Interim Condensed Consolidated Financial Statements_

for the period 1 January to 30 September 2016

Condensed Consolidated Statements of Financial Position_

Assets (Euros in millions)	Notes	**As of 30 September 2016**	As of 31 December 2015
A) Non-current assets		**13,331**	**14,406**
Goodwill	[6a]	1,932	1,955
Other intangible assets	[6b]	6,424	7,059
Property, plant and equipment	[6c]	4,170	4,507
Trade and other receivables	[6d]	99	157
Other financial assets		71	63
Other non-financial assets	[6e]	129	160
Deferred tax assets		505	505
B) Current assets		**2,087**	**2,248**
Inventories		76	123
Trade and other receivables	[6d]	1,560	1,520
Other financial assets		14	10
Other non-financial assets	[6e]	133	61
Cash and cash equivalents		304	533
Total assets (A+B)		**15,418**	**16,654**

Equity and Liabilities (Euros in millions)	Notes	**As of 30 September 2016**	As of 31 December 2015
A) Equity		**9,514**	**10,321**
Subscribed capital		2,975	2,975
Additional paid-in capital		4,800	4,800
Retained earnings		1,740	2,546
Equity attributable to owners of the parent		9,514	10,321
B) Non-current liabilities		**2,906**	**2,779**
Interest-bearing debt	[6f]	1,848	1,686
Trade and other payables	[6g]	41	154
Provisions	[6h]	649	516
Deferred income		368	424
C) Current liabilities		**2,998**	**3,554**
Interest-bearing debt	[6f]	60	568
Trade and other payables	[6g]	2,146	2,272
Provisions	[6h]	179	196
Other non-financial liabilities		108	48
Deferred income		504	471
Total equity and liabilities (A+B+C)		**15,418**	**16,654**

Condensed Consolidated Income Statements_

(Euros in millions)	Notes	1 July to 30 September 2016	1 July to 30 September 2015	1 January to 30 September 2016	1 January to 30 September 2015
Revenues	[7a]	1,876	1,979	5,567	5,828
Other income	[7b]	34	36	469	119
Supplies		(572)	(660)	(1,778)	(1,965)
Personnel expenses		(155)	(155)	(488)	(500)
Other expenses		(746)	(812)	(2,164)	(2,248)
Operating income before depreciation and amortisation (OIBDA)		**436**	**388**	**1,606**	**1,234**
Depreciation and amortisation		(533)	(512)	(1,602)	(1,545)
Operating income		**(96)**	**(124)**	**4**	**(312)**
Finance income		5	2	8	8
Exchange gains		0	0	0	2
Finance costs		(13)	(13)	(34)	(42)
Exchange losses		(0)	(0)	(1)	(3)
Net financial income/(expense)	[7c]	**(8)**	**(11)**	**(26)**	**(36)**
Loss before tax		**(104)**	**(134)**	**(21)**	**(347)**
Income tax		(0)	(0)	(0)	0
Total loss for the period		**(105)**	**(134)**	**(22)**	**(347)**
Loss for the period attributable to owners of the parent		**(105)**	**(134)**	**(22)**	**(347)**
Loss for the period		**(105)**	**(134)**	**(22)**	**(347)**
Loss per share					
Basic loss per share in EUR		**(0.04)**	**(0.05)**	**(0.01)**	**(0.12)**
Diluted loss per share in EUR		**(0.04)**	**(0.05)**	**(0.01)**	**(0.12)**

Condensed Consolidated Statements of Comprehensive Income_

	1 July to 30 September		1 January to 30 September	
(Euros in millions)	**2016**	2015	**2016**	2015
Loss for the period	**(105)**	**(134)**	**(22)**	**(347)**
Other comprehensive income/(loss)				
Items that will not be reclassified to profit/(loss)	**(15)**	**4**	**(74)**	**15**
Remeasurement of defined benefit plans	(15)	4	(74)	15
Total other comprehensive income/(loss)	**(15)**	**4**	**(74)**	**15**
Total comprehensive loss	**(119)**	**(130)**	**(95)**	**(332)**
Total comprehensive loss for the period attributable to owners of the parent	(119)	(130)	(95)	(332)
Total comprehensive loss	**(119)**	**(130)**	**(95)**	**(332)**

Condensed Consolidated Statements of Changes in Equity_

(Euros in millions)	Subscribed capital	Additional paid-in capital	Retained earnings	Total equity attributable to owners of the parent	Equity
Financial position as of 1 January 2015	**2,975**	**4,800**	**3,637**	**11,412**	**11,412**
Loss for the period	–	–	(347)	(347)	(347)
Other comprehensive income	–	–	15	15	15
Total comprehensive loss	**–**	**–**	**(332)**	**(332)**	**(332)**
Dividends	–	–	(714)	(714)	(714)
Other movements	–	–	0	0	0
Financial position as of 30 September 2015	**2,975**	**4,800**	**2,592**	**10,366**	**10,366**
Financial position as of 1 January 2016	**2,975**	**4,800**	**2,546**	**10,321**	**10,321**
Loss for the period	–	–	(22)	(22)	(22)
Other comprehensive loss	–	–	(74)	(74)	(74)
Total comprehensive income	**–**	**–**	**(95)**	**(95)**	**(95)**
Dividends	–	–	(714)	(714)	(714)
Other movements	–	–	3	3	3
Financial position as of 30 September 2016	**2,975**	**4,800**	**1,740**	**9,514**	**9,514**

