# Interim Condensed Consolidated Financial Statements

for the period 1 January to 30 September 2018

# Consolidated Statement of Financial Position

| **Assets** (EUR million) | Notes | **As of 30 September 2018** | As of 31 December 2017 |
|---|---|---|---|
| **A) Non-current assets** | | **11,305** | **11,940** |
| Goodwill | | 1,960 | 1,960 |
| Other intangible assets | [5a] | 4,921 | 5,485 |
| Property, plant and equipment | [5b] | 3,928 | 4,041 |
| Trade and other receivables | [5c] | 56 | 69 |
| Other financial assets | | 91 | 94 |
| Other non-financial assets | [5d] | 221 | 129 |
| Deferred tax assets | | 129 | 162 |
| **B) Current assets** | | **2,825** | **2,160** |
| Inventories | | 162 | 105 |
| Trade and other receivables | [5c] | 1,183 | 1,265 |
| Other financial assets | | 12 | 17 |
| Other non-financial assets | [5d] | 499 | 186 |
| Cash and cash equivalents | | 932 | 587 |
| Assets held for sale | | 37 | – |
| **Total assets (A+B)** | | **14,131** | **14,100** |

| **Equity and Liabilities** (EUR million) | Notes | **As of 30 September 2018** | As of 31 December 2017 |
|---|---|---|---|
| **A) Equity** | | **7,676** | **8,297** |
| Subscribed capital | | 2,975 | 2,975 |
| Additional paid-in capital | | 4,800 | 4,800 |
| Retained earnings | | (98) | 523 |
| Total equity attributable to owners of the parent | | 7,676 | 8,297 |
| **B) Non-current liabilities** | | **2,921** | **2,141** |
| Interest-bearing debt | [5e] | 2,047 | 1,268 |
| Trade and other payables | [5f] | 19 | 19 |
| Provisions | [5g] | 553 | 599 |
| Deferred income | [5f] | 201 | 255 |
| Deferred tax liabilities | | 102 | 1 |
| **C) Current liabilities** | | **3,533** | **3,662** |
| Interest-bearing debt | [5e] | 706 | 637 |
| Trade and other payables | [5f] | 2,125 | 2,224 |
| Provisions | [5g] | 139 | 142 |
| Other non-financial liabilities | | 76 | 132 |
| Deferred income | [5f] | 484 | 527 |
| Liabilities held for sale | | 4 | – |
| **Total equity and liabilities (A+B+C)** | | **14,131** | **14,100** |

# Consolidated Income Statement

| (EUR million) | Notes | 1 July to 30 September 2018 | 1 July to 30 September 2017 | 1 January to 30 September 2018 | 1 January to 30 September 2017 |
|---|---|---|---|---|---|
| Revenue | [6a] | 1,830 | 1,850 | 5,355 | 5,392 |
| Other income | | 49 | 38 | 117 | 97 |
| Supplies | | (622) | (627) | (1,747) | (1,759) |
| Personnel expenses | | (148) | (158) | (451) | (471) |
| Impairment losses in accordance with IFRS 9[1] | | (14) | (22) | (54) | (59) |
| Other expenses | [6b] | (635) | (635) | (1,897) | (1,913) |
| **Operating income before depreciation and amortisation (OIBDA)** | | **461** | **447** | **1,324** | **1.288** |
| Depreciation and amortisation | [6c] | (479) | (476) | (1.416) | (1,440) |
| **Operating income** | | **(18)** | **(29)** | **(92)** | **(152)** |
| Finance income | | 0 | 1 | 2 | 3 |
| Exchange gains | | 0 | 0 | 1 | 1 |
| Finance costs | | (13) | (10) | (32) | (29) |
| Exchange losses | | 0 | (0) | (1) | (1) |
| **Financial result** | | **(12)** | **(9)** | **(31)** | **(26)** |
| **Profit/(loss) before tax** | | **(30)** | **(39)** | **(123)** | **(178)** |
| Income tax | | 0 | 0 | 0 | 0 |
| **Profit/(loss) for the period** | | **(30)** | **(39)** | **(123)** | **(178)** |
| | | | | | |
| **Profit/(loss) for the period attributable to owners of the parent** | | **(30)** | **(39)** | **(123)** | **(178)** |
| **Profit/(loss) for the period** | | **(30)** | **(39)** | **(123)** | **(178)** |
| | | | | | |
| **Earnings per share** | | | | | |
| **Basic earnings per share in EUR** | | **(0.01)** | **(0.01)** | **(0.04)** | **(0.06)** |
| **Diluted earnings per share in EUR** | | **(0.01)** | **(0.01)** | **(0.04)** | **(0.06)** |

