

Interim Condensed  
Consolidated Financial  
Statements\_  
for the period 1 January  
to 31 March 2017

# Consolidated Statements of Financial Position\_

| Assets (Euros in millions)    | Notes | As of 31 March 2017 | As of 31 December 2016 |
|-------------------------------|-------|---------------------|------------------------|
| <b>A) Non-current assets</b>  |       | <b>12,752</b>       | <b>13,055</b>          |
| Goodwill                      |       | 1,932               | 1,932                  |
| Other intangible assets       | [5a]  | 6,047               | 6,215                  |
| Property, plant and equipment | [5b]  | 4,101               | 4,217                  |
| Trade and other receivables   | [5c]  | 60                  | 77                     |
| Other financial assets        |       | 54                  | 60                     |
| Other non-financial assets    | [5d]  | 132                 | 128                    |
| Deferred tax assets           |       | 427                 | 427                    |
| <b>B) Current assets</b>      |       | <b>2,141</b>        | <b>2,246</b>           |
| Inventories                   |       | 91                  | 85                     |
| Trade and other receivables   | [5c]  | 1,158               | 1,460                  |
| Other financial assets        |       | 21                  | 25                     |
| Other non-financial assets    | [5d]  | 260                 | 63                     |
| Cash and cash equivalents     |       | 612                 | 613                    |
| <b>Total assets (A+B)</b>     |       | <b>14,893</b>       | <b>15,301</b>          |

| Equity and Liabilities (Euros in millions)  | Notes | As of 31 March 2017 | As of 31 December 2016 |
|---|-------|---------------------|------------------------|
| <b>A) Equity</b>                            |       | <b>9,320</b>        | <b>9,408</b>           |
| Subscribed capital                          |       | 2,975               | 2,975                  |
| Additional paid-in capital                  |       | 4,800               | 4,800                  |
| Retained earnings                           |       | 1,546               | 1,634                  |
| Equity attributable to owners of the parent |       | 9,320               | 9,408                  |
| <b>B) Non-current liabilities</b>           |       | <b>2,599</b>        | <b>2,637</b>           |
| Interest-bearing debt                       | [5e]  | 1,720               | 1,721                  |
| Trade and other payables                    | [5f]  | 16                  | 17                     |
| Provisions                                  | [5g]  | 550                 | 561                    |
| Deferred income                             | [5f]  | 314                 | 338                    |
| <b>C) Current liabilities</b>               |       | <b>2,973</b>        | <b>3,256</b>           |
| Interest-bearing debt                       | [5e]  | 28                  | 37                     |
| Trade and other payables                    | [5f]  | 2,239               | 2,286                  |
| Provisions                                  | [5g]  | 148                 | 190                    |
| Other non-financial liabilities             |       | 54                  | 79                     |
| Deferred income                             | [5f]  | 504                 | 664                    |
| <b>Total equity and liabilities (A+B+C)</b> |       | <b>14,893</b>       | <b>15,301</b>          |

# Consolidated Income Statements\_

| (Euros in millions)  | Notes | 1 January to 31 March |               |
|--|-------|-----------------------|---------------|
|  |       | 2017                  | 2016          |
| Revenues   | [6a]  | 1,771                 | 1,858         |
| Other income   |       | 28                    | 31            |
| Supplies   |       | (585)                 | (629)         |
| Personnel expenses   |       | (155)                 | (173)         |
| Other expenses   |       | (669)                 | (707)         |
| <b>Operating income before depreciation and amortisation (OIBDA)</b>     |       | <b>390</b>            | <b>379</b>    |
| Depreciation and amortisation  | [6b]  | (481)                 | (540)         |
| <b>Operating income</b>  |       | <b>(91)</b>           | <b>(161)</b>  |
| Finance income   |       | 1                     | 2             |
| Exchange gains   |       | 0                     | 1             |
| Finance costs  |       | (9)                   | (11)          |
| Exchange losses  |       | (0)                   | (1)           |
| <b>Net financial income/(expense)</b>                                    |       | <b>(8)</b>            | <b>(8)</b>    |
| <b>Profit/(loss) before tax</b>  |       | <b>(99)</b>           | <b>(170)</b>  |
| Income tax   |       | (0)                   | 0             |
| <b>Profit/(loss) for the period</b>                                      |       | <b>(99)</b>           | <b>(170)</b>  |
| <b>Profit/(loss) for the period attributable to owners of the parent</b> |       | <b>(99)</b>           | <b>(170)</b>  |
| <b>Profit/(loss) for the period</b>                                      |       | <b>(99)</b>           | <b>(170)</b>  |
| <b>Earnings per share</b>  |       |                       |               |
| <b>Basic earnings per share in EUR</b>                                   |       | <b>(0.03)</b>         | <b>(0.06)</b> |
| <b>Diluted earnings per share in EUR</b>                                 |       | <b>(0.03)</b>         | <b>(0.06)</b> |