Condensed Consolidated Statements of Cash Flows_

(Euros in millions)	1 January to 30 September 2016	2015
Cash flows from operating activities		
Loss for the period	**(22)**	**(347)**
Adjustments to profit/(loss)		
Net financial income/(expense)	26	36
Gains on disposal of assets	(353)	(15)
Income tax	0	(0)
Depreciation and amortisation	1,602	1,545
Change in working capital		
Current and non-current assets	14	(148)
Non-current liabilities and provisions	(88)	(109)
Current liabilities and provisions	23	221
Others		
Taxes paid	–	0
Interest received	11	11
Interest paid[1]	(27)	(33)
Cash flows from operating activities	**1,187**	**1,161**
Cash flows from investing activities		
Proceeds from disposals of property, plant and equipment and intangible assets	591	0
Payments on investments relating to mobile phone frequency auctions[1]	(3)	(977)
Payments on investments in property, plant and equipment and intangible assets	(817)	(869)
Proceeds from disposals of companies	–	58
Acquisition of E-Plus, net of cash acquired	–	22
Net payments on financial assets	(10)	(0)
Cash flows from investing activities	**(239)**	**(1,766)**
Cash flows from financing activities		
Payments made for capital increase costs	–	(6)
Payments for financing relating to frequency auctions	(111)	–
Proceeds from issuance of interest-bearing debt	600	350
Repayment of interest-bearing debt	(952)	(529)
Dividends paid	(714)	(714)
Cash flows from financing activities	**(1,177)**	**(899)**
Net decrease in cash and cash equivalents	**(229)**	**(1,503)**
Cash and cash equivalents at the beginning of the period	**533**	**1,702**
Cash and cash equivalents at the end of the period	**304**	**199**

1 As of 30 September 2016, the total amount of interest paid amounted to EUR 30 million and is presented in interest paid of EUR 27 million and payments on investments in mobile phone frequencies of EUR 3 million.

Condensed Notes to the Interim Condensed Consolidated Financial Statements_

for the period 1 January to 30 September 2016

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 2016 and include Telefónica Deutschland Holding AG (also referred to as “Telefónica Deutschland”) and its subsidiaries as well as joint operations (together referred to as “the Telefónica Deutschland Group” or “Group”).

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

The company’s name is “Telefónica Deutschland Holding AG”. The company’s registered office is located in Munich, Germany. Telefónica Deutschland Holding AG is registered in the commercial register of the local court in Munich under registration number HRB 201055. The company’s business address is Georg-Brauchle-Ring 23–25, 80992 Munich, Germany (telephone number: +49 (0) 89 2442-0; **WWW.TELEFONICA.DE**). Telefónica Deutschland Holding AG was established for an indefinite period.

The financial year is the calendar year (1 January to 31 December).

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 30 September 2016, Telefónica Deutschland Holding AG has Share Capital of EUR 2,974,554,993, divided into 2,974,554,993 no-par-value registered shares, each accounting for a pro rata amount of share capital of EUR 1.00. In general, each no-par-value share has one vote at the Annual General Meeting.

As of 30 September 2016, 21.32 % of the shares were in free float. 63.22 % 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 15.46 % were held by Koninklijke KPN N.V., The Hague, Netherlands (KPN).

