Telefónica Deutschland

THE DIGITAL ME BECOMES DIGITAL US. EXPERIENCE MOBILE FREEDOM.

Interim Group Management Report

for the period 1 January to 30 June 2018

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The figures in the following have been rounded in accordance with established commercial practice. Therefore, recalculations may slightly differ from the totals shown in the tables.

T 01 / Financial Overview

(Euros in millions)	2018	2017	1 January to 30 June % Change
Revenues	**3,525**	**3,542**	**(0.5)**
Revenues (excl. regulatory effects 2018)	**3,551**	**3,542**	**0.3**
Mobile service revenues	2,598	2,610	(0.5)
Mobile service revenues (excl. regulatory effects 2018)	2,624	2,610	0.5
Operating income before depreciation and amortisation (OIBDA) adjusted for exceptional effects [1] (excl. regulatory effects 2018)	**927**	**873**	**6.1**
OIBDA adjusted for exceptional effects (excl. regulatory effects 2018)	*26.1%*	*24.6%*	*1.4%-p.*
Operating income before depreciation and amortisation (OIBDA), adjusted for exceptional effects [1]	**895**	**873**	**2.6**
OIBDA margin adjusted for exceptional effects	*25.4%*	*24.6%*	*0.8%-p.*
Operating Income before depreciation and amortisation (OIBDA)	**863**	**841**	**2.6**
OIBDA margin	*24.5%*	*23.8%*	*0.7%-p.*
Operating income	**(74)**	**(123)**	**(39.5)**
Profit/(loss) for the period	**(93)**	**(139)**	**(33.0)**
Basic earnings per share (in EUR) [2]	**(0.03)**	**(0.05)**	**(33.0)**
CapEx	**(424)**	**(434)**	**(2.3)**
Investment ratio (CapEx/Sales ratio)	**12.0%**	**12.3%**	***(0.2% p.)***
Operating cash flow (OIBDA-CapEx)	**439**	**407**	**7.8**
Free cash flow pre dividends and payments for spectrum [3]	**84**	**68**	**23.4**
Total accesses as of 30 June (in thousands)	**47,180**	**49,907**	**(5.5)**
Mobile accesses (in thousands)	42,962	45,194	(4.9)
thereof M2M accesses (in thousands)	1,103	897	23.0
Mobile accesses (in thousands) according to calculation customary to the market [4]	45,201	48,388	(6.6)
Net adds in mobile prepaid business (in thousands)	(683)	505	(235.4)
Net adds in mobile postpaid business (in thousands)	490	368	33.1
Postpaid share (%)	**50.7%**	**46.3%**	**4.4%-p.**
Total ARPU (in EUR)	**9.90**	**9.65**	**2.55**
Postpaid churn excl. M2M (%)	**1.6%**	**1.6%**	**0.0%-p.**
Non-SMS data over total data revenues (%)	**84.6%**	**80.6%**	**3.9%-p.**

	As of 30 June 2018	As of 31 December 2017	% Change
Net financial debt [5]	**1,797**	**1,064**	**68.9**
Debt ratio [6]	1.0x	0.6x	66.7
Number of employees	**9,033**	**9,281**	**(2.7)**

(1) Exceptional effects as of 30 June 2018 include restructuring expenses of EUR 32 million. Exceptional effects as of 30 June 2017 include restructuring expenses of EUR 30 million as well as acquisition-related consultancy costs amounting to EUR 2 million.

(2) Basic earnings per share are calculated by dividing profit / (loss) after taxes for the period by the weighted average number of ordinary shares of 2,975 million for the years 2018 and 2017.

(3) Free cash flow pre dividends and payments for spectrum is defined as the sum of cash flows from operating activities and cash flows from investing activities and does not contain payments made for investments in spectrum and also excludes related interest payments.

(4) Starting in the 2017 financial year, Telefónica Deutschland Group introduced an additional method of counting the number of mobile accesses. This method takes market practices into account, among other things, when determining the time frame for inactive customers.

(5) Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.

(6) The debt ratio is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects.

Economic Report of the Group

Regulatory Influences on the Telefónica Deutschland Group

Below is a presentation of the most important additions and new decisions to the disclosures made in the section "Regulatory Influences on the Telefónica Deutschland Group" in the combined Management Report for the financial year ending 31 December 2017.

Frequencies

BNetzA is continuing the process to provide new frequencies for the further development of digital infrastructures

BNetzA published the decisions I and II of the Presidents' Chamber on 14 May 2018. They stipulate that the frequencies identified for nationwide provision are to be allocated by auction.

The frequencies at 2.0 GHz expiring at the end of 2020 and the end of 2025 will be allocated jointly. The same applies to the frequencies at 3.4—3.7 GHz. Telefónica brought an action against the decision in due time. The terms of use and the auction design are subject to the so-called Presidents' Chamber decisions III and IV, which are expected in autumn 2018.

A total of 100 MHz at 3.8 GHz is excluded from the auction and is to be allocated in a application procedure for regional use.

Results of Operations

T 02 / Consolidated Income Statement

			1 January to 30 June	
(Euros in millions)	**2018**	2017	Change	% Change
Revenues	**3,525**	**3,542**	**(17)**	**(0.5)**
Other income	68	59	9	15.1
Operating expenses	(2,730)	(2,760)	30	(1.1)
Supplies	(1,125)	(1,132)	7	(0.6)
Personnel expenses	(303)	(313)	9	(3.0)
Impairment losses in accordance with IFRS 9[1]	(39)	(37)	(3)	7.1
Other expenses	(1,262)	(1,278)	16	(1.3)
Operating Income before Depreciation and Amortisation (OIBDA)	**863**	**841**	**22**	**2.6**
OIBDA margin	**24.5%**	**23.8%**		***0.7%-p.***
Depreciation and amortisation	(937)	(964)	27	(2.8)
Operating income	**(74)**	**(123)**	**48**	**(39.5)**
Financial result	(19)	(16)	(2)	14.7
Loss before tax	**(93)**	**(139)**	**46**	**(33.1)**
Income tax	(0)	0	(0)	(456.9)
Profit/(loss) for the period	**(93)**	**(139)**	**46**	**(33.0)**

(1) The rules of IAS 39 were applicable to the comparison period.

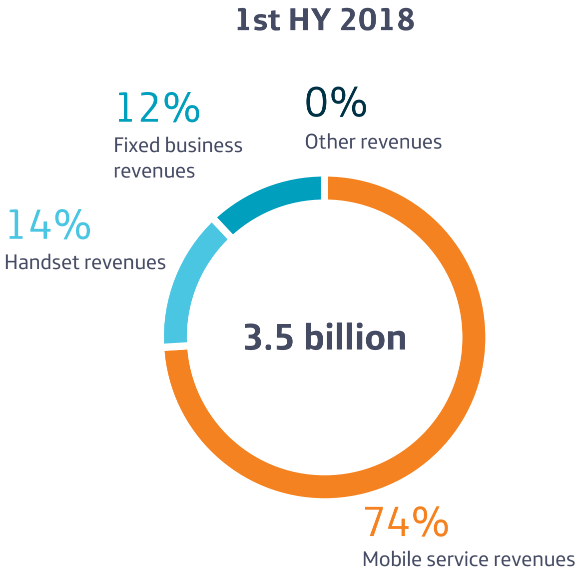
T 03 / Revenue breakdown

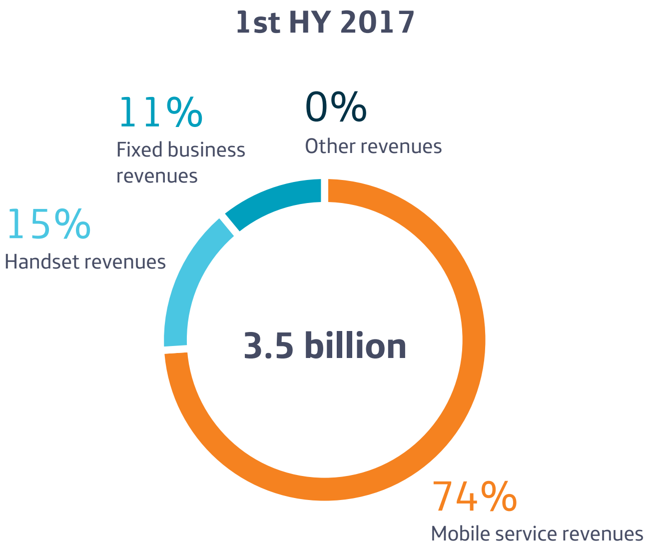
			1 January to 30 June	
(Euros in millions)	**2018**	2017	Change	% Change
Mobile business	**3,127**	**3,092**	**34**	**1.1**
Mobile service revenues	2,598	2,610	(12)	(0.5)
Handset revenues	529	482	47	9.7
Fixed business	**391**	**440**	**(49)**	**(11.2)**
Other revenues	**7**	**9**	**(2)**	**(20.3)**
Revenues	**3,525**	**3,542**	**(17)**	**(0.5)**