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

# Consolidated Statement of Comprehensive Income

| | 1 July to 30 September | | 1 January to 30 September | |
|---|---|---|---|---|
| (EUR million) | **2018** | 2017 | **2018** | 2017 |
| **Profit/(loss) for the period** | **(30)** | **(39)** | **(123)** | **(178)** |
| Items that will not be reclassified to profit/(loss) | | | | |
| Remeasurement of defined benefit plans | 3 | – | 5 | 15 |
| **Other comprehensive income/(loss)** | **3** | **–** | **5** | **15** |
| **Total comprehensive income/(loss)** | **(27)** | **(39)** | **(118)** | **(162)** |
| | | | | |
| Total comprehensive income/(loss) attributable to owners of the parent | (27) | (39) | (118) | (162) |
| **Total comprehensive income/(loss)** | **(27)** | **(39)** | **(118)** | **(162)** |

# Consolidated Statement of Changes in Equity

| (EUR million) | Subscribed capital | Additional paid-in capital | Retained earnings | Total 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 | – | – | (178) | (178) | (178) |
| Other comprehensive income/(loss) | – | – | 15 | 15 | 15 |
| **Total comprehensive income/(loss)** | **–** | **–** | **(162)** | **(162)** | **(162)** |
| Dividends | – | – | (744) | (744) | (744) |
| Other movements | – | – | 1 | 1 | 1 |
| **Financial position as of 30 September 2017** | **2,975** | **4,800** | **729** | **8,504** | **8,504** |
| **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 | – | – | (123) | (123) | (123) |
| Other comprehensive income/(loss) | – | – | 5 | 5 | 5 |
| **Total comprehensive income/(loss)** | **–** | **–** | **(118)** | **(118)** | **(118)** |
| Dividends | – | – | (773) | (773) | (773) |
| Other movements | – | – | (4) | (4) | (4) |
| **Financial position as of 30 September 2018** | **2,975** | **4,800** | **(98)** | **7,676** | **7,676** |

# Consolidated Statement of Cash Flows

| | | 1 January to 30 September | |
|---|---|---|---|
| (EUR million) | Notes | 2018 | 2017 |
| **Cash flow from operating activities** | | | |
| **Profit/(loss) for the period** | | **(123)** | **(178)** |
| **Adjustments to profit/(loss)** | | | |
| Financial result | | 31 | 26 |
| Gains on disposals of assets | | (0) | (1) |
| Income taxes | | (0) | (0) |
| Depreciation and amortisation | [6c] | 1,416 | 1,440 |
| Other non-cash expenses/income | | (15) | – |
| **Change in working capital and others** | | | |
| Other non-current assets | [5a], [5b], [5c], [5d] | 14 | 20 |
| Other current assets | [5a], [5b], [5c], [5d] | (28) | 159 |
| Other non-current liabilities and provisions | [5d], [5e], [5f] | (99) | (52) |
| Other current liabilities and provisions | [5d], [5e], [5f] | (162) | (271) |
| **Others** | | | |
| Interest received | | 4 | 6 |
| Interest paid | | (26) | (22) |
| **Cash flow from operating activities** | | **1,012** | **1,126** |
| | | | |
| **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] | (711) | (855) |
| Acquisition of companies, net of cash acquired | | (1) | (9) |
| Proceeds from financial assets | | 3 | 9 |
| Payments for financial assets | | (3) | (4) |
| **Cash flow from investing activities** | | **(710)** | **(858)** |
| | | | |
| **Cash flow from financing activities** | | | |
| Payments made relating to frequency auctions | | – | (111) |
| Proceeds from interest-bearing debt | [5e] | 2,526 | 1.200 |
| Payments made for the repayment of interest-bearing debt | [5e] | (1,700) | (716) |
| Dividends paid | | (773) | (744) |
| Other payments made relating to financing activities | | (8) | – |
| **Cash flow from financing activities** | | **44** | **(370)** |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **346** | **(102)** |
| | | | |
| **Cash and cash equivalents at the beginning of the period** | | **587** | **613** |
| | | | |
| **Cash and cash equivalents at the end of the period** | | **932** | **511** |