# Consolidated Statements of Comprehensive Income\_

| (Euros in millions)  | Notes | 1 January to 31 March |              |
|--|-------|-----------------------|--------------|
|  |       | 2017                  | 2016         |
| <b>Profit/(loss) for the period</b>  |       | <b>(99)</b>           | <b>(170)</b> |
| <b>Total other comprehensive income/(loss)</b>   |       |                       |              |
| <b>Items that will not be reclassified to profit/(loss)</b>                                  |       | <b>10</b>             | <b>(35)</b>  |
| Remeasurement of defined benefit plans   |       | 10                    | (35)         |
| <b>Total other comprehensive income/(loss)</b>   |       | <b>10</b>             | <b>(35)</b>  |
| <b>Total comprehensive income/(loss)</b>   |       | <b>(89)</b>           | <b>(204)</b> |
| <b>Total comprehensive income/(loss) for the period attributable to owners of the parent</b> |       | <b>(89)</b>           | <b>(204)</b> |
| <b>Total comprehensive income/(loss)</b>   |       | <b>(89)</b>           | <b>(204)</b> |

# 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        |
|--|--------------------|----------------------------|-------------------|---|---------------|
| <b>Financial position as of 1 January 2016</b> | <b>2,975</b>       | <b>4,800</b>               | <b>2,546</b>      | <b>10,321</b>                               | <b>10,321</b> |
| Profit/(loss) for the period                   | –                  | –                          | (170)             | (170)                                       | (170)         |
| Total other comprehensive income/(loss)        | –                  | –                          | (35)              | (35)  | (35)          |
| <b>Total comprehensive income/(loss)</b>       | <b>–</b>           | <b>–</b>                   | <b>(204)</b>      | <b>(204)</b>                                | <b>(204)</b>  |
| Other movements <sup>1</sup>                   | –                  | –                          | 1                 | 1   | 1             |
| <b>Financial position as of 31 March 2016</b>  | <b>2,975</b>       | <b>4,800</b>               | <b>2,343</b>      | <b>10,117</b>                               | <b>10,117</b> |
| <b>Financial position as of 1 January 2017</b> | <b>2,975</b>       | <b>4,800</b>               | <b>1,634</b>      | <b>9,408</b>                                | <b>9,408</b>  |
| Profit/(loss) for the period                   | –                  | –                          | (99)              | (99)  | (99)          |
| Total other comprehensive income/(loss)        | –                  | –                          | 10                | 10  | 10            |
| <b>Total comprehensive income/(loss)</b>       | <b>–</b>           | <b>–</b>                   | <b>(89)</b>       | <b>(89)</b>                                 | <b>(89)</b>   |
| Other movements <sup>1</sup>                   | –                  | –                          | 1                 | 1   | 1             |
| <b>Financial position as of 31 March 2017</b>  | <b>2,975</b>       | <b>4,800</b>               | <b>1,546</b>      | <b>9,320</b>                                | <b>9,320</b>  |

