

Telefónica Deutschland
Annual Financial Statements

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The background of the entire page is a dark blue gradient. It is filled with a complex network of thin, glowing blue lines that swirl and loop across the frame. Interspersed among these lines are numerous small, three-dimensional green cubes, some of which appear to be attached to the end of the lines, giving the impression of a digital or fiber-optic network.

SHAPING THE LEADING DIGITAL TELCO

Telefónica

Deutschland

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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.

Combined Management Report_

The Management Report of Telefónica Deutschland Holding AG has been combined with the Management Report of the Telefónica Group in accordance with Section 315 para. 3 together with Section 298 para. 3 of the German Commercial Code (Handelsgesetzbuch) and is published in the 2015 Annual Report of the Telefónica Group. The Annual Financial Statements and the Combined Management Report of Telefonica Deutschland Holding AG for the fiscal year 2015 are filed with the operator of the electronic version of the German Federal Gazette and published in the electronic version of the German Federal Gazette. The Annual Financial Statements of Telefónica Deutschland Holding AG as well as the Annual Report for the fiscal year 2015 are also available for download on the Internet at

WWW.TELEFONICA.DE/ANNUALREPORT2015

Annual Financial Statements for the financial year 2015_

Balance Sheet_

	As of 31 December	
	2015	2014
Assets (in EUR)		
A) Fixed assets		
Financial assets		
Investments in affiliated companies	11,437,394,316.99	12,151,287,515.31
	11,437,394,316.99	12,151,287,515.31
B) Current assets		
I. Receivables and other assets		
1. Receivables from affiliates	140,744,038.55	36,900,150.60
2. Other assets	14,832,108.81	2,096,134.08
	155,576,147.36	38,996,284.68
II. Cash on hand and bank balances	38,915.83	38,965.83
	155,615,063.19	39,035,250.51
C) Accruals and deferrals	64,497.05	0.00
Total assets	11,593,073,877.23	12,190,322,765.82

	As of 31 December	
	2015	2014
Equity and Liabilities (in EUR)		
A) Equity		
I. Subscribed capital	2,974,554,993.00	2,974,554,993.00
II. Additional paid-in capital	4,832,539,244.82	4,832,539,244.82
III. Revenue reserves	14,083.91	14,083.91
Legal reserve	14,083.91	14,083.91
IV. Net retained earnings	3,778,773,351.98	4,363,004,544.80
	11,585,881,673.71	12,170,112,866.53
B) Provisions		
1. Pension obligations	1,898,446.00	2,083,192.00
2. Other provisions	4,781,661.32	8,748,266.29
	6,680,107.32	10,831,458.29
C) Liabilities		
1. Trade payables	5,774.58	2,589,971.22
2. Liabilities to affiliates	20,787.65	6,368,374.28
3. Other liabilities	485,533.97	420,095.50
– thereof from taxes EUR 414,958.09 (previous year: EUR 402,738.90) –		
	512,096.20	9,378,441.00
Total Equity and Liabilities	11,593,073,877.23	12,190,322,765.82

Income Statement_

(In EUR)	1 January to 31 December	
	2015	2014
1. Revenues	10,282,308.01	9,422,355.34
2. Other operating income	134,200,946.28	788,212,903.62
3. Personnel expenses	(5,022,925.13)	(6,203,945.99)
a) Salaries	(4,937,833.68)	(6,193,968.92)
b) Social security contributions and pension expenses	(85,091.45)	(9,977.07)
– thereof pension expenses: EUR 80,000.00 (previous year: EUR 0.00) –		
4. Other operating expenses	(10,139,174.23)	(44,158,299.10)
5. Other interest and similar income	366,178.62	52,026.63
– thereof from affiliated companies: EUR 421,42 (previous year: EUR 33,075.75) –		
6. Interest and similar expenses	(25,328.05)	0.00
	340,850.57	52,026.63
7. Income from ordinary business activities	129,662,005.50	747,325,040.50
8. Income taxes	0.00	(3,235.99)
9. Profit/Loss for the year	129,662,005.50	747,321,804.51
Net retained earnings of the previous year	4,363,004,544.80	4,140,647,078.29
Dividend payments	(713,893,198.32)	(524,964,338.00)
10. Profit carryforward	3,649,111,346.48	3,615,682,740.29
11. Net retained earnings	3,778,773,351.98	4,363,004,544.80

Statement of Changes in Fixed Assets 2015_

(In EUR)	Historical costs			
	1 January 2015	Additions	Disposals	31 December 2015
Financial assets				
Investments in affiliated companies	12,151,287,515.31	0.00	713,893,198.32	11,437,394,316.99
	12,151,287,515.31	0.00	713,893,198.32	11,437,394,316.99

(In EUR)	Accumulated depreciation			
	1 January 2015	Additions	Disposals	31 December 2015
Financial assets				
Investments in affiliated companies	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00

(In EUR)	Book value	
	31 December 2015	31 December 2014
Financial assets		
Investments in affiliated companies	11,437,394,316.99	12,151,287,515.31
	11,437,394,316.99	12,151,287,515.31

Notes_ for the financial year 2015

1.

