

**O2 Telefónica Deutschland
Finanzierungs GmbH
Munich**

**Financial statements and management report
31 December 2015**

Translation from the German language

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

Statement of Financial Position as of 31 December 2015

Assets	31.12.2015 EUR	31.12.2014 EUR	Equity and liabilities	31.12.2015 EUR	31.12.2014 EUR
A. Fixed assets			A. Equity		
Financial assets			Nominal capital	25,000.00	25,000.00
Loans to affiliated companies	1,100,000,000.00	600,000,000.00		25,000.00	25,000.00
	1,100,000,000.00	600,000,000.00	B. Provisions		
			Other provisions	48,888.42	53,929.00
				48,888.42	53,929.00
B. Current assets			C. Liabilities		
Receivables and other assets			1. Bonds	1,100,000,000.00	1,100,000,000.00
Receivables from affiliated companies	11,882,852.08	11,886,220.32	--thereof with a remaining term of less than 1 year EUR 0 (previous year: EUR 0)--		
--thereof due from shareholders EUR 11,848,929.37 (previous year: EUR 11,861,406.49)--			--thereof with a remaining term of more than 5 years EUR 500,000,000.00 (previous year: EUR 500,000,000.00)--		
	11,882,852.08	11,886,220.32	2. Trade payables	1,672.00	0.00
			--thereof with a remaining term of less than one year EUR 1,672.00 (previous year: EUR 0)--		
			3. Other liabilities	11,807,291.66	11,807,291.32
			--thereof with a remaining term of less than one year EUR 11,807,291.66 (previous year: EUR 11,807,291.32)--		
				1,111,808,963.66	1,111,807,291.32
C. Prepaid expenses			D. Deferred income		
	6,298,000.00	8,098,600.00		6,298,000.00	8,098,600.00
Total assets	1,118,180,852.08	1,119,984,820.32	Total equity and liabilities	1,118,180,852.08	1,119,984,820.32

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

**Income Statement
for the Reporting Period from 1 January 2014 to 31 December 2015**

	01.01.2015 - 31.12.2015	06.03.2014 - 31.12.2014
	EUR	EUR
1. Other operating income	266,232.08	660,816.88
2. Other operating expenses	-266,232.08	-660,816.91
3. Other interest and similar income --thereof from affiliated companies EUR 25,100,120.28 (previous year: EUR 23,454,921.75)--	25,100,120.28	23,454,921.75
4. Interest and similar expenses	-25,100,119.86	-23,454,760.61
5. Result from ordinary business activities	0.42	161.11
6. Expense from expected profit transfer	-0.42	-161.11
7. Net result of the year	0	0

O2 Telefónica Deutschland Finanzierungs GmbH**Munich****Statement of Cash Flows
for the Financial Year from 1 January 2015 to 31 December 2015**

	01.01.2015- 31.12.2015 EUR	01.01.2014- 31.12.2014 EUR
1. Cash flow from operating activities		
Result for period before profit transfer	0.42	161.11
Increase (-)/decrease (+) in inventories, trade accounts receivable and other assets	1,812,868.51	-14,020,876.83
Increase (-)/decrease (+) in trade accounts payable and other liabilities	-1,803,968.66	13,655,802.10
Costs of issuing bonds	0	-1,375,000.00
Cash flow from operating activities	8,900.27	-1,739,913.62
2. Cash flow from investing activities		
Outflows (-) for investments in financial assets	0	-496,745,000.00
Interest received (+)	23,125,000.00	11,250,000.00
Cash flow from investing activities	23,125,000.00	-485,495,000.00
3. Cash flow from financing activities		
Inflows (+) from issuing bonds	0	498,120,000.00
Interest paid (-)	-23,125,000.00	-11,250,000.00
Cash flow from financing activities	-23,125,000.00	486,870,000.00
4. Cash and cash equivalents at the end of the period		
Cash-effective change in cash and cash equivalents	8,900.27	-364,913.62
Cash and cash equivalents at the beginning of the period	24,974.94	389,888.56
Cash and cash equivalents at the end of the period	33,875.21	24,974.94
5. Composition of cash and cash equivalents		
Cash equivalents	33,875.21	24,974.94
Cash and cash equivalents at the end of the period	33,875.21	24,974.94

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

Statement of Changes in Equity

for the Financial Year from 1 January 2015 to 31 December 2015

	Nominal capital	Net income for the year	Equity
	EUR	EUR	EUR
As of 1 January 2015	25,000.00	0.00	25,000.00
As of 31 December 2015	25,000.00	0.00	25,000.00
As of 1 January 2014	25,000.00	0.00	25,000.00
As of 31 December 2014	25,000.00	0.00	25,000.00

O2 Telefónica Deutschland Finanzierungs GmbH, Munich

Notes to the Financial Statements for the 2015 Financial Year

I. GENERAL INFORMATION ON THE ANNUAL FINANCIAL STATEMENTS

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

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

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

The annual financial statements of TDF for the financial year 2015 have been prepared in accordance with the accounting principles of the German Commercial Code (HGB) and the GmbH Act (Act relating to limited liability companies, GmbHG).

