AUDITED COMBINED FINANCIAL STATEMENTS OF TELEFÓNICA GERMANY GROUP IN ACCORDANCE WITH IFRS TAKING INTO ACCOUNT THE BASIS OF PREPARATION AS SET OUT IN NOTE 1 OF THE COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010 AND DECEMBER 31, 2009

TELEFÓNICA GERMANY GROUP
COMBINED STATEMENTS OF FINANCIAL POSITION AS AT
DECEMBER 31, 2011, DECEMBER 31, 2010, DECEMBER 31, 2009 AND JANUARY 1, 2009
(THOUSANDS OF EUROS)

		At December 31			At January 1
	Note	**2011**	**2010**	**2009**	**2009**
ASSETS					
A) NON-CURRENT ASSETS		**7,900,175**	**8,427,878**	**6,248,527**	**6,373,931**
Goodwill	Note 6	705,576	705,576	423,081	423,081
Intangible assets	Note 5	3,658,137	3,956,504	2,510,684	2,732,154
Property, plant and equipment	Note 7	3,118,869	3,347,953	2,895,662	2,801,228
Other non-current financial assets	Note 13	5,560	5,335	6,412	6,271
Deferred tax assets	Note 17	412,033	412,510	412,688	411,197
B) CURRENT ASSETS		**5,115,173**	**4,443,290**	**3,911,730**	**3,793,031**
Inventories		70,429	84,318	72,909	80,417
Trade and other receivables	Note 10	1,010,279	1,284,110	914,967	699,471
Other current financial assets	Note 13	2,885,897	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	Note 11	1,148,568	188,965	37,957	127,246
TOTAL ASSETS (A+B)		**13,015,348**	**12,871,168**	**10,160,257**	**10,166,962**

		At December 31			At January 01
		2011	**2010**	**2009**	**2009**
EQUITY AND LIABILITIES					
A) EQUITY	Note 12	**11,756,290**	**11,421,311**	**9,221,577**	**9,258,975**
Net assets attributable to Telefónica Germany Group		11,754,945	11,420,119	9,219,652	9,257,146
Other components of equity		1,345	1,192	1,925	1,829
Total equity attributable to Telefónica Germany Group		11,756,290	11,421,311	9,221,577	9,258,975
B) NON-CURRENT LIABILITIES		**75,289**	**122,621**	**49,618**	**42,444**
Other payables	Note 14	6,342	5,846	6,301	3,043
Non-current provisions	Note 15	68,947	116,775	43,317	39,401
C) CURRENT LIABILITIES		**1,183,769**	**1,327,236**	**889,062**	**865,543**
Trade payables	Note 14	785,580	811,936	599,309	557,722
Other payables	Note 14	186,714	195,951	192,846	218,132
Current provisions	Note 15	41,609	182,429	-	-
Deferred income	Note 14	169,866	136,920	96,907	89,689
TOTAL EQUITY AND LIABILITIES (A+B+C)		**13,015,348**	**12,871,168**	**10,160,257**	**10,166,962**

The accompanying Notes 1 to 22 and Appendix I and II are an integral part of these Combined Financial Statements.

TELEFÓNICA GERMANY GROUP
COMBINED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010, AND DECEMBER 31, 2009
(THOUSANDS OF EUROS)

		for the year ended December 31		
	Note	**2011**	**2010**	**2009**
Revenues	Note 18	5,035,552	4,826,278	3,745,540
Other income	Note 18	60,991	88,859	92,102
Supplies		-2,047,139	-1,906,492	-1,360,254
Personnel expenses		-437,756	-611,353	-395,831
Other expenses	Note 18	-1,462,411	-1,504,615	-1,190,075
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)		**1,149,237**	**892,677**	**891,482**
Depreciation and amortization	Note 18	-1,082,189	-988,165	-922,872
OPERATING RESULT		**67,048**	**-95,488**	**-31,390**
Finance income		14,271	8,686	4,152
Exchange gains		707	348	212
Finance expenses		-8,389	-9,931	-5,424
Exchange losses		-559	-870	-1,286
Net financial result		**6,030**	**-1,767**	**-2,346**
RESULT BEFORE TAX		**73,078**	**-97,255**	**-33,736**
Income tax	Note 17	-1,732	-5,277	152
RESULT FOR THE YEAR		**71,346**	**-102,532**	**-33,584**

The accompanying Notes 1 to 22 and Appendix I and II are an integral part of these Combined Financial Statements.

TELEFÓNICA GERMANY GROUP
COMBINED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010, AND DECEMBER 31, 2009 (THOUSANDS OF EUROS)

		for the year ended December 31		
	Note	**2011**	**2010**	**2009**
Result for the year		**71,346**	**-102,532**	**-33,584**
Other comprehensive income/expense				
Gains / losses on measurement of available-for-sale investments	Note 13	225	-1,078	141
Income tax impact		-72	345	-45
		153	**-733**	**96**
Actuarial losses and impact of limit on assets for defined benefit pension plans	Note 15	-4,154	-14,784	-4,332
Income tax impact		1,327	4,721	1,384
		-2,827	**-10,063**	**-2,948**
Total other comprehensive expense		**-2,674**	**-10,796**	**-2,852**
Total comprehensive income/expense recognized in the year		**68,672**	**-113,328**	**-36,436**

The accompanying Notes 1 to 22 and Appendix I and II are an integral part of these Combined Financial Statements.

TELEFÓNICA GERMANY GROUP
COMBINED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010, AND DECEMBER 31, 2009
(THOUSANDS OF EUROS)

	Note	Net assets attributable to Telefónica Germany Group	Other components of equity	Total equity
			Available-for-sale investments	
Balance at December 31, 2011		**11,754,945**	**1,345**	**11,756,290**
Result for the year		71,346	-	71,346
Other comprehensive income/expense		-2,827	153	-2,674
Total comprehensive income		**68,519**	**153**	**68,672**
Increase in equity		266,307	-	266,307
Balance at December 31, 2010		**11,420,119**	**1,192**	**11,421,311**
Balance at December 31, 2010		**11,420,119**	**1,192**	**11,421,311**
Result for the year		-102,532	-	-102,532
Other comprehensive expense		-10,063	-733	-10,796
Total comprehensive expense		**-112,595**	**-733**	**-113,328**
Increase in equity		2,313,062	-	2,313,062
Balance at December 31, 2009		**9,219,652**	**1,925**	**9,221,577**
Balance at December 31, 2009		**9,219,652**	**1,925**	**9,221,577**
Result for the year		-33,584	-	-33,584
Other comprehensive income/expense		-2,948	96	-2,852
Total comprehensive income/expense		**-36,532**	**96**	**-36,436**
Decrease in equity		-962	-	-962
Balance at January 1, 2009		**9,257,146**	**1,829**	**9,258,975**

The accompanying Notes 1 to 22 and Appendix I and II are an integral part of these Combined Financial Statements.

TELEFÓNICA GERMANY GROUP
COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2011, DECEMBER 31, 2010 AND DECEMBER 31, 2009
(THOUSANDS OF EUROS)

		for the year ended December 31		
	Note	**2011**	**2010**	**2009**
Result for the Year		**71,346**	**-102,532**	**-33,584**
Adjustments to Result				
Net finance result		-5,882	1,245	1,272
Losses on disposal of assets	Note 18	-272	-1,385	-537
Net income tax result	Note 17	1,732	5,277	-152
Depreciation and amortization	Note 18	1,082,189	988,165	922,872
Change in Working Capital				
Trade and other receivables		273,831	-253,630	-215,496
Inventories		13,889	-752	7,508
Other current assets		-3,831	-4,965	-807
Trade and other payables		-41,707	-1,746	44,051
Other current liabilities and provisions		-107,874	105,660	7,218
Other non current assets and liabilities		-51,983	30,858	-417
Interest received		11,065	5,522	1,751
Interest paid		-1,351	-1,802	-2,217
Cash Flow from Operating Activities		**1,241,152**	**769,915**	**731,462**
Proceeds on disposals of property, plant and equipment and intangible assets		3,185	2,960	1,845
Payments on investments in property, plant and equipment and intangible assets		-547,289	-2,088,798	-819,114
Payments on investments in companies, net of cash and cash equivalents acquired	Note 4	-	-844,060	-
Cash Flow from Investing Activities		**-544,104**	**-2,929,898**	**-817,269**
Proceeds from equity		289,207	2,590,695	-
Repayment of equity		-22,900	-277,633	-962
Repayment of borrowing/debt		-3,752	-2,071	-2,520
Cash Flow from Financing Activities		**262,555**	**2,310,991**	**-3,482**
Net increase/decrease in cash and cash equivalents		**959,603**	**151,008**	**-89,289**
Cash and cash equivalents at beginning of period		**188,965**	**37,957**	**127,246**
Cash and cash equivalents at end of period		**1,148,568**	**188,965**	**37,957**

The accompanying Notes 1 to 22 and Appendix I and II are an integral part of these Combined Financial Statements.

(1) BASIS OF PREPARATION

Background and purpose of the combined financial statements

At the end of May, 2012 Telefónica, S.A., Madrid, Spain ("Telefónica") announced its plans to publicly list the Telefónica Germany Business ("Telefónica Germany Group" or "TGG"). According to the European Prospectus Regulation No. 809/2004 (the "European Prospectus Regulation"), the prospectus issued by the Telefónica Germany Group shall include historical financial information covering the latest three financial years, i.e. the year ended December 31, 2011 and the two prior years ended December 31, 2010 and 2009. Also, according to the European Prospectus Regulation, Telefónica Germany Group has a "Complex Financial History". Therefore, the Combined Financial Statements consisting of the Combined Statements of Financial Position, Combined Income Statements, Combined Statements of Comprehensive Income, Combined Statements of Cash Flow, Combined Statements of Changes in Equity and Notes to the Combined Financial Statements as of and for financial years ended December 31, 2011, 2010 and 2009 (the "Combined Financial Statements") were prepared.

Telefónica Germany Group comprises Telefónica's operations in Germany. Telefónica Germany Group is one of only three integrated network operators in Germany having both a wireline and wireless network. It offers its consumer retail and business customers post-paid and prepaid wireless communications products, along with wireless data services using Global Packet Radio Service ("GPRS"), Universal Mobile Telecommunications System ("UMTS") and Long Term Evolution ("LTE") technology, as well as, DSL wireline telephony and high-speed internet services.

Telefónica Germany Group follows a multi-branding strategy, which enables TGG to target a broad range of consumers and maximize its sales reach. The positioning and marketing of each brand is tailored to the target consumer group and follows TGG's international branding guidelines. O_2 is TGG's premium brand through which TGG markets the full scope of TGG's pre-paid and post-paid wireless and wireline products and services. TGG's secondary brands include FONIC for cost-conscious customers who use basic wireless services only and do not require extensive customer service; the TCHIBO mobil brand is aimed at visitors of points of sales operated by TCHIBO; Türk Telekom for the large Turkish community in Germany; and the netzclub brand is targeted to users of social media.

Telefónica Germany Group primarily distributes its O_2 branded services offering through a network of own operated and franchised shops, its wholesale and other distribution partners and via its O_2 internet portal.

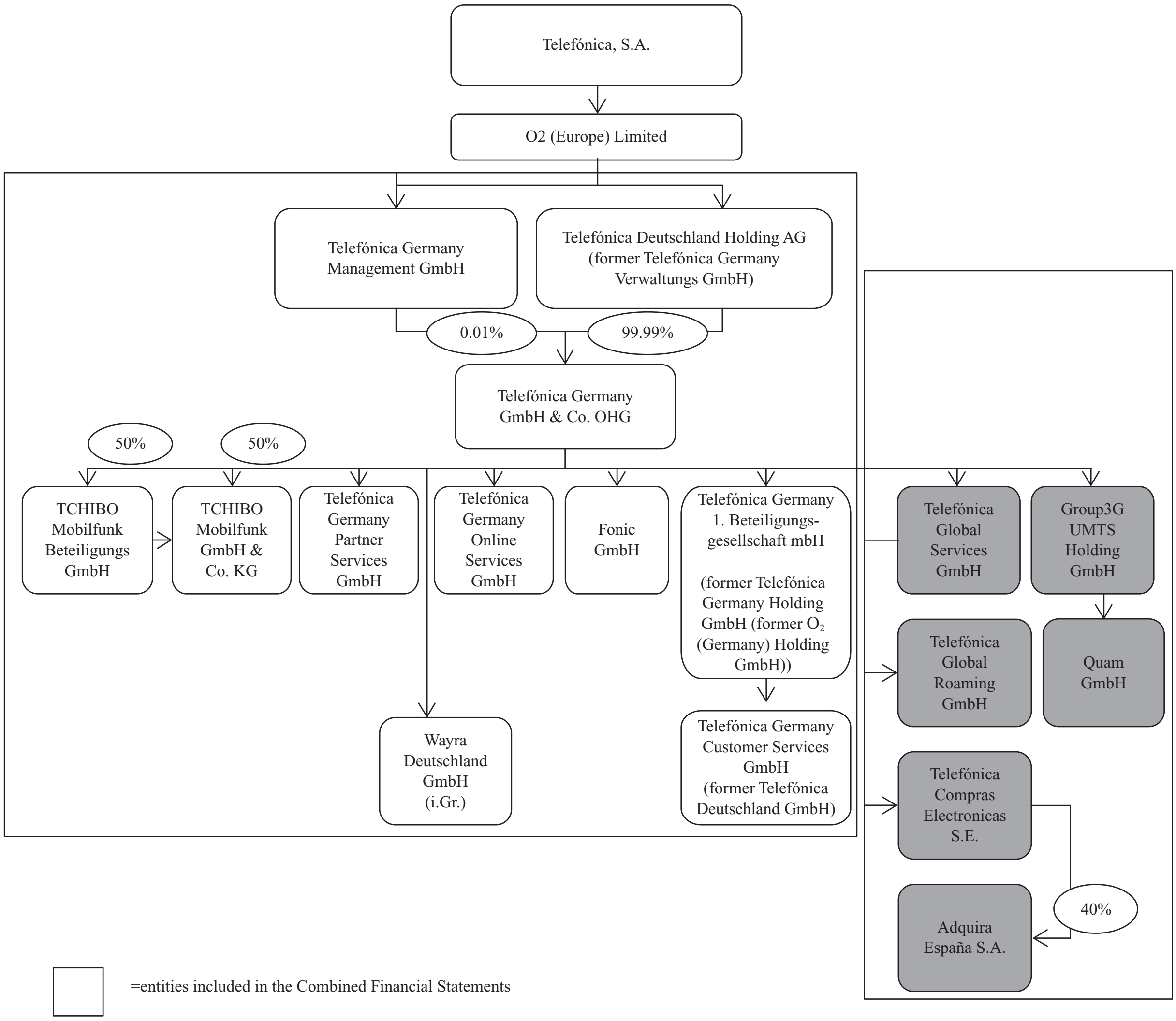
Telefónica Germany Group is managed centrally by the Management Board of the Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") located in Georg-Brauchle-Ring 23-25, 80992 München.

The Company's change in legal form from a German limited liability company (*Gesellschaft mit beschränkter Haftung*) into a German stock corporation (*Aktiengesellschaft*) was resolved by the Shareholders' Meeting on September 18, 2012 and was registered in the commercial register with the number 201055 on September 26, 2012.

The purpose of these Combined Financial Statements is to provide general purpose historical financial information of Telefónica Germany Group for the inclusion in the prospectus for the initial public offering and for the admission to the regulated market. Therefore, the Combined Financial Statements present only the historical financial information of those entities that will be part of Telefónica Germany Group at the time of the intended initial public offering.

