Interim Condensed Consolidated Financial Statements_

for the period 1 January to 30 September 2017

Consolidated Statements of Financial Position_

Assets (Euros in millions)	Notes	**As of 30 September 2017**	As of 31 December 2016
A) Non-current assets		**12,294**	**13,055**
Goodwill		1,939	1,932
Other intangible assets	[5a]	5,673	6,215
Property, plant and equipment	[5b]	4,016	4,217
Trade and other receivables	[5c]	52	77
Other financial assets		53	60
Other non-financial assets	[5d]	135	128
Deferred tax assets		427	427
B) Current assets		**1,986**	**2,246**
Inventories		97	85
Trade and other receivables	[5c]	1,188	1,460
Other financial assets		25	25
Other non-financial assets	[5d]	165	63
Cash and cash equivalents		511	613
Total assets (A+B)		**14,280**	**15,301**

Equity and Liabilities (Euros in millions)	Notes	**As of 30 September 2017**	As of 31 December 2016
A) Equity		**8,504**	**9,408**
Subscribed capital		2,975	2,975
Additional paid-in capital		4,800	4,800
Retained earnings		729	1,634
Equity attributable to owners of the parent		8,504	9,408
B) Non-current liabilities		**2,723**	**2,637**
Interest-bearing debt	[5e]	1,865	1,721
Trade and other payables	[5f]	18	17
Provisions	[5g]	562	561
Deferred income	[5f]	276	338
Deferred tax liabilities		1	–
C) Current liabilities		**3,054**	**3,256**
Interest-bearing debt	[5e]	394	37
Trade and other payables	[5f]	1,951	2,286
Provisions	[5g]	118	190
Other non-financial liabilities		90	79
Deferred income	[5f]	500	664
Total equity and liabilities (A+B+C)		**14,280**	**15,301**

Consolidated Income Statements_

		1 July to 30 September		1 January to 30 September	
(Euros in millions)	Notes	**2017**	2016	**2017**	2016
Revenues	[6a]	1,850	1,876	5,392	5,567
Other income	[6b]	38	34	97	469
Supplies		(627)	(572)	(1,759)	(1,778)
Personnel expenses		(158)	(155)	(471)	(488)
Other expenses		(657)	(746)	(1,972)	(2,164)
Operating income before depreciation and amortisation (OIBDA)		**447**	**436**	**1,288**	**1,606**
Depreciation and amortisation	[6c]	(476)	(533)	(1,440)	(1,602)
Operating income		**(29)**	**(96)**	**(152)**	**4**
Finance income		1	5	3	8
Exchange gains		0	0	1	0
Finance costs		(10)	(13)	(29)	(34)
Exchange losses		(0)	(0)	(1)	(1)
Net financial income/(expense)		**(9)**	**(8)**	**(26)**	**(26)**
Profit/(loss) before tax		**(39)**	**(104)**	**(178)**	**(21)**
Income tax		0	(0)	0	(0)
Profit/(loss) for the period		**(39)**	**(105)**	**(178)**	**(22)**
Profit/(loss) for the period attributable to owners of the parent		**(39)**	**(105)**	**(178)**	**(22)**
Profit/(loss) for the period		**(39)**	**(105)**	**(178)**	**(22)**
Earnings per share					
Basic earnings per share in EUR		**(0.01)**	**(0.04)**	**(0.06)**	**(0.01)**
Diluted earnings per share in EUR		**(0.01)**	**(0.04)**	**(0.06)**	**(0.01)**

Consolidated Statements of Comprehensive Income_

(Euros in millions)	1 July to 30 September 2017	1 July to 30 September 2016	1 January to 30 September 2017	1 January to 30 September 2016
Profit/(loss) for the period	**(39)**	**(105)**	**(178)**	**(22)**
Total other comprehensive income/(loss)				
Items that will not be reclassified to profit/(loss)	**–**	**(15)**	**15**	**(74)**
Remeasurement of defined benefit plans	–	(15)	15	(74)
Total other comprehensive income/(loss)	**–**	**(15)**	**15**	**(74)**
Total comprehensive income/(loss)	**(39)**	**(119)**	**(162)**	**(95)**
Total comprehensive income/(loss) for the period attributable to owners of the parent	**(39)**	**(119)**	**(162)**	**(95)**
Total comprehensive income/(loss)	**(39)**	**(119)**	**(162)**	**(95)**