As of 31 December 2015, the company is classified as a large corporation in accordance with section 264d in conjunction with section 267 (3) HGB.

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

The income statement has been prepared using the nature of expense method in accordance with section 275 (2) HGB. The figures in the Annual Financial Statements have been rounded in accordance with established commercial practice. Figures or additions within a table may therefore result in sums different from those shown in tables.

II. ACCOUNTING POLICIES

1. Principles and comparability

The accounting policies used in the preparation of the annual financial statements for the period ending 31 December 2015 are in accordance with the provisions of sections 242 to 256a and sections 264 to 288 of the HGB as well as the relevant provisions of the GmbHG. The accounting principles and standards of valuation remained unchanged in comparison to the previous year.

2. Fixed assets

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

3. Current assets

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

4. Prepaid expenses

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

5. Equity

The nominal capital is stated with its nominal value.

6. Provisions

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

7. Liabilities

Liabilities are recorded at their settlement amount.

8. Deferred income

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

III. NOTES TO THE BALANCE SHEET

1. Financial assets

The financial assets as of 31 December 2015 consist of two loans of EUR 600,000 thousand and EUR 500,000 thousand respectively, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying five- and seven-year bonds which TDF issued on 22 November 2013 and 10 February 2014 respectively. The loans have fixed terms until the date of maturity of the underlying bonds on 22 November 2018 and 10 February 2021 respectively and are repayable in one amount on the due date, including all interest and costs which have not yet been paid. The underlying interest rates are 1.875 % and 2.375 % respectively and are payable annually on 22 November and 10 February respectively.

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

2. Receivables and other assets

The receivables due from affiliated companies amount to EUR 11,883 thousand (previous year: EUR 11,886 thousand), of which EUR 11,849 thousand (previous year: EUR 11,861 thousand) relates to receivables due from the shareholder Telefónica Germany GmbH & Co. OHG, Munich. These include receivables of EUR 11,807 thousand (previous year: EUR 11,807 thousand) relating to interest from the loan issued to the shareholder. The maturity of these receivables is less than one year.

3. Prepaid expenses

This item includes the amortised disgios from the issuance of the bonds for the five-year bond issued in November 2013 and for the seven-year bond issued in February 2014. Amortised Issuing fees for the five-year bond for the seven-year bond are also included. All components are reversed using the straight-line method over the terms of the underlying bonds until 22 November 2018 and until 10 February 2021 respectively.

4. Subscribed capital

The company's share capital remains unchanged at EUR 25,000.00 and is fully paid. It is held entirely by Telefónica Germany GmbH & Co. OHG, Munich.

5. Provisions

The other provisions of EUR 49 thousand (previous year: EUR 54 thousand) result from consultancy and audit fees.

6. Liabilities

The liabilities include two bonds with a nominal value of EUR 1,100,000 thousand in total. The five-year bond issued in the amount of EUR 600,000 thousand matures on 22 November 2018. As of 31 December 2015, the seven-year bond amounting to EUR 500,000 thousand has a remaining term of more than five years with a maturity on 10 February 2021. Both bonds are guaranteed by Telefónica Deutschland Holding AG, Munich.

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

7. Deferred income

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

IV. NOTES TO THE INCOME STATEMENT

Other operating income and expenses

The other operating income of EUR 266 thousand (previous year: EUR 661 thousand) is attributable to costs charged on to Telefónica Germany GmbH & Co. OHG, Munich. The other operating expenses of EUR 266 thousand (previous year: EUR 661 thousand) which are charged on mainly comprise bank charges and consultancy and audit fees.

Financial result

Other interest and similar income totals EUR 25,100 thousand (previous year: EUR 23,455 thousand), of which EUR 23,299 thousand (previous year: EUR 21,732 thousand) results from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich, and EUR 1,800 thousand (previous year: EUR 1,723 thousand) results from the reversal of deferred income.

The interest and similar expenses of EUR 25,100 thousand (previous year: EUR 23,455 thousand) include the interest expense from the bonds of EUR 23,299 thousand (previous year: EUR 21,732 thousand) and expenses from the release of the disgios over the term of the underlying bonds in the amount of EUR 1,800 thousand (previous year: EUR 1,723 thousand).

V. SUPPLEMENTAL DISCLOSURES ON THE NOTES

Supplemental disclosures on the cash flow statement

For the first time, cash and cash equivalents (“Finanzmittelfonds”) comprise cash and cash equivalents. Cash includes cash in hand and deposits held at call with banks, whereas cash equivalents include other short-term highly liquid investments that can be converted into cash any time and that is held as a cash reserve. Cash equivalents with original maturities of three months or less relate to cash-pooling receivables due from Telfisa Global B.V, Amsterdam, the Netherlands that are recognised as receivables from affiliated companies. The comparative information for the previous period has been amended.

