MUNICH, 25 February 2016

Preliminary results for January to December 2015

Telefónica Deutschland maintained market momentum and generated significant synergies in 2015 and is now moving the focus from integration to transformation.

- **The successful capture of synergies and optimisation of commercial costs lead to OIBDA growth of +20.5% year-on-year[1] for the full year (+34.1% in the fourth quarter)**
- **As expected, MSR is broadly stable year-on-year at +0.1% (-1.0% in Q4) amidst a continued focus on customer base development and a strong performance of the partner business**
- **The financial outlook for 2016 reflects our intention to continue to take a leading role within the framework of a rational German mobile market. In 2016 we will shift the focus from integration to transformation, while already capturing >50% of our total operating cash flow savings target**

Fourth quarter 2015 operational & financial highlights[1,2]

- **Net additions in mobile postpaid** came in at 198 thousand (excluding an impact from a business customer base harmonisation at the E-Plus Group respective negative 202 thousand in reported terms), with a continued strong contribution from partner brands. Contract churn[3] excluding the before mentioned one-time effect improved by 0.2 percentage points year-on-year to 1.7% and was stable quarter-on-quarter.
- After a particular strong gross add performance over the summer period, **mobile prepaid** was affected by disconnections relating to seasonal effects and as such registered **net disconnection** of 24 thousand in the final quarter of 2015.
- The **LTE customer base** further increased to almost 8 million (+12.6% quarter-on-quarter) at the end of 2015, reflecting successful data monetisation and increasing data usage for O_2 consumer postpaid customers which grew 10.0% quarter-on-quarter in the fourth quarter to 1.2GB per month.

[1] Unless indicated otherwise, year-on-year comparisons are based on combined figures for 2014. These are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by exceptional effects, such as capital gains or restructuring costs based on estimates made by Telefónica Deutschland management and resulting in combined figures we believe are more meaningful as a comparable basis. Exceptional effects as of 31 December 2015 include restructuring expenses amounting to EUR 73 million (31 December 2014: EUR 414 million on a combined basis) as well as one-off gains from the sale of yourfone GmbH in the amount of EUR 15 million (after adjustment from the final purchase price allocation (PPA)) which was closed on 2 January 2015. Furthermore, EUR 104 million income and EUR 3 million expenses resulting from the agreement with KPN on the final purchase price of E-Plus are included in exceptional effects.

[2] Unless indicated otherwise, values include retrospective adjustments from the purchase price allocation (PPA) within the twelve-months-period following the acquisition of E-Plus group as of 1 October 2014 (IFRS 3).

[3] Starting 1 January 2014 M2M SIM-cards are excluded from calculation for postpaid churn and ARPU.

- **Revenues** reached EUR 2,059 million (+2.0% year-on-year) with the handset business delivering strong year-on-year growth of 17.9%. Fixed revenues continued to improve their year-on-year trend to -3.2% in the final quarter of 2015 on the back of good VDSL traction and the slowdown of the year-on-year decline of the retail DSL customer base and spot trading opportunities in carrier voice.
- **Mobile service revenues** totalled EUR 1,378 million (-1.0% year-on-year) on the back of our ongoing focus on retention and the development of our customer base as well as continued growth of the partner business, which had a dilutive effect due to the revenue shift from retail to wholesale.
- **OIBDA** excluding exceptional effects[4] continued to benefit from the accelerated execution of synergies as well as significant commercial costs savings. As such it increased by 34.1% year-on-year to EUR 476 million, with more than 50% of the year-on-year OIBDA growth from integration savings.
- **CapEx**[5] declined 25.0% year-on-year to EUR 328 million as investments for growth and network integration were more than offset by synergies from building one single LTE network. By the end of 2015 the Company reached its targeted LTE coverage of 75%.
- **Consolidated net financial debt**[6] was EUR 1,225 million at the end of December 2015 and leverage further reduced to 0.7x, in line with the stated target of at or below 1.0x.

[4] Exceptional effects as of 31 December 2015 include restructuring expenses amounting to EUR 73 million (31 December 2014: EUR 414 million on a combined basis) as well as one-off gains from the sale of yourfone GmbH in the amount of EUR 15 million (after adjustment from the final purchase price allocation (PPA)) which was closed on 2 January 2015. Furthermore, EUR 104 million income and EUR 3 million expenses resulting from the agreement with KPN on the final purchase price of E-Plus are included in exceptional effects.

[5] Excluding investments in spectrum in June 2015 amounting to EUR 1,198m (including capitalised costs on borrowed capital).

[6] Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing liabilities as well as cash and cash equivalents and excludes the payables for the spectrum auction.

Progress of integration and transformation activities

Telefónica Deutschland continued to make significant progress in the final quarter of 2015 with regards to the execution of its integration and transformation initiatives. As such it is well positioned to enter the next phase which includes core integration projects such as the network integration, IT landscape transformation and brand migration.

- By the end of December Telefónica Deutschland completed the execution of the 2015 leaver programme, thereby restructuring 800 full time equivalents (FTEs) out of a total target of 1,600 FTEs - an important milestone to build a lean and efficient organisation.
- The company has also seen significant progress in terms of the optimisation of the retail shop footprint with 480 shops consolidated by the end of 2015. This includes the agreement to transfer 301 shops to Drillisch, a majority of which have already been transferred.
- Telefónica Deutschland has also started the nationwide consolidation of the UMTS and GSM networks of O_2 and E-Plus and in parallel continues to expand its LTE network, to enable joint LTE access from mid-2016. The site consolidation process was initiated during the fourth quarter of 2015 and the agreement to transfer approx. 7,700 mobile sites to Deutsche Telekom will help to drive an efficient site dismantling process.
- The in-city consolidation of company offices and the roll-out of a new workplace concept progressed further, with Munich, Düsseldorf and Hamburg the main centres of activity. By the end of 2015 Telefónica Deutschland has already met a third of its total office space reduction target of approximately 100 thousand sqm.
- Telefónica Deutschland continued to optimise the management of external staff, including agency workers, outsourcing and consultants.

Recent developments in Telefónica Deutschland's commercial offer and network

The fourth quarter 2015 results confirm that Telefónica Deutschland continued to maintain market momentum in a rational but dynamic market. At the same time, independent surveys confirmed improvements in network quality and customer service.

- After the successful realisation of 3G national roaming in 2015, Telefónica Deutschland started the integration of O_2 and E-Plus networks in January 2016
- Also in January the Company started the rollout of its new O_2 shop design with a focus on customer service and digitalisation. The new concept will be implemented step by step and started in Berlin, Frankfurt, Munich and Cologne.
- As part of the integration process Telefónica Deutschland has started to unify its brand and tariff portfolio and will henceforth focus on the O_2 brand in the premium sector. Customers of BASE and E-Plus will be gradually be transferred to O_2 over the coming months. We thus simplify our offer in the premium segment and provide customers with consistent high-quality products and services under one brand.
- Our brands have been recognised for good service quality: Blau and simyo ranked 2nd and 3rd in the German Fairness Award (Deutscher-Fairness-Preis). Newspaper DIE WELT crowned O_2 winner of service champions within its sector. Additionally, O_2 was awarded first place in the connect hotline test 2015 as the only provider with a “very good” rating.
- Telefónica Deutschland also launched a new VDSL campaign at the end of December 2015, supporting our convergent positioning. In addition, in early February 2016 the company launched ‘Blue One’, bringing together various fixed/mobile product combinations under a single brand name to facilitate ease of access for customers.
- Since the end of October 2015 Telefónica Deutschland has become the first network provider worldwide where customers have the choice to pay for Apple Music, iTunes, App Store and iBooks Store via their mobile phone bill. Now this service is also on offer for the Windows Store through Windows 10.

