Telefónica Deutschland
Interim Group Report
1 January to 31 March

2 0 1 5

BUILDING THE LEADING DIGITAL TELCO

Telefónica Deutschland

Portrait of Telefónica Deutschland_

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

Telefónica Deutschland is on the way to becoming Germany's leading digital telecommunications company. The goal is to provide all customers with easy access to the digital world: with the best experience in terms of network, products and services combined with excellent value for money. With more than 42 million[1] mobile connections, Telefónica Deutschland is the leader on the German mobile telecommunications market. The company, which has also included the E-Plus Group since 1 October 2014, looks after almost 48 million[1] customer connections, making it one of the three leading integrated telecommunications providers on the German market. Revenues in 2014 amounted to EUR 7.79 billion[2]. The company, which has been listed on the Frankfurt Stock Exchange since 2012, offers wireless and wireline services for private and business customers in Germany, including telephony, data and value-added services. The indirect majority shareholder is the Spanish company Telefónica, S.A., one of the world's largest telecommunications providers. Telefónica Deutschland's aim is to become Germany's leading digital telecommunications company. With the integration of the E-Plus Group, Telefónica Deutschland plans to systematically digitalise its business model while giving its customers and partners the best possible access to the digital world.

1 As of 31 March 2015. Combined total for Telefónica Deutschland and the E-Plus Group

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

The company's well-known core brands include O_2 and BASE. As part of its multi-brand strategy, Telefónica Deutschland also reaches additional customer groups through a wide range of secondary and partner brands, including AY YILDIZ, blau.de, Fonic, netzclub, Ortel Mobile, simyo and TCHIBO mobil. Thanks to its successful multi-brand strategy, the company is a leading provider of smartphone tariffs and products. Telefónica Deutschland is setting standards on the German telecommunications market with its innovative, customer-friendly products. Telefónica Deutschland is also a leading provider of wholesale services. Additionally, Telefónica offers Group-wide services to major multinational business customers on the basis of two wireless communications networks that are among the most state-of-the-art in Europe. As part of the merger with the E-Plus Group and the resulting transformation and integration process, the company has begun combining the two existing networks to form an even more powerful joint wireless communications network (national roaming). Since 2010, the company has also been rolling out the new wireless communications standard LTE in Germany. This standard allows significantly higher mobile data transmission speeds. The LTE network already covers more than 60 percent of the population[3], and Telefónica is planning to expand its mobile LTE outdoor coverage to 75 percent of the population by the end of 2015. Customers of the E-Plus Group have been able to use LTE in selected cities since spring 2014.

3 As of 31 March 2015.

As an integrated provider, Telefónica Deutschland also sells wireline and DSL products. This includes high-speed VDSL connections, which the company provides under a long-standing partnership with Deutsche Telekom reaching more than 19 million German households. Telefónica Deutschland wants to bring technology to the people and help drive progress in society through digital products and services. With its Think Big initiative, the company is focusing on young people in particular and has supported more than 2,700 projects in this area since 2010. As a socially responsible company, Telefónica Deutschland is also committed to shaping the future of mobile communications in Germany in a fair, ecologically responsible and forward-looking manner.

Content_

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

Financial Highlights_

Financial Overview

(Euros in millions)	2015	2014	% Change
		1 January to 31 March	
Revenues	1,901	1,122	69.4
Mobile service revenues	1,354	707	91.6
Operating income before depreciation and amortisation (OIBDA)	395	234	68.8
OIBDA margin	20.8%	20.9%	(0.1%-p.)
Operating income	(160)	(33)	> 100.0
Profit for the period	(176)	(40)	> 100.0
Basic earnings per share (in Euros)[1]	(0.06)	(0.04)	64.4
CapEx	(221)	(132)	67.3
Operating cash flow (OIBDA-CapEx)	175	102	70.8
Free cash flow pre dividends[2]	100	107	(7.2)
Total accesses as of 31 March (in thousands)	47,658	25,004	90.6
Mobile accesses (in thousands)	42,179	19,275	> 100.0
Postpaid (%)	44.8%	53.8%	(8.9%-p.)
Total ARPU (in EUR)	10.6	12.1	(12.1)
Postpaid churn excl. M2M (%)	1.7%	1.6%	0.1%-p.
(%) **non-SMS data over total data revenues**	70.5%	72.0%	(1.5%-p.)
Employees as of 31 March	10,742	5,959	80.3

	As of 31 March 2015	As of 31 December 2014	% Change
Net financial debt[3]	120	3	> 100.0
Leverage[4]	0.1 x	0.0 x	

1 Basic earnings per share are calculated by dividing profit (loss) after taxes for the period by the weighted average number of ordinary shares of 2,975 million for the year 2015 and 1,117 million for the year 2014.

2 Free cash flow pre dividends is defined as the sum of cash flow from operating activities and cash flow from investing activities.

3 Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities, cash and cash equivalents.
- Current and non-current financial assets include handset-receivables (current: EUR 313 million in 2015 and EUR 454 million in 2014; non-current: EUR 159 million in 2015 and EUR 236 million in 2014), positive fair value hedge for fixed interest financial liabilities (current: EUR 1 million in 2015 and EUR 2 million in 2014; non-current: EUR 14 million in 2015 and EUR 12 million in 2014) as well as loans to third parties (current: EUR 0 million in 2015 and EUR 1 million in 2014; non-current: EUR 1 million in 2015 and EUR 1 million in 2014)
- Current and non-current net financial debt include bonds issued (EUR 1,410 million in 2015 and EUR 1,115 million in 2014), other loans (EUR 725 million in 2015 und EUR 726 million in 2014) as well as finance lease payables (current: EUR 328 million in 2015 und EUR 374 million in 2014; non-current: EUR 142 million in 2015 und EUR 197 million in 2014)

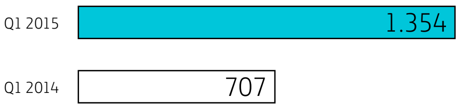
Note: Handset-receivables are shown under trade and other receivables in the Consolidated Statement of Financial Position.

4 Leverage is defined as net financial debt divided by the OIBDA (EUR 395 million in 2015; EUR 679 million in 2014) before extraordinary effects. Please note that solely for purposes of calculating the leverage for any twelve month period which includes historical periods prior to the closing of the Transaction, a combined[5] OIBDA will be applied. This combined OIBDA includes the OIBDA of the E-Plus Group under Telefónica Deutschland Group accounting policies for the entire twelve month period as if the closing of the Transaction had occurred at the beginning of such twelve month period.

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

Mobile Service Revenues
(Euros in millions)

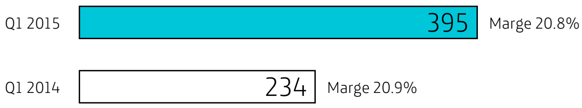
+91.6%



Mainly driven by the integration with E-Plus Group. On a combined basis, mobile service revenue in the first quarter increased 1.5% year-on-year, leveraging strong trading activity from prior quarters and LTE driven data monetisation

OIBDA/OIBDA Margin
(Euros in millions)

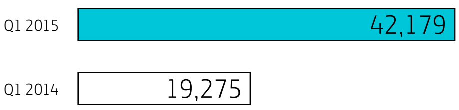
+68.8%



OIBDA in the first quarter of 2015 reflects the flow-through from revenues and an even stronger focus on customer base retention and a value-based handset sales model from the beginning of the year. It further includes a EUR 17 million gain from the sale of yourfone GmbH

Mobile Accesses
(in thousands)

+118.8%



Mainly driven by the integration with E-Plus Group.
On a combined basis mobile accesses increased by 2.5% year-on-year with a share of the postpaid base of 45%

Non-SMS Data over Total Data Revenues
(in %)

–1.5%-p.

Continuous focus on data monetisation across brands, leveraging higher smartphone penetration in the base and the increasing demand for LTE

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Highlights January to March 2015_

1 — The new O_2 Blue Portfolio

Wireless_

1 — New O_2 Blue portfolio: more data, LTE and roaming included

Since February, O_2 contract customers have benefited from additional data volume and LTE access as part of all O_2 Blue tariffs. The new dynamic data allocation enables unlimited surfing at full speed. An EU roaming option allows travellers to use services like they do at home. If the data volume included in the tariff is not enough, integrated dynamic data allocation means contract customers can continue to surf without interruption and at full speed. Does a customer use more than the data volume included in his tariff, an additional 100MB of data is provided for a small fee. This "data snack" can be retrieved another two times in the respective month. If the customer uses all three "data snacks" three months in succession, a fixed-price data bundle is automatically activated and the customer is informed by SMS. Depending on the tariff, the additional data volume is either 500MB or 1GB. If the customer is not interested, the data bundle can be cancelled monthly or the automated data service can be deactivated.

2 — O_2 activates LTE for existing customers

As part of its LTE initiative, O_2 improved the network experience even further by providing all of its contract customers with access to the mobile network in February. For example, LTE's quick response times mean website contents can be accessed around 30 percent more quickly. For existing customers on O_2 Blue contract tariffs, LTE is activated automatically and free of charge as part of their current tariff. The O_2 network already provides LTE to more than 60 percent of the German population. Indeed, in major cities – where most customers use the network – LTE has coverage of more than 90 percent. To use the network, customers need the suitable LTE-tariff.

2 — Improved network experience

3 — Launch of joint O_2 and E-Plus UMTS network

In April 2015, Telefónica Deutschland made its O_2 and E-Plus UMTS networks available to all of the company's customers. This milestone of network integration bundles the strength of both networks for the first time. As a result, Telefónica offers the customers of all its own brands and partner brands the densest UMTS network infrastructure in urban areas and significantly more widespread coverage in rural areas. This step improves the user experience for wireless data services at no extra cost. The technical basis for this development is national roaming. All customers using the O_2 or E-Plus network throughout Germany were automatically activated for the other UMTS network in the space of just a few weeks. The combination of the UMTS networks represents an important milestone in the integration and transformation of the two companies.

3 — Telefónica Deutschland combines 3G networks of O_2 and E-Plus

4 — New at O_2 and BASE: Samsung Galaxy S6/Edge and HTC One M9

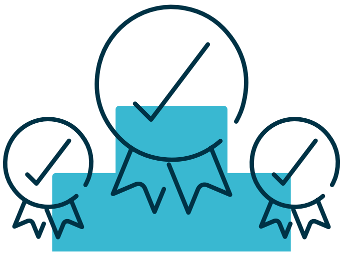
Just a few hours after the presentation of the new flagship smartphones for 2015 at the Mobile World Congress in Barcelona, O_2 and BASE successfully began pre-selling for the Samsung Galaxy S6, the Samsung Galaxy S6 Edge and the HTC One M9. The attractive devices boast impressive form and functionality and are easy to use. By offering the latest hardware, Telefónica Deutschland is underpinning its aspiration of offering customers the best network experience and data business..

4 — Pre-selling launched at O_2 and BASE

5 — The WATCHEVER offer for clients

5 — O_2 WATCHEVER: stream films and series anytime, anywhere

Since March, O_2 wireless customers have been able to add WATCHEVER, the new video-on-demand service for series and films, to their tariff at a flat rate. This innovative product allows O_2 customers to stream their favourite series and films from all genres, documentaries and even live concerts – many also available in HD and in the original language – starting from EUR 4. Users can watch whatever they want on up to five different devices, including up to three devices simultaneously. Customers can use the full WATCHEVER service on their smart TV, iPad, Android tablet, Apple TV, game console, smartphone, Mac or PC. Customers who want to use the service while not connected to the Internet can save up to 25 titles in offline mode and watch them anytime. This innovative service forms part of Telefónica Deutschland's data-centred strategy.

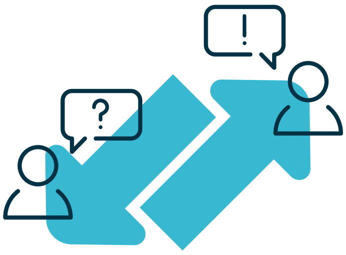


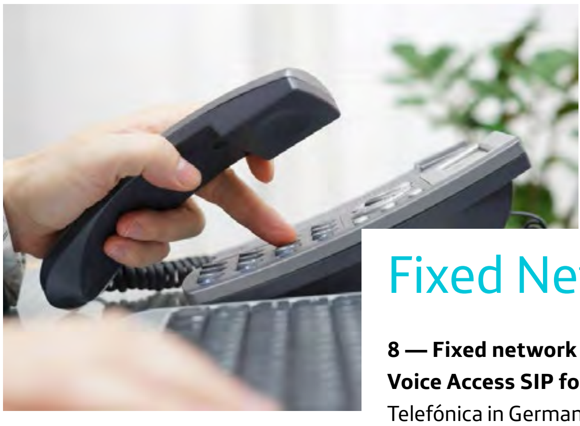
6 — Numerous awards for Telefónica

Expert advice, good service and the best tariffs for satisfied customers – this is what Telefónica Deutschland and its brands stand for. And this was substantiated once again by the awards given out by the independent specialist press in January and February 2015. In their big "Handyshop-Test 2015" survey, the connect editorial team ranked O_2 and BASE in second and third place respectively. The appearance of store staff was rated as "very good". Telefónica Deutschland's discount brand FONIC was voted the best daily flat-rate for mobile Internet by tariftipp.de for the second time in succession. According to CHIP, blau has the most satisfied customers among all of the mobile service providers tested. The "Sponsored Surf Basic" tariff from netzclub was also recognised by smartphone-tarife-vergleich.org as the most affordable smartphone tariff with a data allowance on the German mobile telecommunication market.

