Interim Condensed Consolidated Financial Statements_

for the period 1 January to 31 March 2016

Consolidated Statement of Financial Position_

Assets (Euros in millions)	Notes	**As of 31 March 2016**	As of 31 December 2015
A) Non-current assets		**14,174**	**14,406**
Goodwill		1,955	1,955
Other intangible assets	[5a]	6,835	7,059
Property, plant and equipment		4,544	4,507
Trade and other receivables	[5b]	133	157
Other financial assets		67	63
Other non-financial assets	[5c]	135	160
Deferred tax assets		505	505
B) Current assets		**2,410**	**2,248**
Inventories		126	123
Trade and other receivables	[5b]	1,528	1,520
Other financial assets		11	10
Other non-financial assets	[5c]	258	61
Cash and cash equivalents		486	533
Total assets (A+B)		**16,585**	**16,654**

Equity and Liabilities (Euros in millions)	Notes	**As of 31 March 2016**	As of 31 December 2015
A) Equity		**10,117**	**10,321**
Subscribed capital		2,975	2,975
Additional paid-in capital		4,800	4,800
Retained earnings		2,343	2,546
Total equity attributable to owners of the parent		10,117	10,321
B) Non-current liabilities		**3,192**	**2,779**
Interest-bearing debt	[5d]	1,937	1,686
Trade and other payables	[5e]	154	154
Provisions	[5f]	681	516
Deferred income		421	424
C) Current liabilities		**3,275**	**3,554**
Interest-bearing debt	[5d]	283	568
Trade and other payables	[5e]	2,240	2,272
Provisions	[5f]	171	196
Other non-financial liabilities		110	48
Deferred income		471	471
Total equity and liabilities (A+B+C)		**16,585**	**16,654**

Consolidated Income Statement_

		1 January to 31 March	
(Euros in millions)	Notes	**2016**	2015[1]
Revenues	[6a]	1,858	1,901
Other income		31	46
Supplies		(629)	(659)
Personnel expenses		(173)	(179)
Other expenses		(707)	(713)
Operating income before depreciation and amortisation (OIBDA)		**379**	**395**
Depreciation and amortisation		(540)	(529)
Operating income		**(161)**	**(133)**
Finance income		2	3
Exchange gains		1	2
Finance costs		(11)	(13)
Exchange losses		(1)	(3)
Net financial income/(expense)	[6b]	**(8)**	**(11)**
Profit/(loss) before tax		**(170)**	**(145)**
Income tax		0	0
Total profit/(loss) for the period		**(170)**	**(145)**
Profit/(loss) for the period attributable to owners of the parent		**(170)**	**(145)**
Profit/(loss) for the period		**(170)**	**(145)**
Earnings per share			
Basic earnings per share in EUR		**(0.06)**	**(0.05)**
Diluted earnings per share in EUR		**(0.06)**	**(0.05)**

1 In the Interim Consolidated Financial Statements as of 31 March 2016, the previous-year figures as of 31 March 2015 were retrospectively adjusted in accordance with IFRS 3. For detailed information regarding the change in the published figures, please refer to the Consolidated Financial Statements as of 31 December 2015 (see Note No. 7, Business Combinations).

Consolidated Statement of Comprehensive Income_

		1 January to 31 March	
(Euros in millions)	Notes	2016	2015[1]
Profit/(loss) for the period		**(170)**	**(145)**
Other comprehensive income/(loss)			
Items that will not be reclassified to profit/(loss)		**(35)**	**(37)**
Remeasurement of defined benefit plans		(35)	(37)
Other comprehensive income/(loss)		**(35)**	**(37)**
Total comprehensive income/(loss)		**(204)**	**(182)**
Total comprehensive income/(loss) for the period attributable to owners of the parent		(204)	(182)
Total comprehensive income/(loss)		**(204)**	**(182)**

1 In the Interim Consolidated Financial Statements as of 31 March 2016, the previous-year figures as of 31 March 2015 were retrospectively adjusted in accordance with IFRS 3. For detailed information regarding the change in the published figures, please refer to the Consolidated Financial Statements as of 31 December 2015 (see Note No. 7, Business Combinations).