Furthermore, compared to the previous period a more detailed subcategorization of the positions has been made.

Employees

The Company did not have any employees in the financial year 2015.

Management

The following persons were Managing Directors in the financial year:

Albert Graf, Director Corporate Finance Telefónica Germany GmbH & Co. OHG, Fahrenzhausen.

Markus Haas, COO Telefónica Deutschland Holding AG, Munich.

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

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

Audit committee

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

Dieter, Gauglitz

Chairman

German public auditor

Munich

Eckart, Kurze

Board member

Director Transformation Implementation; Telefónica Germany GmbH & Co. OHG, Munich

Munich

Marcel, Ritter

Board member

Director Legal, Telefónica Germany GmbH & Co. OHG, Munich

Munich

Remuneration of governing bodies

The members of the Audit Committee received remuneration of EUR 15 thousand for their work in 2015.

Auditor's fee

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

Consolidated financial statements

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

Cost reimbursement agreement

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

Profit and loss transfer agreement

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

The net profit for the financial year 2015 is transferred to Telefónica Germany GmbH & Co. OHG, Munich, as a result of the existing control and profit and loss transfer agreement.

Munich, 15. March 2016

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Rachel Clare Empey

Markus Haas

Albert Graf

O2 Telefónica Deutschland Finanzierungs GmbH**Munich****Statement of Changes in Fixed Assets for the Reporting Period from 1 January 2015 to 31 December 2015**

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

Management Report

O2 Telefónica Deutschland Finanzierungs GmbH, Munich

Management Report for the Financial Year from 1 January 2015 to 31 December 2015

1. Business and general conditions

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

The German economy held its ground well in a difficult global economic environment in 2015. As reported by the German Federal Statistical Office, gross domestic product (GDP) rose by 1.7 % year-on-year in 2015. The greatest momentum here came from domestic growth drivers, particularly private consumer spending, which was mainly stimulated by the positive development of employment. The number of people in employment increased again as a result of immigration and a slight decline in unemployment. Private consumer spending is gaining a further boost from consumers’ increased purchasing power. This is firstly strengthened by the significant decrease in energy prices compared to the previous year. Secondly, collective wage increases that considerably exceed the inflation rate are increasing consumers’ purchasing power in real terms.

The consumer index was at a high level in 2015, but declined several times in a row in the second half of the year. In the final month of the year, consumer confidence improved again.

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 mobile data usage and the increasing smartphone and tablet penetration open up further opportunities for growth for mobile telecommunications network operators. This trend will also continue in the future. Smartphones and tablets are becoming the trailblazers for the digital revolution in Germany. At the same time, the monetisation of the mobile data business will continue to be a key focus 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 networking/communication (M2M) with countless application possibilities.

The German mobile telecommunications market

With 113.4 million customers (SIM cards) at the end of September 2015, the German mobile telecommunications market is the largest in the EU. The notional mobile penetration rate was 141 %, meaning that each German citizen has an average of 1.4 mobile SIM cards. Customer growth in the period from January to September 2015 was primarily attributable to the more valuable postpaid sector. Overall, postpaid customers made up 52.0 % of the total connections as at the end of September 2015. At the end of December 2014, the proportion was still 50.5 %.

The mobile telecommunications market continued to develop dynamically in 2015 and was characterised by intense competition, primarily driven by the strong demand for smartphones and the increasing number of attractive smartphone tariffs. According to a study by the industry association BITKOM, around two thirds of Germans used a smartphone in 2015, compared to 55 % a year before. Use of tablet PCs in Germany also increased from 28 % in 2014 to 40 % in 2015. Bitkom expected 7.7 million tablet PCs to be sold in Germany in 2015. Mobile media use is leading to further increases in mobile data use and rising sales volumes and revenues, particularly for smartphones and tablet PCs. According to Dialog Consult, 510 million GB of data were transferred on mobile networks in 2015. This was 29 % more than in 2014 (395 million GB).

The increasing penetration of mobile end-devices with Internet capability such as smartphones or tablets and the increasing use of mobile data services is also evident in the strong growth of revenues from mobile data on the German market: In 2015, according to estimates by Analysys Mason, mobile data revenues increased by over 14 % 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.

Following the merger of the Telefónica Deutschland Group with the E-Plus Group, the German mobile telecommunications market consists of three network operators and several service providers/ MVNOs. As at the end of September 2015, the Telefónica Deutschland Group had a market share of 38.2 % with approximately 43 million connections in total, making it the largest German mobile telecommunications network operator in terms of customer connections.

