

Telefónica Deutschland
Interim Group Report
1 January to 30 September

2 0 1 5

**BUILDING
THE LEADING
DIGITAL
TELCO**

Telefonica

Deutschland

Portrait of Telefónica Deutschland_



Thorsten Dirks (CEO), Rachel Empey (CFO), Markus Haas (COO)
(from right to left)

Telefónica Deutschland is on the way to becoming Germany's leading digital telecommunications company. With the integration of the E-Plus Group, Telefónica Deutschland plans to systematically digitalise its business model, while giving its customers and partners the best possible access to the digital world. This centres on the best experience in terms of network, products and services, combined with excellent value for money. With more than 43 million mobile connections, Telefónica Deutschland is the leader on the German mobile telecommunications market. The company, which has also included the E-Plus Group since 1 October 2014, maintains around 49 million¹ customer connections, making it one of the three leading integrated telecommunications providers on the German market. Revenues in 2014 amounted to EUR 7.79 billion². The company, which has been listed on the Frankfurt Stock Exchange since 2012, offers mobile and fixed services for private and business customers in Germany, including telephony, data and value-added services. The indirect majority shareholder is the Spanish company Telefónica, S.A. – one of the world's largest telecommunications providers.

The company's high-profile core brands include O₂ and BASE. As part of its multi-brand strategy, Telefónica Deutschland also reaches additional customer groups through a wide range of secondary and partner brands, including AY YILDIZ, Blau, FONIC, netzclub, Ortel Mobile,

simyo and TCHIBO mobil. Thanks to its successful multi-brand strategy, the company is a leading provider of smartphone tariffs and products. Telefónica Deutschland is setting standards on the German telecommunications market with its innovative, customer-friendly products. Telefónica Deutschland is also a leading provider of wholesale services. Large multinational business customers can also make use of Telefónica's group-wide product and service offering.

The foundation for this are two wireless networks that are among the most advanced in Europe. As part of the merger with the E-Plus Group and the resulting transformation and integration process, the company has begun combining the two existing networks to create an even more powerful joint wireless communications network. A first milestone for this undertaking was reached back in May with national roaming. Since then, the UMTS networks of O₂ and E-Plus have been interconnected and all customers have benefited from the pooled strength of both networks. Since 2010, the company has also been rolling out the new wireless communications standard LTE in Germany. This standard allows significantly higher mobile data transmission speeds. The plan is to expand mobile LTE outdoor coverage to approximately 75 % of the population by the end of 2015. Customers of the E-Plus Group have been able to use LTE in selected cities since spring 2014. In addition, Telefónica Deutschland secured a spectrum of 60 MHz at the wireless frequency auction in June 2015. The acquired frequencies will allow the high-speed network to be expanded and the monetisation of the growing data business to be further improved. Once allocated, the total capacity of 358 MHz gives Telefónica an excellent starting point from which to continue offering its customers the best network experience.

¹ As of 30 September 2015. Total for Telefónica Deutschland including the E-Plus Group

² As of 31 December 2014. Combined total revenue in 2014 for Telefónica Deutschland and the E-Plus Group

As an integrated provider, Telefónica Deutschland also sells wireline and DSL products. This includes high-speed VDSL connections, which the company provides under a long-standing partnership with Deutsche Telekom to reach almost 19 million German households. Telefónica Deutschland wants to bring technology to the people and help drive progress in society through digital products and services. With its Think

Big initiative, the company champions young people in particular and has supported more than 3,000 projects in this area since 2010. As a socially responsible company, Telefónica Deutschland is also committed to shaping the future of mobile communications in Germany in a fair, ecologically responsible and forward-looking manner.

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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.

Financial Highlights_

Financial Overview

(Euros in millions)	1 January to 30 September		
	2015	2014 ¹	% Change
Revenues	5,828	3,503	66.4
Mobile service revenues	4,155	2,189	89.8
Operating income before depreciation and amortisation (OIBDA)	1,234	726	70.0
OIBDA margin (%)	21.2%	20.7%	0.4 %-p.
Operating income/(loss)	(312)	(53)	>100.0
Profit/(loss) for the period	(347)	(79)	>100.0
Basic earnings per share (in Euros) ²	(0.12)	(0.07)	64.8
CapEx ³	(704)	(411)	71.2
Operating cash flow (OIBDA-CapEx)	530	315	68.5
Free cash flow pre dividends and payments for spectrum⁴ and pre-acquisition of E-Plus net of cash acquired	350	529	(33.8)
Total accesses as of 30 September (in thousands)	48,645	25,251	92.6
Mobile accesses (in thousands)	43,289	19,649	>100.0
Postpaid (%)	44.5%	54.3%	(9.7 %-p.)
Total ARPU (in EUR)	10.8	12.4	(13.2)
Postpaid churn excl. M2M (%)	1.7%	1.5%	0.3 %-p.
(%) non-SMS data over total data revenues	71.3%	72.8%	(1.5 %-p.)
Employees as of 30 September	9,667	5,984	61.5
	As of 30 September 2015	As of 31 December 2014	% Change
Net financial debt⁵	1,415	18	>100.0
Leverage ⁶	0.9x	0.0x	>100.0

- 1 Unless indicated otherwise, values include retrospective adjustments from the purchase price allocation (PPA) within the twelve-months period following the acquisition of E-Plus group as of October 2014 (IFRS 3). For more detailed information please see the section "Business Combinations" in the Condensed Notes to the Interim Condensed Consolidated Financial Statements for the period 1 January to 30 September 2015.
- 2 Basic earnings per share are calculated by dividing profit (loss) after taxes for the period by the weighted average number of ordinary shares of EUR 2.975 million for the year 2015 and 1.166m for the year 2014.
- 3 Excluding investments in spectrum in June 2015 amounting to EUR 1,196 million (including capitalised costs on borrowed capital).
- 4 Free cash flow pre dividends and payments for spectrum is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum amounting to EUR 977 million in 2015.
- 5 Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.
 - Current and non-current financial assets include handset-receivables (current: EUR 446 million in 2015 and EUR 454 million in 2014; non-current: EUR 180 million in 2015 and EUR 236 million in 2014), positive fair value hedge for fixed interest financial liabilities (current: EUR 2 million in 2015 and EUR 2 million in 2014; non-current: EUR 12 million in 2015 and EUR 12 million in 2014) as well as loans to third parties (current: EUR 0 million in 2015 and EUR 1 million in 2014; non-current: EUR 1 million in 2015 and EUR 1 million in 2014)
 - Current and non-current net financial debt include bonds, promissory notes and registered bonds issued (EUR 1,423 million in 2015 and EUR 1,115 million in 2014), other loans (EUR 551 million in 2015 and EUR 726 million in 2014) as well as finance lease payables (current: EUR 232 million in 2015 and EUR 382 million in 2014; non-current: EUR 50 million in 2015 and EUR 204 million in 2014)

Note: Handset-receivables are shown under trade and other receivables in the Consolidated Statement of Financial Position. Pending payments for spectrum amounting to EUR 219 million are shown under accruals in the Consolidated Statement of Financial Position and are therefore not included in the net financial debt calculation.
- 6 Leverage is defined as net financial debt divided by the OIBDA for the last twelve months before exceptional effects. Please note that solely for purposes of calculating the leverage for any twelve month period which includes historical periods prior to the closing of the Transaction, a combined⁷ 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.
- 7 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 exceptional effects, such as capital gains or restructuring costs based on estimates made by Telefónica management and resulting in combined figures we believe are more meaningful as a comparable basis.

Mobile Service Revenues

(Euros in millions)

+0.4 %**OIBDA/OIBDA Margin²**

(Euros in millions)

+16.1 %**Mobile Accesses**

(in thousands)

+1.8 %

At the end of September 2015 Telefónica Deutschland Group reached an access base of 48.6 million, an increase of 1.8 % year-on-year driven by strong growth in both the pre-paid and postpaid mobile base, particularly from partner business.

Mobile service revenue of the combined entity showed slight growth of +0.4 % year-on-year in line with expectations amidst a continued focus on customer base development and mobile data monetisation.

Telefónica Deutschland Group also saw significant OIBDA growth (excluding exceptional effects) in the first nine months of 2015 driven by the early capture of synergies, as we were able to accelerate and bring forward significant integration activities from 2016 into 2015. The focus on the development of the customer base further helped to optimise commercial costs.

We continued to make significant progress in terms of the execution of integration and transformation projects, to the extent that the company now expects to reach EUR 280 million in-year savings from synergies for the full year 2015 (compared to the run-rate of EUR 250 million previously expected), while the overall synergy case remains unchanged. As such, we now expect OIBDA to grow 15–20 % year-on-year versus the 2014 combined figure, compared to previous growth expectations of more than 10 % year-on-year.

With regards to shareholder remuneration, the Management Board of Telefónica Deutschland intends to show continuity and propose a cash dividend of EUR 0.24 per share to the next ordinary Annual General Meeting.

Summary of the financial outlook for 2015Base line for 2014¹

Mobile Service Revenue:

EUR 5,528 million

OIBDA before exceptional effects:

EUR 1,461 million

CapEx:

EUR 1.161 millionDividend³:**EUR 0.24 per share**Updated Outlook 2015
year-on-year percentage growth

Mobile Service Revenue:

Broadly stable

OIBDA before exceptional effects:

Growth by 15 – 20 %

CapEx:

Low double digit percentage declineDividend³:**EUR 0.24 per share**

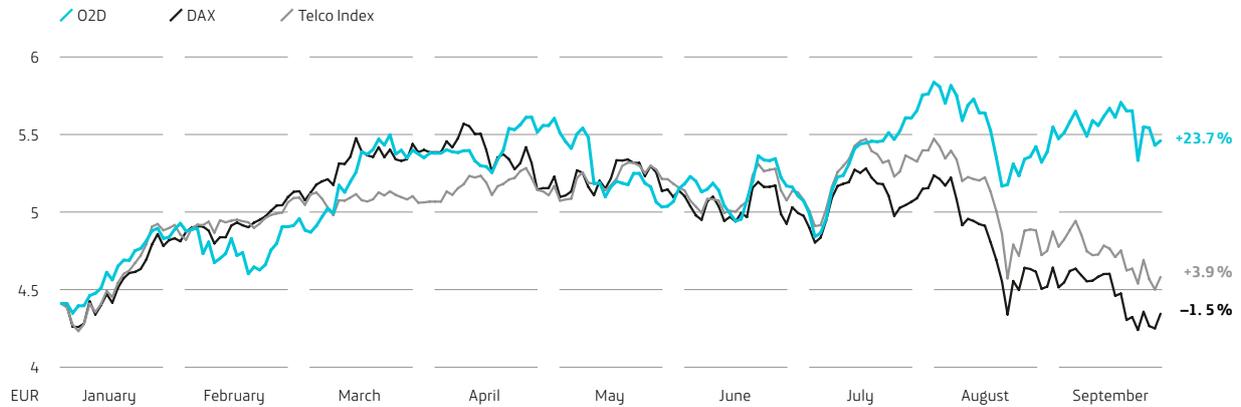
¹ Combined figures for 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by exceptional effects, such as capital gains or restructuring costs based on estimates made by Telefónica management and resulting in combined figures we believe are more meaningful as a comparable basis.

² Before exceptional effects

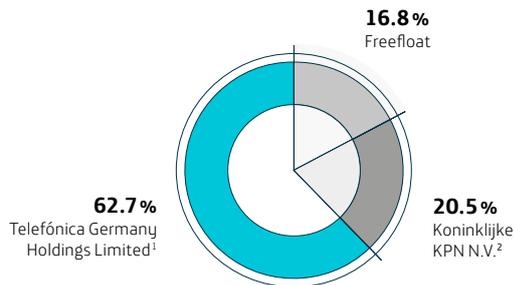
³ Intention for dividend proposal to Annual General Meeting in May 2016. For further details please refer to our dividend policy on our website: <https://www.telefonica.de/investor-relations-en/share/dividends.html>

Share price performance 2015

1 January to 30 September, rebased



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.

With a year-to-date gain of 23.7%, the Telefónica Deutschland share outperformed both the wider market and the sector in the first nine months of 2015. The share started the year with a low of EUR 4.30 on 5 January and reached a high of EUR 5.84 on 5 August. Markets rose until April when renewed investor uncertainty over the Greek debt crisis and a potential "Grexit" resulted in a period of prolonged volatility. The conclusion of a bailout agreement in early July was followed by a short rally ended by the stock market crash in China and fears over an impending Federal Reserve interest rate hike. The ensuing global markets slump lasted until the end of September. The sector performed well until the end of August when it also dropped significantly together with wider markets, ending with a year-to-date gain of 3.9% versus 1.5% for the Stoxx 600. In contrast, the DAX fell 1.5% year-to-date as a result of the Emerging Market exposure of its exporting industries.

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Highlights July to September 2015_

Products & Brands_

1 — For private and business customers:

O₂ launches LTE roaming abroad

Since 1 August, O₂ contract customers have been able to use fast LTE mobile communications abroad. The new LTE roaming was first activated for the popular holiday destinations Spain, France and the USA. Further countries will follow in stages throughout the months to come. The new service is available for both private and business customers with LTE contracts, who can use fast 4G mobile communications with compatible smartphones, surfsticks or tablets. It need not to be specifically activated: LTE is automatically available abroad for all contract customers, providing it is part of their tariff in Germany.



2 — Care-free smartphone use abroad:

O₂ expands Blue portfolio

Telefónica Deutschland is optimising its O₂ Blue tariff portfolio. Since 1 October, O₂ contract customers have been benefiting in particular from attractive conditions for calls abroad and from a simplified roaming service. Customers of the entry-level tariffs O₂ Blue Basic and O₂ Blue Smart now also receive a flat rate for calls to the O₂ and E-Plus network including all partner brands. The additional high-speed data volume available as part of the data automatic has also been increased, so customers can now surf for longer at consistent speed.

3 — Calls via Wi-Fi on your smartphone: the new O₂ Message+Call app

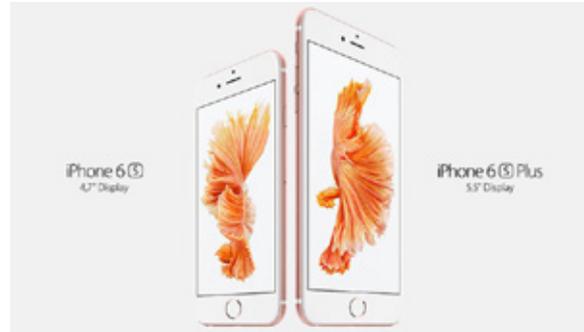
With the free O₂ Message+Call app, O₂ is the first mobile communications provider on the German market to offer its customers the opportunity to make telephone calls on their smartphones via Wi-Fi. In addition, customers can use further digital features such as video calling, chat and file sharing. The O₂ Message+Call app is initially available as a beta version and will be continuously developed and optimised on the basis of customers' experiences.



3 — O₂ Message+Call app

4 — iPhone 6s and iPhone 6s Plus available at O₂ since 25 September

Since 25 September, O₂ has offered the new iPhone 6s and iPhone 6s Plus. The iPhone 6s with 16 GB of internal memory is available for a one-time payment of 19 Euros and 64.99 Euros per month with the O₂ Blue All-in L tariff. The iPhone 6s Plus with 16 GB is on offer with the O₂ Blue All-in L for a one-time payment of 9 Euros and 69.99 Euros per month. Both devices are among the most advanced smartphones currently on the market and are the ideal companion for an optimum user experience in a fast data network.



4 — iPhone 6s and iPhone 6s Plus



5 — More minutes and megabytes for O₂ on Business

O₂ is enhancing its individual tariffs for business customers: since mid-August, the O₂ on Business S and M tariffs have included more data volume for use in Germany, while the O₂ on Business L and XL have added data for use in the rest of Europe. The EU roaming flat rate is another new addition. This new option allows business customers to make unlimited calls when travelling in the EU. For the O₂ on Business XL, the amount of included minutes for calls from Germany to other EU states as well as further countries has been drastically increased.

6 — Flexibility thanks to LTE Data Upgrade Packs: more data for O₂ on Business

Further innovations since September allow business customers to use their data more flexibly: Customers of the O₂ on Business S, M or L can now increase their monthly data volume temporarily, if they require more in a particular quarter. No change of tariff is required for this. On every tariff level, customers can choose from two different LTE Data Upgrade Packs with different data volumes. For the O₂ on Business S and M this also increases the maximum download speed.



7 — Blau picks up on pace with new tariffs and new brand presence

The brand Blau offers no-nonsense mobile communication. Blau has exactly the right offer for customers looking to enter the digital world easily and at excellent value for money. Since mid-September, the Telefónica brand has offered a radically simplified range of tariffs online, in O₂ shops and in specialist and retail stores. The brand presence has also been revised. The message of the new brand focus translates as “less blah, more Blau”.



8 — Ortel Mobile and AY YILDIZ are now also available in O₂ shops

8 — Starter packs and prepaid cards available now: Ortel Mobile and AY YILDIZ available in O₂ shops

With Ortel Mobile and AY YILDIZ, Telefónica Deutschland offers customised tariffs for all customers who want to stay in contact with friends, family and business partners both in Germany and abroad. Now both brands' prepaid starter packs can be purchased in all O₂ shops. It is not necessary to register in the shop because customers can quickly and easily activate the SIM card online. In addition, the O₂ shops also offer prepaid cards for all Ortel Mobile and AY YILDIZ prepaid tariffs. Customers can choose between a top-up of 15, 20 or 30 Euros.

9 — New option for prepaid and contract customers:

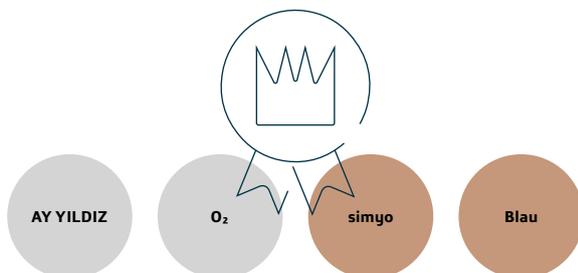
reasonable calls to Turkish mobile networks with AY YILDIZ

Since July, AY YILDIZ prepaid and contract customers have been able to make calls home to Turkey at even more affordable rates. For only 3.99 Euros per month, the new "Türkei Allnet 60" option includes 60 free minutes for calls from Germany to all Turkish mobile networks and the Turkish fixed line network. This way, AY YILDIZ customers can share their experiences with friends and relatives in Turkey for a total of just 6.65 Cents per minute.



10 — Popularity, design, customer service: new awards for Telefónica

Which brands are particularly popular among consumers? In the "telephone and mobile communications provider" category of the DEUTSCHLAND TEST, as much as four Telefónica Deutschland brands were rated silver or bronze: AY YILDIZ, O₂, simyo and Blau. Telefónica also scored points in terms of service. O₂ was awarded a "very good" grade repeatedly – in the overall assessment as well as in the sub-disciplines value for money, cost transparency and fairness. The experiences assessed by the participants of the DEUTSCHLAND TEST have also been confirmed by the connect mobile communications customer barometer, in which O₂ was rated "good".