<sup>1</sup> 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 31 March |              |
|--|------------------|-----------------------|--------------|
|  |                  | 2017                  | 2016         |
| <b>Cash flows from operating activities</b>                                    |                  |                       |              |
| <b>Profit/(loss) for the period</b>  |                  | <b>(99)</b>           | <b>(170)</b> |
| <b>Adjustments to profit/(loss)</b>  |                  |                       |              |
| Net financial income/(expense)   |                  | 8                     | 8            |
| Gains on disposal of assets  |                  | (1)                   | 0            |
| Net income tax expense   |                  | (0)                   | 0            |
| Depreciation and amortisation  | [6b]             | 481                   | 540          |
| <b>Changes in working capital and others</b>                                   |                  |                       |              |
| Other non-current assets   | [5a], [5b], [5c] | 13                    | 53           |
| Other current assets   | [5a], [5b], [5c] | 100                   | (217)        |
| Other non-current liabilities and provisions                                   | [5d], [5e], [5f] | (16)                  | (6)          |
| Other current liabilities and provisions                                       | [5d], [5e], [5f] | (214)                 | (11)         |
| <b>Others</b>  |                  |                       |              |
| Taxes paid   |                  | (0)                   | –            |
| Interest received  |                  | 4                     | 4            |
| Interest paid  |                  | (18)                  | (22)         |
| <b>Cash flows from operating activities</b>                                    |                  | <b>257</b>            | <b>180</b>   |
| <b>Cash flows from investing activities</b>                                    |                  |                       |              |
| Proceeds from disposals of property, plant and equipment and intangible assets |                  | 1                     | (0)          |
| Payments on investments relating to mobile phone frequency auctions            |                  | –                     | (1)          |
| Payments on investments in property, plant and equipment and intangible assets | [5a]             | (267)                 | (197)        |
| Proceeds from financial assets   |                  | 11                    | –            |
| Payments for financial assets  |                  | (2)                   | (4)          |
| <b>Cash flows from investing activities</b>                                    |                  | <b>(258)</b>          | <b>(201)</b> |
| <b>Cash flows from financing activities</b>                                    |                  |                       |              |
| Proceeds from interest-bearing debt  | [5d]             | –                     | 250          |
| Repayment of interest-bearing debt <sup>1</sup>                                | [5d]             | (0)                   | (275)        |
| <b>Cash flows from financing activities</b>                                    |                  | <b>(0)</b>            | <b>(25)</b>  |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                    |                  | <b>(1)</b>            | <b>(47)</b>  |
| <b>Cash and cash equivalents at the beginning of the period</b>                |                  | <b>613</b>            | <b>533</b>   |
| <b>Cash and cash equivalents at the end of the period</b>                      |                  | <b>612</b>            | <b>486</b>   |

1 Payments for the repayment of interest-bearing debt included payments related to finance leases of EUR 0.1 million for the three months ended 31 March 2017 and EUR 64 million for the three months ended 31 March 2016.

Condensed Notes to  
the Interim Condensed  
Consolidated Financial  
Statements\_  
for the period 1 January  
to 31 March 2017

**1.****Reporting Entity**

The interim condensed consolidated financial statements (hereinafter “interim condensed consolidated financial statements”) of Telefónica Deutschland Holding AG have been prepared for the three months ended 31 March 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 the “Telefónica Deutschland Group” or the “Group”).