Consolidated Statements 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 01 January 2016	**2,975**	**4,800**	**2,546**	**10,321**	**10,321**
Profit/(loss) for the period	–	–	(22)	(22)	(22)
Total other comprehensive income/(loss)	–	–	(74)	(74)	(74)
Total comprehensive income/(loss)	**–**	**–**	**(95)**	**(95)**	**(95)**
Dividends	–	–	(714)	(714)	(714)
Other movements[1]	–	–	3	3	3
Financial position as of 30 September 2016	**2,975**	**4,800**	**1,740**	**9,514**	**9,514**
Financial position as of 01 January 2017	**2,975**	**4,800**	**1,634**	**9,408**	**9,408**
Profit/(loss) for the period	–	–	(178)	(178)	(178)
Total other comprehensive income/(loss)	–	–	15	15	15
Total comprehensive income/(loss)	**–**	**–**	**(162)**	**(162)**	**(162)**
Dividends	–	–	(744)	(744)	(744)
Other movements[1]	–	–	1	1	1
Financial position as of 30 September 2017	**2,975**	**4,800**	**729**	**8,504**	**8,504**

1 Share-based payments in accordance with IFRS 2. For further information, please refer to the consolidated financial statements for the year ended 31 December 2016 (Note 15, Share-Based Payments).

Consolidated Statements of Cash Flows_

(Euros in millions)	Notes	1 January to 30 September 2017	2016
Cash flows from operating activities			
Profit/(loss) for the period		**(178)**	**(22)**
Adjustments to profit/(loss)			
Net financial income/(expense)		26	26
Gain on disposals of assets		(1)	(353)
Net income tax expense		(0)	0
Depreciation and amortisation	[6c]	1,440	1,602
Change in working capital and others			
Other non-current assets	[5a], [5b], [5c]	20	92
Other current assets	[5a], [5b], [5c]	159	(78)
Other non-current liabilities and provisions	[5d], [5e], [5f]	(52)	(88)
Other current liabilities and provisions	[5d], [5e], [5f]	(271)	23
Others			
Interest received		6	11
Interest paid		(22)	(27)
Cash flows from operating activities		**1,126**	**1,187**
Cash flows from investing activities			
Proceeds from disposals of property, plant and equipment and intangible assets		1	591
Payments on investments relating to mobile phone frequency auctions		–	(3)
Payments on investments in property, plant and equipment and intangible assets	[5a]	(855)	(817)
Acquisition of companies, net of cash acquired		(9)	–
Proceeds from financial assets		9	–
Payments for financial assets		(4)	(10)
Cash flows from investing activities		**(858)**	**(239)**
Cash flows from financing activities			
Payments made for frequency auctions		(111)	(111)
Proceeds from interest-bearing debt	[5d]	1,200	600
Repayment of interest-bearing debt [1]	[5d]	(716)	(952)
Dividends paid		(744)	(714)
Cash flows from financing activities		**(370)**	**(1,177)**
Net increase/(decrease) in cash and cash equivalents		**(102)**	**(229)**
Cash and cash equivalents at the beginning of the period		**613**	**533**
Cash and cash equivalents at the end of the period		**511**	**304**

[1] Repayments for the repayment of interest-bearing debt included payments related to finance leases of EUR 16 million for the nine months ended 30 September 2017 and EUR 158 million for the nine months ended 30 September 2016.