7 — O_2 customer forum now even better

The O_2 customer forum, its social media and its online services were given a design overhaul in early March. As well as changing the visuals of hilfe.o2online.de, this involved improvements to the underlying technology and many of the related functions. O_2 customers can now exchange questions and information and help each other more easily. Since 2010, the Help forum has been the main point of contact on the Internet for all questions relating to O_2 smartphones, mobile tariffs or DSL services. Over 211,000 users have registered to date. The O_2 Help platform has around a million users every month. In total, more than 412,000 posts have been made in over 52,000 individual forum threads, and 675 answers have been given to frequently asked questions. The extensive forum plays an important role in ensuring that customers can find assistance by themselves quickly and easily. In this way, the company is meeting the demands of its modern customers for more digital channels and greater real-time communication.





8 — Voice Access SIP for telephone systems

Fixed Network_

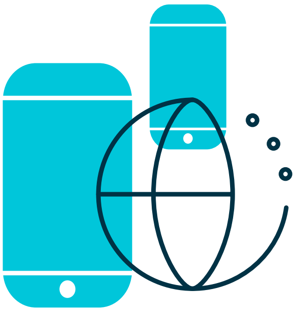
8 — Fixed network solution for business customers: Voice Access SIP for telephone systems

Telefónica in Germany has presented its new fixed-line telephony solution for business customers: Voice Access SIP provides small and medium-sized enterprises with connections based on the proven Session Initiation Protocol (SIP) that can be scaled flexibly. Thanks to this innovative product, calls no longer have to be routed through the conventional ISDN or analogue networks but instead can be processed via a modern broadband connection. When they switch to an SIP solution, companies make telephone calls using an IP connection. To ensure voice quality as well as security, however, voice traffic is not transmitted via the public Internet. This further enables companies to run only one central telephone system and to connect additional locations easily via a virtual private network (VPN). With this digital solution, Telefónica Deutschland is offering the wireline network of tomorrow, today.

Innovation_

**9 — Telefónica Smart Meter Connect:
reading electricity meters via mesh networks**

In February, Telefónica Deutschland presented its new M2M solution for electricity and gas providers at the E-World Energy & Water convention in Essen. The extended communication solution for smart metering includes the use of intelligent meters for electricity, gas, water or heating that indicate the current consumption at all times. With Telefónica Smart Meter Connect, public utility companies can read intelligent meters remotely via a mobile connection – reaching even those places that the network does not. The project is made possible by RF Mesh technology. Telefónica is the first provider in Germany to use this technology to connect intelligent meters. The devices each have a SIM card of their own. When required, they create small self-configured data networks and use them to transfer information on energy consumption back and forth. As soon as one of the meters finds a sufficiently strong mobile network, it automatically transmits provider data from all of the participants in its ad-hoc network to the utility. This allows the consumption of each customer to be read several times a day.



**10 — Telefónica M2M Object Monitoring:
new solution for M2M data management and visualisation**

In March, Telefónica Deutschland presented its latest solution for automatic communication between machines (M2M) at CeBIT. With Telefónica M2M Object Monitoring, customers can access their connected machines and devices from anywhere, at any time. Telefónica is cooperating with Software AG, the global market leader for business management software, to offer a complete solution encompassing connectivity, hardware, an application platform and services. M2M Object Monitoring can be used around the world and guarantees its users maximum flexibility. Telefónica's new M2M solution is also characterised by extremely low implementation costs and easy configuration. Customers from different industries can use M2M Object Monitoring to realise their M2M applications more efficiently and cost-effectively and expand them to reflect their individual requirements. For example, the vending machine manufacturer Kinderplanet uses a solution like this to monitor its children's toys at shopping centres.

Company_

11 — Telefónica Deutschland and Drillisch: sale of yourfone completed

In early January 2015, Telefónica Deutschland and its long-time business associate Drillisch AG completed the transfer of the E-Plus company yourfone GmbH. Drillisch acquired the company along with all of its trademark rights, customers and employees, thereby ensuring continuity for yourfone's customers and staff. This sale underlines the significant progress made by Telefónica Deutschland in transforming the company and consolidating its sales network.

11 — Sale of yourfone completed

12 — Telefónica Deutschland and Works Councils agree on framework redundancy plan

In February, the Management Board and Works Councils of Telefónica Deutschland agreed on a framework redundancy plan that will apply until the end of 2018. The regulations set out in this plan allowed for a quick start to the implementation of the redundancy programme that was resolved in autumn 2014. With this move, Telefónica Deutschland has ensured clarity for its employees and successfully pressed ahead with the integration of the E-Plus Group. All of the measures forming part of the integration and transformation were conducted in as socially responsible a manner as possible. Intensive and successful negotiations resulted in high-quality regulations and the best possible security for the existing staff. Telefónica Deutschland has also guaranteed the continuation of its current locations until at least the end of 2015. As announced last year, the main business locations in Munich, Düsseldorf and Hamburg will continue to play an important long-term role within the Group beyond this date.

12 — Integration proceeds

Condensed Interim Group Management Report_

for the Period from 1 January to 31 March 2015

1. Basic Information on the Group_

1.1 Business Model of the Group

1.1.1 Structure of the Telefónica Deutschland Group

Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland") is a public stock corporation (AG) under German law.

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

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

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

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

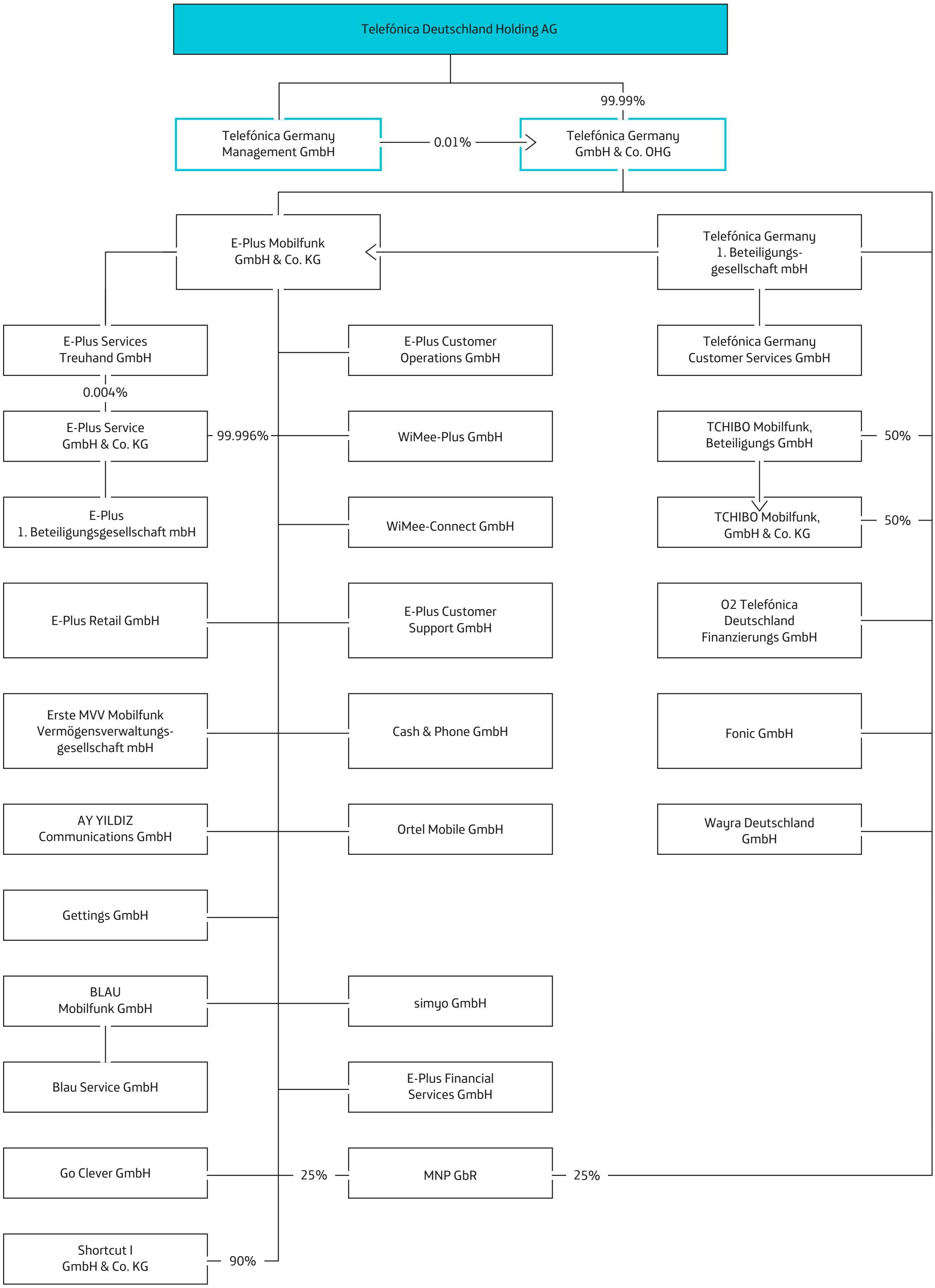
In general, each non-par share grants one vote at the Annual General Meeting.

Authorised capital
As of 31 March 2015 Telefónica Deutschland Holding AG has Authorised Capital 2012/I of EUR 292,808,507.

Conditional capital
As of 31 March 2015, Telefónica Deutschland Holding AG has a Conditional Capital 2014/I in the amount of EUR 558,472,700.

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

As of 31 March 2015, the companies included in the Consolidated Financial Statements of the Telefónica Deutschland Group were organised as shown in the following organisation chart:


Telefónica Deutschland Holding AG
99.99%
Telefónica Germany Management GmbH
0.01%
Telefónica Germany GmbH & Co. OHG
E-Plus Mobilfunk GmbH & Co. KG
Telefónica Germany 1. Beteiligungs-gesellschaft mbH
E-Plus Services Treuhand GmbH
E-Plus Customer Operations GmbH
Telefónica Germany Customer Services GmbH
0.004%
E-Plus Service GmbH & Co. KG
99.996%
WiMee-Plus GmbH
TCHIBO Mobilfunk, Beteiligungs GmbH
50%
E-Plus 1. Beteiligungsgesellschaft mbH
WiMee-Connect GmbH
TCHIBO Mobilfunk, GmbH & Co. KG
50%
E-Plus Retail GmbH
E-Plus Customer Support GmbH
O2 Telefónica Deutschland Finanzierungs GmbH
Erste MVV Mobilfunk Vermögensverwaltungs-gesellschaft mbH
Cash & Phone GmbH
Fonic GmbH
AY YILDIZ Communications GmbH
Ortel Mobile GmbH
Wayra Deutschland GmbH
Gettings GmbH
BLAU Mobilfunk GmbH
simyo GmbH
Blau Service GmbH
E-Plus Financial Services GmbH
Go Clever GmbH
25%
MNP GbR
25%
Shortcut I GmbH & Co. KG
90%

Management and governing bodies
The company's executive bodies are the Management Board, the Supervisory Board and the Annual General Meeting. The powers of these bodies are established by the Aktiengesetz (AktG – German Stock Corporation Act), the Articles of Association of the company and the rules of procedure of the Management Board and the Supervisory Board.

Management Board
The members of the Management Board are appointed by the Supervisory Board for a period of not more than five years and can be re-appointed without restriction, in each case for not more than five years. The Supervisory Board can recall a Management Board member before the end of his term in office for cause, such as a gross violation of duty or in the event of a vote of no-confidence at the Annual General Meeting. Other reasons for termination such as a mutual termination agreement are also possible. The Supervisory Board can nominate one Management Board member as the Chairperson for the Management Board and another Management Board member as the Deputy Chairperson. As at 31 March 2015 the Management Board of the company had three members:
— Thorsten Dirks, CEO (Chief Executive Officer)
— Rachel Empey, CFO (Chief Financial Officer)
— Markus Haas, COO (Chief Operating Officer)

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

All current shareholder representatives on the Supervisory Board were appointed for the period until the end of the Annual General Meeting that adopts the resolution on official approval of their actions for the financial year ending 31 December 2016.

1.1.2 Business activities

With just under 48 million customer connections as at 31 March 2015, the Telefónica Deutschland Group, also including the E-Plus Group since 1 October 2014, is one of the three leading integrated network operators in Germany. Additionally, we are the market leader on the German wireless market with more than 42 million wireless customer connections as at 31 March 2015 according to customer accesses. The Telefónica Deutschland Group offers private and business customers voice, data and value added services in wireless communications and wireline networks. In addition, the Telefónica Deutschland Group ranks among the leading wholesale providers in Germany. We offer our wholesale partners access to our infrastructure and to our services. We are a part of the Telefónica, S.A. Group, one of the biggest telecommunications companies in the world.

Since the merger with the E-Plus Group, we operate two nation-wide wireless communications networks reaching the majority of the German population with GSM and UMTS. We plan to combine the two existing networks to create an even more dynamic joint wireless network, particularly with regard to UMTS network coverage. The expansion of our LTE network is being accelerated and outdoor population coverage with the new high-speed wireless communications technology reached 62% as at 31 December 2014.

We also offer a nation-wide wireline network. Our strategic partnership with Telekom Deutschland GmbH, Bonn, expands our wireline network coverage to 98% and, in addition, enables us to serve almost 19 million households with high-speed DSL Internet access and data transmission rates of up to 50Mbit/s. In 2013 we signed a contract for the expansion of the wireline network cooperation with Telekom Deutschland GmbH. It grants us access to the high-speed network of Deutsche Telekom and the ability to offer our customers products with transmission rates of currently up to 100Mbit/s via the new vectoring technology.