Intense competition still prevails on the German market for fixed line broadband services as well. The number of connections increased by approximately 5 % year-on-year and the customer base thus grew to approximately 30.4 million by the end of September 2015. The share of DSL connections here is almost 80 %. The significance of VDSL continued to gain in significance in 2015. According to estimates by analysts, more than 20 % of DSL customers used VDSL technology as of the end of 2015. Increased customer demand for more bandwidth is also reflected in the data volume generated per broadband connection per month. According to Dialog Consult, this rose by almost 20 % compared to 2014 to 31.8 GB per connection.

(Source: Analysys Mason, Dialog Consult/VATM analyses and forecasts)

Regulatory influences on the Telefónica Deutschland Group

Telecommunications services and the operation of telecommunications networks are subject in particular to the regulation of the German Telecommunications Act of 22 June 2004 in the version from 17 July 2015 and certain complementary regulations to the Telecommunications Act.

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

2. Areas of operation

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

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

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

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

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

3. Net assets, results of operations and financial position

Net assets, results of operations and financial position has basically not changed significantly compared to the previous year. This was expected due to unchanged conditions of existing contractual relationships.

Net assets

The assets are presented in the following table:

Balance sheet item	31 Dec. 2015 EUR thousand	31 Dec. 2014 EUR thousand	Change EUR thousand
Financial assets	1,100,000	1,100,000	0
Receivables and other assets	11,883	11,886	-3
Prepaid expenses	6,298	8,099	-1,801
Total Assets	1,118,181	1,119,985	-1,804

The financial assets as of 31 December 2015 consist of two loans of EUR 600,000 thousand and EUR 500,000 thousand respectively, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying five- and seven-year bonds which TDF issued on 22 November 2013 and 10 February 2014 respectively. The loans have fixed terms until the date of maturity of the underlying bonds on 22 November 2018 and 10 February 2021, respectively and are repayable in one amount on the due date, including all interest and costs which have not yet been paid.

The receivables and other assets of EUR 11,883 thousand (previous year: EUR 11,886 thousand) mainly include short-term interest receivables from Telefónica Germany GmbH & Co. OHG in the amount of EUR 11,807 thousand (previous year: EUR 11,807 thousand). The underlying interest rates are 1.875 % and 2.375 % respectively and are payable annually on 22 November and 10 February respectively.

The slight decline in receivables and other assets to EUR 11,883 thousand (previous year: EUR 11,886 thousand) mainly results from the decline in other receivables from affiliated companies from cost allocation, which fell from EUR 54 thousand as of 31 December 2014 to EUR 42 thousand as of 31 December 2015. By contrast, cash pooling receivables with Telfisa Global B.V, Amsterdam, the Netherlands, increased from EUR 25 thousand at 31 December 2014 to EUR 34 thousand as of 31 December 2015.

As of 31 December 2015, the prepaid expenses include the amortised disgios from the issuance of the bonds for the five-year bond issued in November 2013 and for the seven-year bond issued in February 2014. Amortised Issuing fees for the five-year bond and for the seven-year bond are also included. The change in prepaid expenses results from the straight-line reversal of the components over the terms of the underlying bonds until 22 November 2018 and until 10 February 2021 respectively.

Equity and liabilities are presented in the following table:

Balance sheet item	31 Dec. 2015 EUR thousand	31 Dec. 2014 EUR thousand	Change in EUR thousand
Equity	25	25	0
Bonds	1,100,000	1,100,000	0
Other provisions	49	54	-5
Trade payables	2	0	2
Other liabilities	11,807	11,807	0
Deferred income	6,298	8,099	-1,801
Total Equity and liabilities	1,118,181	1,119,985	-1,804

The company's share capital remains unchanged at EUR 25 thousand and is fully paid. It is held entirely by Telefónica Germany GmbH & Co. OHG, Munich.

The liabilities include two bonds with a nominal value of EUR 1,100,000 thousand in total. Both bonds are guaranteed by Telefónica Deutschland Holding AG, Munich.

The other provisions of EUR 49 thousand relate to consultancy and audit fees.

The other liabilities include current interest liabilities relating to the bonds that will not be paid until the following year.

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

Results of operations

In the financial year ending 31 December 2015, TDF reported a positive result from ordinary business activities of EUR 0.42 (previous year: EUR 161.11), which was assumed by Telefónica Germany GmbH & Co. OHG, Munich, as a result of an existing domination and profit and loss transfer agreement.

The main profit and loss items are as follows:

Profit and loss item	1 Jan. 2015	1 Jan. 2014	Change
	31 Dec. 2015	31 Dec. 2014	
	EUR thousand	EUR thousand	EUR thousand
Other operating income	266	661	-395
Other operating expenses	-266	-661	395
Other interest and similar income	25,100	23,455	1,645
Interest and similar expenses	-25,100	-23,455	-1,645
Result from ordinary business activities	0	0	0
Income from expected loss assumption / expense from expected profit transfer	0	0	0
Net result for the period	0	0	0

The other operating income of EUR 266 thousand (previous year: EUR 661 thousand) is attributable to costs charged on to Telefónica Germany GmbH & Co. OHG, Munich. The other operating expenses of EUR 266 thousand (previous year: EUR 661 thousand) which are charged on mainly comprise bank charges and consultancy and audit fees.