Scope of the entities included in the combined financial statements

As of December 31, 2011, the legal entities of Telefónica in Germany are organized as illustrated in the following organizational chart (for historical development see Appendix II):



Only the entities described in the "Telefónica Germany Group" box as shown in the chart will be included in the intended public listing. Hence, Telefónica Germany Group consists of

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

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

The following legal reorganization took place before the intended initial public offering:

- The contribution of shares of Telefónica Germany Management GmbH to Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") was resolved upon on September 18, 2012 and registered with the commercial register on September 25, 2012.
- Transfer of a loan to one of the other Telefónica entities in Germany to another subsidiary of Telefónica, S.A.
- The sale by Telefónica Germany Group of Telefónica Global Services GmbH and Group3G UMTS Holding GmbH ("Group3G") as well as their subsidiaries as shown in the "Other Telefónica entities in Germany" chart above, that are legally held by Telefónica Germany Group in an arms-length transaction to a subsidiary of Telefónica, S.A.

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

Presentation of the Combined Financial statements

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

These Combined Financial Statements will constitute Telefónica Germany Group's first financial statements in accordance with IFRS. Telefónica Germany Group has applied IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1") in its adoption of IFRS. In particular, the Group has applied IFRS 1.D16 (b), as the Group was acquired after Telefónica's date of transition to IFRSs. However, the accounting principles used by Telefónica Germany Group for the preparation of its Combined Financial Statements do not differ from those used in the preparation of the financial information for the Telefónica, S.A. Consolidated Financial Statements in accordance with IFRS as adopted by the EU with the exception of certain provisions under IFRS 1 with respect to the transition date of January 1, 2009.

The Combined Financial Statements have been prepared by measuring assets and liabilities at the carrying amounts, based on the Telefónica Germany Groups date of transition to IFRSs.

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

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

The carrying amounts of the investments in Group3G UMTS Holding GmbH and Telefónica Global Services GmbH held directly by Telefónica Germany GmbH & Co. OHG have been eliminated against the equity of Telefónica Germany Group.

On March 31, 2010 Telefónica, S.A. and Telefónica Germany GmbH & Co. OHG entered into a loan assignment agreement under which Telefónica, S.A. transferred a receivable against Group3G UMTS Holding GmbH with a nominal value at the time of transfer of EUR 923 million to Telefónica Germany GmbH & Co. OHG. The consideration paid by Telefónica Germany GmbH & Co. OHG to Telefónica amounted to EUR 243 million. As explained above this loan will not be part of TGG in the initial public offering. Therefore, the consideration paid is accounted for as a distribution to shareholders in 2010.

Entities of TGG entered into Profit and Loss Transfer Agreements with Telefónica Global Services GmbH, Telefónica Global Roaming GmbH, Group3G UMTS Holding GmbH, and Quam GmbH. Cash received from these entities under the respective Profit and Loss Transfer Agreements were included as a contribution in equity in the respective fiscal year. Amounts paid are reflected as capital contributions.

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

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

Estimates

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

Other

The Combined Financial Statements were authorized for issue by the Management Board of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") on October 2, 2012.

The Combined Statement of Financial Position is structured in current and non-current in accordance with IAS 1. The Combined income statement is presented in accordance with the nature of expense method. The Euro ("EUR" or "€") is the functional currency of all Telefónica Germany Group companies. The figures in these combined financial statements are expressed in thousands of Euros, unless otherwise indicated, and therefore rounded to three decimal places. Due to rounding differences figures might deviate by one thousand Euros.

The following exchange rates have been used at the respective year ends:

EURO/Foreign Currency	As at December 31, 2011	As at December 31, 2010	As at December 31, 2009	As at January 1, 2009
USD	1.294	1.336	1.441	1.392
GBP	0.835	0.861	0.888	0.953
CHF	1.216	1.250	1.484	1.484

(2) ACCOUNTING POLICIES

The principal accounting policies used in preparing the accompanying Combined Financial Statements are as follows:

a) Foreign currency transactions

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

Monetary assets and liabilities in foreign currency are translated at the closing rate at the date of the Statement of Financial Position.

All realized and unrealized exchange gains or losses are recognized in the Combined Income Statement.

b) Goodwill

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

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

Goodwill is not amortized but tested for impairment annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable (see Note 2 e).

The impairment test is constituted at the lowest level, at which goodwill is monitored. This is the segment level for the respective cash generating unit (see Note 3). Telefónica Germany Group has only one segment.

c) Intangible assets

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

The useful lives of intangible assets are assessed individually to be either finite or indefinite. Intangible assets with finite lives are amortized systematically over the useful economic life and assessed for impairment whenever events or changes indicate that their carrying amount may not be recoverable. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, or more frequently in the event of indications that their carrying amount may not be recoverable (see Note 2 e). Intangible assets that have not been completed yet are subject to an annual impairment test or more frequently in the event of indications that their carrying amount may not be recoverable.

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

Service concession arrangements and licenses

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

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

Other Intangibles (Customer base)

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

Software

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

d) Property, plant and equipment

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

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

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

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

Upkeep and maintenance costs are expensed as incurred.

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

Telefónica Germany Group assesses the need to write down, if appropriate, the carrying amount of each item of property, plant and equipment to its recoverable amount, whenever there are indications that the asset's carrying amount exceeds the higher of its fair value less costs to sell or its value in use. The impairment will be reversed if the factors giving rise to the impairment disappear (see Note 2 e).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

f) Lease contracts

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

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

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

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

g) Investments in joint ventures

Telefónica Germany Group's investments in companies over which it exercises joint control with third parties are accounted for using the proportionate consolidation. Therefore, the Combined Financial Statements include the share of the assets that Telefónica Germany Group jointly controls and the share of the liabilities which are incurred in the course of pursuing the joint operation. The Combined Statement of Comprehensive Income includes the expenses that Telefónica Germany Group incurs and its share of the income that it earns from the joint operation.

Telefónica Germany Group combines its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its Combined Financial Statements.

h) Financial instruments

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

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

Financial Assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Cash and cash equivalents

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

Available-for-sale financial assets

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

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

Impairment of financial assets

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

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

Loans and receivables

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

Available-for-sale financial assets

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss.

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

Financial liabilities measured at amortized cost

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

Derivative financial instruments and hedge accounting

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

Derecognition of financial assets and liabilities

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

i) Inventories

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

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

j) Provisions

Pensions and other employee benefit obligations

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

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

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

Other provisions

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

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

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

k) Income tax

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

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

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

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

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

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

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

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

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

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

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

For further description of the combination methods see section n).

l) Revenues and expenses

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

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

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

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

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

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

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

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

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

m) Use of estimates, assumptions and judgments

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

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

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

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

Property, plant and equipment, intangible assets and goodwill

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

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

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

Telefónica Germany Group evaluates its cash-generating units' performance regularly to identify potential goodwill impairments. Determining the recoverable amount of the cash-generating units to which goodwill is allocated also entails the use of assumptions and estimates and requires a significant element of judgment.

Deferred income taxes

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

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

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

Provisions

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

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

Revenue recognition

Bundled offers

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

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

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

n) Combination methods

The Combined Financial Statements have been prepared by aggregating the net assets of the Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") and the Telefónica Germany Management GmbH and its direct and indirect subsidiaries

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

The financial condition and operations of TCHIBO Mobilfunk Beteiligungs GmbH and TCHIBO Mobilfunk GmbH & Co. KG, a joint venture of the Telefónica Germany GmbH & Co. OHG, are reflected proportionately with 50% in the Combined Financial Statements. Therefore the IFRS financial information reported to Telefónica, S.A. as of December 31, 2011, 2010, 2009 and 2008 as reported to Telefónica, S.A. have been used and modified as described under note (1).

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

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

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

o) Share-based payments

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

p) New IFRS and interpretations of the IFRS Interpretations Committee ("IFRS IC") issued but not yet effective as of December 31, 2011

The accounting policies applied in the preparation of the Combined Financial Statements for the year ended December 31, 2011 are consistent with those used in the preparation of Telefónica Germany Group's Combined Financial Statements for the year ended December 31, 2010 and 2009, except for the application of new standards, amendments to standards and interpretations published by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRS IC"), and adopted by the European Union, noted below:

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

At the date of preparation of the accompanying Combined Financial Statements, the following IFRS, amendments and IFRIC interpretations had been published, but their application was not mandatory:

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

Interpretations		**Mandatory application: annual periods beginning on or after**
IFRIC 20	*Stripping costs in the production phase of a surface mine*	January 1, 2013

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

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

(3) SEGMENT INFORMATION

In Telefónica, S.A.'s Consolidated Financial Statements for the year ended December 31, 2011, Telefónica Germany Group was a component belonging to Telefónica Europe operating segment of Telefónica, S.A. Telefónica Germany Group provides a combination of wireless and wireline internet and telephony services to residential and business customers. Note 18 provides a split-up of the revenue.

Telefónica Germany Group operates only in one geographical area, the country of Germany.

Consistent with how the Key Management reviews the operating results, Telefónica Germany Group has only one operating segment. The Key Management, being considered as the chief operating decision maker as defined in IFRS 8, assesses the performance and allocates resources on a group-wide basis and not for individual products or services or customer groups. The following indicators, different from accounting measures, are used by the Key Management in its decision making as they provide a better indication of its performance:

Operating income before depreciation and amortization (OIBDA)

Operating income before depreciation and amortization (OIBDA) is calculated by excluding depreciation and amortization from operating income to eliminate the impact of investments in fixed assets that cannot be directly controlled by management in the short term. OIBDA is considered to be more important for investors as it provides a gauge of operating performance and profitability using the same measures utilized by management. This metric also allows for comparisons with other companies in the telecommunications sector without consideration of their asset structure.

OIBDA is used to track the performance of the business and to establish operating and strategic targets. OIBDA is a commonly reported measure and is widely used among analysts, investors and other interested parties in the telecommunications industry, although not a measure explicitly defined in IFRS, and therefore, may not be comparable to similar indicators used by other companies. OIBDA should not be considered as an alternative to operating income as a measurement of our operating results or as an alternative to cash flows from operating activities as a measurement of our liquidity.

The following table presents the reconciliation of OIBDA to operating result for the Telefónica Germany Group for the years ended December 31, 2011, 2010 and 2009.

Thousands of euros	**for the year ended December 31**		
	2011	**2010**	**2009**
OIBDA	**1,149,237**	**892,677**	**891,482**
Depreciation and amortization	-1,082,189	-988,165	-922,872
OPERATING RESULT	**67,048**	**-95,488**	**-31,390**

There is no customer of Telefónica Germany Group providing more than 10 percent of the revenue.

(4) BUSINESS COMBINATIONS

Acquisition of HanseNet Telekommunikation GmbH (HanseNet)

On December 3, 2009, to increase its market share in the wireline services Telefónica Germany Customer Services GmbH (former "Telefónica Deutschland GmbH"), signed an agreement to acquire all of the shares of German company HanseNet Telekommunikation GmbH ("HanseNet"). HanseNet Telekommunikation GmbH was a telecommunications company offering wireline telephony, Internet, wireless and IPTV network services in Germany under the brand Alice. Telefónica Germany Group completed the acquisition of 100% of the shares of HanseNet Telekommunikation GmbH on February 16, 2010 and obtained control. Therefore, the acquisition date as defined by IFRS was February 16, 2010. The initial amount paid was approximately EUR 912m consisting of an enterprise value of EUR 900m and additional cash of EUR 12m. The initial amount included EUR 637m of refinanced debt, leaving an acquisition cost of EUR 275m, which was finally reduced by EUR 40m at completion of the transaction.

Upon the acquisition of this shareholding, the purchase price was allocated to the identifiable assets acquired and the liabilities assumed using generally accepted valuation methods for each type of asset and/or liability, based on the best available information.

The complete carrying amounts, fair values, goodwill and purchase consideration cost of the identifiable assets acquired and the liabilities assumed in this transaction at the date control was obtained are as follows:

Millions of euros	HanseNet	
	Carrying amount	Fair value
Goodwill	461	-
Other non-current assets	791	840
Current assets and deferred tax assets	191	235
Financial liabilities	(657)	(665)
Other liabilities	(303)	(457)
Value of net assets	483	(47)
Purchase consideration cost	-	(235)
Goodwill (Note 6)	**-**	**282**

The recognized goodwill results from expected synergies through the combination of the networks, potential savings of administrative functions, increase in purchasing power due to scale and potential benefits from the integrated approach. Additionally, growth in business is expected from the convergent offerings.

The acquired receivables concern the gross value of EUR 146m, the fair value of EUR 112m and cash flows not expected to be collected of EUR 34m.

In addition, the impact of this acquisition on cash and cash equivalents was as follows:

	Millions of euros
Cash and cash equivalents of the company acquired	28
Cash paid in the acquisition	(235)
Refinanced debt	(637)
Total net cash outflow	844

The contributions to Telefónica Germany Group's Revenue and OIBDA from the acquisition of HanseNet Telekommunikation GmbH in 2010 amounted to EUR 783m and EUR 77m, respectively. If HanseNet had been acquired on January 1, 2010 the contribution to revenue and OIBDA would have amounted to EUR 904m and EUR 93m, respectively.

Transaction costs in conjunction with the acquisition of the HanseNet Telekommunikation GmbH amounted to kEUR 4,993.

In 2011 the HanseNet Telekommunikation GmbH was merged into the Telefónica Germany GmbH & Co. OHG and Telefónica Deutschland GmbH was renamed into Telefónica Customer Services GmbH.

There were no other business combinations or acquisitions in the years 2011, 2010 and 2009.

(5) INTANGIBLE ASSETS

The composition of and movements in net intangible assets in the years ended December 31, 2011, 2010 and 2009 are as follows:

Thousands of euros	At December 31, 2010	Additions	Amortization	Disposals	Transfers and other	Acquisition of a subsidiary	At December 31, 2011
Service concession arrangements and licenses	1,843,927	-	-226,746	-	1,300,253	-	2,917,434
Software	490,379	155,067	-201,690	-39	-3,032	-	440,685
Other intangible assets	309,979	-	-43,399	-	13,088	-	279,668
Prepayments on intangible assets	1,312,219	27,261	-	-	-1,319,130	-	20,350
Net intangible assets	**3,956,504**	**182,328**	**-471,835**	**-39**	**-8,821**	**-**	**3,658,137**

Thousands of euros	At December 31, 2009	Additions	Amortization	Disposals	Transfers and other	Acquisition of a subsidiary	At December 31, 2010
Service concession arrangements and licenses	1,943,176	-	-177,626	-	78,377	-	1,843,927
Software	513,562	186,191	-223,564	-	-17,434	31,624	490,379
Other intangible assets	45,643	21,288	-94,034	-	-2,260	339,342	309,979
Prepayments on intangible assets	8,303	1,395,567	-	-	-91,651	-	1,312,219
Net intangible assets	**2,510,684**	**1,603,046**	**-495,224**	**-**	**-32,968**	**370,966**	**3,956,504**

Thousands of euros	At January 1, 2009	Additions	Amortization	Disposals	Transfers and other	Acquisition of a subsidiary	At December 31, 2009
Service concession arrangements and licenses	2,119,980	-	-176,804	-	-	-	1,943,176
Software	270,654	189,750	-219,759	-	272,917	-	513,562
Other intangible assets	23,875	7,603	-8,333	-2	22,500	-	45,643
Prepayments on intangible assets	317,645	14,579	-	-	-323,921	-	8,303
Net intangible assets	**2,732,154**	**211,932**	**-404,896**	**-2**	**-28,504**	**-**	**2,510,684**

The gross costs, accumulated amortization and impairment losses of intangible assets as at December 31, 2011, 2010 and 2009 are as follows:

	At December 31, 2011		
Thousands of euros	**Gross cost**	**Accumulated amortization**	**Net intangible assets**
Service concession arrangements and licenses	9,830,836	-6,913,402	2,917,434
Software	1,261,398	-820,713	440,685
Other intangible assets	383,709	-104,041	279,668
Prepayments on intangible assets	20,350	-	20,350
Net intangible assets	**11,496,293**	**-7,838,156**	**3,658,137**

	At December 31, 2010		
Thousands of euros	**Gross cost**	**Accumulated amortization**	**Net intangible assets**
Service concession arrangements and licenses	8,531,194	-6,687,267	1,843,927
Software	1,172,031	-681,652	490,379
Other intangible assets	419,950	-109,971	309,979
Prepayments on intangible assets	1,312,219	-	1,312,219
Net intangible assets	**11,435,394**	**-7,478,890**	**3,956,504**

	At December 31, 2009		
Thousands of euros	**Gross cost**	**Accumulated amortization**	**Net intangible assets**
Service concession arrangements and licenses	8,452,817	-6,509,641	1,943,176
Software	1,519,423	-1,005,861	513,562
Other intangible assets	62,967	-17,324	45,643
Prepayments on intangible assets	8,303	-	8,303
Net intangible assets	**10,043,510**	**-7,532,826**	**2,510,684**

	At January 1, 2009		
Thousands of euros	**Gross cost**	**Accumulated amortization**	**Net intangible assets**
Service concession arrangements and licenses	8,452,817	-6,332,837	2,119,980
Software	1,098,653	-827,999	270,654
Other intangible assets	41,200	-17,325	23,875
Prepayments on intangible assets	317,645	-	317,645
Net intangible assets	**9,910,315**	**-7,178,161**	**2,732,154**

Service concession arrangements and licenses:

Telefónica Germany GmbH & Co. OHG obtained a Global System for Mobile Communications ("GSM") license (2G) in February 2007. As at December 31, 2011 the license has a carrying amount of kEUR 1,994 (2010: kEUR 2,327; 2009: kEUR 2,685). The GSM licenses expire on December 31, 2016.