Our sales and marketing approach follows a systematic multi-brand strategy in order to address a broad range of customer segments with our products and services. We offer the majority of our wireless communications products in the postpaid customer segment via our brands O_2 and BASE. Fixed communication products and bundles are offered via our premium brand O_2. We continually strive for an improvement of the market positioning of our premium brands, particularly in order to gain high-value customers in the consumer and business customer segment. For several years now, our strategic focus has been on the sale of data-centric wireless telecommunications contracts to smartphone users. Smartphone users already accounted for 76% of the customer base of the postpaid customer brands O_2 and BASE as at 31 March 2015. On the back of their use of wireless data services together with an increasing interest in the new wireless communications standard LTE, these customers generate very high revenues compared to users without a smartphone. We are also seeing rising interest in smartphones and the use of wireless data in the prepaid area.

As such, we also offer special prepaid tariffs for smartphone users.

We have been selling mobile phones and other hardware to our O_2 customers at fixed prices, independently of wireless communications contracts, for example via our successful "O_2 My Handy" model. Here the customer can choose whether to pay the entire price upfront or to make a down-payment and pay the remaining purchase price in twelve or 24 monthly instalments. For the customer, this approach provides price transparency with regards to the cost of both the mobile phone and the telecommunications services contract. Customers can choose from a large variety of mobile phones including the latest premium devices and benefit from attractive payment conditions. We also offer bundled services with hardware in addition to wireless-only services for customers of the former E-Plus brands. Customers have the choice between buying or renting a device at attractive conditions. Our main suppliers of mobile phones are the manufacturers Samsung, Apple, Microsoft, HTC, Sony and Huawei. We focus on the sale of smartphones with Internet capability, which represent the majority of mobile phones sold to our postpaid customers in the first quarter of 2015. In the same period, the share of LTE-enabled smartphones in relation to all smartphones sold is rising constantly. We are serving the growing demand for wireless data services among customers of our secondary brands and wholesale partners via a large range of affordable entry-level smartphones.

With our secondary and partner brands and through our wholesale channels, we reach further groups of customers that we do not target with our O_2 and BASE brands. Our secondary brands include blau.de, Fonic, simyo, AY YILDIZ, Ortel Mobile and netzclub, which are fully controlled by us, and brands from joint ventures and strategic partnerships such as TCHIBO mobil. Our multi-brand approach enables us to address a broad spectrum of customers and to maximise and also efficiently control our sales range with customised product offerings, sales and marketing.

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

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

A relevant market trend are digital applications that make our customers’ lives easier and more secure in many areas. We enable our customers via mobile phone to handle central things of everyday life such as mobile paying, music and video streaming, playing games on your mobile phone, to monitor the condition of your car or to control power usage in their homes.

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

In the B2B area, small office/home office (SoHo) and small and medium-sized enterprises (SMEs) are addressed through our premium brand O_2, for example with our innovative product “O_2 Unite”. Large international businesses are adressed through the Telefónica brand. Furthermore, we support B2B customers to make better use of digital media in order to place commercials precisely and to analyse customer behaviour anonymously.

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

1.2 Goals and Strategies

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

We are the market leader on the German wireless market with more than 42 million wireless customer connections as at 31 March 2015 according to customer accesses. Our goal is to focus on both customer retention by means of an improved network, service and customer experience and also the systematic monetisation of rising data usage and future technologies such as LTE. We also intend to expand our market position in small office/home office (SoHo) and small and medium-sized enterprises (SMEs), and to take advantage of new opportunities in wholesale and partner business. Overall, our goals and strategies follow the clear vision of **building the leading digital telecommunications company** in Germany.

Building ...

We see the merger of the two companies not just as a chance to achieve economies of scale, but rather as a unique opportunity to create a new company that radically changes its business model and actively shapes the market. We are guided by two overarching principles for action in this transformation process: **simplification and digitisation**. As part of the merger, we are striving to fundamentally simplify processes, structures and platforms. Simple and flexible structures help us to offer our customers simple and bespoke solutions, to respond quickly and stay ahead of the competition. We also wish to offer our customers a clearly structured product portfolio and user-friendly, easily accessible services.

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

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

We are striving for the **best network experience** by consistently aligning the network infrastructure to customer requirements. The network quality from a customer's perspective must at least match or even exceed that of the competition. This applies especially to urban areas where customers with particularly intensive data usage are concentrated. We intend to achieve this primarily through synergies from the merger and smart investments in further network development. If customer data usage patterns change, for instance if they consume higher data volumes, we allow customers to simply raise their data contingents and increase the overall network capacity available.

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

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

… digital …
We utilise the combination of two strong partners as a unique opportunity to advance digitisation more quickly and more systematically than our competitors, thus optimally meeting evolving customer needs for future wireless communications. We expect to gain two major benefits from digitisation:

Firstly, digitisation brings us closer to our customers and what they need. As many people use their smartphone as the hub of their mobile life, mobile communications companies can get closer to their customers than companies in almost any other sector. This supports the development of new and innovative offerings that set us apart from the competition. Both partners have already successfully proven their capacity for innovation in the past, for example with mobile-music and video-streaming offerings and the world's first mobile communications partnership with the mobile communication service WhatsApp. Experience shows that customers who enjoy the tangible benefits of these applications in their everyday life use them more and more intensively over time. This leads to rising data consumption, from which we benefit in the long term.

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

… telco
We see a **high-performing network infrastructure** as a key future success factor. Following the merger of the Telefónica Deutschland Group with the E-Plus Group, the network will be developed over the coming years so that it combines the

best quality for customers with high efficiency. As we, in line with many market studies, are firmly convinced that mobile data usage will continue to increase dynamically, a high-performing and optimally sized wireless network is at the heart of the network infrastructure. In addition, we offer customers additional value added in the form of high-speed wireline services as needed.

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

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

Implementing the vision

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

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

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

With regard to the network, this means selecting the best locations from the two networks so as to offer optimal coverage. Once the integration is complete, the new joint network will have approximately 25,000 wireless network sites in Germany. Investments in the nation-wide LTE roll-out will be increased and the expansion will therefore progress at a faster pace. The mobile spectrum assets and the network sites are combined in such a way that our customers can be offered the best network experience in future. This applies especially to urban areas where customers with particularly intensive data usage are concentrated. We plan to complete this process of consolidation within five years.

During the integration of our two network infrastructures, national roaming will support customers' positive network experience. On 31 March 2015 we opened up the UMTS networks of the former Telefónica Deutschland Group (O_2) and the E-Plus Group (E-Plus) to all customers of our joint company. For the first time, this milestone of network integration bundles the strength of both our networks. As a result, we offer the customers of all our brands and partner brands the densest UMTS network infrastructure in urban areas and the most widespread coverage in rural areas. This step improves the user experience for wireless data services even in areas where our customers do not yet have LTE.

Sales capability is one of the biggest strengths of the new Telefónica Deutschland Group for maintaining momentum, defending market share and achieving its strategic goals. The merger enables us to offer our customers throughout Germany the best experience with one of the largest and best-performing branch networks in the industry. In addition, the sales units of the E-Plus Group and the Telefónica Deutschland Group will be combined over an extended consolidation process. The shop network has been analysed based on the criteria of location and performance. We intend to reduce the current sales network by around a third of the currently roughly 1,800 stores.

In this context, we have agreed to transfer some of our shop locations to Drillisch as part of the agreement concluded with Drillisch in the summer of 2014. Drillisch has selected 301 shops and partner shops now scheduled for transfer in the summer of 2015.

Transformation: Initiatives to simplify, digitise and amend the business model will accompany integration and day-to-day business, continuously advancing the digital transformation.

2.
Economic Report from 1 January to 31 March 2015

2.1 Overall Economic and Industry Conditions

2.1.1 Economic environment

Overall economic environment in Germany
The German economy saw stronger growth again for the first time in 2014 after two weak years in a row. After an energetic start to the year followed by a weak phase in the summer, the economic situation stabilised towards the end of 2014 and thus achieved a turnaround. As reported by the German Federal Statistical Office, gross domestic product (GDP) rose by 1.5% year-on-year in 2014, representing the German economy's strongest growth since 2011. According to economic research institutes, the German economy held its ground in a difficult global economic environment and particularly benefited from strong domestic demand. This positive trend also continued in the first three months of 2015.
(Source: Deutsche Bundesbank (German Central Bank), German Federal Statistical Office, January 2015)

1 — GDP growth 2012–14 for Germany and the euro area

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

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

The strong demand for wireless 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 wireless 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.

In cloud computing, IT services are used as demanded 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 wireless 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 total connections as at the end of December 2014. This share had been 49% at the end of December 2013.

The mobile telecommunications market was highly dynamic in 2014 and characterised by intense competition, primarily driven by the strong demand for smartphones and the increasing number of smartphone tariffs. Wireless 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 (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 wireless end-devices with Internet capability such as smartphones or tablets and the increasing use of wireless data services is also evident in the strong growth of revenues from wireless data on the German market: In 2014, according to estimates by Analysys Mason, wireless data revenues increased by over 20% compared to the previous year. By contrast, revenues from mobile telephony and SMS were down, driven by price decline, regulatory effects and changes in customer behaviour.

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

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

The German wireline market

Intense competition still prevails on the German market for wireline broadband services as well. The number of subscriber lines increased by approximately 4% year-on-year and the customer base grew to approximately 29.6 million by the end of December 2014. The share of DSL connections here is almost 80%.

(Source: Analysys Mason: Telecoms Market Matrix Western Europe Q4 2014, April 2015)

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

2.1.2 Regulatory influences on the Telefónica Deutschland Group

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

The future development of the GSM licences

On 28 January 2015 the Federal Network Agency reached and published the presidential chamber's decision on the arrangement and selection of the allocation procedure and on the allocation conditions and auction regulations for the allocation of frequencies in the ranges 700MHz, 900MHz, 1,800MHz and 1.5GHz. Following this, the Telefónica Deutschland Group submitted an application for admission to the auction to the Federal Network Agency on 5 March 2015. The admission of the Telefónica Deutschland Group to the auction has been granted on 22 April 2015 together with Telekom Deutschland GmbH and Vodafone GmbH. The start of the auction is scheduled by the Federal Network Agency for 27 May 2015.

On 29 April 2015 and according to our request, the Administrative Court of Cologne (Verwaltungsgericht Köln) has decided in a summary proceeding that Telefónica Deutschland Group's main claims against the Federal Network Agency's merger ruling of 4 July 2014 for an earlier handback of GSM spectrum have suspensive effect. The main claims have not been decided yet.

Decisions on mobile termination rates (MTR)

For the period starting from 1 December 2014, the Federal Network Agency has taken its final decision on 24 April 2015 and definitively confirmed its provisional decision with rates in the amount of 1.72 Euro cents per minute for the period from 1 December 2014 to 30 November 2015 and 1.66 Euro cents per minute for the period from 1 December 2015 to 30 November 2016. The rates are symmetrical for all German mobile network operators.

Decisions on fixed termination rates (FTR)

Following the provisional decision by the Federal Network Agency released on 28 November 2014 for alternative local exchange carriers and thus for the Telefónica Deutschland Group as well regarding local FTRs of 0.24 Euro cents per minute (peak and off-peak) from 1 December 2014 to 31 December 2016 and the EU Commission's notification of these decisions on 18 January 2015, the EU Commission has since expressed serious doubts regarding the rate method and the rate level. A final decision by the Federal Network Agency is not expected before the second quarter of 2015.

Transparency regulation of the Federal Network Agency

This regulation is expected to enter into effect in the middle of 2015. Parts of the regulation will take effect at the end of 2015 owing to extended implementation periods.

"Digital Single Market" initiative of the European Commission

In 2013, the EU Commission published the draft Digital Single Market Regulation. Following the elections to the European Parliament and the constitution of a new EU Commission in 2014, the legislative project was divided into two parts. One part concerns the regulation of the telecommunications market, the Telecom Single Market Package. The EU Commission and Member States of the European Union intend that this will be completed before the end of 2015. It contains plans for consistent regulations on net neutrality and roaming throughout Europe. The other part is to focus on more detailed regulatory issues of the European information and telecommunications market. The EU Commission plans to present its ideas for this package of laws, again called the Digital Single Market Package, in May 2015.

2.2 Overview of the First Quarter of 2015

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

To allow a better comparison, selected indicators are presented in this section exclusively on a combined basis[1].

In the first quarter of 2015, Telefónica Deutschland Group delivered on key integration milestones with a solid financial performance that is reflecting the continued focus on data monetisation, a favourable customer mix in acquisition and retention in the premium brand plus the value-based approach to handset sales from the beginning of the year. At the same time, the German mobile market showed a stable pricing environment in its premium side. Against this background, the good operational start of Telefónica Deutschland into the financial year 2015 is providing confidence for the delivery of the 2015 outlook and the synergy targets.

Mobile service revenue showed a positive performance in the first three months of 2015, increasing 1.5% year-on-year to total EUR 1,354 million, which is in line with our expectations. The increase is mainly driven by the strong trading activity in previous quarters and increasing data usage from our customers, leveraging the demand for LTE. Other effects, such as the lower usage of traditional text messaging and the renewal of expired long-term contracts to lower prices within the premium customer base are having a less dilutive impact than seen in prior quarters. In line with our vision to become the Leading Digital Telco in Germany, we will put an even stronger focus on the development of our customer base and continue to be the value-for-money choice for our customers and partners while keeping a strong view on data monetisation. As such, mobile service revenue in the first three months of the year confirm the full-year outlook of broadly stable year-on-year mobile service revenue from a combined figure of EUR 5,528 million in 2014.