General Information on the Annual Financial Statements

The Annual Financial Statements of Telefónica Deutschland Holding AG, Munich, (also referred to as Telefónica Deutschland or TDH) for the financial year 2015 have been prepared in accordance with the principles of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

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

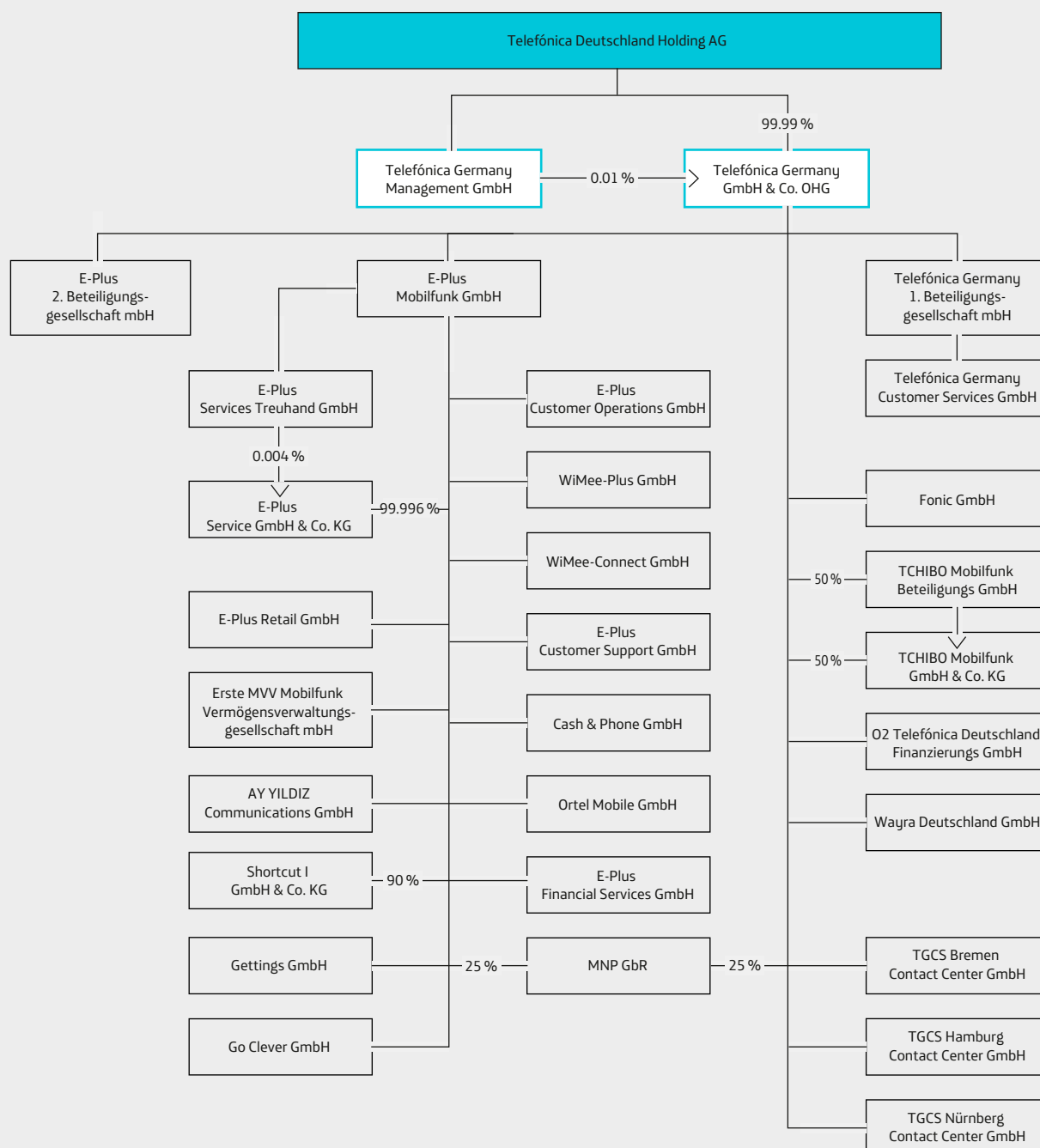
The company is listed on the regulated market of the Frankfurt Stock Exchange. The security identification number (Wertpapierkennnummer, WKN) is A1J5RX, the ISIN (International Securities Identification Number) is DE000A1J5RX9. The registered share capital of Telefónica Deutschland Holding AG as of 31 December 2015 amounted to EUR 2,974,554,993. It is divided into 2,974,554,993 no-par value registered shares each with a proportionate share of the share capital of EUR 1.00. Each share in general grants one vote at the Shareholders' Meeting.

As of 31 December 2015, 21.32 % of the shares were in free float. 63.22 % 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 15.46 % were held by Koninklijke KPN N.V., The Hague, Netherlands (KPN).

