, including advances in mobile data offerings and increasing rates of data transmission in response to evolving customer preferences, particularly for new types of digital products, and increased usage of applications on smartphones and online data storage facilities (such as cloud storage), the expansion and upgrade of our existing network is an essential part of our business. We may not be able to acquire or build the envisioned or required number of network sites or position them in appropriate locations in a timely or cost effective manner. As certain regulatory approvals are required in order for us to use or change our spectrum or frequency usage rights, we are reliant on obtaining such approvals to maintain, expand and improve our networks. We also depend on the FNA to assign microwave frequency usage rights (*Richtfunkfrequenzen*) for backhaul transport connectivity, which is the wireless transportation from a local antenna site to our fixed-line backbone network components. Microwave frequency usage rights are typically assigned by the FNA pursuant to an application. Frequency usage rights are not granted nationwide and can only be used for the specified location of the antenna site.

Although the FNA is required by law to decide on applications within six weeks, it cannot be guaranteed that the FNA will be able to comply with this deadline and delays have been known to occur of up to six months. Currently, the FNA is not able to provide approvals within the applicable deadline in a volume according to our operational requirements based on which we have experienced delays in building out our LTE network and in upgrading our 3G capacity. In order to accelerate the handling of applications, the FNA has taken several steps to improve the situation, such as recruiting additional staff and prioritizing applications. A failure to build new network sites in a timely or sufficient manner could have an adverse impact on the coverage of our mobile network, which could lead to customer dissatisfaction and the deactivation of service. These factors could have a material adverse effect on our business, financial condition and results of operations.

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

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

Our frequency usage rights in the 900/1,800 MHz bands expire on 31 December 2016. The FNA launched a public consultation regarding these frequencies on 22 November 2011. The agency asked all interested companies for their future spectrum needs in these two bands, which are currently part of our Global System for Mobile Communications ("GSM" or "2G") licenses and those of the three other German mobile network operators. The FNA has stated that it intends to decide on the next steps for the future use of 900/1,800 MHz spectrum and make new assignments of frequency usage rights effective from 1 January 2017. Following this consultation and after a public hearing which took place on 9 November 2012, the FNA initiated an additional consultation on several scenarios for the future use of frequencies. Interested parties were invited to comment on the scenarios described by the FNA by the end of January 2013. The FNA may extend the terms of GSM licenses and frequency usage rights or allocate frequency usage via an award or auction. On 24 June 2013, the FNA published a draft consultation paper in which it presented the proposal to allocate the spectrum in the 900/1,800 MHz bands together with spectrum in the 700 MHz and 1,500 MHz bands by way of an auction. However, the draft foresees a reservation of a 2x5 MHz block in the 900 MHz band for each of the four German mobile network operators – including us – which shall not be auctioned but granted upon request. Interested parties were invited to comment on the draft consultation paper by 4 October 2013. Submission by Telefónica Deutschland was made to suspend the procedure until merger clearance for the acquisition of the E-Plus Group by Telefónica Deutschland. Furthermore, we submitted a spectrum reservation in the 1,800 MHz band in addition to the current proposal at 900 MHz. We cannot guarantee that the process for the renewal of GSM licenses will be completed successfully or on the most beneficial terms for us. We may further wrongly assess our need of respective frequency spectrum. The failure to obtain 900/1,800 MHz frequency usage rights after 31 December 2016 could adversely affect our operations.

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

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

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

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

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

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

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

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

Competitive pressure in the German mobile telecommunications market is already fierce and increasing due to the proliferation of MVNOs and branded resellers, particularly in the pre-paid, but also in the post-paid market segment. MVNOs enter into commercial agreements with network operators for network access which they sell to their own customers. MVNOs have been growing in Germany mostly due to their aggressive pricing strategies. Branded resellers enter into agreements with network operators for the sale of contracts to other customers. Although these "re-sold" contracts are generally ultimately entered into by the network operator and the customer, they usually provide less revenues and lower margins to the network operator than contracts not involving branded resellers. In addition, some branded resellers benefit from particular buying power due to a large customer base and strong distribution channels and brands. As we enter into such contracts with MVNOs and branded resellers, the expected increase in their market shares could reduce our margins and revenues.

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

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

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

Cable network operators and fixed-line carriers exert increasing competitive pressure in the German fixed-line telecommunications market. We expect a further increase in competition from cable network operators, which are, unlike us, able to provide private homes and smaller companies throughout Germany with telecommunications products

that require them neither to build out their own networks nor to lease unbundled local loop ("ULL") lines from Deutsche Telekom or other fixed-line carriers. Operators with a strong presence in the fixed line market are also promoting the trend to converged offerings which may also have an adverse effect on our business.

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

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

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

With the growing share of smartphones among the German mobile subscriber base, there is an increasing number of customers using OTT services. All mobile network operators are currently competing with OTT service providers that leverage on existing infrastructures and are often not required to implement capital-intensive business models associated with traditional mobile technologies. OTT service providers have in recent years become more sophisticated players, and technological developments have led to a significant improvement in the quality of their service, particularly the speech quality. In addition, market participants with strong brand capability and financial strengths, such as Apple, Google and Microsoft, have turned their attention to the provision of OTT services.

Due to the increasing popularity of OTT services, we have recognised a receding usage of traditional voice services and, in particular, SMS and MMS by our customers accompanied by a decline in revenues generated from such services. Facing the trend, we redesigned our tariff structure focusing on our mobile data proposition. However, in the long term, if non-traditional mobile voice and data services or similar services, particularly OTT services, continue to increase in popularity and if we and other mobile network operators are not able to successfully address this competition, this could cause continuing declines in our ARPU, subscriber base and profitability. This could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

Our competitors or potential new market entrants may introduce new or technologically superior telecommunications services before we do. In particular, Deutsche Telekom and Vodafone, due to their strong position and financial capacity, have the ability to create new market standards by quickly introducing new advanced technologies, such as Very High Speed Digital Subscriber Line ("VDSL") and LTE mobile networks. To compete effectively, we need to successfully market our products and services and respond to both commercial actions by competitors and other competitive factors affecting these markets. This involves anticipating and adapting promptly to technological changes,

changes in consumer preferences and general economic, political and social conditions. Furthermore, this means that we must invest in the development of new products, technology and services so that we can continue to compete effectively with current or future competitors, which may reduce the revenues margins we obtain or, alternatively, enter into cooperation's. In a rapidly developing technological landscape, we may not be able to accurately predict which technology will prove to be the most economical, efficient or capable of attracting customers or stimulating usage, or how rapidly any competitor focuses on a particular new technology. Thus, if we develop or implement a technology that does not achieve widespread commercial success or that is not compatible with other newly developed technologies, demand for our products and services may be negatively affected.

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

***Cooperations or joint ventures with other market participants could not be approved by the competent authorities for regulatory or competition reasons which could lead to higher investments and a limitation of product offers.***

Due to the high levels of competition in the German telecommunications market and its rapid technological change, we could be required to enter into cooperations or joint ventures in order to compete effectively which could be subject to a preceding regulatory approval or merger clearance. For example, on 2 May 2013, Telefónica Germany GmbH & Co. OHG and Telekom Deutschland GmbH concluded a "memorandum of understanding" to expand their cooperation with regard to fixed-line services. The cooperation involves the increased utilisation by Telefónica Deutschland of Deutsche Telekom's high-speed infrastructure for fixed line network products in the future. Based on this cooperation, we will be enabled to realise the transition from our own ADSL infrastructure to a sustainable NGA platform. We will further use VDSL- and vectoring products of Deutsche Telekom. The completion of the transition is supposed to be finalised in 2019. The cooperation, which is still subject to a final and binding agreement with Telekom Deutschland GmbH, which is currently envisaged to be entered into by the end of 2013, is furthermore subject to regulatory approval. The respective proceeding has been initiated by the FNA in October 2013 and is expected to be finalised by the end of 2013. Should approval by the FNA not be granted, the cooperation could fail which would require us to conduct additional investments in our own fixed-line infrastructure which could, however, only enable us to offer technical competitive products to a limited extent which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

as a result of new or improved technologies that makes such infrastructure obsolete. These factors may have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

Our sales strategy uses a mix of direct and indirect distribution channels in order to grow our customer base. We distribute our products and services directly through a network of approximately 920 O<sub>2</sub> shops, approximately 160 of those being self-operated O<sub>2</sub> shops, the O<sub>2</sub> internet portal and further direct marketing channels. We also depend on third parties in connection with our indirect distribution channel through which we distribute our products and services through O<sub>2</sub> partner shops, premium partner shops and a network of non-exclusive distributors, including Saturn and Mediamarkt.

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

Furthermore, we may not be able to correctly identify emerging customers' preferences as to distribution channels for our products and services. We have perceived a shift in retail customers' purchase behaviours steadily preferring the O<sub>2</sub> online store over O<sub>2</sub> shops. We are aligning our selling strategy by offering special discounts on products and services purchased via our O<sub>2</sub> online portal. However, we may misinterpret any future changes in customers' preferences as to distribution channels, which could lead to reduced revenues or customer acceptance.

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

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

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

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

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

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

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

Like other companies in the telecommunications industry, we are heavily dependent on certain providers, in particular for network infrastructure, in which we rely on the network of our competitor Deutsche Telekom. On 23 December 2011, in order to enhance our mobile backhaul capacity, we signed an agreement with Telekom Deutschland GmbH that will allow us to use part of the Deutsche Telekom's fibre-infrastructure in Germany to backhaul mobile data traffic. The agreement is effective until 2031. Additionally, we have entered into standard agreements with Deutsche Telekom for access to Deutsche Telekom's ULL shared access thereto. In addition, on 2 May 2013, we have signed a "memorandum

of understanding" with Telekom Deutschland GmbH in the fixed-line area providing for an increased usage of Deutsche Telekom's high speed infrastructure by Telefónica Deutschland. As our network does not typically include access lines to customer premises, those or other wholesale products of Deutsche Telekom (for example, bit stream access) form a significant part of our fixed-line business. Consequently, our ability to offer our services to our customers depends on the performance of Deutsche Telekom and its affiliates of their respective obligations under existing arrangements. In particular, we rely on Deutsche Telekom to provide us with timely access to shared facilities, especially for the purposes of maintaining and repairing our network and avoiding or rectifying network outages. Our ability to provide services may be negatively affected if Deutsche Telekom faces strikes and other industrial actions as well as financial difficulties or in case of ULL price increases. In addition, our increasing direct competition with Deutsche Telekom could have a negative impact on Deutsche Telekom's performance of its obligations under these arrangements. Deutsche Telekom could use its dominant position to increase prices for access to its network. Claims or lawsuits relating to breaches of the existing contracts could adversely impact Deutsche Telekom's contractual performance and hamper cooperation at a working level.

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

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

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

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

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

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

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

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

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

We are heavily reliant on our senior managers and personnel to run our business. Our management and key personnel are responsible for, among other things, marketing our products, introducing and establishing new or enhanced products and services, negotiating and renegotiating our agreements and the agreements of certain of our affiliates, and responding to technological developments and changing market trends. Competition for qualified employees is intense, and the loss of qualified employees or an inability to attract, retain and motivate highly skilled employees required for

the operation of our business could hinder our ability to successfully run and develop our business. Any loss of or inability to attract and retain management or key personnel may have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

***We could infringe data, consumer protection and competition laws which could result in fines, loss of reputation and customer churn.***

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

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

Consumer protection associations or entities regularly monitor the conditions we impose on, and our interactions with, our customers. These consumer protection associations or entities could file claims against us claiming the invalidity of provisions in our general terms and conditions on the basis that these provisions unreasonably disadvantage the consumer contrary to good faith principles. We may further inadvertently infringe laws prohibiting aggressive phone marketing methods, known as "cold calling" and other direct marketing methods. Within the EU, the Directive on Privacy in Electronic Communications, and within Germany, the UWG (*Gesetz gegen den unlauteren Wettbewerb*) and the Telecommunications Act (*Telekommunikationsgesetz*), make it unlawful for us to approach prospective customers for direct marketing purposes via telephone without the express prior written consent of the customer. Consumer protection associations or entities could file claims against us seeking, among other things, the disgorgement of profits made with the alleged breach of these laws or provisions in our general terms and conditions they consider void.

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

***We might be affected by the mandatory implementation of new payment formats and procedures under the Single Euro Payments Area (SEPA).***

The Single Euro Payments Area ("SEPA") is a payment-integration initiative of the European Union for simplification of bank transfers between member states of the European Economic Area and providing for payment instructions based on IBAN bank-account identification and SWIFT-BIC bank identifier. We have introduced a project to adapt our internal billing and contract systems and procedures to the requirements of the SEPA regulation entering into force as of 1 February 2014. We may not be able to achieve our respective project targets in time or at all. In addition, we may not be able to agree with the German Federal Financial Supervisory Authority (*Bundesanstalt für*

*Finanzdienstleistungsaufsicht*, BaFin) or our banks on any interim solutions allowing us to implement required changes subsequently. Failed or belated implementations of SEPA requirements may lead to difficulties regarding direct debit for our existing or new customers and delays in our collection of payments or a reduction in the number of new customers acquired could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

***Unexpected events may result in our insurance coverage being inadequate.***

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

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

We have considered in our financial statements certain tax-related risks of which we are aware. However, tax claims may exceed these provisions as a result of tax audits to which we are regularly subject. The most recent tax audit of the Guarantor, Telefónica Germany Management GmbH and Telefónica Germany GmbH & Co. OHG ("OHG") relating to the financial years up to and including 2003 regarding corporate income and trade tax has been finalised. The final audit conference (*Schlussbesprechung*) has already taken place. No material findings were made. Amended final tax assessment notices have been issued relating to financial years up to and including 2003. The final amended corporate income tax assessment for the Guarantor and Telefónica Germany Management GmbH has not been issued and is, therefore, still subject to revision (*Vorbehalt der Nachprüfung*). The tax audit regarding value-added taxes is completed for the periods up to and including 2002 and amended final tax assessments notices have been issued. OHG has filed an appeal against value-added tax assessments for the periods 2000 to 2002 and applied for an amendment of value-added tax for the periods 2003 to 2012 to reclaim value-added tax on non-performing receivables. Furthermore, OHG has requested correction of several value-added tax related cases for the periods 2000 to 2012 by the tax authorities. There has been no assessment by the tax authorities so far.

The Guarantor, Telefónica Germany Management GmbH and OHG are currently subject to a tax audit for the financial years from and including 2004 up to and including 2007. Since the financial year 2004, and 2003 for value added tax purposes, all tax assessments regarding value-added, corporate income and trade tax of the Guarantor, Telefónica Germany Management GmbH and OHG are subject to revision (*Vorbehalt der Nachprüfung*). Accordingly, tax audits

relating to these financial years may lead to tax assessments resulting in higher tax payments. This could have a material adverse effect on our business, financial condition and results of operations.

In 2012, the Guarantor, Telefónica Germany Management GmbH and OHG filed a correction of the wage tax declaration for the period from January 2008 up to October 2012 for employee benefits. The effects on wage tax, value-added tax as well as corporate income and trade tax have to be finally agreed on with the tax authorities.

Since December 2012, the Guarantor, Telefónica Germany Management GmbH and OHG have been subject to a wage tax audit for the period from January 2008 up to June 2013.

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

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

As of 31 December 2012, Telefónica Deutschland had trade tax losses carried forward in the amount of € 11.6 billion. However, as it is a limited partnership, it is not subject to corporate income tax. Only its partners are subject to corporate income tax. As of 31 December 2012, corporate income tax losses carried forward, in the amount of € 11.5 billion, were primarily attributed to the Guarantor and Telefónica Germany Management GmbH as partners of OHG (due to the transparency of an OHG for income tax purposes). Thereof, trade tax and corporate income tax losses carried forward of Telefónica Deutschland amounted to € 11.2 billion respectively, as of 31 December 2012 for which no deferred tax assets were recognised. The tax losses carried forward could be forfeited in the future, in part or in full, at the level of the Guarantor, Telefónica Germany Management GmbH or OHG if, *inter alia*, an acquirer, a person affiliated with such acquirer or a group of acquirers with similar interest acquires directly or indirectly more than 25% of the Guarantor's shares within five years. The tax losses carried forward and losses existing at the time the threshold is exceeded could be forfeited on a pro rata basis. If such an acquisition relates to more than 50% of the Guarantor's shares, the tax losses carried forward could be forfeited completely. As a consequence, the Guarantor, Telefónica Germany Management GmbH and OHG may no longer be able to use tax losses, or may only be able to use them to a limited extent. This will result in a higher tax burden. Irrespective of the above, if we decide to implement a change in the partnership structure, this could also result in the forfeiture of trade tax losses carried forward.

Losses incurred in any one year may be carried back for corporate income tax purposes to the immediately preceding assessment period up to an amount of € 1,000,000. Trade tax losses cannot be carried back. Any remaining losses regarding corporate income tax and trade tax are carried forward and may only be offset within certain restrictions against profits from future years ("minimum taxation"). Up to € 1 million of taxable profits may be offset against existing tax losses carried forward without restriction. Taxable profits in excess of € 1 million may be offset against existing losses carried forward for corporate income and trade tax purposes, but this offset is limited to 60% of the taxable profits (above € 1 million) in each tax assessment period.

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

**RISKS RELATED TO OUR ACQUISITION OF THE E-PLUS GROUP**

***The acquisition of the E-Plus Group could fail.***

In a German law governed sale and purchase agreement dated 23 July 2013, as amended on 26 August 2013 and 28 August 2013, between Koninklijke KPN N.V. ("KPN" and, together with its direct and indirect subsidiaries, the "KPN Group"), Telefónica, S.A. and the Guarantor (the "SPA"), the Guarantor agreed to purchase all assets, certain liabilities and business activities of E-Plus Mobilfunk GmbH & Co. KG and its direct and indirect subsidiaries (the "E-Plus Group") which conduct the business activities of KPN Group on the German telecommunications market (the "Transaction").

Upon completion of the Transaction, KPN will receive (i) € 3.7 billion in cash from the Guarantor (this cash component being financed by a capital increase of the Guarantor against contribution in cash via a public rights offering) and (ii) shares to be issued by the Guarantor. The shares to be issued to KPN shall represent 24.9% of the Guarantor's total issued share capital following the implementation of (i) the capital increase against contributions in cash mentioned above and (ii) a further increase in the capital against contribution in kind of the E-Plus Group leading to the shares to be issued to KPN. The SPA further provides that upon KPN having obtained the shares in the Guarantor corresponding to a shareholding of 24.9%, Telefónica, S.A. shall at the consummation of the SPA purchase from KPN such number of shares in the Guarantor as corresponds to 4.4% of the then current total issued share capital of the Guarantor. Furthermore, the SPA provides for a call option for Telefónica, S.A. granted by KPN pursuant to which Telefónica, S.A., on the date which is one year after consummation of the SPA, may exercise the call option relating to shares in the Guarantor corresponding to up to 2.9% of the then current share capital of the Guarantor. The exercise price values the shares in the Guarantor corresponding to 2.9% of the then current share capital of the Guarantor at € 510 million. Telefónica, S.A. will pay to KPN a cash payment of € 1.3 billion for the 4.4% shares in the Guarantor to be purchased

at the consummation of the SPA as well as for the call-option. As a result, KPN will receive in total € 5 billion in cash and 20.5% in the Guarantor's total issued share capital (17.6% in the Guarantor's total issued share capital in case of full exercise of the call-option, respectively).

The closing of the Transaction is subject to the occurrence or waiving of, *inter alia*, the following conditions precedent, provided that conditions precedent (a), (b) and (g) cannot be waived:

- (a) Approval of shareholders meeting of KPN: The approval by an extraordinary shareholders' meeting of KPN was granted on 2 October 2013;
- (b) Merger clearance;
- (c) No governmental or judicial prohibition;
- (d) No breach of the SPA;
- (e) No material adverse change with regard to the E-Plus Group;
- (f) Certain German corporate law requirements being met in respect of a capital increase by the Guarantor against contribution in kind and an auditor's certificate and a fairness opinion being obtained thereto;
- (g) Completion of E-Plus Group's pre-closing restructuring.

The closing of the Transaction is in particular conditional upon the merger control approval of the European Commission (or, in case of a reference of the review of the Transaction to the relevant Member State, the German Federal Cartel Office (*Bundeskartellamt*)). Telefónica Deutschland anticipates a thorough review by the competent competition authority of the effects of the transaction to competition in the German relevant telecommunication markets and to the division of frequency spectrum between the remaining three mobile network operators in Germany. If merger clearance should not be granted, the Transaction will fail. Furthermore, the Guarantor must pay to KPN € 100 million as break fee if the Transaction does not take place as a result of the European Commission or the German Federal Cartel Office (*Bundeskartellamt*) or any other governmental authority having jurisdiction in respect of the consummation of the SPA not approving the Transaction.

The SPA provides for additional break fees, *inter alia*, if the Guarantor should fail to register with the commercial register the share capital increases required for closing of the Transaction before 1 March 2015 it must pay to KPN € 50 million as a break fee.

The closing of the Transaction is subject to the adherence to German corporate law requirements in respect of a capital increase by the Guarantor against contribution in kind, for example, obtaining of a fairness opinion, and could fail or be delayed due to legal challenges against resolutions of the Guarantor's extraordinary shareholders' meeting in connection with the Transaction.

Telefónica, S.A. agreed to procure the underwriting of the public rights offering in its entirety, either through a direct underwriting by Telefónica, S.A. or through procuring third parties to underwrite a portion of the public rights offering. The Guarantor has received commitment letters from financial institutions regarding the underwriting subject to market conditions of at least an amount equal to the percentage in the share capital of the Guarantor that Telefónica, S.A. does not currently own. However, it cannot be excluded that the public rights offering could be subject to execution risks, for example, caused by unfavourable market conditions

Should any of the conditions precedent set out above not be satisfied or waived on or before 1 March 2015, each of KPN, Telefónica, S.A. and the Guarantor may terminate the SPA and consequently, the Transaction will fail.

It can also not be excluded that the Transaction could fail due to a potential superior competing offer for the acquisition of the E-Plus Group made to KPN. KPN is generally under the obligation not to continue discussions on the sale of the E-Plus Group or to solicit, encourage or otherwise facilitate offers for the purchase of the E-Plus Group. However, these obligations do not apply to a superior offer (as defined in the SPA, a "**Superior Offer**") or a written indication of interest by a third party that in the reasonable and good faith opinion of the board of management and supervisory board of KPN may lead to a Superior Offer, if such Superior Offer or written indication of interest is received prior to 1 December 2013. Failure of the Guarantor to exert its matching right and to make a revised offer could result in the Transaction to fail.

For Telefónica Deutschland, a failure of the Transaction may entail reputational damage (e.g., at the stock and bond markets) as well as financial disadvantages caused, *inter alia*, by the efforts and the costs incurred in connection with the Transaction and could have a material adverse effect on Telefónica Deutschland's business, financial condition and results of operations.

***The Transaction could be subject to additional restrictions and conditions imposed by the competent competition authority or the FNA.***

It cannot be excluded that merger clearance will only be granted subject to additional and possibly detrimental restrictions or conditions imposed by the European Commission or, if the case was referred to Germany, the German Federal Cartel Office (*Bundeskartellamt*). Such conditions or restrictions could have a material adverse effect on Telefónica Deutschland's business, financial condition and results of operations.

It cannot be excluded that the FNA could impose restrictions or conditions on the Guarantor, the E-Plus Group or the combined businesses which might particularly refer to the division of frequency spectrum between the remaining three mobile network operators in Germany. Telefónica Deutschland, the E-Plus Group or the combined businesses could be required to give back certain of its frequency usage rights which the FNA might then newly assign via an award or an auction. The loss of frequency spectrum and/or related failure of Telefónica Deutschland to keep or obtain its relevant frequency usages rights could have a material adverse effect on Telefónica Deutschland's business, financial condition and results of operations (see above also *"- Our licenses and assigned frequency usage rights have finite terms, and any inability to renew or obtain new licenses and frequency usage rights necessary for our business could adversely affect our operations."*)

**Telefónica Deutschland is exposed to risks relating to the Transaction.**

Carrying out the Transaction involves risks. For example, the acquisition of the E-Plus Group carries the risk that the Transaction might prove less successful than anticipated, that the combined businesses might not develop as expected and that revenues and earnings goals may not be achieved. In addition, the acquisition of the E-Plus Group is subject to the risk of delays in the acquisition and combination process or higher costs than originally planned, and/or that any intended synergy effects cannot be realised to the extent planned or cannot be realised at all.

In addition, the acquisition of the E-Plus Group may expose Telefónica Deutschland to the following risks:

- **Telefónica Deutschland could be exposed to risks arising from problems within the E-Plus Group that have not been detected during the due diligence preceding the Transaction:** The E-Plus Group's business may be subject to risks that Telefónica Deutschland may not be aware of, which may have not been detected or which have not been disclosed to Telefónica Deutschland in the due diligence process and that may only emerge after the acquisition has been consummated. The SPA only grants us limited protection against the materialisation of any such risks. The materialisation of any undetected risks could have a material adverse effect on Telefónica Deutschland's business, financial condition and results of operations.
- **Commitment of management capacity:** The combination of the businesses of the E-Plus Group and Telefónica Deutschland will require a large amount of the time and attention of both companies' management. Should these issues divert management from other responsibilities, the operational business could be negatively impacted.
- **Possible loss of key employees:** Both, Telefónica Deutschland and the E-Plus Group, depend on their key employees for the successful combination of the businesses of the E-Plus Group and Telefónica Deutschland, the implementation of a common strategy and the further carrying out of business operations all of which could be negatively affected or delayed if either of Telefónica Deutschland or the E-Plus Group were to lose key employees or know how due to their combination which could have a material adverse effect on Telefónica Deutschland's business, financial condition and results of operations.
- **Delays in the combination of the businesses of the E-Plus Group and Telefónica Deutschland:** Any material delays in the combination of the businesses of the E-Plus Group and Telefónica Deutschland could adversely influence the unlocking of estimated synergy effects. Furthermore, it cannot be excluded that such delays could result in, *inter alia*, decreasing customer satisfaction, the loss of important wholesale clients or an increase of customer churn or lead to additional tax obligations which could have a material adverse effect on Telefónica Deutschland's business, financial condition and results of operations.
- **Estimated synergies could not be realised in part or at all or could prove to be incorrectly forecasted:** The Guarantor expects that the Transaction will unlock significant synergy effects in particular with respect to distribution, customer service and network infrastructure and operations, with incremental value from additional revenue and other synergies. The total value of synergies to be unlocked over time is estimated to be approximately € 5.0 -to 5.5 billion net of integration costs. The total value of synergies was calculated as the net present value of the Transaction computed as the sum of the present values of forecasted future cash flows including the so-called "terminal value" (present value of expected future cash flows beyond the explicit forecast horizon) after tax. It cannot be excluded that those synergies cannot be realised in part or at all. Furthermore, it cannot be excluded that the assumptions used as basis for the estimated synergy effects turn out to be inappropriate or incorrect. The estimation of potential synergy effects is forward-looking and therefore subject to changes in a large number of factors, such as the general economical, industry, legal and tax environment, in consumer behaviour, changes in technology, in the successful development or product portfolio, the retention of key personnel and changes in the Guarantor's business strategy, development and investment plans. In addition, numerous significant factors to the estimation of synergies relate to the E-Plus

Group. The Guarantor has only very limited access to and insights into these input factors. Investors should therefore note that the estimation of synergies to be unlocked by the Transaction is subject to a high level of uncertainty. A failure to realise the estimated synergy effects in part or at all could have a material adverse effect on Telefónica Deutschland's business, financial condition and results of operations.

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

*Telefónica, S.A. continues to exercise considerable influence over us and our operations, and the interests of Telefónica, S.A. may conflict with those of Holders.*

Telefónica, S.A. has the indirect voting majority necessary to exercise considerable influence over us, including the adoption of all resolutions of the General Shareholders' Meeting and to authorise all matters requiring shareholder approval. Such matters include the election and removal of the shareholders' representatives on the supervisory board (who elect management board members), any proposed capital increase or issuance of convertible bonds and similar instruments, amendments to our articles of association, dividend distributions, corporate mergers and demergers, and sales involving all or nearly all of the Guarantor's assets. Notwithstanding legal restrictions from German law on stock corporations, Telefónica, S.A. is also able to exercise considerable influence on our business and strategy. The interests of Telefónica, S.A. may conflict with the interests of Holders.

*We may have conflicts of interests with Telefónica Group companies.*

Notwithstanding certain restrictions stemming from German law on stock corporations, Telefónica, S.A. can, as our controlling shareholder exercise considerable influence over our operations and business strategy. Telefónica, S.A. also owns controlling equity interests in other companies within the telecommunications industry. Telefónica, S.A. therefore already competes with us to a certain extent. As the telecommunications industry continues to consolidate and converge, other companies within the Telefónica Group may begin to compete with us. Due to the fact that we are part of the Telefónica Group, business activities and strategies of individual Telefónica Group companies may result in conflicts of interest. When conflicts of interest arise, Telefónica, S.A., as our parent company, and the respective Telefónica Group companies must address and resolve them, balancing the conflicting interest of the Telefónica Group to resolve conflicts of interest against one of the parties concerned. The demarcation between the activities of Telefónica, S.A. and its other Telefónica Group members on the one hand and our activities on the other hand may have a material adverse effect on our business, financial condition and results of operations.

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

Telefónica Group companies provide us with, among other things, the valuable licenses of Telefónica and the O<sub>2</sub> brand, the ability to source network equipment under the Telefónica Group's global purchasing contracts and access to premium devices and cost benefits from shared services and functions at attractive prices.

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

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

We have historically relied on our ultimate holding company, Telefónica, S.A., and its subsidiaries in connection with the provision of services to us. In particular, we have entered into several intercompany agreements relating to the provision of management services by Telefónica Group entities in the Netherlands, United Kingdom and Spain, agreements for the use of the Telefónica and O<sub>2</sub> brands in Germany, cost sharing arrangements in relation to areas of innovation, an agreement for wholesale roaming services, agreements for technology charges and an agreement for human resource-related services. We participate in the procurement process of Telefónica Group and interact with subsidiaries of Telefónica Group in connection with large multinational business customers. We also make payments to Telefónica Group's entities in relation to insurance premiums and we have entered into loan agreements with Telefónica Group entities as lenders. Any termination of or failure to renew existing agreements in terms of provision of services could have a material adverse effect on our business, financial condition and results of operations.

In addition, we participate in the cash management system used by the Telefónica Group under deposit and cash management agreements. Based on these agreements, the cash surplus available in our bank accounts which are included in the cash pool is transferred to master bank accounts held by a Telefónica Group finance subsidiary which

also includes cash balances of other Telefónica Group entities. Any claims for the repayment of deposits made under the deposit and cash management agreements can be off-set against liabilities under loans granted to us by Telfisa Global B.V. ("TGB.V."), including, in case of OHG, the existing loan facility with an outstanding amount at the date of the Prospectus of €1 billion, granted by TGB.V. on 12 September 2012, subject only to the general legal rules for the set-off of claims. In addition, our remaining repayment claims under the deposit and cash management agreements may not be fully recoverable if Telefónica, S.A. defaults. The occurrence of any of the aforementioned risks could have a material adverse effect on our business, financial condition and results of operations.

***We license the use of our primary brand O<sub>2</sub> from Telefónica Group and could be limited in our usage by the terms of the license agreement or for any other reason.***

We currently market the vast majority of our products and services under the O<sub>2</sub> brand and intend to continue to do so in the future. The O<sub>2</sub> brand has significant positive brand recognition from suppliers, customers and employees. We license the use of the O<sub>2</sub> brand from the Telefónica Group. Rights to use the O<sub>2</sub> brand are provided under a license agreement together with a group cost sharing agreement, both dated 15 October 2007, with O<sub>2</sub> Holdings Limited, the owner of the brand rights and an entity in the Telefónica Group. The term of the license is indefinite, but it may be terminated for good cause, including if we experience a hostile take-over. If we were unable to continue to use the O<sub>2</sub> brand due to a termination of the license or for any other reason, significant time, effort and resources would be required to establish a new brand identity. This could cause a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

**Risks relating to the Notes**

An investment in the Notes involves certain risks associated with the characteristics, specification and type of the Notes which could lead to substantial losses that Holders would have to bear in the case of selling their Notes or with regard to receiving interest payments and repayment of principal. Risks regarding the Notes comprise, *inter alia*, the following risks:

***Notes may not be a suitable investment for all investors***

Each potential investor in Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation and the investment(s) it is considering, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including cases in which the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and the content of this Prospectus; and
- (v) be able to evaluate, either alone or with the help of a financial adviser, possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

***Liquidity risk***

Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to trading on the regulated market of the Luxembourg Stock Exchange and to be listed on the official list of the Luxembourg Stock Exchange. However, there is a risk that no liquid secondary market for the Notes will develop or, if it does develop, that it will not continue. The fact that the Notes may be listed does not necessarily lead to greater liquidity as compared to unlisted notes. In an illiquid market, an investor is subject to the risk that he will not be able to sell its Notes at any time or at fair market prices. The possibility to sell the Notes might additionally be restricted by country specific reasons.

### ***Risk of early redemption***

The Notes may be redeemed at the option of the Issuer (in whole, but not in part) at the Redemption Price (as defined in the Terms and Conditions) plus accrued interest to the date fixed for redemption for reasons of taxation or at 101 per cent. of the principal amount plus accrued interest to the date fixed for redemption in case of a change of control event, as more fully described in the Terms and Conditions. In the event that the Issuer exercises the option to redeem the Notes, the Holders might suffer a lower than expected yield and might not be able to reinvest the funds on the same terms.

### ***No Early Redemption option for Holders in case of change of control***

In case of a change of control in the Guarantor, the Holders have no right pursuant to the Terms and Conditions to request the early redemption of the Notes and thus may be subject to the risk that the creditworthiness of the person having control over the Issuer or the Guarantor after the occurrence of the change of control differs from the creditworthiness of the Issuer and the Guarantor. As a consequence, the yield of the Notes may no longer reflect the risks associated with an investment in the Notes.

### ***Market price risk***

The development of market prices of the Notes depends on various factors, such as changes of market interest rate levels, the policies of central banks, overall economic developments, inflation rates or the lack of or excess demand for the Note. The Holders are therefore exposed to the risk of an unfavourable development of market prices of their Notes which materialise if the Holders sell the Notes prior to the final maturity. If a Holder decides to hold the Notes until final maturity, the Notes will be redeemed at the principal amount of the Notes.

### ***Creditworthiness of the Guarantor***

If, e.g., because of the materialisation of any of the risks regarding the Guarantor, the likelihood that the Guarantor will be in a position to fully perform all obligations under the Notes when they fall due decreases, the market value of the Notes will suffer. In addition, even if the likelihood that the Guarantor will be in a position to fully perform all obligations under the Notes when they fall due actually has not decreased, market participants could nevertheless have a different perception. In addition, the market participants' estimation of the creditworthiness of corporate debtors in general or debtors operating in the same business as the Group could adversely change.

If any of these risks occurs, third parties would only be willing to purchase Notes for a lower price than before the materialisation of said risk. Under these circumstances, the market value of the Notes will decrease.

### ***Currency risk***

The Notes are denominated in Euro. If such currency represents a foreign currency to a Holder, such Holder is particularly exposed to the risk of changes in currency exchange rates which may affect the yield of such Notes in the currency of the Holder. Changes in currency exchange rates result from various factors such as macro-economic factors, speculative transactions and interventions by central banks and governments.

In addition, government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable currency exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal at all.

### ***Fixed rate notes***

The Notes bear interest at a fixed rate. A Holder of fixed rate Notes is particularly exposed to the risk that the price of such Notes falls as a result of changes in the market interest rate. While the nominal interest rate of a fixed rate Note as specified in the Terms and Conditions is fixed during the life of the Notes, the current interest rate on the capital market typically changes on a daily basis. As the market interest rate changes, the price of fixed rate Notes also changes, but in the opposite direction. If the market interest rate increases, the price of fixed rate Notes typically falls, until the yield of such Notes is approximately equal to the market interest rate of comparable issues. If the market interest rate falls, the price of fixed rate Notes typically increases, until the yield of such Notes is approximately equal to the market interest rate of comparable issues. If a Holder holds its Notes until maturity, changes in the market interest rate are without relevance to such Holder as the Notes will be redeemed at the principal amount of the Notes.

### ***Resolutions of Holders***

Since the Notes provide for meetings of Holders or the taking of votes without a meeting, a Holder is subject to the risk of being outvoted by a majority resolution of the Holders. As such majority resolution is binding on all Holders, certain rights of such Holder against the Issuer under the Terms and Conditions may be amended or reduced or even cancelled.

### ***Holders' Representative***

Since the Notes provide for the appointment of a Holders' representative (*gemeinsamer Vertreter*), it is possible that a Holder may be deprived of its individual right to pursue and enforce its rights under the Terms and Conditions against the Issuer, such right passing to the Holders' representative who is then exclusively responsible to claim and enforce the rights of all the Holders.

***No restriction on the amount of debt which the Issuer may incur in the future***

There is no restriction on the amount of debt which the Issuer may issue which ranks equal to the Notes. Such issuance of further debt may reduce the amount recoverable by the Holders upon winding-up or insolvency of the Issuer or may increase the likelihood that the Issuer may or shall defer payments of interest under the Notes.

## **USE OF PROCEEDS**

The Issuer intends to transfer the net proceeds from the offering of the Notes by way of an upstream-loan to its shareholder Telefónica Germany GmbH & Co. OHG which intends to use the net proceeds for its general business purposes. The total expenses and the net proceeds of the issue of the Notes will be included in the Pricing Notice.