10 — As much as four Telefónica Deutschland brands received the silver or bronze rating in the DEUTSCHLAND TEST

Network_

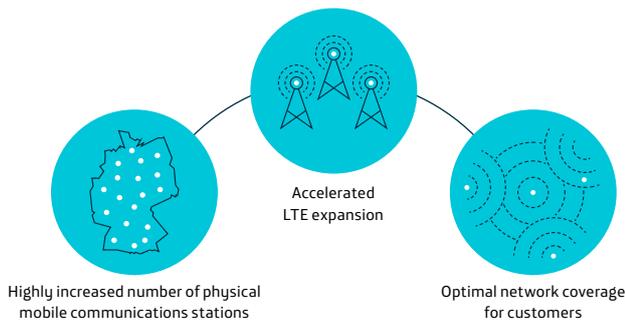
11 — Joint LTE project:

fast internet in the Frankfurt subway

The approximately 300,000 passengers who travel on the Frankfurt subway every day will soon be able to access fast internet underground. Throughout the next nine months, the mobile communications providers Telefónica, Telekom and Vodafone will be upgrading providers the tunnels with LTE technology. For this, they are investing around 3.5 million Euros all together.



11 — Telefónica, Telekom and Vodafone to equip the tunnels in Frankfurt with LTE technology



12 — Customers and partners benefit from the combined strength of the O₂ and E-Plus network

12 — Transparent, informative, up to date: new network info page from Telefónica

With its new network info page, Telefónica illustrates how customers and partners benefit from the combined strength of the O₂ and E-Plus network thanks to national roaming, the developing network integration and the fast LTE roll-out. Important milestones are presented graphically on the website and backed up with interesting facts.

13 — Survey by Telefónica:

How strong is the new network?

In July, Telefónica Deutschland called on all customers for a network test. This way, the company wants to find out how strong customers really perceive the network to be on a daily basis and in what areas it might be improved. COMPUTER BILD magazine's network test app now allows customers of Telefónica's brands and partners in Germany to simply and straightforwardly test the network. At the touch of a button, they can look into the quality of data services at their current location.



14 — Telefónica improves network coverage at the Oktoberfest

This year, the Oktoberfest in Munich again opened its gates for the biggest public festival in the world. From 19 September to 4 October, the grounds of the Theresienwiese were all about lifting beer glasses, singing along to traditional songs and spinning on the merry-go-rounds. To meet the demands of the numerous visitors from all over the world in terms of fast mobile communication, Telefónica Deutschland upgraded the mobile network of O₂ and E-Plus on the site, again ensuring optimum network coverage even in the densest crowd.

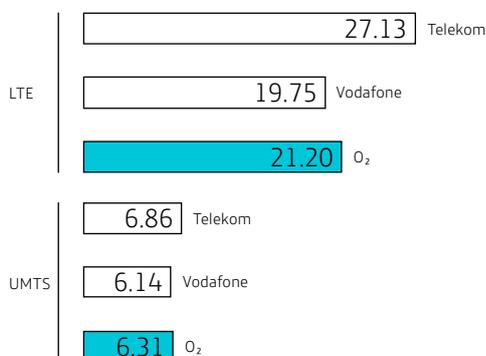


14 — This year, Telefónica again increased the network coverage at the Oktoberfest

15 — Broadband and mobile network tested: Telefónica on the way to the top

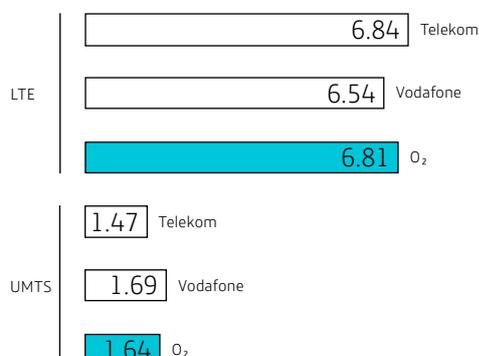
From rank seven to rank three and rated “good” – in the connect test, Telefónica has made significant progress in many areas compared to last year. Whether for high-volume applications like web TV, streaming shows or films via Watchever, or simply for surfing the internet, the performance values of Telefónica DSL connections are on an equal footing with the two winners. In the third quarter, Telefónica’s mobile network likewise made it to a top rank: For the first time, the editors of the large user-based network test of SMARTPHONE magazine combined the results measured in the E-Plus and O₂ networks. The verdict: Second rank for the combined network, and the conclusion that Telefónica Deutschland offers the best value for money. This shows that national roaming and the LTE roll-out are paying off.

Average federal download speed



All figures in Mbit/s
Source: SMARTPHONE-Magazin

Average federal upload speed



All figures in Mbit/s
Source: SMARTPHONE-Magazin

Company_



16 — Integration of the O₂ and E-Plus networks: Telekom acquires spare network sites from Telefónica Deutschland

In the course of its network integration, Telefónica Deutschland is transferring around 7,700 mobile network sites to Deutsche Telekom. With this transaction, the company is as planned quickly realising part of the announced synergies from the network integration. In addition, this way Telefónica Deutschland is able to make use of some of those resources which would have been required to dismantle these redundant sites for the accelerated roll-out of its LTE network.

17 — Industry 4.0 put to practice: Telefónica's 2nd Digital Innovation Day

Nowadays, any reference to innovation will always include mention of the Internet of Things or Industry 4.0. But are these just buzzwords for big corporations? How can SMEs also make use of these developments? These and similar questions were addressed at Telefónica's Digital Innovation Day. On September 30, experts and entrepreneurs met in Munich to learn how they can translate innovative technologies into new business models. Thorsten Dirks (CEO of Telefónica Deutschland), Ilse Aigner (Deputy Minister-President and Bavarian Minister for Economic Affairs, Media, Energy and Technology) and Wolfgang Beeck (CTO of Software AG Deutschland) were among the speakers.



17 — Ilse Aigner (Deputy Minister-President and Bavarian Minister for Economic Affairs, Media, Energy and Technology) was also among the speakers at Telefónica's 2nd Digital Innovation Day



18 — O₂, NABU and AfB are making it exceptionally easy for consumers to dispose of old mobile phones in an ecologically responsible manner

18 — New ways to recycle mobile phones: Telefónica, AfB and NABU join forces to give old phones a future

O₂ and its two partners NABU (Nature and Biodiversity Conservation Union of Germany) and AfB (Arbeit für Menschen mit Behinderung – Work for People with Disabilities) are making it exceptionally easy for consumers to dispose of old mobile phones in an ecologically responsible manner. O₂ provides simple options for collection that all mobile phone users can draw upon. For example, from the beginning of October consumers can hand in their old devices in all O₂ shops or send them free of charge using postage-paid recycling envelopes, which are also available in the shops. They can also use their own envelopes for individual phones or parcels for several phones. For this purpose, O₂ provides free shipping labels in cooperation with the logistics company DHL.

Condensed
Interim Group
Management Report_
for the period 1 January
to 30 September 2015

1.

Basic Information on the Group_

1.1 Business Model of the Group**1.1.1 Structure of the Telefónica Deutschland Group**

Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland") is a public stock corporation (AG) 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](http://www.telefonica.de)). Telefónica Deutschland Holding AG was established for an indefinite period.

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 securities identification number (Wertpapierkennnummer – WKN) is A1J5RX, the ISIN (International Securities Identification Number) is DE000A1J5RX9.

Share capital

The share capital amounted to EUR 2,974,554,993 and is divided into the same number of no-par-value registered shares.

In general, each non-par share grants one vote at the Shareholders' Meeting.

Authorised capital

Telefónica Deutschland Holding AG's Authorised Capital 2012/I as of 30 September 2015 amounted to EUR 292,808,507.

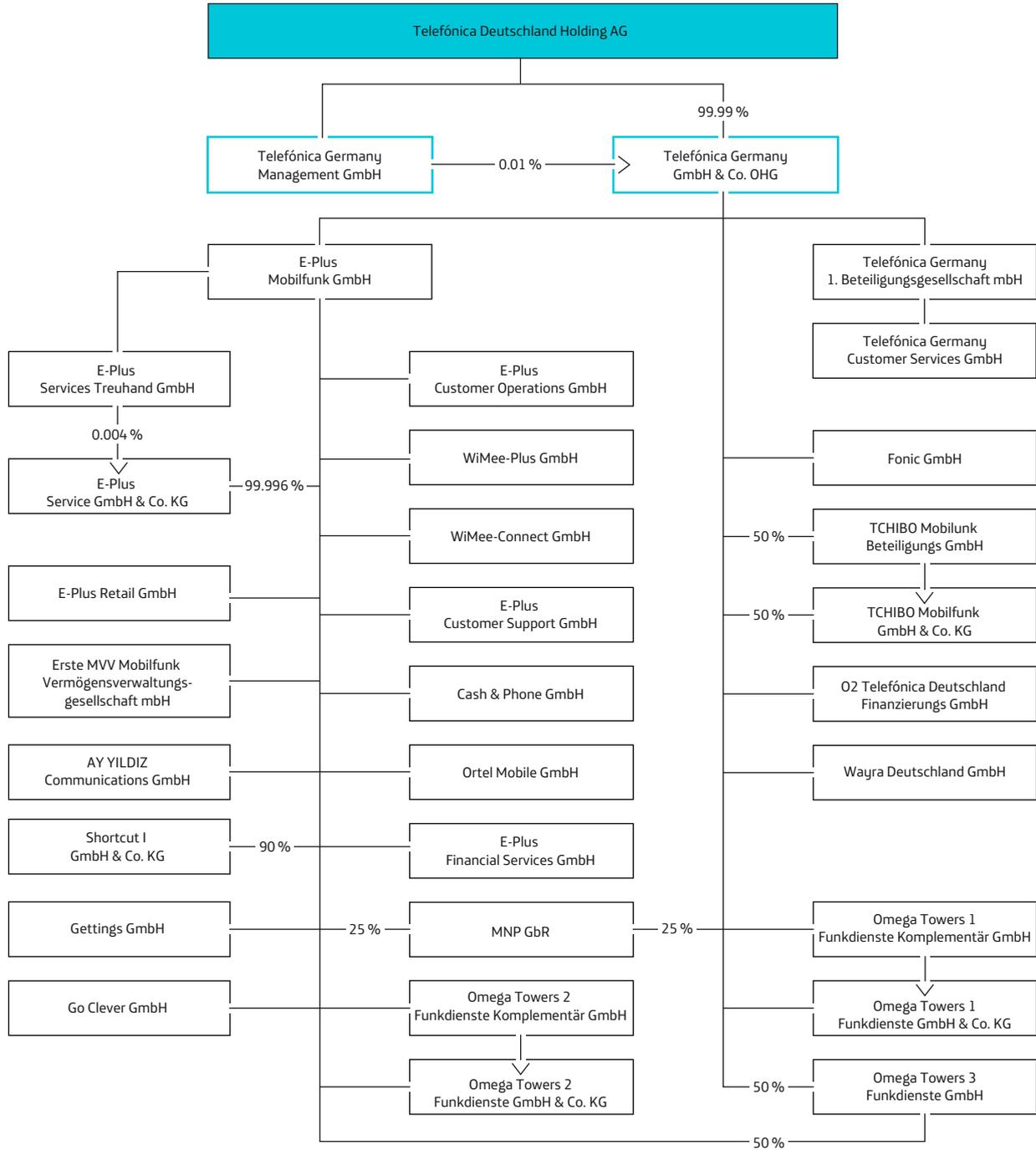
Conditional capital

As of 30 September 2015, Telefónica Deutschland Holding AG's Conditional Capital 2014/I amounted to EUR 558,472,700.

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 parent company, Telefónica, S.A., Madrid, Spain (Telefónica, S.A.; its group is: the Telefónica, S.A. Group). The direct parent company of the 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 30 September 2015, the companies included in the Consolidated Financial Statements of the Telefónica Deutschland Group were organised as shown in the following organisation chart:



Unless otherwise stated, the holding quotes amount 100%.

In the second quarter simyo GmbH, E-Plus 1. Beteiligungsgesellschaft mbH and BLAU Mobilfunk GmbH were merged with Telefónica Germany GmbH & Co. OHG with effect as of 30 June 2015. Blau Service GmbH was merged with BLAU Mobilfunk GmbH prior to this.

During the reporting period, from 7 May to 29 June 2015, Telefónica Germany Shoptransfer AG – a company founded for the transfer of sales and marketing resources, which in turn held Telefónica Germany Retail Ausgliederungs GmbH, entered into the commercial register on 18 May 2015 – belonged to the Telefónica Deutschland Group. On the basis of a share transfer agreement on 29 June 2015, yourfone GmbH assumed all shares in Telefónica Germany Shoptransfer AG and thus indirectly in Telefónica Germany Retail Ausgliederungs GmbH as well.

Management and governing bodies

The company's executive bodies are the Management Board, the Supervisory Board and the Shareholders' Meeting. The powers of these bodies are established by the Aktiengesetz (AktG – German Stock Corporation Act), 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 can recall a Management Board member before the end of his term in office for cause, such as a gross violation of duty or in the event of a vote of no-confidence at a General Meeting. Other reasons for termination, such as a mutual termination agreement, are also possible. The Supervisory Board can nominate one Management Board member as the Chairperson for the Management Board and another Management Board member as the Deputy Chairperson. On 30 September 2015, the Management Board of the company comprised three members:

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

Supervisory Board

In accordance with section 11 para. 1 of the Articles of Association of the company, sections 95 and 96 of the German Stock Corporation Act and section 7 of the Mitbestimmungsgesetz (MitbestG – German Co-Determination Act), the Supervisory Board comprises sixteen members, eight of whom are shareholder representatives and eight employee representatives.

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

1.1.2 Business activities

With around 49 million customer connections as of 30 September 2015, the Telefónica Deutschland Group is one of the three leading integrated network operators in Germany. Additionally, we are the market leader according to customer accesses in the German mobile market with around 43 million mobile customer connections as of 30 September 2015. Telefónica Deutschland Group offers private and business customers voice, data and value added services in mobile and fixed line and acts as wholesale providers in Germany. We offer our wholesale partners access to our infrastructure and to our services. We are part of Telefónica, S.A. Group, one of the biggest telecommunications companies in the world.

Since the merger with the E-Plus Group, we operate two nationwide mobile communications networks reaching the majority of the German population with GSM and UMTS. With the start of the network consolidation and national roaming in the first half of 2015 (section 2.2 Overview of the First Nine Months of the Year 2015 – Significant events) Telefónica Deutschland Group offers the densest UMTS coverage in urban regions, expanding it further in rural areas. The combined UMTS network infrastructure now reaches roughly 90 % of the population in Germany. Clients benefit from the combined strength of the O₂ and E-Plus network and they can make use of an even better experience for mobile data applications.

In order to improve the network experience beyond UMTS, Telefónica Deutschland Group is also constantly driving forward the expansion of its LTE network. By the end of this year the company is expecting to provide LTE coverage of around 75 % of the German population.

In the mobile phone frequency auction that ended mid-June 2015, Telefónica Deutschland Group secured a total spectrum of 60 MHz (section 2.2 Overview of the First Nine Months of the Year 2015 – Significant events). The frequencies acquired in the auction enable the company to expand its high-speed network and network capacity; therefore we continue to offer to customers the best network experience as part of our strategy.

We also offer fixed line network access. Based on our strategic partnership with Telekom Deutschland GmbH, Bonn, our fixed line network coverage reaches 98 % and enables us to serve more than 19 million households with high-speed DSL Internet access and data transmission rates of up to 50 Mbps. The contract grants us access to the high-speed network of Deutsche Telekom and the ability to offer our customers products with transmission rates of currently up to 100 Mbps via the new vectoring technology.

Our sales and marketing approach follows a systematic 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 continuously strive for an improvement of the market positioning of our premium brands, particularly in order to gain high-value customers in the consumer and business customer segments. For several years now, our strategic focus has been on the sale of data-centric mobile telecommunications contracts to smartphone users. Smartphone users already accounted for 77 % of the customer base of the post-paid customer brand O₂ as of 30 September 2015. 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 very high revenues compared to users without a smartphone. We are also seeing rising interest in smartphones and the use of mobile data in the prepaid area. As such, we also offer special prepaid tariffs for smartphone users.

To complete our propositions around smartphones, we have enriched our portfolio with additional services and products such as smartphone insurance services, antivirus protection or state-of-the-art complements such as wearables, protection cases or selfie sticks.

We have been selling mobile phones and other hardware to our O₂ customers at fixed prices, independent from 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. We also offer bundled services with hardware in addition to mobile-only services for customers of the former E-Plus brands. Customers have the choice between buying or renting a device at attractive conditions. Our main suppliers of mobile phones are the manufacturers Samsung, Apple, Microsoft, 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 first nine months of 2015. In the same period, the share of LTE-enabled smartphones in relation to all smartphones sold has risen constantly. We are serving the growing demand for mobile data services among customers of our secondary brands and wholesale partners via a large range of affordable entry-level smartphones.

With our secondary and partner brands and through 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 Mobilfunk, Fonic, 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 range with customised product offerings, sales and marketing.

As part of the wholesale business, we offer mobile services for customers such as MedionMobile (AldiTalk), United Internet (1&1), mobilcom/debitel, MTV, WhatsApp and cable providers. In addition, as part of the merger approval process for the merger between Telefónica Deutschland and E-Plus Group, we have committed 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. The capacity commitment will be reached on a glide path over five years while Drillisch also has the option to acquire up to 10 % of additional network capacity.

A relevant market trend are digital applications that make our customers' lives easier and more secure in many areas. We make it possible for our customers to handle important elements of every-day life via their mobile phones, such as mobile payment, music and video streaming, playing games, monitoring the condition of their cars or controlling power usage at their homes.

In the fixed line business, we offer our existing wholesale partners a range of "unbundled local loop" (ULL) services, including fixed line telephony and high-speed internet. However, this model will be gradually phased out until 2019, while we dismantle our legacy fixed infrastructure and migrate customers to the future proof network of Deutsche Telekom. Furthermore, we offer value added services such as billing or the management of telephone numbers and SIP accounts.

This comprehensive portfolio enables our wholesale partners to independently serve their consumers and, at the same time, gives us the opportunity to increase our range and leverage economies of scale. In the B2B area, small office/home office (SoHo) as well as small and medium-sized enterprises (SMEs) are addressed through our premium brand O₂, for example with our innovative product "O₂ Unite". Large international businesses are addressed through the Telefónica brand.

In order to expand our commercial activities we operate Telefónica Media Services. The business aim is to provide advertising services to agencies and companies based on anonymous and smart solutions that considerably improve the targeting of advertising campaigns.