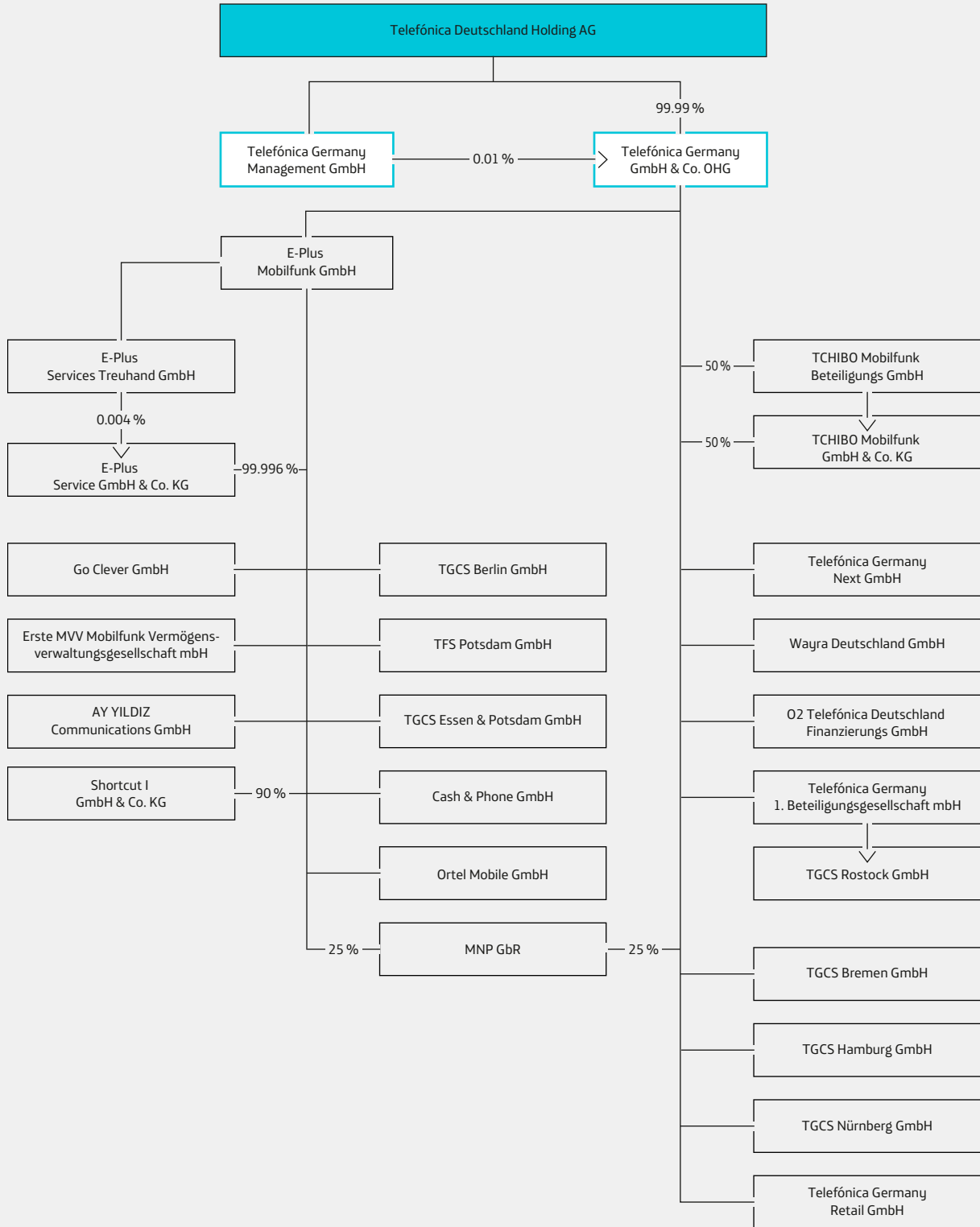
Telefónica Deutschland Holding AG is a stock corporation (AG) incorporated under German law.

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

As of 31 March 2017, 21.32 % of the shares were in free float. 69.22 % 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 9.46 % were held by Koninklijke KPN N.V., The Hague, Netherlands (KPN).



As of 31 March 2017, the companies included in the interim condensed consolidated financial statements of the Telefónica Deutschland Group were organised as shown in the following organisation chart:



Unless otherwise stated, the ownership interests are 100%.

In the first quarter of the financial year 2017, Telefónica Germany Customer Services GmbH changed its name to TGCS Rostock GmbH, TGCS Bremen Contact Center GmbH to TGCS Bremen GmbH, TGCS Hamburg Contact Center GmbH to TGCS Hamburg GmbH, TGCS Nürnberg Contact Center GmbH to TGCS Nürnberg GmbH, E-Plus Customer Operations GmbH to TGCS Berlin GmbH, E-Plus Financial Services GmbH to TFS Potsdam GmbH and E-Plus Customer Support GmbH to TGCS Essen & Potsdam GmbH.

## 2.

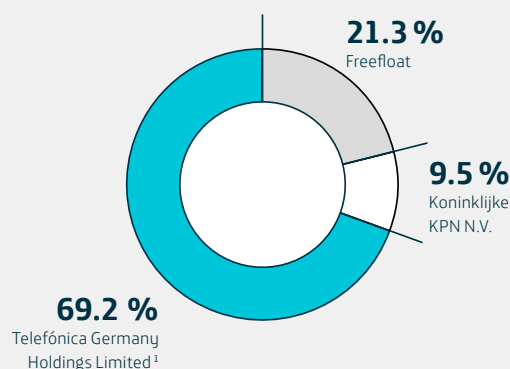
### Significant Events and Transactions during the Reporting Period

#### Shareholders' Meeting

On 28 March 2017, the Management Board of Telefónica Deutschland convened the Shareholders' Meeting for the financial year 2016 on 9 May 2017. The agenda included the Supervisory Board election of all shareholder representatives. The Supervisory Board proposed that current shareholder representatives be re-elected. For further information regarding the Shareholders' Meeting, refer to Note 9, Subsequent Events.

