Telefónica

Deutschland

DIGITAL CROSS ROADS

CONSOLIDATED FINANCIAL STATEMENTS 2018

CONSOLIDATED FINANCIAL STATEMENTS

for the Financial Year 2018

Consolidated Financial Statements
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Consolidated Financial Statements

Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December

Assets (in EUR million)	Notes	**2018**	2017
A) Non-current assets		**11,061**	**11,940**
Goodwill	[4.1]	1,960	1,960
Other intangible assets	[4.2]	4,727	5,485
Property, plant and equipment	[4.3]	3,793	4,041
Trade and other receivables	[4.4]	70	69
Other financial assets	[4.5]	101	94
Other non-financial assets	[4.4], [4.6]	206	129
Deferred tax assets	[5.7]	204	162
B) Current assets		**2,736**	**2,160**
Inventories	[4.7]	261	105
Trade and other receivables	[4.4]	1,301	1,265
Other financial assets	[4.5]	9	17
Other non-financial assets	[4.4], [4.6]	413	186
Cash and cash equivalents	[4.8]	751	587
Total assets (A+B)		**13,796**	**14,100**

Equity and Liabilities (in EUR million)	Notes	**2018**	2017
A) Equity		**7,569**	**8,297**
Subscribed capital	[4.9]	2,975	2,975
Additional paid-in capital	[4.9]	4,800	4,800
Retained earnings		(205)	523
Total equity attributable to owners of the parent		7,569	8,297
B) Non-current liabilities		**2,901**	**2,141**
Interest-bearing debt	[4.10]	2,004	1,268
Trade and other payables	[4.11]	19	19
Provisions	[4.12]	526	599
Deferred income	[4.11]	176	255
Deferred tax liabilities	[5.7]	177	1
C) Current liabilities		**3,326**	**3,662**
Interest-bearing debt	[4.10]	145	637
Trade and other payables	[4.11]	2,419	2,224
Provisions	[4.12]	188	142
Other non-financial liabilities	[4.6]	39	132
Deferred income	[4.11]	535	527
Total equity and liabilities (A+B+C)		**13,796**	**14,100**

CONSOLIDATED INCOME STATEMENT

1 January to 31 December

(in EUR million)	Notes	**2018**	2017
Revenues	[5.1]	7,320	7,296
Other income	[5.2]	177	159
Supplies		(2,459)	(2,396)
Personnel expenses	[5.3]	(610)	(642)
Impairment losses in accordance with IFRS 9[1]		(79)	(73)
Other expenses	[5.4]	(2,552)	(2,560)
Operating income before depreciation and amortisation (OIBDA)		**1,797**	**1,785**
Depreciation and amortisation	[5.5]	(1,987)	(1,869)
Operating income		**(190)**	**(84)**
Finance income		2	5
Exchange gains		1	1
Finance costs		(44)	(39)
Exchange losses		(1)	(1)
Financial result	[5.6]	**(42)**	**(34)**
Profit/(loss) before tax		**(233)**	**(118)**
Income tax	[5.7]	3	(262)
Profit/(loss) for the period		**(230)**	**(381)**
Profit/(loss) for the period attributable to owners of the parent		**(230)**	**(381)**
Profit/(loss) for the period		**(230)**	**(381)**
Earnings per share	[8]		
Basic earnings per share in EUR		**(0.08)**	**(0.13)**
Diluted earnings per share in EUR		**(0.08)**	**(0.13)**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 January to 31 December

(in EUR million)	Notes	2018	2017
Profit/(loss) for the period		**(230)**	**(381)**
Items that will not be reclassified to profit/(loss)			
Remeasurement of benefits after termination of employment	[4.12]	7	8
Income tax impact	[5.7]	(2)	(3)
Other comprehensive income/(loss)		**5**	**5**
Total comprehensive income/(loss)		**(225)**	**(375)**
Total comprehensive income/(loss) attributable to owners of the parent		(225)	(375)
Total comprehensive income/(loss)		**(225)**	**(375)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in EUR million)	Notes	Subscribed capital	Additional paid-in capital	Retained earnings	Total equity attributable to owners of the parent	Equity
Financial position as of 1 January 2017		**2,975**	**4,800**	**1,634**	**9,408**	**9,408**
Profit/(loss) for the period		–	–	(381)	(381)	(381)
Other comprehensive income/(loss)		–	–	5	5	5
Total comprehensive income/(loss)		**–**	**–**	**(375)**	**(375)**	**(375)**
Dividends	[4.9]	–	–	(744)	(744)	(744)
Other movements		–	–	7	7	7
Financial position as of 31 December 2017		**2,975**	**4,800**	**523**	**8,297**	**8,297**
Financial position as of 1 January 2018		**2,975**	**4,800**	**523**	**8,297**	**8,297**
Adjustment due to first-time application of IFRS 9 and IFRS 15 (after taxes)		–	–	274	274	274
Financial position as of 1 January 2018, adjusted		**2,975**	**4,800**	**797**	**8,571**	**8,571**
Profit/(loss) for the period		–	–	(230)	(230)	(230)
Other comprehensive income/(loss)		–	–	5	5	5
Total comprehensive income/(loss)		**–**	**–**	**(225)**	**(225)**	**(225)**
Dividends	[4.9]	–	–	(773)	(773)	(773)
Other movements	[4.4], [13]	–	–	(4)	(4)	(4)
Financial position as of 31 December 2018		**2,975**	**4,800**	**(205)**	**7,569**	**7,569**

CONSOLIDATED STATEMENT OF CASH FLOWS

1 January to 31 December

(in EUR million)	Notes	2018	2017
Cash flow from operating activities			
Profit/(loss) for the period		**(230)**	**(381)**
Adjustments to profit/(loss)			
Financial result	[5.6]	42	34
Gains on disposals of assets		(0)	(30)
Income taxes	[5.7]	(3)	262
Depreciation and amortisation	[5.5]	1,987	1,869
Other non-cash expenses/income		(15)	–
Change in working capital and others			
Other non-current assets	[4.4], [4.5], [4.6], [4.7]	18	7
Other current assets	[4.4], [4.5], [4.6], [4.7]	(160)	58
Other non-current liabilities and provisions	[4.11], [4.12]	(166)	(116)
Other current liabilities and provisions	[4.11], [4.12]	249	24
Others			
Interest received		6	9
Interest paid		(40)	(36)
Cash flow from operating activities		**1,690**	**1,702**
Cash flow from investing activities			
Proceeds from disposals of property, plant and equipment and intangible assets		0	31
Payments from the disposal of consolidated entities	[7]	21	–
Payments on investments in property, plant and equipment and intangible assets	[4.2], [4.3]	(979)	(1,037)
Acquisition of companies, net of cash acquired		(1)	(29)
Proceeds from financial assets		4	18
Payments for financial assets		(3)	(4)
Cash flow from investing activities		**(957)**	**(1,022)**

1 January to 31 December

(in EUR million)	Notes	2018	2017
Cash flow from financing activities			
Payments made relating to frequency auctions		–	(111)
Proceeds from interest-bearing debt	[4.10]	2,526	1,975
Payments made for the repayment of interest-bearing debt[1]	[4.10]	(2,302)	(1,843)
Dividends paid		(773)	(744)
Other payments/proceeds from financing activities		(19)	16
Cash flow from financing activities		**(569)**	**(706)**
Net increase/(decrease) in cash and cash equivalents		**164**	**(26)**
Cash and cash equivalents at the beginning of the period	[4.8]	**587**	**613**
Cash and cash equivalents at the end of the period	[4.8]	**751**	**587**

[1] Payments made for repayment of interest-bearing debt related to finance leases of EUR 22 million in financial year 2018 and EUR 17 million in financial year 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the Financial Year 2018

1. Reporting Entity

The Consolidated Financial Statements of Telefónica Deutschland Holding AG have been prepared as of and for the year ending 31 December 2018 and comprise Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland") and its subsidiaries as well as joint operations (together referred to as the "Telefónica Deutschland Group" or the "Group").

The Telefónica Deutschland Holding AG is a stock corporation (AG) incorporated under German law and is listed on the regulated market of the Frankfurt Stock Exchange. The German Securities Identification Number (WKN) is A1J5RX, the International Securities Identification Number (ISIN) is DE000A1J5RX9.