In August 2000 and in May 2010, Telefónica Germany GmbH & Co. OHG obtained UMTS licenses (3G) expiring on December 31, 2020. The carrying amount as at December 31, 2011 was kEUR 1,660,022 (2010: kEUR 1,841,598; 2009: kEUR 1,940,500).

In May 2010, Telefónica Germany GmbH & Co. OHG acquired LTE licenses (4G) expiring in 2025. The acquisition was recognized as "Additions" of prepayments on intangible assets and reclassified as concessions and licenses in 2011. The carrying amount as at December 31, 2011 was kEUR 1,255,392 (in 2010: kEUR 1,300,228).

The additions of assets shown as business combinations relate to the acquisition of HanseNet Telekommunikation GmbH in 2010.

There were no further significant additions of licenses in the years 2011, 2010 and 2009.

Software:

Software mainly includes licenses for Office and IT application software. The software is amortized on a straight-line basis over its useful life, generally estimated to be between two and five years.

Other intangible assets:

"Other intangible assets" includes mainly the amounts allocated to rights for brands and their use. As of 2010 "Other intangible assets" also includes the amounts allocated to the customer base of HanseNet Telekommunikation GmbH.

Intangible assets are also subject to impairment tests whenever there are indicators of a potential loss in value and, in any event, at the end of each year for intangible assets with indefinite useful lives. There was no impairment recognized in the Combined Financial Statements for 2011, 2010 and 2009 as a result of these impairment tests. Regarding parameters used in the impairment test, please see Note (2) e).

(6) GOODWILL

The movements in goodwill in the years 2011, 2010 and 2009 are as follows:

Thousands of euros	**2011**	**2010**	**2009**
Present value of goodwill at the beginning of the year	**705,576**	**423,081**	**423,081**
Acquisitions	-	282,495	-
Present value of goodwill at the end of the year	**705,576**	**705,576**	**423,081**

Goodwill as at January 1, 2009 amounting to kEUR 423,081 resulted from the acquisition of MediaWays GmbH by HighwayOne Germany GmbH, a subsidiary of Telefónica, S.A., as of September 30, 2002. On October 2, 2002 HighwayOne Germany GmbH and MediaWays GmbH merged into Telefónica Deutschland GmbH. On March 23, 2011 Telefónica Deutschland GmbH was changed to Telefónica Germany Customer Services GmbH.

The addition in 2010 is related to the acquisition of HanseNet Telekommunikation GmbH (see Note 4).

The impairment tests carried out did not identify the need to recognize any write-downs to goodwill at the 2011, 2010, 2009 and 2008 year ends as the recoverable amount, in all cases based on value in use, was higher than the carrying amount. Regarding parameters used in the impairment test, see Note (2) e).

In addition, sensitivity analyses were performed on changes reasonably expected to occur in the primary valuation variables, and the recoverable amount remained above the net carrying amount.

(7) PROPERTY, PLANT AND EQUIPMENT

The composition of and movements in the items comprising net "Property, plant and equipment" in December 31, 2011, 2010 and 2009 were the following:

Thousands of euros	Balance at 12/31/10	Additions	Depreciation	Disposals	Transfers and other	Acquisition of a subsidiary	Balance at 12/31/11
Land and buildings	59,054	6,501	-24,786	-54	-239	-	40,476
Plant and machinery	3,089,461	375,783	-533,543	-1,001	-13,623	-	2,917,077
Furniture, tools and other items	122,810	35,018	-52,025	-1,815	-2,655	-	101,333
Total PP&E in service	**3,271,325**	**417,302**	**-610,354**	**-2,870**	**-16,517**	**-**	**3,058,886**
PP&E in progress	76,628	-41,979	-	-4	25,338	-	59,983
Net PP&E	**3,347,953**	**375,323**	**-610,354**	**-2,874**	**8,821**	**-**	**3,118,869**

Thousands of euros	Balance at 12/31/09	Additions	Depreciation	Disposals	Transfers and other	Acquisition of a subsidiary	Balance at 12/31/10
Land and buildings	63,041	8,629	-16,699	-	4,083	-	59,054
Plant and machinery	2,635,389	478,612	-411,022	-692	-39,100	426,274	3,089,461
Furniture, tools and other items	123,618	50,913	-65,220	-851	-5,280	19,630	122,810
Total PP&E in service	**2,822,048**	**538,154**	**-492,941**	**-1,543**	**-40,297**	**445,904**	**3,271,325**
PP&E in progress	73,614	-84,324	-	-31	73,265	14,104	76,628
Net PP&E	**2,895,662**	**453,830**	**-492,941**	**-1,574**	**32,968**	**460,008**	**3,347,953**

Thousands of euros	Balance at 01/01/09	Additions	Depreciation	Disposals	Transfers and other	Acquisition of a subsidiary	Balance at 12/31/09
Land and buildings	61,160	12,378	-13,786	-21	3,310	-	63,041
Plant and machinery	2,551,268	541,855	-440,691	-1,026	-16,017	-	2,635,389
Furniture, tools and other items	140,536	50,788	-63,499	-164	-4,043	-	123,618
Total PP&E in service	**2,752,964**	**605,021**	**-517,976**	**-1,211**	**-16,750**	**-**	**2,822,048**
PP&E in progress	48,264	-19,809	-	-95	45,254	-	73,614
Net PP&E	**2,801,228**	**585,212**	**-517,976**	**-1,306**	**28,504**	**-**	**2,895,662**

The gross costs, accumulated depreciation and impairment losses of property, plant and equipment as at December 31, 2011, 2010, 2009 and at January 1, 2009 are as follows:

		Balance at December 31, 2011	
Thousands of euros	**Gross cost**	**Accumulated depreciation**	**Net PP&E**
Land and buildings	123,310	-82,834	40,476
Plant and machinery	5,690,850	-2,773,773	2,917,077
Furniture, tools and other items	349,677	-248,344	101,333
Total PP&E in service	**6,163,837**	**-3,104,951**	**3,058,886**
PP&E in progress	59,983	-	59,983
Net PP&E	**6,223,820**	**-3,104,951**	**3,118,869**

		Balance at December 31, 2010	
Thousands of euros	**Gross cost**	**Accumulated depreciation**	**Net PP&E**
Land and buildings	130,988	-71,934	59,054
Plant and machinery	5,420,148	-2,330,687	3,089,461
Furniture, tools and other items	330,472	-207,662	122,810
Total PP&E in service	**5,881,608**	**-2,610,283**	**3,271,325**
PP&E in progress	76,628	-	76,628
Net PP&E	**5,958,236**	**-2,610,283**	**3,347,953**

		Balance at December 31, 2009	
Thousands of euros	**Gross cost**	**Accumulated depreciation**	**Net PP&E**
Land and buildings	124,479	-61,438	63,041
Plant and machinery	4,772,498	-2,137,109	2,635,389
Furniture, tools and other items	323,043	-199,425	123,618
Total PP&E in service	**5,220,020**	**-2,397,972**	**2,822,048**
PP&E in progress	73,614	-	73,614
Net PP&E	**5,293,634**	**-2,397,972**	**2,895,662**

		Balance at January 1, 2009	
Thousands of euros	**Gross cost**	**Accumulated depreciation**	**Net PP&E**
Land and buildings	110,892	-49,732	61,160
Plant and machinery	4,649,728	-2,098,460	2,551,268
Furniture, tools and other items	305,389	-164,853	140,536
Total PP&E in service	**5,066,009**	**-2,313,045**	**2,752,964**
PP&E in progress	48,264	-	48,264
Net PP&E	**5,114,273**	**-2,313,045**	**2,801,228**

"Additions" for 2011, 2010 and 2009, totaling kEUR 375,323 (2011), kEUR 453,830 (2010) and kEUR 585,212 (2009), mainly reflect Telefónica Germany Group's investment (i.e. cell masts) made during the year to improve the capacity and coverage of the wireless networks.

The additions of assets shown as business combination relate to acquisition of HanseNet Telekommunikation GmbH in 2010 (Note 4). Property, plant and equipment deriving from finance leases amounted to kEUR 11,786 as at December 31, 2011 (kEUR 9,635 as at December 31, 2010 and kEUR 9,184 as at December 31, 2009). As at January 1, 2009 Telefónica Germany Group had finance leases amounting to kEUR 4,717. The most significant finance leases are disclosed in Note 20.

(8) JOINT VENTURES

Telefónica Germany GmbH & Co. OHG jointly controls the TCHIBO Mobilfunk Beteiligungs GmbH and the TCHIBO Mobilfunk GmbH & Co. KG. Both companies are recognized proportionally with 50% in the Combined Financial Statements.

The contributions to Telefónica Germany Group's Combined Statement of Financial Position as at December 31, 2011, 2010, 2009, as at January 1, 2009 as well as the contributions to the Combined Income Statements for 2011, 2010 and 2009 are as follows:

TCHIBO Mobilfunk Beteiligungs GmbH	**At December 31,**			**At January 1,**
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Combined Statement of Financial Position:				
Current assets	54	66	44	46
Non-current assets	-	-	-	-
Current liabilities	-36	-49	-27	-30
Non-current liabilities	-	-	-	-
Combined Income Statement:				
Income	-	-	-	
Expenses	-	-	-	

TCHIBO Mobilfunk GmbH & Co. KG	**At December 31,**		**At January 1,**	
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Combined Statement of Financial Position:				
Current assets	14,617	28,483	29,752	19,083
Non-current assets	-	-	-	-
Current liabilities	-11,268	-25,187	-26,572	-16,195
Non-current liabilities	-	-	-	-
Combined Income Statement:				
Income	25,087	21,667	19,291	
Expenses	-25,034	-21,550	-18,991	

(9) RELATED PARTIES

Related party transactions include transactions between Telefónica Germany Group and Telefónica Group (Telefónica, S.A. and its direct and indirect subsidiaries excluding Telefónica Germany Group), Telefónica Group's associated companies and joint ventures as well as Telefónica Germany Group's joint ventures. Transactions of Telefónica Germany Group with "Other Telefonica entities in Germany" (as defined in Note 1) therefore also are classified as related party transactions.

O2 (Europe) Limited, a subsidiary of Telefónica, S.A., is the parent company of Telefónica Germany Group. Therefore Telefónica Group is a related party as Telefónica, S.A. (the ultimate parent) controls Telefónica Germany Group.

Transactions with Telefónica Group

Telefónica Germany Group has entered into a number of contractual relationships considered to be related party transactions.

Due to a service agreement with O2 Limited (now O2 (Europe) Limited), dated August 12, 2002 Telefónica Germany Group receives management consultancy and support services from Telefónica Group entities in the UK and Spain.

According to a license agreement dated January 1, 2011 Telefónica Germany Group is allowed to use brand rights from the Telefónica Group for which it pays a royalty fee.

Additionally, Telefónica Germany Group uses the O_2 brand from O2 (Europe) Limited pursuant to a license agreement and participates in a group cost share agreement with O2 (Europe) Limited and other Telefónica Group entities, both dated October 15, 2007. O2 (Europe) Limited owns and is responsible for, and bears the costs of central management and development and protection of, the O_2 brand rights.

Telefónica Group has several departments called "areas of innovation", that are working on the development of new business opportunities and technologies in the following areas: cloud computing, video and digital home, content delivery network, machine to machine, applications, financial services, mobile security and e-health. Telefónica Germany Group participates in a cost share arrangement pursuant to which the related development and coordination costs are shared among the Telefónica entities that stand to benefit from such developments.

Furthermore Telefónica Germany Group has entered into a service agreement with Telefónica Global Roaming GmbH ("TGR") effective as of December 5, 2009. TGR manages the wholesale roaming business with third parties as well as the mutual roaming discounts with Telefónica Group entities. With respect to roaming arrangements with Telefónica Group entities, the Company has GSMA-standard based international roaming agreements with all such entities.

Telefónica Germany Group benefits from multinational sales activities coordinated by the Telefónica global unit Telefónica Multinational Solutions ("TMS"). TMS has its own central budget and employees at the Telefónica, S.A. level and each of the participating Telefónica Group entities dedicates a number of employees and resources to TMS activities. Telefónica Germany Group and other Telefónica Group entities are collaborating with the business unit Telefónica Global Solutions for the development of a managed wide area network (mWAN). Due to the collaboration, Telefónica Global Solutions will develop and offer a global mWAN service for all Telefónica Group entities, including a service for the corporate clients in the German market.

Telefónica Germany Group has entered into an agreement dated December 13, 2010 with Telefónica Global Technology S.A.U. ("TGT") regarding the provision of its SAP system. TGT provides the company the license for various functions of the SAP software. There is a further agreement with TGT dated May 3, 2011 regarding the provision and operation of the company's desktop workplace and e-mail system. In accordance with the agreement, TGT provides the company the software as well as the tools, network connectivity, and IP communications services. Telefónica Germany Group has also entered into an agreement with Telefónica Global Applications S.L. ("TGA") dated August 1, 2011, pursuant to which TGA has the responsibility for working with developers on the company's behalf regarding the development, marketing and distribution of wireless applications and into two agreements with Telefónica Czech Republic, a.s. ("Telefónica Czech") Thus, Telefónica Czech provides monitoring services for the company's wireline networks and otherwise Telefónica Germany Group provides monitoring services for Telefónica Czech's wireless network, each dated August 29, 2011. The interconnection agreement with Telefónica Group entity Jajah, Inc. ("Jajah") provides Jajah with connections to the company's network and Jajah provides the Company connections to Jajah's network for the purpose of termination of telecommunications traffic in the respective networks, as well as for the conducting of telecommunications traffic via the network of one party into the telecommunications network of a third party that is connected to such party's network.

With the Ireland-based Telefónica European People Services Centre effective October 10, 2010, the Telefónica Germany Group has entered into a services agreement for the provision of operational human resources, payroll and employment related services to the Company.

Furthermore Telefónica Germany Group has entered into a framework agreement with Telefónica Global Services GmbH ("TGS") dated January 1, 2010 and a framework agreement with TGR dated October 20, 2010. Therefore Telefónica Germany Group concludes individual service agreements with TGR and TGS, that provides central services as well as operational and support functions to TGR and TGS.