Other interest and similar income totals EUR 25,100 thousand (previous year: EUR 23,455 thousand) and chiefly results from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich, in the amount of EUR 23,299 thousand (previous year: EUR 21,732 thousand) and from the reversal of deferred income in the amount of EUR 1,801 thousand (previous year: EUR 1,723 thousand).

Interest and similar expenses of EUR 25,100 thousand (previous year: EUR 23,455 thousand) include interest expense from the bonds of EUR 23,299 thousand (previous year: EUR 21,732 thousand) and expenses from the release of the disagios over the term of the bonds in the amount of EUR 1,801 thousand (previous year: EUR 1,723 thousand).

Financial position

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

Cash and cash equivalents contain freely available bank deposits and cash in hand as well as receivables from cash pooling with Telfisa Global B.V., Amsterdam, Netherlands.

In the 2015 financial year, TDF reported a positive cash flow from operating activities of EUR 9 thousand (previous year: EUR -1,740 thousand). The negative cash flow in the previous year mainly resulted from costs incurred in connection with the bond issue in the amount of EUR 1,375 thousand.

Cash flow from investing activities of EUR 23,125 thousand (previous year: EUR 485,495 thousand net outflow) results from interest payments received from the borrower Telefónica Germany GmbH & Co. OHG, Munich. The second loan in the amount of EUR 500,000 thousand was granted in the previous year and resulted in a negative cash flow from investing activities in 2014.

In the 2015 financial year, the payment of cash flow from financing activities amounted to EUR 23,125 thousand (previous year: EUR 486,870 thousand net inflow) and resulted from the payment of interest on the bonds issued. In the previous year, cash flow from financing activities had been considerably positive due to the issue of the second bond.

As of 31 December 2015, TDF has an unused credit line of EUR 6 thousand (previous year: EUR 6 thousand).

4. Opportunity and risk report

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

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

General financial market risks

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

If such financial risks occur, they may lead to negative impacts on the asset, financial and earnings position and the cash flow of the Telefónica Deutschland Group.

The Telefónica Deutschland Group has developed guidelines for risk management processes and for the use of financial instruments including a clear separation of tasks with respect to financial activities, invoicing, financial reporting and associated controlling. Derivative financial instruments are used solely to manage the risks from trade and general corporate financing. The Telefónica Deutschland Group has developed guidelines derived from established standards for the evaluation of risks and monitoring with regards to the use of financial derivatives.

Market risk

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

Interest rate risk

Interest risks arise predominantly from floating-rate cash pooling accounts and deposits of the Telefónica Deutschland Group at Telfisa Global B.V., Netherlands, as well as through loan agreements as borrower and interest swaps.

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

Credit risk

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

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

This approach for credit risk management is based on the ongoing monitoring of the expected risks and the level of default. To control the credit risk, the Telefónica Deutschland Group regularly conducts an analysis of the maturity structure of trade receivables and only reports adjustments for doubtful receivables with a credit risk.

Liquidity risk

Liquidity risk includes the risk that the Telefonica Deutschland Group will not be able to comply with its financial obligations to a sufficient extent. To secure liquidity, cash inflows and outflows are monitored continuously and managed centrally on the basis of detailed financial planning. The Telefónica Deutschland Group works on its liquidity management closely with Telefónica, S. A. Group and, in accordance with the corporate policy, has concluded cash-pooling and deposit agreements with Telfisa Global B.V., Netherlands. In addition to operational liquidity, the options available on the financial markets are examined on an ongoing basis so as to ensure the financial flexibility of the Telefónica Deutschland Group. For example, unutilised credit facilities amounting to EUR 750 million by the Telefonica Deutschland Group are currently held at various banks as liquidity reserves.

Capital management

The Telefónica Deutschland Group strives to guarantee the sustainability of its business and to maximise its enterprise value by continuously monitoring its cost of capital. In particular, the Telefónica Deutschland Group monitors its equity ratio and OIBDA (Operating Income Before Depreciation and Amortization, interest and tax).

5. Risk management and risk reporting

As part of our business activities, we face various different business, legal, financial and other (global) risks. We perform our services on the basis of the organisational, strategic and financial decisions and precautions we have taken.

