

Telefónica Deutschland
Annual Report with
Management Report

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BUILDING THE LEADING DIGITAL TELCO

Telefónica

Deutschland

Annual Report with
Management Report_
for the Telefónica
Deutschland Holding AG

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The figures in the following have been rounded in accordance with established commercial practice.
Figures or additions within a table may therefore result in sums different from those shown in the
same table.

Management Report

1. Fundamentals of the Company

1.1 Business Model

1.1.1 Structure of Telefónica Deutschland Holding AG and the Telefónica Deutschland Group

Telefónica Deutschland Holding AG (also referred to as “Telefónica Deutschland”) is a corporation (AG) incorporated under German law.

The company's name is “Telefónica Deutschland Holding AG”. The company's registered office is located in Munich, Germany. Telefónica Deutschland Holding AG is registered in the Commercial Register of the local court in Munich under registration number HRB 201055. The company's business address is Georg-Brauchle-Ring 23–25, 80992 Munich, Germany (telephone number: +49 (0) 89 2442-0; www.telefonica.de). Telefónica Deutschland Holding AG was established for an indefinite period.

The financial year of the company corresponds to the calendar year (1 January to 31 December).

The company is listed in the regulated market of the Frankfurt Stock Exchange. The security identification number (WKN – Wertpapierkennnummer = security identification number) is A1J5RX, the ISIN (International Securities Identification Number) is DE000A1J5RX9.

Share capital

Following the registration of the capital increase against cash and the capital increase against contribution in kind in connection with the acquisition of E-Plus (Section 7 Acquisition of E-Plus), the share capital amounts to EUR 2,974,554,993 and is divided into the same number of no-par value registered shares. Each share in general grants one vote at the Annual General Meeting.

Authorised capital

Telefónica Deutschland Holding AG had authorised capital 2012/I in the amount of EUR 292,808,507 as of 31 December 2014.

The original authorised capital of Telefónica Deutschland Holding AG allowed the Management Board of the company, with the approval of the Supervisory Board, to increase the share capital in the period up until 17 September 2017 once or repeatedly up to a total of EUR 558,472,700 by issuing new no-par value registered shares against cash and/or contribution in kind (authorised capital 2012/I) and to carry out a capital increase against contribution in kind of up to EUR 475,000,000 (authorised capital 2014/I).

For the capital increase against contribution in kind in connection with the acquisition of E-Plus (Section 7 Acquisition of E-Plus), the Management Board decided by resolution on 24 September 2014, with approval from the Supervisory Board on the same day, to use all of the authorised capital 2014/I and a partial amount of EUR 265,664,193 of the authorised capital 2012/I (Section 7 Acquisition of E-Plus). This capital increase for contributions in kind was entered into the commercial register on 7 October 2014, deleting the authorised capital 2014/I and adjusting the authorised capital 2012/I.

Conditional capital

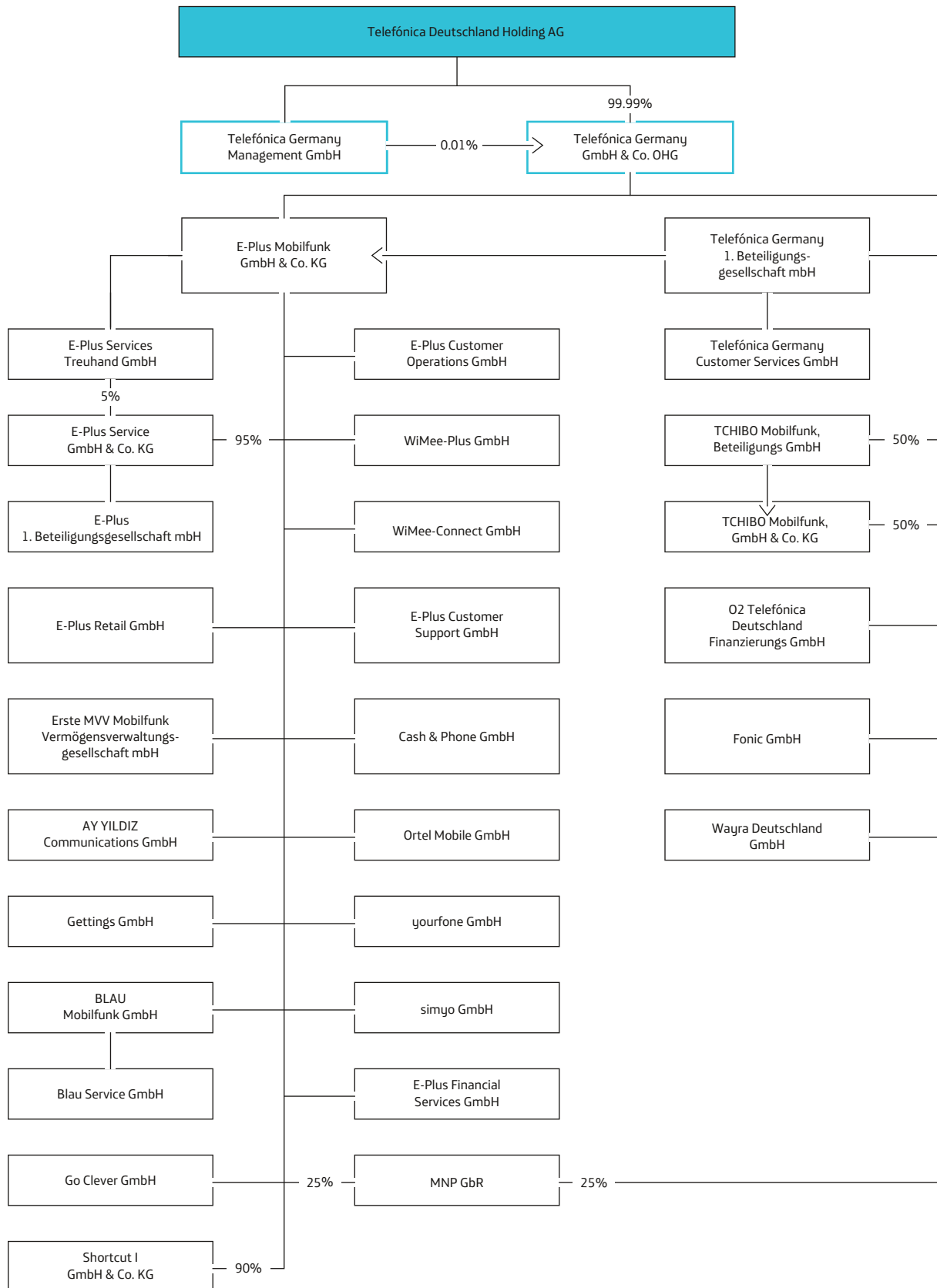
The share capital of Telefónica Deutschland Holding AG is conditionally increased by up to EUR 558,472,700 by issuing up to 558,472,700 registered shares (conditional capital 2014/I).

Group structure of the Telefónica Deutschland Group

Telefónica Deutschland Holding AG is the parent company of the Telefónica Deutschland Group. It is included in the Consolidated Financial Statements of the ultimate holding company, Telefónica, S.A., Madrid, Spain (Telefónica, S.A.; whose group is: Telefónica, S.A. Group). The direct parent company of Telefónica Deutschland Group is Telefónica Germany Holdings Limited, a wholly owned subsidiary of O2 (Europe) Limited, Slough, United Kingdom (O2 (Europe) Limited) and an indirect subsidiary of Telefónica, S.A.

As of 31 December 2014, the legal persons of Telefónica Deutschland Holding AG are arranged according to the organisational chart on the next page.

On 23 July 2013, Telefónica Deutschland, Telefónica, S.A. and Koninklijke KPN N.V., The Hague, Niederlande (KPN) concluded an agreement regarding the acquisition of KPN's German mobile business E-Plus by Telefónica Deutschland. This acquisition was completed with effect from 1 October 2014 following approval by the antitrust authorities and implementation measures such as carrying out a capital increase against cash and a capital increase against contribution in kind (Section 7 Acquisition of E-Plus).



Since this date, Telefónica Deutschland Group has contained not only the companies that already belonged to it but also E-Plus Mobilfunk GmbH & Co. KG (E-Plus Mobilfunk) and its direct and indirect subsidiaries.

Management and governing bodies

The company's governing bodies are the Management Board, the Supervisory Board and the Annual General Meeting. The powers of these organs are established by the German Stock Corporation Act (Aktiengesetz – AktG), the articles of association of the company and the by-laws of the Management Board and the Supervisory Board

Management Board

The members of the Management Board are appointed by the Supervisory Board for a period of no more than five years and can be re-appointed without limitation, in each case for no more than five years. The Supervisory Board may recall a Management Board member before expiry of his period in office in the event of an important reason such as the gross breach of duties or if the Annual General Meeting adopts a no-confidence resolution in relation to the Management Board member in question. Further reason for termination such as a mutual termination agreement can also be taken into consideration. The Supervisory Board can nominate one Management Board member as Chair or spokesperson for the Management Board and another Management Board member as vice-chair or vice-spokesperson. As of 31 December 2014, the Management Board of the company consisted of three members:

- Thorsten Dirks, CEO (Chief Executive Officer)
- Rachel Empey, CFO (Chief Financial Officer)
- Markus Haas, COO (Chief Operating Officer).

Between 1 February 2014 and the completion of the acquisition of E-Plus with effect from 1 October 2014, Rachel Empey und Markus Haas took over the responsibilities of the CEO jointly in addition to their existing responsibilities (Rachel Empey as CFO/Chief Financial Officer and Markus Haas as CSO/Chief Strategy Officer) (Section 2.2 Overview of the 2014 Financial Year – Significant Events). Since the completion of the acquisition of E-Plus, Markus Haas has been responsible for operating business as COO and Rachel Empey has been responsible for finance and strategy as CFO (Section 2.2 Overview of the 2014 Financial Year – Significant Events).

Thorsten Dirks was formally appointed as a member of the Management Board and as CEO in the context of the completion of the acquisition of the E-Plus Group by Telefónica Deutschland – specifically, by way of the Supervisory Board resolution of 9 October 2014.

Supervisory Board

Pursuant to section 11 (1) of the articles of association of the company, sections 95 and 96 of the German Stock

Corporation Act and section 7 of the German Co-Determination Act (MitbesG), the Supervisory Board comprises sixteen members, of whom eight are shareholder representatives and eight are employee representatives.

The Annual General Meeting on 20 May 2014 had elected Sally Anne Ashford and Antonio Manuel Ledesma Santiago as additional members of the Supervisory Board of Telefónica Deutschland Holding AG representing the shareholders. Their term of office began when the expansion of the Supervisory Board from twelve to sixteen members was registered on 18 September 2014 in the context of the completion of the acquisition of E-Plus.

Joachim Rieger and Jürgen Thierfelder were appointed as additional employee representatives on the Supervisory Board by order of the Munich Local Court on 31 October 2014 (Section 2.2 Overview of the 2014 Financial Year – Significant Events).

All current shareholder representatives on the Supervisory Board were appointed for the period up to the end of the Annual General Meeting that resolves on the discharge for the financial year ending 31 December 2016.

1.1.2 Business Activity

Telefónica Deutschland Holding AG acts as a holding company, is responsible as a service provider for the management and strategic orientation of the Telefónica Deutschland Group and its operative business activities, and has specialized in the provision of telecommunications services and distribution of hardware. Telefónica Deutschland generates its revenues through the remuneration of service provisions, which it delivers to its subsidiaries. These include management services, which the Board provides in the fields of business strategy and communication, control, new business and innovation for the Telefónica Deutschland Group. The Telefónica Deutschland Group is active in the following business sectors:

With almost 48 million customer accesses as of 31 December 2014, the Telefónica Deutschland Group, also including the E-Plus Group since 1 October 2014, is one of the three leading integrated network operators in Germany. We are also leading the German mobile telecommunications market with a total of over 42 million mobile customer accesses as of 31 December 2014. Telefónica Deutschland Group offers consumers and business customers voice, data and value added services in mobile communications and fixed networks. In addition, Telefónica Deutschland Group is among the leading wholesale providers in Germany. We offer our wholesale partners access to our infrastructure and to our services. We are a part of Telefónica, S.A. Group, one of the biggest telecommunications companies in the world.

Since the merger with the E-Plus Group, we are operating two nation-wide mobile communications networks reaching over 99% of the German population with GSM and

more than 76% with UMTS as of 31 December 2014. We plan to combine the two existing networks to an even more powerful joint mobile network, particular with regard to UMTS network coverage. The expansion of our LTE network is being accelerated and at the end of 2014 outdoor population coverage with the new high-speed mobile communications technology already reached 62%.

In addition we operate a nation-wide fixed network. Our strategic partnership with Telekom Deutschland GmbH, Bonn, expands our fixed network coverage to 98% and in addition enables us to serve 16.5 million households with high-speed DSL internet access and data transmission rates of up to 50Mbit/s. On 20 December 2013, we signed a contract for the expansion of the fixed network cooperation with Telekom Deutschland GmbH. It grants us access to the high-speed network of Deutsche Telekom and the possibility to offer our customers products with transmission rates of currently up to 100Mbit/s via the new vectoring technology. The cooperation was approved by the German Federal Network Agency (BNetzA) on 18 March 2014, as such the contracts came into effect.

Our sales and marketing approach follows a consequent multi-brand strategy in order to address a broad range of customer segments with our products and services. We offer the majority of our mobile communications products in the postpaid customer segment via our brands O₂ and BASE. Fixed communication products and bundles are offered via our premium brand O₂. We continually strive for an improvement of the market positioning of our premium brands, particularly in order to gain high value customers in the consumer and the business customer segment. For several years, already, our strategic focus has been the sale of data-centric mobile telecommunications contracts to smartphone users. As of 31 December 2014, smartphone users already accounted for more than 75% of the customer base of the postpaid customer brands O₂ and BASE. On the back of their use of mobile data services together with an increasing interest in the new mobile communications standard LTE these customers generate above-average revenue numbers in comparison to users without a smartphone. We also see growing interest in smartphones and the use of mobile data in the prepaid area. As such, we also offer special prepaid tariffs for smartphone users.

Under the O₂ brand we have been selling mobile phones and other hardware at fixed prices, independently of mobile communications contracts, for example via our successful "O₂ My Handy" model. Here the customer can choose whether to pay the entire price upfront or to make a down-payment and pay the remaining purchase price in twelve or 24 monthly instalments. For the customer, this approach provides price transparency with regards to the cost of both the mobile phone and the telecommunications services contract. Customers can choose from a large variety of mobile phones including the latest premium devices and benefit from attractive payment

conditions. Also to customers of the former E-Plus brands, we offer bundled services with hardware next to mobile only service. Customers have the choice between buying or renting a device at attractive conditions. Our main suppliers of mobile phones are the manufacturers Samsung, Apple, Nokia, HTC, Sony and Huawei. We focus on the sale of smartphones with internet capability, which represent the majority of mobile phones sold to our postpaid customers in the fourth quarter of 2014. In the same period, the share of LTE-enabled smartphones in relation to all smartphones sold is continuously on the rise. We are serving the growing demand for mobile data services among customers of our secondary brands and wholesale partners via a large range of cheap entry-level smartphones.

With our secondary and partner brands and via our wholesale channels we reach further groups of customers that we do not target with our O₂ and BASE brands. Our secondary brands include blau.de, Fonix, simyo, Ay Yildiz, Ortel Mobile and netzclub, which are fully controlled by us, as well as brands from joint ventures and strategic partnerships such as TCHIBO mobil. Our multi-brand approach enables us to address a broad spectrum of customers and to maximise and also efficiently control our sales reach through customised product offers, sales and marketing.

As part of the wholesale business, we offer mobile services for customers such as MedionMobile (AldiTalk), ADAC, MTV, mobilcom/debitel and cable providers.

In addition, as part of the antitrust approval process in connection with the merger with the E-Plus Group we have committed via mobile bitstream access ("MBA") to selling at least 20% of our future mobile network capacity via mobile bitstream access ("MBA") to MS Mobile Service GmbH ("Drillisch") before completing the merger. Drillisch also has the option to acquire up to 10% of additional network capacity.

In the fixed business we offer our wholesale partners a range of "unbundled local loop" (ULL) services, including wireline telephony and high-speed internet. Furthermore, we offer added value services such as billing services or the management of telephone numbers and SIP accounts. This comprehensive portfolio enables our wholesale partners to independently serve their end-customers and at the same time gives us the opportunity to increase our reach and to achieve economies of scale.

In the business customer segment, small offices/home offices (SoHos) as well as small and medium-sized enterprises (SMEs) are addressed via our core brand O₂, while large international businesses are addressed via the Telefónica brand. We market our products via a diversified sales platform. This includes direct sales channels like our nation-wide network of independently operated franchise and premium partner shops, online and tele-sales as well as indirect sales channels like partnerships in retail/online retail and retailers/cooperations.

1.2 Goals and Strategies

Telefónica Deutschland Holding AG is responsible for the management of the Telefónica Deutschland Group and its business activities. In this capacity, it is also competent in the development of the Telefónica Deutschland Group's business strategy.

Following the merger of Telefónica Deutschland Group and the E-Plus Group with effect from 1 October 2014 we are now one of the leading telecommunications providers in the German market.

As of 31 December 2014, Telefónica Deutschland Group is the market leader in the German mobile telecommunications market with a total of over 42 million mobile customer accesses. The company's aim is to focus on both customer retention by means of an improved network, service and customer experience and also the consequent monetisation of increasing data usage and future technologies such as LTE. We also intend to significantly expand our market position in small office/home office (SoHo) as well as small and medium-sized enterprises (SMEs) and take advantage of new opportunities in the wholesale and partner business. Overall, the goals and strategies of the extended company follow the clear vision of **building the leading digital telecommunications company** in Germany.

Building ...

Telefónica Deutschland Group considers the merger of the two companies not only as a possibility to achieve economies of scale, but rather as a unique opportunity to create a new company that radically changes its business model and actively shapes the market. In this transformation process, the company is guided by two overarching principles for action: **simplification and digitalisation**. In the context of the merger, the Telefónica Deutschland Group is striving to fundamentally simplify processes, structures and platforms. Simple and flexible structures help to enable the company to offer its customers simple and customised solutions, to react quickly and to stay ahead of the competition. Telefónica Deutschland Group also wishes to offer its customers a clearly structured product portfolio and user-friendly, easily accessible services.

With the challenger mentality inherited from both companies, we also aim to be a pacemaker in the industry, continuously surprising the market. Both companies were already known for innovations setting new trends in the market. These included establishing multi-brand strategies and new types of tariff models, as well as introducing and operating brands for partners from other industries. This challenger mentality will continue to be a key success factor for us after the merger.

... the leading ...

Our development into the leading digital telecommunications company is to be based on **three core strategic elements**. Firstly, we endeavour to offer our customers the best network experience where they need it most. Secondly, we aim to convince them with the best customer experience in all areas – from services, tariffs and devices all way to customer service. And thirdly, the extended Telefónica Deutschland Group is aiming for cost leadership amongst its competitors so that it can make attractive offers with excellent value for money.

The company aims to provide the **best network experience** by consistently aligning the network infrastructure to customer needs. The network quality from the customer's perspective must at least match or even exceed that of the competition. This applies especially to urban areas where customers with particularly intensive data usage are concentrated. Telefónica Deutschland Group will achieve this primarily through synergies resulting from the merger and smart investments in further network development. If the data usage patterns of customers change – e.g. if they consume higher data volumes – the company quickly reacts with a network capacity increase.

Attractive data services and the highest degree of transparency and responsibility in implementing processes are key for offering the **best customer experience**. The Telefónica Deutschland Group aims to consistently gear its tariffs, hardware and services towards its customers' requirements. In addition to the network experience, state-of-the-art devices and simple, comprehensible tariff structures also make a significant contribution to a positive customer experience and long-term customer satisfaction. Customers should also experience excellent service that is consistently geared towards their requirements throughout the entire customer relationship starting from their first contact and at each individual interface with the Telefónica Deutschland Group.

Sustained **cost leadership** is the third core element of the Telefónica Deutschland Group's strategy. With the merger with E-Plus, the company aims at achieving synergies across-the-board and substantial economies of scale in its business operations. This applies to the network infrastructure as well as to the sales organisation, customer service and administration. Furthermore, because customer acquisition and customer service are increasingly shifting to digital channels, a reduction in customer service costs over time is expected. Looking to the future, the company intends to manage the majority of customer contacts via digital channels in a few years' time. The organisation of the company is to remain lean overall, thus maintaining the learned culture of cost discipline. Cost leadership will enable Telefónica Deutschland Group to offer customers consistently excellent value for money.

... digital ...

The extended company is using the combination of two strong partners as a unique opportunity to advance digitalisation faster and more decisively than its competitors and thus optimally meet evolving customer needs of future mobile communication. We expect to gain two major benefits from digitalisation:

Firstly, digitalisation brings the Telefónica Deutschland Group closer to its customers and their requirements. Because many people use their smartphone as the hub of their mobile life, mobile communications companies can get closer to their customers than companies in almost any other sector. This supports the development of innovative new offers that set Telefónica Deutschland Group apart from the competition. Both partners have already successfully proven their capacity for innovation in the past, for example with mobile music and video streaming offers and the world's first mobile communications partnership with the mobile communication service WhatsApp. Experience shows that customers who experience the tangible benefits of these applications in their everyday life use them more and more intensively over time. This leads to increasing data consumption, which benefits Telefónica Deutschland Group on a sustainable basis.

Secondly, digitalisation makes it possible to establish lean, efficient platforms along the entire process chain within the company. These are to be based on simple, standardised structures and processes, ranging from providing the service at the "back end" to the customer interface at the "front end". In this way, we aim to maintain cost leadership on the market and offer our customers an excellent, reliable and individual customer experience at attractive conditions. In the area of information systems, for example, we intend to establish state-of-the-art, flexible IT platforms. These platforms will be used as a shared "factory" with the highest level of operational stability by the three customer segments B2C (consumers), B2B (business customers) and B2P (partners) and can lead to significant cost benefits. They will also make it possible to develop and launch new offers within a short space of time. Simple and efficient integration of partner brands will be another competitive advantage of the new IT infrastructure. In addition, internal digitalisation will allow for better knowledge of customers' requirements. Part of the systematic digital business model of the extended Telefónica Deutschland Group will be effective customer relationship management. The knowledge gained from this will firstly be used by the company to closely tailor its offers to customers' requirements and to control marketing measures in a targeted way. Secondly, it will add to the information base for important business decisions such as investing in the network infrastructure and planning locations for fixed points of sale.

... telco

We see a **high-performing network infrastructure** as a key future success factor. Following the merger of the Telefónica Deutschland Group with the E-Plus Group, the network will be developed over the coming years so that it combines the best quality from customers' perspective with high efficiency. Because the Telefónica Deutschland Group, in line with many market studies, is firmly convinced that mobile use of data will see further dynamic growth, this means that a high-performing and optimally sized mobile network is at the heart of the network infrastructure. In addition, the company offers customers additional added value in the form of high-speed fixed services if needed.

The company invests smartly in network expansion and flexibly gears the network performance to the future requirements of the mass market, for example with the ongoing nation-wide roll-out of the LTE network. Telefónica Deutschland Group will continue to use outsourcing partnerships to an appropriate extent for the operation and expansion of the network, so as to keep its own organisation lean and underpin its cost leadership. The company always maintains exactly the network structure required to meet current customer needs while offering the best network experience. In this way, the company achieves its goal of ensuring the best customer experience together with attractive profitability.

In **brand management and sales**, the company focuses on a clear brand architecture and a multi-channel sales approach that is consistently geared towards customers' requirements. The brands are intended to address their respective target groups with clear, differentiated selling propositions. They acquire and retain customers in the competitive environment with new type of products, innovative partnerships and convincing value for money. In marketing and sales, we strive for an optimal mix of digital and stationary channels. Depending on their preferences, customers can gather information on products and tariffs, purchase devices, book tariffs or make service requests either online or in-store. All channels shall be closely interconnected, meaning that customers can, for example, choose a smartphone or tablet online and then have it set up and pick it up from a store. New types of concept stores will increase customer loyalty to the brands. In marketing, the company intends to use all cross-media formats and channels, including innovative content platforms. Customers will also be able to access all service functions via online channels. These will be supplemented with an appropriate physical presence.

Implementing the vision

In order to implement the strategic vision successfully and rapidly, the company will focus on the three strategic priorities of momentum, integration and transformation ("**MIT**") in the coming months.

Momentum: The top priority is a continued systematic focus on actively shaping market developments and interact-

ing with customers in order to compete successfully on the market, stabilise revenues from mobile services and improve profits. One key factor here is the monetisation of increasing data usage and higher demand for LTE, supported by the improved network quality. In the consumer segment, the focus is shifting away from acquiring new customers towards retaining existing customers and an increased focus on valuable customers. By contrast, the focus in the business customer segment is rather on acquiring new customers.

Integration: In order to take advantage from the synergies of the merger and economies of scale of the two companies as quickly as possible, the internal integration already began in the fourth quarter of 2014. The goal is to incorporate the best of both worlds (the Telefónica Deutschland Group and the E-Plus Group) in the extended company.

With regard to the network, this means selecting the best locations from the two networks so as to offer optimal coverage. Once the integration is complete, the new, joint network will have approximately 25,000 mobile network sites in Germany. Investments in the nation-wide LTE roll-out will be increased and the expansion will therefore progress at a faster pace. The mobile spectrum assets and the network sites are combined in such a way that customers can be offered the best network experience in the future. This applies especially to urban areas where customers with particularly intensive data usage are concentrated. However, there will not be any dramatic changes in network coverage in the short term; rather, the combination of the networks will progress step by step.

Sales capability is one of the biggest strengths of the new Telefónica Deutschland Group for maintaining momentum, defending market share and achieving the strategic goals. The merger enables the group to offer customers throughout Germany the best experience with one of the largest and best-performing shop networks in the industry. In addition, the sales units of E-Plus Group and Telefónica Deutschland Group, which are currently still separate, are being combined. The longer-term consolidation process will begin in 2015. The shop network has been analysed based on the criteria of location and performance. We intend to reduce the current distribution network by about one-third of the currently about 1,800 stores.

Transformation: simplification and digitalisation initiatives as well as an evolution of the business model accompany integration and daily business, thus continuously moving forward the evolution towards a digital telco.

1.3 Management System

The Telefónica Deutschland is centrally managed by the members of the Management Board. The goal is the generation of profitable corporate growth.

The encouragement of entrepreneurial behaviour is one of the most important fundamentals of the corporation.

That is why the corporation has anchored a clear responsibility for results in the individual organisational units.

The corporate leadership strives to provide its shareholders with growth in value. In addition, it is firmly convinced that the satisfaction of customers is the key to realising this goal.

The management of the Telefónica Deutschland Group has introduced a comprehensive internal management system for the control of the group, which primarily comprises the following components:

- Process for strategic goal-setting
- Integrated budgeting and planning system
- Finance-related and operative performance indicators
- Monthly reporting to Management Board and Supervisory Board
- Continual opportunity and risk management
- Leadership by agreements on goals at all levels of the organisation.

1.3.1 Process for strategic goal-setting

As part of the annual planning process the corporate strategy is reviewed by the Management Board of Telefónica Deutschland. Here, long-term strategic goals for the positioning of the corporation on the German market as well as a business plan typically for the next three years are developed. The decisions are based on current market and competition analysis as well as market forecasts, which are compared with the corporate vision and the long-term strategic goals.

Within this systematic approach, chances and opportunities for growth are determined and investment decisions are made.

In close cooperation with the individual business units, the corporate strategy as well as the ascertained opportunities and potential for growth of the corporation are translated into concrete strategies for each organisational unit. For the practical implementation of the strategies at the level of the organisational units, in each case the relevant opportunities are prioritised and concrete financial objectives are defined in the form of key performance indicators (KPIs) to measure the strategic implementation as well as the most important measures necessary for the realisation of the goals. The detailed budget planning for the next financial year is then prepared on the basis of the agreed multi-annual goals. At the same time the short-term strategic priorities are set.

1.3.2 Description of the management system

For the management of our strategic and operative goals we have established key performance indicators (KPIs). The following finance-related and non-finance-related performance indicators are a component of the management sys-

tem and value management of the Telefónica Deutschland Group and reflect the interests of our various stakeholders.

The following finance-related monitoring parameters have a particular significance for the value-oriented monitoring and evaluation of growth and profitability in our corporation:

Revenue and operating result before extraordinary effects

The development of the mobile service revenue is a key indicator of the success of our corporation. The mobile service revenue is largely generated by base fees and the fees levied for voice, short message and mobile data services as well as the revenue from services contracts. Alongside roaming revenues, mobile service revenue includes access and interconnection fees that were paid for by other service providers for calls and SMS delivered via our network. A central revenue driver for sustainable development is the mobile data business and the monetisation of data usage.

We measure the profitability of our operative business on the basis of OIBDA before extraordinary effects, i.e. the operating result before depreciation of property, plant and equipment and amortisation of intangible assets and before extraordinary effects. OIBDA before extraordinary effects as a fundamental monitoring parameter enables a comparison of the operative performance that was achieved in the individual reporting periods and businesses. The use of OIBDA before extraordinary effects as a basic parameter is advantageous, as this variable eliminates potential differences that can be caused by variations in the tax positions (for example on a change of the effective tax rates or deferred taxes and their effect on individual periods or businesses), depreciation and other positions. Thus, OIBDA is often used to compare the business activity of telecommunications corporations. However, as other corporations possibly use a different basis of calculation for OIBDA, it is possible that our representation is not comparable with other corporations.

Investment activity

Capital expenditure (CapEx) is comprised of the additions to property, plant and equipment and intangible assets. The investments in property, plant and equipment are primarily for the expansion of the coverage and capacity of our network (particularly for LTE and 3G) as well as product development. Intangible assets primarily include licences for mobile communications frequencies and software for office and IT appli-

cations. CapEx is a fundamental factor for the security of our future business activity.

Alongside our fundamental finance-related key performance indicators such as the mobile service revenue, OIBDA before extraordinary effects and CapEx, we have also provided other finance-related and non-finance-related figures in the Annual Report.

Free cash flow

The internal monitoring parameter free cash flow before the payment of dividends from continuing business operations is defined as the sum of the cash flows from the operating activity and the investment activity. The free cash flow implicitly provides information about the change in working capital. Working capital management is thus an essential part of the managing of the free cash flow in the relevant reporting period.

The figure free cash flow describes the change in financial liquidity from operational inflows and outflows of funds as well as all investment-related inflows and outflows that were made for the maintenance or expansion of the business. The figure provides information about the change in the corporation's available financial funds, which enable management, for example, to make investments in growth or to pay dividends or to service debt.

Net leverage ratio¹

Net leverage ratio¹ is defined as the quotient of the net financial debt and the operating result before depreciation and amortisation (OIBDA) for the last twelve months before extraordinary effects. Net financial debts include short and long-term interest-bearing assets and interest-bearing financial liabilities, cash and cash equivalents.

The net leverage ratio¹ relates the net debt level to an operative success figure (OIBDA before extraordinary effects) and thus provides management with information about the corporation's debt reduction ability. We are actively monitoring the capital structure, with the objective of keeping the

¹ Leverage ratio is defined as the net financial debt divided by LTM (Last twelve months) OIBDA before extraordinary effects. Solely for purposes of calculating the leverage for any twelve month period which includes historical periods prior to the closing of the Transaction, a combined² OIBDA will be applied. This combined OIBDA includes the OIBDA of the E-Plus Group under Telefónica Deutschland Group accounting policies for the entire twelve month period as if the closing of the Transaction had occurred at the beginning of such twelve month period.

² Combined figures for 2013 and 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland Group and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by material extraordinary effects if any, such as capital gains or restructuring costs based on estimates made by the management and resulting in combined figures we believe are more meaningful as a comparable basis. The combined financials are not necessarily indicative of results that would have occurred if the business had been a separate standalone entity during the year presented or of future results of the business. The presentation of the combined consolidated financial information is based on certain assumptions and is intended for illustrative purposes only. The combined information describes a hypothetical situation and thus, due to its nature, the presentation does not reflect the actual results of operations. The assumed acquisition date had been the beginning of the annual period 2014.

net leverage ratio¹ below 1.0x over the medium term ("target level").

As part of its dividend policy, Telefónica Deutschland has also decided to refrain from paying dividends distributing capital or capital reserves in cash or buying back shares if the net leverage ratio¹ materially and consistently exceeds the target leverage of less than 1.0x.

Net adds in mobile communications business

New customers for the period less those customers leaving are designated as net additional customers (net adds). A continually positive number of net adds leads to a growing customer base. We differentiate here between contractual customers (postpaid) and customers without a contractual commitment (prepaid). The number of net adds is influenced by many factors. More new customers can be won with a highly attractive product portfolio and a high level of customer satisfaction among existing customers leads to a lower churn rate. One of the main goals of this KPI is to evaluate customer acquisition and customer retention measures.

Customer satisfaction

Customer satisfaction is among the most important priorities of our business. Thus we continually strive for a better positioning of our brands in order to gain premium, consumer and business customers for mobile telecommunications products, wireline products and convergent services. We claim to serve the most satisfied customers on the German telecommunications market with the most popular brands. This means that we always strive to create customer-oriented offers and provide outstanding services on all our customer interfaces. We are convinced that high customer satisfaction values reduce termination rates and increase recommendation rates.

Employee satisfaction

A business is always only as successful as its employees. Our employees have made an important contribution to our success. Their dedication, their commitment and their engagement have made us the corporation that we are today.

We regularly review the satisfaction of our employees by means of external reviews and we take their feedback seriously in order to further improve our corporation.