Consolidated Statement of Changes in Equity_

(Euros in millions)	Subscribed capital	Additional paid-in capital	Retained earnings	Total equity attributable to owners of the parent	Equity
As of 1 January 2015	**2,975**	**4,800**	**3,637**	**11,412**	**11,412**
Profit/(loss) for the period[1]	–	–	(145)	(145)	(145)
Other comprehensive income/(loss)	–	–	(37)	(37)	(37)
Total comprehensive income/(loss)[1]	**–**	**–**	**(182)**	**(182)**	**(182)**
Dividends	–	–	–	–	–
Other movements	–	–	–	–	–
As of 31 March 2015[1]	**2,975**	**4,800**	**3,455**	**11,230**	**11,230**
As of 1 January 2016	**2,975**	**4,800**	**2,546**	**10,321**	**10,321**
Profit/(loss) for the period	–	–	(170)	(170)	(170)
Other comprehensive income/(loss)	–	–	(35)	(35)	(35)
Total comprehensive income/(loss)	**–**	**–**	**(204)**	**(204)**	**(204)**
Other movements	–	–	1	1	1
As of 31 March 2016	**2,975**	**4,800**	**2,343**	**10,117**	**10,117**

1 In the Interim Consolidated Financial Statements as of 31 March 2016, the previous-year figures as of 31 March 2015 were retrospectively adjusted in accordance with IFRS 3. For detailed information regarding the change in the published figures, please refer to the Consolidated Financial Statements as of 31 December 2015 (see Note No. 7, Business Combinations).

Consolidated Statement of Cash Flows_

(Euros in millions)	1 January to 31 March 2016	2015[1]
Cash flow from operating activities		
Profit/(loss) for the period	**(170)**	**(145)**
Adjustments to profit/(loss)		
Net financial income/(expense)	8	11
Gains on disposal of assets	0	(17)
Net income tax expense	(0)	(0)
Depreciation and amortisation	540	529
Change in working capital and others		
Other current and non-current assets	(164)	(76)
Other non-current liabilities and provisions	(6)	(10)
Other current liabilities and provisions	(11)	66
Others		
Interest received	4	5
Interest paid	(22)	(19)
Cash flow from operating activities	**180**	**344**
Cash flow from investing activities		
Proceeds on disposals of property, plant and equipment and intangible assets	(0)	(0)
Payments on investments relating to mobile phone frequency auctions	(1)	–
Payments on investments in property, plant and equipment and intangible assets	(197)	(308)
Proceeds on disposals of companies[2]	–	68
Proceeds/payments made on financial assets	(4)	0
Cash flow from investing activities	**(201)**	**(239)**
Cash flow from financing activities		
Payments made for capital increase costs	–	(5)
Proceeds from interest-bearing debt	250	300
Repayment of interest-bearing debt	(275)	(105)
Cash flow from financing activities	**(25)**	**190**
Net increase/(decrease) in cash and cash equivalents	**(47)**	**295**
Cash and cash equivalents at the beginning of the period	**533**	**1,702**
Cash and cash equivalents at the end of the period	**486**	**1,997**

1 In the Interim Consolidated Financial Statements as of 31 March 2016, the previous-year figures as of 31 March 2015 were retrospectively adjusted in accordance with IFRS 3. For detailed information regarding the change in the published figures, please refer to the Consolidated Financial Statements as of 31 December 2015 (see Note No. 7, Business Combinations).

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

Condensed Notes to the Interim Condensed Consolidated Financial Statements_

for the period 1 January to 31 March 2016

1. Reporting Entity

The Interim Condensed Consolidated Financial Statements (hereinafter "Interim Consolidated Financial Statements") of Telefónica Deutschland Holding AG have been prepared for the period from 1 January to 31 March 2016 and comprise Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland") and its subsidiaries as well as joint operations (together referred to as "Telefónica Deutschland Group" or "Group").

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

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

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

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

As of 31 March 2016, Telefónica Deutschland Holding AG has share capital of EUR 2,974,554,993, divided into 2,974,554,993 no-par value registered shares, each accounting for a pro rata amount of share capital of EUR 1.00. In general each non-par share grants one vote at the Annual General Meeting.

As of 31 March 2016, 21.32 % of the shares are in free float. 63.22 % are held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.). The remaining 15.46 % are held by Koninklijke KPN N.V., The Hague, Netherlands (KPN).