#### 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. This transaction has already taken place and thus, the new shareholder structure of Telefónica Deutschland as of 31 March 2017 is as follows:



<sup>1</sup> Telefónica Germany Holdings Limited is a 100% subsidiary of Telefónica, S.A.

## 3.

### Basis of Preparation

The interim condensed consolidated financial statements of Telefónica Deutschland Holding AG are prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting. 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 condensed consolidated financial statements as of 31 March 2017 are unaudited.

**Functional currency and presentation currency**

The interim condensed 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 condensed 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 condensed consolidated financial statements requires management to establish accounting policies that contain estimates and assumptions that affect the amounts reported in the interim condensed consolidated financial statements and accompanying notes. 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.

During the three months ended 31 March 2017, management believes there have been no significant changes to the items that we disclosed within our critical accounting policies and estimates in Note 4, Accounting Policies in our consolidated financial statements for the year ended 31 December 2016.

For further information, please refer to the consolidated financial statements for the year ended 31 December 2016 (Note 4, Accounting Policies).

**Comparative information**

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

The condensed consolidated income statements and the condensed consolidated statements of comprehensive income relate to the three months ended 31 March 2017 and 31 March 2016. The condensed consolidated statements of cash flows and the condensed consolidated statements of changes in equity compare the three months ended 31 March 2017 to the three months ended 31 March 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 significantly differ from those included in the consolidated financial statements for the 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 <sup>1</sup>                                     |
| Amendments to IAS 7                       | Disclosure Initiative   | 1 January 2017 <sup>1</sup>                                     |
| Annual Improvements 2014 – 2016 Cycle     | Amendments to IFRS 12   | 1 January 2017 <sup>1</sup>                                     |
| Annual Improvements 2014 – 2016 Cycle     | Amendments to IFRS 1 and IAS 28   | 1 January 2018 <sup>1</sup>                                     |
| Amendments to IAS 40                      | Transfers of Investment Property  | 1 January 2018 <sup>1</sup>                                     |
| IFRIC Interpretation 22                   | Foreign Currency Transactions and Advance Consideration                               | 1 January 2018 <sup>1</sup>                                     |
| Amendments to IFRS 2                      | Classification and Measurement of Share-based Payment Transactions                    | 1 January 2018 <sup>1</sup>                                     |
| IFRS 15                                   | Revenue from Contracts with Customers   | 1 January 2018  |
| Clarifications to IFRS 15                 | Revenue from Contracts with Customers   | 1 January 2018 <sup>1</sup>                                     |
| IFRS 9                                    | Financial Instruments   | 1 January 2018  |
| IFRS 16                                   | Leases  | 1 January 2019 <sup>1</sup>                                     |
| Amendments to IFRS 10 and IAS 28          | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 2   |

1 Endorsement by EU still outstanding, information for first-time adoption according to IASB.

2 First-time adoption postponed indefinitely according to IASB resolution of 17 December 2015.

For a comprehensive description of the new standards, amendments to standards and interpretations applicable for the Group, please refer to the disclosures in the consolidated financial statements for the year ended 31 December 2016 (see Note 4, Accounting Policies). An assessment of the expected impact on the net assets, financial position and result of operations of the Group is provided therein; the assessment continues to apply to the interim consolidated financial statements as of 31 March 2017.

## 5.

### Selected Notes to the Condensed Consolidated Statements of Financial Position

#### a) Other intangible assets

The other intangible assets are comprised of the following:

| (Euros in millions)    | Service concession arrangements and licences | 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 31 March 2017    | 3,004  | 2,131         | 482      | 58          | 18     | 354   | 6,047                   |

**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 31 March 2017    | 161                | 3,737               | 85                               | 118              | 4,101                         |