1.3.3 Budgeting and planning system

The integrated planning system is based on strategic and operative goals. Telefónica Deutschland sets internal objectives for the group with regards to the most important performance indicators, which are presented in section 1.3.2 Description of the management system. To develop a three-year plan, the anticipated market development as well as internal expectations with regards to progress in the areas of

growth and efficiency evolution are discussed once a year. The first plan year is depicted on a monthly basis in order to establish a detailed budgeting. For reasons of control the budget is updated twice a year. Alongside the results that have already been achieved and which will be analysed as part of the monthly reporting, the current market development and the additional opportunities or risks that are known at the relevant point in time are taken into account in the updating. This prognosis is then used in order to introduce operative improvements or in order to seize new opportunities that offer themselves to the group.

1.4 Product Development and Innovation Management

Product development

Innovative and customer-oriented products form the basis of sustainable growth in revenues and results. For this reason we are continually expanding and improving the product portfolio of our group. With a comprehensive analysis of our customer groups we have gained important knowledge in the past year, in order to exactly tailor our product and services offering as part of our multi-brand strategy to the needs of the relevant target group.

Our O₂ Unite tariff for business customers has been available since the beginning of April 2014. With this tariff, companies no longer select individual tariffs for each employee but instead are offered a pooling arrangement whereby they purchase quotas of call minutes, SMS messages and data that are used jointly by all employees. The companies are given full cost control in that all units that have not been used by the end of the month can be carried over to the following months and a practical monitoring tool provides a precise overview of the company's consumption at all times.

With machine-to-machine (M2M) complete solutions, the Telefónica Deutschland Group together with Software AG offers a joint product portfolio known as Smart Business Solutions. This comprises all necessary components from a single source: connectivity, hardware, applications and hosting. Companies from all sectors can thus individually develop their own M2M solutions that are perfectly tailored to their business models. Smart Business Solutions can be implemented without a great deal of IT expenditure and are particularly flexible and scalable. With their cloud-based application platform, new M2M solutions can be developed rapidly and integrated in existing business processes or ERP systems. Companies do not need to develop any specialist M2M knowledge in order to use them. They thereby gain competitive advantages that contribute to optimising work processes and increasing profitability.

Since October 2014, Telefónica has been offering a new service for drivers with O₂ Car Connection. We are one of the

first providers in Germany to offer a comprehensive package that ensures greater safety, efficiency and a straightforward driving experience.

Drivers can connect their vehicle with the smartphone and important diagnostic information is thus sent directly to the phone. Error codes, problem notifications and prompts to take the vehicle to a garage are sent to the driver quickly and simply by app, thus increasing safety on the roads. Information on the condition of the engine or the battery voltage allows the vehicle owner to better assess possible damage – and avoid surprises when the vehicle is being serviced at the garage. If the car is stolen or the driver cannot remember where it is parked, assistance is provided by the practical vehicle locator, which shows the car's location simply on a map on the smartphone. With "geofencing", the vehicle owner can be informed immediately if the car moves beyond certain boundaries, for example if the owner has lent the car to another driver.

With regard to environmental protection, O₂ Car Connection is also a step ahead: The integrated GPS module keeps a log of journeys made and also assesses the driving style. The associated app thus encourages the driver to adopt a more economic, low-wear driving style. This not only helps protect the environment and save money; it also invites drivers to engage in playful competition, as different users of O₂ Car Connection can connect with one another and compare their driving style using the app.

Innovation management

For our future growth it is critical that we recognise trends and new technological developments early and transform these into customer-oriented products and bring them onto the market quickly. For this we use the worldwide innovation network of the Telefónica, S.A. Group and optimise the relevant global products. In addition we develop targeted products and services that are of strategic significance for the German market.

One focus of our technical development in the previous year was Voice over LTE (VoLTE). Since November 2013, a smooth handover of telephone calls from LTE networks (4G) to UMTS (3G) or GSM (2G) has been possible in the O₂ Live network. The Telefónica Deutschland Group is thus one of the first providers in the world to establish this handover in the live network, too. This is particularly important when driving so that conversations do not break off. Further advantages are shorter call connection times and longer battery life. VoLTE use for end-customers is scheduled to begin in 2015.

The basis for these developments is our innovation management, which follows the principle of "Open Innovation". Thus we include employees as well as customers, start-up enterprises, business partners and other innovation assistants in our innovation activities.

Since 2011 we have been operating the "O₂ Ideas Laboratory". Here we introduce new concepts and products to our customers at an early stage of development and receive their direct feedback. By implementing selected ideas from the "O₂ Ideas Laboratory" we not only improve our products but rather we also deliver credible proof of our excellent customer orientation.

Through the start-up initiative, Wayra, the Telefónica Deutschland Group supports young technology businesses and thus secures access to new business models. In addition, since 2012 we have been operating the Wayra Academy in Munich, where start-ups further develop their business models and bring them to market maturity.

Our venture capital company Shortcut that we acquired as part of the merger with the E-Plus Group has the goal of supporting young entrepreneurs who have promising new ideas with a vision for tomorrow's market. They are provided with risk capital as well as direct personal access to the business know-how and experience of a team of experts right from the start.

In addition, we are in close contact with leading research institutes and actively involve ourselves in the exchange of innovative ideas. Thus we regularly attend technical conferences and panel discussions like the DLD conference (Digital-Life-Design) and represent re:publica, which brings together pioneers from the IT and telecommunications branches.

2. Economic Report

2.1 Overall Economic and Branch-Related Conditions

Telefónica Deutschland Holding AG, Munich acts as a holding company and is additionally responsible as a service provider for the management and strategic orientation of the Telefónica Deutschland Group and its operative business activities. Through investment in its subsidiaries, the asset, financial and profit situation of Telefónica Deutschland is also influenced by the development of its subsidiaries. Their economic and statutory framework conditions are thus also indirectly relevant to Telefónica Deutschland and described below.

2.1.1 Economic environment

Overall economic environment in Germany

The German economy saw stronger growth again for the first time in 2014 after two weak years in a row. After an energetic start to the year followed by a weak phase in the summer, the economic situation stabilised towards the end of 2014

and thus achieved a turnaround. As reported by the German Federal Statistical Office, gross domestic product (GDP) rose by 1.5% year-on-year in 2014, representing the German economy's strongest growth since 2011. According to economic research institutes, the German economy held its ground in a difficult global economic environment and particularly benefited from strong domestic demand.

(Source: Deutsche Bundesbank (German Central Bank), German Federal Statistical Office, January 2015)

1 — GDP development 2012–2014 for Germany and the Euro area

In %	2012	2013	2014
Germany	0.7	0.4	1.5
Euro area	(0.7)	(0.4)	(0.8)

General trends on the German telecommunications market

In the German telecommunications sector, alongside continuing customer demand for more bandwidth, various other trends can be observed.

The strong demand for mobile data usage and the increasing smartphone and tablet penetration open up further opportunities for growth for mobile telecommunications network operators, which will also continue into the future. Smartphones and tablets are becoming the trailblazers for the digital revolution in Germany. At the same time, the monetisation of the mobile data business will continue to gain strongly in significance for mobile telecommunications providers. According to the industry association BITKOM, the increasing availability of cloud services is responsible for a profound change in information technology.

With Cloud Computing the use of IT services occurs according to demand via decentralised computers that are connected via data networks (in the "Cloud") instead of on local computers.

A further trend is the growing market of machine-to-machine communication (M2M) with countless application possibilities.

The German mobile telecommunications market

With more than 112.6 million customers (SIM cards) at the end of December 2014, the German mobile telecommunications market is the largest in the EU. The notional mobile penetration rate was 140%, meaning that each German citizen has an average of 1.4 mobile SIM cards. Customer growth in 2014 was primarily attributable to the postpaid sector. Overall, postpaid customers made up 51% of the total connections as at the end of December 2014. At the end of December 2013, the proportion was still 49%.

The mobile telecommunications market was very dynamic in 2014 and was characterised by intense competition, primarily driven by the strong demand for smartphones and the increasing number of smartphone tariffs. Mobile media use is leading to further increases in sales volumes and revenues, particularly for smartphones and tablet PCs. According to the German Association for Consumer and Communication Electronics (Gesellschaft für Unterhaltung- und Kommunikationselektronik – gfu), around 7.8 million tablet PCs (an increase of 10.3%) and around 25 million smartphones (an increase of 4.8%) were sold in 2014.

The increasing penetration of mobile end-devices with internet capability such as smartphones or tablets and the increasing use of mobile data services also showed itself in the strong growth of revenues from mobile data on the German market: In 2014, according to estimates by Analysys Mason, mobile data revenue increased by over 20% in comparison to the previous year. By contrast, revenue from mobile telephony and SMS declined, driven by price decline, regulatory effects and changed customer behaviour.

The German mobile telecommunications market is an established market. Following the merger of the Telefónica Deutschland Group with the E-Plus Group, it consists of three network operators and several service providers. As of the end of December 2014, the Telefónica Deutschland Group had a market share of 37.4% with over 42 million connections, making it the largest German mobile telecommunications network operator in terms of customers.

(Source: company data, German Association for Consumer and Communication Electronics (gfu))

The German fixed broadband market

Intense competition prevails on the German market for fixed broadband services as well. The number of subscriber lines increased by approximately 3% in comparison to the previous year and the customer base grew to approximately 29.2 million by the end of September 2014. The proportion of DSL connections here is 80%.

(Source: Analysys Mason: Telecoms Market Matrix Western Europe Q3 2014, January 2015)

The largest DSL provider in Germany is Deutsche Telekom AG, Bonn. The Telefónica Deutschland Group and other significant players on the broadband internet market rent the unbundled subscriber lines (Unbundled Local Loop, ULL) from Deutsche Telekom AG.

2.1.2 Regulatory influences on the Company

Telecommunications services and the operation of telecommunications networks are subject in particular to the regulation of the German Telecommunications Act of 22 June 2004 in the version from 25 July 2014 and certain complementary regulations to the Telecommunications Act.

The Telecommunications Act implements the European legal framework for electronic communications networks and services, which was adopted in November 2009 (in the following: Legal Framework). The Legal Framework comprises, among other things, the provisions of the Framework Directive (2002/21/EC), the Authorisation Directive (2002/20/EC), the Access Directive (2002/19/EC), the Universal Service Directive (2002/22/EC) and the Directive about the Protection of Privacy in Electronic Communications (2002/58/EC).

The Telecommunications Act contains provisions that affect the following, among other things: (i) the organisation and authority of the regulatory authority, (ii) registration obligations, (iii) the granting of easements, (iv) the allocation of frequencies, (v) access obligations, (vi) fee regulation, (vii) misuse oversight, (viii) consumer protection as well as (ix) data protection and public security. Some of these obligations apply only to service providers who have significant market power in their relevant market. Other obligations apply or can be imposed by the German Federal Network Agency (Bundesnetzagentur – BNetzA) even if the corresponding operator has no particular market power.

In November 2009 the European Parliament followed a suggestion of the European Commission and adopted legal provisions to amend certain Directives within the Legal Framework in order to strengthen the competitiveness and the rights of consumers on the European telecommunications markets and in order to promote access to fast broadband internet connections. The changes to the existing Legal Framework came into force on 19 December 2009 and had to be implemented in national law.

While the majority of the new provisions came into force in May 2012, for some of them there were transition deadlines. Worthy of mention in this connection are the provisions regarding the free queue, the regulations regarding a change of service provider and standards regarding the transparency of end-customer contracts.

The future development of the GSM licences

The GSM licences, which authorise the use of the frequency spectrum in the frequency sectors 900MHz and 1,800MHz, expire generally at the end of 2016. The Federal Network Agency is currently preparing the future allocation of these frequencies. In November 2012 the Federal Network Agency released an information paper in which four possible scenarios with regard to the future of the spectrum were illustrated. The possibilities extend from an extension to an isolated allocation of the GSM licenses through to scenarios in which the allocation of the GSM spectrum is made together with additional spectra, which are expected to be available in the coming years. The Federal Network Agency has released a draft decision on the basis of the submissions on the information paper. Opinions regarding the draft could be submitted up to 4 October 2013. Telefónica Germany GmbH & Co. OHG

also made use of this opportunity. The opinions were published on the internet site of the Federal Network Agency.

On 25 July 2014, the Federal Network Agency gave all interested groups the opportunity to state their frequency requirements, including in view of the changed market structure, as part of a consultation and called on them to update or announce their forecast requirements from 1 January 2017 onwards in the frequency ranges 700MHz, 900MHz, 1,800MHz and 1.5GHz by no later than 20 August 2014. The Telefónica Deutschland Group did so on schedule. On 22 October 2014, the Federal Network Agency then submitted drafts of the necessary presidential chamber decisions in accordance with section 55 (10) and section 61 of the German Telecommunications Act (Telekommunikationsgesetz – TKG) on the arrangement and selection of the frequency allocation procedure and on the allocation conditions and auction regulations to a public consultation. Opinions could be submitted up until 26 November 2014, and Telefónica Germany GmbH & Co. OHG did so. The opinions were published on the internet site of the Federal Network Agency.

After the national consensus on the inclusion of the 700MHz frequencies had been decided between the federal government and the states at the Conference of Minister-Presidents on 11 December 2014, the Federal Network Agency consulted with its advisory committee and on 28 January 2015 the presidential chamber's decision on the arrangement and selection of the allocation procedure and on the allocation conditions and auction regulations for the allocation of frequencies in the ranges 700MHz, 900MHz, 1,800MHz and 1.5GHz was finally made and published. With the publication of the decision, the admission procedure for the auction was opened. Telefónica Deutschland Group submitted the applications for admission to the auction to the Federal Network Agency as of 5 March 2015. The auction is scheduled to be held in the second quarter of 2015. Telefónica Deutschland Group has filed an action against the decision of the President's Chamber in the first instance purely in a timely manner, on which has not yet been decided.

Telekom Deutschland GmbH's VDSL contingent model and expansion of the fixed network cooperation

In July 2012, the Federal Network Agency approved Telekom Deutschland GmbH's so-called VDSL contingent model. With this model Telekom Deutschland GmbH grants its competitors VDSL bit stream access on the basis of agreed access quotas. In December 2012 Telefónica Germany GmbH & Co. OHG executed a fee model of this kind with Telekom Deutschland GmbH and offers VDSL to its customers on this basis. With the offer of VDSL the Telefónica Deutschland Group receives access to almost 16.5 million households and thus promotes a further form of competitive wireline structures. Telefónica Germany GmbH & Co. OHG concluded a contract with Telekom Deutschland GmbH on 20 December 2013 to expand the fixed network cooperation. It comprises on the one hand a further

development of the contingent model ("Migration contract") by Telekom Deutschland, which will be offered by Telekom Deutschland identically to all service providers, and a bilateral agreement ("Transformation contract"). The cooperation comprises the intensified use of Telekom's high-speed infrastructure by the Telefónica Deutschland Group for its wireline products. Within the scope of this cooperation, the Telefónica Deutschland Group will be able to implement the transition from the independent ADSL infrastructure through to a sustainable NGA platform. The transition should be fully completed in 2019. The Telefónica Deutschland Group will continue to use Telekom's VDSL and vectoring wholesale products. The Federal Network Agency confirmed that the cooperation complies with the Telecommunications Act in its draft decision of 17 December 2013. The draft decision was submitted to public consultation and reported to the European Commission. The European Commission responded on 13 March 2014 and did not express any serious doubts. The Federal Network Agency subsequently published its final decision on 18 March 2014, confirming its draft decision from December 2013. The cooperation entered into force with the Federal Network Agency's final decision on 18 March 2014. The Federal Cartel Office had opened investigations into the cooperation with regard to general competition law aspects. A ruling was issued on 5 November 2014. As expected, the 7th Ruling Chamber of the Federal Cartel Office determined that, according to current information, the cooperation does not give rise to any grounds for the Ruling Chamber to take action.

Decisions regarding the termination fees for mobile and fixed networks (MTR/FTR)

MTR

The rates that were definitively approved by the Federal Network Agency on 19 July 2013 for termination of calls in the mobile network of the Telefónica Deutschland Group and other mobile network operators expired at the end of November 2014. For the period starting from 1 December 2014, Telefónica Germany GmbH & Co. OHG and E-Plus Mobilfunk each submitted an application for the approval of new mobile termination rates (MTR) to the Federal Network Agency on 28 April 2014. In a provisional decision on 26 November 2014, the Federal Network Agency approved the rates in the amount of 1.72 Euro cents per minute for the period from 1 December 2014 to 30 November 2015 and 1.66 Euro cents per minute for the period from 1 December 2015 to 30 November 2016. The rates are symmetrical for all German mobile network operators. The draft of this decision was reviewed by the European Commission. As part of this notification process, the European Commission expressed serious doubts about the rate method and the rate level. A final decision by the Federal Network Agency is not to be expected before the second quarter of 2015.

FTR

On 19 February 2014, the Federal Network Agency issued a provisional decision for alternative local exchange carriers and thus also for the Telefónica Deutschland Group with regard to the local fixed line termination rates (FTR) of 0.36 Euro cents per minute (peak) and 0.25 Euro cents per minute (off-peak) that applied from 20 November 2013 until 30 November 2014. The European Commission was notified of these decisions on rates for alternative local exchange carriers on 11 August 2014. As part of this notification process, the European Commission expressed serious doubts about the rate method and the rate level. The preliminary rates were confirmed by the final decision of the Federal Network Agency on 15 January 2015.

On 11 September 2014, Telefónica Germany GmbH & Co. OHG submitted an application to the Federal Network Agency for approval of new FTRs for the period starting from 1 December 2014. On 26 November 2014, the Federal Network Agency issued the provisional decision regarding the local FTRs for Telekom Deutschland GmbH, which were reduced by 20% with effect from 1 December 2014 for a limited period up until 31 December 2016. By reason of the regulatory standards, Telekom Deutschland GmbH's FTRs also have an effect on the FTRs of alternative network operators. On 28 November 2014, the Federal Network Agency therefore issued a provisional decision for alternative local exchange carriers and thus also for the Telefónica Deutschland Group with regard to the local FTR of 0.24 Euro cents per minute (peak and off-peak) that applies from 1 December 2013 until 31 December 2016. In the meantime the decisions on the rates for alternative local exchange carriers were submitted to national consultation and notified to the European Commission on 18 January 2015. A final decision by the Federal Network Agency is expected not before second quarter 2015.

Transparency regulation of the Federal Network Agency

On the basis of Article 20 of the Universal Service Directive, in 2012 changes were made to section 43a of the Telecommunications Act (Telekommunikationsgesetz – TKG) regarding the transparent description of services in telecommunications contracts. The Federal Network Agency is empowered under section 43a (3) TKG to set corresponding standards. In May 2013 the Federal Network Agency set out key points to that effect and at the same time suggested that businesses self-regulate. Leading associations from the telecommunications industry and their members – among them the Telefónica Deutschland Group – have developed a voluntary agreement and submitted it to the Federal Network Agency, which has as its object the information that must be provided to the consumer in future before, during and after conclusion of the contract. In February 2014, the proposal was considered by the Federal Network Agency to be insufficient; a public authority draft regulation that is now based on the

authorisation conferred by section 45n TKG has since been drawn up and submitted to an oral hearing. The Telefónica Deutschland Group and leading associations from the telecommunications industry submitted their opinions on this in late March 2014. The Federal Network Agency has since revised its draft regulation and is still engaged in dialogue with the industry in this regard. Before being issued, the regulation requires the consent of several federal ministries and of the German Federal Parliament (Bundestag). The regulation is expected to enter into force in the first half of 2015. However, owing to extended transition deadlines, parts of the regulation will not come into force until during the second half of 2015.

Roaming III

On 30 May 2012, the Council of the European Union adopted a new, revised roaming regulation ("Roaming III"), which replaces the previous Roaming II Regulation from 2009. This new Roaming Regulation came into force on 1 July 2012 and applies until 30 June 2022. The Roaming III Regulation will further reduce the current price caps for voice calls and SMS messages and introduce a new price cap for data services in the end-customer area. The price caps were also reduced in steps for wholesale, and new structuring measures were introduced in order to promote competition between the operators. Since 1 July 2014, customers have had the option to acquire inland and roaming services separately with different operators while retaining the same telephone number. In addition, since 1 July 2012 mobile virtual network operators (MVNOs) have had the right to use the networks of other operators at wholesale prices in order to offer roaming services.

The Regulation also contains provisions for transparent prices and for the improvement of information about the end-customer roaming fees.

With regards to the end-customer prices, some of the new provisions of the Roaming III Regulation that came into force on 1 July 2012 have been as follows since 1 July 2014:

- 22 cents per minute for a call;
- 5 cents per minute for receiving a call;
- 7 cents per SMS sent and
- 23 cents per megabyte (MB) for data transmission or surfing the internet in foreign countries (billing in kilobytes).

"Digital Single Market" initiative of the European Commission

Under the catchphrase "digital single market", on 11 September 2013 the European Commission adopted a package containing various measures intended to improve the framework conditions for investments in modern broadband networks and to create more favorable framework conditions for a strong European telecommunications sector. The draft regulations contain, in part, positive elements that could improve the competitiveness of the sector in the long-term, such as, in particular, the suggestions for a stronger coordination of

frequency allocations and the rules for frequency auctions. At the same time however, the package contains measures that have a direct negative effect on the revenue of network operators, for example regarding roaming and international long-distance conversations, or that result in additional costs and further regulation and limitation on the freedom to contract, such as stricter provisions for customer protection. The package was commented upon by member states as well as businesses. It was also discussed in European Parliamentary committees and those committees viewed the measures for the regulation of roaming, among other things, critically. The European Parliament has since coordinated its positioning and communicated the results of this coordination to the European Council and the European Commission. On 23 September 2014, the Italian Council Presidency put forward a compromise proposal with reduced regulatory content and more detailed standards. In light of the fact that the European Commission has been newly constituted and then still has to deal with the opinions received, the legislative procedure can be expected to be completed in 2015.

2.2 Overview of the 2014 Financial Year

Telefónica Deutschland Holding AG is responsible as a service provider for the management of the Telefónica Deutschland Group and its operative business activities. From the additional charges for these management costs, revenues amounting to EUR 9,422 thousand were achieved in the 2014 financial year.

Following events were significant for the Telefónica Deutschland Holding AG in the financial year 2014:

Extraordinary General Meeting

On 11 February 2014, an extraordinary General Meeting was held at which the following capital measures for the E-Plus transaction were approved:

- increase in the share capital by up to EUR 3.7 billion against cash with a subscription right of the shareholders, as well as a related amendment of the articles of association
- authorisation of the Management Board, with the approval of the Supervisory Board, to execute a capital increase against contribution in kind up to EUR 475 million and the related amendment of the articles of association (authorised capital 2014/I).

The resolution passed by the Annual General Meeting on the authorisation to increase share capital by up to EUR 3.7 billion applied to any implementation of the cash capital increase up until the end of 10 August 2014. It was replaced by the corresponding resolution on the cash capital increase by the Annual General Meeting on 20 May 2014 with an

implementation deadline of 19 November 2014 (Section 1.1.1 Structure of the Telefónica Deutschland Group and section 7 Acquisition of E-Plus).

Furthermore, the extraordinary General Meeting resolved a new conditional capital 2014/I whilst suspending the former conditional capital 2012/I. The new conditional capital 2014/I was registered in the commercial register on 25 February 2014, whilst suspending the former conditional capital 2012/I (Section 1.1.1 Structure of the Telefónica Deutschland Holding AG and of the Telefónica Deutschland Group).

Annual General Meeting and dividend distribution

On 20 May 2014, the second Annual General Meeting of Telefónica Deutschland took place. Next to the discharge of the Supervisory Board and Management Board and the election of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft with its registered office in Stuttgart, branch office Munich, as auditor for the 2014 Consolidated Financial Statements and Financial Statements of Telefónica Deutschland Holding AG, the Annual General Meeting resolved to distribute a dividend of EUR 0.47 per dividend-entitled share, a total EUR 524,964,338.

In addition, an increase in the share capital of up to EUR 3.7 billion against cash contributions with a subscription right of the shareholders in connection with the acquisition of E-Plus (also referred to hereinafter as the "cash capital increase") and a corresponding amendment to the articles of association were resolved (Section 1.1.1 Structure of Telefónica Deutschland and section 7 Acquisition of E-Plus). This also established the possibility to use the cash capital increase beyond the term of validity of the corresponding resolution adopted under agenda item 1 of the extraordinary General Meeting on 11 February 2014, i.e. after 10 August 2014.

In addition, it was resolved to increase the number of Supervisory Board members from twelve to 16 and to amend the articles of association accordingly. The amendment to the articles of association was entered in the Commercial Register on 18 September.

The Annual General Meeting had elected Sally Anne Ashford and Antonio Manuel Ledesma Santiago as members of the Supervisory Board of Telefónica Deutschland subject to the registration of this amendment to the articles of association.

Changes in the Management Board of Telefónica Deutschland

As of 31 December 2014, the Management Board consisted of Thorsten Dirks, Rachel Empey and Markus Haas.

At the beginning of the 2014 financial year, the Management Board consisted of René Schuster, Rachel Empey and Markus Haas.

On 31 January 2014, René Schuster left in mutual agreement as CEO and member of the Management Board. The Su-

pervisory Board of Telefónica Deutschland had approved a corresponding termination agreement on 29 January 2014.

From 1 February 2014, the responsibilities of the CEO were taken over jointly by Rachel Empey and Markus Haas, in addition to their previous responsibilities. Rachel Empey focused on the operative business and Markus Haas on the preparation for the E-Plus integration.

Since the completion of the acquisition of E-Plus, Markus Haas has been responsible for operating business as COO and Rachel Empey has been responsible for finance and strategy as CFO.

On 2 July 2014, the Supervisory Board of Telefónica Deutschland Holding AG resolved to appoint Thorsten Dirks as future Chief Executive Officer (CEO).

Thorsten Dirks was formally appointed as a member of the Management Board and as CEO in the context of the completion of the acquisition of the E-Plus Group by Telefónica Deutschland – specifically, by way of the Supervisory Board resolution of 9 October 2014.

By way of another resolution on the same date, the Supervisory Board extended the term of office of Rachel Empey and Markus Haas.

All current members of the Management Board are appointed for the period up until 30 September 2017.

Changes in the Supervisory Board of Telefónica Deutschland

The Annual General Meeting on 20 May 2014 elected Sally Anne Ashford and Antonio Manuel Ledesma Santiago as additional members of the Supervisory Board of Telefónica Deutschland Holding AG representing the shareholders. Their term of office began when the amendment to the articles of association regarding the expansion of the Supervisory Board from twelve to 16 members was registered on 18 September 2014.

Joachim Rieger and Jürgen Thierfelder were appointed as additional employee representatives on the Supervisory Board by order of the Munich Local Court on 31 October 2014.

Therefore, at full strength the Supervisory Board consists of 16 members with eight shareholder representatives and eight employee representatives as of 31 December 2014.

Dividend proposal for the 2014 financial year

On 8 September 2014, the Management Board of Telefónica Deutschland resolved and announced its intention to propose a cash dividend of at least EUR 700 million, to be paid in 2015, to the next Annual General Meeting for the 2014 financial year.

Cash capital increase

To generate the cash purchase price in the context of the E-Plus acquisition (Section 7 Acquisition of E-Plus), a cash capital increase on the basis of the authorisation granted by the Annual General Meeting of 20 May 2014 and the reso-

lutions of the Management Board and the Supervisory Board of 8 September 2014 was resolved, under which the share capital of the company was to be increased by EUR 1,116,945,400 from its previous level of EUR 1,116,945,400, divided into 1,116,945,400 no-par value registered shares, to EUR 2,233,890,800 by issuing 1,116,945,400 new shares. The cash capital increase was entered in the Commercial Register on 18 September 2014.

Capital increase against contribution in kind/new share capital
In connection with the acquisition of E-Plus, the Management Board resolved on 24 September 2014, with the approval of the Supervisory Board, to increase the share capital of the company by EUR 740,664,193 from EUR 2,233,890,800 to EUR 2,974,554,993 by issuing 740,664,193 new no-par value registered shares (capital increase against contribution in kind) (Section 7 Acquisition of E-Plus).

The new shares were subscribed for by KPN Mobile Germany GmbH & Co. KG (KPN Mobile Germany) in return for a contribution in kind in the form of the limited partner's interest in E-Plus Mobilfunk. According to the voting rights notification, KPN now holds these directly.

The capital increase against contribution in kind was entered in the Commercial Register on 7 October 2014. Since this date, the share capital of the company has amounted to EUR 2,974,554,993, divided into the same number of no-par value registered shares.

In connection with the implementation of the capital increase against contribution in kind, the authorised capital 2014/I, which had been used in full, was removed. The authorised capital 2012/I is still in place in the amount of EUR 292,808,507 after partial use.

In the course of the above shown capital increase against cash and contribution in kind an increase in capital reserves resulted to an amount of EUR 4,832,539 as of 31 December 2014.

The increase in capital reserves results from the total subscription price of the shares from the capital increase in cash and contribution in kind reduced by the contribution in share capital.

For Telefónica Deutschland Holding AG, as parent company of Telefónica Deutschland Group, the development of the whole group including all subsidiaries is essential.

Concerning the Telefónica Deutschland Group the following is to be reported:

The financial year 2014 was on the one hand characterised by the acquisition of the E-Plus Group and on the other hand by an ongoing dynamic competition in the market:

With effect as of 1 October 2014 the E-Plus Group belongs to Telefónica Deutschland Group. Since then we are one of three leading integrated network operators in Germany with about 48 million customer accesses as of 31 December 2014. Additionally we are market leader in the German

mobile market with more than 42 million mobile customer accesses as of 31 December 2014.

Combining the two businesses, it is our ambition to build the leading digital telecommunications company in the German market, keep the commercial momentum and strengthen our position as the largest German mobile service provider according to customer accesses.

Furthermore Telefónica Deutschland Group continued to execute its data monetisation strategy in a market that has not seen significant changes of dynamics throughout the year. There is still a high level of competition around bundles of smartphone tariffs and devices with a clear focus on value maximisation leveraging increased customers' demand for LTE.

Operating and financial performance of Telefónica Deutschland Group follows the execution of its strategy in these market dynamics, and also the ongoing shift in communications' behaviour from customers, adopting a more digital lifestyle, and the current regulatory framework.

Mobile service revenue amounted to EUR 4,375 million in the financial year 2014. The increase by EUR 702 million or 19.1% compared to the previous period is mainly due to the integration with E-Plus Group in the fourth quarter.

OIBDA before extraordinary effects amounted to EUR 1,088 million in the financial year 2014 in comparison to EUR 1,161 million in the previous year. OIBDA margin before extraordinary effects evolved on a lower level, reaching 19.7% for the financial year 2014 in comparison to 23.6% in the previous year and contained the OIBDA of E-Plus Group from 1 October 2014 until 31 December 2014. The ongoing competitive market environment required increased commercial spend for customer acquisition and retention measures, which is not yet offset by higher contribution of the mobile data business and the continuous focus on efficient processes. Furthermore, additional costs related with the acquisition and integration of the E-Plus Group are reflected in the OIBDA.

CapEx increased from EUR 666 million in the previous year to EUR 849 million in the financial year 2014, thereof 52% (EUR 438 million) were recognized in the fourth quarter 2014. The fourth quarter of 2014 was the starting point of a new investment cycle for the new company, maintaining a clear focus on the accelerated deployment of the LTE network.

Comparison of the actual development with the predicted business development

At the time of preparing the management report as of 31 December 2013 we knew that the closing of the acquisition of E-Plus Group would change the scope of operations of Telefónica Deutschland Group significantly. Due to a number of uncertainties, including the exact point in time for the change of control, our ability to provide a precise outlook for the entire group for the whole year 2014 was very limited.

As such, in the management report as of 31 December 2013 we gave an outlook for the first half of the year 2014 only.

As described in the management report as of 31 December 2013, we expected a continuation of trends in mobile service revenue for the first half of 2014, showing a similar year-on-year performance to the last quarter of 2013, excluding the impact from mobile termination rate cuts.

Mobile service revenue reached EUR 1,435 million in the first six months, declining 3.0% year-on-year excluding the impact from mobile termination rate cuts and 3.1% in reported terms. In the second quarter the company saw an improvement of trends for mobile service revenues with a year-on-year decline of 2.5% excluding the impact from mobile termination rate cuts compared with a decline of 3.4% year-on-year in each of the two prior quarters. This year-on-year performance is better than expected.

On the back of the acquisition of the E-Plus Group and as described in the management report as of 30 September 2014 we expected consolidated mobile service revenue in the fourth quarter to show a moderate quarter-on-quarter decline over the combined² mobile service revenue of EUR 1,424 million in the third quarter of 2014,

In the fourth quarter mobile service revenue totaled EUR 1,391 million and showed a moderate decline over the previous quarter on a combined² basis. This is in line with the given outlook, leveraging a strong contribution from premium brands. The increased adoption of mobile data bundles already outweighed ongoing declines from traditional voice and messaging services and thus confirmed the improved year-on-year trends already seen in previous quarters

In the management report as of 31 December 2013 we expected that OIBDA margin before extraordinary effects in the first half of 2014 will show a limited year-on-year erosion from 2013 level (23.4%), similar to the year-on-year OIBDA margin before extraordinary effects performance seen in previous quarters.

Telefónica Deutschland Group is taking advantage from its value-for-money approach to premium LTE services and continued commercial investments to gain trading momentum in the market. In line with our expectations, the resulting OIBDA margin in the first half of 2014 showed a moderate year-on-year decline of 2.1 percentage points to reach 21.3%, which is in line with expectations.

From a combined² OIBDA of EUR 350 million in the third quarter of 2014 (17.5% combined² margin on revenues), we expected in our management report as of 30 September 2014 for the fourth quarter consolidated OIBDA before extraordinary effects to be slightly lower quarter-on-quarter, with a similar margin before extraordinary effects.

