Interim Condensed Consolidated Financial Statements

for the period 1 January to 31 March 2018

Consolidated Statement of Financial Position

Assets (Euros in millions)	Notes	**As of 31 March 2018**	As of 31 December 2017
A) Non-current assets		**11,740**	**11,940**
Goodwill		1,960	1,960
Other intangible assets	[5a]	5,298	5,485
Property, plant and equipment	[5b]	3,964	4,041
Trade and other receivables	[5c]	64	69
Other financial assets		101	94
Other non-financial assets	[5d]	225	129
Deferred tax assets		129	162
B) Current assets		**2,678**	**2,160**
Inventories		100	105
Trade and other receivables	[5c]	1,093	1,265
Other financial assets		12	17
Other non-financial assets	[5d]	633	186
Cash and cash equivalents		840	587
Total assets (A+B)		**14,419**	**14,100**

Equity and liabilities (Euros in millions)	Notes	**As of 31 March 2018**	As of 31 December 2017
A) Equity		**8,490**	**8,297**
Subscribed capital		2,975	2,975
Additional paid-in capital		4,800	4,800
Retained earnings		716	523
Equity attributable to owners of the parent		8,490	8,297
B) Non-current liabilities		**2,499**	**2,141**
Interest-bearing debt	[5e]	1,527	1,268
Trade and other payables	[5f]	21	19
Provisions	[5g]	599	599
Deferred income	[5f]	250	255
Deferred tax liabilities		102	1
C) Current liabilities		**3,430**	**3,662**
Interest-bearing debt	[5e]	631	637
Trade and other payables	[5f]	2,120	2,224
Provisions	[5g]	146	142
Other non-financial liabilities		71	132
Deferred income	[5f]	462	527
Total equity and liabilities (A+B+C)		**14,419**	**14,100**

Consolidated Income Statement

(Euros in millions)	Notes	1 January to 31 March 2018	2017
Revenues	[6a]	1,767	1,771
Other income		35	28
Supplies		(587)	(585)
Personnel expenses		(152)	(155)
Impairment losses in accordance with IFRS 9		(21)	(19)
Other expenses	[6b]	(648)	(650)
Operating income before depreciation and amortisation (OIBDA)		**394**	**390**
Depreciation and amortisation	[6c]	(467)	(481)
Operating income		**(73)**	**(91)**
Finance income		1	1
Exchange gains		0	0
Finance costs		(9)	(9)
Exchange losses		(0)	(0)
Financial result		**(9)**	**(8)**
Profit/(loss) before tax		**(81)**	**(99)**
Income tax		(0)	(0)
Profit/(loss) for the period		**(82)**	**(99)**
Profit/(loss) for the period attributable to owners of the parent		**(82)**	**(99)**
Profit/(loss) for the period		**(82)**	**(99)**
Earnings per share			
Basic earnings per share in EUR		**(0.03)**	**(0.03)**
Diluted earnings per share in EUR		**(0.03)**	**(0.03)**

Consolidated Statement of Comprehensive Income

(Euros in millions)	1 January to 31 March 2018	2017
Profit/(loss) for the period	**(82)**	**(99)**
Items that will not be reclassified to profit/(loss)		
Remeasurement of defined benefit plans	–	10
Other comprehensive income/(loss)	**–**	**10**
Total comprehensive income/(loss)	**(82)**	**(89)**
Total comprehensive income/(loss) attributable to owners of the parent	(82)	(89)
Total comprehensive income/(loss)	**(82)**	**(89)**

Consolidated Statement of Changes in Equity

(Euros in millions)	Subscribed capital	Additional paid-in capital	Retained earnings	Equity attributable to owners of the parent	Equity
Financial position as of 1 January 2017	**2,975**	**4,800**	**1,634**	**9,408**	**9,408**
Profit/(loss) for the period	–	–	(99)	(99)	(99)
Other comprehensive income/(loss)	–	–	10	10	10
Total comprehensive income/(loss)	**–**	**–**	**(89)**	**(89)**	**(89)**
Other movements	–	–	1	1	1
Financial position as of 31 March 2017	**2,975**	**4,800**	**1,546**	**9,320**	**9,320**
Financial position as of 1 January 2018, adjusted	**2,975**	**4,800**	**523**	**8,297**	**8,297**
Adjustment due to first-time application of IFRS 9 and IFRS 15 (after taxes)	–	–	274	274	274
Financial position as of 1 January 2018, adjusted	**2,975**	**4,800**	**797**	**8,571**	**8,571**
Profit/(loss) for the period	–	–	(82)	(82)	(82)
Other comprehensive income/(loss)	–	–	–	–	–
Total comprehensive income/(loss)	**–**	**–**	**(82)**	**(82)**	**(82)**
Other movements	–	–	0	0	0
Financial position as of 31 March 2018	**2,975**	**4,800**	**716**	**8,490**	**8,490**