# Condensed Notes to the Interim Consolidated Financial Statements

## for the period 1 January to 30 September 2018

## 1. Reporting Entity

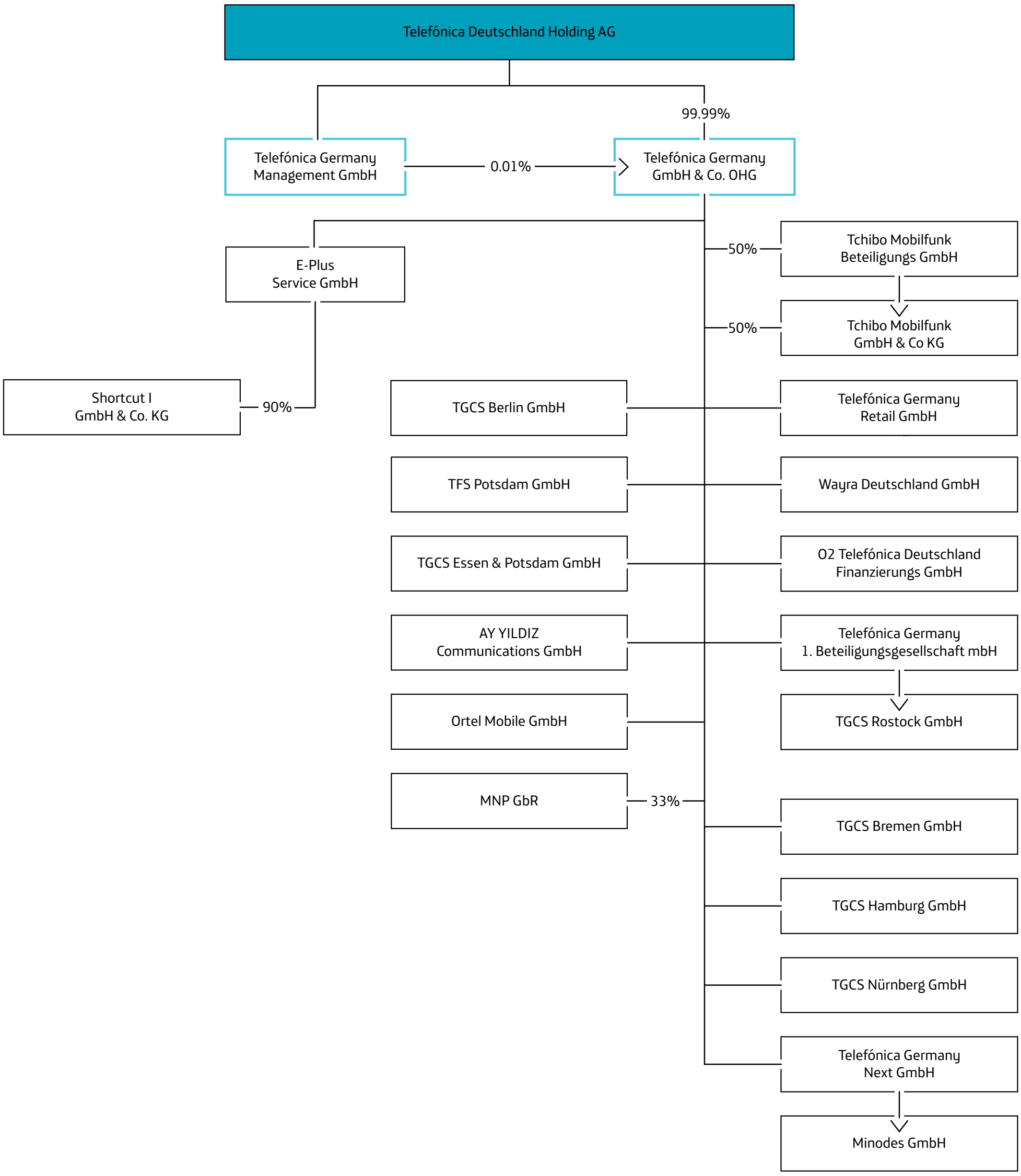
The Interim Condensed Consolidated Financial Statements (hereinafter "Interim Consolidated Financial Statements") of Telefónica Deutschland Holding AG have been prepared for the period from 1 January to 30 September 2018 and comprise Telefónica Deutschland Holding AG (also referred to as "Telefónica 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 September 2018, 25.6% 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 24 October 2018, the remaining 5.2% were held by Koninklijke KPN N.V., The Hague, Netherlands (KPN).