OIBDA before extraordinary effects totaled EUR 354 million and OIBDA before extraordinary effects margin of 17.6% meeting the given quarter-on-quarter outlook on the back of a higher contribution from the mobile data business. Commercial expenses reflected ongoing activities that resulted in

a sustained trading momentum, while the accrual of additional expenses related to integration activities were not yet compensated by synergies.

In our management report as of 31 December 2013 we expected that in the first half of 2014, Telefónica Deutschland Group's Capital Expenditures show a moderate decline compared to the same period of the prior year (EUR 296 million).

As expected Capital Expenditures were lower year-on-year due to a different investment planning, and also taking into account the envisaged integration with E-Plus. CapEx totaled EUR 266 million, a decline of 10.1% year-on-year compared with the first six months of 2013.

Taking a combined² CapEx of EUR 286 million in the third quarter of 2014 as a basis for comparison, we expected in the management report as of 30 September 2014 combined² CapEx in the fourth quarter of 2014 to be 1.5 times higher.

CapEx amounted to EUR 438 million, a significant 53% increase over the combined² third quarter, as anticipated. This marks the starting point of a new investment cycle for the new Telefónica Deutschland Group, maintaining a clear focus on the accelerated deployment of the LTE network whilst integrating the two existing networks.

Significant events

Following events in the financial year 2014 in addition to the above mentioned were significant for the whole group:

Agreement on the acquisition of E-Plus and implementation of the acquisition

On 23 July 2013, Telefónica Deutschland, Telefónica, S.A. and KPN concluded an agreement for the acquisition of KPN's German mobile business, E-Plus, by Telefónica Deutschland. As consideration, KPN received new shares and approximately EUR 3.6 billion in cash ("cash purchase price"), which will be subsequently adjusted in a final purchase price reduction.

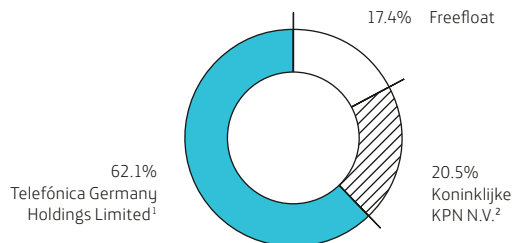
The cash component to be paid to KPN was financed via a cash capital increase of Telefónica Deutschland (section 7 Acquisition of E-Plus).

The shares issued as further consideration to KPN were generated via a capital increase against contribution in kind, initially giving KPN a 24.9% stake in Telefónica Deutschland after the completion of the cash capital increase and the capital increase against contribution in kind. KPN held a stake of 4.4% of the 24.9% only in trust for Telefónica S.A. (Section 7 Acquisition of E-Plus).

Telefónica, S.A. then acquired the 4.4% share in Telefónica Deutschland indirectly from KPN for EUR 1.3 billion (Section 7 Acquisition of E-Plus).

This resulted in a 62.1% stake in Telefónica Deutschland held by Telefónica, S.A. and a 20.5% stake held by KPN:

2 — Shareholder structure



- 1 Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica, S.A.
- 2 According to the voting rights notification dated 20 October 2014, Koninklijke KPN N.V. now holds these shares directly

Furthermore, Telefónica, S.A. concluded a call option agreement with KPN on 30 September 2014. This agreement grants Telefónica, S.A. the right to acquire from KPN a further share of up to 2.9% of Telefónica Deutschland. This right can be exercised one year after the conclusion of the call option agreement at an exercise price of up to EUR 0.51 billion.

The acquisition of E-Plus was completed with effect from 1 October 2014. Since this date, the Telefónica Deutschland Group also comprises E-Plus Mobilfunk together with its direct and indirect subsidiaries in addition to the existing companies.

Agreement for network access with regard to the E-Plus acquisition

On 25 June 2014, the Telefónica Deutschland Group concluded an agreement with MS Mobile Services GmbH ("Drillisch"), a group company of Drillisch AG, in which Drillisch undertakes to purchase 20% of the mobile network capacity under the control of the Telefónica Deutschland Group after the completion of the acquisition of the E-Plus Group in addition to the requirements for its existing customers already activated in the networks of the Telefónica Deutschland Group or E-Plus. This level of 20% will be reached by way of a five-year glide path. In addition, Drillisch acquires the right to purchase another up to 10% of the capacity of these networks.

The Telefónica Deutschland Group grants Drillisch access by way of a mobile bitstream model to the future joint network of Telefónica Deutschland and E-Plus and to current and future technical developments in this network, which Drillisch can offer to its customers.

The agreement was concluded in view of the European Commission's decision in the merger control procedure for the acquisition of E-Plus by Telefónica Deutschland (Section 7 Acquisition of E-Plus). It is intended to ensure the implementation of individual commitments made by Telefónica Deutschland as part of the merger control procedure in order

to dispel competition law concerns on the part of the European Commission.

The agreement with Drillisch entered into force after the European Commission confirmed on 29 August 2014 that this agreement fulfilled the conditions associated with the decision on approval to the extent that these conditions were required to be fulfilled before completing the transaction.

Decision by the Federal Network Agency on the return of frequencies in the ranges of 900MHz and 1,800MHz

In the telecommunication law ruling on the planned merger of Telefónica Deutschland and E-Plus on 4 July 2014, the presidential chamber of the Federal Network Agency ruled that, in the event of the transaction taking place, the Telefónica Deutschland Group and E-Plus Mobilfunk are required to return those frequencies in the ranges of 900MHz and 1,800MHz for which they do not have any allocation beyond 2016 at that time by 31 December 2015 (early return of 900/1,800MHz spectrum) and that the Federal Network Agency will carry out an overall examination, taking account of the future frequency spectra in the ranges of 900MHz and 1,800MHz, to determine whether measures are required with regard to the frequency spectrum resulting from the merger, particularly in the 2GHz range (frequency allocation review). On 4 August 2014, the Telefónica Deutschland Group filed a suit against the Federal Network Agency's ruling of 4 July 2014 with the Cologne Administrative Court. No ruling has been issued yet with regard to this suit. In addition, an application for temporary legal protection was submitted on 9 December 2014, for which likewise no ruling has been issued yet.

Issue of a 7-year bond (Bond II)

On 10 February 2014, Telefónica Deutschland Group issued a senior unsecured 7-year bond with a nominal value of EUR 500 million. The bond matures on 10 February 2021. It was issued by O2 Telefónica Deutschland Finanzierungs GmbH, Munich, and is guaranteed by Telefónica Deutschland Holding AG. The coupon for the fixed interest bond is 2.375% and the issue price 99.624%. The issue spread was 100 basis points over the seven-year Euro Midswap Rate, resulting in a yield of 2.434%. The bond has a denomination of EUR 1 thousands and was issued on the basis of a bond security prospectus. O2 Telefónica Deutschland Finanzierungs GmbH, Munich, has transferred the net issuing proceeds of the bond to Telefónica Germany GmbH & Co. OHG, Munich, in the form of a loan. The net issuing proceeds generated by the bond will be used for general corporate purposes.

In this context, an interest rate swap was concluded by Telefónica Germany GmbH & Co. OHG for a partial amount of EUR 150 million of the bond's nominal value. On the basis of this interest swap contract, Telefónica Deutschland Group pays a variable interest rate in the amount of the three-month

Euribor on a nominal amount and receives a fixed interest rate of 1.268% on the same amount in return.

Conclusion of contract to expand the wireline cooperation

In May 2013, the Telefónica Deutschland Group concluded a Memorandum of Understanding with Telekom Deutschland GmbH via Telefónica Germany GmbH & Co. OHG to expand their wireline cooperation. This comprises the future intensified usage of the high-speed infrastructure of Telekom Deutschland GmbH by the Telefónica Deutschland Group for its fixed products. Within the scope of this cooperation, the Telefónica Deutschland Group will be able to implement the transition from the independent ADSL infrastructure through to a sustainable NGA platform. In future, the Telefónica Deutschland Group intends to increasingly use VDS Land vectoring wholesale products provided by Telekom Deutschland GmbH. The transition should be fully completed in 2019. A binding agreement for the wireline cooperation with Telekom Deutschland GmbH was concluded on 20 December 2013.

The cooperation includes regulating aspects which are subject to an inspection by the Federal Network Agency (Bundesnetzagentur – BNetzA) and the Federal Cartel Office (Bundeskartellamt – BKartA). The Federal Network Agency approved the cooperation in its draft decision from December 2013. The draft decision was subsequently discussed publicly at national level and with the European Commission. In its statement on 13 March 2014, the European Commission did not express any significant misgivings. The Federal Network Agency published its final decision on 18 March 2014, positively confirming its draft decision from December 2013. With this decision, the binding agreement with Telekom Deutschland GmbH that had been signed in December 2013 entered into force on 18 March 2014.

The cooperation is not subject to antitrust approval but it was examined by the Federal Cartel Office with regard to general competition law aspects. A ruling was issued on 5 November 2014. As expected, the 7th Ruling Chamber of the Federal Cartel Office determined that, according to current information, the cooperation does not give rise to any grounds for the Ruling Chamber to take action.

With effect from 1 May 2014, the Telefónica Deutschland Group thus already uses the high-speed infrastructure to an increased extent for fixed products under the agreement concluded.

Integration of E-Plus

Following the completion of the E-Plus acquisition, the Management Board of Telefónica Deutschland published the planned key points for the integration of E-Plus on 17 October 2014. The merger with E-Plus offers Telefónica Deutschland a unique opportunity to actively shape the revolution in the telecommunications sector and become the leading digital telecommunications provider.

With the goal of digital transformation of the business model and of leveraging the announced synergies with a net present value of over EUR 5 billion, next to other actions a restructuring programme was initiated in the course of which 1,600 of the total of around 9,100 full-time positions are to be cut by 2018. This will particularly be a case of eliminating duplicated functions. Telefónica Deutschland Group has set up a redundancy programme for employees leaving the company. Terminations of employment for operational reasons are to be avoided as far as possible. (Section 5 Report on Events after the Reporting Period).

In addition, the limited partner's interest in E-Plus Mobilfunk was contributed to Telefónica Germany GmbH & Co. OHG in the fourth quarter 2014 in accordance with the corresponding resolutions by the Management Board and the Supervisory Board. The Management Board and the Supervisory Board also resolved to convert E-Plus Mobilfunk into a limited liability company (GmbH) and conclude a profit and loss transfer agreement with Telefónica Germany GmbH & Co. OHG in the first quarter of 2015 (Section 5 Report on Events after the Reporting Period).

In the fourth quarter 2014, the Telefónica Deutschland Group agreed to sell yourfone GmbH, including its trademark rights, customers and employees, to Drillisch AG (Section 5 Report on Events after the Reporting Period). Further sales of customer bases from the shared portfolio of Telefónica Deutschland and E-Plus are not currently planned.

The integration of the E-Plus Group in operating business is also progressing rapidly. Since mid-November 2014, our sales employees have been serving business customers with a uniform product portfolio. At the same time, new O products have been launched and LTE has been activated without any extra charge for all contractual customers of O₂. Existing customers of E-Plus were given easy access to O₂ DSL tariffs a few weeks after the merger took place.

The business development of Telefónica Deutschland is further detailed in the following sections.

2.2.1 Results of operations

Revenues

Revenues of EUR 9,422 thousand (2013: EUR 9,706 thousand) were generated in the financial year. Revenues essentially comprise the reimbursement of costs for the remuneration of the members of the Management Board and other administrative costs (2014: EUR 9,212 thousand; 2013: EUR 9,466 thousand), which, in accordance with the agreements for the reimbursement for management services, are assumed by Telefónica Germany GmbH & Co. OHG. This item also includes invoiced management services of EUR 210 thousand (2013: EUR 240 thousand) provided by Telefónica

Deutschland Holding AG to Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH.

Other operating income

Other operating income rose from EUR 8 thousand in the 2013 financial year to EUR 788,213 thousand in the 2014 financial year. This increase primarily results from the contribution of the investment in E-Plus in Telefónica Germany GmbH & Co. OHG.

Personnel expenses

Personnel expenses amounted to EUR 6,204 thousand in the financial year (2013: EUR 4,094 thousand) and included the remuneration of the Management Board, including social security contributions. The change essentially results from the change in the composition of management in 2014 compared to the previous year and from additional severance payments of EUR 2,671 thousand for the Management Board member who left the company in the 2014 financial year.

Other operating expenses

Other operating expenses rose from EUR 11,183 thousand in the 2013 financial year to EUR 44,158 thousand in the 2014 financial year. They essentially include costs incurred in connection with the capital increase for the acquisition of E-Plus and legal and consulting fees for third-party service providers. The increase primarily results from comparatively higher costs for the capital increase, which rose by EUR 27,363 thousand from EUR 5,431 thousand in 2013 to EUR 32,794 thousand in 2014.

Financial result

The financial result amounted to EUR 52 thousand in the 2014 reporting period. The rise in the underlying item other interest and similar income from EUR 8 thousand in 2013 to EUR 52 thousand in 2014 essentially results from increased positive net cash pooling.

Profit for the year

In 2014 the company generated a profit for the year of EUR 747,322 thousand (2013: loss for the year of EUR 5,537 thousand). This development is chiefly attributable to the increase in other operating income as a result of the contribution of E-Plus in Telefónica Germany GmbH & Co. OHG.

2.2.2 Financial position

2.2.2.1 Principles and goals of financial management

The Telefónica Deutschland Holding AG is responsible as a service provider for the management of the Telefónica Deutschland Group and its operative business activities. It essentially finances itself out of equity and generates an operative cash flow via charges for these management services

for Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH. In addition, the Telefónica Deutschland Holding AG is integrated into the group-wide finance management of the Telefónica Deutschland Group and therefore at any time able to meet its payment obligations.

Risk control and a central management are the fundamental principles of the financial management of the Telefónica Deutschland Group. The goal of financial management is to continually ensure financial liquidity and stability. Risk controls are used in order to anticipate potential risks and to mitigate them with appropriate security measures. An important parameter here is the net leverage ratio¹. The Telefónica Deutschland Group intends to maintain a net leverage ratio¹ of below 1.0x ("target leverage"). The net leverage ratio¹ corresponds to the net financial liabilities divided by LTM (last twelve months) OIBDA before extraordinary effects. The company aims to protect solvency by (a) refraining from paying dividends, distributing capital or capital reserves in cash or buying back shares, if the ratio of net financial debt/OIBDA materially and consistently exceeds the target leverage, and (b) restricting the use of new debt to pay dividends, allowing it only if the ratio of net financial debt/OIBDA before extraordinary effects complies with the target leverage.

2.2.2.2. Finance

Long-term finance agreements

The Telefónica Deutschland Holding AG is integrated into the group-wide financial management of the Telefónica Deutschland Group. In November 2013 respectively in February 2014, O2 Telefónica Deutschland Finanzierungs GmbH issued a bond in each case with a maturity of five respectively seven years.

Telefónica Germany GmbH & Co. OHG signed a loan agreement as creditor on 12 September 2012 with the finance company of the Telefónica S.A. Group (Telfisa Global B.V.) as lender. Under the agreement, Telfisa Global B.V. grants a credit facility (in the following: the credit facility) with an initial amount of EUR 1.25 billion, with an interest rate equal to the three-month Euribor, plus a margin of initially 120 basis points, increasing by 40 basis points each year. The repayment schedule provides for annual repayments until 2017, each being 20% of the original total loan amount of EUR 1.25 billion.

On the basis of the high volume, these finance agreements are also relevant for Telefónica Deutschland Holding AG as a parent company.

Telefónica Germany GmbH & Co. OHG is entitled to repay the credit facility early in whole or in part with payment installments of at least EUR 100 thousand on an interest payment date – or at any point in time subject to a market standard breakage fee. If Telefónica Germany GmbH & Co. OHG cannot comply with its payment obligations under

the loan contract, a default interest is payable, which is 2 percentage points above the agreed interest rate.

Revolving credit facility

In August and September 2012, Telefónica Germany GmbH & Co. OHG concluded revolving credit facility agreements with several banks. Thus Telefónica Germany GmbH & Co. OHG has a total of EUR 710 million in banking liquidity lines with a term of over one year. The facilities have not been drawn. The interest rate for drawings under the individual agreements is calculated as Euribor plus a margin and is applied to the amount drawn down.

Bonds

In November 2013, O2 Telefónica Deutschland Finanzierungs GmbH issued a bond with a nominal value of EUR 600 million and a term of five years. The bond pays an annual coupon of 1.875%. The bond was issued at a price of 99.162% resulting in a total yield of 2.053% p.a. The bond has been approved for trading on the Luxembourg Stock Exchange by the Commission de Surveillance du Secteur Financier of the Grand Duchy of Luxembourg (CSSF). Telefónica Deutschland Holding AG guarantees the punctual payment of interest, capital and any other amounts payable under the bond. The issuer transferred the net issuing proceeds of the bond to its shareholder Telefónica Germany GmbH & Co. OHG as part of a loan contract. Telefónica Germany GmbH & Co. OHG will use the net proceeds for general business financing.

In February 2014, O2 Telefónica Deutschland Finanzierungs GmbH issued another bond with a nominal value of EUR 500 million and a term of seven years. The bond pays an annual coupon of 2.375%. The bond was issued at a price of 99.624% resulting in a total yield of 2.434% p.a. The bond has been approved for trading on the Luxembourg Stock Exchange by the Commission de Surveillance du Secteur Financier of the Grand Duchy of Luxembourg (CSSF). Telefónica Deutschland Holding AG guarantees the punctual payment of interest, capital and any other amounts payable under the bond. The issuer transferred the net issuing proceeds of the bond to its shareholder Telefónica Germany GmbH & Co. OHG as part of a loan contract. Telefónica Germany GmbH & Co. OHG will use the net proceeds for general business financing.

Cash pooling

The Telefónica Deutschland Holding AG, as well as the Telefónica Deutschland Group will continue to participate in the liquidity management system of the Telefónica S.A. Group. Agreements have been made with Telfisa Global B.V. for deposits and liquidity management. The liquid funds of the entire Telefónica, S.A. Group are centralised by means of these agreements. In this way we can benefit from the economies of scale of the entire Telefónica, S.A. Group as well as

from the internal set-off of receivables and liabilities that exist between us and the participants within the Telefónica, S.A. Group. In accordance with the cash pooling agreements the total liquidity surplus, which is recorded in our accounts within the cash pool, is automatically transferred to main accounts that are maintained by Telfisa Global B.V. on a daily basis. In addition we can use other methods in order to pay the cash in to the cash pool account and in order to balance out receivables and liabilities via the cash pool that are to be allocated to companies in the Telefónica, S.A. Group and third parties. We can draw from the cash pool account in an amount that exceeds our cash deposits up to EUR 69 million. The level of funds held in the cash pool may not exceed our free cash flow for the last 18 months. Further, we are entitled to make cash deposits in separate accounts with a term from one to a maximum of twelve months. We receive interest payments for credit in the cash pool account, based on a reference interest rate (Libor or Euribor, depending on the currency), plus/minus a margin on the basis of market prices. For deposits that are made in separate accounts for a term of between one and a maximum of twelve months, an agreement is reached in each case with the Telefónica Group regarding the applicable interest rate. Similarly, we are obliged to make interest payments if we take money from the cash pool in excess of our cash deposits. The average interest rate for borrowed capital is calculated based on a reference interest rate (Libor or Euribor, depending on the currency), plus a margin.

The agreements regarding deposits and liquidity management are automatically extended each calendar year unless terminated by one of the contracting parties before expiry of the contractual year within a 30 business days' notice. Under certain circumstances the agreements can also be terminated immediately – for example if the contractually agreed payments are not made or if we have reason to assume that our contractual right to repayment cannot be fully met. In accordance with the deposit and liquidity management agreement and subject to compliance with the legal framework conditions that apply to the set-off of receivables, rights to repayment with respect to the deposits can be set off against liabilities from loans granted to us by Telfisa Global B.V. In the case of Telefónica Germany GmbH & Co. OHG, this also includes the outstanding amount of EUR 0.725 billion as of 31 December 2014 from the existing credit facility that was granted by Telfisa Global B.V. on 12 September 2012 with an initial amount of EUR 1.25 billion. In addition, as part of the agreements about deposits and liquidity management, we are granted comprehensive rights to information with regards to the financial position of the Telefónica, S.A. Group and Telfisa Global B.V.

In this way, we can weigh on whether we want to continue to participate in the cash pooling or whether termination rights should be exercised. Telefónica, S.A. has guaranteed

the performance of Telfisa Global B.V.'s obligations under the cash pooling agreements.

On 1 October 2014, E-Plus Mobilfunk also concluded an investment agreement with Telfisa Global B.V. with the same conditions.

2.2.3 Analysis of the asset and capital structure of Telefónica Deutschland Holding AG

Financial assets

At EUR 12,140,858 thousand (2013: EUR 5,235,822 thousand) shares in affiliated companies relate to shares in Telefónica Germany GmbH & Co. OHG, Munich, which the company is the personally liable partner of. The rise in shares in Telefónica Germany GmbH & Co. OHG results from the acquisition of E-Plus as of 1 October 2014, under consideration of incidental acquisition cost, in the total amount of EUR 6,711,789 thousand, and the subsequent contribution of the limited partner interest in E-Plus Mobilfunk GmbH & Co. KG of EUR 7,500,000 thousand to Telefónica Germany GmbH & Co. OHG effective 31 December 2014.

Furthermore, a withdrawal of EUR 594,964 thousand was carried out by Telefónica Holding AG based on two partners resolutions as of 14 May 2014 and 26 September 2014 and pursuant to section 4 (5) of the partnership agreement.

Corresponding to the previous year, EUR 10,430 thousand relates to the shares in Telefónica Germany Management GmbH, Munich.

Receivables from affiliates

The increase in receivables from affiliates chiefly results from higher cash pooling receivables from Telfisa Global B.V.,

Amsterdam, which rose from EUR 12,364 thousand in 2013 to EUR 30,785 thousand in 2014. In addition, receivables for management services from Telefónica Germany GmbH & Co. OHG increased from EUR 2,485 thousand in 2013 to EUR 6,115 thousand in 2014.

Other assets

The other assets of EUR 2,096 thousand (2013: EUR 5,987 thousand) essentially relate to tax receivables in the current financial year. The reduction primarily results from the reclassification of capitalised costs in connection with the acquisition of E-Plus Mobilfunk GmbH & Co. KG, Düsseldorf, which were included in other assets in the amount of in EUR 5,887 thousand in 2013 and recognised as incidental acquisition cost in 2014.

Provisions

The provision for pensions relates to direct pension commitments for the current Management Board members of EUR 2,083 thousand (previous year: EUR 0 thousand).

The increase in other provisions from EUR 6,639 thousand in 2013 to EUR 8,748 thousand in 2014 essentially results from higher provisions for outstanding invoices of EUR 6,646 thousand (2013: EUR 3,989 thousand). This item also includes obligations for the remuneration of the Management Board (2014: EUR 2,102 thousand; 2013: EUR 2,484 thousand).

Trade payables

Trade payables are at roughly the same level as in the previous year at EUR 2,590 thousand (2013: EUR 2,464 thousand). Trade payables essentially relate to costs in connection with

3 — Assets

(In EUR thousands)	As of 31 December		Development	Development (in %)
	2014	2013		
A) Fixed assets				
Financial assets				
Investments in affiliated companies	12,151,288	5,246,252	6,905,036	>100
	12,151,288	5,246,252	6,905,036	>100
B) Current assets				
I. Receivables and other assets				
1. Receivables from affiliates	36,900	14,946	21,954	>100
2. Other assets	2,096	5,987	(3,891)	(65)
	38,996	20,934	18,063	86
II. Cash on hand and bank balances	39	0	39	100
	39,035	20,934	18,102	86
C) Accruals and deferrals	0	5	(5)	(100)
Total assets	12,190,323	5,267,191	6,923,132	>100

the acquisition of E-Plus Mobilfunk GmbH & Co. KG, Düsseldorf.

The liabilities to affiliated companies of EUR 6,368 thousand (2013: EUR 0 thousand) relate to cost allocations in connection with the capital increase.

The other liabilities of EUR 420 thousand (2013: EUR 51 thousand) essentially result from comparatively higher tax liabilities.

Equity

With the entry in the Commercial Register as of 18 September 2014, the share capital was increased by EUR 1,116,945 thousand to EUR 2,233,891 thousand by issuing 1,116,945 thousand new shares in a capital increase against cash contributions. In addition, with the entry as of 7 October 2014, the share capital was increased further by EUR 740,664 thousand from EUR 2,233,891 thousand to EUR 2,974,555 thousand by issuing 740,664 thousand new no-par value registered shares in a capital increase against contribution in kind.

As part of the above capital increases against cash and against contribution in kind, the additional paid-in capital was increased by EUR 4,832,109 thousand to a level of EUR 4,832,539 thousand as of 31 December 2014.

The increase in the additional paid-in capital results from the total subscription price of the shares from the capital increases against cash and against contribution in kind in the amount of EUR 6,689,719 thousand, less the contributions to the share capital of EUR 1,857,610 thousand.

3. Employees

In the 2014 financial year, as in 2013, the Telefónica Deutschland Holding AG had no employees.

Together with its subsidiaries Telefónica Deutschland Holding AG had 10,936 employees at the end of 2014. The number of employees thus increased by 84.1% compared with the previous year (2013: 5,940 employees), mainly as a result of the merger with the E-Plus Group (increase of approximately 5,000 employees).

4. Corporate Responsibility

Digital communication not only brings the world closer together – it is also key for sustainable development. This is the vision we are pursuing with our Corporate Responsibility (CR) strategy. With digital applications we are helping to shape a development that is radically changing the world. We exercise our responsibility particularly in the areas where we as a telecommunications company can make the biggest impact. For this purpose, we have set ourselves three strategic priorities:

4—Equity and liabilities

(In EUR thousands)	As of 31 December		Development	Development (in %)
	2014	2013		
A) Equity				
I. Subscribed capital	2,974,555	1,116,945	1,857,610	>100
II. Additional paid-in capital	4,832,539	430	4,832,109	>100
III. Revenue reserves	14	14	0	0
Legal reserve	14	14	0	0
IV. Net retained earnings	4,363,005	4,140,647	222,357	5
	12,170,113	5,258,037	6,912,076	>100
B) Provisions				
1. Pension obligations	2,083	0	2,083	100
2. Other provisions	8,748	6,639	2,110	32
	10,831	6,639	4,193	63
C) Liabilities				
1. Trade payables	2,590	2,464	126	5
2. Liabilities to affiliates	6,368	0	6,368	100
3. Other liabilities	420	51	369	>100
	9,378	2,515	6,863	>100
Total Equity and Liabilities	12,190,323	5,267,191	6,923,132	>100

- Enabling better lives: We aim to make our customers' working and living world easier and more sustainable by providing smart digital solutions.
- Transforming society: We aim to initiate social and community innovations and use digital communication to contribute to inclusion. The focus here is on our youth programme Think Big.
- Caring for the planet: We aim to make a sustainable life-style possible for all of our customers with digital products and services, while consistently optimising resource conservation and efficiency in internal processes.

CR management

We have defined clear responsibilities for managing our CR strategy. The Corporate Responsibility department coordinates all CR activities across the different departments. The team transposes the strategy to the departments and reviews achievement of the goals. In addition, the CR department initiates new projects and manages existing activities in line with the three above-mentioned priorities of our CR strategy.

The CR targets formulated with the departments on an annual basis are reviewed and approved by the Management Board. We integrate the goals in our management processes by way of key figures that are defined throughout the company. To this end, the Telefónica Deutschland Group has introduced group-wide indicators for the areas of employees, customers, environment and energy, corporate management, health and safety at the workplace, society and suppliers.

Stakeholder dialogue

We align the development of our business and our contribution to society with the needs of our stakeholders. For this purpose, we engage in intensive dialogue with them through various channels:

- We make contact with our customers via shops and hot-lines as well as with innovative formats such as the "O₂ Pop-up" shop. In addition, our customers can communicate with one another and with Telefónica Deutschland Group employees in one of our forums.
- We use various different formats to engage in dialogue with our employees, such as regular surveys of employee satisfaction or about the current development of the company.
- Our representative office in Berlin serves as an interface with politics, business and associations. In 2014, the Telefónica Deutschland Group organised a stakeholder dialogue on data protection in Berlin with the aim of intensifying social dialogue about this issue. Based on the question "Smart world – everything smart, everything better?", the Telefónica Deutschland Group discussed the opportunities and challenges of innovative data-based applications with representatives from politics, associations and start-ups.

- The "Telefónica Blue Hour" represents an opportunity for dialogue between the Telefónica Deutschland Group and members and employees of the German Federal Parliament (Bundestag) with regard to current ITC policy issues. For example, in 2014 Telefónica welcomed the Parliamentary State Secretary at the Federal Ministry for Economic Affairs and Technology and retired Federal Minister, Brigitte Zypries, as a guest speaker at a Blue Hour to hold a discussion about the German Federal Government's digital agenda.
- The "BASE_camp" is a platform for digital expertise at the heart of Berlin's government district, where the opportunities and challenges of digitalisation are discussed with entrepreneurs, companies, consumers, politicians, academics and digital multipliers. It is a place for communication that is open to all interested parties from Berlin's digital community as an event location, a network space and a place for trying things out. Telefónica uses various different formats such as the "UdL Digital Talk" and "Mobile Living" to call relevant stakeholders' attention to important digital issues.
- In addition, we engage in intensive dialogue with capital market participants.

New version of the Telefónica Global Millennial Study

The Telefónica Global Millennial Study is the largest study to date of young adults aged between 18 and 30. It gives an indication of how the generation of 18- to 30-year-olds will organise their future in an even more digital world. In 2014 a new version appeared with the key findings that young adults in Germany value freedom and a good job and welcome new technologies. But although they are more sceptical of digital technologies than young people in other countries, they protect their data less in comparison.

Social responsibility

Digital communication is one of the most effective forces for transforming society and for social innovation. Our social activities focus on the youth programme Think Big, which uses digital media to encourage creativity and initiative in young people.

Think Big

The youth programme Think Big is a joint initiative of the Telefónica Foundation, the German Children and Youth Foundation (DKJS) and the Telefónica Deutschland Group that was launched in 2010. Since then, more than 56,600 young people have participated and over 2,650 projects have been implemented.

With workshops, coaching and financial project support, Think Big inspires and supports 14- to 25-year-olds in finding their bearings in the digital world, enhancing their technological skills, developing ideas and entrepreneurship, and starting their own social projects. The ideas range from a net-

working platform for young artists and associations, to an anti-racism channel on YouTube, to apps for private lessons. The young people document the results on the programme's website (www.think-big.org).

In 2014 we integrated the Think Big School programme in the overall concept of Think Big and is now part of the first stage of the programme "Think Big Lab". In workshops at educational centres, at events or at Telefónica, young people enhance their digital expertise and develop project ideas.

In addition to Think Big Lab, there are three more successive advancement levels in which the young people develop and implement their social digital projects. Depending on the degree of development, we support these with between EUR 400 and EUR 5 thousand. They are also given individual advice by professional partner organisations and Telefónica employees, as well as access to digital technology. At the highest support stage, the project teams can take part in co-working spaces, a large social entrepreneur network and targeted training to establish their project entrepreneurially in the long-term. In the year under review, we also developed a new advisory module together with DKJS: the digital workshop. This allows young people to consult an expert team free of charge about new technologies such as developing an app and thereby acquire knowledge about digital technologies for their project.

Further commitment

Our commitment focuses on the opportunities and challenges of digital life for children and young people. In the "Zentrum für Kinderschutz im Internet" (Centre for the Protection of Children on the Internet), a think tank founded by the German Federal Ministry for Families, we are helping to develop a central advice and assistance system for young internet users. The Telefónica Deutschland Group is a member of the "Freiwillige Selbstkontrolle für Multimedia-Diensteanbieter", a self-regulatory body for multimedia service providers that is involved in a wide range of media education projects for children and young people. With our youth protection hotline, we also advise parents on selecting and configuring mobile communications products in a child-friendly way.

Ay Yildiz, a Telefónica Deutschland Group brand, supports students with an immigrant background: With the aim

of turning an intercultural background into a professional advantage, in 2014 the company put together a network of 22 companies and organisations offering over 60 internships. Ay Yildiz is Germany's first mobile telecommunications brand for citizens with a Turkish background.

Environment and climate protection

Climate protection and saving resources are important principles of our environmental management. Since 2004, our environmental management system has been certified in accordance with ISO 14001. In 2014, compliance with the standard was confirmed again for Telefónica Deutschland Holding AG. In addition to energy efficiency measures, our activities also include saving resources, returning our used electric devices, encouraging mobile phone recycling among our private and business customers, transparency with regard to electromagnetic fields, and promoting health.

Eco-efficiency

At around 95%, the majority of the Telefónica Deutschland Group's electricity consumption is attributable to the network. Telefónica Germany GmbH & Co. OHG has therefore set itself the goal of reducing energy consumption in the network by 30% per customer accesses by 2015 in comparison to 2007. To this end, we replaced the existing rectifiers with more efficient ones at 233 locations in Telefónica Germany GmbH & Co. OHG's mobile network in 2014. With this implemented measure, we expect to make annual energy savings of 589 thousand kWh in the future, thus achieving our goal. In the context of completing the replacement of the refrigerant R22, we replaced another 59 air conditioners with more efficient ones. Over 90% of Telefónica Germany GmbH & Co. OHG's facilities at 23,942 locations are operated without air conditioning. We also perform tests on features of our mobile telephony system suppliers using energy efficiency software. Our goal is to reduce the average energy consumption of the components in future while maintaining the same network quality.