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

Risk management is an immanent component of the decision-making process with the Telefónica Deutschland Group. The process ensures that risk evaluations are taken into account for the decision-making and measures are taken early to minimise and deal with the risks. This is done on the basis of the evaluation, communication and management of risks by all managers of the corporation. A lower limit for the recognition of risks is generally not set. The risk management department compiles the corporation's risk registry, which also covers the subsidiaries. As part of the creation of the risk registry it is ensured that risks of a similar type or of cumulative effect are combined and thus provided for overall consideration. In addition, this bottom-up approach – i.e. the identification of risks by the operating units – is supplemented by a top-down approach in order to ensure a comprehensive perspective of risks that covers all companies. The purpose of the top-down approach is ensure that risks that can only be identified at the highest management level or when considering the Group-wide perspective are included in a discussion with the units with operational responsibility. This is intended to facilitate complete qualification and comprehensive management as well as evaluating relevance for future reports. Risk Management remains in continuous contact with all business divisions and with our risk coordinators in order to track and assess risks and their management and development on an ongoing basis. The employees responsible are given individual training so as to ensure a uniform, structured process for recording and assessing risks. In addition, all employees have the option of participating in basic training to raise their general awareness of risk management.

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

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

Opportunities are not recorded in the risk management system.

Risk evaluation

The following section describes the risks that could have a significant negative impact on our financial position, our competitiveness or our ability to implement our objectives. The risks are presented and assessed in line with the net principle, i.e. taking account of any risk mitigation measures taken.

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

For internal use and for reporting within the Telefónica Deutschland Group, risks are divided into business risks, operational risks, financial risks and other (global) risks, and this categorisation is also used as the basis for this section of the report. The main risk areas relating to business risks, operational risks and financial risks are specified within the respective categories according to their order of priority.

In addition, our company may be affected by other or additional risks that we are not currently aware of or that we do not consider to be material based on our current knowledge. It also cannot be ruled out that risks that are currently regarded as more minor may change within the forecast period with the effect that they could potentially have a greater impact than risks that are currently regarded as more significant.

We have summarised the risks according to their risk areas as follows:

- Business risks
 - Competitive markets and changing customer demands
 - Regulatory environment
 - Insurances
 - Macro-economic factors
 - Acquisition and sale of parts of the business as well as joint activities
- Operational risks
 - Service quality
 - Supplier defaults
 - Termination of essential contracts
 - Dependence on services of the major shareholder Telefónica and of KPN
 - Legal risks
 - Specific risks from the acquisition of the E-Plus Group
 - Personnel
- Financial risks
 - Taxes
 - Liquidity
 - Other (global) risks

Opportunity management

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

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

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

Opportunities are neither recognized in the risk register nor quantified.

Major opportunities are summarized as follows:

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

Accounting-Related Internal Control and Risk Management System

The following statements contain information in accordance with section 289 (5) HGB.

The primary goal of our accounting-related internal control and risk management system is to ensure proper financial reporting in the sense of ensuring that the Financial Statement comply with all relevant provisions.

The risk management system also includes an accounting-related perspective with the aim of ensuring the reliability of financial reporting. The accounting-related internal control system ("ICS") introduced by us also complies with the German Commercial Code (HGB). Establishing and effectively maintaining appropriate internal controls for financial reporting is the responsibility of the Management Board and is performed taking company-specific requirements into account.

The conceptual framework for preparing the Financial Statement primarily consists of the uniform group-wide accounting guidelines and the chart of accounts, both of which must be applied consistently by all companies of the Telefónica Deutschland Group. New laws, accounting standards and other official pronouncements are analysed on an ongoing basis with regard to their relevance and effects on the proper preparation of the Financial Statement.

The data basis for the preparation of the Financial Statement consists of the financial statement information reported by Telefónica Deutschland, its subsidiaries and joint ventures, which in turn is based on the accounting entries recorded within the companies. The financial reporting of the individual companies is performed either by the Finance & Accounting department of Telefónica Germany GmbH & Co. OHG or in close cooperation with it. For certain topics requiring specialist knowledge, such as the valuation of pension obligations, we draw upon the support of external service providers. The Consolidated Financial Statements are prepared within our consolidation system on the basis of the reported financial statement information. The steps to be taken when preparing the Consolidated Financial Statements are subject to both manual and system-based controls at all levels.

Employees involved in the financial reporting process are already examined in terms of their professional suitability before they are hired, and are provided with regular training. The financial statement information must go through certain approval processes at every level. Critical task areas in the financial reporting process are divided appropriately in order to ensure the effective separation of duties, and the dual control principle generally applies. Further control mechanisms include target/performance comparisons and analyses of the composition of content and changes in individual items, both in the financial statement information reported by individual group companies and in the Consolidated Financial Statements. In the accounting-related IT systems, access authorisations are defined in order to ensure that accounting-related data is protected from unauthorised access, use and change.

However, every control system is subject to certain limitations on its effectiveness. Irrespective of the specific features of an ICS, there can be no absolute certainty with regard to its ability to prevent or detect all incorrect accounting disclosures.

The appropriateness and effectiveness of the ICS are assessed annually by the Management Board of Telefónica Deutschland. Our Internal Audit department continuously reviews compliance with guidelines, the reliability and functionality of our ICS and the appropriateness and effectiveness of our risk management system and reports on this to the Management Board of Telefónica Deutschland.