Revenues down slightly

The revenue decrease in the first half of 2018 reflects lower revenues from fixed line/DSL, which was caused by the decline in the DSL customer base and the planned complete decommissioning of the ULL infrastructure in wholesale business. In addition, compared to the same period in the previous year, mobile service revenues declined caused by the impact of changes mainly related to the EU roaming legislation (>ANNUAL REPORT 2017, REGULATORY INFLUENCES ON THE TELEFÓNICA DEUTSCHLAND GROUP). In contrast, revenues from handsets increased due to the continuing demand for handsets. Excluding the regulatory effects of EUR 26 million, revenues were slightly above the level of the previous year.

G 01 / Revenues (in % and Euros in billions)





Slight decline in mobile service revenues

The decline in a still challenging German market characterised by intense competition was influenced by regulatory effects, counteracting effects from the continuing OTT trends, and the ongoing legacy base rotation. Excluding the regulatory effects mainly from changes in the EU roaming legislation, mobile service revenues were even above the level of the previous year. The Telefónica Deutschland Group operates still in a dynamic competitive environment, where the abovementioned revenue effects continued to dampen the benefits from the successful marketing of the O_2 Free portfolio to new and existing customers. Customer growth continued particularly in our partner brands where the availability of 4G offers in this market segment were essential. Accordingly our postpaid mobile customer base increased in the first half of 2018 by 490 thousand net additions to 21.8 million (increase in the first half of 2017: 368 thousand), which led to an increase of the postpaid share of total mobile customers by 4.4 percentage points to 50.7% year-on-year. Despite a low price level in our partner business and the influence of regulatory effects, the average revenue per user (ARPU) could be increased to EUR 9.90 in comparison to the previous year (first half of 2017: EUR 9.65). Moreover, the increase in LTE network coverage is progressing continuously. Demand for data services (e.g. mobile internet, service applications and other data content) remained on the rise, boosted by the growing number of LTE-enabled mobile phones combined with the increased usage of mobile audio and video applications. We achieved a monetisation of the mobile data business with our O_2 Free portfolio and our focus on larger data packages in the market. The percentage share of non-SMS data revenues in data revenues rose by 4.0 percentage points year-on-year to 84.6%.

Increase in handset revenues

Increased revenues from handsets are subject to general fluctuation, as they depend on the launch of new mobile devices. Due to improved demand for handsets in the first half of 2018, sales figures for devices – also to mobile service partners – increased year-on-year.

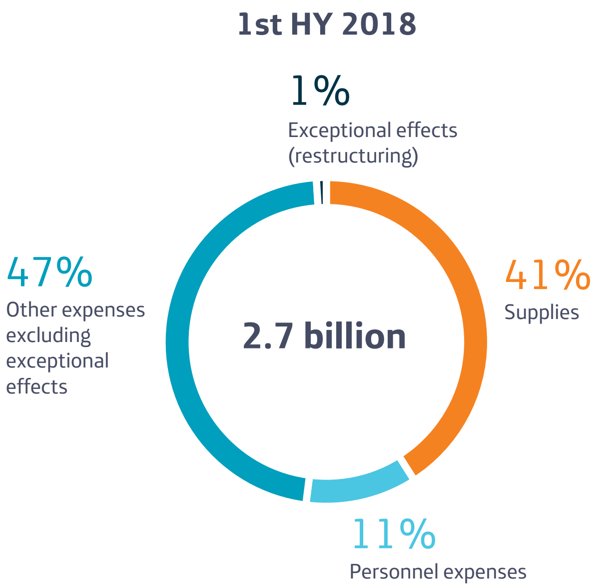
Decline in fixed business revenues

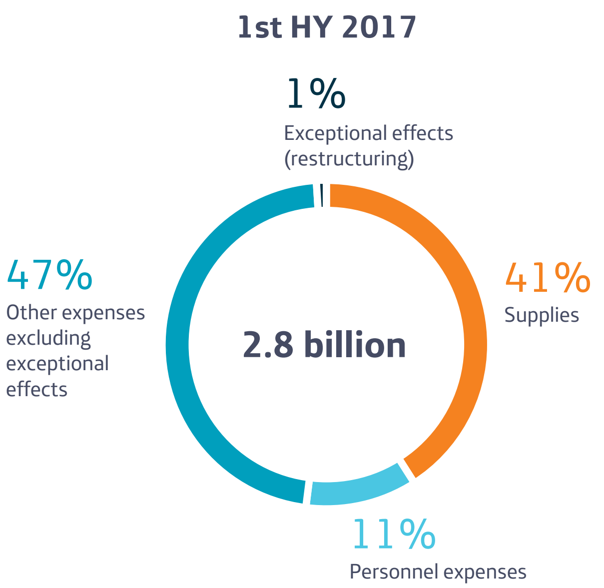
The overall decline in the customer base and fixed network revenues from wholesale business accelerated further mainly due to the planned complete decommissioning of the ULL infrastructure in wholesale business. Compared with the previous year, fixed retail revenues again benefited from the rising demand for VDSL despite a slight decline in net additions and contributed to a slowdown in the decline in revenues.

Savings in operating expenses

Operating expenses decreased year-on-year due to integration-related savings and a market strategy focusing on value over volume. Operating expenses in the first half of 2018 include restructuring costs of EUR 32 million, mainly related to network consolidation.

G 02 / Operating expenses (in % and Euros in billions)





Slight decrease in supplies

The supplies in the first half of 2018 were lower than in the same period last year. Hardware cost of sales was higher year-on-year in line with the demand for handsets, while connectivity-related cost of sales were lower as higher wholesale costs for outbound roaming were more than offset by lower voice termination costs.

Lower personnel expenses compared to the previous year

Personnel expenses were mainly influenced by the completion of the employee restructuring programme in the reporting period. Restructuring expenses amounted to EUR 1 million in the first half of 2018 compared to EUR 13 million in the first half of 2017.

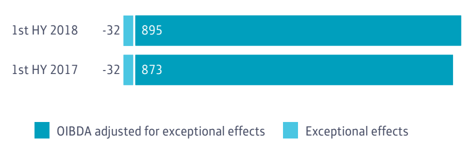
Decrease in other expenses

The savings from integration initiatives were partially reduced by higher commercial investments into positioning and marketing of the O_2 Free portfolio in a competitive market environment. In the first half of 2018, other expenses included restructuring costs of EUR 31 million (first half of 2017: EUR 17 million).

Growth in OIBDA influenced by the implementation of synergies, investments in the market and regulatory effects

Operating income before depreciation and amortisation (OIBDA) and OIBDA adjusted for exceptional effects increased year-on-year. Additional cost and revenue-related synergy effects contributed approximately EUR 65 million. The exceptional effects amounted to EUR 32 million and were mainly related to the network consolidation. Negative regulatory effects amounted to EUR 31 million and were mainly due to higher wholesale costs in connection with European roaming legislation.

G 03 / OIBDA (Euros in billions)



Decline in depreciation and amortisation

The decline is mainly due to an extension of the useful life of certain antenna locations in the year under review.

Operating income rose

Despite the decline in revenue, operating income was positively influenced by savings linked to integration and by depreciation and amortisation reduced by 27 Mio. EUR compared to the previous year.