**c) Trade and other receivables**

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

| (Euros in millions)                | As of 31 March 2017 |              | As of 31 December 2016 |              |
|------------------------------------|---------------------|--------------|------------------------|--------------|
|                                    | Non-current         | Current      | Non-current            | Current      |
| Trade receivables                  | 66                  | 1,284        | 84                     | 1,591        |
| Receivables from related parties   | –                   | 39           | –                      | 42           |
| Other receivables                  | –                   | 20           | –                      | 19           |
| Allowances for bad debts           | (5)                 | (186)        | (7)                    | (192)        |
| <b>Trade and other receivables</b> | <b>60</b>           | <b>1,158</b> | <b>77</b>              | <b>1,460</b> |

**d) Other non-financial assets**

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

| (Euros in millions)                | As of 31 March 2017 |            | As of 31 December 2016 |           |
|------------------------------------|---------------------|------------|------------------------|-----------|
|                                    | Non-current         | Current    | Non-current            | Current   |
| Prepayments                        | 132                 | 255        | 128                    | 61        |
| Prepayments to related parties     | –                   | 4          | –                      | 1         |
| Tax receivables for indirect taxes | –                   | 1          | –                      | 1         |
| <b>Other non-financial assets</b>  | <b>132</b>          | <b>260</b> | <b>128</b>             | <b>63</b> |

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

### e) Interest-bearing debt

Interest-bearing debt consists of the following:

| (Euros in millions)                       | As of 31 March 2017 |           | As of 31 December 2016 |           |
|---|---------------------|-----------|------------------------|-----------|
|   | Non-current         | Current   | Non-current            | Current   |
| Bonds                                     | 1,106               | 6         | 1,107                  | 12        |
| Promissory notes and registered bonds     | 299                 | 0         | 299                    | 4         |
| Loans                                     | 298                 | 0         | 298                    | 0         |
| Finance leases                            | 17                  | 15        | 17                     | 15        |
| Contribution and compensation obligations | –                   | 6         | –                      | 6         |
| <b>Interest-bearing debt</b>              | <b>1,720</b>        | <b>28</b> | <b>1,721</b>           | <b>37</b> |

#### Loans

The Group entered into a EUR 750 million revolving syndicated loan facility (revolving credit facility or RCF) on 22 March 2016. The maturity of this syndicated loan facility was extended for the first time in February 2017 by one year to March 2022 and includes the option to renew for one additional year through March 2023. Due to the long-term nature of the committed line of credit, the relevant loans from the syndicated loan facility are included in non-current financial liabilities. As of 31 March 2017, EUR 50 million (31 December 2016: EUR 50 million) of the revolving credit facility were outstanding.

On 13 June 2016, the Telefónica Deutschland Group signed a EUR 450 million financial agreement with the European Investment Bank (EIB). EUR 250 million of the facility with a fixed interest rate had been drawn as of 31 March 2017 (31 December 2016: EUR 250 million). The funds are intended to finance the consolidation, modernisation and expansion of the Telefónica Deutschland Group's mobile network after the acquisition of the E-Plus Group. The funds already provided by the EIB are due by December 2024 and will be repaid annually in equal instalments of EUR 41.67 million starting in December 2019. The remaining credit facility may be drawn on via floating- or fixed-rate tranches. The interest rates of the fixed-rate tranches are determined according to the principles defined by the bodies of the European Investment Bank for loans of the same type.

## f) Trade and other payables and deferred income

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

| (Euros in millions)                  | As of 31 March 2017 |              | As of 31 December 2016 |              |
|--------------------------------------|---------------------|--------------|------------------------|--------------|
|                                      | Non-current         | Current      | Non-current            | Current      |
| Trade payables against third parties | –                   | 832          | –                      | 897          |
| Accruals                             | 14                  | 839          | 15                     | 783          |
| Payables to related parties          | –                   | 403          | –                      | 425          |
| <b>Trade payables</b>                | <b>14</b>           | <b>2,074</b> | <b>15</b>              | <b>2,105</b> |
| Other creditors non-trade            | 2                   | 61           | 2                      | 81           |
| Other payables to related parties    | –                   | 43           | –                      | 41           |
| Other payables                       | –                   | 61           | –                      | 58           |
| <b>Other payables</b>                | <b>2</b>            | <b>165</b>   | <b>2</b>               | <b>181</b>   |
| <b>Trade and other payables</b>      | <b>16</b>           | <b>2,239</b> | <b>17</b>              | <b>2,286</b> |
| <b>Deferred income</b>               | <b>314</b>          | <b>504</b>   | <b>338</b>             | <b>664</b>   |

Current trade payables to third parties include the present value of the outstanding payment obligations from the mobile phone frequency auction in the amount of EUR 110 million.