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

Operating Income before Depreciation and Amortisation (OIBDA) in the first quarter of 2015 amounted to EUR 395 million. Excluding the EUR 17 million gain from the sale of yourfone GmbH, OIBDA in the quarter would have been EUR 378 million, which represents a 5.7% year-on-year growth on a combined basis on improved revenue flow through and a commercial approach focused on customer base retention as well as a value-based handset sales model. This evolution is in line with our expectation and the outlook to deliver a >10% year-on-year increase of OIBDA from a combined basis of EUR 1,461 million before extraordinary effects, as synergies from the integration of E-Plus Group will primarily benefit financial performance from the second half of the year.

Capital expenditures (CapEx) for January to March 2015 amounted to EUR 221 million, higher 2.9% year-on-year on a combined basis. Telefónica Deutschland Group maintained the clear focus on the accelerated deployment of the LTE-network, giving a clear priority to urban areas while as the result of the introduction of 3G national roaming from beginning of April 2015 customers have already started to experience first tangible results from the combination of the two networks. CapEx evolution is in line with our expectation and on track to deliver the 2015 outlook of a high single-digit percentage decline versus the combined figure of EUR 1,161 million in 2014.

Significant events

Integration and transformation

The change in the legal form of E-Plus Mobilfunk into a limited liability company (GmbH) was entered in the commercial register on 26 January 2015. On 4 February 2015 a profit transfer agreement was concluded with Telefónica Germany GmbH & Co. OHG effective 1 January 2015, with the result that E-Plus Mobilfunk GmbH, including its income tax group subsidiary companies, have been included in the income tax group of the Telefónica Deutschland Group effective 1 January 2015.

Yourfone

The sale of yourfone GmbH to Drillisch was closed on 2 January 2015. The Telefónica Deutschland Group reported net inflows of EUR 68 million from the sale in the first quarter 2015 and generated a gain on disposal of EUR 17 million, which was recognised in the Consolidated Income Statement under other income.

Framework redundancy plan

In February 2015, the Management Board and Works Councils of the Telefónica Deutschland Group agreed on a framework redundancy plan that will apply until the end of 2018. Based on the regulations set out in this plan, the implementation of the redundancy programme resolved in autumn 2014 began in the first quarter of 2015 as planned. Thus, the Telefónica Deutschland Group is ensuring clarity for the employees and continues to push along with the integration in the context of the acquisition of the E-Plus Group completed at the beginning of October.

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

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

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

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

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

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

All tranches were issued at par. The promissory notes and registered bonds can be transferred at a minimum amount of EUR 500 thousand. The issue proceeds of the overall transaction will be used for general business purposes.

Changes in the Supervisory Board of Telefónica Deutschland
María Pilar López Álvarez stepped down from the Supervisory Board of Telefónica Deutschland at the end of the Annual General Meeting scheduled for 12 May 2015, at which her successor was elected (Section 3 Report on Events after the Reporting Period).

Declaration by Telefónica Germany on the application by Telefónica Germany GmbH & Co. OHG to be awarded frequencies under “Project 2016” of the German Federal Network Agency
As part of the allocation of frequencies under “Project 2016” of the German Federal Network Agency in the ranges 700MHz, 900MHz, 1,800MHz and 1.5GHz for wireless access for the provision of telecommunications services, Telefónica Deutschland, as the parent company of Telefónica Germany GmbH & Co. OHG, must ensure without restriction that Telefónica Germany GmbH & Co. OHG has the sufficient funds necessary for a bid to acquire frequencies in the auction process and all the necessary resources for the planned investments in the establishment, expansion and operation of the mobile network at all times. These obligations are based on the specified supply obligations and their time frame.

Procedure for awarding frequencies in the ranges 700MHz, 900MHz, 1,800MHz and 1.5GHz
On 28 January 2015 the German Federal Network Agency reached and published the presidential chamber’s decision on the arrangement and selection of the allocation procedure and the allocation and auction regulations for awarding frequencies in the ranges 700MHz, 900MHz, 1,800MHz and 1.5GHz. Following this, the Telefónica Deutschland Group submitted an application for admission to the auction to the German Federal Network Agency on 5 March 2015. The Telefónica Deutschland Group has filed an action against the decision by the presidential chamber initially purely to comply with the deadline. A decision has not yet been reached on this. The decision on the applications for admission submitted was made on 22 April 2015. The start of the auction is currently scheduled by the German Federal Network Agency for 27 May 2015 (Section 3 Report on Events after the Reporting Period).

Annual General Meeting
On 30 March 2015 the Management Board of Telefónica Deutschland convened the Annual General Meeting for the 2014 financial year on 12 May 2015 (Section 3 Report on Events after the Reporting Period).

2.2.1 Results of operations

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

To allow a better comparison, selected indicators are presented below on a combined basis[1]:

Revenues amounted to a total of EUR 1,901 million in the first quarter of the 2015 financial year. Combined[1], revenues in the first quarter of the 2014 financial year would have amounted to EUR 1,847 million. Revenues from mobile services amounted to EUR 1,354 million in the first quarter of the 2015 financial year and EUR 1,333 million in the first quarter of the 2014 financial year on a combined basis.

Operating income before depreciation and amortisation (OIBDA) before extraordinary effects amounted to EUR 378 million in the first quarter of the 2015 financial year and

EUR 357 million in the first quarter of the 2014 financial year on a combined basis.

Please see table 3 on page 24 for a presentation of business performance compared to the previous year.

2.2.1.1 Revenues

Revenues of EUR 1,901 million were generated in the first quarter of 2015. This corresponds to an increase of EUR 779 million or 69.4% as against the previous year. The increase in revenues is primarily due to growth in mobile service revenues as a result of the merger with the E-Plus Group as at 1 October 2014. Including the combined[1] figures for the first quarter of 2014, growth would amount to EUR 53 million or 2.9%. In particular, this is due to the rise in handset revenues. Revenues from wireline/DSL were lower on account of a smaller DSL customer base. Revenues continued to be positively influenced by a growth in the wireless data business. **— Tab. 2**

Wireless business

Mobile revenues, comprising revenues from mobile communications services and handset sales, amounted to EUR 1,636 million in the first quarter of 2015. This corresponds to an increase as against the same period of the previous year of EUR 809 million or 97.8%.

Mobile service revenues are largely based on basic fees and the fees levied for voice (including incoming and outgoing calls), messaging (including SMS and MMS) and mobile data services in addition to the revenues from service contracts. In addition to roaming revenues, mobile service revenues include access and interconnection fees that are paid by other service providers for calls and SMS delivered via our network. In the first quarter of 2015, revenues for mobile services amounted to EUR 1,354 million. This corresponds to a year-on-year increase of EUR 647 million or 91.6%, and is due in particular to the expanded customer base as a result of the merger with the E-Plus Group. Including the combined[1] figures for the first quarter of 2014, growth would amount to EUR 21 million or 1.5%.

The positive growth is firstly thanks to gaining new and retaining existing profitable customers. Net new mobile customers amounted to 54 thousand in the first quarter of 2015 (Q1 2014 combined[1]: 35 thousand). Secondly, there has been consistently strong demand for data services (e.g. mobile Internet, service applications and other data content), further boosted by the activation of our O_2 contract customers for access to the LTE network.

Handset revenues are subject to fluctuation, particularly as they are dependent on the launch of new mobile devices. Handset revenues of EUR 282 million were generated in the first quarter of 2015. Alongside the additional revenues resulting from the merger with the E-Plus Group, increased sales figures for mobile devices also contributed to the year-on-year increase of EUR 162 million or 134.5%. Handset revenues include the income from the sale of mobile phones as part of the "O_2 My Handy" model, the hardware portion of bundle packages (hardware bundled offerings) for the former E-Plus brands and cash sales. In addition, handset revenues include further components from wireless business such as activation fees and accessories.

Wireline business

Revenues of EUR 261 million were generated in wireline and DSL business in the first quarter of 2015. This corresponds to a decline of EUR 32 million or 10.9% as against the previous year. Good demand for our new "O_2 DSL All-in" tariffs in addition to the continuing positive customer development in VDSL business counteracted the contraction in the customer base and the overall intensely competitive market conditions. Fixed and DSL revenues mainly comprise DSL revenues, wireline revenues, activation fees for DSL business and the sale of DSL hardware. Furthermore, they include revenues from DSL service business with large customers and termination rates paid by other telecommunications companies.

Other revenues

Other revenues relate to new business such as advertising and financial services, for example the mobile service "O_2 More Local" or the mobile payment system "mpass". This

2 — Revenue breakdown

	1 January to 31 March			
(Euros in millions)	2015	2014	Change	% Change
Mobile business	**1,636**	**827**	**809**	**98**
Mobile service revenues	1,354	707	647	92
Handset revenues	282	120	162	> 100
Wireline business	**261**	**293**	**(32)**	**(11)**
Other revenues	**3**	**2**	**2**	**95**
Revenues	**1,901**	**1,122**	**779**	**69**

item increased by 94.6% year-on-year to revenues of EUR 3 million in the first quarter of 2015, in particular as a result of the increase in mobile marketing activities.

2.2.1.2 Net profit for the period

Operating expenses, consisting of the cost of materials and purchased services, staff costs and other expenses, increased by EUR 643 million or 70.8% to EUR 1,552 million in the first quarter of the 2015 financial year. The growth in operating expenses is primarily due to the merger with the E-Plus Group as at 1 October 2014.

The cost of materials and purchased services mainly includes the interconnection costs that arise when our customers are connected with other mobile communications networks. Furthermore, this item reflects the costs for the devices sold, in particular the sales as part of the "O_2 My Handy" model, for example. Furthermore, it contains the expenses for leased lines unbundled local loops (ULL) access charges and the costs for the leasing of space for network installations. The cost of materials and purchased services was EUR 659 million in the first quarter of 2015. This corresponds to a year-on-year increase of EUR 232 million or 54.3%, due in particular to the merger with the E-Plus Group. The expenses for handsets sold increased to a smaller degree than the corresponding revenues from mobile hardware.

Staff costs were up by EUR 71 million or 65.8% to EUR 179 million in the first quarter of 2015, mainly as a result of the higher expenses following the merger with the E-Plus Group.

Other expenses include primarily commission paid to retailers, marketing costs, expenses for customer service and the outsourcing of administrative activities, expenses for hardware and the maintenance of the IT infrastructure, leasing expenses for facilities and space and energy costs. Other expenses amounted to EUR 713 million in the first quarter of 2015, an increase of EUR 340 million or 91.1% as against the first quarter of 2014. This rise was due in particular to the higher costs as a result of the merger with the E-Plus Group. Initial savings were achieved within the new group by focusing on commercial expenditure especially in customer acquisition. This is offset by higher expenses for customer retention and customer care.

OIBDA after extraordinary effects amounted to EUR 395 million in the first quarter of 2015, up by EUR 161 million or 68.8% compared to the same period of the previous year resulting from the merger with the E-Plus Group. The resulting OIBDA margin matched the previous year's level at 20.8% (Q1 2014: 20.9%). Including the combined[1] figures for the first quarter of 2014, growth would amount to EUR 38 million or 10.6%. Adjusted for extraordinary effects, OIBDA of EUR 378 million was generated in the first quarter of 2015 (Q1 2014: EUR 234 million). The extraordinary effect in the first quarter 2015 relates to the non-recurring result on the disposal of yourfone GmbH of EUR 17 million. Adjusted for this extraordinary effect, the rise against the same period of the previous year would have been 61.3% because the focus on our customer base resulted in higher expenses for customer retention and customer care. Including the combined[1] figures for the first quarter of 2014, growth would amount to EUR 20 million or 5.7%. The OIBDA margin before extraordianry effects would amount 19,9% and is with 19,3% on a combined[1] basis higher than previous year in the first quarter 2014. This reflects the higher generated revenues and the greater contribution by wireless data business and the focus on our commercial expenditure.

3 — Consolidated Income Statement

	1 January to 31 March			
(Euros in millions)	**2015**	2014	Change	% Change
Revenues	**1,901**	**1,122**	**779**	**69.4**
Other income	46	21	26	> 100.0
Operating expenses	(1,552)	(909)	(643)	70.8
Supplies	(659)	(427)	(232)	54.3
Personnel expenses	(179)	(108)	(71)	65.8
Other expenses	(713)	(373)	(340)	91.1
Operating income before depreciation and amortization (OIBDA)	**395**	**234**	**161**	**68.8**
OIBDA margin	**20.8%**	**20.9%**		**(0.1-p.)**
Depreciation and amortization	(555)	(267)	(288)	> 100.0
Operating income	**(160)**	**(33)**	**(127)**	**> 100.0**
Net financial income (expense)	(16)	(8)	(9)	> 100.0
Profit (loss) before tax for the period	**(176)**	**(40)**	**(136)**	**> 100.0**
Income tax	0	0	(0)	(99.9)
Total profit (loss) for the period	**(176)**	**(40)**	**(136)**	**> 100.0**

Depreciation and amortisation increased by EUR 288 million or 108.0% year-on-year to EUR 555 million in the reporting period (Q1 2014: EUR 267 million). This increase is particularly due to the inclusion E-Plus, the amortisation of customer relationships as a result of this as well as the shorter useful life resulting from the merger of the two networks (for further information please refer to the notes on intangible assets and property, plant and equipment in section 2.2.3 Net assets).