Financial Position

Finance analysis

Net financial debt inter-alia increased due to dividend payments

Table 5 shows the composition of net financial debt – i.e. the net amount of interest-bearing financial liabilities less any cash and cash equivalents and interest-bearing financial assets and receivables.

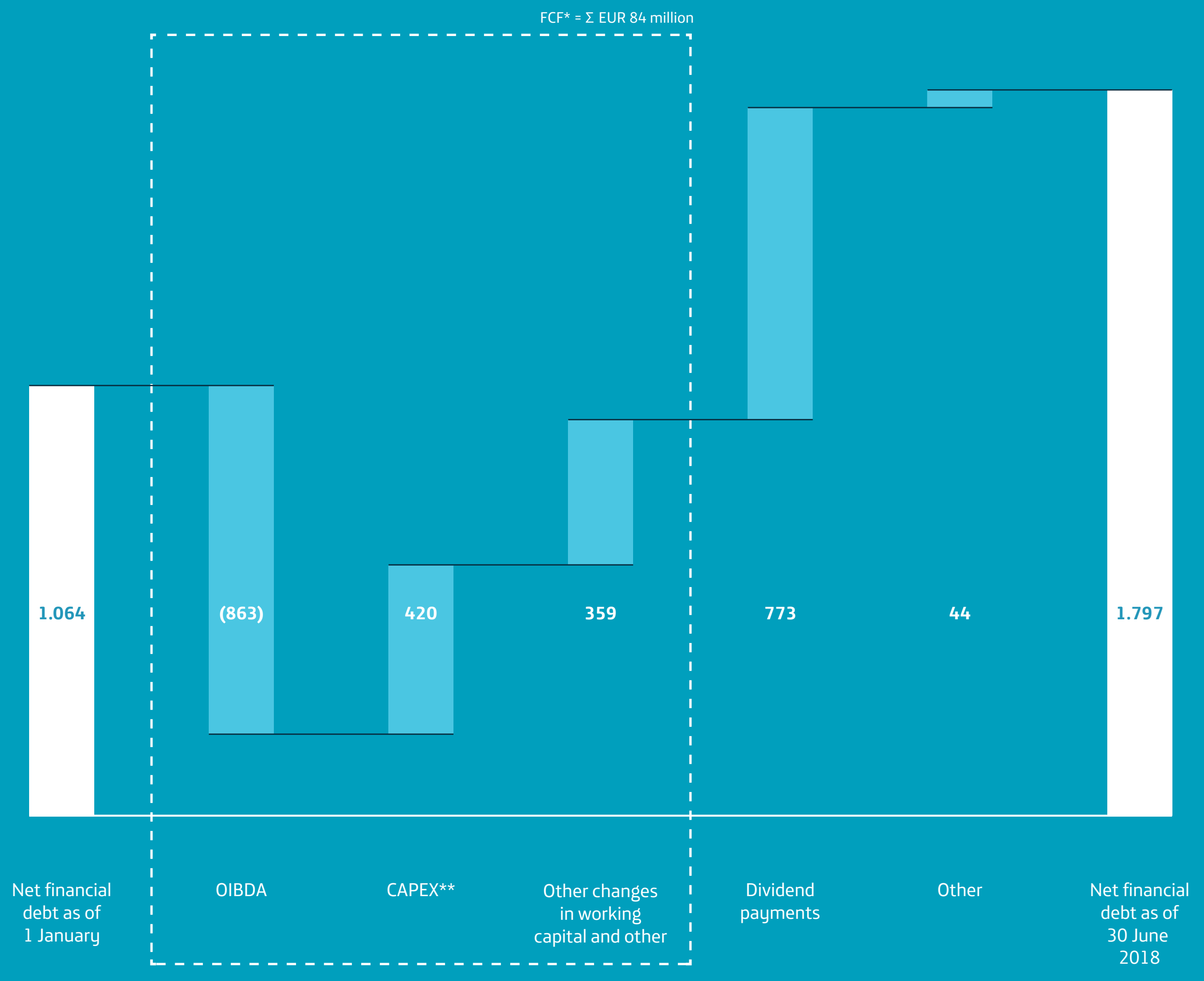
Financial debt as of 30 June 2018 increased compared with 31 December 2017 by EUR 733 million to EUR 1,797 million, resulting in a net debt ratio[1] of 1.0x, which continues to be in line with the target debt.

The increase in net financial debt in the first half of 2018 was primarily influenced by the dividend pay-out for the financial year 2017 (EUR 773 million). This was offset by the free cash flow before dividend and spectrum payments of EUR 84 million.

The graphic below illustrates the performance of net financial debt in the first half of 2018.

[1] The debt ratio is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects (30 June 2018: EUR 1,863 million; 31 December 2017: EUR 1,840 million).

G 04 / Development of net financial debt (Euros in millions)



* Free cash flow before dividend and spectrum payments
** Excluding additions from captalised finance leases

T 04 / Financial debt summary

(Euros in millions)	As of 30 June 2018	As of 31 December 2017	Change	% Change
A Liquidity	**321**	**587**	**(266)**	**(45.4)**
B Current financial assets [1]	**164**	**177**	**(13)**	**(7.1)**
C Current financial debt [2]	**896**	**635**	**261**	**41.1**
D=C-A-B Current net financial debt	**411**	**(129)**	**539**	**(419.4)**
E Non-current financial assets [1]	**65**	**75**	**(10)**	**(13.8)**
F Non-current financial debt [2]	**1,451**	**1,268**	**183**	**14.4**
G=F – E Non-current net financial debt	**1,386**	**1,193**	**193**	**16.2**
H=D + G Net financial debt [3]	**1,797**	**1,064**	**733**	**68.9**

(1) Current and non-current financial assets include handset receivables not yet due, the positive performance of the fair value hedge for fixed interest financial debt and loans issued to third parties.

(2) Current and non-current financial debt includes issued bonds, promissory notes and registered bonds, other loans and lease liabilities.

(3) Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.

Notes:
Handset receivables are shown under trade receivables in the Consolidated Statement of Financial Position.

Liquidity analysis

T 05 / Consolidated Statement of Cash Flows

(Euros in millions)	1 January to 30 June 2018	2017
Cash and cash equivalents at the beginning of the period	**587**	**613**
Cash flow from operating activities	**588**	**718**
Cash flow from investing activities	**(504)**	**(650)**
Cash flow from financing activities	**(350)**	**(8)**
Net increase (decrease) in cash and cash equivalents	**(266)**	**60**
Cash and cash equivalents at the end of the period	**321**	**673**

Consolidated Statement of Cash Flows
The following is an analysis of the cash flow development of the Telefónica Deutschland Group in the first six months of the financial years 2018 and 2017.

Change in cash flows from operating activities below the previous year
The cash flow from operating activities in the first half of 2018 amounted to EUR 588 million and was EUR 130 million or 18.1 % below the previous year's value (first half of 2017: EUR 718 million). This development is primarily due to the change in working capital, which amounted to EUR -256 million in the reporting period and to EUR -107 million in the first half of 2017.

Change in cash flows from investing activities driven by lower cash outflows
The cash flow from investing activities in the first half of 2018 amounted to EUR -504 million (first half of 2017: EUR -650 million).

Cash outflows of EUR 510 million were EUR 154 million below those of the previous year. This was mainly due to the reduction in payments for investments in property, plant and equipment and intangible assets.

Cash inflows remained almost at the previous year's level.

Change in cash flow from financing activities influenced particularly by higher loan repayments
The cash flow from financing activities in the first half of 2018 amounted to -EUR 350 million (first half of 2017: EUR -8 million).

Cash outflows increased by EUR 1,072 million to EUR 1,930 million and include essentially repayments for the loan from Telfisa Global B.V of EUR 1,130 million, finance lease payments of EUR 19 million, as well as dividend payments of EUR 773 million. In comparison, EUR 100 million of the syndicated loan facility was repaid and a dividend payment of EUR 744 million was made in the first half of 2017. Furthermore, EUR 15 million in finance leases were repaid in the first half of 2017.