As of 30 September 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%.

During the third quarter, co-trade GmbH was merged into Telefónica Germany Retail GmbH and Erste MVV Mobilfunk Vermögensverwaltungsgesellschaft mbH into E-Plus Service GmbH.

# 2. Significant Events and Transactions during the Reporting Period

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

**Issuance of a 7-year bond**
The Telefónica Deutschland Group placed a 7-year 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 coupon of the fixed-interest bond, which has to be paid yearly, amounts to 1.75% and the issue price was 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 for general corporate purposes.

**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, a portion of the tied capital reserve amounting to 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 reelected 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.

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.

**Cooperation agreement with Deutsche Telekom**
By contract dated 28 September 2018, Telefónica Germany GmbH & Co. OHG has entered into a cooperation agreement with Telekom Deutschland GmbH that allows Telefónica Deutschland Group to connect at least 5,000 of the mobile base stations with Deutsche Telekom's fibre-optic network.

# 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 September 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 judgements, 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 September 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 nine-month and three-month periods as of 30 September 2018 and 30 September 2017. The Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity compare the completed nine-month periods 2018 and 2017.

### 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 Board 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 September 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:

| (EUR million) | 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 approach 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 Statement of Financial Position 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 September 2018 for which a change arises due to the application of IFRS 15:

| (EUR million) | Consolidated Statement of Financial Position as of 30 September 2018 | Adjustments | Value without application of IFRS 15 |
|---|---|---|---|
| **Non-current assets** | | | |
| Trade and other receivables | 56 | (2) | 54 |
| Other non-financial assets | 221 | (108) | 113 |
| Deferred tax assets | 129 | 33 | 162 |
| **Current assets** | | | |
| Trade and other receivables | 1,183 | 36 | 1,218 |
| Other non-financial assets | 499 | (343) | 155 |
| **Equity** | | | |
| Retained earnings[1] | (98) | (301) | (400) |
| **Non-current liabilities** | | | |
| Deferred income | 201 | 30 | 231 |
| Deferred tax liabilities | 102 | (101) | 1 |
| **Current liabilities** | | | |
| Deferred income | 484 | (13) | 471 |

[1] The adjustment as of 30 September 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 September 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 September 2018.

| (EUR million) | Consolidated Income Statement for the period from 1 January to 30 September 2018 | Adjustments | Value without application of IFRS 15 |
|---|---|---|---|
| **Revenue** | **5,355** | **(18)** | **5,337** |
| Mobile business | 4,764 | (17) | 4,747 |
| Mobile service revenues | 3,937 | (14) | 3,923 |
| Handset revenues | 827 | (3) | 825 |
| Fixed line/DSL business revenues | 582 | (8) | 574 |
| Other revenues | 9 | 7 | 16 |
| | | | |
| Impairment losses in accordance with IFRS 9 | (54) | 1 | (53) |
| | | | |
| **Other expenses** | **(1,897)** | **(10)** | **(1,907)** |
| | | | |
| **Operating income before depreciation and amortisation (OIBDA)** | **1,324** | **(27)** | **1,297** |
| | | | |
| **Financial result** | **(31)** | **1** | **(30)** |

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. For example, 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**
Determining the stand-alone selling price of the performance obligation mobile service tariff postpaid
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**
Apart from the following points, changes arising from the first-time adoption of IFRS 9 will be applied retrospectively:

— 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 is generally not reflecting the requirements of IFRS 9. Therefore, the information for financial year 2017 is not comparable to the disclosures for 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 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 asset has not increased significantly since the initial recognition.