In comparison to the first quarter of the previous year, operating income increased by EUR 127 million or 388.4% to EUR –160 million (Q1 2014: EUR –33 million).

The net financial expense as of 31 March 2015 amounted to EUR –16 million (Q1 2014: EUR –8 million). This is primarily due to the company's higher level of net debt compared to the same period of the previous year. Net financial expense mainly includes interest for the bonds issued in November 2013 and February 2014, as well as interest on the finance lease commitment.

Telefónica Deutschland Group did not record any positive taxable income in the first quarter of 2015 and therefore will once again not pay any current income taxes.

The above mentioned effects resulted in a loss for the period of EUR –176 million for the first three months of 2015, a decline of EUR 136 million compared to the same period of the previous year when the loss for the period amounted to EUR –40 million.

2.2.2 Financial position

2.2.2.1 Finance analysis

Net financial debt

Table 4 on page 26 shows the composition of net financial debt – i.e. the net amount of interest-bearing financial liabilities less cash and cash-equivalents and interest-bearing financial assets and receivables.

Compared to 31 December 2014, net financial debt increased by EUR 117 million to EUR 120 million as of 31 March 2015, resulting in a leverage ratio[2] of 0.1x.

The chart on page 26 illustrates the development of net financial debt during the first three months of the financial year 2015.

2.2.2.2 Liquidity analysis

Consolidated Statement of Cash Flows

The following is an analysis of the cash flow development Telefónica Deutschland Group in the 2015 and 2014 reporting periods. Total cash flows from operating, investing and financing activities comprise the respective cash flows from continuing operations.

Cash flow from operating activities

Cash flow from operating activities for the first three months in 2015 was EUR 339 million and thus EUR 58 million higher than the amount of the previous year 2014 (EUR 281 million). This increase principally results from a decline in working capital. This decrease in working capital is offset by an increase in OIBDA (Q1 2015: EUR 395 million) in the amount of EUR 161 million in comparison to the prior year (Q1 2014: EUR 234 million).

Cash flow from investing activities

Cash flow from investing activities amounted to EUR –239 million in the first three months of 2015. Compared to 31 March 2014, the cash outflow increased by EUR 65 million (Q1 2014: EUR –174 million).

Payments for investments in property, plant and equipment and intangible assets [3] in 2015 totaled EUR 308 million (Q1 2014: EUR 167 million). These are mainly related to investments for the roll-out of the 4G network (LTE), the expansion of the 3G technology capacities, improvement of performance as well as improved coverage of the mobilenetworks.

Cash flow from financing activities

Cash flow from financing activities amounted to EUR 195 million in the first three months of 2015. The cash inflows thus decreased in comparison to the previous year (Q1 2014: EUR 370 million) by EUR 175 million. The cash inflow from financing activities is mainly due to the promissory note issued in March 2015 of the nominal amount of EUR 300 million. This was partly offset by cash outflows mainly from the settlement of existing leasing agreements.

Cash and cash equivalents

Due to the cash inflows/outflows described above, cash and cash equivalents increased in comparison to the reporting date of 31 December 2014 by EUR 295 million. Cash and Cash

2 Leverage ratio is defined as the net financial debt divided by adjusted LTM (Last Twelve Months) OIBDA. Solely for purposes of calculating the leverage for any twelve month period which includes historical periods prior to the closing of the merger with E-Plus, a combined OIBDA will be applied. This combined OIBDA includes the OIBDA of the E-Plus Group under Telefónica Deutschland Group's accounting policies for the entire twelve month period as if the closing of the transaction had occurred at the beginning of the twelve months.

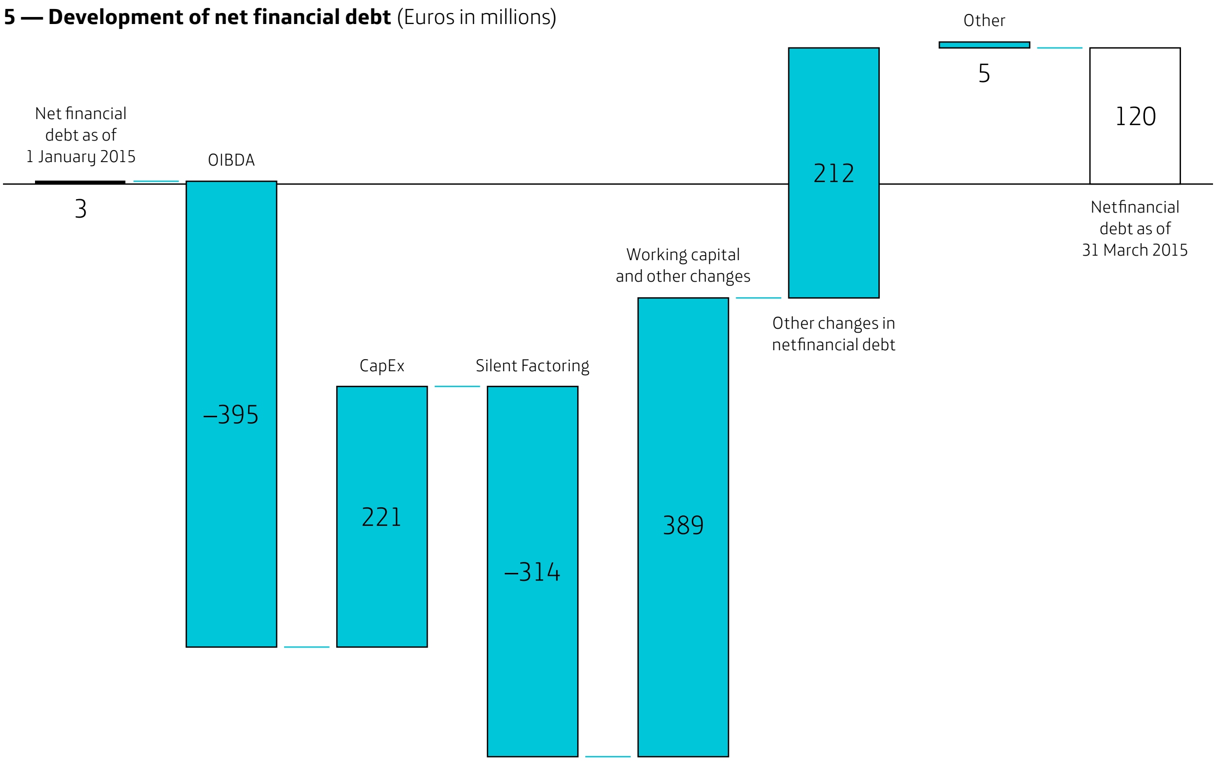
3 Investment expenditure respectively CapEx (Q1 2015: EUR 221 million; Q1 2014: EUR 132 million); plus the change in liabilities for investments made (Q1 2015: EUR 63 million; Q1 2014: EUR 3 million); and plus the change in reserves for outstanding invoices for investments (Q1 2015 EUR 24 million; Q1 2014: EUR 32 million) result in payments for investments in property, plant and equipment and intangible assets of EUR 308 million (Q1 2014 EUR 167 million).

4 — Consolidated net financial debt

(Euros in millions)	As of 31 March 2015	As of 31 December 2014	Change	% Change
A Liquidity	**1,997**	**1,702**	**295**	**17.3**
B Current financial assets	**315**	**456**	**(142)**	**(31.0)**
C Current financial debt	**559**	**612**	**(52)**	**(8.5)**
D=C-A-B Current net financial debt	**(1,752)**	**(1,547)**	**(205)**	**13.3**
E Non-current financial assets	**174**	**250**	**(76)**	**(30.4)**
F Non-current financial debt	**2,047**	**1,800**	**246**	**13.7**
G=F-E Non-current net financial debt	**1,872**	**1,550**	**322**	**20.8**
H=D+G Net financial debt[1]	**120**	**3**	**117**	**> 100.0**

1 Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.
B + E Current and non-current financial assets include handset – receivables (current: EUR 313 million in 2015 and EUR 454 million in 2014; non-current: EUR 159 million in 2015 and EUR 236 million in 2014), positive fair value hedge for fixed interest financial liabilities (current: EUR 1 million in 2015 and EUR 2 million in 2014; non-current: EUR 14 million in 2015 and EUR 12 million in 2014) as well as loans to third parties (current: EUR 0 million in 2015 and EUR 1 million in 2014; non-current: EUR 1 million in 2015 and EUR 1 million in 2014)
C + F Current and non-current net financial debt include bonds, promissory notes and registered bonds issued (EUR 1,410 million in 2015 and EUR 1,115 million in 2014), other loans (EUR 725 million in 2015 and EUR 726 million in 2014) as well as finance lease payables (current: EUR 328 million in 2015 and EUR 374 million in 2014; non-current: EUR 142 million in 2015 and EUR 197 million in 2014)
Note: Handset – receivables are shown under trade and other receivables in the Consolidated Statement of Financial Position.

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



equivalents amounted to EUR 1,997 million as of 31 March 2015 (31 December 2014: EUR 1,702 million).

Free cash flow

The free cash flow[4] before dividends decreased by EUR 8 million and amounts to EUR 100 million in the three-month period ended 31 March 2015 (Q1 2014: EUR 107 million). This development resulted primarily from the increase in operating cash flow[5] by EUR 72 million, the decline in the change in working capital of EUR 125 million and payments received for the sale of companies of EUR 68 million.

Operating cash flow (OpCF) reached EUR 175 million, increasing by EUR 72 million compared to the same period of the previous year. The increase in operating cash flow is the result of higher OIBDA compared to 2014 (Q1 2015: EUR 395 million; Q1 2014: EUR 234 million), offset by higher capital expenditure (Q1 2015: EUR 221 million; Q1 2014: EUR 132 million).

The change in working capital, which decreased by EUR 125 million from EUR 17 million in the first quarter of 2014 to EUR –107 million in the first quarter of 2015, is primarily the result of an increase in advance payments for rent for antenna locations.

4 See Annual Report 2014, p. 34

5 OIBDA minus CapEx

2.2.3 Net assets

The analysis of the asset and capital structure in table 8 compares the assets and liabilities as of 31 March 2015 with the figures as of 31 December 2014.

The group reports total assets of EUR 17,886 million as of 31 March 2015 (31 December 2014: EUR 17,887 million).

6 — Condensed Consolidated Statement of Cash Flows

	1 January to 31 March	
(Euros in millions)	2015	2014
Cash and cash equivalents at the beginning of the period	**1.702**	**709**
Cash flow from operating activities	339	281
Cash flow from investing activities	(239)	(174)
Cash flow from financing activities	195	370
Net increase (decrease) in cash and cash equivalents	**295**	**477**
Cash and cash equivalents at the end of the period	**1,997**	**1,186**

7 — Reconciliation of cash flow and OIBDA minus CapEx

	1 January to 31 March			
(Euros in millions)	2015	2014	Change	% Change.
OIBDA	**395**	**234**	**161**	**69**
– CapEx	(221)	(132)	(89)	67
= Operating cash flow (OpCF)	**175**	**102**	**72**	**71**
+ Silent Factoring[1]	314	178	136	76
+/– Other working capital movements	(421)	(161)	(261)	>100
Change in working capital	**(107)**	**17**	**(125)**	**>(100)**
+/– (Gains) losses from sale of companies	(17)	0	(17)	(100)
+/– Proceeds from sale of companies	68	(0)	69	> (100)
+/– Proceeds from sale of fixed assets and other effects	0	1	(1)	(100)
+ Net interest payments	(19)	(4)	(14)	>100
+ Proceeds/Payment on financial assets	0	(8)	8	> (100)
= Free cash flow pre dividends[2]	**100**	**107**	**(8)**	**(7)**
= Free cash flow post dividends	**100**	**107**	**(8)**	**(7)**

1 Full impact (YTD) of silent factoring in the three month period in 2015 of EUR 314 million and of EUR 178 million in the three month period 2014 (transactions have been executed in January and March 2015 respectively in March, June and September of the year 2014).

2 Free cash flow pre dividends is defined as the sum of cash flow from operating acitivities and cash flow from investing activities.

Intangible assets
Intangible assets including goodwill amounted to EUR 8,183 million as of 31 March 2015 (31 December 2014: EUR 8,355 million). The decline in comparison to previous year amounted to EUR 172 million or 2.1%, and is mainly due to amortisation of finite intangible assets. The amortisation charge amounted to EUR 285 million (Q1 2014: EUR 114 million). This was offset by additions of EUR 56 million (Q1 2014: EUR 30 million) (essentially software additions of EUR 48 million (Q1 2014: EUR 19 million)).

Property, plant and equipment
Property, plant and equipment amounted to EUR 4,924 million as of 31 March 2015 (31 December 2014: EUR 5,029 million). A year-on-year decline of EUR 105 million or 2.1% was therefore reported. Additions to property, plant and equipment in the period under review amounted to EUR 165 million (Q1 2014: EUR 102 million) and mainly related to investments in connection with an accelerated network expansion including the optimisation of UMTS (3G), the further enhanced LTE roll-out, the expansion of IP technologies and the expansion of mobile data services with even faster download times. The quality of the data network increased considerably as a result of the expansion and development, which is an essential feature in terms of increasing real-time, high-speed communication.

Furthermore, additional provisions in relation to decommissioning, dismantling and shutdown obligations have been recognised in the amount of EUR 57 million, mainly due to current interest rate trends.