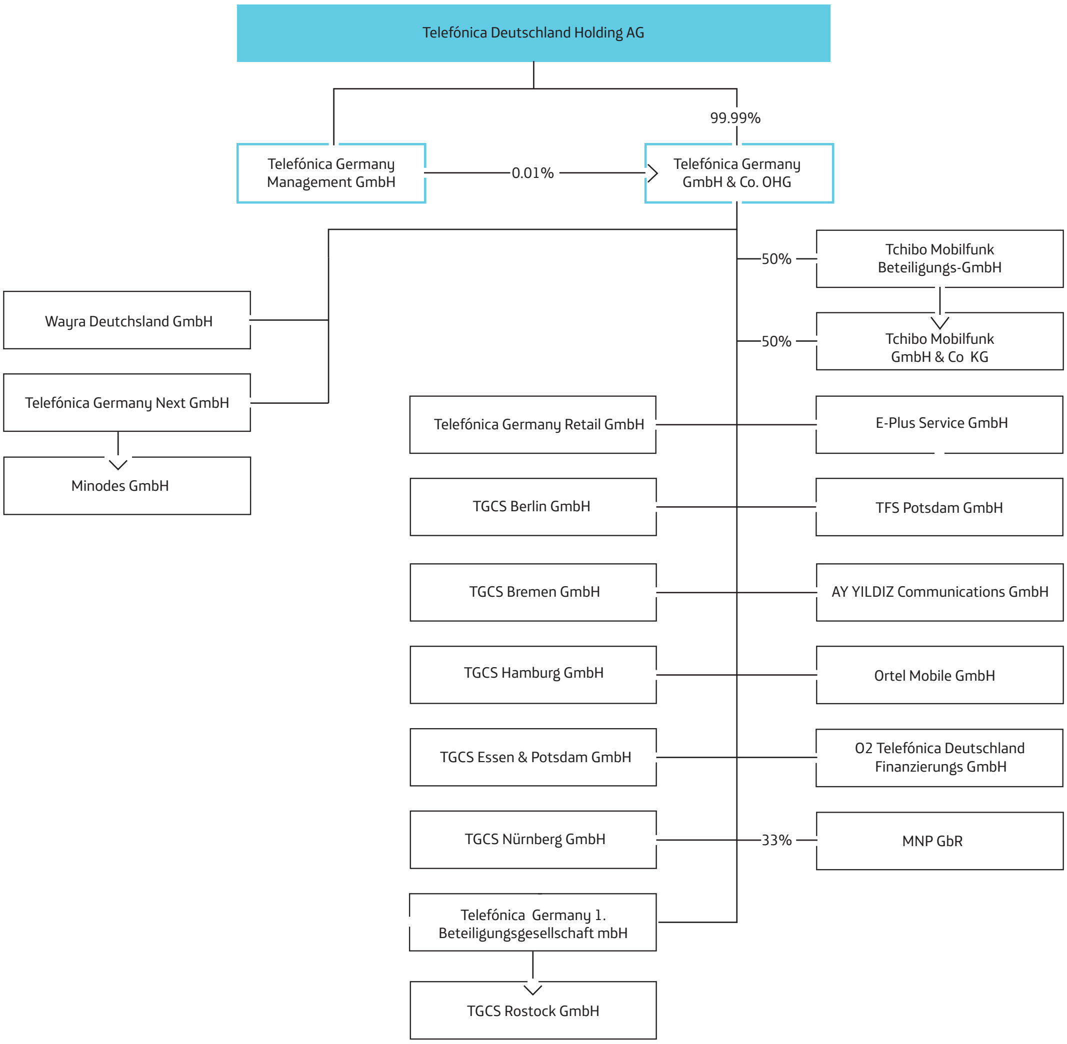
As of 31 December 2018, 26.4% of the shares were in free float. 69.2% were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.). According to a press release for Koninklijke KPN N.V. dated 30 January 2019, the remaining 4.4% were held by Koninklijke KPN N.V., The Hague, Netherlands (KPN).

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 50, 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).

Since the acquisition of the E-Plus Group, the Telefónica Deutschland Group has been one of the three leading integrated network operators in Germany. 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 31 December 2018, the companies included in the Consolidated Financial Statements of the Telefónica Deutschland Group were organised as shown in the following organisation chart:



Unless stated otherwise, the ownership interests amount to 100%. For changes in the Group structure, please refer to Note 10 Group companies of the Telefónica Deutschland Group.

2. Basis of Preparation

The Consolidated Financial Statements of Telefónica Deutschland Holding AG are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

In addition, the accounting policies are in line with the previous year's disclosures in the published Consolidated Financial Statements for the financial year ending 31 December 2017. Exceptions are the amendments to the IFRS and the measurement changes as presented in Note 3 (letters o) and q) Accounting Policies). Furthermore, the Group applied the additional requirements of German commercial law pursuant to section 315e (1) of the German Commercial Code (HGB).

The Consolidated Financial Statements of Telefónica Deutschland Holding AG were approved by the Supervisory Board on 18 February 2019.

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

Unless stated otherwise, the figures in these Consolidated Financial Statements are presented in millions of euros (in EUR million) and rounded according to established commercial principles. Therefore, recalculations may slightly differ from the totals shown in the tables.

3. Accounting Policies

The principal accounting policies used in preparing the accompanying Consolidated Financial Statements are as follows:

a) Business combinations

Business combinations are accounted for in accordance with the acquisition method. The costs of an acquisition are measured according to the fair values of the assets transferred and the liabilities incurred or assumed on the acquisition date.

Transaction costs are recognised in other expenses at the date they are incurred. Telefónica Deutschland Group initially recognises identifiable assets acquired in a business combination and the liabilities assumed, including contingent liabilities, at fair value at the acquisition date.

b) Goodwill

For business combinations, goodwill represents the excess of acquisition costs over the fair values of identifiable assets acquired and liabilities assumed at the acquisition date. Cost of acquisition is the sum of the fair value of consideration transferred and the value attributed to existing non-controlling interests. For each business combination, the Telefónica Deutschland Group determines the value of non-controlling interests at either their fair value or their proportional part of the net identifiable assets acquired.

For business combinations that occurred after 1 January 2004, goodwill represents the excess of the acquisition costs including transaction costs over the acquirer's interest, at acquisition date, in the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired business.

After initial measurement, goodwill is carried less any accumulated impairment losses.

Goodwill is not amortised on a scheduled basis but must be reviewed for impairment annually. In addition, an impairment test is carried out if events or circumstances indicate that the carrying amount is higher than the recoverable amount (see Note 4.1 Goodwill).

c) Other intangible assets

Other intangible assets are carried at acquisition or production cost, less any accumulated amortisation and any accumulated impairment losses. Subsequent expenditure is capitalised only for existing other intangible assets if it increases the future economic benefit embodied in the asset to which it relates. All other expenditures on internally generated goodwill and brands are recognised in the Consolidated Income Statement as incurred.

Borrowing costs within the scope of IAS 23 that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as a component of the cost of the respective asset.

The useful lives of other intangible assets either finite or indefinite are determined individually. The Telefónica Deutschland Group has not recognised other intangible assets with indefinite useful lives. Other intangible assets with finite useful lives are amortised on a scheduled basis over the economic useful life and are assessed for impairment if events or circumstances indicate that their carrying amount may not be recoverable. Other intangible assets that are not yet available for use are also tested for impairment annually. Residual values of assets, useful lives and amortisation methods are reviewed annually at year-end and, when appropriate, adjusted.

Licences
This category comprises, in the main, the acquisition costs for the agreements in which various authorities grant licences to provide telecommunication services. It also includes the values assigned to the licences held by particular companies at the time they were incorporated into the Telefónica Deutschland Group.

These licences are amortised on a straight-line basis beginning with the period of commercial use throughout their useful lives (mostly between ten and 17 years).

Customer bases
This primarily refers to the distribution of acquisition costs incurred as a result of the customers gained through mergers, as well as the acquisition value of these types of assets gained through acquisitions which led to a consideration for a third party. Amortisation takes place on a straight-line basis for the estimated duration of the customer relationship (essentially nine and ten years).

Software
Software is classified as an acquisition and/or production cost and will be amortised on a straight-line basis over its useful life. The estimated useful life is generally between two and five years.

Brand names
This category is for brand names which were acquired through company transactions, and hence they were capitalised. Brand names will be amortised on a straight-line basis over their expected useful lives (generally, between three and 20 years).

d) Property, plant and equipment

Property, plant and equipment are carried at its cost less any accumulated depreciation and any accumulated impairment losses. Land is not depreciated.

Costs include external and internal costs comprising purchased capital goods and services and warehouse material used, direct labour used in installation work and the allocable portion of indirect costs required for the related investment. The latter two items are recorded as revenues in Other Income – Own Work Capitalised.

Costs include also, where appropriate, the estimate of the costs at initial recognition for dismantling and removing the item and restoring the site on which it is located to the extent that the entity incurs the obligation either when the item is acquired or as a consequence of having used it. Any corresponding valuation changes in subsequent years are allocated to the respective asset.

The costs of expansion, modernisation, or improvement leading to increased productivity, capacity and efficiency or to an extension of the useful lives of assets are capitalised when the recognition criteria are met.

Repair and maintenance costs are expensed as incurred.

If an asset within property, plant and equipment consists of multiple components with different useful lives, each part of the asset having a significant acquisition value is assessed and depreciated separately over the term of the useful life of the individual component (component approach).

The Telefónica Deutschland Group depreciates its property, plant and equipment once they are in full working condition using the straight-line method based on the following estimated useful lives of the assets. The useful lives are reviewed periodically and, where appropriate, updated based on technological progress and the rate of dismantling:

	Estimated useful life (in years)
Buildings	5 – 20
Plant and machinery (incl. telephone installations, networks and subscriber equipment)	5 – 20
Furniture, office equipment, tools and other items	2 – 10

The estimated residual values of assets and depreciation methods are also regularly reviewed and, where appropriate, adjusted at each financial year-end.

e) Impairment of property, plant and equipment, goodwill and other intangible assets

Goodwill and intangible assets which have not yet been placed in service are tested for impairment annually at the reporting date or if there are any indications. Property, plant and equipment and intangible assets with a finite useful life are tested for impairment only if any indications of impairment exist at the reporting date. Assets are tested for impairment either individually or at the level of the cash-generating unit to which the asset belongs; goodwill is always tested at the level of a cash-generating unit to which it was allocated. As of 31 December 2018, the Telefónica Deutschland Group comprises one single cash-generating unit, the reportable segment Telecommunications. Within the Telefónica Deutschland Group, there are no further identifiable groups of assets below Group level that generate cash inflows that are largely independent of the cash inflows from other assets. An impairment is required if the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

As a matter of principle, the Telefónica Deutschland Group determines the recoverable amount of a cash-generating unit based on its fair value less costs to sell. The fair value is determined based on the market capitalisation of Telefónica Deutschland Holding AG as of the reporting date. Costs to sell contain costs such as legal and consulting fees that can be directly allocated to the sale of the cash-generating unit.

If the recoverable amount of a cash-generating unit to which goodwill is allocated is less than the carrying amount of the unit, an impairment loss shall be recognised corresponding to the difference. If the impairment loss exceeds the carrying amount of the goodwill, the remainder shall be allocated pro rata on the basis of the respective carrying amounts of the other assets.

If the carrying amount of an asset exceeds its recoverable amount, the carrying amount written down to its recoverable amount and the resulting loss is recognised in the Consolidated Income Statement. Future depreciation or amortisation charges are adjusted for the asset's new carrying amount over its remaining useful life.

If the conditions for impairments recorded in earlier periods no longer apply, the relevant assets (with the exception of goodwill) are written up through profit and loss.

f) Inventories

Inventories are stated at the lower of cost and net realisable value and are written down, if necessary. Cost is determined on the basis of weighted average cost and comprises direct materials and, where applicable, direct labour cost that has been incurred in bringing the inventory to its present location and condition. Estimates of the net realisable value are based on the most reliable evidence available and are based on the amount for which the inventories are expected to sell. These estimates take into consideration the fluctuations of sales prices or costs, as well as the purpose for which the inventory is held.