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

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

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

Deferred income primarily includes advanced payments received for prepaid credits and other advanced 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 advanced payments received for future service performance and the payment received from Drillisch are presented by maturity according to their expected utilisations. Advanced payments received for prepaid credits are exclusively classified as current.

### g) Provisions

Provisions are recorded at the following amounts:

| (Euros in millions)          | As of 31 March 2017 |            | As of 31 December 2016 |            |
|------------------------------|---------------------|------------|------------------------|------------|
|                              | Non-current         | Current    | Non-current            | Current    |
| Pension obligations          | 98                  | –          | 106                    | –          |
| Restructuring                | 19                  | 91         | 20                     | 127        |
| Asset retirement obligations | 397                 | 48         | 400                    | 57         |
| Other provisions             | 36                  | 9          | 35                     | 5          |
| <b>Provisions</b>            | <b>550</b>          | <b>148</b> | <b>561</b>             | <b>190</b> |

The Telefónica Deutschland Group's provisions have decreased from 31 December 2016, particularly due to lower pension obligations, lower restructuring obligations and lower asset retirement obligations. The change in restructuring obligations mainly results from the planned utilisation, while the reduction of the pension obligations and the asset retirement obligations is primarily attributable to the current interest rate trend.

For further information, please refer to the consolidated financial statements for the year ended 31 December 2016 (see Note 5.12, Provisions).

## 6.

### Selected Explanatory Notes to the Condensed Consolidated Income Statements

#### a) Revenues

Revenues are comprised of the following:

| (Euros in millions)   | 1 January to 31 March |              |
|-----------------------|-----------------------|--------------|
|                       | 2017                  | 2016         |
| Rendering of services | 1,515                 | 1,589        |
| Other revenues        | 256                   | 268          |
| <b>Revenues</b>       | <b>1,771</b>          | <b>1,858</b> |

Revenues from the rendering of services include mobile service revenues as well as revenues from fixed line/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 line/DSL business is shown in the following table:

| (Euros in millions)     | 1 January to 31 March |              |
|-------------------------|-----------------------|--------------|
|                         | 2017                  | 2016         |
| Mobile business         | 1,545                 | 1,603        |
| Mobile service revenues | 1,292                 | 1,336        |
| Handset revenues        | 252                   | 267          |
| Fixed line/DSL business | 223                   | 253          |
| Other revenues          | 4                     | 2            |
| <b>Revenues</b>         | <b>1,771</b>          | <b>1,858</b> |

### b) Depreciation and amortisation

Depreciation and amortisation are as follows:

| (Euros in millions)                           | 1 January to 31 March |            |
|---|-----------------------|------------|
|   | 2017                  | 2016       |
| Depreciation of property, plant and equipment | 231                   | 235        |
| Amortisation of intangible assets             | 250                   | 305        |
| <b>Depreciation and amortisation</b>          | <b>481</b>            | <b>540</b> |

## 7.

### Measurement Categories of Financial Assets and Financial Liabilities

The following tables summarise the fair value of all financial assets and financial liabilities of the Telefónica Deutschland Group in accordance with the measurement categories of IAS 39 and the requirements of IFRS 13.

As of 31 March 2017, the carrying amount of the financial assets and financial liabilities represented an appropriate approximation for the fair value (with the exception of the portion of the bonds that is not hedged – see below).

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

In addition, the tables show the classification of the financial assets and financial liabilities based on the lowest level of input that is significant to the fair value 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 should be adjusted if reasonably available information indicates that other market participants would use different data.