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

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

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

# 5. Selected Notes to the Consolidated Statement of Financial Position

## a) Other intangible assets

Other intangible assets are comprised of the following:

| (EUR million) | Service concession arrangements and licences | Customer bases | Software | Brand names | Others | Construction in progress/ prepayments on intangible assets | **Other intangible assets** |
|---|---|---|---|---|---|---|---|
| Net book value | | | | | | | |
| As of 31 December 2017 | 2,695 | 1,886 | 504 | 48 | 11 | 342 | **5,485** |
| **As of 30 September 2018** | **2,386** | **1,640** | **503** | **46** | **6** | **340** | **4,921** |

## b) Property, plant and equipment

Property, plant and equipment are comprised of the following:

| (EUR million) | 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 September 2018** | **89** | **3,632** | **105** | **102** | **3,928** |

## c) Trade and other receivables

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

| | As of 30 September 2018 | | As of 31 December 2017 | |
|---|---|---|---|---|
| (EUR million) | Non-current | Current | Non-current | Current |
| Trade receivables | 56 | 1,189 | 76 | 1,272 |
| Receivables from related parties | – | 31 | – | 77 |
| Other receivables | – | 31 | – | 58 |
| Allowances for bad debts | – | (69) | (7) | (142) |
| **Trade and other receivables** | **56** | **1,183** | **69** | **1,265** |

## d) Other non-financial assets

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

| | As of 30 September 2018 | | As of 31 December 2017 | |
|---|---|---|---|---|
| (EUR million) | Non-current | Current | Non-current | Current |
| Prepayments | 113 | 155 | 129 | 107 |
| Prepayments to related parties | – | 0 | – | 0 |
| Capitalised costs of obtaining contracts | 104 | 327 | – | – |
| Contract asset | 4 | 16 | – | – |
| Other tax receivables | – | 1 | – | 79 |
| **Other non-financial assets** | **221** | **499** | **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:

| | As of 30 September 2018 | | As of 31 December 2017 | |
|---|---|---|---|---|
| (EUR million) | Non-current | Current | Non-current | Current |
| Bonds | 1,099 | 620 | 504 | 613 |
| Promissory notes and registered bonds | 474 | 78 | 299 | 4 |
| Loans | 450 | 1 | 450 | 0 |
| Finance leases | 24 | 8 | 15 | 19 |
| Contribution and compensation obligations | – | – | – | 2 |
| **Interest-bearing debt** | **2,047** | **706** | **1,268** | **637** |

**Bonds**
Telefónica Deutschland Group issued a further bond on 5 July 2018. It has a nominal volume of EUR 600 million, bears a fixed rate of 1.75% and matures on 5 July 2025. The senior unsecured seven-year bond was issued by O2 Telefónica Deutschland Finanzierungs GmbH, Munich, and is guaranteed by Telefónica Deutschland Holding AG. It has a denomination of EUR 100,000 and was issued on the basis of the bond prospectus. The bond serves to refinance the bond due in November and for general corporate purposes. It is recognised at amortised cost using the effective interest method.

**Promissory notes/registered bond**
In February 2018, Telefónica 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 fixed interest rates as well as terms of 5 and 7 years with variable and fixed interest rates and a 10-year tranche with a fixed interest rate. The respective interest rates for the fixed 5-, 7- and 10-year tranches are 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.

**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 September 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 September 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. The facility serves general business purposes. Its term has been extended by one year to 31 July 2019. As of 30 September 2018, the credit facility had not been used.

## f) Trade and other payables and deferred income

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

| | As of 30 September 2018 | | As of 31 December 2017 | |
|---|---|---|---|---|
| (EUR million) | Non-current | Current | Non-current | Current |
| Trade payables to third parties | – | 557 | – | 773 |
| Accruals for unbilled trade payables | 17 | 942 | 17 | 842 |
| Payables to related parties | – | 323 | – | 374 |
| **Trade payables** | **17** | **1,822** | **17** | **1,989** |
| Other payables non-trade | 1 | 171 | 1 | 125 |
| Other payables to related parties | 0 | 61 | – | 40 |
| Miscellaneous payables | – | 72 | – | 69 |
| **Other payables** | 1 | 304 | 1 | 235 |
| **Trade and other payables** | **19** | **2,125** | **19** | **2,224** |
| | | | | |
| **Deferred income** | **201** | **484** | **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.