## INFORMATION ON THE GUARANTOR

### Formation, registered office and duration

Telefónica Deutschland Holding AG is a German stock corporation (*Aktiengesellschaft*) organised and operating under German law (the "**Guarantor**"). The Guarantor was founded as a German limited liability company (*Gesellschaft mit beschränkter Haftung*) by KPMG Unternehmensberatung GmbH by notarial deed No. 409/1995-s dated November 29, 1995 by notary public Dr. Klaus Fischer. The Guarantor's change of legal form from a German limited liability company (*Gesellschaft mit beschränkter Haftung*) into a German stock corporation (*Aktiengesellschaft*) was resolved by the general shareholders' meeting on 18 September 2012 and was registered in the commercial register on 26 September 2012. Since that date, the Guarantor has existed as a German stock corporation (*Aktiengesellschaft*).

The legal and business name (*Firma*) is "Telefónica Deutschland Holding AG". The legal seat (*Sitzungssitz*) is in Munich, Germany. Telefónica Deutschland Holding AG is registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) in Munich under registration number HRB 201055. The Guarantor has its business address at Georg-Brauchle-Ring 23-25, 80992 Munich, Germany (telephone number: +49 (0) 89 2442-0; [www.telefonica.de](http://www.telefonica.de)). Telefónica Deutschland Holding AG has been established for an unlimited period of time.

### Financial year

The Guarantor's financial year is the calendar year (January 1 through December 31).

### Corporate object of the Guarantor

The business purpose (*Unternehmensgegenstand*) of the Guarantor as set forth in Section A "General Provisions" paragraph 2 of its Articles of Association (*Satzung*) is:

- (i) The object of the Guarantor is to engage in Germany and abroad in the areas of telecommunications and information technology, multimedia, information and entertainment, mobile payment and other payment solutions as well as the provision of distribution and brokerage services and any services connected or related with any of these areas, including the distribution of hardware and insurance solutions.
- (ii) The Guarantor is entitled to carry out all measures and business transactions which appear necessary and useful to achieve and realise the object of the Guarantor as described in (i). In particular it may for this purpose establish branches in Germany and abroad; it may found or acquire companies of the same or similar type in Germany and abroad, or acquire an interest in such companies; it may demerge parts of its business to associated companies, including joint ventures with third parties, sell interests in other companies, conclude enterprise agreements, or limit itself to the management of shareholdings. Furthermore, the Guarantor may itself operate in the fields of business set forth in sub-clause (i) above.

### Auditors

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Munich Office, Arnulfstrasse 59, 80636 Munich, Germany ("**E&Y**"), independent auditors, have audited in accordance with Section 317 of the HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer in Deutschland e.V.*) the Guarantor's combined financial statements as of and for the years ended 31 December 2011, 2010 and 2009, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, ("**IFRS**") taking into account the basis of preparation as set out in Note 1 to the combined financial statements (the "**Combined Financial Statements 2009-2011**") and the Guarantors' consolidated financial statements as of and for the year ended 31 December 2012, prepared in accordance with IFRS and the additional requirements of German commercial law pursuant to Section 315a (1) German Commercial Code (*Handelsgesetzbuch; HGB*), (the "**Consolidated Financial Statements 2012**") and issued in each case an unqualified audit opinion. E&Y is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

### Business Description

#### Overview

We are the third largest telecommunications services provider in Germany (based on 2012 revenues), serving approximately 25.4 million customer accesses as of 30 September 2013. We offer mobile and fixed-line services providing voice, data and value-added services to consumer and business customers. In addition, we are one of the leading wholesale telecommunications services providers in Germany, offering access to our mobile and fixed-line infrastructure and service capabilities to our wholesale partners. We are part of Telefónica Group, one of the largest telecommunications providers in the world.

We operate a nationwide mobile network with a GSM coverage of more than 99% and a UMTS coverage of 74% of the German population. Our wireless network supports the GSM, UMTS, and, more recently, also the LTE technology standards. In addition, we operate a countrywide fixed-line network. Our strategic cooperation with Deutsche Telekom

has expanded our fixed-line coverage to 95% of the German population and also enables us to supply more than 11 million households with high-speed DSL internet access, delivering data transfer rates of currently up to 50 MBit/s. In accordance with a "memorandum of understanding" signed with Deutsche Telekom GmbH, we intend to expand this cooperation and upgrade the fixed-line services so that we can offer data transfer rates of up to 100 MBit/s.

We market our products under a multi-brand strategy. We offer the majority of our post-paid and pre-paid mobile and fixed-line products and services through our core premium O<sub>2</sub> brand. We access additional customer groups through our secondary and partner brands as well as our wholesale channels. Secondary brands include our own netzclub brand and fully controlled brands such as FONIC or brands held through joint ventures and strategic partnerships such as Tchibo mobil and Türk Telekom Mobile. We market high-speed internet access and fixed-line telephony via DSL (under the standards Asymmetrical Digital Subscriber Line 2+ ("ADSL2+")) and VDSL). We target our small and home office ("SoHo") and small and medium-sized enterprise ("SME") business customers through our O<sub>2</sub> brand, and large, national companies and multinational corporations through our Telefónica Multinational Solutions brand. In our wholesale service business, we offer mobile and fixed-line services to customers such as 1&1, mobilcom/debitel, Drillisch and the two major German cable operators. We offer our products through a diversified distribution platform comprising direct (nationwide network of self-operated shops and O<sub>2</sub> partner shops, premium partners, online and telesales) and indirect (retail/e-retail partnerships and dealers/cooperations) sales channels.

In 2012, we recorded revenues of € 5.2 billion (in the nine months ended 30 September 2013 € 3.7 billion) and OIBDA of € 1.3 billion (in the nine months ended 30 September 2013 € 864 million), corresponding to year-on-year increases in revenues of 3.5% (decrease of 5.2% in the nine months ended 30 September 2013 compared to the nine months ended 30 September 2012) and OIBDA of 11.3 % (decrease of 7.7% in the nine months ended 30 September 2013 compared to the nine months ended 30 September 2012), respectively.

In a German law governed SPA dated 23 July 2013 between KPN, Telefónica, S.A. and the Guarantor, the Guarantor agreed to purchase all assets, certain liabilities and business activities of the E-Plus Group (for further details on the SPA, please see "*- Material Contracts - Sale and Purchase Agreement with regard to E-Plus*"; for further details on the business of the E-Plus Group, please see "*Acquisition of E-Plus Group – Business of E-Plus Group*").

Assuming the acquisition of the E-Plus Group had taken place as of 31 December 2012 or 1 January 2012, respectively, Telefónica Deutschland would have served approximately 43 million aggregated customers and recorded aggregated revenues (prior to consolidation) of € 8.6bn (based on 2012 revenues of Telefónica Deutschland and the E-Plus Group). In our view, the combination of Telefónica Deutschland and the E-Plus Group will establish a mobile network operator generating significant economies of scale and with high potential in Europe's largest economy with a clear vision and commitment to compete against the incumbent market leaders across all segments. It will have an enhanced customer proposition with a high quality mobile network, sufficient capacity to address increasing demands for high quality (data) services, an extensive distribution network and a multi-brand strategy serving different customer needs.

### **Key markets**

Germany is one of the largest telecommunications markets in Europe both in terms of accesses and revenue. The German telecommunications sector generated revenue of €48.6 billion during 2012. Of this, €20.0 billion (41.1%) are derived from mobile services and €28.6 billion (58.9%) from fixed-line services (*Source: Yankee Group Research, Global ConnectedView Forecast, December 2012*).

#### *German Mobile Market*

Germany is the largest mobile market by subscribers in the EU with 113.6 million accesses (*i.e.*, SIM cards) and a penetration rate of approximately 141.1% at the end of June 2013. Mobile penetration rates exceeded 100.0% in 2006 and since then have seen an increase of approximately six percentage points per year. There are currently 54.3 million pre-paid accesses in Germany, representing 52% of total accesses, while post-paid accounts for 52.9 million accesses and 48% of the total accesses (*Source: published financial results as of June 2013 by Deutsche Telekom, Vodafone and E-Plus/KPN; national statistical office*).

In terms of mobile service revenue, voice services still account for the majority of the total revenue with €11.6 billion in 2012, while data services accounted for €8.4 billion (*Source: Yankee Group Research, Global ConnectedView Forecast, December 2012*).

#### *German Fixed-Line Market*

The German fixed-line market with total revenue of €28.6 billion in 2012 is split between voice (62.0%, or €17.8 billion) and broadband (38.0%, or €10.8 billion). There has been a slow down in price decline which has stabilised revenue (*Source: Yankee Group Research, Global ConnectedView Forecast December 2012*).

The main broadband access line technologies are digital subscriber line ("DSL") and cable. DSL continues to be the dominant technology in the broadband market, with 23.9 million of the total 28.5 million subscribers in 2012 using DSL, generating revenue of €8.5 billion. The use of cable technology is increasingly popular in urban areas. Alternative

means of connection, such as direct fibre connection, are becoming more prevalent. In 2012, fibre connected 310,000 broadband customers in Germany (*Source*: Yankee Group Research, Global ConnectedView Forecast, December 2012). In addition, regulation enables competitors to access Deutsche Telekom's fast VDSL network via a "contingency model" which includes lower access costs for the network operators than a traditional bitstream wholesale model in exchange for an upfront payment by the network operator to Deutsche Telekom.

### ***Competition***

#### ***Mobile***

In the German market, there are currently four operators with their own mobile network (mobile network operator or "MNO"). All four MNOs currently provide mobile broadband services over their UMTS networks after launching W-CDMA-based services in 2004. Since then, all four MNOs have gradually rolled out different technologies supporting significantly higher data rates than W-CDMA such as HSDPA, HSUPA and most recently HSPA+.

The German mobile market is well-developed, and divided between four MNOs: Deutsche Telekom, E-Plus, Telefónica Deutschland and Vodafone Germany.

In terms of accesses reported by the four MNOs, Deutsche Telekom is the leading mobile network operator as of June 2013 with 37.5 million accesses (33.0% of all accesses reported by the four MNOs), followed by Vodafone with 32.2 million accesses (28.4%), E-Plus with 24.4 million accesses (21.5%) and Telefónica Deutschland with 19.4 million accesses (17.1%) (*Source*: published financial results as of June 2013 by Deutsche Telekom, Vodafone and E-Plus/KPN).

In addition to the four established mobile network operators, Germany has a very well-developed group of operators without own networks (MVNOs, including service providers, and branded resellers) which account for a substantial share of the market and exert substantial competitive pressure. Cable operators such as Kabel Deutschland and Unitymedia/KabelBW have also established mobile operations. After the acquisition of debitel by freenet in 2008, the key non MNO players are the freenet group (comprising, *inter alia*, mobilcom/debitel), the Drillisch group, 1&1 and AldiTalk (*Source*: Yankee Group Research, GlobalConnectedView Forecast, December 2012, Pyramid Research, Western Europe Mobile Data Forecast Pack, Q3 2013).

#### ***Fixed-Line***

The broadband services market in Germany is highly competitive. The major DSL service provider in Germany is Deutsche Telekom, the incumbent telecommunications service provider. Other major competitors in the broadband internet market are, for example, United Internet, and alternative network operators such as Vodafone (*Source*: Germany Broadband Subscribers GlobalComms). With the liberalisation of the German telecommunications market in 1998, the FNA required Deutsche Telekom to open up the last mile of its network, i.e. the copper wire from the main distribution frame (MDF) through the unbundled local loop ("ULL") to the customer's premises to further competition. A significant number of ULL operators have evolved from infrastructure-based operators created by major utility companies or by Deutsche Bahn AG. In approximately 100 German cities, local utility companies constructed city networks which provide local alternative infrastructure. The MNOs, Vodafone and Telefónica Deutschland use Deutsche Telekom's regulated ULL products to connect fixed-line customers.

Voice resellers were the first competitors to emerge in the German fixed-line telecommunications market. The resale model has been developed subsequently in the dial-up and broadband internet markets. Today, pure resellers primarily offer broadband access and VoIP using a facilities-based carrier's infrastructure. United Internet with its brand 1&1 is the only relevant remaining reseller in the market.

In Germany, cable operators offer high speed internet connections as a result of rapid modernisation of cable networks in recent years. Cable operators had revenue of €1.1 billion in 2012 and a subscriber market share of 16% as of December 2012 (*Source*: Yankee Group Research, Global ConnectedView Forecast, December 2012).

In the German market for consumer fixed-line telephony, Deutsche Telekom remains the biggest provider. The fixed-line telephony market is increasingly under pressure from resellers, alternative carriers, mobile substitution and alternative access technologies such as VoIP services offered via DSL or other broadband internet connections, and service providers such as Skype.

### ***Strategy***

We aim to leverage our existing assets to capture market share in the wireless services market and drive profitability through the following strategic priorities:

#### ***Capitalise on multi-brand portfolio and high levels of customer satisfaction to increase market share***

We aim to use our core O<sub>2</sub> brand and our strong portfolio of secondary brands and partner brands to build on our position in the German telecommunications market. In addition, our intention is to continuously explore strategic partnerships to add brands that target specific niches or consumer segments. The aim of our customer service, retention

and satisfaction programs is to continue to provide our customers with consistently high-quality service and maintain transparency, thereby earning our customers' trust. We believe that our high levels of customer satisfaction decrease churn and increase the rate at which our current customers recommend us to new potential customers. We intend to increase the use of online and direct distribution channels to optimise our acquisition process and costs.

#### *Monetise data opportunities through innovative products and digital services*

We aim to leverage the current strength of our core O<sub>2</sub> brand and to monetise the rise in data usage and smartphone users, especially through the ongoing roll-out of our LTE network and through our data-centric O<sub>2</sub> Blue tariff portfolio of which tariffs mainly differ in terms of data volume packages included. We also expect our value-added services offering, which is expanding and includes financial services, innovative communication tools and mobile security solutions, to drive revenues and to further increase our attractiveness for smartphone users.

#### *Expand our convergence strategy to increase share in customer spending and reduce churn*

We intend to continue to focus on converged wireless and wireline service bundles in order to increase our share in customer spending, reduce wireless churn and reduce subscriber acquisition costs. One of our strategic aims is to cross-sell products and services to customers who currently use only wireless or wireline services, because this increases our share of customers' spending. We believe that it also reduces our risk of churn. In addition, cross-selling allows for the acquisition of new accesses at comparatively low customer acquisition costs. To utilise the cross-selling potential in our customer base, we offer discounts to customers who purchase both wireless and wireline services.

#### *Seize the opportunity in the SoHo, SME and wholesale markets*

We target small, medium-sized and large national business customers with our core O<sub>2</sub> brand and larger international companies with our "Telefónica Multinational Solutions" brand in partnership with Telefónica Group. We intend to raise customers' perception of our core O<sub>2</sub> brand as a business brand. We aim to increase our market share by differentiating ourselves from our competitors by providing good value for money, tailored propositions and bundled benefits as well as focusing on customer service.

In our wholesale business, we aim to maintain and increase our market share by our broad offering of fixed and mobile services and to use innovation to further improve services, profitability and competitiveness.

#### *Maintain competitive 3G and LTE networks to capitalise on data growth opportunities*

We believe demand for LTE technology in Germany will increase significantly during the remainder of 2013 and in 2014. During the initial roll-out of the LTE network, the German regulator FNA required certain towns and districts with little or no broadband coverage (also known as "white spots") to be prioritised. This requirement has been fulfilled for all of the 16 federal states. As a result, we are now able to develop our LTE network strategy based primarily on commercial considerations. We are providing LTE coverage in all major urban areas in Germany since mid 2013 and we will continue to invest in this new technology. At the same time, 3G data use is also continuing to increase, as a consequence of which we are dividing our capital investment equally between LTE and 3G.

#### *Drive profitability and efficiency to achieve enhanced cash flow generation*

We intend to drive profitability by maximizing operating efficiency. This will entail actively managing our customer base and our ARPU levels, with a focus on data usage, including increasing our share of direct distribution channels, online and digital customer care. We intend to further increase efficiency via initiatives to optimise processes, realise network synergies, and streamline our IT systems.

For the strategic considerations and aims with regard to the intended acquisition of the E-Plus Group, please see "- Acquisition of E-Plus".

### **Products and Services**

We offer comprehensive mobile and fixed-line services for consumers and business customers and an extensive portfolio of mobile, fixed-network and value-added services to wholesale partners.

As of 30 September 2013, we had more than 25.4 million accesses consisting of approximately 19.6 million mobile service accesses (10.3 million on a post-paid and 9.3 million on a pre-paid basis) and approximately 5.8 million fixed-line telephony and high-speed internet accesses (2.1 million telephony, 3.4 million DSL and wholesale ULL and 0.3 million narrowband and subscribers of certain value-added services).

#### *Consumers*

Our core business is our consumer business and this primarily involves providing customers with mobile voice, messaging and data services, fixed-line telephony as well as high-speed internet access. In addition, we provide innovative value-added services such as IP communication, security solutions and mobile financial services.

These products and services are marketed under our core O<sub>2</sub> brand and secondary brands. The latter consists of our own brand netzclub and fully controlled brands such as FONIC or brands managed through joint ventures and strategic partnerships such as Tchibo mobil and Türk Telekom Mobile.

### ***Mobile Services to Consumers***

#### ***O<sub>2</sub> and secondary brands***

Under the O<sub>2</sub> brand, we mainly sell mobile voice, messaging and data services and bundled tariffs (mobile and fixed-line services) to customers on a post-paid basis, but we also market pre-paid services. They can choose between a large variety of tariffs for different base fees and prices per service unit combined with different flat fees and capped amounts for mobile voice, messaging and/or mobile data services. In recent years, we have placed a strong strategic emphasis on selling mobile post-paid services marketed under the O<sub>2</sub> brand to smartphone users. We believe that smartphone customers are typically young and technologically savvy individuals who produce above average revenues through extensive usage of mobile services. Therefore, we completely redesigned our O<sub>2</sub> Blue tariff portfolio in early 2013. The tariffs now mainly differ by data volume. Users are now able to make calls and send texts to all German networks for free with each of the smartphone rates. The entry rate O<sub>2</sub> Blue Basic is available for € 19.99 a month. In May 2013, we launched our new O<sub>2</sub> Loop Smart pre-paid tariff tailored for smartphone users offering 100 on-net minutes and a 200 MB high speed data flat rate for € 9.99 a month.

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

#### ***O<sub>2</sub> My Handy***

Through our "O<sub>2</sub> My Handy" model launched in May 2009, we sell handsets and other hardware to our customers for a fixed price either for the immediate payment of the total purchase price or for an up-front payment of part of the total purchase price and 12 or 24 subsequent monthly instalments. This provides the customer with price transparency with respect to the costs of the handset and the costs of the mobile services.

The "O<sub>2</sub> My Handy" model is also used for our secondary brands, especially for a portfolio of low-budget smartphones, in order to meet the increasing demand for data services in these customer segments and partially also for our wholesale partners.

#### ***Fixed-line Services to Consumers***

We also offer fixed-line telephony and high-speed internet access via DSL to our customers. DSL is offered under the ADSL2+ and VDSL standards with currently up to 50 Mbit/s. To a very small extent, we still operate a legacy of narrowband accesses. Customers of our fixed-line services have access to value-added services such as security solutions and internet data storage capacity. The majority of our fixed-line DSL and narrowband customers result from the acquisition of HanseNet Telekommunikation GmbH in 2010. As we expect fixed-line and mobile bundled products to become increasingly important in the future, we target those customer segments with new offers.

Based on our agreement with Telekom Deutschland GmbH with regard to the VDSL contingency model, we are able to serve more than 11 million households with up to 50 MBit/s.

In addition, Telefónica Deutschland and Telekom Deutschland GmbH executed a "memorandum of understanding" on 2 May 2013 to further expand their cooperation with regard to fixed line services. The cooperation aims at the increased utilisation by Telefónica Deutschland of Deutsche Telekom's high-speed infrastructure. Based on this cooperation, which is still subject to an approval by the FNA and a binding agreement, Telefónica Deutschland will be enabled to realise the transition from its own ADSL infrastructure to a sustainable Next Generation Access ("NGA") platform. In June 2013, the German Federal Cartel Office (*Bundeskartellamt*) has confirmed that the cooperation is not subject to merger control clearance. The respective proceeding at the FNA has been initiated in October 2013 and is deemed to be finalised by the end of 2013. The start of the cooperation is scheduled for 2014.

### ***Business***

We target the entire range of business customers from SoHo and SME to large national and international corporate customers. We offer our products and services to SoHos and SMEs through the O<sub>2</sub> brand, and we leverage the Telefónica Group for larger business customers (see "*Brands and Marketing*"). We are committed to differentiating ourselves from competitors through our distinct customer service approach and our high flexibility in tailoring solutions to individual needs.

#### ***Mobile Services for Businesses***

We offer our business customers mobile voice, messaging and data services with tariffs tailored to the type of customer and optional value-added services. We also offer VPN Link solutions enabling cost-free calls from fixed-line to mobile

customer accesses, mobile conferencing services, mobile security solutions, a multicard option for up to five mobile devices and dual lines (one SIM and one handset with two contracts and tariffs).

### ***Fixed-line Services for Businesses***

Fixed-line services for business customers range from combined DSL voice and internet access bundles for SoHos to high-speed internet access and leased lines (which permanently connect two customer sites with data transmission speeds of between 2 Mbit/s and 100 Mbit/s and allow for constant high-speed and high quality data transmission between these customer sites), managed WANs (secure fixed-line connections of multiple customer sites) and data center services for large corporate customers. In addition, we offer fixed-line voice services and primary rate interfaces, enabling business customers to connect their telephone system to the fixed-line access in certain regions of Germany. These core services are complemented by optional value-added-services such as hosted e-mail, website builders, service numbers and call center solutions.

### ***Wholesale***

We offer a comprehensive portfolio of mobile, fixed-line and value-added services to our wholesale partners.

#### ***Mobile Services for Wholesale Partners***

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

#### ***Fixed-line Services Wholesale Partners***

To our fixed-line wholesale partners we provide ULL services, including fixed-line telephony and high-speed internet access. In addition, we provide voice termination services to other network operators. The majority of fixed-line accesses under wholesale partnerships are attributable to our cooperation with United Internet which markets its services under the 1&1 brand.

All fixed-line accesses in our wholesale business are governed by service contracts directly between the wholesale partner and the end-customer.

#### ***Value-Added Services for Wholesale Partners***

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

### ***Digital Innovation***

In order to leverage our strong position in the German wireless services market and monetise additional growth opportunities, we recently launched and intend to launch further digital innovations in financial services (e.g. O<sub>2</sub> wallet, MPass), advertising services, entertainment (e.g. music services) communications (e.g. Joyn), M2M (e.g. fleet management) and security area (e.g. smartphone protection). These innovations have been or are primarily developed together with the Telefónica Digital division or by one of the sponsored start-up companies at our Wayra academies.

### ***Brands and Marketing***

We believe O<sub>2</sub> is a strong premium brand. Our secondary brands such as FONIC, netzclub, Tchibo mobil and Türk Telekom Mobile enable us to additionally target a broad range of consumers and maximise our sales reach in order to increase our revenues potential. The positioning and marketing approach for each brand is tailored to the targeted consumer group.

### ***Brands***

O<sub>2</sub> is our premium brand through which we market the full range of our post-paid and pre-paid mobile and fixed-line products and services. We aim to position the O<sub>2</sub> brand as the "most advocated" telecommunications brand in Germany. By positioning the O<sub>2</sub> brand as "motivator" brand, we intend to encourage our (and potential) customers to explore the possibilities of digital technology.

Our O<sub>2</sub> brand has ranked highly in numerous customer satisfaction surveys.

Our brand FONIC is positioned to appeal to cost-conscious customers who only use basic mobile services and do not require extensive customer care.

Under our 50/50 joint venture with German retail-chain Tchibo, we have been marketing mobile services on a pre-paid basis under the Tchibo mobil brand since 2004 (see "*– Material Contracts*"). The brand is positioned to appeal to the Tchibo customer base.

Türk Telekom Mobile branded mobile services are offered under a strategic partnership with the Turkish incumbent network operator Türk Telekom. The mobile service offer allows for the use of our German mobile network and the Turkish mobile network of Türk Telekom with only one SIM card.

With the netzclub brand, we specifically target social media users with mobile services. The netzclub offering is advertising-sponsored which leads to additional revenues from advertising. This is possible because all netzclub subscribers give their permission to be provided with push marketing.

In connection with the acquisition of HanseNet Telekommunikation GmbH in 2010, we acquired the right to use the Alice brand until February 2013. The process of transitioning the existing accesses operated under the Alice brand to the O<sub>2</sub> brand has been completed accordingly.

Our wholesale partners' brands are positioned and marketed by these partners themselves, such as mobilcom-debitel, Drillisch and the brands of the cable operators Unitymedia/KabelBW and Kabel Deutschland for mobile services as well as 1&1 for fixed-line services.

### **Marketing**

We carry out various general and customised marketing measures.

Our advertising approach for the O<sub>2</sub> brand reflects the brand's strategy and our position as a market challenger. Advertising is executed in all core media. Regional marketing activities such as outdoor advertising and local promotional events are tailored to the local target groups and competitive situation. Significant marketing activity is also focused on the existing customer base to increase customer satisfaction, reduce churn and use cross-selling potential, such as selling fixed-line services to a mobile subscriber or vice versa. We use regional marketing activities to target primarily SoHos and SMEs through the O<sub>2</sub> brand.

The FONIC marketing strategy reflects the positioning of the brand as a leading player in the discount segment and is centered on the brand's commitment towards truth, transparency and simplicity.

Marketing of Tchibo mobil is focused on the Tchibo community.

The Türk Telekom Mobile marketing strategy reflects the needs of the biggest non-German ethnic community in Germany by emphasizing "one SIM-card for two countries". Most marketing materials are bilingual and focus on channels and locations specific to the Turkish community.

Marketing measures in connection with the brand netzclub include tutorial videos shown on the netzclub internet portal and a channel on the website "YouTube" explaining the concept of advertising-sponsorship, basic products and the "ad-funded tariff". We further employ viral marketing for our netzclub brand by using social media to distribute our marketing videos.

### **Sales and Distribution**

We use direct and indirect distribution channels to increase customer growth.

#### **Consumers**

We conduct direct sales of core branded offers to consumers via five channels: self-operated shops, partner shops, premium partner shops and online- and telesales. Our self-operated shops, partner shops and online channels are the largest direct sales channels. As of 30 September 2013, we had approximately 160 self-operated shops. These shops are located in highly frequented and strategically important areas, such as high streets in urban centers, and offer exclusively O<sub>2</sub> branded products and services.

Our partner shops are operated by franchisees ("**O<sub>2</sub> Partnerships**"), but are branded the same way as self-operated shops, such that O<sub>2</sub> Partnerships are not readily distinguishable from self-operated shops. They also offer exclusively O<sub>2</sub> products. As of 30 September 2013, we had approximately 760 O<sub>2</sub> Partnerships.

Our premium partner shops are independently operated stores that offer O<sub>2</sub> products and services as well as the products and services of other telecommunications services providers. We require the majority of the products for sale in a premium partner shop to be our O<sub>2</sub> products. As of 30 September 2013, we had 210 premium partners operating shops.

We also sell our products and services directly through our O<sub>2</sub> online portal. We use various methods to drive online traffic towards our O<sub>2</sub> online portal, including via eBay, social media applications such as Facebook, search-engine marketing and our affiliates. In addition, we sell our products through telesales.

We also conduct consumer sales through indirect channels, which take place through large retailers, e-retailers and distributors and cooperation partners. The main retail distribution arrangement relates to Media Markt and Saturn locations.

FONIC branded services are mainly sold through the stores of a number of distribution partners such as the German retailers real, DM and Rossmann, but also via the FONIC online portal. netzclub branded services are sold exclusively via the netzclub online portal. Sales activity relating to jointly managed mobile secondary brands Tchibo mobil and Türk Telekom Mobile are closely coordinated with the respective cooperation partners. Tchibo mobil branded services are mainly sold through Tchibo stores and Tchibo shops-in shop, but also through the Tchibo online portal. Türk Telekom Mobile post-paid and pre-paid services are offered via a large number of distributors in Germany, in selected O<sub>2</sub> Shops, Partner Shops and via the Türk Telekom Mobile online portal.

Handsets are distributed through the "O<sub>2</sub> My Handy" model via all of our O<sub>2</sub> branded distribution channels and indirect retail sales channels (for example, Media Markt and Saturn).

### ***Business***

We are one of the three major providers of telecommunication services to business customers in the German market.

Our approach to business sales to SoHos and small SMEs is to leverage the existing O<sub>2</sub> distribution channels, namely O<sub>2</sub> shops, the O<sub>2</sub> online portal and telesales used to target consumers. We also have dedicated SoHo business experts present in our O<sub>2</sub> shops. We additionally target smaller SME customers and businesses through indirect sales channels.

Larger SME customers and large, mainly national, companies are individually targeted by our dedicated sales managers on the basis of a key account management system.

For global corporations, we also leverage the relationships of Telefónica Group with large multinational corporations in order to approach their German business. Our sales activity in this area is also based on a key account management system.

### ***Wholesale***

We believe the key success factor in this area is our partner management and our close cooperations with our partners. This means that we seek to combine our telecommunications expertise with the distinct sales and marketing expertise of our partners in order to offer products that meet the demands of the market and address the large market for customers who seek telecommunications services without frills.

### ***Mobile***

We have three different types of cooperation arrangements with wholesale partners:

#### ***Branded Sales***

Under a branded sales cooperation with a wholesale partner, we provide mobile voice, messaging and data services under the brand of the wholesale partner. The contractual relationship to provide the services, however, is typically between us and the end-customer. Under this model, the wholesale partner is usually in charge of sales and marketing only and markets the mobile services to its own customer base at its own points of sale.

#### ***Service Providers***

Wholesale partners that are referred to as "Service Providers" market mobile services under their own brand, have a direct mobile services contract with the end-customer and typically handle the customer relationship, customer billing, the collection of consumption data and handset management themselves.

#### ***MVNOs***

Wholesale partners that are referred to as "MVNOs" market mobile services under their own brand, have a direct mobile services contract with the end-customer, handle the customer relationship, customer billing, the collection of consumption data and handset management themselves and, in addition, own certain elements of the network infrastructure.

#### ***Fixed-line***

Our largest wholesale partner of fixed-line services is the internet service provider United Internet, which markets its services under the 1&1 brand. It sells fixed-line telephony and high-speed internet access under direct contractual relationships with the end-customers.

### ***Customer service and Retention***

We believe that quality customer service increases customer satisfaction, reduces customer churn and can be a key competitive advantage in the wireless industry. Therefore, retaining existing customers is critical to the financial performance of mobile service providers and an essential element of our business strategy.

### ***Customer Service for Consumers and Wholesale***

Our customer service, retention and satisfaction programs aim to provide customers with convenient and easy to use products and services in order to promote long-term relationships and minimise churn. Our customer service strategy is to grow the proportion of customer service delivered digitally through apps, internet portals, device self-service as well as to leverage social media to complement the service experience delivered over the phone and in the shop. To this end, we have already implemented a number of "e-Care" tools such as the recently launched private support function through Facebook.

Our online self-service support allows customers to view and amend their contract terms and personal data such as bank account and address details, view and analyze their monthly bills and purchase additional services. Our online self-service support includes interactive applications, the use of social media and messaging services, and applications accessible from a customer's handset.

With regard to complaint handling, we aim to ensure quick reaction times and fast solutions – regardless of the format of the complaint (written, voice or digital). Complaints are documented in order to identify issues and report them internally so as to address the cause of the complaint.

In the area of billing, we aim to ensure that invoices are correct, transparent and easy to understand and are produced on time. To minimise billing costs, we encourage customers to use e-billing.

In order to minimise and control customer credit risks, we have set up a customer credit risk management system. It consists of credit check, fraud, high-spend and dealer monitoring and different credit collection methods.

In order to retain our customers, we aim to constantly deepen our understanding of our customers' needs and improve customer loyalty. We place a stronger emphasis on customers with whom we generate high revenues. For purposes of our retention activities, we categorise customers into the following groups: "at risk", "contract renewal", "save desk" and "win back". Whenever customers who are classified as "at risk" contact us, they are directly transferred to a special team with a focus on retention. They receive special treatment from this team, such as offers and problem solutions, with the purpose of increasing customer satisfaction and obtaining a contract extension. We contact customers whose contracts are about to expire through several channels such as messages and e-mail in order to achieve a contract extension. Customers who call the care hotline to ask for a cancellation of their contracts are transferred to the "save desk", another special team focussing on retention. We attempt to contact customers that already terminated their services contracts through several outbound communication channels in order to trigger inbound calls with the purpose of winning back such customers.

With regard to wholesale cooperation models where we are in charge of managing the customer service and retention activities, we perform the same activities and services as we do for consumers.

Where the first-line customer support (*i.e.*, the initial interaction with the customer) is managed by the cooperation partner, we only provide "second-line" support on more complicated technical matters.

We cooperate with a number of outsourcing partners in the area of customer service and retention.

### ***Customer Service for Businesses***

A number of consumer initiatives, particularly around process capability improvement and e-care, are also applied to customers in our business area "Business". In addition, the business customer service has some extra features to cater for the specific needs of a business customer.

Customer service for SMEs and large national and multinational corporate customers is broken down into five areas: service and key account management for corporate customers, premium and VIP service (dedicated service contracts for high revenue SME customers), expert services by dedicated service representation, tech support business, and general hotlines.

### **Network Infrastructure**

We are one of the three integrated telecoms network operators with nationwide mobile and fixed-line networks in Germany. We believe that we have a competitive network infrastructure and a sufficient amount of frequency spectrum which enable us to cope with future capacity and service quality requirements. Furthermore, we benefit from Telefónica Group's buying power and its global expertise in network design and operations.

### **Network Strategy**

We have invested significantly in our network infrastructure over the past years. Our current infrastructure has been developed through continuous organic as well as non-organic growth. In particular, the mergers of Telefónica Deutschland GmbH and Telefónica O2 Germany GmbH & Co. OHG in 2009 and the acquisition of HanseNet Telekommunikation GmbH in 2010 extended our transport and fixed-line network significantly. We have integrated the mobile and fixed-line networks and are in the process of leveraging synergies from the joint infrastructure usage for

both our mobile and our fixed-line network. To complete the integration of the acquired network infrastructure, we are working on several projects aimed at optimizing our network tools and processes.

Our mobile access network strategy is based on three pillars. The basic needs of our customers are fulfilled through our GSM, or 2G, network, which provides nationwide voice and basic data services. The UMTS, or 3G, network, with its higher data capacity, covers cities and the surrounding areas. Finally, we are deploying our LTE network to cope with the growing demand for mobile broadband capacity. The mobile access network is supplemented by our fixed-access network, which has been constructed to efficiently reach as large a portion of the population as possible. This is achieved by using our own infrastructure and bit stream access products. Our core and service network is also up to the latest technology standards. It consists of IP-based service and core platforms which are ready to provide integrated and converged services.

### **Mobile Access Network**

The current network population coverage of our mobile access network is 99% for mobile voice and 98% for mobile data services. The table below provides an overview of our GSM and UMTS population coverage.

Mobile technology standard	Population Coverage (outdoor) <sup>1</sup>
GSM	99.7% (data 98.7%)
UMTS	74.5%

<sup>1</sup> Population coverage refers to the percentage of the population in Germany.

After having acquired additional spectrum, particularly in the 800 MHz band, we started to build a next-generation network based on the new LTE technology in 2011. Our roll-out is primarily based on commercial considerations and is therefore urban-centred. Most metropolitan areas in Germany (i.e., Hamburg, Hanover, Berlin, Cologne/Dusseldorf, Leipzig, Dresden, Duisburg, Essen, Frankfurt, Nuremberg and Munich) are covered by our next-generation LTE network. In the following years, we expect to continue the LTE roll-out in line with market demand.

### **Fixed Access Network**

Our strategic cooperation with Telekom Deutschland GmbH has expanded our wireline coverage to 95% of the German population and enables us to supply more than 11 million households with high-speed DSL internet access, delivering data transfer rates of currently up to 50 MBit/s.

In addition, we have signed a "memorandum of understanding" with Deutsche Telekom broadening our cooperation with regard to fixed-line services and providing for our expanded access to the advanced network infrastructure of Telekom Deutschland (the so-called "next generation access platform" or NGA platform) enabling us to offer our customers high-speed internet products with data transfer rates of up to 100Mbit/s. In June 2013, the Federal Cartel Office (*Bundeskartellamt*) has confirmed that the cooperation is not subject to merger control clearance. The proceeding for the approval of the envisaged cooperation by the FNA has been initiated in October 2013 and is deemed to be finalised by the end of 2013. The cooperation is also subject to the execution of a binding agreement. The start of the cooperation is scheduled for 2014. The completion of the transition from our ADSL infrastructure to the NGA platform of Deutsche Telekom is expected for 2019.

### **Core and Service Network**

Our core and service network provides integrated service layer architecture in order to realise converged services. Thus, the network is ready to handle mobile LTE traffic and is ready to provide VoIP services. The network is based on a Multiprotocol Label Switching architecture and has been built on fibre infrastructure. Our backbone is capable of handling up to 1.3 Tbit/s.

### **Transportation Network**

Our transportation network consists of more than 27,000 microwave links and approximately 13,000 kilometres of owned and leased fixed-lines. To transport the traffic through the backbone and between the base station and the core network, we also use our own fixed-line network infrastructure and leased lines. However, to cope with mobile traffic growth, fibre connections have to come closer to the edge of the network. Therefore, we have designed a network structure with 2,000 points of concentration that aggregate the traffic from the more than 30,000 physical sites. These points of concentration will be connected with fibre to the core network. For this purpose, we signed a scalable transportation agreement with Deutsche Telekom regarding the use of its fibre optic infrastructure. This cooperation with Deutsche Telekom allows us to connect the required points of concentration.

### ***Network Implementation***

In order to further improve the efficiency of our network implementation, we outsourced the civil works and implementation of our system technology to three local service providers.

Another outsourcing partner manages the central warehouse, including modules to be deployed or decommissioned and spare parts. It also manages the repair of broken modules of system vendors.