In order to further reduce our energy consumption, in 2014 we identified additional factors for energy efficiency measures that will be implemented step by step after the combination of the networks as part of the integration of

5—Society

	Einheit	2013	2014
Donations and Investments in non-profit projects	EUR	307,967	218,933 ¹
Participants in Thing Big (young people)	Number	14,000	14,708
Participants in the Corporate Volunteering Program (employees)	Number	771	839
Hours worked in the Corpwtorate Volunteering Program	Number	9,758	7,112

¹ In 2014 Fundacion Telefónica bore all expenses for the projects in the Think Big Program. Fundacion Telefónica's Investment in the German Think Big programme was around EUR 2 million in 2014.

the E-Plus Group in the Telefónica Deutschland Group. We intend to use an additional analysis to identify savings potential through more detailed recording of consumption levels. The results are expected in 2015 – we will then examine whether we can adapt the results from the test location to other fixed network locations.

Efficiency, savings and innovation are important components for dealing with energy in the E-Plus Group, too. With existing flagship projects at E-Plus such as energy-self-sufficient mobile telecommunication stations and climate-friendly logistics solutions, we intend to strengthen the Telefónica Deutschland Group's positioning as an exemplary, environmentally conscious company of the future.

Eco Index – rating system for purchasing decisions

To assist our customers in choosing the most socially compatible and environmentally friendly smartphones, we have been using the rating system Eco Index since 2011. This offers a simple option for assessing the mobile phones on offer with a scale from 0 to 5 points. We developed the Eco Index with Forum for the Future, a British non-government organisation (NGO) for sustainable development, and in collaboration with various different device manufacturers. In 2014, over 93% of the mobile phones in the O₂ portfolio were rated by the Eco Index. By means of direct dialogue with the manu-

facturers, we achieved an increase of almost 18% in 2014 in comparison to the previous year.

Resource efficiency

The increasing digitalisation within the company itself enables us to save valuable resources. In 2014 we reduced our paper consumption by another 85 tons compared to the previous year, meaning that we have made paper savings of over 72% since 2010. The changeover to recycled paper certified with the Blue Angel environmental label in all offices and call centres in 2014 and the digitalisation of customer invoices had a positive impact on our environmental record. In addition, the payslips of Telefónica Germany GmbH & Co. OHG employees have been sent digitally since May 2014. We ran a campaign to raise awareness among employees of environmentally friendly behaviour at home, in the office, when dealing with electric devices and by recommending green apps that help protect the environment and climate. The environmental campaign was underpinned with an employee mobile phone collecting campaign and an environmental ideas competition.

By passing on our used IT devices to the non-profit limited liability company AfB (Arbeit für Menschen mit Behinderung – Work for People with Disabilities), we help both the environment and society. In 2014 we expanded our partnership

6—Environment

	Unit	2013	2014
CO ₂ emissions through electricity consumption and vehicle fleet ¹	Tons	239,380	288,382
CO ₂ emissions through business travel ²	Tons	3,389	3,990
Total electricity consumption ³	MWh	489,634	589,682
of that network ⁴	MWh	467,907	560,615
of that offices, shops, call center ⁵	MWh	21,727	29,066
Proportion of electricity consumption from renewable energy	%	58	60
Water consumption ⁶	Cubic meters	93,059	111,787
Paper consumption ⁷	Tons	585	858
Number of old mobile phones collected ⁸	Number	43,906	53,868
Proportion of mobile phones reviewed by Eco Index ⁹	%	75.68	93.48

1 Calculation of CO₂ emissions in accordance with ISO 14064, Greenhouse Gas Protocol (Scope 1 + 2 direct and indirect emissions) and ITU-T L.1420; Energy and emissions in 2013 were audited in 2014, 2014 data are in verification process in context of the sustainability reporting of Telefónica S.A. The direct and indirect CO₂ emissions increased at Telefónica Germany GmbH & Co. OHG slightly from 239,380 to 240,711 tons.

2 CO₂ emissions from business travel at Telefónica Germany GmbH & Co. OHG increased from 3,389 to 3,749 tons.

3 Total power consumption of Telefónica Germany GmbH & Co. OHG increased slightly from 489,634 MWh to 492,997 MWh.

4 Power consumption of the network of Telefónica Germany GmbH & Co. OHG slightly increased from 467,907 to 473,356 MWh.

5 Power consumption for offices, shops and call centers at Telefónica Germany GmbH & Co. OHG fell from 21,727 to 19,641 MWh.

6 Water consumption of Telefónica Germany GmbH & Co. OHG fell from 93,059 to 92,014 cubic meters.

7 Paper consumption decreases steadily as result of the internal digitization and the further demand for transition to online accounts.

8 Compared with the previous year paper consumption fell by 14.5% to 500 tonnes in the Telefónica Germany GmbH & Co. OHG.

9 The number of old cell phones includes mobile phones which are brought into recycling process, recycled in "Re-Use" process or accepted through our cell phone trade-in program. In 2014, Telefónica Germany GmbH & Co. OHG collected 17,368 and E-Plus Group 4,048 old cell phones for recycling. For "re-use" Telefónica Germany GmbH & Co. OHG received 1,263 phones (until April 2014) with the trade-in program and 20,417 used devices. The E-Plus Group gathered 10,772 mobile phones in Q4 2014 for "Re-Use". The number of mobile phones collected from Telefónica Germany GmbH & Co. OHG therefore increased compared to the previous year by almost 7%.

10 The increase of 17.8% could be achieved through direct dialogue with the manufacturers about relevant sustainability criteria. For 2015, a unified product portfolio is planned including the continuation of the Eco Index for the Telefónica Deutschland Group.

in a targeted way so that AfB is now the main recipient of hardware disposal. Over 32 tons of PCs, laptops and flat screens were disposed of with AfB in 2014 and 93% of this was recyclable. This represents an increase of almost 92% in comparison to the previous year, when there had been a disposal volume of 2.6 tons. We were thus able to create three jobs for people with disabilities at AfB. In principle, the Telefónica Deutschland Group's IT devices are kept in use for as long as possible. If this is no longer possible, AfB picks up the devices directly from our office locations, guarantees certified erasure of the hard drives, tests and cleans the devices and sells them on with a guarantee of at least twelve months. Devices that are no longer functional are disposed of by AfB after the erasure processes and documented in steps.

Telefónica mobile phone recycling and Happy Handy

Our mobile phone recycling initiatives were a key focus of our environmental commitment again this year: With 21,416³ recycled mobile phones, we made an important contribution to resource efficiency and to our recycling targets in 2014. The income from recycling mobile phones goes to non-profit environmental projects of our cooperation partners. For 2014 these partners were Naturefund e.V. and the Nature and Biodiversity Conservation Union of Germany (NABU). In our O₂ shops and partner shops, we optimise our system for returning old mobile phones by actively bringing our customers' attention to the possibility of returning their devices. We are currently developing additional concepts to increase the ratio of mobile phones returned. In addition, the Telefónica Deutschland Group is involved in the nationwide German campaign "Happy Handy" created by the Information Centre for Mobile Communications (IZMF). From October 2014 to April 2015, the IZMF is calling on associations and schools to collect old mobile phones so that they can be recycled in a professional and environmentally friendly way. The IZMF has high-profile support for this campaign from the German Federal Minister for the Environment, Dr. Barbara Hendricks.

M2M – added value from intelligent machines

With data communication between machines (M2M), we are creating applications that our customers can use to make processes more efficient, reduce costs and thus achieve their business goals better – often with added value for the environment, too. In the context of the energy transition in particular, M2M applications can reduce energy losses by up to 30% with intelligent electricity networks – this is an approach that we will continue to pursue intensively.

In this way we can, for example, enable our customers to reduce emissions with a safer and more efficient driving style by using O₂ Car Connection. Furthermore, using the

product O₂ Fleet Store helps companies to reduce their emissions thanks to safer and more efficient driving.

5. Report on Events after the Reporting Period

Integration and transformation

The change in the legal form of E-Plus Mobilfunk into a limited liability company (GmbH) was entered in the Commercial Register on 26 January 2015. On 4 February 2015, a profit and loss transfer agreement was concluded with Telefónica Germany GmbH & Co. OHG with effect from 1 January 2015 so that, with effect from 1 January 2015, the E-Plus Mobilfunk GmbH including its income tax group subsidiary companies are integrated in the income tax group of Telefónica Deutschland Group.

Yourfone

The sale of yourfone GmbH to Drillisch AG was closed on 2 January 2015.

Framework redundancy plan

The Management Board and Works Councils of the Telefónica Deutschland Group have agreed in February 2015 on a framework redundancy plan that will apply until the end of 2018. Based on the regulations set out in this plan, the implementation of the redundancy programme announced in autumn 2014 could begin in the first quarter 2015 as planned. In this way, Telefónica Deutschland Group is ensuring clarity for the employees and pressing ahead at full steam with the integration in the context of the acquisition of the E-Plus Group completed at the beginning of October 2014.

Private Placement transaction

On 13 March 2015 Telefónica Deutschland Group closed its inaugural private placement transaction in the form of promissory notes (Schuldscheindarlehen) and registered bonds (Namensschuldverschreibung). The transaction was announced on 2 February 2015 with a target volume of EUR 250 million but closed with a volume of EUR 300 million due to the high oversubscription achieved.

In the promissory note format, unsecured tranches with tenors of 5, 8 and 10 years were issued with both fixed and floating interest rates. In the registered bond format, unsecured tranches with tenors of 12, 15 and 17 years with fixed interest rates were issued. All tranches were issued by Telefónica Germany GmbH & Co. OHG, Munich.

The EUR 52 million sized fixed rate tranche with a 5-year tenor yields 0.961%, the EUR 60.5 million sized floating rate

³ In 2014, Telefónica Germany GmbH & Co. OHG collected 17,368 and the E-Plus Group 4,048 old cell phones for recycling.

tranche yields an interest of the 6-months Euribor + 65bps margin.

The EUR 19.5 million sized fixed rate tranche with a 8-year tenor yields 1.416%, the EUR 1.5 million sized floating rate tranche yields an interest of the 6-months Euribor + 85bps margin.

The EUR 29.5 million sized fixed rate tranche with a 10-year tenor yields 1.769%, the EUR 9 million sized floating rate tranche yields an interest of the 6-months Euribor + 105bps margin.

The volume of the 12, 15 und 17 year tenor tranches amounts to EUR 3 million, EUR 33 million and EUR 92 million, with respective yields of 2.000%, 2.250% and 2.375%.

All tranches were issued at par.

The promissory notes and registered bonds can be transferred in a minimum amount of EUR 500 thousand. The proceeds of the transaction will be used for general corporate purposes.

Changes in the Supervisory Board of Telefónica Deutschland

María Pilar López Álvarez resigns from her function as member of the Supervisory Board of Telefónica Deutschland with effect of the end of the Annual General Meeting in which her successor shall be elected.

Declaration of Telefónica Deutschland on authorisation application of Telefónica Germany GmbH & Co. OHG to award spectrum under "Project 2016" by the Federal Network Agency

As part of the allocation of frequencies under "Project 2016" by the Federal Network Agency in the fields at 700MHz, 900MHz, 1,800MHz and 1.5GHz for mobile access for the supply of telecommunications services, the Telefónica Deutschland is obligated as parent company of Telefónica Germany GmbH & Co. OHG to ensure unlimitedly that Telefónica Germany GmbH & Co. OHG is equipped in such a way that all funds necessary for the fulfillment of a submitted bid to acquire a frequency in the auction process and all resources needed for the planned investments in the development and expansion as well as the operation of the mobile network will be permanently available. These obligations are based on the specified supply obligations and their time frame.

Procedure on the allocation of frequencies in the ranges 700MHz, 900MHz, 1,800MHz and 1.5GHz

The Federal Network Agency published on 28 January 2015 the presidential chamber's decision on the arrangement and selection of the allocation procedure and on the allocation conditions and auction regulations for the allocation of frequencies in the ranges 700MHz, 900MHz, 1,800MHz and 1.5GHz was finally made and published. With the publication of the decision, the admission procedure for the auction was opened. Telefónica Deutschland Group submitted the applications for admission to the auction to the Federal Network Agency as of 5 March 2015. The auction is scheduled to be held in the second quarter of 2015. Telefónica Deutschland Group has filed an action against the decision of the presidential chamber in the first instance purely in a timely manner, on which has not yet been decided.

Dividend proposal for the 2014 financial year

Management Board of Telefónica Deutschland proposed to the supervisory to suggest to the Annual General Meeting (scheduled on 12 May 2015) the distribution of a dividend in the amount of approximately EUR 714 million respectively EUR 0.24 per share.

There were no additional material transaction, that have an impact on the financial statements as of 31 December 2014.

6. Risk and Opportunity Management

The following explanations of risk and opportunity management essentially relate to the Telefónica Deutschland Group. Since the Telefónica Deutschland Holding AG is responsible as a management and holding company for the management of the Telefónica Deutschland Group, all the risks and opportunities also relate to the Telefónica Deutschland Holding AG, on the basis of which a comprehensive, group-wide view is represented.

The Telefónica Deutschland Group anticipates and recognises new business opportunities in order to increase the long-term company value and to pursue growth in revenue. However, to maximise these opportunities and increase efficiency the corporation also has to take certain risks. Our risk management is designed to recognise these risks early and to actively manage them.

6.1 Risk Management and Financial Instruments

General financial market risks

The Telefónica Deutschland Group is exposed to various financial market risks as part of its business activity. Due to Telefónica Deutschland Group's regional focus of its activities, however, it is not significantly affected by e.g. foreign currency risks. The Telefónica Deutschland Group is exposed to the risk of default from operative business (trade receivables). Related parties receivables are mainly related to a subsidiary of Telefónica, S.A. Group.

In addition there are liquidity risks for the Telefónica Deutschland Group that are connected with credit risks, market risks, a weakening of operative business or disruptions of the financial market.

If such financial risks occur, they may lead to negative impacts on the asset, financial and earnings position and the cash flow of the Telefónica Deutschland Group. The Telefónica Deutschland Group has developed guidelines for risk management processes and for the use of financial instruments including a clear separation of tasks with respect to financial activities, invoicing, financial reporting and associated controlling. Derivative financial instruments are used solely to manage the risks from trade and general corporate financing. The Telefónica Deutschland Group has developed guidelines derived from established standards for the evaluation of risks and monitoring with regards to the use of financial derivatives.

Market risk

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

Currency risk

The underlying currency of the financial reports of the Telefónica Deutschland Group is the Euro. All financial statements of all subsidiaries of Telefónica Deutschland Group are also prepared in Euro; thus the Telefónica Deutschland Group is not subject to any translation risk. However, aside from the translation risks there is a transaction risk that primarily arises from the business relationship of the Telefónica Deutschland Group with its suppliers or business partners in countries with a different national currency than the Euro. Because the Telefónica Deutschland Group finances itself exclusively through self-generated cash in Euro as well as Euro-denominated equity and debt, there is no exchange rate risk through debts that are denominated in a different currency than the Euro. The net risk position from foreign currency risks in the statement of financial position is comprised of non-derivative and derivative financial instruments denomi-

nated in foreign currencies, as well as future positions in foreign currencies in the following year.

Derivatives are contracted with Telefónica, S.A. Group Treasury to hedge against identified key currency risks.

Interest rate risk

Interest risks arise predominantly from cash pooling accounts and deposits of the Telefónica Deutschland Group as well as through loan agreements as borrower and interest swaps. The Telefónica Deutschland Group deposits cash surpluses almost exclusively in cash pooling and deposit accounts with Telfisa Global B.V., Netherlands. These accounts and the bank accounts pay a variable interest rate. The loan agreements where the Telefónica Deutschland Group is the borrower carry a variable interest rate. In November 2013 and February 2014, interest rate swaps were signed in each case in connection with the issue of bonds for a partial amount of the bonds' nominal values. On the basis of these interest swaps contract, the Telefónica Deutschland Group pays a variable interest rate on a nominal amount and receives a fixed interest rate on the same amount in return. These interest rate swaps compensate, to the level of their nominal amounts, the effects of future market interest rate changes on the fair value of the underlying fixed-interest financial liabilities from the bond issues (fair value hedge). Hedge accounting for these hedge relationships complies with IAS 39. At the start of each hedge relationship, both the relationship between the hedge instrument and the underlying transaction as well as the goal and strategy of the hedge were documented. A specific allocation of the hedging instrument to the corresponding liability took place and an estimate of the degree of effectiveness of the hedging relationship was made. The existing hedging relationship is continuously monitored for effectiveness.

Credit risk

Credit risk describes the risk of financial losses from the inability of contractual partners to repay or service debts in accordance with the contract. The Telefónica Deutschland Group's maximum credit risk corresponds with the carrying amount of the financial assets (without considering any guarantees or securities).

The Telefónica Deutschland Group considers the management of the commercial credit risk to be critical in order to achieve its goals for sustainable growth of the business and the customer base in harmony with its risk management guidelines. Suitable processes have been established for the management and the monitoring of the credit risk. This approach for credit risk management is based on the ongoing monitoring of the expected risks and the level of default. Here, particular attention is paid to customers who can have a significant effect on the Consolidated Financial Statements of Telefónica Deutschland Group and for whom, depending on the business area and the type of relationship, appropriate credit management instruments are used such as

credit insurance or security to limit the credit risk. To control the credit risk, the Telefónica Deutschland Group regularly conducts an analysis of the maturity structure of trade receivables and only reports adjustments for doubtful receivables with a credit risk. The Telefónica Deutschland Group has concluded cash pooling and deposit agreements with Telfisa Global B. V. with regards to its cash surpluses in accordance with Telefónica corporate policy, and it deposits the majority of its cash surpluses there. The majority of cash surpluses of the Telefónica Deutschland Group are thus concentrated in Group companies of the Telefónica, S.A. Group. Telefónica, S.A. is rated by international rating agencies with an investment grade rating. The remaining cash surpluses are distributed across several German banks that have been rated by international rating agencies with investment grade.

Liquidity risk

Liquidity risk includes the risk that a business cannot comply with its financial obligations, which are processed either in cash or with other financial assets. To manage liquidity risk, the Telefónica Deutschland Group ensures that it has sufficient liquidity at all times to fulfil its obligations, both under normal and under demanding circumstances. The Telefónica Deutschland Group works on its liquidity management closely with Telefónica, S.A. Group and, in accordance with the corporate policy, has concluded cash-pooling and deposit agreements with Telfisa Global B.V., Netherlands. It deposits the majority of its cash surpluses there. Liquidity risk is reduced by the inflowing funds generated by the operative business of the Telefónica Deutschland Group, by the opportunity to factor receivables and by maintaining (currently unused) credit facilities.

Capital management

The Telefónica Deutschland Group strives to guarantee the sustainability of its business and to maximise the business value. It monitors its capital costs with the goal of an optimal capital structure. In particular, the Telefónica Deutschland Group monitors its equity ratio and OIBDA.

6.2 Risk Management and Risk Reporting

Fundamental risk management principles

As part of our business activity we are confronted with various business, legal, financial and other (global) risks. We perform our services on the basis of the organisational, strategic and financial decisions and provisions made by us.

Every business activity involves risks that can prejudice the process of goal-setting and goal fulfilment. These risks arise from the uncertainty of future events – often due to insufficient information – and have the result that objectives can be missed. If risks are not recognised and dealt with they

can endanger the successful development of the corporation. In order to react appropriately to this fact, the corporate management has introduced a risk management process. This is intended to guarantee immediate and complete transparency with regard to new risks and changes to existing risks.

Risk management is an immanent component of the decision-making process with the Telefónica Deutschland Group. The process ensures that risk evaluations are taken into account for the decision-making and measures are taken early to minimise and deal with the risks. As a result the evaluation, communication and management of risks is the task of all managers of the corporation. A lower limit for the recognition of risks is generally not set. The risk management department compiles the corporation's risk registry, which also covers the subsidiaries. As part of the creation of the risk registry it is ensured that risks of a similar type or of cumulative effect are aggregated and thus provided for overall consideration. In addition the so-called bottom-up approach, i.e. the identification of risks through the operative units, is complemented by the top-down approach, in order to ensure a cross-business perspective of risk. The purpose of the top-down approach is to ensure that risks that can only be identified at the highest management level or on the basis of a group-wide consideration, are discussed with the operationally responsible units in order to enable a full classification as well as integrated management and to evaluate the relevance for future reporting. Here the role is continually in contact with all areas of the corporation and our risk coordinators in order to progressively pursue and evaluate risks and their management and development. Responsible employees are individually trained in order to ensure a uniform, structured process of risk identification and evaluation. In addition, fundamental training is available for participation by all employees in order to generally raise their awareness of the management of risks.

Risks are evaluated with regard to their effect on our business goals both from an operational and a financial viewpoint. The risk registry is based on a data base that contains all identified risks, their status and defined action plans.

In a formal forward-looking process, the risk registry and Telefónica Deutschland's total risk and that of its subsidiaries are the subject of quarterly reporting to the Management Board. The Audit Committee is regularly informed about risks and their development.

Opportunities are not recorded in the risk management system.

Risk evaluation

In the following section the risks are illustrated that can significantly prejudice our financial situation, our competitiveness or our ability to implement the objectives. They are presented in line with the net principle, under which only the

risks that remain after implementing risk limitation measures are presented and evaluated.

To ascertain the risks illustrated in the following with significant influence on the business development, we use a 5 x 5 matrix as a starting point, within which the potential level of damages and the relevant probability of occurrence are each divided into five categories:

7—Risk profile

**Economic Impact
on cash flow base**

very high	15	16	20	23	25
high	9	12	17	21	24
medium	4	10	13	18	22
low	2	5	11	14	19
very low	1	3	6	7	8
	remote	possible	very possible	probable	very probable
	Likelihood				

■ Critical Risks ■ Moderate Risks □ Minor Risks

From the combination of the potential level of damages and the estimated probability of occurrence, the individual risk points are divided into three categories (critical, moderate and minor risks). All risks with a very high potential level of damages are seen as critical for the corporation, and here the estimated probability of occurrence is not taken into account. With an increasing probability of occurrence the risk points with a high or medium potential level of damages also fall into this category.

Essentially, the lower threshold value for risk reporting to the Management Board and the Supervisory Board (Audit Committee) is currently EUR6 million. In addition, risks with only a low potential impact are not described in detail to the Management Board and the Supervisory Board (Audit Committee), but rather are reported in summary. Such risks are identified, documented and administered by the relevant management levels as part of the risk management process.

For internal use and reporting within the group, risks are divided into business risks, operational risks, financial risks and other (global) risks; this division also forms the basis of this section of the report. The relevant risks from the business risk, operational risk and financial risk areas are discussed in accordance with their ranking in the relevant category.

In addition, our corporation can be influenced by other or additional risks of which we are presently unaware or that we do not consider significant in accordance with the current state of knowledge. Moreover, it cannot be precluded that risks that are currently estimated as minor will change within the period of the prognosis in such a way that they can have a potentially greater effect than the risks currently estimated as critical.

6.3 Risks

Business risks

Competitive markets and changing customer demands

We operate in markets characterised by a high level of competition and continuous technological developments. Our corporation faces increasing competition with alternative telecommunications service providers – among them cable operators, MVNOs and corporations for entertainment electronics – and competes in addition with alternative telecommunications services like OTT (Over-The-Top). In order to prevail against these corporations we have to successfully market and make available our services and products. We have to react to the business activities of our competitors and anticipate technological changes, new customer needs and the general economic, political and social conditions. This implies a significant risk in achieving our growth and earnings targets.

Regulatory environment

We operate in a strongly regulated market environment and decisions made by the regulatory authorities can directly and critically influence services, products and prices.

Licences and frequencies

Our licences and frequency usage rights are limited in time and dependent on a preceding assignment, which represents a significant risk to the operation and development of the network. If we do not extend or cannot newly obtain the licences and frequency usage rights necessary for our business or if the financial conditions for the use of these licenses and rights change significantly, this can operate to the detriment of our business activity.

In this context, it is to be referenced to section 2.1.2 Regulatory influences on the Telefónica Deutschland Group and the future development of mobile service licenses as described therein. The frequencies allocated to the Telefónica

Deutschland Group in May 2010 for providing services in line with the LTE standard are not affected by the described allocation. The procedure involves three main risk areas for the Telefónica Deutschland Group.

Firstly, there is a risk that after the auction it may no longer be possible to use all the currently available spectrum, having the effect that capacity or bandwidths that are planned for the future cannot be fully realised. There is also a risk that during the auction an additional company could acquire a sufficient nationwide frequency spectrum to establish itself as another market participant (newcomer). Based on the conditions imposed by the European Commission for the acquisition of the E-Plus Group, the Telefónica Deutschland Group would be required to provide a newcomer of this kind with infrastructure and network capacity in return for payment. This could result in a further increase in competition on the German mobile telecommunications market.

In addition, the auction of mobile communications frequencies also entails a risk that considerable and possibly non-forecast financial expenses could be required in order to purchase the desired frequency bands by auction.

To evaluate and reduce the risks, an internal working group was already set up some time ago. This working group assesses different scenarios of the auction results, their effects and possible responses and maintains continuous contact with the Federal Network Agency.

There is also a moderate risk of a negative impact on the performance and expansion of our mobile telecommunications network in the event of delays in the approval of usage rights, particularly for radio relay frequencies, by the Federal Network Agency and of a change in the specifications for the maximum permitted transmission power due to new regulations regarding the electromagnetic fields.

Non-approval of planned business mergers, takeovers, sales or cooperations

The Telefónica Deutschland Group constantly evaluates opportunities to achieve increases in efficiency and operative profit also through cooperations, additional purchases and mergers, as well as through the sale or spin-off of business segments or parts of companies. Agreements between corporations who are active in the same or neighbouring substantive markets are subject to the supervision and by large to the requirement for approval from the responsible cartel authorities (European Commission, Federal Cartel Office, Federal Network Agency). Furthermore it is possible to issue approvals only on certain conditions. The withholding of approval or the stipulation of extensive remedies carries the significant risk that the profitability of the agreement is reduced, planned savings, synergies and growth expectations cannot be generated to the full extent or the possibility that contractual damages become due.

Termination fees in mobile communications

The termination fees in mobile communications have sunk in Europe in recent years and there have also been considerable reductions in Germany of around 84.3% since 2006. Various reviews of these fees and court processes regarding regulatory measures have not yet concluded. The European Commission intends to make a further considerable reduction to fixed and mobile telecommunications termination fees and has issued a recommendation for the calculation of these tariffs by the relevant national regulatory authority. As a result, the provisional decision of the German Federal Network Agency from 26 November 2014 is subject to approval by the European Commission (notification process). Because the Federal Network Agency has not completely followed the recommendation to date, there is a moderate risk that the decisions of the Federal Network Agency could be changed. Moreover it is possible for third parties to submit comments and to proceed contrary to the decisions. Any further reduction in the termination fees would have negative effects on the earnings of the Telefónica Deutschland Group.

Termination fees in fixed communications

Like all operators of their own networks, the Telefónica Deutschland Group is subject to a regulation with regard to the prices that can be charged to competitors for termination services to its own network.

At the end of February 2014, a provisional decision of the Federal Network Agency was issued to Telefónica Germany GmbH & Co. OHG regarding the local FTRs that applied from 20 November 2013 until 30 November 2014. This decision is currently going through the notification process in the European Commission. For the fees from 1 December 2014 onwards, a provisional approval with slightly reduced uniform FTRs was issued in November 2014.

As expected, the amount of the fee was again based on Telekom Deutschland AG's fee. The regulatory decision and the approved fees were broadly implemented on the market. Based on the affected chargeable traffic and the assumption that a further significant change in the termination fee is unlikely, we assess this risk as moderate.

Other regulatory influences on fees

Other price-regulated services include international roaming and SMS and data services for roaming customers. The European Parliament and the European Council have approved the Roaming III Regulation, which sets fee caps for voice and SMS services at the level of end-customers and large customers. In addition, Roaming III regulates the data roaming prices at the level of the end-customer and large customers and establishes rules to increase price transparency and to better explain fees to roaming customers. Since 1 July 2012, MVNOs have had the right to use the networks of other operators at large customer fees in order to offer roaming services. Since July 2014, mobile telecommunications network operators

have been required to separate the sale of roaming services and domestic mobile telecommunications services. This gives customers the opportunity to choose another network operator for roaming calls. It is not yet clear whether there will be connections with alternative roaming providers. The regulatory authorities can take additional measures at any time in order to curtail roaming tariffs and fixed or mobile telecommunications termination fees. They could similarly oblige us to grant third parties access to our networks at reduced prices. There is a moderate risk that further reductions of these tariffs and fees could prejudicially affect our business activity, our financial situation and our earnings.

In order to guard against these regulatory risks the Telefónica Deutschland Group maintains close communications with the decision makers on a national and international level in order to bring our interests and standpoint into the decision-making process in good time. Moreover, we review and use legal protective mechanisms against decisions of the regulatory authorities in order to actively foster positive changes for us.

Changes in the regulatory requirements for collecting and validating customer data

For some time already, there have been calls from politicians and the Ministry of the Interior for more stringent regulatory requirements in accordance with section 111 TKG for collecting and validating customer data, particularly for prepaid contracts. An increase in the requirements for the selling and registration process entails a risk that established sales channels could no longer be used, or not with the same degree of efficiency, which could result in additional costs for acquiring new customers. In order to guard against this regulatory risk, the Telefónica Deutschland Group maintains close communications with the decision makers on a national and international level in order to bring its interests and standpoint into the decision-making process in good time. In addition, the registration processes are continuously improved in close coordination with the regulatory authority so as to reduce the necessity for more stringent requirements. In view of the measures implemented to counter it, we consider this risk to be moderate.

Additional regulatory standards to improve customer protection

Legislative initiatives to improve customer protection have been discussed and adopted at national and European level in the past. In addition to the potential effects on roaming and termination fees in particular, as described in previous reporting periods, these initiatives also include increased requirements with regard to informing customers about the costs and conditions of telecommunications contracts. The requirements from the implementation of the Consumer Rights Directive in national law have been successfully implemented at the company. If we are unable to implement the

new requirements in full or on schedule, particularly those arising from the planned transparency regulation, then individual sales channels could experience restrictions. In addition, there is a risk that the planned customer and revenue growth cannot be achieved or will be delayed. To counter this risk, the necessary technical changes have already been commissioned and manual processes have been prepared internally and at outsourcing partners. Taking these measures into account, the risk is considered low.

Insurances

Considering the existing opportunities and evaluating financial efficiency, the Telefónica Deutschland Group makes use of the opportunity to counter risks by taking out insurance policies. In particular, risks in connection with the operation of the technical infrastructure and breaches of copyright or patent rights are thereby significantly reduced, essentially to the selected excess.

Despite an existing risk management process, there is a moderate risk that unforeseen events will entail financial losses, should our accruals or our insurance cover turn out to be insufficient. As part of the management of our insurance protection, a regular review of our insurance cover takes place with the goal of achieving the best possible cover for all conceivable risks.

Macro-economic factors

Macro-economic factors can prejudice consumer spending and growth prospects for the German telecommunications market in general and have a negative influence on our market penetration of new added value services, the use of our networks for voice and data traffic, our customer numbers and thus our revenues.

Recessive general conditions could likewise lead to an increase in payment defaults and/or delays by our customers, greater customer migration and difficulties in gaining new customers. In consideration of the overall current economic climate, we see the low risk of a negative influence on the desired growth and earnings targets.

Acquisition and sale of parts of the business as well as joint activities

There is a low risk that we may make acquisitions or sales or enter into joint ventures which could generate lower-than-expected revenues, profit or liquidity. The risk could also mean that it will not be possible to fully generate synergies in the event of delays or issues with the integration.

Operational risks

Service quality

The success of our business activity is dependent on our ability to gain customers and to retain existing customers. A key factor for success here is anticipating technical requirements

and the desires of customers and reacting to them in good time. False interpretations or incorrect decisions could imply the significant risk of negatively influencing the acceptance of our products by customers and could lead to us not reaching our growth and earnings targets.

There is a significant risk that lasting or repeated disturbances or damages in our mobile telecommunications or fixed networks and in our technical facilities could have a negative influence on customer satisfaction and result in a loss of customers or service revenue losses. In addition there is a risk that costly repairs are required to restore operations.

Supplier defaults

As a mobile telecommunications and fixed operator and a provider of telecommunications services and products, we are (like other corporations in the branch as well) dependent on a few main suppliers (e.g. Deutsche Telekom AG, BT Germany, ZTE Services Deutschland GmbH, Atos Information Technology AG, arvato AG), which implies a significant risk. These suppliers make important products and services available that primarily relate to the IT and network infrastructure. If these suppliers do not make their products and services available when due, this could endanger the operation and expansion of the network, which in turn could prejudicially affect our corporation and its earnings. The same applies if service providers to whom we award projects for reasons of efficiency do not perform the services by the required deadline or to the required quality. As part of our supplier management, we continuously evaluate risks and the quality of the services made available in order to be able to identify weak points early on and take preventative action against them.

Termination of leases for technical sites by the lessor

The Telefónica Deutschland Group depends on leased sites for technical facilities, particularly antenna sites, for the expansion and operation of its mobile and fixed network. If there is an unexpected significant increase in the number of leases terminated by the lessors and the affected sites cannot be substituted by redundant sites of the Telefónica Deutschland Group, this would represent a significant risk to business activities, since new sites would have to be found and set up at considerable expense.

Dependence on services of the major shareholder Telefónica and of KPN

Even after its own IPO and the merger with the E-Plus Group, the Telefónica Deutschland Group still obtains services and inputs from the Telefónica, S.A. Group to a significant extent. There are a range of contracts, particularly in the areas of financial management and IT services. The use of the core brand O₂ in Germany is also subject of a licence agreement with O₂ Holdings Ltd., a subsidiary of Telefónica S.A. There is a long-term agreement with KPN regarding the use of the

BASE brand in Germany. There is a risk that the services provided by the Telefónica, S.A. Group to date can no longer be provided and cannot be purchased on the market or not at equally favourable conditions. Based on the considerable importance of trademark rights for our business activity, we consider this risk to be significant even though there are no indications of a future interruption of service relationships.

