

**O2 Telefónica Deutschland
Finanzierungs GmbH
Munich**

**Financial statements and management report
31 December 2014**

Translation from the German language

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

Statement of Financial Position as of 31 December 2014

Assets	31.12.2014 EUR	31.12.2013 EUR	Equity and liabilities	31.12.2014 EUR	31.12.2013 EUR
A. Fixed assets			A. Equity		
Financial assets			Nominal capital	25,000.00	25,000.00
Loans to affiliated companies	1,100,000,000.00	600,000,000.00		25,000.00	25,000.00
	1,100,000,000.00	600,000,000.00	B. Provisions		
			Other provisions	53,929.00	0.00
				53,929.00	0.00
B. Current assets			C. Liabilities		
Receivables and other assets			1. Bonds	1,100,000,000.00	600,000,000.00
			--thereof with a remaining term of 1 to 5 years EUR 600,000,000.00 (previous year: EUR 600,000,000.00)--		
			--thereof with a remaining term of more than 5 years EUR 500,000,000.00 (previous year: EUR 0.00)--		
Receivables from affiliated companies	11,886,220.32	1,642,157.11	2. Trade payables	0.00	429,657.11
--thereof due from shareholders EUR 11,861,406.49 (previous year: EUR 1,252,209.38)--			--thereof with a remaining term of less than one year EUR 0.00 (previous year: EUR 429,657.11)--		
			3. Other liabilities	11,807,291.32	1,187,500.00
			--thereof with a remaining term of less than one year EUR 11,807,291.66 (previous year: EUR 1,187,500.00)--		
	11,886,220.32	1,642,157.11		1,111,807,291.32	601,617,157.11
C. Prepaid expenses	8,098,600.00	6,566,700.00	D. Deferred income	8,098,600.00	6,566,700.00
Total assets	1,119,984,820.32	608,208,857.11	Total equity and liabilities	1,119,984,820.32	608,208,857.11

O2 Telefónica Deutschland Finanzierungs GmbH**Munich****Income Statement****for the Reporting Period from 1 January 2014 to 31 December 2014**

	01.01.2014 - 31.12.2014	06.03.2013 - 31.12.2013
	EUR	EUR
1. Other operating income	660,816.88	598,280.94
2. Other operating expenses	-660,816.91	-598,348.04
3. Other interest and similar income --thereof from affiliated companies EUR 23,454,921.75 (previous year: EUR 1,298,810.41)--	23,454,921.75	1,298,810.41
4. Interest and similar expenses	-23,454,760.61	-1,298,800.03
5. Result from ordinary business activities	161.11	-56.72
6. Expense from profit and loss transfer agreement (previous year: income from profit and loss transfer agreement)	-161.11	56.72
7. Net result of the year	0	0

O2 Telefónica Deutschland Finanzierungs GmbH**Munich****Statement of Cash Flows****for the Reporting Period from 1 January 2014 to 31 December 2014**

	01.01.2014- 31.12.2014 EUR	06.03.2013- 31.12.2013 EUR
1. Cash flow from operating activities		
Result for period before loss absorption	161.11	-56.72
Increase (-)/decrease (+) in inventories, trade accounts receivable and other assets	-14,020,876.83	-64,711.83
Increase (+)/decrease (-) in trade accounts payable and other liabilities	13,655,802.10	429,657.11
Costs of issuing bonds	-1,375,000.00	-1,650,000.00
Cash flow from operating activities	-1,739,913.62	-1,285,111.44
2. Cash flow from investing activities		
Outflows (-) for investments in financial assets	-496,745,000.00	-593,322,000.00
Cash flow from investing activities	-496,745,000.00	-593,322,000.00
3. Cash flow from financing activities		
Inflows (+) from issuing bonds	498,120,000.00	594,972,000.00
Inflows (+)/Outflows (-) from cash pooling	364,913.62	-389,888.56
Cash flow from financing activities	498,484,913.62	594,582,111.44
4. Cash and cash equivalents at the end of the period		
Cash-effective change in cash and cash equivalents	0.00	-25,000.00
Cash and cash equivalents at the beginning of the period	0.00	25,000.00
Cash and cash equivalents at the end of the period	0.00	0.00
5. Composition of cash and cash equivalents		
Liquid funds		
Current liabilities to banks	0.00	0.00
Cash and cash equivalents at the end of the period	0.00	0.00