### ***Network Operations***

Similar to the network implementation, we continually aim to improve the efficiency of our operations processes. We have established a close relationship with partners to allow efficient, high quality operations of the network. There is an agreement between us and Telefónica Czech Republic pursuant to which we monitor the mobile networks in Germany, the Czech Republic and Slovakia, whereas Telefónica Czech Republic monitors the fixed-line networks in such countries. The field services for the fixed-line and mobile network have been outsourced to the service partner Huawei Technologies. This cooperation includes the integration of new network elements and implementation of changes.

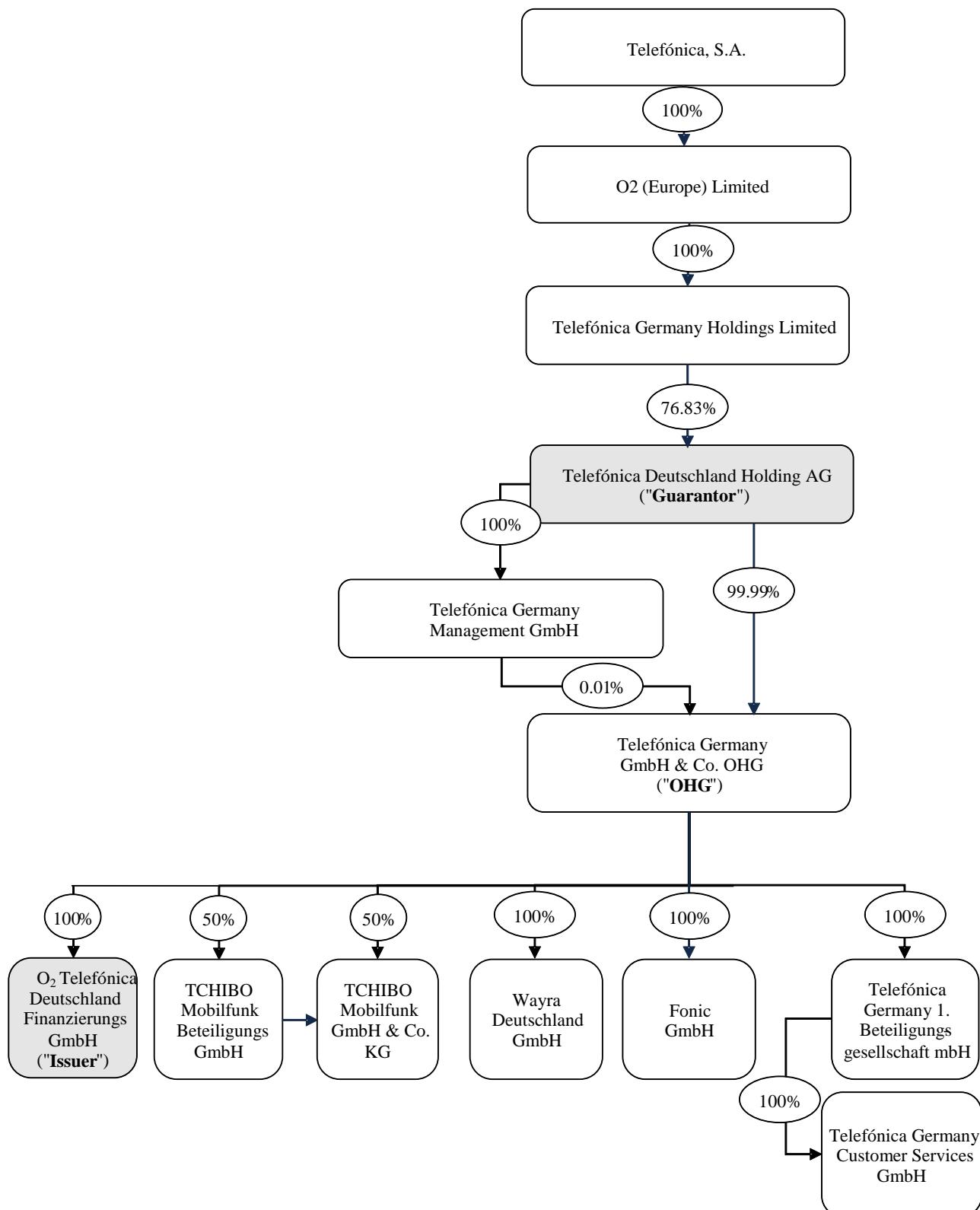
### ***Information Technology Systems***

Our business operations are highly dependent on the functionalities, availability and further development of sophisticated and advanced IT systems. Our IT systems are integral to our business and provide capabilities for all fixed, mobile and digital services, such as online services point-of-sales support, third party integration of sales channels and resellers, service provisioning, billing, customer relationship management, data warehousing and enterprise resource management, and workplace support.

In the last several years, we have invested in our IT architecture to improve the efficiency of our IT services through increased standardisation, simplification, consolidation and virtualisation as well as effectiveness through seamless integration of third parties and digital OTT services.

## Major Subsidiaries and Organisational Structure

The following table shows the current group structure of Telefónica Deutschland and the Guarantor's direct and indirect majority shareholders:



## Investments

For the year ended 31 December 2012, our investments (*i.e.* capital expenditures from continuing operations; capital expenditures are defined as additions of property, plant and equipment and intangible assets from continuing operations) amounted to €609 million, which mainly related to investments in 3G capacity and start of the LTE network deployment.

For the nine months ended 30 September 2013, our investments amounted to € 468 million which mainly related to network infrastructure. Commitments for future capital expenditures as per 30 September 2013 amounted to € 187 million. Telefónica Deutschland is expecting total investments in 2013 to be lower than € 680 million. Investments will be funded by the use of free operating cash flow.

## Litigation and arbitration

From time to time we are party to governmental, legal and arbitration proceedings arising in the ordinary course of our business. Other than as discussed below, we are currently not, nor have we been in the past 12 months, party to any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) which may have, or have had in the recent past, significant effects on our financial position or profitability.

On 2 February 2006, the FNA issued an administrative act pursuant to which we were assigned frequency usage rights in the amount of 5 MHz in the 900 MHz band and had to relinquish frequencies in the 1,800 MHz band in the same amount under a frequency swap. The administrative act included an obligation to grant DB Netz AG (a subsidiary of Deutsche Bahn AG) the right to use parts of the frequency spectrum for the European Train Control System when needed. Aidata AG filed a claim against the administrative acts before the Administrative Court of Cologne (*Verwaltungsgericht Köln*) in December 2006 seeking to annul the administrative act and to initiate a new frequency allocation procedure. We took part in this administrative proceeding as a third party (*Beigeladene*). In the first instance, the Administrative Court of Cologne dismissed the claim. However, the court decided that its decision may be reassessed by a court of second instance due to the complexity and importance of the case. In June 2009, the Higher Administrative Court of North-Rhine Westphalia (*Oberverwaltungsgericht NRW*) also dismissed the case and denied the admission to the third instance. Aidata AG filed an appeal against the denial of admission and was granted access to the third instance, the Federal Administrative Court (*Bundesverwaltungsgericht*) in March 2010. The Federal Administrative Court dismissed the claim on 26 January 2011. Aidata AG appealed the dismissal to the Federal Constitutional Court (*Bundesverfassungsgericht*), which is still pending. We estimate that we would have to incur additional costs of approximately €200 million for new network planning, purchasing equipment and implementing an interim solution, should Aidata be successful with its complaint. Other companies, such as DB Netz AG, have also challenged the above-mentioned administrative acts. Those claims were dismissed with binding and final effect at earlier stages.

Commencing in December 2006, we filed several administrative claims with the Administrative Court of Cologne (*Verwaltungsgericht Köln*) against administrative acts in which the FNA set mobile termination rates for certain periods. In our claims, we requested higher maximum mobile termination rates and contested the methodology of the calculation of the rates set by the FNA. For example, on 30 December 2010 and 7 March 2011, we filed an administrative claim with the Administrative Court of Cologne (*Verwaltungsgericht Köln*) against a preliminary administrative act of 26 October 2010, in which the FNA approved mobile termination rates in the amount of 3.36 cents per minute, and an administrative act of 24 February 2012 in which the FNA finally approved maximum mobile termination rates in the amount of 3.39 cents per minute with retroactive effect from 1 December 2010 through 30 November 2012. We also filed an administrative claim with the Administrative Court of Cologne (*Verwaltungsgericht Köln*) on 19 December 2012 against a preliminary administrative act of 16 November 2012, in which the FNA approved the currently applicable mobile termination rates in the amount of 1.85 cents per minute with effect from 1 December 2012, and of 1.79 cents per minute with effect from 1 December 2013 until 30 November 2014. After the FNA confirmed the aforementioned preliminary decision on mobile termination rates for the current period, we filed a claim against this decision and the respective regulatory order which is the basis for ex-ante price regulation and stipulates the methodology of rate calculation on 16 August 2013 as a precautionary measure. Most of the administrative claims are still pending. However, even if we prevail in these proceedings, we will not be able – except for the currently applicable mobile termination rates – to retroactively claim the difference between the higher mobile termination rates set forth in our interconnection agreements and the lower rates set by the FNA because the relevant periods lie in the past. However, we believe that if we succeed, the FNA would possibly change its future methodology for setting mobile termination rates.

Appeals are pending against the decision of the President Chamber of the FNA of 12 October 2009, pursuant to which we obtained the spectrum position that we use for the deployment of our LTE network and the related auction proceeding. For various reasons, several mobile telecommunications, cable TV and radio providers filed complaints against the decision with the Administrative Court of Cologne (*Verwaltungsgericht Köln*). We are not involved in these proceedings. The Administrative Court of Cologne has already ruled on most of the proceedings and has rejected them

in the first instance. After decisions of the Administrative Court of Cologne and the Higher Administrative Court for the Land of North Rhine-Westphalia (*Obervorwaltungsgericht für das Land Nordrhein-Westfalen*), the Federal Administrative Court (*Bundesverwaltungsgericht*) ruled in March 2011 on two legal proceedings filed by E-Plus Mobilfunk GmbH & Co. KG and Aidata AG. Essentially, the Federal Administrative Court found that the facts relevant to the decision were insufficiently investigated and referred the proceedings back to the Administrative Court of Cologne for further investigation.

## **Material Contracts**

The following summarises contracts which we deem to have a material effect on us.

### ***Sale and Purchase Agreement with regard to the E-Plus Group***

In a German law governed SPA dated 23 July 2013, as amended on 26 August 2013 and 28 August 2013, between KPN, Telefónica, S.A. and the Guarantor, the Guarantor agreed to purchase all assets, certain liabilities and business activities of the E-Plus Group which conduct the business activities of KPN Group on the German telecommunications market (the "**Transaction**").

#### *Consideration*

The direct and indirect ownership in the E-Plus Group shall be transferred to the Guarantor in full against a cash payment of € 3.7 billion by the Guarantor to KPN and shares in the Guarantor representing 24.9% of the Guarantor's total issued share capital following implementation of the capital increases provided for in the SPA (see in this section below). The cash consideration will be adjusted for net debt and working capital as of 31 December 2013 as well as for any dividends or other distributions made by the E-Plus Group to KPN after 1 January 2014 (being the effective date for the sale). The SPA further provides that upon KPN having obtained the shares in the Guarantor corresponding to a shareholding of 24.9%, Telefónica, S.A. shall at the consummation of the SPA against a cash payment of € 1.3 billion to be made by Telefónica, S.A. to KPN (i) receive from KPN such number of shares in the Guarantor as corresponds to 4.4% of the then current total issued share capital of the Guarantor and (ii) be granted by KPN a call option with regard to a further 2.9% of the then current share capital of the Guarantor.

KPN agreed to indemnify the Guarantor for all taxes which are imposed on the E-Plus Group and relate to tax assessment periods ending on or before 31 December 2013 and all tax ancillary obligations which arise after 31 December 2013 but which relate to the periods before 31 December 2013.

#### *Capital Increases*

The SPA envisages that the Guarantor conducts an increase in its capital against cash contributions that is sufficient to finance the € 3.7 billion payable as cash component of the purchase price. Telefónica, S.A. has undertaken to procure that the new shares stemming from such capital increase are subscribed for in their entirety either through a direct underwriting by Telefónica, S.A. or through procuring third parties to underwrite a portion of the capital increase. Upon implementation of the above mentioned capital increase against cash, the share component of the purchase price shall be created by an increase in the capital of the Guarantor against a contribution in kind in form of a transfer of the full direct and indirect ownership in the E-Plus Group to the Guarantor with all new shares stemming from such capital increase being subscribed for by KPN Group.

#### *Call Options*

In the SPA, KPN has granted Telefónica, S.A. a call option that becomes exercisable if KPN's shareholding, together with certain affiliated parties' such as major shareholders, in the Guarantor exceeds 22.6% of the then current share capital of the Guarantor. In such case, Telefónica, S.A. may exercise the call option in respect of such number of shares by which KPN's shareholding, together with affiliated parties' such as major shareholders, exceeds 22.6%. The exercise price will be equal to the average trading price on the Frankfurt Stock Exchange during the 30-trading-day period preceding the exercise of the call option, plus 10% of the exercise price to be calculated over the period between consummation of the SPA and the exercise of the call option.

In addition, Telefónica, S.A. and KPN are under the obligation to enter into an option agreement at consummation of the SPA pursuant to which KPN grants Telefónica, S.A. a further call option. Telefónica, S.A. may exercise such call option on the date which is one year after consummation of the SPA. The call option relates to shares in the Guarantor corresponding to up to 2.9% of the then current share capital of the Guarantor, but may not be exercised with regard to shares corresponding to less than 0.5% of the then current share capital of the Guarantor. The exercise price values the shares in the Guarantor corresponding to 2.9% of the then current share capital of the Guarantor at € 510 million. In addition, the purchase price under the option agreement shall be adjusted by interest of 2.27% p.a. accruing from the consummation of the SPA on the exercise price, less dividends received by KPN after the consummation of the SPA on the shares with regard to which the option is exercised and interest of 2.27% accruing from the consummation of the SPA on such dividend payments.

During the first five years after consummation of the SPA, KPN may not exercise the votes on such number of shares by which KPN's shareholding, together with certain affiliated parties' such as major shareholders, exceeds 22.6% of the shares in the then current share capital of the Guarantor.

#### *Conditions Precedent*

The consummation of the SPA is subject to the occurrence or waiving of the following conditions precedent, provided that conditions precedent (a), (b) and (g) cannot be waived:

- (a) Approval by shareholders meeting of KPN: The approval was granted by an extraordinary shareholders' meeting of KPN on 2 October 2013.
- (b) Merger clearance: The Transaction is conditional upon the approval of the relevant merger control authority. KPN, the Guarantor and Telefónica, S.A. have therefore analyzed and exchanged information on merger control aspects. In view of the revenues of the undertakings concerned, the transaction provided for in the SPA has to be notified to the European Commission for merger control approval. Before filing officially, draft notifications have been submitted to the European Commission in a "pre-notification phase", and the European Commission asked for more information to be included in the formal notification. A definitive and final formal notification has been submitted on 31 October 2013.
- (c) No governmental or judicial prohibition
- (d) No breach of the SPA
- (e) No material adverse change: The "no material adverse change" condition is deemed to be fulfilled unless a material adverse change has occurred and Telefónica, S.A. or the Guarantor has informed KPN of that occurrence before 22 July 2014, whereby "material adverse change" means any event or change that would be sustainably materially adverse to the business, assets, financial condition, operating results or operations of E-Plus Group. The term "no material adverse change" is defined in more detail in the SPA.
- (f) German corporate law requirements with regard to the capital increase against contribution in kind: Certain German corporate law requirements need to be fulfilled for the envisaged increase in the capital of the Guarantor against contribution in kind and receipt by the Guarantor of a confirming report from an external auditor on the value of the E-Plus Group to be contributed with a view to the increase in statutory capital and an auditor's certificate and a fairness opinion being obtained in relation thereto.
- (g) Completion of E-Plus' pre-closing restructuring

If the conditions precedent set out above are not satisfied or waived on or before 1 March 2015, each of KPN, Telefónica and Telefónica Deutschland may terminate the SPA.

#### *Superior Offer*

KPN is generally under the obligation not to continue discussions on the sale of the E-Plus Group or to solicit, encourage or otherwise facilitate offers for the purchase of the E-Plus Group. However, these obligations do not apply to a Superior Offer or a written indication of interest by a third party that in the reasonable and good faith opinion of the Board of Management and Supervisory Board of KPN may lead to a Superior Offer, if such Superior Offer or written indication of interest is received prior to 1 December 2013.

The Guarantor has a matching right and can make a revised offer within five business days following the date on which it has received notice of the superior offer. If such matching right is not exercised, the board of KPN may withdraw its recommendation of the transaction (the "**Fiduciary Out**").

#### *Lock-Up Periods*

The SPA provides for a lock-up period of 180 days from consummation of the SPA during which KPN may not sell its shares in the Guarantor without the prior written consent of the Guarantor. However, the lock-up does not apply to any distributions of shares in the Guarantor by KPN to its shareholders made later than 45 days upon consummation of the SPA.

Telefónica, S.A. has a right of first offer over any shares in the Guarantor that KPN intends to sell via a private securities transaction relating to at least 3% of the then current total issued share capital of the Guarantor.

In addition, KPN agreed that for a five-year period commencing with the consummation of the SPA, it will not buy any shares in the Guarantor, nor act in concert in relation to its shareholding in the Guarantor with any other shareholder of the Guarantor.

#### *Break Fees*

The parties to the SPA agreed the following break fees:

- (a) KPN must pay to each of Telefónica, S.A. and the Guarantor € 25 million (in total € 50 million) if it either exercises its Fiduciary Out or a Superior Offer is consummated without the Board of Management and the Supervisory Board exercising their Fiduciary Out;
- (b) The Guarantor must pay to KPN € 50 million if it has not registered its share capital increase in connection with the capital increase against cash contributions and the capital increase against contribution in kind in form of a transfer of the full direct and indirect ownership in the E-Plus Group to the Guarantor with the commercial register before 1 March 2015 in the event the conditions precedent set out above have been fulfilled; and
- (c) The Guarantor must pay to KPN € 100 million if the SPA is not consummated as a result of the European Commission or the German Federal Cartel Office (*Bundeskartellamt*) or any other governmental authority having jurisdiction in respect of the consummation of the SPA should not approve the consummation of the SPA.

#### *Commitment Letters*

With regard to the increase in the share capital of the Guarantor against cash contributions envisaged to finance the cash component of the purchase price for the E-Plus Group, the Guarantor received letters from a number of internationally reputable investment banks in which these banks commit themselves to underwrite the new shares stemming from the capital increase at a price to be determined by these investment banks at the time of the capital increase in accordance with the then prevailing market conditions. This commitment does not extend to the portion of the issued shares attributable to the shareholding of Telefónica, S.A. (i.e. 76.83%) which shall be subscribed for by Telefónica, S.A..

#### *Backhaul Contract with Deutsche Telekom*

In order to enhance our mobile backhaul capacity and to avoid a costly expansion of our own network, we entered into an agreement with Telekom Deutschland GmbH on 23 December 2011 related to the use of parts of Deutsche Telekom's fibre-infrastructure in Germany to backhaul mobile data traffic. The first operative connection under this agreement was in April 2012. Under this agreement, Deutsche Telekom provides transportation of our mobile data between our local points of concentration and our fixed-line network components at their antennas. The agreement may not be terminated without cause prior to 31 December 2031. After that date, the agreement may be terminated with six months' prior written notice, effective at the end of each calendar year. The current intention is to connect approximately 2,000 points of concentration sites to Deutsche Telekom's fibre infrastructure. In most cases, Deutsche Telekom is obligated to deliver the link to our network within six months after we have placed an order. If we fail to order the agreed amount of connections, a contractual penalty will be due. The same is applicable to Deutsche Telekom if it fails to provide the connections in time. We are required to make a one-time payment for the point of concentration site connection and monthly payments for the use of the connection.

#### *ULL Contracts with Deutsche Telekom*

We have entered into standard agreements with Telekom Deutschland GmbH regarding access to Deutsche Telekom's ULL. Because our network does not have many access lines to customer premises, such lines and other wholesale products of Deutsche Telekom (including bit stream access) are essential for our fixed-line business. These agreements can be terminated by either party at any time with three months' prior written notice. However, Deutsche Telekom is under the regulatory obligation to grant access to its ULL at a rate regulated by the FNA. Therefore, in the event of a termination of the agreement, Deutsche Telekom is obligated to provide us with an alternative contract offer to secure service continuity.

#### *Internet and IP-Bitstream Contracts with Deutsche Telekom*

We have entered into standard agreements with Telekom Deutschland GmbH regarding wholesale internet access and IP bitstream access; such contracts have been renewed in December 2012 and provide us with access to Deutsche Telekom's xDSL connections. These agreements can be terminated by either party at any time with six months' prior written notice. However, Deutsche Telekom is under the regulatory obligation to grant access to its DSL services at a rate regulated by the FNA. Therefore, in the event of a termination of an agreement, Deutsche Telekom is obligated to provide us with an alternative contract offer to secure service continuity.

### ***VDSL Contingency Model with Deutsche Telekom***

We have entered into an agreement with Telekom Deutschland GmbH on 6 December 2012 regarding the provision of accesses to VDSL connections of Deutsche Telekom. The agreement is based upon the VDSL contingency model approved by FNA pursuant to which the rate for the provision of VDSL connections is reduced for a contingent determined at the conclusion of the contract. As a compensation, Deutsche Telekom received an upfront payment. Pursuant to the agreement, the pre-determined contingent can be increased to accesses to up to 11 million VDSL connections. The agreement has a fixed term until 31 March 2024.

### ***Agreement with Versatel***

We have extended our existing fixed and mobile network cooperation with Versatel Group by entering into a new agreement with Versatel Holding GmbH on 16 October 2013 regarding the sale of certain of our owned and leased fibre assets in the area of Hamburg together with related wholesale- and business customer contracts to Versatel. Merger clearance was granted on 11 November 2013. The sale which is still subject to regulatory approval is expected to be completed by the end of 2013. It comprises lease agreements and rights regarding a datacenter for housing services located in the area of Hamburg. Pursuant to the agreement, the respective assets (including infrastructure and agreements, but excluding employees) shall be transferred into a new entity, the shares in which will then be transferred to Versatel. The transaction will also include the signing of additional agreements forming the future relationship between us and Versatel Group. Capacities needed on the sold network after the transfer shall be procured under an additional agreement with a term until 2027, which has already been finalised and will be signed by us and Versatel Deutschland GmbH during the closing procedures. Capacities and services needed by Versatel during the 36 months of migration and thereafter shall be procured under corresponding agreements, which are to be finalised. Additionally, an agreement regarding the building of a fibre ring complementing the sold infrastructure by Telefónica Deutschland is to be agreed before closing.

### ***Agreement with Host Europe***

On 12 September 2013, OHG signed an agreement with Host Europe GmbH according to which OHG sold its subsidiary Telefónica Germany Online Services GmbH in which our web hosting business activities are concentrated to Host Europe GmbH. The closing of the transaction was effected on 31 October 2013. The agreement between OHG and Host Europe GmbH also provides for the future exchange of various services, e.g. central functions, hosting, reporting and billing related services. OHG is obligated not to offer competing hosting services to customers for a period of two years.

### ***Agreement with BT Germany***

Due to the joint corporate history of Telefónica Deutschland and BT Germany GmbH & Co. OHG ("BT"), we still have a strong contractual relationship with BT. Viag Interkom has been the legal predecessor of both, BT and Telefónica Deutschland. Viag Interkom started in 1995 as a mobile and fixed network services operator and has been split into BT (fixed network activities) and Telefónica Deutschland (mobile network activities) in 2001. BT and Telefónica Deutschland are still partially operating under a framework agreement that has been set up in 2003 to cover our contractual relationship.

The most important products BT supplies to us are "Telehousing Services" and "Private Lines". With regard to the Telehousing Services, we entered into a framework agreement with BT on 25 July 2003. Under this agreement, BT provides us with accommodation or floor space, respectively, for the installation and operation of our IT and communications equipment and the supporting infrastructure. In order to keep the relevant floor spaces separated, we conclude individual contracts. We are currently located in 15 of BT's core sites and in 12 of BT's access sites (in total approximately 90% of our core sites). As these sites are formally sites of BT, BT also has the authority to access these sites. Nearly 2,500 floor spaces are in service. The minimum period for individual contracts for the core floor spaces is until 30 September 2015. The minimum period for all other floor spaces depends on the provisions in the individual contracts.

Furthermore, on 25 July 2003, we entered into a framework agreement with BT regarding Private Lines which encompasses the provision of leased lines and in-house cabling. The contract period under this frame agreement is either six or 12 months for each individual contract.

### ***Agreement with Tchibo***

On 24 February 2004, we entered into a framework joint venture agreement with TCHIBO GmbH, Hamburg, regarding a 50/50 joint venture for the distribution of telecommunications services. Pursuant to the joint venture, we provide telecommunication services and TCHIBO GmbH provides marketing and customer acquisition services and the granting of trademark licenses required for distribution purposes. We are the exclusive contractual partner of end-customers and TCHIBO GmbH receives a commission for each mobile services contract procured. The agreement has a minimum term until 31 December 2014 and will automatically be extended for successive periods of two years each

unless terminated with six months' notice prior to the end of a renewal period. According to a supplementary agreement, the parties agreed not to exercise such termination right prior to the end of 2014.

#### **Agreement with Türk Telekom**

On 1 August 2011, we entered into a cooperation agreement with Türk Telekomünikasyon Euro GmbH i.Gr, Frankfurt ("Türk Telekom"). The services offered under the Türk Telekom Mobile brand primarily relate to Turkey and use our brands together with certain Türk Telekom brands in a co-branding style. We hold all agreements with end-customers subscribing to these tariff packages.

#### **Financing Agreements**

OHG has undrawn committed credit lines with maturity beyond one year in a total amount of €710 million. In August and September 2012, OHG, as borrower, entered into revolving credit facility agreements with several banks.

#### **Telefónica Brand**

We license Telefónica brand rights from Telefónica, S.A. pursuant to a license agreement dated 1 January 2011, for which we pay a royalty fee. Telefónica, S.A. manages the Telefónica trademarks and grants us rights to use and sublicense such trademarks in Germany in order to promote our products and services and to be identified as part of the Telefónica Group. The license is of unlimited duration and may only be terminated for good cause or if Telefónica, S.A. reduces its shareholding in the Guarantor to under 51%. If the license is terminated due to a breach by us of the license agreement, we will have a period of at least six months to wind down use of the related brand rights. In connection with the license, we have also agreed to indemnify Telefónica, S.A. against losses incurred from third party claims relating to our use of the trademarks under the license agreement or losses caused by our failure to comply with applicable laws and regulations in Germany, our breach of the license agreement and our unauthorised use of the trademarks.

#### **O<sub>2</sub> Brand**

We license the O<sub>2</sub> brand from O<sub>2</sub> Holdings Limited pursuant to a license agreement and participate in a group cost share agreement with O<sub>2</sub> Holdings Limited and other Telefónica Group entities, both dated 15 October 2007. O<sub>2</sub> Holdings Limited owns and is responsible for, and bears the costs of central management and development and protection of the O<sub>2</sub> brand rights. The other parties, including us, contribute to the costs incurred by O<sub>2</sub> Holdings Limited as owner and manager of such brand rights. We do not pay a royalty for the use of the O<sub>2</sub> brand pursuant to the license agreement. The license territory is Germany and the license includes the right to sublicense. The terms of both the cost share agreement and the license agreement are indefinite, and each may only be terminated for good cause, including if we experience a hostile take-over. If the license and/or the group cost share agreement are terminated due to a breach by us of the license agreement and/or group cost share agreement or due to a change of control – other than in the event of a hostile take-over – we will have a minimum period of six months to wind down use of the related brand rights. In the event of a change of control, other than a hostile take-over, there will be a renegotiation of the license terms but no termination of the license, whereas the cost share agreement may also be terminated due to a change of control that is not a hostile take-over.

This license is of critical importance to our business. If it is terminated, we could be materially adversely affected (see "*Risk Factors – Risks Related to our Relationship with Telefónica, S.A. – We license the use of our primary brand O<sub>2</sub> from Telefónica Group and could be limited in our usage by the terms of the license agreement or for any other reason.*").

#### **Wholesale Roaming Services and Intragroup Roaming Discounts**

We have entered into a service agreement with Telefónica Global Roaming GmbH ("TGR") effective as of 5 December 2009, pursuant to which TGR manages our wholesale roaming business with third parties as well as our mutual roaming discounts with Telefónica Group entities. Among other things, TGR negotiates roaming discount agreements with third party roaming partners on our behalf. The agreement regulates our right to be granted discounts by roaming partners and our obligation to grant discounts to such partners. TGR provides guarantees of the minimum revenues levels and minimum total discounts that we can expect to receive. It also carries out traffic steering and monitoring activities.

With respect to roaming arrangements with Telefónica Group entities, we have GSMA-standard based inter-national roaming agreements with all such entities. Pursuant to the service agreement, TGR negotiates mutual discount agreements with such entities on our behalf. In this regard, we grant discounts on incoming roaming fees to the related Telefónica Group entities and these entities grant us discounts on roaming fees with respect to our outbound traffic. TGR negotiates and agrees on our behalf the amount of such discounts with the other group entities on an annual basis. The discount arrangement may be terminated according to the terms and conditions regulated under each arrangement. In addition, the discount arrangement among the relevant parties expires if the underlying roaming agreement between such parties expires.

The service agreement remains in effect until December 31 of each calendar year ("Eligible Term") and is tacitly renewed for one year periods unless either party serves written notice to the other party at least six months before the

expiration of the then existing Eligible Term. Termination is also possible for good cause or due to a change of control of one of the parties.

Based on an agreement dated 1 May 2012, we have outsourced certain settlement and paying services in relation to wholesale roaming services to TGB.V., which also provides such services to other Telefónica Group entities. Under this agreement, TGB.V. collects fees on our behalf and provides other services related thereto.

#### ***Network Monitoring Services***

We have entered into two agreements with Telefónica Czech Republic, a.s. ("Telefónica Czech") pursuant to one of which Telefónica Czech provides monitoring services for our fixed networks and pursuant to the other of which we provide monitoring services for Telefónica Czech's mobile network, each dated 29 August 2011. For the monitoring of our fixed network, we are required to pay Telefónica Czech a market-based fee. For the monitoring of its mobile network, Telefónica Czech is required to pay us a market-based fee. Each agreement has an initial term until 31 December 2015. The parties will mutually inform each other 12 months prior to expiration whether they wish to negotiate and agree to an extension of the agreements. The agreements may only be terminated for good cause during the initial term, including due to a change of control.

#### ***Multinational Sales Activities***

We benefit from the multinational sales activities coordinated by the Telefónica Group global unit Telefónica Multinational Solutions ("TMS"). TMS has its own central budget and employees at the Telefónica, S.A. level and each of the participating Telefónica Group entities dedicates a number of employees and resources to TMS activities. The function of TMS is to manage the relationship with the top 200 worldwide major customers ("MNCs") of the Telefónica Group and to offer MNCs global products by operating across Telefónica Group units in various jurisdictions. The goal of each local TMS group, having a relationship with an MNC, is to conclude a master agreement for Telefónica Group services with such MNC. The services to be provided under the master agreement are then performed by other Telefónica Group entities in addition to the entity holding the master agreement (the "Lead Operator").

We and other Telefónica Group entities are collaborating with the business unit Telefónica Global Solutions for the development of a managed wide area network ("mWAN"). Pursuant to the collaboration, Telefónica Global Solutions offers a global mWAN service for all Telefónica Group entities, including a service for corporate clients in the German market.

#### ***Procurement***

We have entered into a services agreement with Telefónica Global Services GmbH ("TGS") dated 6 October 2010, pursuant to which we have outsourced our procurement process to TGS. Pursuant to the agreement, TGS conducts the purchase of all kinds of goods and services and performs all related procurement processes including tenders, evaluations and negotiations on our behalf. TGS also performs upfront planning, supplier management, contract management and reporting for us. For these services, we are required to pay TGS a market-based fee. The agreement is for an indefinite term and can be terminated by us with six months' prior notice. The agreement may also be terminated for good cause.

#### ***Deposit and Cash Management Agreements***

We are a party to the cash management system used by the Telefónica Group. In this regard, we entered into certain deposit and cash management agreements with TGB.V. Cash throughout the Telefónica Group is centralised through these arrangements, allowing us to benefit from the economies of scale from the overall Telefónica Group as well as, among other things, from the in-house liquidation of payables and receivables between us and the participating members of the Telefónica Group. Under the cash pooling arrangements, the entire cash surplus available on those of our bank accounts which are included in the cash pool is automatically transferred on a daily basis to master bank accounts held by TGB.V. In addition, we are also able to use other ways to deposit funds on the cash pool account and settle receivables from, and payables to, Telefónica Group companies and third parties via the cash pool. We are able to draw from this pooled account certain amounts exceeding the amount of our cash contributions, up to a maximum amount of €40 million, which helps us to satisfy our working capital requirements. The amount which may be included in the cash pool is capped at an amount equal to our 18-month free cash flow. In addition, we are entitled to make cash deposits for periods between one and up to 12 months in separate accounts. For positive balances in the cash pool account, we are paid a rate of interest set by a reference rate (Libor or Euribor, depending on the relevant currency), plus/less a margin based on market prices. For deposits made in separate accounts for a period between one and up to 12 months we agree with Telefónica Group on the applicable interest rate in each individual case. Similarly, we will be charged interest when we borrow money from the pool exceeding our contributed cash amounts. The interest rate for borrowings is based on a reference rate (Libor or Euribor, depending on the relevant currency), plus a margin based on market prices. The deposit and cash management agreements are automatically renewed every calendar year unless terminated by either party prior to the end of a contractual year upon 30 business days' notice or immediately in certain

circumstances, such as failure to make payments requested under the agreement or if we reasonably believe that our repayment claims under the arrangements are not fully recoverable. Subject only to the general legal rules for the set-off of claims, any claims for the repayment of deposits made under the deposit and cash management agreement can be offset against liabilities under loans granted to us by TGB.V., including, in the case of OHG, the existing loan facility with an outstanding amount at the date of the Prospectus of €1 billion granted by TGB.V on 12 September 2012. In addition, we have significant information rights under the deposit and cash management agreements with regard to the financial condition of Telefónica, S.A. and TGB.V. This helps us to determine whether we may continue participating in the cash pooling or whether any termination rights are triggered and should be exercised. Telefónica, S.A. has guaranteed TGB.V.'s obligations under the cash pool arrangements.

#### ***Financing Agreement***

OHG entered into a loan agreement dated 12 September 2012 with the Telefónica Group entity TGB.V. as lender, pursuant to which TGB.V. agreed to provide a loan facility (the "**Facility**") of originally €1.25 billion bearing interest at the rate of 3-month Euribor plus a margin of 120 basis points, increasing by 40 basis points per year, accruing on a daily basis after drawdown of funds on the basis of a 360 day year. At the day of the Prospectus, the outstanding amount of the Facility is €1 billion. The Facility has a repayment schedule of 20% per year until 2017. OHG has the right to prepay the Facility, in whole or in part in a minimum amount of €100,000, on any interest payment date or subject to payment of a market-based breakage fee. The Facility is also subject to a mandatory prepayment in the event that OHG obtains financing that matures after 13 September 2017, in the amount of 25% of the proceeds received from such financing which will be applied as a prepayment of the Facility. Default interest of an additional 2 percentage points on top of the applicable interest rate will apply in case OHG fails to comply with any of its payment obligations under the loan agreement for any reason. The loan agreement contains certain restrictive covenants, including with respect to disposals of assets, creation of liens, and mergers and consolidations. Upon an event of default, the Facility will be accelerated and all amounts owing under the Facility will become immediately due for repayment. Events of default under the loan agreement include, among others, breach of the loan agreement, in particular a payment breach, an insolvency or similar event, a breach of payment obligations with respect to other indebtedness, and if OHG experiences a change of control.

OHG entered into a short-term loan agreement dated as of 12 September 2012 with TGB.V., as lender. Pursuant to such loan agreement, OHG borrowed an amount of €703 million from TGB.V., which amount was entirely repaid as of 1 October 2012. The circumstances were as follows: On 13 September 2012, the shareholders' meeting of the Guarantor declared a dividend for the year ended 31 December 2011, in the total amount of €7.2 billion. A part of the resulting dividend payment claim was set-off against an existing capital promise in the amount of €2.9 billion (remaining undrawn from two capital promises made in 2003 and 2004, in an aggregate amount of €5.2 billion). The remaining amount of €4.3 billion was paid by the Guarantor to O<sub>2</sub> (Europe) Limited on 14 September 2012. The Guarantor funded this dividend payment through a withdrawal of capital reserves of OHG. To this end, OHG, *inter alia*, used available cash and intra-group loans granted and paid out by TGB.V., an entity of the Telefónica Group, in the amount of €1.25 billion and €703 million based on the two loan agreements already described. OHG repaid the intra-group loan in the amount of €703 million using the proceeds from the sale of the shares in Telefónica Global Activities Holdings B.V. on 1 October 2012.

#### ***Indemnification and Cost Reimbursement Agreement***

In preparation of the initial public offering of the Guarantor in October 2012, we entered into an indemnification and cost reimbursement agreement with Telefónica Germany Holdings Limited, an entity in the Telefónica Group. Under this agreement, Telefónica Germany Holdings Limited agreed (i) to indemnify us from certain liability risks and (ii) to assume the transaction costs, in each case arising out of or in connection with the initial public offering of the Guarantor.

#### ***Licenses and Frequencies***

Since the implementation of the German Telecommunications Act in 2004, it is no longer required to hold a license to operate a public communications network. The licensing regime was replaced by the obligation to notify the FNA prior to operating a public telecommunications network or providing publicly available telecommunications services on a profit-oriented basis. However, the use of mobile frequencies still requires prior frequency assignment.