Cash inflows from the assumption of interest-bearing debt increased by EUR 730 million to 1.580 Mio. EUR compared with the previous year and were due to the short-term utilisation of the loan facility with Telfisa Global B.V. in the amount of EUR 1,330 million and the promissory notes in the amount of EUR 250 million. In comparison, in the first half of 2017, EUR 650 million of the syndicated loan facility were used and EUR 200 million from the financing agreement with the EIB.

Decrease in cash and cash equivalents

Based on the above-mentioned cash inflows/(outflows), cash and cash equivalents decreased by EUR 266 million compared to the previous year's reporting date and on 30 June 2018 amounted to EUR 321 million (31 December 2017: EUR 587 million).

T 06 / Calculation of cash flow and OIBDA minus CapEx

			1 January to 30 June	
(Euros in millions)	**2018**	2017	Change	% Change
OIBDA	**863**	**841**	**22**	**2.6**
- CapEx	(420)	(433)	13	**(3.0)**
= Operating cash flow (OIBDA-CapEx)[1]	**443**	**409**	**36**	**8.9**
Change in working capital	**(343)**	**(326)**	**(17)**	**5.2**
+/- Gains/(losses) from the disposal of assets	(0)	(1)	1	**(63.5)**
+/- Revenue from sale of property, plant and equipment, and other effects	–	1	(1)	**(100.0)**
+ Net interest payment	(19)	(15)	(4)	**26.9**
+/- Proceeds from/payments for financial assets	3	9	(6)	**(65.9)**
+ Acquisition of companies, net of cash acquired	(0)	(9)	9	**(95.3)**
= Free cash flow pre dividends and payments for spectrum[2]	**84**	**68**	**16**	**23.4**
- Dividends paid	(773)	(744)	(30)	**4.0**
= Free cash flow after dividends and spectrum payments	**(689)**	**(675)**	**(14)**	**2.0**

(1) Excluding capitalised finance leases. As of the second quarter of 2018, the definition of additions from finance leases was adjusted, which led to a cumulative reduction by EUR 11 million.
(2) Free cash flow pre dividends and payments for spectrum is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments made for investments in spectrum and excluding related interest payments.

Net Assets

In the following analysis of the asset and capital structure, the assets and liabilities existing as of 30 June 2018 are compared with the values as of 31 December 2017.

T 07 / Consolidated Statement of Financial Position

	As of 30 June	As of 31 December		
(Euros in millions)	**2018**	2017	Change	% Change
Goodwill and other intangible assets	7,072	7,445	(373)	(5.0)
Property, plant and equipment	3,904	4,041	(137)	(3.4)
Trade and other receivables	1,219	1,334	(115)	(8.6)
Deferred tax assets	129	162	(33)	(20.3)
Other financial assets	114	111	3	2.6
Other non-financial assets	794	315	479	152.0
Inventories	123	105	18	17.5
Cash and cash equivalents	321	587	(266)	(45.4)
Total assets = Total equity and liabilities	**13,676**	**14,100**	**(424)**	**(3.0)**
Interest-bearing debt	2,349	1,905	444	23.3
Provisions	705	741	(36)	(4.9)
Trade and other payables	2,037	2,242	(205)	(9.2)
Other non-financial liabilities	56	132	(76)	(57.4)
Deferred income	720	782	(62)	(7.9)
Deferred tax liabilities	102	1	101	13,153.0
Equity	**7,707**	**8,297**	**(590)**	**(7.1)**

Decrease in intangible assets due in particular to amortisation
The year-on-year decline was mainly due to the scheduled amortisation of intangible assets with a limited useful life amounting to EUR 505 million in the first six months of the financial year 2018. This was partially offset by the additions to intangible assets of EUR 132 million. These were related primarily to investments in software.

Decrease in property, plant and equipment particularly due to depreciation
The decrease in property, plant and equipment is mainly due to the scheduled depreciation of EUR 433 million.

This decrease was offset by additions of EUR 292 million in the first six months of the financial year 2018, which primarily related to investments in network integration, an accelerated network expansion, including an increased LTE coverage, more IP technology, as well as an increase of mobile data services with even faster download speeds.

Investment ratio (CapEx/sales ratio) almost unchanged
The investments (CapEx) amounted to EUR 424 million in the first half of 2018 compared to EUR 434 million in the comparative period 2017.

In view of this development, the investment ratio also remained almost stable in the reporting period at 12.0 % (first half of 2017: 12.3 %).

Telefónica Deutschland Group primarily continued to invest in network integration as well as in the expansion of the LTE network.

Trade and other receivables down
The decrease was essentially a result of the settlement of higher receivables from voucher sales at year-end and from the first-time application of IFRS 15 at the beginning of the financial year.

Deferred tax assets
The development results from the first-time application of IFRS 15 as of 1 January 2018.

Increase in other non-financial assets due to prepayments
The increase of EUR 447 million was the result of the first-time application of IFRS 15 and of prepayments primarily made for rental of antenna locations and lines amounting to EUR 112 million. This was offset by the decline in tax receivables amounting to EUR 78 million.

Inventories of mobile devices increased slightly
The reason for this rise was the increase in inventories for sales activities for new devices on the market.

Decrease in cash and cash equivalents
The decline of EUR -266 million and -45.4 % is due to multiple effects, which are described in the chapter >FINANCIAL POSITION.

Interest-bearing debt up on previous year
This increase resulted in particular from the issue of promissory notes and registered bonds in the amount of EUR 250 million and the net increase in the loan with Telfisa Global B.V. in the amount of EUR 200 million.

Provisions down year-on-year
The change is mainly due to the decrease of EUR 24 million in restructuring obligations due to consumption. Furthermore, asset retirement obligations decreased by EUR 29 million, mainly due to utilisation. The development of pension and other provisions had the opposite effect.

Decrease in trade and other payables
This development is mainly due to a EUR 183 million decrease in operating liabilities and the decrease in liabilities for investments of EUR 98 million.

Other non-financial liabilities
This development is mainly due to the decrease in tax liabilities in the amount of EUR 78 million.

Decrease in deferred income
The decrease resulted from the utilisation of voucher sales of EUR 24 million made at the end of the year and once again from lower deferred income for activation fees compared to year's end.

Deferred tax liabilities
The development results from the first-time application of IFRS 15 as of 1 January 2018.

Equity declines
The change in equity is due primarily to the dividend payment of EUR 773 million on 23 May 2018, the effects recognised in equity in connection with the first-time application of IFRS 15 and IFRS 9 in the amount of EUR 274 million as well as the result of the period in the amount of EUR -93 million.

Report on Risks and Opportunities

In the combined Management Report for the 2017 financial year, we have presented certain risks that could have significant adverse effects on our business, net assets, financial position, results of operations and reputation. In addition, we describe our most important opportunities and the structure of our risk management system.

In the period under review, we identified potential damages from cyber attacks as a new risk, which we describe in more detail below. Otherwise, we have not identified any other significant risks and opportunities beyond those described in the combined Management Report for the 2017 financial year. There have also been no further changes in the valuation or probability of occurrence since the 2017 financial year.

Damage caused by cyber attacks

Cyber attacks on our network or our IT systems that are not detected or averted in good time could lead to disruptions or damage that could also affect our services and thus result in lost revenue and customer dissatisfaction. The availability and confidentiality of data that we process may be impacted by these attacks. In addition to reputational losses, legal consequences would also be possible and we could be fined. We counter this risk on the one hand by analysing and reducing weaknesses and focusing on an early warning system, and on the other hand we are constantly improving our systems for rectifying faults and establishing increased risk awareness among our employees with regard to cyber attacks.

So far, we have reported damage from cyber attacks as part of the risk of technical disruption. However, due to the increasing danger, we now see a risk here that has to be reported independently. Due to a very high potential economic impact of the damage and the very possible likelihood of occurrence, we classify this risk as significant.

Outlook 2018

No information is currently available that the forecasts published in the combined Management Report 2017 (>Annual Report 2017, Report on Expected Developments) have changed significantly. The financial outlook for 2018 is confirmed, including Opex and sales synergies of approximately EUR 80 million and a further EUR 50 million in Capex synergies.