Legal risks

As part of its business activity, the Telefónica Deutschland Group is required to comply with a large number of laws. In the areas of competition law and data and customer protection in particular, the telecommunications market and the companies operating on it are subject to particular scrutiny by national and European authorities, organisations and associations. In the recent past, there have been repeated investigations and proceedings against companies on the European telecommunications market.

An infringement of legal provisions intrinsically poses a risk to the business activity, success and reputation of the company. Infringements of antitrust law represent a significant risk due to the possibility of significant fines and penalties being imposed.

In the course of our business activity, we also collect and process customer data and other personal data. Misuse or the loss of such data could represent a breach of the relevant laws and provisions and result in fines, loss of reputation and the migration of customers. In addition we could be confronted with lawsuits that relate to the breach of third party intellectual property rights. Equally we may not be capable of appropriately protecting our own proprietary rights.

Contractual penalties or claims could result from contracts with sales partners, suppliers and customers if we do not comply with our contractual or legal obligations or fail to meet agreed purchasing quantities, for example.

In order to avoid legal risks, particularly from competition and data protection law, the Telefónica Deutschland Group has established a compliance management system. Components of this management system include the applicable business principles, a number of guidelines and ongoing employee training with regard to the main legal provisions and standards. In addition, legal risks are covered by insurance where permitted, particularly in the case of infringement of intellectual property and trademark rights. The Telefónica Deutschland Group also maintains an internal compliance department and a legal department and has continuous contact with external law firms, authorities, associations and official groups. However, due to the numerous legal obligations, complex agreements and conflicting interests, particularly with consumer protection organisations, there is a moderate risk that our business result or reputation could be negatively influenced.

Specific risks from the acquisition of the E-Plus Group

Loss of expertise and management resources

The integration of the E-Plus Group will demand a lot of time and attention from the management. Should the integration efforts keep management from other responsibilities, this could have detrimental effects on the company's success.

In addition, the Telefónica Deutschland Group is dependent on successful integration, the implementation of the joint strategy and the future commitment of employees in key positions. A loss of employees in key positions and/or expertise could delay or negatively influence the integration of the E-Plus Group in the Telefónica Deutschland Group, which could detrimentally affect the business success of the Telefónica Deutschland Group.

Taking account of the organisational measures taken, particularly the rapid appointment of the Management Board members, the managing directors of the subsidiaries and managers at the top level below the Management Board, we consider this risk to be low.

Failure to achieve the anticipated synergies

Any significant delay or unplanned increase in costs in the integration of the E-Plus Group with the Telefónica Deutschland Group could detrimentally influence or delay the attainment of the planned synergy effects or lead to a reduction in customer satisfaction associated with increased customer migration, which could significantly detrimentally affect the business activity as well as the financial and earnings position of the Telefónica Deutschland Group. A delay in achieving the synergies could lead to the purchase price being perceived as excessive on the market and could have a negative impact on the share price performance. In addition, a risk remains that the assumptions underlying the calculation of synergies about the future development of the company and the market environment do not occur as anticipated. If unforeseen changes occur in the macroeconomic situation, the legal and regulatory regime, the competitive environment, the customer behaviour, the acceptance of the product portfolio or the technological development, or should the synergy calculation supportive corporate strategy be fully or partly changed, this could have a negative impact on the timely achievement of the calculated synergies.

The operational risk of the acquisition have been recognised by the Management Board and taken into account in the planning of the integration of the E-Plus Group in the Telefónica Deutschland Group. Special working groups have been set up before the closing of the transaction that assumed operational responsibility for preparing the integration, thus reducing the overall risk to a low level. At the time this report was prepared, the Management Board of Telefónica Deutschland had already appointed managers with responsibility for both company groups and thereby ensured smooth business activity.

Major projects were launched, which will ensure the timely achievement of synergies. In particular, measures to reduce operating costs were initiated, such as the harmonisation of processes, integration of IT systems, merging mobile and transport networks, reduction of sites, reducing redundant staff and consolidation of suppliers. In addition, projects were launched to improve market position. For example selected end customer and business customer products are already offered in all sales channels of both Groups. In some regions, it was started the enablement for a so called national roaming which allows customers to use the UMTS networks of both groups to ensure a higher customer satisfaction and demonstrate the benefits of the transaction for the customer.

After the start of the joint operations, a separate area was established, which aims to ensure the smooth integration of the two companies, as well as the timely implementation of started projects to achieve the synergies. A matrix organisation with defined responsibilities in all operational areas as well as close interaction with the strategy area supports the exchange of information and allows adaptation to changing circumstances at any time. The Board is briefed regularly on the target achievements and the status of projects.

In view of the established policies and projects, the ongoing review and adaptation of the strategy to achieve the synergies and considering the financial results from the last quarter of 2014, we consider the risk of failure to achieve the synergies to be low.

Legal risks of the acquisition of the E-Plus Group

The transaction could entitle customers, suppliers, service providers or other contractual partners to terminate their contractual relationships with the E-Plus Group or could result in contractually agreed restrictions for the Telefónica Deutschland Group.

The E-Plus Group has a number of contracts that include a change-of-control clause or other provisions that could bring about a detrimental change in the contractual relationships. Furthermore, some contracts stipulate payment obligations or other benefit obligations in the event of a business transfer. The transaction meets the criteria of a change of control. In addition, some contracts with wholesale partners of the E-Plus Group contain clauses that prohibit the conclusion of contracts of the same type with competitors of these partners – including competitors that are already partners of the Telefónica Deutschland Group. If the E-Plus Group is unable to negotiate a release from these obligations or restrictions, then the acquisition of the E-Plus Group by the Telefónica Deutschland Group could lead to considerable restrictions of contractual rights and of the possibility to conclude contracts, to enforce rights from contracts (e.g. voting rights or revenues in corporate equity investments) or to

make use of affected agreements on the joint use of licences. Moreover, the change-of-control clauses could be an obstacle to the extension of wholesale, supply or service agreements. This could have a significant impact on the earnings position and operational business of the Telefónica Deutschland Group. Furthermore, we could be exposed to risks from problems that have not been revealed as part of the due diligence investigations preceding the transaction or that are covered only to a limited extent by exemptions from liability or warranty in the purchase agreement. All contracts are currently going through an in-depth legal review and the organisational and legal options for eliminating or reducing the risks are being examined. Based on the currently available information and the status of the project, we consider this risk to be moderate.

Tax law risks of the acquisition of the E-Plus Group

The structure of the acquisition of E-Plus Mobilfunk could result in the Telefónica Deutschland Group being held liable for tax liabilities or utilised shareholder loans of KPN Mobile Germany.

The restructuring of the new E-Plus Mobilfunk prior to the transaction also included the reorganisation and combination of subsidiaries and the transfer of non-current assets and liabilities from KPN Mobile Germany (formerly E-Plus Mobilfunk) to a newly established company (established with the name E-Plus Transition GmbH & Co KG and subsequently renamed E-Plus Mobilfunk). All tax and payment liabilities of KPN Mobile Germany for the period prior to 1 January 2014 have been excluded from transfer and remain with KPN Mobile Germany. However, owing to the legal situation in Germany, E-Plus Mobilfunk remains liable in addition to the principal debtor for a period of five years after the restructuring. As part of the spin-off, KPN Mobile Germany exempted the Telefónica Deutschland Group from all these obligations. The same was agreed with KPN in the context of the purchase agreement. However, should both KPN Mobile Germany and KPN be unable to fulfil their exemption agreements, E-Plus Mobilfunk could still be called upon.

In view of the fact that this only relates to contingent liabilities in the event that the above mentioned companies of the KPN Group can not meet their financial obligations and considering that these companies are regarded as solvent, we consider the risk as low.

Personnel

We are competing with other companies when it comes to qualified and experienced personnel. For this reason, we implement employee surveys, internal projects and a well-balanced remuneration, training and work structure to maintain high employee satisfaction and the positioning of the Telefónica Deutschland Group as an attractive employer. Taking as a basis the results of internal and external surveys, we consider the risk of a shortage in personnel to be low.

Financial risks

Taxes

Like every corporation, we are regularly subject to tax audits. These include per se the risk that higher subsequent tax payments for prior tax periods can be determined, if the tax authorities have a divergent opinion about the interpretations and calculation principles that form the basis of our tax declaration. That is a significant risk because of the potential financial impact of a different interpretation.

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

In addition, there is a low risk that we could be unable to use our tax loss carry forwards in full.

Liquidity

We operate a capital-intensive business, which makes significant investments necessary. We have established a comprehensive investment programme for which significant outlay will be necessary in the foreseeable future as well. Among other things, the programme is aimed at the maintenance and optimisation of our mobile telecommunications and fixed networks and further investments for the expansion of the HSPA (High Speed Package Access) and LTE technology. The costs for the frequency usage rights, which are necessary for the operation of our existing networks and technology, the costs and the rental expenses for their availability and the costs associated with our fixed networks form a significant part of our cost base and could increase (similarly part of the business risks). We are convinced that we can comply with our financial obligations in the next twelve months. We have negotiated favourable payment and delivery conditions with our suppliers and concluded cash pooling and factoring contracts to improve our working capital. However, it cannot be guaranteed that such arrangements or agreements will also be possible in future or can be concluded on favourable conditions. Further, in the future we may not be capable of generating sufficient inflows of financial funds to cover our investment needs. With regards to our further growth, our planned strategy, the market developments or the development of new technology, we may therefore need additional sources of finance for our working capital. As a result we may have to take up additional debt or equity, possibly at a considerable level. Our ability to take additional capital to finance our business activity could be influenced by various factors here, for example by market interest rate changes, restrictive agreements in connection with our debt instruments or by a downgrading of our credit rating or the credit rating of our majority shareholder. Future loan agreements could contain clauses that limit our financing opportunities or work against us in the implementation of business changes. Because we are exposed to the credit risks of our

customers, the recovery of receivables could be complicated and as a result our working capital position could be encumbered. Overall we assess the risk concerning liquidity as low.

Other (global) risks

At the end of the financial year no significant other (global) risks are present.

6.4 Opportunity Management

The consistent use of entrepreneurial opportunities with respect to future revenue and OIBDA potential as well as their early and continuous identification, analysis and management is a significant task of the management of Telefónica Deutschland Group.

The opportunities and growth potential ascertained in the strategic goal-setting process are prioritised as part of an annual planning process in close cooperation with the individual business areas and relevant strategic goals are derived from this. To measure the strategic implementation, concrete financial objectives in the form of finance-related Key Performance Indicator (KPIs) are defined at the level of the organisation units.

Opportunity management is a significant component of the entire process for strategic goal setting. It occurs both as part of the budget creation for the coming twelve months as well as within the long-term planning.

Opportunities are neither recognized in the risk register nor quantified.

Opportunities

Greater demand for mobile data and LTE

The development of the German telecommunications market will continue to be driven by mobile data business and the increased use of mobile data devices like smartphones and tablets. Generally, a substantial increase in demand for mobile data is conceivable via various effects. Firstly, demand for data will be strengthened in 2015 through the further roll-out of LTE networks and increased penetration of LTE devices and plans. The higher transmission rates of LTE in comparison to UMTS are also encouraging customers to make increasing use of data-intensive services such as music streaming and video streaming on mobile devices. As a consequence, LTE customers have higher data consumption than UMTS customers, meaning that LTE customers require a higher data volume in their tariff, which has a positive impact on their mobile service revenues. In addition, demand may also be influenced by potential new services, additional devices connected with the internet or growing popularity of existing data-intensive services.

Should the individual facets of the German telecommunications market, such as smartphone penetration, demand

for LTE or average monthly data consumption per customer, develop more positively than set out in our forecast, then our financial and operating results could exceed our current outlook.

Expansion of our LTE network and extension of the UMTS network via roaming

As already mentioned in section 1.2 Goals and Strategies, in 2015 we will progress further with the expansion of our LTE network. We will also activate national roaming for both of our UMTS networks, which will have a very positive impact on network quality. Should our expansion of the LTE network proceed more quickly due to more positive general conditions or should our customers respond to the better 3G and 4G network quality more positively than illustrated in our prognosis, our share of mobile data business could grow more strongly than predicted and thus our financial revenue and operating results could exceed our current forecast.

Cooperation with Telekom Deutschland GmbH in the fixed network

Higher availability of high-speed VDSL connections due to a faster than planned roll-out by Telekom Deutschland GmbH or technical advances that increase the maximum transmission rate of this product to over 100 Mbit/s could lead to stronger than anticipated demand for our VDSL products on the basis of the fixed network cooperation described in section 1.1.2 Business activity. This would have a positive impact on our revenues and OIBDA and lead to us exceeding our forecast.

Digital innovation

In order to fully exploit our position on the German market for mobile telecommunications services and to monetise additional opportunities for growth, we have introduced innovative digital products and services in various areas such as communication, financial services, M2M, Car Connection and in the smart home area, or we plan the introduction of these shortly.

Should the demand for our digital products and services develop better than currently expected, this could positively affect our financial and operating results and lead to us exceeding our forecast.

Digitalisation of service processes

In many industries, including telecommunications, a trend towards "self-care" can be observed. Processes that were previously performed by service staff are now increasingly carried out by customers themselves online or using smartphone apps. Customers are seen in a more active role and are benefitting from an immediate visual feedback. Additionally there is a permanent availability of "Self-Care" solutions at any time and on any day of the week as well as the avoidance of possible waiting loops. Therefore the Smartphone is increasingly developing into the centre of everyday digital life.

If this trend continues more strongly than expected, this could result in increased customer satisfaction and cost savings in customer service.

B2B market

In 2015, we will launch several initiatives to expand our market position in the business customer segment. Should our business customer segment develop better than currently expected, this could positively affect our revenues and our OIBDA and lead to us exceeding our forecast.

Belonging to the Telefónica, S.A. Group

As a part of one of the largest telecommunications corporations in the world, Telefónica Deutschland Group benefits from economies of scale in the areas of purchasing, cooperations and development of digital products.

Should these economies of scale develop better than currently expected, this could positively affect our revenue and our earnings position and lead to us exceeding our forecast.

Opportunities for higher synergies

As described in section 7 Acquisition of E-Plus, considerable synergies are expected as a result of the acquisition of E-Plus.

If economies of scale have a greater effect than anticipated (e.g. in the form of favourable results of negotiations with suppliers or land lords), this would have a positive impact on the forecast cost synergies. Higher revenue synergies could be generated if, for example, the market success of MS Mobile Service GmbH ("Drillisch") exceeds expectations.

6.5 Summary of the Risk and Opportunities Position

According to our evaluation, the greatest potential effects result from the intensive competition on the German telecommunications market, the regulatory environment and from the issue of the necessity of ensuring high-quality service. New risks arise from the integration of the E-Plus Group in the Telefónica Deutschland Group. Compared to the previous year, we see the most prominent positive development in the risk position in connection with the final granting of approval for the acquisition of the E-Plus Group by Telefónica Deutschland.

With regard to our own measures in the past financial year, we note a reduction of the risks in relation to our ability to make technologically competitive, innovative products available in a timely fashion and to market these via adequate sales channels. The risk with regard to the results of the tax audit for the wage tax returns of the Telefónica Deutschland Group for the period from January 2008 to October 2012 no longer exists since we received the tax assess-

ments (for the assessment period January 2008 to December 2013) in September 2014 and now only the appeals filed by us still remain to be resolved.

In accordance with our assessment, the situation regarding significant risks and opportunities for the Telefónica Deutschland Group has not changed significantly in comparison to the previous year, with the exception of the issues described above.

Presently no risks have been identified by us that either alone or cumulatively with other risks would be capable of endangering the continued existence of our corporation.

We are convinced that, in the coming financial year as well, we will be able to identify relevant risks in good time and to take appropriate measures to counter them by continuing to implement the risk management approach applied to date.

We are confident that the profitability of our corporation forms a solid basis for our future business development and ensures the resources needed in order to pursue the opportunities that offer themselves to the corporation. Considering our technologically high-value product offering, our position in the market, our digital innovation power, the fact that we belong to one of the largest telecommunications corporations in the world, our committed employees and our structured processes to recognise risks early and identify opportunities, we are confident of being able to successfully meet the challenges that result from the risks and opportunities mentioned in 2015.⁴

7. Acquisition of E-Plus

7.1 Overview

On 23 July 2013, Telefónica Deutschland, Telefónica, S.A. and KPN concluded an agreement for the acquisition of KPN's German mobile business, E-Plus, by Telefónica Deutschland.

⁴ Combined figures for 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland Group and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by material extraordinary effects if any, such as capital gains or restructuring costs based on estimates made by the management and resulting in combined figures we believe are more meaningful as a comparable basis. The combined financials are not necessarily indicative of results that would have occurred if the business had been a separate standalone entity during the year presented or of future results of the business. The presentation of the combined consolidated financial information is based on certain assumptions and is intended for illustrative purposes only. The combined information describes a hypothetical situation and thus, due to its nature, the presentation does not reflect the actual results of operations. The assumed acquisition date had been the beginning of the annual period.

As consideration, KPN received shares representing a 24.9% interest in the extended company and approximately EUR 3.6 billion in cash ("cash purchase price"), which will be subsequently adjusted in a final purchase price reduction.

The cash component paid to KPN was financed as described below via a cash capital increase of Telefónica Deutschland. The shares issued as further consideration to KPN were generated via a capital increase against contribution in kind (see below).

Pursuant to the agreement as of 23 July 2013 in the amended version as of 26 and 28 August 2013 as well as of 5 December 2013, 24 March, 7 August and 30 September 2014 and the corresponding assignment agreement, Telefónica, S.A. acquired a share of 4.4% of Telefónica Deutschland from KPN for EUR 1.3 billion. Immediately after the transaction was completed, this resulted in a 62.1% stake in Telefónica Deutschland held by Telefónica, S.A. and a 20.5% stake held by KPN. The free float amounted to 17.4%.

As of 31 December 2014, the Telefónica Deutschland Group, which has also included the E-Plus Group since 1 October 2014, manages a total of 48 million customer connections and is the market leader in Germany in terms of the number of mobile connections, with around 42 million connections as of 31 December 2014.

If the E-Plus Group had been acquired on 1 January 2014, the Telefónica Deutschland Group's combined² revenues for the twelve-month period 2014 would have amounted to EUR 7,793 million.

7.2 Business of the E-Plus Group

The E-Plus Group, headquartered in Düsseldorf, Germany, provides customers in Germany with multi-brand mobile telecommunication services, offering postpaid and prepaid services targeted at multiple market segments. The E-Plus Group was the third largest mobile provider in Germany by number of subscribers, approximately 22.2 million⁵ as of 30 June 2014. Total revenue of the E-Plus Group amounted to EUR 3,143 million for 2013⁶. EBITDA in the E-Plus Group amounted to EUR 916 million for 2013⁷. As of 30 June 2014, the E-Plus Group employed 4,347 full-time employees⁸. The E-Plus Group's multi-brand portfolio includes E-Plus and

BASE as well as various other brands such as a youth-focused brand (yourfone) (Section 5 Report on Events after the Reporting Period), a no-frills brand (Blau), and brands focused on affordable mobile services for various ethnic communities (Ay Yildiz and Ortel Mobile) and an online brand (Simyo), which provides SIM cards for mobile phones online with and without subscription. Wholesale partners of the E-Plus Group include MedionMobile (AldiTalk), ADAC, MTV and the Nature and Biodiversity Conservation Union of Germany (NABU). The BASE brand was transferred to KPN prior to completion of the transaction, it being agreed that Telefónica Deutschland may continue to use the BASE brand in Germany after the transaction.

7.3 Reasons for the Acquisition and Strategy

With the acquisition of the E-Plus Group, we intend to create the leading digital telecommunications company in the German market. We consider the merger as the best way to maintain and increase our competitiveness in the mid- and long-term. We believe that this transaction will create a market player that is excellently positioned in the competitive environment to create an outstanding digital experience for customers. Despite the size of the new company, its self-perception as a "challenger" is to be maintained so that it can continue to set out on new and innovative paths in telecommunications. Section 1.2 Goals and Strategies contains a detailed description of the extended company's strategy. Furthermore, the acquisition is to generate significant synergies that will improve the earnings position and increase free cash flow while still allowing for investments in competitive network infrastructure. In this way, we are establishing the conditions for attractive dividend payments and long-term value for our shareholders.

7.4 Estimated Synergy Effects

We estimate that the transaction will lead to significant synergy effects of over EUR 5 billion⁹, particularly in the areas of

⁵ The number of customer accesses of the E-Plus Group determined on the basis of the definitions and calculation policies applied by Telefónica Deutschland Group in this regard

⁶ Total revenue taken from the Consolidated Financial Statements of E-Plus Mobilfunk GmbH & Co. KG as of 31 December 2013; Total Revenue of the acquired E-Plus Group adjusted to the accounting standards of Telefónica Deutschland Group for the financial year 2013: EUR 3,252 million (Source: prospectus for the capital increase as of 9 September 2014)

⁷ EBITDA taken from the Consolidated Financial Statements of E-Plus Mobilfunk GmbH & Co. KG as of 31 December 2013; EBITDA of the acquired E-Plus Group adjusted to the accounting standards of Telefónica Deutschland Group for the financial year 2013: EUR 688 million (Source: prospectus for the capital increase as of 9 September 2014)

⁸ Source: prospectus for the capital increase as of 9 September 2014

⁹ The total value of synergies is a net present value of the transaction calculated as the sum of the present values of forecasted future cash flows including the so-called "terminal value" (present value of expected future cash flows beyond the explicit forecast horizon) after tax.

network, distribution and customer service, selling, general and administration costs, and CapEx. The cost synergies are offset by integration costs that have already been taken into account in calculating the synergy effects. In addition, revenue synergies and synergies from other areas are calculated in the total amount.

The majority of the estimated synergies will arise after the full integration of the E-Plus Group, which will be completed in the fifth year after the completion of the transaction. Before taxes, the anticipated cash flow from synergies will then amount to EUR 800 million per year. In 2015 (year one of the integration plan) we already expect to reach an annualised run rate of approximately 30% and positive cash flows are already expected in the second year of the integration in the fourth year, the group is aiming for 80% of the target run rate. We expect that the remedies the company offered to the European Commission in connection with the merger clearance will not have a significant impact on the cost-based synergy effects.

The Telefónica Deutschland Group plans to achieve these synergies in the various different areas by means of the following measures:

- Network synergies: The two existing networks are to be consolidated over the coming five years, including core, transport and access networks. In total, the new joint network is to have 14 thousand fewer base stations than the two initial networks combined. However, this would be around 20% to 30% more than the previous equipment of each of the groups on a stand-alone basis. The network integration will lead to reduced operational expenditure (i.e. rents, electricity, maintenance, operation, transport costs, overheads). In addition, the merger will enable the company to make better use of the scalable transmission agreement with Deutsche Telekom GmbH, resulting in increased efficiency. The same applies to the agreement for fixed business. The net present value of the anticipated network synergies amounts to EUR 1.7 billion.
- Distribution and customer service synergies: The integration of the two distribution networks will increase efficiency in distribution and customer service, leveraging best practices and economies of scale to become more cost-efficient in these areas as well as in channel management and overheads. We anticipate optimisation of the company's sales presence due to current overlaps in the distribution networks, which will lead to reduced rental and personnel costs. Furthermore, the extended company will focus on a higher share of digital channels. We anticipate synergies from online sales as a result of a strong, joint multi-brand proposition. It is planned to reduce the current distribution network of 1,800 shops by one third. The net present value of the estimated synergies from distribution and customer service amounts to EUR 1.1 billion.
- Selling, general and administration (SG&A) synergies: The merger of the two companies is expected to lead to reduced costs, including in the areas of IT, administration and rents. In addition, a reduction in joint advertising and marketing expenditure is anticipated. The synergies in this area are calculated as having a total net present value of EUR 0.8 billion.
- CapEx synergies: We expect to be able to reduce the CapEx level significantly in comparison to the combined initial values. Thanks to the network consolidation, the necessary quality and capacity upgrades for the integrated 3G network will decrease, partly due to the rapid expansion of a joint 4G network that will absorb part of the increase in traffic and thus improve the average production costs for data transmission. Furthermore, we expect to see lower CapEx requirements as a result of the reduction in mobile base stations and associated network technology. In total, the estimated CapEx synergies amount to a net present value of EUR 1.9 billion.
- Integration costs: Integration costs chiefly consist of one-time payments, for example for the termination of leases, severance payments to employees, IT and network migration costs, costs for repositioning brands and customer migration to target brands and networks. The net present value of the anticipated integration costs amounts to minus EUR 0.9 billion.
- Revenues and other synergies: This area comprises the anticipated revenue synergies and the foreseeable effects of the merger control conditions. Owing to the improved network, higher customer satisfaction in the consumer segment is expected, as well as additional business opportunities in the segment of small office/home office (SoHo) and small and medium-sized enterprises (SMEs). In addition, the expanded customer base, particularly that of E-Plus mobile customers, offers increased potential for cross-selling of fixed broadband products.

7.5 Course of the Transaction

The merger of the Telefónica Deutschland Group with the E-Plus Group was completed with effect from 1 October 2014. The main steps involved were as follows:

General Meetings

The transaction was approved by the extraordinary General Meeting of KPN on 2 October 2013.

The Annual General Meeting of Telefónica Deutschland approved the capital measures for implementing the transaction on 11 February 2014 and 20 May 2014 (see also the following paragraphs "Cash capital increase" and "Capital increase against contribution in kind").

Approval of the European Commission and contract with Drillisch

The transaction was, in particular, conditional upon the approval of the relevant antitrust authorities. The prenotification process had commenced soon after the purchase of the E-Plus Group by Telefónica Deutschland was announced. The formal notification was submitted in late October 2013. As part of the approval process, the Telefónica Deutschland Group had agreed to fulfil a package of conditions that fully addresses the European Commission's concerns with regard to competition. In this context, the Telefónica Deutschland Group had undertaken to sell 20% of its capacity in the mobile network to a mobile virtual network operator (MVNO) via mobile bitstream access before concluding the transaction and to give this MVNO the opportunity to acquire up to 10% of additional network capacity. Mobile bitstream access is a product whereby the MNO offers network capacity in the form of data transfer and data volume. This enables the MVNO to offer its customers its own mobile services.

In this context, the Telefónica Deutschland Group had signed a contract with Drillisch (see section 2.2 Overview of the 2014 Financial Year – Significant events) that serves to implement the measures to be taken before concluding the transaction.

On 2 July 2014, Telefónica Deutschland obtained conditional approval from the European Commission to acquire the E-Plus Group from KPN, and on 29 August 2014 the European Commission confirmed that the agreement with Drillisch (see section 2.2 Overview of the 2014 Financial Year – Significant events) fulfilled the conditions associated with the decision on approval to the extent that these conditions were required to be fulfilled before completing the transaction.

To enable another potential provider to enter the German market, the Telefónica Deutschland Group also offers interested parties a package with 2.1 and 2.6GHz frequencies, base stations, the option of national roaming and passive shared use of mobile locations. In addition, existing contracts with service providers are to be extended until 2025 and changing to another guest network operator is to be made easier.

Cash capital increase

To generate the cash purchase price that was agreed as consideration for E-Plus (see above), a cash capital increase was implemented at Telefónica Deutschland.

On the basis of the authorisation for the cash capital increase granted by the Annual General Meeting of 20 May 2014, the Management Board resolved on 8 September 2014, with the approval of the Supervisory Board, to increase the share capital of the company by EUR 1,116,945,400 from its previous level of EUR 1,116,945,400, divided into 1,116,945,400 no-par value registered shares, to EUR 2,233,890,800 by issuing 1,116,945,400 new shares. The

cash capital increase was entered in the Commercial Register on 18 September 2014.

The new shares were offered to the shareholders for subscription in the period from 10 to 23 September 2014 at a subscription price of EUR 3.24 each in a ratio of 1:1 and with the further conditions as resolved by the Management Board on 8 September with the approval of the Supervisory Board and published accordingly.

On 24 September 2014, Telefónica Deutschland announced the successful conclusion of the cash capital increase.

The cash capital increase enjoyed high demand from investors, with a subscription ratio of 99.92% for the new shares on offer. The majority shareholder Telefónica, S.A. exercised all its allocated subscription rights.

Shares that were not placed as part of the subscription rights offer were sold by the banks involved in the transaction, known as the joint bookrunners, on 24 September 2014 on the stock exchange or by other means.

The newly issued shares each represent a proportionate amount of the company's share capital of EUR 1.00. (Section 2.2 Overview of the 2014 Financial Year – Significant events).

Capital increase against contribution in kind

To generate the additional consideration for the acquisition of E-Plus, namely the 24.9% interest in the extended company (see above), the Management Board resolved on 24 September 2014, with the approval of the Supervisory Board, to increase the share capital of the company by EUR 740,664,193 from EUR 2,233,890,800 to EUR 2,974,554,993 by issuing 740,664,193 new no-par value registered shares. The new shares were subscribed for by KPN Mobile Germany in return for a contribution in kind in the form of the limited partner's interest in E-Plus Mobilfunk.

The capital increase against contribution in kind was entered in the Commercial Register on 7 October 2014.

Completion of the acquisition

The purchase agreement of 23 July 2013 in the amended version as of 26 and 28 August and as of 5 December 2013, 24 March, 7 August and 30 September 2014 was completed with effect from 1 October 2014.

8. Essentials of the Remuneration System

Remuneration of Management Board members

On the basis of the decision of the General Meeting of 5 October 2012, in accordance with section 286(5) German

Commercial Code (HGB), the Telefónica Deutschland Holding AG did not publish the supplementary information for stock corporations listed in the stock exchange, in accordance with section 285, 9a) sentence 5 to 8 German Commercial Code (HGB). In this paragraph, the main features of the system for the remuneration of the Management Board are presented along with the above-mentioned limitations.

In accordance with section 285 no. 9 HGB, the total remuneration granted to the Management Board of Telefónica Deutschland Holding AG (including a former Management Board member) for the financial year ended 31 December 2014 amounted to EUR 5,468 thousand.

The current service agreements of the members of the Management Board of Telefónica Deutschland Holding AG were concluded on 2 July 2014 and came into force on 1 October 2014. The service agreement of one of the Management Board members was amended by way of an amendment agreement on 22 January 2015. The service agreements of the Management Board members expire on 30 September 2017.

The total remuneration of the Management Board members (including a former Management Board member) comprises a fixed salary, variable cash remuneration and long-term remuneration components, a merger bonus for the successful completion of the E-Plus transaction (due in 2015), a company car, life insurance, D&O and accident insurance, pension contribution, non-monetary benefits such as, among others, travel allowances, rental allowance, the reimbursement of the cost of British social insurance, reimbursement of moving costs, reimbursement of brokerage fees, flights home, school fees, employer expenditures, tax compensation including costs of tax advice, and compensation for exchange rate losses and for differences in the cost of living. Not all Management Board members receive these benefits.

The remuneration of the Management Board members includes a fixed component and a variable component.

The fixed component comprises the annual fixed salary, which is paid in twelve equal monthly installments, and the above-mentioned benefits. The Management Board members receive either an allowance to establish a private pension fund of 20% of the annual fixed salary or a retirement commitment.

The variable portion of the remuneration comprises four variable performance-related remuneration components.

1) The first variable portion of the remuneration is an annual cash bonus (Bonus I). Bonus I is calculated in accordance with the formula target bonus times business performance times individual performance. The target bonus is set as a percentage of the relevant annual fixed salary.

For the business performance in 2013, three components were critical and these were aligned with the success of Telefónica Deutschland Holding AG (Telefónica Deutschland component), Telefónica Europe (Telefónica

Europe component) and Telefónica, S.A. (Telefónica, S.A. component). The ratio between the Telefónica Deutschland component, the Telefónica Europe component and the Telefónica, S.A. component was 70 : 15 : 15. In the 2014 financial year, only two components were critical and these were aligned with the success of Telefónica Deutschland Holding AG (Telefónica Deutschland component) at 70% and Telefónica, S.A. (Telefónica, S.A. component) at 30%.

The parameters for measuring the Telefónica Deutschland component and its weighting are set by the Supervisory Board on an annual basis. If less than 50% of the relevant target value is achieved then the value for the business performance factor is 0% (knock-out). In the event that the target achievement has a factor of 100%, and the performance target is exceeded then there is an upper limit of 125%. Intermediate values of target achievement are not linearly interpolated, but rather are ascertained in accordance with a payout curve set by the Supervisory Board. The Telefónica, S.A. component is set by the Supervisory Board in accordance with discretionary obligations. The corporate performance of Telefónica, S.A. in the relevant year guides the exercise of the discretion.

In order to ascertain the individual performance of each of the Management Board members, personal objectives are set annually at the start of the year by the Supervisory Board. At the start of the following year, the achievement of the goals is reviewed and the Supervisory Board grades each Management Board member into one of five performer classes to which bandwidths of goal achievement percentage are allocated in each case, and allocates each Management Board member a certain percentage value; here the knockout threshold is also 30%. The individual performance is capped at 150%.

2) The second variable remuneration component is participation in the Performance and Investment Plan (PIP). The first plan ("Performance and Investment Plan 2011") was adopted by the Annual General Meeting of Telefónica, S.A. in 2011. The "Performance and Investment Plan 2014" was set up as the following plan and was adopted by the Annual General Meeting of Telefónica, S.A. in 2014. Members of the Management Board of Telefónica Deutschland Holding AG have participated in the PIP since 2011.