Telefónica Germany Group acquired all of the shares of the German company HanseNet Telekommunikation GmbH as of February 16, 2010.

Due to a services agreement with TGS dated October 6, 2010, Telefónica Germany Group has outsourced its procurement process to TGS. TGS conducts the purchase of all kinds of goods and services and performs all related procurement processes including tenders, evaluations and negotiations on behalf of the Company.

Telefónica Germany Group receives policies for all material damages and business interruption (including cyber risk and crime) insurance and general liability, pure financial losses, and media contents liability insurance, from Telefónica Insurances S.A., which is an insurance company in the Telefónica Group registered in Luxembourg. The insurance program is managed and implemented by the broker Pleyade S.A., in Madrid, which is also part of the Telefónica Group.

Telefónica Germany Group has been within the cash management system used by the Telefónica Group under cash pooling and deposit agreements. Cash throughout the Telefónica Group is centralized through these arrangements, allowing them to benefit from the economies of scale from the overall Telefónica Group as well as from the in-house liquidation of payables and receivables between Telefónica Germany Group and the participating members of the Telefónica Group. Under the cash pooling arrangements, the entire cash surplus available on those of their bank accounts which are included in the cash pool is automatically transferred on a daily basis to master bank accounts held by Telfisa Global B.V., a Telefónica Group subsidiary.

In preparation for the public listing, Telefónica Germany Group entered into an indemnity and cost sharing agreement with Telefónica. Under this agreement, Telefónica agreed to indemnify Telefónica Germany Group from certain liability risks and to assume the transaction costs, in each case arising out of or in connection with public listing.

Sales of goods and services and other income as well as purchases of goods and services and other expenses from transactions with Telefónica Group in years 2011, 2010 and 2009 are presented in the following table:

Thousands of euros	**Sales of goods and services and other income**			**Purchases of goods and services and other expenses**		
	for the year ended December 31,			**for the year ended December 31,**		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Telefónica Group	80,361	67,394	204,550	-130.124	-145,674	-134,570

The other income includes interest income from cash pooling with an amount of EUR 3.5m (2010: EUR 0.6m of, 2009: EUR 0,4m).

The other expenses include group fees totaling kEUR 70,232 in 2011, kEUR 52,205 in 2010 and kEUR 26,928 in 2009.

Telefónica Germany Group`s receivables from and payables to Telefónica Group are as follows:

	At December 31,			**At January 1,**
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Receivables from Telefónica Group	**4,031,433**	**3,042,715**	**2,970,998**	**3,038,256**
therein:				
from cash pooling	1,141,097	132,582	20,711	117,737
from financial assets	2,885,897	2,885,897	2,885,897	2,885,897
from other items	4,439	24,236	64,390	34,622
Liabilities to Telefónica Group	**143,460**	**136,508**	**154,917**	**10,298**
therein:				
from other items	143,460	136,508	154,917	10,298

Cash Pooling:

The amounts from cash pooling are related to the cash pooling agreement with Telefónica Finanzas S.A., Spain, (Telfisa).

Financial Assets:

The receivables from "Financial Assets" result from an agreement between the O2 (Europe) Limited and the Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") under which the O2 (Europe) Limited promises a capital contribution amounting to kEUR 2,885,897 at the balance sheet date December 31, in the year 2011, 2010, 2009 and at January 1, 2009.

Other Items:

The receivables and liabilities from other items mainly results from transaction of goods and services between Telefónica Germany Group and Telefónica Group. It includes receivables against Telefónica, S.A amounting to kEUR 981, kEUR 955, kEUR 27 and kEUR 287 as well as liabilities amounting to kEUR 5,575, kEUR 46, kEUR 23,105 and kEUR 23,223 at the balance sheet dates December 31, 2011, 2010, 2009 and at January 1, 2009, respectively.

The position liabilities to Telefónica Group comprise primarily liabilities which are sold by the suppliers of Telefónica Germany GmbH & Co. OHG to a factoring company in which Telefónica, S.A. has a participation.

Transactions with joint ventures

The most significant balances and transactions with joint ventures and their contributions to the Combined Statement of Financial Position and Combined Income Statement are detailed below.

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Receivables from TCHIBO Mobilfunk GmbH & Co. KG	**2,907**	**12,260**	**15,560**	**10,118**
therein:				
from other items	2,907	12,260	15,560	10,118
Liabilities to TCHIBO Mobilfunk GmbH & Co. KG	**698**	**1,089**	**1,101**	**1,140**
therein:				
from other items	698	1,089	1,101	1,140

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Receivables from TCHIBO Mobilfunk Beteiligungs GmbH	**9**	**20**	**-**	**9**
therein:				
from other items	9	20	-	9
Liabilities to TCHIBO Mobilfunk Beteiligungs GmbH	**-**	**-**	**-**	**-**
therein:				
from other items	-	-	-	-

Thousands of euros	**Sales of goods and services and other income**			**Purchases of goods and services and other expenses**		
	for the year ended December 31,			**for the year ended December 31,**		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
TCHIBO Mobilfunk GmbH & Co. KG	12,710	9,014	7,983	20,530	18,071	14,618

Thousands of euros	**Sales of goods and services and other income**			**Purchases of goods and services and other expenses**		
	for the year ended December 31,			**for the year ended December 31,**		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
TCHIBO Mobilfunk Beteiligungs GmbH	96	107	90	-	-	-

Transactions with pension entities

For information regarding the funding of the principal pension benefits please see Note 14.

Transactions with related individuals

Key management of Telefónica Germany Group is defined as those people having authority and responsibility for planning, directing and controlling the activities of Telefónica Germany Group within their function and within the interest of Telefónica, S.A. The key management, which comprises the managing directors of the Telefónica Germany GmbH & Co. OHG, Telefónica Management GmbH, Telefónica, S.A. and O2 (Europe) Limited consists of:

Name	**Position**	**Since Date**
Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH:		
Jaime Smith Basterra	Chief Executive Officer	till June, 2009
Antonio Botas Banuelos	Managing Director Product Development & Brand Management	till February, 2010
Thorsten Haeser	Managing Director Consumer Sales	between April, 2010 and September, 2010
Lutz Schüler	Managing Director Marketing & Sales	till January, 2010
Jens Prautzsch	Managing Director Strategy & Innovation	between February, 2010 and March, 2011
Robert Simmeth	Managing Director Service Technology (CIO)	between February, 2010 and July, 2011
Gregor Bieler	Managing Director Consumer Sales	till August, 2011
André Krause	Managing Director Finance (CFO)	till October, 2011
Johannes Pruchnow	Managing Director Business & Wholesale Service	between June, 2009 and July 2012
Carsten Wreth	Managing Director Service Technology (CIO)	till December, 2009
Andrea Fabiana Folgueiras	Managing Director Network Technology	since 2007
René Schuster	Chief Executive Officer	since June, 2009
Markus Haas	Managing Director Corporate Affairs & Strategy	since June, 2009
Joachim Kugoth	Managing Director Human Resources	since February, 2010
Peter Alec Rampling	Managing Director Marketing	since May, 2010
Michiel van Eldik	Managing Director Wholesale & Partner Management	since September, 2010
Rachel Clare Empey	Managing Director Finance (CFO)	since October, 2011
John Gerald McGuigan	Managing Director Consumer Sales	since October, 2011
Dr. Eckart Pech	Managing Director Service Technology	since October, 2011
Marc Irmisch	Vice President Small & Medium Enterprises & SoHo, Acting Lead of Business Unit	since June, 2012

Name	Position	For the years
Telefónica, S.A.:		
Mr. César Alierta Izuel	Board Member Telefónica, S.A., Chairman	2011, 2010 and 2009
Mr. Isidro Fainé Casas	Board Member Telefónica, S.A., Vice Chairman	2011, 2010 and 2009
Mr. Vitalino Manuel Nafría Aznar	Board Member Telefónica, S.A., Vice Chairman	2011, 2010 and 2009
Mr. Julio Linares López	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. José María Abril Pérez	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. José Fernando de Almansa Moreno-Barreda	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. José María Álvarez-Pallete López	Board Member Telefónica, S.A. (COO)	2011, 2010 and 2009
Mr. David Arculus	Board Member Telefónica, S.A.	2011, 2010 and 2009
Ms. Eva Castillo Sanz	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Carlos Colomer Casellas	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Peter Erskine	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Alfonso Ferrari Herrero	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Luiz Fernando Furlán	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Gonzalo Hinojosa Fernández de Angulo	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Pablo Isla Álvarez de Tejera	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Antonio Massanell Lavilla	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr. Ignacio Moreno Martínez	Board Member Telefónica, S.A.	2011
Mr. Francisco Javier de Paz Mancho	Board Member Telefónica, S.A.	2011, 2010 and 2009
Mr.Chang Xiaobing	Board Member Telefónica, S.A.	2009

Name	Position	Since Date
O2 (Europe) Ltd.:		
Robert John Harwood	Director	since July 2001
Maria Pilar Lopez Alvarez	Director	since November 2011
Enrique Medina Malo	Director	since November 2011
Francisco Jesus, Perez de Uriquen Muinelo	Director	since August 2012
David Melon Sanchez-Friera	Director	since August 2007

During the years to which these accompanying Combined Financial Statements refer, the managing directors did not perform any transactions with Telefónica Germany Group other than those in Telefónica Germany Group's normal trading activity and business.

Compensation and other benefits paid to members of the managing directors are detailed as follows:

	For the year		
Thousands of euros	**2011**	**2010**	**2009**
Compensation	**8,447**	**7,702**	**7,990**
thereof:			
Short-term Employee benefits	2,200	2,219	3,811
Termination benefits	717	-	-
Share-based payments	834	1,021	803
Defined Benefit Obligation	**14,921**	**15,715**	**9,741**

The movements in share options for the key management are as follows:

in units	**2011**	**2010**	**2009**
Share options at beginning of the year	**273,164**	**224,240**	**129,164**
Exercise of share options	-55,208	-57,492	-45,768
Addition of share options	74,899	106,416	140,844
Share options at end of the year	**292,855**	**273,164**	**224,240**

(10) TRADE AND OTHER RECEIVABLES

The breakdown of this item in the Combined Statements of Financial Position is as follows:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Receivables from sales and services	897,187	1,103,266	753,301	588,039
Receivables from related Parties (Note 9)	4,439	24,236	64,390	34,622
Other Receivables	19,409	13,773	9,217	18,171
Prepayments	201,895	269,950	181,809	145,976
Provisions for bad debts	-112,651	-127,115	-93,750	-87,337
Total Trade and other Receivables	**1,010,279**	**1,284,110**	**914,967**	**699,471**

The breakdown of trade receivables is as follows:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Trade receivables billed	718,398	943,077	564,576	431,471
Trade receivables unbilled	178,789	160,189	188,725	156,568
Total	**897,187**	**1,103,266**	**753,301**	**588,039**

Accounts receivables that were neither past due nor impaired at the balance sheet dates December 31, 2011, 2010, 2009 and at January 1, 2009 amounted to kEUR 115,534, kEUR 199,793 and kEUR 102,125, kEUR 59,511 respectively. With regard to these receivables there were no indications of circumstances that may negatively affect their value at the respective balance sheet dates.

Accounts receivables include non-current receivables with a maturity of more than 12 months which amount to kEUR 89,889 as of December 31, 2011 (2010: kEUR 97,505; 2009: kEUR 59,753 and kEUR 0 as of January 1, 2009).

There are no accounts receivables that are past due at the balance sheet dates December 31, 2011, 2010, 2009 and January 1, 2009 but were not impaired.

In November 2011 Telefónica Germany GmbH & Co. OHG entered into an Asset Purchase Agreement for "O_2myhandy" receivables in order to optimize working capital and to access an alternative source of funding. The sale had no significant impact on profit and loss and the buyer bears the majority of the credit risks of theses receivables. A small portion (less 5%) of the sold assets has not been derecognized due to Telefónica Germany's continuing involvement. The continuing involvement that needs to be recognized is the maximum risk that Telefónica Germany Group retains. It is represented by the maximum repurchase rate of defaulted receivables, the loss percentage and the late payment risk. Gains resulting from the collection of defaulted receivables remain with Telefónica Germany Group. The amount of assets that Telefónica Germany Group continues to recognize amounted to EUR 10.1m as of December 31, 2011 and the carrying amount of the associated liabilities amounted to EUR 10.7m.

The following tables show the reconciliation of changes in the allowances account for the years ended December 31, 2011, 2010 and 2009:

	Thousands of euros
Allowances as of December 31, 2011	**-112,651**
Additions	-47,223
Reductions	61,687
Allowances as of December 31, 2010	**-127,115**
Additions	-105,577
Reductions	72,212
Allowances as of December 31, 2009	**-93,750**
Additions	-27,406
Reductions	20,993
Allowances as of January 1, 2009	**-87,337**

(11) CASH AND CASH EQUIVALENTS

	For the year ended December 31,			**At January 1,**
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Cash at bank and in hand	7,471	56,383	17,246	9,509
Telfisa deposit	1,141,097	132,582	20,711	117,737
Total	**1,148,568**	**188,965**	**37,957**	**127,246**

Cash and cash equivalents mainly consist of deposits related to cash pooling agreement with Telefónica Finanzas S.A., Spain (Telfisa).

(12) EQUITY

As stated in Note 1, Telefónica Germany Group is legally owned by Telefónica, S.A., during the reporting periods. Due to the preparation of Combined Financial Statements the Telefónica Germany Groups equity is presented on a combined group structure and contains “Net assets attributable to Telefónica Germany Group” and “Other components of equity” (see Basis of preparation).

The subsidiaries within the group are held by Telefónica Deutschland Holding AG (former “Telefónica Germany Verwaltungs GmbH”) and Telefónica Germany Management GmbH. The respective company`s portion of equity of each subsidiary within Telefónica Germany Group was eliminated. Therefore the equity of Telefónica Germany Group consists of the equity of these two companies.

Retained earnings

The net assets attributable to Telefónica Germany Group also include undistributed profits of companies comprising the combined group - less interim dividends paid against profit for the year - actuarial gains and losses, and the impact of the asset ceiling on defined-benefit plans.

(13) FINANCIAL ASSETS AND LIABILITIES

The following tables list the carrying values and fair values of all financial assets and financial liabilities held by Telefónica Germany Group in accordance with the valuation categories of IAS 39. For simplification purposes the carrying amount of current financial assets and current financial liabilities is assumed to be the respective fair value.

In addition the tables show the categorization of financial assets and liabilities according to the importance of the input factors used for their respective valuation. For this purpose three categories are defined:

- Level 1: Quoted prices of the respective financial asset or financial liability in active markets
- Level 2: Other directly observable input parameters which contribute to establishing the fair value based on a valuation model
- Level 3: Input parameters not based on observable market data

	At December 31, 2011						
		Measurement hierarchy					
Thousands of euros	**Available-for-sale**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Loans and receivables**	**Total carrying amount**	**Total fair value**
Other non-current financial assets	5,560	-	5,560	-	-	5,560	5,560
Trade and other receivables	-	-	-	-	808,384	808,384	808,384
Other current financial assets	-	-	-	-	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	-	-	-	-	1,148,568	1,148,568	1,148,568
Total financial assets	**5,560**	**-**	**5,560**	**-**	**4,842,849**	**4,848,409**	**4,848,409**

	At December 31, 2010						
		Measurement hierarchy					
Thousands of euros	**Available-for-sale**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Loans and receivables**	**Total carrying amount**	**Total fair value**
Other non-current financial assets	5,335	-	5,335	-	-	5,335	5,335
Trade and other receivables	-	-	-	-	1,014,160	1,014,160	1,014,160
Other current financial assets	-	-	-	-	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	-	-	-	-	188,965	188,965	188,965
Total financial assets	**5,335**	**-**	**5,335**	**-**	**4,089,022**	**4,094,357**	**4,094,357**

	At December 31, 2009						
		Measurement hierarchy					
Thousands of euros	**Available-for-sale**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Loans and receivables**	**Total carrying amount**	**Total fair value**
Other non-current financial assets	6,412	-	6,412	-	-	6,412	6,412
Trade and other receivables	-	-	-	-	733,158	733,158	733,158
Other current financial assets	-	-	-	-	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	-	-	-	-	37,957	37,957	37,957
Total financial assets	**6,412**	**-**	**6,412**	**-**	**3,657,012**	**3,663,424**	**3,663,424**

	At January 1, 2009						
		Measurement hierarchy					
Thousands of euros	**Available-for-sale**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Loans and receivables**	**Total carrying amount**	**Total fair value**
Other non-current financial assets	6,271	-	6,271	-	-	6,271	6,271
Trade and other receivables	-	-	-	-	553,495	553,495	553,495
Other current financial assets	-	-	-	-	2,885,897	2,885,897	2,885,897
Cash and cash equivalents	-	-	-	-	127,246	127,246	127,246
Total financial assets	**6,271**	**-**	**6,271**	**-**	**3,566,638**	**3,572,909**	**3,572,909**

Trade and other receivables include non-current receivables with a maturity of more than 12 months which amount to kEUR 89,889 as of December 31, 2011 (2010: kEUR 97,505; 2009: kEUR 59,753 and kEUR 0 as of January 1, 2009).