Consolidated Statement of Cash Flows

		1 January to 31 March	
(Euros in millions)	Notes	2018	2017
Cash flow from operating activities			
Profit/(loss) for the period		**(82)**	**(99)**
Adjustments to profit/(loss)			
Financial result		9	8
Gains on disposals of assets		(0)	(1)
Income taxes		0	(0)
Depreciation and amortisation	[6c]	467	481
Change in working capital and others			
Other non-current assets	[5a], [5b], [5c], [5d]	9	13
Other current assets	[5a], [5b], [5c], [5d]	8	100
Other non-current liabilities and provisions	[5e], [5f], [5g]	(11)	(16)
Other current liabilities and provisions	[5e], [5f], [5g]	(150)	(214)
Others			
Taxes paid		–	(0)
Interest received		2	4
Interest paid		(19)	(18)
Cash flow from operating activities		**233**	**257**
Cash flow from investing activities			
Proceeds from disposals of property, plant and equipment and intangible assets		0	1
Acquisition of companies, net of cash acquired		(0)	–
Payments on investments in property, plant and equipment and intangible assets	[5a], [5b]	(222)	(267)
Proceeds from financial assets		4	11
Payments for financial assets		(0)	(2)
Cash flow from investing activities		**(219)**	**(258)**
Cash flow from financing activities			
Proceeds from interest-bearing debt	[5e]	580	–
Repayments of interest-bearing debt	[5e]	(332)	(0)
Other proceeds from financing activities		(9)	–
Cash flow from financing activities		**239**	**(0)**
Net increase/(decrease) in cash and cash equivalents		**253**	**(1)**
Cash and cash equivalents at the beginning of the period		**587**	**613**
Cash and cash equivalents at the end of the period		**840**	**612**

Condensed Notes to the Interim Consolidated Financial Statements

for the period 1 January to 31 March 2018

1. Reporting Entity

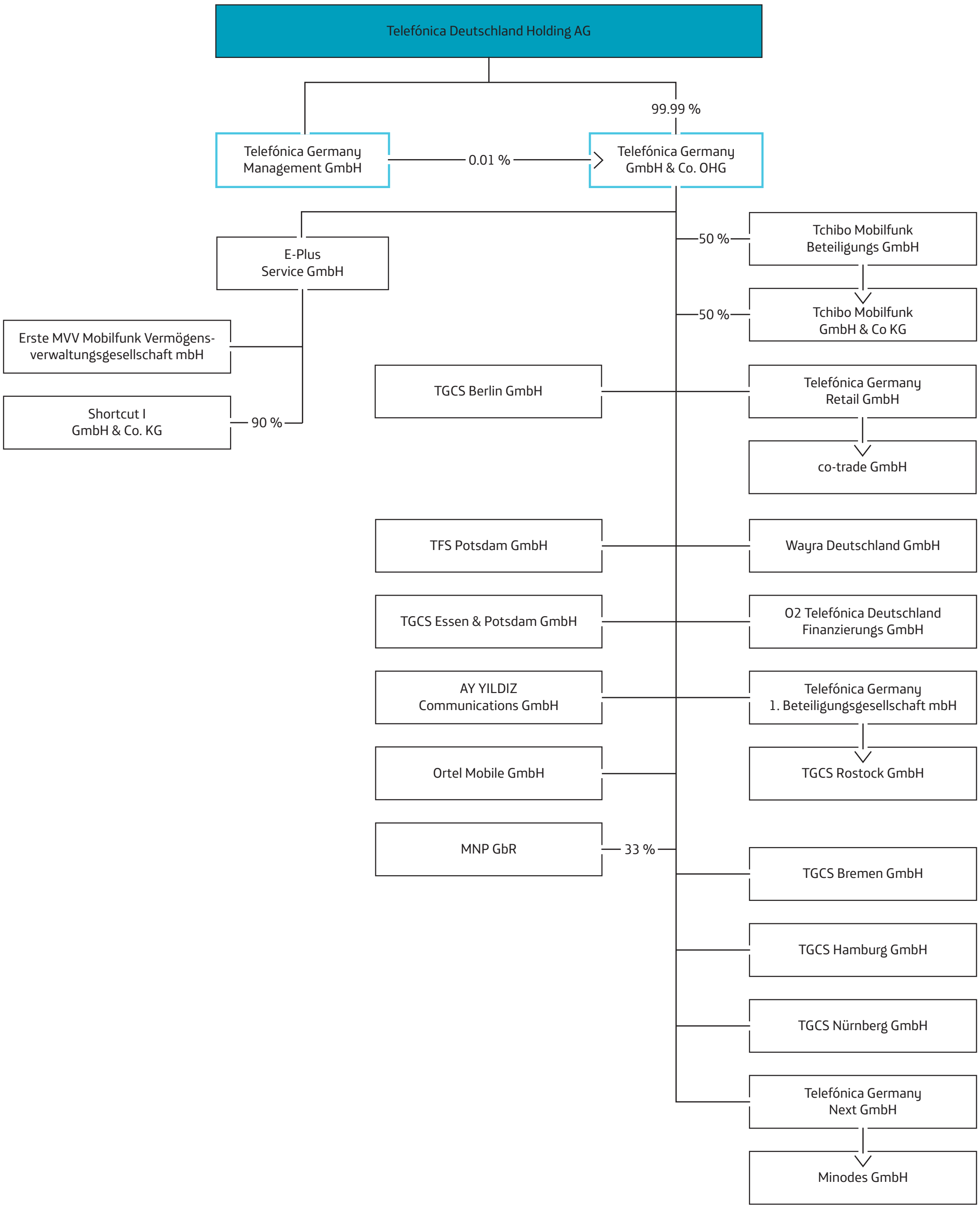
The Interim Condensed Consolidated Financial Statements (hereinafter "Interim Consolidated Financial Statements") of Telefónica Deutschland Holding AG have been prepared for the period from 1 January to 31 March 2018 and comprise Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland") 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 is listed on the regulated market of the Frankfurt Stock Exchange. The German Securities Identification Number (WKN) is A1J5RX, the International Securities Identification Number (ISIN) is DE000A1J5RX9.

As of 31 March 2018, 23.1% of the shares were in free float. 69.2% were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.). The remaining 7.7% were held by Koninklijke KPN N.V., The Hague, Netherlands (KPN), according to a press release for Koninklijke KPN N.V. dated 26 April 2018.

As of 31 March 2018, the companies included in the consolidated financial statements of the Telefónica Deutschland Group were organised as shown in the following organisation chart:



Unless stated otherwise, the ownership interests amount to 100%.