The Audit Committee is involved in the ICS. In particular, the Audit Committee is responsible for monitoring the accounting process, the effectiveness of the ICS, the risk management and internal audit systems, as well as the audit of the financial statements. It also reviews the documents for the Annual Financial Statements of TDF and discusses the financial statements with the Management Board and the external auditor.

As part of its risk-oriented audit approach, the external auditor expresses an opinion on the effectiveness of the parts of the ICS that are relevant for financial accounting and reports to the Supervisory Board in the course of the discussion of the financial statements.

For the company conceptual framework described above is supplemented by a HGB chart of accounts.

As the parent company, the Telefónica Deutschland Holding AG is included in the aforementioned Group-wide accounting-related internal control system.

6. Employees

The Company did not have any employees in the financial year 2015.

7. Essentials of the remuneration system

The Managing Directors do not receive any payments from TDF.

8. Report on events after the reporting period

There were no significant changes in the general conditions after the end of the financial year. The economic environment did not change to an extent that had any material impact on the business activities and the sector situation also was not significantly different compared to 31 December 2015.

9. Forecast report 2016

The forecast report describes the probable development of TDF in the course of the financial year 2016. The report contains comments and information regarding future events. Forward-looking comments and information are based on expectations and assumptions of the Company at the time when this management and forecast report is published, on the basis of known and unknown opportunities and risks. The success of the Company, the business strategy and also the results of the Company are influenced by a wide range of factors outside the control of the Company.

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

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

Economic outlook for Germany

The leading economic research institutes expect economic growth in Germany to continue in 2016. They anticipate an increase of 1.8 % in gross domestic product. Private consumer spending will be an important mainstay of the German economy again and is expected to increase by almost 2 % in 2016. At the same time, the favourable general conditions on the labour market and the continued positive income expectations give private households significant scope for purchases, while there is still relatively little incentive to save due to the low-interest environment.

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

A rise in economic performance of 1.7 % is forecast for the euro area in 2016.

(Source: Autumn Report of the German Federal Government, Focus Economics Consensus Forecast for the Euro Area)

Chart: GDP growth in 2014-2016, Germany and euro area

in %	2014	2015	2016
Germany	1.5	1.7	1.8
Euro area	0.8	1.5	1.7

Market developments in Germany, one of the biggest telecommunications markets in Europe, are still driven by rising customer demand for mobile and fixed line broadband and data services. The boom in smartphones and tablets, in addition to growing demand for LTE, are driving growth in mobile data services. Smartphones and tablets are becoming the trailblazers for the digital revolution for an all-round “digital lifestyle” in Germany. At the same time, the growing proliferation of data-based communications services, so-called over-the-top (OTT) applications such as WhatsApp, Skype, Facebook or Apple FaceTime, are increasing data usage. The monetisation of the mobile data business will thus continue to be a key focus for mobile telecommunications providers. Another trend is the Internet of Things, i.e. intelligent networking of devices and machines via the internet, which has many different potential applications.

At the same time, the negative trend for mobile voice and SMS will continue as a result of further price pressure and changing customer behaviour. Analysts expect revenues in the market for mobile services in Germany to remain more or less stable until 2016.

(Source: Company data, Analysys Mason, BITKOM)

Since the merger of Telefónica Deutschland and E-Plus in 2014, the Telefónica Deutschland Group has developed into an established player and has thus contributed significantly to the structural change on the German telecommunications market. The sector now consists of three established network operators with similar market shares, thus forming the basis for a sustained rational market. Nonetheless, we have observed growing market momentum in the non-premium segment. As the biggest MVNO partner on the German market, the Telefónica Deutschland Group is ideally positioned to benefit from growth in the wholesale segment, a trend that we expect to continue in 2016. In view of this competitive environment, the Telefónica Deutschland Group will pursue a clear multi-brand strategy with a strong focus on further development of the premium brand O2. We will continue to play a leading role in a highly competitive market environment.

Across all its brands, the Telefónica Deutschland Group will focus on taking advantage of opportunities for data monetisation. With regard to data usage, Germany is still lagging behind other European countries. The Telefónica Deutschland Group anticipates a further increase in data consumption in 2016, with the effect that there will be a turnaround in the company's MSR and ARPU development in the long term. In the short term, this development will be held back the trend from retail to wholesale in the acquisition of new customers and by the composition of the existing customer base. The company will continue to make every effort to expand its customer base using customer loyalty and upselling measures. For this reason, mobile service revenues are expected to post a slightly negative or largely stable development in 2016 as compared to the previous year. This forecast takes account of effects from the abolition of roaming charges in Europe by 2017 and the associated glideslope. In addition, the ongoing shutdown of our broadband infrastructure for unbundled access to subscriber lines (unbundled local loop – ULL) will continue to have a negative impact on revenues from fixed line business, as it did in 2015.