The following table summarises the financial outlook for 2018:

T 08 / Financial outlook 2018[2]

	Actual 2017 (EUR in million)	Outlook 2018 (Developments y-o-y)	H1 / 2018 (Developments y-o-y)
Revenue	7,296	Broadly stable y-o-y (excl. negative regulatory effects of EUR 30-50 million)	-0.0%
Operating income before depreciation and amortisation (OIBDA), adjusted for exceptional effects	1,840	Flat to slightly positive y-o-y (excl. negative regulatory effects of EUR 40-60 million)	+4.1%
Investment ratio	13%	Approx. 12-13%	12.0%

[2] The effects from the implementation of IFRS 15 as of 1 January 2018 and IFRS 16 as of 1 January 2019 are not reflected in the financial outlook.

Munich, 6 August 2018

Telefónica Deutschland Holding AG

Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Guido Eidmann

Nicole Gerhardt

Alfons Lösing

Cayetano Carbajo Martín

Wolfgang Metze

Interim Condensed Consolidated Financial Statements

for the period 1 January to 30 June 2018

Consolidated Statement of Financial Position

Assets (Euros in millions)	Notes	**As of 30 June 2018**	As of 31 December 2017
A) Non-current assets		**11,490**	**11,940**
Goodwill		1,960	1,960
Other intangible assets	[5a]	5,113	5,485
Property, plant and equipment	[5b]	3,904	4,041
Trade and other receivables	[5c]	59	69
Other financial assets		102	94
Other non-financial assets	[5d]	223	129
Deferred tax assets		129	162
B) Current assets		**2,186**	**2,160**
Inventories		123	105
Trade and other receivables	[5c]	1,159	1,265
Other financial assets		12	17
Other non-financial assets	[5d]	571	186
Cash and cash equivalents		321	587
Total assets (A+B)		**13,676**	**14,100**

Equity and Liabilities (Euros in millions)	Notes	**As of 30 June 2018**	As of 31 December 2017
A) Equity		**7,707**	**8,297**
Subscribed capital		2,975	2,975
Additional paid-in capital		4,800	4,800
Retained earnings		(67)	523
Total equity attributable to owners of the parent		7,707	8,297
B) Non-current liabilities		**2,361**	**2,141**
Interest-bearing debt	[5e]	1,451	1,268
Trade and other payables	[5f]	20	19
Provisions	[5g]	563	599
Deferred income	[5f]	225	255
Deferred tax liabilities		102	1
C) Current liabilities		**3,608**	**3,662**
Interest-bearing debt	[5e]	898	637
Trade and other payables	[5f]	2,017	2,224
Provisions	[5g]	142	142
Other non-financial liabilities		56	132
Deferred income	[5f]	495	527
Total equity and liabilities (A+B+C)		**13,676**	**14,100**

Consolidated Income Statement

		1 April to 30 June		1 January to 30 June	
(Euros in millions)	Notes	**2018**	2017	**2018**	2017
Revenues	[6a]	1,758	1,771	3,525	3,542
Other income		34	32	68	59
Supplies		(538)	(547)	(1,125)	(1,132)
Personnel expenses		(151)	(157)	(303)	(313)
Impairment losses in accordance with IFRS 9[1]		(18)	(18)	(39)	(37)
Other expenses	[6b]	(614)	(629)	(1,262)	(1,278)
Operating income before depreciation and amortisation (OIBDA)		**469**	**452**	**863**	**841**
Depreciation and amortisation	[6c]	(471)	(483)	(937)	(964)
Operating income		**(1)**	**(31)**	**(74)**	**(123)**
Finance income		1	1	1	2
Exchange gains		0	0	0	1
Finance costs		(10)	(10)	(20)	(19)
Exchange losses		(1)	0	(1)	(0)
Financial result		**(10)**	**(9)**	**(19)**	**(16)**
Profit/(loss) before tax		**(12)**	**(40)**	**(93)**	**(139)**
Income tax		(0)	0	(0)	0
Profit/(loss) for the period		**(12)**	**(40)**	**(93)**	**(139)**
Profit/(loss) for the period attributable to owners of the parent		**(12)**	**(40)**	**(93)**	**(139)**
Profit/(loss) for the period		**(12)**	**(40)**	**(93)**	**(139)**
Earnings per share					
Basic earnings per share in EUR		**(0.00)**	**(0.01)**	**(0.03)**	**(0.05)**
Diluted earnings per share in EUR		**(0.00)**	**(0.01)**	**(0.03)**	**(0.05)**

[1] The rules of IAS 39 were applicable to the comparison period.

Consolidated Statement of Comprehensive Income

	1 April to 30 June		1 January to 30 June	
(Euros in millions)	**2018**	2017	**2018**	2017
Profit/(loss) for the period	**(12)**	**(40)**	**(93)**	**(139)**
Items that will not be reclassified to profit/(loss)				
Remeasurement of defined benefit plans	2	5	2	15
Other comprehensive income/(loss)	**2**	**5**	**2**	**15**
Total comprehensive income/(loss)	**(10)**	**(35)**	**(91)**	**(124)**
Total comprehensive income/(loss) attributable to owners of the parent	(10)	(35)	(91)	(124)
Total comprehensive income/(loss)	**(10)**	**(35)**	**(91)**	**(124)**

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	–	–	(139)	(139)	(139)
Other comprehensive income/(loss)	–	–	15	15	15
Total comprehensive income/(loss)	**–**	**–**	**(124)**	**(124)**	**(124)**
Dividends	–	–	(744)	(744)	(744)
Other movements	–	–	1	1	1
Financial position as of 30 June 2017	**2,975**	**4,800**	**768**	**8,542**	**8,542**
Financial position as of 1 January 2018	**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	–	–	(93)	(93)	(93)
Other comprehensive income/(loss)	–	–	2	2	2
Total comprehensive income/(loss)	**–**	**–**	**(91)**	**(91)**	**(91)**
Dividends	–	–	(773)	(773)	(773)
Other movements	–	–	0	0	0
Financial position as of 30 June 2018	**2,975**	**4,800**	**(67)**	**7,707**	**7,707**

Consolidated Statement of Cash Flows

(Euros in millions)	Notes	2018	2017
		1 January to 30 June	
Cash flow from operating activities			
Profit/(loss) for the period		**(93)**	**(139)**
Adjustments to profit/(loss)			
Financial result		19	16
Gains/(losses) from the disposal of assets		(0)	(1)
Income taxes		0	(0)
Depreciation and amortisation	[6c]	937	964
Change in working capital and others			
Other non-current assets	[5a], [5b], [5c], [5d]	16	2
Other current assets	[5a], [5b], [5c], [5d]	29	71
Other non-current liabilities and provisions	[5e], [5f], [5g]	(71)	(25)
Other current liabilities and provisions	[5e], [5f], [5g]	(230)	(155)
Others			
Interest received		3	5
Interest paid		(22)	(20)
Cash flow from operating activities		**588**	**718**
Cash flow from investing activities			
Proceeds from disposals of property, plant and equipment and intangible assets		0	1
Payments on investments in property, plant and equipment and intangible assets	[5a], [5b]	(507)	(652)
Acquisition of companies, net of cash acquired		(0)	(9)
Proceeds from financial assets		5	12
Payments for financial assets		(2)	(3)
Cash flow from investing activities		**(504)**	**(650)**
Cash flow from financing activities			
Proceeds from interest-bearing debt	[5e]	1,580	850
Payments made for the repayment of interest-bearing debt	[5e]	(1,149)	(115)
Dividends paid		(773)	(744)
Other payments made relating to financing activities		(8)	–
Cash flow from financing activities		**(350)**	**(8)**
Net increase/(decrease) in cash and cash equivalents		**(266)**	**60**
Cash and cash equivalents at the beginning of the period		**587**	**613**
Cash and cash equivalents at the end of the period		**321**	**673**