In accordance with the PIP, members of the Management Board with the approval of the Supervisory Board are allocated a certain number of performance shares as an award. The number of performance shares is calculated by dividing an amount that corresponds to a certain proportion of the fixed annual salary of the relevant Management Board member by the average listed price of Telefónica, S.A. shares (Core Award). After three years the performance shares give the right to (free) acquisition of the corresponding number of Telefónica, S.A. shares if the relevant person still works for a company in the Telefónica, S.A. Group at the end of the time

period and the price of Telefónica, S.A. shares over the “vesting period” together with the associated dividend distributions (Total Shareholder Return Telefónica, S.A.) in the period corresponds to at least the median of the Total Shareholder Return (share yield) of a reference index from worldwide telecommunications corporations. 30% of the performance shares awarded “vest” if Telefónica, S.A.’s Total Shareholder Return corresponds to the median of these corporations. The number of “vested” shares increases to 100% if Telefónica, S.A.’s Total Shareholder Return is in the upper quartile of the reference index. If Telefónica, S.A.’s Total Shareholder Return lies between the upper quartile and the median, the number of allocated shares is calculated on a linear proportionate basis. If Telefónica, S.A.’s Total Shareholder Return lies under the median of the reference index then the entitlements are forfeited. On the basis of the “Performance and Investment Plan 2014”, members of the ExComm of Telefónica, S.A. receive an allocation of 125% if Telefónica, S.A.’s Total Shareholder Return reaches at least the level of Telefónica, S.A.’s Total Shareholder Return for the upper decile of the comparison group.

As an alternative to the Core Award, the PIP provides for an “Enhanced Award” whereby the number of performance shares is increased by 25% in comparison to the Core Award. The condition for achieving the Enhanced Award is that a Management Board member must acquire a certain number of shares in Telefónica, S.A. (currently 25% of the Core Award) at their own cost. If the prerequisites for the Enhanced Award are fulfilled, the number of shares actually to be allocated is calculated on the basis of the Enhanced Award rather than the Core Award.

3) The third variable remuneration component is a deferred bonus (Bonus II). In order to avoid an excessive incentive effect through the PIP and thus too strong an incentive for the pursuit of corporate goals there is Bonus II. Here the Management Board members are provided with an amount equal to a share of the annually paid Bonus I as a prospective bonus. The Management Board member has the right to the full amount after a period of three years if the Total Shareholder Return of Telefónica Deutschland Holding AG is in the upper quartile of the Total Shareholder Return of a reference group comprising the DAX-30 companies. The Management Board member has the right to 50% of Bonus II if the Total Shareholder Return of Telefónica Deutschland Holding AG corresponds to the median of the reference group. If the Total Shareholder Return of Telefónica Deutschland Holding AG lies between the upper quartile and the median, Bonus II is calculated linear proportionally. If Telefónica Deutschland Holding AG lies below the median, there is no entitlement to payments.

4) The fourth variable remuneration component consists of a “Restricted Share Plan” in which one member of the Man-

agement Board participates. The “Restricted Share Plan” is a long-term remuneration plan of the Telefónica, S.A. Group for gaining and retaining top talents and employees with key qualifications.

The Supervisory Board has set the level of the Restricted Share Plan at a fixed annual salary of the plan beneficiary.

The shares are allocated in three equal tranches over a period of three years, provided the plan beneficiary is in employment at Telefónica Deutschland Holding AG at the relevant allocation date (if applicable, for each of the tranches). Shares will be distributed for the first time in September 2015.

For one former member of the Management Board of Telefónica Deutschland Holding AG, a termination agreement from 29 January 2014 gives rise to the following deviations from the remuneration system described above:

- The fixed remuneration – consisting of the fixed salary, fringe benefits and post-employment benefits – that the former Management Board member would have received between 1 October 2014 and 15 September 2015 in instalments as of the end of each calendar month was granted to him as a one-time lump sum due at the end of 30 September 2014.
- The amount of Bonus I for the financial years 2014 and 2015 is calculated based on the average of the Bonus I payments received by the former Management Board member for the financial years 2012 and 2013.
- The former Management Board member did not receive any shares for the PIP cycles for 2012 and 2013, but instead in each case received a compensatory payment payable at the end of 30 September 2014. These compensatory payments did not exceed the value of the shares to which the former Management Board member would have been entitled if the regulations of the plan had been applied.
- For the cycle that began on 30 October 2012, the former Management Board member received a proportionate Bonus II payment due at the end of 30 September 2014, whereby the entitlement was reduced in line with the fact that the employment of the former Management Board member ended before the scheduled allocation date for the cycle.

Remuneration of Supervisory Board members

The members of the Supervisory Board receive a fixed remuneration of EUR 20 thousand annually in accordance with the articles of association, which is payable at the end of the financial year. The Chair of the Supervisory Board receives EUR 80 thousand and the Vice-Chair of the Supervisory Board EUR 40 thousand. The Chair of the Audit Committee receives an additional EUR 50 thousand if the Chair of the Supervisory Board or the Vice-Chair does not hold the chair in this committee. Supervisory Board members who hold office in the

Supervisory Board or the position of Chair of the Supervisory Board or Chair of a Committee only for a certain part of the financial year receive a time-based proportionate remuneration.

Alongside the remuneration, the corporation reimburses the Supervisory Board members for the expenses that arise in the fulfilment of their duties as Supervisory Board members as well as any value-added tax on their remuneration and their expenses.

All members of the Supervisory Board who work for Telefónica, S.A. or Telefónica Europe plc. have waived their remuneration for their current period of office to the extent that the remuneration rights exceed EUR 2 thousand per year.

No services were provided personally outside of the stated activities of the Supervisory Board and the Committees, in particular for consultancy or brokering services.

9. Internal Control and Risk Management System

The risk management and internal control system relating to the Telefónica Deutschland Group accounting, including Telefónica Deutschland Holding AG, is an integral part of the general risk management process and closely interconnected with this in respect of reporting and related activities.

The following statements contain information in accordance with section 289 (5) HGB and section 315 (2) no. 5 HGB.

The primary goal of our accounting-related internal control and risk management system is to ensure proper financial reporting in the sense of compliance of the Consolidated Financial Statements with all relevant provisions.

The risk management system described in section 6 Risk and Opportunity Management also includes an accounting-related perspective with the goal of reliability of financial reporting. In addition to the legal requirements of, for example, the German Stock Corporation Act (AktG) and the German Commercial Code (HGB), the accounting-related internal control system introduced by us also complies with the provisions of the US Sarbanes Oxley Act (SOX). The obligation for the Telefónica Deutschland Group to fulfil these SOX requirements results from the registration of its majority shareholder, Telefónica S.A., with the US SEC (Securities and Exchange Commission). In addition, the Telefónica Deutschland Group's accounting-related internal control system also complies with the global ICS control setup of Telefónica S.A. The accounting-related internal control system of the E-Plus Group, which was acquired as of 1 October 2014, also complies with the legal requirements of, for exam-

ple, the German Stock Corporation Act (AktG) and the German Commercial Code (HGB). The following statements therefore apply likewise to the accounting-related internal control system of the E-Plus Group. Necessary additions in order to comply with the global SOX control setup of Telefónica S.A. are in implementation for the financial year 2015.

Establishing and effectively maintaining appropriate internal controls for financial reporting is the responsibility of the Management Board of Telefónica Deutschland and is performed taking account of company-specific requirements.

The conceptual framework for preparing the Consolidated Financial Statements primarily consists of the uniform group-wide accounting guidelines and the chart of accounts, both of which must be applied consistently by all companies of the Telefónica Deutschland Group. New laws, accounting standards and other official communiqués are analysed on an ongoing basis with regard to their relevance and effects on the proper preparation of the Consolidated Financial Statements. The resulting changes are taken into account by the Accounting Policies & External Reporting department of Telefónica Germany GmbH in our accounting guidelines and the chart of accounts.

The data basis for the preparation of the Consolidated Financial Statements consists of the financial statement information reported by Telefónica Deutschland, its subsidiaries and joint ventures, which in turn is based on the accounting entries recorded within the companies. The financial reporting of the individual companies is carried out either by the Finance & Accounting department of Telefónica Germany GmbH & Co. OHG or in close cooperation with it. For certain topics that require specialist knowledge, such as the valuation of pension obligations, we use the support of external service providers. Based on the reported financial statement information, the Consolidated Financial Statements are prepared in our consolidation system. The steps to be taken when preparing the Consolidated Financial Statements are subject to both manual and system-based controls at all levels.

Employees involved in the financial reporting process are already examined in terms of their professional suitability before they are hired, and are provided with regular training. The financial statement information must go through certain approval processes at every level. Critical task areas in the financial reporting process are divided appropriately for the purpose of an effective separation of duties and the dual control principle generally applies. Further control mechanisms include target/performance comparisons and analyses of the composition of content and changes in individual items, both in the financial statement information reported by the individual group companies and in the Consolidated Financial Statements. In the accounting-related IT systems, access authorisations are defined in order to ensure that accounting-related data is protected from unauthorised access, use and change.

The Management Board of Telefónica Deutschland assesses the appropriateness and effectiveness of the control system on an annual basis. In addition, our Internal Audit department performs continuous reviews to monitor compliance with guidelines, the reliability and functionality of our control system and the appropriateness and effectiveness of our risk management system, and reports on this to the Management Board of Telefónica Deutschland. In this context, it should be noted that in any control system there will nonetheless be certain limitations on its effectiveness, since no control system – even if it has been judged to be effective – can prevent or detect all incorrect disclosures.

The Supervisory Board of Telefónica Deutschland is also involved in the control system via the Audit Committee in accordance with section 171 (1) AktG in conjunction with section 107 (3) AktG. The Audit Committee particularly monitors the financial reporting process, the effectiveness of the control system, risk management system and internal audit system, and the audit of the financial statements. It is also responsible for examining the documents relating to the separate financial statements of Telefónica Deutschland and the Consolidated Financial Statements, and it discusses the annual financial statements of Telefónica Deutschland and the Consolidated Financial Statements with the Management Board and the auditor. In the closing meeting, the auditor also reports to the Supervisory Board on the findings of its review of the effectiveness of the internal control system.

Telefónica Deutschland, as the parent company of the German Telefónica Group, is included in the group-wide accounting-related internal control system described above. The above disclosures generally also apply to the separate financial statements of Telefónica Deutschland Holding AG in accordance with the German Commercial Code (HGB).

The Consolidated Financial Statements are prepared in accordance with the International Financial Reporting Standards (IFRS). Where necessary, for example for the purposes of the separate financial statements in accordance with HGB or for tax purposes, a reconciliation to the respective provisions is performed at account level. As such, correctly determined IFRS financial statement information also represents an important basis for the separate financial statements of Telefónica Deutschland Holding AG. For Telefónica Deutschland Holding AG and other group companies reporting in accordance with HGB, the conceptual framework specified above is supplemented with an HGB chart of accounts. The manual and system-based controls mentioned above generally also apply to the reconciliation of the IFRS financial statement information with the HGB separate financial statements of Telefónica Deutschland Holding AG and with the HGB separate financial statements of the other group companies reporting in accordance with HGB.

10. Other Declarations

10.1 Report on Relations with Affiliated Companies

In the period from 1 January to 31 December 2014, Telefónica Deutschland Holding AG was a directly dependent company of Telefónica Germany Holdings Limited, Slough, United Kingdom, within the meaning of section 312 AktG. In addition, Telefónica Deutschland Holding AG was an indirectly dependent company of O2 (Europe) Limited, Slough, United Kingdom and of Telefónica, S.A., Madrid, Spain, within the meaning of section 312 AktG. There is neither a domination agreement nor a profit and loss transfer agreement between Telefónica Deutschland Group and the previously mentioned companies.

Thus the Management Board of Telefónica Deutschland Holding AG has prepared a report about the relationships with associated corporations in accordance with section 312 (1) AktG. This report includes the following final declaration:

“Our company has, with regard to the legal transactions and measures listed in the dependency report, and based on the circumstances which were known to us at the time at which the legal transactions were carried out or the measures were taken or refrained from, received adequate compensation for each legal transaction and has not been disadvantaged as a result of measures being taken or refrained from.”

10.2 Management Declaration pursuant to Section 289a German Commercial Code (HGB)

The corporation has published this declaration, which also contains the Declaration of Compliance pursuant to section 161 AktG, on its website (WWW.TELEFONICA.DE/ERKLAERUNG-ZUR-UNTERNEHMENSFUEHRUNG) and in the section Corporate Governance/Declaration of Compliance in the Annual Report. This management declaration pursuant to section 289a HGB is a part of this Management Report.

10.3 Takeover-related Disclosures pursuant to Section 315 (4) and Section 289 (4) German Commercial Code (HGB)

Composition of the subscribed capital

The registered share capital of Telefónica Deutschland Holding AG amounts to EUR 2,974,554,993. The share capital is divided into 2,974,554,993 no-par value registered shares each

with a proportionate share of the share capital of EUR 1.00 ("shares"). The registered share capital is fully paid. As of 31 December 2014 and at the time this Management Report was prepared, Telefónica Deutschland Holding AG did not hold any of its shares. In accordance with section 6 (2) of the articles of association, the shareholders have no right to securitise shares. Each non-par share in general grants one vote at the Annual General Meeting. The shares are generally freely transferable.

In the agreement for the acquisition of KPN's German mobile business E-Plus, KPN has committed itself, not to directly or indirectly sell, market, transfer or otherwise dispose any shares in Telefónica Deutschland within a period of 180 days from closing of the transaction.

Voting restrictions and restrictions on the transferability of shares

There are no general limitations on voting rights. We are not aware of any contractual agreements with Telefónica Deutschland Holding AG or other agreements about limitations on voting rights or the transferability of shares. Other than the statutory insider-trading provisions there are no internal governance provisions that provide for further lockout periods associated with the publication of quarterly and annual results for the purchase and sale of shares by Management Board members or employees.

In the agreement for the acquisition of KPN's German mobile business E-Plus, KPN has committed itself, not to directly or indirectly sell, market, transfer or otherwise dispose any shares in Telefónica Deutschland within a period of 180 days from closing of the transaction.

Participation in the share capital of more than 10% of the voting rights

In the context of the completion of the E-Plus transaction (section 7 Acquisition of E-Plus), Telefónica Germany Holdings Limited, Slough, United Kingdom, fell below the threshold of 75% and following the completion of the transaction and the acquisition of another 4.4% in accordance with the agreement with KPN it held 62.1% of the shares of Telefónica Deutschland Holding AG; therefore, Telefónica Germany Holdings Limited holds more than 62% of the voting rights. Via Telefónica Germany Holdings Limited both O2 (Europe) Limited, Slough, United Kingdom, as well as Telefónica, S.A., Madrid, Spain, indirectly hold more than 62% of the shares in Telefónica Deutschland Holding AG. Following the completion of the E-Plus transaction and the sale of 4.4% to Telefónica, KPN held 20.5%. Other than this we were not informed of stake holdings in the share capital of Telefónica Deutschland Holding AG to the extent of more than 10% of the voting rights and we are not aware of such stake holdings.

Shares with special rights

There are no shares with special rights, in particular no shares with rights that grant control.

Control of voting rights when employees hold stakes in the capital

Just like all other shareholders, employees who hold shares in Telefónica Deutschland Holding AG exercise their control rights directly in accordance with the statutory provisions and the articles of association.

Appointment and recall of Management Board members

Pursuant to section 7 of the articles of association and section 84 AktG, the Supervisory Board determines the number of members on the Management Board and is responsible for their appointment and recall as well as for the appointment of the Chair of the Management Board (Chief Executive Officer (CEO)). Substitute members of the Management Board can be appointed. As of 31 December 2014, the Management Board of Telefónica Deutschland Holding AG consists of three members. Management Board members are appointed by the Supervisory Board for a period of office of no more than five years. They can be re-appointed and the period in office can be extended provided one period of office does not exceed a period of five years. The Supervisory Board may recall a Management Board member in the event of an important reason such as a gross breach of duties or if the Annual General Meeting adopts a no-confidence resolution in relation to the Management Board member in question. Other reasons for recall – such as a mutual terminated agreement – remain unaffected.

Telefónica Deutschland Holding AG is subject to the provisions of the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG).

Pursuant to section 31 MitbestG a majority of two thirds of the votes of Supervisory Board members is necessary for the appointment and recall of Management Board members. If this majority is not reached on a first round of voting by the Supervisory Board, then the appointment or recall can occur on the recommendation of the Mediation Committee, which is to be formed in accordance with section 27 (3) MitbestG, in a further round of voting with a simple majority of the votes of the Supervisory Board members. If the prescribed majority is again not achieved then a third round of voting must occur which again requires a simple majority; however for this round of voting the Chair of the Supervisory Board has two votes.

If a required Management Board member is missing, then the Munich Local Court in urgent cases must appoint the member on application by a party concerned pursuant to section 85 (1) AktG.

Changes to the articles of association

In accordance with section 179 (1) sentence 1 AktG, any change to the articles of association of Telefónica Deutschland Holding AG requires a resolution of the Annual General Meeting. In accordance with section 27 of the articles of association together with section 179 (2) sentence 2 AktG, resolutions of the Annual General Meeting of Telefónica Deutschland regarding changes to the articles of association are passed with simple majority of the votes cast and by simple majority of the share capital represented at the passing of the resolution. If the law mandates a higher majority of votes or capital then this majority must be applied. In connection with changes that only affect the wording of the articles of association, the Supervisory Board is entitled to make changes in accordance with section 179 (1) sentence 2 AktG together with section 17 (3) of the articles of association.

Authorisation of the Management Board to issue shares

The powers of the Management Board are governed by sections 76 et seq. AktG together with section 8 et seq. of the articles of association. In particular the Management Board runs the company and represents it in and out of court.

Authorisation of the Management Board to issue shares is governed by section 4 of the articles of association in conjunction with the statutory provisions. As of 31 December 2014, the following authorisations of the Management Board for the issuing of shares exist:

Authorised capital

As of 31 December 2014, the Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company in the period until 17 September 2017, once or several times, by a total of EUR 292,808,507 by issuing up to 292,808,507 new no-par value shares in exchange for cash and/or contribution in kind (authorised capital 2012/I). The authorisation stipulates that shareholders' subscription rights can in certain cases be completely or partially excluded (section 4 (3) of the articles of association).

Conditional capital

For the purpose of the issue of registered no-par value shares to the holders or creditors of bonds, the share capital of the company is conditionally increased by up to EUR 558,472,700 by issuing 558,472,700 new registered no-par value shares (conditional capital 2014/I).

Authorisation of the Management Board to buy back shares

The authorisation of the Management Board to buy back own shares is governed by section 57 (1) sentence 2 and sections 71 et seq. AktG. The Management Board is authorised

to buy back own shares by the Annual General Meeting of 5 October 2012 pursuant to section 71 (1) no. 8 AktG.

Change in control/compensation agreements

Telefónica Deutschland Holding AG's significant agreements that contain a change in control clause relate to financing.

In the event of a change of control, the rating of Telefónica Deutschland or of its outstanding non-current liabilities will be examined with regard to capital market liabilities. In the event that a deterioration of the rating as defined in the contracts occurs, the contracts grant O2 Telefónica Deutschland Finanzierung GmbH as the issuer the option to terminate the financing early at a redemption amount of 101% of the nominal amount plus accrued interest. Otherwise, the interest is increased by 1.25% p.a. until the end of the term.

A small number of other contracts grant the contracting partners the right to terminate in the event of a change of control, in accordance with normal practice, which has as a consequence the obligation to fulfil all outstanding obligations.

The employment contracts of the Management Board members of Telefónica Deutschland Holding AG grant the right to terminate these contracts in the event of a takeover offer by a third party with three months' notice to the end of the month; however this termination must occur within six months of a change in control. In this event the relevant Management Board member can claim a one-off compensatory amount equal to one year's fixed salary plus the most recently received annual bonus, whereby the compensation may not exceed the remuneration that would have been payable up to end of the contract.

11. Outlook for the Telefónica Deutschland Holding AG

The Telefónica Deutschland Holding AG acts as a management and holding company. The long-term future business development thus crucially depends on the development of the operative companies of the Telefónica Deutschland Group, particularly Telefónica Deutschland GmbH & Co. OHG. Therefore, the economic and market development, as well as the expected development of important key performance indicators at the level of the Telefónica Deutschland Group are described below.

11.1 Economic Outlook for Germany

The leading economic research institutes expect economic growth in Germany to continue in 2015. For 2015 as a whole, the institutes anticipate an increase of 1.4% in gross domestic product. Economic momentum in Germany should benefit from factors such as the low oil price and the weaker Euro exchange rate. The sharp decline in the oil price is currently having a similar effect to a tax cut for companies and consumers in the German economy. For companies, the falling energy costs are causing profits to rise. Private consumer spending will play an important role in the forecast upturn in the German economy again in 2015. Chiefly due to the lower energy prices, commodities such as fuel oil and petrol have become considerably cheaper. This gives private households significant scope for making other purchases.

A risk to the consumer economy, and thus also to the overall economic development in Germany, is still posed by any escalation at international trouble spots.

For the Euro area a rise in economic growth by 1.1% is expected for 2015.

8 — GDP development 2013–2014 for Germany and the Euro area

In %	2013	2014	2015
Germany	0.4	1.5	1.4
Euro area	(0.4)	0.8	1.1

(Source: GfK Consumer Index December 2014/January 2015; FocusEconomics Consensus Forecast Euro Area Feb 2015)

11.2 Market Expectations

The market development in Germany, one of the biggest telecommunications markets in Europe, will again be driven by rising customer demand for broadband and data services in mobile telecommunications and in the fixed network. The boom in smartphones and tablets as well as a growing demand for LTE are driving the growth in mobile data services. Thus the market for mobile internet will soon supersede mobile telephone calls as the most important driver of revenue for German mobile telecommunications service providers. At the same time the negative trend for mobile voice and SMS will continue through further price pressure and changed customer behaviour. The market for mobile services in Germany is expected to post negative growth overall in the coming years, with a decline in mobile service revenues of around 2% per year until 2016.

However, growing demand from customers for higher connection speeds in mobile and fixed networks and demand for convergent solutions will be growth drivers.

(Source: Company data, Analysys Mason)

11.3 Expectations for the Company

In view of existing contracts connected with the remuneration of management services, we expect revenues of Telefónica Deutschland for 2015 to be at a comparable level as in the previous year. It may be assumed that any future incidental operative costs of the Telefónica Deutschland Holding AG can be covered and thus a balancing of the expenditure and therefore almost an offset result can be achieved. The actual profit for the year 2014 was primarily driven by the E-Plus transaction. The determination of the exact point in time for the change of control over the E-Plus Group was unpredictable at the time of the preparation of the Annual Report as of 31 December 2013.

As described above the future business development of the Telefónica Deutschland Holding AG depends essentially on the development of the operating companies of the Telefónica Deutschland Group and their environment.

Germany has emerged from 2014 as one of the most attractive telecommunication markets in Europe, particularly around the mobile data monetisation theme. In this new environment, improving the quality of service is key to facilitate the steady adoption of a more digital lifestyle by customers.

The merger of Telefónica Deutschland Group and the E-Plus Group from 1 October 2014 is the main catalyst for a change of a more balanced market, with tangible benefits for our customers and shareholders.

Telefónica Deutschland Group's strategic framework is built around three key priorities:

- Keep the Momentum from a leading position in the mobile consumer and partner markets, while growing in customer segments, such as SMEs or digital households from a better quality platform.
- Integrate quickly and extract the full value of expected synergies from the integration of both infrastructures and organisations while progressing on the development of the LTE network.
- Transform the Company into a truly end-to-end digitally oriented Company, both from an internal and external perspective.

Our aspiration is to become the Leading Digital Telco, which will be cemented in the future by three success factors:

1. Offer the best high speed access experience to our customers, with a flexible combination of the latest technologies for mobile and fixed broadband access.
2. Ensure a superior customer experience to customers across all channels and throughout their customer journey, with tailored offers per customer segment designed to monetise increased demand for mobile data and a more efficient and digital customer service.
3. Achieve Operational Excellence while the integration of both networks and organisations is taking place for gaining

cost leadership with excellent value for money. This will be ensured with a progressive improvement of efficiencies while consistently delivering on customer expectations.

In 2015¹⁰ (year one in the integration schedule), we already expect to achieve a run rate of around EUR 250 million Operating Cash flow (OIBDA minus CapEx) synergies, which is approximately 30% of the target run rate of operating cash flow synergies (EUR 800 million) expected after five years.

CapEx synergies (from the avoidance of dual network roll-outs) are anticipated to represent around 50% of total run rate operating cash flow synergies expected for 2015.

We expect operating expenses savings (ca. 40% of total operating cash flow synergies in 2015) to have an impact in financials mainly in the second half of the year from the initial execution of the headcount restructuring programme, related reduction of facilities and shop footprint reduction. Thus, for operating expense synergies we anticipate a split of roughly 60% in commercial areas and 40% in SG&A (Selling, General and Administration) areas.

Revenue and other synergies (less than 10% of total run rate synergies expected in the year) are expected to come from cross and up-selling activities, the increase of market share in the SME segment and the initial contribution from the Mobile Bitstream Access agreement to our wholesale business.

10 Synergies defined in terms of Operating Cash Flow (OIBDA-CapEx) with a target run rate after year 5 from start of integration of EUR 800 million. OpEx savings are referred to 2014 combined financials excluding restructuring costs. CapEx is net of restructuring activities and excludes investment in spectrum.

In line with our vision to become the Leading Digital Telco in Germany, in 2015 we will put an even stronger focus on the development of our customer base. We will continue to be the value-for-money choice for our customers and partners while keeping a strong view on data monetisation. As a result, we expect mobile service revenue in 2015 to remain broadly stable over 2014 combined² figure (EUR 5,528 million). The fixed business will continue to play an important role, leveraging increased demand for high-speed access and flexible propositions to facilitate our customers' digital journey.

We expect a gradual progression of improvement in OIBDA before extraordinary effects throughout 2015 driven by the capture of synergies from the integration of organisations and initial projects for the combination of networks, the focus on operational excellence with increased scale of the business and a higher contribution from mobile data. From a 2014 combined² base of EUR 1,461 million, we expect OIBDA before extraordinary effects to grow more than 10% year-on-year in 2015.

The fourth quarter of 2014 reflected the start of a new investment cycle for the new Telefónica Deutschland Group, and for 2015 we expect synergies to outweigh the additional investments to be made to accelerate the deployment of the LTE network and the initial works for the consolidation of the two networks. As a result, we expect that CapEx (excluding investments related with the renewal/acquisition of spectrum licenses) in 2015 to show a high single digit percentage decline year-on-year from a combined² base of EUR 1,161 million.

Munich, 9 March 2015

Telefónica Deutschland Holding AG

The Management Board



Thorsten Dirks



Rachel Empey



Markus Haas

Annual Financial Statements_ for the financial year ended 31 December 2014

Balance Sheet

	As of 31 December	
	2014	2013
Assets (in EUR)		
A) Fixed assets		
Financial assets		
Investments in affiliated companies	12,151,287,515.31	5,246,251,853.31
	12,151,287,515.31	5,246,251,853.31
B) Current assets		
I. Receivables and other assets		
1. Receivables from affiliates	36,900,150.60	14,946,060.53
2. Other assets	2,096,134.08	5,987,448.39
	38,996,284.68	20,933,508.92
II. Cash on hand and bank balances	38,965.83	0.00
	39,035,250.51	20,933,508.92
C) Accruals and deferrals	0.00	5,333.35
Total assets	12,190,322,765.82	5,267,190,695.58

	As of 31 December	
	2014	2013
Equity and Liabilities (in EUR)		
A) Equity		
I. Subscribed capital	2,974,554,993.00	1,116,945,400.00
II. Additional paid-in capital	4,832,539,244.82	430,095.00
III. Revenue reserves	14,083.91	14,083.91
Legal reserve	14,083.91	14,083.91
IV. Net retained earnings	4,363,004,544.80	4,140,647,078.29
	12,170,112,866.53	5,258,036,657.20
B) Provisions		
1. Pension obligations	2,083,192.00	0.00
2. Other provisions	8,748,266.29	6,638,552.14
	10,831,458.29	6,638,552.14
C) Liabilities		
1. Trade payables	2,589,971.22	2,464,164.16
2. Liabilities to affiliates	6,368,374.28	0.00
3. Other liabilities	420,095.50	51,322.08
– thereof from taxes EUR 402,738.90 (previous year: EUR 51,322.08) –		
	9,378,441.00	2,515,486.24
Total Equity and Liabilities	12,190,322,765.82	5,267,190,695.58

Income Statement

(In EUR)	1 January to 31 December	
	2014	2013
1. Revenues	9,422,355.34	9,706,193.35
2. Other operating income	788,212,903.62	7,845.17
3. Personnel expenses	(6,203,945.99)	(4,094,002.66)
a) Salaries	(6,193,968.92)	(4,090,442.65)
b) Social security contributions	(9,977.07)	(3,560.01)
4. Other operating expenses	(44,158,299.10)	(11,183,178.77)
5. Other interest and similar income	52,026.63	7,622.86
— thereof from affiliated companies: EUR 33,075.75 (previous year: EUR 6,469.86) —		
6. Interest and similar expenses	0.00	(204.00)
7. Income from ordinary business activities	747.325.040,50	(5,555,724.05)
8. Income taxes	(3,235.99)	18,900.07
9. Profit/Loss for the year	747.321.804,51	(5,536,823.98)
Net retained earnings of the previous year	4,140,647,078.29	4,642,990,830.19
Dividend payments	(524,964,338.00)	(502,625,430.00)
10. Profit carryforward	3,615,682,740.29	4,146,183,902.27
11. Addition to legal reserve	0.00	0.00
12. Net retained earnings	4,363,004,544.80	4,140,647,078.29

Statement of Changes in Fixed Assets 2014_

(In EUR)	Historical costs			
	1 January 2014	Additions	Disposals	31 December 2014
Financial assets				
Investments in affiliated companies	5,246,251,853.31	14,211,789,504.14	7,306,753,842.14	12,151,287,515.31
	5,246,251,853.31	14,211,789,504.14	7,306,753,842.14	12,151,287,515.31

Accumulated depreciation				Book value	
1 January 2014	Additions	Disposals	31 December 2014	31 December 2014	31 December 2013
0.00	0.00	0.00	0.00	12,151,287,515.31	5,246,251,853.31
0.00	0.00	0.00	0.00	12,151,287,515.31	5,246,251,853.31

Notes_

for the financial year ended 31 December 2014

1.

General Information on the Annual Financial Statements

The Annual Financial Statements of Telefónica Deutschland Holding AG, Munich, (also referred to as Telefónica Deutschland or TDH) for the financial year 2014 have been prepared in accordance with the principles of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

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

The company is listed on the regulated market of the Frankfurt Stock Exchange. The security identification number (Wertpapierkennnummer – WKN) is A1J5RX, the ISIN (International Securities Identification Number) is DE000A1J5RX9. As of 31 December 2014, Telefónica Deutschland Holding AG has share capital of EUR 2,974,554,993, divided into 2,974,554,993 no-par value bearer shares, each accounting for a pro rata amount of share capital of EUR 1.00.

On 23 July 2013, Telefónica Deutschland, Telefónica, S.A., Madrid, Spain and Koninklijke KPN N.V., The Hague, Netherlands (also referred to as KPN) concluded an agreement regarding the acquisition of KPN's German wireless business E-Plus by Telefónica Deutschland. This acquisition was completed with effect from 1 October 2014, following approval by the antitrust authorities and implementation measures such as carrying out a capital increase against cash and a capital increase against contribution in kind.

Since this date, Telefónica Deutschland Group comprises not only the companies that already belonged to it but also E-Plus Mobilfunk GmbH & Co. KG (also referred to as E-Plus oder E-Plus Mobilfunk) and its direct and indirect subsidiaries.

In the context of the completion of the E-Plus transaction, Telefónica Germany Holdings Limited, Slough, United Kingdom, fell below the threshold of 75% and following the completion of the transaction and the acquisition of another 4.4% in accordance with the agreement with KPN it held 62.1% of the shares of Telefónica Deutschland Holding AG. As of 31 December 2014 Telefónica Germany Holdings Limited holds 62.4% of the voting rights. Via Telefónica Germany Holdings Limited both O2 (Europe) Limited, Slough, United Kingdom, as well as Telefónica, S.A., Madrid, Spain, indirectly hold more than 62% of the shares in Telefónica Deutschland Holding AG. Following the completion of the E-Plus transaction and the sale of

4.4% to Telefónica Deutschland, KPN held 20.5%. Other than this we are not aware of stake holdings in the share capital of Telefónica Deutschland Holding AG to the extent of more than 10% of the voting rights.

To generate the cash purchase price in the context of the E-Plus acquisition, a **cash capital increase** on the basis of the authorisation granted by the Annual General Meeting of 20 May 2014, and the resolutions of the Management Board and the Supervisory Board of 8 September 2014, was resolved, under which the share capital of the company was to be increased by EUR 1,116,945,400 from its previous level of EUR 1,116,945,400, divided into 1,116,945,400 no-par value registered shares, to EUR 2,233,890,800 by issuing 1,116,945,400 new shares. The cash capital increase was entered in the commercial register on 18 September 2014.

The new shares were offered to the shareholders for subscription in the period from 10 to 23 September 2014, at a subscription price of EUR 3.24 each in a ratio of 1:1 and with the further conditions as resolved by the Management Board on 8 September 2014, with the approval of the Supervisory Board and published accordingly.

On 24 September 2014, Telefónica Deutschland announced the successful conclusion of the cash capital increase.

The cash capital increase enjoyed high demand from investors, with a subscription ratio of 99.92% for the new shares on offer. The majority shareholder Telefónica, S.A. exercised all its allocated subscription rights.

Shares that were not placed as part of the subscription rights offer were sold by the banks involved in the transaction, known as the joint bookrunners, on 24 September 2014, on the stock exchange or by other means.