We market our products using a diversified sales platform. This includes direct sales channels such as our nationwide network of own shops, independently operated franchise and premium partner shops, online and telesales plus indirect sales channels such as partnerships in retail/online retail and retailers/cooperations.

1.2 Goals and Strategies

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

We are the market leader according to customer accesses in the German mobile market with around 43 million mobile customer connections as of 30 September 2015. Our goal is to focus on both, customer retention by means of an improved network, service and customer experience, and also the systematic monetisation of rising data usage via state-of-the-art technologies such as LTE. We also intend to expand our market position in small office/home office (SoHo) and small and medium-sized enterprises (SMEs), and to take advantage of new opportunities in the wholesale and partner business. Overall, our goals and strategies follow the clear vision of **building the leading digital telecommunications company** in Germany.

Building ...

We see the merger of the two companies not just as a chance 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. We are guided by two overarching principles for action in this transformation process: simplification and digitalisation. As part of the merger, we are striving to fundamentally simplify processes, structures and platforms. Simple and flexible structures help us to offer our customers optimal solutions, respond quickly and stay ahead of the competition. We also wish to offer our customers a clearly structured product portfolio and user-friendly, easily accessible services.

With the challenger mentality inherited from both companies, we also want to set the pace in the industry. Both companies were known for innovation and setting new trends in the market in the past. These included establishing multi-brand strategies and new types of tariff models, in addition to introducing and managing brands for partners from other industries.

... the leading ...

Our transformation into the leading digital telecommunications company is to be based on **three core strategic elements**. Firstly, we are striving to offer our customers the best network experience where they need it most. Second, we will aim to convince them with the best customer experience in all areas – from services, tariffs and devices, to customer service. And thirdly, we are aiming for cost leadership among our peers so that we can make attractive offerings at excellent value for money.

We are striving for the **best network experience**, as already reflected in the results of the latest network tests from

the industry relevant magazines Chip and Computer Bild, by consistently aligning the network infrastructure to customer requirements. From a customer's perspective network quality must at least match or even exceed that of the competition. This applies especially to urban areas where we have a concentration of customers with high data usage. We intend to achieve this primarily through synergies from the merger and smart investments in further network development, which include an intelligent mix of LTE frequencies below and above 1 GHz utilising upcoming LTE standards such as LTE advanced and carrier aggregation. This approach results in higher network capacity for data usage where it is needed with a high return on investments due to our data monetisation strategy. The latter is complemented by propositions such as data up-selling (possibility to purchase larger data packages) and our data automatic (purchase of additional data capacity when the included data allowance is exhausted).

Attractive data services and the utmost in transparency and responsibility in implementing processes are key for offering the **best customer experience**. We intend to systematically gear our tariffs, hardware and services to the needs of our customers. 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 an excellent service which is consistently aligned with their requirements throughout the entire customer relationship, starting from first contact and continuing at each individual interface with the Telefónica Deutschland Group.

Lasting **cost leadership** is the third core element of our strategy. Through the merger with the E-Plus Group, we are aiming to leverage synergies across the board and to achieve substantial economies of scale in business operations. This applies to the network infrastructure as well as 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, we hope 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 enables us to continuously offer customers excellent value for money.

... digital ...

We utilise the combination of two strong partners as a unique opportunity to advance digitalisation more quickly and more systematically than our competitors, thus meeting evolving customer needs for future mobile communications in the best way. We expect to gain two major benefits from digitalisation:

Firstly, digitalisation brings us closer to our customers and what they need. Given that 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 new and innovative offerings that set us 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 offerings and the world's first mobile communications partnership with the mobile communication service WhatsApp. Experience shows that customers who enjoy the tangible benefits of these applications in their everyday life use them more and more intensively over time. This leads to rising data consumption, from which we benefit in the long term.

Secondly, digitalisation makes it possible for us to establish lean and efficient structures within the entire company. These are to be based on simple and standardised processes, ranging from providing the service at the "back end", to the customer interface at the "front end". 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 plan 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 also allow us to develop and launch new offerings within a short space of time. Simple and efficient integration of partner brands will be another competitive advantage of the new IT infrastructure. Furthermore, internal digitalisation will allow for a better analysis and deeper understanding of customer requirements. We use the knowledge gained from this firstly to closely tailor our offerings to customer requirements and to precisely control marketing measures. Secondly, this knowledge will improve 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 with the E-Plus Group, the network is being and will be developed over the coming years so that it combines the best quality for customers with the greatest efficiency. In line with many market studies, we are firmly convinced that mobile data usage will continue to increase dynamically, and thus a high-performing mobile network of optimal dimensions lies at the heart of our network infrastructure. In addition, we offer customers further added value in form of high-speed fixed line services as needed.

We invest intelligently in network expansion and flexibly gear network performance to the future requirements of the mass market, for example via the ongoing nationwide

roll-out of the LTE network. We will continue to use outsourcing partnerships to an appropriate extent for the operation and expansion of the network, so as to keep our own organisation lean and consolidate our cost leadership. We always maintain exactly the network structure needed to meet current customer requirements while offering best network experience. This way we can achieve our goal of ensuring the best customer experience together with attractive profitability.

In **brand management and sales**, we focus on a clear brand architecture and a multi-channel sales approach that is consistently geared towards customer requirements. The brands are intended to address respective target groups with clear, differentiated selling propositions. They acquire and retain customers in the competitive environment with new types of products, innovative partnerships and compelling 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 are to be closely interconnected, so that customers can, for example, choose a smartphone or tablet online, and then have it set up and collect it from the store. New types of concept stores will increase customer loyalty to the brands. In marketing, we intend 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.

Implementing the vision

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

Momentum: The top priority remains the continued systematic focus on actively shaping market developments and interacting with our customers in order to compete successfully in the market, stabilise revenues from mobile services and improve profits. One key factor here is the monetisation of rising data usage and higher demand for LTE, supported by improved network quality. In the consumer segment, our focus has shifted from acquiring new customers towards retaining existing valuable customers. By contrast, our focus in the business customer segment is on acquiring new customers.

Integration: In order to take advantage of the synergies of the merger and the 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. By September 2015, the company has already achieved important milestones in the implementation of integration and transformation projects. We have been able to bring forward

significant integration activities from 2016 into the current year and have as a result already benefited from synergies since the second quarter. With regard to the network, it is our goal to select 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 nationwide LTE roll-out will be increased and the expansion will continue to progress at a fast pace. Mobile spectrum assets and network sites are combined in such a way that we can offer our customers the best network experience in future. As previously stated, this applies especially to urban areas where there is a concentration of customers with high data usage. We plan to complete the process of network consolidation within five years after closing of the merger.

A key milestone on this journey was the mobile phone frequency auction that ended mid-June 2015, in which Telefónica Deutschland Group secured total valuable spectrum of 60 MHz (section 2.2 Overview of the First Nine Months of the Year 2015 – Significant events). Using the spectrum at 700 MHz and 1.8 GHz, we will provide a denser LTE network both in major cities and in the countryside in order to offer our customers all over Germany an even better experience of using mobile data services. In terms of rural broadband expansion, the spectrum at 700 MHz from the so-called Digital Dividend 2 will augment the frequencies at 800 MHz that the company acquired in 2010. The auctioned blocks in the 1.8 GHz range also allow us to establish an even stronger high-performance network with more capacity. Our customers will thus benefit significantly from higher LTE speeds. The blocks in the 900 MHz range will also ensure the high quality of the nationwide GSM network for voice, SMS and narrowband internet connections in the future. With its existing and newly acquired frequencies, Telefónica Deutschland Group still holds a balanced share in the frequencies below 1 GHz (area coverage) and a leading position in 1.8 GHz frequencies and beyond (capacity coverage). The investment in this valuable frequency package is therefore an important building block for further network expansion and focused data business.

During the integration of our two networks, national roaming supports a positive network experience for our customers. With the merged UMTS networks of the former Telefónica Deutschland Group (O2) and the E-Plus Group (E-Plus) and the activation of national roaming in the first half of 2015 (section 2.2 Overview of the First Nine Months of the Year 2015 – Significant events) we combine for the first time the strength of both our networks. As a result, we offer customers of all our brands and partner brands the densest UMTS network infrastructure in urban areas and a considerably expanded coverage in rural areas. This step improves the user experience for mobile data services even in areas where our customers do not yet have LTE; thus it demonstrably increases customer satisfaction.

With the launch of voice-over-LTE (VoLTE) mobile technology in the middle of April 2015, Telefónica Deutschland Group's customers can now benefit from shorter call setups and higher speech quality in HD quality. The new technology is already available throughout the entire O₂ LTE network. In addition to the high LTE data speeds, VoLTE ensures maximum convenience when telephoning and enhances the positive LTE experience for customers on the O₂ network. As more and more smartphones support VoLTE, a bigger share of our customers will benefit from these advantages, as they will be automatically activated.

Sales capability is one of the biggest strengths of the new Telefónica Deutschland Group when it comes to maintaining momentum, defending market share and achieving its strategic goals. The merger enables us to leverage one of the largest and best-performing branch networks in the industry so as to offer our customers throughout Germany the best network experience. In addition, the sales units of the E-Plus Group and the Telefónica Deutschland Group have been combined over an extended consolidation process. A key milestone is to harmonise the branding of our shops. In the future, all shops will operate under the O₂ brand. In the course of the migration, all shops will successively be converted into O₂ shops. This is expected to be fully implemented by the end of the year. Also, the shop network has been analysed based on the criteria of location and performance. We intend to reduce the sales network by around a third to around 1,200. As part of an agreement formed in summer 2014, we will transfer some of our shops to Drillisch. 301 shops (102 own shops and 199 partner shops) were selected by Drillisch and we are progressing well with the transfer started in June 2015.

Transformation: Initiatives to simplify, digitalise and amend the business model will accompany integration and day-to-day business activities, continuously advancing the digital transformation. Simplification and digitalisation are our core levers to increase customer loyalty and satisfaction while sustaining our cost leadership.

One important enabler for our transformation is applying advanced data analytics across our customer data to increase the efficiency of our internal processes. A prerequisite for the use of our customer data is ensuring data privacy and security, which are core beliefs of our company. We achieve this by letting our customers choose what data to share and providing the highest possible transparency about the use of our customer's data.

Advanced data analytics leads to better business decisions, to optimised capital expenditures and increased revenues due to better insight driven propositions and higher efficiency of up-selling campaigns as well as reduced churn due to the early identification of potential churner. In addition, we increase the return of our network investments by optimising site and roll-out area selections through a process of analysing highest demand using multiple information sources within our data warehouse.

2.

Economic Report from 1 January to 30 September 2015_

2.1 Overall Economic and Industry Conditions

2.1.1 Economic environment

Overall economic environment in Germany

The economic recovery which got underway in Germany at the end of 2014 continued after the new year began. 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 leading economic research institutes, the German economy held its ground in a difficult global economic environment. The months from January to September 2015 were characterised by robust economic growth. Domestic demand continued to rise vigorously. Private consumer spending seamlessly continued the strong momentum of the second half of 2014. Generally favourable conditions, which include rising employment in the labour market, declining unemployment and tangible increases in earnings, were augmented by the boost to purchasing power following the dramatic decline in crude oil prices at the end of 2014, the effects of which were still being felt at the beginning of 2015. The consumer spending climate is still at a high level, though according to the GfK Consumer Index consumers' economic expectations have been muted since August in view of global economic risks and numerous crisis flash points.

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

1 — GDP growth 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 in the German telecommunications market

Various trends can be observed in the German telecommunications sector in addition to continuing customer demand for more bandwidth.

The strong demand for mobile data usage and increasing smartphone and tablet penetration open up further opportunities for growth for mobile telecommunications network operators, which are likely to continue into the future. Smartphones and tablets are becoming trailblazers for the digital revolution in Germany. At the same time, the monetisation of the mobile data business will continue to gain in importance 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. In cloud computing, IT services are employed as needed via decentralised rather than local computers, which are connected through data networks (in the "cloud").

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

The German mobile telecommunications market

With more than 112.4 million customers (SIM cards) at the end of June 2015, the German mobile telecommunications market is the largest in the EU. The notional mobile penetration rate was 140%, i.e. each German citizen has an average of 1.4 mobile SIM cards. The customer growth in the first half year 2015 is primarily attributable to the postpaid sector. Overall, postpaid customers made up 52% of total connections as of the end of June 2015. This share had been 50% at the end of June 2014.

The mobile telecommunications market remained dynamic from January to September 2015 and was characterised by intense competition, primarily driven by the strong demand for smartphones and the increasing number of attractive smartphone tariffs. According to a survey by the industry association Bitkom, around two thirds of Germans use a smartphone in 2015. A year ago, it was just 55 %. The use of tablet PCs has also grown from 28 % in 2014 to 40 % in 2015. Bitkom expects that 7.7 million tablet PCs will be sold in Germany in 2015. Mobile media use is resulting in growing mobile data use and rising sales volumes and revenues, particularly for smartphones and tablet PCs. A total of 393 million gigabytes of data were transmitted on mobile networks in 2014 (2013: 267 million gigabytes).

The increasing penetration of mobile end-devices with internet capability, such as smartphones or tablets, and the increasing use of mobile data services is also evident in the strong growth of revenues from mobile data in the German market: According to estimates by Analysys Mason, mobile data revenues increased by over 20 % in 2014 compared to the previous year. By contrast, revenues from mobile telephony and SMS have fallen, driven by price decline, regulatory effects and changes in 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 and MVNOS. As of the end of June 2015, the Telefónica Deutschland Group had a market share of 37.9 % with around 43 million connections in total, making it the largest German mobile telecommunications network operator in terms of customer connections.

(Source: Company data, Bitkom, Federal Network Agency annual report, Analysys Mason)

The German fixed line market

Intense competition also still prevails on the German market for fixed line broadband services. The number of subscriber lines increased in comparison to the previous year by approximately 4 % and the customer base grew by the end of June 2015 to approximately 30 million. The share of DSL connections here is almost 80 %. The significance of VDSL has continued to grow. According to the German Federal Network Agency, around 12 % of all DSL connections use VDSL technology.

(Source: Analysys Mason: Telecoms Market Matrix Western Europe Q2 2015, German Federal Network Agency annual report)

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 Telefónica Deutschland Group

The following section shows the material new decisions and additions to the Group Management Report for the financial year that ended 31 December 2014 in the section "Regulatory influences on the Telefónica Deutschland Group".

Development of the GSM licences

On 28 January 2015, the Federal Network Agency reached and published the presidential chamber's decision on the arrangement and selection of the allocation procedure and on the allocation and auction regulations for awarding frequencies in the ranges 700 MHz, 900 MHz, 1,800 MHz and 1.5 GHz. Following this, the Telefónica Deutschland Group submitted an application for admission to the auction of the Federal Network Agency on 5 March 2015. The Telefónica Deutschland Group was granted admission to the auction on 22 April 2015 together with Telekom Deutschland GmbH and Vodafone GmbH. The auction began on 27 May 2015 and ended on 19 June 2015. At the frequency auction, the Telefónica Deutschland Group acquired several frequency blocks (section 2.2 Overview of the First Nine Months of the Year 2015 – Significant events).

On 29 April 2015, and according to the Telefónica Deutschland Group's request, the Administrative Court of Cologne (Verwaltungsgericht Köln) decided in a summary proceeding that the Telefónica Deutschland Group's main claims against the Federal Network Agency's merger ruling of 4 July 2014 for an earlier return of GSM spectrum have suspensive effect. In the main claims, after the hearing on 10 June 2015, the Administrative Court of Cologne upheld the summary proceeding ruling and reversed the Federal Network Agency's ruling. The decision is not yet final and the Federal Network Agency appealed against this in July 2015. The Federal Network Agency then again called on the Telefónica Deutschland Group to return frequencies prematurely. In response to a request by the Telefónica Deutschland Group on 7 September 2015, which was made in order to attain planning and legal certainty, the Federal Network Agency granted Telefónica Germany GmbH & Co. OHG and E-Plus Mobilfunk GmbH permission for mutual use of the frequencies available in the Telefónica Deutschland Group by a decision dated 25 September 2015 and set this permission under the condition precedent that both companies prematurely waive the use of certain frequencies in the 1.8 GHz range totalling 24.8 MHz of paired spectrum, which equates to the frequencies not reacquired at the 2015 auction. Telefónica Germany GmbH & Co. OHG and E-Plus Mobilfunk GmbH submitted the appropriate waivers to the Federal Network Agency on 25 September 2015, whereby the waiving occurs in two

stages, firstly in certain regions by the end of 31 December 2015 and then nationwide by the end of 30 June 2016.

Decisions on mobile termination rates (MTR)

For the period starting from 1 December 2014, the Federal Network Agency has taken its final decision on 24 April 2015 and definitively confirmed its provisional decision with 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.

Decisions on fixed termination rates (FTR)

Following the provisional decision by the Federal Network Agency released on 28 November 2014 for alternative local exchange carriers, and thus for the Telefónica Deutschland Group as well, regarding local FTRs of 0.24 Euro cents per minute (peak and off-peak) from 1 December 2014 to 31 December 2016, as well as the notification of these decisions to the EU Commission on 18 January 2015, the EU Commission has since expressed serious doubts regarding the rate method and the rate level. The Federal Network Agency made its final decision in August 2015 and nonetheless fully confirmed the provisional decisions of 28 November 2014.

Transparency regulation of the Federal Network Agency

This regulation is expected to enter into effect at the earliest at the end of 2015. However, parts of the regulation will not take effect until middle of 2016 owing to extended implementation periods.

"Digital Single Market" initiative of the European Commission

In 2013, the EU Commission published the draft Digital Single Market Regulation. Following the elections to the European Parliament and the constitution of a new EU Commission in 2014, the legislative project was divided into two parts.

One part concerns the regulation of the telecommunications market, the Telecom Single Market Package. It contains plans for the consistent regulation of net neutrality and roaming throughout Europe. On 30 June 2015, the EU Commission presented the compromise it reached with the European Council and EU Parliament. According to this, the new roaming regulations provide for an end to roaming charges for consumers from 15 June 2017, whereby fair use restrictions should be possible. From April 2016 current roaming charges are then to be capped at 5 Euro cents net per call minute, 2 Euro cents net for sent SMS and 5 Euro cents net per MB for data connections. Wholesale roaming charges are to be reviewed currently. The compromise also includes regulations for an open internet guaranteeing equal and non-discriminatory access to the internet (net neutrality) whereby it should be possible to offer special services. Both the

European Council and the European Parliament adopted in October 2015 the compromise achieved; the formal legislative process at European level is now concluded.