Condensed Notes to the Interim Consolidated Financial Statements_

for the period 1 January to 30 September 2017

1. Reporting Entity

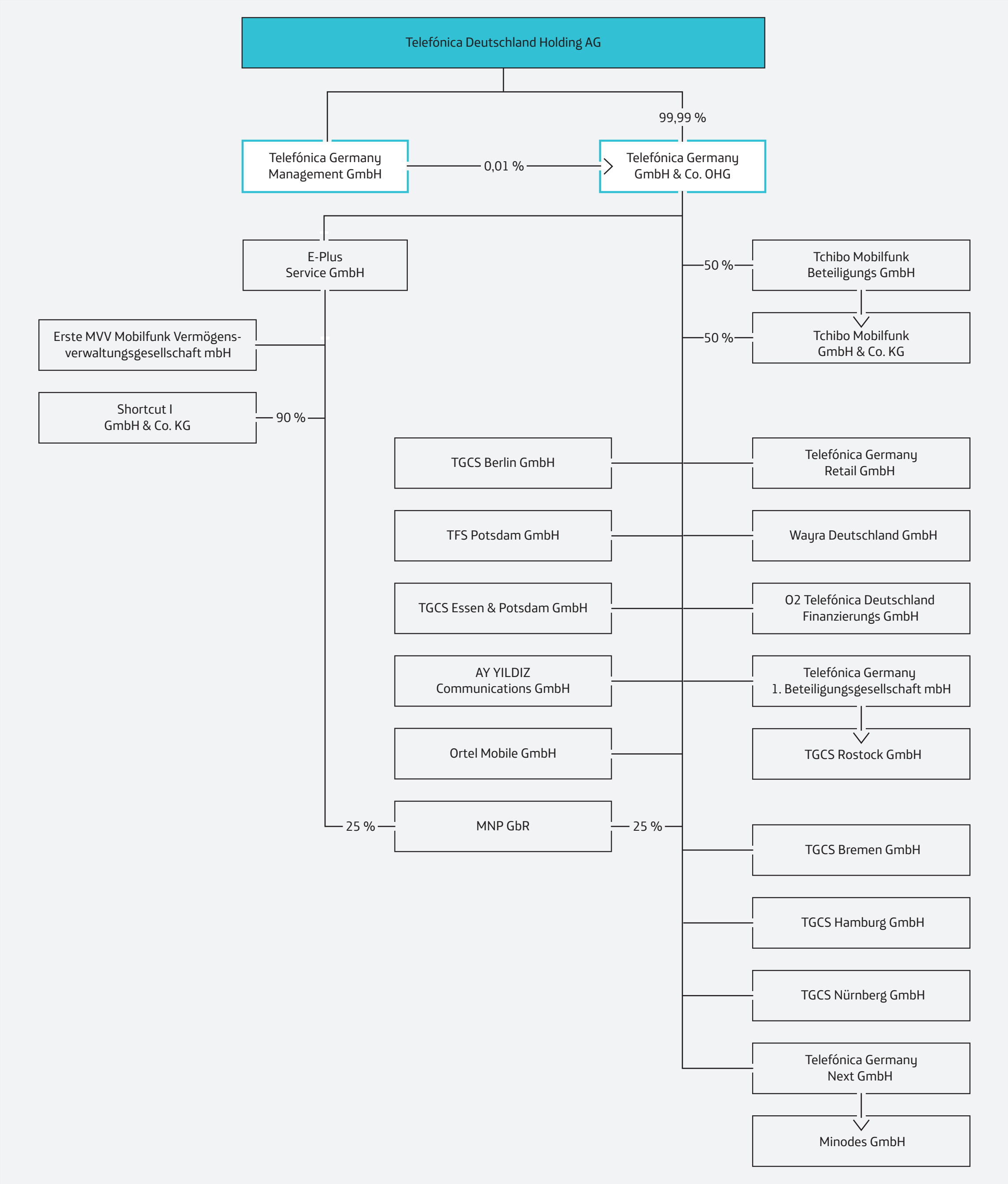
The interim condensed consolidated financial statements (hereinafter "interim consolidated financial statements") of Telefónica Deutschland Holding AG have been prepared for the period from 1 January to 30 September 2017 and are comprised of Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland") and its subsidiaries as well as any 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 30 September 2017, 21.3 % 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 9.5 % were held by Koninklijke KPN N.V., The Hague, Netherlands (KPN).