Telefónica Deutschland Holding AG is the parent company of the Telefónica Deutschland Group. The Telefónica Deutschland Group comprises Telefónica Deutschland and its subsidiaries as well as joint operations (together referred to as the "Telefónica Deutschland Group"). The Telefónica Deutschland Group is included in the Consolidated Financial Statements of the group's ultimate holding company, Telefónica, S.A., Madrid, Spain (also referred to as "Telefónica, S.A.") as of 31 December 2015. The parent company of the Telefónica Deutschland Group is Telefónica Germany Holdings Limited, a wholly owned subsidiary of O2 (Europe) Limited, Slough, United Kingdom (also referred to as 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, Düsseldorf (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.

Following the acquisition of the E-Plus Group, the company increased the subscribed capital by EUR 1,116,945,400 in the financial year 2014 to EUR 2,233,890,800 by way of cash capital increase. In addition, the company carried out a capital increase for contributions in kind amounting to EUR 740,664,193. The new shares were subscribed for by KPN Mobile Germany in return for a contribution in kind in the form of the limited partnership capital in E-Plus Mobilfunk.

As of 31 December 2015, the companies included in the Telefónica Deutschland Group were organised as shown in the chart below:



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

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

Annual Shareholders' Meeting and dividend distribution

The Annual Shareholders' Meeting of Telefónica Deutschland took place on 12 May 2015. In addition to the discharge of the Supervisory Board and Management Board, the election of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft with its registered office in Stuttgart, branch office Munich, as auditor for the 2015 Consolidated Financial Statements and Financial Statements, and a potential review of the six-monthly financial report of Telefónica Deutschland Holding AG, the Shareholders' Meeting resolved to distribute a dividend of EUR 0.24 per dividend-entitled share, a total of EUR 713,893,198.32.

Furthermore, it was resolved to appoint Ms Laura Abasolo García de Baquedano to the Supervisory Board in place of the outgoing Ms Maria Pilar López Álvarez with effect from the end of the Annual Shareholders' Meeting 2015.

In addition, section 23 (1) of the articles of association was amended. The amendment relates to the provision on participation in the Shareholders' Meeting and accommodates the government's draft amendment of stock corporation law insofar as both the existing provision and the possible future provision are accounted for.

Agreement for the reimbursement of management services

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

Significant events and transactions in the financial year

Subsequent purchase price adjustment of the acquisition of E-Plus

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

In December 2015, KPN and Telefónica Deutschland agreed on the subsequent purchase price adjustment in accordance with the purchase agreement. The adjusted cash component of the purchase price accordingly amounts to EUR 3,501,027,199.20, therefore EUR 134,200,000.00 lower than the original purchase price.

Changes in the Supervisory Board of Telefónica Deutschland

The Annual Shareholders' Meeting on 12 May 2015 elected Abasolo García de Baquedano to represent the shareholders on the Supervisory Board of Telefónica Deutschland Holding AG in place of the outgoing Ms Maria Pilar López Álvarez. Her term of office began as of the end of the Shareholders' Meeting 2015.

Dividend proposal for the 2015 financial year

On 5 November 2015, the Management Board of Telefónica Deutschland resolved and announced that it is intended to propose a cash dividend of EUR 0.24, to be paid in 2016, to the next Shareholders' Meeting for the 2015 financial year.

2.

Accounting Policies

The accounting policies used in the preparation of the Annual Financial Statements as of 31 December 2015 are in accordance with the provisions of sections 242 to 256a and 264 to 288 of the German Commercial Code (HGB), and the relevant provisions of the German Stock Corporation Act (AktG). The accounting policies remained unchanged compared to the prior year.

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

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

Provisions for pensions are measured on the basis of actuarial calculations using the projected unit credit method, taking into account the 2005 G Heubeck mortality tables. The provisions for pensions and similar obligations are discounted at a flat rate using the average market interest rate for the past seven years published by Deutsche Bundesbank for an assumed remaining term of 15 years (section 253 (2) sentence 2 HGB). This interest rate is 3.89 % (2014: 4.5 %). In calculating provisions for pensions and similar obligations, annual wage and salary increases of 1.3 % (2014: 2.6 %) and pension increases of annually 2.0 % (2014: 2.0 %) are assumed, as was fluctuation of 20.0 % (2014: 3.5 %).

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

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

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

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

Liabilities are carried at their settlement amount.

Deferred taxes resulting from temporary and quasi-permanent differences between the accounting and tax carrying amounts of assets, liabilities, deferred income and prepaid expenses, or from tax loss carry forwards, are calculated as the amounts of the resulting tax expense or income using the company's

individual tax rate at the date the differences are reversed. They are not discounted. Deferred tax assets and liabilities are offset. In line with the recognition option in place, deferred tax assets are not capitalised.

3.

Notes to the Balance Sheet

Financial assets

At EUR 11,426,964 thousand (2014: EUR 12,140,858 thousand), shares in affiliated companies relate to shares in Telefónica Germany GmbH & Co. OHG, Munich, which the company is the personally liable partner of. The reduction in the carrying amount of the investment in Telefónica Germany GmbH & Co. OHG is the result of TDH's withdrawal totalling EUR 713,893 thousand on the basis of a partner resolution dated 7 May 2015 in accordance with section 4 (3) of the partnership agreement.