We hold paired frequency spectrum in the amount of 2 x 67.25 MHz and unpaired spectrum in the amount of 29.2 MHz (overall 163.7 MHz). The following table gives an overview of our frequency spectrum.

Frequency range	Amount of frequency spectrum (in MHz)
800 MHz (paired)	2 x 10
900 MHz (paired)	2 x 5
1,800 MHz (paired)	2 x 17.4
2,000 MHz (paired)	2 x 14.85
2,600 MHz (paired)	2 x 20
<u>Amount of paired frequency spectrum</u>	2 x 67.25
2,000 MHz (unpaired)	19.2
2,600 MHz (unpaired)	10
<u>Amount of frequency spectrum (overall)</u>	163.7

We obtained our first frequencies in 1998 under the former authorisation regime as part of our GSM license. Our GSM license comprises the 1,800 MHz frequency band granted in 1998 as well as frequency usage rights for the 900 MHz band granted in February 2006 (GSM 900: 2 x 5 MHz and GSM 1,800: 2 x 17.4 MHz). The GSM licenses and the corresponding frequency usage rights expire on 31 December 2016. On 21 October 2011, the FNA decided not to redistribute spectrum in the 900 MHz frequency, allowing us to keep our allotted spectrum. Recently, the FNA launched a public consultation to identify demand for spectrum in the 900 MHz and 1,800 MHz frequencies starting in 2017. The FNA has stated that it intends to decide on the next steps for the future use of 900/1,800 MHz spectrum and make new assignments of frequency usage rights effective from 1 January 2017. Following this consultation and after a public hearing which took place on 9 November 2012, the FNA initiated an additional consultation on several scenarios for the future use of frequencies. Interested parties were invited to comment on the scenarios described by the FNA by the end of January 2013. The FNA may extend the terms of GSM licenses and frequency usage rights or allocate frequency usage rights via an award or auction. On 24 June 2013, the FNA published a draft consultation paper in which it presented the proposal to allocate the spectrum in the 900/1,800 MHz bands together with spectrum in the 700 MHz and 1,500 MHz bands by way of an auction. However, the draft foresees a reservation of a 2x5 MHz block in the 900 MHz band for each of the four existing mobile network operators – including us – which shall not be auctioned but granted upon request. Interested parties were invited to comment on the draft consultation paper by 4 October 2013 which we did in due time.

In August 2000, we obtained our UMTS license. The UMTS license comprises frequency usage rights in the amount of 2 x 10 MHz in the frequency range of 2,000 MHz. It expires on 31 December 2020.

In April and May 2010, the FNA auctioned off additional frequencies in the 800 MHz, 1,800 MHz, 2,000 MHz and 2,600 MHz bands, with four mobile network operators participating in the auction. During this auction, we acquired 2 x 10 MHz in the 800 MHz band, 2 x 20 MHz in the 2,600 MHz band (paired), 10 MHz in the 2,600 MHz band (unpaired), 2 x 5 MHz in the 2,000 MHz band (paired), and 19.2 MHz in the 2,000 MHz band (unpaired). These licenses expire in 31 December 2025. The assigned frequencies may be used for wireless network access by using any technology.

During the auction, the 800 MHz frequencies proved to be the most valuable despite the fact that the assignments of the 800 MHz frequencies involve progressive coverage and roll-out obligations. Prior to the auction, the federal states in Germany specified towns and districts with little or no broadband coverage, which were grouped into four priority levels depending on their number of inhabitants. When using the 800 MHz frequencies, network operators are obligated to provide broadband connections to towns and cities in line with the individual priority levels. As soon as the coverage requirement has been met in all four levels, assignees may use the 800 MHz frequencies freely in the respective federal state. All technologies implemented (wireless, DSL, cable, etc.) are considered for the determination whether the requirement has been met. At the end of August 2012, the coverage requirements were fulfilled in all federal states for which there had been requirements. We and the other holders of frequency usage rights are therefore able to freely use the 800 MHz frequencies in these federal states. According to a further roll-out obligation with regard to 800 MHz, each mobile operator has to provide 50% population coverage by the beginning of 2016, which we still have to fulfil. In case we fail to fulfil this obligation, FNA has, in principle, the right to revoke the respective frequency usage rights.

Roll-out requirements also exist for the new frequencies in the 1,800 MHz and 2,600 MHz spectrum ranges: 25% population coverage by the beginning of 2014 and 50% by the beginning of 2016. As GSM and UMTS also count toward these coverage targets, we have already met these requirements.

### **Intellectual Property Rights**

The "O<sub>2</sub>" and "O<sub>2</sub> My Handy" brands which we use are owned by O<sub>2</sub> Holdings Limited and licensed to us for the use in Germany under a group trademark license agreement dated 15 October 2007 (see "*– Material Contracts*").

All "Telefónica" brands which we use are owned by Telefónica, S.A. and may be used by us in Germany on the basis of a trademark user license agreement dated 1 January 2011 (see "*– Material Contracts*").

The license to use the "Alice" brands in Germany granted to us by Telecom Italia expired on 15 February 2013. The process of transferring existing accesses using the "Alice" brand to the "O<sub>2</sub>" brand has been completed accordingly.

The "Türk Telekom Mobile" and "Tchibo mobil" brands are owned by our respective cooperation partners.

We own the "netzclub" brand.

In addition to the brands mentioned above, the trademarks "Loop" and "FONIC" are significantly relevant trademarks. We own these two trademarks. They are registered for use in the EC.

### **Management and Administrative Bodies of Telefónica Deutschland Holding AG**

The Guarantor's governing bodies are the management board (*Vorstand*), the supervisory board (*Aufsichtsrat*) and the general shareholders' meeting (*Hauptversammlung*). The powers of these governing bodies are determined by the German Stock Corporation Act (*Aktiengesetz*), the Guarantor's articles of association and the by-laws of both the management board and the supervisory board. In general, the management board is responsible for managing the company in accordance with applicable law, the Guarantor's articles of association and its by-laws. The management board represents the Guarantor in dealings with third parties.

According to its articles of association, the Guarantor is legally represented by two members of the management board acting jointly or by one member acting jointly with one authorised signatory (*Prokurst*). If only one person is appointed to the management board, that person is entitled to represent the Guarantor solely.

### **Members of the Management Board**

The Guarantor's management board currently comprises three members. The following table shows the members of the management board as of the date of this Prospectus, their position as well as their current other mandates outside the Guarantor:

Name	Responsibilities	Other mandates
<b>René Schuster</b>	CEO (Chief Executive Officer) ( <i>Vorstandsvorsitzender</i> )	Member of Telefónica Europe Executive Committee; Telefónica Europe Advisory Board; Telefónica Europe Project Approvals Committee  Board member of Telefónica Global Transformation Committee  Board member of "Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V."
<b>Rachel Empey</b>	CFO (Chief Financial Officer)	–
<b>Markus Haas</b>	CSO (Chief Strategy Officer)	Member of the board of "Association of Telecommunications and value-added Service Provider"  Member of the board of "Bundesverband Breitbandkommunikation e.V."

The members of the management board may be reached at the Guarantor's business address.

### **Shareholdings of the Management Board Members**

None of the members of the Guarantor's management board holds shares in the Guarantor or options on shares in the Guarantor.

René Schuster holds 154 shares of Telefónica, S.A. He is further entitled to be granted, without consideration, 35,787 shares of Telefónica, S.A. on 30 June 2014 and 41,264 shares of Telefónica, S.A. on 30 June 2015, respectively, if certain conditions are met.

Rachel Empey holds 4,298 shares of Telefónica, S.A. She is further entitled to be granted, without consideration, 6,175 shares of Telefónica, S.A. on 30 June 2014 and 7,511 shares of Telefónica, S.A. on 30 June 2015, respectively, if certain conditions are met.

Markus Haas holds 2,908 shares of Telefónica, S.A. He is further entitled to be granted, without consideration, 6,387 shares of Telefónica, S.A. on 30 June 2014 and 7,863 shares of Telefónica, S.A. on 30 June 2015, respectively, if certain conditions are met.

The supervisory board of Telefónica Deutschland Holding AG intends to grant to the members of management board, without consideration, further shares of Telefónica, S.A. on 30 June 2016, if certain conditions are met. The exact number of shares to be granted has not been determined yet.

#### ***Conflict of Interest***

René Schuster holds other positions within Telefónica Group that are outside Telefónica Deutschland. René Schuster and Rachel Empey both have employment agreements with entities of Telefónica Group, which are suspended as long as they are members of the Guarantor's management board and can be reinstated thereafter if certain conditions are met. In addition, the variable components of the management board members' remuneration depend in part on the performance of the business unit Telefónica Europe and Telefónica Group. Therefore, conflicts of interest could arise for all members of the Guarantor's management board between their duties towards Telefónica Group and its interest as the Guarantor's main shareholder on the one hand and their duties as members of the Guarantor's management board and its interests on the other hand. However, the cash variable components of the management board members' remuneration depend to a larger extent on the business performance of the Guarantor. Other than mentioned in this paragraph, there are no conflicts between private interests and other duties of the members of the Management Board.

#### **Members of the Supervisory Board**

The Guarantor's supervisory board appoints the members of the management board and is entitled to dismiss them for good cause (*aus wichtigem Grund*). As set out in the German Stock Corporation Act, the supervisory board advises on, and supervises, the management board's management of the company, but is not itself authorised to manage the Guarantor.

In accordance with the Guarantor's articles of association and Sections 95 and 96 of the German Stock Corporation Act and applicable provisions of the German Co-Determination Act (*Mitbestimmungsgesetz*), the Guarantor's supervisory board consists of 12 members (six shareholder representatives and six employee representatives). The following table lists the members of the supervisory board as of the date of this Prospectus, their positions and other current mandates outside the Guarantor:

Name	Responsibilities	Other mandates
Eva Castillo Sanz	Chairperson	<ul style="list-style-type: none"><li>• Telefónica, S.A., Member of the Board</li><li>• Telefónica Europe, plc, Chairperson and Chief Executive Officer</li><li>• Telefónica Czech Republic, a.s., Chairperson of the Supervisory Board</li><li>• Tuenti Technologies, S.L., Chairperson</li><li>• Bankia S.A., Member of the Board</li><li>• Comillas – ICAI Foundation, Member of the Board</li></ul>
Imke Blumenthal*	Deputy Chairperson	

María Pilar López Álvarez	Member	<ul style="list-style-type: none"> <li>• Telefónica Europe, plc, Director</li> <li>• Telefónica Czech Republic, a.s., Member of the Supervisory Board, Vice Chairperson of the Audit Committee and Member of the Nomination and Remuneration Committee</li> <li>• mmO<sub>2</sub> plc, Director</li> <li>• O<sub>2</sub> Holdings Limited, Director</li> <li>• O<sub>2</sub> (Europe) Limited, Director</li> <li>• Wolseley PLC, non-executive Director</li> </ul>
Angel Vilá Boix	Member	<ul style="list-style-type: none"> <li>• Telefónica, S.A., Chief Financial and Corporate Development Officer, member of the Executive Committee</li> <li>• Telco S.P.A., Vice chairman</li> </ul>
Patricia Cobián González	Member	<ul style="list-style-type: none"> <li>• Telefónica Europe, Director</li> </ul>
Christoph Heil*	Member	<ul style="list-style-type: none"> <li>• Capgemini GmbH, Member of the Supervisory Board</li> </ul>
Michael Hoffmann	Member	<ul style="list-style-type: none"> <li>• Lekkerland AG &amp; Co. KG, CEO</li> </ul>
Enrique Medina Malo	Member	<ul style="list-style-type: none"> <li>• Telefónica Europe, plc, Member of the Board</li> <li>• mmO<sub>2</sub> plc, Director</li> <li>• O<sub>2</sub> Holding Limited, Director</li> <li>• O<sub>2</sub> (Europe) Limited, Director</li> <li>• Wayra UK Limited, Director</li> <li>• O<sub>2</sub> Cedar Limited, Member of the Board</li> <li>• O<sub>2</sub> Networks Limited, Member of the Board</li> <li>• O<sub>2</sub> International Holdings Limited, Member of the Board</li> </ul>
Thomas Pfeil*	Member	
Marcus Thurand*	Member	
Dr. Jan-Erik Walter*	Member	
Claudia Weber*	Member	<ul style="list-style-type: none"> <li>• Deputy Managing Director of Unified Service Sector Union, ver.di, Munich</li> </ul>

\* employee representatives

The members of the supervisory board may be reached at the Guarantor's business address.

#### ***Shareholdings and Options of the Supervisory Board***

Among the members of the Guarantor's supervisory board, Eva Castillo Sanz and Angel Vilá Boix each hold 10,000 shares in the Guarantor and Thomas Pfeil holds 200 shares in the Guarantor. None of the other members of the Guarantor's supervisory board holds shares in the Guarantor or options on shares in the Guarantor.

Enrique Medina Malo holds 31,178 shares of Telefónica, S.A. He is further entitled to be granted, without consideration, 7,711 shares of Telefónica, S.A. on 30 June 2013, 7,487 shares of Telefónica, S.A. on 30 June 2014 and 13,120 on 30 June 2015, respectively, if certain conditions are met.

Eva Castillo Sanz holds 97,089 shares of Telefónica, S.A.

Patricia Cobián González holds 9,622 shares of Telefónica, S.A. She is further entitled to be granted, without consideration, 5,237 shares of Telefónica, S.A. on 30 June 2014, and 13,933 shares of Telefónica, S.A. on 30 June 2015 respectively, if certain conditions are met.

María Pilar López Álvarez holds 39,453 shares of Telefónica, S.A. She is further entitled to be granted, without consideration, 23,100 shares of Telefónica, S.A. on 30 June 2014, and 31,804 shares of Telefónica S.A. on 30 June 2015 respectively, if certain conditions are met.

Angel Vilá Boix holds 95,494 shares of Telefónica, S.A. He is further entitled to be granted, without consideration, 54,265 shares of Telefónica, S.A. on 30 June 2014 and 161,287 shares of Telefónica, S.A. on 30 June 2015, respectively, if certain conditions are met.

Thomas Pfeil holds 431 shares of Telefónica, S.A.

Imke Blumenthal, Marcus Thurand and Dr. Jan-Erik Walter hold 93 shares, 229 shares and 229 shares of Telefónica, S.A., respectively. Markus Thurand is further entitled to be granted 2,647 shares of Telefónica, S.A. on 30 June 2015 if certain conditions are met.

Imke Blumenthal, Marcus Thurand and Dr. Jan-Erik Walter participate in the global employee share plan of Telefónica, S.A. based on which they are entitled to acquire shares of Telefónica, S.A. through maximum monthly instalments of € 100 up to a maximum of € 1,200 over a period of 12 months, if certain conditions are met.

Michael Hoffmann, Christoph Heil and Claudia Weber do not hold any shares of or options on shares of Telefónica, S.A.

#### ***Conflicts of Interest of the Supervisory Board***

The shareholder representatives in the Guarantor's supervisory board, except for Michael Hoffmann, also hold other positions within the Telefónica Group that are outside Telefónica Deutschland. Therefore, conflicts of interest could arise for those members of the supervisory board, except for Michael Hoffmann, between their duties towards Telefónica Group and Telefónica, S.A.'s interest as the indirect main shareholder on the one hand and their duties as members of the supervisory board and the interests of Telefónica Deutschland on the other. For the members of the supervisory board which are employees' representatives conflicts of interest could arise between their duties as employees of Telefónica Deutschland and their duties as supervisory board members. Other than mentioned in this paragraph, there are no conflicts between private interests and other duties of the members of the Supervisory Board.

#### ***Committees of the Supervisory Board of the Guarantor***

The following committees have been established by the supervisory board of the Guarantor:

The supervisory board has established an audit committee which is responsible for the preparation of advice and the resolution on accounting matters. This includes questions relating to accounting and risk management and the requisite independence of the external auditor and commissioning an external auditor. At least one member of the audit and finance committee shall be an independent member having expertise knowledge in the fields of accounting and annual auditing within the meaning of Section 107 (4) in connection with Section 100 (5) German Stock Corporation Act. At present, this is Michael Hoffmann. The audit committee comprises four members. The by-laws of the supervisory board provide that the audit committee shall comprise of two shareholders' representatives (one of which shall be the independent member of the supervisory board, who will chair the audit committee) and two employees' representatives. The by-laws of the supervisory board further provide that the independent member of the supervisory board shall have the casting vote.

The following table shows the members of the audit committee:

Name	Position
Michael Hoffmann	Chairperson
Maria Pilar López Álvarez	Member
Thomas Pfeil	Member
Christoph Heil	Member

Besides the audit committee, the supervisory board of the Guarantor has also established a nomination committee and a mediation committee.

#### ***Corporate Governance Code***

The German Corporate Governance Code (*Deutscher Corporate Governance Kodex*) (the "Code" or "GCGC"), contains recommendations and suggestions for managing and supervising German companies listed on a stock exchange. The Code contains provisions relating to shareholders and the general shareholders' meeting, the management board, the supervisory board and to transparency, accounting policies and auditing. There is no obligation to comply with the recommendations and suggestions of the Code. However, the German Stock Corporation Act requires the management board and supervisory board of a listed company to make an annual declaration that it follows and will follow the recommendations of the Code or which of the recommendations were or will not be followed. The declaration must be published on the Guarantor's website.

In its current declaration of conformity according to Section 161 of the German Stock Corporation Act regarding the Code, the Guarantor's management board and supervisory board declared that the recommendations of the Code in the then relevant version as of 15 May 2012 have been complied with as of the admission of the shares of the Guarantor to trading on the regulated market of the Frankfurt stock exchange, are being and will be complied with, subject to the following exceptions:

1. The GCGC recommends in 3.4, 2<sup>nd</sup> paragraph, that the supervisory board shall specify the information and reporting duties of the management board in more detail. As the Guarantor was only created through a transformation of form on 26 September 2012, the supervisory board first wished to discuss which particular reports it required, in addition to the reports required by statute, in order to complete its advisory and supervisory tasks. By resolution dated 28 February 2013, the supervisory board amended the by-laws for the management board and detailed the requirements for the standard reports under § 90 (1) sentence 1 No. 1 German Stock Corporation Act as well as determining further reporting obligations, so that the recommendation will be fully complied with in the future.
2. The recommendation in 4.2.3, 2<sup>nd</sup> paragraph, sentence 4 GCGC that both positive and negative developments be taken into account with respect to the structure of the variable remuneration components, has not been and will not be followed. The management board and the supervisory board are of the opinion that the remuneration of the management board is oriented towards a sustainable company development. The remuneration consists of fixed as well as of short- and long-term components. The relevant parameters for the determination of the annual bonus are overall oriented towards sustainable development and structured in a way that they, as a whole, do not provide incentives for business decisions which are opposed to the interests of the Guarantor.
3. In 4.2.3, 3<sup>rd</sup> paragraph, sentence 2, the GCGC recommends that share-based and performance-based remuneration components shall relate to rigorous and relevant comparison parameters. A partial derogation from such recommendation has been and will be made. The amount of the annual bonus depends to a small extent also on parameters regarding Telefónica Europe and Telefónica, S.A. In addition, a part of the long-term remuneration components is dependent on the Total Shareholder Return of the Telefónica, S.A. shares. The management board and the supervisory board are of the opinion that no misdirected incentives are created thereby.
4. The recommendation in 4.2.3, 3<sup>rd</sup> paragraph, sentence 3 GCGC that forbids a retroactive change of performance objectives or comparison parameters has not been and will not be followed. The service contracts allow a retroactive change of the criteria for the variable remuneration. From the management board's and the supervisory board's view, this is necessary because the Guarantor is active in an extremely volatile and innovative market environment, and a change of corporate strategy in the interest of a sustainable company development must also be possible within the calculation period for the variable remuneration components. Such changes of corporate strategy necessary with a view to reasonable company interests shall not be hindered or delayed as a result of monetary interests of the members of the management board. Thus, in particular the supervisory board is of the opinion that flexibility is required as to performance objectives and comparison parameters.
5. In deviation from the recommendation in 4.2.3, 4<sup>th</sup> paragraph GCGC, no formal severance payment cap in the event of premature termination of the management board mandate is agreed in the service contracts. A combination of various mechanisms in the service contracts ensures that a member of the management board in the event of premature termination of the mandate as a general rule receives less, and in no event more than the amount that is recommended by the GCGC as a severance payment cap.
6. The recommendation in 4.2.5, 2<sup>nd</sup> paragraph GCGC that the compensation report shall also include information on the nature of fringe benefits provided by the Guarantor has only been followed in part. The general meeting on 5 October 2012 resolved pursuant to § 286 (5) German Commercial Code, to dispense with disclosure of the compensation of individual management board members for the period of 5 years. Therefore, the fringe benefits provided by the Guarantor are only disclosed to the extent they are provided to all management board members. Where fringe benefits are only provided to individual management board members, these are not shown. The

management board and supervisory board take the view that the individualisation involved in the disclosure of these individual benefits would contradict the resolution of the general meeting and anyway would represent too large an intrusion on the private sphere of the relevant management board members.

7. Contrary to the recommendation in 5.1.2, 2<sup>nd</sup> paragraph, sentence 3 GCGC, the Guarantor has not determined any age limit for management board members. A fixed age limit for management board members is not appropriate in the view of Telefónica Deutschland Holding AG, since the ability to successfully run a company is not necessarily restricted by reaching a certain age. Rather it may be necessary where appropriate in the interest of the Guarantor to appoint persons of advanced age with extensive experience even after they reach a particular age limit. In addition, the setting of a fixed age limit could also constitute discrimination.
8. Pursuant to 5.4.1, 2<sup>nd</sup> paragraph GCGC, the supervisory board shall specify concrete objectives regarding its composition. The current members of the supervisory board elected by the general meeting have been elected until the end of the ordinary general meeting in the year 2017, which resolves on the discharge for the financial year 2016. Under these circumstances, there is currently no pressing need to determine the objectives for the composition of the supervisory board. Nevertheless, the supervisory board has on 28 February 2013 resolved on concrete objectives regarding its composition, however, without specifying a concrete objective regarding an age limit for supervisory board members. Just as for management board members, a fixed age limit for supervisory board members is not appropriate in the view of Telefónica Deutschland Holding AG, since the ability to control and supervise the management board is not necessarily restricted by reaching a certain age. Rather, it may be necessary where appropriate in the interest of the Guarantor to appoint persons of advanced age with extensive experience even after they reach a particular age limit. In addition, the setting of a fixed age limit could also constitute discrimination.
9. Notwithstanding the recommendation in 5.4.6, 1<sup>st</sup> paragraph, sentence 3 GCGC that the chair and membership in committees is also to be taken into account in the compensation of the supervisory board members, only the chair of the audit committee receives an additional compensation. The Guarantor takes the view that this reasonably takes into account the current composition of the supervisory board.
10. 7.1.2 sentence 4 GCGC provides that interim reports shall be publicly accessible within 45 days of the end of the reporting period. In addition, quarterly financial reports shall be discussed with the supervisory board or its audit committee prior to publication pursuant to 7.1.2 sentence 2 GCGC. These recommendations were not followed in the publication of the report for the third quarter 2012. A prior discussion with the audit committee of the supervisory board was not possible for lack of time. The publication deadline could not be complied with due to the public tender of the Guarantor's shares and the admission to listing on the stock exchange which took place on 30 October 2012 and the amount of work involved therewith. It is intended that this recommendation shall be complied with in the future.

### **Share Capital**

The registered share capital (*gezeichnetes Grundkapital*) of the Guarantor amounts to €1,116,945,400 and is divided into 1,116,945,400 shares with no-par value and a notional amount of the registered share capital of €1.00 each. The Guarantor's registered share capital is fully paid up.

### **Major Shareholders**

The following table provides an overview of the shareholding structure of the Guarantor:

Shareholdings		
Name of shareholder	Ordinary registered shares	in %
<b>Telefónica Germany Holdings Limited<sup>1</sup></b>	858,195,400	76.83
<b>Freefloat</b>	258,750,000	23.17
<b>Total</b>	<b>1,116,945,400</b>	<b>100</b>

<sup>1</sup> Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica, S.A.

<sup>2</sup> Based on voting rights notifications received as of the date of the Prospectus, voting rights are attributable to the following entities pursuant to Article 22 Section 1 sentence 1 No. 6 WpHG: BlackRock, Inc, NY (33,820,307 voting rights; 3.03%), BlackRock Holdco 2, Inc. Willmington, DE (33,811,969 voting rights; 3.03%), and BlackRock Financial Management, Inc., NY (33,811,969 voting rights; 3.03%), BlackRock Advisors Holdings, Inc., NY (33,333,434 voting rights; 2.98%).

## **Employees**

As of 30 September 2013, we employed 5,034 full time equivalents ("FTE") (compared to 5,016 FTEs as of 31 December 2012 (not including employees of entities that ceased to be members of Telefónica Deutschland prior to our initial public offering in 2012)).

All of our employees are employed in Germany.

## **Selected Financial Information**

The selected key financial information of the Guarantor below as of and for the year ended 31 December 2011 was taken or derived from the Guarantor's audited combined financial statements as of and for the years ended 31 December 2011, 2010 and 2009, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, ("IFRS") taking into account the basis of preparation as set out in Note 1 to the combined financial statements (the "**Combined Financial Statements 2009-2011**"), and the selected key financial information as of and for the year ended 31 December 2012 from the Guarantor's audited consolidated financial statements as of and for the year ended 31 December 2012, prepared in accordance with IFRS and the additional requirements of German commercial law pursuant to Section 315a(1) German Commercial Code (*Handelsgesetzbuch; HGB*) (the "**Consolidated Financial Statements 2012**"), and the selected key financial information as of 30 September 2013 and for the nine months ended 30 September 2013 and 2012 from the Guarantor's unaudited interim condensed consolidated financial statements as of and for the nine months ended 30 September 2013, prepared in accordance with IFRS on interim financial reporting (International Accounting Standard (IAS) 34) (the "**Unaudited Interim Condensed Consolidated Financial Statements**"), as well as for each of these periods from the Guarantor's accounting records or internal management reporting systems.

The Consolidated Financial Statements 2012 include the assets and liabilities, and the Consolidated Financial Statements 2012 as well as the Unaudited Interim Condensed Consolidated Financial Statements include income and expenses and cash flows of the entities Group 3G UMTS Holding GmbH, Quam GmbH and Telefónica Global Services GmbH, together with its subsidiaries Telefónica Global Roaming GmbH, Telefónica Compras Electronicas S.L., and the indirectly held 40% interest in Adquira España S.A., until 1 October 2012 when these entities ceased to be direct and indirect subsidiaries or associates of the Guarantor. According to IFRS 5 "Non-current assets held for sale and discontinued operations" the income and expenses and cash flows of these sold entities are separately disclosed in the consolidated income statement of the Consolidated Financial Statements 2012 and of the Unaudited Interim Condensed Consolidated Financial Statements, respectively, as profit after taxes from discontinued operations and in the consolidated statement of cash flows of the Consolidated Financial Statements 2012 and of the Unaudited Interim Condensed Consolidated Financial Statements, respectively, as cash flow from operating activities from discontinued operations, cash flow from investing activities from discontinued operations and cash flows from financing activities from discontinued operations, respectively. However, according to IFRS 5 "Non-current assets held for sale and discontinued operations" the assets and liabilities of these sold entities are not separately disclosed in the comparative financial information as of 31 December 2011 in the consolidated statement of financial position of the Consolidated Financial Statements 2012.

The Combined Financial Statements 2009-2011 do not include the assets and liabilities, income and expenses and cash flows of the sold entities mentioned above.

Where financial information in this section is labelled "audited", this means that it was taken or derived from the Combined Financial Statements 2009-2011 or from the Consolidated Financial Statements 2012. The label "unaudited" is used in this section to indicate financial information that was not taken or derived from the Combined Financial Statements 2009-2011 or Consolidated Financial Statements 2012.

The table below sets forth certain selected income and cash flow information of Telefónica Deutschland for the years ended 31 December 2012 and 2011 as well as for the nine months ended 30 September 2013 and 2012:

	For the year ended 31 December		For the nine months ended 30 September	
	2012	2011	2013	2012
	(in € thousand, unless otherwise indicated)		(in € thousand, unless otherwise indicated)	
	(audited, unless otherwise indicated)		(unaudited)	
<b>Revenues:</b> .....	5,212,838	5,035,552	3,670,691	3,870,768
Wireless Business .....	3,845,053	3,605,747	2,728,737	2,831,543
Wireless Service Revenues <sup>1</sup> .....	3,151,838	2,946,465	2,246,366	2,359,265
Handset Revenues .....	693,215	659,282	482,371	472,278
Wireline Business .....	1,363,203	1,425,740	937,597	1,035,810
Other .....	4,582	4,065	4,357	3,415
<b>OPERATING INCOME BEFORE DEPRECIATION AND AMORTISATION (OIBDA):</b> .....	1,279,074	1,149,237	864,062	936,200
<b>PROFIT OR LOSS FOR THE YEAR/PERIOD FROM CONTINUING OPERATIONS/RESULT FOR THE YEAR<sup>2</sup> .....</b>	307,523	71,346	(823)	108,349
Basic earnings per share from continuing operations/basic earnings per share (2011 unaudited) <sup>3</sup> (€) .....	0.28	0.06	(0.00)	0.10
<b>OPERATING CASH FLOW (OIBDA-CapEx) FROM CONTINUING OPERATIONS/OPERATING CASH FLOW (OIBDA-CapEx) (unaudited)<sup>4</sup> .....</b>	670,233	591,586	396,399	484,084
<b>FREE CASH FLOW PRE DIVIDENDS FROM CONTINUING OPERATIONS/FREE CASH FLOW PRE DIVIDENDS (unaudited)<sup>5</sup> .....</b>	675,957	697,048	543,567	552,946

<sup>1</sup> Adjusted for the effect of substantial decreases in voice mobile termination rates ("MTR") in December 2012, Wireless Service Revenues would have been €9 million higher in the year ended 31 December 2012 and € 91.8 million higher in the nine months ended 30 September 2013 (MTR cut from €0.0339 until 30 November 2012 to €0.0185 after 1 December 2012).

<sup>2</sup> Result for the year 2011 as disclosed in the Combined Financial Statements 2009-2011. No discontinued operations in 2013.

<sup>3</sup> Basic earnings per share from continuing operations for 2012 are calculated as profit attributable to ordinary equity holders of the parent from continuing operations (equal to the profit for the year from continuing operations) for 2012 divided by the weighted average number of ordinary shares for 2012 in the amount of 1,117,001 thousand. Basic earnings per share for 2011 (unaudited) are calculated as result for the year 2011

divided by the weighted average number of ordinary shares of 2012. For comparability purposes, the 2012 weighted average number of ordinary shares also has been used for the year 2011. Basic earnings per share from continuing operations for the nine months ended 30 September 2013 and 2012 are calculated as profit or loss attributable to ordinary equity holders of the parent from continuing operations (equal to the profit or loss for the period from continuing operations) divided by the weighted average number of ordinary shares for the nine months ended 30 September 2013 in the amount of 1,116,945 thousand. For comparability purposes, the weighted average number of ordinary shares for the nine months ended 30 September 2013 also has been used for nine months ended 30 September 2012.

- <sup>4</sup> Operating cash flow (OIBDA-CapEx) from continuing operations for 2012 as well as for the nine months ended 30 September 2013 and 2012 is calculated as OIBDA from continuing operations minus Capital Expenditures ("CapEx") from continuing operations. Operating cash flow (OIBDA-CapEx) for 2011 is calculated as OIBDA minus Capital Expenditures (CapEx). CapEx is defined as additions of property, plant and equipment and intangible assets derived from the composition of and movements in property, plant and equipment and intangible assets information. CapEx from continuing operations in 2012 amount to €608,841k, CapEx in 2011 amount to €557,651k and CapEx from continuing operations in the nine months ended 30 September 2013 and 2012 amount to €467,663k and €452,116k, respectively.
- <sup>5</sup> Free cash flow pre dividends from continuing operations for 2012 and the nine months ended 30 September 2013 and 2012 is defined as the sum of cash flow from operating activities from continuing operations and cash flow from investing activities from continuing operations derived from the Consolidated Financial Statements 2012 and the Unaudited Interim Condensed Consolidated Financial Statements, respectively. Free Cash flow pre dividends for 2011 is defined as the sum of cash flow from operating activities and cash flow from investing activities derived from the Combined Financial Statements 2009-2011.

The table below sets forth certain key financial information for the years ended 31 December 2012 and 2011 as well as for the nine months ended 30 September 2013:

	For the year ended 31 December		For the nine months ended 30 September
	2012	2011	2013
	(in € thousand)		(in € thousand)
			(audited, unless otherwise indicated)
<b>Capital Expenditures from continuing operations/Capital Expenditures (unaudited)<sup>1</sup></b>	<b>608,841</b>	<b>557,651</b>	<b>467,663</b>

	As of 31 December		As of 30 September
	2012	2011	2013
	(in € thousand, unless otherwise indicated)		(in € thousand, unless otherwise indicated)
			(audited, unless otherwise indicated)
<b>Net Financial Indebtedness (unaudited)<sup>2</sup></b>	<b>842,290</b>	<b>(4,112,568)</b>	<b>744,933</b>
<b>Leverage Ratio (unaudited)<sup>3</sup></b>	<b>0.7x</b>	<b>(3.6x)</b>	<b>0.6x</b>
<b>Total Assets</b>	<b>9,069,807</b>	<b>13,015,348</b>	<b>8,378,491</b>
<b>Equity</b>	<b>6,428,793</b>	<b>11,756,290</b>	<b>5,916,321</b>

<sup>1</sup> Capital Expenditures ("CapEx") are defined as additions of property, plant and equipment and intangible assets derived from the composition of and movements in property, plant and equipment and intangible assets information.

<sup>2</sup> Net Financial Indebtedness includes all current and non-current interest-bearing financial assets and interest-bearing financial liabilities. Net Financial Indebtedness is calculated as follows: non-current interest-bearing debt (€750,000k as of 30 September 2013 and €1,000,000k as of 31 December 2012) plus non-current finance lease / finance leasing payables (€7,192k as of 30 September 2013, €4,985k as of 31 December 2012 and €6,342k as of 31 December 2011) plus current interest-bearing debt (€250,889k as of 30 September 2013 and €250,878k as of 31 December 2012) plus current finance lease / finance leasing payables (€ 2,561k as of 30 September 2013, €3,964k as of 31 December 2012 and €5,444k as of 31 December 2011) minus the non-current "O2 My Handy" receivables (€61,461k as of 30 September 2013, €93,770k as of 31 December 2012 and €89,889k as of 31 December 2011) and the current portion of "O2 My Handy" receivables of €96,263k as of 30 September 2013, minus other current financial assets (€442k as of 30 September 2013, €101k as of 31 December 2012 and €2,885,897k as of 31 December 2011) and minus cash and cash equivalents (€107,543k as of 30 September 2013, €323,666k as of 31 December 2012 and €1,148,568k as of 31 December 2011).

The current portion of "O<sub>2</sub> My Handy" is included in our calculation of Net Financial Indebtedness for the first time as of 30 June 2013 and had not been considered in the calculation of Net Financial Indebtedness as of 31 December 2012 and as of 31 December 2011.

<sup>3</sup> Leverage Ratio ("**Leverage Ratio**") is defined as Net Financial Indebtedness divided by OIBDA for the twelve month period ended at the respective reporting date. The OIBDA for the twelve month period ended 30 September 2013 amounting to €1,206,936k million has been calculated by adding the OIBDA for the year ended 31 December 2012 (derived from the Consolidated Financial Statements 2012) to the OBIDA for the nine months ended 30 September 2013 (derived from the Unaudited Interim Condensed Consolidated Financial Statements) and subtracting the OIBDA for the nine months ended 30 September 2012 (derived from the Unaudited Interim Condensed Consolidated Financial Statements).

The table below sets forth certain operating information relating to selected operational information for the years ended 31 December 2012 and 2011 as well as for the nine months ended 30 September 2013 and 2012:

	For the year ended 31 December		For the nine months ended 30 September	
	2012	2011	2013	2012
	(accesses in thousands, except as otherwise indicated)		(accesses in thousands, except as otherwise indicated)	
		(unaudited)		(unaudited)
<b>Mobile Accesses:</b>				
Post-paid .....	10,109	9,236	10,316	9,889
Pre-paid.....	9,191	9,144	9,261	9,225
<b>Total .....</b>	<b>19,300</b>	<b>18,380</b>	<b>19,576</b>	<b>19,114</b>
<b>Fixed Accesses:</b>				
Retail DSL .....	2,376	2,588	2,266	2,430
Wholesale ULL.....	1,088	1,042	1,130	1,105
Fixed Telephony .....	2,249	2,055	2,145	2,296
Narrowband and other .....	360	418	319	375
<b>Total .....</b>	<b>6,073</b>	<b>6,103</b>	<b>5,860</b>	<b>6,206</b>
<b>Mobile ARPU (in €):</b>				
Blended.....	13.8	13.6	12.7	13.8
Post-paid .....	21.5	21.9	19.5	21.7
Pre-paid.....	5.5	5.7	5.2	5.5
Data.....	6.2	5.6	6.2	6.1
Non-SMS as a percentage of data revenue (%) .....	56.7	50.4	65.5	55.6
Data Contribution to blended ARPU (%) .....	44.7	41.3	48.4	44.5
Blended churn (%).....	2.2	2.2	2.2	2.2
Post-paid churn (%) .....	1.5	1.7	1.4	1.5

## **Historical Financial Information**

The Guarantor's Combined Financial Statements 2009-2011 and the respective audit opinion thereon are incorporated by reference into this Prospectus.

The Guarantor's Consolidated Financial Statements 2012 and the respective audit opinion thereon are incorporated by reference into this Prospectus.