As of 30 September 2017, the companies included in the interim consolidated financial statements of the Telefónica Deutschland Group were organised as shown in the following organisational chart:



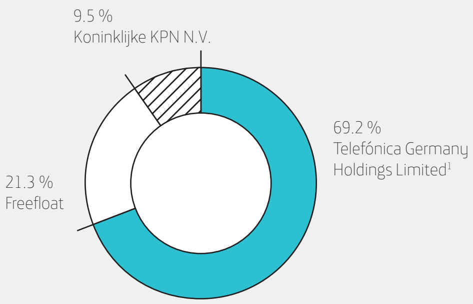
Unless otherwise stated, the ownership interests are 100 %.

Telefónica Germany Next GmbH acquired Minodes GmbH in the second quarter of the financial year 2017.

2. Significant Events and Transactions during the Reporting Period

Shareholder structure

Our indirect majority shareholder, Telefónica, S.A., announced on 13 March 2017 that it had entered into an agreement with Koninklijke KPN NV ("KPN") to swap shares in Telefónica, S.A., for 6% of the shares in Telefónica Deutschland previously held by KPN. Following the implementation of the agreement and based on the voting right notifications received, the shareholder structure of Telefónica as of 30 September 2017 is as follows:



1 Telefónica Germany Holdings Limited is a wholly-owned, indirect subsidiary of Telefónica, S.A.

Annual General Meeting and dividends

The Annual General Meeting for the financial year 2016 was held on 9 May 2017. In addition to presenting the Annual Financial Statements and Consolidated Financial Statements of Telefónica Deutschland and re-electing all the shareholder representatives on the Supervisory Board as of the start of the Annual General Meeting, the resolutions adopted by the Annual General Meeting included a dividend payment of EUR 0.25 per entitled share or EUR 743,638,748.25 in total. The dividend for the financial year 2016 was paid to the shareholders on 12 May 2017.

Changes in the Management Board of Telefónica Deutschland

The Supervisory Board of Telefónica Deutschland has resolved to appoint Markus Rolle as CFO of Telefónica Deutschland, effective as of 1 August 2017 in the meeting on 20 July 2017. The Supervisory Board agreed with Markus Rolle a term of office of 3 years until 31 July 2020.

Markus Rolle replaces Rachel Empey, who has left the company upon her own request and as mutually agreed with the Supervisory Board as of 31 July 2017.

The Supervisory Board of Telefónica Deutschland has also decided in the meeting on 20 July 2017 to eliminate the Internal Corporate Board and elevate selected members to extend the Management Board, effective as of 1 August 2017, as follows:

Wolfgang Metze was appointed as Chief Consumer Officer responsible for the retail business. Alfons Lösing was appointed as Chief Partner and Business Officer, also responsible for Telefónica NEXT. Cayetano Carbajo Martin was appointed as Chief Technology Officer. Guido Eidmann was appointed as Chief Information Officer. Valentina Daiber was appointed as Chief Officer for Legal and Corporate Affairs. Nicole Gerhardt was appointed as Chief Human Resources Officer.

New line of credit

On 31 July 2017, Telefónica Deutschland Group entered into a EUR 500 million bilateral revolving line of credit with Telfisa Global B.V. This line of credit is to be used in the normal course of business and has a term of one year.

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 condensed consolidated financial statements do not contain all of 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 2016 (see Note 3, Basis of Preparation).

These interim consolidated financial statements as of 30 September 2017 are unaudited.

Functional currency and presentation currency

The interim consolidated financial statements are presented in euros, which is the functional currency of the Telefónica Deutschland Group.

Unless otherwise stated, the amounts in these interim consolidated financial statements are presented in millions of euros (EUR million) and are 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 that the management makes judgements, estimates and assumptions concerning the accounting policies applied and that influence the amount of the assets, liabilities, income and expenses reported. A significant change in the facts and circumstances on which these judgements, estimates and assumptions are based could materially affect the Telefónica Deutschland Group's net assets, financial position and result of operations.

For further information, please refer to the consolidated financial statements for the year ended 31 December 2016 (see Note No. 4, Accounting Policies).