Miscellaneous 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 September 2018 | | As of 31 December 2017 | |
|---|---|---|---|---|
| (EUR million) | Non-current | Current | Non-current | Current |
| Pension obligations | 160 | – | 151 | – |
| Restructuring | 26 | 54 | 43 | 64 |
| Asset retirement obligations | 332 | 79 | 378 | 73 |
| Other provisions | 35 | 6 | 28 | 6 |
| **Provisions** | **553** | **139** | **599** | **142** |

# 6. Selected Explanatory Notes to the Consolidated Income Statement

## a) Revenues

Revenues are comprised of the following:

| (EUR million) | 1 July to 30 September 2018 | 1 July to 30 September 2017 | 1 January to 30 September 2018 | 1 January to 30 September 2017 |
|---|---|---|---|---|
| Rendering of services | 1,530 | 1,558 | 4,519 | 4,608 |
| Other revenues | 300 | 293 | 836 | 784 |
| **Revenues** | **1,830** | **1,850** | **5,355** | **5,392** |

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:

| (EUR million) | 1 July to 30 September 2018 | 1 July to 30 September 2017 | 1 January to 30 September 2018 | 1 January to 30 September 2017 |
|---|---|---|---|---|
| Mobile business | 1,638 | 1,634 | 4,764 | 4,727 |
| Mobile service revenues | 1,339 | 1,344 | 3,937 | 3,954 |
| Handset revenues | 299 | 290 | 827 | 772 |
| Fixed line/DSL business revenues | 191 | 214 | 582 | 654 |
| Other revenues | 1 | 2 | 9 | 11 |
| **Revenues** | **1,830** | **1,850** | **5,355** | **5,392** |

## b) Other expenses

| (EUR million) | 1 July to 30 September 2018 | 1 July to 30 September 2017 | 1 January to 30 September 2018 | 1 January to 30 September 2017 |
|---|---|---|---|---|
| Other third-party services | 544 | 546 | 1,631 | 1,613 |
| Other operating expenses | 23 | 17 | 72 | 82 |
| Allowance for current assets | 3 | 0 | 6 | 3 |
| Advertising | 65 | 72 | 187 | 214 |
| **Other expenses** | **635** | **635** | **1,897** | **1,913** |

### c) Depreciation and amortisation

Depreciation and amortisation are as follows:

| | 1 July to 30 September | | 1 January to 30 September | |
|---|---|---|---|---|
| (EUR million) | **2018** | 2017 | **2018** | 2017 |
| Depreciation of property, plant and equipment | 221 | 223 | 653 | 686 |
| Amortisation of intangible assets | 258 | 253 | 763 | 754 |
| **Depreciation and amortisation** | **479** | **476** | **1,416** | **1,440** |

# 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 September 2018

Financial assets

| (EUR million) | Hedging relationships (no measurement category according to the meaning of IFRS 9) | Financial assets measured at fair value through profit or loss | Financial assets measured at fair value through other comprehensive income | Financial assets measured at amortised cost | Measurement hierarchy<br>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 trade and other receivables (Note 5c) | – | – | 56 | – | – | 56 | – | 56 | 56 | – |
| Other non-current financial assets | 5 | 0 | – | 13 | – | 18 | 0 | 19 | 19 | 72 |
| *thereof derivatives* | 5 | – | – | – | – | 5 | – | 5 | 5 | – |
| *thereof investments in start-ups* | – | 0 | – | – | – | – | 0 | 0 | 0 | – |
| *thereof other* | – | – | – | 13 | – | 13 | – | 13 | 13 | – |
| Current trade and other receivables (Note 5c) | – | – | 597 | 585 | – | 1,181 | – | 1,181 | 1,181 | 2 |
| Other current financial assets | 3 | – | – | 8 | – | 12 | – | 12 | 12 | – |
| *thereof derivatives* | 3 | – | – | – | – | 3 | – | 3 | 3 | – |
| *thereof other* | – | – | – | 8 | – | 8 | – | 8 | 8 | – |
| Assets held for sale | – | 37 | – | – | – | 37 | – | 37 | 37 | – |
| Cash and cash equivalents | – | – | – | 932 | – | 932 | – | 932 | 932 | – |
| **Total** | **8** | **37** | **653** | **1,539** | **–** | **2,237** | **0** | **2,237** | **2,237** | **74** |