If the circumstances that previously caused inventories to be written down to an amount below cost no longer exist, the amount of the write-down is reversed, so that the new carrying amount is the lower of cost and revised net realisable value.

The Group's inventory mainly consists of merchandise intended for sale to end customers. At the time of the sale or transfer of the risk to the customer, inventory is expensed through cost of sales. The change in inventories is recorded in the item Supplies.

g) Cash and cash equivalents

Cash and cash equivalents are defined as short-term, highly liquid financial investments with a maximum term of three months, which can be converted into cash at any time and are not materially impacted by the risk of a change in values.

h) Financial instruments

A financial instrument in accordance with IFRS 9, is a contract that simultaneously gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognised as soon as Telefónica Deutschland Group becomes a contractual party to the financial instrument. All standard purchases of financial assets are recognised using trade date accounting, i.e. the date on which the Telefónica Deutschland Group commits to purchase the asset. Upon initial recognition, financial instruments are measured at fair value, which generally corresponds to the transaction price. Transaction costs directly attributable to the acquisition or issuance are considered in determining the initial value if the financial instruments are not measured at fair value through profit or loss.

For the purpose of subsequent measurement, financial instruments are subdivided into the following categories:

— Financial assets measured at fair value through profit or loss

— Financial liabilities at fair value through profit or loss

— Financial assets and liabilities measured at amortised cost

— Financial assets measured at fair value through other comprehensive income (debt instruments)

Telefónica Deutschland Group does not make use of the option to classify financial assets at fair value through profit or loss upon initial recognition ("fair value option"). Likewise, the option to classify equity instruments at fair value through other comprehensive income upon initial recognition is currently not used.

In accordance with IFRS 9 financial assets are classified depending on the business model and cash flow characteristics. Reclassification of financial assets is only permitted if the business model has changed; financial liabilities may not be reclassified.

<u>Financial assets: Assessment of the cash flow criterion</u>
The cash flow criterion involves assessing whether the contractually agreed cash flows are solely interest and principal payments on the outstanding principal amount. Principal payments imply the outstanding principal repayments and interest represents remuneration for the time value of money, credit and liquidity risk and other costs and profit margins incurred during the life of the financial instrument in the course of "holding" it. In the assessment, the contractual terms of the individual instruments are analysed in detail. This also includes an analysis of possible agreements that may affect the amount or timing of contractual cash flows and jeopardise non-compliance with the criterion.

<u>Financial assets: Assessment of the business model</u>
If the cash flow criterion is met, the Telefónica Deutschland Group uses the business model criterion to assess how the financial assets are managed at portfolio level. This decision is made by persons in key positions. In particular, the objectives for the portfolio, the guidelines and practical and concrete instructions for action are taken into account. In principle, three types of business model are possible: "Hold", "Hold and Sell" and "Other". Decisive for the classification into these business models are, in particular, the frequency, volume, reasons and timing of sales of financial assets from previous periods as well as expectations regarding future sales. If the business model of financial assets is "hold" in order to collect contractual cash flows, these are measured at amortised cost. All financial assets whose main purpose is to be collected and sold are measured at fair value through other comprehensive income. If the conditions for the aforementioned business models are not met, for example if the intention to trade exists, the financial assets are allocated to the measurement category "at fair value through profit or loss".

Financial assets
Financial assets mainly include trade and other receivables, other financial assets as well as cash and cash equivalents.

Financial assets measured at fair value through profit or loss
Financial assets at fair value through profit or loss are primarily investments in start-ups. Initial and subsequent measurement is at fair value through profit or loss.

Financial assets measured at amortised cost
These mainly relate to trade receivables and other receivables as well as loans. After initial recognition, these financial assets are carried at amortised cost using the effective interest method less any impairment losses. Gains and losses are recognised in the Consolidated Income Statement when the financial assets are sold, amortised or impaired. Interest effects from the application of the effective interest method are also recognised in profit or loss.

Effective interest method: The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the interest rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount on initial recognition. The interest income or expense is recognised on an effective interest basis.

Financial assets measured at fair value through other comprehensive income
These assets are primarily trade receivables for which the “hold and sell” business model applies. These receivables are subject to the factoring program and are resold depending on the capital requirements. These are subsequently measured at fair value. Changes in fair value are recognised in other comprehensive income. However, interest income, foreign currency gains and losses, impairment losses and reversals of impairment losses are recognised in the income statement. Upon derecognition, the accumulated gains and losses in other comprehensive income are reclassified to the profit and loss statement.

Impairment of financial assets
The Telefónica Deutschland Group recognises impairment losses on all financial assets that are debt instruments and that are measured at amortised cost or at fair value through other comprehensive income in the amount of the expected credit loss, unless the loss is considered to be immaterial.

Impairment losses on financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

In the case of financial assets in the measurement category through other comprehensive income, the impairment is recognised in profit or loss and derecognised from the other comprehensive income.

In determining the impairment, a distinction must be made between the expected loss within the next 12 months and the total term. Upon initial recognition, the expected loss within the next 12 months is initially recognised as an impairment loss. This does not apply to trade receivables, contract assets and receivables from leases. If a significant increase in credit risk becomes apparent, the recognition of impairment losses is extended to the entire term.

The Telefónica Deutschland Group believes that a debt instrument has a low credit risk if its credit risk rating meets the global definition of investment grade. Accordingly, a decrease in the rating below investment grade is considered a significant increase in credit risk. In addition, the Telefónica Deutschland Group assumes that the credit risk for a financial asset has increased significantly if it is more than 30 days past due.

The Telefónica Deutschland Group continuously assesses whether financial assets carried at amortised cost or at fair value through other comprehensive income are impaired and whether the receivables are transferred to external collection partners. The Group generally assumes this to be the case if an internal collection measure has been unsuccessful.

At each reporting date, the Telefónica Deutschland Group assesses whether financial assets carried at amortised cost or at fair value through other comprehensive income are at risk of default. The Telefónica Deutschland Group generally assumes that a financial asset is at risk of default if:

- It is unlikely that the borrower will settle its loan obligations to the Telefónica Deutschland Group in full without the Telefónica Deutschland Group resorting to measures such as the realisation of collateral (if any).
- The financial asset is 90 days or more past due.
- A debtor is in severe financial difficulty or is unwilling to pay.

The gross carrying amount of a financial asset is derecognised in full or in part unless there is a realistic prospect of recovery. This is generally the case if the Telefónica Deutschland Group determines that the debtor does not have any assets or sources of income that could generate sufficient cash to repay the amounts due. Write-downs of financial assets may continue to be subject to foreclosure proceedings.

Impairment losses on trade receivables and contract assets are generally recognised at the amount of the expected credit loss over the entire term using the simplified approach. In estimating expected credit losses, the Telefónica Deutschland Group considers appropriate information that is relevant and reasonably available. This includes both quantitative and qualitative information and analyses based on the Telefónica Deutschland Group's historical experience and credit ratings, as well as forward-looking information. Expected credit losses are derived from a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all defaults and late payments (i.e. the difference between the cash flows due to the entity under the contract and the expected cash flows).

Financial liabilities

Financial liabilities include primarily trade and other liabilities and interest-bearing debt. Depending on their maturity, they are reported as current or non-current liabilities or debts. In addition, embedded derivatives are separated from financial liabilities if they are not closely related to the host contract.

<u>Financial liabilities measured at amortised cost</u>

After initial recognition, financial liabilities are subsequently remeasured at amortised cost using the effective interest method described above.

<u>Financial liabilities at fair value through profit or loss</u>

A financial liability is recognised at fair value through profit or loss if it does not follow the measurement category of amortised cost. In the case of the Telefónica Deutschland Group, derivative liabilities are included here unless they are accounted for as hedging relationships. They are presented as current or non-current liabilities or debt depending on their maturity.

Financial instruments included in this category are recorded at fair value on initial recognition and on every subsequent reporting date. If the option to measure at fair value through profit or loss is exercised, the resulting realised or unrealised gains or losses are recognised in the consolidated income statement unless they result from a change in the Group's own credit risk. These changes are recognised directly in equity. Telefónica Deutschland Group does not make use of the option of designating financial liabilities on first recognition at fair value through profit or loss ("fair value option").

Derecognition of financial assets and liabilities

Financial assets are derecognised when the rights to receive cash flows from the assets expire or when the financial assets have been transferred and the Telefónica Deutschland Group has transferred substantially all the risks and rewards incidental to ownership of the financial asset. Financial assets are also derecognised if substantially all the risks and rewards incidental to ownership of the financial assets are neither transferred nor retained.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of consideration received including the cumulative gains or losses that had been recognised directly in equity, is recognised in the Consolidated Statements of Comprehensive Income. If the Telefónica Deutschland Group does not retain or transfer substantially all risks and rewards, and retains control, it continues to recognise the transferred asset to the extent of its continuing involvement.

Financial liabilities are derecognised when the underlying obligation is settled, cancelled, or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Netting

Financial assets and financial liabilities are offset and the net amount recognised in the Consolidated Statement of Financial Position if, and only if, the Telefónica Deutschland Group currently has a legally enforceable right to set off the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivative financial instruments
Derivatives are presented as assets if their fair value is positive and as liabilities if their fair value is negative. Changes in the fair value of derivative financial instruments are recognised periodically in the Consolidated Income Statement. In the current financial year, the Telefónica Deutschland Group has two interest rate swaps (derivative financial instrument) to hedge interest-rate risks.

All factors that market participants would normally consider are included in the measurement of the fair value of the interest rate swaps, including the credit risks of the contract parties. The fair value of the interest swaps results from discounting the expected future payments over the remaining term of the contract using current market interest rates and yield curves.

Hedging transactions: Are all requirements in accordance with IFRS 9.6.4.1 and documented accordingly, the Telefónica Deutschland Group designates a hedging relationship consisting of the underlying transaction and the corresponding hedging transaction.