2. Significant Events and Transactions during the Reporting Period

Promissory notes/registered bonds
On 21 February, Telefónica Germany GmbH & Co. OHG placed promissory note loans and a registered bond totalling over EUR 250 million. For more information, see Note 5 e) Interest-bearing debt.

3. Basis of Preparation

The Interim Consolidated Financial Statements of Telefónica Deutschland Holding AG are prepared in accordance with IFRS applicable to interim financial reporting as issued by the IASB and as adopted by the EU. Accordingly, the Interim Consolidated Financial Statements do not contain all the information and disclosures required for a complete set of consolidated financial statements, and should therefore be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2017 (see Note 2, Basis of Preparation).

These Interim Consolidated Financial Statements as of 31 March 2018 are unaudited.

Functional currency and presentation currency
The Interim Consolidated Financial Statements are presented in euros, which is the functional currency of Telefónica Deutschland Holding AG.

Unless stated otherwise, the figures in these Interim Consolidated Financial Statements are presented in millions of euros (EUR million) and rounded according to established commercial principles. Therefore, recalculations may slightly differ from the totals shown in the respective tables.

Other
The preparation of the Interim Consolidated Financial Statements requires management to make assessments, estimates and assumptions that affect the application of the accounting policies as well as the amounts reported for the assets and liabilities and the income and expenses. A significant change in the facts and circumstances on which these assessments, estimates and assumptions are based could materially affect the Telefónica Deutschland 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 2017 (see Note 3, Accounting Policies).

Comparative information
The Consolidated Statement of Financial Position presented in these Interim Consolidated Financial Statements relates to information as of 31 March 2018, which is compared against information as of 31 December 2017.

The Consolidated Income Statement and the Consolidated Statement of Comprehensive Income relate to the three-month periods ended 31 March 2018 and 31 March 2017. The Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity compare the first three-month periods of 2018 and 2017.

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 Consolidated Financial Statements of the Telefónica Deutschland Group do not in principle differ in terms of potential estimation uncertainty from the assumptions included in the Consolidated Financial Statements for the financial year ended 31 December 2017 (see Note 3, Accounting Policies).

The Telefónica Deutschland Group has not applied the following new and revised standards and interpretations that have been issued but were not yet effective:

Standards, interpretations and amendments		Mandatory application for financial years beginning on or after
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019[1]
Amendments to IFRS 9	Assessment Criteria for the Classification of Financial Assets	1 January 2019[1]
Amendments to IAS 28	Application of IFRS 9 in Connection with IAS 28	1 January 2019[1]
Amendments to IAS 19	Plan Amendments, Curtailment or Settlement	1 January 2019[1]
Annual Improvements to the IFRS 2015 – 2017 Cycle	Amendments to IFRS 3 and 11 as well as IAS 12 and 23	1 January 2019[1]
Framework	Amendments References to the Conceptual Framework in IFRS Standards	1 January 2020[1]
IFRS 17	Insurance Contracts	1 January 2021[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	undetermined[1,2]

[1] Endorsement by EU still outstanding, information for first-time adoption under IASB.

[2] First-time adoption postponed for an indefinite period 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 2017 (see Note 3, 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 2018.

IFRS 15 and IFRS 9 – effects from the first-time adoption
Telefónica Deutschland Group has been applying IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* since 1 January 2018.

The following table presents the effects which arise from the first-time adoption of these two standards:

(Euros in millions)	31 December 2017	Adjustment due to IFRS 15	Adjustment due to IFRS 9	1 January 2018
Non-current assets				
Trade and other receivables	69	1	–	70
Other non-financial assets	129	107	–	236
Deferred tax assets	162	(33)	–	129
Current assets				
Trade and other receivables	1,265	(49)	(2)	1,214
Other non-financial assets	186	329	–	515
Equity				
Retained earnings	523	276	(2)	797
Non-current liabilities				
Deferred income	255	2	–	257
Deferred tax liabilities	1	101	–	102
Current liabilities				
Deferred income	527	(25)	–	502

IFRS 15: Revenue from Contracts with Customers

IFRS 15 anchors the rules from various standards and interpretations with a cross-industry approach into one unified standard. IFRS 15 has therefore superseded IAS 18 *Revenue* and IAS 11 *Construction Contracts* in particular. IFRS 15 defines a comprehensive framework to determine whether, in what amount and at what time revenue should be recognised.

A core principle of IFRS 15 is that revenue should be recognised for the amount which is the expected equivalent value of the performance obligation. For the enforcement of this principle the standard provides a five-step model to determine the amount and time of revenue:

— Identification of the contract

— Identification of the distinct performance obligations

— Determination of the transaction price

— Allocation of the transaction price

— Revenue recognition with satisfaction of performance obligation.

Furthermore, the standard contains some additional provisions regarding detailed questions and no longer includes certain currently applied accounting rules. For example for the allocation of the transaction price, it is no longer of importance whether the supply of goods or the provision of services take place in the future. Moreover, under certain conditions, IFRS 15 provides that costs of obtaining a contract directly attributable to the contract, such as commissions, are capitalised and allocated over the underlying amortisation period. Due to the customary fixed-term contracts, the first-time application starting from 1 January 2018 required in particular an analysis of the contracts concluded in previous financial years which have not yet ended as at 1 January 2018. The standard gives the user the choice between two methods for the time of the first-time application:

— Fully retrospectively to each prior reporting period with certain practical expedients,

— modified retrospectively by cumulative adjustments to the opening balance of equity in the reporting period.