Comparative information

The consolidated statements of financial position presented in these interim consolidated financial statements relate to information as of 30 September 2017, which is compared to information as of 31 December 2016.

The consolidated income statements and the consolidated statements of comprehensive income relate to the nine- and three-month periods ended 30 September 2017 and 30 September 2016. The consolidated statements of cash flows and the consolidated statements of changes in equity compare the first nine-month periods of 2017 and 2016.

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 condensed 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 2016 (see Note 4, 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
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017[1]
Amendments to IAS 7	Disclosure Initiative	1 January 2017[1]
Annual Improvements to the IFRS 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28	1 January 2018
Amendments to IAS 40	Transfers of Investment Property	1 January 2018
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
Clarifications to IFRS 15	Revenue from Contracts with Customers	1 January 2018[1]
IFRS 9	Financial Instruments	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments in the context of IFRS 4 Insurance Contracts	1 January 2018[1]
IFRS 16	Leases	1 January 2019[1]
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	Applying IFRS 9 in the context of IAS 28	1 January 2019[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	[2]

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

As noted in the consolidated financial statements for the year ended 31 December 2016 (see Note 4, Accounting Policies), the introduction of IFRS 15 is significant for the Group. Contrary to the original plan, the Group has opted not to apply the fully retrospective method in light of the complexity that has emerged in the course of the project. Accordingly, a cumulative adjustment for the effects of IFRS 15 will be recognised in equity as of 1 January 2018.

The other standards or amendments to standards issued in the financial year 2017 that have not yet been endorsed by the EU are either not relevant for the Group or are currently being analysed. This relates to IFRS 17 Insurance Contracts and IFRIC 23 Uncertainty over Income Tax Treatments.

5. Selected Notes to the Consolidated Statements 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 2016	2,249	2,213	466	62	19	1,206	6,215
As of 30 September 2017	2,798	1,968	492	48	13	353	5,673

b) Property, plant and equipment

Property, plant and equipment included the following:

(Euros in millions)	Land and buildings	Plant and machinery	Furniture, tools and other items	PP&E in progress	Property, plant and equipment
Net book value					
As of 31 December 2016	174	3,841	87	114	4,217
As of 30 September 2017	132	3,659	85	139	4,016

c) Trade and other receivables

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

	As of 30 September 2017		As of 31 December 2016	
(Euros in millions)	**Non-current**	**Current**	Non-current	Current
Trade receivables	59	1,281	84	1,591
Receivables from related parties	–	67	–	42
Other receivables	–	23	–	19
Allowances for bad debts	(6)	(183)	(7)	(192)
Trade and other receivables	**52**	**1,188**	**77**	**1,460**

d) Other non-financial assets

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

	As of 30 September 2017		As of 31 December 2016	
(Euros in millions)	Non-current	Current	Non-current	Current
Prepayments	135	160	128	61
Prepayments to related parties	–	4	–	1
Tax receivables for indirect taxes	–	1	–	1
Other non-financial assets	**135**	**165**	**128**	**63**

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

e) Interest-bearing debt

Interest-bearing debt consists of the following:

	As of 30 September 2017		As of 31 December 2016	
(Euros in millions)	Non-current	Current	Non-current	Current
Bonds	1,106	17	1,107	12
Promissory notes and registered bonds	299	2	299	4
Loans	450	351	298	0
Finance leases	9	17	17	15
Contribution and compensation obligations	–	6	–	6
Other financial liabilities	–	0	–	0
Interest-bearing debt	**1,865**	**394**	**1,721**	**37**

Loans

The Group entered into a revolving syndicated loan facility (RCF) in the amount of EUR 750 million on 22 March 2016. The term of this syndicated loan facility was extended by one year until March 2022 for the first time in February 2017. The syndicated loan facility can therefore still be extended by a maximum of one further year. The RCF bears a variable interest rate at Euribor money market conditions plus an agreed margin. The syndicated loan facility was fully repaid on 10 August 2017.