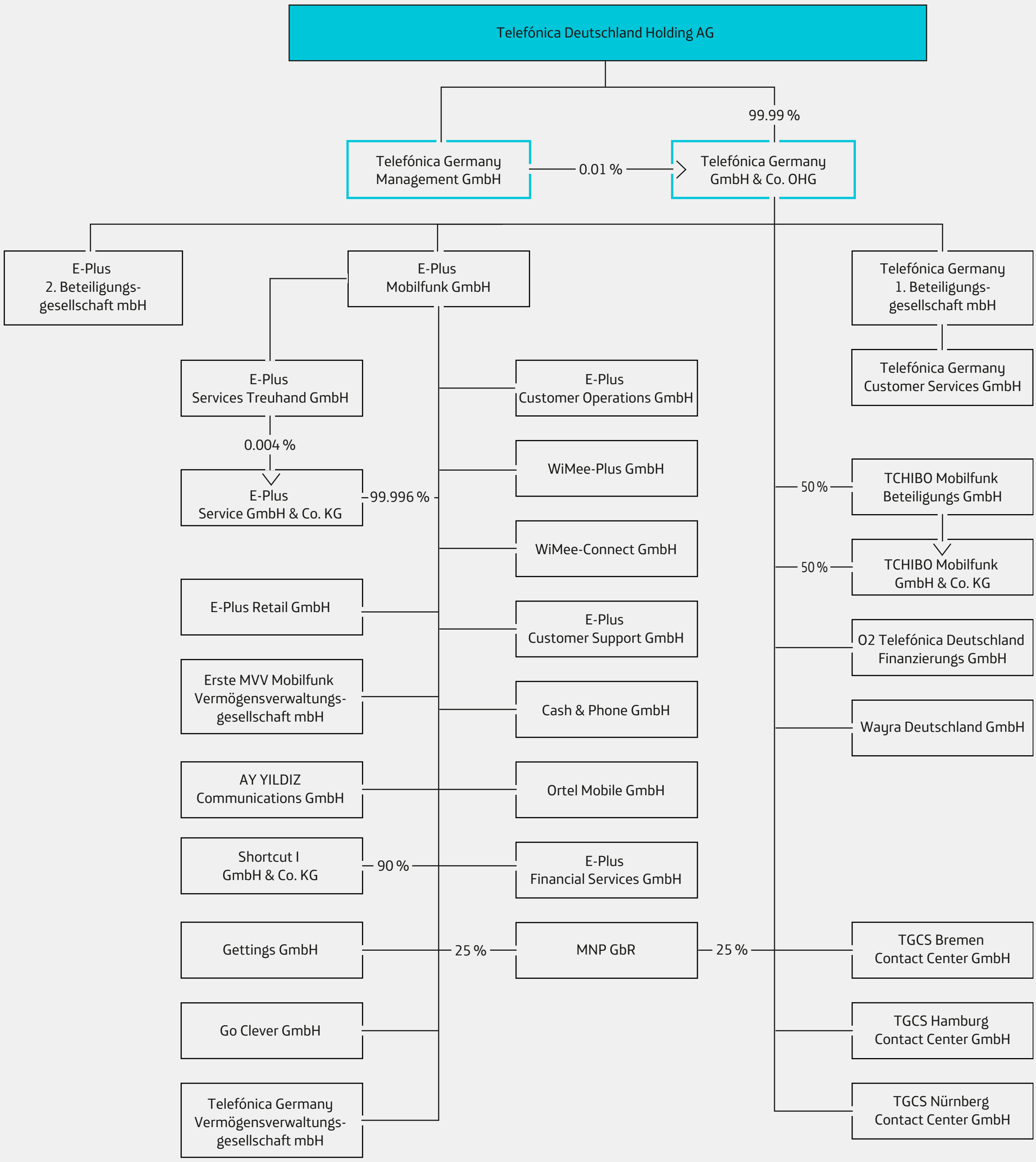
As of 31 March 2016, Telefónica Deutschland Holding AG has Authorised Capital 2012/I of EUR 292,808,507.

As of 31 March 2016, Telefónica Deutschland Holding AG's Contingent Capital 2014/I amounts to EUR 558,472,700.

Telefónica Deutschland Holding AG is the parent company of the Telefónica Deutschland Group, which is included in the Interim Consolidated Financial Statements (Telefónica, S.A. Group) of the ultimate holding company, Telefónica, S.A. The parent company of Telefónica Deutschland Holding AG is Telefónica Germany Holdings Limited, a wholly owned subsidiary of O_2 (Europe) Limited, Slough, United Kingdom (O_2 (Europe) Limited), and an indirect subsidiary of Telefónica, S.A.