During the transition to IFRS 15, the Telefónica Deutschland Group decided to apply the modified retrospective method, according to which the accumulated adjustment must be recognised as of 1 January 2018. As a result, the Group did not apply the IFRS 15 requirements to the comparative period presented. The comparative period 2017 has been set up in line with the accounting policies presented in the Consolidated Financial Statements for the financial year as at 31 December 2017 (see Note 3 Accounting Policies).

In principle, the requirements of IFRS 15 should be applied to every individual contract. However, the standard also offers the possibility of applying the recognition requirements to a portfolio of contracts with similar characteristics if it is expected that the effects on the financial statements of applying the Standard to the portfolio would not differ materially from applying the Standard to the individual contracts. The Telefónica Deutschland Group analysed the existing contracts and aggregated them into portfolios. The Group applies the provisions of IFRS 15 at the level of these defined portfolios.

With the introduction of IFRS 15, it was necessary to adjust certain accounting processes. In particular, the requirements for the analysis of the customer contracts as part of the product creation process needed to be specified further in order to meet the requirements of IFRS 15. An IT tool was also introduced to calculate the adjustments within the scope of IFRS 15.

The effect of the first-time application of IFRS 15 is presented in the section IFRS 15 and IFRS 9 – effects from the first-time adoption.

The total adjustment of equity (after taxes) in the opening balance arising from the first-time application of IFRS 15 was EUR 276 million as of 1 January 2018.

The biggest effect of the adjustments resulted from the capitalisation of costs of obtaining a contract in other non-financial assets. For contracts which had not yet ended as of 31 December 2017, an amount of EUR 419 million was capitalised.

However, costs of obtaining a contract are not capitalised in the tax base relevant for the Group, but are recognised directly in the Income Statement. To ensure proper representation of this temporary difference, deferred taxes amounting to EUR 134 million were recognised as at the first-time application, which reduces equity accordingly. These were partially offset against existing deferred tax assets.

In addition to the two largest effects resulting from the capitalisation of costs of obtaining a contract and the deferred taxes formed thereon, the application of IFRS 15 also resulted in further effects on the consolidated balance sheet due to the differences in the recognition of contracts with customers. Trade and other receivables fell by EUR 48 million with an effect on equity. The other non-financial assets increased by EUR 17 million. Deferred income decreased by EUR 22 million.

The following table shows the balances as of 31 March 2018 for which a change arises due to the application of IFRS 15.

(Euros in millions)	Balance sheet as of 31 March 2018	Adjustments	Value without application of IFRS 15
Non-current assets			
Trade and other receivables	64	(1)	63
Other non-financial assets	225	(107)	117
Deferred tax assets	129	33	162
Current assets			
Trade and other receivables	1,093	39	1,133
Other non-financial assets	633	(330)	303
Equity			
Retained earnings	716	(279)	437
Non-current liabilities			
Deferred income	250	(12)	239
Deferred tax liabilities	102	(101)	1
Current liabilities			
Deferred income	462	26	488

Without the first-time application of IFRS 15, the following differences in the Consolidated Income Statement would arise for the period from 1 January to 31 March 2018.

(Euros in millions)	Consolidated Income Statement for the period from 1 January to 31 March 2018	Adjustments	Value without application of IFRS 15
Revenues	1,767	(3)	1,764
Mobile business	1,566	(2)	1,564
Mobile service revenues	1,287	(2)	1,285
Handset revenues	280	(1)	279
Fixed line/DSL business revenues	199	(4)	195
Other revenues	2	2	4
Impairment losses in accordance with IFRS 9	(21)	0	(21)
Other expenses	**(648)**	**(0)**	**(648)**
Operating income before depreciation and amortisation (OIBDA)	**394**	**(3)**	**390**
Financial result	**(9)**	**0**	**(8)**

The following topics in particular were identified and analysed to ensure that the requirements of IFRS 15 are properly represented.

Revenue within the framework of service contracts and multi-component contracts

Telefónica Deutschland Group provides mobile and fixed line services which are performed over a certain period of time. According to IFRS 15, the progress of the performance is determined using output-based methods. On the basis of the output-based methods, revenue is recognised on the basis of the value of previously supplied services for the customer in relation to the remaining contractually agreed services. Accordingly, varying discounts on this service are recognised and linearised over the term of the contract.

In addition to pure service contracts, Telefónica Deutschland Group offers its customers products under multi-component contracts. In particular, discounts are granted on mobile services if a mobile device is purchased together with the mobile services. There is no discount on the mobile device.

According to the requirements of IFRS 15, the discounts are allocated, whereby all the contractual components which influence the transaction price of a contract are accounted for when calculating the allocation factor. Exemplarily, connection fees are included in the allocation of contractual components as part of the overall assessment and are recognised as revenue accordingly over the underlying contract term under IFRS 15. Discounts granted for the simultaneous usage of a mobile contract and a DSL contract are reported as a reduction of mobile service revenue or fixed line/DSL revenue based on the relative standalone selling price of the underlying tariffs.

When determining the transaction price, significant financing components must be taken into account under IFRS 15. In accordance with the standard, Telefónica Deutschland Group does not take these financing components into account because the analysis of the underlying contracts showed that they are insignificant.

Unlike the rest of the industry, the Telefónica Deutschland Group will not report a contract asset based on the allocation of a part of the transaction price to free-of-charge or heavily discounted mobile devices since almost no subsidised devices were ever offered in the past.

Since the varying discounts were already linearised under IAS 18, the application of IFRS 15 will not have a significant effect for the future. Under the requirements of IAS 18, the discounts were already divided between both components mobile service and mobile device, i.e. a part of the hardware revenue was deferred to later performance periods. However, according to IAS 18, additional contract components were not included in the allocation but were deferred individually. This changes the allocation of revenue between service revenue and hardware revenue and thus the timing of revenue recognition. While under IAS 18 for example, the connection fee was deferred individually over the average customer retention period and recognised as revenue, it is included in the allocation of the contract components under IFRS 15 as part of the overall assessment and recognised as revenue accordingly over the underlying term of the contract. Discounts which were granted for the simultaneous usage of a mobile contract and a DSL contract were not reallocated under IAS 18.