The aforementioned Combined Financial Statements 2009-2011 of the Guarantor have been prepared in accordance with IFRS, taking into account the basis of preparation as set out in Note 1 to the Combined Financial Statements 2009-2011, and the Consolidated Financial Statements 2012 of the Guarantor in accordance with IFRS and the additional requirements of German commercial law pursuant to Section 315a (1) German Commercial Code (*Handelsgesetzbuch; HGB*).

The Unaudited Interim Condensed Consolidated Financial Statements of the Guarantor, prepared in accordance with IFRS on interim financial reporting (International Accounting Standard (IAS) 34), are incorporated by reference into this Prospectus.

## **Recent Development and Outlook**

On 2 May 2013, Telefónica Deutschland and Telekom Deutschland GmbH signed a "memorandum of understanding" broadening their cooperation with regard to fixed-line services and providing for Telefónica Deutschland's expanded access to the advanced network infrastructure of Telekom Deutschland (the so-called "next generation access platform" or NGA platform) enabling Telefónica Deutschland to offer its customers high-speed internet products with data transfer rates of up to 100Mbit/s. In June 2013, the Federal Cartel Office (*Bundeskartellamt*) has confirmed that the cooperation is not subject to merger control clearance. The proceeding for the approval of the envisaged cooperation by the FNA has been initiated in October 2013 and is expected to be finalised by end of 2013. The start of the cooperation, which is still subject to a final and binding agreement with Telekom Deutschland GmbH, which is currently envisaged to be entered into by the end of 2013, is scheduled for 2014. The completion of the transition from Telefónica Deutschland's ADSL infrastructure to the NGA platform of Deutsche Telekom is expected for 2019.

In a German law governed SPA dated 23 July 2013 between KPN, Telefónica, S.A. and the Guarantor, the Guarantor agreed to purchase all assets, certain liabilities and business activities of the E-Plus Group. As consideration for the purchase of the E-Plus Group, KPN will receive in total € 5 billion in cash and 20.5% in the Guarantor's total issued share capital (17.6% in the Guarantor's total issued share capital in case of full exercise of the call option by Telefónica, S.A., respectively) (for further details on and financing of the SPA, please see "*- Material Contracts - Sale and Purchase Agreement with regard to the E-Plus Group*"; for further details on the business of the E-Plus Group, please see "*Acquisition of E-Plus Group – Business of the E-Plus Group*").

The consummation of the Transaction is subject to the occurrence of a number of conditions precedent, including merger clearance, the absence of a material adverse change with regard to the E-Plus Group and fulfillment of certain German corporate law requirements relating to the capital increase by the Guarantor against contribution in kind. The Transaction was approved by an extraordinary shareholders' meeting of KPN on 2 October 2013. With regard to the merger clearance, we expect a very thorough review of the Transaction by the competent competition authority. The Transaction will not materialise should KPN receive and accept an offer for the E-Plus Group prior to 1 December 2013 which is to be deemed superior (as this term is defined in the SPA). The Guarantor must pay to KPN a break-fee of € 100 million, if the SPA is not consummated as a result of the European Commission or the German Federal Cartel Office (*Bundeskartellamt*) or any other governmental authority having jurisdiction in respect of the consummation of the SPA should not approve the consummation of the SPA.

The Transaction is in particular conditional upon the approval of the relevant merger control authority. The pre-notification process has commenced soon after the sale of the E-Plus Group to the Guarantor had been announced and the formal notification has already been filed (for further details on the timeline for merger clearance, please see "*- Material Contracts - Sale and Purchase Agreement with regard to the E-Plus Group – Conditions precedent*").

On 12 September 2013, OHG sold its subsidiary Telefónica Germany Online Services GmbH in which our web hosting business activities are concentrated to Host Europe GmbH. The closing of this transaction was effected on 31 October 2013.

On 16 October 2013, we entered into an agreement with Versatel on the sale of certain of our owned and leased fibre assets in the area of Hamburg together with related wholesale- and business customer contracts to Versatel (see "*- Material Contracts – Agreement with Versatel*"). Merger clearance was granted on 11 November 2013. The sale which is still subject to regulatory approval is expected to be completed by the end of 2013.

We expect the German telecommunication market to remain active and competitive in the medium term, with significant impacts from mobile termination rate cuts, changing customers' communication behaviour, and the variability of device launches and replacement cycles. We are impacted by the variability of these diverging trends. Thus, as a standalone business, our goal for long term success is to maintain a consistent focus on gaining service revenue market share in our core wireless business and achieve further efficiencies of scale. We expect that the announced acquisition of the E-Plus Group will influence our scope of operations and financial expectations.

We have observed an increasing pressure on revenues throughout the year 2013 from competition, changing customer behaviour and regulation. Our strategy will remain focused on 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, in our view, be key factors for medium-term profitability as a standalone business, with the recently announced acquisition of the E-Plus Group (subject to regulatory approval and merger clearance) amplifying this opportunity in the medium term.

We have continued to monitor the mobile market in the second half of 2013 and still see a significant level of competition around smartphone 3G tariffs and device bundles. In the short-term, we are focusing on value maximisation in a transition year to the next technology cycle and deem the flexibility to react to market developments through targeted investments and allocation of resources to be critical. Based on this, we expect 2013 OIBDA margin to be at or below prior year's level.

In terms of investments, we consider 2013 and 2014 as being key years for our LTE network roll-out. For 2013, we do not expect capital expenditures to exceed the levels reached in 2010 (€ 680 million) when we were rolling out 3G capacity. Thereafter, we expect that the planned acquisition of the E-Plus Group will have a significant impact on our investment strategy.

Our operating results conversion to Free Cash Flow ("FCF") has remained strong with a stable year-on-year FCF performance up until September supporting our current shareholder remuneration policy.

The management board (*Vorstand*) of the Guarantor intends to suggest to the Guarantor's General Shareholders' Meeting a cash dividend for the year ending 31 December 2013 of approximately € 525 million payable in 2014.

## ACQUISITION OF THE E-PLUS GROUP

*This Prospectus and, in particular, the following section contains financial and other information on the E-Plus-Group (the "E-Plus Group Information") which has been taken from sources that KPN and the E-Plus Group have made publicly available, including a shareholders' circular dated 21 August 2013 (including an addendum to such circular dated 29 August 2013) available on KPN's website ([www.kpn.com](http://www.kpn.com)) and press releases of E-Plus Mobilfunk GmbH & Co. KG on its results for 2012 and the first half year of 2013 available on the website of the E-Plus Group (<http://eplus-gruppe.de/>). The Issuer has accurately reproduced the E-Plus Group Information. However, neither the Issuer, nor the Guarantor, nor the Joint Lead Managers have verified the E-Plus Group Information. In particular, neither the Issuer, nor the Guarantor or Telefónica, S.A. had been able to perform a due diligence on the E-Plus Group with a scope and to such extent as would have been necessary to verify the E-Plus Group Information. Neither the Issuer, nor the Guarantor, nor the Joint Lead Managers therefore assumes responsibility for the accuracy and completeness of the E-Plus Group Information.*

### Overview

In a German law governed SPA dated 23 July 2013 between KPN, Telefónica, S.A. and the Guarantor, the Guarantor agreed to purchase all assets, certain liabilities and business activities of the E-Plus Group. As consideration for the purchase of the E-Plus Group, KPN will receive in total € 5 billion in cash and 20.5% in the Guarantor's total issued share capital (17.6% in the Guarantor's total issued share capital in case of full exercise of the call option by Telefónica, S.A., respectively) (for further details on and financing of the SPA, please see "*- Material Contracts - Sale and Purchase Agreement with regard to the E-Plus Group*").

Assuming the Transaction had taken place as of 31 December 2012 or 1 January 2012, respectively, Telefónica Deutschland would have served approximately 43 million aggregated customers and recorded aggregated revenues (prior to consolidation) of € 8.6bn (based on 2012 revenues of Telefónica Deutschland and the E-Plus Group). In our view, the combination of Telefónica Deutschland and the E-Plus Group will establish a mobile network operator generating significant economies of scale and with high potential in Europe's largest economy with a clear vision and commitment to compete against the incumbent market leaders across all segments. It will have an enhanced customer proposition with a high quality mobile network, sufficient capacity to address increasing demands for high quality (data) services and an extensive distribution network and a multi-brand strategy serving different customer needs.

### Business of the E-Plus Group

The E-Plus Group, headquartered in Düsseldorf, Germany, provides customers in Germany with multi-brand mobile telecommunication services, offering postpaid and prepaid services targeted at multiple market segments. The E-Plus Group is the third largest mobile provider in Germany by number of subscribers, approximately 24.4 million as of 30 June 2013, and fourth largest by service revenue (€ 3,149 million for the financial year ended 31 December 2012; € 714 million for the first three months ended 31 March 2013; € 764 million for the second three months ended 30 June 2013). Total revenue of the E-Plus Group amounted to € 3,393 million for 2012. EBITDA in the E-Plus Group amounted to € 1,289 million for 2012 (€ 195 million for the first three months ended 31 March 2013 and € 275 million for the second three months ended 30 June 2013). As of 31 December 2012, the E-Plus Group employed approximately 4,000 full-time equivalents. The E-Plus Group's multi-brand portfolio includes E-Plus and BASE as well as various other brands such as a youth-focused brand (yourfone) and a no-frills brand (Blau), brands focused on affordable mobile services for various ethnic communities (Ay Yildiz and Ortel Mobile) as well as an online brand (Simyo), which provides SIM cards for mobile phones online with and without subscription. Wholesale partners of the E-Plus Group include MedionMobile (AldiTalk), ADAC, MTV and the Nature and Biodiversity Conservation Union of Germany (NABU). The BASE brand shall be transferred to KPN prior to completion of the Transaction, it being agreed that the combined German business after the Transaction may continue to use the BASE brand in Germany. (Sources: *Shareholders' Circular dated 21 August 2013 for the purpose of the Extraordinary General Meeting of Shareholders of KPN held on 2 October 2013; E-Plus Group press release on financial results of second quarter in 2013*)

### Reasons for the Acquisition and Strategy

With the acquisition of the E-Plus Group, we aim at creating a strong player in the German telecommunications market. Assuming the Transaction had taken place as of 31 December 2012 or 1 January 2012, respectively, Telefónica Deutschland would have served approximately 43 million aggregated customers and recorded aggregated revenues (prior to consolidation) of € 8.6bn (based on 2012 revenues of Telefónica Deutschland and the E-Plus Group) and an aggregated mobile revenue market share of 32% (prior to consolidation) (Source: *published financial results as of 31 December 2012 by Deutsche Telekom, Vodafone and E-Plus/KPN*).

Telefónica Deutschland and the E-Plus Group contemplate the merger as their best way to effectively compete in the mid- and long term. We believe that the Transaction will create a third market player – in addition to the two market

leaders – well placed to serve the large and steadily growing group of high-value customers in the mobile telecommunications industry.

### **Estimated Synergy Effects**

We estimate that the Transaction will realise significant synergy effects in the amount of € 5.0 to 5.5 billion<sup>1</sup>, particularly with respect to distribution, customer service and network synergies, with incremental value from financial and tax synergies as well as additional revenue and other synergies.

Telefónica Deutschland expects to achieve those synergies by the following measures:

- Distribution and customer service synergies: the combination of both distribution networks will increase efficiency in distribution and customer service costs leveraging best practices and scale as well as channel management and overheads;
- Network Synergies: the combined businesses intend to pursue a rollout focusing on one common nationwide LTE network based on improved capital expenditure and operational expenditure and enhanced cash flow generation which should allow the combined businesses to make necessary investments. The combined businesses are also expected to benefit from an improved quality of their 3G networks due to the consolidation of both networks. Further consolidation will include the backbone, backhaul and core network with reduced operational expenditure from network integration (i.e., rentals, power, maintenance, transport costs, overheads) as well as site consolidation and rationalisation, i.e., the reduction of mobile sites. The combined businesses will additionally benefit from increased efficiency by leveraging the scalable transmission agreement with Deutsche Telekom;
- Selling, General & Administration ("SG&A") synergies: the combination of both entities is expected to lead to reduced SG&A expenses due to process rationalisation and a continued focus on becoming a more lean and agile organisation;
- Revenue and other synergies: the combined businesses intend to exploit SME opportunities from a broader and higher quality platform and will be able to utilise high speed fixed broadband cross-selling opportunities across an enlarged customer base.

### **Status of the transaction**

The consummation of the Transaction is subject to the occurrence of certain conditions precedent (see above "*Information on the Guarantor – Material Contracts – Sale and Purchase Agreement with regard to E-Plus*").

The approval of the Transaction was granted by an extraordinary shareholders' meeting of KPN on 2 October 2013.

The Transaction is in particular conditional upon the approval of the relevant merger control authority. The pre-notification process has commenced soon after the sale of the E-Plus Group to the Guarantor had been announced and the formal notification has already been filed (for further details on the timeline for merger clearance, please see "*Information on the Guarantor - Material Contracts - Sale and Purchase Agreement with regard to the E-Plus Group – Conditions precedent*").

The Transaction is expected to be closed by mid-2014. However, the timing of the closing of the Transaction is subject to numerous uncertainties outside of our control such as the duration of the merger clearance and potential legal proceedings with regard to challenges of shareholder resolutions.

---

<sup>1</sup> The total value of synergies was calculated as the net present value of the Transaction computed as the sum of the present values of forecasted future cash flows including so-called "terminal value" (present value of expected future cash flows beyond the explicit forecast horizon) after tax.

## INFORMATION ON THE ISSUER

### Formation, registered office and duration

O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH ("Finanzierungs GmbH", the "Company" or the "Issuer") is a German limited liability company (*Gesellschaft mit beschränkter Haftung*) organised and operating under German law. The Company was founded as a German limited liability company (*Gesellschaft mit beschränkter Haftung*) by notarial deed No. 755/2013 dated 26 February 2013 by notary public Dr. Michael Bohrer, Munich, represented by Dr. Florian Mächtel, notarial assessor.

The legal and business name (*Firma*) is O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH (formerly Telefónica Deutschland Finanzierungs GmbH). The legal seat (*Sitzungssitz*) is in Munich, Germany. Finanzierungs GmbH is registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) in Munich under registration number HRB 204122. The Company has its business address at Georg-Brauchle-Ring 23-25, 80992 Munich, Germany (telephone number: +49 (0) 89 2442-0; Finanzierungs GmbH has been established for an unlimited period of time.

### Financial Year

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

### Corporate object of the Issuer

The business purpose (*Unternehmensgegenstand*) of the Company as set forth in Section 2 of its Articles of Association (*Satzung*) is:

- (i) The financing of Telefónica Deutschland Holding AG and its group companies according to Section 15 *et seq.* of the German Stock Corporation Act (*Aktiengesetz*). The funds required for such financing may be raised by the Company, *inter alia*, by issuing debt securities tradable on the capital markets.
- (ii) The Company is authorised to perform all legal transactions and acts which it deems useful for achieving directly or indirectly the purpose of the Company. In particular, it may establish, acquire, participate in, or govern other enterprises or restrict itself to managing such interests in other enterprises.

### Auditors

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Munich Office, Arnulfstrasse 59, 80636 Munich, Germany ("E&Y"), independent auditors, have audited in accordance with Section 317 of the German Commercial Code (*Handelsgesetzbuch, HGB*) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer in Deutschland e.V.*) the opening balance sheet dated as of 6 March 2013 of the Issuer. E&Y is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

### Business Description

The Issuer was founded solely to provide liquid funds to finance our operations through, among others, the issuing of bonds and has no other business operations.

### Organisational Structure

The Issuer is a wholly-owned subsidiary of Telefónica Germany GmbH & Co. OHG. For more information on the Issuer's position within Telefónica Deutschland, please see "*Information on the Guarantor – Major Subsidiaries and Organisational Structure*".

### Recent Developments and Outlook

The Issuer was founded by notarial deed dated 26 February 2013 and registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) in Munich under registration number HRB 204122 as at 14 March 2013.

With effect as of 7 November 2013, the legal and commercial name of the Issuer has been changed to "O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH".

### Investments

Since the date of the opening balance sheet of 6 March 2013, no principal investments and no firm commitments of the Company's executive body on future principal investments have been made.

### Legal and Arbitration Proceedings

As of the date of this Prospectus, the Company is not and has not been in the past 12 months, party to any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of

which the Company is aware) which may have, or have had in the recent past, significant effects on its financial position or profitability.

### **Material Contracts**

The Company entered into a Profit-and-Loss-Pooling Agreement with Telefónica Germany GmbH & Co. OHG with a duration of five years on 20 March 2013.

The Company entered into a domination agreement with Telefónica Germany GmbH & Co. OHG with an indefinite term on 20 March 2013.

As of the date of this Prospectus, the Issuer has not entered into any further contracts outside its ordinary course of business which could result in an obligation or entitlement of Telefónica Deutschland that is material to the Issuer's financial situation or profitability.

### **Executive Bodies**

The Issuer is managed by three directors (*Geschäftsführer*). The general shareholders' meeting (*Gesellschafterversammlung*) determines, among other things, the number of board members, the appointment as well as the dismissal of board members.

#### **Board of Directors**

The Issuer is represented by one director as of the date of this Prospectus (Section 6 paragraph 4 of its Articles of Association). The following directors are appointed:

- René Schuster;
- Rachel Empey;
- Markus Haas.

The members of the board of directors can be reached at the Issuer's business address.

#### *Conflicts of Interest*

The directors are directors and management board members in other companies of Telefónica Deutschland (please also see: "*Information on the Guarantor – Management and Administrative Bodies of Telefónica Deutschland Holding AG – Members of the Management Board – Conflict of Interest*"). Other than mentioned in this paragraph there are no conflicts between private interests and other duties of the directors.

#### *Board Practises*

As of the date of the Prospectus, the Issuer has not established any committees or supervisory bodies.

#### *Corporate Governance Code*

The Issuer, as a privately held company, is not subject to public corporate governance standards.

### **Share Capital**

The registered and fully paid up share capital of the Company is €25,000.

### **Major Shareholders**

The Issuer is a wholly-owned subsidiary of Telefónica Germany GmbH & Co. OHG. Telefónica Germany GmbH & Co. OHG directly holds all shares in the Issuer.

### **Selected Financial Information**

The selected historical key financial information of the Issuer below as of 6 March 2013 was taken from the Issuer's audited opening balance sheet dated as of 6 March 2013, prepared in accordance with the provisions of the German Commercial Code (*Handelsgesetzbuch; HGB*):

<b>Selected Financial Information</b>	<b>6 March 2013 in EUR</b>
Bank balances	25,000
<b>Total Assets</b>	<b>25,000</b>
Unregistered capital contribution	25,000
<b>Total Equity and Liabilities</b>	<b>25,000</b>

### **Historical Financial Information**

The opening balance sheet dated as of 6 March 2013 of the Issuer and the respective auditor's report are incorporated by reference into this Prospectus.

## TERMS AND CONDITIONS

### Anleihebedingungen

#### § 1 WÄHRUNG, NENNBETRAG, FORM, BESTIMMTE DEFINITIONEN

(1) *Währung; Nennbetrag; Übertragung.* Diese Anleihe der O2 Telefónica Deutschland Finanzierungs GmbH (die "Emittentin"), begeben am 22. November 2013 (der "Begebungstag") im Gesamtnennbetrag (vorbehaltlich § 1 Absatz (6)) von € • ist eingeteilt in • unter sich gleichberechtigte, auf den Inhaber lautende Schuldverschreibungen (die "Schuldverschreibungen") im Nennbetrag von je € 1.000 (die "festgelegte Stückelung").

(2) *Form.* Die Schuldverschreibungen lauten auf den Inhaber.

(3) *Vorläufige Globalurkunde – Austausch.*

(a) Die Schuldverschreibungen sind anfänglich durch eine vorläufige Globalurkunde (die "vorläufige Globalurkunde") ohne Zinsscheine verbrieft. Die vorläufige Globalurkunde wird gegen Schuldverschreibungen in der festgelegten Stückelung, die durch eine Dauerglobalurkunde (die "Dauerglobalurkunde") ohne Zinsscheine verbrieft sind, ausgetauscht. Die vorläufige Globalurkunde und die Dauerglobalurkunde tragen jeweils die Unterschriften ordnungsgemäß bevollmächtigter Vertreter der Emittentin und tragen die eigenhändige Kontrollunterschrift der Hauptzahlstelle. Einzelurkunden und Zinsscheine werden nicht ausgegeben.

(b) Die vorläufige Globalurkunde wird an einem Tag (der "Austauschtag") gegen die Dauerglobalurkunde ausgetauscht, der nicht mehr als 180 Tage nach dem Begebungstag der durch die vorläufige Globalurkunde verbrieften Schuldverschreibungen liegt. Der Austauschtag darf nicht weniger als 40 Tage nach dem Begebungstag liegen. Ein solcher Austausch darf nur nach Vorlage von Bescheinigungen erfolgen, wonach der oder die wirtschaftlichen Eigentümer der durch die vorläufige Globalurkunde verbrieften Schuldverschreibungen keine U.S.-Personen sind (ausgenommen bestimmte Finanzinstitute oder bestimmte Personen, die Schuldverschreibungen über solche Finanzinstitute halten). Zinszahlungen auf durch eine vorläufige Globalurkunde verbriezte Schuldverschreibungen erfolgen erst nach Vorlage solcher Bescheinigungen. Eine gesonderte Bescheinigung ist für jede solche Zinszahlung erforderlich. Jede Bescheinigung, die am oder nach dem 40. Tag nach dem Begebungstag der durch die vorläufige

### Conditions of Issue

#### § 1 CURRENCY, PRINCIPAL AMOUNT, FORM, CERTAIN DEFINITIONS

(1) *Currency; Principal Amount; Transfer.* This issue by O2 Telefónica Deutschland Finanzierungs GmbH (the "Issuer") issued on 22 November 2013 (the "Issue Date") in the aggregate principal amount, subject to § 1(6) of € • is divided into • notes in the principal amount of € 1,000 (the "Specified Denomination") each payable to bearer and ranking *pari passu* with each other (the "Notes").

(2) *Form.* The Notes are being issued in bearer form.

(3) *Temporary Global Note – Exchange.*

(a) The Notes are initially represented by a temporary global note (the "Temporary Global Note") without coupons. The Temporary Global Note will be exchangeable for Notes in the Specified Denomination represented by a permanent global note (the "Permanent Global Note") without coupons. The Temporary Global Note and the Permanent Global Note shall each be signed by authorised signatories of the Issuer and shall bear a manual control signature of the Principal Paying Agent. Definitive Notes and interest coupons will not be issued.

(b) The Temporary Global Note shall be exchanged for the Permanent Global Note on a date (the "Exchange Date") not later than 180 days after the Issue Date of the Notes represented by the Temporary Global Note. The Exchange Date will not be earlier than 40 days after the Issue Date. Such exchange shall only be made upon delivery of certifications to the effect that the beneficial owner or owners of the Notes represented by the Temporary Global Note is not a U.S. person (other than certain financial institutions or certain persons holding Notes through such financial institutions). Payment of interest on Notes represented by a Temporary Global Note will be made only after delivery of such certifications. A separate certification shall be required in respect of each such payment of interest. Any such certification received on or after the 40th day after the Issue Date of the Notes represented by the Temporary Global Note will be treated as a request to exchange such Temporary Global Note pursuant to subparagraph (b) of this § 1(3). Any securities delivered in exchange for the

Globalurkunde verbrieften Schuldverschreibungen eingeht, wird als ein Ersuchen behandelt werden, diese vorläufige Globalurkunde gemäß Absatz (b) dieses § 1 Absatz (3) auszutauschen. Wertpapiere, die im Austausch für die vorläufige Globalurkunde geliefert werden, dürfen nur außerhalb der Vereinigten Staaten geliefert werden.

Für die Zwecke dieser Anleihebedingungen bezeichnet **"Vereinigte Staaten"** die Vereinigten Staaten von Amerika (einschließlich deren Bundesstaaten und des District of Columbia) sowie deren Territorien (einschließlich Puerto Rico, der U.S. Virgin Islands, Guam, American Samoa, Wake Island und Northern Mariana Islands).

(4) *Clearing System.* Die Globalurkunden, die die Schuldverschreibung verbrieften, werden von einem oder für ein Clearing System verwahrt. **"Clearing System"** bedeutet jeweils folgendes: Clearstream Banking, société anonyme (42 Avenue JF Kennedy, 1855 Luxemburg, Luxemburg) ("CBL") und Euroclear Bank SA/NV (Boulevard du Roi Albert II, 1210 Brussels, Belgien) ("Euroclear") (CBL und Euroclear jeweils ein **"ICSD"** und zusammen die **"ICSDs"**) sowie jeder Funktionsnachfolger.

Die Schuldverschreibungen werden in Form einer New Global Note ("NGN") ausgegeben und von einem common safekeeper im Namen beider ICSDs verwahrt.

(5) *Gläubiger von Schuldverschreibungen.* **"Gläubiger"** bedeutet jeder Inhaber eines Miteigentumsanteils oder anderen vergleichbaren Rechts an den Schuldverschreibungen.

(6) *Register der ICSDs.* Der Gesamtnennbetrag der durch die Globalurkunden verbrieften Schuldverschreibungen entspricht dem jeweils in den Registern beider ICSDs eingetragenen Gesamtbetrag. Die Register der ICSDs (unter denen die Register zu verstehen sind, die jeder ICSD für seine Kunden über den Betrag ihres Anteils an den Schuldverschreibungen führt) sind maßgeblicher Nachweis des Gesamtnennbetrages der durch die Globalurkunden verbrieften Schuldverschreibungen, und eine für zu diesem Zweck von einem ICSD jeweils ausgestellte Bescheinigung mit dem Betrag der so verbrieften Schuldverschreibungen ist maßgebliche Bestätigung des Inhalts des Registers des betreffenden ICSD zu dem fraglichen Zeitpunkt.

## § 2 STATUS, NEGATIVVERPFLICHTUNG, GARANTIE UND NEGATIVVERPFLICHTUNG DER GARANTIN

(1) *Status.* Die Schuldverschreibungen begründen nicht besicherte und nicht nachrangige

Temporary Global Note shall be delivered only outside of the United States.

For the purposes of these Conditions of Issue, **"United States"** means the United States of America (including the States thereof and the District of Columbia) and its possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and Northern Mariana Islands).

(4) *Clearing System.* The global notes representing the Notes will be kept in custody by or on behalf of the Clearing System. **"Clearing System"** means each of the following: Clearstream Banking, société anonyme (42 Avenue JF Kennedy, 1855 Luxembourg, Luxembourg) ("CBL") and Euroclear Bank SA/NV (Boulevard du Roi Albert II, 1210 Brussels, Belgium) ("Euroclear") (CBL and Euroclear each an **"ICSD"** and together the **"ICSDs"**) and any successor in such capacity.

The Notes are issued in new global note ("NGN") form and are kept in custody by a common safekeeper on behalf of both ICSDs.

(5) *Holder of Notes.* **"Holder"** means any holder of a proportionate co-ownership or other beneficial interest or right in the Notes.

(6) *Register of ICSDs.* The aggregate principal amount of Notes represented by the global notes shall be the aggregate amount from time to time entered in the records of both ICSDs. The records of the ICSDs (which expression means the records that each ICSD holds for its customers which reflect the amount of such customer's interest in the Notes) shall be conclusive evidence of the aggregate principal amount of Notes represented by the global notes and, for these purposes, a statement issued by an ICSD stating the amount of Notes so represented at any time shall be conclusive evidence of the records of the relevant ICSD at that time.

## § 2 STATUS, NEGATIVE PLEDGE, GUARANTEE AND NEGATIVE PLEDGE OF THE GUARANTOR

(1) *Status.* The obligations under the Notes constitute unsecured and unsubordinated obligations of the

Verbindlichkeiten der Emittentin, die untereinander und mit allen anderen nicht besicherten und nicht nachrangigen Verbindlichkeiten der Emittentin gleichrangig sind, soweit diesen Verbindlichkeiten nicht durch zwingende gesetzliche Bestimmungen ein Vorrang eingeräumt wird.

(2) *Negativverpflichtung.* Die Emittentin verpflichtet sich, solange Schuldverschreibungen ausstehen, jedoch nur bis zu dem Zeitpunkt, an dem alle Beträge an Kapital und Zinsen, die gemäß den Schuldverschreibungen zu zahlen sind, der Hauptzahlstelle zur Verfügung gestellt worden sind, keine Grund- und Mobiliarpfandrechte, sonstige Pfandrechte oder sonstige dingliche Sicherungsrechte (jedes ein "**Sicherungsrecht**") in Bezug auf ihr gesamtes Vermögen oder Teile davon zur Besicherung von Kapitalmarktverbindlichkeiten (wie unten definiert) zu gewähren ohne gleichzeitig die Gläubiger gleichrangig an einem solchen Sicherungsrecht oder an einer solchen Garantie zu beteiligen oder ihnen ein gleichwertiges Sicherungsrecht oder eine gleichwertige Garantie zu gewähren. Diese Verpflichtung gilt jedoch nicht für zum Zeitpunkt des Erwerbs von Vermögenswerten bereits an solchen Vermögenswerten bestehende Sicherungsrechte, soweit solche Sicherungsrechte nicht im Zusammenhang mit dem Erwerb oder in Erwartung des Erwerbs des jeweiligen Vermögenswerts bestellt wurden und der durch das Sicherungsrecht besicherte Betrag nicht nach Erwerb des betreffenden Vermögenswertes erhöht wird.

Eine nach diesem Absatz (2) zu leistende Sicherheit kann auch zu Gunsten der Person eines Treuhänders der Gläubiger bestellt werden.

**"Kapitalmarktverbindlichkeit"** bezeichnet jede bestehende oder zukünftige Verbindlichkeit (gleich ob Kapital, Aufgeld, Zinsen oder andere Beträge) bezüglich Geldaufnahmen in Form von, oder verbrieft durch, Schuldverschreibungen, Anleihen oder ähnliche Wertpapiere, sofern sie an einer Börse oder einem anderen anerkannten und regulierten Wertpapiermarkt notiert sind oder gehandelt werden oder werden können oder Schuldscheindarlehen nach deutschem Recht mit einer Laufzeit von mehr als einem Jahr, sofern der zurückzuzahlende Betrag € 40.000.000 übersteigt. Von der Definition Kapitalmarktverbindlichkeiten sind solche Verbindlichkeiten ausgenommen, die aus der Verbriefung von Forderungen, besonders denjenigen aus dem O2 My Handy Geschäft, stammen.

(3) *Garantie und Negativverpflichtung der Garantin.* Telefónica Deutschland Holding AG (die "**Garantin**") hat die unbedingte und unwiderrufliche Garantie (die "**Garantien**") für die ordnungsgemäße und pünktliche Zahlung von Kapital und Zinsen und sonstiger auf die Schuldverschreibungen zahlbarer Beträge übernommen. Die Garantin hat sich außerdem in einer

Issuer ranking *pari passu* among themselves and *pari passu* with all other unsecured and unsubordinated obligations of the Issuer, unless such obligations are accorded priority under mandatory provisions of statutory law.

(2) *Negative Pledge.* The Issuer undertakes, as long as any Notes are outstanding, but only up to the time all amounts of principal and interest payable under the Notes have been placed at the disposal of the Principal Paying Agent, not to provide or maintain any mortgage, charge, pledge, lien or other form of encumbrance or *in rem* security interest (each a "**Security Interest**") over the whole or any part of its assets to secure any Capital Market Indebtedness (as defined below) without at the same time letting the Holders share *pari passu* in such Security Interest or guarantee or giving to the Holders an equivalent Security Interest or guarantee. This undertaking shall not apply with respect to any Security Interest existing on property at the time of the acquisition thereof, provided that such Security Interest was not created in connection with or in contemplation of such acquisition and that the amount secured by such Security Interest is not increased subsequently to the acquisition of the relevant property.

Any security which is to be provided pursuant to this subsection (2) may also be provided to a person acting as trustee for the Holders.

**"Capital Market Indebtedness"** shall mean any present or future indebtedness (whether being principal, premium, interest or other amounts) in respect of borrowed money which is in the form of, or represented by, bonds, notes or any similar securities which are or are capable of being quoted, listed or traded on any stock exchange or other recognised and regulated securities market or certificates of indebtedness (*Schuldscheindarlehen*) governed by German law, with an original maturity of more than one year, where the repayable amount exceeds € 40,000,000, provided that obligations resulting from the securitisations of trade receivables, in particular those attributed to the O2 My Handy business model, shall not qualify as Capital Market Indebtedness.

(3) *Guarantee and Negative Pledge of the Guarantor.* Telefónica Deutschland Holding AG (the "**Guarantor**") has given an unconditional and irrevocable guarantee (the "**Guarantees**") for the due and punctual payment of principal of, and interest on, and any other amounts payable under any Note. The Guarantor has further undertaken in a negative pledge

Negativverpflichtung (die "Garantennegativverpflichtung") verpflichtet, solange Schuldverschreibungen ausstehen, jedoch nur bis zu dem Zeitpunkt, an dem alle Beträge an Kapital und Zinsen der Hauptzahlstelle zur Verfügung gestellt worden sind, keine Sicherungsrechte in Bezug auf ihr gesamtes Vermögen oder Teile davon bzw. Garantien zur Sicherung von Kapitalmarktverbindlichkeiten zu gewähren und ihre Wesentliche Tochtergesellschaft (wie unten definiert) zu veranlassen (es sei denn, dies ist rechtlich nicht möglich oder unzulässig), keine solchen Sicherungsrechte bzw. Garantien für Kapitalmarktverbindlichkeiten zu gewähren, ohne gleichzeitig die Gläubiger gleichrangig an einem solchen Sicherungsrecht bzw. einer Garantie zu beteiligen oder ihnen ein gleichwertiges Sicherungsrecht oder eine gleichwertige Garantie zu gewähren; diese Verpflichtung gilt jedoch nicht für zum Zeitpunkt des Erwerbs von Vermögenswerten durch die Garantin bereits an solchen Vermögenswerten bestehende Sicherungsrechte, soweit solche Sicherungsrechte nicht im Zusammenhang mit dem Erwerb oder in Erwartung des Erwerbs des jeweiligen Vermögenswerts bestellt wurden und der durch das Sicherungsrecht besicherte Betrag nicht nach Erwerb des betreffenden Vermögenswertes erhöht wird.

Die Garantie und die Garantennegativverpflichtung stellen einen Vertrag zugunsten jedes Gläubigers als begünstigtem Dritten gemäß § 328 BGB dar, welcher das Recht jedes Gläubigers begründet, Erfüllung aus der Garantie und Garantennegativverpflichtung unmittelbar von der Garantin zu verlangen und die Garantie und Garantennegativverpflichtung unmittelbar gegen die Garantin durchzusetzen.

"Wesentliche Tochtergesellschaft" bezeichnet die Telefónica Germany GmbH & Co. OHG.

### § 3 ZINSEN

#### (1) Zinssatz und Zinszahlungstage.

(a) Die Schuldverschreibungen werden bezogen auf ihre festgelegte Stückelung verzinst, und zwar vom 22. November 2013 (einschließlich) bis zum Fälligkeitstag (wie in § 5 Absatz (1) definiert) (ausschließlich) mit jährlich  $\bullet$  % (der "Zinssatz"). Die Zinsen sind nachträglich am 22. November eines jeden Jahres zahlbar (jeweils ein "Zinszahlungstag"). Der erste Zinszahlungstag ist der 22. November 2014.

(b) Abweichend von Absatz (a) erhöht sich die Verzinsung der Schuldverschreibungen nach Eintritt eines Kontrollwechselereignis auf  $\bullet$  % *per annum* (der "Erhöhte Zinssatz"). Der Erhöhte Zinssatz ist erstmals für die Zinsperiode, die an dem Zinszahlungstag beginnt, der dem

(the "Guarantor Negative Pledge"), so long as any of the Notes are outstanding, but only up to the time all amounts of principal and interest have been placed at the disposal of the Principal Paying Agent, not to provide any Security Interest over the whole or any part of their assets or grant guarantees to secure any Capital Markets Indebtedness and to procure (unless this is legally impossible or illegal) that its Material Subsidiary (as defined below) will provide Security Interests over their assets or grant guarantees to secure Capital Markets Indebtedness without at the same time letting the Holders share *pari passu* in such Security Interest or giving to the Holders an equivalent Security Interest or guarantee, provided, however, that this undertaking shall not apply with respect to any Security Interest existing on property at the time of the acquisition thereof by the Guarantor, provided that such Security Interest was not created in connection with or in contemplation of such acquisition and that the amount secured by such Security Interest is not increased subsequently to the acquisition of the relevant property.

The Guarantee and Guarantor Negative Pledge constitutes a contract for the benefit of the Holders from time to time as third party beneficiaries in accordance with § 328 of the German Civil Code (*Bürgerliches Gesetzbuch, BGB*), giving rise to the right of each Holder to require performance of the Guarantee and Guarantor Negative Pledge directly from the Guarantor and to enforce the Guarantee and Guarantor Negative Pledge directly against the Guarantor.

"Material Subsidiary" means Telefónica Germany GmbH & Co. OHG.

### § 3 INTEREST

#### (1) Rate of Interest and Interest Payment Dates.

(a) The Notes shall bear interest on their Specified Denomination at the rate of  $\bullet$  per cent *per annum* ("Interest Rate") from (and including) 22 November 2013 to (but excluding) the Maturity Date (as defined in § 5(1)). Interest shall be payable in arrears on 22 November in each year (each such date, an "Interest Payment Date"). The first Interest Payment Date shall be 22 November 2014.

(b) In deviation of paragraph (a) the interest rate payable on the Notes shall increase to  $\bullet$  per cent. *per annum* (the "Increased Coupon") upon the occurrence of a Change of Control Event. The Increased Coupon shall be payable for the first time for the interest period commencing with the Interest

Kontrollwechselereignis folgt, zu zahlen. Der Erhöhte Zinssatz gilt bis zum Fälligkeitstag. Ferner verpflichtet sich die Emittentin den Anleihegläubigern und der Hauptzahlstelle unverzüglich durch Mitteilung gemäß § 13 den Eintritt eines Kontrollwechsels bekannt zu machen (die "Kontrollwechselereignis-Mitteilung"). Die Verzinsung der Schuldverschreibungen erhöht sich nicht, falls die Emittentin vor dem Zinszahlungstag unmittelbar infolge des Kontrollwechselereignisses gemäß § 5(3) kündigt.