Other non-current financial assets comprise solely available-for-sale financial assets incurred by Telefónica Germany Group to meet its pension obligations but do not qualify as plan assets under IAS 19. Telefónica Germany Group realized net gains from available-for-sale financial assets amounting to kEUR 225, kEUR -1,078 and kEUR 141 in the years 2011, 2010 and 2009, respectively, which were recognized directly in other comprehensive income.

Other current financial assets comprise solely a capital promise between the Telefónica Germany Group and O2 (Europe) Limited (see note 22).

	At December 31, 2011			
Thousands of euros	**Liabilities at amortized cost**	**Finance Leases**	**Total carrying amount**	**Total fair value**
Non-Current Liabilities	**-**	**6,342**	**6,342**	**6,342**
Other payables	-	6,342	6,342	6,342
Current Liabilities	**945,830**	**5,444**	**951,274**	**951,274**
Trade payables	785,580	-	785,580	785,580
Other payables	160,250	5,444	165,694	165,694
Total financial liabilities	**945,830**	**11,786**	**957,616**	**957,616**

	At December 31, 2010			
	Liabilities at amortized cost	Finance Leases	Total carrying amount	Total fair value
Non-Current Liabilities	**-**	**5,846**	**5,846**	**5,846**
Other payables	-	5,846	5,846	5,846
Current Liabilities	**967,367**	**3,789**	**971,156**	**971,156**
Trade payables	811,936	-	811,936	811,936
Other payables	155,431	3,789	159,220	159,220
Total financial liabilities	**967,367**	**9,635**	**977,002**	**977,002**

	At December 31, 2009			
	Liabilities at amortized cost	Finance Leases	Total carrying amount	Total fair value
Non-Current Liabilities	**-**	**6,301**	**6,301**	**6,301**
Other payables	-	6,301	6,301	6,301
Current Liabilities	**787,189**	**2,883**	**790,072**	**790,072**
Trade payables	599,309	-	599,309	599,309
Other payables	187,880	2,883	190,763	190,763
Total financial liabilities	**787,189**	**9,184**	**796,373**	**796,373**

	At January 1, 2009			
	Liabilities at amortized cost	Finance Leases	Total carrying amount	Total fair value
Non-Current Liabilities	**-**	**3,043**	**3,043**	**3,043**
Other payables	-	3,043	3,043	3,043
Current Liabilities	**766,609**	**1,674**	**768,283**	**768,283**
Trade payables	557,722	-	557,722	557,722
Other payables	208,887	1,674	210,561	210,561
Total financial liabilities	**766,609**	**4,717**	**771,326**	**771,326**

Non-current trade payables comprise solely finance lease liabilities.

Current other payables comprise operating liabilities and finance lease liabilities amounting to kEUR 5,444; kEUR 3,789 and kEUR 2,883 at the balance sheet dates December 31, 2011, 2010, 2009 and kEUR 1,674 as at January 1, 2009, respectively.

Other current payables comprise financial liabilities mainly resulting from investments in fixed assets and amount to kEUR 160,250 as of December 31, 2011 (2010: kEUR 155,431; 2009: kEUR 187,880 and kEUR 208,887 as of January 1, 2009).

(14) TRADE AND OTHER PAYABLES

The composition of “Trade and other payables” is as follows:

	At December 31,						At January 1,	
	2011		2010		2009		2009	
Thousands of euros	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**
Trade payables	-	259,293	-	293,972	-	187,684	-	312,322
Accruals	-	382,827	-	381,456	-	256,708	-	235,102
Payables to related parties (Note 9)	-	143,460	-	136,508	-	154,917	-	10,298
Trade payables	**-**	**785,580**	**-**	**811,936**	**-**	**599,309**	**-**	**557,722**
Other payables	6,342	186,714	5,846	195,951	6,301	192,846	3,043	218,132
Deferred income	-	169,866	-	136,920	-	96,907	-	89,689
Total	**6,342**	**1,142,160**	**5,846**	**1,144,807**	**6,301**	**889,062**	**3,043**	**865,543**

“Accruals” mainly includes liabilities for provisions, liabilities for personal and liabilities for outstanding invoices.

“Deferred income” principally includes the amount of advance payments received on prepaid contracts and the accruals for future interests from installment purchases.

The detail of current “Other payables” is as follows:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Current Other Payables				
Other creditors non trade	59,644	57,598	53,944	55,916
Capital creditors	100,606	97,833	133,936	152,971
Other taxes and social security	21,020	36,731	2,083	7,571
Finance Leasing	5,444	3,789	2,883	1,674
Total Current	**186,714**	**195,951**	**192,846**	**218,132**
Non-Current Other Payables				
Finance Leasing	6,342	5,846	6,301	3,043
Total Non-Current	**6,342**	**5,846**	**6,301**	**3,043**
Total Other Payables	**193,056**	**201,797**	**199,147**	**211,175**

“Other creditors non trade” mainly includes liabilities from factoring and liabilities for deferred rent-free units.

“Capital creditors” mainly includes liabilities for outstanding invoices for non-current assets.

(15) PROVISIONS

The amounts of provisions are as follows:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Non-Current-Provisions				
Pensions	-	9,044	1,248	1,759
Other Provisions	68,947	107,731	42,069	37,642
Total	**68,947**	**116,775**	**43,317**	**39,401**
Current-Provisions				
Other Provisions	41,609	182,429	-	-
Total	**41,609**	**182,429**	**-**	**-**
Total Provisions	**110,556**	**299,204**	**43,317**	**39,401**

Employee benefits

Telefónica Germany Group has defined-benefit plans for its employees. The following tables present the main data of these plans:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Obligation	-55,158	-57,014	-37,625	-33,561
Assets	72,547	57,309	51,571	44,869
Net provision before asset ceiling	17,389	295	13,946	11,308
Asset ceiling	-16,713	-9,339	-15,194	-13,067
Net provision	-	-9,044	-1,248	-1,759
Net assets	676	-	-	-

At December 31, 2011 the amount of the defined benefit obligation arising from plans that are wholly unfunded amounts to kEUR 2,899 (2010: 3,122; 2009: 2,197 and 1,925 at January 1, 2009) and from plans that are wholly or partly funded amounts to kEUR 52,259 (2010: 53,892; 2009: 35,428 and 31,636 at January 1, 2009).

The development in the present value of obligations in 2011, 2010 and 2009 is as follows:

Thousands of euros	**2011**	**2010**	**2009**
Present value of obligation at the beginning of the year	**-57,014**	**-37,625**	**-33,561**
Current service cost	-2,840	-1,930	-1,770
Interest cost	-2,701	-2,283	-2,071
Actuarial gains and losses	6,597	-16,558	-465
Benefits paid	347	357	242
Transfer to other Companies	453	1,025	-
Present value of obligation at the end of the year	**-55,158**	**-57,014**	**-37,625**

Developments in the fair value of plan assets in 2011, 2010 and 2009 are as follows:

Thousands of euros	**2011**	**2010**	**2009**
Fair value of plan assets at the beginning of the year	**57,309**	**51,571**	**44,869**
Expected return on plan assets	2,827	2,616	2,175
Actuarial losses	-3,241	-3,352	-1,741
Employer contributions	16,276	8,973	6,657
Benefits paid	-174	-182	-195
Transfer to other companies	-589	-1,752	-
Others (Adjustment Management)	139	-565	-194
Fair value of plan assets at the end of the year	**72,547**	**57,309**	**51,571**

Plan assets comprise qualifying insurance policies for all periods.

Expenses recognized in profit or loss is shown as follows:

	As of December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Current service costs	2,840	1,930	1,770
Interest cost	2,701	2,283	2,071
Expected return on plan assets	-2,827	-2,616	-2,175
Total amount of expense	**2,714**	**1,597**	**1,666**

The actual return on plan assets for the year ended December 31, 2011, 2010 and 2009 amounts to kEUR 189, 1,344 and -574.

The amounts of actuarial gains and losses of these plans recognized directly in equity in accordance with their asset ceilings in 2011, 2010 and 2009, before the related tax effect, are as follows:

	As of December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Actuarial gains and losses	-3,219	20,638	2,205
Effect of the limit in IAS 19.58b	7,373	-5,854	2,127
Total amount of expense	**4,154**	**14,784**	**4,332**

The accumulated amount recognized in the other comprehensive income at December 31, 2011, 2010 and 2009 amounts to kEUR 29,762, 25,608 and 10,824.

The various companies combined within Telefónica Germany Group have defined-benefit post-employment plans, covered by qualifying assets.

The number of beneficiaries of these plans at December 31, 2011, 2010, 2009 and at January 1, 2009 are as follows:

	At December 31,			**At January 1,**
Employees	**2011**	**2010**	**2009**	**2009**
Combined Group	5,979	5,792	5,628	4,973

The following experience adjustments arised as of December 31, 2011, 2010 and 2009:

	As of December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Present value of defined benefit obligation	-55,158	-57,014	-37,625
Fair value of plan assets	72,547	57,309	51,571
Surplus in the plan	17,389	295	13,946
Experience adjustments arising from plan liabilities	-390	2,337	-365
Experience adjustments arising from plan assets	3,016	3,791	1,601

The main actuarial assumptions used in valuing these plans are as follows:

	At December 31,			At January 1,
Assumption	**2011**	**2010**	**2009**	**2009**
Nominal rate of salary increase	3.50%	1.00%	3.80%	3.25%-3.80%
Nominal rate of pension payment increase	2%	2%	2%	2%
Discount rate	5.30%	4.80%	6.10%	6.20%
Expected return on plan assets	4.25%-4.0%	4.25%-4.10%	4.25%-4.30%	4.25%-4.30%
- Support fund	4.25%	4.25%	4.25%	4.25%
- Direct commitments	4.00%	4.10%	4.30%	4.30%
Mortality tables	Prof. Klaus Heubeck (RT 2005 G)	Prof. Klaus Heubeck (RT 2005 G)	Prof. Klaus Heubeck (RT 2005 G)	Prof. Klaus Heubeck (RT 2005 G)

The best estimate of contributions expected to be paid to the plans during the year ending December 31, 2012 will amount to approximately kEUR 8,253. The expected return on assets is based on the expected return of the underlying insurance contracts.

Other provisions

"Other Provisions" includes provisions for dismantling and restructuring. The movement is as follows:

	Non Current			Current		Non Current & Current
Thousands of euros	**Dismantling**	**Restructuring**	**Total**	**Restructuring**	**Total**	**Total**
Other provisions at December 31, 2011	**58,602**	**10,345**	**68,947**	**41,609**	**41,609**	**110,556**
Additions	3,382	-	3,382	2,095	2,095	5,477
Utilization	-11,623	-26,106	-37,729	-149,561	-149,561	-187,290
Transfers	-	-6,646	-6,646	6,646	6,646	-
Unwinding of discount	2,209	-	2,209	-	-	2,209
Other provisions at December 31, 2010	**64,634**	**43,097**	**107,731**	**182,429**	**182,429**	**290,160**
Additions	1,048	-	1,048	153,457	153,457	154,505
Utilization	-1,295	-9,607	-10,902	-16,137	-16,137	-27,039
Acquisition of a subsidiary	37,938	36,307	74,245	45,109	45,109	119,354
Unwinding of discount	1,271	-	1,271	-	-	1,271
Other provisions at December 31, 2009	**25,672**	**16,397**	**42,069**	**-**	**-**	**42,069**
Additions	3,713	8,000	11,713	-	-	11,713
Utilization	-1,509	-7,024	-8,533	-	-	-8,533
Transfers	-	-69	-69	-	-	-69
Unwinding of discount	1,316	-	1,316	-	-	1,316
Other provisions at January 1, 2009	**22,152**	**15,490**	**37,642**	**-**	**-**	**37,642**

Provisions for dismantling obligations include the estimated costs for dismantling and removing an asset (e.g. mobile masts and other fixed assets), and restoring the site on which it is located. The expected timing of use depends on the respective agreements of site usage.

"Restructuring" mainly includes provisions for staff reduction plans and provisions for vacancies in rented properties. The expected timing of use covers periods from short to medium term depending on the respective restructuring events. The addition in 2010 is mainly related to the acquisition of HanseNet Telekommunikation GmbH and therefore new staff reduction plans.

The line "Acquisition of a subsidiary" in 2010 is related to the acquisition of HanseNet Telekommunikation GmbH (Note 4). The acquired provisions for restructuring include contingent liabilities of mEUR 9.8 in regard to outstanding settlement agreements with sales agents. As of December 31, 2011 the provision amounts to mEUR 6.3 and mEUR 8.1 as of December 31, 2010. The expected timing of use depends on the progress of settlement agreements with sales agents.

(16) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

General

Telefónica Germany Group is exposed to various financial market risks as a result of its business. However, due to Telefónica Germany Group´s regional focused operations as well as its financing structure, Telefónica Germany Group´s interest rate risk as well as foreign exchange risk is not affecting Telefónica Germany Group materially. Telefónica Germany Group is subject to credit risk from the operating business (trade receivables) as well as from receivables towards Telefónica, S.A. Group.

Furthermore, Telefónica Germany Group is exposed to liquidity risks relating to its credit risks and market risks or a weakening of its operating business or financial market disturbances.

If these financial risks materialize, they could adversely affect Telefónica Germany Group´s financial position, cash flows and profitability.

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

Market Risks

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the value of financial instruments or income of Telefónica Germany Group.

Foreign Exchange Risk

Telefónica Germany Group has determined the Euro as its financial reporting currency. All financial statements of Telefónica Germany Group´s subsidiaries are prepared in Euro and therefore, the Combined Financial Statement of Telefónica Germany Group is not exposed to foreign exchange translation risks. Besides translation risks, foreign exchange transaction risk exist, mainly arising from Telefónica Germany Group´s business activities in countries that use currencies other than the Euro. Since Telefónica Germany Group only offers telecommunication services in Germany exchange risks only arise to a very limited extent from Telefónica Germany Group´s business relations with suppliers or business partners in countries that use currencies other than Euro. US Dollar as well as British pound sterling are the major foreign currencies. Given its funding solely by self generated cash and equity no exchange risk from debt denominated in currencies other than the Euro occurs. The net exposure on foreign currency risk at the balance sheet dates December 31, 2011, 2010 and 2009 amounted to kEUR 134, kEUR 4,505 and kEUR 355, respectively.