On 13 June 2016, a financing agreement in the amount of EUR 450 million was entered into with the European Investment Bank (EIB). As of 30 September 2017, 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 interest rates for the fixed-interest tranches are 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 entered into a EUR 500 million bilateral revolving line of credit with Telfisa Global B.V. This line of credit is to be used in the normal course of business and has a term of one year. EUR 350 million of the revolving line of credit had been utilised as of 30 September 2017.

f) Trade and other payables and deferred income

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

	As of 30 September 2017		As of 31 December 2016	
(Euros in millions)	Non-current	Current	Non-current	Current
Trade payables to third parties	–	550	–	897
Accruals for unbilled trade payables	17	892	15	783
Payables to related parties	–	343	–	425
Trade payables	**17**	**1,785**	**15**	**2,105**
Other creditors non-trade	1	55	2	81
Other payables to related parties	–	45	–	41
Other payables	–	65	–	58
Other payables	**1**	**166**	**2**	**181**
Trade and other payables	**18**	**1,951**	**17**	**2,286**
Deferred income	**276**	**500**	**338**	**664**

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

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

The other liabilities are mainly comprised of debtors with credit balances.

Deferred income primarily includes advanced payments received for prepaid credits and other advance payments received for future service performance. It further includes the payment received from Drillisch in connection with the Mobile Bitstream Access Mobile Virtual Network Operator (MBA MVNO) agreement.

Other advance payments received for future service performance and the payment received from Drillisch are presented by maturity according to their expected utilisations. Advance payments received for prepaid credits are exclusively classified as current.

g) Provisions

Provisions are recorded at the following amounts:

	As of 30 September 2017		As of 31 December 2016	
(Euros in millions)	Non-current	Current	Non-current	Current
Pension obligations	93	–	106	–
Restructuring	39	58	20	127
Asset retirement obligations	399	54	400	57
Other provisions	31	6	35	5
Provisions	**562**	**118**	**561**	**190**

6. Selected Explanatory Notes to the Consolidated Income Statements

a) Revenues

Revenues are comprised of the following:

	1 July to 30 September		1 January to 30 September	
(Euros in millions)	**2017**	2016	**2017**	2016
Rendering of services	1,558	1,639	4,608	4,831
Other revenues	293	236	784	736
Revenues	**1,850**	**1,876**	**5,392**	**5,567**

Revenues from the rendering of services include mobile service revenues as well as revenues from fixed DSL business. Other revenues consist of revenues from the sale of handsets and other revenues.

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

The breakdown of revenues from mobile business and fixed DSL business is shown in the following table:

	1 July to 30 September		1 January to 30 September	
(Euros in millions)	**2017**	2016	**2017**	2016
Mobile business	1,634	1,621	4,727	4,808
Mobile service revenues	1,344	1,394	3,954	4,088
Handset revenues	290	227	772	720
Fixed DSL revenues	214	245	654	743
Other revenues	2	9	11	16
Revenues	**1,850**	**1,876**	**5,392**	**5,567**

b) Other income

The other income of the Telefónica Deutschland Group for the first nine months of the current financial year amounted to 97 Mio. EUR (in 2016: 469 Mio. EUR).

c) Depreciation and amortisation

Depreciation and amortisation are as follows:

	1 July to 30 September		1 January to 30 September	
(Euros in millions)	**2017**	2016	**2017**	2016
Depreciation of property, plant and equipment	223	247	686	714
Amortisation of intangible assets	253	286	754	888
Depreciation and amortisation	**476**	**533**	**1,440**	**1,602**

7. Measurement Categories of Financial Assets and Financial Liabilities

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

As of 30 September 2017, the carrying amounts of the financial assets and financial liabilities represent an appropriate approximation for their fair values (with the exception of the portion of the bonds that is not hedged, see below).

For further information, please refer to the consolidated financial statements for the year ended 31 December 2016 (see Note 10, Measurement Categories of Financial Assets and Financial Liabilities).