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

Statement of Changes in Equity

for the Reporting Period from 1 January 2014 to 31 December 2014

	Nominal capital	Other retained earnings	Net income for the year	Equity
	EUR	EUR	EUR	EUR
As of 6 March 2013	25,000.00	0.00	0.00	25,000.00
As of 31 December 2013	25,000.00	0.00	0.00	25,000.00
As of 1 January 2014	25,000.00	0.00	0.00	25,000.00
As of 31 December 2014	25,000.00	0.00	0.00	25,000.00

O2 Telefónica Deutschland Finanzierungs GmbH, Munich

Notes for the Financial Year 2014

I. GENERAL INFORMATION ON THE ANNUAL FINANCIAL STATEMENTS

Telefónica Deutschland Finanzierungs GmbH, Munich, was by notary deed established on 26 February 2013 for the purpose of financing the Telefónica Deutschland Group. The nominal capital was paid in on 6 March 2013. Telefónica Deutschland Finanzierungs GmbH, Munich was renamed O2 Telefónica Deutschland Finanzierungs GmbH, Munich (referred to in the following as “TDF” or the “Company”) with effect from 7 November 2013.

In November 2013, TDF issued a five-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 600,000 thousand and a maturity of 22 November 2018 in the regulated market of the Luxembourg Stock Exchange.

Furthermore TDF issued in February 2014 a seven-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 500,000 thousand and a maturity on 10 February 2021 in the regulated market of the Luxembourg Stock Exchange.

The annual financial statements of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, for the financial year 2014 have been prepared in accordance with the accounting principles of the German Commercial Code (HGB) and the GmbH Act (Act relating to limited liability companies, GmbHG).

As of 31 December 2014, the company is classified as a large corporation in accordance with section 264d in conjunction with section 267 (3) HGB.

The financial year of the company corresponds to the calendar year.

The income statement has been prepared using the nature of expense method in accordance with section 275 (2) HGB.

II. ACCOUNTING POLICIES

1. Principles and comparability

The accounting policies used in the preparation of the annual financial statements for the period ending 31 December 2014 are in accordance with the provisions of sections 242 to 256a and sections 264 to 288 of the HGB as well as the relevant provisions of the GmbHG. The accounting principles and standards of valuation remained unchanged in comparison to the previous year. The financial year from 1 January to 31 December 2014 can be compared with the previous short financial year from 6 March to 31 December 2013 only to a limited extent.

2. Fixed assets

Within the financial assets, loans are shown at the lower of nominal value or fair value. Interest-free or low-interest loans are discounted to the present value.

3. Current assets

The receivables and other assets are shown at the lower of nominal value or fair value at the balance sheet date. Adequate allowances have been recognised to take account of all risk positions.

4. Prepaid expenses

This item includes payments made before the reporting date representing expense applicable to a specific period after that date.

5. Equity

The nominal capital is stated with its nominal value.

6. Provisions

Other provisions take account of all identifiable risks and uncertain obligations. They are recognised at the settlement amount considered necessary on the basis of reasonable commercial assessment. Future price and cost increases are taken into account if there are sufficient objective indications that they will occur.

7. Liabilities

Liabilities are recorded at their settlement amount.

8. Deferred income

This item includes payments received before the reporting date representing income applicable to a specific period after that date.

III. NOTES TO THE BALANCE SHEET

1. Financial assets

The financial assets as of 31 December 2014 consist of two loans of EUR 600,000 thousand and EUR 500,000 thousand respectively, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying five- and seven-year bonds which TDF issued on 22 November 2013 and 10 February 2014 respectively. The loans have fixed terms until the date of maturity of the underlying bonds on 22 November 2018 and 10 February 2021, and are repayable in one amount on the due date plus all interest and costs which have not yet been paid. The underlying interest rates are 1.875% and 2.375%, payable annually on 22 November and 10 February.¹

The development of fixed assets is shown in the statement of changes in fixed assets. The statement of changes in fixed assets is enclosed as an appendix to the notes.

2. Receivables and other assets

The receivables due from affiliated companies amount to EUR 11,886 thousand (previous year: EUR 1,642 thousand), of which EUR 11,861 thousand (previous year: EUR 1,252 thousand) relates to receivables due from the shareholder Telefónica Germany GmbH & Co. OHG, Munich. These include receivables of EUR 11,807 thousand (previous year: EUR 1,252 thousand) relating to interest from the loan issued to the shareholder. The maturity of all receivables is less than one year.

3. Prepaid expenses

This item includes two disgios from the issuance of the bonds originally amounting to EUR 5,028 thousand for the five-year bond issued in November 2013 and EUR 1,880 thousand for the seven-year bond issued in February 2014. Issuing fees originally amounting to EUR 1,650 thousand for the five-year bond and EUR 1,375 thousand for the seven-year bond are also included. Both elements are released on a pro rata basis over the terms of the underlying bonds until 22 November 2018 and until 10 February 2021, respectively.