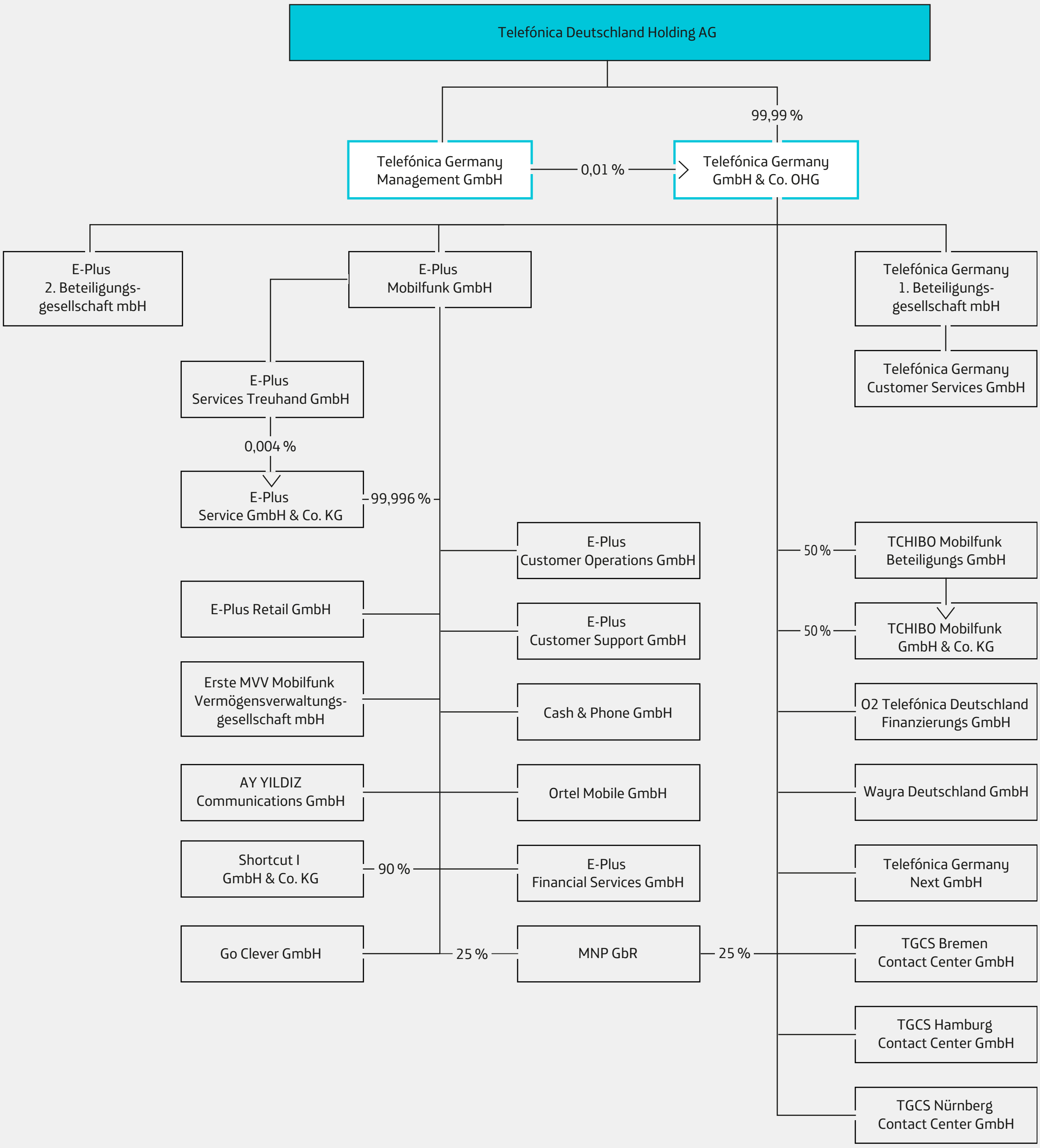
As of 30 September 2016, Telefónica Deutschland Holding AG had Authorised Capital 2016/I of EUR 1,487,277,496.

As of 30 September 2016, Telefónica Deutschland Holding AG’s Conditional Capital 2014/I amounted to EUR 558,472,700.

Telefónica Deutschland Holding AG is the parent company of the Telefónica Deutschland Group, which is included in the Interim Consolidated Financial Statements (Telefónica, S.A. Group) of the ultimate holding company, Telefónica, S.A., Madrid, Spain. The parent company of Telefónica Deutschland Holding AG is Telefónica Germany Holdings Limited, a wholly owned subsidiary of O_2 (Europe) Limited, Slough, United Kingdom (O_2 (Europe) Limited), and an indirect subsidiary of Telefónica, S.A.

The Telefónica Deutschland Group, which since 1 October 2014 has also contained E-Plus Mobilfunk GmbH, Duesseldorf (E-Plus), and its direct and indirect subsidiaries (E-Plus Group), has been one of the three leading integrated network operators in Germany since the acquisition of E-Plus. The Telefónica Deutschland Group offers private and business customers voice, data and value added services in mobile and fixed-line networks. In addition, the Telefónica Deutschland Group ranks among the leading wholesale providers in Germany. Wholesale partners are offered access to the Group’s infrastructure and services. The Telefónica Deutschland Group is part of the Telefónica, S.A. Group, one of the biggest telecommunications corporations in the world.

As of 30 September 2016, 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 amount to 100 %.

In the first quarter, Fonic GmbH was merged with Telefónica Germany GmbH & Co. OHG.

In the third quarter, WiMee-Plus GmbH and WiMee-Connect GmbH were merged with Telefónica Germany GmbH & Co. OHG and Gettings GmbH was merged with E-Plus Mobilfunk GmbH. The new company Telefónica Germany Next GmbH was also established in the third quarter.

2. Significant Events and Transactions in the Reporting Period

Placement of a syndicated loan
On 22 March 2016, the Telefónica Deutschland Group agreed a syndicated loan facility in the amount of EUR 750 million, of which EUR 425 million had been utilised as of 30 September 2016. It serves general business purposes and has a term of five years. The loan term can be extended to no later than March 2023.

Framework social plan
After the execution of the restructuring programme and the related reduction of around 800 full-time equivalents (FTEs) in 2015, according to an agreement with the workers' council another 500 FTEs were given clarity about their employment situation by the middle of 2016. The company continues to target a reduction of around 1,600 FTEs in total by 2018.

Annual General Meeting and dividend
The Annual General Meeting for the 2015 financial year took place on 19 May 2016. In addition to presenting the Annual Financial Statements and Consolidated Financial Statements of Telefónica Deutschland and electing a new member of the Supervisory Board, the resolutions adopted by the Annual General Meeting included a dividend payment of EUR 0.24 per entitled share, EUR 713,893,198.32 in total. The dividend was paid to the shareholders on 20 May 2016.

In addition, the Annual General Meeting resolved new Authorised Capital 2016/I of EUR 1,487,277,496, suspending the former Authorised Capital 2012/I, and resolved a new authorisation to buy back own shares of up to a total of 10 % of share capital on the date of the resolution or – if lower – on the date the authorisation is exercised, suspending the previous authorisation to buy back own shares dated 5 October 2012.