The other part focuses on more detailed regulatory issues concerning the European information and telecommunications market. The EU Commission presented its five key points for this package of laws, again called the Digital Single Market Package, in June 2015. The regulations on the standardisation of the market, the harmonisation of spectrum management, the incentives for network investment, the regulation of new digital services and the regulatory authorities are to undergo closer examination. For this purpose, the EU Commission initiated in September 2015 a public consultation to run until 7 December 2015, in which the Telefónica Deutschland Group will participate.

2.2 Overview of the First nine months of the Year 2015

The acquisition of the E-Plus Group as of 1 October 2014 has changed the scope of operations of the Telefónica Deutschland Group significantly. As the integration of the E-Plus Group is progressing rapidly, we do not consider the separate reporting of the results of operations of the former E-Plus Group appropriate.

To allow for a better comparison, selected indicators are presented in this section exclusively on a combined basis¹.

During the first nine months of 2015, Telefónica Deutschland Group successfully pursued the priorities of maintaining market momentum while driving the integration and transforming the company to becoming the leading digital telco in Germany. With a number of important integration milestones already achieved, the financial and operational performance reflects the contribution of synergy-driven savings plus optimisation of commercial costs from the continued focus on the development of the customer base. The German mobile market remained dynamic with a largely stable pricing environment.

¹ Combined figures for 2014 are based on estimates and are the result of the aggregation and subsequent consolidation of the Telefónica Deutschland Group and the E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by material exceptional effects, such as capital gains or restructuring costs based on estimates made by Telefónica Deutschland management, resulting in combined figures that 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 stand-alone entity during the year presented or of future results of the business. The presentation of the combined 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 was the start of the 2014 calendar year.

Mobile service revenue are broadly stable at +0.4 % year-on-year until September 2015, reaching EUR 4,155 million and EUR 1,419 million in the third quarter, slightly lower year-on-year by 0.3 %. The latter was mainly the result of the company strategy to focus on development of the customer base plus a strong contribution of the partner business. We continue to see increasing data usage from our customers, leveraging the demand for LTE. Other effects, such as the lower usage of traditional text messaging and the renewal of expired long-term contracts for lower prices within the premium brand customer base continue to have a less dilutive impact. As such, mobile service revenue in the first nine months of the year are in line with our expectation and confirm our full-year outlook.

Operating Income before Depreciation and Amortisation (OIBDA) for January to September 2015 amounted to EUR 1,234 million. Excluding the exceptional effects of the period (a EUR 15 million gain from the sale of yourfone GmbH and restructuring costs of EUR 66 million) OIBDA for the nine months period was EUR 1,285 million, which represents a 16.1 % year-on-year growth on a combined basis (+29.8 % year-on-year in the third quarter). The substantial OIBDA growth is the result of our focused commercial approach and related optimisation of costs plus the early capture of integration synergies. The latter contributed significantly in the third quarter to the OIBDA year-on-year increase. This evolution slightly exceeded our expectations as we could bring forward significant integration activities from 2016 into 2015, while the overall synergy case remains unchanged. On the back of this outperformance we update our outlook for OIBDA before exceptional effects for 2015 (section 5.3 Expectations for the Telefónica Deutschland Group).

Capital expenditures (CapEx), excluding the investments for spectrum (section 2.2 Overview of the First Nine Month of the Year 2015 – Significant events) in the period from January til September 2015, amounted to EUR 704 million, a decline of 2.8 % year-on-year on a combined basis. In the third quarter CapEx were lower 15.6 % year-on-year at 241 EUR million. Concerning investments, Telefónica Deutschland Group maintained a clear focus on the accelerated deployment of the LTE network, giving priority to urban areas while customers have already started to experience first tangible results from the combination of the two networks. The steepening of the rate of decline of CapEx in the third quarter was mainly driven by phasing and the realisation of CapEx synergies which outweigh investments for the LTE rollout and network integration costs. This evolution was slightly better than expected and as a result we update our CapEx outlook for the full year 2015 (section 5.3 Expectations for the Telefónica Deutschland Group).

Significant events

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 transfer agreement was concluded with Telefónica Germany GmbH & Co. OHG effective 1 January 2015, with the result that E-Plus Mobilfunk GmbH, including its income tax group subsidiary companies, has been included in the income tax group of the Telefónica Deutschland Group effective 1 January 2015.

yourfone

The sale of yourfone GmbH to Drillisch was closed on 2 January 2015. The Telefónica Deutschland Group reported net inflows of EUR 58 million from the sale in the reporting period and generated a net gain on disposal of EUR 15 million, which was recognised in the Consolidated Income Statement under other income.

Framework redundancy plan

In February 2015, the Management Board and Works Councils of the Telefónica Deutschland Group agreed 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 2015 redundancy programme for around 800 FTEs began in the first quarter of 2015 as planned and came close to being finalised by the end of September 2015.

Placement of promissory notes/registered bonds

On 13 March 2015, the Telefónica Deutschland Group completed an initial placement of promissory notes and registered bonds. The transaction was announced on 2 February 2015 with a target volume of EUR 250 million but was implemented at a volume of EUR 300 million due to the high oversubscription.

The promissory notes were issued in unsecured tranches with terms of five, eight and ten years, with both fixed and floating interest rates. The registered bonds were issued in unsecured tranches with terms of 12, 15 and 17 years with fixed interest rates. All tranches were issued by Telefónica Germany GmbH & Co. OHG, Munich.

The fixed-rate tranche with a nominal value of EUR 52 million with a term of five years bears interest at 0.961 %; the floating-rate tranche with a nominal value of EUR 60.5 million bears interest at 6-months Euribor +65 bps.

The fixed-rate tranche with a nominal value of EUR 19.5 million with a term of eight years bears interest at

1.416 %; the floating-rate tranche with a nominal value of EUR 1.5 million bears interest at 6-months Euribor +85 bps.

The fixed-rate tranche with a nominal value of EUR 29.5 million with a term of ten years bears interest at 1.769 %; the floating-rate tranche with a nominal value of EUR 9 million bears interest at 6-months Euribor + 105 bps.

The tranches maturing in 12, 15 and 17 years have volumes of EUR 3 million, EUR 33 million and EUR 92 million respectively and bear interest at 2.000 %, 2.250 % and 2.375 %.

All tranches were issued at par.

The promissory notes and registered bonds can be transferred at a minimum amount of EUR 500 thousand.

The issue proceeds of the overall transaction were used for general business purposes.

Changes in the Supervisory Board of Telefónica Deutschland

María Pilar López Álvarez left the Supervisory Board of Telefónica Deutschland with effect as of the end of the Annual General Meeting on 12 May 2015.

Laura Abasolo García de Baquedano was elected as her successor. Her term in office ends with the Shareholders' Meeting that resolves on the discharge regarding the financial year 2016.

Shareholders' Meeting/dividend

The Annual General Meeting of Telefónica Deutschland for the 2014 financial year took place on 12 May 2015. In addition to presenting the Annual Financial Statements of Telefónica Deutschland, including the Group Management Report and the Consolidated Financial Statements, and electing a new member of the Supervisory Board, inter alia a dividend of EUR 0.24 per entitled share, EUR 713,893,198.32 in total, was resolved. The dividend was paid to the shareholders on 13 May 2015.

Mobile phone frequency auction: Telefónica Deutschland Group secures valuable spectrum

By decision of the German Federal Network Agency on 22 April 2015, the Telefónica Deutschland Group was admitted to the auction of frequencies in the ranges 700 MHz, 900 MHz, 1.8 GHz and 1.5 GHz. The auction began on 27 May 2015 and ended on 19 June 2015.

At the mobile phone frequency auction, Telefónica Deutschland Group acquired two paired blocks in the 700 MHz range, two paired blocks in the 900 MHz range and two paired blocks in the 1.8 GHz range for a total of approximately EUR 1,198 million. The first instalment of the frequency fees of around EUR 976 million was paid on 26 June 2015. The two outstanding instalments of approximately EUR 111 million each for the spectrum in the 700 MHz range are due on 1 July 2016 and 2017.

National roaming

Until the end of May 2015, the UMTS networks of the former Telefónica Deutschland Group (O₂) and the E-Plus Group (E-Plus) were opened up to all customers of the group, bundling the strength of both networks for the first time. As a result, the customers of all own brands and partner brands can be offered the densest UMTS network infrastructure in urban areas and the most widespread coverage in rural areas. This step improves the user experience of mobile data services even in areas where our customers do not yet have LTE.

Conclusion of new supplier agreements to expand mobile communications network

In the second quarter of 2015, the Telefónica Deutschland Group concluded agreements with various suppliers for equipment and services for the Telefónica Deutschland Group mobile communications network. Thus, a further requirement was fulfilled for the implementation of the integration of the mobile communications networks of the former Telefónica Deutschland Group (O₂) and the E-Plus Group, and for the further accelerated roll-out of LTE. Under these agreements, from 2015 to 2018, the suppliers will provide radio access network equipment and services in the field of network roll-out and network maintenance for the Telefónica Deutschland Group.

Transfer of mobile network sites

In the course of its network integration, the Telefónica Deutschland Group transferred around 7,700 mobile network sites to Deutsche Telekom. A corresponding agreement was signed on 17 July 2015. As planned, the company will realise part of the announced synergies from the network integration with this transaction. Furthermore, Telefónica Deutschland can utilise resources which would have been required to dismantle these redundant sites to accelerate the roll-out of its LTE network. The Telefónica Deutschland Group can continue to use these sites without restriction over the course of the integration of the O₂ and E-Plus networks until they are no longer needed. The implementation of the transaction resulted in restructuring expenses for network optimisation in the mid-double digit millions. Financial impacts from the transfer have already been included within the communicated synergy expectations related to the network integration (section 3 Report on Events after the Reporting Period).

Start of use of network capacity by Drillisch

As part of the merger with the E-Plus Group and the merger clearance process, the Telefónica Deutschland Group committed to sell some of its network capacity. In 2014, the Telefónica Deutschland Group had signed an MBA MVNO ("Mobile Bitstream Access Mobile Virtual Network

Operator") agreement with Drillisch (Annual Report 2014, section 2.2 Overview of the Financial Year – Significant events). Since 1 July 2015, Drillisch can now access the network capacity of the Telefónica Deutschland Group as planned according to the agreed mobile bitstream access model.

2.2.1 Results of operations

The acquisition of the E-Plus Group as of 1 October 2014 has changed the results of operations of the Telefónica Deutschland Group significantly. As the integration of the E-Plus Group is progressing rapidly, we do not consider the separate reporting of the results of operations of the former E-Plus Group appropriate.

To allow a better comparison, selected indicators are presented below on a combined¹ basis:

Revenues amounted to a total of EUR 5,828 million in the first nine months of 2015. Combined¹, revenues in the first nine months of 2014 would have amounted to EUR 5,774 million. Revenues from mobile services amounted to EUR 4,155 million in the first nine months of 2015 and EUR 4,137 million on a combined¹ basis in the first nine months of 2014.

Operating income before depreciation and amortisation (OIBDA) before exceptional effects amounted to EUR 1,285 million in the first nine months of 2015 and to EUR 1,106 million on a combined¹ basis in the first nine months of 2014.

Please see table 3 on page 29 for an overview of business performance compared to the previous year.

2.2.1.1 Revenues

In the first nine months of 2015 total revenues amounted to EUR 5,828 million. This corresponds to an increase of EUR 2,326 million or 66.4 % against the previous year. The increase in revenues is primarily due to growth in the mobile business as a result of the merger with the E-Plus Group from 1 October 2014. Including the combined¹ figures for the first nine months of 2014, growth of total revenues would amount to EUR 55 million or 0.9 %. In particular, this is due to the rise in handset revenues. Revenues from fixed line/DSL were lower on account of the smaller DSL customer base. Revenues continued to be positively influenced by growth in the mobile data business. — **Tab. 2, page 28**

Mobile business

Mobile revenues, comprising mobile service revenues and handset sales, amounted to EUR 5,041 million in the first nine months of 2015. This corresponds to an increase of EUR 2,408 million or 91.5 % against the same period of the previous year.

Mobile service revenues are largely based on basic fees and the fees levied for voice (including incoming and outgoing calls), messaging (including SMS and MMS) and mobile data services in addition to the revenues from service contracts. In addition to roaming revenues, mobile service revenues include access and interconnection fees that are paid by other service providers for calls and SMS delivered via our network. In the first nine months of 2015, mobile service revenues amounted to EUR 4,155 million. This corresponds to a year-on-year increase of EUR 1,966 million or 89.8 % and is due in particular to the expansion of the customer base as a result of the merger with the E-Plus Group. Including the combined¹ figures for the first nine months of 2014, growth would amount to EUR 18 million or 0.4 %. The slightly positive development results from the focus on customer retention measures for our own brands and the rise in customer numbers, especially in the partner and prepaid business. Our mobile customer base increased by 1,164 thousand in the first nine months of 2015 (increase in the nine-months period of 2014 combined¹: 1,068 thousand). Network enhancements have resulted in an improved customer experience. The launch of national roaming in the first half of 2015 (section 2.2 Overview of the First Nine Months of the Year 2015 – Significant events) allows our customers to use both mobile networks of O₂ and E-Plus; furthermore, LTE network coverage is continuously increasing. Demand for data services (e.g. mobile internet, service applications and other data content) is still increasing, boosted by the growing number of LTE-enabled mobile phones in connection with higher usage of mobile audio and video applications.

Handset revenues are subject to fluctuation, as they depend on the launch of new mobile devices. In the first nine months of 2015 handset revenues amounted to EUR 887 million. In addition to the revenues resulting from the merger with the E-Plus Group, increased sales figures for mobile devices, including to mobile partners, also contributed to the year-on-year increase of EUR 442 million or 99.5 %. Handset revenues include the income from the sale of mobile phones as part of the "O₂ My Handy" model, the hardware portion of bundle packages (hardware bundled offerings) for the former E-Plus brands and cash sales. In addition, handset revenues include further components from mobile business such as activation fees and accessories.

Fixed business

Revenues from fixed line and the DSL business amounted to EUR 778 million in the first nine months of 2015. This corresponds to a decline of EUR 86 million or 10.0 % against the previous year from a reduced customer base driven by the progressive decommissioning of the ULL broadband access infrastructure and the decline in fixed voice accesses. Over the course of the first nine months of the year, the improved traction of the retail DSL business helped to stem the decline in

the wholesale ADSL and voice carrier business, mainly driven by the good demand for our "O₂ DSL All-in" tariffs as well as the continuing positive customer development in the VDSL business. Fixed and DSL revenues mainly comprise DSL revenues, fixed line revenues, activation fees for the DSL business and the sale of DSL hardware. Furthermore, they include revenues from the DSL service business with large customers and termination rates paid by other telecommunications companies.

Other revenues

Other revenues relate to new business such as advertising and financial services, for example the mobile service "O₂ More Local" or the mobile payment system "mpass". This item increased by EUR 4 million year-on-year to revenues of EUR 10 million in the first nine months of 2015, in particular as a result of the increase in mobile marketing activities.

2.2.1.2 Net profit for the period

Operating expenses, comprising supplies, personnel expenses and other expenses, increased by EUR 1,869 million or 65.7% to EUR 4,714 million in the first nine months of 2015 compared to the same period of the previous year. The growth in operating expenses is due primarily to the merger with the E-Plus Group as of 1 October 2014 and expenses for restructuring in the context of the integration in an amount of EUR 66 million, which were recognised mainly in other expenses.

Supplies mainly include the interconnection costs which arise when our customers are connected to other mobile communications networks. Furthermore, this item reflects the costs for the devices sold, in particular the sales as part of, for example, the "O₂ My Handy" model. Additionally, it contains the expenses for leased lines unbundled local loops (ULL) access charges and the costs for the leasing of space for network installations. In the first nine months of 2015 supplies amounted to EUR 1,965 million. This corresponds to a year-on-year increase of EUR 584 million or 42.3%, mainly

due to the merger with the E-Plus Group. The expenses for handsets sold increased to a smaller degree than the corresponding revenues from mobile hardware.

Personnel expenses were up by EUR 171 million or 51.9% to EUR 500 million in the first nine months of 2015 compared to the same period of the previous year. Adjusted for restructuring provisions (nine-month period of 2015: EUR 1 million; nine-month period of 2014: EUR 8 million), the increase would have come to 55.4%, primarily due to the increased expense resulting from the merger with the E-Plus Group. Over the course of the first nine months of the year, personnel expenses decreased on account of the lower number of FTEs (section 2.2 Overview of the First Nine Months of the Year 2015 – Significant events).

Other expenses include primarily commission paid to retailers, marketing costs, expenses for customer service and the outsourcing of administrative activities, expenses for hardware and the maintenance of the IT infrastructure, leasing expenses for facilities and space and energy costs. Other expenses amounted to EUR 2,248 million in the first nine months of 2015, an increase of EUR 1,115 million or 98.3% as against the first nine months of 2014. This rise was due in particular to the higher costs as a result of the merger with the E-Plus Group and the provisions recognised for restructuring. Adjusted for restructuring provisions, the increase would have come to 92.6%. Savings were made from integration-related measures, such as the reduction in the number of shops.

OIBDA amounted to EUR 1,234 million in the first nine months of 2015, up by EUR 508 million or 70.0% compared to the same period of the previous year, mainly due to the merger with the E-Plus Group on 1 October 2014. The resulting OIBDA margin was above the previous year's level at 21.2% (nine-month period of 2014: 20.7%). Including the combined¹ figures for the first nine months of 2014, OIBDA growth would amount to EUR 141 million or 12.9%.

Adjusted for exceptional effects, OIBDA of EUR 1,285 million was generated in the first nine months of 2015 (nine-month period of 2014: EUR 733 million). The exceptional effects in the first nine months of 2015 relate to

2 — Revenue breakdown

(Euros in millions)	1 January to 30 September			
	2015	2014	Change	% Change
Mobile business	5,041	2,633	2,408	91.5
Mobile service revenues	4,155	2,189	1,966	89.8
Handset revenues	887	444	442	99.5
Fixed business	778	864	(86)	(10.0)
Other revenues	10	6	4	71.6
Revenues	5,828	3,503	2,326	66.4

the non-recurring net gain on disposal of yourfone GmbH of EUR 15 million and restructuring expenses resulting from the merger with the E-Plus Group of EUR 66 million. The previous year's OIBDA included restructuring expenses of EUR 8 million. Adjusted for these exceptional effects, the year-on-year increase was 75.2%.

Including the combined¹ figures for the first nine months of 2014, OIBDA growth before exceptional effects² would amount to EUR 179 million or 16.1%. This reflects higher revenues, a strong focus on the development of the customer base as well as a lower cost level from an accelerated realisation of synergies from the integration. At 22.0%, the resulting OIBDA margin before exceptional effects would be higher than the previous year's level of 19.2% on a combined¹ basis in the first nine months of 2014.