The newly issued shares each represent a proportionate amount of the company's share capital of EUR 1.00.

To generate the additional consideration for the acquisition of E-Plus, namely the 24.9% interest in the extended company (see above), the Management Board resolved on 24 September 2014, with the approval of the Supervisory Board, to increase the share capital of the company as a **contribution in kind** by EUR 740,664,193 from EUR 2,233,890,800 to EUR 2,974,554,993 by issuing 740,664,193 new no-par value registered shares. The new shares were subscribed for by KPN Mobile Germany in return for a contribution in kind in the form of the limited partner's interest in E-Plus Mobilfunk. The capital increase against contribution in kind was entered in the commercial register on 7 October 2014.

Telefónica Deutschland Holding AG is the parent company of the Telefónica Deutschland Group. Telefónica Deutschland Group comprises Telefónica Deutschland and its subsidiaries as well as joint operations (together referred to as "Telefónica Deutschland Group"). Telefónica Deutschland Group is included in the Consolidated Financial Statements of the group's ultimate holding company, Telefónica, S.A., Madrid, Spain (also referred to as "Telefónica, S.A. Group") as of 31 December 2014. The parent company of the Telefónica Deutschland Group is Telefónica Germany Holdings Limited, a subsidiary of O2 (Europe) Limited, Slough, United Kingdom (also referred to as O2 (Europe) Limited), and an indirect subsidiary of Telefónica, S.A.

As of the reporting date Telefónica Deutschland is classified as a large corporation in accordance with section 267 (3), sentence 2 HGB.

The income statement has been prepared using the nature of expense method in accordance with section 275 (2) HGB. The structure has not changed compared to the previous year.

Shareholders' meetings

Extraordinary General Meeting

On 11 February 2014, an extraordinary General Meeting was held at which the following capital measures for the E-Plus transaction were approved:

- increase in the share capital by up to EUR 3.7 billion against cash with a subscription right of the shareholders, as well as a related amendment of the articles of association
- authorisation of the Management Board, with the approval of the Supervisory Board, to execute a capital increase against contribution in kind up to EUR 475 million and the related amendment of the articles of association (authorised capital 2014/I).

The resolution passed by the Annual General Meeting on the authorisation to increase share capital by up to EUR 3.7 billion applied to any implementation of the cash capital increase up until the end of 10 August 2014. It was replaced by the corresponding resolution on the cash capital increase by the Annual General Meeting on 20 May 2014, with an implementation deadline of 19 November 2014.

Furthermore, the extraordinary General Meeting resolved a new conditional capital 2014/I whilst suspending the former conditional capital 2012/I. The new conditional capital 2014/I was registered in the commercial register on 25 February 2014, whilst suspending the former conditional capital 2012/I.

Annual General Meeting and dividend distribution

On 20 May 2014, the second Annual General Meeting of Telefónica Deutschland took place. Next to the discharge of the Supervisory Board and Management Board and the election of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft with its registered office in Stuttgart, branch office Munich, as auditor for the 2014 Consolidated Financial Statements and Financial Statements of Telefónica Deutschland Holding AG, the Annual General Meeting resolved to distribute a dividend of EUR 0.47 per dividend-entitled share, a total EUR 524,964,338.

In addition, an increase in the share capital of up to EUR 3.7 billion against cash contributions with a subscription right of the shareholders in connection with the acquisition of E-Plus and a corresponding amendment to the articles of association were resolved. This also established the possibility to use the cash capital increase beyond the term of validity of the corresponding resolution adopted under agenda item 1 of the extraordinary General Meeting on 11 February 2014, i.e. after 10 August 2014.

In addition, it was resolved to increase the number of Supervisory Board members from twelve to 16 and to amend the articles of association accordingly. The amendment to the articles of association was entered in the commercial register on 18 September 2014.

The Annual General Meeting had elected Sally Anne Ashford and Antonio Manuel Ledesma Santiago as members of the Supervisory Board of Telefónica Deutschland subject to the registration of this amendment to the articles of association.

Agreement for the reimbursement of management services

Telefónica Deutschland Holding AG has signed agreements with Telefónica Germany GmbH & Co. OHG, Munich, (also referred to as OHG) and Telefónica Germany Management GmbH, Munich. The agreements include the obligation to render management services for Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH. Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH will reimburse Telefónica Deutschland Holding AG a lump sum of EUR 30 thousand per quarter. Furthermore, Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH will reimburse the cost of remuneration for the members of the Management Board and other administrative costs. The total amount of reimbursement is included in the company's revenues.

Significant events and transactions in the financial year

Agreement on the acquisition of E-Plus and implementation of the acquisition

On 23 July 2013, Telefónica Deutschland, Telefónica, S.A. and KPN concluded an agreement for the acquisition of KPN's German mobile business, E-Plus, by Telefónica Deutschland. As consideration, KPN received new shares and approximately EUR 3.6 billion in cash (cash purchase price), which will be subsequently adjusted in a final purchase price reduction.

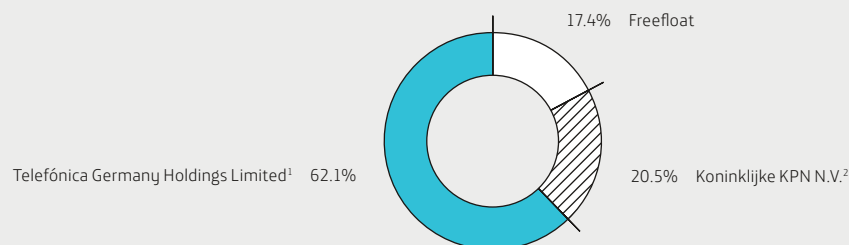
The cash component to be paid to KPN was financed via a cash capital increase of Telefónica Deutschland.

The shares issued as further consideration to KPN were generated via a capital increase against contribution in kind, initially giving KPN a 24.9% stake in Telefónica Deutschland after the completion of the cash capital increase and the capital increase against contribution in kind. KPN held a stake of 4.4% of the 24.9% only in trust for Telefónica S.A.

Telefónica, S.A. then acquired the 4.4% share in Telefónica Deutschland indirectly from KPN for EUR 1.3 billion.

This resulted in a 62.1% stake in Telefónica Deutschland held by Telefónica, S.A. and a 20.5% stake held by KPN.

Shareholder structure



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

² According to the voting rights notification dated 20 October 2014, Koninklijke KPN N.V. now holds these shares directly

Furthermore, Telefónica, S.A. concluded a call option agreement with KPN on 30 September 2014. This agreement grants Telefónica, S.A. the right to acquire from KPN a further share of up to 2.9% of Telefónica Deutschland. This right can be exercised one year after the conclusion of the call option agreement at an exercise price of up to EUR 0.51 billion.

The acquisition of E-Plus was completed with effect from 1 October 2014. Since this date, the Telefónica Deutschland Group also comprises E-Plus Mobilfunk together with its direct and indirect subsidiaries in addition to the existing companies.

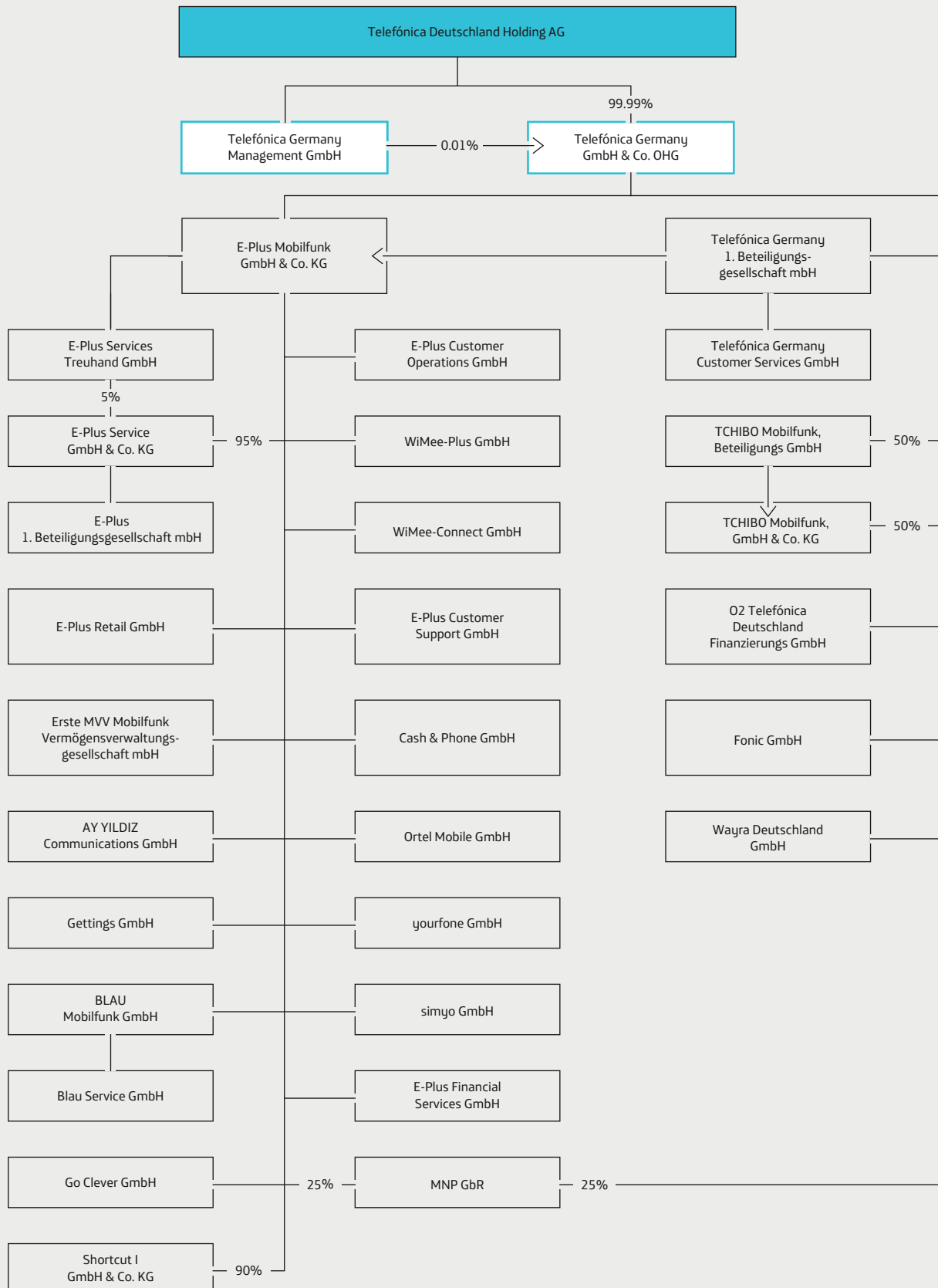
Contribution of E-Plus Mobilfunk GmbH & Co. KG into Telefónica Germany GmbH & Co. OHG

As at the close of 31 December 2014, Telefónica Deutschland contributed its limited partner interest in E-Plus Mobilfunk GmbH & Co. KG (also referred to as EPM) to OHG as a contribution in kind. In doing so, TDH transferred its entire limited partner interest, including all ancillary rights and all partnership accounts, to OHG by way of partial universal succession. The transfer of the limited partner interest was entered in EPM's commercial register on 18 December 2014. Based on a valuation by an auditing company, the contribution was carried out as contribution in kind amounting to EUR 7.5 billion.

The difference between the original purchase price and the value of the contribution results in income of EUR 788 million at the level of TDH.

Prior to this, Management GmbH had left as the general partner immediately after Telefónica Germany 1. Beteiligungsgesellschaft mbH had joined EPM as the general partner with effect from 00.01 am on 13 December 2014.

On this basis, the companies included in the Telefónica Deutschland Group are organised as shown in the chart below as of 31 December 2014:



In this context, Management GmbH undertook to make a cash contribution of at least EUR 750 thousand to OHG in order to maintain the existing participating interest of Management GmbH and TDH in OHG. The amount was paid to OHG in accordance with the agreement.

Changes in the management board of Telefónica Deutschland

As of 31 December 2014, the Management Board consisted of Thorsten Dirks, Rachel Empey and Markus Haas.

At the beginning of the 2014 financial year, the Management Board consisted of René Schuster, Rachel Empey and Markus Haas.

On 31 January 2014, René Schuster left in mutual agreement as CEO and member of the Management Board. The Supervisory Board of Telefónica Deutschland had approved a corresponding termination agreement on 29 January 2014.

From 1 February 2014, the responsibilities of the CEO were taken over jointly by Rachel Empey and Markus Haas, in addition to their previous responsibilities. Rachel Empey focused on the operative business and Markus Haas on the preparation for the E-Plus integration.

Since the completion of the acquisition of E-Plus, Markus Haas has been responsible for operating business as Chief Operating Officer (COO) and Rachel Empey has been responsible for finance and strategy as CFO.

On 2 July 2014, the Supervisory Board of Telefónica Deutschland Holding AG resolved to appoint Thorsten Dirks as future Chief Executive Officer (CEO).

Thorsten Dirks was formally appointed as a member of the Management Board and as CEO in the context of the completion of the acquisition of the E-Plus Group by Telefónica Deutschland – specifically, by way of the Supervisory Board resolution of 9 October 2014.

By way of another resolution on the same date, the Supervisory Board extended the term of office of Rachel Empey and Markus Haas.

All current members of the Management Board are appointed for the period up until 30 September 2017.

Changes in the Supervisory Board of Telefónica Deutschland

The Annual General Meeting on 20 May 2014, elected Sally Anne Ashford and Antonio Manuel Ledesma Santiago as additional members of the Supervisory Board of Telefónica Deutschland Holding AG representing the shareholders. Their term of office began when the amendment to the articles of association regarding the expansion of the Supervisory Board from twelve to 16 members was registered on 18 September 2014.

Joachim Rieger and Jürgen Thierfelder were appointed as additional employee representatives on the Supervisory Board by order of the Munich Local Court on 31 October 2014.

Therefore, at full strength the Supervisory Board consists of 16 members with eight shareholder representatives and eight employee representatives as of 31 December 2014.

Issue of a seven-year Bond (Bond II)

On 10 February 2014, Telefónica Deutschland in its capacity as parent company of the Telefónica Deutschland Group, issued a senior unsecured seven-year bond with a nominal value of EUR 500 million, by using its subsidiary O2 Telefónica Deutschland Finanzierungs GmbH, Munich. The bond matures on 10 February 2021, and is guaranteed by Telefónica Deutschland Holding AG. The coupon for the fixed interest bond is 2.375% and the issue price 99.624%. The issue spread was 100 basis points over the seven-year Euro Midswap Rate, resulting in a yield of 2.434%. The bond has a denomination of EUR 1,000 and was issued on the basis of a bond security prospectus. O2 Telefónica Deutschland Finanzierungs GmbH, Munich,

has transferred the net issuing proceeds of the bond to Telefónica Germany GmbH & Co. OHG, Munich, in the form of a loan. The net issuing proceeds generated by the bond will be used for general corporate purposes.

Dividend proposal for the 2014 financial year

On 8 September 2014, the Management Board of Telefónica Deutschland resolved and announced that it is intended to propose a cash dividend of at least EUR 700 million, to be paid in 2015, to the next Annual General Meeting for the 2014 financial year.

2.

Accounting Policies

The accounting policies used in the preparation of the Annual Financial Statements as of 31 December 2014, are in accordance with the provisions of sections 242 to 256a and 264 to 288 of the German Commercial Code (HGB), and the relevant provisions of the German Stock Corporation Act (AktG). The accounting policies remained unchanged compared to the prior year.

The financial assets are carried at historical cost, less any impairment, to account for lower fair values at the reporting date. If the reasons for the impairment do no longer exist, impairment losses are reversed according to section 253 (5) sentence 1 HGB.

Receivables and other assets are stated at their nominal value. Adequate valuation allowances were recognised for all risk positions.

Provisions for pensions are measured on the basis of actuarial calculations using the projected unit credit method, taking into account the 2005 G Heubeck mortality tables. The provisions for pensions and similar obligations are discounted at a flat rate using the average market interest rate for the past seven years published by Deutsche Bundesbank for an assumed remaining term of 15 years (section 253 (2) sentence 2 HGB). This interest rate is 4.5% (previous year: 4.9%). In calculating provisions for pensions and similar obligations, annual wage and salary increases of 2.6% and pension increases of annually 2.0% (previous year: 2.0%) are assumed, as was fluctuation of 3.5% p.a.

The assets that serve exclusively to settle liabilities from post-employment benefit obligations and that are exempt from attachment by all other creditors (plan assets as defined by section 246 (2) sentence 2 HGB) are offset against provisions at fair value. As there is no active market with which to determine the market price, the cost is adjusted in line with the strict principle of lower of cost or market in accordance with section 253 (4) HGB (section 255 (4) sentence 3 HGB). The amortised cost of reinsurance claims and therefore the fair value as defined by section 255 (4) sentence 4 HGB is equal to the so-called budgeted capital reserves of the insurance policy plus any credit from premium reimbursements (so-called irrevocably assigned profit participation).

Changes in profit or loss due to a change in the discount rate are recognised in the financial result.

To satisfy indirect pension obligations, funds have been invested and are managed in the ProFund Unabhängige Gruppen-Unterstützungskasse occupational pension scheme. Plan assets are measured at fair value. Telefónica Deutschland Holding AG exercises the option granted under section 28 (1) sentence 2 of the Introductory Act to the German Commercial Code (EGHGB) not to recognise indirect pension obligations.

Other provisions take into account all discernible risks and uncertain obligations and are measured at the amounts considered necessary in accordance with prudent business judgement. Discounting in accordance with section 253 (2) HGB is not required.

Liabilities are carried at their settlement amount.

Deferred taxes resulting from temporary and quasi-permanent differences between the accounting and tax carrying amounts of assets, liabilities, deferred income and prepaid expenses, or from tax loss carry forwards, are calculated as the amounts of the resulting tax expense or income using each company's individual tax rate at the date the differences are reversed. They are not discounted. Deferred tax assets and liabilities are offset. In line with the recognition option in place, deferred tax assets are not capitalised.

3.

Notes to the Balance Sheet

Financial assets

At EUR 12,140,858 thousand (2013: EUR 5,235,822 thousand) shares in affiliated companies relate to shares in Telefónica Germany GmbH & Co. OHG, Munich, which the company is the personally liable partner of. The rise in shares in Telefónica Germany GmbH & Co. OHG results from the acquisition of E-Plus as of 1 October 2014, under consideration of incidental acquisition cost, in the total amount of EUR 6,711,789 thousand and the subsequent contribution of the limited partner interest in E-Plus Mobilfunk GmbH & Co. KG of EUR 7,500,000 thousand to Telefónica Germany GmbH & Co. OHG effective 31 December 2014. Furthermore, a withdrawal of EUR 594.964 thousand was carried out by TDH, based on two partners resolutions as of 14 May 2014, and 26 September 2014, and pursuant to section 4 (5) of the partnership agreement.

Corresponding to the previous year, EUR 10,430 thousand relates to the shares in Telefónica Germany Management GmbH, Munich.

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

Receivables

The receivables from affiliates primarily relate to receivables due to cash pooling from Telfisa Global B.V., Amsterdam, Netherlands, of EUR 30,785 thousand (2013: EUR 12,364 thousand) and receivables for management services from Telefónica Germany GmbH & Co. OHG of EUR 6,115 thousand (2013: EUR 2,485 thousand).

The other assets of EUR 2,096 thousand (2013: EUR 5,987 thousand) essentially relate to tax receivables in the current financial year. In the previous year this item essentially included capitalised costs in connection with the acquisition of E-Plus (EUR 5,887 thousand).

All receivables and other assets have a remaining term of less than one year.

Equity

Subscribed capital

The registered share capital of Telefónica Deutschland Holding AG amounts to EUR 2,974,555 thousand (2013: EUR 1,116,945 thousand). The share capital is divided into 2,974,554,993 no-par value registered shares each with a proportionate share of the share capital of EUR 1.00 ("shares"). The registered share capital is fully paid.

As of 31 December 2014, Telefónica Deutschland Holding AG did not hold any of its own shares.

The capital increases for cash and contributions in kind in connection with the acquisition of E-Plus and as well Telefónica S.A.'s acquisition of another 4.4% from KPN Mobile Germany, results according to the corresponding voting rights in a share of Telefónica S.A. in Telefónica Deutschland of 62.1% and in KPN of 20.5%. The freefloat was 17.4%.

In accordance with section 6 (2) of the Articles of Association the shareholders have no right to securitise shares. Each non-par share in general grants one vote at the Annual General Meeting. The shares are freely transferable.

In 2014, Telefónica Deutschland's share capital was increased by EUR 1,116,945 thousand by way of a capital increase for cash, entered in the commercial register on 18 September 2014, and by EUR 740,664 thousand by way of a capital increase for contributions in kind, entered in the commercial register on 7 October 2014, to a total of EUR 2,974,555 thousand.

Authorised capital

Before the partial utilisation in connection with the acquisition of E-Plus, the authorised capital of Telefónica Deutschland Holding AG allowed the Management Board of the company, with the approval of the Supervisory Board, to increase the share capital of Telefónica Deutschland in the period up until 17 September 2017, once or repeatedly up to a total of EUR 558,473 thousand by issuing new no-par value registered shares for cash or contributions in kind (authorised capital 2012/I) and to carry out a capital increase for contributions in kind of up to EUR 475,000 thousand (authorised capital 2014/I).

For the capital increase for contributions in kind in connection with the acquisition of E-Plus, the Management Board resolved on 24 September 2014, with the approval of the Supervisory Board, to utilise the authorised capital 2014/I in full and the authorised capital 2012/I in a partial amount of EUR 265,664 thousand. This capital increase for contributions in kind was entered into the commercial register on 7 October 2014, deleting the authorised capital 2014/I and adjusting the authorised capital 2012/I.

As of 31 December 2014, Telefónica Deutschland Holding AG had authorised capital 2012/I of EUR 292,809 thousand.

Conditional capital

The share capital of Telefónica Deutschland Holding AG was conditionally increased by up to EUR 558,473 thousand by issuing up to 558,472,700 registered shares (conditional capital 2014/I). The conditional capital 2014/I was resolved by the Annual General Meeting on 11 February 2014, suspending the conditional capital 2012/I.

Additional paid-in capital

As a result of the abovementioned capital increases for cash and for contributions in kind in connection with the acquisition of E-Plus, which were entered into the commercial register on 18 September and 7 October 2014, additional paid-in capital increased by EUR 4,832,109 thousand to the level as of 31 December 2014, of EUR 4,832,539 thousand.

The increase in additional paid-in capital resulted from the total exercise price of the shares from the capital increases for cash and contributions in kind of EUR 6,689,719 thousand, less the contributions to share capital of EUR 1,857,610 thousand.

Retained earnings

Retained earnings contain a legal reserve in accordance with section 150 (2) of the German Stock Corporation Act (Aktiengesetz – AktG) of EUR 14 thousand (2013: EUR 14 thousand).

Profit distribution

The second Annual General Meeting of Telefónica Deutschland Holding AG was held on 20 May 2014, and resolved to distribute a dividend of EUR 0.47 per entitled share, totalling EUR 524,964 thousand. The dividend was distributed on 21 May 2014.

Pension provisions

The provision for pensions relates to pension commitments for the current Management Board of EUR 2,083 thousand (previous year: EUR 0 thousand).

The pension obligation was transferred at cost in connection with the acquisition of E-Plus, which results in an excess value compared to a valuation according to section 253 (1) sentence 2 and (2) sentence 2 HGB (also refer to "1. General Information on the Annual Financial Statements" – "Accounting Policies"). The acquisition value will be retained until it corresponds to an obligation according to section 253 (1) sentence 2 and (2) sentence 2 HGB. The access value amounts to EUR 996 thousand as of 31 December 2014.

Based on a valuation as of 31 December 2014, corresponding to section 253 (1) sentence 2 and (2) sentence 2 HGB and after offsetting with plan assets of EUR 542 thousand (2013: EUR 0 thousand) and in accordance with section 246 (2) sentence 2 HGB the pension obligation has a present value of EUR 1,087 thousand.

The plan assets consist of reinsurance policies that are exclusively intended for this purpose, pledged and protected in the event of insolvency.

The fair value of the netted reinsurance claims is equal to the amortised cost (capital reserves plus profit participation) in accordance with actuarial appraisals and notifications from the insurance providers.

(Euros in thousands)	As of 31 December 2014
Settlement amount of the offset obligations	1,629
Fair value of the offset plan assets	542
Amortised cost of plan assets according to section 255 (IV) sentence 4 HGB	542

Telefónica Deutschland Holding AG exercises the option under section 28 (1) and (2) EGHGB not to recognise indirect pension obligations of EUR 170 thousand (2013: EUR 121 thousand) covered by the ProFund Unabhängige Gruppen-Unterstützungskasse occupational pension scheme. To cover this obligation, EUR 209 thousand (2013: EUR 168 thousand) was held in trust for Telefónica Deutschland Holding AG as of 31 December 2014.

Provisions

The other provisions of EUR 8,748 thousand (2013: EUR 6,639 thousand) essentially relate to provisions for outstanding invoices of EUR 6,646 thousand (2013: EUR 3,989 thousand). They also include obligations for the remuneration of the Management Board (2014: EUR 2,102 thousand; 2013: EUR 2,484 thousand).

Liabilities

Trade payables amount to EUR 2,590 thousand (2013: EUR 2,464 thousand) and essentially relate to costs in connection with the acquisition of E-Plus.

The liabilities to affiliated companies of EUR 6,368 thousand (2013: EUR 0 thousand) relate to cost allocations in connection with the capital increase.

The other liabilities of EUR 420 thousand (2013: EUR 51 thousand) essentially relate to tax liabilities.

All liabilities have a remaining term of less than one year and are unsecured.

Deferred taxes

Deferred tax assets and liabilities are netted. In the event of deferred tax assets exceeding liabilities as of the reporting date, the capitalisation option of section 274 (1) sentence 2 HGB is not exercised. The deferred tax assets as of 31 December 2014, essentially result from the utilisation of corporation and trade tax loss carry forwards, and from temporary differences at the level of Telefónica Germany GmbH & Co. OHG and E-Plus Mobilfunk GmbH & Co. KG. As the shareholder in Telefónica Germany GmbH & Co. OHG, Telefónica

Deutschland Holding AG is the taxable entity for the purposes of corporation tax. The tax rate for deferred tax assets is 15.825% for corporation tax and the solidarity surcharge, plus 17.15% for trade tax.

4.

Notes to the Income Statement

Revenues

Revenues amount to EUR 9,422 thousand (2013: EUR 9,706 thousand) and essentially comprise the reimbursement of costs for the remuneration of the members of the Management Board and other administrative costs (2014: EUR 9,212 thousand; 2013: EUR 9,466 thousand), which, in accordance with the agreements for the reimbursement for management services (as explained under "I. General Information on the Annual Financial Statements – Agreement for the reimbursement of management services"), are assumed by Telefónica Germany GmbH & Co. OHG.

This item also includes invoiced management services of EUR 210 thousand (2013: EUR 240 thousand) provided by Telefónica Deutschland Holding AG to Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH.

Other operating income

The other operating income of EUR 788,213 thousand (2013: EUR 8 thousand) mainly results from the contribution of E-Plus to Telefónica Germany GmbH & Co. OHG.

Personnel expenses

The personnel expenses of EUR 6,204 thousand (2013: EUR 4,094 thousand) include the expenses for the remuneration of the Management Board, including social security contributions. The rise in personnel expenses essentially results from the change in the composition of management in 2014 compared to the previous year, as well as from additional severance payments of EUR 2,671 thousand related to the member of the Management Board who left the company in the financial year 2014.

Other operating expenses

The other operating expenses in the financial year of EUR 44,158 thousand (2013: EUR 11,183 thousand) essentially include costs incurred in connection with the cash capital increase for the acquisition of E-Plus (2014: EUR 32,794 thousand; 2013: EUR 5,431 thousand) and legal and consulting fees for third-party service providers.

Other interest and similar income

Other interest and similar income of EUR 52 thousand (2013: EUR 8 thousand) essentially results from positive net cash pooling.

Income taxes

The income taxes of EUR 3 thousand (2013: tax refunds of EUR 19 thousand) result from the operating activities of the company.

Prior-period income and expenses

The financial year 2014 includes prior-period income of EUR 766 thousand and prior-period expenses of EUR 844 thousand.

5.

Other Information

Additional information on the Supervisory Board and the Management Board

Remuneration of the Management Board and the Supervisory Board

The total remuneration of the members of the Management Board for the financial year ended 31 December 2014, amount to EUR 5,468 thousand (2013: EUR 4,094 thousand).

In addition, severance payments of EUR 2,671 thousand relate to the member of the Management Board who left the company in the financial year 2014.

The Telefónica Deutschland Group has not granted the members of its Management Board any securities or loans and has not assumed any guarantees for them.

The total remuneration contains share options with an underlying fair value at grant date of EUR 1,680 thousand for 168,340 contingent rights regarding the transfer of shares without consideration.

In accordance with the resolution of the Shareholders' Meeting of 5 October 2012, Telefónica Deutschland Holding AG is exempt from additional disclosures for listed stock corporations, in accordance with section 286 (5) HGB in conjunction with section 285 9 (a), sentences 5 to 8 HGB.

The members of the Supervisory Board receive remuneration for their activities of EUR 231 thousand in 2014 and EUR 162 thousand in 2013.

Telefónica Deutschland Group has not granted the members of their Supervisory Board any securities or loans and has not assumed any guarantees for them.

Management Board

The members of the Management Board of Telefónica Deutschland Holding AG as of 31 December 2014, are as listed below:

Name	Function
Thorsten Dirks	Chief Executive Officer (CEO) Chairperson of the Management Board
Rachel Empey	Chief Financial Officer (CFO) Member of the Management Board
Markus Haas	Chief Operating Officer (COO) Member of the Management Board
René Schuster	Chief Executive Officer (CEO) Chairperson of the Management Board Member of the Telefónica Europe Executive Committee Member of the Telefónica Europe Advisory Board Member of the Telefónica Europe Project Approvals Committee Management Board Member of the Telefónica Global Transformation Committee Left the company as of 31 January 2014

Between 1 February 2014, and the completion of the acquisition of E-Plus with effect from 1 October 2014, Rachel Empey und Markus Haas took over the responsibilities of the CEO jointly in addition to their existing responsibilities. Since the completion of the acquisition of E-Plus, Markus Haas has been responsible for operating business as Chief Operating Officer (COO) and Rachel Empey has been responsible for finance and strategy as CFO.

Thorsten Dirks was formally appointed as a member of the Management Board and as CEO in the context of the completion of the acquisition of the E-Plus Group by Telefónica Deutschland – specifically, by way of the Supervisory Board resolution of 9 October 2014.

Supervisory Board

The members of the Supervisory Board of Telefónica Deutschland Holding AG as of 31 December 2014, are as listed below:

Name	Function
Eva Castillo Sanz	Chairperson of the Supervisory Board; Current mandates: Telefónica, S.A., Member of the Board Bankia S.A., Member of the Board Telefónica Foundation, Member of the Board Comillas – ICAI Foundation, Member of the Board Visa Europe, Member of the Board of Directors Entreculturas Foundation, Member of the Board of Directors
Imke Blumenthal	Deputy Chairperson of the Supervisory Board; Current mandates: Chairperson of the General and Group Works Council of Telefónica Deutschland; Chairperson of the Works Council of the North-Western Region for Telefónica Deutschland
María Pilar López Álvarez	Member of the Supervisory Board; Current mandates: Telefónica Europe, plc (till 28 February 2015) Telfisa Global B.V., Member of the Board (till 28 February 2015) Tuenti Technologies, S.L. Member of the Board (till 28 February 2015) Wolseley PLC, Non-Executive Director Microsoft Spain, General Manager (starting 1 March 2015)
Sally Anne Ashford ¹	Member of the Supervisory Board
Angel Vilá Boix	Member of the Supervisory Board Current mandates: Telefónica, S.A., Chief Financial Officer and Corporate Development Officer; Telco S.P.A., Vice Chairperson of Board of Directors
Patricia Cobián González	Member of the Supervisory Board Current mandates: Telefónica Europe, plc, Director Wayra Investigación Y Desarrollo, Member of the Board
Christoph Heil ²	Member of the Supervisory Board Current mandates: Capgemini GmbH, Member of the Supervisory Board
Michael Hoffmann	Member of the Supervisory Board; Current mandates: Chief Executive Officer of Lekkerland AG & Co. KG.
Enrique Medina Malo	Member of the Supervisory Board; Current mandates: Telefónica Europe, plc, Member of the Board mm02 plc, Director O2 Holding limited, Director O2 (Europe) Limited, Director O2 Cedar Limited, Member of the Board O2 Networks Limited, Member of the Board O2 International Holdings Limited, Member of the Board
Thomas Pfeil ²	Member of the Supervisory Board
Joachim Rieger ^{1,2}	Member of the Supervisory Board; Current mandates: E-Plus Customer Support GmbH, Member of the Supervisory Board
Antonio Manuel Ledesma Santiago ¹	Member of the Supervisory Board; Current mandates: Telefónica S.A., Financial Projects Director Venturini España, S.A., Sociedad Unipersonal, Sole Administrator
Jürgen Thierfelder ^{1,2}	Member of the Supervisory Board
Marcus Thurand ²	Member of the Supervisory Board
Jan-Erik Walter ²	Member of the Supervisory Board; Current mandates: Deputy Chairperson of the Munich Works Council for Telefónica Deutschland
Claudia Weber ²	Member of the Supervisory Board; Current mandates: Deputy Manager, ver.di Munich Region

¹ New member of the Supervisory Board as per resolution of 20 May 2014

² Employee representatives

Auditor's fees

The information concerning the total auditor's fees for Telefónica Deutschland Holding AG has been omitted in accordance with section 285 17 HGB as the company is part of the consolidation group of Telefónica Deutschland Holding AG (Telefónica Deutschland Group) and the information is contained in its Consolidated Financial Statements.