On 26 July 2016, the Management Board of Telefónica Deutschland resolved its intention to propose a cash dividend of EUR 0.25 per share to the next Annual General Meeting.

Changes in the Supervisory Board of Telefónica Deutschland
Antonio Manuel Ledesma Santiago left the Supervisory Board of Telefónica Deutschland effective at the end of the Annual General Meeting on 19 May 2016.

Peter Erskine was elected as his successor by the Annual General Meeting on 19 May 2016. His term in office began at the end of the 2016 Annual General Meeting and will last until the end of the 2017 Annual General Meeting.

In addition, the Deputy Chairperson of the Supervisory Board Imke Blumenthal left the Supervisory Board of Telefónica Deutschland on 30 June 2016.

Christoph Braun has been a member of the Supervisory Board of Telefónica Deutschland as successor to Imke Blumenthal since 1 July. Christoph Braun was elected Deputy Chairperson of the Supervisory Board at the meeting of 18 July 2016.

Sale of passive tower infrastructure to Telxius S.A.
Based on a decision by the governing bodies of Telefónica Deutschland in April 2016, the Telefónica Deutschland Group sold passive tower infrastructure to Telefónica, S.A.'s infrastructure company Telxius Telecom S.A. (Telxius S.A.) on 21 April 2016 with a net capital gain from the sale of EUR 352 million.

The cash proceeds from the transaction enhance the company's financial flexibility and will be reinvested in the business to support infrastructure development and the development of new growth areas.

Following the sale, the Telefónica Deutschland Group will continue to use these network towers through operating lease agreements.

Financing agreement signed with European Investment Bank (EIB)

On 13 June 2016, the Telefónica Deutschland Group signed its first financial agreement with the EIB, which amounted to EUR 450 million. The facility was not yet utilised in the reporting period and is 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 provided by the EIB have terms of up to eight years.

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 the information and disclosures required for a full set of consolidated financial statements, and should therefore be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2015 (see Note No. 3, Basis of Preparation).

These Interim Condensed Consolidated Financial Statements as of 30 September 2016 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 and its subsidiaries.

Unless stated otherwise, the figures in these Interim Condensed Consolidated Financial Statements are presented in millions of euros (euros in millions) and rounded according to established commercial principles. Recalculations may therefore lead to amounts that deviate from the totals shown in the respective tables.

Other
The preparation of the Interim Condensed Consolidated Financial Statements requires management to make judgments, estimates and assumptions concerning the accounting policies applied, which influence the amount of the assets, liabilities, income and expenses reported. A significant change in the facts and circumstances on which these judgements, estimates and assumptions are based could materially affect the Telefónica Deutschland Group's net assets, financial position and result of operations.

In preparing the Interim Consolidated Financial Statements of the Telefónica Deutschland Group, the significant judgements made by the management regarding the application of accounting policies and main causes of estimation uncertainties were the same as applied in the Consolidated Financial Statements for the year ended 31 December 2015. Additionally, the changes shown under Note No. 4, Accounting Policies, were applied, but do not have a material impact on the Group's net assets, financial position and result of operations.

For further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2015 (Note No. 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 30 September 2016 compared to 31 December 2015.

The Consolidated Income Statement and the Consolidated Statement of Comprehensive Income relate to the nine- and three-months ended 30 September 2016 and 30 September 2015. The Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity compare figures for the nine-months ended 30 September 2016 and 30 September 2015.

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 fundamentally differ from the assumptions in the Consolidated Financial Statements for the year ended 31 December 2015 with regard to potential uncertainties inherent in these estimates (see Note No. 4, Accounting Policies). As of 30 September 2016, the company has adjusted the provision for the asset retirement obligation due to new insights with regard to cost estimates. The adjustment of the provision consequently resulted in a corresponding adjustment to the associated assets.

Effective 1 January 2016, the Telefónica Deutschland Group applied the amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (EU Regulation of 2 December 2015), the amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (EU Regulation of 24 November 2015), the amendments to IAS 27 – Equity Method in Separate Financial Statements according to EU Regulation of 18 December 2015, the Annual Improvements to IFRS 2012 – 2014 (EU Regulation of 15 December 2015) and the amendments to IAS 1 – Disclosure Initiative (EU Regulation of 18 December 2015).

With the respective regulations, the European Union (EU) approved the required adoption of the amendments for financial years beginning on or after 1 January 2016. Early adoption was permitted. The IASB also allows for adoption for financial years beginning on or after 1 January 2016.

The EU endorsed the amendments to IFRS 10, IFRS 12, and IAS 28 and enacted them into EU law with the regulation dated 22 September 2016. These amendments have to be adopted for fiscal years beginning on or after 1 January 2016.

These amendments to the standards have no or no significant effect on the net assets, financial position or result of operations of the Group.