In 2015 the Telefónica Deutschland Group implemented a number of important milestones with regard to the integration measures. These will be followed by various major projects in 2016, including network integration, the transformation of the IT landscape and the migration of brands and customers to a shared platform. These projects have long lead times and will give rise to costs in the first half of 2016 in particular, whereas the resulting savings will not take effect until subsequent years. Efficient implementation of these projects is vitally important for the Telefónica Deutschland Group's transformation into a digital big player with a lean infrastructure model. Furthermore, they will enable us to keep providing convincing, unique products and services to customers in different segments.

As regards savings from synergy effects, the initiatives launched in the past year will continue to benefit the Telefónica Deutschland Group in 2016, particularly in the first half of the year. Additional savings from restructuring the workforce and reducing the number of antenna locations will mainly arise in the second half of the year. The MBA MVNO agreement with Drillisch will continue to generate revenue synergies in 2016. Besides the anticipated 35 % operating cash flow synergies achieved in total in 2015, there will not be any increase in capex synergies in 2016, but additional opex- and revenue-related effects of approximately EUR 150 million are expected over the course of the year, chiefly from the annualisation of the measures implemented in 2015. Towards the end of 2016, the cumulative savings from synergies will account for more than 50 % of the total operating cash flow synergies (opex–capex) anticipated after five years in the amount of EUR 800 million.

The Telefónica Deutschland Group therefore anticipates a low to medium single-digit percentage increase in OIBDA before extraordinary effects as compared to the previous year, which will chiefly be attributable to synergies. By contrast, more than half of the annual OIBDA growth in 2015 is attributable to savings in operating costs and other costs, including the reduction of costs for the acquisition of new customers and hardware support since January 2015 as part of our rational market strategy.

With regard to capex development, the Telefónica Deutschland Group will press ahead with the expansion of the LTE network in 2016. The aim is to achieve both increased network coverage and higher bandwidths in order to catch up with our competitors in terms of customers' perception of our network by the end of 2016. We therefore anticipate a percentage increase in capital expenditure in the low teens in 2016 compared to the previous year, not including investments in frequencies.

With regard to the balance sheet, we are maintaining our target of keeping the ratio of net debt to OIBDA at or below 1.0x. The Telefónica Deutschland Group still believes that a high degree of financial flexibility is important during the first few years of the integration process. It will review this debt target on an ongoing basis. As regards the dividend policy, Telefónica Deutschland Holding AG sees itself as a dividend-paying company and intends to maintain a high payout ratio in relation to free cash flow and thus offer its shareholders potential for future dividend growth. Anticipated future synergies will be taken into account in dividend proposals.

In 2015 the new Telefónica Deutschland Group successfully pursued its three strategic priorities: maintenance of market momentum, rapid integration and transformation of the company. Over the course of 2016, the company will shift its focus from integration to transformation while maintaining momentum in a rational but dynamic market environment. We will continue to work on creating a company that is ahead of its competitors both in its core business and in terms of innovation and the development of new business areas, particularly advanced data analytics and the Internet of Things. By continuously expanding our digital capacities, we aim to offer our customers the latest products, technologies and services and thus new possibilities for shaping their everyday lives. This is what Telefónica stands for as a leading digital “onlife” telecommunications company in Germany.

10. Management summary

Currently, TDF in its capacity as a financing company restricts its activities exclusively to financing the Telefónica Deutschland Group. In 2013 and 2014 and in line with its business purpose, TDF successfully issued two bonds with a nominal value of EUR 600,000 thousand and EUR 500,000 thousand and a maturity on 22 November 2018 and 10 February 2021 respectively. TDF transferred the proceeds based on the same conditions in the form of two loans to Telefónica Germany GmbH & Co. OHG, Munich. The bonds are guaranteed by Telefónica Deutschland Holding AG, Munich. TDF does not currently employ any staff itself. Due to the close personnel and economic links, the probable business development of the Company as well as the main opportunities and risks correspond to those applicable for Telefónica Deutschland Holding AG. On the basis of the issuances which have been carried out, management of TDF overall considers that the business development is positive and expected generally no essential modifications in the net assets, results of operations and financial positions compared to 2015.

Munich, 15 March 2016

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Rachel Clare Empey

Markus Haas

Albert Graf

Audit opinion

We have audited the annual financial statements, comprising the statement of financial position, the income statement, the statement of cash flows, the statement of changes in equity and the notes to the financial statements, together with the bookkeeping system, and the management report of O₂ Telefónica Deutschland Finanzierungs GmbH, Munich, for the fiscal year from 1 January 2015 to 31 December 2015. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, 15 March 2016

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dahmen
Wirtschaftsprüfer
[German public auditor]

Vogel
Wirtschaftsprüferin
[German public auditor]