As of 31 March 2017

Financial assets

| (Euros in millions)                               | Measurement hierarchy                                 |                                     |                                   |                       |                         |   |  | Total carrying amount | Total fair value | Not in scope of IFRS 7 |
|---|---|-------------------------------------|-----------------------------------|-----------------------|-------------------------|---|--|-----------------------|------------------|------------------------|
|   | 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) |                       |                  |                        |
| Non-current trade and other receivables (Note 5c) | –   | –                                   | –                                 | 60                    | –                       | –   | –  | 60                    | 60               | –                      |
| Other non-current financial assets                | 11  | 23                                  | –                                 | 11                    | –                       | 11  | 23   | 44                    | 44               | 10                     |
| Current trade and other receivables (Note 5c)     | –   | –                                   | –                                 | 1,157                 | –                       | –   | –  | 1,157                 | 1,157            | 1                      |
| Current other financial assets                    | 1   | –                                   | –                                 | 19                    | –                       | 1   | –  | 21                    | 21               | –                      |
| Cash and cash equivalents                         | –   | –                                   | –                                 | 612                   | –                       | –   | –  | 612                   | 612              | –                      |
| <b>Total</b>                                      | <b>12</b>   | <b>23</b>                           | <b>–</b>                          | <b>1,859</b>          | <b>–</b>                | <b>12</b>   | <b>23</b>  | <b>1,894</b>          | <b>1,894</b>     | <b>11</b>              |

As of 31 December 2016

Financial assets

| (Euros in millions)                               | Measurement hierarchy                                 |                                     |                                   |                       |                         |   |  | Total carrying amount | Total fair value | Not in scope of IFRS 7 |
|---|---|-------------------------------------|-----------------------------------|-----------------------|-------------------------|---|--|-----------------------|------------------|------------------------|
|   | 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) |                       |                  |                        |
| 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              | –                      |
| <b>Total</b>                                      | <b>14</b>   | <b>21</b>                           | <b>–</b>                          | <b>2,189</b>          | <b>–</b>                | <b>14</b>   | <b>21</b>  | <b>2,224</b>          | <b>2,224</b>     | <b>11</b>              |

| As of 31 March 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)    | 359  | 1,344                         | 17             | –                       | 359   | –  | 1,720                 | 1,771            | –                          |
| Non-current trade and other payables (Note 5f) | –  | 14                            | –              | –                       | –   | –  | 14                    | 14               | 2                          |
| Current interest-bearing debt (Note 5e)        | –  | 13                            | 15             | –                       | –   | –  | 28                    | 28               | –                          |
| Current trade and other payables (Note 5f)     | –  | 2,191                         | –              | –                       | –   | –  | 2,191                 | 2,191            | 48                         |
| <b>Total</b>                                   | <b>359</b>                                       | <b>3,562</b>                  | <b>32</b>      | <b>–</b>                | <b>359</b>  | <b>–</b>   | <b>3,953</b>          | <b>4,004</b>     | <b>50</b>                  |

| 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                         |
| <b>Total</b>                                   | <b>360</b>                                       | <b>3,599</b>                  | <b>32</b>      | <b>–</b>                | <b>360</b>  | <b>–</b>   | <b>3,991</b>          | <b>4,048</b>     | <b>70</b>                  |

At 31 March 2017, EUR 11 million of the non-current financial assets and EUR 1 million of the current financial assets are classified as financial assets at fair value through profit or loss. These relate to swap agreements in connection with the bonds.

In addition, EUR 23 million of the non-current financial assets are classified as available-for-sale financial assets. They relate to investments in start-ups and are classified as level 3, because reliable measurement using a market price is not possible. These entities generate start-up losses, and the existing business plans contain numerous unpredictable assumptions. Therefore, their fair value is determined based on IAS 39.46c at amortised cost. The increase of EUR 1 million relates only to investments in start-up companies as there were no gains or losses recognised in the current period.

All other financial assets as of 31 March 2017 are categorised as loans and receivables.

Please refer to the respective notes for further information. At 31 March 2017, EUR 359 million of the non-current interest-bearing debt is classified as financial liabilities at fair value through profit or loss and relates to the fair value hedges of the bonds. 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).

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

Please refer to the respective notes for further information.

## 8.

### Contingent Assets and Liabilities

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

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

## 9.

**Subsequent Events****Shareholders' Meeting**

The Shareholders' Meeting of Telefónica Deutschland for the financial year 2016 took place on 9 May 2017. In addition to presenting the annual financial statements and consolidated financial statements of Telefónica Deutschland, the resolutions adopted by the Shareholders' Meeting included a dividend payment of EUR 0.25 per entitled share, EUR 743,638,748.25 in total.

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

Munich, 12 May 2017

Telefónica Deutschland Holding AG

The Management Board



Markus Haas



Rachel Empey