Number of employees

In the financial year 2014 – as in 2013 – the company had no employees.

Contingent liabilities and other financial commitments

Contingent liabilities

In its capacity as the parent company of the Telefónica Deutschland Group, Telefónica Deutschland Holding AG assumes warranty obligations for its subsidiaries. In the context of the two bonds issued by O2 Telefónica Deutschland Finanzierungs GmbH in February 2014 and November 2013, for each bearer Telefónica Deutschland assumes an amount of the two bonds issued of EUR 500 million and EUR 600 million respectively, with the unconditional and irrevocable guarantee of correct and punctual payment of all amounts payable by the issuer in relation to the bond in accordance with all the terms and conditions of the bonds.

The risk of utilisation of the contingent liabilities is considered to be extremely low. This assessment is based on the fact that O2 Telefónica Deutschland Finanzierungs GmbH is an indirect subsidiary of Telefónica Deutschland Holding AG and is fully controlled by Telefónica Germany GmbH & Co. OHG. The creditworthiness of O2 Telefónica Deutschland Finanzierungs GmbH is thus determined by the business operations of the Telefónica Deutschland Group itself.

List of shareholdings in accordance with section 285 No. 11 and 11a HGB

Name and legal form	Registered Office	Share in the Capital	Equity on 31 December 2013 Euros in thousands	Results of the 2013 Financial Year Euros in thousands
AY YILDIZ Communications GmbH, Dusseldorf	Germany	100	25	0 ³
BLAU Mobilfunk GmbH, Hamburg	Germany	100	70,548	0 ³
Blau Service GmbH, Hamburg	Germany	100	21	0 ³
Cash & Phone GmbH, Dusseldorf	Germany	100	25	0 ³
E-Plus 1. Beteiligungsgesellschaft mbH, Munich ⁴	Germany	100	–	–
E-Plus Customer Operations GmbH, Dusseldorf	Germany	100	100	0 ³
E-Plus Customer Support GmbH, Potsdam	Germany	100	25	0 ³
E-Plus Financial Services GmbH, Potsdam	Germany	100	25	0 ³
E-Plus Mobilfunk GmbH & Co. KG, Dusseldorf ¹ (formerly E-Plus Transition GmbH & Co. KG, Dusseldorf)	Germany	100	25	0
E-Plus Retail GmbH, Dusseldorf	Germany	100	78,202	0 ³
E-Plus Service GmbH & Co. KG, Potsdam ¹	Germany	100	50	0 ³
E-Plus Services Treuhand GmbH, Dusseldorf	Germany	100	25	0 ³
Erste MVV Mobilfunk Vermögensverwaltungsgesellschaft mbH, Dusseldorf	Germany	100	283,670	0 ³
Fonic GmbH, Munich	Germany	100	25	0 ³
Gettings GmbH, Dusseldorf	Germany	100	25	0 ³
Go Clever GmbH, Stuttgart	Germany	100	(2,798)	101
Mediakraft Networks GmbH, Munich	Germany	20	(1,099)	(2,842)
MNP GbR, Cologne	Germany	50	454	(4)

Name and legal form	Registered Office	Share in the Capital	Equity on 31 December 2013 Euros in thousands	Results of the 2013 Financial Year Euros in thousands
O2 Telefónica Deutschland Finanzierungs GmbH, Munich	Germany	100	25	0 ³
Ortel Mobile GmbH, Dusseldorf	Germany	100	5,050	352
Shortcut I GmbH & Co. KG, Dusseldorf	Germany	90	6,512	(882)
simyo GmbH, Dusseldorf	Germany	100	(890)	0 ³
TCHIBO Mobilfunk Beteiligungs GmbH, Hamburg	Germany	50	38	1
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg	Germany	50	5,937	941
Telefónica Germany 1. Beteiligungsgesellschaft mbH, Munich	Germany	100	85,778	0 ³
Telefónica Germany Customer Services GmbH, Munich	Germany	100	15,342	0 ³
Telefónica Germany GmbH & Co. OHG, Munich ^{1,2}	Germany	100	3,496,593	27,325
Telefónica Germany Management GmbH, Munich	Germany	100	10,513	(56)
Wayra Deutschland GmbH, Munich	Germany	100	1,725	0 ³
WiMee-Connect GmbH, Dusseldorf	Germany	100	13,241	0 ³
WiMee-Plus GmbH, Dusseldorf	Germany	100	183	0 ³
Yourfone GmbH, Hamburg	Germany	100	1,212	0 ³

1 In the financial year 2014 – the entities are using the exemption provisions pursuant to section 264b HGB

2 99.99% Telefónica Deutschland Holding AG as the personally liable partner; 0.01% Telefónica Germany Management GmbH

3 After transfer of the profit/loss

4 Incorporation of the company in financial year 2014

For further information regarding the types of shareholdings please refer to the organisational chart in section “Significant Events and Transactions in the Financial Year” – “Incorporation of E-Plus Mobilfunk GmbH & Co. KG into Telefónica Germany GmbH & Co. OHG”.

Parent company/Consolidated Financial Statements

The Consolidated Financial Statements of Telefónica Deutschland Holding AG, Munich, will be published in the German Federal Gazette. The Consolidated Financial Statements of Telefónica Deutschland Holding AG are included in the Consolidated Financial Statements of the Spanish parent company Telefónica S.A. (Madrid, Spain). The latter is the company that prepares the Consolidated Financial Statements for the largest group of companies. These Consolidated Financial Statements are available from Telefónica, S.A., and are published on the Internet at WWW.TELEFONICA.COM

Voting rights notification pursuant to section 26 (1) of the WpHG

On 20 October 2014, KPN Mobile Germany GmbH & Co. KG, Dusseldorf, Germany has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 20%, 15%, 10%, 5% and 3% threshold of the Voting Rights on 17 October 2014, and on that day amounted to 0% (this corresponds to 0 Voting Rights).

On 20 October 2014, E-PCPM Geschäftsführungs GmbH, Dusseldorf, Germany has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 20%, 15%, 10%, 5% and 3% threshold of the Voting Rights on 17 October 2014, and on that day amounted to 0% (this corresponds to 0 Voting Rights).

On 20 October 2014, KPN Mobile Germany III B.V., The Hague, Netherlands has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 20%, 15%, 10%, 5% and 3% threshold of the Voting Rights on 17 October 2014, and on that day amounted to 0% (this corresponds to 0 Voting Rights).

On 20 October 2014, KPN Mobile Germany II B.V., The Hague, Netherlands has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 20%, 15%, 10%, 5% and 3% threshold of the Voting Rights on 17 October 2014, and on that day amounted to 0% (this corresponds to 0 Voting Rights).

On 20 October 2014, KPN Mobile N.V., The Hague, Netherlands has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 20%, 15%, 10%, 5% and 3% threshold of the Voting Rights on 17 October 2014, and on that day amounted to 0% (this corresponds to 0 Voting Rights).

On 20 October 2014, KPN Mobile Germany I B.V., The Hague, Netherlands has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 20%, 15%, 10%, 5% and 3% threshold of the Voting Rights on 17 October 2014, and on that day amounted to 0% (this corresponds to 0 Voting Rights).

On 20 October 2014, KPN Mobile Holding B.V., The Hague, Netherlands has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 20%, 15%, 10%, 5% and 3% threshold of the Voting Rights on 17 October 2014, and on that day amounted to 0% (this corresponds to 0 Voting Rights).

On 8 October 2014, Telefónica, S.A., Madrid, Spain has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 75% threshold of the Voting Rights on 7 October 2014, and on that day amounted to 62.10% (this corresponds to 1,847,271,219 Voting Rights). 57.70% of Voting Rights (this corresponds to 1,716,390,800 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: O2 (Europe) Limited, Telefónica Germany Holdings Limited. 4.40% of Voting Rights (this corresponds to 130,880,419 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 2 in connection with sentence 2 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following shareholders, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: KPN Mobile Germany GmbH & Co. KG.

On 7 October 2014, Telefónica Germany Holdings Limited, Slough, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 75% threshold of the Voting Rights on 7 October 2014, and on that day amounted to 62.10% (this corresponds to 1,847,271,219 Voting Rights). 4.40% of Voting Rights (this corresponds to 130,880,419 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 2 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following shareholders, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: KPN Mobile Germany GmbH & Co. KG.

On 7 October 2014, O2 (Europe) Limited, Slough, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 75% threshold of the Voting Rights on 7 October 2014, and on that day amounted to 62.10% (this corresponds to 1,847,271,219 Voting Rights). 57.70% of Voting Rights (this corresponds to 1,716,390,800 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Telefónica Germany Holdings Limited. 4.40% of Voting Rights (this corresponds to 130,880,419 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 2 in connection with sentence 2 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following shareholders, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: KPN Mobile Germany GmbH & Co. KG.

On 8 October 2014, KPN Mobile Germany GmbH & Co. KG, Düsseldorf, Germany has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5%, 10%, 15% and 20% threshold of the Voting Rights on 7 October 2014, and on that day amounted to 24.90% (this corresponds to 740,664,193 Voting Rights).

On 8 October 2014, E-Plus Mobilfunk Geschäftsführungs GmbH (in future E-PCPM Geschäftsführungs GmbH), Düsseldorf, Germany has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5%, 10%, 15% and 20% threshold of the Voting Rights on 7 October 2014, and on that day amounted to 24.90% (this corresponds to 740,664,193 Voting Rights). 24.90% of Voting Rights (this corresponds to 740,664,193 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: KPN Mobile Germany GmbH & Co. KG.

On 8 October 2014, KPN Mobile Germany III B.V., The Hague, Netherlands has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5%, 10%, 15% and 20% threshold of the Voting Rights on 7 October 2014, and on that day amounted to 24.90% (this corresponds to 740,664,193 Voting Rights). 24.90% of Voting Rights (this corresponds to 740,664,193 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: KPN Mobile Germany GmbH & Co. KG.

On 8 October 2014, KPN Mobile Germany II B.V., The Hague, Netherlands has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5%, 10%, 15% and 20% threshold of the Voting Rights on 7 October 2014, and on that day amounted to 24.90% (this corresponds to 740,664,193 Voting Rights). 24.90% of Voting Rights (this corresponds to 740,664,193 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: KPN Mobile Germany III B.V., KPN Mobile Germany GmbH & Co. KG.

On 8 October 2014, KPN Mobile Germany I B.V., The Hague, Netherlands has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5%, 10%, 15% and 20% threshold of the Voting Rights on 7 October 2014, and on that day amounted to 24.90% (this corresponds to 740,664,193 Voting Rights). 24.90% of Voting Rights (this corresponds to 740,664,193 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: KPN Mobile Germany II B.V., KPN Mobile Germany III B.V., KPN Mobile Germany GmbH & Co. KG.

On 8 October 2014, KPN Mobile N.V., The Hague, Netherlands has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5%, 10%, 15% and 20% threshold of the Voting Rights on 7 October 2014, and on that day amounted to 24.90% (this corresponds to 740,664,193 Voting Rights). 24.90% of Voting Rights (this corresponds to 740,664,193 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: KPN Mobile Germany I B.V., KPN Mobile Germany II B.V., KPN Mobile Germany III B.V., KPN Mobile Germany GmbH & Co. KG.

On 8 October 2014, KPN Mobile Holding B.V., The Hague, Netherlands has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5%, 10%, 15% and 20% threshold of the Voting Rights on 7 October 2014, and on that day amounted to 24.90% (this corresponds to 740,664,193 Voting Rights). 24.90% of Voting Rights (this corresponds to 740,664,193 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: KPN Mobile N.V., KPN Mobile Germany I B.V., KPN Mobile Germany II B.V., KPN Mobile Germany III B.V., E-Plus Mobilfunk Geschäftsführungs GmbH (in future E-PCPM Geschäftsführungs GmbH), KPN Mobile Germany GmbH & Co. KG.

On 8 October 2014, KONINKLIJKE KPN N.V., The Hague, Netherlands has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5%, 10%, 15% and 20% threshold of the Voting Rights on 7 October 2014, and on that day amounted to 24.90% (this corresponds to 740,664,193 Voting Rights). 24.90% of Voting Rights (this corresponds to 740,664,193 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: KPN Mobile Holding B.V., KPN Mobile N.V., KPN Mobile Germany I B.V., KPN Mobile Germany II B.V., KPN Mobile Germany III B.V., E-Plus Mobilfunk Geschäftsführungs GmbH (in future E-PCPM Geschäftsführungs GmbH), KPN Mobile Germany GmbH & Co. KG.

On 29 September 2014, Merrill Lynch International, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.00% (this corresponds to 0 Voting Rights).

On 29 September 2014, ML UK Capital Holdings, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.00% (this corresponds to 0 Voting Rights). 0.00% of Voting Rights (this corresponds to 0 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act).

On 29 September 2014, MLEIH Funding, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.00% (this corresponds to 0 Voting Rights). 0.00% of Voting Rights (this corresponds to 0 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act).

On 29 September 2014, Merrill Lynch Europe Limited, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.00% (this corresponds to 0 Voting Rights). 0.00% of Voting Rights (this corresponds to 0 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act).

On 29 September 2014, Merrill Lynch UK Holdings, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.00% (this corresponds to 0 Voting Rights). 0.00% of Voting Rights (this corresponds to 0 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act).

On 29 September 2014, ML EMEA Holdings LLC, Wilmington, DE, United States has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.00% (this corresponds to 0 Voting Rights). 0.00% of Voting Rights (this corresponds to 0 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act).

On 29 September 2014, Merrill Lynch International Incorporated, Wilmington, DE, United States has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.00% (this corresponds to 0 Voting Rights). 0.00% of Voting Rights (this corresponds to 0 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act).

On 29 September 2014, NB Holdings Corporation, Wilmington, DE, United States has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.02% (this corresponds to 500,000 Voting Rights). 0.02% of Voting Rights (this corresponds to 500,000 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act).

On 29 September 2014, Bank of America Corporation, Wilmington, DE, United States has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.02% (this corresponds to 500,000 Voting Rights). 0.02% of Voting Rights (this corresponds to 500,000 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act).

On 29 September 2014, UBS AG, Zurich, Switzerland has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.21% (this corresponds to 4670470 Voting Rights). 0.09% of Voting Rights (this corresponds to 1,973,748 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act).

On 30 September 2014, HSBC Trinkhaus & Burkhardt AG, Dusseldorf, Germany has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0% (this corresponds to 0 Voting Rights).

On 30 September 2014, HSBC Germany Holdings GmbH, Dusseldorf, Germany has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0% (this corresponds to 0 Voting Rights).

On 30 September 2014, HSBC Bank plc, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0% (this corresponds to 0 Voting Rights).

On 30 September 2014, HSBC Holdings plc, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.004% (this corresponds to 82,526 Voting Rights). 0.004% of Voting Rights (this

corresponds to 82,526 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 6 in connection with sentence 2 of the WpHG (German Securities Trading Act).

On 30 September 2014, Citigroup Global Markets Europe Limited, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 24 September 2014, and on that day amounted to 0.42% (this corresponds to 9,425,497 Voting Rights). 0.42% of Voting Rights (this corresponds to 9,425,497 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act).

On 30 September 2014, Citigroup Financial Products Inc., Delaware, United States has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 24 September 2014, and on that day amounted to 0.42% (this corresponds to 9,425,497 Voting Rights). 0.42% of Voting Rights (this corresponds to 9,425,497 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act).

On 30 September 2014, Citigroup Global Markets Holding Inc, New York, United States has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 24 September 2014, and on that day amounted to 0.42% (this corresponds to 9,425,497 Voting Rights). 0.42% of Voting Rights (this corresponds to 9,425,497 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act).

On 30 September 2014, Citigroup Inc, Delaware, United States has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 24 September 2014, and on that day amounted to 0.42% (this corresponds to 9,425,497 Voting Rights). 0.42% of Voting Rights (this corresponds to 9,425,497 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act).

On 29 September 2014, Morgan Stanley, Wilmington, Delaware, United States has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.0033% (this corresponds to 72,764 Voting Rights). 0.003% of Voting Rights (this corresponds to 64,366 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 6 in connection with sentence 2 of the WpHG (German Securities Trading Act). 0.0004% of Voting Rights (this corresponds to 8398 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act).

On 29 September 2014, Morgan Stanley & Co. International plc, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.00% (this corresponds to 0 Voting Rights).

On 29 September 2014, Morgan Stanley International Limited, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.00% (this corresponds to 0 Voting Rights).

On 29 September 2014, Morgan Stanley Group (Europe), London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.00% (this corresponds to 0 Voting Rights).

On 29 September 2014, Morgan Stanley UK Group, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.00% (this corresponds to 0 Voting Rights).

On 29 September 2014, Morgan Stanley Investments (UK), London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.00% (this corresponds to 0 Voting Rights).

On 29 September 2014, Morgan Stanley International Holdings Inc., Wilmington, Delaware, United States has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 25 September 2014, and on that day amounted to 0.00% (this corresponds to 0 Voting Rights).

On 25 September 2014, Citigroup Global Markets Limited, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.38% (this corresponds to 231,902,910 Voting Rights).

On 25 September 2014, Citigroup Global Markets Europe Limited, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.38% (this corresponds to 231,902,910 Voting Rights). 10.3811% of Voting Rights (this corresponds to 231,902,910 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Citigroup Global Markets Limited.

On 25 September 2014, Citigroup Financial Products Inc., Delaware, United States has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.38% (this corresponds to 231,902,910 Voting Rights). 10.3811% of Voting Rights (this corresponds to 231,902,910 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Citigroup Global Markets Limited, Citigroup Global Markets Europe Limited.

On 25 September 2014, Citigroup Global Markets Holding Inc, New York, United States has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.38% (this corresponds to 231,902,910 Voting Rights). 10.3811% of Voting Rights (this corresponds to 231,902,910 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Citigroup Global Markets Limited, Citigroup Global Markets Europe Limited, Citigroup Financial Products Inc.

On 25 September 2014, Citigroup Inc, Delaware, United States has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.38% (this corresponds to 231,902,910 Voting Rights). 10.3811% of Voting Rights (this corresponds to 231,902,910 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held

by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Citigroup Global Markets Limited, Citigroup Global Markets Europe Limited, Citigroup Financial Products Inc, Citigroup Global Market Holdings Inc.

On 26 September 2014, Citigroup Global Markets Limited, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 10%, 5% and 3% threshold of the Voting Rights on 24 September 2014, and on that day amounted to 0.42% (this corresponds to 9,425,497 Voting Rights).

On 23 September 2014, HSBC Trinkhaus & Burkhardt AG, Dusseldorf, Germany has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.22% (this corresponds to 228,275,716 Voting Rights).

On 23 September 2014, HSBC Germany Holdings GmbH, Dusseldorf, Germany has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.22% (this corresponds to 228,275,716 Voting Rights). 10.22% of Voting Rights (this corresponds to 228,275,716 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: HSBC Trinkhaus & Burkhardt AG, Dusseldorf, Germany.

On 23 September 2014, HSBC Bank plc, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.22% (this corresponds to 228,275,716 Voting Rights). 10.22% of Voting Rights (this corresponds to 228,275,716 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: HSBC Germany Holdings GmbH, Dusseldorf, Germany, HSBC Trinkhaus & Burkhardt AG, Dusseldorf, Germany.

On 23 September 2014, HSBC Holdings plc, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.22% (this corresponds to 228,359,932 Voting Rights). 10.22% of Voting Rights (this corresponds to 228,275,716 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: HSBC Bank plc, London, United Kingdom, HSBC Germany Holdings GmbH, Dusseldorf, Germany, HSBC Trinkhaus & Burkhardt AG, Dusseldorf, Germany. 0.004% of Voting Rights (this corresponds to 84216 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 6 in connection with sentence 2 of the WpHG (German Securities Trading Act).

On 23 September 2014, UBS AG, Zurich, Switzerland has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.35% (this corresponds to 231,216,920 Voting Rights). 0.05% of Voting Rights (this corresponds to 1,037,426 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act).

On 23 September 2014, Morgan Stanley, Wilmington, Delaware, United States has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September

2014, and on that day amounted to 10.25% (this corresponds to 229,003,668 Voting Rights). 10.25% of Voting Rights (this corresponds to 228,939,302 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Morgan Stanley International Holdings Inc., Morgan Stanley International Limited, Morgan Stanley Group (Europe), Morgan Stanley UK Group, Morgan Stanley Investments (UK), Morgan Stanley & Co. International plc. 0.003% of Voting Rights (this corresponds to 64,366 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 6 in connection with sentence 2 of the WpHG (German Securities Trading Act).

On 23 September 2014, Morgan Stanley International Holdings Inc., Wilmington, Delaware, United States has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.23% (this corresponds to 228,558,810 Voting Rights). 10.23% of Voting Rights (this corresponds to 228,558,810 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Morgan Stanley International Limited, Morgan Stanley Group (Europe), Morgan Stanley UK Group, Morgan Stanley Investments (UK), Morgan Stanley & Co. International plc.

On 23 September 2014, Morgan Stanley Group (Europe), London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.23% (this corresponds to 228,558,810 Voting Rights). 10.23% of Voting Rights (this corresponds to 228,558,810 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Morgan Stanley UK Group, Morgan Stanley Investments (UK), Morgan Stanley & Co. International plc.

On 23 September 2014, Morgan Stanley International Limited, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.23% (this corresponds to 228,558,810 Voting Rights). 10.23% of Voting Rights (this corresponds to 228,558,810 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Morgan Stanley Group (Europe), Morgan Stanley UK Group, Morgan Stanley Investments (UK), Morgan Stanley & Co. International plc.

On 23 September 2014, Morgan Stanley UK Group, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.23% (this corresponds to 228,558,810 Voting Rights). 10.23% of Voting Rights (this corresponds to 228,558,810 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Morgan Stanley Investments (UK), Morgan Stanley & Co. International plc.

On 23 September 2014, Morgan Stanley Investments (UK), London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.23% (this corresponds to 228,558,810 Voting Rights). 10.23% of

Voting Rights (this corresponds to 228,558,810 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Morgan Stanley & Co. International plc.

On 23 September 2014, Morgan Stanley & Co. International plc, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3%, 5% and 10% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 10.23% (this corresponds to 228,558,810 Voting Rights).

On 23 September 2014, Merrill Lynch International, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 4.59% (this corresponds to 102,642,689 Voting Rights).

On 23 September 2014, ML UK Capital Holdings, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 4.59% (this corresponds to 102,642,689 Voting Rights). 4.59% of Voting Rights (this corresponds to 102,642,689 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Merrill Lynch International.

On 23 September 2014, MLEIH Funding, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 4.59% (this corresponds to 102,642,689 Voting Rights). 4.59% of Voting Rights (this corresponds to 102,642,689 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Merrill Lynch International and ML UK Capital Holdings.

On 23 September 2014, Merrill Lynch Europe Limited, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 4.59% (this corresponds to 102,642,689 Voting Rights). 4.59% of Voting Rights (this corresponds to 102,642,689 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Merrill Lynch International, ML UK Capital Holdings and MLEIH Funding.

On 23 September 2014, Merrill Lynch UK Holdings, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 4.59% (this corresponds to 102,642,689 Voting Rights). 4.59% of Voting Rights (this corresponds to 102,642,689 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Merrill Lynch International, ML UK Capital Holdings, MLEIH Funding and Merrill Lynch Europe Limited.

On 23 September 2014, ML EMEA Holdings LLC, Wilmington, DE, USA has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3% threshold of the Voting Rights on 18 September 2014, and on that day

amounted to 4.59% (this corresponds to 102,642,689 Voting Rights). 4.59% of Voting Rights (this corresponds to 102,642,689 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Merrill Lynch International, ML UK Capital Holdings, MLEIH Funding, Merrill Lynch Europe Limited and Merrill Lynch UK Holdings.

On 23 September 2014, Merrill Lynch International Incorporated, Wilmington, DE, USA has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 4.59% (this corresponds to 102,642,689 Voting Rights). 4.59% of Voting Rights (this corresponds to 102,642,689 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Merrill Lynch International, ML UK Capital Holdings, MLEIH Funding, Merrill Lynch Europe Limited, Merrill Lynch UK Holdings and ML EMEA Holdings LLC.

On 23 September 2014, NB Holdings Corporation, Wilmington, DE, USA has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 4.59% (this corresponds to 102,642,689 Voting Rights). 4.59% of Voting Rights (this corresponds to 102,642,689 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Merrill Lynch International, ML UK Capital Holdings, MLEIH Funding, Merrill Lynch Europe Limited, Merrill Lynch UK Holdings, ML EMEA Holdings LLC and Merrill Lynch International Incorporated.

On 23 September 2014, Bank of America Corporation, Wilmington, DE, USA has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have exceeded the 3% threshold of the Voting Rights on 18 September 2014, and on that day amounted to 4.59% (this corresponds to 102,642,689 Voting Rights). 4.59% of Voting Rights (this corresponds to 102,642,689 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3% or more: Merrill Lynch International, ML UK Capital Holdings, MLEIH Funding, Merrill Lynch Europe Limited, Merrill Lynch UK Holdings, ML EMEA Holdings LLC, Merrill Lynch International Incorporated and NB Holdings Corporation.

On 17 January 2014, BlackRock, Inc., New York, NY, USA has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Deutschland, have fallen below the 3% threshold of the Voting Rights on 15 January 2014, and on that day amounted to 2.89% (this corresponds to 32,330,698 Voting Rights). According to Article 22, Section 1, Sentence 1, No. 6 in connection with sentence 2 of the WpHG, 2.89% of the Voting Rights (this corresponds to 32,330,698 Voting Rights) is to be attributed to the company.

On 16 January 2014, BlackRock Financial Management, Inc., New York, NY, USA has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Deutschland, have fallen below the 3% threshold of the Voting Rights on 14 January 2014, and on that day amounted to 2.98% (this corresponds to 33,232,797 Voting Rights). According to Article 22, Section 1, Sentence 1, No. 6 in connection with sentence 2 of the WpHG, 2.98% of the Voting Rights (this corresponds to 33,232,797 Voting Rights) is to be attributed to the company.

On 16 January 2014, BlackRock Holdco 2, Inc., Wilmington, DE, USA has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Deutschland, have fallen below the 3% threshold of the Voting Rights on 14 January 2014, and on that day amounted to 2.98% (this corresponds to 33,232,797 Voting Rights). According to Article 22, Section 1, Sentence 1, No. 6 in connection with sentence 2 of the WpHG, 2.98% of the Voting Rights (this corresponds to 33,232,797 Voting Rights) is to be attributed to the company.

Declaration of Compliance with the German Corporate Governance Code in Accordance with Section 161 AktG

On 13/14 October 2014, and updated on 19 December 2014, the Management Board and the Supervisory Board of Telefónica Deutschland Holding AG issued a current Declaration of Compliance in accordance with section 161 of the German Stock Corporation Act (AktG) and made this permanently and publicly available to the shareholders of Telefónica Deutschland Holding AG on the Telefónica Holding AG website (WWW.TELEFONICA.DE/ENTSPRECHENSERKLAERUNG).

Events after the reporting period

Dividend proposal for the 2014 financial year

Management Board of Telefónica Deutschland proposed to the supervisory to suggest to the Annual General Meeting (scheduled on 12 May 2015) the distribution of a dividend in the amount of approx. EUR 714 million respectively EUR 0.24 per share.

Changes in the Supervisory Board of Telefónica Deutschland

María Pilar López Álvarez resigns from her function as member of the Supervisory Board of Telefónica Deutschland with effect of the end of the Annual General Meeting (scheduled on 12 May, 2015) in which her successor shall be elected.

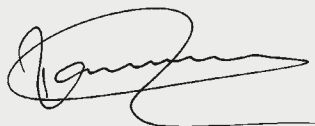
Munich, 9 March 2015

Telefónica Deutschland Holding AG

The Management Board



Thorsten Dirks



Rachel Empey



Markus Haas

Telefónica Deutschland Holding AG

Declaration of the Statutory Representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the Management Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the material opportunities and risks associated with the expected development of the Company.

Munich, 9 March 2015

Telefónica Deutschland Holding AG

The Management Board



Thorsten Dirks



Rachel Empey



Markus Haas

Audit opinion

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Telefónica Deutschland Holding AG, Munich, for the fiscal year from 1 January 2014 to 31 December 2014. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, 23 March 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dahmen
Wirtschaftsprüfer
(German public auditor)

Vogel
Wirtschaftsprüferin
(German public auditor)

Glossary_

The glossary also contains abbreviations as used in the Management Report.

3G	Third generation mobile communications standard (see UMTS)
4G	Fourth generation mobile communications standard (see LTE)
ADSL	Asymmetrical Digital Subscriber Line (see DSL)
ARPU	Average Revenue per User
BKartA	Federal Cartel Office (Bundeskartellamt)
Broadband	Refers to telecommunication in which a wide band of frequencies is available to transmit information
CapEx	Capital Expenditure: Additions in fixed and intangible assets
Carrier	Telecommunication network operator authorized by the federal network agency
CF	Cash flow
Cloud Service	Cloud services are dynamic infrastructure, software or platform services provided online
Convergence	Signifies the bundling of different digital services, which to some extent use different transmission technologies, into one product, e.g. wireless and wireline
Cross-selling	Marketing term denoting the sale of related or complementary products or services
DLD	Digital-Life-Design
DSL	Digital Subscriber Line: technology to transmit data in the local loop to private end-customers
E-Plus	E-Plus Mobilfunk GmbH & Co. KG
E-Plus Mobilfunk	E-Plus Mobilfunk GmbH & Co. KG
East	Experts as Trainers: programme for training and continuing education
EC	European Commission
EPM	E-Plus Mobilfunk GmbH & Co. KG
EU	European Union
Euribor	Euro Interbank Offered Rate
FCF	Free cash flow
FNA	Federal Network Agency: Bundesnetzagentur
FTR	Fixed network Termination Rates
GDP	Gross Domestic Product
GfK	Consumer research association (Gesellschaft für Konsumforschung)
GPS	Global Positioning System

GSM	Global System for Mobile Communications: this is the global standard for digital mobile communications
HSPA	High-Speed Package Access
Hosting	Providing storage capacity via the internet
IDR	Issuer Default Rating
Internet	Worldwide network of computers on the basis of an IP (Internet Protocol) without any central network management
IPO	Initial public offering
IT	Information Technology
Joint Venture	Two or more companies founding a new enterprise for cooperation
KPN	Koninklijke KPN N.V., The Hague, Netzerlands
LAN	Local Area Network: a group of computers and associated devices that share a common communications line or wireless link
Libor	London Interbank Offered Rate
Live Check	Website and app which customers can use to get location-based information on the current quality of the O ₂ mobile communications network
LTE	Long Term Evolution: further development of the UMTS/HSPA mobile communications standard
M2M	Machine-to-Machine communication, automatic exchange of information between machines
MMS	Multimedia Messaging Service
mpass	Mobile payment service
MTR	Mobile termination rates
Multi-brand strategy	Enables Telefónica Deutschland to provide customers in all segments offers that suit their exact needs through various own and partner brands
MVNO	Mobile Virtual Network Operator
NFC	Near Field Communication: a short-range wireless connectivity standard
NGO	Non Governmental Organisation
n.m.	not measured
NRA	National Regulatory Authority
O2 (Europe) Limited	O2 (Europe) Limited, Slough, United Kingdom
O ₂ My Handy	Monthly payment model for mobile phones and other devices
OHG	Telefónica Germany GmbH & Co. OHG, Munich
OIBDA	Operating Income before Depreciation and Amortisation
OTT	Over The Top
PBX	Private Branch Exchange: a telephone system within an enterprise that switches calls between enterprise users on local lines while allowing all users to share a certain number of external phone lines
PIP	Performance and Investment Plan

POS	Point of Sale
Prepaid/Postpaid	In contrast to postpaid contracts, prepaid communication services are services for which credit has been purchased in advance with no fixed-term contractual obligations
Retail	Sale of goods and services to end users; as opposed to resale or wholesale business
Roaming	Using a communication device or subscriber identity in a different network other than one's home network
SIM	Subscriber Identity Module: a chip card to insert into a mobile phone and identifies the user within the network
SIP	Session Initiation Protocol: an Internet Engineering Task Force (IETF) standard protocol for initiating an interactive user session that involves multimedia elements such as video, voice, chat, gaming, and virtual reality
Smartphone	Mobile handset that can be used as a wireless phone, a web browser, and an e-mail reader simultaneously
SME	Small and Medium-sized Enterprises
SMS	Short Message Service
SoHo	Small and Home offices
Tablet	A wireless, portable personal computer with a touch screen interface
Telefónica	Telefónica, S. A., Madrid/Spain
Telefónica Deutschland	Telefónica Deutschland Holding AG (former: Telefónica Germany Verwaltungs GmbH), Munich
Telefónica Deutschland Group	The companies included in the Consolidated Financial Statements of Telefónica Deutschland
Telefónica Group	The companies included in the Consolidated Financial Statements of Telefónica
ULL	Unbundled Local Loop: bridges the distance between the local exchange and the termination point on the customer's premises or in their home, so it is also known as the "last mile"
UMTS	Universal Mobile Telecommunications Service: international mobile communications standard of the third generation which unites mobile multimedia and telematics service under the frequency spectrum of 2GHz.
VAT	Value Added Tax
VDSL	Very High Data Rate Digital Subscriber Line (see DSL)
VPN	Virtual Private Network
WAN	Wide Area Network: a geographically dispersed telecommunications network
Wholesale	Selling services to third parties who sell them to their own end customers either directly or after further processing

Imprint_

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