The effect of the additions was offset by a depreciation charge of EUR 270 million (Q1 2014: EUR 153 million).

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

To allow a better comparison, CapEx is also disclosed on a combined[1] basis in the following paragraph. CapEx amounted to EUR 221 million in the first quarter of 2015 compared to EUR 215 million on a combined basis[1] in the first quarter of 2014. The focus of investment activity remains the accelerated expansion of the LTE network.

Trade and other receivables
Compared to the previous year, trade and other receivables are below the previous year's figure and amount to EUR 1,568 million as of 31 March 2015 (31 December 2014: EUR 1,750 million). The decrease by EUR 182 million is primarily due to the decline in handset receivables from EUR 690 million to EUR 473 million, mainly as a result of silent factoring for the "O_2 My Handy" model as of 31 March 2015.

8 — Consolidated Statement of Financial Position

(Euros in millions)	As of 31 March 2015	As of 31 December 2014	Change	% Change
Goodwill and other intangible assets	8,183	8,355	(172)	(2.1)
Property, plant and equipment	4,924	5,029	(105)	(2.1)
Trade and other receivables	1,568	1,750	(182)	(10.4)
Deferred tax assets	581	581	0	0.0
Other financial assets	68	68	(0)	(0.1)
Other non-financial assets	432	213	219	> 100.0
Inventories	134	104	30	28.8
Cash and cash equivalents	1,997	1,702	295	17.3
Assets held for sale	0	85	(85)	(100.0)
Total assets = Total equity and liabilities	**17,886**	**17,887**	**(1)**	**(0.0)**
Interest-bearing debt	2,609	2,415	194	8.0
Provisions	1,117	1,028	89	8.6
Trade and other payables	2,246	2,302	(57)	(2.5)
Other non-financial liabilities	26	18	8	46.1
Deferred income	722	704	18	2.6
Liabilities held for sale	0	40	(40)	(100.0)
Equity	**11,167**	**11,380**	**(213)**	**(1.9)**

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

Other non-financial assets
Other non-financial assets amount to EUR 432 million as of 31 March 2015 (31 December 2014: EUR 213 million). The increase by EUR 219 million is mainly due to the increase in advance payments for rent of antenna locations.

Inventories
Inventories amount to EUR 134 million as of 31 March 2015 (31 December 2014: EUR 104 million). The increase of EUR 30 million is essentially caused by the preparation of a launch of new products which is planned for the second quarter of 2015.

Cash and cash equivalents
Cash and cash equivalents amounted to EUR 1,997 million in total as of 31 March 2015 (31 December 2014: EUR 1,702 million). This increase of EUR 295 million or 17.3% is due to several effects. (For further information please see section 2.2.2.2, Liquidity analysis).

Interest-bearing debt
Interest-bearing debt increased by EUR 194 million from EUR 2,415 million as of 31 December 2014 to EUR 2,609 million as of 31 March 2015. In particular, this increase is a result of the private placement of promissory notes and registered bonds at a nominal amount of EUR 300 million on 13 March 2015. This was countered by the decline in obligations from finance leases in the amount of EUR 100 million.

Provisions
Provisions increased by EUR 89 million or 8.6% compared to 31 December 2014 to EUR 1,117 million. This rise is essentially due to the increase in pension provisions of EUR 39 million and the increase in provisions for the dismantling and removal of assets of EUR 56 million. This development is due almost exclusively to current interest rate trends.

Trade and other payables
Trade and other payables amount to EUR 2,246 million as of 31 March 2015. This marks a decline of EUR 57 million or 2.5% compared to 31 December 2014 (EUR 2,302 million) and is due to the drop in trade payables of EUR 44 million from EUR 2,108 million as of 31 December 2014 to EUR 2,064 million as of 31 March 2015 and the decrease in other liabilities of EUR 12 million from EUR 194 million as of 31 December 2014 to EUR 182 million as of 31 March 2015.

Other non-financial liabilities
Other non-financial liabilities amounted to EUR 26 million as of 31 March 2015 (31 December 2014: EUR 18 million). These include wage tax and social security contributions in particular.

Deferred income
Deferred income increased by EUR 18 million or 2.6% compared to 31 December 2014 and amounte to EUR 722 million as of 31 March 2015. The item essentially includes advance payments received for future services to be received of EUR 267 million and advance payments received for prepaid credit of EUR 287 million.

Equity
Equity declined by EUR 213 million or 1.9% as of 31 March 2015 to EUR 11,167 million. The change in equity is mainly due to losses for the period of EUR –176 million and the remeasurement of defined benefit plans in the amount of EUR –37 million.

3. Report on Events after the Reporting Period_

Allocation procedure of frequencies in the ranges 700MHz, 900MHz, 1,800MHz and 1.5GHz
By decision of the German Federal Network Agency on 22 April 2015, the Telefónica Deutschland Group was admitted to the auction of frequencies in the ranges 700MHz, 900MHz, 1,800MHz and 1.5GHz. The start of the auction is scheduled by the German Federal Network Agency for 27 May 2015.

Changes in the Supervisory Board of Telefónica Deutschland
María Pilar López Álvarez stepped down from the Supervisory Board of Telefónica Deutschland at the end of the Annual General Meeting on 12 May 2015.

Laura Abasolo García de Baquedano was elected as her successor. Her term in office began from the end of the 2015 Annual General Meeting and ends with the Annual General Meeting that adopts the resolution on formal approval of her actions for the first financial year after the start of her term in office. This does not include the financial year in which her term of office begins.

Annual General Meeting/Dividend resolution for the 2014 financial year
The Annual General Meeting of Telefónica Deutschland for the 2014 financial year took place on 12 May 2015. In addition to presenting the adopted Annual Financial Statements of Telefónica Germany, including the Group Management Report and the approved Consolidated Financial Statements, a dividend of EUR 0.24 per entitled share, EUR 713,893,198.32 in total, was resolved.

National roaming
Beginning April 2015 the UMTS networks of the former Telefónica Deutschland Group (O_2) and the E-Plus Group (E-Plus) were opened up to all customers of the group, bundling the strength of both networks for the first time. As a result, the customers of all proprietary brands and partner brands can be offered the densest UMTS network infrastructure in urban areas and the most widespread coverage in rural areas. This step improves the user experience for wireless data services even in areas where our customers do not yet have LTE.

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

4.
Risk and Opportunity Management_

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

In the reporting period we did not identify any further significant risks or opportunities in addition to those already presented in the Group Management Report for the 2014 financial year. Other risks and opportunities not currently known to us or that we presently consider to be immaterial could also influence our business activities. We do not anticipate the occurrence of any risks that, individually or in combination with other risks, could endanger the future of our company as a going concern.

5.
Outlook for the Telefónica Deutschland Group_

5.1 Economic Outlook for Germany until 31 December 2015

The leading economic research institutes expect economic growth in Germany to continue in 2015. In spring, they further raised their growth expectations and for 2015 as a whole, the institutes are now forecasting a growth of 1.8% in gross domestic product. Economic momentum in Germany is expected to benefit from factors such as the low price of oil and the weaker euro exchange rate. The sharp decline in the price of oil is currently having an effect similar to that of a tax cut for companies and consumers in the German economy. For companies, the falling costs of energy are causing profits to rise. Private consumer spending will also play an important role in the forecast recovery in the German economy in 2015. Chiefly due to the lower energy prices, commodities such as heating oil and petrol have become considerably cheaper. This gives private households significant scope for 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 crisis hotspots.

A rise in economic performance of 1.3% is forecast for the euro area in 2015.

(Source: Gfk Consumer Index, FocusEconomics Euro Area Consensus Forecast March 2015)

8 — GDP growth 2013–15 for Germany and the euro area

In %	2013	2014	**2015**
Germany	0.4	1.5	**1.8**
Euro area	(0.4)	0.8	**1.3**

5.2 Market Expectations

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

(Source: Company data, Analysys Mason)

5.3 Expectations for the Telefónica Deutschland Group

At present, there are no facts that the forecasts published in the Group Management Report 2014 (Annual Report 2014, page 90 et seq.) have changed significantly. The forecasts and statements therefore continue to apply.

6.
Material Related Party Transactions_

For information on material transactions with related parties please see the section “Related Parties” in the Condensed Notes to the Interim Consolidated Financial Statements as at 31 March 2015.

Munich, 13 May 2015

Telefónica Deutschland Holding AG

The Management Board

Thorsten Dirks

Rachel Empey

Markus Haas

Interim Condensed Consolidated Financial Statements_

for the period 1 January to 31 March 2015

Consolidated Statement of Financial Position_

Assets (Euros in millions)	Notes	**As of 31 March 2015**	As of 31 December 2014
A) Non-current assets		**14,062**	**14,393**
Goodwill		1,629	1,629
Other intangible assets		6,554	6,726
Property, plant and equipment		4,924	5,029
Trade and other receivables	[6a]	159	236
Other financial assets		52	49
Other non-financial assets	[6b]	163	142
Deferred tax assets		581	581
B) Current assets		**3,824**	**3,494**
Inventories		134	104
Trade and other receivables	[6a]	1,409	1,513
Other financial assets		16	19
Other non-financial assets	[6b]	269	71
Cash and cash equivalents		1,997	1,702
Assets held for sale		0	85
Total assets (A+B)		**17,886**	**17,887**

Equity and Liabilities (Euros in millions)	Notes	**As of 31 March 2015**	As of 31 December 2014
A) Equity		**11,167**	**11,380**
Subscribed capital		2,975	2,975
Additional paid-in capital		4,800	4,800
Retained earnings		3,393	3,606
Equity attributable to owners of the parent		11,167	11,380
B) Non-current liabilities		**3,242**	**2,912**
Interest-bearing debt	[6c]	2,047	1,800
Trade and other payables	[6d]	19	19
Provisions		873	787
Deferred income	[6d]	305	305
C) Current liabilities		**3,477**	**3,595**
Interest-bearing debt	[6c]	562	615
Trade and other payables	[6d]	2,227	2,283
Provisions		244	241
Other non-financial liabilities		26	18
Deferred income	[6d]	418	400
Liabilities held for sale		0	40
Total equity and liabilities (A+B+C)		**17,886**	**17,887**

Consolidated Income Statement_

		1 January to 31 March	
(Euros in millions)	Notes	**2015**	2014
Revenues	[7a]	1.901	1.122
Other income		46	21
Supplies		(659)	(427)
Personnel expenses		(179)	(108)
Other expenses		(713)	(373)
Operating income before depreciation and amortisation (OIBDA)		**395**	**234**
Depreciation and amortisation		(555)	(267)
Operating income		**(160)**	**(33)**
Finance income		3	2
Exchange gains		2	0
Finance costs		(18)	(10)
Exchange losses		(3)	(0)
Net financial income/(expense)	[7b]	**(16)**	**(8)**
Profit/(loss) before tax		**(176)**	**(40)**
Income tax		0	0
Total profit/(loss) for the period		**(176)**	**(40)**
Profit/(loss) for the period attributable to owners of the parent		**(176)**	**(40)**
Profit/(loss) for the period		**(176)**	**(40)**
Earnings per share			
Basic earnings per share in EUR		**(0.06)**	**(0.04)**
Diluted earnings per share in EUR		**(0.06)**	**(0.04)**

Consolidated Statement of Comprehensive Income_

		1 January to 31 March	
(Euros in millions)	Notes	**2015**	2014
Profit/(loss) for the period		**(176)**	**(40)**
Other comprehensive income/(loss)			
Items that will not be reclassified to profit/(loss)		**(37)**	**(3)**
Remeasurement of defined benefit plans		(37)	(3)
Total other comprehensive income/(loss)		**(37)**	**(3)**
Total comprehensive income		**(213)**	**(43)**
Total comprehensive income for the period attributable to owners of the parent		(213)	(43)
Total comprehensive income		**(213)**	**(43)**

Consolidated Statement of Changes in Equity_

(Euros in millions)	Subscribed capital	Additional paid-in capital	Retained earnings	Total equity attributable to owners of the parent	Equity
Financial position as of 1 January 2014	**1,117**	**0**	**4,882**	**5,999**	**5,999**
Profit/(loss) for the period	0	0	(40)	(40)	(40)
Other comprehensive income/(loss)	0	0	(3)	(3)	(3)
Total comprehensive income	**0**	**0**	**(43)**	**(43)**	**(43)**
Other movements	0	0	0	0	0
Financial position as of 31 March 2014	**1,117**	**0**	**4,839**	**5,956**	**5,956**
Financial position as of 1 January 2015	**2,975**	**4,800**	**3,606**	**11,380**	**11,380**
Profit/(loss) for the period	0	0	(176)	(176)	(176)
Other comprehensive income/(loss)	0	0	(37)	(37)	(37)
Total comprehensive income	**0**	**0**	**(213)**	**(213)**	**(213)**
Other movements	0	0	0	0	0
Financial position as of 31 March 2015	**2,975**	**4,800**	**3,393**	**11,167**	**11,167**

Consolidated Statement of Cash Flows_

(Euros in millions)	1 January to 31 March 2015	2014
Cash flow from operating activities		
Profit/(loss) for the period	**(176)**	**(40)**
Adjustments to profit/(loss)		
Net financial result	16	8
Gains on disposal of assets	(17)	(0)
Net income tax expense	(0)	(0)
Depreciation and amortisation	555	267
Change in working capital and others		
Other current and non-current assets	(76)	51
Other non-current liabilities and provisions	(10)	(0)
Other current liabilities and provisions	66	1
Interest received	5	2
Interest paid	(24)	(6)
Cash flow from operating activities	**339**	**281**
Cash flow from investing activities		
Proceeds on disposals of property, plant and equipment and intangible assets	0	1
Payments on investments in property, plant and equipment and intangible assets	(308)	(167)
Proceeds on disposals of companies[1]	68	0
Proceeds/payments made on financial assets	0	(8)
Cash flow from investing activities	**(239)**	**(174)**
Cash flow from financing activities		
Payments made for capital increase costs	(5)	(2)
Proceeds from interest-bearing debt	300	498
Repayment of interest-bearing debt	(100)	(126)
Cash flow from financing activities	**195**	**370**
Net increase/(decrease) in cash and cash equivalents	**295**	**477**
Cash and cash equivalents at the beginning of the period	**1,702**	**709**
Cash and cash equivalents at the end of the period	**1,997**	**1,186**

1 A cash and cash equivalent balance of EUR 16 million was included in assets held for sale as of 31 December 2014 and was transferred in the transaction. Therefore the net cash received amounted to EUR 52 million.