4. Nominal capital

The nominal capital of the company is unchanged at EUR 25,000 and is fully paid up. It is held entirely by Telefónica Germany GmbH & Co. OHG, Munich.

5. Provisions

The other provisions of EUR 54 thousand (previous year: EUR 0 thousand) result from consultancy and audit fees.

¹ The figures in the Annual Financial Statements 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 tables.

6. Liabilities

The liabilities include two bonds with a nominal value of EUR 1,100,000 thousand in total. Thereof the five-year bond amounts to EUR 600,000 thousand, with a maturity on 22 November 2018. As of 31 December 2014, the seven-year bond amounting to EUR 500,000 thousand has a remaining term of more than five years with a maturity on 10 February 2021. Both bonds are guaranteed by Telefónica Deutschland Holding AG, Munich.

Trade payables in 2013 of EUR 430 thousand related to incidental acquisition costs incurred in connection with the bond issue in November 2013.

The other liabilities include EUR 11,807 thousand (previous year: EUR 1,188 thousand) for current interest liabilities relating to the bonds.

7. Deferred income

Deferred income results from the original differences of EUR 6,678 thousand and EUR 3,255 thousand respectively between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich. The deferred items are released over the term of the underlying five- and seven-year loan.

IV. NOTES TO THE INCOME STATEMENT

Other operating income and expenses

The other operating income of EUR 661 thousand (previous year: EUR 598 thousand) is attributable to costs charged on to Telefónica Germany GmbH & Co. OHG, Munich. The other operating expenses of EUR 661 thousand (previous year: EUR 598 thousand) which are charged on mainly comprise bank charges and consultancy and audit fees.

Financial result

Other interest and similar income totals EUR 23,455 thousand (previous year: EUR 1,299 thousand), of which EUR 21,732 thousand (previous year: EUR 1,188 thousand) results from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich, and EUR 1,723 thousand (previous year: EUR 111 thousand) results from the reversal of deferred income.

The interest and similar expenses of EUR 23,455 thousand (previous year: EUR 1,299 thousand) include the interest expense from the bonds of EUR 21,732 thousand (previous year: EUR 1,188 thousand) and expenses from the release of the disgios over the term of the underlying bonds in the amount of EUR 1,723 thousand (previous year: EUR 111 thousand).

V. ADDITIONAL DISCLOSURES TO THE NOTES

Supplemental disclosures to the cash flow statement

The cash and cash equivalents presented in the cash flow statement comprise cash in hand and cash at banks. Receivable from cash pooling are not included within cash and cash equivalents.

Employees

The company did not have any employees in the financial year 2014.

Management

The following persons were Managing Directors in the financial year:

Albert Graf, managing director, Fahrenzhausen, since 31 January 2014.

Markus Haas, COO Telefónica Deutschland Holding AG, Munich.

Rachel Clare Empey, CFO Telefónica Deutschland Holding AG, Munich.

René Schuster, CEO Telefónica Deutschland Holding AG, Feldafing, until 31 January 2014.

The Managing Directors do not receive any payments from the company.

Audit committee

The audit committee in accordance with section 324 HGB comprises the following members:

Dieter, Gauglitz
Chairman
freelance consultant
Munich

Eckart, Kurze
Board member
Vice President Transformation; Telefónica Germany GmbH & Co. OHG, Munich
Munich

Marcel, Ritter
Board member
Vice President Legal, Telefónica Germany GmbH & Co. OHG, Munich
Munich

Remuneration of governing bodies

The members of the Audit Committee received remuneration of EUR 7.5 thousand for their work in 2014.

Auditor's fee

In accordance with section 285 no. 17 HGB, the total fee of the auditor of TDF is not disclosed since the company is part of the consolidation group of Telefónica Deutschland Holding AG, Munich (Telefónica Deutschland Group) and the information is already included in the Consolidated Financial Statements.

Consolidated financial statements

Telefónica Deutschland Holding AG, Munich, is the company which prepares the Consolidated Financial Statements for the smallest group of companies in which the company is included. The Consolidated Financial Statements are published in the German Federal Gazette, where they are available for inspection. The Consolidated Financial Statements of Telefónica Deutschland Holding AG, Munich are included in the consolidated financial statements of the Spanish parent company Telefónica S.A., Madrid, Spain. Telefónica S.A., Madrid, Spain prepares the consolidated financial statements for the largest group of companies. These consolidated financial statements are available at Telefónica S.A., Madrid, Spain and are published on the Internet at www.telefonica.com.