At EUR 1,545 million, depreciation and amortisation increased by EUR 766 million or 98.3% in the reporting period in comparison to the previous year (nine-month period of 2014: EUR 779 million). This increase is particularly due to the inclusion of the E-Plus Group, the resulting amortisation of

customer relationships, as well as the shorter useful life resulting from the merger of the two networks (for further information please refer to the notes on intangible assets and property, plant and equipment in section 2.2.3 Net assets).

In comparison to the previous year, operating income decreased by EUR 258 million or 483.1% to EUR –312 million (nine-month period 2014: EUR –53 million).

The net financial expense as of 30 September 2015 amount to EUR 36 million (nine-month period of 2014: EUR 26 million). This is primarily due to the company's higher level of net debt compared to the same period of the previous year. Net financial expense mainly includes interest for the bonds issued in November 2013 and February 2014, interest as a result of the private placement of promissory notes and registered bonds on 13 March 2015, as well as interest on the finance lease commitment.

The Telefónica Deutschland Group does not record any positive taxable income in the first nine months of 2015.

The above-mentioned effects result in a loss for the period of EUR 347 million for the first nine months of 2015 compared to the same period of the previous year when the loss for the period amounted to EUR 79 million.

2 The same period of 2014 includes restructuring expenses of EUR 13 million.

3 — Consolidated Income Statement

(Euros in millions)	1 January to 30 September			
	2015	2014	Change	% Change
Revenues	5,828	3,503	2,326	66.4
Other income	119	67	51	76.3
Operating expenses	(4,714)	(2,844)	(1,869)	65.7
Supplies	(1,965)	(1,382)	(584)	42.3
Personnel expenses	(500)	(329)	(171)	51.9
Other expenses	(2,248)	(1,134)	(1,115)	98.3
Operating income before depreciation and amortisation (OIBDA)	1,234	726	508	70.0
OIBDA margin	21.2%	20.7%		0.4 %-p.
Depreciation and amortisation	(1,545)	(779)	(766)	98.3
Operating income	(312)	(53)	(258)	>100
Net financial income/(expense)	(36)	(26)	(10)	39.2
Profit/(loss) before tax for the period	(347)	(79)	(268)	>100
Income tax	0	0	0	>100
Total profit/(loss) for the period	(347)	(79)	(268)	>100

2.2.2 Financial position

2.2.2.1 Finance analysis

Net financial debt

Table 4 on page 30 shows the composition of net financial debt – i.e. the net amount of interest-bearing financial liabilities less cash and cash equivalents and interest-bearing financial assets and receivables. —**Tab. 4**

Compared to 31 December 2014, net financial debt increased by EUR 1,396 million to EUR 1,415 million as of 30 September 2015, resulting in a leverage ratio³ of 0.9x.

The increase in net financial debt during the first nine months of 2015 is mainly attributable to the dividend payment of EUR 714 million for the financial year 2014 as well as the payment of the obligations due from the mobile phone frequency auction in the amount of EUR 977 million.

³ Leverage ratio is defined as the net financial debt divided by adjusted LTM (Last Twelve Months) OIBDA.

The chart on page 31 illustrates the development of net financial debt during the first six months of the financial year 2015.

2.2.2.2 Liquidity analysis

Consolidated Statement of Cash Flows

The following is an analysis of the cash flow development of the Telefónica Deutschland Group for the first nine months of the financial years 2015 and 2014. – **Tab. 6, page 32**

Cash flow from operating activities

Cash flow from operating activities for the first nine months of 2015 amounts to EUR 1,161 million and thus is EUR 179 million higher than the amount of the previous year (nine-month period 2014: EUR 982 million). This increase is mainly due to the sharp rise in OIBDA (nine-month period 2015: EUR 1,234 million) of EUR 508 million year-on-year (nine-month period 2014: EUR 726 million) and the payment of EUR 150 million received from Drillisch in connection with the MBA MVNO (“Mobile Bitstream Access Mobile Virtual Network Operator”) agreement. These effects are partially

4 — Consolidated net financial debt

(Euros in millions)	As of 30 September 2015	As of 31 December 2014 ¹	Change	% Change
A Liquidity	199	1,702	(1,503)	(88.3)
B Current financial assets	449	456	(7)	(1.5)
C Current financial debt	552	619	(67)	(10.8)
D=C-A-B Current net financial debt	(96)	(1,539)	1,444	(93.8)
E Non-current financial assets	193	250	(58)	(23.0)
F Non-current financial debt	1,703	1,808	(105)	(5.8)
G=F-E Non-current net financial debt	1,510	1,557	(47)	(3.0)
H=D+G Net financial debt²	1,415	18	1,396	>100

¹ Unless indicated otherwise, values include retrospective adjustments from the purchase price allocation (PPA) within the twelve-months period following the acquisition of E-Plus group as of October 2014 (IFRS 3). For more detailed information please see the section “Business Combinations” in the Condensed Notes to the Interim Condensed Consolidated Financial Statements for the period 1 January to 30 September 2015.

² Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.

B + E: Current and non-current financial assets include handset-receivables (current: EUR 446 million in 2015 and EUR 454 million in 2014; non-current: EUR 180 million in 2015 and EUR 236 million in 2014), positive fair value hedge for fixed-interest financial liabilities (current: EUR 2 million in 2015 and EUR 2 million in 2014; non-current: EUR 12 million in 2015 and EUR 12 million in 2014) as well as loans to third parties (current: EUR 0 million in 2015 and EUR 1 million in 2014; non-current: EUR 1 million in 2015 and EUR 1 million in 2014)

C + F: Current and non-current net financial debt include bonds, promissory notes and registered bonds issued (EUR 1,423 million in 2015 and EUR 1,115 million in 2014), other loans (EUR 551 million in 2015 and EUR 726 million in 2014) as well as finance lease payables (current: EUR 232 million in 2015 and EUR 382 million in 2014; non-current: EUR 50 million in 2015 and EUR 204 million in 2014)

Note: Handset-receivables are shown under trade and other receivables in the Consolidated Statement of Financial Position.

Pending payments for spectrum amounting to EUR 219 million are shown under accruals in the Consolidated Statement of Financial Position and are therefore not included in the net financial debt calculation.

offset by advance payments made for rent of antenna locations. The prior year also includes an one-off effect of EUR 262 million due to other advance payments received for future service.

Cash flow from investing activities

Cash flow from investing activities amounts to EUR –1,766 million in the first nine months of 2015. Compared to the first nine months of 2014, the cash outflow increased by EUR 1,313 million (nine-month period 2014: EUR –453 million). Payments for investments in property, plant and equipment and intangible assets⁴ in the first nine months of the financial year 2015 totalled EUR 1,846 million (nine-month period 2014: EUR 451 million). These are mainly related to investments for the acquisition of mobile phone

⁴ Investments respectively CapEx (nine-month period 2015: EUR 704 million; nine-month period 2014: EUR 411 million) plus payments on investments in mobile phone frequency auction (nine-month period 2015: EUR 977 million; nine-month period 2014: EUR 0 million) plus the change in liabilities for investments made (nine-month period 2015: EUR 204 million; nine-month period 2014: EUR –12 million) and plus the change in reserve for outstanding invoices for investments (nine-month period 2015: EUR –39 million; nine-month period 2014: EUR 52 million) results in payments in investments for property, plant and equipment and intangible assets (nine-month period 2015: EUR 1,846 million; nine-month period 2014: EUR 451 million).

frequency usage rights, the roll-out of the 4G network (LTE), the expansion of the 3G technology capacities, improvement of performance as well as improved coverage of the mobile networks.

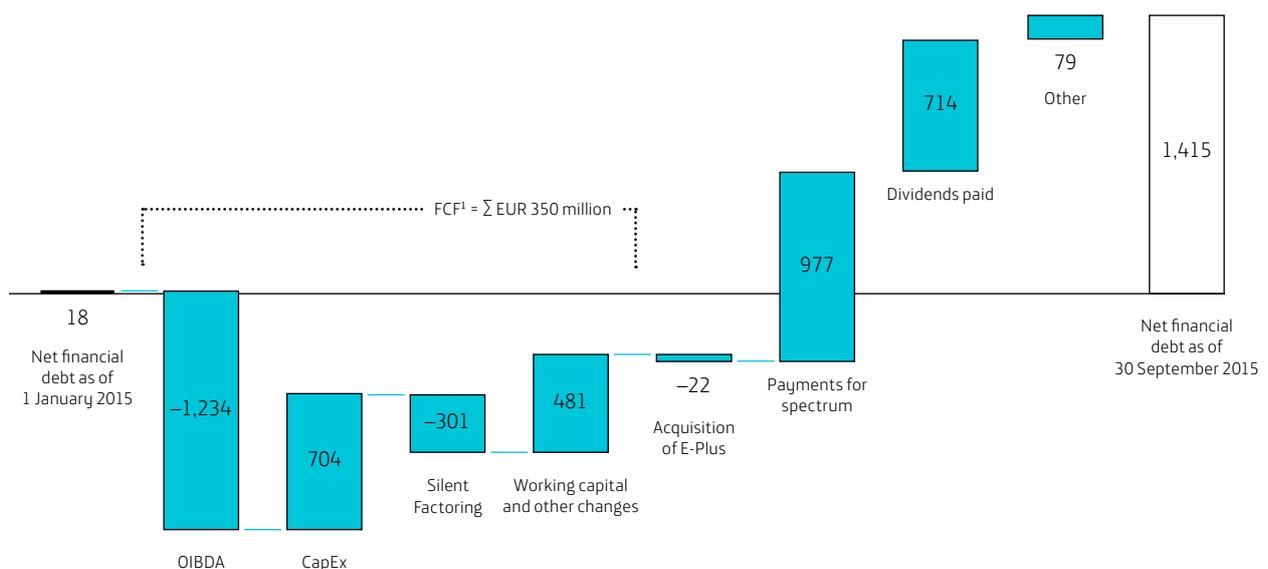
Cash flow from financing activities

Cash flow from financing activities amounts to EUR –899 million in the first nine months of the financial year 2015 and decreased in comparison to the previous year (nine-month period 2014: EUR 3,503 million) by EUR –4,402 million. This decrease is mainly due to the cash inflow from the cash capital increase concluded in September 2014. The cash flow from financing is mainly due to the dividend payments of EUR 714 million, the repayment of obligations from finance lease of EUR 304 million and the repayment of EUR 225 million on the loan of EUR 1,250 million extended to Telefónica Germany GmbH & Co. OHG by Telfisa Global B.V. This is partly offset by the cash inflow from promissory notes and registered bonds in March 2015 in the nominal amount of EUR 300 million issued.

Cash and cash equivalents

Due to the cash inflows/outflows described above, cash and cash equivalents decrease in comparison to the reporting date as of 31 December 2014 by EUR 1,503 million. Cash and

5 — Development of net financial debt (Euros in millions)



¹ Free cash flow pre dividends and payments for spectrum as well as pre-acquisition of E-Plus net of cash acquired.

cash equivalents amount to EUR 199 million as of 30 September 2015 (31 December 2014: EUR 1,702 million).

Free cash flow

The free cash flow⁵ before dividends and payments for spectrum and before the acquisition of E-Plus decreased by EUR 179 million and amounts to EUR 350 million in the nine-month period ended 30 September 2015 (nine-month period 2014: EUR 529 million). This development results primarily from the decrease in the change in working capital by EUR 428 million, which was only partially offset by the increase in operating cash flow⁶ (OpCF) of EUR 215 million and payments received for the sale of companies in the amount of EUR 58 million.

The decrease in the change in working capital is mainly attributable to the increase in non-current deferred income due to advance payments received for future services in 2014. The payments in 2015 for liabilities for investments recorded in the year 2014 as well as the increase of advance payments for rent for antenna locations compared to the nine-month period ended 30 September 2014 adds to this

5 See Annual Report 2014, p. 34.

6 OIBDA minus CapEx (excluding investments in spectrum).

effects. This is partly offset by the advance payments received in 2015 in connection with the MBA MVNO agreement with Drillisch.

2.2.3 Net assets

The analysis of the asset and capital structure in table 8, page 34 compares the assets and liabilities as of 30 September 2015 with the figures as of 31 December 2014⁷.

— Tab. 8, page 34

The group reports total assets of EUR 16,795 million as of 30 September 2015 (31 December 2014: EUR 17,936 million).

Intangible assets

Intangible assets including goodwill amounts to EUR 9,199 million as of 30 September 2015 (31 December 2014: EUR 8,555 million). The increase in comparison to

7 Unless indicated otherwise, values include retrospective adjustments from the purchase price allocation (PPA) within the twelve-months period following the acquisition of E-Plus group as of October 2014 (IFRS 3). For more detailed information please see the section "Business Combinations" in the Condensed Notes to the Interim Condensed Consolidated Financial Statements for the period 1 January to 30 September 2015.

6 — Condensed Consolidated Statement of Cash Flows

(Euros in millions)	1 January to 30 September	
	2015	2014
Cash and cash equivalents at the beginning of the period	1,702	709
Cash flow from operating activities	1,161	982
Cash flow from investing activities	(1,766)	(453)
Cash flow from financing activities	(899)	3,503
Net increase/(decrease) in cash and cash equivalents	(1,503)	4,032
Cash and cash equivalents at the end of the period	199	4,741

the previous year amounts to EUR 644 million or 7.5 % and mainly results from the acquisition of frequency usage rights. At the mobile phone frequency auction, the Telefónica Deutschland Group acquired frequencies for a total of EUR 1,198 million (discounted carrying amount of EUR 1,196 million including capitalised borrowing costs) (section 2.2 Overview of the First Nine Months of the Year 2015 – Significant events). This was offset by the amortisation of intangible assets with a finite useful life. The amortisation charge amounts to EUR 798 million for the nine-month period ended 30 September 2015 (nine-month period 2014: EUR 337 million).

Property, plant and equipment

Property, plant and equipment amount to EUR 4,535 million as of 30 September 2015 (31 December 2014: EUR 4,842 million). A year-on-year decline of EUR 307 million or 6.3 % is therefore reported. Additions to property, plant and equipment in the period under review amount to EUR 515 million (nine-month period 2014: EUR 320 million) and mainly related to investments in connection with an accelerated network expansion including the optimisation of UMTS (3G), the further

enhanced LTE roll-out, the expansion of IP technologies and the expansion of mobile data services with even faster download times.

Depreciation of EUR 748 million (nine-month period 2014: EUR 442 million) offset the effect from the additions.

Investments (CapEx)

The acquisition of the E-Plus Group as of 1 October 2014 has changed the scope of operations of the Telefónica Deutschland Group significantly. As the integration of the E-Plus Group is progressing rapidly, a separate disclosure of investments (CapEx) of the former E-Plus Group is not appropriate in our view.

To allow a better comparison, CapEx is also disclosed on a combined¹ basis in the following paragraph. CapEx⁸ amount to EUR 704 million in the first nine months of 2015 compared to EUR 724 million on a combined¹ basis in the first nine months of 2014. The reduction resulted primarily from the realisation of synergies, which more than compensated

⁸ Not including addition of frequency usage rights.

7 — Reconciliation of cash flow and OIBDA minus CapEx

(Euros in millions)	1 January to 30 September			
	2015	2014	Change	% Change
OIBDA	1,234	726	508	70.0
– CapEx ¹	(704)	(411)	(293)	71.2
= Operating cash flow (OpCF)²	530	315	215	68.5
+ Silent Factoring ²	301	234	68	28.9
+/- Other working capital movements	(503)	(8)	(495)	>(100)
Change in working capital	(201)	226	(428)	>(100)
+/- Gains/(losses) from sale of companies	(15)	–	(15)	(100.0)
+/- Proceeds from sale of companies	58	(0)	59	>(100)
+/- Proceeds from sale of fixed assets and other effects	–	1	(1)	(100.0)
+ Net interest payments	(22)	(10)	(12)	>100
+ Taxes paid	0	–	0	100.0
+/- Proceeds/Payment on financial assets	(0)	(3)	3	(92.6)
= Free cash flow pre dividends and payments for spectrum³ as well as pre-acquisition of E-Plus net of cash acquired	350	529	(179)	(33.8)
+ Acquisition of E-Plus net of cash acquired	22	–	22	100.0
= Free cash flow pre dividends and payments for spectrum³	372	529	(157)	(29.6)
– Payments for spectrum	(977)	–	(977)	(100.0)
– Dividends ⁴	(714)	(525)	(189)	36.0
= Free cash flow post dividends	(1,319)	4	(1,322)	>(100.0)

¹ Excluding investments in spectrum in June 2015 amounting to EUR 1,196 million.

² Full impact (YTD) of silent factoring in the nine-month period in 2015 of EUR 301 million and of EUR 234 million in the nine-month period 2014 (transactions have been executed in January, March and June 2015 respectively in March, June and September of the year 2014).

³ Free cash flow pre dividends and payments of spectrum is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum amounting to EUR 977 million in 2015.

⁴ Dividend payment of EUR 714 million in May 2015. Dividend payment of EUR 525 million in May 2014.

for the investment in the roll-out of the LTE network and the integration of the network.

Trade and other receivables

Trade and other receivables amount to EUR 1,792 million as of 30 September 2015 and were close to the previous year's level (31 December 2014: EUR 1,781 million).

Other financial assets

Other financial assets remain unchanged compared to the previous year at EUR 67 million as of 30 September 2015 (31 December 2014: EUR 68 million). Other financial assets essentially comprise the positive fair value of two interest-rate swaps, equity investments in start-up enterprises, a silent factoring deposit and claims for reimbursement under insurance policies.

Other non-financial assets

Other non-financial assets amount to EUR 299 million as of 30 September 2015 (31 December 2014: EUR 213 million). The increase by EUR 85 million or 40.0% is mainly due to the increase in advance payments for rent of antenna locations.

Inventories

Inventories amount to EUR 123 million as of 30 September 2015 (31 December 2014: EUR 104 million). The increase of EUR 19 million or 18.2% is essentially caused by the launch of new products.

Cash and cash equivalents

Cash and cash equivalents totalled EUR 199 million as of 30 September 2015 (31 December 2014: EUR 1,702 million). This decrease of EUR 1,503 million or 88.3% is described above (section 2.2.2.2 Liquidity analysis).

Interest-bearing debt

Compared to 31 December 2014, interest-bearing debt fell by EUR –172 million or –7.1% from EUR 2,430 million to EUR 2,258 million as of 30 September 2015. This decline results in particular from the decline in finance leases liabilities of EUR 304 million and the EUR 225 million repayment of the Telfisa loans. A contrary effect is made primarily by the initial placing of promissory notes and registered bonds at a nominal amount of EUR 300 million on 13 March 2015.