Capitalisation of costs of obtaining a contract

Expenses are recognised in profit or loss when the underlying service is performed. Costs of obtaining a contract which are incurred by their very nature in order to complete a contract and are directly attributable to a customer must be capitalised according to IFRS 15. Amortisation will depend on how the performance obligations to which the costs relate are transferred to the customer under the relevant contract. Under this method, the costs of obtaining a contract will be recognised in profit or loss on a straight-line basis over the underlying amortisation period. Assuming costs in instalments, a smoothing effect in the Income Statement is to be expected over the course of time. As part of the capitalisation, the Telefónica Deutschland Group uses the practical expedients defined in the standard and only capitalises contract acquisition costs with an underlying amortisation period of more than one year.

In addition to the capitalisation of costs of obtaining a contract, the standard also regulates the capitalisation of costs to fulfil a contract. The analysis of the underlying contracts showed that there are no costs to fulfil a contract that Telefónica Deutschland Group is required to report in the balance sheet.

Under IAS 18, neither costs of obtaining a contract nor costs to fulfil a contract were capitalised.

Accounting for contract modifications

According to IFRS 15, there are more complex requirements with regard to the reporting of contract modifications compared to the existing regulations. In some cases, contract modifications are accounted for prospectively, forming a separate contract. In other cases, the contract modifications result in a modification of the existing contract. As a result, various cumulated income adjustments may occur.

Despite the more complex requirements, there are essentially no changes compared to IAS 18.

Principal versus agent considerations
According to IFRS 15, the judgement as to whether Telefónica Deutschland Group is the principal or the agent is based on whether the Group has control of particular goods or provision of services before they are transferred to the end customer.

According to IAS 18, however, it is Telefónica Deutschland Group's potential exposure to significant risks and opportunities in connection with the purchase of goods that was relevant. The analysis of essential services rendered by third parties concludes that no significant changes have occurred with regard to the assessment under IAS 18.

Licences
Telefónica Deutschland Group does not grant any licences to customers which must be accounted for in connection with IFRS 15. Thus, no significant effects on the Interim Financial Statements arise based on the assessment of these transactions by Telefónica Deutschland Group.

Significant changes of estimates, assumptions and judgements
<u>Determining the stand-alone selling price of the performance obligation mobile service tariff postpaid</u>
Every mobile service tariff postpaid is classified as a distinct performance obligation as part of the identification of the distinct performance obligations in the five-step model of IFRS 15. To determine the stand-alone selling price of this performance obligation, the transaction price specified on the invoice is used first. Taking into account the average discounts granted to customers of Telefónica Deutschland Group, this transaction price is then reduced by a lump sum rate.

The reduced transaction price corresponds with the stand-alone selling price of the performance obligation concerned.

Potential changes in estimates could lead to changes in both the amount and timing of future recognition of revenues.

IFRS 9: Financial Instruments
Changes which are arising from the first-time adoption of IFRS 9 will be, except of the following points, retrospectively applied:

— Comparative periods were not adjusted. The differences resulting from the first-time adoption of IFRS 9 in the carrying amount of the financial assets and financial liabilities were recognised in the retained earnings as of 1 January 2018. Accordingly, the information provided for the financial year 2017 are generally not reflecting the requirements of IFRS 9. Therefore, the information of the financial year 2017 are not comparable to the statements of the financial year 2018.

— The classification of the financial assets into the corresponding business model was based on facts and circumstances, which were available at the time of the first-time adoption.

— If an investment in a bond showed a low credit risk at the time IFRS 9 was first adopted, the Group assumed, that the credit risk of the financial asset has not increased significantly since the initial recognition.

— All hedging relationships which were designated as of 31 December 2017 according to IAS 39 meet the criteria for the recognition of hedging relationships under IFRS 9 as of 1 January 2018. Therefore, they are seen as ongoing hedging relationships and continued to be measured in accordance with the requirements of IFRS 9 as of 1 January 2018.

The Telefónica Deutschland Group has decided to exercise the option to apply the simplified approach to non-current trade receivables and assets in accordance with IFRS 9.

For further information regarding the effects of the first-time adoption of IFRS 9, please refer to Note 7 Measurement Categories of Financial Assets and Financial Liabilities.

5. Selected Notes to the Consolidated Statement of Financial Position

a) Other intangible assets

Other intangible assets are comprised of the following:

(Euros in millions)	Service concession arrangements and licenses	Customer base	Software	Brand names	Others	Construction in progress/ prepayments on intangible assets	Other intangible assets
Net book value							
As of 31 December 2017	2,695	1,886	504	48	11	342	**5,485**
As of 31 March 2018	**2,592**	**1,804**	**505**	**47**	**9**	**340**	**5,298**

b) Property, plant and equipment

Property, plant and equipment included the following:

(Euros in millions)	Land and buildings	Plant and machinery	Furniture, office equipment, tools and other items	PP&E in progress	Property, plant and equipment
Net book value					
As of 31 December 2017	114	3,683	98	146	**4,041**
As of 31 March 2018	**104**	**3,639**	**115**	**107**	**3,964**

c) Trade and other receivables

The breakdown of this item included in the consolidated statement of financial position is as follows:

	As of 31 March 2018		As of 31 December 2017	
(Euros in millions)	**Non-current**	**Current**	Non-current	Current
Trade receivables	74	1,112	76	1,272
Receivables from related parties	–	73	–	77
Other receivables	–	47	–	58
Allowances for bad debts	(10)	(138)	(7)	(142)
Trade and other receivables	**64**	**1,093**	**69**	**1,265**

d) Other non-financial assets

This item of the consolidated statement of financial position consists of:

	As of 31 March 2018		As of 31 December 2017	
(Euros in millions)	**Non-current**	**Current**	Non-current	Current
Prepayments	117	298	129	107
Prepayments to related parties	–	5	–	0
Capitalised costs of obtaining a contract	103	317	–	–
Contract asset	5	12	–	–
Other tax receivables	–	1	–	79
Other non-financial assets	**225**	**633**	**129**	**186**

As already presented in the Accounting Policies, costs of obtaining a contract are capitalised subject to certain requirements of IFRS 15. These contain costs for commissions which can be directly attributed to contracts with customers.