For material identified foreign currency risks, derivatives are contracted with Telefónica, S.A. Group treasury. At the balance sheet dates December 31, 2011, 2010 and 2009 no foreign currency derivatives existed. There were no material gains or losses from foreign exchange derivatives incurred during the years ended December 31, 2011, 2010 and 2009. The effects before tax on the combined income statement and equity of a simultaneous parallel appreciation as well as depreciation of all foreign currencies of 10% against the Euro at the balance sheet dates December 31, 2011, 2010 and 2009, are not material.

Interest Rate Risk

Interest rate risks arise primarily from Telefónica Germany Group´s cash surpluses being deposited in cash pooling accounts with Telefónica Finanzas S.A., Spain, (Telfisa) and deposit accounts with Telfisa Global B.V., Netherlands. These accounts as well as the bank accounts bear variable interests.

The net exposure on variable interest for Telefónica Germany Group at the balance sheet dates December 31, 2011, 2010 and 2009 amounted to kEUR 1,148,568, kEUR 188,965 and kEUR 37,957 respectively mainly resulting from cash and cash equivalents deposited with Telefónica Finanzas S.A., Spain, (Telfisa) and with Telfisa Global B.V., Netherlands. Telefónica Germany Group did not enter into interest rate derivatives during the years ended December 31, 2011, 2010 and 2009.

The effects before tax on the combined income statement of a change in interest rates for variable-rate financial instruments of +/-100 basis points on the balance sheet dates December 31, 2011, 2010 and 2009 are shown in the table below. There is no impact recognized directly in equity. The minimum interest rate applied to take changes in interest rates into account was 0%. This analysis assumes that all other variables remain constant.

Thousands of euros	**Impact on combined income statement**		
	2011	**2010**	**2009**
+100bp	11,486	1,890	380
-100bp	11,141	1,077	84

Credit Risk

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

Telefónica Germany Group considers managing commercial credit risk as crucial to meet its sustainable business and customer base growth targets in a manner that is consistent with its risk management policy. Appropriate credit policies, procedures and authorization guidelines are established to manage and monitor credit risk.

This approach to manage credit risk is based on continuous monitoring of the risk assumed and the resources necessary. In particular, attention is given to those clients that could cause a material impact on Telefónica Germany Group´s Combined Financial Statements for which depending on the segment and type of relation appropriate credit management instruments like credit insurance or collateral may be used to mitigate exposure to credit risk. The assets acquired as a result of these credit insurances or collaterals during the years ended December 31, 2011, 2010 and 2009 were not material. In order to control credit risk, Telefónica Germany Group regularly performs an ageing analysis of trade accounts receivables and books allowances for doubtful accounts receivables with similar exposure to credit risk, only.

In case Telefónica Germany Group has entered into foreign currency derivatives, all trades have been conducted with Telefónica, S.A. Group treasury according to group policy only.

With regard to its cash surpluses Telefónica Germany Group has entered into cash pooling agreements with Telefónica Finanzas S.A., Spain, (Telfisa) and deposit agreements with Telfisa Global B.V., Netherlands according to Telefónica, S.A. Group policy and places most of its cash surpluses with these institutions.

These cash pooling and deposit agreements will remain in place after the IPO. Thus most of Telefónica Germany Group´s cash surpluses will be concentrated in these companies belonging to Telefónica, S.A. Group which is rated by international rating agencies with an investment grade rating. The remaining cash surplus is spread out over several German banks which are rated by international rating agencies with an investment grade rating.

At year-end 2011, 2010 and 2009 financial assets with Telefónica, S.A. Group as counterparty amounted to EUR 4,031m, EUR 3,043m, EUR 2,971m and as at January 1, 2009 EUR 3,038m, respectively.

Liquidity Risk

Liquidity risk comprises the risk that a company is unable to meet its financial obligations that are settled by delivering cash or another financial asset. Telefónica Germany Group´s approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions.

Telefónica Germany Group manages its liquidity closely coordinated with Telefónica, S.A. and has entered into cash pooling agreements with Telefónica Finanzas, S.A., Spain, (Telfisa) and deposit agreements with Telfisa Global B.V., Netherlands according to Telefónica, S.A. Group policy and places most of its cash surpluses with these institutions. These cash pooling and deposit agreements will remain in place after the IPO.

The cash inflows generated by Telefónica Germany Group´s operating business as well as the possibility of factoring receivables are used to reduce Telefónica Germany Group´s liquidity risk.

Furthermore Telefónica Germany Group could at any time demand by way of voluntary shareholder's contribution from Telefónica, S.A. Group up to EUR 2,886m from an unlimited and irrevocable obligation incurred by Telefónica, S.A. Group. Telefónica Germany Group uses a staggered approach to manage its liquidity. By monitoring its cash flows and working capital development for different periods and in close co-ordination with Telfisa Telefónica Germany Group reduces its liquidity risk.

Telefónica Germany Group did neither incur bank liabilities nor had there been any credit lines at the balance sheet dates December 31, 2011, 2010 and 2009.

At year-end 2011, 2010 and 2009 cash and cash equivalents amounted to EUR 1,148.6m, EUR 189.0m, EUR 38.0m and January 1, 2009 EUR 127.2m, respectively.

The following table shows the maturity profile of Telefónica Germany Group's financial liabilities based on contractual undiscounted payments:

At December 31, 2011					
	Total carrying amount	Gross cash outflow	remaining term		
Thousands of euros			**< 1 years**	**1 - 5 years**	**> 5 years**
Non-Current Liabilities	6,342	6,473	-	6,473	-
Other payables	6,342	6,473	-	6,473	-
Current Liabilities	972,294	972,517	972,517	-	-
Trade payables	785,580	785,580	785,580	-	-
Other payables	186,714	186,937	186,937	-	-
Total financial liabilities	**978,636**	**978,990**	**972,517**	**6,473**	**-**

At December 31, 2010					
	Total carrying amount	Gross cash outflow	remaining term		
Thousands of euros			**< 1 years**	**1 - 5 years**	**> 5 years**
Non-Current Liabilities	5,846	6,063	-	6,063	-
Other payables	5,846	6,063	-	6,063	-
Current Liabilities	1,007,887	1,008,189	1,008,189	-	-
Trade payables	811,936	811,936	811,936	-	-
Other payables	195,951	196,253	196,253	-	-
Total financial liabilities	**1,013,733**	**1,014,252**	**1,008,189**	**6,063**	**-**

At December 31, 2009					
	Total carrying amount	Gross cash outflow	remaining term		
Thousands of euros			**< 1 years**	**1 - 5 years**	**> 5 years**
Non-Current Liabilities	6,301	6,687	-	6,687	-
Other payables	6,301	6,687	-	6,687	-
Current Liabilities	792,155	792,481	792,481	-	-
Trade payables	599,309	599,309	599,309	-	-
Other payables	192,846	193,172	193,172	-	-
Total financial liabilities	**798,456**	**799,168**	**792,481**	**6,687**	**-**

At January 1, 2009					
	Total carrying amount	Gross cash outflow	remaining term		
Thousands of euros			**< 1 years**	**1 - 5 years**	**> 5 years**
Non-Current Liabilities	3,043	3,306	-	3,142	164
Other payables	3,043	3,306	-	3,142	164
Current Liabilities	775,854	776,027	776,027	-	-
Trade payables	557,722	557,722	557,722	-	-
Other payables	218,132	218,305	218,305	-	-
Total financial liabilities	**778,897**	**779,333**	**776,027**	**3,142**	**164**

Capital management

Telefónica Germany Group aims to ensure sustainability of the business and maximize the value to shareholders. Telefónica Germany Group monitors its cost of capital with a goal of optimizing its capital structure. Telefónica Germany Group monitors the equity ratio and the OIBDA. As of December 31, 2011, the equity ratio was 90.3% (2010: 88.8%; 2009: 90.8%; and January 1, 2009: 91.1%), while the OIBDA was EUR 1,149m (2010: EUR 893m; 2009: EUR 886m).

(17) INCOME TAX MATTERS

Combined tax group

Telefónica Germany Group has filed consolidated tax returns for certain companies of Telefónica Germany group. The consolidated tax group comprised 6 companies in 2011 (5 in 2010 and 5 in 2009). Regarding the included entities, see Note 1.

Current and deferred taxes

Total tax expense consists of current and deferred tax expense as follows:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Current tax (expense)	-0	-	-
Deferred tax (expense)	-1,732	-5,277	152
Total tax (expense)	**-1,732**	**-5,277**	**152**

The movements in deferred taxes in 2011, 2010 and 2009 are as follows:

Thousands of euros	**2011**	**2010**	**2009**
Beginning of year balance	**412,510**	**412,688**	**411,197**
Deferred tax expense	-1,732	-5,277	152
Movement recognized directly in equity as shown in the consolidated statement of comprehensive income	1,255	5,065	1,339
Other	-	34	-
End of year balance	**412,033**	**412,510**	**412,688**

Tax loss carry forwards and temporary differences

Tax loss carry forwards for which no deferred tax assets have been recognized at December 31, 2011 amounted to kEUR 10,964,650 for corporate income tax and kEUR 11,039,602 for trade tax respectively (kEUR 10,365,410 and kEUR 10,496,929 in 2010 and kEUR 9,831,874 and kEUR 9,993,708 in 2009). No deferred tax assets have been recognized for temporary differences in the amount of kEUR 2,744,062 in 2011, kEUR 3,627,836 in 2010 and kEUR 4,262,789 in 2009. Tax loss carry forwards and deductible temporary difference have been determined under the probable criteria. Tax loss carry forwards of Telefónica Germany Group contain taxable income and losses surrendered by Telefónica Global Services GmbH, Telefónica Global Roaming GmbH, Group 3G UMTS Holding and Quam GmbH, which are not included in combined financial statements in the amount of kEUR 456,232 for 2011, kEUR 329,181, for 2010 and kEUR 4,511 for 2009.

Temporary differences are generated as a result of the difference between tax bases of the assets and liabilities and their respective carrying amounts. Deductible temporary differences give rise to deferred tax assets on the combined statement of financial position, whereas taxable temporary differences in tax bases give rise to deferred tax liabilities on the combined statement of financial position. The sources of deferred tax assets and liabilities from temporary differences and loss carry forwards recognized at December 31, 2011, 2010 and 2009 are as follows:

	At December 31		**At December 31**		**At December 31**		**Year started January 1**	
		2011		**2010**		**2009**		**2009**
Thousands of euros	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Goodwill and intangible assets	758,559	-84,125	1,031,572	-75,761	1,089,632	-241	779,261	-52,161
Tangible Assets	-	-286,945	37,670	-291,945	29	-272,737	431	-243,040
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	-
Trade and other receivables	444,238	-2,060	868,429	-1,816	723,060	-4,133	115,008	-92
Other current financial assets	5,211	-90,209	11,086	-83,667	25,153	-	34,628	-184,507
Debt, trade and other payables	92,459	-436,396	109,740	-1,220,408	80,836	-1,224,479	665	-40,896
Provisions including pension provisions	30,379	-1,581	29,545	-9,380	-	-6,310	-	-2,602
Other current financial assets	3,983	-21,480	10,018	-2,575	2,619	-740	4,602	-100
Tax loss carryforwards	-	-	-	-	-	-	-	-
Tax assets (liabilities)	1,334,828	-922,795	2,098,061	-1,685,551	1,921,328	-1,508,640	934,596	-523,399
Set off of tax	-922,795	922,795	-1,685,551	1,685,551	-1,508,640	1,508,640	-523,399	523,399
Net tax assets (liabilities)	**412,033**	**-**	**412,510**	**-**	**412,688**	**-**	**411,197**	**-**

Reconciliation of book profit before taxes to taxable income

The reconciliation between accounting profit and the income tax expense for 2011, 2010 and 2009 is as follows:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Accounting profit (loss) before tax	**73,078**	**-97,255**	**-33,736**
Tax expense at prevailing statutory rate (32%)	-23,334	31,053	10,772
Non-deductible expenses	-9,111	-7,854	-6,259
Change in unrecognized temporary differences and tax loss carryforwards	30,288	-28,408	-4,497
Other	425	-68	137
Income tax (expense)	**-1,732**	**-5,277**	**152**
Breakdown of current/deferred tax (expense)			
Current tax (expense)	-	-	-
Deferred tax (expense)	-1,732	-5,277	152
Total income tax (expense)	**-1,732**	**-5,277**	**152**

(18) REVENUES AND EXPENSES

Revenues

The breakdown of "Revenues" is as follows:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Rendering of Services	4,372,205	4,344,149	3,418,855
Net Sales	663,347	482,129	326,685
Total	**5,035,552**	**4,826,278**	**3,745,540**

Revenues breakdown by Wireless Business and Wireline Business is as follows:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Revenues			
Wireline Business	1,425,740	1,411,861	558,277
Wireless Business	3,605,747	3,411,930	3,187,263
Wireless Service Revenues	*2,946,465*	*2,932,288*	*2,860,577*
Handset Revenues	*659,282*	*479,642*	*326,685*
Other	4,065	2,487	0
Total Revenues	**5,035,552**	**4,826,278**	**3,745,540**

Revenues principally comprise Wireless Service Revenues, Handset Revenues and Wireline Revenues. Service Revenues comprise Wireless Service Revenues as well as Wireline Revenues.

Wireless Service Revenues

The vast majority of Wireless Service Revenues is comprised of customer base and tariff fees charged for voice (including incoming and outgoing calls), text (including SMS and MMS) and wireless data services and revenue from service contracts. Access and interconnection fees paid by other operators for calls and SMS terminated on our network are also included in Wireless Service Revenues, as well as visitor roaming revenue.

Handset Revenues

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

Wireline Business

Wireline Revenues are primarily comprised of retail DSL service revenue, retail DSL activation fees, revenue for DSL-related hardware and non-recurring charges (e.g. charges for address change, number portation, etc.); service and hardware revenue from Pay TV service; revenues from wholesale ULL, also called wholesale DSL, revenue derived from the sale of our DSL network and services as well as hardware to other providers who then repackage and resell it to the end consumer; carrier traffic revenue related to the sale and trading of minutes between carriers to connect their customers calls through other operators networks, as well as revenue derived from hosting client content on our data center infrastructure and providing accompanying management services, such as the use of our data center infrastructure to host applications designed and operated by third parties. DSL revenue also comprises fixline telephony revenues.

Other

Other Revenues comprise revenue derived from the vertical business.

Other income

The breakdown of "Other income" in 2011, 2010 and 2009 is as follows:

	for the year ended December 31		
Thousands of euros	**2011**	**2010**	**2009**
Ancillary income	249	399	334
Own work capitalized	60,471	87,074	91,231
Gain on disposal of assets	271	1,386	537
Total	**60,991**	**88,859**	**92,102**

Earnings per share

Telefónica Deutschland Holding AG, parent of the affiliated group, was formed subsequent to the reporting period presented in the combined financial statements and does therefore not have an EPS history. For information regarding the transformation under German company law please see Note 22.

Other expenses

Other expenses mainly consist of sales and marketing, infrastructure, management fee and other external services.

Operating leases

The estimated payment schedule operating leases, purchase and contractual commitments is as follows:

	At December 31,			**At January 1,**
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Operating lease obligations				
Less than 1 year	297,589	311,308	272,378	246,751
1 to 5 years	873,664	907,599	859,444	784,431
Over 5 years	861,077	740,976	737,740	738,362
Total	**2,032,330**	**1,959,883**	**1,869,562**	**1,769,544**
Purchase and other contractual obligations				
Less than 1 year	197,053	184,526	264,284	299,297
1 to 5 years	30,774	16,076	73,184	2,752
Over 5 years	-	-	-	-
Total	**227,827**	**200,602**	**337,468**	**302,049**

The following amounts have been recognized in the combined income statement:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Operate leasing expense	313,812	296,475	309,018

The operate leasing expenses mainly include expenses for real estate (i.e. office buildings and shops), cars and network equipment (i.e. leased lines and cell sites).

Telefónica Germany Group provides operating guarantees granted by external financial counterparts which are offered in course of normal commercial activity especially with regard to antenna sites rental contracts.