8 — Consolidated Statement of Financial Position

(Euros in millions)	As of 30 September 2015	As of 31 December 2014 ¹	Change	% Change
Goodwill and other intangible assets	9,199	8,555	644	7.5
Property, plant and equipment	4,535	4,842	(307)	(6.3)
Trade and other receivables	1,792	1,781	11	0.6
Deferred tax assets	581	581	–	–
Other financial assets	67	68	(0)	(0.7)
Other non-financial assets	299	213	85	40.0
Inventories	123	104	19	18.2
Cash and cash equivalents	199	1,702	(1,503)	(88.3)
Assets held for sale	–	90	(90)	(100.0)
Total assets = Total equity and liabilities	16,795	17,936	(1,141)	(6.4)
Interest-bearing debt	2,258	2,430	(172)	(7.1)
Provisions	910	1,028	(118)	(11.5)
Trade and other payables	2,339	2,302	37	1.6
Other non-financial liabilities	27	18	10	56.2
Deferred income	894	704	190	26.9
Liabilities held for sale	–	42	(42)	(100.0)
Equity	10,366	11,412	(1,046)	(9.2)

1 Unless indicated otherwise, values include retrospective adjustments from the purchase price allocation (PPA) within the twelve-months period following the acquisition of E-Plus group as of October 2014 (IFRS 3). For more detailed information please see the section "Business Combinations" in the Condensed Notes to the Interim Condensed Consolidated Financial Statements for the period 1 January to 30 September 2015.

Provisions

Compared to 31 December 2014 (EUR 1,028 million), provisions declined by EUR 118 million or 11.5 % to EUR 910 million. This decrease is essentially due to the utilisation of restructuring provisions of around EUR 144 million along with a simultaneous addition of EUR 66 million.

Trade and other payables

Trade and other payables amount to EUR 2,339 million as of 30 September 2015. The minimal increase compared to 31 December 2014 (EUR 2,302 million) of EUR 37 million or 1.6 % results from the nearly full compensation of the outstanding payment obligations from the mobile phone frequency auction (EUR 219 million) due to the sharp decline in liabilities for investments made recognised at the end of the year (EUR 166 million).

Other non-financial liabilities

Other non-financial liabilities amount to EUR 27 million as of 30 September 2015 (31 December 2014: EUR 18 million). These include wage tax and social security contributions in particular.

Deferred income

Deferred income increased by EUR 190 million or 26.9 % compared to 31 December 2014 and amount to EUR 894 million as of 30 September 2015. The increase is attributable in particular to the payments of EUR 150 million received from Drillisch in connection with the MBA MVNO agreement. In addition, the item essentially includes advance payments received for future services to be received of EUR 262 million and advance payments received for prepaid credit of EUR 313 million.

Equity

As of 30 September 2015, equity declined by EUR 1,046 million or 9.2 % to EUR 10,366 million. The change in equity is mainly due to the dividend payment of EUR 714 million on 12 May 2015 and the loss for the period of EUR 347 million.

3.

Report on Events after the Reporting Period_

Execution of the transfer of mobile network sites

The mobile network sites were transferred to Deutsche Telekom on 1 October 2015 (section 2.2 Overview of the First Nine Months of the Year 2015 – Significant events: Transfer of mobile network sites).

Dividend proposal for the 2015 financial year

On 5 November 2015, the Management Board of Telefónica Deutschland resolved and announced its intention to propose a cash dividend of EUR 0.24 per share to the next Annual General Meeting, which is scheduled for 19 May 2016.

There were no other reportable events after the end of the reporting period.

4.

Risk and Opportunity Management_

In the Group Management Report for the 2014 financial year we presented certain risks that could have a significant, disadvantageous impact on our business, our net assets, financial position and result of operations and our reputation. Furthermore, in this report we described our main opportunities and the design of our risk management system.

In the reporting period we identified the following significant risk in addition to those already presented in the Group Management Report for the 2014 financial year.

In June 2015, public press released that Airdata AG, Stuttgart, and 1&1 Internet SE, Montabaur, filed suit against the European Union regarding the clearance of the acquisition of the E-Plus Group by Telefónica Deutschland Group. At the date of this report, the claims have not yet been formally published. Therefore, the content of such suits is not known. Given its potential financial impact on the group, the theoretical risk this entails could be classified as considerable.

Furthermore, the following matters were identified in the reporting period that result in a change to the risks described in the Group Management Report:

Based on a compromise reached by the European Council and European Parliament on the gradual abolishment of roaming charges for international calls within the EU by 15 June 2017, presented to the European Parliament on 30 June 2015 and agreed on 20 October 2015, the risk of lowering roaming fees, described under the heading "Other regulatory influences on fees" has materialised. Taking into account that there are only remote chances that this decision will be revoked or challenged in formal proceedings the risk will be no longer reported.

The Federal Network Agency's auction of frequencies in the ranges of 700 MHz, 900 MHz, 1.5 GHz and 1.8 GHz ended on 19 June 2015. At the frequency auction, the Telefónica Deutschland Group acquired two paired blocks in the 700 MHz range, two paired blocks in the 900 MHz range and two paired blocks in the 1.8 GHz range with a term until the end of 2033. Together with the frequencies for UMTS and LTE services acquired in previous frequency auctions (with

terms until 2020 and 2025 respectively), the Telefónica Deutschland Group now has sufficient frequencies for the long term to achieve the services offered and its strategic goals. The request for return of frequencies by the Federal Network Agency will be finalized by the end of 30 June 2016 according to the waiver declarations from Telefónica Germany GmbH & Co. OHG and E-Plus Mobilfunk GmbH (section 2.1.2 Regulatory influences on the Telefónica Deutschland Group). As a result of this, the risk described in the Group Management Report under the heading "Licences and frequencies" has been reduced.

In addition, the risk described under the same heading, that frequencies may be acquired at auction only at higher costs than expected, has been resolved as the necessary frequencies were acquired at a total price of EUR 1,198 million.

Furthermore, the risk also described therein concerning another network provider entering the market in the context of the allocation of frequencies no longer applies. However, in connection with the significant reduction in the risk situation in relation to frequency resources, it should be added that according to our knowledge the companies Airdata AG, Stuttgart, and Liquid Broadband AG, Frankfurt am Main, had appealed against the decision of the presidential chamber of the Federal Network Agency that set out the conditions for the auction. In the event of a positive ruling, this could lead to the frequency auction having to be repeated under changed conditions. This would lead to the risks described above applying again.

In the reporting period we did not identify any further significant opportunities in addition to those already presented in the Group Management Report for the 2014 financial year.

Other risks and opportunities not currently known to us or that we presently consider to be immaterial could also influence our business activities. We do not anticipate the occurrence of any risks that, individually or in combination with other risks, could endanger the future of our company as a going concern.

5.

Outlook for the Telefónica Deutschland Group_

5.1 Economic Outlook for Germany until 31 December 2015

Despite the muted global economic prospects with weaker growth in China and in emerging markets rich in raw materials, the Germany economy is still on track. This is primarily thanks to the positive development of employment in conjunction with rising incomes. The positive development is buttressed by the key support of private consumer spending. Private consumer spending will play an important role in the projected upturn of the German economy again in 2015. At the same time, the favourable general conditions on the labour market and the clear rise in earnings for private households are creating significant scope for other purchases. The German government expects a gross domestic growth rate of 1.7 % for the current year.

Any escalation at international trouble spots still poses a risk to the consumer economy, and thus also to the overall economic development in Germany.

A rise in economic performance of 1.5 % is forecast for the euro area in 2015.

(Source: GfK Consumer Index, Deutsche Bundesbank, FocusEconomics Consensus Forecast Euro Area)

9 — GDP growth 2013–2015 for Germany and the euro area

In %	2013	2014	2015
Germany	0.4	1.5	1.7
Euro area	(0.4)	0.8	1.5

5.2 Market Expectations

Market developments in Germany, one of the biggest telecommunications markets in Europe, will again be driven by rising customer demand for mobile and fixed line broadband and data services. The boom in smartphones and tablets, in addition to growing demand for LTE, are driving growth in mobile data services. Smartphones and tablets are becoming the trailblazers for the digital revolution of an all-round "digital lifestyle" in Germany. At the same time, the growing proliferation of data-based communications services, so-called over-the-top (OTT) applications such as WhatsApp, Skype, Facebook or Apple FaceTime, are increasing data usage. Thus, the monetisation of the mobile data business will continue to gain strongly in significance for mobile telecommunications providers. A further trend is a growing market of machine-to-machine communication (M2M) with countless application possibilities and cloud services.

At the same time, the negative trend for mobile voice and SMS will continue as a result of further price pressure and changing customer behaviour. Revenues in the market for mobile services in Germany are expected to decline slightly until 2016.

(Source: Company data, Analysys Mason)

5.3 Expectations for the Telefónica Deutschland Group

During the first nine months of 2015, Telefónica Deutschland Group successfully pursued its strategic priorities of maintaining market momentum, driving the integration and transforming the company. Having reached a number of important milestones on our path to becoming the leading digital telco, we are now updating the outlook for the financial year 2015.

As a result of leveraging a strong network and attractive commercial offering with an emphasis on data monetisation, we continue to expect mobile service revenue to remain broadly stable compared to the combined¹ figure of the financial year 2014 (EUR 5,528 million).

Moreover, Telefónica Deutschland Group saw significant OIBDA growth (excl. exceptional effects) in the first nine months of 2015 driven by the early capture of synergies, as we were able to accelerate and bring forward significant integration activities from 2016 into 2015. The focus on the development of the customer base further helped to optimise commercial costs. As such, we now expect OIBDA before exceptional effects to grow 15–20% year-on-year versus the 2014 combined¹ figure (EUR 1,461 million), compared to previous growth expectations of more than 10% year-on-year.

With regard to synergies Telefónica Deutschland Group now expects to achieve around EUR 280 million of operating cash flow (OIBDA-CapEx) synergies in 2015, which is approximately 35% of the synergy target run-rate (EUR 800 million) after five years⁹; the overall synergy case remains unchanged.

⁹ 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. Operating expenses savings (excluding restructuring costs) and revenue synergies refer to a comparison with 2014 combined financials. CapEx excludes investments in spectrum and includes specific restructuring investments.

Operating expenses savings and revenue synergies are expected to amount to ca. 50% of the total operating cash flow synergies in 2015. The Company has been able to make significant progress in terms of accelerating the execution of various initiatives. Major synergy drivers in this first year include the headcount restructuring programme, retail footprint optimisation, consolidation of facilities, reduction of external staff as well as various projects relating to the simplification of business processes and the elimination of duplications. Expectations for the total synergy case are unchanged. Revenue and other synergies are expected to come primarily from the contribution of the Mobile Bitstream Access agreement to our partner business.

CapEx¹⁰ synergies are expected to represent around 50% of total operating cash flow synergies for 2015 and largely stem from a single rather than dual network roll-out.

Moreover, in 2015 synergy effects in the latter half of the year are expected to outweigh the initial efforts required to consolidate the two networks as well as additional investments necessary to accelerate the deployment of LTE. As a result, we expect CapEx excluding investments in Spectrum in 2015 to show a low double-digit percentage decline year-on-year from a combined¹ base of EUR 1,161 million.

¹⁰ CapEx excludes investments in spectrum and includes specific restructuring investments.

10 — Summary of the financial outlook for 2015

	Base line for 2014 ¹ (EUR million)	First nine months 2015 ²	Initial Outlook 2015 ³ year-on-year pct. growth	Updated Outlook 2015
Mobile service revenue	5,528	+0.4%	Broadly stable	Broadly stable
OIBDA before exceptional effects	1,461	+16.1%	>10%	15–20%
CapEx	1,161	–2.8%	High single digit pct. decline	Low double digit pct. decline

¹ Combined figures for the financial year 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 exceptional effects, such as capital gains or restructuring costs based on estimates made by Telefónica management and resulting in combined figures we believe are more meaningful as a comparable basis.

² Year-on-year comparisons are based on combined figures for 2014. OIBDA in the first nine months of 2015 excludes a capital gain of EUR 15 million from the sale of yourfone GmbH and restructuring costs of EUR 66 million. CapEx excludes investments in spectrum and includes specific restructuring investments.

³ All expected regulatory effects (MTR cuts and others) are included in the outlook. Restructuring costs from the integration of E-Plus Group are excluded from OIBDA Outlook. CapEx excludes investments in spectrum and includes specific restructuring investments.

6.

Material Related Party Transactions_

For information on material transactions with related parties
please see section "Related Parties" in the Condensed Notes

to the Interim Consolidated Financial Statements as of
30 September 2015.

Munich, 12 November 2015

Telefónica Deutschland Holding AG

The Management Board



Thorsten Dirks



Rachel Empey



Markus Haas

Interim Condensed
Consolidated Financial
Statements_
for the period 1 January
to 30 September 2015

Consolidated Statement of Financial Position_

Assets (Euros in millions)	Notes	As of 30 September 2015	As of 31 December 2014 ¹
A) Non-current assets		14,714	14,406
Goodwill		1,955	1,955
Other intangible assets	[6a]	7,244	6,600
Property, plant and equipment		4,535	4,842
Trade and other receivables	[6b]	180	236
Other financial assets		54	49
Other non-financial assets	[6c]	165	142
Deferred tax assets		581	581
B) Current assets		2,081	3,530
Inventories		123	104
Trade and other receivables	[6b]	1,612	1,545
Other financial assets		13	19
Other non-financial assets	[6c]	134	71
Cash and cash equivalents		199	1,702
Assets held for sale		–	90
Total assets (A+B)		16,795	17,936

Equity and Liabilities (Euros in millions)	Notes	As of 30 September 2015	As of 31 December 2014 ¹
A) Equity		10,366	11,412
Subscribed capital		2,975	2,975
Additional paid-in capital		4,800	4,800
Retained earnings		2,592	3,637
Equity attributable to owners of the parent		10,366	11,412
B) Non-current liabilities		2,784	2,919
Interest-bearing debt	[6d]	1,703	1,808
Trade and other payables	[6e]	127	19
Provisions	[6f]	524	787
Deferred income		431	305
C) Current liabilities		3,644	3,605
Interest-bearing debt	[6d]	555	622
Trade and other payables	[6e]	2,212	2,283
Provisions	[6f]	386	241
Other non-financial liabilities		27	18
Deferred income		463	400
Liabilities held for sale		–	42
Total equity and liabilities (A+B+C)		16,795	17,936

1 In the Consolidated Statement of Financial Position as of 30 September 2015, the previous-year figures as of 31 December 2014 were retrospectively adjusted in accordance with IFRS 3. For detailed information regarding the change in the published figures, please refer to Note No. 8, Business Combinations.

Consolidated Income Statement_

(Euros in millions)	Notes	1 July to 30 September		1 January to 30 September	
		2015	2014	2015	2014
Revenues	[7]	1,979	1,219	5,828	3,503
Other income		36	24	119	67
Supplies		(660)	(499)	(1,965)	(1,382)
Personnel expenses		(155)	(116)	(500)	(329)
Other expenses		(812)	(389)	(2,248)	(1,134)
Operating income before depreciation and amortisation (OIBDA)		388	240	1,234	726
Depreciation and amortisation		(512)	(245)	(1,545)	(779)
Operating income		(124)	(5)	(312)	(53)
Finance income		2	2	8	6
Exchange gains		0	0	2	0
Finance costs		(13)	(10)	(42)	(30)
Exchange losses		(0)	(1)	(3)	(2)
Net financial income/(expense)		(11)	(10)	(36)	(26)
Profit/(loss) before tax		(134)	(15)	(347)	(79)
Income tax		(0)	(0)	0	0
Total profit/(loss) for the period		(134)	(15)	(347)	(79)
Profit/(loss) for the period attributable to owners of the parent		(134)	(15)	(347)	(79)
Profit/(loss) for the period		(134)	(15)	(347)	(79)
Earnings per share					
Basic earnings per share in EUR		(0.05)	(0.01)	(0.12)	(0.07)
Diluted earnings per share in EUR		(0.05)	(0.01)	(0.12)	(0.07)

Consolidated Statement of Comprehensive Income_

(Euros in millions)	1 July to 30 September		1 January to 30 September	
	2015	2014	2015	2014
Profit/(loss) for the period	(134)	(15)	(347)	(79)
Other comprehensive income/(loss)				
Items that will not be reclassified to profit/(loss)	4	(16)	15	(27)
Remeasurement of defined benefit plans	4	(16)	15	(27)
Total other comprehensive income/(loss)	4	(16)	15	(27)
Total comprehensive income/(loss)	(130)	(31)	(332)	(107)
Total comprehensive income/(loss) for the period attributable to owners of the parent	(130)	(31)	(332)	(107)
Total comprehensive income/(loss)	(130)	(31)	(332)	(107)

Consolidated Statement of Changes in Equity_

(Euros in millions)	Subscribed capital	Additional paid-in capital	Retained earnings	Total equity attributable to owners of the parent	Equity
Financial position as of 1 January 2014	1,117	0	4,882	5,999	5,999
Profit/(loss) for the period	–	–	(79)	(79)	(79)
Other comprehensive income/(loss)	–	–	(27)	(27)	(27)
Total comprehensive income/(loss)	–	–	(107)	(107)	(107)
Dividends	–	–	(525)	(525)	(525)
Capital increases	1,117	2,503	–	3,620	3,620
Costs of capital increases	–	(33)	–	(33)	(33)
Other movements	–	–	1	1	1
Financial position as of 30 September 2014	2,234	2,470	4,251	8,955	8,955
Financial position as of 1 January 2015	2,975	4,800	3,637	11,412	11,412
Profit/(loss) for the period	–	–	(347)	(347)	(347)
Other comprehensive income/(loss)	–	–	15	15	15
Total comprehensive income/(loss)	–	–	(332)	(332)	(332)
Dividends	–	–	(714)	(714)	(714)
Other movements	–	–	0	0	0
Financial position as of 30 September 2015	2,975	4,800	2,592	10,366	10,366

Consolidated Statement of Cash Flows_

(Euros in millions)	1 January to 30 September	
	2015	2014
Cash flow from operating activities		
Profit/(loss) for the period	(347)	(79)
Adjustments to profit/(loss)		
Net financial income/(expense)	36	26
Gains on disposal of assets	(15)	(0)
Income tax	(0)	(0)
Depreciation and amortisation	1,545	779
Change in working capital and others		
Other current and non-current assets	(148)	(4)
Other non-current liabilities and provisions	(109)	251
Other current liabilities and provisions	221	19
Taxes paid	0	0
Interest received	11	6
Interest paid ¹	(33)	(15)
Cash flow from operating activities	1,161	982
Cash flow from investing activities		
Proceeds on disposals of property, plant and equipment and intangible assets	0	1
Payments on investments relating to mobile phone frequency auctions ¹	(977)	–
Payments on investments in property, plant and equipment and other intangible assets	(869)	(451)
Proceeds on disposals of companies ²	58	–
Acquisition of E-Plus net of cash acquired	22	–
Proceeds/payments made on financial assets	(0)	(3)
Cash flow from investing activities	(1,766)	(453)
Cash flow from financing activities		
Payments made for capital increase costs	(6)	(20)
Proceeds from capital increase	–	3,620
Proceeds from interest-bearing debt	350	570
Repayment of interest-bearing debt	(529)	(141)
Dividends paid	(714)	(525)
Cash flow from financing activities	(899)	3,503
Net increase/(decrease) in cash and cash equivalents	(1,503)	4,032
Cash and cash equivalents at the beginning of the period	1,702	709
Cash and cash equivalents at the end of the period	199	4,741

1 As of 30 September 2015 the total amount of interest paid EUR 34 million is presented in line interest paid EUR 33 million as well as in line payments on investments relating to mobile phone frequency auctions EUR 1 million.