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

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

Receivables

The receivables from affiliates primarily relate to receivables due to cash pooling from Telfisa Global B.V., Amsterdam, Netherlands, of EUR 137,393 thousand (2014: EUR 30,785 thousand) and receivables for management services from Telefónica Germany GmbH & Co. OHG of EUR 2,144 thousand (2014: EUR 6,115 thousand). The remaining receivables relate to receivables from affiliates from other companies within the Telefónica, S.A. Group.

The other assets of EUR 14,832 thousand (2014: EUR 2,096 thousand) essentially relate in the current financial year to creditable capital gains tax prepayments resulting from a merger.

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

Equity

Subscribed capital

The registered share capital of Telefónica Deutschland Holding AG amounts to EUR 2,974,555 thousand (2014: EUR 2,974,555 thousand). The share capital is divided into no-par value registered shares each with a proportionate interest in the share capital of EUR 1.00 ("shares"). The registered share capital is fully paid.

As of 31 December 2015, Telefónica Deutschland Holding AG did not hold any of its own shares.

The capital increases for cash and contributions in kind in connection with the acquisition of E-Plus in 2014 and Telefónica, S.A.'s subsequent acquisitions, including another 4.4 % from KPN Mobile Germany in November 2015, resulted in a share in Telefónica Deutschland of 63.22 % for Telefónica, S.A. and of 15.46 % for KPN. The free float was 21.32 %.

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

Authorised capital

As of 31 December 2015, Telefónica Deutschland Holding AG had authorised capital 2012/I of EUR 292,809 thousand.

Conditional capital

Telefónica Deutschland Holding AG had contingent capital 2014/I of EUR 558,473 thousand as of 31 December 2015.

Additional paid-in capital

As a result of the capital increases for cash and for contributions in kind in connection with the acquisition of E-Plus, which were entered into the commercial register on 18 September and 7 October 2014, additional paid-in capital increased by EUR 4,832,109 thousand to the level as of 31 December 2015, of EUR 4,832,539 thousand.

Retained earnings

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

Profit distribution

The third Shareholders' Meeting of Telefónica Deutschland Holding AG was held on 12 May 2015 and resolved to distribute a dividend of EUR 0.24 per entitled share, totalling EUR 713,893 thousand. The dividend was distributed on 13 May 2015.

Pension provisions

The provision for pensions relates to pension commitments for the current Management Board of EUR 1,898 thousand (2014: EUR 2,083 thousand).

The pension obligation was transferred at cost in connection with the acquisition of E-Plus, which results in an excess value compared to a valuation according to section 253 (1) sentence 2 and (2) sentence 2 HGB (also refer to "I. General Information on the Annual Financial Statements" - "Accounting Policies"). The acquisition value will be retained until it corresponds to an obligation according to section 253 (1) sentence 2 and (2) sentence 2 HGB. The excess value amounted to EUR 615 thousand as of 31 December 2015 (previous year: EUR 996 thousand).

Based on a valuation as of 31 December 2015, corresponding to section 253 (1) sentence 2 and (2) sentence 2 HGB and after offsetting with plan assets of EUR 726 thousand (previous year: EUR 542 thousand) and in accordance with section 246 (2) sentence 2 HGB the pension obligation has a present value of EUR 1,283 thousand.

The plan assets consist of reinsurance policies that are exclusively intended for this purpose, pledged and protected in the event of insolvency. The fair value of the netted reinsurance claims is equal to the amortised cost (capital reserves plus profit participation) in accordance with actuarial appraisals and notifications from the insurance providers.

(in EUR thousands)	31 December 2015
Acquisition costs of the acquired pension obligation	2,625
Settlement amount of the offset obligations according to commercial law	2,010
Excess of acquisition costs over settlement amount	615
Fair value of the offset plan assets	726
Amortised cost of plan assets according to section 255 (4) sentence 4 HGB	726

Telefónica Deutschland Holding AG exercises the option under section 28 (1) and (2) EGHGB not to recognise indirect pension obligations of EUR 261 thousand (2014: EUR 170 thousand) covered by the ProFund Unabhängige Gruppen-Unterstützungskasse occupational pension scheme. To cover this obligation, EUR 269 thousand (2014: EUR 209 thousand) was held in trust for Telefónica Deutschland Holding AG as of 31 December 2015.

Because of a lack of interest expenses from the change in the discounting of the pension provision, there was no offsetting with interest income from plan assets.

In the financial year, impairment on plan assets resulted in interest expenses of EUR 23 thousand.

Other provisions

The other provisions of EUR 4,782 thousand (2014: EUR 8,748 thousand) essentially relate to obligations for the remuneration of the Management Board (2015: EUR 2,773 thousand; 2014: EUR 2,102 thousand). They also include provisions for outstanding invoices for consulting services of EUR 2,009 thousand (2014: EUR 6,646 thousand).

Liabilities

Trade payables amount to EUR 6 thousand (2014: EUR 2,590 thousand).

Liabilities to affiliates amount to EUR 21 thousand (2014: EUR 6,368 thousand). In the previous year, the liabilities related to cost allocations in connection with the capital increase performed.

The other liabilities of EUR 486 thousand (2014: EUR 420 thousand) essentially relate to tax liabilities.