Financial outlook 2016

Since the merger of Telefónica Deutschland and E-Plus in 2014, the company has become an established key player, thereby driving significant structural change in the German telecoms market. The market now has three established mobile network operators with similar market shares, setting the scene for a continuous rational market. Nevertheless, we have seen increased market dynamics in the non-premium segment of the market. As the largest MVNO partner in the German market, Telefónica Deutschland is well positioned to benefit from the growth in the wholesale segment, which we expect to persist in 2016. Against this competitive background Telefónica Deutschland will pursue a clear multibrand strategy, with a strong focus on the development of its premium brand o2. We will continue to take a leading role within the framework of a competitive marketplace.

Across all brands Telefónica Deutschland will focus on the opportunity for monetising data growth. Germany still lags other European markets in terms of customer data usage, and we expect data growth to continue to accelerate in 2016 and to eventually drive an inflection point in the company's MSR and ARPU trajectory. In the near future this trajectory will still be negatively affected by the shift in new customer acquisition trends from retail to wholesale, as well as the legacy customer base mix. The company will continue to make significant efforts to develop its customer base through retention and upselling mechanisms. For 2016 we thus expect **mobile service revenue to be slightly negative to broadly stable year-on-year**. The outlook for MSR includes expected effects from the elimination of roaming charges in Europe by 2017 and the associated glidepath. Moreover, as in 2015 fixed-line revenues will continue to be negatively affected by the progressive decommissioning of the ULL broadband access infrastructure.

Telefónica Deutschland also successfully executed a number of important integration initiatives in 2015, with a range of large projects to follow in 2016. These projects include the network integration, the transformation of the IT landscape and the migration of brands and customers to a joint platform. These projects have long lead-times and are cost-intensive, especially in the first half of 2016, while savings generated from them will be significant but mostly beneficial in future years. The efficient execution of these projects is of crucial importance for the transformation of Telefónica Deutschland to a digital powerhouse with a lean infrastructure model, enabling us to offer further compelling, differentiated products and services for customers across segments.

In terms of synergy generation for 2016, Telefónica Deutschland will continue to benefit from the initiatives executed in 2015, especially in the first half of 2016. Additional in-year savings from employee restructuring and site decommissioning will come through mainly in the second half of the year. The MBA MVNO deal with Drillisch will continue to generate revenue synergies in 2016. In addition to the 35% of total expected operating cashflow synergies achieved in 2015, there will be **no incremental Capex-related synergies in 2016** but **further incremental Opex and revenue-related in-year benefits of ca. EUR 150 million** mostly from the annualisation of 2015 measures. By year-end 2016 the **cumulated savings level from synergies is expected reach >50% of the total expected operating cashflow (Opex – Capex) synergies** of EUR 800 million after 5 years.

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This translates into an expected **low to mid single-digit year-on-year OIBDA percentage growth (post Group Fees, pre exceptionals)**, primarily driven by synergies. In contrast, over half of the annual OIBDA growth in 2015 was driven by commercial & other cost savings principally relating to the reduction in new customer acquisition costs and handset subsidies from January 2015 in the context of our rational market strategy.

In terms of capex development Telefónica Deutschland is pushing ahead in 2016 with the roll-out of the LTE network, focusing both on increasing coverage and adding capacity, with the target of reaching eye level with the competition in terms of customer network perception by year-end 2016. **Capital expenditure is thus expected to grow in the low tens in year-on-year percentage terms in 2016**, excluding any spectrum effects.

From a balance sheet perspective, the company **leverage target of at or below 1.0x net debt/OIBDA remains unchanged**, as we continue to believe in a high level of financial flexibility while moving through the early years of the integration process. This leverage target will be continually reviewed. In terms of **dividend policy**, we view ourselves as a dividend-paying company with the intention to support a high payout ratio in relation to FCF, thus offering shareholders the potential for future dividend growth. We will consider expected future synergies when making dividend proposals.

In 2015 the new Telefónica Deutschland successfully maintained its focus on three key strategic priorities: Maintaining market momentum, integrating quickly and transforming the company. Over the course of 2016 the company will shift focus from integration to transformation, all the while maintaining momentum in a rational but dynamic market environment. We will continue to build a company which will lead its peers both in terms of the way we approach our legacy business and in terms of our ability to drive innovation and the development of new business areas, most importantly Advanced Data Analytics and the Internet of Things. By continually improving our digital capabilities we strive to offer our customers the latest products, technology and services and thereby an element of choice in their daily lives, as the leading German digital 'onlife' telco.

	Base line 2015 (EUR million)	**Outlook 2016** (year-on-year)
MSR	5,532	Slightly negative to broadly stable
OIBDA Before exceptional effects	1,760	Low to mid single-digit % growth
CapEx[7]	1,032	% growth in the low tens

[7] Excluding investments in spectrum in June 2015 amounting to EUR 1,198m (including capitalised costs on borrowed capital).

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Telefónica Deutschland's operating performance in 2015[8,9]

At the end of December 2015 Telefónica Deutschland's **access base stood at 48.4 million** (+1.5% year-on-year) driven by a +2.2% year-on-year growth of the mobile base, which reached 43.1 million. In fixed-line, the year-on-year trend in the retail DSL business saw further improvement, while wholesale DSL continues to decline in line with expectations. The total fixed access base fell by 4.3% to 5.3 million.

Net additions in mobile postpaid for 2015 were 709 thousand (198 thousand in Q4 2015), excluding the impact from the customer base harmonisation for business customers in the E-Plus Group in the fourth quarter (309 thousand and -202 thousand respectively in reported terms). Partner brands delivered a strong contribution in the form of 42% of gross additions (43% in the fourth quarter, in line with previous quarter). Lower year-on-year trading in the retail postpaid business reflects our strategic focus on retention over acquisition and the development of our customer base. At the end of December our mobile postpaid base reached 19.1 million accesses (+1.6% year-on-year), a broadly stable 44.3% share of total mobile customers.

Prepaid registered 629 thousand net additions for the full year with a strong performance from partners and ended 2015 with 24.0 million accesses (+2.7% year-on-year). The fourth quarter saw 24 thousand net disconnections, mainly driven by seasonality after the strong activity seen in ethnic brands in the summer quarter.

Postpaid churn[10] in 2015 improved by 0.1 percentage points to 1.7% for the twelve months period excluding the one-time effect from customer base harmonisation. As a result of Telefónica Deutschland's continued focus on retention, the O_2 consumer brand reported an even lower churn of 1.4% for the same period.