At the time of publication of the Interim Condensed Consolidated Financial Statements, the following standards and interpretations were published, but their application was not yet mandatory:

Standards and amendments		Application for financial years beginning on or after
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017[1]
Amendments to IAS 7	Disclosure Initiative	1 January 2017[1]
IFRS 15	Revenue from Contracts with Customers	1 January 2018[1]
IFRS 9	Financial Instruments	1 January 2018[1]
Amendments to IFRS 2	Share-Based Payment	1 January 2018[1]
Amendments to IFRS 4	Insurance Contracts	1 January 2018[1]
IFRS 16	Leases	1 January 2019[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	[2]

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

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 2015 (see Note No. 4, Accounting Policies). An assessment of the expected impact on the net assets, financial position and result of operations of the Group is provided there, which still applies to the Interim Consolidated Financial Statements as of 30 September 2016.

In addition, on 29 January 2016 the IASB issued amendments to IAS 7 – Disclosure Initiative. These amendments are intended to improve information provided to users of financial statements about an entity's liabilities arising from financing activities.

Moreover, on 12 April 2016 the IASB issued amendments to IFRS 15 – Revenue from Contracts with Customers. The clarifications mainly deal with the identification of performance obligations, the distinction between principal and agent, and the recognition of licences. Additional practical expedients are also provided regarding the transition requirements for modified and completed contracts. The amendments are to be implemented with the adoption of IFRS 15. Endorsement by the EU is currently outstanding.

On 20 June 2016, the IASB published amendments to IFRS 2 – Share-Based Payment. These amendments contain clarifications on the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. Subject to their endorsement by the EU law, the amendments will be required to be applied for the first time in reporting periods beginning on or after 1 January 2018. Early adoption is permitted.

On 12 September 2016, amendments to IFRS 4 – Insurance Contracts were published. These adopted amendments relate to the first-time application of IFRS 9 for insurers and in particular to resulting higher volatility of earnings during the transition. The amendments are required to be applied as of 1 January 2018.

5. Related Parties

As of 30 September 2016, the nature and amount of transactions by the Telefónica Deutschland Group with related have not changed significantly in comparison to those disclosed in the Consolidated Financial Statements for the year ended 31 December 2015, with the following exception.

Effective 1 January 2016, Telefónica Germany GmbH & Co. KG entered into a lease agreement for the use of passive tower infrastructure with Telxius Towers GmbH (formerly Telefónica Germany Vermögens-verwaltungsgesellschaft mbH), a direct subsidiary of Telxius Telecom S.A. (itself a wholly owned indirect subsidiary of Telefónica, S.A.), which was sold to Telxius Telecom S.A. in a purchase agreement dated 21 April 2016. The lease has a term until 31 December 2030 and two successive extension options, each for a period of five years. The monthly lease obligation amounts to EUR 3 million.

Transactions with the Telefónica, S.A. Group

Revenues, other income and expenses with the Telefónica S.A. Group
Other income includes a net capital gain from the sale of passive tower infrastructure to Telxius S.A. Further information can be found in Note No. 11, Disposal Groups.

For further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2015 (Note No. 13, Related Parties).

6. Selected Explanatory Notes to the Condensed Consolidated Statements of Financial Position

a) Goodwill

The carrying amount of goodwill was EUR 1,932 million as of 30 September 2016 (31 December 2015: EUR 1,955 million). The decrease of EUR 23 million is attributable to the sale of Telxius Towers Germany GmbH to Telxius S.A. Further information can be found in Note No. 11, Disposal Groups.

b) Other intangible assets

The other intangible assets are comprised of the following:

(Euros in millions)	Service concession arrangements and licenses	Customer base	Software	Brand names	Other	Construction in progress/ Prepayments on intangible assets	Other intangible assets
Net book value							
As of 31 December 2015	2,676	2,541	538	81	22	1,201	7,059
As of 30 September 2016	2,352	2,295	486	67	20	1,204	6,424

Other intangible assets amounted to EUR 6,424 million as of 30 September 2016 (31 December 2015: EUR 7,059 million). The decline from the end of 2015 amounted to EUR 635 million or 9.0 % and was mainly attributable to amortisation of finite intangible assets. The amortisation costs amounted to EUR 888 million (30 September 2015: EUR 798 million). This was offset by additions of EUR 254 million (30 September 2015: EUR 1,385 million).

In the reporting period, EUR 10 million of the mobile frequencies acquired in 2015 were reclassified from prepayments on intangible assets to service concession arrangements and licences due to their active use.

In the reporting period, borrowing costs were capitalised as a component of the frequencies acquired in 2015 in the amount of EUR 4.4 million. The Telefónica Deutschland Group based the capitalisation on a borrowing cost rate averaging 1.3 %.

c) 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 2015	212	4,144	84	68	4,507
As of 30 September 2016	173	3,820	81	96	4,170

Property, plant and equipment amounted to EUR 4,170 million as of 30 September 2016 (31 December 2015: EUR 4,507 million). The decrease of EUR 337 million or 7.5 % from the end of 2015 was attributable primarily to the sale of passive tower infrastructure to Telxius S.A. in the amount of EUR 277 million. Further information can be found in Note No. 11, Disposal Groups. The decrease is also due to depreciation in the amount of EUR 713 million. This was offset by additions of EUR 493 million. Additions to assets in property, plant and equipment related to asset retirement obligations increased by EUR 164 million, primarily as a result of the higher cost estimates based on new insights and the interest rate trend.