2 A cash and cash equivalent balance of EUR 16 million was included in assets held for sale as of 31 December 2014 and was transferred in the transaction. Therefore, the net cash received amounted to EUR 42 million.

Condensed Notes to the Interim Condensed Consolidated Financial Statements_ for the period 1 January to 30 September 2015

1.

Reporting Entity

The Interim Condensed Consolidated Financial Statements (hereinafter “Interim Consolidated Financial Statements”) of Telefónica Deutschland Holding AG have been prepared for the period from 1 January to 30 September 2015 and comprise Telefónica Deutschland Holding AG (also referred to as “Telefónica Deutschland”) and its subsidiaries as well as joint operations (together referred to as “the Telefónica Deutschland Group” or “Group”).

Telefónica Deutschland Holding AG is a stock 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 is the calendar year (1 January to 31 December).

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

As of 30 September 2015, Telefónica Deutschland Holding AG has share capital of EUR 2,974,554,993, divided into 2,974,554,993 no-par-value registered shares, each accounting for a pro rata amount of share capital of EUR 1.00. In general, each non-par share grants one vote at the Shareholders' Meeting.

As of 30 September 2015, 16.8% of the shares were in free float. 62.7% were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.). The remaining 20.5% were held by Koninklijke KPN N.V., The Hague, Netherlands (KPN).

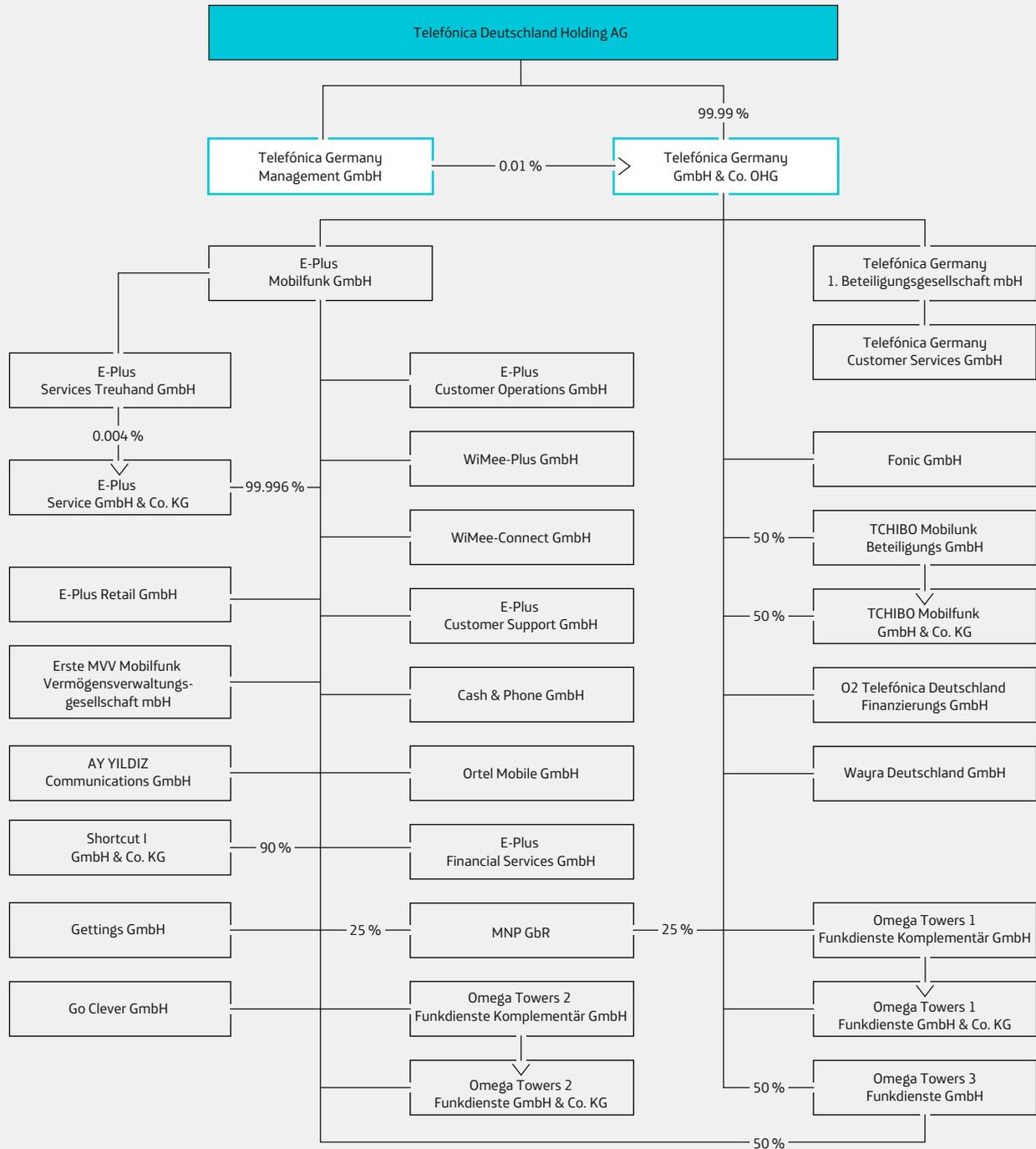
As of 30 September 2015, Telefónica Deutschland Holding AG had Authorised Capital 2012/I of EUR 292,808,507.

As of 30 September 2015, Telefónica Deutschland Holding AG's Conditional Capital 2014/I amounted to EUR 558,472,700.

Telefónica Deutschland Holding AG is the parent company of the Telefónica Deutschland Group. Which is included in the Interim Consolidated Financial Statements (Telefónica, S.A. Group) of the ultimate holding company, Telefónica, S.A., Madrid, Spain. The parent company of Telefónica Deutschland Holding AG 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.

The Telefónica Deutschland Group, which since 1 October 2014 has also contained E-Plus Mobilfunk GmbH, Duesseldorf (E-Plus) and its direct and indirect subsidiaries (the E-Plus Group), has been one of the three leading integrated network operators in Germany since the acquisition of E-Plus. The Telefónica Deutschland Group offers private and business customers voice, data and value added services in mobile communications and fixed line networks. In addition, the Telefónica Deutschland Group ranks among the leading wholesale providers in Germany. Wholesale partners are offered access to the Group's infrastructure and services. The Telefónica Deutschland Group is part of the Telefónica, S.A. Group, one of the biggest telecommunications corporations in the world.

As of 30 September 2015, the companies included in the Interim Condensed Consolidated Financial Statements of the Telefónica Deutschland Group were organised as shown in the following organisation chart:



Unless otherwise stated, the holding quotes amount 100%.

In the second quarter simyo GmbH, E-Plus 1. Beteiligungsgesellschaft mbH and BLAU Mobilfunk GmbH were merged with Telefónica Germany GmbH & Co. OHG with effect as of 30 June 2015. Blau Service GmbH was merged with BLAU Mobilfunk GmbH prior to this.

2.

Significant Events and Transactions in 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 transfer agreement was concluded with Telefónica Germany GmbH & Co. OHG effective 1 January 2015, with the result that E-Plus Mobilfunk GmbH, including its income tax group subsidiary companies, has been included in the income tax group of the Telefónica Deutschland Group effective 1 January 2015.

yourfone

The sale of yourfone GmbH to Drillisch was closed on 2 January 2015. The Telefónica Deutschland Group reported net inflows of EUR 58 million from the sale in the reporting period and generated a net gain on disposal of EUR 15 million, which was recognised in the Consolidated Income Statement under other income.

Framework redundancy plan

In February 2015, the Management Board and Works Councils of the Telefónica Deutschland Group agreed 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 2015 redundancy programme for around 800 FTEs began in the first quarter of 2015 as planned and came close to being finalised by the end of September 2015.

Placement of promissory notes/registered bonds

On 13 March 2015, the Telefónica Deutschland Group completed an initial placement of promissory notes and registered bonds. The transaction was announced on 2 February 2015 with a target volume of EUR 250 million but was implemented at a volume of EUR 300 million due to the high oversubscription.

The promissory notes were issued in unsecured tranches with terms of five, eight and ten years, with both fixed and floating interest rates. The registered bonds were issued in unsecured tranches with terms of 12, 15 and 17 years with fixed interest rates. All tranches were issued by Telefónica Germany GmbH & Co. OHG, Munich.

The fixed-rate tranche with a nominal value of EUR 52 million with a term of five years bears interest at 0.961 %; the floating-rate tranche with a nominal value of EUR 60.5 million bears interest at 6-months Euribor +65 bps.

The fixed-rate tranche with a nominal value of EUR 19.5 million with a term of eight years bears interest at 1.416 %; the floating-rate tranche with a nominal value of EUR 1.5 million bears interest at 6-months Euribor +85 bps.

The fixed-rate tranche with a nominal value of EUR 29.5 million with a term of ten years bears interest at 1.769 %; the floating-rate tranche with a nominal value of EUR 9 million bears interest at 6-months Euribor +105 bps.

The tranches maturing in 12, 15 and 17 years have volumes of EUR 3 million, EUR 33 million and EUR 92 million respectively and bear interest at 2.000 %, 2.250 % and 2.375 %.

All tranches were issued at par.

The promissory notes and registered bonds can be transferred at a minimum amount of EUR 500 thousand.

The issue proceeds of the overall transaction were used for general business purposes.

Changes in the Supervisory Board of Telefónica Deutschland

María Pilar López Álvarez left the Supervisory Board of Telefónica Deutschland with effect as of the end of the Annual General Meeting on 12 May 2015.

Laura Abasolo García de Baquedano was elected as her successor. Her term in office ends with the Shareholders' Meeting that resolves on the discharge regarding the financial year 2016.

Shareholders' Meeting/dividend

The Annual General Meeting of Telefónica Deutschland for the 2014 financial year took place on 12 May 2015. In addition to presenting the Annual Financial Statements of Telefónica Deutschland, including the Group Management Report and the Consolidated Financial Statements, and electing a new member of the Supervisory Board, inter alia a dividend of EUR 0.24 per entitled share, EUR 713,893,198.32 in total, was resolved. The dividend was paid to the shareholders on 13 May 2015.

Mobile phone frequency auction: Telefónica Deutschland Group secures valuable spectrum

By decision of the German Federal Network Agency on 22 April 2015, the Telefónica Deutschland Group was admitted to the auction of frequencies in the ranges 700 MHz, 900 MHz, 1.8 GHz and 1.5 GHz. The auction began on 27 May 2015 and ended on 19 June 2015.

At the mobile phone frequency auction, Telefónica Deutschland Group acquired two paired blocks in the 700 MHz range, two paired blocks in the 900 MHz range and two paired blocks in the 1.8 GHz range for a total of approximately EUR 1,198 million. The first instalment of the frequency fees of around EUR 976 million was paid on 26 June 2015. The two outstanding instalments of approximately EUR 111 million each for the spectrum in the 700 MHz range are due on 1 July 2016 and 2017.

National roaming

Until the end of May 2015, the UMTS networks of the former Telefónica Deutschland Group (O₂) and the E-Plus Group (E-Plus) were opened up to all customers of the group, bundling the strength of both networks for the first time. As a result, the customers of all own brands and partner brands can be offered the densest UMTS network infrastructure in urban areas and the most widespread coverage in rural areas. This step improves the user experience of mobile data services even in areas where our customers do not yet have LTE.

Conclusion of new supplier agreements to expand mobile communications network

In the second quarter of 2015, the Telefónica Deutschland Group concluded agreements with various suppliers for equipment and services for the Telefónica Deutschland Group mobile communications network. Thus, a further requirement was fulfilled for the implementation of the integration of the mobile communications networks of the former Telefónica Deutschland Group (O₂) and the E-Plus Group, and for the further accelerated roll-out of LTE. Under these agreements, from 2015 to 2018, the suppliers will provide radio access network equipment and services in the field of network roll-out and network maintenance for the Telefónica Deutschland Group.

Transfer of mobile network sites

In the course of its network integration, the Telefónica Deutschland Group transferred around 7,700 mobile network sites to Deutsche Telekom. A corresponding agreement was signed on 17 July 2015. As planned, the company will realise part of the announced synergies from the network integration with this transaction. Furthermore, Telefónica Deutschland can utilise resources which would have been required to dismantle these redundant sites to accelerate the roll-out of its LTE network. The Telefónica Deutschland Group can continue to use these sites without restriction over the course of the integration of the O₂ and

E-Plus networks until they are no longer needed. The implementation of the transaction resulted in restructuring expenses for network optimisation in the mid-double digit millions. Financial impacts from the transfer have already been included within the communicated synergy expectations related to the network integration (Note No. 14, Events after the Reporting Period).

Start of use of network capacity by Drillisch

As part of the merger with the E-Plus Group and the merger clearance process, the Telefónica Deutschland Group committed to sell some of its network capacity. In 2014, the Telefónica Deutschland Group had signed an MBA MVNO ("Mobile Bitstream Access Mobile Virtual Network Operator") agreement with Drillisch (Consolidated Financial Statement for the year ended 31 December 2014 Note No. 2, Significant Events and Transaction in the Reporting Period). Since 1 July 2015, Drillisch can now access the network capacity of the Telefónica Deutschland Group as planned according to the agreed mobile bitstream access model.

3.

Basis of Preparation

These Interim Consolidated Financial Statements are prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. Accordingly, the Interim Consolidated Financial Statements do not contain all the information and disclosures required for a full set of consolidated financial statements, and should therefore be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2014. Therefore, for further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2014 (Note No. 3, Basis of Preparation).

These Interim Consolidated Financial Statements as of 30 September 2015 are unaudited.

Functional currency and presentation currency

These Interim Consolidated Financial Statements are presented in Euro, which is the functional currency of the Telefónica Deutschland Group and all the Telefónica Deutschland Group companies.

Unless stated otherwise, the figures in these Interim Consolidated Financial Statements are presented in millions of Euros (Euros in millions). The figures in these Interim Consolidated Financial Statements are rounded according to established commercial principles. Additions of the figures can thus lead to amounts that deviate from those shown in the tables.

Other

The preparation of the Interim Consolidated Financial Statements requires that the management makes judgements, estimates and assumptions concerning the accounting policies applied and that influence the amount of the assets, liabilities, income and expenses reported. A significant change in the facts and circumstances on which these judgements, estimates and assumptions are based could materially affect the Telefónica Deutschland Group's net assets, financial position and result of operations.

In preparing these Interim Consolidated Financial Statements of the Telefónica Deutschland Group, the significant judgements made by the management regarding the application of accounting policies and main causes of estimation uncertainties were the same as applied in the Consolidated Financial Statements for the year ended 31 December 2014. Additionally, the changes shown under Note No. 4, Accounting Policies were applied, but do not have a material impact on the Group's net assets, financial position and result of operations.

For further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2014 (Note No. 4, Accounting Policies).

Comparative information

The Consolidated Statement of Financial Position presented in these Interim Consolidated Financial Statements relates to information as of 30 September 2015, which is compared against information as of 31 December 2014¹.

The Consolidated Income Statement and the Consolidated Statement of Comprehensive Income relate to the nine- and three-month periods ended 30 September 2015 and 30 September 2014. The Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity compare figures for the nine-month periods ended 30 September 2015 and 30 September 2014.

As a result of the acquisition of the E-Plus Group as of 1 October 2014, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity of the Telefónica Deutschland Group have changed significantly, thus rendering a comparison difficult. As the integration of the E-Plus Group is progressing rapidly, a separate reporting of the former E-Plus Group is not appropriate from our point of view.

Seasonal business activity

Previous earnings performance has provided no indication that the business activity is subject to material seasonal fluctuations.

4.**Accounting Policies**

The significant estimates, assumptions and judgements made by the management in preparing the Quarterly Financial Statements of the Telefónica Deutschland Group do not fundamentally differ from the assumptions in the Consolidated Financial Statements for the year ended 31 December 2014 with regard to potential uncertainties inherent in the estimates (Note No. 4, Accounting Policies). Apart from this, in preparation of the Quarterly Financial Statements the company has presented comparative information, according to IFRS 3, for the period between acquisition and finalisation of the purchase price allocation. For detailed information regarding the changes in the published figures please refer to Note No. 8, Business Combinations.

Starting 1 January 2015, the Telefónica Deutschland Group applied the amendments to IAS 19 – Defined Benefit Plans: Employee Contributions and the Annual Improvements to IFRSs 2010–2012. By way of regulation dated 17 December 2014, the European Union (EU) approved the required adoption of the amendments for financial years beginning on or after 1 February 2015. Early adoption was permitted. The IASB provides for adoption for financial years beginning on or after 1 July 2014.

Also effective 1 January 2015, the Group applied the Annual Improvements to IFRSs 2011–2013. By way of regulation dated 18 December 2014, the EU approved the obligatory adoption of the amendments for financial years beginning on or after 1 January 2015. The IASB provides for adoption for financial years beginning on or after 1 July 2014.

These amendments to the standards have no or no significant effect on the net assets, financial position or result of operations of the Group.

¹ In the Consolidated Statement of Financial Position as of 30 September 2015, the previous-year figures as of 31 December 2014 were retrospectively adjusted in accordance with IFRS 3. For detailed information regarding the change in the published figures, please refer to Note No. 8, Business Combinations.

At the time of publication of the Interim Consolidated Financial Statements, the following standards and interpretations were published, but their application was not yet mandatory.

Standards and amendments		Application for financial years beginning on or after
IFRS 14	Regulatory Deferral Accounts	1 January 2016 ¹
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016 ¹
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016 ¹
Amendments to IAS 16 and IAS 41	Bearer Plants	1 January 2016 ¹
Amendments to IAS 27	Equity Method in Separate Financial Statements	1 January 2016 ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016 ¹
Annual Improvements 2012–2014 Cycle	Amendments to IAS 19, IAS 34, IFRS 5 and IFRS 7	1 January 2016 ¹
Amendments to IFRS 10, IFRS 12 and IAS 28	Applying the Consolidation Exception	1 January 2016 ¹
Amendments to IAS 1	Presentation of Financial Statements: Disclosure Initiative	1 January 2016 ¹
IFRS 15	Revenue from Contracts with Customers	1 January 2018 ¹
IFRS 9 and amendments to IFRS 7	Financial Instruments	1 January 2018 ¹

¹ Endorsement by EU still outstanding, information for first-time adoption according to IASB.