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

As of 31 March 2016, the companies included in the Interim Consolidated Financial Statements of the Telefónica Deutschland Group are organised as shown in the following organisation chart:



Unless otherwise stated, the holding quotes interests amount to 100%.

In the first quarter, Fonic GmbH was merged with Telefónica Germany GmbH & Co. OHG.

2. Significant Events and Transactions in the Reporting Period

Placement of a syndicated loan
On 22 March 2016, the Telefónica Deutschland Group agreed a syndicated loan facility in the amount of EUR 750 million, of which EUR 250 million was utilised in the reporting period. It serves general business purposes and has a term of five years. The loan term can be extended to no later than March 2023.

Framework redundancy plan
After the successful execution of the first wave of the restructuring programme of around 800 full-time equivalents (FTEs) in 2015, Telefónica Deutschland Group has now finalised the future target organisation of the company. According to an agreement with the workers' council another approximately 500 FTEs will be given clarity about their employment situation by the middle of 2016. The company continues to target a reduction of around 1,600 FTEs in total by 2018.

3. Basis of Preparation

The Interim Consolidated Financial Statements of Telefónica Deutschland Holding AG are prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting. Accordingly, the Interim Consolidated Financial Statements do not contain all the information and disclosures required for a full set of consolidated financial statements, and should therefore be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2015 (see Note No. 3, Basis of Preparation).

These Interim Consolidated Financial Statements as of 31 March 2016 are unaudited.

Functional currency and presentation currency
The Interim Consolidated Financial Statements are presented in Euro, which is the functional currency of the Telefónica Deutschland Group and its subsidiaries.

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

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

In preparing the Interim Consolidated Financial Statements of the Telefónica Deutschland Group, the significant judgements made by the management regarding the application of accounting policies and main causes of estimation uncertainties were the same as applied in the Consolidated Financial Statements for the year ended 31 December 2015. Additionally, the changes shown under Note No. 4, Accounting Policies were applied, but do not have a material impact on the Group's net assets, financial position and result of operations.

For further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2015 (see Note No. 4, Accounting Policies).

Comparative information
The Consolidated Statement of Financial Position presented in these Interim Consolidated Financial Statements relates to information as of 31 March 2016, which is compared against information as of 31 December 2015.

The Consolidated Income Statement and the Consolidated Statement of Comprehensive Income relate to the three-month periods ended 31 March 2016 and 31 March 2015[1]. The Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity compare the first three-month periods of 2016 and 2015[1].

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

4. Accounting Policies

The significant estimates, assumptions and judgements made by the management in preparing the Interim Financial Statements of the Telefónica Deutschland Group do not fundamentally differ from the assumptions in the Consolidated Financial Statements for the year ended 31 December 2015 with regard to potential uncertainties inherent in the estimates (see Note No. 4, Accounting Policies). Nevertheless, the company adjusted the provision for dismantling the network due to new insights with regard to cost estimates. The adjustment of the provision consequently resulted in a corresponding adjustment of the associated assets.

Starting 1 January 2016, the Telefónica Deutschland Group applies the amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (EU Regulation of 2 December 2015), the amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (EU Regulation of 24 November 2015), the amendments to IAS 27 – Equity Method in Separate Financial Statements according to EU Regulation of 18 December 2015, the Annual Improvements to the IFRSs 2012 – 2014 (EU Regulation of 15 December 2015) and the amendments to IAS 1 – Disclosure Initiative (EU Regulation of 18 December 2015).

With the respective regulations, the European Union (EU) approved the required adoption of the amendments for financial years beginning on or after 1 January 2016. Early adoption was permitted. The IASB also allows for adoption for financial years beginning on or after 1 January 2016.

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

1 In the Interim Consolidated Financial Statements as of 31 March 2016, the previous-year figures as of 31 March 2015 were retrospectively adjusted in accordance with IFRS 3. For detailed information regarding the change in the published figures, please refer to the Consolidated Financial Statements as of 31 December 2015 (see Note No. 7, Business Combinations).