d) Trade and other receivables

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

(Euros in millions)	**As of 30 September 2016**		As of 31 December 2015	
	Non-current	**Current**	Non-current	Current
Trade receivables	106	1,663	169	1,648
Receivables from related parties	–	49	–	37
Other receivables	–	31	–	29
Allowances for bad debts	(7)	(184)	(13)	(194)
Trade and other receivables	**99**	**1,560**	**157**	**1,520**

e) Other non-financial assets

This item of the Consolidated Statement of Financial Position consists of:

(Euros in millions)	As of 30 September 2016		As of 31 December 2015	
	Non-current	Current	Non-current	Current
Prepayments	129	130	160	46
Prepayments to related parties	–	2	–	0
Tax receivables for indirect taxes	–	1	–	15
Other non-financial assets	**129**	**133**	**160**	**61**

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

f) Interest-bearing debt

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

(Euros in millions)	As of 30 September 2016		As of 31 December 2015	
	Non-current	Current	Non-current	Current
Bonds	1,109	17	1,105	12
Promissory notes and registered bonds	299	2	299	4
Loan liabilities	423	1	250	251
Finance leases	17	37	32	180
Contribution and compensation obligations	–	3	–	3
Other financial liabilities	–	–	–	119
Interest-bearing debt	**1,848**	**60**	**1,686**	**568**

Bonds
Interest-bearing debt contains two bonds that the Telefónica Deutschland Group issued in November 2013, with an original nominal value of EUR 600 million, and in February 2014, with an original nominal value of EUR 500 million.

Promissory notes/registered bonds
On 13 March 2015, the Telefónica Deutschland Group completed an initial placement of promissory notes and registered bonds. The carrying amount of the two debt instruments amounted to EUR 301 million as of 30 September 2016.

Loan liabilities
As of 31 December 2015, the loan liabilities included a loan of EUR 500 million, which the Telefónica Deutschland Group borrowed in September 2012 at an original total value of EUR 1,250 million from Telfisa Global B.V. This loan was repaid in full as of 21 April 2016.

The Group entered into a EUR 750 million revolving credit facility on 22 March 2016. EUR 425 million of this revolving credit facility (RCF) had been drawn as of 30 September 2016. The credit facility expires in March 2021 and can be renewed for a maximum of two years. It bears a variable interest rate at Euribor money market conditions plus an agreed margin.

Finance leases
This item is comprised of finance lease liabilities in the amount of EUR 54 million as of 30 September 2016 (31 December 2015: EUR 212 million).

The obligations arising from finance leases mainly result from agreements for mobile phones and network elements concluded under sale and leaseback transactions and classified as finance leases in accordance with their contract design.

Contribution obligations and other financial liabilities
In addition, interest-bearing debt includes contribution and compensation obligations in connection with investments in start-ups.

g) Trade and other payables

The composition of trade and other payables is as follows:

	As of 30 September 2016		As of 31 December 2015	
(Euros in millions)	Non-current	Current	Non-current	Current
Trade payables to third parties	–	631	109	573
Accruals	16	998	19	1,105
Payables to related parties	–	325	–	298
Trade payables	**16**	**1,954**	**128**	**1,975**
Other creditors non-trade	2	57	2	69
Other payables to related parties	–	58	–	53
Other payables	23	78	23	175
Other payables	**25**	**192**	**25**	**296**
Trade and other payables	**41**	**2,146**	**154**	**2,272**

Current trade payables to third parties include 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 consist of liabilities due to personnel.

Besides debtors with credit balances, the other liabilities primarily include a non-current portion of the liabilities in the amount of EUR 23 million as a result of the assumption of obligations from mobile network sites transferred to Deutsche Telekom as part of the network integration. The current portion of EUR 100 million included as of 31 December 2015 was already paid in the first quarter of 2016.

h) Provisions

The provisions are recognised at the following amounts:

(Euros in millions)	As of 30 September 2016		As of 31 December 2015	
	Non-current	Current	Non-current	Current
Pension obligations	145	–	76	–
Restructuring	21	139	52	169
Asset retirement obligation	439	33	372	22
Other provisions	44	7	16	5
Provisions	**649**	**179**	**516**	**196**

The Telefónica Deutschland Group's provisions have changed compared to 31 December 2015, particularly due to the asset retirement obligation and the pension obligation.

The provision for the asset retirement obligation includes the estimated costs for the dismantling and removal of assets (e.g. cellular towers and other fixed assets). The EUR 76 million change in this provision is in particular due to the higher cost estimate based on new insights and the interest rate trend (EUR 164 million in total), offset by the disposal in connection with the sale of passive tower infrastructure to Telxius S.A. in 2016 (EUR 83 million; for further information, see Note No. 11, Disposal Groups).

The change in pension obligations mainly results from a remeasurement at the current lower interest rate of 1.15 % (31 December 2015: 2.46 %).

The fluctuation in other provisions is primarily due to the recognition in profit or loss of tax-audit related risks for the VAT treatment of prepaid contracts. For further information, see Note No. 10, Contingent Assets and Liabilities.

Other changes in provisions relate to the reduction in the restructuring obligation, largely as a result of utilisation, and to other provisions.

For further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2015 (see Note No. 5.12, Provisions).