Cost reimbursement agreement

TDF and Telefónica Germany GmbH & Co. OHG, Munich, have concluded an agreement whereby costs are reimbursed by the shareholder.

Profit and loss transfer agreement

On 20 March 2013, TDF as the controlling company signed a domination agreement with Telefónica Germany GmbH & Co. OHG, Munich. In addition, on 20 March 2013, TDF also signed a profit and loss transfer agreement with Telefónica Germany GmbH & Co. OHG, Munich. This has been recorded in the Commercial Register at 2 April 2013.

The net profit for the financial year 2014 is transferred to Telefónica Germany GmbH & Co. OHG, Munich, as a result of the existing control and profit and loss transfer agreement.

Munich, 23 March 2015

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Rachel Clare Empey

Markus Haas

Albert Graf

O2 Telefónica Deutschland Finanzierungs GmbH
Munich

Statement of Changes in Fixed Assets for the Reporting Period from 1 January 2014 to 31 December 2014

	Acquisition costs				Accumulated depreciation				Carrying amounts	
	01.01.2014	Additions	Disposals	31.12.2014	01.01.2014	Additions	Disposals	31.12.2014	31.12.2014	31.12.2013
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Financial assets										
Loans to affiliated companies	600,000,000.00	500,000,000.00	0.00	1,100,000,000.00	0.00	0.00	0.00	0.00	1,100,000,000.00	600,000,000.00
	600,000,000.00	500,000,000.00	0.00	1,100,000,000.00	0.00	0.00	0.00	0.00	1,100,000,000.00	600,000,000.00

Management Report

O2 Telefónica Deutschland Finanzierungs GmbH, Munich

Management Report for the Financial Year from 1 January 2014 to 31 December 2014

1. Business and frame conditions

O2 Telefónica Deutschland Finanzierungs GmbH, Munich (referred to in the following as “TDF” or the “Company”) acts as the financing company for the Telefónica Deutschland Group and its operating entities. The following economic and legal framework conditions for the operating entities are thus indirectly also relevant for TDF.

The German economy saw stronger growth again for the first time in 2014 after two weak years in a row. After an energetic start to the year followed by a weak phase in the summer, the economic situation stabilised towards the end of 2014 and thus achieved a turnaround. As reported by the German Federal Statistical Office, gross domestic product (GDP) rose by 1.5% year-on-year in 2014, representing the German economy’s strongest growth since 2011. According to economic research institutes, the German economy held its ground in a difficult global economic environment and particularly benefited from strong domestic demand.

GDP development - Germany and Euro area

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

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

General trends on the German telecommunications market

In the German telecommunications sector, alongside continuing customer demand for more bandwidth, various other trends can be observed. The market shows an increasing offering of converging products and services.

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

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

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

The German mobile telecommunications market

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

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

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

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

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

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

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

Regulatory influences on the Telefónica Deutschland Group

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

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

2. Areas of operation

O2 Telefónica Deutschland Finanzierungs GmbH, Munich (formerly Telefónica Deutschland Finanzierungs GmbH, Munich) was established as a wholly owned subsidiary of Telefónica Germany GmbH & Co. OHG, Munich, on 26 February 2013. It is thus part of the Telefónica Deutschland Group. O2 Telefónica Deutschland Finanzierungs GmbH, Munich, handles major financing activities of the Telefónica Deutschland Group. The necessary resources can be financed and procured by way of issuing bonds eligible for trading on the capital market. The Company is authorised to carry out all activities and measures which appear to be appropriate for directly or indirectly serving the business purpose of the entire company. In particular, it is permitted to establish and acquire other companies, to obtain equity participations in other companies, to manage such companies or restrict its activities to managing such participations.

In November 2013, TDF issued a five-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 600,000 thousand and a maturity on 22 November 2018 in the regulated market of the Luxembourg Stock Exchange. The annual nominal interest of the bond is 1.875%. Furthermore as of 10 February 2014 and in the same market place TDF issued a seven-year unsecured bond (senior unsecured bond) with a nominal value of EUR 500,000 thousand, an annual nominal interest of 2.375% and a maturity on 10 February 2021.

The bonds represent unsecured and senior liabilities of TDF, which are of equal ranking with each other and with all other unsecured and senior liabilities of TDF, unless these liabilities enjoy priority as a result of mandatory stipulations. Each bond is repaid on the due date in the amount of its specified denomination unless it has been previously repaid or purchased and invalidated.

The bonds are guaranteed by Telefónica Deutschland Holding AG, Munich.