Smartphone penetration[11] across all brands continued to rise and was up 5.5 percentage point year-on-year to 54.2% at the end of December (+1.4 percentage points quarter-on-quarter) driven by the continued high demand for data and smartphones in both the postpaid and the prepaid customer base.

The **LTE customer base** continued to grow to 7.9 million (+12.6% quarter-on-quarter) by the end of December, reflecting the success of the LTE and data monetisation strategy, including the opening of the LTE network to the entire O_2 postpaid customer base.

[8] Year-on-year comparisons are based on combined figures for 2014. These are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group operating data according to Telefónica Deutschland Group accounting policies and resulting in combined figures we believe are more meaningful as a comparable basis.
[9] Unless indicated otherwise, values include retrospective adjustments from the purchase price allocation (PPA) within the twelve-months-period following the acquisition of E-Plus group as of October 2014 (IFRS 3).
[10] Starting 1 January 2014 M2M SIM-cards are excluded from calculation for postpaid churn and ARPU.
[11] Defined as the number of active mobile data tariffs over total mobile customer base, excluding M2M and data-only accesses.

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Mobile ARPU was EUR 10.5 (-3.2% year-on-year) in the fourth quarter and EUR 10.7 for the twelve months period (-2.2% year-on-year). Postpaid ARPU[12] came to EUR 16.9 in the fourth quarter, a broadly stable 4.3% year-on-year decline as in the prior quarter, and EUR 17.2 for January to December 2015 (-4.2% year-on-year). The continued ARPU decline is both a reflection of the high share of wholesale gross adds and the legacy customer base mix. Prepaid ARPU continued to rise, reaching EUR 5.8 both in the fourth quarter of 2015 (+2.7% year-on-year) as well as for the full year (+4.7% year-on-year) on the back of growing data demand across the customer base.

Retail fixed broadband trends further improved driven by the strong performance of VDSL, which registered 260 thousand net additions in 2015 (+55% year-on-year), thereof 73 thousand in the fourth quarter (+11.8% year-on-year). As a result, net disconnections for retail fixed BB fell to 5 thousand in the final quarter and 46 thousand for the full year 2015, less than half the equivalent figure for 2014. The total retail DSL customer base stood at 2.1 million at year-end.

Fixed wholesale accesses continued their expected decline, registering 46 thousand net disconnections in the fourth quarter (141 thousand in 2015), as a result of the progressive decommissioning of the ULL (Unbundled local loop) broadband access infrastructure.

[12] Starting 1 January 2014 M2M SIM-cards are excluded from calculation for postpaid churn and ARPU.

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Telefónica Deutschland's financial performance in 2015[13,14]

Revenues came to EUR 7,888 million (+1.2% year-on-year) for the twelve months of 2015 and EUR 2,059 million in the fourth quarter (+2.0% year-on-year), with a strong contribution from handset sales.

Mobile service revenues for 2015 were broadly stable year-on-year (+0.1%) at EUR 5,532 million, with the fourth quarter contributing EUR 1,378 million (-1.0% year-on-year) on the back of ongoing strong partner business performance. The company maintained its strategic focus on retention over acquisition and thus on the development of its own customer base.

Mobile data revenues rose 0.2% year-on-year to EUR 2,840 million for the twelve months period (EUR 712 million or -1.5% year-on-year in the fourth quarter), driven by non-SMS data revenues which outweigh the further decline in SMS revenues. Non-SMS data revenues saw growth of 4.9% year-on-year, amounting to EUR 2,034 million in 2015 and EUR 517 million in the fourth quarter (+3.7% year-on-year). As such, the share of mobile data revenues in 2015 over total mobile service revenues remained broadly stable year-on-year at 51.3% while non-SMS data further grew its share of data revenues by 3.2 percentage points to 71.6%.

Mobile data usage for LTE customers continued to show strong growth (+10% quarter-on-quarter to 1.2 Gb/month[15]) on the back of the adoption of LTE-enabled handsets and the growing usage of audio and video streaming applications.

Adoption of tariff mix in the O_2 postpaid premium business saw another sequential improvement in the fourth quarter with approx. 40% of gross additions in O_2 Blue tariffs choosing a tariff with more than 1 Gb monthly allowance (approx. 37% in the previous quarter).

The data automatic continued to prove successful amongst customers with the number of customers opted-in further increasing in the fourth quarter of 2015. Moreover, the rate of automatic extensions of monthly data allowances has increased to 77% of the opted-in customer base, from 54% in the third quarter.

Handset revenues had a strong performance throughout 2015, reaching EUR 1,300 million for the full year (+16.3% year-on-year) and EUR 413 million in the fourth quarter (+17.9% year-on-year), thus reflecting the demand for LTE enabled devices and the Company's value based handset strategy.

[13] Unless indicated otherwise, year-on-year comparisons are based on combined figures for 2014. These are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by material exceptional 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.

[14] Unless indicated otherwise, values include retrospective adjustments from the purchase price allocation (PPA) within the twelve-months-period following the acquisition of E-Plus group as of October 2014 (IFRS 3).

[15] Average data monthly usage (in Mb) from O_2 consumer customers with a LTE-enabled smartphone (all tariffs).

Fixed revenue trends continued to improve in the final months of the year with the rate of year-on-year decline moderating to -3.2% in the fourth quarter and -8.3% for the full year. Total fixed revenues came to EUR 266 million for the quarter and EUR 1,043 million for the full year respectively on the back of the growing traction in the retail DSL business. Consequently, its contribution to the year-on-year reduction also gradually improved from -4.8 percentage points in the second to -3.6 percentage points in the third and -3.1 percentage points in the fourth quarter. In addition, the fourth quarter of 2015 benefitted from taking spot trading opportunities in the carrier voice business.

Other income amounted to EUR 265 million for 2015, including EUR 104 million resulting from the agreement with KPN on the final purchase price of E-Plus.

Operating expenses including restructuring costs of EUR 73 million for the twelve months period and amounted to EUR 6,349 million in 2015, a reduction of 7.8% year-on-year. In the fourth quarter restructuring costs amounted to EUR 7 million. EUR 6,886 million of operating expenses in 2014 included restructuring costs of EUR 414 million. Excluding the before mentioned restructuring costs, operating expenses fell 3.0% year-on-year in 2015.

- **Supplies** amounted to EUR 2,712 million in 2015 and EUR 747 million in the fourth quarter. In the October to December period 53% of supplies were hardware costs of sales and 41% connectivity-related cost of sales

- **Personnel expenses** including restructuring costs of EUR 4 million totalled EUR 655 million for January to December 2015 (EUR 155 million including before mentioned restructuring charges in the final quarter of the year) compared with EUR 1,051 million in the same period of 2014, of which around EUR 320 million were provisions with regards to the employee restructuring programme. Base salaries made up 76% of personnel expenses excluding restructuring costs.