7. Selected Explanatory Notes to the Consolidated Income Statement

a) Revenues

Revenues are comprised as follows:

(Euros in millions)	1 July to 30 September		1 January to 30 September	
	2016	2015	**2016**	2015
Rendering of services	1,639	1,675	4,831	4,932
Other revenues	236	303	736	896
Revenues	**1,876**	**1,979**	**5,567**	**5,828**

Revenues from the rendering of services include mobile service revenues as well as revenues from fixed line/DSL business. The 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:

(Euros in millions)	1 July to 30 September		1 January to 30 September	
	2016	2015	**2016**	2015
Mobile business	1,621	1,720	4,808	5,041
Mobile service revenues	1,394	1,419	4,088	4,155
Handset revenues	227	301	720	887
Fixed business	245	256	743	778
Other revenues	9	3	16	10
Revenues	**1,876**	**1,979**	**5,567**	**5,828**

b) Other income

The other income of the Telefónica Deutschland Group for the first nine months of the current financial year amounted to EUR 469 million (in the first nine months of 2015: EUR 119 million).

This increase was primarily attributable to the net capital gain from the sale of passive tower infrastructure to Telxius S.A. Further information can be found in Note No. 11, Disposal Groups.

c) Net financial income/(expense)

The net financial income/(expense) of the Telefónica Deutschland Group for the first nine months of the current financial year amounts to EUR -26 million (first nine months of 2015: EUR -36 million).

The breakdown of net financial income/(expense) is as follows:

	1 January to 30 September	
(Euros in millions)	**2016**	2015
Interest income from financial assets	8	8
Interest expenses from financial liabilities	(32)	(41)
Accretion of provisions and other liabilities	(2)	(1)
Other exchange gains/(losses)	(0)	(1)
Net financial income/(expense)	**(26)**	**(36)**

The interest income from financial assets includes the interest income in connection with "O_2 My Handy" receivables, receivables from finance leases and interest income from VAT refunds.

The interest expenses from financial liabilities mainly include interest on the loan borrowed from Telfisa Global B.V. in September 2012, the revolving credit facility entered into 22 March 2016, the bonds issued in November 2013 and February 2014, and the promissory notes and registered bonds issued in March 2015. Interest from the finance lease obligation and from provisions for tax risks is also included.

8. Measurement Categories of Financial Assets and Financial Liabilities

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

As of 30 September 2016, the carrying amounts of the financial assets and financial liabilities represent an appropriate approximation of their fair values (with the exception of the portion of the bonds that is not hedged, see below).

For further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2015 (see Note No. 10, Measurement Categories of Financial Assets and Financial Liabilities).

In addition, the tables show the categorisation of the financial assets and financial liabilities in accordance with the importance of the input factors that were used for their respective measurement. For this purpose, three levels or measurement hierarchies are defined:

— 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 30 September 2016									
	Financial assets									
					Measurement hierarchy					
(Euros in millions)	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to maturity financial assets	Loans and receiva-bles	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	Not in the scope of IFRS 7
Non-current trade and other receivables (Note No. 5.4)	–	–	–	99	–	–	–	99	99	–
Other non-current financial assets (Note No. 5.5)	14	21	–	27	–	14	21	63	63	9
Current trade and other receivables (Note No. 5.4)	–	–	–	1,558	–	–	–	1,558	1,558	1
Other current financial assets (Note No. 5.5)	3	–	–	11	–	3	–	14	14	–
Cash and cash equivalents (Note No. 5.8)	–	–	–	304	–	–	–	304	304	–
Total	**17**	**21**	**–**	**2,000**	**–**	**17**	**21**	**2,038**	**2,038**	**10**

	As of 31 December 2015									
	Financial assets									
					Measurement hierarchy					
(Euros in millions)	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to maturity financial assets	Loans and receivables	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	Not in the scope of IFRS 7
Non-current trade and other receivables (Note No. 6d)	–	–	–	157	–	–	–	157	157	–
Other non-current financial assets (Note No. 6e)	12	18	–	23	–	12	18	53	53	9
Current trade and other receivables (Note No. 6d)	–	–	–	1,519	–	–	–	1,519	1,519	1
Other current financial assets (Note No. 6e)	2	–	–	8	–	2	–	10	10	–
Cash and cash equivalents	–	–	–	533	–	–	–	533	533	–
Total	**14**	**18**	**–**	**2,240**	**–**	**14**	**18**	**2,272**	**2,272**	**11**

As of 30 September 2016, EUR 14 million of the other non-current financial assets and EUR 3 million of the other 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 21 million of the other non-current financial assets are classified as available-for-sale financial assets. These relate to investments in start-ups. These assets were measured according to level 3, as 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, measurements are based on amortized cost in accordance with IAS 39.46c.

All other financial assets as of 30 September 2016 were categorised as loans and receivables.

Please see the respective notes for further information.