These guarantees amounted to EUR 35.8m, EUR 35.8m and EUR 37.4m as of December 31, 2011, 2010 and 2009 respectively.

Subleases

Telefónica Germany Group entered into various subleasing agreements for office buildings. The estimated payment schedule for subleases is as follows:

	At December 31,			At January 1,
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Sublease payments				
Less than 1 year	4,814	1,479	2,007	1,202
1 to 5 years	17,300	1,093	2,474	1,944
Over 5 years	17,698	-	85	-
Total	**39,812**	**2,572**	**4,566**	**3,146**

The following amounts have been recognized in the combined income statement:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Subleases income	3,663	2,241	1,676

The main finance lease transactions are described in Note 20.

Full-time equivalent (FTE) and employee benefits

a) FTE

The table below presents the breakdown of Telefónica Germany Group's average FTE in 2011, 2010 and 2009.

Average Headcount	**2011**	**2010**	**2009**
Combined Group	5,315	6,280	4,900

The increase in average headcount in 2010 is related to the acquisition of the HanseNet Telekommunikation GmbH.

b) Employee benefits

Expenses relating to defined contribution plan amount to EUR 16.5m in 2011 (2010: EUR 9.1m; 2009: EUR 6.7m).

Depreciation and amortization

The breakdown of "Depreciation and amortization" on the combined income statement is as follows:

	for the year ended December 31,		
Thousands of euros	**2011**	**2010**	**2009**
Depreciation of property, plant and equipment	610,354	492,941	517,976
Amortization of intangible assets	471,835	495,224	404,896
Total	**1,082,189**	**988,165**	**922,872**

(19) OTHER INFORMATION

Contingent liabilities and assets

As part of its ordinary business Telefónica Germany Group is involved in various proceedings both in and out of court. These proceedings are in total not material to the results of operations and financial position.

(20) FINANCE LEASES

The finance leases of Telefónica Germany Group are presented in the Combined Financial Statements of the year 2011, 2010 and 2009 in the position "Property, Plant and Equipment" (Note 7) and are as follows:

Net carrying amount of lease assets	**At December 31,**			**At January 1,**
Thousands of euros	**2011**	**2010**	**2009**	**2009**
Plant and machinery	11,786	9,635	9,184	4,717
Total	**11,786**	**9,635**	**9,184**	**4,717**

These commitments mainly arise from lease agreements for IT and office equipment for internal usage.

The breakdown of the minimum lease payments is as follows:

At December 31, 2011			
Present value of minimum lease payments in thousands of euros	**Minimum future lease payments obligation**	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
due within one year	5,667	223	5,444
due between one and five years	6,473	131	6,342
due in more than five years	-	-	-
Total	**12,140**	**354**	**11,786**

At December 31, 2010			
Present value of minimum lease payments in thousands of euros	**Minimum future lease payments obligation**	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
due within one year	4,096	307	3,789
due between one and five years	6,064	218	5,846
due in more than five years	-	-	-
Total	**10,160**	**525**	**9,635**

At December 31, 2009			
Present value of minimum lease payments in thousands of euros	**Minimum future lease payments obligation**	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
due within one year	3,209	326	2,883
due between one and five years	6,687	386	6,301
due in more than five years	-	-	-
Total	**9,896**	**712**	**9,184**

At January 1, 2009			
Present value of minimum lease payments in thousands of euros	**Minimum future lease payments obligation**	**Unamortized interest expense**	**Present value of minimum future lease payments obligation**
due within one year	1,847	173	1,674
due between one and five years	3,141	259	2,882
due in more than five years	164	3	161
Total	**5,152**	**435**	**4,717**

(21) SHARE-BASED PAYMENTS

At December 31, 2011 TGG has the following share-based payment arrangements:

Description of the share-based payment plans

"***Performance Share Plan***" ***(equity-settled)***

The Performance Share Plan is a long-term incentive plan for managers and senior executives of Telefónica, S.A. and other Telefónica Group companies, Telefónica Germany included.

Under this plan, selected participants who met the qualifying requirements were given a certain number of Telefónica, S.A. shares as a form of variable compensation. As the shares are delivered by Telefónica, S.A., the parent company is the settling entity in accordance with IFRS 2.

It is divided into five phases, each three years long, the first beginning on July 1, 2006 and ending on June 30, 2009, the fifth on July 1, 2010. At the start of each phase the number of shares to be awarded to plan beneficiaries is determined based on their success in meeting targets set. The shares are delivered at the end date of each phase, subject to a number of conditions:

- The beneficiary must continue to work for the company throughout the three-year duration of each phase.
- The actual number of shares awarded at the end is calculated by multiplying the maximum number of shares assigned to each executive at the start of a phase by a percentage reflecting the performance of the Telefónica share. The performance is measured by comparing the Total Shareholder Return ("TSR"), which includes both share price and dividends, with the TSRs offered by a basket of listed telecom companies that comprise the comparison group. This will be 100% if the TSR of Telefónica is equal to or better than that of the third quartile of the Comparison Group and 30% if Telefónica's TSR is in line with the average. The percentage rises linearly for all points between these two benchmarks. If the TSR is below average no shares are awarded.

At June 30, 2009, the first phase of this plan ended, which entailed the following number of shares issued:

Phase	No. of shares delivered	Grant-date fair value per unit	End date
1st phase July 1, 2006	144,289	6.43	June 30, 2009

At June 30, 2010, the second phase of this plan ended, which entailed the following number of shares issued:

Phase	No. of shares delivered	Grant-date fair value per unit	End date
2nd phase July 1, 2007	109,830	7.70	June 30, 2010

At June 30, 2011, the third phase of this plan ended, which entailed the following number of shares issued:

Phase	No. of shares delivered	Grant-date fair value per unit	End date
3rd phase July 1, 2008	137,507	8.39	June 30, 2011

The number of the shares granted in each of the two outstanding phases at December 31, 2011 is as follows:

Phase	Maximum no. of shares to be issued	Grant-date fair value per unit	End date
4th phase July 1, 2009	179,398	8.41	June 30, 2012
5th phase July 1, 2010	179,244	9.08	June 30, 2013

The fair values of the equity instruments granted to employees were measured using the share price of Telefónica, S.A. shares at grant date under consideration of market conditions.

The plan has been valued using a Monte Carlo method, thereby incorporating the performance target as a market condition. This method involves generating share prices and TSRs for each company, based on its dividend yield and volatility, taking into account the cross correlations between stocks. The model is used to define the probability for the shares to vest and establish share price growth associated with different ranking positions.

The other than market vesting condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

Concerning expected dividends of the shares, which the employees do not receive until physical delivery of the shares, there is no compensation payment. This fact was incorporated in the measurement of the grand date fair value.

As this plan is an equity-settled plan, settled by Telefónica, S.A., employee expenses were recognized with a corresponding entry in equity as a contribution by parent.

There is a recharge agreement in place between Telefónica, S.A. and TGG concerning the shares delivered to employees in Germany. The recharge was accounted for by a debit to equity and a credit to liabilities against Telefónica, S.A. by analogy to the requirements for cash-settled share-based payments. This means that the valuation is adjusted at each reporting date and the amounts are recognized on a pro rata basis over the vesting period.

"*Performance and Investment Plan*" *(equity-settled)*

This plan will take effect following completion of the "Performance Share Plan" and addresses Telefónica group directors and executive officers.

It is divided into three phases, each three years long, the first beginning on July 1, 2011 and ending on June 30 2014, the third ending on July 1, 2013. At the start of each phase the number of shares to be awarded to plan beneficiaries is determined based on their success in meeting targets set. The shares will be delivered at the end date of each phase.

As the shares are delivered by Telefónica, S.A., the parent company is the settling entity in accordance with IFRS 2.

The calculation method used to determine the actual number of shares delivered is similar to the "Performance Share Plan". The condition, that each participant must still be a Telefónica Group employee at the delivery date for each phase, also applies.

In addition to this, the possibility of co-investing has been included for all the participants. Under the co-investment condition the participant must directly own 25 % of the number of shares assigned to him or her under the "Performance and Investment Plan". The shares must be owned at the first anniversary (or within fifteen months exclusively for the first cycle) of the starting date of each cycle, and the participant must hold those until the vesting date, in order to be entitled to receive an additional award of 25 % of the original number of shares. Consequently, the participant receives one free share for each co-invested share, subject to the Company's performance.

The first allocation of shares under this Plan was made on July 1, 2011. Therefore, the maximum number of shares assigned (including the amount of co-investment) under the Plan at December 31, 2011 is as follows:

Phase	**Maximum no. of shares to be issued**	**Grant-date fair value per unit**	**End date**
1st phase July 1, 2011	92,767	8.28	June 30, 2014

Phase	**No. of shares co-invested**	**End date**
1st phase July 1, 2011	21,549	June 30, 2014

The fair values of the equity instruments granted to employees were measured using the share price of Telefónica, S.A. shares at grant date under consideration of market-conditions.

The market condition, which implies that a performance target of the Telefónica, S.A. share must be achieved, was incorporated in the measurement of the fair value by means of the Monte Carlo method as explained above.

The service condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

The co-investment condition, being a non-vesting condition, is taken into account when estimating the fair value of the awards at the measurement date. Additionally, the condition to hold the shares until the vesting date, which is another non-vesting condition, was incorporated in the fair value.

Concerning expected dividends of the matching shares, which the employees do not receive until physical delivery of the shares, there is no compensation payment. This fact was incorporated in the measurement of the fair value.

As this plan is an equity-settled plan, settled by Telefónica, S.A., employee expenses were recognized with a corresponding entry in equity as a contribution by parent.

There is a recharge agreement in place between Telefónica, S.A. and TGG concerning the shares delivered to employees in Germany. The recharge was accounted for by a debit to equity and a credit to liabilities against Telefónica, S.A. by analogy to the requirements for cash-settled share-based payments.

"Performance Cash Plan" (cash-settled)

This plan is operating under the same conditions like the "Performance Share Plan". It entails delivery to executives of a specific number of theoretical options in Telefónica, S.A. which, in the event, would be cash-settled at the end of each phase. The payment is equivalent to the market value of the shares on settlement date up to a maximum of three times the notional value of the shares at the delivery date.

As the payment is made by Telefónica Germany, it is the settling entity.

The value of theoretical options is established as the average share price in the 30 days immediately prior to the start of each phase, except for the first phase, where the average share price during the 30 days immediately prior to May 11, 2006 (12.83 euros) was taken as the reference.

The estimated duration of this plan is 7 years, with 5 phases, each of 3 years, commencing on July 1 of each year, starting in 2006.

Like the "Performance Share Plan", the performance rate for setting payments is measured based on the TSR on Telefónica shares with respect to the comparison group's TSRs, in line with the same criteria.

The fair value at December 31, 2011 of the options delivered in each phase in force at that time was 13.39 euros per option. This value is calculated by taking the Telefónica share price and including the estimated TSR and is updated at each year end.

The market condition, which implies that a performance target of the Telefónica, S.A. share must be achieved, was incorporated in the measurement of the fair value, by means of the Monte Carlo method as explained above.

The service condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

As this plan is a cash-settled plan, it was accounted for by recording employee expenses and a corresponding liability.

"Global Employee Share Plan" (equity-settled)

This plan is a share incentive plan for all employees of the Telefónica group worldwide, with certain exceptions. Under this plan, participants that meet the qualifying requirements are offered the possibility of acquiring Telefónica, S.A. shares and receiving the same number of shares free of charge at the end of the period.

As the shares are delivered by Telefónica, S.A., the parent company is the settling entity in accordance with IFRS 2.

The initial duration of the plan is intended to be two years. Employees subscribed to the plan can acquire Telefónica, S.A. shares through monthly installments of up to 100 euros up to a maximum of 1.200 euros over a twelve-month period of time (acquisition period). The shares are purchased at fair value at acquisition date. The employees participating in the plan are entitled to dividends on the shares they acquired. The delivery of shares will take place when the plan is consolidated, as at September 1, 2012, subject to a number of conditions:

- The beneficiary must continue to work for the company throughout the two-year duration of the plan (consolidation period), except for employees leaving for a good reason.
- The beneficiary must have retained the shares acquired for an additional twelve-month period after the end of the purchase period.

The acquisition period opened in August 2010, and at December 31, 2011, 2,844 employees had adhered to the plan.

At August 31, 2012, the vesting period of this plan will end, which entails the following number of shares assigned to participants:

As at December 31,	Maximum no. of rights for shares to be issued	Weighted average of grant date fair value per unit
2011	94,090	16.72
2010	47,045	18.07

The fair values of the equity instruments granted to employees were measured using the share price of Telefónica, S.A. shares at grant date.

The other than market vesting condition, which requires that the employee has to stay working for the company until the end of the vesting period, is not incorporated in the grant date fair value, but the number of equity instruments included in the measurement is adjusted regularly.

The holding condition concerning the shares, which is a non-vesting condition, was incorporated in the fair value.

Concerning expected dividends of the shares, which the employees do not receive until physical delivery of the shares, there is no compensation payment. This fact was incorporated in the measurement of the fair value.

The GESP is an equity-settled plan and is therefore accounted for by a debit to employee expenses and a credit to equity.

There is a recharge agreement in place between O2 (Europe) Limited and TGG concerning the shares delivered to employees in Germany. The recharge agreement is recognized by deduction from equity and a corresponding liability to O2 (Europe) Limited.

Employee expenses

	At December 31,		
in thousands of euros	**2011**	**2010**	**2009**
Employee expenses arising from share-based payment transactions	3,504	3,276	3,883
Thereof from equity-settled plans	2,918	2,055	1,046
Liabilities arising from share-based payment transactions (without liabilities from recharge agreements)	587	1,221	2,837

(22) EVENTS AFTER THE REPORTING PERIOD

Capital promise

On March 28, 2003 and April 30, 2004 O2 (Europe) Limited issued a declaration of obligation to Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH", former "O2 Germany Verwaltungs GmbH") under which O2 (Europe) Limited obliged itself to provide Telefónica Germany Verwaltungs GmbH by way of voluntary shareholder's contribution with an amount of kEUR 4,650,000 and kEUR 500,000 respectively. These amounts were to be remitted on first demand of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") and obligations have been unlimited in time. As of December 31, 2011 O2 (Europe) Limited contributed kEUR 2,264,104 of cash under the declarations of obligation.

On September 13, 2012 O2 (Europe) Limited and Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") cancelled the declarations of obligation. The outstanding receivable of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") against O2 (Europe) Limited resulting from the declaration of obligation amounting to kEUR 2,885,897 was set off against equity and presented as a distribution to shareholders in the statement of changes in equity.

Capital increase resolution

On September 18, 2012 O2 (Europe) Limited has increased the share capital of Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH") from EUR 1,116,945,300 by EUR 100 to EUR 1,116,945,400 in return for a contribution in kind. The increase of the share capital was made through the issue of a new share with a nominal amount of EUR 100, which was subscribed by O2 (Europe) Limited. The capital increase in kind was made in full through the contribution of all shares of Telefónica Germany Management GmbH into Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH").

Pre IPO dividend

On September 14, 2012 the pre-IPO dividend accounts for anticipated EUR 7,186m, of which EUR 4,300m has been considered as cash payments and EUR 2,886m as cancellation of declarations of obligation (see above).

Capital contribution

On September 18, 2012 the shares of Telefónica Germany Management GmbH have been contributed to Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH").

Establishment of a new company

Telefónica Germany GmbH & Co. OHG founded Wayra Deutschland GmbH with the shareholder contract in July 2012. The company was officially entered in the commercial register on July 24, 2012 with a share capital of kEUR 25.

Transfer of companies

Effective as of September 14, 2012 Telefónica Germany GmbH & CO. OHG contributed its shares in the Group3G UMTS Holding GmbH and its subsidiary to the Telefónica Chile Holding B.V.. On September 18, 2012 Telefónica Germany GmbH & Co. OHG contributed its shares in Telefónica Global Services GmbH and its subsidiaries to its subsidiary Telefónica Chile Holding B.V..