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

Standards and amendments		Application for financial years beginning on or after
Amendments to IFRS 10, IFRS 12 and IAS 28	Applying the Consolidation Exception	1 January 2016[1]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017[1]
Amendments to IAS 7	Disclosure Initiative	1 January 2017[1]
IFRS 15	Revenue from Contracts with Customers	1 January 2018[1]
IFRS 9	Financial Instruments	1 January 2018[1]
IFRS 16	Leases	1 January 2019[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	[2]

1 Endorsement by EU still outstanding, information for first-time adoption according to IASB.
2 First-time adoption postponed indefinitely according to IASB resolution of 17 December 2015.

For a comprehensive description of the new standards, amendments to standards and interpretations applicable for the Group, please refer to the disclosures in the Consolidated Financial Statements for the year ended 31 December 2015 (see Note No. 4, Accounting Policies). An assessment of the expected impact on the net assets, financial position and result of operations of the Group is provided there, which still applies to the Interim Consolidated Financial Statements as of 31 March 2016.

In addition, the IASB issued amendments to IAS 7 – Disclosure Initiative on 29 January 2016. These amendments intend to improve information provided to users of financial statements about an entity's liabilities arising from financing activities.

Moreover, the IASB issued amendments to IFRS 15 – Revenue from Contracts with Customers on 12 April 2016. The clarifications mainly deal with the identification of performance obligations, the distinction between principal and agent, and the recognition of licences. Additional practical expedients are also provided regarding the transition requirements for modified and completed contracts. The amendments are to be implemented with the adoption of IFRS 15. Endorsement by the EU is currently outstanding.

5. Selected Notes to the Consolidated Statement of Financial Position

a) Other intangible assets

The other intangible assets comprise the following:

(Euros in millions)	Service concession arrangements and licences	Customer bases	Software	Brand names	Others	Construction in progress/ prepayments on intangible assets	Other intangible assets
Net book value							
As of 31 December 2015	2,676	2,541	538	81	22	1,201	7,059
As of 31 March 2016	2,561	2,459	512	76	22	1,205	6,835

Other intangible assets amount to EUR 6,835 million as of 31 March 2016 (31 December 2015: EUR 7,059 million). The decline in comparison to the end of 2015 was EUR 225 million or 3.2 % which is attributable to amortisation of finite intangible assets. The amortisation costs amount to EUR 304 million (31 March 2015: EUR 262 million). This was offset by additions of EUR 80 million (31 March 2015: EUR 56 million).

In the reporting period, borrowing costs were capitalised as a component of the frequencies acquired in 2015 in the amount of EUR 1.5 million.

The Telefónica Deutschland Group based the capitalisation on a borrowing cost rate averaging 1.4 %.

b) Trade and other receivables

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

(Euros in millions)	As of 31 March 2016		As of 31 December 2015	
	Non-current	Current	Non-current	Current
Trade receivables	143	1,668	169	1,648
Receivables from related parties	–	39	–	37
Other receivables	–	25	–	29
Provisions for bad debts	(10)	(204)	(13)	(194)
Trade and other receivables	**133**	**1,528**	**157**	**1,520**

c) Other non-financial assets

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

(Euros in millions)	As of 31 March 2016		As of 31 December 2015	
	Non-current	Current	Non-current	Current
Prepayments	135	257	160	46
Prepayments to related parties	–	0	–	0
Tax receivables for indirect taxes	–	1	–	15
Other non-financial assets	**135**	**258**	**160**	**61**

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

d) Interest-bearing debt

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

(Euros in millions)	As of 31 March 2016		As of 31 December 2015	
	Non-current	**Current**	Non-current	Current
Bonds	1,108	6	1,105	12
Promissory notes and registered bonds	299	0	299	4
Loan liabilities	498	151	250	251
Finance leases	32	121	32	180
Contribution and compensation obligations	–	3	–	3
Other financial liabilities	–	2	–	119
Interest-bearing debt	**1,937**	**283**	**1,686**	**568**

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

Promissory notes/registered bonds
On 13 March 2015, the Telefónica Deutschland Group completed an initial placement of promissory notes and registered bonds. The carrying amount of the two debt instruments amounted to EUR 299 million as of 31 March 2016.

Loan liabilities
The loan liabilities include a loan of EUR 400 million, which the Telefónica Deutschland Group borrowed in September 2012 at an original total value of EUR 1,250 million from Telfisa Global B.V. As of 31 March 2016, the current amount of this loan is EUR 150 million.

In addition, an agreement for a syndicated credit facility of EUR 750 million was signed on 22 March 2016 (revolving credit facility). As of 31 March 2016, EUR 250 million of the revolving credit facility (RCF) had been utilised. The RCF has a term ending in March 2021 and can be extended by a maximum of two years. The RCF bears a floating interest rate at Euribor money market conditions plus an agreed margin.