  Other operating expenses amounted to EUR 2,982 million in the twelve months of 2015 (including restructuring expenses of EUR 69 million). In the fourth quarter operating expenses were EUR 733 million (62% commercial costs and 33% non-commercial costs), including restructuring charges of EUR 3 million and EUR 3 million expenses resulting from the agreement with KPN on the final purchase price of E-Plus.

Operating Income before Depreciation and Amortisation (OIBDA) rose significantly in 2015 to EUR 1,804 million (EUR 570 million in the fourth quarter). OIBDA before exceptional effects[16] and after group fees came in at EUR 1,760 million, an increase of 20.5% year-on-year in the twelve months period and of 34.1% in the final quarter of 2015. The substantial OIBDA growth reflects the early capture of integration synergies as well as a reduction in commercial costs driven by the company's commercial strategy. In-year savings from integration activities (OPEX & revenue) amounted to EUR 140 million and contributed >50% to the year-on-year OIBDA increase in the fourth quarter.

The OIBDA margin was 22.9% for the full year 2015 and 22.3% before exceptional effects[16], the latter reflecting an improvement of 3.6 percentage points versus the same period of 2014. In the fourth quarter

[16] Exceptional effects as of 31 December 2015 include restructuring expenses amounting to EUR 73 million (31 December 2014: EUR 414 million on a combined basis) as well as one-off gains from the sale of yourfone GmbH in the amount of EUR 15 million (after adjustment from the final

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of 2015 the OIBDA margin before exceptional effects came to 23.1% (+5.5 percentage points year-on-year).

Group fees amounted to EUR 54 million in the full-year 2015 and EUR 16 million in the fourth quarter.

Depreciation & Amortisation amounted to EUR 2,067 million for 2015, compared to EUR 1,300 million reported in 2014. The strong increase over last year's reported numbers is mainly driven by the inclusion of the E-Plus Group as of 1 October 2014, especially the resulting amortisation of customers and licenses, as well as from the shortening of the remaining useful life of the consolidated networks.

With respect to the spectrum assets acquired in the frequency auction in the second quarter (book value of EUR 1,198 million at the end of December 2015 including capitalised costs on borrowed capital), the renewed licenses in the 900 and 1800 MHz bands will begin to be amortised from January 2017, while the newly acquired spectrum in the 700 MHz band will be amortised after its final release by the authorities which is expected in 2017.

Operating loss showed an improvement of EUR 358 million compared to FY 2014 and stood at EUR -263 million for the period January to December 2015 (EUR 49 million in the fourth quarter), as depreciation & amortisation charges still exceed OIBDA.

The net financial result for the twelve months of 2015 was negative in the amount of EUR 48 million and EUR 12 million in the fourth quarter. This was mainly the result of various financing activities including the bonds issued in November 2013 and February 2014 as well as promissory note executed in March 2015, and interest expenses from finance lease obligations.

The Company reported an **income tax expense** for January to December 2015 of EUR 72 million, mainly relating to changes in deferred taxes.

The result for full year 2015 came to EUR -383 million (EUR -35 million for October to December).

CapEx (excluding investments in spectrum) fell 11.1% year-on-year to EUR 1,032 million for the full year; in the final quarter investments were 25.0% lower year-on-year at EUR 328 million. The increase in the rate of reduction in the fourth quarter was mainly due to phasing and the realisation of CapEx synergies which outweighed network integration costs and investments in the LTE rollout.

Operating cash flow (OIBDA minus CapEx)[17] for the twelve months period of 2015 was EUR 670 million and EUR 140 million in the fourth quarter. Excluding exceptional effects[18], operating cash flow in 2015 more than doubled compared to prior year.

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purchase price allocation (PPA)) which was closed on 2 January 2015. Furthermore, EUR 104 million income and EUR 3 million expenses resulting from the agreement with KPN on the final purchase price of E-Plus are included in exceptional effects

[17] Excluding investments in spectrum in June 2015 amounting to EUR 1,198m (including capitalised costs on borrowed capital) and adjusted by other income and expenses resulting from finalisation of purchase price for E-Plus.

[18] Exceptional effects as of 31 December 2015 include restructuring expenses amounting to EUR 73 million (31 December 2014: EUR 414 million on a combined basis) as well as one-off gains from the sale of yourfone GmbH in the amount of EUR 15 million (after adjustment from the final purchase price allocation (PPA)) which was closed on 2 January 2015. Furthermore, EUR 104 million income and EUR 3 million expenses resulting from the agreement with KPN on the final purchase price of E-Plus are included in exceptional effects

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Free Cash Flow (FCF)[19] reached EUR 700 million in 2015, of which EUR 58 million were proceeds from the sale of yourfone GmbH in the first quarter. FCF includes restructuring effects but excludes the effect from the agreement with KPN on the final purchase price of E-Plus.

[19] Free cash flow pre dividends and payments for spectrum as well as pre-acquisition of E-Plus (FCF) is defined as the sum of cash flow from operating activities and cash flow from investing activities.

Working capital movements of EUR 29 million were mainly driven by changes in the restructuring provision as well as regular working capital movements which include silent factoring transactions for O_2 myHandy receivables. These were partly offset by the upfront payment of EUR 150 million received in July 2015 from the MBA MVNO contract with Drillisch.

Consolidated net financial debt[20] stood at EUR 1,225 million at the end of December 2015, bringing the leverage ratio down to 0.7x. The increase versus prior year was mainly due to the payment for long-term investments in spectrum licenses (EUR 978 million out of a total consideration of EUR 1,198 million) in June 2015 and other financing activities. The Company also paid a EUR 714 million dividend for the financial year 2014 in May 2015. The before mentioned effects were partly offset by an up-front payment received from Drillisch in July 2015 with regards to the launch of the MBA MVNO contract (EUR 150 million), the effect from the payment by KPN (EUR 132 million) resulting from the agreement on the final purchase price for the E-Plus Group as well as by the Free Cashflow[19] of EUR 700 million that was generated in the period.

[20] Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing liabilities as well as cash and cash equivalents and excludes payables for the spectrum auction.

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited

(Euros in millions)	1 October to 31 December 2015	2014 (6)	% Chg	1 January to 31 December 2015	2014 (6)	% Chg
Revenues	2,059	2,019	2.0	7,888	5,522	42.9
Operating income before depreciation and amortization (OIBDA) and exceptional effects (1)	476	354	34.1	1,760	1,088	61.8
OIBDA before exceptional effects-margin	*23.1%*	*17.6%*	*5.5%-p.*	*22.3%*	*19.7%*	*2.6%-p.*
Exceptional effects (1)	95	(401)	(>100,0)	43	(409)	(>100,0)
Operating income before depreciation and amortization (OIBDA)	570	(46)	(>100,0)	1,804	679	>100,0
OIBDA margin	*27.7%*	*(2.3%)*	*30.0%-p.*	*22.9%*	*12.3%*	*10.6%-p.*
Group fees	16	8	94.8	54	53	2.4
Operating income before depreciation and amortization (OIBDA) and before group fees	586	(38)	(>100,0)	1,858	733	>100,0
OIBDA before group fees margin	*28.5%*	*(1.9%)*	*30.4%-p.*	*23.6%*	*13.3%*	*10.3%-p.*
Operating income	49	(568)	(>100,0)	(263)	(621)	(57.6)
Total profit (loss) for the period	(35)	(610)	(94.2)	(383)	(689)	(44.5)
Basic earnings per share (in euros)(2)	(0.01)	(0.36)	(96.7)	(0.13)	(0.43)	(69.8)
CapEx (4)	(328)	(438)	(25.0)	(1,032)	(849)	21.6
Operating cash flow (OIBDA-CapEx) (5)	140	(484)	(>100,0)	670	(169)	(>100,0)
Free cash flow pre dividends and payments for spectrum (3) and pre-acquisition of E-Plus net of cash acquired	350	197	77.9	700	725	(3.5)
Free cash flow pre dividends and payments for spectrum (3)	460	(3,043)	(>100,0)	832	(2,514)	(>100,0)