Ein "Kontrollwechselereignis" tritt ein, wenn ein Kontrollwechsel (wie nachstehend definiert) eintritt und es innerhalb des Kontrollwechselzeitraums zu einer Absenkung des Ratings kommt.

Für Zwecke dieses Absatz (b):

gilt eine "Absenkung des Ratings" als eingetreten, wenn ein Kontrollwechsel vorliegt und wenn innerhalb des Kontrollwechselzeitraums ein vorher für die Garantin oder ein für die ausstehenden langfristigen Verbindlichkeiten der Garantin vergebene Rating einer Rating Agentur (andere als unaufgeforderte Ratings) (oder falls die Ratings durch alle drei Rating Agenturen vergeben wurden, zumindest die Ratings von zwei Rating Agenturen) (A) zurückgezogen, (B) von einem Investment Grade Rating (BBB- von S&P, BBB- von Fitch oder Baa3 von Moody's oder jeweils gleichwertig, oder besser) in ein non-Investment Grade Rating (BB+ von S&P, BB+ von Fitch oder Ba1 von Moody's oder jeweils gleichwertig, oder schlechter) geändert wird oder (C) (wenn das vorherige vergebene Rating durch eine Rating Agentur (oder falls die Ratings durch alle drei Rating Agenturen vergeben wurden, zumindest die Ratings von zwei Rating Agenturen) unter einem Investment Grade Rating (wie oben beschrieben) um eine Ratingkategorie herabgestuft wurde (z.B. von BB+ zu BB oder einem solchen geringeren oder gleichwertigen Rating).

bezeichnet "Rating Agentur" Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), Moody's Investors Services Limited ("Moody's"), Fitch Ratings ("Fitch") oder eine ihrer jeweiligen Nachfolgegesellschaften;

gilt ein "Kontrollwechsel" als eingetreten, wenn eine Person oder mehrere Personen – ausgenommen Telefónica S.A. oder eine ihrer Tochtergesellschaften –, die im Sinne von § 22 WpHG abgestimmt handeln, mittelbar oder unmittelbar (unabhängig davon, ob der Vorstand oder der Aufsichtsrat der Garantin seine Zustimmung erteilt hat) eine solche Anzahl von Aktien der Garantin hält bzw. halten oder erworben hat bzw. haben, auf die 50% oder mehr der Stimmrechte entfallen;

Payment Date immediately following the occurrence of a Change of Control Event. The Increased Coupon shall be applicable until the Maturity Date. Further, the Issuer undertakes to give notice to the Noteholders in accordance with § 13 and to the Principal Paying Agent of the occurrence of the Change of Control Event (the "Change of Control Event Notice") without undue delay (*unverzüglich*). The interest rate payable on the Notes shall not increase in case the Issuer gives a notice of redemption pursuant to § 5 (3) prior to the Interest Payment Date immediately following the occurrence of a Change of Control Event.

A "Change of Control Event" occurs if a Change of Control (as defined below) occurs and within the Change of Control Period a Rating Downgrade occurs.

For the purposes of this paragraph (b):

A "Rating Downgrade" shall be deemed to have occurred if a Change of Control has occurred and if within the Change of Control Period any rating previously assigned to the Guarantor or the outstanding long-dated liabilities of the Guarantor by any Rating Agency (other than unsolicited ratings) is (or, in case ratings are assigned by all three Rating Agencies, at least the ratings assigned by two Ratings Agencies are) (A) withdrawn, (B) changed from an investment grade rating (BBB- by S&P, BBB- by Fitch or Baa3 by Moody's, or its equivalent for the time being, or better) to a non-investment grade rating (BB+ by S&P, BB+ by Fitch or Ba1 by Moody's, or its equivalent for the time being, or worse) or (C) (if the rating previously assigned by a Rating Agency was (or, in case ratings are assigned by all three Rating Agencies, at least the ratings assigned by two Ratings Agencies were) below an investment grade rating (as described above)) is lowered one full rating category (e.g. from BB+ to BB or such similar lower or equivalent rating).

"Rating Agency" means Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), Moody's Investors Services Limited ("Moody's"), Fitch Ratings ("Fitch") or any of their respective successors;

A "Change of Control" shall be deemed to have occurred at the time that any person or persons – other than Telefónica S.A. or any of its subsidiaries – acting in concert within the meaning of section 22 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) directly or indirectly acquire(s) or come(s) to own such number of the shares in the capital of the Guarantor carrying 50 per cent. or more of the voting rights (whether or not approved by the Management Board or Supervisory

Board of the Guarantor).

bezeichnet "**Kontrollwechselzeitraum**" einen Zeitraum beginnend mit (i) einer öffentlichen Bekanntmachung oder Erklärung der Garantin oder einer anderen maßgeblichen Person in Bezug auf jeden potentiellen Kontrollwechsel oder (ii) dem Tag der ersten öffentlichen Bekanntmachung, dass der Kontrollwechsel eingetreten ist, bis zum 60. Tag (einschließlich) nach Eintritt des maßgeblichen Kontrollwechsels.

(2) *Auflaufende Zinsen.* Falls die Emittentin die Schuldverschreibungen bei Fälligkeit nicht einlöst, erfolgt die Verzinsung der Schuldverschreibungen vom Tag der Fälligkeit bis zum Tag der tatsächlichen Rückzahlung der Schuldverschreibungen zum Zinssatz oder bei Eintritt eines Kontrollwechselereignisses zum Erhöhten Zinssatz plus 1 % des Nennbetrags der Schuldverschreibungen *per annum*.

(3) *Berechnung der Zinsen für Teile von Zeiträumen.* Sofern Zinsen für einen Zeitraum von weniger als einem Jahr zu berechnen sind, erfolgt die Berechnung auf der Grundlage des Zinstagequotienten (wie nachstehend definiert).

"**Zinstagequotient**" bezeichnet im Hinblick auf die Berechnung eines Zinsbetrages auf eine Schuldverschreibung für einen beliebigen Zeitraum (der "**Zinsberechnungszeitraum**") die tatsächliche Anzahl von Tagen im Zinsberechnungszeitraum, dividiert durch die tatsächliche Anzahl von Tagen in der jeweiligen Zinsperiode.

#### § 4 ZAHLUNGEN

(1) *Zahlungen von Kapital und Zinsen.* Zahlungen von Kapital und Zinsen in Bezug auf die Schuldverschreibungen erfolgen nach Maßgabe des nachstehenden Absatzes (2) an das Clearing System oder dessen Order zur Gutschrift auf den Konten der jeweiligen Kontoinhaber des Clearing Systems.

Die Zahlung von Zinsen auf Schuldverschreibungen, die durch die vorläufige Globalurkunde verbrieft sind, erfolgt nach Maßgabe von Absatz (2) an das Clearing System oder dessen Order zur Gutschrift auf den Konten der jeweiligen Kontoinhaber des Clearing Systems, und zwar nach ordnungsgemäßer Bescheinigung gemäß § 1 Absatz (3)(b).

(2) *Zahlungsweise.* Vorbehaltlich geltender steuerlicher und sonstiger gesetzlicher Regelungen und Vorschriften erfolgen zu leistende Zahlungen auf die Schuldverschreibungen in Euro.

(3) *Erfüllung.* Die Emittentin wird durch Leistung der Zahlung an das Clearing System oder dessen Order

"**Change of Control Period**" means the period commencing on the earlier of (i) any public announcement or statement of the Guarantor or any relevant person relating to any potential Change of Control or (ii) the date of the first public announcement of the Change of Control having occurred and ending on the 60th day (inclusive) after the occurrence of the relevant Change of Control.

(2) *Accrual of Interest.* If the Issuer fails to redeem the Notes when due, interest shall continue to accrue beyond the due date until the actual redemption of the Notes at the Interest Rate or, in case a Change of Control Event occurred, Increased Coupon plus 1 per cent of the principal amount of the Notes per annum.

(3) *Calculation of Interest for Partial Periods.* If interest is required to be calculated for a period of less than a full year, such interest shall be calculated on the basis of the Day Count Fraction (as defined below).

"**Day Count Fraction**" means with regard to the calculation of interest on any Note for any period of time (the "**Calculation Period**") the actual number of days in the Calculation Period divided by the actual number of days in the respective interest period.

#### § 4 PAYMENTS

(1) *Payment of Principal and Interest.* Payment of principal and interest in respect of Notes shall be made, subject to subparagraph (2) below, to the Clearing System or to its order for credit to the accounts of the relevant account holders of the Clearing System.

Payment of interest on Notes represented by the Temporary Global Note shall be made, subject to subparagraph (2), to the Clearing System or to its order for credit to the relevant account holders of the Clearing System, upon due certification as provided in § 1(3)(b).

(2) *Manner of Payment.* Subject to applicable fiscal and other laws and regulations, payments of amounts due in respect of the Notes shall be made in euro.

(3) *Discharge.* The Issuer shall be discharged by payment to, or to the order of, the Clearing System.

von ihrer Zahlungspflicht befreit.

(4) *Zahltag*. Fällt der Fälligkeitstag einer Zahlung in Bezug auf eine Schuldverschreibung auf einen Tag, der kein Zahltag ist, dann hat der Gläubiger keinen Anspruch auf Zahlung vor dem nächsten Zahltag. Der Gläubiger ist nicht berechtigt, weitere Zinsen oder sonstige Zahlungen aufgrund dieser Verspätung zu verlangen.

Für diese Zwecke bezeichnet "Zahltag" einen Tag, der ein Tag (außer einem Samstag oder Sonntag) ist, an dem das Clearing System sowie alle betroffenen Bereiche des Trans-European Automated Real-time Gross Settlement Express Transfer System (TARGET2) ("TARGET") betriebsbereit sind, um die betreffende Zahlung weiterzuleiten.

(5) *Bezugnahmen auf Kapital und Zinsen*. Bezugnahmen in diesen Anleihebedingungen auf Kapital der Schuldverschreibungen schließen, soweit anwendbar, die folgenden Beträge ein: den Rückzahlungsbetrag der Schuldverschreibungen, den vorzeitigen Rückzahlungsbetrag der Schuldverschreibungen sowie jeden Aufschlag und sonstige auf oder in Bezug auf die Schuldverschreibungen zahlbaren Beträge. Bezugnahmen in diesen Anleihebedingungen auf Zinsen auf die Schuldverschreibungen sollen, soweit anwendbar, sämtliche gemäß § 7 zahlbaren zusätzlichen Beträge einschließen.

(6) *Hinterlegung von Kapital und Zinsen*. Die Emittentin ist berechtigt, beim Amtsgericht München Zins- oder Kapitalbeträge zu hinterlegen, die von den Gläubigern nicht innerhalb von zwölf Monaten nach dem Fälligkeitstag beansprucht worden sind, auch wenn die Gläubiger sich nicht in Annahmeverzug befinden. Soweit eine solche Hinterlegung erfolgt, und auf das Recht der Rücknahme verzichtet wird, erlöschen die diesbezüglichen Ansprüche der Gläubiger gegen die Emittentin.

## § 5 RÜCKZAHLUNG

(1) *Rückzahlung bei Endfälligkeit*. Soweit nicht zuvor bereits ganz oder teilweise zurückgezahlt oder angekauft und entwertet, werden die Schuldverschreibungen zu ihrem Rückzahlungsbetrag am 22. November 2018 (der "Fälligkeitstag") zurückgezahlt. Der Rückzahlungsbetrag in Bezug auf jede Schuldverschreibung entspricht der festgelegten Stückelung der Schuldverschreibungen zuzüglich aller bis zum Fälligkeitstag aufgelaufener und noch nicht gezahlter Zinsen.

(2) *Vorzeitige Rückzahlung aus steuerlichen Gründen*. Die Schuldverschreibungen können insgesamt, jedoch nicht teilweise, nach Wahl der Emittentin mit einer Kündigungsfrist von nicht weniger als 30 und nicht

(4) *Payment Business Day*. If the date for payment of any amount in respect of any Note is not a Payment Business Day then the Holder shall not be entitled to payment until the next such day and shall not be entitled to further interest or other payment in respect of such delay.

For these purposes, "Payment Business Day" means any day which is a day (other than a Saturday or a Sunday) on which the Clearing System as well as all relevant parts of the Trans-European Automated Real-time Gross Settlement Express Transfer System (TARGET2) ("TARGET") are operational to forward the relevant payment.

(5) *References to Principal and Interest*. References in these Conditions of Issue to principal in respect of the Notes shall be deemed to include, as applicable: the Final Redemption Amount of the Notes, the Early Redemption Amount of the Notes and any premium and any other amounts which may be payable under or in respect of the Notes. References in these Conditions of Issue to interest in respect of the Notes shall be deemed to include, as applicable, any Additional Amounts which may be payable under § 7.

(6) *Deposit of Principal and Interest*. The Issuer may deposit with the local court (Amtsgericht) in Munich principal or interest not claimed by Holders within twelve months after the Maturity Date, even though such Holders may not be in default of acceptance of payment. If and to the extent that the deposit is effected and the right of withdrawal is waived, the respective claims of such Holders against the Issuer shall cease.

## § 5 REDEMPTION

(1) *Final Redemption*. Unless previously redeemed in whole or in part or purchased and cancelled, the Notes shall be redeemed at their Final Redemption Amount on 22 November 2018 (the "Maturity Date"). The Final Redemption Amount in respect of each Note shall be its Specified Denomination and any unpaid interest, accrued until the Maturity Date.

(2) *Early Redemption for Reasons of Taxation*. If as a result of any change in, or amendment to, the laws or regulations of the Federal Republic of Germany or any political subdivision or taxing authority thereto or

mehr als 60 Tagen gegenüber der Hauptzahlstelle und gegenüber den Gläubigern vorzeitig gekündigt und zum Nennbetrag zuzüglich bis zum für die Rückzahlung festgesetzten Tag aufgelaufener Zinsen zurückgezahlt werden, falls die Emittentin oder eine Garantin als Folge einer Änderung oder Ergänzung der Steuer- oder Abgabengesetze und -vorschriften der Bundesrepublik Deutschland oder deren politischen Untergliederungen oder Steuerbehörden oder als Folge einer Änderung oder Ergänzung der Anwendung oder der offiziellen Auslegung dieser Gesetze und Vorschriften (vorausgesetzt, diese Änderung oder Ergänzung wird am oder nach dem Tag, an dem die Schuldverschreibungen begeben werden, wirksam) am nächstfolgenden Zinszahlungstag (wie in § 3 Absatz (1) definiert) zur Zahlung von zusätzlichen Beträgen (wie in § 7 dieser Bedingungen definiert) verpflichtet sein wird und diese Verpflichtung nicht durch das Ergreifen vernünftiger, der Emittentin oder einer Garantin zur Verfügung stehender Maßnahmen vermieden werden kann.

Eine solche Kündigung darf allerdings nicht (i) früher als 90 Tage vor dem frühestmöglichen Termin erfolgen, an dem die Emittentin oder die Garantin verpflichtet wäre, solche zusätzlichen Beträge zu zahlen, falls eine Zahlung auf die Schuldverschreibungen dann fällig sein würde, oder (ii) erfolgen, wenn zu dem Zeitpunkt, zu dem die Kündigung erfolgt, die Verpflichtung zur Zahlung von zusätzlichen Beträgen nicht mehr wirksam ist.

Eine solche Kündigung hat gemäß § 13 zu erfolgen. Sie ist unwiderruflich, muss den für die Rückzahlung festgelegten Termin nennen und eine zusammenfassende Erklärung enthalten, welche die das Rückzahlungsrecht der Emittentin begründenden Umständen darlegt.

**(3) Vorzeitige Rückzahlung nach Wahl der Emittentin infolge eines Kontrollwechselereignisses.**

Die Schuldverschreibungen können insgesamt, jedoch nicht teilweise, nach Wahl der Emittentin mit einer Kündigungsfrist von nicht weniger als 30 und nicht mehr als 60 Tagen gegenüber der Hauptzahlstelle und gegenüber den Gläubigern vorzeitig gekündigt und zum 101 % des Nennbetrag zuzüglich bis zum für die Rückzahlung festgesetzten Tag aufgelaufener Zinsen zurückgezahlt werden, falls ein Kontrollwechselereignis eintritt.

Eine solche Kündigung hat gemäß § 13 zu erfolgen. Sie ist unwiderruflich und muss den für die Rückzahlung festgelegten Termin nennen.

therein affecting taxation or the obligation to pay duties of any kind, or any change in, or amendment to, an official interpretation or application of such laws or regulations, which amendment or change is effective on or after the date on which the Notes were issued, the Issuer or a Guarantor is required to pay Additional Amounts (as defined in § 7 herein) on the next succeeding Interest Payment Date (as defined in § 3(1)), and this obligation cannot be avoided by the use of reasonable measures available to the Issuer or a Guarantor, as the case may be, the Notes may be redeemed, in whole but not in part, at the option of the Issuer, upon not more than 60 days' nor less than 30 days' prior notice of redemption given to the Principal Paying Agent and to the Holders, at the principal amount together with interest accrued to the date fixed for redemption.

However, no such notice of redemption may be given (i) earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obligated to pay such Additional Amounts were a payment in respect of the Notes then due, or (ii) if at the time such notice is given, such obligation to pay such Additional Amounts does not remain in effect.

Any such notice shall be given in accordance with § 13. It shall be irrevocable, must specify the date fixed for redemption and must set forth a statement in summary form of the facts constituting the basis for the right of the Issuer so to redeem.

**(3) Early Redemption at the Option of the Issuer following a Change of Control Event.**

If a Change of Control Event occurs, the Notes may be redeemed, in whole but not in part, at the option of the Issuer, upon not more than 60 days' nor less than 30 days' prior notice of redemption given to the Principal Paying Agent and to the Holders, at 101 per cent. of the principal amount together with interest accrued to the date fixed for redemption.

Any such notice shall be given in accordance with § 13. It shall be irrevocable and must specify the date fixed for redemption.

**§ 6  
DIE HAUPTZAHLSTELLE UND DIE**

**§ 6  
THE PRINCIPAL PAYING AGENT AND THE**

## ZAHLSTELLE

(1) *Bestellung; bezeichnete Geschäftsstelle.* Die anfänglich bestellte Hauptzahlstelle und deren bezeichnete Geschäftsstellen lauten wie folgt:

Hauptzahlstelle: BNP Paribas Securities Services Luxembourg Branch 33 rue de Gasperich 5826 Hesperange Luxembourg

Die Hauptzahlstelle behält sich das Recht vor, jederzeit ihre bezeichnete Geschäftsstelle durch eine andere Geschäftsstelle in derselben Stadt zu ersetzen. Eine solche Änderung ist den Gläubigern unverzüglich nach § 13 anzugeben.

(2) *Änderung der Bestellung oder Abberufung.* Die Emittentin behält sich das Recht vor, jederzeit die Bestellung der Hauptzahlstelle zu ändern oder zu beenden und eine andere Hauptzahlstelle oder zusätzliche Zahlstellen zu bestellen. Die Emittentin wird eine Hauptzahlstelle unterhalten solange die Schuldverschreibungen ausstehen. Eine Änderung, Abberufung, Bestellung oder ein sonstiger Wechsel wird nur wirksam (außer im Insolvenzfall, in dem eine solche Änderung sofort wirksam wird), sofern die Gläubiger hierüber gemäß § 13 vorab unter Einhaltung einer Frist von mindestens 30 und nicht mehr als 45 Tagen informiert wurden.

(3) *Erfüllungsgehilfe(n) der Emittentin.* Die Hauptzahlstelle handelt ausschließlich als Erfüllungsgehilfe der Emittentin und übernimmt keinerlei Verpflichtungen gegenüber den Gläubigern und es wird kein Auftrags- oder Treuhandverhältnis zwischen ihr und den Gläubigern begründet.

## § 7 STEUERN

Sämtliche auf die Schuldverschreibungen zu zahlenden Beträge sind ohne Einbehalt oder Abzug von oder aufgrund von gegenwärtigen oder zukünftigen Steuern oder sonstigen Abgaben gleich welcher Art zu leisten, die von oder in der Bundesrepublik Deutschland oder für deren Rechnung oder von oder für Rechnung einer politischen Untergliederung oder Steuerbehörde der oder in der Bundesrepublik Deutschland auferlegt oder erhoben werden, es sei denn, ein solcher Einbehalt oder Abzug ist gesetzlich vorgeschrieben. Ist ein solcher Einbehalt gesetzlich vorgeschrieben, so wird die Emittentin diejenigen zusätzlichen Beträge (die "**zusätzlichen Beträge**") zahlen, die erforderlich sind, damit die den Gläubigern zufließenden Nettobeträge nach diesem Einbehalt oder Abzug jeweils den Beträgen entsprechen, die ohne einen solchen Einbehalt oder Abzug von den Gläubigern empfangen worden wären; die Verpflichtung zur Zahlung solcher zusätzlicher

## PAYING AGENT

(1) *Appointment; Specified Office.* The initial Principal Paying Agent and its initial specified offices shall be:

Principal Paying Agent BNP Paribas Securities Services Luxembourg Branch 33 rue de Gasperich 5826 Hesperange Luxembourg

The Principal Paying Agent reserves the right at any time to change its specified office to some other office in the same city. Notice of such change shall be given to the Holders in accordance with § 13 without undue delay.

(2) *Variation or Termination of Appointment.* The Issuer reserves the right at any time to vary or terminate the appointment of the Principal Paying Agent and to appoint another Principal Paying Agent or additional Paying Agents. The Issuer shall for so long as the Notes are outstanding maintain a Principal Paying Agent. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Holders in accordance with § 13.

(3) *Agent of the Issuer.* The Principal Paying Agent acts solely as the agent of the Issuer and does not assume any obligations towards or relationship of agency or trust for any Holder.

## § 7 TAXATION

All amounts payable in respect of the Notes shall be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by way of withholding or deduction by or on behalf of Germany or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. If such withholding is required by law, the Issuer will pay such additional amounts (the "**Additional Amounts**") as shall be necessary in order that the net amounts received by the Holders, after such withholding or deduction shall equal the respective amounts which would otherwise have been receivable in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable on account of any taxes or duties which:

Beträge besteht jedoch nicht im Hinblick auf Steuern und Abgaben, die:

- (a) von einer als Depotbank oder Inkassobeauftragter des Gläubigers handelnden Person oder sonst auf andere Weise zu entrichten sind als dadurch, dass die Emittentin aus den von ihr zu leistenden Zahlungen von Kapital oder Zinsen einen Abzug oder Einbehalt vornimmt; oder
- (b) wegen einer gegenwärtigen oder früheren persönlichen oder geschäftlichen Beziehung des Gläubigers zur Bundesrepublik Deutschland zu zahlen sind, und nicht allein deshalb, weil Zahlungen auf die Schuldverschreibungen aus Quellen in der Bundesrepublik Deutschland stammen (oder für Zwecke der Besteuerung so behandelt werden) oder dort besichert sind; oder
- (c) aufgrund (i) einer Richtlinie oder Verordnung der Europäischen Union betreffend die Besteuerung von Zinserträgen oder (ii) einer zwischenstaatlichen Vereinbarung über deren Besteuerung, an der die Bundesrepublik Deutschland oder die Europäische Union beteiligt ist, oder (iii) einer gesetzlichen Vorschrift, die diese Richtlinie, Verordnung oder Vereinbarung umsetzt oder befolgt, abzuziehen oder einzubehalten sind; oder
- (d) aufgrund einer Rechtsänderung zu zahlen sind, welche später als 30 Tage nach Fälligkeit der betreffenden Zahlung von Kapital oder Zinsen oder, wenn dies später erfolgt, ordnungsgemäßer Bereitstellung aller fälligen Beträge und einer diesbezüglichen Bekanntmachung gemäß § 13 wirksam wird; oder
- (e) von einer Zahlstelle einbehalten oder abgezogen werden, wenn die Zahlung von einer anderen Zahlstelle ohne den Einbehalt oder Abzug hätte vorgenommen werden können.
- (f) aufgrund der Tatsache an einen Gläubiger, oder einen Dritten im Namen des Gläubigers, zu zahlen sind, dass die Emittentin nicht rechtzeitig die Informationen über die Schuldverschreibungen oder den Gläubiger erhält, die aufgrund einschlägiger deutscher Steuergesetze und -verordnungen notwendig sind.

- (a) are payable by any person acting as custodian bank or collecting agent on behalf of a Holder, or otherwise in any manner which does not constitute a deduction or withholding by the Issuer from payments of principal or interest made by it, or
- (b) are payable by reason of the Holder having, or having had, some personal or business connection with Germany and not merely by reason of the fact that payments in respect of the Notes are, or for purposes of taxation are deemed to be, derived from sources in, or are secured in, Germany, or
- (c) are deducted or withheld pursuant to (i) any European Union Directive or Regulation concerning the taxation of interest income, or (ii) any international treaty or understanding relating to such taxation and to which Germany or the European Union is a party, or (iii) any provision of law implementing, or complying with, or introduced to conform with, such Directive, Regulation, treaty or understanding, or
- (d) are payable by reason of a change in law that becomes effective more than 30 days after the relevant payment becomes due, or is duly provided for and notice thereof is published in accordance with § 13, whichever occurs later, or
- (e) are withheld or deducted by a paying agent from a payment if the payment could have been made by another paying agent without such withholding or deduction.
- (f) are payable to, or to a third party on behalf of, a Holder if the Issuer does not receive in a timely manner certain information about the Notes of such Holder as is required by applicable German tax laws and regulations.

## § 8 VORLEGUNGSFRIST

Die in § 801 Absatz 1 Satz 1 BGB bestimmte Vorlegungsfrist wird für die Schuldverschreibungen auf zehn Jahre verkürzt.

## § 9 KÜNDIGUNG

## § 8 PRESENTATION PERIOD

The presentation period provided in § 801 paragraph 1, sentence 1 of the German Civil Code (*Bürgerliches Gesetzbuch, BGB*) is reduced to ten years for the Notes.

## § 9 EVENTS OF DEFAULT

(1) *Kündigungsgründe*. Jeder Gläubiger ist berechtigt, seine Schuldverschreibung zu kündigen und deren sofortige Rückzahlung zu ihrem Nennbetrag zuzüglich (etwaiger) bis zum Tage der Rückzahlung aufgelaufener Zinsen zu verlangen, falls:

(a) Nichtzahlung: die Emittentin auf die Schuldverschreibungen zahlbares Kapital oder Zinsen nicht innerhalb von 15 Tagen nach dem betreffenden Fälligkeitsdatum zahlt; oder

(b) Verletzung einer sonstigen Verpflichtung: die Emittentin die ordnungsgemäße Erfüllung einer anderen Verpflichtung aus den Schuldverschreibungen oder die Garantin die Erfüllung einer Verpflichtung aus der Garantie unterlässt und diese Unterlassung länger als 45 Tage fortdauert, nachdem die Hauptzahlstelle hierüber eine Benachrichtigung von einem Gläubiger erhalten hat; oder

(c) Drittverzugsklausel: (i) eine andere Kapitalmarktverbindlichkeit der Emittentin, der Garantin oder der Wesentlichen Tochtergesellschaft bei Fälligkeit bzw. nicht innerhalb von 20 Tagen, oder, falls länger, nach Ablauf einer etwaigen Nachfrist nicht bezahlt wird, oder (ii) eine Kapitalmarktverbindlichkeit der Emittentin, der Garantin oder der Wesentlichen Tochtergesellschaft vor dem vorgesehenen Fälligkeitstermin aufgrund des Vorliegens eines Kündigungsgrundes wegen Nichterfüllung von Zahlungsverpflichtungen vorzeitig fällig gestellt wird, oder (iii) die Emittentin, die Garantin oder die Wesentliche Tochtergesellschaft einen Betrag, der unter einer bestehenden oder zukünftigen Garantie oder Gewährleistung im Zusammenhang mit einer Kapitalmarktverbindlichkeit zu zahlen ist, innerhalb von 20 Tagen oder, falls länger, der zutreffenden Nachfrist nicht zahlt, jeweils vorausgesetzt, dass der Gesamtbetrag der betreffenden Kapitalmarktverbindlichkeit, bezüglich derer eines oder mehrere der in diesem Absatz (c) genannten Ereignisse eintritt, mindestens dem Betrag von € 40.000.000 (oder dessen entsprechenden Gegenwert in einer oder mehreren anderen Währung(en)) entspricht oder diesen übersteigt;

(d) Zahlungseinstellung: die Emittentin, die Garantin oder eine ihrer Wesentlichen Tochtergesellschaften ihre Zahlungsunfähigkeit bekannt gibt oder ihre Zahlungen allgemein einstellt; oder

(e) Insolvenz u.ä.: ein Gericht ein Insolvenzverfahren gegen die Emittentin, die Garantin oder ihre Wesentliche Tochtergesellschaft eröffnet, oder die Emittentin, die Garantin oder ihre Wesentliche Tochtergesellschaft ein solches Verfahren einleitet oder beantragt oder eine allgemeine Schuldenregelung zu Gunsten ihrer Gläubiger anbietet oder trifft, oder ein Dritter ein

(1) *Events of default*. Each Holder shall be entitled to declare his Notes due and demand immediate redemption thereof at par plus accrued interest (if any) to the date of repayment, in the event that

(a) Non-Payment: the Issuer fails to pay principal or interest due on the Notes within 15 days after the relevant due date, or

(b) Breach of other Obligation: the Issuer fails to duly perform any other obligation arising from the Notes or the Guarantor fails to perform any obligation arising from the Guarantee and such failure continues unremedied for more than 45 days after the Principal Paying Agent has received notice thereof from a Holder, or

(c) Cross-Default: (i) any other Capital Market Indebtedness of the Issuer, the Guarantor or the Material Subsidiary is not paid when due or, as the case may be, within 20 days or, if longer, any originally applicable grace period or (ii) any Capital Market Indebtedness of the Issuer, the Guarantor or the Material Subsidiary is declared to be due and payable prior to its specified maturity for reason of the occurrence of an event of default due to non-compliance with payment obligations, or (iii) the Issuer, the Guarantor or the Material Subsidiary fails to pay within 20 days or, if longer, any applicable grace period any amount payable by it under any present or future guarantee or indemnity for any Capital Market Indebtedness when due or, provided in each case that the relevant aggregate amount of all such Capital Market Indebtedness in respect of which one or more of the events mentioned above in this paragraph (c) has or have occurred equals or exceeds € 40,000,000 or its equivalent in any other currency;

(d) Cessation of Payment: the Issuer, the Guarantor or its Material Subsidiary announces its inability to meet its financial obligations or ceases its payments generally; or

(e) Insolvency etc.: a court opens insolvency proceedings against the Issuer, the Guarantor or its Material Subsidiary or the Issuer, the Guarantor or its Material Subsidiary applies for or institutes such proceedings or offers or makes an arrangement for the benefit of its creditors generally, or a third party applies for insolvency proceedings against the Issuer, the Guarantor or its Material Subsidiary and such

Insolvenzverfahren gegen die Emittentin, die Garantin oder ihre Wesentliche Tochtergesellschaft beantragt und ein solches Verfahren nicht innerhalb einer Frist von 60 Tagen aufgehoben oder ausgesetzt worden ist; oder

(f) Liquidation: die Emittentin, die Garantin oder ihre Wesentliche Tochtergesellschaft in Liquidation tritt (es sei denn, dies geschieht im Zusammenhang mit einer Verschmelzung oder einer anderen Form des Zusammenschlusses mit einer anderen Gesellschaft oder im Zusammenhang mit einer Umwandlung, sofern die andere oder neue Gesellschaft oder gegebenenfalls die anderen neuen Gesellschaften im Wesentlichen alle Aktiva und Passiva der Emittentin, der Garantin oder ihrer Wesentlichen Tochtergesellschaft übernimmt oder übernehmen); oder

(g) Erlöschen der Garantie: die Garantie nicht länger rechtswirksam und bindend ist (ausgenommen als Folge einer Verschmelzung der Garantin mit der Emittentin) oder die Garantin ihre Verpflichtungen aus der Garantie nicht erfüllt.

Das Kündigungsrecht erlischt, falls der Kündigungsgrund vor Ausübung des Rechts geheilt wurde.

proceedings are not discharged or stayed within 60 days, or

(f) Liquidation: the Issuer, the Guarantor or its Material Subsidiary enters into liquidation (except in connection with a merger or other form of combination with another company or in connection with a reconstruction and such other or new company or, as the case may be, companies effectively assume substantially all of the assets and liabilities of the Issuer, the Guarantor or its Material Subsidiary), or

(g) Expiration of the Guarantee: the Guarantee cease to be legally valid and binding (other than as a result of a merger of the Guarantor with the Issuer) or the Guarantor fails to fulfil its obligations under the Guarantee.

The right to declare Notes due shall terminate if the situation giving rise to it has been cured before the right is exercised.

(2) *Benachrichtigung.* Eine Benachrichtigung, einschließlich einer Kündigung der Schuldverschreibungen gemäß Absatz (1) ist schriftlich in deutscher oder englischer Sprache gegenüber der Hauptzahlstelle zu erklären zusammen mit dem Nachweis durch eine Bescheinigung der Depotbank (wie in § 14 Absatz (3) definiert) oder in einer anderen geeigneten Weise, dass der Benachrichtigende zum Zeitpunkt der Benachrichtigung ein Gläubiger der betreffenden Schuldverschreibung ist und persönlich oder per Einschreiben an dessen bezeichnete Geschäftsstelle zu übermitteln.

## § 10 ERSETZUNG

(1) *Ersetzung.* Die Emittentin ist jederzeit berechtigt, sofern sie sich nicht mit einer Zahlung von Kapital oder Zinsen auf die Schuldverschreibungen in Verzug befindet, ohne Zustimmung der Gläubiger ein mit der Emittentin verbundenes Unternehmen (wie unten definiert), an ihrer Stelle als Hauptschuldnerin (die "Nachfolgeschuldnerin") für alle Verpflichtungen aus und im Zusammenhang mit diesen Schuldverschreibungen einzusetzen, vorausgesetzt, dass:

(a) die Nachfolgeschuldnerin alle Verpflichtungen der Emittentin in Bezug auf die

(2) *Notice.* Any notice, including any notice declaring Notes due, in accordance with subparagraph (1) shall be made by means of a written declaration in the German or English language delivered by hand or registered mail to the specified office of the Principal Paying Agent together with a proof that such notifying Holder at the time of such notice is a holder of the relevant Notes by means of a statement of his Custodian (as defined in § 14(3)) or any other appropriate manner.

## § 10 SUBSTITUTION

(1) *Substitution.* The Issuer may, without the consent of the Holders, if no payment of principal or of interest on any of the Notes is in default, at any time substitute for the Issuer any Affiliate (as defined below) of the Issuer as principal debtor in respect of all obligations arising from or in connection with this issue (the "Substitute Debtor") provided that:

(a) the Substitute Debtor assumes all obligations of the Issuer in respect of the Notes;

Schuldverschreibungen übernimmt;

(b) die Nachfolgeschuldnerin alle erforderlichen Genehmigungen erhalten hat und berechtigt ist, an die Hauptzahlstelle die zur Erfüllung der Zahlungsverpflichtungen aus den Schuldverschreibungen zahlbaren Beträge in der festgelegten Währung zu zahlen, ohne verpflichtet zu sein, jeweils in dem Land, in dem die Nachfolgeschuldnerin oder die Emittentin ihren Sitz oder Steuersitz haben, erhobene Steuern oder andere Abgaben jeder Art abzuziehen oder einzubehalten;

(c) die Nachfolgeschuldnerin sich verpflichtet hat, jeden Gläubiger hinsichtlich solcher Steuern, Abgaben oder behördlichen Lasten freizustellen, die einem Gläubiger bezüglich der Ersetzung auferlegt werden;

(d) die Garantin eine Garantie zugunsten der Anleihegläubiger für Verbindlichkeiten der Nachfolgeschuldnerin unter den Schuldverschreibungen abgegeben hat; und

(e) der Hauptzahlstelle jeweils eine Bestätigung bezüglich der betroffenen Rechtsordnungen von anerkannten Rechtsanwälten vorgelegt wird, dass die Bestimmungen in den vorstehenden Unterabsätzen (a), (b), (c) und (d) erfüllt wurden.

Für die Zwecke dieses § 10 bedeutet "verbundenes Unternehmen" ein verbundenes Unternehmen im Sinne von § 15 Aktiengesetz.

(2) *Bekanntmachung*. Jede Ersetzung ist gemäß § 13 bekannt zu machen.

(3) *Änderung von Bezugnahmen*. Im Fall einer Ersetzung gilt jede Bezugnahme in diesen Anleihebedingungen auf die Emittentin ab dem Zeitpunkt der Ersetzung als Bezugnahme auf die Nachfolgeschuldnerin und jede Bezugnahme auf das Land, in dem die Emittentin ihren Sitz oder Steuersitz hat, gilt ab diesem Zeitpunkt als Bezugnahme auf das Land, in dem die Nachfolgeschuldnerin ihren Sitz oder Steuersitz hat. Des Weiteren gilt im Fall einer Ersetzung Folgendes:

In § 7 und § 5 Absatz (2) gilt eine alternative Bezugnahme auf die Bundesrepublik Deutschland als aufgenommen (zusätzlich zu der Bezugnahme nach Maßgabe des vorstehenden Satzes auf das Land, in dem die Nachfolgeschuldnerin ihren Sitz oder Steuersitz hat).