If the company hedges a fair value (fair value hedges), the portion of profit or loss attributable to the hedged risk is allocated to the carrying amount of the hedged item. The carrying amount of the hedged item is increased or decreased by the profit or loss that is attributable to the hedged risk. For hedged items that are recorded at amortised cost, the increase or decrease of the carrying amount is completely amortised at maturity of the hedged item.

From the date the hedging instrument expires, or is sold, terminated, or exercised, the accounting of the hedging relationship also ends. The same applies if there is no longer a hedging transaction within the meaning of IFRS 9.

i) Provisions

Pension obligations
The Telefónica Deutschland Group's obligations under defined benefit pension plans are determined using the projected unit credit method and are recognised as personnel expenses unless otherwise stated below.

The Telefónica Deutschland Group determines the net interest expense recognised in the financial result (net interest income) by multiplying the net defined benefit liability (asset) at the beginning of the period by the interest rate used to discount the defined benefit obligation at the beginning of the period.

The discount rate is determined using market yields at the end of the reporting period on fixed-interest high-quality corporate bonds.

The net defined benefit liability (asset) is determined at every reporting date on the basis of an actuary report based on assumptions that are explained below. If the plan assets less the defined benefit obligation results in a surplus, then the level of the reported net defined benefit asset is limited to the present value of economic benefits associated with the plan asset surplus in the form of refunds from the plan or on the basis of reduced future contributions. In addition, in the event of a surplus of the plan, the remeasurement component includes the change in the net defined benefit asset from the application of the asset ceiling, to the extent not taken into account in the net interest component.

Assets incurred by the Telefónica Deutschland Group to meet its pension obligations, which do not qualify as plan assets in accordance with IAS 19, are reported under other financial assets.

As part of the determination of the present value of economic benefits associated with the plan asset surplus, any existing minimum funding requirements are taken into account.

The remeasurement component includes, on the one hand, the actuarial gains and losses from the valuation of the defined benefit obligation and, on the other hand, the difference between the actual return on plan assets and the amounts contained in the net interest on net defined benefit liability (assets).

The company recognises all remeasurement effects in other comprehensive income, whereas the remaining components of the net pension expense (service cost and net interest) are recognised in the Consolidated Income Statement.

In the case of defined contribution plans, the relevant company pays contributions to special purpose pension institutions that are recognised in personnel expenses.

Other provisions including termination benefits
Provisions are recognised when the Telefónica Deutschland Group has a present (legal or constructive) obligation, as a result of a past event that can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted and the corresponding

increase in the provision due to the passage of time is recognised as interest expense. For the purpose of discounting, the Group applies non-risk market interest rates before tax which are matched to the duration. This does not apply to other long-term employee benefits (partial retirement obligations), for which the discount rate is determined on the same basis as for pension obligations. Potential risks are fully taken into account in determining the settlement amount. If the Telefónica Deutschland Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only if the reimbursement is virtually certain. The expense relating to any provision is presented, if applicable, net of any reimbursement, in the Consolidated Income Statement.

Other provisions also include partial retirement obligations, to which the block model applies. Under this model, an outstanding settlement amount is incurred on the part of the employer during the employment phase that equates to the as yet uncompensated portion of work. After the end of the employment phase and during the reporting periods of the second block of the model (time-off phase), in which the employee receives part-time consideration without performing work, the liability is amortised accordingly.

Top-up amounts are accumulated in the amount of the present value of all future payments over a certain time period. The period over which the top-ups are earned extends to the end of the employment phase for all payments. The provision for partial retirement is allocated to other long-term employee benefits.

Provisions for death benefit obligations are recognised on the basis of actuarial reports based on the same parameters as those for pension obligations.

Provisions for restructuring including termination benefits are recognised if there is a detailed, formal plan that provides for the individual measures and has been adopted by the appropriate managing bodies or when the entity is effectively no longer able to avoid the obligations. In addition, implementation is expected to begin as soon as possible and a valid expectation has been raised in those affected that the restructuring will be carried out.

The provisions for restructuring include only those expenses necessary and directly attributable to the respective measures.

Provisions for the costs of decommissioning or dismantling and retirement are recognised if the Telefónica Deutschland Group has a legal or constructive obligation to dismantle the relevant items after their utilisation. The estimated costs are recognised as an asset and a provision. Changes in the timing or estimation of the costs are reflected in the asset and in the provision, respectively.

Asset retirement obligation
Dismantling obligations arise from the contractual obligation to return the leased property in the condition in which it was when the contract commenced. Since the costs for the future decommissioning have not yet been determined at the time the contract is concluded, these costs are estimated.

The estimated costs of dismantling the network as well as branches and office locations, and interest rate movements are evaluated annually.

j) Revenues and expenses

Revenues and expenses are recognised in the Consolidated Income Statement in accordance with the accrual method (i.e. when the respective performance obligation has been met), irrespective of whether payment has actually been received or paid.

k) Revenues from contracts with customers

The Telefónica Deutschland Group mainly generates revenues from service contracts and sales of mobile devices.

In accordance with IFRS 15, revenue is recognised in an amount that reflects the consideration for the performance obligations. To implement this principle, a five-step model is used to determine the amount and timing of sales:

- Identification of the contract,
- Identification of the distinct performance obligations
- Determination of the transaction price,
- Allocation of the transaction price,
- Revenue recognition with satisfaction of the performance obligation

<u>Revenues from service and multi-component contracts</u>
Telefónica Deutschland Group provides both mobile and fixed-line services that are satisfied over a specified period of time. The progress of the performance obligation is determined using output-based methods. Applying output-based methods, revenue is recognised on the basis of the value of services transferred to date relative to the remaining services promised under the contract. Accordingly, unsteady discounts on this service are recognised over the term of the contract on a straight-line basis.

In addition to pure service contracts, Telefónica Deutschland Group offers its customers products under multi-component contracts. In particular, discounts are granted on mobile services if a mobile device is purchased together with the mobile services. There is no discount on the mobile device.

The discounts are allocated, whereby all the contractual components which affect the transaction price of a contract are considered when calculating the allocation factor. Connection fees to be paid by the end customer are included in the allocation of contractual components as part of the overall assessment and are recognised as revenue accordingly over the underlying contract term. Discounts granted for the simultaneous usage of a mobile contract and a DSL contract are reported as a reduction of mobile service revenue and fixed line/DSL revenue based on the relative stand-alone selling price of the underlying tariffs.

In determining the date of satisfaction of the performance obligations (e.g. in the case of mobile device sales), the transfer of control to the end customer was defined as the relevant assessment criterion.

When determining the transaction price, significant financing components must be taken into account. In accordance with the Standard, Telefónica Deutschland Group does not consider these financing components because the analysis of the underlying contracts showed that they are insignificant.

In accordance with IFRS 15, it is generally possible to apply the accounting rules to a portfolio of similarly structured contracts if no material effects are expected compared with the individual contract consideration. The Telefónica Deutschland Group analysed the existing contracts and aggregated them into portfolios. The Group applies the sales regulations at the level of these defined portfolios.

Capitalisation of costs of obtaining a contract
The Telefónica Deutschland Group pays commissions to dealers and agents for the acquisition of customers. These costs are capitalised as costs of obtaining a contract if they are incurred in connection with the obtaining of a contract and can be directly allocated to a customer.

Amortisation will depend on how the performance obligations to which the costs relate are transferred to the customer under the relevant contract. Under this method, the costs of obtaining a contract will be recognised in Consolidated Income Statement on a straight-line basis over the underlying amortisation period.

Within the capitalisation of costs of obtaining a contract, the Telefónica Deutschland Group makes use of the practical expedient defined in the standard and only capitalises costs of obtaining a contract with an underlying amortisation period of more than one year. With an amortisation period of up to one year, the costs are expensed as incurred.

In addition to the capitalisation of costs of obtaining a contract, the standard also regulates the capitalisation of costs to fulfil a contract. The analysis of the underlying contracts showed that there are no costs to fulfil a contract that Telefónica Deutschland Group is required to report in the Consolidated Statement of Financial Position.

Accounting for contract modifications
According to IFRS 15, there are more complex requirements with regard to the reporting of contract modifications compared to the regulations contained in IAS 18. In some cases, contract modifications are accounted for prospectively, forming a separate contract. In other cases, the contract modifications result in a modification of the existing contract. As a result, various cumulated income adjustments may occur.

Principal versus agent considerations
According to IFRS 15, the assessment if Telefónica Deutschland Group is the principal or the agent is based on whether the Group has control of particular goods or services before they are transferred to the customer.

l) Income tax

Income taxes include both current and deferred taxes. Current and deferred tax are recognised in the Consolidated Income Statement unless they relate to business combinations or items directly recognised in equity or in other comprehensive income. To the extent that deferred taxes relate to items recognised directly in equity or in other comprehensive income, these are also recognised in equity or in other comprehensive income.

Current tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from, or paid to, the tax authorities. To calculate the amount, tax rates and tax laws applicable or enacted on the reporting date are used.

Deductible temporary differences and tax losses carried forward result in deferred tax assets in the Consolidated Statement of Financial Position. Taxable temporary differences give rise to deferred tax liabilities in the Consolidated Statement of Financial Position. Temporary differences arise due to the difference between the tax bases of the assets and liabilities and their respective carrying amounts.

The Telefónica Deutschland Group determines deferred tax assets and liabilities by applying the tax rates that will be effective when the corresponding asset is received or the liability is settled. Tax rates and tax laws that are enacted (or substantively enacted) at the reporting date are used.

Deferred tax assets and liabilities are not discounted to present value and are classified as non-current, irrespective of the date of their reversal.

The carrying amount of deferred tax assets is reviewed at each reporting date and recognised to the extent that it is probable that a sufficient taxable income will be available to utilise the deferred tax asset in the future. Unrecognised deferred tax assets are included in this review.

Deferred tax liabilities on investments in subsidiaries, branches, associates and joint operations are not recognised if the parent company is in a position to control the timing of the reversal and if the reversal is unlikely to take place in the foreseeable future. Cases in which no deferred tax liabilities were recognised for subsidiaries are of minor significance in terms of amount.