Condensed Notes to the Interim Condensed Consolidated Financial Statements_ for the period 1 January to 31 March 2015

1. Reporting Entity

The Interim Condensed Consolidated Financial Statements (hereinafter "Interim Consolidated Financial Statements") of Telefónica Deutschland Holding AG have been prepared for the period from 1 January to 31 March 2015 and comprise Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland") and its subsidiaries as well as joint operations (together referred to as "Telefónica Deutschland Group" or "Group").

Telefónica Deutschland Holding AG is a stock corporation (AG) incorporated under German law.

The company's name is "Telefónica Deutschland Holding AG". The company's registered office is located in Munich, Germany. Telefónica Deutschland Holding AG is registered in the commercial register of the local court in Munich under registration number HRB 201055. The company's business address is Georg-Brauchle-Ring 23–25, 80992 Munich, Germany (telephone number: +49 (0) 89 2442-0; **WWW.TELEFONICA.DE**). Telefónica Deutschland Holding AG was established for an indefinite period.

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

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

As of 31 March 2015, Telefónica Deutschland Holding AG has share capital of EUR 2,974,554,993, divided into 2,974,554,993 no-par-value registered shares, each accounting for a pro rata amount of share capital of EUR 1.00. In general, each non-par share grants one vote at the Annual General Meeting.

As of 31 March 2015, 17.0% of the shares were in free float. 62.5% were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.). The remaining 20.5% were held by Koninklijke KPN N.V., The Hague, Netherlands (KPN).

As of 31 March 2015 Telefónica Deutschland Holding AG had authorised capital 2012/I of EUR 292,808,507.

As of 31 March 2015 Telefónica Deutschland Holding AG had conditional capital (conditional capital 2014/I) of EUR 558,472,700.

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

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

Since the acquisition of E-Plus Group, two nation-wide wireless telecommunications networks have been in operation. A nation-wide wireline network is also offered. The sales and marketing approach is based on a strong multi-brand strategy that addresses a broad range of customer segments with the product and services. The majority of the wireless communications products in postpaid customer area are offered via the brands O_2 and BASE. Wireline communications products and combined offers are offered via the premium brand O_2.

For several years, mobile phones and other hardware have also been sold to O_2 customers independently of wireless communications charges at fixed prices, such as via the successful “O_2 My Handy” model. Here the customer can choose whether to pay the entire price upfront or to make a down-payment and pay the remaining purchase price in twelve or 24 monthly instalments.

The customers of former E-Plus brands are also offered bundled hardware alongside bundled wireless communications and hardware offerings. The main suppliers of mobile phones are the manufacturers Samsung, Apple, Nokia, HTC, Sony and Huawei.

With secondary and partner brands and via wholesale channels, Telefónica Deutschland Group reaches further groups of customers to whom the brands O_2 and BASE do not appeal. The secondary brands include the brands blau.de, Fonic, simyo, AY YILDIZ, Ortel Mobile and netzclub, which are fully controlled, as well as brands from joint operations and strategic partnerships such as, for example, TCHIBO mobil. The multi-brand approach enables the Group to address a broad spectrum of customers and to maximise the sales range through customised product offers, sales and marketing. As part of the wholesale business, wireless communications services are offered for customers such as Drillisch, MedionMobile (AldiTalk), ADAC, MTV, mobilcom/debitel, WhatsApp and cable providers.

In the wireline area, a range of Unbundled Local Loop (ULL) services, including wireline telephony and high-speed Internet, are provided to our wholesale partners. Furthermore, added value services such as, e.g. billing services or the management of telephone numbers and SIP accounts are offered. This comprehensive portfolio enables the wholesale partners to independently service end-costumers and at the same time provides the Group with the opportunity to increase its range and to achieve economies of scale.

For business customers area, small office/home office (SoHo) as well as small and medium-sized enterprises (SMEs) are addressed via our premium brand O_2, for example via the product “O_2 Unite”. Large international businesses are adressed through the Telefónica brand. Additionally business customers are supported to make better use of digital media to place commercials precisely and to analyse customer behaviour anonymously.

The products are marketed via a diversified sales platform. This includes direct selling channels like the nation-wide network of independently operated franchise and premium partner shops, online and telesales as well as indirect selling channels like partnerships in retail trade/online retail trade and retailers/cooperations.

2. Significant Events and Transactions in the Reporting Period

Integration and transformation
The change in the legal form of E-Plus Mobilfunk into a limited liability company (GmbH) was entered in the commercial register on 26 January 2015. On 4 February 2015 a profit transfer agreement was concluded with Telefónica Germany GmbH & Co. OHG effective 1 January 2015, with the result that E-Plus Mobilfunk GmbH, including its income tax group subsidiary companies, have been included in the income tax group of the Telefónica Deutschland Group effective 1 January 2015.

Yourfone
The sale of yourfone GmbH to Drillisch was closed on 2 January 2015. The Telefónica Deutschland Group reported net inflows of EUR 68 million from the sale in the first quarter 2015 and generated a gain on disposal of EUR 17 million, which was recognised in the Consolidated Income Statement under other income.

Framework redundancy plan
In February 2015, the Management Board and Works Councils of the Telefónica Deutschland Group agreed on a framework redundancy plan that will apply until the end of 2018. Based on the regulations set out in this plan, the implementation of the redundancy programme resolved in autumn 2014 began in the first quarter of 2015 as planned. Thus, the Telefónica Deutschland Group is ensuring clarity for the employees and continues to push along with the integration in the context of the acquisition of the E-Plus Group completed at the beginning of October.

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

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

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

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

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

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

All tranches were issued at par. The promissory notes and registered bonds can be transferred at a minimum amount of EUR 500 thousand. The issue proceeds of the overall transaction will be used for general business purposes.

Changes in the Supervisory Board of Telefónica Deutschland
María Pilar López Álvarez stepped down from the Supervisory Board of Telefónica Deutschland at the end of the Annual General Meeting scheduled for 12 May 2015, at which her successor was elected. For further information refer to Note No. 10, Events after the Reporting Period.

Declaration by Telefónica Germany on the application by Telefónica Germany GmbH & Co. OHG to be awarded frequencies under "Project 2016" of the German Federal Network Agency
As part of the allocation of frequencies under "Project 2016" of the German Federal Network Agency in the ranges 700MHz, 900MHz, 1,800MHz and 1.5GHz for wireless access for the provision of telecommunications services, Telefónica Deutschland, as the parent company of Telefónica Germany GmbH & Co. OHG, must ensure without restriction that Telefónica Germany GmbH & Co. OHG has the sufficient funds necessary for a bid to acquire frequencies in the auction process and all the necessary resources for the planned investments in the establishment, expansion and operation of the mobile network at all times. These obligations are based on the specified supply obligations and their time frame.

Procedure for awarding frequencies in the ranges 700MHz, 900MHz, 1,800MHz and 1.5GHz
On 28 January 2015 the German Federal Network Agency reached and published the presidential chamber's decision on the arrangement and selection of the allocation procedure and the allocation and auction regulations for awarding frequencies in the ranges 700MHz, 900MHz, 1,800MHz and 1.5GHz. Following this, the Telefónica Deutschland Group submitted an application for admission to the auction to the German Federal Network Agency on 5 March 2015. The Telefónica Deutschland Group has filed an action against the decision by the presidential chamber initially purely to comply with the deadline. A decision has not yet been reached on this. The decision on the applications for admission submitted was made on 22 April 2015. The start of the auction is currently scheduled by the German Federal Network Agency for 27 May 2015. For further information refer to Note No. 10, Events after the Reporting Period.

Annual General Meeting
On 30 March 2015 the Management Board of Telefónica Deutschland convened the Annual General Meeting for the 2014 financial year on 12 May 2015. For further information refer to Note No. 10, Events after the Reporting Period.

3. Basis of Preparation

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

These Interim Consolidated Financial Statements as of 31 March 2015 are unaudited.

Functional currency and presentation currency
These Interim Consolidated Financial Statements are presented in Euro, which is the functional currency of Telefónica Deutschland Group. The Euro (EUR) is the functional currency of all Telefónica Deutschland Group companies.

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

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

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

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

Comparative information
The Consolidated Statement of Financial Position presented in these Interim Consolidated Financial Statements relates to information as of 31 March 2015, which is compared against information as of 31 December 2014.

The Consolidated Income Statement and the Consolidated Statement of Comprehensive Income relate to the three-month periods ended 31 March 2015 and 31 March 2014. The Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity compare the first three-month periods of 2015 and 2014.

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

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

4. Accounting Policies

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

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

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

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

Standards and amendments		Application for financial years beginning on or after
IFRS 14	Regulatory Deferral Accounts	1 January 2016[1]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016[1]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016[1]
Amendments to IAS 16 and IAS 41	Bearer Plants	1 January 2016[1]
Amendments to IAS 27	Equity Method in Separate Financial Statements	1 January 2016[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016[1]
Annual Improvements 2012–2014 Cycle	Amendments to IAS 19, IAS 34, IFRS 5 and IFRS 7	1 January 2016[1]
Amendments to IFRS 10, IFRS 12 and IAS 28	Applying the Consolidation Exception	1 January 2016[1]
Amendments to IAS 1	Presentation of Financial Statements: Disclosure initiative	1 January 2016[1]
IFRS 15	Revenue from Contracts with Customers	1 January 2017[1,2]
IFRS 9 and amendments to IFRS 7	Financial Instruments	1 January 2018[1]

1 Endorsement by the EU is still outstanding; statement of compulsory application according to IASB.
2 on 28 April 2015 the IASB voted to publish an Exposure Draft proposing a one-year deferral of the effective date of the revenue Standard to 1 January 2018. The IASB will consult on the proposed deferral of the effective date before it is confirmed, as is required by its due process.

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

5. Related Parties

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

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

a) Trade and other receivables

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

(Euros in millions)	As of 31 March 2015		As of 31 December 2014	
	Non-current	Current	Non-current	Current
Trade receivables	172	1,588	252	1.702
Receivables from related parties	0	49	0	53
Other receivables	0	41	0	19
Provisions for bad debts	(13)	(268)	(16)	(261)
Trade and other receivables	**159**	**1,409**	**236**	**1,513**

b) Other non-financial assets

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

(Euros in millions)	As of 31 March 2015		As of 31 December 2014	
	Non-current	Current	Non-current	Current
Prepayments	163	264	142	54
Prepayments to related parties	0	0	0	1
Tax receivables for indirect taxes	0	5	0	16
Other non-financial assets	**163**	**269**	**142**	**71**

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

c) Interest-bearing debt

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

(Euros in millions)	As of 31 March 2015		As of 31 December 2014	
	Non-current	Current	Non-current	Current
Bonds	1,105	6	1,103	12
Promissory notes and registered bonds	299	0	0	0
Loan liabilities	500	225	500	226
Finance leases	142	328	197	374
Contribution and compensation obligations	0	3	0	3
Interest-bearing debt	**2,047**	**562**	**1,800**	**615**

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

As of 31 March 2015, the Interest-bearing debt contain promissory notes and registered bonds for which the current and non-current portion has a carrying amount of around EUR 300 million. On 13 March 2015 Telefónica Deutschland Group completed the private placement of promissory notes and registered bonds. For further information, please refer to Note No. 2, Significant Events and Transactions in the Reporting Period.

In addition, as of 31 March 2015 this item includes a loan of EUR 725 million, which Telefónica Deutschland Group borrowed in September 2012 at an original total value of EUR 1,250 million from Telfisa Global B.V., as well as finance lease liabilities and contribution and compensation obligations in conjunction with investments in start-ups.

d) Trade payables, other payables and deferred income

The composition of trade payables, other payables and deferred income is as follows:

	As of 31 March 2015		As of 31 December 2014	
(Euros in millions)	Non-current	Current	Non-current	Current
Trade payables against third parties	0	504	0	592
Accruals	16	1,302	16	1,246
Payables to related parties	0	242	0	254
Trade payables	**16**	**2,048**	**16**	**2,092**
Other creditors non-trade	3	66	3	80
Other payables to related parties	0	46	0	42
Other current other payables	0	67	0	70
Other payables	**3**	**179**	**3**	**191**
Trade and other payables	**19**	**2,227**	**19**	**2,283**
Deferred income	**305**	**418**	**305**	**400**

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

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

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

The other current payables especially include debtors with credit balances.

Deferred income primarily includes advance payments received for prepaid credit and other advance payments received for future service performance.