## § 11 BEGEBUNG WEITERER SCHULDVERSCHREIBUNGEN UND ANKAUF

(1) *Begebung* weiterer Schuldverschreibungen. Die

(b) the Substitute Debtor has obtained all necessary authorisations and may transfer to the Principal Paying Agent in the currency required and without being obligated to deduct or withhold any taxes or other duties of whatever nature levied by the country in which the Substitute Debtor or the Issuer has its domicile or tax residence, all amounts required for the fulfilment of the payment obligations arising under the Notes;

(c) the Substitute Debtor has agreed to indemnify and hold harmless each Holder against any tax, duty, assessment or governmental charge imposed on such Holder in respect of such substitution;

(d) the Guarantor has granted a guarantee for the benefit of the Noteholders guaranteeing the obligations of the Substitute Debtor under the Notes; and

(e) there shall have been delivered to the Principal Paying Agent one opinion for each jurisdiction affected of lawyers of recognised standing to the effect that subparagraphs (a), (b), (c) and (d) above have been satisfied.

For purposes of this § 10, "Affiliate" shall mean any affiliated company (*verbundenes Unternehmen*) within the meaning of § 15 of the German Stock Corporation Act (*Aktiengesetz*).

(2) *Notice*. Notice of any such substitution shall be published in accordance with § 13.

(3) *Change of References*. In the event of any such substitution, any reference in these Conditions of Issue to the Issuer shall from then on be deemed to refer to the Substitute Debtor and any reference to the country in which the Issuer is domiciled or resident for taxation purposes shall from then on be deemed to refer to the country of domicile or residence for taxation purposes of the Substitute Debtor. Furthermore, in the event of such substitution the following shall apply:

In § 7 and § 5(2) an alternative reference to Germany shall be deemed to have been included in addition to the reference according to the preceding sentence to the country of domicile or residence for taxation purposes of the Substitute Debtor.

## § 11 FURTHER ISSUES AND PURCHASES

(1) *Further Issues*. The Issuer may from time to time,

Emittentin ist berechtigt, jederzeit ohne Zustimmung der Gläubiger weitere Schuldverschreibungen mit gleicher Ausstattung (gegebenenfalls mit Ausnahme des Tags der Begebung, des Verzinsungsbeginns und/oder des Ausgabepreises) in der Weise zu begeben, dass sie mit diesen Schuldverschreibungen eine einheitliche Serie bilden.

(2) *Ankauf*. Die Emittentin ist berechtigt, jederzeit Schuldverschreibungen im Markt oder anderweitig zu jedem beliebigen Preis zu kaufen. Die von der Emittentin erworbenen Schuldverschreibungen können nach Wahl der Emittentin von ihr gehalten, weiterverkauft oder bei der Hauptzahlstelle zwecks Entwertung eingereicht werden.

## § 12

### ÄNDERUNG DER ANLEIHEBEDINGUNGEN, GEMEINSAMER VERTRETER, ÄNDERUNG DER GARANTIE

(1) *Änderung der Anleihebedingungen*. Die Gläubiger können entsprechend den Bestimmungen des Gesetzes über Schuldverschreibungen aus Gesamtemissionen (*Schuldverschreibungsgesetz – "SchVG"*) durch einen Beschluss mit der in Absatz 2 bestimmten Mehrheit über einen im SchVG zugelassenen Gegenstand eine Änderung der Anleihebedingungen mit der Emittentin vereinbaren. Die Mehrheitsbeschlüsse der Gläubiger sind für alle Gläubiger gleichermaßen verbindlich. Ein Mehrheitsbeschluss der Gläubiger, der nicht gleiche Bedingungen für alle Gläubiger vorsieht, ist unwirksam, es sei denn die benachteiligten Gläubiger stimmen ihrer Benachteiligung ausdrücklich zu.

(2) *Mehrheitserfordernisse*. Die Gläubiger entscheiden mit einer Mehrheit von 75 Prozent der an der Abstimmung teilnehmenden Stimmrechte. Beschlüsse, durch welche der wesentliche Inhalt der Anleihebedingungen nicht geändert wird und die keinen Gegenstand der § 5 Absatz 3, Nr. 1 bis Nr. 8 des SchVG betreffen, bedürfen zu ihrer Wirksamkeit einer einfachen Mehrheit der an der Abstimmung teilnehmenden Stimmrechte.

(3) *Abstimmung ohne Versammlung*. Alle Abstimmungen werden ausschließlich im Wege der Abstimmung ohne Versammlung durchgeführt. Eine Gläubigerversammlung und eine Übernahme der Kosten für eine solche Versammlung durch die Emittentin findet ausschließlich im Fall des § 18 Absatz 4, Satz 2 SchVG statt.

(4) *Leitung der Abstimmung*. Die Abstimmung wird von einem von der Emittentin beauftragten in- oder ausländischen Notar oder, falls der gemeinsame Vertreter zur Abstimmung aufgefordert hat, vom gemeinsamen Vertreter geleitet.

(5) *Stimmrecht*. An Abstimmungen der Gläubiger nimmt jeder Gläubiger nach Maßgabe des Nennwerts

without the consent of the Holders, issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date, interest commencement date and/or issue price) so as to form a single Series with the Notes.

(2) *Purchases*. The Issuer may at any time purchase Notes in the open market or otherwise and at any price. Notes purchased by the Issuer may, at the option of the Issuer, be held, resold or surrendered to the Principal Paying Agent for cancellation.

## § 12

### AMENDMENT OF THE CONDITIONS OF ISSUE, HOLDERS' REPRESENTATIVE, AMENDMENT OF THE GUARANTEE

(1) *Amendment of the Conditions of Issue*. In accordance with the Act on Debt Securities of 2009 (*Schuldverschreibungsgesetz aus Gesamtemissionen – "SchVG"*) the Holders may agree with the Issuer on amendments of the Conditions of Issue with regard to matters permitted by the SchVG by resolution with the majority specified in subparagraph (2). Majority resolutions shall be binding on all Holders. Resolutions which do not provide for identical conditions for all Holders are void, unless Holders who are disadvantaged have expressly consented to their being treated disadvantageously.

(2) *Majority*. Resolutions shall be passed by a majority of not less than 75 per cent of the votes cast. Resolutions relating to amendments of the Conditions of Issue which are not material and which do not relate to the matters listed in § 5 paragraph 3, Nos. 1 to 8 of the SchVG require a simple majority of the votes cast.

(3) *Vote without a meeting*. All votes will be taken exclusively by vote taken without a meeting. A meeting of Holders and the assumption of the fees by the Issuer for such a meeting will only take place in the circumstances of § 18 paragraph 4, sentence 2 of the SchVG.

(4) *Chair of the vote*. The vote will be chaired by a German or foreign notary appointed by the Issuer or, if the Holders' Representative (as defined below) has convened the vote, by the Holders' Representative.

(5) *Voting rights*. Each Holder participating in any vote shall cast votes in accordance with the nominal

oder des rechnerischen Anteils seiner Berechtigung an den ausstehenden Schuldverschreibungen teil. Gläubiger müssen den Nachweis ihrer Berechtigung zur Teilnahme an der Abstimmung zum Zeitpunkt der Stimmabgabe durch eine Bescheinigung der Depotbank, wie in § 14 (3) geregelt und die Vorlage einer Sperranweisung der Depotbank zugunsten der Zahlstelle als Hinterlegungsstelle für den Zeitraum der Stimmabgabe nachweisen.

(6) *Gemeinsamer Vertreter.* Die Gläubiger können durch Mehrheitsbeschluss zur Wahrnehmung ihrer Rechte einen gemeinsamen Vertreter für alle Gläubiger bestellen (der "**Gemeinsame Vertreter**"). Der Gemeinsame Vertreter hat die Aufgaben und Befugnisse, welche ihm durch Gesetz oder von den Gläubigern durch Mehrheitsbeschluss eingeräumt wurden. Er hat die Weisungen der Gläubiger zu befolgen. Soweit er zur Geltendmachung von Rechten der Gläubiger ermächtigt ist, sind die einzelnen Gläubiger zur selbständigen Geltendmachung dieser Rechte nicht befugt, es sei denn der Mehrheitsbeschluss sieht dies ausdrücklich vor. Über seine Tätigkeit hat der gemeinsame Vertreter den Gläubigern zu berichten. Für die Abberufung und die sonstigen Rechte und Pflichten des Gemeinsamen Vertreters gelten die Vorschriften des SchVG.

(7) *Änderung der Garantie.* Die oben aufgeführten auf die Schuldverschreibungen anwendbaren Bestimmungen finden sinngemäß auf die Bestimmungen der Garantie Anwendung.

## § 13 MITTEILUNGEN

(1) *Bekanntmachung.* Alle die Schuldverschreibungen betreffenden Mitteilungen erfolgen im Bundesanzeiger und durch elektronische Publikation auf der Internetseite der Luxemburger Börse ([www.bourse.lu](http://www.bourse.lu)). Jede Mitteilung gilt am dritten Tag nach dem Tag der Veröffentlichung als wirksam erfolgt.

(2) *Mitteilungen an das Clearing System.* Solange Schuldverschreibungen an der Luxemburger Börse notiert sind, findet Absatz (1) Anwendung. Soweit die Regeln der Luxemburger Börse dies sonst zulassen oder die gesetzlichen Bestimmungen nichts anderes vorsehen, kann die Emittentin eine Veröffentlichung nach Absatz (1) durch eine Mitteilung an das Clearing System zur Weiterleitung an die Gläubiger ersetzen; jede derartige Mitteilung gilt am siebten Tag nach dem Tag der Mitteilung an das Clearing System als den Gläubigern mitgeteilt.

(3) *Form der Mitteilung.* Mitteilungen, die von einem Gläubiger gemacht werden, müssen schriftlich erfolgen und zusammen mit der oder den betreffenden Schuldverschreibung(en) per Kurier oder per

amount or the notional share of its entitlement to the outstanding Notes. Holders must demonstrate their eligibility to participate in the vote at the time of voting by means of a special confirmation of the Custodian in accordance with § 14(3) hereof and by submission of a blocking instruction by the Custodian for the benefit of the Paying Agent as depository (*Hinterlegungsstelle*) for the voting period.

(6) *Holders' Representative.* The Holders may by majority resolution appoint a common representative (the "**Holders' Representative**") to exercise the Holders' rights on behalf of each Holder. The Holders' Representative shall have the duties and powers provided by law or granted by majority resolution of the Holders. The Holders' Representative shall comply with the instructions of the Holders. To the extent that the Holders' Representative has been authorised to assert certain rights of the Holders, the Holders shall not be entitled to assert such rights themselves, unless explicitly provided for in the relevant majority resolution. The Holders' Representative shall provide reports to the Holders on its activities. The regulations of the SchVG apply with regard to the recall and the other rights and obligations of the Holders' Representative.

(7) *Amendment of the Guarantee.* The provisions set out above applicable to the Notes shall apply mutatis mutandis to the Guarantee.

## § 13 NOTICES

(1) *Publication.* All notices concerning the Notes will be made in the Federal Gazette and by means of electronic publication on the internet website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). Any notice so given will be deemed to have been validly given on the third day following the date of such publication.

(2) *Notification to Clearing System.* So long as any Notes are listed on the Luxembourg Stock Exchange, subparagraph (1) shall apply. If the Rules of the Luxembourg Stock Exchange otherwise so permit or statutory provisions do not stipulate differently, the Issuer may deliver the relevant notice to the Clearing System for communication by the Clearing System to the Holders, in lieu of publication as set forth in subparagraph (1) above; any such notice shall be deemed to have been validly given on the seventh day after the day on which the said notice was given to the Clearing System.

(3) *Form of Notice.* Notices to be given by any Holder shall be made by means of a written declaration to be delivered by hand or registered mail together with the relevant Note or Notes to the Principal Paying Agent.

Einschreiben an die Hauptzahlstelle geleitet werden. Solange Schuldverschreibungen durch eine Globalurkunde verbrieft sind, kann eine solche Mitteilung von einem Gläubiger an die Hauptzahlstelle über das Clearing System in der von der Hauptzahlstelle und dem Clearing System dafür vorgesehenen Weise erfolgen.

## § 14

### ANWENDBARES RECHT, GERICHTSSTAND UND GERICHTLICHE GELTENDMACHUNG

(1) *Anwendbares Recht.* Form und Inhalt der Schuldverschreibungen sowie die Rechte und Pflichten der Gläubiger und der Emittentin bestimmen sich in jeder Hinsicht nach deutschem Recht unter Ausschluss des Kollisionsrechts.

(2) *Gerichtsstand.* Nicht ausschließlich zuständig für sämtliche im Zusammenhang mit den Schuldverschreibungen entstehenden Klagen oder sonstige Verfahren ("Rechtsstreitigkeit") ist das Landgericht München. Das Amtsgericht München ist gemäß § 9 Abs. 3 SchVG zuständig für alle Verfahren nach §§ ) Abs. 2, 13 Abs. 3 und 18 Abs. 2 SchVG. Das Landgericht München ist gemäß § 20 Abs. 3 SchVG ausschließlich zuständig für Klagen im Zusammenhang mit der Anfechtung von Beschlüssen der Gläubiger.

(3) *Gerichtliche Geltendmachung.* Jeder Gläubiger von Schuldverschreibungen ist berechtigt, in jede Rechtsstreitigkeit gegen die Emittentin oder in jeder Rechtsstreitigkeit, in dem der Gläubiger und die Emittentin Partei sind, seine Rechte aus diesen Schuldverschreibungen im eigenen Namen auf der folgenden Grundlage zu schützen oder geltend zu machen: (i) er bringt eine Bescheinigung der Depotbank bei, bei der er für die Schuldverschreibungen ein Wertpapierdepot unterhält, welche (a) den vollständigen Namen und die vollständige Adresse des Gläubigers enthält, (b) den Gesamtnennbetrag der Schuldverschreibungen bezeichnet, die unter dem Datum der Bestätigung auf dem Wertpapierdepot verbucht sind und (c) bestätigt, dass die Depotbank gegenüber dem Clearing System eine schriftliche Erklärung abgegeben hat, die die vorstehend unter (a) und (b) bezeichneten Informationen enthält; und (ii) er legt eine Kopie der die betreffenden Schuldverschreibungen verbrieften Globalurkunde vor, deren Übereinstimmung mit dem Original eine vertretungsberechtigte Person des Clearing Systems oder des Verwahrers des Clearing Systems bestätigt hat, ohne dass eine Vorlage der Originalbelege oder der die Schuldverschreibungen verbrieften Globalurkunde in einem solchen Verfahren erforderlich wäre. Für die Zwecke des Vorstehenden bezeichnet "Depotbank" jede Bank oder ein sonstiges anerkanntes Finanzinstitut, das berechtigt ist, das

So long as any of the Notes are represented by a global note, such notice may be given by any Holder of a Note to the Principal Paying Agent through the Clearing System in such manner as the Principal Paying Agent and the Clearing System may approve for such purpose.

## § 14

### APPLICABLE LAW, PLACE OF JURISDICTION AND ENFORCEMENT

(1) *Applicable Law.* The Notes, as to form and content, and all rights and obligations of the Holders and the Issuer, shall be governed by German law without regard to principles of conflict of laws.

(2) *Submission to Jurisdiction.* The District Court (Landgericht) in Munich shall have non-exclusive jurisdiction for any action or other legal proceedings ("Proceedings") arising out of or in connection with the Notes. The local court (Amtsgericht) in Munich shall, pursuant to section 9 para. 3 of the SchVG, have jurisdiction for all judgements in accordance with sections 9 para. 2, 13 para. 3 and 18 para. 2 of the SchVG. The district court (Landgericht) in Munich shall have exclusive jurisdiction for all judgments over contested resolutions by Noteholders SchVG in accordance with section 20 para. 3 of the SchVG.

(3) *Enforcement.* Any Holder of Notes may in any proceedings against the Issuer, or to which such Holder and the Issuer are parties, protect and enforce in his own name his rights arising under such Notes on the basis of (i) a statement issued by the Custodian with whom such Holder maintains a securities account in respect of the Notes (a) stating the full name and address of the Holder, (b) specifying the aggregate principal amount of Notes credited to such securities account on the date of such statement and (c) confirming that the Custodian has given written notice to the Clearing System containing the information pursuant to (a) and (b) and (ii) a copy of the Note in global form certified as being a true copy by a duly authorised officer of the Clearing System or a depository of the Clearing System, without the need for production in such proceedings of the actual records or the global note representing the Notes. For purposes of the foregoing, "Custodian" means any bank or other financial institution of recognised standing authorised to engage in securities custody business with which the Holder maintains a securities account in respect of the Notes and includes the Clearing System. Each Holder may, without prejudice to the foregoing, protect and enforce his rights under these Notes also in any other way which is admitted in the country of the Proceedings.

Wertpapierverwahrungsgeschäft zu betreiben und bei der/dem der Gläubiger ein Wertpapierdepot für die Schuldverschreibungen unterhält, einschließlich des Clearing Systems. Unbeschadet des Vorstehenden kann jeder Gläubiger seine Rechte aus den Schuldverschreibungen auch auf jede andere Weise schützen oder geltend machen, die im Land des Rechtsstreits prozessual zulässig ist.

**§ 15**  
**SPRACHE**

Diese Anleihebedingungen sind in deutscher Sprache abgefasst. Der deutsche Text ist bindend und maßgeblich. Die Übersetzung in die englische Sprache ist unverbindlich.

**§ 15**  
**LANGUAGE**

These Conditions of Issue are written in the German language. The German text shall be controlling and binding. The English language translation is provided for convenience only.

**KOPIE DER GARANTIE**  
**COPY OF GUARANTEE**

*Die deutsche Version dieser Garantie ist bindend: Die englische Übersetzung dient nur Informationszwecken.* *The German text of this Guarantee is binding. The English translation is for information purposes only.*

**GARANTIE**

der

**TELEFÓNICA DEUTSCHLAND**  
**HOLDING AG**

(die "Garantin")

zugunsten der Gläubiger der € •

• Prozent Schuldverschreibungen fällig 2018 der

**O2 TELEFÓNICA DEUTSCHLAND**  
**FINANZIERUNGS GMBH**  
(die "Emittentin")

ISIN XS0912992160

(die "Schuldverschreibungen").

1. Definitionen

Die in dieser Garantie verwendeten und nicht anders definierten Begriffe haben die ihnen in den Anleihebedingungen der Schuldverschreibungen zugewiesene Bedeutung.

2. Garantie

(a) Die Garantin übernimmt gegenüber jedem Inhaber einer Schuldverschreibung (jeweils ein "Gläubiger") die unbedingte und unwiderrufliche Garantie für die ordnungsgemäße und pünktliche Zahlung aller nach Maßgabe der Anleihebedingungen von der Emittentin oder einer Nachfolgeschuldnerin auf die Schuldverschreibungen zu zahlenden Beträge. Diese Garantie begründet eine selbständige Verpflichtung der Garantin, deren Bestand unabhängig von der rechtlichen Beziehung zwischen der Emittentin und den Gläubigern ist, und die insbesondere nicht von der Wirksamkeit oder der Durchsetzbarkeit der Ansprüche gegen die Emittentin aus den Schuldverschreibungen abhängt.

(b) Diese Garantie begründet unmittelbare, unbedingte und nicht nachrangige Verbindlichkeiten der Garantin, die mindestens im gleichen Rang mit allen anderen gegenwärtigen und zukünftigen nicht nachrangigen und nicht besicherten Verbindlichkeiten der Garantin stehen

**GUARANTEE**

of

**TELEFÓNICA DEUTSCHLAND**  
**HOLDING AG**

(the "Guarantor")

for the benefit of the holders of the € • • per cent Notes due 2018 issued by

**O2 TELEFÓNICA DEUTSCHLAND**  
**FINANZIERUNGS GMBH**  
(the "Issuer")

ISIN XS0912992160

(the "Notes").

1. Definitions

Terms used in this Guarantee and not otherwise defined herein shall have the meaning attributed to them in the Conditions of Issue of the Notes.

2. Guarantee

(a) The Guarantor unconditionally and irrevocably assumes towards each holder of a Note (each a "Holder"), the unconditional and irrevocable guarantee for the due and punctual payment of any amounts payable by the Issuer or any Substitute Debtor in respect of the Notes pursuant to the Terms and Conditions. This Guarantee constitutes an independent obligation of the Guarantor, which is independent from the legal relationship between the Issuer and the Holders, and which is in particular independent from the validity or the enforceability of the claims against the Issuer under the Notes.

(b) This Guarantee constitutes direct, unconditional and unsubordinated obligations of the Guarantor ranking at least *pari passu* with all other unsubordinated obligations of the Guarantor, present and future save for such obligations which may be preferred

mit Ausnahme von Verbindlichkeiten, die aufgrund zwingenden Rechts vorrangig sind. Zugleich mit der Erfüllung einer Zahlungsverpflichtung der Garantin zugunsten eines Gläubigers aus der Garantie erlischt das jeweilige garantierte Recht eines Gläubigers aus den Anleihebedingungen.

### 3. Negativverpflichtung

Die Garantin verpflichtet sich, solange Schuldverschreibungen ausstehen jedoch nur bis zu dem Zeitpunkt, an dem alle Beträge an Kapital und Zinsen der Hauptzahlstelle zur Verfügung gestellt worden sind, keine Sicherungsrechte in Bezug auf ihr gesamtes Vermögen oder Teile davon bzw. Garantien zur Sicherung von Kapitalmarktverbindlichkeiten zu gewähren und ihre Wesentliche Tochtergesellschaft (wie unten definiert) zu veranlassen (es sei denn, dies ist rechtlich nicht möglich oder unzulässig), keine solchen Sicherungsrechte bzw. Garantien für Kapitalmarktverbindlichkeiten zu gewähren, ohne gleichzeitig die Gläubiger gleichrangig an einem solchen Sicherungsrecht bzw. einer Garantie zu beteiligen oder ihnen ein gleichwertiges Sicherungsrecht oder eine gleichwertige Garantie zu gewähren; diese Verpflichtung gilt jedoch nicht für zum Zeitpunkt des Erwerbs von Vermögenswerten durch die Garantin bereits an solchen Vermögenswerten bestehende Sicherungsrechte, soweit solche Sicherungsrechte nicht im Zusammenhang mit dem Erwerb oder in Erwartung des Erwerbs des jeweiligen Vermögenswerts bestellt wurden und der durch das Sicherungsrecht besicherte Betrag nicht nach Erwerb des betreffenden Vermögenswertes erhöht wird.

Eine nach dieser Ziffer 3 zu leistende Sicherheit kann auch zu Gunsten der Person eines Treuhänders der Gläubiger bestellt werden.

**"Kapitalmarktverbindlichkeit"** bezeichnet jede bestehende oder zukünftige Verbindlichkeit (gleich ob Kapital, Aufgeld, Zinsen oder andere Beträge) bezüglich Geldaufnahmen in Form von, oder verbrieft durch, Schuldverschreibungen, Anleihen oder ähnliche Wertpapiere, sofern sie an einer Börse oder einem anderen anerkannten und regulierten Wertpapiermarkt notiert sind oder

by applicable mandatory law. Upon discharge of any payment obligation of the Guarantor subsisting under the Guarantee in favour of any Holder, the relevant guaranteed right of such Holder under the Terms and Conditions will cease to exist.

### 3. Negative Pledge

The Guarantor undertakes, for so long as any of the Notes are outstanding, but only up to the time all amounts of principal and interest have been placed at the disposal of the Principal Paying Agent, not to provide any Security Interest over the whole or any part of their assets or grant guarantees to secure any Capital Markets Indebtedness and to procure (unless this is legally impossible or illegal) that its Material Subsidiary (as defined below) will provide Security Interests over their assets or grant guarantees to secure Capital Markets Indebtedness without at the same time letting the Holders share *pari passu* in such Security Interest or giving to the Holders an equivalent Security Interest or guarantee, provided, however, that this undertaking shall not apply with respect to any Security Interest existing on property at the time of the acquisition thereof by the Guarantor, provided that such Security Interest was not created in connection with or in contemplation of such acquisition and that the amount secured by such Security Interest is not increased subsequently to the acquisition of the relevant property.

Any security which is to be provided pursuant to this item 3 may also be provided to a person acting as trustee for the Holders.

**"Capital Market Indebtedness"** shall mean any present or future indebtedness (whether being principal, premium, interest or other amounts) in respect of borrowed money which is in the form of, or represented by, bonds, notes or any similar securities which are or are capable of being quoted, listed or traded on any stock exchange or other recognised and regulated securities market

gehandelt werden oder werden können oder Schuldcheindarlehen nach deutschem Recht mit einer Laufzeit von mehr als einem Jahr, sofern der zurückzuzahlende Betrag € 40.000.000 übersteigt. Von der Definition Kapitalmarktverbindlichkeiten sind solche Verbindlichkeiten ausgenommen, die aus der Verbriefung von Forderungen, besonders denjenigen aus dem O2 My Handy Geschäft, stammen.

**"Wesentliche Tochtergesellschaft"** bezeichnet Telefónica Germany GmbH & Co. OHG.

4. Steuern

(a) Sämtliche Zahlungen der Garantin aus der Garantie sind ohne Einbehalt oder Abzug aufgrund von oder wegen irgendwelchen gegenwärtigen oder zukünftigen Steuern, Abgaben gleich welcher Art, die von oder in der Bundesrepublik Deutschland oder für deren Rechnung oder von oder für Rechnung einer dort zur Steuererhebung ermächtigten Gebietskörperschaft oder Behörde auferlegt, erhoben oder eingezogen werden ("Quellensteuern"), zu zahlen, es sei denn, eine solcher Abzug oder Einbehalt ist gesetzlich vorgeschrieben. In diesem Fall wird die Garantin, vorbehaltlich der Ausnahmen gemäß § 7 der Anleihebedingungen, diejenigen zusätzlichen Beträge (die "zusätzlichen Beträge") zahlen, die zu zahlen gewesen wären, wenn ein solcher Einbehalt oder Abzug nicht notwendig gewesen wäre.

(b) Falls die Garantin ihren satzungsmäßigen Sitz oder ihren Verwaltungssitz in ein anderes Land als die Bundesrepublik Deutschland verlegt oder auf eine Gesellschaft verschmolzen wird, die ihren satzungsmäßigen Sitz oder ihren Verwaltungssitz in einem solchen anderen Land hat, gelten die Bestimmungen gemäß Ziffer 4(a) auch für Quellensteuern, die durch oder für dieses andere Land oder eine dort zur Steuererhebung ermächtigte Stelle auferlegt oder erhoben werden.

(c) Soweit in dieser Garantie von Zinsen und Kapital die Rede ist, sind damit auch die gemäß dieser Ziffer 4 zu zahlenden Zusätzlichen Beträge gemeint.

or certificates of indebtedness (*Schuldscheindarlehen*) governed by German law, with an original maturity of more than one year, where the repayable amount exceeds € 40,000,000, provided that obligations resulting from the securitisations of trade receivables, in particular those attributed to the O2 My Handy business model, shall not qualify as Capital Market Indebtedness.

**"Material Subsidiary"** means Telefónica Germany GmbH & Co. OHG.

4. Taxes

All payments by the Guarantor in respect of the Guarantee will be made without with-holding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by way of withholding or deduction by or on behalf of Germany or any political sub-division or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. If such with-holding is required by law, the Guarantor will pay such additional amounts (the "Additional Amounts") as shall be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the respective amounts which would otherwise have been receivable in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable by the Guarantor if the exemptions in § 7 of the Conditions of the Issue are applicable

In the event that the Guarantor moves its domicile or residence or is merged into a company with domicile or residence in a country other than Germany, the provisions of Clause 4(a) above shall apply also to Taxes imposed or levied by or behalf of such other country or any taxing authority therein.

Any reference in this Guarantee to interest and principal shall be deemed also to refer to any Additional Amounts which may be payable under this Clause

		4.	
5.	Diese Garantie und alle darin enthaltenen Vereinbarungen stellen einen Vertrag zugunsten der jeweiligen Gläubiger als begünstigte Dritte gemäß § 328 Absatz 1 Bürgerliches Gesetzbuch (BGB) dar. Sie begründen das Recht eines jeden Gläubigers, die Erfüllung der hierin eingegangenen Verpflichtungen unmittelbar von der Garantin zu fordern und diese Verpflichtungen unmittelbar gegenüber der Garantin durchzusetzen. Gläubiger, die Verpflichtungen gegenüber der Garantin durchsetzen wollen, haben die Garantin von dieser Durchsetzung zu informieren (diese Information ist die "Vollstreckungsanzeige")	5.	This Guarantee and all undertakings contained herein constitute a contract for the benefit of the Holders from time to time as third party beneficiaries pursuant to § 328(1) of the German Civil Code ( <i>Bürgerliches Gesetzbuch - BGB</i> ). They give rise to the right of each such Holder to require performance of the obligations undertaken herein directly from the Guarantor, and to enforce such obligations directly against the Guarantor. Holders who want to enforce obligations have to notify the Guarantor of such enforcement (such notification the " <b>Enforcement Notice</b> ").
6.	Verschiedene Bestimmungen	6.	Miscellaneous Provisions
(a)	Diese Garantie unterliegt deutschem Recht unter Ausschluss des Kollisionsrechts.	(a)	This Guarantee shall be governed by, and construed in accordance with, German law without regard to principles of conflicts of law.
(b)	Erfüllungsort ist München.	(b)	Place of performance shall be Munich.
(c)	Nicht ausschließlich zuständig für sämtliche im Zusammenhang mit der Garantie entstehenden Klagen oder sonstige Verfahren ist das Landgericht München.	(c)	The District Court ( <i>Landgericht</i> ) in Munich shall have non-exclusive jurisdiction for any action or other legal proceedings arising out of or in connection with the Guarantee.
(d)	Jeder Gläubiger kann in jedem Rechtsstreit gegen die Garantin und in jedem Rechtsstreit, in dem er und die Garantin Partei sind, seine Rechte aus dieser Garantie auf der Grundlage einer von einer vertretungsberechtigten Person der BNP Paribas Securities Services beglaubigten Kopie dieser Garantie ohne Vorlage des Originals im eigenen Namen wahrnehmen und durchsetzen.	(d)	On the basis of a copy of this Guarantee certified as being a true copy by a duly authorised officer of BNP Paribas Securities Services, each Holder may protect and enforce in its own name its rights arising under this Guarantee in any legal proceedings against the Guarantor or to which such Holder and the Guarantor are parties, without the need for presentation of this Guarantee in such proceedings.
(e)	Die BNP Paribas Securities Services verpflichtet sich, das Original dieser Garantie bis zur Erfüllung sämtlicher Verpflichtungen aus den Schuldverschreibungen und dieser Garantie zu verwahren.	(e)	BNP Paribas Securities Services agrees to hold the original copy of this Guarantee in custody until all obligations under the Notes and this Guarantee have been fulfilled.
(f)	Die BNP Paribas Securities Services handelt nicht als Treuhänder oder in einer ähnlichen Eigenschaft für die Gläubiger.	(f)	BNP Paribas Securities Services does not act in a fiduciary or in any other similar capacity for the Holders.
7.	Für Änderungen der Bedingungen der Garantie durch Beschluss der Gläubiger	7.	In relation to amendments of the terms of the Guarantee by resolution of the

mit Zustimmung der Garantin gilt § 14  
der Anleihebedingungen entsprechend.

8. Die deutsche Version dieser Garantie ist 8.  
bindend. Die englische Übersetzung  
dient nur Informationszwecken.

Holders with the consent of the  
Guarantor, § 14 of the Terms and  
Conditions applies *mutatis mutandis*.

The German text of this Guarantee is  
binding. The English translation is for  
information purposes only.

## DESCRIPTION OF RULES REGARDING RESOLUTIONS OF HOLDERS

The Terms and Conditions provide that the Holders may agree to amendments or decide on other matters relating to the Notes by way of resolution to be passed by taking votes without a meeting. Any such resolution duly adopted by resolution of the Holders shall be binding on each Holder, irrespective of whether such Holder took part in the vote and whether such Holder voted in favour or against such resolution.

The following is a brief summary of some of the statutory rules regarding the taking of votes without meetings, the passing and publication of resolutions as well as their implementation and challenge before German courts.

### ***Specific Rules regarding Votes without Meeting***

The voting shall be conducted by the person presiding over the taking of votes. Such person shall be (i) a notary public appointed by the Issuer, (ii) if the vote was solicited by the joint representative (*gemeinsamer Vertreter*) of the Holders (the "**Holders' Representative**"), the Holders' Representative, or (iii) a person appointed by the competent court.

The notice soliciting the Holders' votes shall set out the period within which votes may be cast. During such voting period, the Holders may cast their votes to the person presiding over the taking of votes. Such notice shall also set out in detail the conditions to be met for the votes to be valid.

The person presiding over the taking of votes shall ascertain each Holder's entitlement to cast a vote based on evidence provided by such Holder and shall prepare a list of the Holders entitled to vote. If it is established that no quorum exists, the person presiding over the taking of votes may convene a meeting of the Holders. Within one year following the end of the voting period, each Holder participating in the vote may request a copy of the minutes of such vote and any annexes thereto from the Issuer.

Each Holder participating in the vote may object in writing to the result of the vote within two weeks following the publication of the resolutions passed. The objection shall be decided upon by the person presiding over the taking of votes. If he remedies the objection, the person presiding over the taking of votes shall promptly publish the result. If the person presiding over the taking of votes does not remedy the objection, he shall promptly inform the objecting Holder in writing.

The Issuer shall bear the costs of the vote and, if the court has convened a meeting, also the costs of such proceedings.

### ***Rules regarding Holders' Meetings applicable to Votes without Meeting***

In addition, the statutory rules applicable to the convening and conduct of Holders' meetings will apply *mutatis mutandis* to any vote without a meeting. The following summarises some of such rules.

Meetings of Holders may be convened by the Issuer or the Holders' Representative. Meetings of Holders must be convened if one or more Holders holding five per cent or more of the outstanding Notes so require for specified reasons permitted by statute.

Meetings may be convened not less than 14 days prior to the date of the meeting. Attendance and exercise of voting rights at the meeting may be made subject to prior registration of Holders. The convening notice will provide what proof will be required for attendance and voting at the meeting. The place of the meeting is the place of the Issuer's registered offices, provided, however, that where the Notes are listed on a stock exchange within the European Union or the European Economic Area, the meeting may be held at the place of such stock exchange.

The convening notice shall be made publicly available together with the agenda of the meeting setting out the proposals for resolution.

Each Holder may be represented by proxy. The Holders' meeting will have a quorum if the persons attending represent at least 50 per cent of the outstanding Notes by value. If the quorum is not reached, a second meeting may be convened at which no quorum will be required, provided that where a resolution may only be adopted by a qualified majority, a quorum requires the presence of at least 25 per cent of the aggregate principal amount of outstanding Notes.

All resolutions adopted must be properly published. Resolutions which amend or supplement the Terms and Conditions have to be implemented by supplementing or amending the Global Note.

In insolvency proceedings instituted in Germany against the Issuer, the Holders' Representative is obliged and exclusively entitled to assert the Holders' rights under the Notes. Any resolutions passed by the Holders are subject to the provisions of the Insolvency Code (*Insolvenzordnung*).

If a resolution constitutes a breach of the statute or the Terms and Conditions, Holders may bring an action to set aside such resolution. Such action must be filed with the competent court within one month following the publication of the resolution.

## TAXATION

The following is a general description of certain tax considerations relating to the Notes in Germany, The Netherlands and Luxembourg. It does not purport to be a complete analysis of all tax considerations relating to the Notes. In particular, this description does not consider any specific facts or circumstances that may apply to a particular purchaser. This description is based on the laws of Germany, The Netherlands and Luxembourg currently in force and as applied on the date of this Prospectus, which are subject to change, possibly with retroactive or retrospective effect.

**PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR TAX ADVISERS AS TO THE CONSEQUENCES, UNDER THE TAX LAWS OF THE COUNTRY IN WHICH THEY ARE RESIDENT FOR TAX PURPOSES AND UNDER THE TAX LAWS OF GERMANY, THE NETHERLANDS AND LUXEMBOURG OF ACQUIRING, HOLDING AND DISPOSING OF NOTES AND RECEIVING PAYMENTS OF PRINCIPAL, INTEREST AND OTHER AMOUNTS UNDER THE NOTES. THE INFORMATION CONTAINED WITHIN THIS SECTION IS LIMITED TO TAXATION ISSUES, AND PROSPECTIVE INVESTORS SHOULD NOT APPLY ANY INFORMATION SET OUT BELOW TO OTHER AREAS; INCLUDING (BUT NOT LIMITED TO) THE LEGALITY OF TRANSACTIONS INVOLVING THE NOTES.**

### Federal Republic of Germany

#### Income tax

##### Tax Residents

Persons (individuals and corporate entities) who are tax resident in Germany (in particular, persons having a residence, habitual abode, seat or place of management in Germany) are subject to income taxation (income tax or corporate income tax, as the case may be, plus solidarity surcharge thereon plus church tax and/or trade tax, if applicable) on their worldwide income, regardless of its source, including interest from debt of any kind (such as the Notes) and, in general, capital gains.

Taxation if the Notes are held as private assets (*Privatvermögen*)

In the case of German tax-resident individual investors (*unbeschränkt Steuerpflichtige*) holding the Notes as private assets (*Privatvermögen*), the following applies:

##### - Income

Payments of interest on the Notes qualify as taxable savings income (*Einkünfte aus Kapitalvermögen*) pursuant to section 20 para 1 no 7 German Income Tax Act ("ITA" – *Einkommensteuergesetz*).

Capital gains / capital losses realised upon sale of the Notes, computed as the difference between the acquisition costs and the sales proceeds reduced by expenses directly and factually related to the sale, qualify as (negative) savings income. Where the Notes are acquired and/or sold in a currency other than Euro, the acquisition costs will be converted into Euro at the time of acquisition, the sales proceeds will be converted into Euro at the time of sale and the difference will then be computed in Euro. If the Notes are assigned, redeemed, repaid or contributed into a corporation by way of a hidden contribution (*verdeckte Einlage in eine Kapitalgesellschaft*) rather than sold, as a rule, such transaction is treated like a sale. Losses from the sale of Notes can only be offset against other savings income and, if there is not sufficient other positive savings income, carried forward in subsequent assessment periods.