The net proceeds from each bond were directly passed from TDF to Telefónica Germany GmbH & Co. OHG, Munich, based on loan agreements with concurrent terms and conditions.

3. Net assets, results of operations and financial position

Net assets

The assets are presented in the following table:

Line items	31.12.2014 EUR thousand	31.12.2013 EUR thousand	Development EUR thousand
Financial assets	1,100,000	600,000	500,000
Receivables and other assets	11,886	1,642	10,244
Prepaid expenses	8,099	6,567	1,532
Assets	1,119,985	608,209	511,776

The increase of financial assets results from a second loan granted by TDF to Telefónica Germany GmbH & Co. OHG, Munich as of 10 February 2014, amounting to EUR 500,000 thousand. The financial assets as of 31 December 2014 consist of two loans of EUR 600,000 thousand and EUR 500,000 thousand respectively, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying five- and seven-year bonds which TDF issued on 22 November 2013 and 10 February 2014 respectively. The loans have fixed terms until the date of maturity of the underlying bonds on 22 November 2018 and 10 February 2021, and are repayable in one amount on the due date plus all interest and costs which have not yet been paid.

The increase in receivables and other assets to EUR 11,886 thousand (previous year: EUR 1,642 thousand) mainly results from increased interest receivables from the loans granted to Telefónica Germany GmbH & Co. OHG in the amount of EUR 11,807 thousand (previous year: EUR 1,252 thousand). The underlying interest rates are 1.875% and 2.375%, payable annually on 22 November and 10 February. Besides cash pooling receivables with Telfisa Global B.V, Amsterdam, the Netherlands decreased from EUR 390 thousand at 31 December 2013 to EUR 25 thousand as of 31 December 2014.

The increase in prepaid expenses is primarily attributable to an additional disagio resulting from the bond issue in February 2014. As of 31 December 2014, the prepaid expenses include the disgagos from the issuance of the bonds originally amounting to EUR 5,028 thousand for the five-year bond issued in November 2013 and EUR 1,880 thousand for the seven-year bond issued in February 2014. Issuing fees originally amounting to EUR 1,650 thousand for the five-year bond and EUR 1,375 thousand for the seven-year bond are also included. Both elements are released on a pro rata basis over the terms of the underlying bonds until 22 November 2018 and until 10 February 2021, respectively.

Shareholder's equity and liabilities are presented in the following table:

Line items	31.12.2014 EUR thousand	31.12.2013 EUR thousand	Development EUR thousand
Equity	25	25	0
Bonds	1,100,000	600,000	500,000
Other provisions	54	0	54
Trade payables	0	430	-430
Other payables	11,807	1,188	10,619
Deferred income	8,099	6,567	1,532
Equity and liabilities	1,119,985	608,209	511,776

The nominal capital of the company is unchanged at EUR 25,000 and is fully paid up. It is held entirely by Telefónica Germany GmbH & Co. OHG, Munich.

The liabilities include two bonds with a nominal value of EUR 1,100,000 thousand in total. Both bonds are guaranteed by Telefónica Deutschland Holding AG, Munich. The increase results from a five-year bond, issued as of 10 February 2014, amounting to EUR 500,000 thousand.

The other provisions of EUR 54 thousand relate to consultancy and audit fees.

Trade payables in 2013 of EUR 430 thousand related to incidental acquisition costs incurred in connection with the bond issue in November 2013.

The EUR 10,619 thousand increase in other liabilities results from a rise in current interest liabilities relating to the bonds, primarily driven by the additional bond issued in February and the longer interest calculation period.

The deferred income results from the original differences of EUR 6,678 thousand and EUR 3,255 thousand respectively between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich. The deferred items are released over the term of the underlying five- and seven-year loan.

Results of operations

In the financial year ending 31 December 2014, Telefónica Deutschland Finanzierungs GmbH, Munich, reported a positive result from ordinary business activities of EUR 161.11; this was transferred to Telefónica Germany GmbH & Co. OHG, Munich, as a result of an existing domination and profit and loss transfer agreement.

The main profit and loss items are as follows:

Line items	01.01.2014 - 31.12.2014	06.03.2013 - 31.12.2013	Development
	EUR thousand	EUR thousand	EUR thousand
Other operating income	661	598	63
Other operating expenses	-661	-598	.63
Other interest and similar income	23,455	1,299	22,156
Interest and similar expenses	-23,455	-1,299	-22,156
Result from ordinary business activities	0	0	0
Expense from expected profit transfer	0	0	0
Net result of the period	0	0	0

The other operating income of EUR 661 thousand (previous year: EUR 598 thousand) is attributable to costs charged on to Telefónica Germany GmbH & Co. OHG, Munich. The other operating expenses of EUR 661 thousand (previous year: EUR 598 thousand) which are charged on mainly comprise bank charges and consultancy and audit fees.