Finance leases
This item includes finance lease liabilities in the amount of EUR 153 million as of 31 March 2016 (31 December 2015: EUR 212 million).

The obligations arising from finance leases mainly result from agreements for mobile phones and network elements concluded under sale and leaseback transactions and classified as finance leases in accordance with their contract design.

Contribution obligations and other financial liabilities
In addition, interest-bearing debt includes contribution and compensation obligations in conjunction with investments in start-ups and agreements on the extension of payment periods with commercial suppliers.

e) Trade and other payables

The composition of trade and other payables is as follows:

	As of 31 March 2016		As of 31 December 2015	
(Euros in millions)	Non-current	Current	Non-current	Current
Trade payables against third parties	110	679	109	573
Accruals	19	1,070	19	1,105
Payables to related parties	–	328	–	298
Trade payables	**128**	**2,077**	**128**	**1,975**
Other creditors non-trade	2	49	2	69
Other payables to related parties	–	47	–	53
Other payables	23	67	23	175
Other payables	**25**	**163**	**25**	**296**
Trade and other payables	**154**	**2,240**	**154**	**2,272**

Trade payables to third parties include the outstanding payment obligations from the mobile phone frequency auction (non-current portion: EUR 110 million; current portion: EUR 111 million).

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

Other creditors non-trade mainly consist of liabilities due to personnel.

Alongside debtors with credit balances, the other liabilities primarily include a non-current portion of the liabilities in the amount of EUR 23 million as a result of the assumption of obligations from mobile network sites transferred to Deutsche Telekom as part of the network integration. The current portion of EUR 100 million included as of 31 December 2015 was already paid in the first quarter of the year 2016.

f) Provisions

The provisions are recognised at the following amounts:

	As of 31 March 2016		As of 31 December 2015	
(Euros in millions)	Non-current	Current	Non-current	Current
Pension obligations	112	–	76	–
Restructuring	50	144	52	169
Dismantling	505	22	372	22
Other provisions	14	5	16	5
Provisions	**681**	**171**	**516**	**196**

The Telefónica Deutschland Group's provisions have changed compared to 31 December 2015, particularly due to the obligations for dismantling and pensions. The addition to the provision for dismantling comprises the higher cost estimate based on new insights and the interest rate trend. The change in pension obligations mainly results from a remeasurement at the current lower interest rate of 1.77 %.

For further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2015 (see Note No. 5.12, Provisions).

6. Selected Explanatory Notes to the Consolidated Income Statement

a) Revenues

Revenues are comprised as follows:

	1 January to 31 March	
(Euros in millions)	**2016**	2015
Rendering of services	1,589	1,615
Other sales	268	286
Revenues	**1,858**	**1,901**

Revenues from the rendering of services include mobile service revenues as well as revenues from fixed line/DSL business. The other sales include revenues from the sale of handsets and other revenues.

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

The breakdown of revenues according to mobile business and fixed line/DSL business is shown in the following table:

	1 January to 31 March	
(Euros in millions)	**2016**	2015
Mobile business	1,603	1,636
Mobile service revenues	1,336	1,354
Handset revenues	267	282
Fixed line/DSL business	253	261
Other revenues	2	3
Revenues	**1,858**	**1,901**

b) Net financial income/(expense)

The net financial income/(expense) of the Telefónica Deutschland Group for the first three months of the current financial year amounts to EUR –8 million (31 March 2015: EUR –11 million).

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

	1 January to 31 March	
(Euros in millions)	**2016**	2015[1]
Interest income from financial assets	2	3
Interest expenses from financial liabilities	(10)	(13)
Accretion of provisions and other liabilities	(1)	(0)
Other exchange gains/(losses)	0	(1)
Net financial income/(expense)	**(8)**	**(11)**

1 In the Interim Consolidated Financial Statements as of 31 March 2016, the previous-year figures as of 31 March 2015 were retrospectively adjusted in accordance with IFRS 3. For detailed information regarding the change in the published figures, please refer to the Consolidated Financial Statements as of 31 December 2015 (see Note No. 7, Business Combinations).

The interest income from financial assets mainly comprises the interest income in connection with "O_2 My Handy" receivables and receivables from finance leases.