Condensed Notes to the Interim Consolidated Financial Statements

for the period 1 January to 30 June 2018

1. Reporting Entity

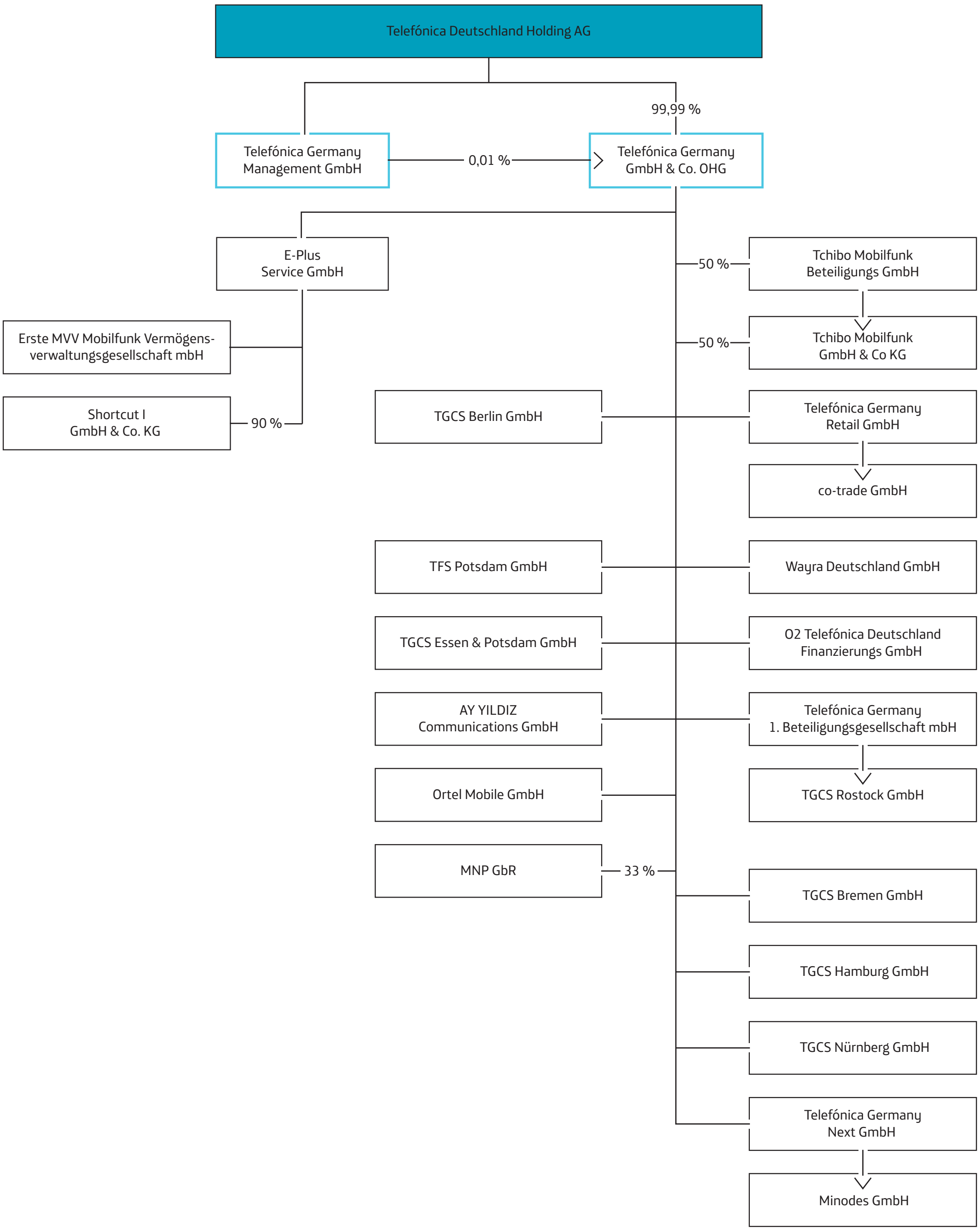
The Interim Condensed Consolidated Financial Statements (hereinafter "Interim Consolidated Financial Statements") of Telefónica Deutschland Holding AG have been prepared for the period from 1 January to 30 June 2018 and comprise Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland") 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) 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 30 June 2018 24.5% 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.). According to a press release for Koninklijke KPN N.V. dated 26 July 2018, the remaining 6.3% were held by Koninklijke KPN N.V., The Hague, Netherlands (KPN).

As of 30 June 2018, the companies included in the Interim 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 notes and a registered bond totalling over EUR 250 million. For further information, see Note 5 e) Interest-bearing debt.

General Meeting and Dividends
The Annual General Meeting for the 2017 financial year was held on 17 May 2018. In addition to the presentation of the Annual Financial Statements and Consolidated Financial Statements of Telefónica Deutschland, a dividend payment of EUR 0.26 per entitled share, totalling EUR 773,384,298.18, was approved. The dividend for the financial year 2017 was paid to shareholders on 23 May 2018. Furthermore, the election of Julio Estebán Linares López as shareholder representative on the company's Supervisory Board and the capital increase from company funds, an equivalent subsequent ordinary capital decrease, the reduction of the Conditional Capital 2014/I and associated amendments to the Articles of Association were resolved. The capital measure was implemented in order to enable efficient equity capital management in line with capital market requirements and to provide the conditions for a flexible dividend policy. As a result, the tied capital reserve of EUR 4,535,097,828.00 was converted into a free capital reserve (section 272 (2) no. 4 of the HGB (German Commercial Code)). The capital measure was entered in the commercial register on 4 June 2018.

Change in the Supervisory Board of Telefónica Deutschland
Eva Castillo Sanz resigned from her position as chairperson of the Supervisory Board with effect from 25 April 2018 and as a member of the Supervisory Board of Telefónica Deutschland with effect from 25 May 2018.

With effect from 3 May 2018, the Supervisory Board of Telefónica Deutschland elected Laura Abasolo García de Baquedano as the new chairperson of the Supervisory Board.

The election of the employee representatives to the company's Supervisory Board took place on 26 April 2018. With effect from the end of the Annual General Meeting on 17 May 2018, Sandra Hofmann replaced Christoph Heil on the Supervisory Board as representative of the trade unions, Martin Butz succeeded Marcus Thurand as representative of the senior executives. The other members were re-elected for a further term of office.

By court order of 7 June 2018, María García-Legaz Ponce was appointed to the Supervisory Board as shareholder representative.

3. Basis of Preparation

The Interim Consolidated Financial Statements of Telefónica Deutschland Holding AG were prepared in accordance with the 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 include all the information and disclosures required in complete 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 30 June 2018 have not been audited.

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

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 tables.

Other
The preparation of the Interim Consolidated Financial Statements requires the Management Board to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. A significant change in the facts and circumstances on which these evaluations, estimates and assumptions are based could have a material impact on the Telefónica Deutschland Group's net assets, financial position and results of operations.

For further information, please refer to the Consolidated Financial Statements of the financial 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 30 June 2018, which is compared with information as of 31 December 2017.

The Consolidated Income Statement and the Consolidated Statement of Comprehensive Income compare the completed six-month and three-month periods as of 30 June 2018 and 30 June 2017. The Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity compare the completed six-month periods 2018 and2017.

Seasonal business
The earnings performance to date shows no indication that business activity is subject to significant fluctuations due to seasonal influences.

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).

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, interpretations and amendments		Mandatory application for financial years beginning on or after
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatment	1 January 2019[1]
Amendments to IFRS 9	Assessment Criteria for the Classification of Financial Assets	1 January 2019
Amendments to IAS 28	Application of IFRS 9 in the Context of IAS 28	1 January 2019[1]
Amendments to IAS 19	Plan Amendment, 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 to 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	undetermined[1,2]

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

[2] First-time adoption postponed indefinitely in accordance with IASB resolution of 17 December 2015.

For a comprehensive description of the new standards, amendments to standards and interpretations relevant to 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 is made there of the expected effects on the net assets, financial position and results of operations of the Group, which will continue to apply to the Interim Consolidated Financial Statements as of 30 June 2018.