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

Deferred taxes

Circumstances leading to deferred tax assets as of 31 December 2015, essentially result from existing corporation and trade tax loss carry forwards, and from temporary differences at the level of Telefónica Germany GmbH & Co. OHG. As the shareholder in Telefónica Germany GmbH & Co. OHG, Telefónica Deutschland Holding AG is the taxable entity for the purposes of corporation tax. The tax rate for deferred tax assets is 15.825 % for corporation tax and the solidarity surcharge, plus 17.15 % for trade tax.

4.

Notes to the Income Statement

Revenues

Revenues amount to EUR 10,282 thousand (2014: EUR 9,422 thousand) and essentially comprise the reimbursement of costs for the remuneration of the members of the Management Board and other administrative costs (2015: EUR 10,042 thousand; 2014: EUR 9,212 thousand), which, in accordance with the agreements for the reimbursement for management services (as explained under "I. General Information on the Annual Financial Statements – Agreement for the reimbursement of management services"), are assumed by Telefónica Germany GmbH & Co. OHG.

This item also includes invoiced management services of EUR 240 thousand (2014: EUR 210 thousand) provided by Telefónica Deutschland Holding AG to Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH.

Other operating income

The other operating income of EUR 134,201 thousand (2014: EUR 788,213 thousand) mainly results from the income from the final agreement reached with KPN in 2015 regarding the cash component of the purchase price for the acquisition of E-Plus Mobilfunk GmbH & Co. KG (EUR 134,200 thousand). For further details, see our remarks in the section on significant events and transactions in the financial year.

Personnel expenses

The personnel expenses of EUR 5,023 thousand (2014: EUR 6,204 thousand) include the expenses for the remuneration of the Management Board, including social security contributions.

Other operating expenses

The other operating expenses in the financial year of EUR 10,139 thousand (2014: EUR 44,158 thousand) essentially include costs for legal and consulting fees for third-party service providers.

Other interest and similar income

Other interest and similar income of EUR 366 thousand (2014: EUR 52 thousand) essentially resulted from the interest on the subsequent adjustment of a part of the cash component of the purchase price.

Other interest and similar expenses

Other interest and similar expenses of EUR 25 thousand essentially included expenses from the depreciation of plan assets.

Prior-period income and expenses

The financial year 2015 includes prior-period expenses of EUR 1,554 thousand resulting from consulting fees for the prior period.

5.

Other Information

Additional information on the Supervisory Board and the Management Board

Remuneration of the Management Board and the Supervisory Board

The total remuneration of the members of the Management Board for the financial year ended 31 December 2015 amount to EUR 5,225 thousand (2014: EUR 5,468 thousand).

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

The total remuneration contains share options with an underlying fair value at grant date of EUR 571 thousand for 88,375 contingent rights regarding the transfer of shares without consideration.

In accordance with the resolution of the Shareholders' Meeting of 5 October 2012, Telefónica Deutschland Holding AG is exempt from additional disclosures for listed stock corporations, in accordance with section 286 (5) HGB in conjunction with section 285 no. 9 (a), sentences 5 to 8 HGB.

The members of the Supervisory Board receive remuneration for their activities of EUR 342 thousand in 2015 and EUR 231 thousand in 2014.

Expenses amounting to EUR 27 thousand were recognised in the financial year for compensation claims after former member of the Management Board left the company.

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

Management Board

The members of the Management Board of Telefónica Deutschland Holding AG as of 31 December 2015 are as listed below:

Name	Function
Thorsten Dirks	Chief Executive Officer (CEO) Chairperson of the Management Board
Rachel Empey	Chief Financial Officer (CFO) Member of the Management Board
Markus Haas	Chief Operating Officer (COO) Member of the Management Board

Supervisory Board

The members of the Supervisory Board of Telefónica Deutschland Holding AG as of 31 December 2015 are as listed below:

Name	Function
Eva Castillo Sanz	Chairperson of the Supervisory Board Occupation/current mandates: Telefónica S.A., Member of the Board Bankia S.A., Member of the Board Telefónica Foundation, Member of the Board Comillas – ICAI Foundation, Member of the Board Visa Europe, Member of the Board Entreculturas Foundation, Member of the Board
Imke Blumenthal ¹	Deputy Chairperson of the Supervisory Board Occupation/current mandates: Chairperson of the General and Group Works Council of Telefónica Deutschland Chairperson of the Works Council of the North-Western Region for Telefónica Deutschland
María Pilar López Álvarez (until 12 May 2015)	Member of the Supervisory Board Occupation/current mandates: Telefónica Europe plc (until 28 February 2015) Telfisa Global B.V., Member of the Board (until 28 February 2015) Tuenti Technologies S.L. Member of the Board (until 28 February 2015) Wolseley plc, Non-Executive Director Microsoft Spain, General Manager (beginning on 1 March 2015)
Laura Abasolo García de Baquedano (beginning on 12 May 2015) ²	Member of the Supervisory Board Occupation/current mandates: Telefónica Chile S.A., Member of the Board
Sally Anne Ashford	Member of the Supervisory Board Occupation: Group Reward & Recognition Director of Royal Mail Group Ltd.