Deferred tax assets and liabilities arising from the initial recognition of the purchase price allocation of business combinations impact the amount of goodwill. However, subsequent changes in tax assets acquired in a business combination are recognised as an adjustment to profit or loss.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Uncertain income tax items are accounted at the estimated amount of corresponding tax payments.

m) Leases

The accounting of a lease is based on the substance of the agreement and requires an assessment of whether the fulfilment of the agreement is dependent on the use of a specific asset and whether the agreement grants the Telefónica Deutschland Group a right to use the asset.

Leases where the lessor does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense or as income on a straight-line basis over the term of the lease in the Consolidated Income Statement.

Leases are classified as finance leases when the terms of the lease transfer substantially all risks and rewards incidental of ownership of the leased item to the Telefónica Deutschland Group or from the Telefónica Deutschland Group to the end customer. Leases are recorded at the inception of the lease, in accordance with their nature and the associated liability or receivable from financing leases, at the lower of the present value of the minimum lease payments or the fair value of the leased object. Lease payments are quantified at the principal and interest of the lease liability in order to apply a consistent effective interest rate over the outstanding balance over the term of the lease. Finance costs and income are recognised over the term of the lease in the financial result in the Consolidated Income Statement. Liabilities and receivables from financing leases are recalculated when estimates are changed.

If a lease includes a renewal option, the Group considers if these renewals are likely at the time of entering into the agreement. If the original estimate, as it relates to potential renewals, changes over the life of the lease, the Group will adjust the estimated future lease payments for operating leases accordingly.

In sale and leaseback transactions resulting in a finance lease, the asset sold is not derecognised and the funds received are considered financing for the asset during the term of the lease. Any excess of the sales proceeds over the carrying amount is accrued and distributed through profit and loss over the term of the lease. If the corresponding assets are further leased under a finance lease, the asset is immediately derecognised through profit and loss.

However, when the sale and leaseback transaction results in an operating lease, and it is clear that both the transaction and subsequent lease income are established at fair value, the asset is derecognised and any gain or loss generated on the transaction is recognised.

n) Use of estimates, assumptions and judgements

The key assumptions concerning the future and other relevant sources of uncertainty in estimates at the reporting date that could have a significant impact on the Consolidated Financial Statements within the next financial year are discussed below. The estimates and associated assumptions are based on historical experience as well as other factors considered to be relevant.

A significant change in the facts and circumstances on which these estimates and related judgements are based could have a material impact on the Telefónica Deutschland Group's net assets, financial position and results of operations.

Unforeseeable development outside management's control may cause actual amounts to differ from the original estimates. In this case the underlying assumptions and, if necessary, the carrying amounts of the pertinent assets and liabilities will be adjusted accordingly.

Changes in estimates are recognised in the period in which they occur, and also in subsequent periods if the changes affect both the reporting period and the subsequent periods.

Pensions / defined benefit plans
The determination of the present value of defined benefit obligations involves the application of actuarial assumptions.

To determine the interest rate for the defined benefit pension plans, the "bond universe" is first established on the basis of the AA corporate bonds available on the reporting date. On the basis of these bonds a yield curve is calculated. Then a uniform average interest rate is calculated with a cash flow that corresponds to the duration of the Telefónica Deutschland Group. This latter interest rate is the actuarial discount rate used.

The determination of the expected increase in pensions is aligned with the long-term inflation expectations in the euro area.

The assumption on the fluctuation of the respective employees is based on historical experience. The mortality rate underlying the calculation of the present value of the defined benefit obligation is based on official statistics and mortality tables.

Property, plant and equipment, intangible assets and goodwill
Accounting for investments in property, plant and equipment and intangible assets involves the use of estimates to determine the useful life for depreciation and amortisation purposes and to assess the fair value of assets acquired in a business combination at the acquisition date.

Determining the useful life requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgement involved in making technological development assumptions, particularly in connection with the timing and scope of future technological advances.

The Telefónica Deutschland Group regularly evaluates the recoverable amount of its cash-generating unit to identify potential impairment of assets or goodwill. Determining the recoverable amount of the cash-generating unit to which goodwill is allocated also entails the use of assumptions and estimates and requires a significant element of judgement. The fair value is determined based on the market capitalisation of Telefónica Deutschland Holding AG as of the reporting date.

Deferred income taxes
The Telefónica Deutschland Group assesses the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on the Telefónica Deutschland Group's ability to generate taxable income over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of the taxable income, which are based on internal projections and updated to reflect the latest trends and estimates. In the past, time horizons of five to seven years have been used to measure loss carried forward and temporary differences. The time horizons used have not changed since the previous year.

The recognition of tax assets and liabilities depends on a series of factors, including estimates with respect to timing and the realisation of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments of the Telefónica Deutschland Group could differ from the estimates made by the Telefónica Deutschland Group as a result of changes in tax legislation or unforeseen transactions that could affect the tax balance.

Provisions
Both the recognition and the valuation of provisions involve judgements to a high extent. The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, bearing in mind all available information at the reporting date, including the opinions of independent experts such as legal counsel or consultants.

Given uncertainties inherent in the estimates used to determine the amount of provisions, the actual outflows of resources may differ from the amounts recognised originally on the basis of the estimates.

Termination benefits
If employees are offered voluntary severance, the benefits are measured on the basis of the number of employees expected to accept the offer. These benefits are recognised at the amount of the obligation regardless of its term.

The amount for termination benefits is determined on the basis of various assumptions, which also require judgements and estimates and can therefore entail uncertainties. These primarily include the assumed salary, length of employment and gardening leave period until the date of departure.

Revenue recognition
Determining the stand-alone selling price of the performance obligation mobile service tariff postpaid
Every mobile service tariff postpaid is classified as a distinct performance obligation as part of the identification of the distinct performance obligations in the five-step model of IFRS 15. To determine the stand-alone selling price of this performance obligation, the transaction price specified on the invoice is used first. Taking into account the average discounts granted to customers of Telefónica Deutschland Group, this transaction price is then reduced by a lump sum rate.

The reduced transaction price corresponds with the stand-alone selling price of the performance obligation concerned.

Determination of the average term of the lease
The Telefónica Deutschland Group offers customers the option of concluding contracts with a fixed minimum term. When concluding such a term contract, both Telefónica and the customer are initially bound by the respective contract term. However, Telefónica grants the customer the right to extend the contract prematurely. The contract extensions regularly exercised by customers within this framework lead to an overall shortening of the legally enforceable minimum contract term.

The reduction in the term is determined on the basis of past values and taken into account accordingly when determining the transaction price.

Potential changes in estimates could lead to changes in both the amount and timing of future recognition of revenues.

Joint operations
TCHIBO Mobilfunk Beteiligungs-GmbH and TCHIBO Mobilfunk GmbH & Co. KG were classified as joint operations under application of IFRS 11.17, taking into account the specific facts and circumstances. In particular, the fact that the contractual partners have rights to the entire production output generated by both companies supports our assessment that the arrangement constitutes joint operations.

Contingent Assets and Liabilities
Within the scope of determining the contingent assets and liabilities, (see Note 17 Contingent Assets and Liabilities), estimates, assumptions and discretionary decisions are also used.

These relate, inter alia, to risks from the assertion of patent infringements and participations in judicial and extra-judicial proceedings within the scope of ordinary business.

o) Significant changes of estimates, assumptions and judgements

Amended network planning
As the network consolidation progresses, original assumptions must be adjusted. These adjustments will lead to longer, as well as shorter, useful lives of certain network elements.

The useful lives of the non-current assets attributable to this part of the network were adjusted to reflect the new assumptions after the decision to amend the planned network.

As of 31 December 2018, the network consolidation was largely completed.

Trade payables
Trade payables are reclassified to other financial liabilities when extended payment terms are agreed which bear interest, if the extended payment terms exceed standard industry terms. This reclassification reflects the changed nature of these liabilities.

p) Consolidation methods

The consolidation methods applied are as follows:

- Full consolidation method for companies where the Telefónica Deutschland Group has control. Control is assumed if the Telefónica Deutschland Group has power over an investee and is exposed to variable returns or has rights to these returns. In addition, the ability must exist to use its power over the investee to affect the returns.

- Proportionate consolidation of the attributable assets, liabilities, expenses and income for companies jointly controlled with third parties (joint operations), so that the corresponding share of total assets, liabilities, expenses, income and cash flows of these companies is integrated in the corresponding items in the Consolidated Financial Statements.

All material receivables and liabilities and transactions between the consolidated companies were eliminated in consolidation. The returns generated on transactions involving goods that may be capitalised or services by subsidiaries with other Telefónica Deutschland Group companies were also eliminated in consolidation.

The financial statements of the consolidated companies are prepared using the same accounting policies and have the same financial year-end as the parent company's individual financial statements. In the case of Group companies whose accounting and valuation methods differ from those of the Telefónica Deutschland Group, adjustments are made in consolidation in order to present the Consolidated Financial Statements on a consistent basis.

The Consolidated Income Statement and Consolidated Statement of Cash Flows include the revenues and expenses as well as the cash flows of companies that are no longer in the Telefónica Deutschland Group up to the date on which the related investment was sold or the company was liquidated.

Revenues and expenses as well as the cash flows of new Group companies are included from the date on which the investment was acquired or the company was established until the end of the year.

q) Standards and IFRIC interpretations issued and effective as of 31 December 2018

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

For further information on IFRS 9, please refer to Note 9 Further information on financial assets and financial liabilities.

The following table presents the effects which arise from the first-time application of the two standards:

(in EUR million)	31 December 2017	Adjustment due to IFRS 15	Adjustment due to IFRS 9	**1 January 2018**
Non-current assets				
Trade and other receivables	69	1	–	70
Other non-financial assets	129	107	–	236
Deferred tax assets	162	(33)	–	129
Current assets				
Trade and other receivables	1,265	(49)	(2)	1,214
Other non-financial assets	186	329	–	515
Equity				
Retained earnings	523	276	(2)	797
Non-current liabilities				
Deferred income	255	2	–	257
Deferred tax liabilities	1	101	–	102
Current liabilities				
Deferred income	527	(25)	–	502

IFRS 15: Revenue from Contracts with Customers

IFRS 15 anchors the rules from various standards and interpretations with a cross-industry approach into one unified standard. IFRS 15 has therefore superseded IAS 18 – Revenue and IAS 11 – Construction Contracts in particular. IFRS 15 defines a comprehensive framework to determine whether revenue is reported, the amount of the revenue and the time said revenue must be reported.