IFRS 15 and IFRS 9 – Effects of first-time adoption
Since 1 January 2018, Telefónica Deutschland Group has applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* .

The following table presents the effects which arise from the first-time application of the 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 revenue is reported, the amount of the revenue and the time said revenue must be reported.

The core principle of IFRS 15 is that revenue should be recognised for the amount that is the expected equivalent value of the performance obligation. The new standard employs a five-step model framework for determining the amount and timing of revenue in order to implement this principle:

— 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 clarifications 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 governs that the costs of obtaining contracts directly attributable to a 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 an analysis of the contracts concluded in previous financial years that were not yet completed as of 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 requirements of IFRS 15 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 of the financial year ended 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 of 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 cost of obtaining contracts 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 30 June 2018 for which a change arises due to the application of IFRS 15.

(Euros in millions)	Balance sheet as of 30 June 2018	Adjustments	Value without application of IFRS 15
Non-current assets			
Trade and other receivables	59	(2)	58
Other non-financial assets	223	(109)	114
Deferred tax assets	129	33	162
Current assets			
Trade and other receivables	1,159	37	1,196
Other non-financial assets	571	(338)	233
Equity			
Retained earnings[1]	(67)	(293)	(361)
Non-current liabilities			
Deferred income	225	25	250
Deferred tax liabilities	102	(101)	1
Current liabilities			
Deferred income	495	(9)	486

[1] The adjustment as of 30 June 2018 includes the effects recognised in equity in connection with the first-time application of IFRS 15 and the adjustment of the result for the period as of 30 June 2018 due to the first-time application of IFRS 15.

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 30 June 2018.

(Euros in millions)	Consolidated Income Statement for the period from 1 January to 30 June 2018	Adjustments	Value without application of IFRS 15
Revenues	3,525	(11)	3,514
Mobile business	3,127	(9)	3,117
Mobile service revenues	2,598	(7)	2,591
Handset revenues	529	(3)	526
Fixed line/DSL business revenues	391	(6)	384
Other revenues	7	5	12
Impairment losses in accordance with IFRS 9	(39)	1	(39)
Other expenses	(1,262)	(8)	(1,270)
Operating income before depreciation and amortisation (OIBDA)	863	(18)	845
Financial result	(19)	1	(18)

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 both mobile and fixed-line services that are performed over a specified 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 stand-alone 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 services before they are transferred to the end customer.

According to IAS 18, however, it was 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 vis-a-vis IAS 18.

Licences
Telefónica Deutschland Group does not grant licences to customers that must be accounted for within the scope of IFRS 15. Consequently, based on Telefónica Deutschland Group's assessment of these transactions, no significant effects on the Interim Financial Statements arise.

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

For an explanation of the changes in the following items, please refer to Net Assets in the Management Report.

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 30 June 2018	**2,489**	**1,722**	**499**	**46**	**8**	**348**	**5,113**

b) Property, plant and equipment

Property, plant and equipment are comprised of 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 30 June 2018	**96**	**3,583**	**109**	**115**	**3,904**

c) Trade and other receivables

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

(Euros in millions)	As of 30 June 2018 Non-current	As of 30 June 2018 Current	As of 31 December 2017 Non-current	As of 31 December 2017 Current
Trade receivables	59	1,089	76	1,272
Receivables from related parties	–	63	–	77
Other receivables	–	88	–	58
Allowances for bad debts	–	(80)	(7)	(142)
Trade and other receivables	**59**	**1,159**	**69**	**1,265**

d) Other non-financial assets

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

(Euros in millions)	As of 30 June 2018 Non-current	As of 30 June 2018 Current	As of 31 December 2017 Non-current	As of 31 December 2017 Current
Prepayments	114	231	129	107
Prepayments to related parties	–	2	–	0
Capitalised costs of obtaining contracts	105	324	–	–
Contract asset	4	14	–	–
Other tax receivables	–	0	–	79
Other non-financial assets	**223**	**571**	129	186

As already presented in the Accounting Policies, costs of obtaining contracts 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

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

(Euros in millions)	As of 30 June 2018 Non-current	As of 30 June 2018 Current	As of 31 December 2017 Non-current	As of 31 December 2017 Current
Bonds	504	612	504	613
Promissory notes and registered bonds	474	77	299	4
Loans	450	200	450	0
Finance leases	23	7	15	19
Contribution and compensation obligations	–	2	–	2
Interest-bearing debt	**1,451**	**898**	**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 30 June 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 30 June 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, the 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 30 June 2018, the credit facility had been utilised in the amount of EUR 200 million.

Promissory notes/ registered bond

In February 2018, Telefonica Germany GmbH & Co. OHG placed promissory note loans in various tranches and a registered bond in an overall volume totaling EUR 250 million. The promissory note loans placed have tranches with terms of 1 year with variable interest rates as well as terms of 5 and 7 years with variable and fixed interest rates and a tranch with a 10-year term with a fixed interest rate. The respective interest rates for the fixed tranches is 1.051%, 1.468% and 1.962% p.a. The registered bond has a term of 15 years and a fixed interest rate of 2.506% p.a.

f) Trade and other payables and deferred income

Trade and other payables and deferred income consist of the following:

	As of 30 June 2018		As of 31 December 2017	
(Euros in millions)	Non-current	Current	Non-current	Current
Trade payables to third parties	–	646	–	773
Accruals for unbilled trade payables	19	831	17	842
Payables to related parties	–	266	–	374
Trade payables	**19**	**1,744**	**17**	**1,989**
Other payables non-trade	1	113	1	125
Other payables to related parties	–	52	–	40
Miscellaneous payables	–	109	–	69
Other payables	**1**	**273**	**1**	**235**
Trade and other payables	**20**	**2,017**	**19**	**2,224**
Deferred income	**225**	**495**	**255**	**527**

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

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

Other payables 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. 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 other advance payments received for future service performance are broken down by maturity according to their expected utilisation. Advance payments received for prepaid credits are classified exclusively as current.

g) Provisions

Provisions are recorded at the following amounts:

	As of 30 June 2018		As of 31 December 2017	
(Euros in millions)	Non-current	Current	Non-current	Current
Pension obligations	162	–	151	–
Restructuring	30	52	43	64
Asset retirement obligations	337	84	378	73
Other provisions	33	6	28	6
Provisions	**563**	**142**	**599**	**142**

6. Selected Explanatory Notes to the Consolidated Income Statement

For an explanation of the changes in the following items, please refer to Results of Operations in the Management Report.

a) Revenues

Revenues are comprised of the following:

	1 April to 30 June		1 January to 30 June	
(Euros in millions)	**2018**	2017	**2018**	2017
Rendering of services	1,503	1,535	2,989	3,051
Other revenues	255	235	536	491
Revenues	1,758	**1,771**	3,525	**3,542**

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

None of the Telefónica Deutschland Group's customers accounts 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 April to 30 June		1 January to 30 June	
(Euros in millions)	**2018**	2017	**2018**	2017
Mobile business	1,560	1,548	3,127	3,092
Mobile service revenues	1,311	1,318	2,598	2,610
Handset revenues	249	229	529	482
Fixed line/DSL business revenues	192	217	391	440
Other revenues	6	6	7	9
Revenues	**1,758**	**1,771**	**3,525**	**3,542**

b) Other expenses

(Euros in millions)	1 April to 30 June 2018	1 April to 30 June 2017	1 January to 30 June 2018	1 January to 30 June 2017
Other third-party services	525	525	1,087	1,068
Other operating expenses	22	39	49	65
Allowance for current assets	1	0	3	3
Advertising	66	64	123	142
Other expenses	**614**	**629**	**1,262**	**1,278**

c) Depreciation and amortisation

Depreciation and amortisation are as follows:

(Euros in millions)	1 April to 30 June 2018	1 April to 30 June 2017	1 January to 30 June 2018	1 January to 30 June 2017
Depreciation of property, plant and equipment	217	232	433	463
Amortisation of intangible assets	254	251	505	501
Depreciation and amortisation	**471**	**483**	**937**	**964**

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 as determined by 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 30 June 2018
Financial assets

(Euros in millions)	Hedging relationships (no measurement category according to the meaning of IFRS 9)	Financial assets measured at fair value through profit and 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)	–	–	59	–	–	59	–	59	59	–
Other non-current financial assets	6	20	–	11	–	16	20	36	36	66
thereof derivatives	*6*	–	–	–	–	*6*	–	*6*	*6*	–
thereof investments in start-ups	–	*20*	–	–	–	–	*20*	*20*	*20*	–
thereof other	–	–	–	*11*	–	*11*	–	*11*	*11*	–
Current trade and other receivables (Note 5c)	–	–	520	637	–	1,157	–	1,157	1,157	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	–	–	–	321	–	321	–	321	321	–
Total	**9**	**20**	**579**	**978**	**–**	**1,566**	**20**	**1,586**	**1,586**	**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 (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)	–	–	–	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 30 June 2018, EUR 6 million of other non-current financial assets and EUR 3 million of other current financial assets were designated into a hedge relationship. These relate to the swaps concluded in connection with bond issues.