Pursuant to a tax decree issued by the Federal Ministry of Finance dated 22 December 2009, as amended on 16 November 2010 and 9 October 2012, a sale shall be disregarded where the transaction costs exceed the sales proceeds, which means that losses suffered from such "sale" shall not be tax-deductible. Similarly, a bad debt loss (*Forderungsausfall*), i.e. should the Issuer become insolvent, and a waiver of a receivable (*Forderungsverzicht*), to the extent the waiver does not qualify as a hidden contribution, shall not be treated like a sale. Accordingly, losses suffered upon such bad debt loss or waiver shall not be tax-deductible.

##### - Taxation of income

Savings income (*Kapitalerträge*), e.g. interest or capital gains, is taxed at a separate tax rate for savings income (*gesonderter Steuertarif für Einkünfte aus Kapitalvermögen*), which is 26.375 per cent (including solidarity surcharge (*Solidaritätszuschlag*)) plus, if applicable, church tax. When computing the savings income, the saver's lump sum amount (*Sparer-Pauschbetrag*) of € 801 (€ 1,602 in the case of jointly assessed husband and wife) will be deducted. The deduction of the actual income related expenses, if any, is excluded. The taxation of savings income shall take place mainly by way of levying withholding tax (please see below). If and to the extent German withholding tax has been levied, such withholding tax shall, in principle, become definitive and replace the investor's income taxation. If no withholding tax has been levied other than by virtue of a withholding tax exemption certificate (*Freistellungsauftrag*) and in certain other cases, the investor is nevertheless obliged to file a tax return, and the savings income will then be taxed within the assessment procedure. However, the separate tax rate for savings income applies in most cases also

within the assessment procedure. In certain cases, the investor may apply to be assessed on the basis of its personal tax rate if such rate is lower than the above tax rate.

#### - German withholding tax (*Kapitalertragsteuer*)

With regard to savings earnings (*Kapitalerträge*), e.g. interest or capital gains, German withholding tax (*Kapitalertragsteuer*) will be levied if the Notes are held in a custodial account which the investor maintains with a German branch of a German or non-German credit or financial services institution or with a German securities trading business or a German securities trading bank (a "**German Disbursing Agent**") and such German Disbursing Agent credits or pays out the earnings. The tax base is, in principle, equal to the taxable gross income as set out above (i.e. the interest or capital gains prior to withholding). However, in the case of capital gains, if the acquisition costs of the Notes are not proven to the German Disbursing Agent in the form required by law (i.e. if the Notes are transferred from a non-EU custodial account), withholding tax is applied to 30 per cent of the proceeds from the redemption or sale of the Notes. When computing the tax base for withholding tax purposes, the German Disbursing Agent may deduct any negative savings income or accrued interest paid of the same calendar year or of previous calendar years.

German withholding tax will be levied at a flat withholding tax rate of 26.375 per cent (including solidarity surcharge) plus, if applicable, church tax.

Individuals who are subject to church tax may apply in writing for this tax to be withheld as a surcharge to the withholding tax. In such case, the withholding tax rate is reduced by 25 per cent of the church tax due on the savings income. Individuals subject to church tax but declining to apply have to include their savings income in their tax return and will then be assessed to church tax. In this case, church tax is deductible as a special expense (*Sonderausgabe*). A German tax bill (*Beitreibungsrichtliniengesetz*) introduced as of 2014 an electronic information system for German credit institutions as regards church withholding tax with the effect that a written application for church withholding tax is no longer necessary. Accordingly, the obligation to include savings income in the tax return for church tax purposes will no longer apply once this electronic information system is established and church tax is actually withheld.

No German withholding tax will be levied if the investor filed a withholding tax exemption certificate (*Freistellungsauftrag*) with the German Disbursing Agent, but only to the extent the savings income does not exceed the maximum exemption amount shown on the withholding tax exemption certificate. Currently, the maximum exemption amount is € 801 (€ 1,602 in the case of jointly assessed husband and wife). Similarly, no withholding tax will be levied if the investor has submitted to the German Disbursing Agent a certificate of non-assessment (*Nichtveranlagungs-Bescheinigung*) issued by the relevant local tax office.

#### Taxation if the Notes are held as business assets (*Betriebsvermögen*)

In the case of German tax-resident corporations or individual investors (*unbeschränkt Steuerpflichtige*) holding the Notes as business assets (*Betriebsvermögen*), interest payments and capital gains will be subject to corporate income tax at a rate of 15 per cent or income tax at a rate of up to 45 per cent, as the case may be (in each case plus 5.5 per cent solidarity surcharge thereon). In addition, trade tax may be levied, the rate of which depends on the municipality where the business is located. Further, in the case of individuals, church tax may be levied. Capital losses may be ring-fenced.

The provisions regarding German withholding tax apply, in principle, as set out above in relation to private investors. However, investors holding the Notes as business assets cannot file a withholding tax exemption certificate with the German Disbursing Agent.

Instead, no withholding tax will be levied on capital gains from the redemption, sale or assignment of the Notes if, for example, (a) the Notes are held by a company satisfying the requirements of section 43 para 2 sentence 3 no 1 ITA or (b) the proceeds from the Notes qualify as income of a domestic business and the investor notifies this to the German Disbursing Agent by use of the officially required form.

Any withholding tax levied is credited as prepayment against the German (corporate) income tax amount. If the tax withheld exceeds the respective (corporate) income tax amount, the difference will be refunded within the tax assessment procedure.

#### Non-residents

Persons who are not tax resident in Germany are not subject to tax with regard to income from the Notes unless (i) the Notes are held as business assets (*Betriebsvermögen*) of a German permanent establishment (including a permanent representative) which is maintained by the investor or (ii) the income from the Notes qualifies for other reasons as taxable German source income. If a non-resident person is subject to tax with its income from the Notes, in principle, similar rules apply as set out above with regard to German tax resident persons (please see above).

If the income is subject to German tax as set out in the preceding paragraph, German withholding tax will be applied like in the case of a German tax resident person.

#### Inheritance and Gift Tax

Inheritance or gift taxes with respect to any Note will, in principle, arise under German law if, in the case of inheritance tax, either the decedent or the beneficiary or, in the case of gift tax, either the donor or the donee is a resident of Germany or if such Note is attributable to a German trade or business for which a permanent establishment is maintained or a permanent representative has been appointed. In addition, certain German expatriates will be subject to inheritance and gift tax.

The few existing double taxation treaties regarding inheritance and gift tax may lead to different results. Special rules apply to certain German citizens that are living in a foreign country and former German citizens.

#### Other Taxes

No stamp, issue, registration or similar taxes or duties are payable in Germany in connection with the issuance, delivery or execution of the Notes. Currently, net assets tax (*Vermögenssteuer*) and financial transaction tax (*Finanztransaktionssteuer*) is not levied in Germany.

### Republic of Austria

*This section on taxation contains a brief summary of the Issuer's understanding with regard to certain important principles which are of significance in connection with the purchase, holding or sale of the Notes in Austria. This summary does not purport to exhaustively describe all possible tax aspects and does not deal with specific situations which may be of relevance for certain potential investors. The following comments are rather of a general nature and included herein solely for information purposes. These comments are not intended to be, nor should they be construed to be, legal or tax advice. This summary furthermore only refers to investors which are subject to unlimited (corporate) income tax liability in Austria. It is based on the currently valid tax legislation, case law and regulations of the tax authorities, as well as their respective interpretation, all of which may be amended from time to time. Such amendments may possibly also be effected with retroactive effect and may negatively impact on the tax consequences described. It is recommended that potential purchasers of the Notes consult with their legal and tax advisors as to the tax consequences of the purchase, holding or sale of the Notes. Tax risks resulting from the Notes shall in any case be borne by the purchaser. For the purposes of the following it is assumed that the Notes are legally and factually offered to an indefinite number of persons.*

#### General remarks

Individuals having a permanent domicile (*Wohnsitz*) and/or their habitual abode (*gewöhnlicher Aufenthalt*) in Austria are subject to income tax (*Einkommensteuer*) in Austria on their worldwide income (unlimited income tax liability; *unbeschränkte Einkommensteuerpflicht*). Individuals having neither a permanent domicile nor their habitual abode in Austria are subject to income tax only on income from certain Austrian sources (limited income tax liability; *beschränkte Einkommensteuerpflicht*).

Corporations having their place of effective management (*Ort der Geschäftsleitung*) and/or their legal seat (*Sitz*) in Austria are subject to corporate income tax (*Körperschaftsteuer*) in Austria on their worldwide income (unlimited corporate income tax liability; *unbeschränkte Körperschaftsteuerpflicht*). Corporations having neither their place of effective management nor their legal seat in Austria are subject to corporate income tax only on income from certain Austrian sources (limited corporate income tax liability; *beschränkte Körperschaftsteuerpflicht*).

Both in case of unlimited and limited (corporate) income tax liability Austria's right to tax may be restricted by double taxation treaties.

#### Income taxation of the Notes

Pursuant to sec. 27(1) of the Austrian Income Tax Act (*Einkommensteuergesetz*), the term investment income (*Einkünfte aus Kapitalvermögen*) comprises:

- income from the letting of capital (*Einkünfte aus der Überlassung von Kapital*) pursuant to sec. 27(2) of the Austrian Income Tax Act, including dividends and interest;
- income from realised increases in value (*Einkünfte aus realisierten Wertsteigerungen*) pursuant to sec. 27(3) of the Austrian Income Tax Act, including gains from the sale, redemption and other realisation of assets that lead to income from the letting of capital, zero coupon bonds and also broken-period interest; and
- income from derivatives (*Einkünfte aus Derivaten*) pursuant to sec. 27(4) of the Austrian Income Tax Act, including cash settlements, option premiums received and income from the sale or other realisation of forward contracts like options, futures and swaps and other derivatives such as index certificates.

Also the withdrawal of the Notes from a bank deposit (*Depotentnahme*) and circumstances leading to Austria's loss of taxation right regarding the Notes *vis-à-vis* other countries, *e.g.*, a relocation from Austria (*Wegzug*), are in general deemed to constitute a sale (cf. sec. 27(6)(1) of the Austrian Income Tax Act).

Individuals subject to unlimited income tax liability in Austria holding the Notes as a non-business asset are subject to income tax on all resulting investment income pursuant to sec. 27(1) of the Austrian Income Tax Act. In case of investment income with an Austrian nexus (*inländische Einkünfte aus Kapitalvermögen*), basically meaning income that is paid by an Austrian paying agent (*auszahlende Stelle*) or an Austrian custodian agent (*depotführende Stelle*), the income is subject to a withholding tax of 25%; no additional income tax is levied over and above the amount of tax withheld (final taxation pursuant to sec. 97(1) of the Austrian Income Tax Act). In case of investment income without an Austrian nexus, the income must be included in the income tax return and is subject to a flat income tax rate of 25%. In both cases upon application the option exists to tax all income subject to the tax rate of 25% at the lower progressive income tax rate (option to regular taxation pursuant to sec. 27a(5) of the Austrian Income Tax Act). Pursuant to sec. 27(8) of the Austrian Income Tax Act, losses from investment income may not be offset with other types of income. Negative income subject to the flat tax rate of 25% may not be offset with income subject to the progressive income tax rate (this equally applies in case of an exercise of the option to regular taxation). Further, an offsetting of losses from realised increases in value and from derivatives in the form of securities with (i) interest and other claims against credit institutions and (ii) income from Austrian or foreign private law foundations and comparable legal estates (*privatrechtliche Stiftungen und damit vergleichbare Vermögensmassen*) is not permissible.

Individuals subject to unlimited income tax liability in Austria holding the Notes as a business asset are subject to income tax on all resulting investment income pursuant to sec. 27(1) of the Austrian Income Tax Act. In case of investment income with an Austrian nexus (as described above) the income is subject to a withholding tax of 25%. While this withholding tax has the effect of final taxation for income from the letting of capital, income from realised increases in value and income from derivatives must on the other hand be included in the income tax return (nevertheless flat income tax rate of 25%). In case of investment income without an Austrian nexus, the income must always be included in the income tax return (flat income tax rate of 25%). In both cases upon application the option exists to tax all income subject to the tax rate of 25% at the lower progressive income tax rate (option to regular taxation pursuant to sec. 27a(5) of the Austrian Income Tax Act). Pursuant to sec. 6(2)(c) of the Austrian Income Tax Act, depreciations to the lower fair market value and losses from the sale, redemption and other realisation of financial assets and derivatives in the sense of sec. 27(3) and (4) of the Austrian Income Tax Act, which are subject to the special tax rate of 25%, are primarily to be offset against income from realised increases in value of such financial assets and derivatives and with appreciations in value of such assets; only half of the remaining negative difference may be offset against other types of income (and carried forward).

Corporations subject to unlimited corporate income tax liability in Austria are subject to corporate income tax on interest from the Notes at a rate of 25%. In case of investment income with an Austrian nexus (as described above) the income is subject to a withholding tax of 25%, which can be credited against the corporate income tax liability. However, under the conditions set forth in sec. 94(5) of the Austrian Income Tax Act no withholding tax is levied in the first place. Income from the sale of the Notes is subject to corporate income tax of 25%. Losses from the sale of the Notes can be offset against other income (and carried forward).

Private foundations pursuant to the Austrian Private Foundations Act fulfilling the prerequisites contained in sec. 13(3) and (6) of the Austrian Corporate Income Tax Act and holding the Notes as a non-business asset are subject to interim taxation at a rate of 25% on interest income, income from realised increases in value and income from derivatives in the form of securities. Interim tax does not fall due insofar as distributions subject to withholding tax are made to beneficiaries in the tax period. In case of investment income with an Austrian nexus (as described above) the income is in general subject to a withholding tax of 25%, which can be credited against the tax falling due. Under the conditions set forth in sec. 94(12) of the Austrian Income Tax Act no withholding tax is levied.

Pursuant to sec. 93(6) of the Austrian Income Tax Act, the Austrian custodian agent is obliged to automatically offset negative investment income against positive investment income, taking into account all of a taxpayer's bank deposits with the custodian agent. If negative and at the same time or later positive income is earned, then the negative income is to be offset against the positive income. If positive and later negative income is earned, then the withholding tax on the positive income is to be refunded, with such refund being limited with 25% of the negative income. In certain cases, the offsetting is not permissible. The custodian agent has to issue a written confirmation on the offsetting of losses for each bank deposit.

#### **EU withholding tax**

Sec. 1 of the Austrian EU Withholding Tax Act (*EU-Quellensteuergesetz*) – which transforms into national law the provisions of Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments – provides that interest payments paid or credited by an Austrian paying agent to a beneficial owner who is an individual resident in another EU member state (or in certain dependent or associated territories) are subject to a withholding tax of 35% if no exception from such withholding applies. Sec. 10 of the Austrian EU Withholding Tax Act provides for an exemption from withholding tax where the beneficial owner presents to the paying agent a certificate drawn up in his/her name by the competent authority of his/her member state of residence for tax purposes, indicating the name, address and tax or other identification number or, failing such, the date and place of birth of the

beneficial owner, the name and address of the paying agent, and the account number of the beneficial owner or, where there is none, the identification of the security; such certificate shall be valid for a period not exceeding three years.

#### **Tax treaty between Austria and Switzerland**

On 1 January 2013 the Treaty between the Austria and the Swiss Confederation on Cooperation in the Areas of Taxation and Capital Markets entered into force. The treaty provides that a Swiss paying agent has to withhold a withholding tax with the effect of final taxation corresponding to the Austrian income tax, amounting to 25%, on income and capital gains from assets booked with an account or deposit of such Swiss paying agent, if the relevant holder of such assets (*i.e.* in general individuals on their own behalf and as beneficial owners of domiciliary companies) is tax resident in Austria. The following income and capital gains are subject to the withholding tax: interest income, dividends and capital gains. The treaty, however, does not apply to interest covered by the Agreement between the European Community and the Swiss Confederation providing for measures equivalent to those laid down in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments. The taxpayer can opt for voluntary disclosure instead of the withholding tax by expressly authorising the Swiss paying agent to disclose to the competent Austrian authority the income and capital gains; these subsequently have to be included in the income tax return.

#### **Austrian inheritance and gift tax**

Austria does not levy inheritance or gift tax.

However, it should be noted that certain gratuitous transfers of assets to (Austrian or foreign) private law foundations and comparable legal estates (*privatrechtliche Stiftungen und damit vergleichbare Vermögensmassen*) are subject to foundation tax (*Stiftungseingangssteuer*) pursuant to the Austrian Foundation Tax Act (*Stiftungseingangssteuergesetz*). Such tax is triggered if the transferor and/or the transferee at the time of transfer have a domicile, their habitual abode, their legal seat or their place of effective management in Austria. Certain exemptions apply in case of a transfer *mortis causa*, in particular for bank deposits, publicly placed bonds and portfolio shares (*i.e.*, less than 1%). The tax basis is the fair market value of the assets transferred minus any debts, calculated at the time of transfer. The tax rate is in general 2.5%, with a higher rate of 25% applying in special cases.

In addition, a special notification obligation exists for gifts of money, receivables, shares in corporations, participations in partnerships, businesses, movable tangible assets and intangibles. The notification obligation applies if the donor and/or the donee have a domicile, their habitual abode, their legal seat or their place of effective management in Austria. Not all gifts are covered by the notification obligation: In case of gifts to certain related parties, a threshold of EUR 50,000 per year applies; in all other cases, a notification is obligatory if the value of gifts made exceeds an amount of EUR 15,000 during a period of five years. Furthermore, gratuitous transfers to foundations falling under the Austrian Foundation Tax Act described above are also exempt from the notification obligation. Intentional violation of the notification obligation may lead to the levying of fines of up to 10% of the fair market value of the assets transferred.

Further, it should be noted that gratuitous transfers of the Notes may trigger income tax on the level of the transferor pursuant to sec. 27(6)(1) of the Austrian Income Tax Act (see above).

#### **The Netherlands**

*The following summary of certain Dutch taxation matters is based on the laws and practice in force as of the date of this Prospectus and is subject to any changes in law and the interpretation and application thereof, which changes could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of a Note, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules.*

*For the purpose of this summary it is assumed that no holder of a Note who is an individual and tax resident in the Netherlands has or will have a substantial interest in the Issuer.*

*Generally speaking, an individual has a substantial interest in an entity if (a) such individual, either alone or together with his partner, directly or indirectly has, or is deemed to have, or (b) certain relatives of such individual or his partner directly or indirectly have or are deemed to have, (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent or more of either the total issued and outstanding capital of an entity or the issued and outstanding capital of any class of shares of such entity, or (ii) the ownership of, or certain rights over, profit participating certificates (*winstbewijzen*) that relate to 5 per cent or more of either the annual profit or the liquidation proceeds of such entity.*

*For the purpose of this summary, the term "entity" means a corporation as well as any other person that is taxable as a corporation for Dutch corporate tax purposes. Where this summary refers to "The Netherlands" or "Dutch", it refers only to the European part of the Kingdom of the Netherlands.*

*Where this summary refers to a holder of a Note, an individual holding a Note or an entity holding a Note, such reference is restricted to an individual or entity holding legal title to as well as an economic interest in such Note or*

otherwise being regarded as owning a Note for Dutch tax purposes. It is noted that for purposes of Dutch income, corporate, gift and inheritance tax, assets legally owned by a third party such as a trustee, foundation or similar entity, may be treated as assets owned by the (deemed) settler, grantor or similar originator or the beneficiaries in proportion to their interest in such arrangement.

**Investors are advised to consult their professional advisers as to the tax consequences of purchase, ownership and disposition of the Notes.**

## **1. Withholding Tax**

All payments made by the Issuer of interest and principal under the Notes can be made free of withholding or deduction of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

## **2. Taxes On Income and Capital Gains**

### **2.1 Non-residents**

A holder of a Note which is not, is not deemed to be, and - in case the holder is an individual - has not elected to be treated as, resident in The Netherlands for the relevant tax purposes will not be subject to taxation on income or a capital gain derived from a Note unless:

- i. the income or capital gain is attributable to an enterprise or part thereof which is either effectively managed in The Netherlands or carried on through a permanent establishment (*vaste inrichting*) or permanent representative (*vaste vertegenwoordiger*) in The Netherlands; or
- ii. the holder is an individual and the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in The Netherlands as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

### **2.2 Residents**

#### *Resident entities*

An entity holding a Note which is, or is deemed to be, resident in The Netherlands for corporate tax purposes and which is not tax exempt, will generally be subject to corporate income tax in respect of income or a capital gain derived from a Note at prevailing statutory rates.

#### *Resident individuals*

An individual holding a Note who is, is deemed to be, or has elected to be treated as, resident in The Netherlands for income tax purposes will be subject to income tax in respect of income or a capital gain derived from a Note at rates up to 52 per cent if:

- i. the income or capital gain is attributable to an enterprise from which the holder derives profits (other than as a shareholder); or
- ii. the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor (ii) applies, an individual holding a Note will be subject to income tax on the basis of a deemed return, regardless of any actual income or capital gain derived from a Note. The deemed return amounts to 4 per cent of the value of the individual's net assets as at the beginning of the relevant fiscal year (including the Note). Subject to application of certain allowances, the deemed return will be taxed at a rate of 30 per cent.

## **3. Gift And Inheritance Taxes**

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of a Note by way of gift by, or on the death of, a holder, unless:

- i. the holder is or is deemed to be resident in The Netherlands for the purpose of the relevant provisions; or
- ii. the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in The Netherlands for the purpose of the relevant provisions.

## **4. Value Added Tax**

The issuance or transfer of a Note, and payments of interest and principal under a Note, will not be subject to value added tax in The Netherlands.

## 5. **Other Taxes**

The subscription, issue, placement, allotment, delivery or transfer of a Note will not be subject to registration tax, stamp duty or any other similar tax or duty payable in The Netherlands.

## 6. **Residence**

A holder of a Note will not be, or deemed to be, resident in The Netherlands for tax purposes and, subject to the exceptions set out above, will not otherwise be subject to Dutch taxation, by reason only of acquiring, holding or disposing of a Note or the execution, performance, delivery and/or enforcement of a Note.

## 7. **EU Counsel Directive on Taxation of Savings Income**

In accordance with EC Council Directive 2003/48/EC on the taxation of savings income, The Netherlands will provide to the tax authorities of another EU member state (and certain non-EU countries and associated territories specified in that directive) details of payments of interest or other similar income paid by a person within The Netherlands to, or collected by such a person for, an individual resident in such other state.

### **Luxembourg**

#### **Withholding Tax**

All payments of interest and principal by the Issuer in the context of the holding, disposal, redemption or repurchase of the Notes can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to:

- (i) the application of the Luxembourg laws of 21 June 2005 implementing the European Union Savings Directive (Council Directive 2003/48/EC) and several agreements concluded with certain dependent or associated territories and providing for the possible application of a with-holding tax (20 per cent from 1 July 2008 to 30 June 2011 and 35 per cent from 1 July 2011) on interest paid to certain non Luxembourg resident investors (individuals and certain types of entities called "residual entities") in the event of the Issuer appointing a paying agent in Luxembourg within the meaning of the above-mentioned directive (see section "EU Savings Directive" below) or agreements;
- (ii) the application as regards Luxembourg resident individuals of the Luxembourg law of 23 December 2005 which has introduced a 10 per cent withholding tax on savings income (i.e. with certain exemptions, savings income within the meaning of the Luxembourg laws of 21 June 2005 implementing the EU Savings Directive (Council Directive 2003/48/EC)).

Pursuant to the law of 23 December 2005 as amended by the law of 17 July 2008, Luxembourg resident individuals can opt to self declare and pay a 10 per cent tax (the "Levy") on interest payments made by paying agents located in a Member State of the European Union other than Luxembourg, a Member State of the European Economic Area or in a State or territory which has concluded an agreement directly relating to the EU Savings Directive (Council Directive 2003/48/EC) on the taxation of savings income.

The 10 per cent withholding tax as described above or the Levy are final when Luxembourg resident individuals are acting in the context of the management of their private wealth.

Responsibility for the withholding of tax in application of the above-mentioned Luxembourg laws of 21 June 2005 and 23 December 2005 is assumed by the Luxembourg paying agent within the meaning of these laws and not by the Issuer.

#### **EU Savings Tax Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "EU Savings Directive"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. In the case of Luxembourg, the recipient of the interest payment may opt for one of the two information exchange procedures available instead of the application of the above withholding system. The transitional period is to terminate at the end of the first full financial year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a

person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

## SUBSCRIPTION, SALE AND OFFER OF THE NOTES

### General

The Issuer intends to enter into an agreement on 19 November 2013 (the "**Subscription Agreement**") to sell to Bayerische Landesbank, Commerzbank Aktiengesellschaft, Merrill Lynch International and UBS Limited (the "**Joint Lead Managers**") and the Joint Lead Managers intend to agreed, subject to certain customary closing conditions, to purchase the Notes on 22 November 2013 at a price of • % of their principal amount (the "**Issue Price**"). Such Issue Price will in any event not exceed 100 per cent. of the principal amount of the Notes. Proceeds to the Issuer will be net of commissions up to 0.275 per cent. of the principal amount of the Notes payable to the Joint Lead Managers. The Issuer has furthermore agreed to reimburse the Managers for certain expenses incurred in connection with the issue of the Notes.

The Joint Lead Managers are entitled, under certain circumstances, to terminate the agreement reached with the Issuer. In such event, no Notes will be delivered to investors. Furthermore, the Issuer has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes.

The Joint Lead Managers or their affiliates have provided from time to time, and expect to provide in the future, investment services to the Issuer and its affiliates, for which the Joint Lead Managers or their affiliates have received or will receive customary fees and commissions. In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Telefónica Germany GmbH & Co. OHG will receive the proceeds from the issue of the Notes based on an upstream-loan and, hence, has an interest in the offer. Otherwise, there are no interests of natural and legal persons other than the Issuer involved in the issue, including conflicting ones, that are material to the issue.

### Offer of the Notes

#### *Offer Period and determination of Pricing Details*

The Notes will be offered to investors by the Managers during an offer period which will commence not earlier than 15 November 2013 and will end on the Issue Date subject to any shortening or extension of the offer period. During the offer period, investors may submit orders to the Joint Lead Managers. On the basis of the orders received by the Joint Lead Managers and taking into account general market conditions, the Issue Price, the aggregate principal amount of the Notes to be issued, the rate of interest, the number of notes to be issued and the yield of the issue will be determined on the pricing date - which is expected to be 15 November 2013 – by the Issuer in consultation with the Joint Lead Managers. The results of the offer will be included in a notification which will be filed with the CSSF and published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) on or as soon as possible after the pricing date (the "**Pricing Notice**"). Should the Issuer and the Managers determine any shortening or extension of the offer period, which could be the result of changing market conditions, such changes will be notified in the same manner as the pricing details will be published, or, if applicable, a supplement to the Prospectus will be prepared and published in accordance with Article 13 of the Luxembourg law relating to prospectuses for securities.

#### *Notification of the Prospectus approval*

The issue of the Notes will be made to institutional investors and retail investors in compliance with the applicable public offer restrictions. A public offer to retail investors may be made in Luxembourg, Germany, The Netherlands and Austria following the effectiveness of the notification of the Prospectus by the CSSF according to Article 18 of the Prospectus Directive.

#### *Conditions and technical details of the Offer*

The following sets out details of the offer which is required to comply with the requirements of the applicable prospectus regulation. There are no conditions to which the offer is subject. Subscription rights for the Notes will not be issued. Therefore, there are no procedures for the exercise of any right of pre-emption, the negotiability of subscription rights and the treatment of subscription rights not exercised. Any investor who has submitted an order in relation to the

Notes whose order is accepted will receive a confirmation by electronic mail, fax or through commonly used information systems relating to the respective allotment of Notes. Any investor will receive relating to the respective allotment of the Notes a confirmation of the results of the offer. There is no minimum or maximum amount of Notes to be purchased. Investors may place offers to purchase Notes in any amount.

#### ***Delivery and payment of the Notes***

Delivery and payment of the Notes will be made on 22 November 2013. The Notes will be delivered via book-entry through the Clearing System and its accountholding banks against payment of the Issue Price.

#### ***Charges and costs relating to the Offer***

The Issuer will not charge any costs, expenses or taxes directly to any investor. Investors must inform themselves about any costs, expenses or taxes in connection with the Notes which are generally applicable in their respective country of residence, including any charges their own depository banks charge them for purchasing or holding securities.

#### ***Method of determination of the Issue Price and the Rate of Interest***

The rate of interest and the Issue Price for the Notes have been determined at the time of pricing on the basis of a yield which was determined by adding a pricing spread to the level of the midswaps at the time of pricing.

#### ***Selling Restrictions***

##### ***General***

In addition to the specific restrictions set out below, the Joint Lead Managers have agreed that they will comply with all applicable laws and regulations in each jurisdiction in or from which they may offer Notes or distribute any offering material relating to them.

##### ***European Economic Area***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Joint Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than the offers contemplated in the Prospectus in the Grand Duchy of Luxembourg, Austria, The Netherlands and Germany from the time the Prospectus has been approved by the competent authority in the Grand Duchy of Luxembourg and published and notified to the relevant competent authorities in accordance with the Prospectus Directive as implemented in The Netherlands, Austria and Germany until 27 July 2013, and provided that the Issuer has consented in writing to use of the Prospectus for any such offers, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Joint Lead Manager or Joint Lead Managers nominated by the Issuer for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

**provided that** no such offer of Notes shall require the Issuer or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

##### ***United States of America and its Territories***

The Notes have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. Each of the Joint Lead Managers has agreed that, except as permitted by the

Subscription Agreement, it will not offer, sell or deliver the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act.

***United Kingdom of Great Britain and Northern Ireland***

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA") received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

## GENERAL INFORMATION / INCORPORATION BY REFERENCE

### Authorisation and Issue Date

The creation and issue of the Notes has been authorised by a resolution of the Issuer's directors dated 22 March 2013 and by a resolution of the Issuer's shareholder dated 26 March 2013. The creation and issue of the Guarantee has been authorised by resolutions by the Guarantor's management board dated as of 22 February 2013 and the Guarantor's supervisory board dated as of 28 February 2013. The Issue Date of the Notes is expected to be 22 November 2013.

### Clearing and Settlement

The Notes have been accepted for clearing by Clearstream Banking société anonyme, 42 Avenue JF Kennedy, L-1855 Luxembourg, Luxembourg and Euroclear Bank SA/NV 1, Boulevard du Roi Albert II, 1210 Brussels, Belgium. The Notes have been assigned the following securities codes: ISIN XS0912992160, Common Code 091299216, WKN A1TM8X.

### Yield

The yield of the Notes is • per cent. *per annum*, provided that the interest rate is not increased because of a change of control event. Such yield is calculated in accordance with the ICMA (*International Capital Markets Association*) method.

### Ratings

On 16 January 2013, Fitch Ratings initiated its coverage for the Guarantor by assigning the Guarantor a Long-Term Issuer Default Rating (IDR) of 'BBB' with a Stable Outlook.<sup>1</sup>

### Significant change in the financial or trading position

There has been no significant change in the financial or trading position of the Issuer since 6 March 2013.

There has been no significant change in the financial or trading position of the Guarantor since 30 September 2013.

### Trend Information

There has been no material adverse change in the prospects of the Issuer since 6 March 2013.

There has been no material adverse change in the prospects of the Guarantor since 31 December 2012.

### Third party information

Any information sourced from a third party contained in this Prospectus has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Prospectus contains financial and other information on the E-Plus-Group (the "**E-Plus Group Information**") which has been taken from sources that KPN and the E-Plus Group have made publicly available, including a shareholders' circular dated 21 August 2013 (including an addendum to such circular dated 29 August 2013) available on KPN's website ([www.kpn.com](http://www.kpn.com)) and press releases of E-Plus Mobilfunk GmbH & Co. KG on its results for 2012 and the first half year of 2013 available on the website of the E-Plus Group (<http://eplus-gruppe.de/>). The Issuer has accurately reproduced the E-Plus Group Information. However, neither the Issuer, nor the Guarantor, nor the Joint Lead Managers have verified the E-Plus Group Information. In particular, neither the Issuer, nor the Guarantor or Telefónica, S.A. had been able to perform a due diligence on the E-Plus Group with a scope and to such extent as would have been necessary to verify the E-Plus Group Information. Neither the Issuer, nor the Guarantor, nor the Joint Lead Managers therefore assumes responsibility for the accuracy and completeness of the E-Plus Group Information.

---

<sup>1</sup> Fitch Ratings is established in the European Community and is registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, amended by Regulation (EC) No 513/2011 of the European Parliament and of the Council of 11 March 2011 (the "**CRA Regulation**"). The European Securities and Markets Authority publishes on its website ([www.esma.europa.eu/page>List-registered-and-certified-CRAs](http://www.esma.europa.eu/page>List-registered-and-certified-CRAs)) a list of credit rating agencies registered in accordance with the CRA Regulation. That list is updated within five working days following the adoption of a decision under Article 16, 17 or 20 CRA Regulation. The European Commission shall publish that updated list in the Official Journal of the European Union within 30 days following such update.

## **Incorporation by Reference**

The pages set out in the below table of the following documents are incorporated by reference into this Prospectus:

- (1) The audited financial information of the Issuer (English translation from the German language)
  - Opening Balance Sheet as of 6 March 2013 (page 3) including associated disclosures<sup>1</sup>,
  - Auditor's Report<sup>2</sup> (pages 1-2).
- (2) The audited consolidated financial statements of the Guarantor as of and for the year ended 31 December 2012 (English translation from the German language)
  - Consolidated Statement of Financial Position (page 104),
  - Consolidated Income Statement (page 105),
  - Consolidated Statement of Comprehensive Income (page 106),
  - Consolidated Statement of Cash Flows (page 107),
  - Consolidated Statement of Changes in Equity (pages 108, 109),
  - Notes to the Consolidated Financial Statements (pages 110 - 196).
  - Audit Opinion<sup>3</sup> (page 197).
- (3) The audited combined financial statements of the Guarantor as of and for the years ended 31 December 2011, 2010 and 2009
  - Combined Statements of Financial Position (page F-17),
  - Combined Income Statements (page F-18),
  - Combined Statements of Comprehensive Income (page F-19),
  - Combined Statements of Changes in Equity (page F-20),
  - Combined Statements of Cash Flows (page F-21),
  - Notes to the Combined Financial Statements (pages F-22 – F-71).
  - Audit Opinion (page F-72).
- (4) The unaudited interim condensed consolidated financial statements of the Guarantor as of and for the nine months ended 30 September 2013 (English translation from the German language)
  - Consolidated Statement of Financial Position (page 28),
  - Consolidated Income Statement (page 29),
  - Consolidated Statements of Comprehensive Income (page 30),
  - Consolidated Statement of Cash Flows (page 31),
  - Consolidated Statement of Changes in Equity (page 32, 33),
  - Condensed Notes to the Interim Consolidated Financial Statements (pages 34 - 45)

Any information not incorporated by reference into this Prospectus but contained in one of the documents mentioned as source documents in the cross reference list above is either not relevant for the investor or covered in another part of this Prospectus.

The documents incorporated by reference are available on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) for the time of the validity of the Prospectus.

---

<sup>1</sup> "Associated disclosures" also in the meaning of "Information for the opening balance sheet".

<sup>2</sup> The auditor's report is a translation of the German language auditor's report (*Prüfungsvermerk*).

<sup>3</sup> The audit opinion is a translation of the German language audit opinion (*Bestätigungsvermerk*) which refers to the consolidated financial statements and the group management report of the Guarantor as of and for the year ended December 31, 2012 as a whole and not solely to the consolidated financial statements incorporated by reference.

### **Documents on Display**

For the time of the validity of the Prospectus, copies of the following documents may be inspected during normal business hours at the specified office of the Principal Paying Agent and as long as the Notes are listed on the official list and admitted to trading on the regulated market of the Luxembourg Stock Exchange the documents set out under (d) and (e) below will be available on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)):

- (a) the articles of association of the Issuer;
- (b) the articles of association of the Guarantor;
- (c) the Guarantee;
- (d) the Prospectus;
- (e) the documents incorporated by reference set out above.

## NAMES AND ADDRESSES

### ISSUER

#### **O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH**

Georg-Brauchle-Ring 23-25  
80992 München  
Germany

### GUARANTOR

#### **Telefónica Deutschland Holding AG**

Georg-Brauchle-Ring 23-25  
80992 München  
Germany

### JOINT LEAD MANAGERS

#### **Bayerische Landesbank**

Briener Strasse 18  
80333 Munich  
Germany

#### **Commerzbank Aktiengesellschaft**

Kaiserstrasse 16 (Kaiserplatz)  
60311 Frankfurt am Main  
Germany

#### **Merrill Lynch International**

2 King Edward Street  
EC1A 1HQ London  
United Kingdom

#### **UBS Limited**

1 Finsbury Avenue  
London EC2M 3UR  
United Kingdom

### PRINCIPAL PAYING AGENT

#### **BNP Paribas Securities Services**

**Luxembourg Branch**  
33 rue de Gasperich  
5826 Hesperange  
Luxembourg

### LISTING AGENT

#### **BNP Paribas Securities Services**

**Luxembourg Branch**  
33 rue de Gasperich  
5826 Hesperange  
Luxembourg

### LEGAL ADVISERS

To the Joint Lead Managers

**Clifford Chance Partnerschaftsgesellschaft**  
Mainzer Landstraße 46  
60325 Frankfurt am Main  
Germany

To the Issuer and to the Guarantor

**CMS Hasche Sigle**  
**Partnerschaft von Rechtsanwälten und**  
**Steuerberatern mbB**  
Barckhausstraße 12-16  
60325 Frankfurt am Main  
Germany

## **AUDITORS**

To the Issuer and to the Guarantor

**Ernst & Young GmbH**  
**Wirtschaftsprüfungsgesellschaft**  
Stuttgart, Munich Office  
Arnulfstraße 59  
80636 München  
Germany