As of 31 December 2017

Financial assets

| (EUR million) | 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<br>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 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 September 2018, EUR 5 million of other non-current financial assets and EUR 3 million of other current financial assets were designated to 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.

Held-for-sale assets were measured at fair value through profit or loss with a value of EUR 37 million. They were classified as Level 2.

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 September 2018 were categorised as financial assets measured at amortised cost.

New classification of financial assets according to IFRS 9:

| (EUR million) | Footnote | Original categorisation under IAS 39 | New classification 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 or loss | 18 | – | 18 | – |
| Other financial assets, thereof other | | Loans and receivables | Financial assets measured at amortised cost | 12 | 13 | 12 | 13 |
| Cash and cash equivalents | | Loans and receivables | Financial assets measured at amortised cost | – | 587 | – | 587 |

The reporting requirements of the Group 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 September 2018

Financial liabilities

| (EUR million) | Hedging relationship (no measurement category according to the meaning of IFRS 9) | Financial liabilities at fair value through profit or loss | Financial liabilities at amortised cost | Finance leases | 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 interest-bearing debt (Note 5e) | 156 | – | 1,867 | 24 | 1,131 | 947 | – | 2,047 | 2,077 | – |
| Non-current trade and other payables (Note 5f) | – | – | 17 | – | – | 17 | – | 17 | 17 | 1 |
| Current interest-bearing debt (Note 5e) | 200 | – | 498 | 8 | 608 | 106 | – | 706 | 714 | – |
| Current trade and other payables (Note 5f) | – | – | 2,070 | – | – | 2,070 | – | 2,070 | 2,070 | 56 |
| Liabilities held for sale | – | 4 | – | – | – | 4 | – | 4 | 4 | – |
| **Total** | **357** | **4** | **4,452** | **31** | **1,739** | **3,143** | **–** | **4,844** | **4,882** | **57** |

As of 31 December 2017

Financial liabilities

| (EUR million) | Hedging relationship (no measurement category according to the meaning of IFRS 39) | Financial liabilities at amortised cost | Finance leases | 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 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 September 2018, EUR 156 million of non-current interest-bearing debt and EUR 200 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, the non-current and current interest-bearing debt as of 30 September 2018 contains promissory notes and registered bonds with a nominal value totalling around EUR 550 million and the utilisation of a credit facility amounting to EUR 450 million, together with the bond issued in 2018 with a nominal volume of 600 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. Assets and Liabilities Held for Sale

By contract dated 14 September 2018, E-Plus Service GmbH sold all shares in Shortcut I GmbH & Co. KG. Since, pursuant to the terms of the contract, the loss of control had not yet taken place by 30 September 2018, the shares in Shortcut I GmbH & Co. KG are recognised on the closing date in accordance with IFRS 5 as assets held for sale, while the corresponding liabilities to minority interests are reported as liabilities held for sale. They were again measured under IFRS 9 in accordance with IFRS 5.

# 10. Subsequent Events

**Sale of Shares in Shortcut I GmbH & Co. KG**
The sale of all shares in Shortcut I GmbH & Co. KG was completed formally and legally effective 8 October 2018. Given the loss of control associated with the transaction, the company will be deconsolidated from this date onwards.

**Proposed dividend for financial year 2018**
On 29 October 2018, the Management Board of Telefónica Deutschland decided to propose approval of payment of a cash dividend of EUR 0.27 per share to the next Annual General Meeting.

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

Munich, 7 November 2018

Telefónica Deutschland Holding AG

Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Guido Eidmann

Nicole Gerhardt

Alfons Lösing

Cayetano Carbajo Martín

Wolfgang Metze