(1) Exceptional effects as of 31 December 2015 include restructuring expenses amounting to EUR 73m as well as one-off gains from the sale of yourfone GmbH in the amount of EUR 15m (after adjustment from the final purchase price allocation (PPA)) which was closed on 2 January 2015. Furthermore, EUR 104m income and EUR 3m expenses resulting from the agreement with KPN on the final purchase price of E-Plus are included in exceptional effects.

(2) Basic earnings per share are calculated by dividing profit (loss) after taxes for the period by the weighted average number of ordinary shares of 2,975m for the year 2015 and 1,620m for the year 2014.

(3) Free cash flow pre dividends and payments for spectrum is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum amounting to EUR 978m.

(4) Excluding investments in spectrum in June 2015 amounting to EUR 1,198m (including capitalised costs on borrowed capital)

(5) Excluding investments in spectrum in June 2015 amounting to EUR 1,198m (including capitalised costs on borrowed capital) and adjusted by other income and expenses resulting from finalization of purchase price

(6) Unless indicated otherwise, values include retrospective adjustments from the purchase price allocation (PPA) within the twelve-months-period following the acquisition of E-Plus group as of October 2014 (IFRS 3).

Note: OIBDA margin, OIBDA before group fees margin and OIBDA before exceptional effects-margin are calculated as percentage of total revenues, respectively.

TELEFÓNICA DEUTSCHLAND GROUP

ACCESSES

Unaudited

(in thousands)	2015 Q1	Q2	Q3	Q4	2014 Q1	Q2	Q3	Q4
Final clients accesses	46,573	46,981	47,627	47,391	23,876	23,964	24,113	46,548
Fixed telephony accesses	2,022	2,010	2,000	1,998	2,109	2,078	2,051	2,036
Internet and data accesses	2,372	2,355	2,339	2,331	2,492	2,450	2,413	2,387
Narrowband	243	240	236	233	266	259	253	243
Broadband	2,128	2,115	2,103	2,098	2,226	2,191	2,161	2,144
Mobile accesses	42,179	42,617	43,289	43,063	19,275	19,436	19,649	42,125
Prepaid	23,264	23,501	24,004	23,979	8,911	8,920	8,989	23,351
Postpaid	18,915	19,116	19,285	19,083	10,364	10,516	10,660	18,774
thereof M2M	*443*	*506*	*571*	*632*	*95*	*98*	*106*	*414*
Postpaid (%)	44.8%	44.9%	44.5%	44.3%	53.8%	54.1%	54.3%	44.6%
Smartphone penetration (%) (1)	49.8%	51.3%	52.9%	54.2%	32.8%	33.1%	33.8%	29.0%
LTE customers (2)	5,146	6,093	7,002	7,883	464	667	963	3,098
Wholesale accesses (3)	1,085	1,059	1,018	972	1,128	1,152	1,138	1,113
Total accesses	**47,658**	**48,041**	**48,645**	**48,363**	**25,004**	**25,116**	**25,251**	**47,662**

(1) Smartphone penetration is calculated based on the number of customers with a smallscreen tariff (e.g. for smartphones) divided by the total mobile customer base, less M2M and customers with a bigscreen tariff (e.g. for surfsticks, dongles, tablets). The increase of smartphone penetration in Q1 2015 is due to the harmonisation of criteria for all segments and brands in Q1 2015.

(2) LTE customer defined customer with LTE enabled handset & LTE tariff

(3) Wholesale accesses incorporate unbundled lines offered to 3rd party operators, including wirelines telephony and high-speed Internet access.

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED OPERATIONAL DATA

Unaudited

	2015				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ARPU (in euros) (1)	10.6	10.8	10.9	10.5	12.1	12.5	12.7	10.9
Prepaid	5.6	5.9	6.0	5.8	5.0	5.2	5.3	5.6
Postpaid excl. M2M	17.2	17.2	17.4	16.9	18.5	18.8	19.1	17.7
Data ARPU (in euros)	5.5	5.6	5.6	5.5	6.0	6.1	6.2	5.7
% non-SMS over data revenues (2)	70.5%	71.5%	71.9%	72.5%	72.0%	72.5%	73.8%	68.9%
Voice Traffic (m min) (3)	15,837	15,492	15,487	15,879	7,572	7,775	7,398	18,441
Data Traffic (TB) (4)	40,172	42,255	45,898	50,501	10,569	11,247	12,894	37,159
Churn (%)	2.4%	2.1%	2.1%	2.8%	2.4%	1.9%	1.9%	2.9%
Postpaid churn (%) excl. M2M	1.7%	1.7%	1.7%	2.4%	1.6%	1.3%	1.5%	2.7%

Notes:

(1) ARPU (average revenue per user) is calculated as monthly average of the quarter.

(2) % non-SMS over data revenues in relation to the total data revenues.

(3) Voice Traffic is defined as minutes used by the company customers, both outbound and inbound. Only outbound on-net traffic is included, inclusive of promotional traffic. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume is non rounded.

(4) Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10^12 bytes). Promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is also included. Traffic volume non-rounded.