According to IAS 18, costs of obtaining a contract were not capitalised, but were recognised directly as expenditure.

The contract asset contains contracts for which Telefónica Deutschland Group fulfilled its performance obligations by transferring mobile hardware and performing mobile services or fixed line/DSL services before consideration was paid or became due.

The prepayments primarily relate to prepaid rent for antenna locations.

e) Interest-bearing debt

Interest-bearing debt consists of the following:

	As of 31 March 2018		As of 31 December 2017	
(Euros in millions)	Non-current	Current	Non-current	Current
Bonds	504	606	504	613
Promissory notes and registered bonds	549	0	299	4
Loans	450	1	450	0
Finance leases	24	22	15	19
Contribution and compensation obligations	–	2	–	2
Interest-bearing debt	**1,527**	**631**	**1,268**	**637**

Loans

The Group signed a EUR 750 million revolving credit facility (RCF) on 22 March 2016. The term of this credit facility was extended by one year until March 2023 for the last time in February 2018. The RCF bears a variable interest rate at Euribor money market conditions plus an agreed margin. As of 31 March 2018, the credit facility had not been used

On 13 June 2016 the group signed a financing agreement with the European Investment Bank (EIB) to the value of EUR 450 million. As of 31 March 2018, this loan had been utilised in the form of two fixed-interest tranches totalling EUR 450 million. The funds provided by the EIB are due by December 2024 and May 2025 and will be repaid in equal instalments starting in December 2019 and May 2020 respectively. The benchmark interest rate for the fixed-interest tranches is determined according to the principles defined by the bodies of the EIB for loans of the same type.

On 31 July 2017, Telefónica Deutschland Group concluded a bilateral revolving credit facility with Telfisa Global B.V., which amounted to EUR 500 million. It serves general business purposes and has a term of one year. As of 31 March 2018, the credit facility had not been used.

Promissory notes/registered bonds

In February 2018, Telefonica Germany GmbH & Co. OHG placed promissory note loans in various tranches with fixed and variable interest rates and terms of up to 15 years, and a registered bond amounting to a total volume of EUR 250 million.

f) Trade and other payables as well as deferred income

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

	As of 31 March 2018		As of 31 December 2017	
(Euros in millions)	Non-current	Current	Non-current	Current
Trade payables to third parties	–	694	–	773
Accruals for unbilled trade payables	20	889	17	842
Payables to related parties	–	322	–	374
Trade payables	**20**	**1,904**	**17**	**1,989**
Other creditors non-trade	1	99	1	125
Other payables to related parties	–	47	–	40
Miscellaneous payables	–	70	–	69
Other payables	**1**	**216**	**1**	**235**
Trade and other payables	**21**	**2,120**	**19**	**2,224**
Deferred income	**250**	**462**	**255**	**527**

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

Other creditors non-trade mainly consists of liabilities due to personnel and payables from silent factoring.

Other liabilities mainly comprise debtors with credit balances.

Deferred income primarily contains contracts for which Telefónica Deutschland Group has not yet fulfilled its performance obligations by transferring mobile hardware and performing mobile services or fixed line/DSL services but has already received a payment. In particular, these include advance payments on prepaid credit as well as advance payments received in the course of the Mobile Bitstream Access Mobile Virtual Network Operator (MBA MVNO) contract of MS Mobile Service GmbH (Drillisch).

The payment received from Drillisch as well as the other advance payments received for future services are divided into the respective maturities in accordance with the expected utilisation. Advance payments received for prepaid credits are exclusively classified as current.

g) Provisions

Provisions are recorded at the following amounts:

	As of 31 March 2018		As of 31 December 2017	
(Euros in millions)	Non-current	Current	Non-current	Current
Pension obligations	161	–	151	–
Restructuring	32	57	43	64
Asset retirement obligations	376	76	378	73
Other provisions	29	12	28	6
Provisions	**599**	**146**	**599**	**142**

6. Selected Explanatory Notes to the Consolidated Income Statement

a) Revenues

Revenues are comprised of the following:

(Euros in millions)	2018	2017
	1 January to 31 March	
Rendering of services	1,486	1,515
Other revenues	281	256
Revenues	**1,767**	**1,771**

Revenues from the rendering of services include mobile service revenues as well as revenues from fixed line/DSL business. Other revenues include handset revenues from the sale of handsets and miscellaneous 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:

(Euros in millions)	2018	2017
	1 January to 31 March	
Mobile business	1,566	1,545
Mobile service revenues	1,287	1,292
Handset revenues	280	252
Fixed line/DSL business revenues	199	223
Other revenues	2	4
Revenues	**1,767**	**1,771**

b) Other expenses

(Euros in millions)	2018	2017
	1 January to 31 March	
Other third-party services	562	542
Other operating expenses	27	27
Allowance for current assets	2	3
Advertising	57	78
Other expenses	**648**	**650**

c) Depreciation and amortisation

Depreciation and amortisation are as follows:

		1 January to 31 March
(Euros in millions)	**2018**	2017
Depreciation of property, plant and equipment	216	231
Amortisation of intangible assets	251	250
Depreciation and amortisation	**467**	**481**

7. Measurement Categories of Financial Assets and Financial Liabilities

In the following tables, the fair values of all financial assets and financial liabilities of the Telefónica Deutschland Group are disclosed in accordance with the measurement categories from IFRS 9 with regard to the requirements of IFRS 13.