Effective as of October 1, 2012 Telefónica Germany GmbH & Co. OHG sold its shares in Telefónica Chile Holding B.V., to Telfisa Global B.V., a subsidiary of Telefónica, S.A. at arm`s length. The sales price of Telefónica Chile Holding B.V. and its subsidiaries was EUR 703m. The profit and loss pooling agreements between Telefónica Germany GmbH & Co. OHG and Telefónica Global Services GmbH, respectively Group 3G UMTS Holding GmbH had been cancelled upon the sale of Telefónica Chile Holding B.V..

IC-Loan with Telefónica Germany GmbH & CO. OHG

As of September 10, 2012 Telefónica Germany GmbH & CO. OHG has entered in loan agreements with Telefónica Germany Customer Services GmbH and Fonic GmbH, receiving EUR 9m and EUR 75m (total credit line: EUR 94m), respectively.

Further intercompany loans are entered into with Telefónica Deutschland Holding AG (former “Telefónica Germany Verwaltungs GmbH”) (EUR 4m), Telefónica Germany Management GmbH (EUR 1m), Telefónica Germany 1. Beteiligungsgesellschaft mbH (EUR 3m), Telefónica Germany Partner Services GmbH (EUR 1,5m) as of September 13, 2012.

Loan with Telfisa Global B.V.

Telefónica Germany GmbH & CO. OHG has entered into loan agreements dated as of September 12, 2012 with Telfisa Global B.V. as lender in the amount of EUR 703m and EUR 1,250m.

Payment and cancellation of profit and loss transfer agreements

As of September 30, 2012, all existing profit and loss transfer agreements between Telefónica Germany GmbH & Co. OHG and each of Group3G UMTS Holding GmbH, Quam GmbH, Telefónica Global Services GmbH and Telefónica Global Roaming GmbH were terminated. Prior to such termination, prepayments on expected profits were made to respectively by Telefónica Germany GmbH & Co. OHG under these agreements for the first 9 months ended September 30, 2012.

Telefónica Global Services GmbH paid on September 12, 2012 EUR 317,098,145 as profit transfer for the year ended December 31, 2011 to Telefónica Germany GmbH & CO. OHG. For the year 2012 prepayments in the amount of EUR 233,746,354 on expected profits were made to Telefónica Germany GmbH & CO. OHG.

Telefónica Global Roaming GmbH transferred profit in the amount of EUR 146,372,899 to Telefónica Germany GmbH & CO. OHG for the year 2012 on September 12, 2012.

On August 23, 2012 Telefónica Germany GmbH & CO. OHG set off loss amounting to EUR 67,529,724 to Group3G UMTS Holding GmbH.

On August 23, 2012 Quam GmbH transferred EUR 20,928,712 of profit to Telefónica Germany GmbH & CO. OHG.

On August 9, 2012 Telefónica Global Services GmbH transferred EUR 40,000,000 of profit to Telefónica Germany GmbH & Co. OHG for the year 2010.

On August 9, 2012 Telefónica Global Roaming GmbH transferred EUR 163,836,038 of profit to Telefónica Germany GmbH & Co. OHG for the year 2011.

Change of legal form

As of September 26, 2012 Telefónica Deutschland Holding AG (former “Telefónica Germany Verwaltungs GmbH”) located in Georg-Brauchle-Ring 23-25, 80992 München has changed its name and legal form before the IPO into Telefónica Deutschland Holding AG.

With the change in legal form, a Supervisory Board was established, which qualifies as Related Party. No related party transaction has been conducted with any member of this board in the respective period.

Equity

Telefónica Deutschland Holding AG has authorized capital allowing the company to increase the registered share capital until September 2017 by a total amount of up to EUR 558,472,700 by issuing new non-par value registered shares.

Financing Agreements

Telefónica Germany GmbH & Co. OHG has undrawn committed credit lines with maturity beyond one year in a total amount of EUR 710,000,000. In August and September 2012, Telefónica Germany GmbH & Co. OHG, as borrower, entered into revolving credit facility agreements with several banks.

APPENDIX I: COMPANIES COMPRISING TELEFÓNICA GERMANY GROUP

The table below lists the companies comprising Telefónica Germany Group as at December 31, 2011, 2010, 2009 and as at January 1, 2009.

Included for each company are the company name, the registered office, country, Telefónica Germany Group's effective shareholding and the company or companies through which the Telefónica Germany Group holds a stake.

Company name, registered office	Country	At December 31,			At January 01,
Parent companies:		**2011**	**2010**	**2009**	**2009**
Telefónica Germany Verwaltungs GmbH, München 1)	Germany	na	na	na	na
Telefónica Germany Management GmbH, München 2)	Germany	na	na	na	na
Subsidiaries					
Telefónica Germany GmbH & Co. OHG, München 3)	Germany	100%	100%	100%	100%
Telefónica Germany Holding GmbH, München 4)	Germany	100%	100%	100%	100%
Telefónica Germany Customer Services GmbH, München 5)	Germany	100%	100%	100%	100%
Telefónica Germany Partner Services GmbH, München	Germany	100%	100%	100%	100%
Telefónica Germany Online Services GmbH, München 6)	Germany	100%	0%	0%	0%
Fonic GmbH, München	Germany	100%	100%	100%	100%
HanseNet Telekommunikations GmbH, Hamburg	Germany	0% 8)	100% 7)	0%	0%
TCHIBO Mobilfunk Beteiligungs GmbH, Hamburg	Germany	50%	50%	50%	50%
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg	Germany	50%	50%	50%	50%

1) Former (till February 17, 2011) Telefónica O2 Germany Verwaltungs GmbH

2) Former (till February 17, 2011) Telefónica O2 Germany Management GmbH

3) Former Telefónica O2 Germany GmbH & Co. OHG

4) Former (till February 17, 2011) O2 (Germany) Holding GmbH

5) Former (till February 17, 2011) Telefónica Deutschland GmbH

6) Founded on May 27, 2011

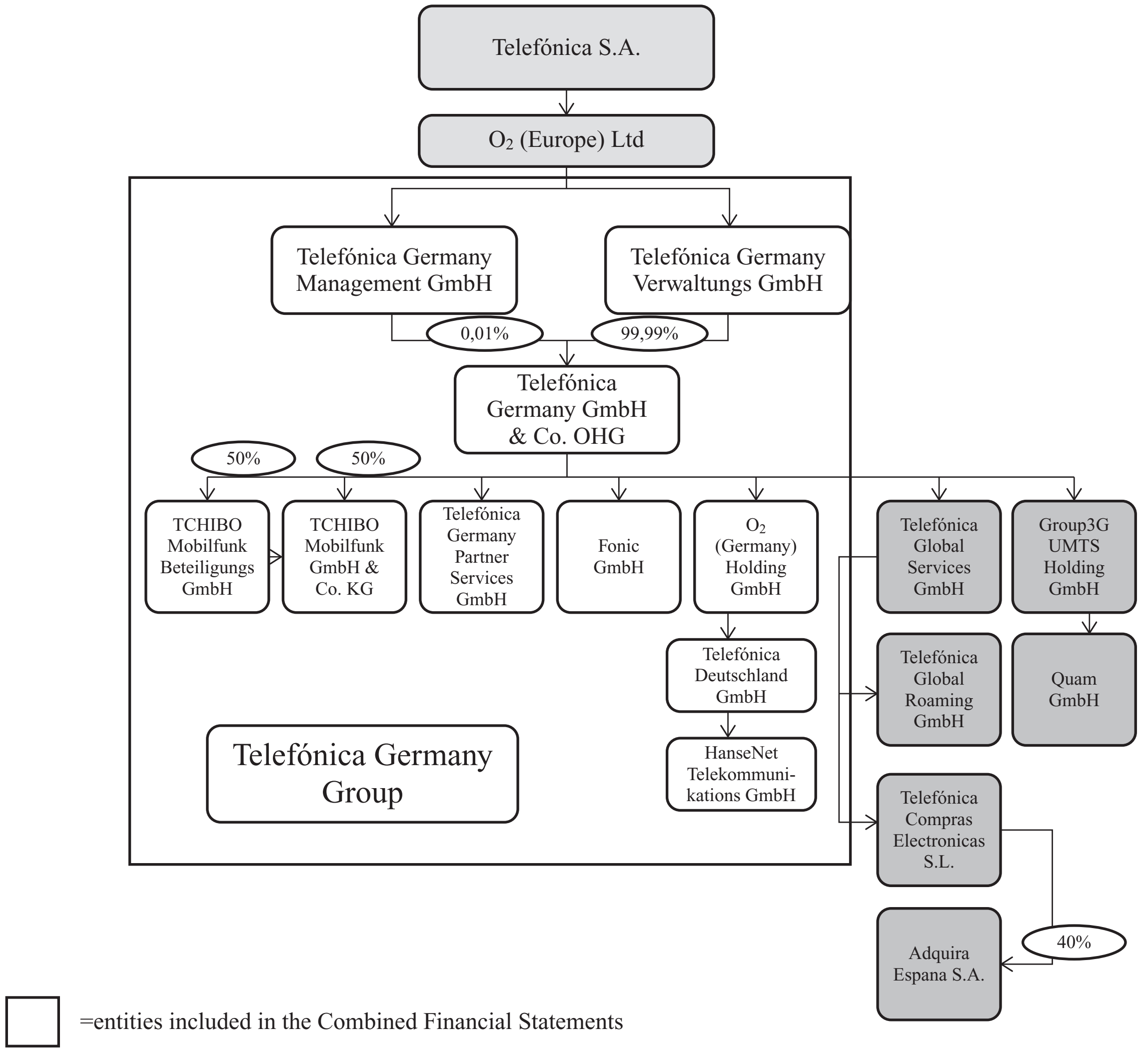
7) Acquired by Telefónica Deutschland GmbH effective at February 16, 2010

8) Merged into Telefónica Germany GmbH & Co. OHG as at March 4, 2011

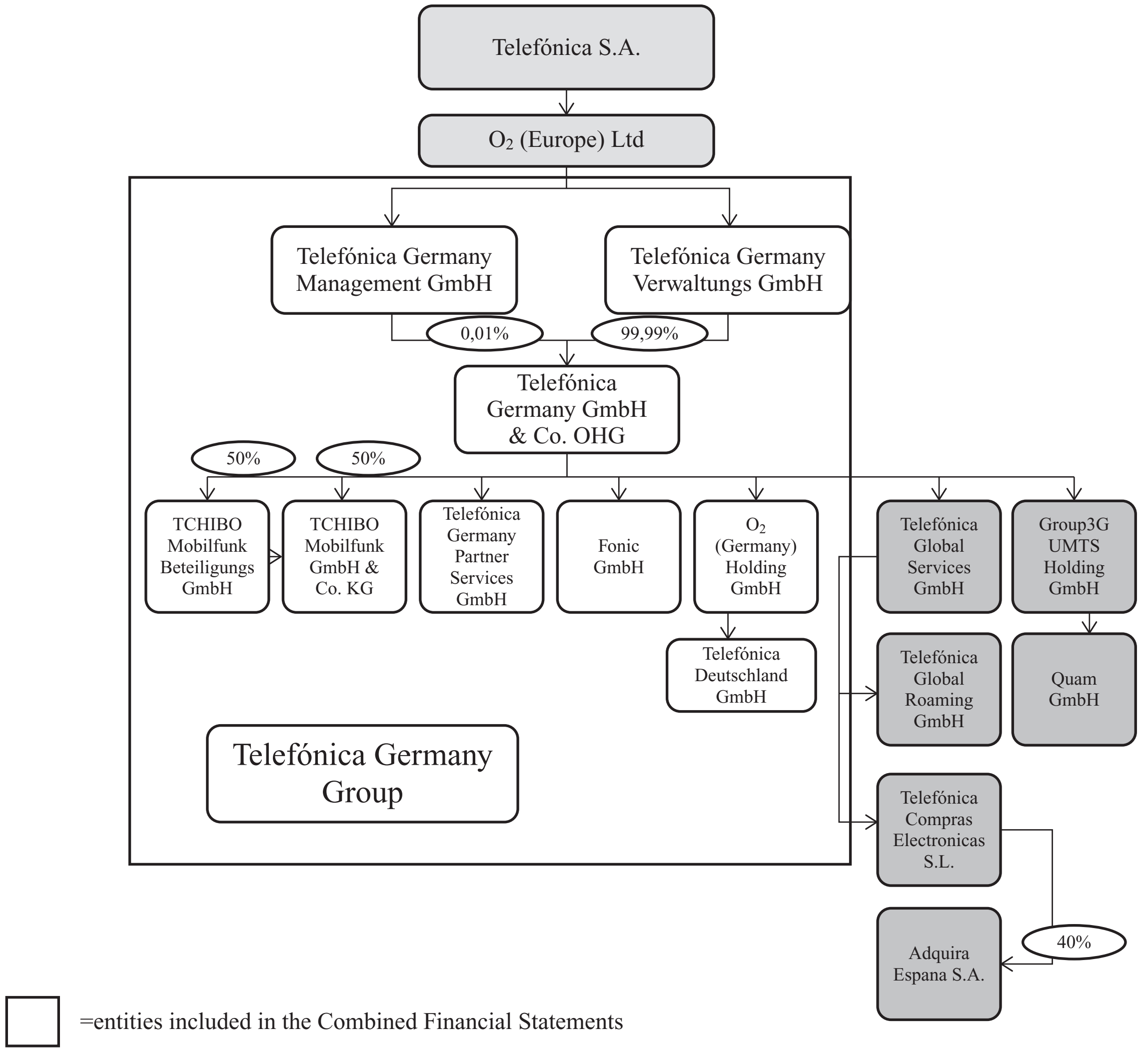
APPENDIX II: VISUAL ILLUSTRATION OF THE TELEFÓNICA GERMANY GROUP

The charts below show the companies comprising Telefónica Germany Group as in 2010 and 2009.

Companies comprising Telefónica Germany Group as of December 31, 2010:



Companies comprising Telefónica Germany Group as of January 1, and December 31, 2009:



English-language translation of the German-language audit opinion (Bestätigungsvermerk)

AUDIT OPINION

To Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH")

We have audited the Combined Financial Statements prepared by Telefónica Deutschland Holding AG (former "Telefónica Germany Verwaltungs GmbH"), Munich, comprising the Combined Statements of Financial Position, the Combined Income Statements, the Combined Statements of Comprehensive Income, the Combined Statements of Cash Flows, the Combined Statements of Changes in Equity and the notes to the Combined Financial Statements, for the fiscal years from 1 January 2011 to 31 December 2011, 1 January 2010 to 31 December 2010 and 1 January 2009 to 31 December 2009. The preparation of the combined financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) taking into account the "Basis of Preparation" as set out in Note 1 to the Combined Financial Statements is the responsibility of the Company's management. In particular, the "Basis of Preparation" sets out the basis for determining the entities to be included in the Combined Financial Statements. Our responsibility is to express an opinion on the Combined Financial Statements based on our audit.

We conducted our audit of the Combined Financial Statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the combined financial statements in accordance with the applicable financial reporting framework are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the entities included in the Combined Financial Statements and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the combined financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the Combined Financial Statements, the determination of entities to be included in the Combined Financial Statements, the accounting and combination principles used and significant estimates made by management, as well as evaluating the overall presentation of the Combined Financial Statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Combined Financial Statements comply with IFRS as adopted by the European Union (EU) taking into account the "Basis of Preparation" as set out in Note 1 to the Combined Financial Statements and give a true and fair view of the net assets, financial position and results of operations of the entirety of entities included in the Combined Financial Statements in accordance with these requirements.

Munich, October 2, 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Bostedt	Weiß
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]