Angel Vilá Boix	Member of the Supervisory Board Current mandates: Telefónica, S.A., Chief Strategy and Finance Officer Telco S.P.A., Vice Chairperson of Board of Directors
Patricia Cobián González	Member of the Supervisory Board Occupation/current mandates: Telefónica Europe plc, Director Lumia Capital – Advisory Board Member Wayra Investigación Y Desarrollo, Member of the Board
Christoph Heil ¹	Member of the Supervisory Board Occupation/current mandate: Capgemini GmbH, Member of the Supervisory Board
Michael Hoffmann	Member of the Supervisory Board Occupation/current mandate: Chief Executive Officer of Lekkerland AG & Co. KG
Enrique Medina Malo	Member of the Supervisory Board Occupation/current mandates: Telefónica Europe plc, Member of the Board mm02 Limited, Director O2 Holding Limited, Director O2 (Europe) Limited, Director O2 Cedar Limited, Member of the Board O2 Networks Limited, Member of the Board O2 International Holdings Limited, Member of the Board
Thomas Pfeil ¹	Member of the Supervisory Board Occupation: Full-Time Works Council Representative of Telefónica Germany GmbH & Co. OHG
Joachim Rieger ¹	Member of the Supervisory Board Occupation/current mandates: Full-Time Works Council Representative of E-Plus Customer Support GmbH E-Plus Customer Support GmbH, Member of the Supervisory Board
Antonio Manuel Ledesma Santiago	Member of the Supervisory Board Occupation/current mandate: Telefónica, S.A., Financial Projects Director
Jürgen Thierfelder ¹	Member of the Supervisory Board Occupation/current mandate: Full-Time Works Council Representative of E-Plus Retail GmbH Supervisory Board member of E-Plus Retail GmbH
Marcus Thurand ¹	Member of the Supervisory Board Occupation/current mandate: Director Network Operations of Telefónica Germany GmbH & Co. KG
Dr. Jan-Erik Walter ¹	Member of the Supervisory Board Occupation/current mandate: Full Time Deputy Chairperson of the Munich Works Council for Telefónica Deutschland
Claudia Weber ¹	Member of the Supervisory Board Occupation/current mandate: Deputy Manager, ver.di Munich Region

¹ Employee representative

² New member of the Supervisory Board as per resolution of 12 May 2015

Auditor's fees

The information concerning the total auditor's fees for Telefónica Deutschland Holding AG has been omitted in accordance with section 285 no. 17 HGB as the company is part of the consolidation group of Telefónica Deutschland Holding AG (the 'Telefónica Deutschland Group') and the information is contained in its Consolidated Financial Statements.

Number of employees

In the financial year 2015 – as in 2014 – the company had no employees.

Contingent liabilities and other financial commitments

Contingent liabilities

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

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

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

Name and legal form	Registered Office	Share in the Capital %	Equity on 31 December 2014 Euros in thousands	Results of the 2014 Financial Year Euros in thousands
AY YILDIZ Communications GmbH, Düsseldorf	Germany	100	25	0*
Cash & Phone GmbH, Düsseldorf	Germany	100	25	0*
E-Plus 2. Beteiligungsgesellschaft mbH, Munich ³	Germany	100	–	–
E-Plus Customer Operations GmbH, Düsseldorf	Germany	100	1,100	0*
E-Plus Customer Support GmbH, Potsdam	Germany	100	3,025	0*
E-Plus Financial Services GmbH, Potsdam	Germany	100	25	0*
E-Plus Mobilfunk GmbH, Düsseldorf	Germany	100	2,050	(2,766)**
E-Plus Retail GmbH, Düsseldorf	Germany	100	78,202	0*
E-Plus Service GmbH & Co. KG, Potsdam ²	Germany	100	50	0*
E-Plus Services Treuhand GmbH, Düsseldorf	Germany	100	25	0*
Erste MVV Mobilfunk Vermögensverwaltungsgesellschaft mbH, Düsseldorf	Germany	100	283,670	0*
Fonic GmbH, Munich	Germany	100	25	0*
Gettings GmbH, Düsseldorf	Germany	100	3,025	0*
Go Clever GmbH, Düsseldorf	Germany	100	2,202	0
MNP GbR, Cologne ⁴	Germany	50	454	(4)
O2 Telefónica Deutschland Finanzierungs GmbH, Munich	Germany	100	25	0*
Ortel Mobile GmbH, Düsseldorf	Germany	100	5,050	0
Shortcut I GmbH & Co. KG, Hamburg	Germany	90	13,515	(2,954)
TCHIBO Mobilfunk Beteiligungs GmbH, Hamburg	Germany	50	39	1
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg	Germany	50	6,933	995
Telefónica Germany 1. Beteiligungsgesellschaft mbH, Munich	Germany	100	85,778	0*
Telefónica Germany Customer Services GmbH, Munich	Germany	100	15,342	0*
TGCS Bremen Contact Center GmbH, Munich ³	Germany	100	–	–**
TGCS Hamburg Contact Center GmbH, Munich ³	Germany	100	–	–**
TGCS Nürnberg Contact Center GmbH, Munich ³	Germany	100	–	–**