The first-time application of the new standard commencing on 1 January 2018 required an analysis of the contracts concluded in previous financial years that were not yet completed as of 1 January 2018. The standard gives the user the choice between two methods for the time of the first-time application:

— fully retrospectively to each prior reporting period with certain practical expedients,

— modified retrospectively by cumulative adjustments to the opening balance of equity in the reporting period.

During the transition to IFRS 15, the Telefónica Deutschland Group decided to apply the modified retrospective method, according to which the accumulated adjustment must be recognised as of 1 January 2018. As a result, the Group did not apply the requirements of IFRS 15 to the comparative period presented. The comparative period 2017 has been set up in line with the accounting policies presented in the Consolidated Financial Statements of the financial year ended 31 December 2017 (see Note 3 Accounting Policies).

With the introduction of IFRS 15, it was partially necessary to adjust certain accounting processes. In particular, the requirements for the analysis of the customer contracts as part of the product creation process needed to be specified further in order to meet the requirements of IFRS 15. An IT tool was also introduced to calculate the adjustments within the scope of IFRS 15.

The total adjustment of equity (after taxes) in the opening balance arising from the first-time application of IFRS 15 was EUR 276 million as of 1 January 2018.

The biggest effect of the adjustments resulted from the capitalisation of cost of obtaining contracts in other non-financial assets. For contracts which had not yet ended as of 31 December 2017, an amount of EUR 419 million was capitalised.

However, costs of obtaining a contract are not capitalised in the tax base relevant for the Group, but are recognised directly in the Income Statement. To ensure proper representation of this temporary difference, deferred taxes amounting to EUR 134 million were recognised as at the first-time application, which reduces equity accordingly. These were partially offset against existing deferred tax assets.

In addition to the two largest effects resulting from the capitalisation of costs of obtaining a contract and the deferred taxes formed thereon, the application of IFRS 15 also resulted in further effects on the Consolidated Statement of Financial Position due to the differences in the recognition of contracts with customers. Trade and other receivables fell by EUR 48 million with an effect on equity. The other non-financial assets increased by EUR 17 million recognised directly in equity. Deferred income decreased by EUR 22 million, recognised directly in equity.

The following table shows the balances as of 31 December 2018 for which a change arises due to the application of IFRS 15.

(in EUR million)	**Consolidated Statement of Financial Position as of 31 December 2018**	Adjustments	Value without application of IFRS 15
Non-current assets			
Trade and other receivables	70	(3)	67
Other non-financial assets	206	(107)	99
Deferred tax assets	204	33	236
Current assets			
Trade and other receivables	1,301	34	1,335
Other non-financial assets	413	(345)	68
Equity			
Retained earnings[1]	(205)	(307)	(512)
Non-current liabilities			
Deferred income	176	37	214
Deferred tax liabilities	177	(104)	72
Current liabilities			
Deferred income	535	(14)	521

[1] The adjustment as of 31 December 2018 includes the effects recognised in equity in connection with the first-time application of IFRS 15 and the adjustment of the result for the period as of 31 December 2018 due to the first-time application of IFRS 15.

Without the first-time application of IFRS 15, the following differences in the Consolidated Income Statement would arise for the period from 1 January to 31 December 2018.

(in EUR million)	Consolidated Income Statement for the period from 1 January to 31 December 2018	Adjustments	Value without application of IFRS 15
Revenues	**7,320**	**(30)**	**7,290**
Mobile business	6,539	(28)	6,512
Mobile service revenues	5,267	(22)	5,245
Handset revenues	1,272	(6)	1,266
Fixed line/DSL business revenues	767	(12)	755
Other revenues	13	10	23
Impairment losses in accordance with IFRS 9	(79)	1	(77)
Other expenses	**(2,552)**	**(7)**	**(2,559)**
Operating income before depreciation and amortisation (OIBDA)	**1,797**	**(35)**	**1,762**
Financial result	**(42)**	**2**	**(41)**
Income tax	**3**	**3**	**5**

r) New standards and IFRIC interpretations issued, but not yet effective as of 31 December 2018

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

Standards, interpretations and amendments		Mandatory application for financial years beginning on or after
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatment	1 January 2019
Amendments to IFRS 9	Financial instruments' - on prepayment features with negative compensation	1 January 2019
Amendments to IAS 28	Investments in associates' - on long term interests in associates and joint ventures	1 January 2019[1]
Annual Improvements to the IFRS 2015 – 2017 Cycle	Amendments to IFRS 3 and 11 as well as IAS 12 and 23	1 January 2019[1]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019[1]
Various	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020[1]
Amendments to IFRS 3	Definition of business	1 January 2020[1]
Amendments to IAS 1 and IAS 8	Definition of material	1 January 2020[1]
IFRS 17	Insurance Contracts	1 January 2021[1]

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

IFRS 16: Leases
On 13 January 2016, the IASB issued IFRS 16 – Leases, which will replace IAS 17 and other existing interpretations. The standard was adopted into European law on 9 November 2017. Application of the standard is mandatory for financial years beginning on or after 1 January 2019.

Under IFRS 16, the lessee must account for all contracts identified as leases such that the associated right of use is recognised as an asset. The current distinction between finance leases and operating leases in accordance with IAS 17 will no longer apply to the lessee. Using the interest rate implicit in the lease, the present value of the lease payments that are not paid is to be recognised as a lease liability. If that cannot be readily determined, the incremental borrowing rate is applied. The right-of-use asset acquired in this context is to be recognised as an asset. The lease liability and the right-of-use asset are reduced by lease payments made or depreciation over the lease term. Liabilities are measured using the effective interest method. As a rule, this method and the resulting interest effects lead to higher expenses at inception of the lease contract. Recognition exemptions are possible for leases for which the underlying assets is of low value or short-term leases (lease term of 12 months or less). The assessment of the term of the lease in which the Telefónica Deutschland Group acts as lessee or lessor is generally based on the non-cancellable period of a lease. If a lease contains extension options or termination options for the lessee, these are taken into account if they are assessed as reasonably certain on the reporting date. All relevant facts and circumstances (e.g. technology, regulation, competition, business model) are taken into account. If the lease contract contains a mutual right of termination, the lessor's right is also taken into account in determining the lease term. IFRS 16 requirements for lessors are similar to the current standard IAS 17. In the event of subleasing by the Telefónica Deutschland Group, which is classified as a finance lease in accordance with IFRS 16.61 et seqq., the net investment is initially measured by discounting the lease payments not yet received. The lessor's allocation of contractual payments to non-leasing components will in future be explicitly regulated by reference to IFRS 15. In addition to the aforementioned systematic change, IFRS 16 includes further amendments and new requirements such as the definition of leases, accounting for sale and leaseback transactions and subleases, disclosure in the Statement of Financial Position and the scope of disclosures required in the notes.

As of 1 January 2019, the Telefónica Deutschland Group will make use of the option not to recognise a right-of-use asset for leases for which the underlying assets is of low value or short-term leases (lease term of 12 months or less). The Telefónica Deutschland Group uses a practical expedient of IFRS 16.15 to separate lease components from non-lease components in exceptional cases. In particular, the non-lease components are separated for the following areas: Roof locations and site areas for the construction of antennas, shops, office buildings and car leasing.

The remaining lease payments are discounted using the incremental borrowing rate. The interest rate of the head lease is used for discounting lease payments from subleases that have not yet been received.

The Telefónica Deutschland Group does not exercise the option of early application of IFRS 16. The changeover to IFRS 16 for accounting as lessee is based on the modified retrospective approach, according to which the cumulative effect of first-time application is an adjustment to the opening balance of retained earnings in the 2019 reporting period. The Telefónica Deutschland Group will not adjust the comparative figures for the prior-year period. For the opening balance as of 1 January 2019, the practical expedient of IFRS 16.C3 is applied with regard to the classification of leases. This means that at the time of first-time application it is not reassessed whether a contract constitutes or contains a lease. Instead, IFRS 16 is applied to contracts that were previously identified as leases under IAS 17 and IFRIC 4. IFRS 16 is not applied to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. In addition, the Telefónica Deutschland Group will make use of the option to account for leases that end within 12 months of initial application as short-term leases during the transition period. IFRS 16.C8 provides an option for recognition of right-of-use assets as of 1 January 2019 for leases previously classified as an operating lease, which can be exercised on lease-by-lease basis. The Telefónica Deutschland Group will apply the alternative IFRS 16.C8 (b) (ii) for the majority of its contracts, so that the right-of-use assets are measured in the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. In the transition phase, valuation is carried out excluding the initial direct costs. As of 1 January 2019 existing finance leases for which Telefónica Deutschland Group is the lessee are recognised at the carrying amount determined as at 31 December 2018.

The Telefónica Deutschland Group has analysed and evaluated the standard for possible effects in a Group-wide project. Contracts, processes and systems were analysed as part of this project. The Group is a lessee with a very high number of leasing contracts for various assets. A significant portion of these contracts is accounted for as operating lease under the current standard IAS 17, with lease payments being recognised generally on a straight-line basis over the contract term.

Based on the results of the project, the Group expects the following effects:

— In the opening balance as of 1 January 2019, right-of-use-assets in a bandwith between EUR 2.6 billion and EUR 3.2 billion and lease liabilities in a bandwith between EUR 2.5 billion and EUR 3.1 billion will approximately be recognised. The difference of EUR 84 million, respectively EUR 87 million, between the right-of-use-assets and the lease liabilities results mainly from the adjustment of the right-of-use assets on the basis of the lease payments already made and deferred.

— The total estimated adjustment of equity in the Telefónica Deutschland Group's opening balance as of 1 January 2019 is EUR -1 million.

— Upon implementation of IFRS 16, obligations from contracts previously classified as operating leases must be recognised as right-of-use assets and corresponding liabilities. The leases mainly affected by this change relate to: Roof locations for the construction of antennas, leased lines (Dark Fiber) and shop and office buildings. As a result, there will be a significant increase in lease liabilities, fixed assets and net financial debt in the 2019 financial year. Deferred expenses for lease payments made in advance will be significantly reduced. Payments for the principal portion of the lease liability will be shown in future within cash flow from financing activities with a corresponding increase in cash flow from operating activities.