Other interest and similar income totals EUR 23,455 thousand (previous year: EUR 1,299 thousand) resulting from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich, in the amount of EUR 21,732 thousand (previous year: EUR 1,188 thousand) and from the reversal of deferred income in the amount of EUR 1,723 thousand (previous year: EUR 111 thousand).

Interest and similar expenses of EUR 23,455 thousand (previous year: EUR 1,299 thousand) include interest expense from the bonds of EUR 21,732 thousand (previous year: EUR 1,188 thousand) and expenses from the release of the disgios over the term of the bonds in the amount of EUR 1,723 thousand (previous year: EUR 111 thousand).

Financial position

The composition of cash and cash equivalents and the relevant movements are shown in the separate cash flow statement.

Cash and cash equivalents contain cash-in-hand as well as bank deposits, which are available at any time. These amounted to EUR 0 thousand as of the reporting date (previous year: EUR 0 thousand). Receivables from the cash pooling agreement with Telfisa Global B.V, Amsterdam, the Netherlands are not classified as cash or cash equivalents, but as receivables against affiliates, presented under cash flows from financing activities.

In the 2014 financial year, TDF reported a negative cash flow from operating activities of EUR 1,740 thousand (previous year: EUR 1,285 thousand). The negative cash flow mainly results from costs incurred in connection with the bond issue in the amount of EUR 1,375 thousand.

The negative cash flow from investing activities of EUR 496,745 thousand (previous year: EUR 593,322 thousand) results from granting a second loan to Telefónica Germany GmbH & Co. OHG, Munich.

In the 2014 financial year, cash flow from financing activities amounted to EUR 498,485 thousand (previous year: EUR 594,582 thousand). At EUR 498,120 thousand (previous year: EUR 594,972 thousand), the majority of this cash flow results from the issue of a second bond. It also includes a positive cash flow from the decrease in cash pooling receivables from Telfisa Global B.V., Amsterdam, Netherlands, of EUR 365 thousand (previous year: negative cash flow of EUR 390 thousand).

As of 31 December 2014, TDF has an unused credit line of EUR 6 thousand (previous year: EUR 6 thousand).

4. Opportunity and risk report

The activities of TDF are currently restricted exclusively to the financing of the Telefónica Deutschland Group. The main elements of the assets of TDF are the loans granted to Telefónica Germany GmbH & Co. OHG, Munich. The economic existence of TDF is thus primarily dependent on whether Telefónica Germany GmbH & Co. OHG, Munich is able to meet its obligations in relation to these loans. All interest and capital payments relating to all debt securities currently issued by TDF are provided with a full and unlimited guarantee by the guarantor Telefónica Deutschland Holding AG, Munich. This guarantee is enforceable in accordance with the law of the Federal Republic of Germany.

Accordingly, the risks and opportunities of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, as well as the measures and processes for handling these risks and opportunities are essentially the same as those applicable for the Telefónica Deutschland Group. The main Group risks are summarised in the following.

General financial market risks

The Telefónica Deutschland Group is exposed to various financial market risks as part of its business activity.

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

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

Market risk

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

Interest rate risk

Interest risks arise predominantly from cash pooling accounts and deposits of the Telefónica Deutschland Group as well as through loan agreements as borrower and interest swaps.

In November 2013 and February 2014, interest rate swaps were signed by Telefónica Germany GmbH & Co. OHG, Munich, in each case in connection with the issue of bonds for a partial amount of the bonds' nominal values. On the basis of these interest swaps contract, the Telefónica Germany GmbH & Co. OHG, Munich, pays a variable interest rate on a nominal amount and receives a fixed interest rate on the same amount in return. These interest rate swaps compensate, to the level of their nominal amounts, the effects of future market interest rate changes on the fair value of the underlying fixed-interest financial liabilities from the bond issues (fair value hedge).

Credit risk

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

The Telefónica Deutschland Group considers the management of the commercial credit risk to be critical in order to achieve its goals for sustainable growth of the business and the customer base in harmony with its risk management guidelines. Suitable processes have been established for the management and the monitoring of the credit risk.

This approach for credit risk management is based on the ongoing monitoring of the expected risks and the level of default.

To control the credit risk, the Telefónica Deutschland Group regularly conducts an analysis of the maturity structure of trade receivables and only reports adjustments for doubtful receivables with a credit risk.