For further information, please refer to the Consolidated Financial Statements of the financial year ended 31 December 2017 (see Note 9, 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 in active markets for identical assets and liabilities;
- Level 2: Significant other observable input parameters: Directly or indirectly observable input parameters, which are subject to certain limitations;
- Level 3: Significant unobservable input parameters: All unobservable inputs, which might include the entity's own data as a starting point and which should be adjusted if reasonably available information indicates that other market participants would use different data.

As of 31 March 2018

Financial assets

(Euros in millions)	Hedging relationships (no measurement category according to the meaning IFRS 9)	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value-through other comprehensive income	Financial assets measured at amortised cost	Measurement hierarchy: Level 1 (Quoted prices)	Measurement hierarchy: Level 2 (Significant other observable input parameters)	Measurement hierarchy: Level 3 (Significant unobservable input parameters)	Total carrying amount	Total fair value	Not in the scope of IFRS 7
Non-current trade and other receivables (Note 5c)	–	–	64	–	–	64	–	64	64	–
Other non-current financial assets	6	18	–	12	–	18	18	36	36	65
thereof: derivatives	*6*	*–*	*–*	*–*	*–*	*6*	*–*	*6*	*6*	*–*
thereof: investments in start-ups	*–*	*18*	*–*	*–*	*–*	*–*	*18*	*18*	*18*	*–*
thereof: other	*–*	*–*	*–*	*12*	*–*	*12*	*–*	*12*	*12*	*–*
Current trade and other receivables (Note 5c)	–	–	413	678	–	1,091	–	1,091	1,091	2
Other current financial assets	3	–	–	9	–	12	–	12	12	–
thereof: derivatives	*3*	*–*	*–*	*–*	*–*	*3*	*–*	*3*	*3*	*–*
thereof: other	*–*	*–*	*–*	*9*	*–*	*9*	*–*	*9*	*9*	*–*
Cash and cash equivalents	–	–	–	840	–	840	–	840	840	–
Total	**8**	**18**	**477**	**1,540**	**–**	**2,026**	**18**	**2,044**	**2,044**	**67**

As of 31 December 2017

Financial assets

(Euros in millions)	Hedging relationships (no measurement category according to the meaning of IAS 39)	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Measurement hierarchy: Level 1 (Quoted prices)	Measurement hierarchy: Level 2 (Other directly observable market inputs)	Measurement hierarchy: 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 5c)	–	–	–	69	–	69	–	69	69	–
Other non-current financial assets	6	18	–	12	–	18	–	36	18	57
thereof: derivatives	*6*	*–*	*–*	*–*	*–*	*6*	*–*	*6*	*6*	*–*
thereof: investments in start-ups	*–*	*18*	*–*	*–*	*–*	*–*	*–*	*18*	*–*	*–*
thereof: other	*–*	*–*	*–*	*12*	*–*	*12*	*–*	*12*	*12*	*57*
Current trade and other receivables (Note 5c)	–	–	–	1,263	–	1,263	–	1,263	1,263	2
Other current financial assets	4	–	–	13	–	17	–	17	17	–
thereof: derivatives	*4*	*–*	*–*	*–*	*–*	*4*	*–*	*4*	*4*	*–*
thereof: other	*–*	*–*	*–*	*13*	*–*	*13*	*–*	*13*	*13*	*–*
Cash and cash equivalents	–	–	–	587	–	587	–	587	587	–
Total	**10**	**18**	**–**	**1,944**	**–**	**1,955**	**–**	**1,973**	**1,955**	**59**

As of 31 March 2018, EUR 6 million of the other non-current financial assets and EUR 3 million of the other current financial assets were designated into a hedging relationship. These relate to swaps concluded in connection with bond issues.

The fair value of other non-current financial assets is determined by discounting future cash flows with current market interest rates.

In addition, EUR 18 million of other non-current financial assets are classified as financial assets measured at fair value through profit or loss. These relate primarily to investments in start-ups. These assets were measured according to level 3. The measurement at fair value is based on a variety of unpredictable premisses. The conclusion of this assessment is that, the carrying amount corresponds approx. to the fair value.

The valuation of the investments in start-ups, held by Telefónica Deutschland Group, was carried out as of 31 March 2018. All underlying and relevant information, which have an impact on the value of the investments and that market participants would consider to determine the fair value of the investment, were taken into consideration. The valuation includes prices for the most recent investments in start-ups, multiples of comparable listed companies and comparable transactions considering the minority stakes in start-ups and the deductions applicable to certain circumstances, which relate to both the assets and the investments in start-ups.

Trade receivables were partly classified as financial assets measured at fair value through other comprehensive income. These are receivables which can be sold as part of factoring transactions.

All other financial assets as of 31 March 2018 were categorised as financial assets measured at amortised cost.