The interest expenses from financial liabilities mainly include interests for the loan borrowed from Telfisa Global B.V. in September 2012, for the bonds issued in November 2013 and February 2014 and for the promissory notes and registered bonds issued in March 2015. Additionally, interests from finance lease obligations are included.

7. Measurement Categories of Financial Assets and Financial Liabilities

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

As of 31 March 2016, the carrying amount of the financial assets and financial liabilities represents an appropriate approximation for the fair value (with the exception of the portion of the bonds that is not hedged – see below).

For further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2015 (see Note No. 10, Measurement Categories of Financial Assets and Financial Liabilities).

In addition, the tables show the categorisation of the financial assets and financial liabilities in accordance with the importance of the input factors that are used for their respective measurement. For this purpose, three levels or measurement hierarchies are defined:

- Level 1: Primary market value: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: Significant other observable input parameters: inputs observable, either directly or indirectly, which are subject to certain limitations
- Level 3: Significant unobservable input parameters: all unobservable inputs, which might include the entity's own data as a starting point and which should be adjusted if reasonably available information indicate that other market participants would use different data

	As of 31 March 2016									
	Financial assets									
					Measurement hierarchy					
(Euros in millions)	**Financial assets at fair value through profit or loss**	**Available-for-sale financial assets**	**Held-to maturity financial assets**	**Loans and receivables**	**Level 1 (primary market value)**	**Level 2 (other directly observable market inputs)**	**Level 3 (inputs not based on observable market data)**	**Total carrying amount**	**Total fair value**	**Not in the scope of IFRS 7**
Non-current trade and other receivables (Note No. 5.4)	–	–	–	133	–	–	–	133	133	–
Other non-current financial assets (Note No. 5.5)	14	21	–	23	–	14	21	58	58	10
Current trade and other receivables (Note No. 5.4)	–	–	–	1,527	–	–	–	1,527	1,527	1
Other current financial assets (Note No. 5.5)	1	–	–	10	–	1	–	11	11	–
Cash and cash equivalents (Note No. 5.8)	–	–	–	486	–	–	–	486	486	–
Total	**15**	**21**	**–**	**2,180**	**–**	**15**	**21**	**2,215**	**2,215**	**11**

	As of 31 December 2015									
	Financial assets									
					Measurement hierarchy					
(Euros in millions)	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to maturity financial assets	Loans and receivables	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	Not in the scope of IFRS 7
Non-current trade and other receivables (Note No. 5.4)	–	–	–	157	–	–	–	157	157	–
Other non-current financial assets (Note No. 5.5)	12	18	–	23	–	12	18	53	53	9
Current trade and other receivables (Note No. 5.4)	–	–	–	1,519	–	–	–	1,519	1,519	1
Other current financial assets (Note No. 5.5)	2	–	–	8	–	2	–	10	10	–
Cash and cash equivalents (Note No. 5.8)	–	–	–	533	–	–	–	533	533	–
Total	**14**	**18**	**–**	**2,240**	**–**	**14**	**18**	**2,272**	**2,272**	**11**

As of 31 March 2016, EUR 14 million of the other non-current financial assets and EUR 1 million of the other current financial assets are classified as financial assets at fair value through profit or loss. These relate to swaps concluded in connection with the bond issue.

In addition, EUR 21 million of the other non-current financial assets are classified as available-for-sale financial assets. These relate to investments in start-ups. These assets are measured according to level 3 as reliable measurement using a market price is not possible. These entities generate a start-up loss, and the existing business plans contain numerous unpredictable assumptions. For this reason, the measurement is made in accordance with IAS 39.46c at amortised cost.

All other financial assets as of 31 March 2016 are categorised as loans and receivables.

Please see the respective notes for further information.

	As of 31 March 2016								
	Financial liabilities								
				Measurement hierarchy					
(Euros in millions)	Financial liabilities at fair value through profit or loss	Liabilities at amortised cost	Finance leases	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	Not in the scope of IFRS 7
Non-current interest-bearing debt (Note No. 5.10)	363	1,542	32	–	363	–	1,937	1,996	–
Non-current trade and other payables (Note No. 5.11)	–	151	–	–	–	–	151	151	2
Current interest-bearing debt (Note No. 5.10)	–	162	121	–	–	–	283	283	–
Current trade and other payables (Note No. 5.11)	–	2,190	–	–	–	–	2,190	2,190	50
Total	**363**	**4,046**	**153**	**–**	**363**	**–**	**4,561**	**4,621**	**52**