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

In addition, EUR 20 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 premises.

The valuation of the investments in start-ups held by Telefónica Deutschland Group was carried out as of 30 June 2018. All underlying and relevant information that has 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 that relate to both the assets and the investments in the start-ups.

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

All other financial assets as of 30 June 2018 were categorised as financial assets measured at amortised cost.

New classification of financial assets according to IFRS 9:

(Euros in millions)	Footnote	Original categorisation under IAS 39	New categorisation under 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 and 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 in 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 above-mentioned reclassifications which are explained below:

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

b) The remaining part of the trade and other receivables, which was classified as loans and receivables in accordance with IAS 39 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 in accordance with IFRS 9 as financial assets measured at fair value through profit or loss.

As of 30 June 2018

Financial liabilities

	Measurement hierarchy								
(Euros in millions)	**Hedging relationship (no measurement category according to the meaning of IFRS 9)**	**Financial liabilities at amortised costs**	**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)	157	1,271	23	527	950	–	1,451	1,476	–
Non-current trade and other payables (Note 5f)	–	19	–	–	19	–	19	19	1
Current interest-bearing debt (Note 5e)	201	690	7	605	298	–	898	902	–
Current trade and other payables (Note 5f)	–	1,959	–	–	1,959	–	1,959	1,959	58
Total	**358**	**3,938**	**30**	**1,131**	**3,225**	**–**	**4,327**	**4,357**	**59**

As of 31 December 2017

Financial liabilities

	Measurement hierarchy								
(Euros in millions)	Hedging relationship (no measurement category according to the meaning of IAS 39)	Financial liabilities at amortised costs	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	1,098	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 30 June 2018, EUR 157 million of non-current interest-bearing debt and EUR 201 million of current interest-bearing debt are designated to a hedge relationship. These relate to a portion of the bonds, which are each accounted for with an interest rate swap as a fair value hedge.

The fair value of the bonds (non-current and current interest-bearing debt) is 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 is determined by discounting the future cash flows using current market interest rates.

In addition to the bonds, the non-current and current interest-bearing debt as of 30 June 2018 contains promissory notes and registered bonds with a nominal value of around EUR 550 million and the utilisation of a credit facility amounting to EUR 650 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 is 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 results 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. Subsequent Events

Issue of a 7 years bond
The Telefónica Deutschland Group placed a 7 years unsecured bond with a volume of EUR 600 million on 5 July 2018. The bond will mature on 5 July 2025 and was issued by O2 Telefónica Deutschland Finanzierungs GmbH, Munich and is guaranteed by Telefónica Deutschland Holding AG. The annual coupon of the fixed-interest bond, which has to be paid yearly, amounts to 1.75% and the issue price is 99.628%. The bond has a denomination of EUR 100,000 and was issued on the basis of a bond prospectus. The bond serves to refinance the bond due in November and is for general corporate purposes.

Change in the Supervisory Board of Telefónica Deutschland
Enrique Medina Malo resigned as of the end of 24 July 2018 as a Member of the Supervisory Board. With effect as of 25 July 2018, the relevant court appointed Pablo de Carvajal González as his successor.

Planned Sale of Shortcut I GmbH & Co. KG
Pursuant to a decision of the bodies of Telefónica Deutschland in July 2018, the Telefónica Deutschland Group began negotiations for a possible sale of its entire holdings in Shortcut I GmbH & Co. KG. Accordingly, these shares are classified as of this date as "assets and liabilities held for sale".

No other events subject to disclosure requirements occurred after the end of the reporting period.

Munich, 6 August 2018

Telefónica Deutschland Holding AG

Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Guido Eidmann

Nicole Gerhardt

Alfons Lösing

Cayetano Carbajo Martín

Wolfgang Metze

Telefónica Deutschland Holding AG Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting and with generally accepted accounting principles, the Interim Condensed Consolidated Financial Statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Interim Condensed Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Munich, 6 August 2018

Telefónica Deutschland Holding AG

Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Guido Eidmann

Nicole Gerhardt

Alfons Lösing

Cayetano Carbajo Martín

Wolfgang Metze

Review Report

To Telefónica Deutschland Holding AG, Munich

We have reviewed the condensed consolidated interim financial statements - comprising the balance sheet, the income statement, the statement of income and expense recognized in equity, the cash flow statement, the statement of changes in equity and selected explanatory notes - and the interim group management report of Telefónica Deutschland Holding AG for the period from January 1, 2018 to June 30, 2018 which are part of the half-year financial report pursuant to § (Article) 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standard on Review Engagements "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Munich, 6 August 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Stefano Mulas	ppa. Gabor Krüpl
German public auditor	German public auditor

Glossary

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

ARPU	Average Revenue per User
BNetzA	Bundesnetzagentur
CapEx	Capital Expenditure: additions to property, plant and equipment and intangible assets excluding investments in licences for mobile phone frequency usage rights
CF	Cashflow
DSL	Digital Subscriber Line: technology to transmit data in the local loop to private end-customers
EU	European Union
Euribor	Euro Interbank Offered Rate
FCF	Free cashflow
HGB	Handelsgesetzbuch (German Commercial Code)
IFRS	International Financial Reporting Standards
ISIN	International Securities Identification Number
IT	Information Technology
KPN	Koninklijke KPN N.V., The Hague, Netherlands
LTE	Long Term Evolution: further development of the UMTS/HSPA mobile communications standard
M2M	Machine-to-Machine communication: automatic exchange of information between machines
MBA	Mobile Bitstream Access
MVNO	Mobile Virtual Network Operator:
Net Adds	New customers for the period less those customers leaving are designated as net additional customers
O2 (Europe) Limited	O2 (Europe) Limited, Slough, United Kingdom
O_2 Free	The "O_2 Free" data plan allows customers to remain online with speeds of up to 1 Mbit/s even after they have used all of their high-speed data
OIBDA	Operating Income before Depreciation and Amortisation
OpEx	Operating expenses
OTT	Over-the-top
OTT services	(WhatsApp, Facebook, etc.)
Prepaid/Postpaid	In contrast to postpaid contracts, prepaid communication services are services for which credit has been purchased in advance without the contractual obligations that would result from a fixed term
Roaming	Using a communication device or subscriber identity in a different network other than one's home network
SMS	Short Message Service
Telefónica Deutschland	Telefónica Deutschland Holding AG, Munich, Germany
Telefónica, S.A.	Telefónica S.A., Madrid, Spain
Telefónica Deutschland Group	The companies included in the Consolidated Financial Statements of Telefónica Deutschland

Telxius S.A.	Telxius Telecom S.A., the infrastructure entity of Telefónica
ULL	Unbundled Local Loop: bridges the distance between the local exchange and the termination point on the customer's premises or in their home, so it is also known as the "last mile"
UMTS	Universal Mobile Telecommunications Service: international mobile communications standard of the third generation which unites mobile multimedia and telematics service under the frequency spectrum of 2GHz.
VDSL	Very High Data Rate Digital Subscriber Line (see DSL)
Wholesale	Selling services to third parties who sell them to their own end customers either directly or after further processing
WLAN	Wireless Local Area Network (WiFi)

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