Name and legal form	Registered Office	Share in the Capital %	Equity on 31 December 2014 Euros in thousands	Results of the 2014 Financial Year Euros in thousands
Telefónica Germany GmbH & Co. OHG, Munich ^{1,2}	Germany	100	9,927,780	(474,599)
Telefónica Germany Management GmbH, Munich	Germany	100	10,589	76
Wayra Deutschland GmbH, Munich	Germany	100	2,393	0*
WiMee-Connect GmbH, Dusseldorf	Germany	100	13,241	0*
WiMee-Plus GmbH, Dusseldorf	Germany	100	183	0*

1 99.99 % Telefónica Deutschland Holding AG, as the personally liable partner; 0.01 % Telefonica Germany Management GmbH

2 The entities are using the exemption provisions pursuant to section 264b HGB

3 Incorporation of the company in financial year 2015

4 Financial Statements as of 31 December 2013

* After transfer of the profit/loss

** Transfer of profits/loss starting 2015

For further information regarding the types of shareholdings please refer to the organisational chart in section "Significant Events and Transactions in the Financial Year".

Parent company/Consolidated Financial Statements

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

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

On November 16, 2015, Koninklijke KPN N.V., The Hague, Netherlands has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Germany, have fallen below the 20 % threshold of the Voting Rights on November 12, 2015 and on that day amounted to 15.46 % (this corresponds to 459,783,774 Voting Rights).

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

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

Rights are held by the following shareholders, whose share of the Voting Rights in Telefónica Deutschland Holding AG amounts to 3 % or more: KPN Mobile Germany GmbH & Co. KG.

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

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

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

On 17 January 2014, BlackRock, Inc., New York, NY, USA has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Deutschland, have fallen below the 3 % threshold of the Voting Rights on 15 January 2014 and on that day amounted to 2.89 % (this corresponds to 32,330,698 Voting Rights). According to Article 22, Section 1, Sentence 1, No. 6 in connection with sentence 2 of the WpHG, 2.89 % of the Voting Rights (this corresponds to 32,330,698 Voting Rights) is to be attributed to the company.

On 16 January 2014, BlackRock Financial Management, Inc., New York, NY, USA has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Deutschland, have fallen below the 3 % threshold of the Voting Rights on 14 January 2014 and on that day amounted to 2.98 % (this corresponds to 33,232,797 Voting Rights). According to Article 22, Section 1, Sentence 1, No. 6 in connection with sentence 2 of the WpHG, 2.98 % of the Voting Rights (this corresponds to 33,232,797 Voting Rights) is to be attributed to the company.

On 16 January 2014, BlackRock Holdco 2, Inc., Wilmington, DE, USA has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Telefónica Deutschland Holding AG, Munich, Deutschland, have fallen below the 3 % threshold of the Voting Rights on 14 January 2014 and on that day amounted to 2.98 % (this corresponds to 33,232,797 Voting Rights). According to Article 22, Section 1,

Sentence 1, No. 6 in connection with sentence 2 of the WpHG, 2.98 % of the Voting Rights (this corresponds to 33,232,797 Voting Rights) is to be attributed to the company.

Declaration of Compliance with the German Corporate Governance Code in accordance with section 161 AktG

On 13/14 October 2015, the Management Board and the Supervisory Board of Telefónica Deutschland Holding AG issued a current Declaration of Compliance in accordance with section 161 of the German Stock Corporation Act (AktG) and made this permanently and publicly available to the shareholders of Telefónica Deutschland Holding AG on the Telefónica Holding AG website (WWW.TELEFONICA.DE/ENTSPRECHENSERKLAERUNG).

Report on events after the reporting period

No significant events that would be reportable here occurred after the end of the financial year on 31 December 2015.

Combined Management Report

The Management Report of Telefónica Deutschland Holding AG and the Group Management Report are combined and published in the Telefónica Deutschland Annual Report 2015 in accordance with section 315 (3) HGB in conjunction with section 298 (3) HGB.

The Annual Financial Statements as well as the Annual Report including the Combined Management Report of Telefónica Deutschland are made available online in the electronic version of the German Federal Gazette and on the website.

Dividend proposal for the 2015 financial year

The Management Board of Telefónica Deutschland recommends that the Supervisory Board suggest to the Shareholders' Meeting (scheduled on 19 May 2016) a dividend distribution totalling EUR 713,893 thousand or EUR 0.24 per share.

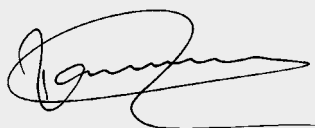
Munich, 5 February 2016

Telefónica Deutschland Holding AG

The Management Board



Thorsten Dirks



Rachel Empey



Markus Haas

Telefónica Deutschland Holding AG

Declaration of the Statutory Representatives

To the best of our knowledge, and in accordance with the applicable reporting principles the Annual Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the Management Report for Telefónica Deutschland Holding AG, which has been combined with the Group Management Report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the material opportunities and risks associated with the expected development of the Company.