	As of 31 December 2015								
	Financial liabilities								
				Measurement hierarchy					
(Euros in millions)	Financial liabilities at fair value through profit or loss	Liabilities at amortised cost	Finance leases	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	Not in the scope of IFRS 7
Non-current interest-bearing debt (Note No. 5.10)	360	1,294	32	–	360	–	1,686	1,733	–
Non-current trade and other payables (Note No. 5.11)	–	151	–	–	–	–	151	151	2
Current interest-bearing debt (Note No. 5.10)	–	388	180	–	–	–	568	568	–
Current trade and other payables (Note No. 5.11)	–	2,203	–	–	–	–	2,203	2,203	69
Total	**360**	**4,036**	**212**	**–**	**360**	**–**	**4,608**	**4,655**	**71**

As of 31 March 2016, EUR 363 million of the other non-current interest-bearing debt are classified as financial liabilities at fair value through profit or loss. These relate to the part of the bonds, that are each accounted for as fair value hedges with one interest rate swap each.

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

In addition to the bonds, the non-current and current interest-bearing debt as of 31 March 2016 contains promissory notes and registered bonds with a carrying amount of around EUR 300 million, a loan of EUR 400 million, and utilising a credit facility amounting to EUR 250 million. These debts are classified as financial liabilities measured at amortised cost.

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

The credit facility includes an interest rate floor, which is accounted for separately as an embedded derivative, and whose separation can be ignored due to its small amount as of 31 March 2016.

Please see the respective notes for further information.

8. Contingent Assets and Liabilities

As one of the leading network operators in Germany, the Telefónica Deutschland Group is exposed to the risk of claims from patent violations. In this context, patent owners could assert claims for licence payments and/or for the prohibition of the use of certain patent-violating technologies. This risk is mitigated by the Telefónica Deutschland Group's exemption and compensation claims against its relevant suppliers. At present, patent owners have potential licence claims that come under consideration on the basis of the provisional/court-assessed values in dispute. The amount under dispute is estimated to be within the lower million range, which is approximately offset by the potential mitigating exemption and compensation claims.

The Telefónica Deutschland Group is, as part of its ordinary business, involved in various proceedings both in court and out of court. The possible effects are of minor significance for the Group's net assets, financial position and results of operations.

For further information, please refer to the Consolidated Financial Statements as of 31 December 2015 (see Note No. 18, Contingent Assets and Liabilities).

9. Events after the Reporting Period

Shareholders' Meeting
On 6 April 2016, the Management Board of Telefónica Deutschland convened the Shareholders' Meeting for the 2015 financial year on 19 May 2016.

Changes in the Supervisory Board of Telefónica Deutschland
Antonio Manuel Ledesma Santiago is stepping down from the Supervisory Board of Telefónica Deutschland at the end of the Shareholders' Meeting on 19 May 2016, at which his successor is to be elected.

Peter Erskine has been proposed to the 2016 Shareholders' Meeting as his successor. His term in office is to begin at the end of the 2016 Shareholders' Meeting and will last until at the end of the 2017 Shareholders' Meeting.

Sale of passive tower infrastructure to Telxius
According to a decision of the relevant bodies of Telefónica Deutschland in April 2016 Telefónica Deutschland Group sold on 21 April 2016 its passive tower infrastructure to Telefónica, S.A.'s infrastructure company Telxius. The two parties agreed on the sale and transfer of approx. 2,350 towers for a purchase price of EUR 587 million.

With this transaction Telefónica Deutschland Group takes advantage of current favourable market conditions for infrastructure assets, thereby maximising shareholder value. The cash proceeds from the transaction enhance the company's financial flexibility and will be reinvested in the business to support infrastructure development and the development of new growth areas.

Following the sale, Telefónica Deutschland Group will continue to use the wireless towers through operating lease agreements. There will be no impact on Telefónica Deutschland Group's targeted synergies from the merger with E-Plus.

The tower sale will be treated as an exceptional effect excluded from the company's outlook for 2016. The transfer concerns wireless towers located mainly in rural areas, which account for less than ten percent of Telefónica Deutschland Group's targeted passive infrastructure portfolio.

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

Munich, 12 May 2016

Telefónica Deutschland Holding AG

The Management Board

Thorsten Dirks | Rachel Empey | Markus Haas