7. Selected Explanatory Notes to the Consolidated Income Statement

a) Revenues

Revenues are comprised as follows:

	1 January to 31 March	
(Euros in millions)	**2015**	2014
Rendering of services	1,615	1,000
Other sales	286	122
Revenues	**1,901**	**1,122**

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

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

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

	1 January to 31 March	
(Euros in millions)	**2015**	2014
Wireless business	**1,636**	**827**
Mobile service revenues	1,354	707
Handset revenues	282	120
Wireline business	**261**	**293**
Other revenues	**3**	**2**
Revenues	**1,901**	**1,122**

b) Net financial income/(expense)

The net financial income/(expense) of Telefónica Deutschland Group for the first three months of the current financial year amounts to EUR –16 million (2014: EUR –8 million).

The breakdown of net financial income/(expense) is as follows:

	1 January to 31 March	
(Euros in millions)	**2015**	2014
Interest income from financial assets	3	2
Interest expenses from financial liabilities	(18)	(9)
Accretion of provisions and other liabilities	(0)	(0)
Other exchange gains/(losses)	(1)	0
Net financial income/(expense)	**(16)**	**(8)**

The interest income from financial assets mainly comprises the interest income in connection with "O_2 My Handy" receivables, receivables from finance leases and cash pooling balances at Telfisa Global B.V.

The interest expenses from financial liabilities mainly include the interests for the loan borrowed from Telfisa Global B.V. in September 2012 and for the bonds issued in November 2013 and February 2014.

Additionally, this item also includes interests from finance lease obligations and interests for the promissory notes and registered bonds issued in March 2015.

8. Measurement Categories of Financial Assets and Financial Liabilities

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

As of 31 March 2015 the carrying amount of the financial assets and financial liabilities represents an appropriate approximation for the fair value (with the exception of the portion of the bonds that is not hedged – see below).

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

In addition, the tables show the categorisation of the financial assets and financial liabilities in accordance with the importance of the input factors that were used for their respective measurement. For this purpose, three levels of measurement hierarchies are defined:
— Level 1: Primary market value: quoted prices (unadjusted) in active markets for identical assets and liabilities
— Level 2: Significant other observable input parameters: inputs observable, either directly or indirectly, which are subject to certain limitations
— Level 3: Significant unobservable input parameters: all unobservable inputs which might include the entity's own data as a starting point and which should be adjusted if reasonably available information indicates that other market participants would use different data.

	As of 31 March 2015									
	Financial assets									
					Measurement hierarchy					
(Euros in millions)	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to maturity financial assets	Loans and receivables	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	Not in the scope of IFRS 7 (measured at fair value)
Non-current trade and other receivables (Note No. 6a)	0	0	0	159	0	0	0	159	159	0
Other non-current financial assets	14	14	0	12	0	14	14	40	40	12
Current trade and other receivables (Note No. 6a)	0	0	0	1,409	0	0	0	1,409	1,409	0
Other current financial assets	1	0	0	15	0	1	0	16	16	0
Cash and cash equivalents	0	0	0	1,997	0	0	0	1,997	1,997	0
Total	**15**	**14**	**0**	**3,592**	**0**	**15**	**14**	**3,620**	**3,620**	**12**

	As of 31 December 2014									
	Financial assets									
					Measurement hierarchy					
(Euros in millions)	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held- to maturity financial assets	Loans and receivables	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	Not in the scope of IFRS 7 (measured at fair value)
Non-current trade and other receivables (Note No. 6a)	0	0	0	236	0	0	0	236	236	0
Other non-current financial assets	12	13	0	11	0	12	13	37	37	12
Current trade and other receivables (Note No. 6a)	0	0	0	1,513	0	0	0	1,513	1,513	0
Other current financial assets	2	0	0	17	0	2	0	19	19	0
Cash and cash equivalents	0	0	0	1,702	0	0	0	1,702	1,702	0
Total	**14**	**13**	**0**	**3,480**	**0**	**14**	**13**	**3,507**	**3,507**	**12**

As of 31 March 2015, EUR 14 million of the other non-current financial assets and EUR 1 million of the other current financial assets are classified as financial assets at fair value through profit or loss. These relate to swaps concluded in connection with the bond issue.

In addition, EUR 14 million in other non-current financial assets are classified as available for sale financial assets. These relate to investments in start-ups. These assets were measured according to level 3 as reliable measurement using a market price is not possible. These entities generate a start-up loss, and the existing business plans contain numerous unpredictable assumptions. For this reason, the measurement was made in accordance with IAS 39.46c at amortised costs.

All other financial assets as of 31 March 2015 were categorised as loans and receivables.

Please refer to the respective notes for further information.

	As of 31 March 2015							
	Financial liabilities							
				Measurement hierarchy				
(Euros in millions)	**Financial liabilities at fair value through profit or loss**	**Liabilities at amortised cost**	**Finance leases**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Total carrying amount**	**Total fair value**
Non-current interest-bearing debt (Note No. 6c)	361	1,543	142	0	361	0	2,047	2,113
Non-current trade and other payables (Note No. 6d)	0	19	0	0	0	0	19	19
Current interest-bearing debt (Note No. 6c)	3	231	328	0	0	3	562	562
Current trade and other payables (Note No. 6d)	0	2,227	0	0	0	0	2,227	2,227
Total	**364**	**4,020**	**471**	**0**	**361**	**3**	**4,855**	**4,921**

	As of 31 December 2014							
	Financial liabilities							
				Measurement hierarchy				
(Euros in millions)	Financial liabilities at fair value through profit or loss	Liabilities at amortised cost	Finance leases	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value
Non-current interest-bearing debt (Note No. 6c)	360	1,244	197	0	360	0	1,800	1,865
Non-current trade and other payables (Note No. 6d)	0	19	0	0	0	0	19	19
Current interest-bearing debt (Note No. 6c)	3	237	374	0	0	3	615	615
Current trade and other payables (Note No. 6d)	0	2,283	0	0	0	0	2,283	2,283
Total	**363**	**3,783**	**571**	**0**	**360**	**3**	**4,717**	**4,782**

As of 31 March 2015 EUR 361 million of the other non-current interest-bearing debt are classified as financial liabilities at fair value through profit or loss. These relate to a portion of the bonds, which are each accounted for as fair value hedges with one interest rate swap each.

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

As of 31 March 2015 the non-current and current interest-bearing debt contain promissory notes and registered bonds with a carring value of around EUR 300 million, which are classified as liabilities at amortised cost.

Furthermore, EUR 3 million of the current interest-bearing debt are classified as financial liabilities at fair value through profit or loss as of 31 March 2015. These relate to contribution and compensation obligations in conjunction with investments in start-ups. These obligations were measured according to level 3 as reliable measurement; using a market price is not possible.

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

Please see the respective notes for further information.

9. Contingent Assets and Liabilities

As of 26 March 2015 Telefónica Deutschland Group assumed a directly enforceable guarantee for claims of Deutsche Leasing Information Technology GmbH against yourfone GmbH arising from a lease agreement concluded between the two companies for handsets. As of 31 March 2015 the directly enforceable guarantee amounted to EUR 17 million.

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

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

10. Events after the Reporting Period

Allocation procedure of frequencies in the ranges 700MHz, 900MHz, 1,800MHz and 1.5GHz
By decision of the German Federal Network Agency on 22 April 2015, the Telefónica Deutschland Group was admitted to the auction of frequencies in the ranges 700MHz, 900MHz, 1,800MHz and 1.5GHz. The start of the auction is scheduled by the German Federal Network Agency for 27 May 2015.

Changes in the Supervisory Board of Telefónica Deutschland
María Pilar López Álvarez stepped down from the Supervisory Board of Telefónica Deutschland at the end of the Annual General Meeting on 12 May 2015.

Laura Abasolo García de Baquedano was elected as her successor. Her term in office began from the end of the 2015 Annual General Meeting and ends with the Annual General Meeting that adopts the resolution on formal approval of her actions for the first financial year after the start of her term in office. This does not include the financial year in which her term of office begins.

Annual General Meeting/Dividend resolution for the 2014 financial year
The Annual General Meeting of Telefónica Deutschland for the 2014 financial year took place on 12 May 2015. In addition to presenting the adopted Annual Financial Statements of Telefónica Germany, including the Group Management Report and the approved Consolidated Financial Statements, a dividend of EUR 0.24 per entitled share, EUR 713,893,198.32 in total, was resolved.

National roaming
Beginning April 2015 the UMTS networks of the former Telefónica Deutschland Group (O_2) and the E-Plus Group (E-Plus) were opened up to all customers of the group, bundling the strength of both networks for the first time. As a result, the customers of all proprietary brands and partner brands can be offered the densest UMTS network infrastructure in urban areas and the most widespread coverage in rural areas. This step improves the user experience for wireless data services even in areas where our customers do not yet have LTE.

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

Munich, 13 May 2015

Telefónica Deutschland Holding AG

The Management Board

Thorsten Dirks | Rachel Empey | Markus Haas

Glossary_

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

3G	Third generation mobile communications standard (see UMTS)
4G	Fourth generation mobile communications standard (see LTE)
ADSL	Asymmetrical Digital Subscriber Line (see DSL)
ARPU	Average Revenue per User
Broadband	Refers to telecommunication in which a wide band of frequencies is available to transmit information
CapEx	Capital Expenditure: Additions in fixed and intangible assets
Carrier	Telecommunication network operator authorized by the federal network agency
CF	Cash flow
Cloud Service	Cloud services are dynamic infrastructure, software or platform services provided online
Convergence	Signifies the bundling of different digital services, which to some extent use different transmission technologies, into one product, e.g. wireless and wireline
Cross-selling	Marketing term denoting the sale of related or complementary products or services
DLD	Digital-Life-Design
DSL	Digital Subscriber Line: technology to transmit data in the local loop to private end-customers
EasT	Experts as Trainers: program for training and continuing education
EC	European Commission
EU	European Union
Euribor	Euro Interbank Offered Rate
FCF	Free cash flow
FNA	Federal Network Agency: Bundesnetzagentur
FTR	Fixed network Termination Rates
GDP	Gross Domestic Product
GfK	Consumer research association (Gesellschaft für Konsumforschung)
GPS	Global Positioning System
GSM	Global System for Mobile Communications: this is the global standard for digital mobile communications
HSPA	High-Speed Package Access
Hosting	Providing storage capacity via the internet
IAS	International Accounting Standards

IASB	International Accounting Standards Board
IDR	Issuer Default Rating
IFRS	International Financial Reporting Standards
Internet	Worldwide network of computers on the basis of an IP (Internet Protocol) without any central network management
IPO	Initial public offering
IT	Information Technology
Joint Venture	Two or more companies founding a new enterprise for cooperation
LAN	Local Area Network: a group of computers and associated devices that share a common communications line or wireless link
Libor	London Interbank Offered Rate
Live Check	Website and app which customers can use to get location-based information on the current quality of the O_2 mobile communications network
LTE	Long Term Evolution: further development of the UMTS/HSPA mobile communications standard
M2M	Machine-to-Machine communication, automatic exchange of information between machines
MMS	Multimedia Messaging Service
MNO	Mobile Network Operator
mpass	Mobile payment service
MTR	Mobile termination rates
Multi-brand strategy	Enables Telefónica Deutschland to provide customers in all segments offers that suit their exact needs through various own and partner brands
MVNO	Mobile Virtual Network Operator
NFC	Near Field Communication: a short-range wireless connectivity standard
NGO	Non Governmental Organization
n.m.	not measured
NRA	National Regulatory Authority
O_2 My Handy	Monthly payment model for mobile phones and other devices
OIBDA	Operating Income before Depreciation and Amortization
OTT	Over The Top
PBX	Private Branch Exchange: a telephone system within an enterprise that switches calls between enterprise users on local lines while allowing all users to share a certain number of external phone lines
PIP	Performance and Investment Plan
POS	Point of Sale
Prepaid/Postpaid	In contrast to postpaid contracts, prepaid communication services are services for which credit has been purchased in advance with no fixed-term contractual obligations

Retail	Sale of goods and services to end users; as opposed to resale or wholesale business
Roaming	Using a communication device or subscriber identity in a different network other than one's home network
SIM	Subscriber Identity Module: a chip card to insert into a mobile phone 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	Wireless handset that can be used as a mobile phone, a web browser, and an e-mail reader simultaneously
SME	Small and Medium-sized Enterprises
SMS	Short Message Service
SoHo	Small and Home offices
Tablet	A wireless, portable personal computer with a touch screen interface
Telefónica	Telefónica, S. A., Madrid/Spain
Telefónica Deutschland	Telefónica Deutschland Holding AG (former: Telefónica Germany Verwaltungs GmbH), Munich
Telefónica Deutschland Group	The companies included in the Consolidated Financial Statements of Telefónica Deutschland
Telefónica Group	The companies included in the Consolidated Financial Statements of Telefónica
ULL	Unbundled Local Loop: bridges the distance between the local exchange and the termination point on the customer's premises or in their home, so it is also known as the "last mile"
UMTS	Universal Mobile Telecommunications Service: international mobile communications standard of the third generation which unites mobile multimedia and telematics service under the frequency spectrum of 2GHz
VAT	Value Added Tax
VDSL	Very High Data Rate Digital Subscriber Line (see DSL)
VPN	Virtual Private Network
WAN	Wide Area Network: a geographically dispersed telecommunications network
Wholesale	Selling services to third parties who sell them to their own end customers either directly or after further processing

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