In addition, the tables show the categorisation of the financial assets and financial liabilities in accordance with the importance of the input factors that were used for their respective measurement. The fair value hierarchy prioritises the inputs into three levels that may be used to measure fair value:
— Level 1: Primary market value: quoted prices (unadjusted) in active markets for identical assets and liabilities;
— Level 2: Significant other observable input parameters: inputs observable, either directly or indirectly, which are subject to certain limitations;
— Level 3: Significant unobservable input parameters: all unobservable inputs, which might include the entity's own data as a starting point and which must, however, be examined for their marketability.

	As of 30 September 2017									
	Financial assets									
					Measurement hierarchy					
(Euros in millions)	**Financial assets at fair value through profit or loss**	**Available-for-sale financial assets**	**Held-to-maturity financial assets**	**Loans and receivables**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Total carrying amount**	**Total fair value**	**Not in the scope of IFRS 7**
Non-current trade and other receivables (Note 5c)	–	–	–	52	–	–	–	52	52	–
Other non-current financial assets	9	23	–	12	–	9	23	44	44	9
Current trade and other receivables (Note 5c)	–	–	–	1,186	–	–	–	1,186	1,186	2
Current other financial assets	3	–	–	22	–	3	–	25	25	–
Cash and cash equivalents	–	–	–	511	–	–	–	511	511	–
Total	**12**	**23**	**–**	**1,784**	**–**	**12**	**23**	**1,819**	**1,819**	**11**

	As of 31 December 2016									
	Financial assets									
					Measurement hierarchy					
(Euros in millions)	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	Not in the scope of IFRS 7
Non-current trade and other receivables (Note 5c)	–	–	–	77	–	–	–	77	77	–
Other non-current financial assets	12	21	–	18	–	12	21	51	51	9
Current trade and other receivables (Note 5c)	–	–	–	1,458	–	–	–	1,458	1,458	1
Current other financial assets	2	–	–	23	–	2	–	25	25	–
Cash and cash equivalents	–	–	–	613	–	–	–	613	613	–
Total	**14**	**21**	**–**	**2,189**	**–**	**14**	**21**	**2,224**	**2,224**	**11**

As of 30 September 2017, EUR 9 million of the non-current other financial assets and EUR 3 million of the current other financial assets are classified as assets at fair value through profit or loss. These relate to swap agreements in connection with the bond issue.

In addition, EUR 23 million of the non-current other financial assets are classified as available-for-sale financial assets. These relate to investments in start-ups. These assets were classified as level 3 due to the absence of quoted market prices. These entities generate start-up losses, and the existing business plans contain numerous unpredictable assumptions. Therefore, measurements are based on amortised cost in accordance with IAS 39.46c.

All other financial assets as of 30 September 2017 are categorised as loans and receivables.

	As of 30 September 2017								
	Financial liabilities								
				Measurement hierarchy					
(Euros in millions)	**Liabilities at fair value through profit or loss**	**Liabilities at amortised cost**	**Finance leases**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Total carrying amount**	**Total fair value**	**Not in the scope of IFRS 7**
Non-current interest-bearing debt (Note 5e)	358	1,498	9	–	358	–	1,865	1,910	–
Non-current trade and other payables (Note 5f)	–	17	–	–	–	–	17	17	1
Current interest-bearing debt (Note 5e)	–	377	17	–	–	–	394	394	–
Current trade and other payables (Note 5f)	–	1,895	–	–	–	–	1,895	1,895	56
Total	**358**	**3,787**	**27**	**–**	**358**	**–**	**4,171**	**4,217**	**57**

	As of 31 December 2016								
	Financial liabilities								
				Measurement hierarchy					
(Euros in millions)	Liabilities at fair value through profit or loss	Liabilities at amortised cost	Finance leases	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	Not in the scope of IFRS 7
Non-current interest-bearing debt (Note 5e)	360	1,343	17	–	360	–	1,721	1,778	–
Non-current trade and other payables (Note 5f)	–	15	–	–	–	–	15	15	2
Current interest-bearing debt (Note 5e)	–	22	15	–	–	–	37	37	–
Current trade and other payables (Note 5f)	–	2,218	–	–	–	–	2,218	2,218	68
Total	**360**	**3,599**	**32**	**–**	**360**	**–**	**3,991**	**4,048**	**70**

As of 30 September 2017, EUR 358 million of the other non-current interest-bearing debt is classified as liabilities at fair value through profit or loss. The fair value hedges include one interest rate swap each.