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED INCOME STATEMENT

Unaudited

	1 October to 31 December				1 January to 31 December			
(Euros in millions)	2015	2014 (2)	Change	% Chg	2015	2014 (2)	Change	% Chg
Revenues	2,059	2,019	40	2.0	7,888	5,522	2,366	42.9
Other income	146	38	108	>100,0	265	106	159	>100,0
Operating expenses	(1,635)	(2,104)	468	(22.3)	(6,349)	(4,948)	(1,401)	28.3
Supplies	(747)	(762)	15	(2.0)	(2,712)	(2,144)	(568)	26.5
Personnel expenses	(155)	(498)	344	(68.9)	(655)	(828)	173	(20.9)
Other expenses	(733)	(843)	109	(13.0)	(2,982)	(1,976)	(1,005)	50.9
Operating income before depreciation and amortisation (OIBDA)	**570**	**(46)**	**616**	**(>100,0)**	**1,804**	**679**	**1,124**	**>100,0**
OIBDA margin	*27.7%*	*(2.3%)*		*30.0%-p.*	*22.9%*	*12.3%*		*10.6%-p.*
Depreciation and amortisation	(522)	(521)	(0)	0.1	(2,067)	(1,300)	(766)	58.9
Operating income	**49**	**(568)**	**616**	**(>100,0)**	**(263)**	**(621)**	**358**	**(57.6)**
Net financial income (expense)	**(12)**	**(9)**	**(3)**	**34.8**	**(48)**	**(34)**	**(13)**	**38.1**
Profit (loss) before tax for the period	**37**	**(576)**	**613**	**(>100,0)**	**(311)**	**(655)**	**345**	**(52.6)**
Income tax	(72)	(34)	(38)	>100,0	(72)	(34)	(38)	>100,0
Total profit for the period	**(35)**	**(610)**	**575**	**(94.2)**	**(383)**	**(689)**	**307**	**(44.5)**
Number of shares in millions as of end of period date	**2,975**	**2,975**	**–**	**–**	**2,975**	**2,975**	**–**	**–**
Basic earnings per share (in euros) (1)	**(0.01)**	**(0.36)**	**0.35**	**(96.7)**	**(0.13)**	**(0.43)**	**0.30**	**(69.8)**

(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 2,975m for the year 2015 and 1,620m for the year 2014.

(2) Unless indicated otherwise, values include retrospective adjustments from the purchase price allocation (PPA) within the twelve-months-period following the acquisition of E-Plus group as of October 2014 (IFRS 3).

TELEFÓNICA DEUTSCHLAND GROUP

REVENUE BREAKDOWN

Unaudited

	1 October to 31 December				1 January to 31 December			
(Euros in millions)	2015	2014	Change	% Change	2015	2014	Change	% Change
Revenues	**2,059**	**2,019**	**40**	**2.0**	**7,888**	**5,522**	**2,366**	**42.9**
Mobile business	**1,791**	**1,742**	**49**	**2.8**	**6,832**	**4,375**	**2,457**	**56.2**
Mobile service revenues	1,378	1,391	(14)	(1.0)	5,532	3,580	1,952	54.5
Handset revenues	413	350	63	17.9	1,300	795	505	63.6
Fixed business	**266**	**274**	**(9)**	**(3.2)**	**1,043**	**1,138**	**(95)**	**(8.3)**
Other revenues	**3**	**3**	**(0)**	**(6.6)**	**12**	**8**	**4**	**45.9**

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of December 31 2015	As of December 31 2014 (3)	Change	% Change
NON-CURRENT ASSETS	**14,406**	**14,406**	**0**	**0.0**
Goodwill	1,955	1,955	0	0.0
Other intangible assets	7,059	6,600	458	6.9
Property, plant and equipment	4,507	4,842	(335)	(6.9)
Trade and other receivables	157	236	(80)	(33.8)
Other financial assets	63	49	14	28.4
Other non-financial assets	160	142	18	12.6
Deferred tax assets	505	581	(76)	(13.0)
CURRENT ASSETS	**2,248**	**3,530**	**(1,283)**	**(36.3)**
Inventories	123	104	20	18.8
Trade and other receivables	1,520	1,545	(25)	(1.6)
Other financial assets	10	19	(8)	(44.9)
Other non-financial assets	61	71	(10)	(14.4)
Cash and cash equivalents	533	1,702	(1,169)	(68.7)
Assets held for sale	-	90	(90)	(100.0)
Total assets = Total equity and liabilities	**16,654**	**17,936**	**(1,282)**	**(7.2)**
EQUITY	**10,321**	**11,412**	**(1,091)**	**(9.6)**
Common Stock	2,975	2,975	–	–
Additional paid-in capital & retained earnings	7,346	8,437	(1,091)	(12.9)
Equity attributable to owners of the company	10,321	11,412	(1,091)	(9.6)
NON-CURRENT LIABILITIES	**2,779**	**2,919**	**(140)**	**(4.8)**
Interest-bearing debt	1,686	1,808	(122)	(6.7)
Trade payables and other payables	154	19	134	>100,0
Provisions	516	787	(272)	(34.5)
Deferred income	424	305	119	39.1
CURRENT LIABILITIES	**3,554**	**3,605**	**(51)**	**(1.4)**
Interest-bearing debt	568	622	(55)	(8.8)
Trade payables and other payables	2,272	2,283	(11)	(0.5)
Provisions	196	241	(45)	(18.7)
Other non-financial liabilities	48	18	30	>100,0
Deferred income	471	400	72	17.9
Liabilities held for sale	-	42	(42)	(100.0)

Financial Data				
Net financial debt (1)	1,225	18	1,206	>100,0
Leverage (2)	0.7x	0.0x	0.7	>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 321m in 2015 and EUR 454m in 2014; non-current: EUR 157m in 2015 and EUR 236m in 2014), positive Fair value Hedge for fixed interest financial liabilities (current: EUR 2m in 2015 and EUR 2m in 2014; non-current: EUR 12m in 2015 and EUR 12m in 2014) as well as loans to third parties (current: EUR 1m in 2015 and EUR 1m in 2014; non-current: EUR 1m in 2015 and EUR 1m in 2014).
C + F Current and non-current net financial debt include bonds, promissory notes and registered bonds issued (EUR 1,420m in 2015 and EUR 1,115m in 2014), other loans (EUR 501m in 2015 and EUR 726m in 2014), finance lease payables (current: EUR 180m in 2015 and EUR 382m in 2014; non-current: EUR 32m in 2015 and EUR 204m in 2014) as well as current interest bearing trade payables (119 Mio. EUR in 2015 and 0 Mio. EUR in 2014).

Note:
Handset - receivables are shown under trade and other receivables in the Consolidated Statement of Financial Position.
Pending payments for spectrum amounting to EUR 220m (including capitalised costs of borrowed capital) are shown under trade payables aginst third parties in the Consolidated Statement of Financial Position and are therefore not included in the net financial debt calculation.

(2) Leverage is defined as net financial debt divided by the OIBDA of the last twelve months 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* OIBDA will be applied. This combined OIBDA includes the OIBDA of the E-Plus Group under Telefonica 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.
* 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 management and resulting in combined figures we believe are more meaningful as a comparable basis.

(3) Unless indicated otherwise, values include retrospective adjustments from the purchase price allocation (PPA) within the twelve-months-period following the acquisition of E-Plus group as of October 2014 (IFRS 3).

TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF FREE CASH FLOW AND RECONCILIATION TO NET DEBT

Unaudited

	2015				2014			
(Euros in million)	Jan - Mar (8)	Jan - June (8)	Jan - Sept (8)	Jan - Dec	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec (8)
OIBDA	**395**	**845**	**1,234**	**1,804**	**234**	**486**	**726**	**679**
- Other income and expenses resulting from finalization of purchase price [(1)]	–	–	–	(102)	–	–	–	–
- CapEX [(2)]	(221)	(463)	(704)	(1,032)	(132)	(266)	(411)	(849)
= Operating Cash Flow (OpCF)	**175**	**383**	**530**	**670**	**102**	**219**	**315**	**(169)**
+ Silent Factoring [(3)]	314	367	301	544	178	153	234	203
-/+ Other working capital movements	(421)	(672)	(503)	(515)	(161)	39	(8)	717
Change in working capital	**(107)**	**(306)**	**(201)**	**29**	**17**	**191**	**226**	**920**
+/- (Gains) losses from sale of companies	(17)	(17)	(15)	(15)	–	–	–	–
+/- Proceeds from sale of companies	68	61	58	57	(0)	(0)	(0)	(0)
+/- Proceeds from sale of companies, fixed assets and other effects	0	–	0	1	1	1	1	1
+ Net interest payments	(14)	(18)	(22)	(33)	(4)	(7)	(10)	(24)
+ Taxes paid	–	0	0	0	–	–	–	(6)
+ /- Proceeds / Payments on financial assets	0	(0)	(0)	(10)	(8)	(7)	(3)	4
= Free cash flow pre dividends and payments for spectrum [(4)] as well as pre-acquisition of E-Plus net of cash acquired	**105**	**102**	**350**	**700**	**107**	**397**	**529**	**725**
+ Acquisition of E-Plus net of cash acquired [(1)]	–	22	22	132	–	–	–	(3,239)
= Free cash flow pre dividends and payments for spectrum [(4)]	**105**	**125**	**372**	**832**	**107**	**397**	**529**	**(2,514)**
- Payments for spectrum	–	(976)	(977)	(978)	–	–	–	–
- Dividends [(5)]	–	(714)	(714)	(714)	–	(525)	(525)	(525)
= Free cash flow post dividends and payments for spectrum	**105**	**(1,565)**	**(1,319)**	**(860)**	**107**	**(128)**	**4**	**(3,039)**
= Net financial debt at the beginning of the period	18	18	18	18	468	468	468	468
+ Increase of net financial debt due to acquisition E-Plus net of cash acquired	–	–	–	–	–	–	–	234
+ Other change in net financial debt	212	195	72	340	120	38	39	(132)
+ capital increase (less transaction costs of the period)	5	6	6	6	–	–	(3,599)	(3,595)
+ Increase of net financial debt due to held for sale [(6)]	–	–	–	–	–	–	–	4
= Net financial debt at the end of the period (incl.. Restricted cash)	**130**	**1,784**	**1,415**	**1,225**	**481**	**634**	**(3,096)**	**18**
- Restricted cash	–	–	–	–	–	–	3,636	–
= Net financial debt at the end of the period (excl. Restricted cash)	**130**	**1,784**	**1,415**	**1,225**	**481**	**634**	**539**	**18**

(1) In 2015, an agreement on the final purchase price was reached with KPN. The original purchase price was reduced overall by EUR 134 million. The differences between the preliminary purchase price and the final purchase price was recognized in an amount of EUR 30 million directly to goodwill within the twelve-month period. EUR 104 million less expenses to reach the agreement in the amount of EUR 3 million (of which EUR 2 million have been paid) have been recognized at the end of the 12-month period in December 2015 in the income statement.

(2) Excluding investments in spectrum in June 2015 amounting to EUR 1,198m (including capitalised costs on borrowed capital).

(3) Full impact (YTD) of silent factoring in the twelve month period in 2015 of EUR 554m and of EUR 203m in the twelve month period 2014 (transactions have been executed in January, March, June, September and December 2015 respectively in March, June and September of the year 2014).

(4) Free cash flow pre dividends and payments for spectrum is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum amounting to EUR 978m.

(5) Dividend payment of EUR 714m in May 2015. Dividend payment of EUR 525m in May 2014.

(6) Assets and Liablilities of yourfone GmbH were classified as held for sale as of 31 December 2014. The sale took place in the first quarter 2015.

	2015				2014			
	Jan - Mar (8)	Jan - June (8)	Jan - Sept (8)	Jan - Dec	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec (8)
= Free cash flow pre dividends and payments for spectrum (millions) [(6)]	105	125	372	832	107	397	529	(2,514)
Number of shares (millions)	2,975	2,975	2,975	2,975	1,117	1,117	2,234	2,975
= Free cash flow per share (in euros) [(6)]	0.04	0.04	0.13	0.28	0.10	0.36	0.24	(0.85)

(7) Free Cash flow per share as of 31 December 2014 calculated on the basis of the free cash flow pre dividends and payments for spectrum as well as pre acquisition of E-Plus net of cash acquired (719 Mio. EUR) amounts to 0.24 EUR per share.

(8) Unless indicated otherwise, values include retrospective adjustments from the purchase price allocation (PPA) within the twelve-months-period following the acquisition of E-Plus group as of October 2014 (IFRS 3).

Telefónica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited

(Euros in millions)	As of 31 December 2015	2014 (2)	% Chg
A Liquidity	**533**	**1,702**	**(68.7)**
B Current financial assets	**324**	**456**	**(29.1)**
C Current financial debt	**564**	**619**	**(8.8)**
D=C-A-B Current net financial debt	**(292)**	**(1,539)**	**(81.0)**
E Non-current financial assets	**169**	**250**	**(32.4)**
F Non-current financial debt	**1,686**	**1,808**	**(6.7)**
G=F-E Non-current net financial debt	**1,517**	**1,557**	**(2.6)**
H=D+G Net financial debt (1)	**1,225**	**18**	**>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 321m in 2015 and EUR 454m in 2014; non-current: EUR 157m in 2015 and EUR 236m in 2014), positive Fair value Hedge for fixed interest financial liabilities (current: EUR 2m in 2015 and EUR 2m in 2014; non-current: EUR 12m in 2015 and EUR 12m in 2014) as well as loans to third parties (current: EUR 1m in 2015 and EUR 1m in 2014; non-current: EUR 1m in 2015 and EUR 1m in 2014).

C + F Current and non-current net financial debt include bonds, promissory notes and registered bonds issued (EUR 1,420m in 2015 and EUR 1,115m in 2014), other loans (EUR 501m in 2015 and EUR 726m in 2014), finance lease payables (current: EUR 180m in 2015 and EUR 382m in 2014; non-current: EUR 32m in 2015 and EUR 204m in 2014) as well as current interest bearing trade payables (119 Mio. EUR in 2015 and 0 Mio. EUR in 2014).

Note:

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

Pending payments for spectrum amounting to EUR 220m (including capitalised costs of borrowed capital) are shown under trade payables aginst third parties in the Consolidated Statement of Financial Position and are therefore not

(2) Unless indicated otherwise, values include retrospective adjustments from the purchase price allocation (PPA) within the twelve-months-period following the acquisition of E-Plus group as of October 2014 (IFRS 3).