— Future depreciation and interest expense on right-of-use assets and lease liabilities will replace lease expense in the Consolidated Income Statement. This will have a positive effect on the operating result before depreciation and amortisation (OIBDA) and the operating income in the 2019 financial year. The financial result, on the other hand, will be negatively impacted in the 2019 financial year.

The conversion to IFRS 16 does not have any significant effects on the Telefónica Deutschland Group as lessor. There is one exception for subleases of shop space. These were previously accounted for as operating leases. In accordance with IFRS 16, the majority of these subleases are classified as finance leases. The estimated amount of net investments will be between EUR 10 million and EUR 20 million.

With regard to the obligations from operating leases, which are presented in the Notes (see Note 18 Operating Leases Purchase and Other Contractual Obligations), the Telefónica Deutschland Group expects that the main differences in the valuation of the new lease liabilities will result from the following circumstances:

— Deviation in the population of the contracts: The lease liabilities do not include leases for which the underlying assets are of a low value or short-term leases (lease term of 12 months or less).

— Extension options and termination options: Options whose exercise or non-exercise is considered reasonably certain are included in the measurement of the lease liability. The measurement of obligations from operating leases may depend on a different assessment of those options. One example is contracts that can be terminated by the Telefónica Deutschland Group without payment of a contractual penalty. Potential payments beyond the date of termination are not taken into account for the purpose of measuring of the obligations from operating leases. Under IFRS 16, on the other hand, the term beyond the termination date can be taken into account if the non-exercise of the termination option is deemed reasonably certain. In this case, the lease liabilities are higher than the obligations from operating leases.

— Provisions for restructuring relating to operating leases: Restructuring provisions already recognized in the Consolidated Statement of Financial Position are not to be recognized again in obligations from operating leases. On the other hand, the payments still to be made are to be taken into account in lease liabilities.

— Legal obligation before inception date of the contract: With both parties signing the agreement, the Telefónica Deutschland Group has a reportable obligation from operating leases. Under IFRS 16, on the other hand, lease liabilities are not recognized until the inception date.

Additional disclosures

Telefónica Deutschland Group expects to adopt all required amendments. Except as disclosed otherwise, the Group does not expect the new and revised standards to have a material impact on the net assets, financial position and results of operations, as a result of the application of future standards, interpretations and amendments.

4. Selected Notes to the Consolidated Statement of Financial Position

4.1. Goodwill

(in EUR million)	**2018**	2017
Carrying amount of goodwill at 1 January	**1,960**	**1,932**
Additions due to acquisition	–	28
Carrying amount of goodwill at 31 December	**1,960**	**1,960**

The increase of EUR 28 million in financial year 2017 resulted from the acquisition of two companies.

The impairment test for goodwill, which was carried out at the level of the Telecommunications cash-generating unit, did not result in an impairment in financial year 2018 for goodwill because the recoverable amount of EUR 10,088 million (2017: EUR 12,373 million), which is based on the fair value less costs to sell, exceeded the carrying amount of the cash-generating unit. Furthermore, the Group did not recognise an impairment charge in financial year 2017.

The impairment test is described in Note 3 Accounting Policies.

4.2. Other intangible assets

(in EUR million)	Service concession arrangements and licences	Customer bases	Software	Thereof own work capitalised	Brand names	Others	Construction in progress/ prepayments on intangible assets	Other intangible assets
Cost								
As of 1 January 2017	**10,722**	**3,075**	**1,136**	**148**	**104**	**45**	**1,206**	**16,288**
Additions	–	1	279	28	–	0	(1)	278
Disposals	(6)	–	(40)	(2)	(2)	(1)	–	(50)
Reclassifications	858	–	5	(1)	–	–	(863)	–
As of 31 December 2017	**11,574**	**3,076**	**1,379**	**173**	**101**	**44**	**342**	**16,516**
As of 1 January 2018	**11,574**	**3,076**	**1,379**	**173**	**101**	**44**	**342**	**16,516**
Additions	–	–	263	30	–	0	6	269
Disposals	–	–	(65)	(1)	–	(2)	–	(66)
Reclassifications	–	–	4	(0)	–	–	(3)	1
As of 31 December 2018	**11,574**	**3,076**	**1,582**	**201**	**101**	**42**	**344**	**16,719**
Accumulated amortisation								
As of 1 January 2017	**(8,473)**	**(862)**	**(670)**	**(100)**	**(41)**	**(26)**	**–**	**(10,072)**
Additions	(412)	(328)	(245)	(23)	(15)	(8)	–	(1,008)
Disposals	6	–	40	2	2	1	–	50
Reclassifications	–	–	–	0	–	–	–	–
As of 31 December 2017	**(8,879)**	**(1,190)**	**(875)**	**(121)**	**(54)**	**(33)**	**–**	**(11,030)**
As of 1 January 2018	**(8,879)**	**(1,190)**	**(875)**	**(121)**	**(54)**	**(33)**	**–**	**(11,030)**
Additions	(412)	(328)	(278)	(26)	(3)	(7)	–	(1,029)
Disposals	–	–	65	1	–	2	–	66
Reclassifications	–	–	–	–	–	–	–	–
As of 31 December 2018	**(9,291)**	**(1,518)**	**(1,089)**	**(146)**	**(57)**	**(38)**	**–**	**(11,993)**
Net book value								
As of 31 December 2017	**2,695**	**1,886**	**504**	**52**	**48**	**11**	**342**	**5,485**
As of 31 December 2018	**2,283**	**1,557**	**493**	**56**	**45**	**4**	**344**	**4,727**

Licences
As of 31 December 2018, licences consist primarily of the licences listed below:

In August 2000, Telefónica Germany GmbH & Co. OHG acquired a UMTS licence (3G) that will expire on 31 December 2020. In May 2010, Telefónica Germany GmbH & Co. OHG acquired frequency usage rights in the 2.0 GHz band that will expire in December 2025. As part of the E-Plus Group acquisition on 1 October 2014, another UMTS licence, which will expire on 31 December 2020, as well as additional frequency usage rights in the 2.0 GHz band that will expire in December 2025 were acquired. The carrying amount as of 31 December 2018 is EUR 439 million (2017: EUR 646 million). The 3G licences are amortised on a straight-line basis over the respective useful life. The remaining useful lives are between two and seven years.

In May 2010, Telefónica Germany GmbH & Co. OHG also acquired frequency usage rights used for LTE (4G), among others, that will expire in 2025. With the acquisition of the E-Plus Group on 1 October 2014, additional frequency usage rights were acquired by the Telefónica Deutschland Group that can be used for LTE and run until

December 2025. In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid for two paired blocks in the 1.8 GHz range, which have been used from 1 January 2017 and are limited until December 2033. Furthermore, there are LTE licences with terms until December 2025/December 2033. The carrying amount of the usage rights as of 31 December 2018 is EUR 1,504 million (2017: EUR 1,686 million). The 4G licences are amortised on a straight-line basis over the respective useful life. The remaining useful lives are between seven and 15 years.

In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid for two paired blocks in the 900 MHz range (2G), which will be used from 1 January 2017 and have a term until December 2033. The carrying amount of the usage rights as of 31 December 2018 is EUR 340 million (2017: EUR 363 million). The licences are amortised on a straight-line basis over their useful lives. The remaining useful life is 15 years.

Customer bases
The customer bases are primarily a result of the acquisition of the E-Plus Group by Telefónica Deutschland. The customer bases acquired in the E-Plus acquisition on 1 October 2014 are amortised mainly over a remaining useful lives of five to six years.

Software
Software mainly includes developments and licences for IT and office applications. In financial years 2018 and 2017, additions related mainly to CRM and billing systems as well as data warehouse and enterprise resource planning systems. Software disposals primarily relate to software that reached the end of its useful life.

Brand names
The brand names acquired in the E-Plus Group acquisition on 1 October 2014 are amortised over a remaining useful life of 16 years.

Construction in progress/ prepayments on intangible assets
In financial year 2015, the Telefónica Deutschland Group acquired additional frequencies. The use of 700 MHz frequencies (EUR 337 million) reported in construction in progress/prepayments is dependent, on the broadcasting companies, among other things.

4.3. Property, plant and equipment

(in EUR million)	Land and buildings	Plant and machinery	Furniture, office equipment, tools and other items	PP&E in progress	Property, plant and equipment
Cost					
As of 1 January 2017	**747**	**8,366**	**245**	**114**	**9,473**
Additions	10	581	46	39	676
Disposals	(25)	(165)	(33)	–	(223)
Reclassifications	(4)	10	1	(7)	0
Other	(6)	18	–	–	12
As of 31 December 2017	**722**	**8,809**	**260**	**146**	**9,938**
As of 1 January 2018	**722**	**8,809**	**260**	**146**	**9,938**
Additions	5	607	33	51	697
Disposals	(99)	(313)	(25)	–	(438)
Reclassifications	5	69	12	(86)	(1)
Other	6	8	–	–	14
As of 31 December 2018	**639**	**9,180**	**280**	**112**	**10,210**
Accumulated depreciation					
As of 1 January 2017	**(573)**	**(4,525)**	**(159)**	**–**	**(5,256)**
Additions	(59)	(766)	(37)	–	(862)
Disposals	24	164	33	–	222
Reclassifications	0	(0)	–	–	–
As of 31 December 2017	**(607)**	**(5,127)**	**(163)**	**–**	**(5,896)**
As of 1 January 2018	**(607)**	**(5,127)**	**(163)**	**–**	**(5,896)**
Additions	(52)	(865)	(41)	–	(959)
Disposals	99	313	25	–	438
Reclassifications	(0)	0	–	–	–
As of 31 December 2018	**(561)**	**(5,678)**	**(178)**	**–**	**(6,417)**
Net book value					
As of 31 December 2017	**114**	**3,683**	**98**	**146**	**4,041**
As of 31 December 2018	**78**	**3,502**	**101**	**112**	**3,793**

Property, plant and equipment comprise land and buildings, technical equipment and machinery, furniture, tools and other items as well as construction in progress.