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

In addition to bonds, the non-current and current interest-bearing debt as of 30 September 2017 contains promissory notes and registered bonds with a total nominal value of around EUR 300 million and the utilisation of two credit facilities totalling EUR 800 million. These debts are classified as financial liabilities measured at amortised cost.

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

8. Contingent Assets and Liabilities

The Telefónica Deutschland Group could be subject to claims or other proceedings arising in the ordinary course of business. As of 30 September 2017, the items listed in the consolidated financial statements for the year ended 31 December 2016 (see Note 18, Contingent Assets and Liabilities) were unchanged with the exception of the following change.

Proceedings were pending in the first instance before the finance court in connection with the VAT treatment of roaming revenues in third countries. They related to the assessment of whether telecommunications services to private customers are subject to German VAT, even if these services are agreed on and billed separately for telephone calls to third countries. The proceedings with the finance court were concluded in the second quarter of 2017 in favour of the Telefónica Deutschland Group. As a result, there were no VAT consequences for the Telefónica Deutschland Group.

For further information, please refer to the consolidated financial statements as of 31 December 2016 (see Note 18, Contingent Assets and Liabilities).

9. Business Combinations

One transaction affecting the basis of consolidation was conducted by the Telefónica Deutschland Group in the period under review. This change in the basis of consolidation did not have a material effect on the interim condensed consolidated financial statements of the Telefónica Deutschland Group.

10. Disposal Groups

Disposal groups in 2016:
Sale of passive tower infrastructure to Telxius

Telxius Telecom S.A., which was a wholly-owned subsidiary of Telefónica S.A. at the time of disposal, acquired all of the shares in Telxius Towers Germany GmbH (formerly Telefónica Germany Vermögensverwaltungsgesellschaft mbH), a formerly wholly-owned subsidiary of E-Plus Mobilfunk GmbH, in accordance with a share purchase and transfer agreement dated 21 April 2016.

Telxius Towers Germany GmbH was formed as part of the spin-off of cellular towers and the corresponding assets and liabilities and lease agreements. The purpose of the company was the leasing of passive tower infrastructure for the operation of mobile communications networks.

The disposal of Telxius Towers Germany GmbH had the following impact on the Group's net assets and financial position in the financial year 2016:

(Euros in millions)	As of 21 April 2016
Intangible assets	(23)
Property, plant and equipment	(277)
Trade and other receivables	(0)
Prepaid expenses	(4)
Provisions	83
Trade and other payables	0
Deferred income	8
Net assets and liabilities	**(214)**
Service receivables from Telxius	1
Liabilities to Telxius	(17)
Effect on net assets before cash and cash equivalents	**(231)**
Fee included in cash and cash equivalents	587
Cash and cash equivalents disposed of	(0)
Net cash inflow	**587**

Subsequent to the spin-off, the Telefónica Deutschland Group leased the infrastructure back from Telxius Towers Germany GmbH under the terms of a corresponding lease. Furthermore, the parties agreed that the Group will be able to charge certain service fees to Telxius Towers Germany GmbH during a transitional phase.

A net gain on disposal of EUR 352 million was reported in the consolidated income statement in connection with this disposal in financial year 2016. The gain on the disposal of the interest, which was reported in other operating income, was offset by consulting fees reported in other operating expenses.

11. Subsequent Events

Changes in the Supervisory Board of Telefónica Deutschland

With effect from 4 October 2017, Ángel Vilá Boix resigned from his office as a Supervisory Board member of Telefónica Deutschland. Julio Linares López was appointed by the relevant court as the successor to Ángel Vilá Boix by means of a resolution passed on 16 October 2017. This appointment is valid until the next Annual General Meeting.

There were no other reportable events subsequent to the reporting period.

Munich, 09 November 2017

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Guido Eidmann

Nicole Gerhardt

Alfons Lösing

Cayetano Carbajo Martín

Wolfgang Metze