(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
	As of 30 September 2016								
	Financial liabilities								
				Measurement hierarchy					
Non-current interest-bearing debt (Note No. 6f)	363	1,468	17	–	363	–	1,848	1,912	–
Non-current trade and other payables (Note No. 6g)	–	39	–	–	–	–	39	39	2
Current interest-bearing debt (Note No. 6f)	–	23	37	–	–	–	60	60	–
Current trade and other payables (Note No. 6g)	–	2,090	–	–	–	–	2,090	2,090	57
Total	**363**	**3,620**	**54**	**–**	**363**	**–**	**4,036**	**4,100**	**59**

(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
	As of 31 December 2015								
	Financial liabilities								
				Measurement hierarchy					
Non-current interest-bearing debt (Note No. 5.10)	360	1,294	32	–	360	–	1,686	1,733	–
Non-current trade and other payables (Note No. 5.11)	–	151	–	–	–	–	151	151	2
Current interest-bearing debt (Note No. 5.10)	–	388	180	–	–	–	568	568	–
Current trade and other payables (Note No. 5.11)	–	2,203	–	–	–	–	2,203	2,203	69
Total	**360**	**4,036**	**212**	**–**	**360**	**–**	**4,608**	**4,655**	**71**

As of 30 September 2016, EUR 363 million of the other non-current interest-bearing debt is classified as financial liabilities at fair value through profit or loss. These relate to the part of the bonds that is accounted for as a fair value hedge with one interest rate swap each.

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

In addition to the bonds, the non-current and current interest-bearing debt as of 30 September 2016 contains promissory notes and registered bonds with a total nominal value of around EUR 300 million and the utilisation of a credit facility amounting to EUR 425 million. These debts are classified as financial liabilities measured at amortised cost.

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

Please see the respective notes for further information.

9. General Financial Market Risks

The Telefónica Deutschland Group is exposed to various financial market risks as part of its business activity. Due to the regional focus of the Telefónica Deutschland Group's activities, however, it is not significantly affected by e.g. foreign currency risks. The Telefónica Deutschland Group is exposed to the risk of default from operative business (trade receivables) and from receivables from Telefónica, S.A. Group.

In addition, there are liquidity risks for the Telefónica Deutschland Group that are linked to credit risks, market risks, a decline in operating business or disruptions of the financial market.

If such financial risks occur, they may lead to negative impacts on the net assets, financial position and result of operations and the cash flow of the Telefónica Deutschland Group. The Telefónica Deutschland Group has developed guidelines for risk management processes and for the use of financial instruments including a clear separation of tasks with respect to financial activities, invoicing, financial reporting and associated controlling. Derivative financial instruments are used solely to manage the risks from trade and general corporate financing. The Telefónica Deutschland Group has developed guidelines derived from established standards for the evaluation of risks and monitoring with regard to the use of financial derivatives.

Liquidity risk

Liquidity risk involves the risk that a business cannot meet its financial obligations that are settled either in cash or using other financial assets. To manage liquidity risk, Telefónica Deutschland Group ensures that it has sufficient liquidity at all times to fulfil its obligations, both under normal and demanding circumstances. Telefónica Deutschland Group works closely with the Telefónica, S.A. Group in its liquidity management and, in accordance with the corporate policy, has cash pooling and deposit agreements in place with Telfisa Global B.V., Netherlands. The Group deposits most of its cash surpluses into these accounts. Liquidity risk is reduced by the cash inflows from operating activities of the Telefónica Deutschland Group, the opportunity to factor receivables and the availability of (currently unused) credit facilities.

As of 30 September 2016, the Telefónica Deutschland Group has unutilised current and non-current credit lines totalling EUR 1,550 million; these had amounted to EUR 750 million as of 31 December 2015.

For further information, please refer to the Consolidated Financial Statements for the year ended 31 December 2015 (Note No. 17, Financial Instruments and Risk Management).

10. Contingent Assets and Liabilities

As one of the leading network operators in Germany, Telefónica Deutschland Group is exposed to the risk of claims concerning patent violations. In this context, patent owners could assert claims for licence payments and/or for the prohibition of the use of certain patent-violating technologies. This risk is mitigated by Telefónica Deutschland Group's exemption and compensation claims against its relevant suppliers. Besides compensation claims for legal costs, patent owners currently have potential licence claims that come under consideration on the basis of the provisional/court-assessed values in dispute. These claims are almost completely offset by the potentially mitigating exemption and compensation claims. The amount of the legal costs and licence claims is estimated in the low millions.

Based on current developments in the sector, the company re-evaluated the risks affecting the probability of contingent liabilities identified in connection with the VAT treatment of prepaid contracts as of 31 December 2015 and recorded the liability during the period ended 30 September 2016.

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

For further information, please refer to the Consolidated Financial Statements as of 31 December 2015 (see Note No. 18, Contingent Assets and Liabilities).

11. Disposal Groups

Disposal groups in 2016:
Sale of passive tower infrastructure to Telxius
Telxius Telecom S.A., a wholly owned subsidiary of Telefónica S.A., acquired all of the shares in Telxius Towers Germany GmbH (formerly Telefónica Germany Vermögensverwaltungsgesellschaft mbH), a formerly wholly owned subsidiary of E-Plus Mobilfunk GmbH, in accordance with a share purchase and transfer agreement dated 21 April 2016.

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

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

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

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

A net capital gain of EUR 352 million was reported in the Consolidated Income Statement in connection with this disposal. The gain on the disposal of the interest, which is reported in other operating income, is offset by consulting fees that are reported in other operating expenses.

12. Events after the Reporting Period

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

Munich, 14 November 2016

Telefónica Deutschland Holding AG

The Management Board

Thorsten Dirks Rachel Empey Markus Haas