New classification of financial assets as per IFRS 9:

(Euros in millions)	Footnote	Original categorisation under IAS 39	New categorisation as per IFRS 9	Original carrying amount under IAS 39 / Long-term	Original carrying amount under IAS 39 / Short-term	New carrying amount under IFRS 9 / Long-term	New carrying amount under IFRS 9 / Short-term
Trade and other receivables (factoring)	a	Loans and receivables	Financial assets measured at fair value through other comprehensive income	69	488	70	487
Trade and other receivables (other)	b	Loans and receivables	Financial assets measured at amortised cost	–	775	–	774
Investments in start-ups	c	Available-for-sale financial assets	Financial assets measured at fair value through profit or loss	18	–	18	–
Other financial assets, thereof other		Loans and receivables	Financial assets measured at amortised cost	12	13	12	13
Cash and cash equivalents		Loans and receivables	Financial assets measured at amortised cost	–	587	–	587

The reporting requirements of the Group, which regard to the classification of financial instruments under IFRS 9 are described in Note 4 Accounting Policies. The adoption of the requirements led to the reclassifications explained above and below:

a) Trade and other receivables that arise from factoring transactions were classified as loans and receivables under IAS 39. For these, the company intends to collect the contractual cash flows as well as to sell the asset. Therefore, they were classified under IFRS 9 as financial assets measured at fair value through other comprehensive income.

b) The remaining part of the trade and other receivables were classified as loans and receivables under IAS 39 and is now classified as financial assets measured at amortised cost. A decrease in impairment of EUR 1 million was recognised at the time of the transition to IFRS 9 and recorded under retained earnings as of 1 January 2018.

c) The equity instruments which were classified as available-for-sale financial assets under IAS 39 are held by the Group without any income from contractually agreed cash flows. These assets are therefore classified under IFRS 9 as financial assets measured at fair value through profit or loss.

As of 31 March 2018
Financial liabilities

				Measurement hierarchy					
(Euros in millions)	Hedging relationship (no measurement category according to the meaning of IFRS 9)	Liabilities at amortised cost	Finance leases	Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant unobservable input parameters)	Total carrying amount	Total fair value	Not in the scope of IFRS 7
Non-current interest-bearing debt (Note 5e)	**155**	1,348	24	534	1,032	–	1,527	1,566	–
Non-current trade and other payables (Note 5f)	**–**	20	–	–	20	–	20	20	1
Current interest- bearing debt (Note 5e)	**201**	408	22	608	30	–	631	638	–
Current trade and other payables (Note 5e)	**–**	2,072	–	–	2,073	–	2,072	2,072	47
Total	**356**	**3,848**	**46**	**1,142**	**3,154**	**–**	**4,250**	**4,296**	**49**

As of 31 December 2017

Financial liabilities

(Euros in millions)	Hedging relationship (no measurement category according to the meaning of IAS 39)	Liabilities at amortised cost	Finance leases	Measurement hierarchy: Level 1 (Quoted prices)	Measurement hierarchy: Level 2 (Other directly observable market inputs)	Measurement hierarchy: 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 5e)	155	1,098	15	537	778	–	1,268	1,315	–
Non-current trade and other payables (Note 5f)	–	17	–	–	17	–	17	17	1
Current interest-bearing debt (Note 5e)	202	419	17	615	25	–	637	639	–
Current trade and other payables (Note 5f)	–	2,161	–	–	2,161	–	2,161	2,161	62
Total	**357**	**3,695**	**31**	**1,152**	**2,981**	**–**	**4,084**	**4,134**	**64**

As of 31 March 2018 EUR 155 million of non-current interest-bearing debt and EUR 201 million of current interest-bearing debt will be designated into a hedging relationship. These relate to shares of the bonds, in which are each interest rate swap are accounted at fair value hedges.

The fair values of the bonds (non-current and current interest-bearing debt) will be determined based on primary market values (unadjusted quoted prices in active markets, level 1). The fair value of the other non-current interest-bearing debt will be determined by discounting the future cash flows with current market interest rates.

In addition to the bonds, the non-current and current interest-bearing debt as of 31 March 2018 contains promissory notes and registered bonds with a total nominal value of around EUR 550 million and the utilisation of a credit facility amounting to EUR 450 million. These debts are categorised as financial liabilities measured at amortised cost.

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

8. Contingent Assets and Liabilities

The Telefónica Deutschland Group could be subject to claims or other proceedings arising in the ordinary course of business. The possible effects are of minor significance for the Group's net assets, financial position and result of operations.

For further information, please refer to the Consolidated Financial Statements as of 31 December 2017 (see Note 17, Contingent Assets and Liabilities).

9. Business Combinations

In the reporting period no transactions affecting the basis of consolidation were conducted by the Telefónica Deutschland Group.

10. Subsequent Events

Annual General Meeting

On 5 April 2018, the Management Board of Telefónica Deutschland convened the Annual General Meeting regarding the 2017 financial year for 17 May 2018. In addition to presenting the Annual Financial Statements and Consolidated Financial Statements of Telefónica Deutschland, the resolutions include a dividend payment of EUR 0.26 per entitled share, EUR 773,384,298.18 in total. Other topics are the election of Julio Estebán Linares López by the Annual General Meeting as shareholder representative to the Supervisory Board of the company and the resolution on an increase of capital from company funds, a subsequent ordinary capital reduction, the reduction of the Conditional Capital 2014/I and related amendments to the Articles of Association.

Change in the Telefónica Deutschland Supervisory Board

Eva Castillo Sanz has resigned from her position as chairperson of the Telefónica Deutschland Supervisory Board effective 25 April 2018. At the same time, she will resign from her membership in the Supervisory Board effective 25 May 2018.

On 26 April, 2018, the employee representatives were elected to the Supervisory Board of the company. Effective at the end of the general meeting on 17 May 2018, Sandra Hofmann will serve as the union representative on the Supervisory Board instead of Christoph Heil, and Martin Butz will follow Marcus Thurand as the representative of senior management. The remaining members were elected to an additional term in the election.

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

Munich, 2 May 2018

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Guido Eidmann

Nicole Gerhardt

Alfons Lösing

Cayetano Carbajo Martín

Wolfgang Metze