For a comprehensive description of the new standards, amendments to standards and interpretations applicable for the Group, please refer to the disclosures in the Consolidated Financial Statements for the year ended 31 December 2014 (Note No. 4, Accounting Policies). An assessment of the expected impact on the net assets, financial position and result of operations of the Group is provided there, which still applies to the Interim Consolidated Financial Statements as of 30 September 2015.

Besides this, on 11 September 2015 the IASB published an amendment to IFRS 15 – Revenue from Contracts with Customers – which postpones the date of obligatory first-time application of the standard by a year to 1 January 2018. Voluntary early adoption is still permitted.

5.

Related Parties

As of 30 September 2015, the nature and amount of transactions by the Telefónica Deutschland Group with related parties has not changed significantly in comparison to those disclosed in the Consolidated Financial Statements for the year ended 31 December 2014. For further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2014 (Note No. 13, Related Parties).

6. Selected Explanatory Notes to the Consolidated Statement of Financial Position

a) Other intangible assets

The other intangible assets comprise the following:

(Euros in millions)	Service concession arrangements and licenses	Customer bases	Software	Brand names	Others	Construction in progress/Prepayments on intangible assets	Other intangible assets
Net book value							
As of 31 December 2014	3,118	2,898	477	99	3	6	6,600
As of 30 September 2015	2,786	2,624	498	85	25	1,226	7,244

The increase in other intangible assets resulted primarily from the acquisition of frequency usage rights amounting to EUR 1,196 million, which are reported under construction in progress/prepayments on intangible assets. At the mobile phone frequency auction, the Telefónica Deutschland Group acquired two paired blocks in the 700 MHz range, two paired blocks in the 900 MHz range and two paired blocks in the 1.8 GHz range for a total of approximately EUR 1,198 million. In the third quarter, borrowing costs were capitalised as a component of the acquired frequencies. In the current financial year, capitalised borrowing costs amounted to EUR 1 million and related to the acquisition of frequencies on 26 June 2015.

The Telefónica Deutschland Group based the capitalisation on a borrowing cost rate averaging 1.4 %.

The acquired frequencies at 900 MHz and 1.8 GHz can be used from 1 January 2017. The use of the acquired frequencies at 700 MHz is expected from the date they are vacated by the broadcasting companies. For further information, please refer to Note No. 2, Significant Events and Transactions in the Reporting Period.

b) Trade and other receivables

The breakdown of this item of the Consolidated Statement of Financial Position is as follows:

(Euros in millions)	As of 30 September 2015		As of 31 December 2014	
	Non-current	Current	Non-current	Current
Trade receivables	192	1,712	252	1,702
Receivables from related parties	–	56	–	83
Other receivables	–	30	–	21
Provisions for bad debts	(12)	(186)	(16)	(261)
Trade and other receivables	180	1,612	236	1,545

c) Other non-financial assets

This item of the Consolidated Statement of Financial Position consists of:

(Euros in millions)	As of 30 September 2015		As of 31 December 2014	
	Non-current	Current	Non-current	Current
Prepayments	165	119	142	54
Prepayments to related parties	–	0	–	1
Tax receivables for indirect taxes	–	15	–	16
Other non-financial assets	165	134	142	71

The non-financial assets primarily relate to prepayments for rent for antenna locations.

d) Interest-bearing debt

The breakdown of this item of the Consolidated Statement of Financial Position is as follows:

(Euros in millions)	As of 30 September 2015		As of 31 December 2014	
	Non-current	Current	Non-current	Current
Bonds	1,104	17	1,103	12
Promissory notes and registered bonds	299	2	–	–
Loan liabilities	250	301	500	226
Finance leases	50	232	204	382
Contribution and compensation obligations	–	3	–	3
Interest-bearing debt	1,703	555	1,808	622

Interest-bearing debt contains two bonds that the Telefónica Deutschland Group issued in November 2013, with a nominal value of EUR 600 million, and in February 2014, with a nominal value of EUR 500 million.

As of 30 September 2015, the interest-bearing debt contains promissory notes and registered bonds for which the current and non-current portion has a carrying amount of around EUR 301 million. On 13 March 2015, the Telefónica Deutschland Group completed an initial placement of promissory notes and registered bonds. For further information, please refer to Note No. 2, Significant Events and Transactions in the Reporting Period.

In addition, as of 30 September 2015, this item includes a loan of EUR 501 million, which the Telefónica Deutschland Group borrowed in September 2012 at an original total value of EUR 1,250 million from Telfisa Global B.V., as well as liabilities to banks of EUR 50 million. There are also finance lease liabilities and contribution and compensation obligations in conjunction with investments in start-ups included.

e) Trade and other payables

The composition of trade and other payables is as follows:

(Euros in millions)	As of 30 September 2015		As of 31 December 2014	
	Non-current	Current	Non-current	Current
Trade payables against third parties	109	485	–	592
Accruals	15	1,329	16	1,246
Payables to related parties	–	191	–	254
Trade payables	124	2,005	16	2,092
Other creditors non-trade	2	64	3	80
Other payables to related parties	–	62	–	42
Other current other payables	–	80	–	70
Other payables	2	207	3	191
Trade and other payables	127	2,212	19	2,283
Deferred income	431	463	305	400

Trade payables against third parties include the outstanding payment obligations from the mobile phone frequency auction (non-current portion: EUR 109 million; current portion: EUR 110 million) (Note No. 2, Significant Events and Transactions in the Reporting Period).

Current accruals mainly relate to outstanding invoices for goods and services and for non-current assets.

Current other creditors non-trade mainly consist of liabilities due to personnel.

Non-current other creditors non-trade mainly consist of liabilities for deferred rent-free periods for rented buildings (non-current portion).

The other current payables especially include debtors with credit balances.

f) Provisions

The provisions are recognised at the following amounts:

(Euros in millions)	As of 30 September 2015		As of 31 December 2014	
	Non-current	Current	Non-current	Current
Pension obligations	71	–	89	–
Restructuring	2	321	179	220
Dismantling	429	53	492	9
Other provisions	22	12	27	12
Provisions	524	386	787	241

As of 30 September 2015, changes in the composition of the provisions of the Telefónica Deutschland Group compared to 31 December 2014 resulted in particular from restructuring. Some of the provisions in place at the end of the year were used as planned, while some of the non-current provisions were reclassified as current (EUR 171 million). In addition, current provisions of EUR 53 million were added in connection with the transfer of mobile network sites.

For further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2014 (Note No. 5.12, Provisions).

7.

Selected Explanatory Notes to the Consolidated Income Statement

Revenues

Revenues are comprised as follows:

(Euros in millions)	1 July to 30 September		1 January to 30 September	
	2015	2014	2015	2014
Rendering of services	1,675	1,037	4,932	3,053
Other sales	303	182	896	450
Revenues	1,979	1,219	5,828	3,503

Revenues from the rendering of services include mobile service revenues as well as revenues from fixed business. The other sales include handset revenues and other revenues.

None of the Telefónica Deutschland Group's customers account for more than 10% of total revenues.

The breakdown of revenues according to wireless business and wireline business is shown in the following table:

(Euros in millions)	1 July to 30 September		1 January to 30 September	
	2015	2014	2015	2014
Mobile business	1,720	934	5,041	2,633
Mobile service revenues	1,419	754	4,155	2,189
Handset revenues	301	180	887	444
Fixed business	256	283	778	864
Other revenues	3	2	10	6
Revenues	1,979	1,219	5,828	3,503

8.

Business Combinations

In these Interim Consolidated Financial Statements as of 30 September 2015, the preliminary purchase price allocation of the E-Plus Group acquired on 1 October 2014 was reviewed within the twelve-month period and adjusted on the basis of a final valuation in line with the provisions of IFRS 3. Comparative information for the period between acquisition and finalisation of the purchase price allocation are presented retrospectively as if the purchase price allocation had already been concluded at the date of acquisition.

Due to the ongoing arbitration process regarding determination of working capital and net debt the purchase price has not yet been finalized. It is still expected that the preliminary purchase price will be reduced.

The following table gives an overview of the differences between the preliminary and the final purchase price allocation:

(Euros in millions)	Preliminary fair values at acquisition date	Adjustments	Final fair values at acquisition date
Goodwill	928	328	1,256
Other intangible assets			
Licences	1,342	(285)	1,057
Customer base	2,718	139	2,857
Tangible assets	1,931	(189)	1,742
Trade and other receivables	677	30	707
Interest-bearing debt	505	22	527

The changes are primarily reflected in intangible assets and property, plant and equipment.

The adjustments resulted mainly from new insights into the requirements of the Federal Network Agency and from more detailed analyses of the fair values of the licences acquired. In addition, new insight relating to the underlying market conditions resulted in reduced values for the acquired property, plant and equipment.

As a result of the mentioned revaluations Goodwill increased. Subsequently, there was also a change in the opposite direction in the fair value of customer relationships.

The above mentioned adjustments will lead in subsequent periods to a reduction of depreciation and amortisation and interest expenses. Result for the period 2014 and therefore retained earnings accordingly increased by EUR 32 million. Depreciation and amortisation decreased retrospectively by EUR 26 million in the first quarter of 2015 and EUR 28 million in the second quarter of 2015.

9.

Disposal Groups

On 29 June 2015, Telefónica Germany GmbH & Co. OHG and yourfone GmbH entered into an agreement regarding the sale of Telefónica Germany Shoptransfer AG, which was founded on 7 May 2015. Telefónica Germany Shoptransfer AG and its subsidiary Telefónica Germany Retail Ausgliederungs GmbH, founded on 18 May 2015, were founded in connection with the spin-off to transfer shops and associated assets, liabilities, personnel and contractual relationships. The companies' purpose mainly extends to sales activities in connection with mobile telecommunications contracts.

On 29 June 2015, the shares in Telefónica Germany Shoptransfer AG were transferred to yourfone GmbH. Through the sale of yourfone GmbH in February 2015 to Drillisch and the sale of Telefónica Germany Shoptransfer AG, the Telefónica Deutschland Group met further EU Commission requirements that were set in connection with the acquisition of the E-Plus Group.

With regard to the sale of Telefónica Germany Shoptransfer AG the following balance sheet positions are no longer included in the group's net asset and financial position:

(Euros in millions)	As of 30 September 2015
Property, plant and equipment	1.6
Trade and other receivables	0.1
Cash and cash equivalents	1.9
Prepaid expenses	0.1
Provisions	(3.8)
Net assets and liabilities	(0.0)
Net consideration received	0.0
Cash and cash equivalents disposed of	(1.9)
Net cash outflow	(1.9)

The sale of Telefónica Germany Shoptransfer AG resulted in a small gain on disposal that was recognised in the Consolidated Income Statement within other income.

10.

Other Obligations

Purchase and other contractual obligations

The following expected maturity dates apply for purchase and other contractual obligations:

(Euros in millions)	As of 30 September 2015	As of 31 December 2014
Less than 1 year	1,225	710
1 to 5 years	868	265
Over 5 years	704	710
Total purchase and other contractual obligations	2,797	1,685

Purchase and other contractual obligations increased during the reporting period compared to the Consolidated Financial Statements for the year ended 31 December 2014 mainly due to new long-term purchase contracts with suppliers (Note No. 2, Significant Events and Transactions in the Reporting Period).

11.

Measurement Categories of Financial Assets and Financial Liabilities

In the following tables, the fair value of all financial assets and financial liabilities of the Telefónica Deutschland Group are disclosed in accordance with the measurement categories from IAS 39 considering the requirements of IFRS 13.

As of 30 September 2015, the carrying amounts of the financial assets and financial liabilities represent an appropriate approximation for their fair values (with the exception of the portion of the bonds that is not hedged, see below).

For further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2014 (Note No. 10, Measurement Categories of Financial Assets and Financial Liabilities).

In addition, the tables show the categorisation of the financial assets and financial liabilities in accordance with the importance of the input factors that were used for their respective measurement. For this purpose three levels or measurement hierarchies are defined:

- Level 1: Primary market value: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: Significant other observable input parameters: inputs observable, either directly or indirectly, which are subject to certain limitations
- Level 3: Significant unobservable input parameters: all unobservable inputs which might include the entity's own data as a starting point and which should be adjusted if reasonably available information indicates that other market participants would use different data

As of 30 September 2015										
Financial assets										
Measurement hierarchy										
(Euros in millions)	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	Not in the scope of IFRS 7 (measured at fair value)
Non-current trade and other receivables (Note No. 6b)	–	–	–	180	–	–	–	180	180	–
Other non-current financial assets	12	17	–	13	–	12	17	42	42	12
Current trade and other receivables (Note No. 6b)	–	–	–	1,612	–	–	–	1,612	1,612	–
Other current financial assets	2	–	–	11	–	2	–	13	13	–
Cash and cash equivalents	–	–	–	199	–	–	–	199	199	–
Total	15	17	–	2,015	–	15	17	2,046	2,046	12

As of 31 December 2014										
Financial assets										
Measurement hierarchy										
(Euros in millions)	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	Not in the scope of IFRS 7 (measured at fair value)
Non-current trade and other receivables (Note No. 6b)	–	–	–	236	–	–	–	236	236	–
Other non-current financial assets	12	13	–	11	–	12	13	37	37	12
Current trade and other receivables (Note No. 6b)	–	–	–	1,545	–	–	–	1,545	1,545	–
Other current financial assets	2	–	–	17	–	2	–	19	19	–
Cash and cash equivalents	–	–	–	1,702	–	–	–	1,702	1,702	–
Total	14	13	–	3,511	–	14	13	3,539	3,539	12

As of 30 September 2015, EUR 12 million of the other non-current financial assets and EUR 2 million of the other current financial assets are classified as financial assets at fair value through profit or loss. These relate to swaps concluded in connection with the bond issue.

In addition, EUR 17 million in other non-current financial assets are classified as available for sale financial assets. These relate to investments in start-ups. These assets were measured according to level 3 as reliable measurement using a market price is not possible. These entities generate a start-up loss, and the existing business plans contain numerous unpredictable assumptions. For this reason, the measurement was made in accordance with IAS 39.46c at amortised costs.

All other financial assets as of 30 September 2015 were categorised as loans and receivables.

Please see the respective notes for further information.

As of 30 September 2015								
Financial liabilities								
(Euros in millions)	Measurement hierarchy						Total carrying amount	Total fair value
	Financial liabilities at fair value through profit or loss	Liabilities at amortised cost	Finance leases	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)		
Non-current interest-bearing debt (Note No. 6d)	360	1,293	50	–	360	–	1,703	1,747
Non-current trade and other payables (Note No. 6e)	–	127	–	–	–	–	127	127
Current interest-bearing debt (Note No. 6d)	3	320	232	–	–	3	555	555
Current trade and other payables (Note No. 6e)	–	2,212	–	–	–	–	2,212	2,212
Total	363	3,952	282	–	360	3	4,597	4,641

As of 31 December 2014								
Financial liabilities								
(Euros in millions)	Measurement hierarchy						Total carrying amount	Total fair value
	Financial liabilities at fair value through profit or loss	Liabilities at amortised cost	Finance leases	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)		
Non-current interest-bearing debt (Note No. 6d)	360	1,244	204	–	360	–	1,808	1,865
Non-current trade and other payables (Note No. 6e)	–	19	–	–	–	–	19	19
Current interest-bearing debt (Note No. 6d)	3	237	382	–	–	3	622	622
Current trade and other payables (Note No. 6e)	–	2,283	–	–	–	–	2,283	2,283
Total	363	3,783	586	–	360	3	4,732	4,790

As of 30 September 2015, EUR 360 million of the other non-current interest-bearing debt are classified as financial liabilities at fair value through profit or loss. These relate to a portion of the bonds, which are each accounted for as fair value hedges with one interest rate swap each.

The fair value of the bonds (non-current interest-bearing debt) is determined based on primary market values (unadjusted quoted prices in active markets).

As of 30 September 2015, the non-current and current interest-bearing debt contain promissory notes and registered bonds with a carrying value of around EUR 301 million, which are classified as liabilities at amortised cost.

Furthermore, EUR 3 million of the current interest-bearing debt are classified as financial liabilities at fair value through profit or loss as of 30 September 2015. These relate to contribution and compensation obligations in conjunction with investments in start-ups. These obligations were measured according to level 3 as reliable measurement; using a market price is not possible.

The non-current and current trade and other payables are classified as financial liabilities at amortised cost.

Please see the respective notes for further information.

12.

General financial market risks

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

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 fulfill its obligations, both under normal and under demanding circumstances. The Telefónica Deutschland Group works on its liquidity management closely with the 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.

As of 30 September 2015, the Telefónica Deutschland Group has current and non-current credit lines totalling EUR 1,000 million compared to year end 31 December 2014 totalling EUR 710 million.

For further information please refer to the annual report for the year ended 31 December 2014 (Note No. 17, Financial Instruments and Risk Management).

13. Contingent Assets and Liabilities

In the context of an ongoing tax audit, it was announced that the tax authorities' assessment with regards to the VAT treatment of prepaid contracts is different to the assessment of the Telefónica Deutschland Group. The focus of the assessment is if VAT needs to be paid on erased credit balances of customers that were erased due to inactivity. The potential surplus amount is not material and will subsequently trigger interests.

For further information, please refer to the Consolidated Financial Statements as of 31 December 2014 (Note No. 18, Contingent Assets and Liabilities).

14. Events after the Reporting Period

Execution of the transfer of mobile network sites

The mobile network sites were transferred to Deutsche Telekom on 1 October 2015 (Note No. 2, Significant Events and Transaction in the reporting period).

Dividend proposal for the 2015 financial year

On 5 November 2015, the Management Board of Telefónica Deutschland resolved and announced its intention to propose a cash dividend of EUR 0.24 per share to the next Annual General Meeting, which is scheduled for 19 May 2016.

There were no other reportable events after the end of the reporting period.

Munich, 12 November 2015

Telefónica Deutschland Holding AG

The Management Board



Thorsten Dirks



Rachel Empey



Markus Haas

Glossary_

The glossary also contains abbreviations as used in the Group 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
bps	basispoints
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
EasT	Experts as Trainers: program for training and continuing education
EC	European Commission
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)
GHz	Gigahertz
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
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IDR	Issuer Default Rating
IFRS	International Financial Reporting Standards
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
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
MHz	Megahertz
MMS	Multimedia Messaging Service
MNO	Mobile Network Operator
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 Organization
n.m.	not measured
NRA	National Regulatory Authority
O ₂ My Handy	Monthly payment model for mobile phones and other devices
OIBDA	Operating Income before Depreciation and Amortization
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 that 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	Wireless handset that can be used as a mobile 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, also known as the "last mile"
UMTS	Universal Mobile Telecommunications Service: international mobile communications standard of the third generation which unites mobile multimedia and telematics service under the frequency spectrum of 2 GHz
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



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