Munich, 5 February 2016

Telefónica Deutschland Holding AG

The Management Board



Thorsten Dirks



Rachel Empey



Markus Haas

Audit opinion

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the combined management report of Telefónica Deutschland Holding AG, Munich, for the fiscal year from 1 January 2015 to 31 December 2015. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, 19 February 2016

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dahmen
Wirtschaftsprüfer
[German public auditor]

Vogel
Wirtschaftsprüferin
[German public auditor]

Glossary_

The glossary also contains abbreviations as used in the Group Management Report.

Advanced Data Analytics	Data analytics for optimising day-to-day business as well as for the development of new products and services
AktG	Aktiengesetz (German Stock Corporation Act)
ARPU	Average Revenue per User
Bitkom	Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e. V., Berlin
BKartA	Bundeskartellamt (Federal Cartel Office)
BNetzA	Bundesnetzagentur (German Federal Network Agency)
bp	basis points
Broadband	Refers to telecommunication in which a wide band of frequencies is available to transmit information
CapEx	Capital expenditures: additions to property, plant and equipment and intangible assets excluding investments in licences for mobile phone frequency usage rights
Carrier	Telecommunication network operator authorized by the federal network agency
CF	Cash flow
CH ₄	Methane
Cloud Service	Cloud services are dynamic infrastructure, software or platform services provided online
CO ₂	Carbon dioxid
CR	Corporate Responsibility
DLD	Digital-Life-Design
DSL	Digital Subscriber Line: technology to transmit data in the local loop to private end-customers
EU	European Union
Euribor	Euro Interbank Offered Rate
ExComm	Executive Committee
FCF	Free cash flow
FNA	Federal Network Agency
FTR	Fixed network Termination Rates
FY	Financial Year
GDP	Gross Domestic Product
GfK	Gesellschaft für Konsumforschung (Consumer research association)

GSM	Global System for Mobile Communications: this is the global standard for digital mobile communications
GWh	Gigawatt hours
HGB	Handelsgesetzbuch (German Commercial Code)
HSPA	High-Speed Package Access
Hosting	Providing storage capacity via the internet
IFRS	International Financial Reporting Standards
Internet	Worldwide network of computers on the basis of an IP (Internet Protocol) without any central network management
IoT	Internet of Things
IPO	Initial public offering
ISIN	International Securities Identification Number
IT	Information Technology
Joint Venture	Two or more companies founding a new enterprise for cooperation
KPN	Koninklijke KPN N.V., The Hague, Netherlands
Leaver Program	Severance payment program for the planned downsizing in the context of the merger of E-Plus
Libor	London Interbank Offered Rate
LTE	Long Term Evolution: further development of the UMTS/HSPA mobile communications standard
M2M	Machine-to-Machine communication, automatic exchange of information between machines
MBA	Mobile Bitstream Access
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
N ₂ O	Nitrous Oxid
Net Adds	New customers for the period less those customers leaving are designated as net additional customers
NFC	Near Field Communication: a short-range wireless connectivity standard
O2 (Europe) Limited	O2 (Europe) Limited, Slough, United Kingdom
O ₂ My Handy	Monthly payment model for mobile phones and other devices
OIBDA	Operating Income before Depreciation and Amortisation
OpCF	Operating cash flow
Opex	Operating expenses
OTT	Over The Top

PIP	Performance and Investment Plan
Prepaid/Postpaid	In contrast to postpaid contracts, prepaid communication services are services for which credit has been purchased in advance with no fixed-term contractual obligations
Retail	Sale of goods and services to end users; as opposed to resale or wholesale business
Roaming	Using a communication device or subscriber identity in a different network other than one's home network
SIM	Subscriber Identity Module: a chip card to insert into a mobile phone and identifies the user within the network
SIP	Session Initiation Protocol: an Internet Engineering Task Force (IETF) standard protocol for initiating an interactive user session that involves multimedia elements such as video, voice, chat, gaming, and virtual reality
Smartphone	Mobile handset that can be used as a wireless phone, a web browser, and an e-mail reader simultaneously
SME	Small and Medium-sized Enterprises
SMS	Short Message Service
SoHos	Small offices/Home offices
t	tons
Tablet	A wireless, portable personal computer with a touch screen interface
Telefónica, S.A.	Telefónica, S.A., Madrid/Spain
Telefónica Deutschland	Telefónica Deutschland Holding AG, Munich
Telefónica Deutschland Group	The companies included in the Consolidated Financial Statements of Telefónica Deutschland
ULL	Unbundled Local Loop: bridges the distance between the local exchange and the termination point on the customer's premises or in their home, so it is also known as the "last mile"
UMTS	Universal Mobile Telecommunications Service: international mobile communications standard of the third generation which unites mobile multimedia and telematics service under the frequency spectrum of 2GHz.
VAT	Value Added Tax
VDSL	Very High Data Rate Digital Subscriber Line (see DSL)
VoLTE	Voice over LTE
VPN	Virtual Private Network
WLAN	Wireless Local Area Network
Wholesale	Selling services to third parties who sell them to their own end customers either directly or after further processing

Imprint_

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In case of doubt please refer to the German edition which is mandatory.

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www.telefonica.de/annualreport2015

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