Telefónica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP

PPA ADJUSTMENTS

IMPACT ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of 1 October 2014	As of 31 December 2014	As of 31 March 2015	As of 30 June 2015
Goodwill	328	326	326	348
Frequency Usage Rights	(285)	(258)	(232)	(205)
Customer Base	139	133	129	126
Total intangibles	182	200	223	268
Total tangibles	(189)	(187)	(184)	(179)
Other Receivables	30	31	34	12
Assets held for sale	–	5	–	–
Total Assets	**22**	**49**	**73**	**101**
Total financial liabilities	22	15	10	6
Liabilities held for sale	–	2	–	–
Total Liabilites	**22**	**17**	**10**	**6**
Equity	**–**	**32**	**63**	**95**

IMPACT ON CONSOLIDATED INCOME STATEMENT

Unaudited

	2014	2015	
(Euros in millions)	Q4	Q1	Q2
Frequency Usage Rights	26	26	26
Customer Base	(3)	(3)	(3)
Intangibles	23	23	23
Tangibles	2	3	5
Depreciation and amortisation	**25**	**26**	**28**
Net financial result	7	5	4
Total P&L	**32**	**31**	**31**

IMPACT ON CONSOLIDATED NET FINANCIAL DEBT

Unaudited

(Euros in millions)	As of 1 October 2014	As of 31 December 2014	As of 31 March 2015	As of 30 June 2015
Net financial debt	**22**	**15**	**10**	**6**

IMPACT ON CONSOLIDATED CASH FLOW

Unaudited

	2014	2015	
(Euros in millions)	Q4	Q1	Q2
Cash flow from operating activities	7	5	4
Cash flow from investing activities	–	–	–
Free cash flow	**7**	**5**	**4**
Cash flow from financing activities	(7)	(5)	(4)
Total cash flow	**–**	**–**	**–**

Telefonica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED INCOME STATEMENT AND SELECTED CONSOLIDATED FINANCIAL DATA INCLUDING ADJUSTMENTS FROM THE PURCHASE PRICE ALLOCATION

Unaudited

	2015			2014
(Euros in millions)	Jan - Mar (1)	Jan - June (1)	Jan - Sept (1)	Jan - Dec (1)
Operating income before depreciation and amortisation (OIBDA) and before exceptional effects	**378**	**831**	**1,285**	**1,088**
OIBDA before exceptional effects-margin	19.9%	21.6%	22.0%	19.7%
Exceptional effects	17	15	(51)	(409)
Operating income before depreciation and amortization (OIBDA)	**395**	**845**	**1,234**	**679**
OIBDA margin	20.8%	22.0%	21.2%	12.3%
Depreciation and amortisation	(529)	(1,033)	(1,545)	(1,300)
Operating income	**(133)**	**(188)**	**(312)**	**(621)**
Net financial income (expense)	**(11)**	**(25)**	**(36)**	**(34)**
Profit (loss) before tax for the period	**(145)**	**(213)**	**(347)**	**(655)**
Profit (loss) for the period	**(145)**	**(213)**	**(347)**	**(689)**

Selected consolidated financial data	Jan - Mar (1)	Jan - June (1)	Jan - Sept (1)	Jan - Dec (1)
Operating Cashflow (OIBDA-CapEx)	175	383	530	(169)
Free cash flow pre dividends and payments for spectrum and pre-acquisition of E-Plus net of cash acquired	105	102	350	725
Free cash flow pre dividends and payments for spectrum	105	125	372	(2,514)
Financing Cashflow	190	(637)	(899)	3,523

(1) Unless indicated otherwise, values include retrospective adjustments from the purchase price allocation (PPA) within the twelve-months-period following the acquisition of E-Plus group as of October 2014 (IFRS 3).

Telefónica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP

EFFECTS OF FINAL PURCHASE PRICE ALLOCATION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of 30 September 2015 (1)	As of 30 June 2015 (1)	As of 31 March 2015 (1)	As of 31 December 2014 (1)	Final opening balance of E-Plus with fair values and incl. CCA-effects as of 1 October 2014 (1)	PPA adjusment	Opening balance of E-Plus with preliminary fair values as of 1 October 2014
NON-CURRENT ASSETS	**14,714**	**14,972**	**14,102**	**14,406**	**7,335**	**(8)**	**7,342**
Goodwill	1,955	1,955	1,955	1,955	1,256	328	928
Other intangible assets	7,244	7,449	6,451	6,600	4,182	(146)	4,328
Property, plant and equipment	4,535	4,591	4,740	4,842	1,741	(189)	1,931
Trade and other receivables	180	181	159	236	97	-	97
Other financial assets	54	52	52	49	19	-	19
Other non-financial assets	165	163	163	142	40	-	40
Deferred tax assets	581	581	581	581	0	-	0
CURRENT ASSETS	**2,081**	**2,070**	**3,858**	**3,530**	**1,081**	**30**	**1,051**
Inventories	123	166	134	104	21	-	21
Trade and other receivables	1,612	1,471	1,443	1,545	610	30	580
Other financial assets	13	13	16	19	0	-	0
Other non-financial assets	134	207	269	71	54	-	54
Cash and cash equivalents	199	214	1,997	1,702	396	-	396
Assets held for sale	0	0	0	90	0	-	0
Total assets = Total equity and liabilities	**16,795**	**17,043**	**17,959**	**17,936**	**8,416**	**22**	**8,394**
EQUITY	**10,366**	**10,496**	**11,230**	**11,412**	**6,706**	**-**	**6,706**
Common Stock	2,975	2,975	2,975	2,975	0	-	0
Additional paid-in capital & retained earnings	7,392	7,521	8,255	8,437	6,706	-	6,706
Equity attributable to owners of the company	10,366	10,496	11,230	11,412	6,706	-	6,706
NON-CURRENT LIABILITIES	**2,784**	**3,148**	**3,246**	**2,919**	**414**	**9**	**405**
Interest-bearing debt	1,703	1,986	2,050	1,808	161	9	151
Trade and other payables	127	237	19	19	0	-	0
Provisions	524	623	873	787	232	-	232
Deferred income	431	302	305	305	22	-	22
CURRENT LIABILITIES	**3,644**	**3,399**	**3,483**	**3,605**	**1,296**	**13**	**1,283**
Interest-bearing debt	555	525	569	622	366	13	354
Trade and other payables	2,212	2,126	2,227	2,283	703	-	703
Provisions	386	292	244	241	22	-	22
Other non-financial liabilities	27	28	26	18	6	-	6
Deferred income	463	428	418	400	198	-	198
Liabilities held for sale	0	0	0	42	0	-	0

Financial Data				
Net financial debt	1,415	1,784	130	18
Leverage (2)	0,9x	1,2x	0,1x	0,0x

(1) Unless indicated otherwise, values include retrospective adjustments from the purchase price allocation (PPA) within the twelve-months-period following the acquisition of E-Plus group as of October 2014 (IFRS 3).

(2) Leverage is defined as net financial debt divided by the OIBDA for the last twelve months before exceptional effects.
Please note that solely for purposes of calculating the leverage for any twelve month period which includes historical periods prior to the closing of the Transaction, a combined* OIBDA will be applied. This combined OIBDA includes the OIBDA of the E-Plus Group under Telefonica 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.
* Combined figures for 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutsch-land Group and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by material exceptional effects, such as capital gains or restructuring costs based on estimates made by Telefónica management and resulting in combined figures we believe are more meaningful as a comparable basis.

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