Liquidity risk

Liquidity risk includes the risk that a business cannot comply with its financial obligations, which are processed either in cash or with other financial assets. To manage liquidity risk, the Telefónica Deutschland Group ensures that it has sufficient liquidity at all times to fulfil its obligations, both under normal and under demanding circumstances. The Telefónica Deutschland Group works on its liquidity management closely with Telefónica, S. A. Group and, in accordance with the corporate policy, has concluded cash-pooling and deposit agreements with Telfisa Global B.V., Netherlands.

Capital management

The Telefónica Deutschland Group strives to guarantee the sustainability of its business and to maximise the business value. It monitors its capital costs with the goal of an optimal capital structure. In particular, the Telefónica Deutschland Group monitors its equity ratio and OIBDA (Operating Income Before Depreciation and Amortization, interest and tax).

Risk Management and Risk Reporting

Every business activity involves risks that can prejudice the process of goal-setting and goal fulfilment. These risks arise from the uncertainty of future events – often due to insufficient information – and have the result that objectives can be missed. If risks are not recognised and dealt with they can endanger the successful development of the corporation. In order to react appropriately to this fact, the corporate management has introduced a risk management process. This is intended to guarantee immediate and complete transparency with regard to new risks and changes to existing risks.

Risk management is an immanent component of the decision-making process with the Telefónica Deutschland Group. The process ensures that risk evaluations are taken into account for the decision-making and measures are taken early to minimise and deal with the risks. As a result the evaluation, communication and management of risks is the task of all managers of the corporation. A lower limit for the recognition of risks is generally not set. The risk management department compiles the corporation's risk registry, which also covers the subsidiaries. As part of the creation of the risk registry it is ensured that risks of a similar type or of cumulative effect are aggregated and thus provided for overall consideration.

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

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

Opportunities are not recorded in the risk management system.

Risik evaluation

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

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

- Business risks
 - Competitive markets and changing customer demands
 - Regulatory environment
 - Licences and frequencies
 - Non-approval of planned business mergers, takeovers, sales or cooperations
 - Termination fees in mobile communications
 - Termination fees in fixed communications
 - Other regulatory influences on fees
- Changes in the regulatory requirements for collecting and validating customer data
 - Additional regulatory standards to improve customer protection
- Insurances
- Macro-economic factors
- Acquisition and sale of parts of the business as well as joint activities
- Operational risks
 - Service quality
 - Supplier defaults
 - Termination of essential contracts
 - Dependence on services of the major shareholder Telefónica and of KPN
 - Legal risks
- Specific risks from the acquisition of the E-Plus Group
 - Loss of expertise and management resources
 - Failure to achieve the anticipated synergies
 - Legal risks of the acquisition of the E-Plus Group
 - Tax law risks of the acquisition of the E-Plus Group
- Personnel
- Financial risks
 - Taxes
 - Liquidity
 - Other (global) risks

Opportunity management

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

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

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

Opportunities are neither recognized in the risk register nor quantified.

Major opportunities are summarized as follows:

- Greater demand for mobile data and LTE
- Expansion of our LTE network and extension of the UMTS network via roaming
- Cooperation with Telekom Deutschland GmbH in the fixed network
- Digital innovation
- Digitalisation of service processes
- B2B market
- Belonging to the Telefónica, S. A. Group
- Opportunities for higher synergies

5. Employees

The Company did not have any employees in the financial year 2014.

6. Essentials of the remuneration system

TDF did not have any employees in the financial year 2014. The Managing Directors do not receive any payments from TDF.

7. Report of events after the reporting period

There were no significant changes in the general conditions after the end of the financial year. The economic environment did not change to an extent that had any material impact on the business activities and the sector situation also was not significantly different compared to 31 December 2014.

8. Forecast report 2015

The forecast report describes the probable development of O2 Telefónica Deutschland Finanzierungs GmbH, Munich in the course of the financial year 2015. The report contains comments and information regarding future events. Forward-looking comments and information are based on expectations and assumptions of the company at the point at which this management and forecast report is published, on the basis of known and unknown opportunities and risks. The success of the Company, the business strategy and also the results of the Company are influenced by a wide range of factors outside the control of the Company.

If such opportunities or risks occur or if uncertain factors materialise, or if it becomes apparent that one of the underlying assumptions was not correct, the actual development of the Company may differ (positively as well as negatively) from the expectations and assumptions in the forward-looking comments and information set out in this forecast report. Forecasts available in the public domain regarding the development of the overall economy and the sector only have to be detailed to the extent which is relevant for understanding the comments regarding the probable development of the Group. They must not impair the perception of the comments regarding the probable development of the Group.

As a result of the close personnel and economic links between O2 Telefónica Deutschland Finanzierungs GmbH, Munich and the Telefónica Deutschland Group, TDF is subject to the same business and framework conditions as well as the same regulatory environment as the Telefónica Deutschland Group. The future development of TDF is very much dependent on the capital requirement and the financing form chosen by the Telefónica Deutschland Group. The assessment of the future development of TDF is therefore based on forecasts of the business developments of the Telefónica Deutschland Group, which is summarised in the following.

Economic Outlook for Germany

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

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

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

GDP growth for Germany and the Euro area

In %	2013	2014	2015
Germany	0,4	1,5	1,4
Euro area	(0,4)	0,8	1,1

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

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

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

(Source: Company data, Analysys Mason)

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

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

In line with the vision to become the Leading Digital Telco in Germany, in 2015 the Telefónica Deutschland Group will put an even stronger focus on the development of its customer base. Telefónica Deutschland Group will continue to be the value-for-money choice for the customers and partners while keeping a strong view on data monetisation. As a result, Telefónica Deutschland Group expects mobile service revenue in 2015 to remain broadly stable over 2014 combined¹ figure. According to Telefónica Deutschland Group the fixed network business will continue to play an important role, leveraging increased demand for high-speed access and flexible propositions to facilitate the customers' digital journey.

Telefónica Deutschland Group expects a gradual progression of improvement in OIBDA throughout 2015 driven by the capture of synergies from the integration of organizations and initial projects for the combination of networks, the focus on operational excellence with increased scale of the business and a higher contribution from mobile data. From a 2014 combined¹ base Telefónica Deutschland Group expects OIBDA before extraordinary effects to grow in 2015.

According to Telefónica Deutschland Group the fourth quarter of 2014 reflects the start of a new investment cycle for the new Telefónica Deutschland Group, and for 2015 synergies are expected to outweigh the additional investments to be made to accelerate the deployment of the LTE network and the initial works for the consolidation of the two networks. As a result, Telefónica Deutschland Group expects that CapEx² in 2015 to show a high single digit percentage decline year-on-year from a combined¹ base.

¹ According to Telefónica Deutschland Group combined figures for 2013 and 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland Group and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. According to Telefónica Deutschland Group the combined figures are further adjusted by material extraordinary effects if any, such as capital gains or restructuring costs based on estimates made by the management Telefónica Deutschland and resulting in combined figures, which Telefónica Deutschland Group believes to be more meaningful as a comparable basis. According to Telefónica Deutschland Group the combined financials are not necessarily indicative of results that would have occurred if the business had been a separate standalone entity during the year presented or of future results of the business. According to Telefónica Deutschland Group the presentation of the combined consolidated financial information is based on certain assumptions and is intended for illustrative purposes only. The combined information describes a hypothetical situation and thus, due to its nature, the presentation does not reflect the actual results of operations. The assumed acquisition date had been the beginning of the annual period.

²CapEx excludes investments related with the renewal/acquisition of spectrum licenses

Based on this and under TDF's current business model, as well under consideration of the existing domination and profit and loss transfer agreement with Telefónica Germany GmbH & Co. OHG, Munich, TDF expects for the financial year 2015 a continuously balanced financial result from operating activities.

9. Management summary

Currently, TDF in its capacity as a financing company, restricts its activities exclusively to financing the Telefónica Deutschland Group. In 2013 and 2014 and in line with its business purpose, TDF successfully issued two bonds with a nominal value of EUR 600,000 thousand and EUR 500,000 thousand and a maturity on 22 November 2018 and 10 February 2021 respectively. TDF transferred the proceeds based on the same conditions in the form of two loans to Telefónica Germany GmbH & Co. OHG, Munich. The bonds are guaranteed by Telefónica Deutschland Holding AG, Munich. TDF does not currently employ any own employees. Due to the close personnel and economic links, the probable business development of the Company as well as the main opportunities and risks correspond to those applicable for Telefónica Deutschland Holding AG. On the basis of the issuances which have been carried out, management of TDF overall considers that the business development is positive.

Munich, 23 March 2015

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Rachel Clare Empey

Markus Haas

Albert Graf

Audit opinion

We have audited the annual financial statements, comprising the statement of financial position, the income statement, the statement of cash flows, the statement of changes in equity and the notes to the financial statements, together with the bookkeeping system, and the management report of O₂ Telefónica Deutschland Finanzierungs GmbH, Munich, for the fiscal year from 1 January 2014 to 31 December 2014. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, 23 March 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dahmen
Wirtschaftsprüfer
[German public auditor]

Vogel
Wirtschaftsprüferin
[German public auditor]