The additions to property, plant and equipment related to the decommissioning and dismantling respectively asset retirement obligations amounted to EUR 19 million (2017: EUR 16 million) mainly due to the changing interest rates, higher cost estimates as well as increases in the volume structure.

Property, plant and equipment from finance leases amount to EUR 76 million as of 31 December 2018 and EUR 124 million as of 31 December 2017. The change of EUR 48 million resulted primarily from planned depreciation. The most significant finance leases are disclosed in Note 4.10 Interest-Bearing Debt.

PP&E in progress resulted mainly from the expansion of the network.

4.4. Trade and other receivables

As of 31 December (in EUR million)	**2018** **Non-current**	 **Current**	2017 Non-current	 Current
Trade receivables	70	1,268	76	1,272
Receivables from related parties (Note 12 Related Parties)	–	40	–	77
Other receivables	–	62	–	58
Loss allowance	–	(68)	(7)	(142)
Trade and other receivables	**70**	**1,301**	**69**	**1,265**

In order to measure the expected credit loss, trade receivables and contract assets were grouped into homogeneous customer segments. The allowance rate is calculated for each segment based on days past due and actual credit losses incurred in prior years. The value also reflects current and forward-looking information and analysis of the expected economic situation during the term of the financial assets from the point of view of the Group. Observable forward-looking information may include disposable income, gross domestic product and inflation indices.

Compared to the previous year, there were no significant changes in trade receivables in the reporting year, which would lead to a material change in loss allowances for the 2018 financial year. However, there was a change in presentation due to adoption of IFRS 9. This change in presentation is a major factor of the decrease in the loss allowance compared to the previous year.

The following table provides information on exposure to credit risk and on expected credit losses for trade receivables (excluding O_2 My Handy) per days past due as of 31 December 2018. A credit risk of EUR 1 million from trade receivables measured in the category fair value through other comprehensive income is included in the days past due analysis below.

As of 31 December 2018 (in EUR million)	Gross carrying amount	Loss allowance	Average expected default rate
This presentation follows the simplified approach:			
Not due	708	8	1.1%
Overdue for 1-30 days	117	2	1.8%
Overdue for 31-60 days	13	2	11.4%
Overdue for 61-90 days	6	2	35.6%
Overdue for 91-180 days	70	8	12.0%
Overdue for 181-360 days	20	12	62.6%
Overdue for more than 360 days	37	30	80.0%
Total	**972**	**64**	

In addition, the customer segment O_2 My Handy has trade receivables in the amount of EUR 441 million whose impairment adjustment in the amount of EUR 74 million was not determined on the basis of days past due. Instead, a fixed percentage of the receivables was recognised for the expected credit loss.

Trade receivables at amortised cost have a gross carrying amount of EUR 586 million and loss allowances of EUR 63 million.

Current trade receivables at fair value through other comprehensive income (including O_2 My Handy receivables) have a carrying amount of EUR 682 million and non-current receivables of EUR 70 million. No separate loss allowances have been recorded for this valuation category, as the credit default risk of EUR 75 million (of which EUR 74 million O_2 My Handy) is implicitly included in the reported fair value.

The Loss allowance includes also EUR 5 million provisions for the utilisation of guarantee accounts in connection with transactions.

When calculating the expected credit losses, a collection rate of 23% is taken into account.

For trade receivables with a contractual volume of EUR 78 million, which were transferred to collection companies during the 2018 financial year and have not yet been paid, enforcement measures continue to be taken.

The breakdown of trade receivables is as follows:

As of 31 December	2018		2017	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Trade receivables billed	70	779	76	715
Trade receivables unbilled	–	488	–	557
Trade receivables	**70**	**1,268**	**76**	**1,272**

The following table shows the development of the allowances for the years ending as of 31 December 2018 and 2017.

	2018						2017	
	Trade receivables measured at amortised cost		**Trade receivables measured at fair value through other comprehensive income**		**Contract assets****		Trade receivables	
(in EUR million)	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	Non-current	Current
31 December 2017 (IAS 39)*	**–**	**(88)**	**(7)**	**(54)**	**–**	**–**	**(7)**	**(192)**
Adjustment based on IFRS9	**–**	**(1)**	**–**	**(1)**	**–**	**–**	**–**	**–**
1 January 2018 (IFRS 9)	**–**	**(89)**	**(7)**	**(55)**	**(0)**	**(1)**	**(7)**	**(192)**
Additions	–	(28)	–	(47)	(0)	(1)	–	(73)
Release	–	–	–	–	–	0	–	–
Utilisation	–	49	–	33	–	1	–	123
Reclassifications	–	–	(5)	5	0	(0)	–	–
31 December 2018	**–**	**(68)**	**(13)**	**(63)**	**(0)**	**(1)**	**(7)**	**(142)**

*Categories in accordance with IFRS 9, which were included in IAS 39 in the category "Loans and receivables".
**In accordance with IFRS 15

As of 1 January 2018, there were no material changes in the impairment losses as a result of the implementation of IAS 39 to IFRS 9, apart from changes in presentation.

In 2018 and 2017, the Telefónica Deutschland Group sold instalment receivables in order to optimise the working capital and to access an alternative source of funding. The nominal value of the transactions concluded in 2018 amounts to EUR 632 million (2017: EUR 624 million), and the carrying amount is EUR 625 million (2017: EUR 618 million). The buyers of the receivable take over part of the risk of these receivables. The receivables sold were fully derecognised at the time of sale, with the exception of the continuing involvement of EUR 70 million. A liability of the same amount was recognised in the amount of the maximum remaining loss risk.

The continuing involvement results from guarantees granted. The utilisation is expected to result in a loss of EUR 5 million.

There were no material impairments of other receivables as of 31 December 2018.

4.5. Other financial assets

As of 31 December	**2018**		2017	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Investments in start-ups	1	–	18	–
Interest rate swaps	5	2	6	4
Reimbursement rights from insurance contracts	70	–	57	–
Silent factoring deposit	12	8	10	12
Deposits	0	–	0	–
Loans	14	0	2	1
Other financial assets	**101**	**9**	**94**	**17**

Current other financial assets primarily include the current portion of the security deposit for silent factoring.

This silent factoring deposit was pledged as collateral to cover the maximum risk to be borne by the Telefónica Deutschland Group and the guarantee of the servicing of the receivables over the term of the sold receivables. The Telefónica Deutschland Group receives fixed interest on the deposit. In the event of default of the underlying receivables, a part of this receivable shall be reimbursed. The deposit provides security for the bank's losses on the sale of receivables.

The interest rate swap is part of the bond issued in 2014 (for further information see Note 4.10 Interest-bearing debt).

The reimbursement rights in 2018 arose to cover the pension and partial benefit obligations, but do not represent plan assets except for a surplus of EUR 8 million in accordance with IAS 19. The recognised fair values are based on the values received from the insurance company, which are based on the insurance company's internal calculation models.

Loan receivables mainly include a loan from the sale of shares in Shortcut I GmbH & Co. KG. Furthermore loan receivables also includes loans to start-ups, which include options for conversion to equity instruments and transaction costs that are directly attributable to the acquisition of a credit facility.

For further information on the investments in start-up companies, see Note 9 Further information on financial assets and financial liabilities.

With regard to other financial assets, there were no indications of material impairment as at 31 December 2018.

4.6. Other non-financial assets and other non-financial liabilities

Other non-financial assets were comprised as follows as at 31 December 2018:

As of 31 December	2018		2017	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Prepayments	99	68	129	107
Prepayments to related parties	–	0	–	0
Capitalised costs of obtaining contracts	103	326	–	–
Contract asset	4	19	–	–
Other tax receivables	–	0	–	79
Other non-financial assets	**206**	**413**	**129**	**186**

Non-financial assets relate mainly to prepayments for fees charged for rental of antenna sites and VAT. For prepayments to affiliated companies, please refer to Note 12 Related Parties.

As already presented in the Accounting Policies, costs of obtaining a contract are capitalised subject to certain requirements of IFRS 15. These contain costs for commissions which can be directly attributed to contracts with customers.

Capitalised costs of obtaining a contract are amortised on a straight-line basis over the underlying amortisation period. In the reporting period, amortisation of EUR 437 million was recorded in this connection.

According to IAS 18, costs of obtaining a contract were not capitalised, but were recognised directly as expenditure.

The contract asset contains contracts for which Telefónica Deutschland Group fulfilled its performance obligations by transferring mobile devices, performing mobile services or fixed line/DSL services before consideration was paid or became due.

For contract assets, a loss allowance of EUR 1 million is already recognised directly in their present value. Contract assets exist primarily with private customers.

Other non-financial liabilities were comprised as follows as at 31 December 2018:

As of 31 December	2018	2017
(in EUR million)	**Current**	Current
Payroll taxes and social security	10	10
Current tax payables for indirect taxes	22	119
Other current taxes	7	3
Other non-financial liabilities	**39**	**132**

4.7. Inventories

As of 31 December (in EUR million)	2018	2017
Merchandise	264	109
Allowances	(3)	(4)
Inventories	**261**	**105**

Inventories comprise smartphones and accessories in particular. The increase compared to prior year was in particular due to higher inventories of smartphones.

The total cost of inventories recognised as expenses in the financial year 2018 amounted to EUR 1,275 million (2017: EUR 1,145 million).

Consistent with common industry practices, the suppliers of inventories retain the title until the items are paid for in full.

4.8. Cash and cash equivalents

Cash and cash equivalents mainly includes deposits in connection with cash pooling agreements with Telfisa Global B.V., Amsterdam, Netherlands (Telfisa Global B.V.), receivables from banks with an original term of up to three months and cash in hand.

As of 31 December (in EUR million)	2018	2017
Cash at bank and in hand	14	14
Cash pooling	737	573
Cash and cash equivalents	**751**	**587**

Telefónica has entered into cash pooling and deposit agreements with Telfisa Global B.V., a subsidiary of Telefónica, S.A. Group, and deposits its cash surpluses there. Telefónica, S.A. is rated by international rating agencies with an investment grade rating. Therefore, no significant credit losses are expected.

4.9. Equity

Subscribed capital
As of 31 December 2018, Telefónica Deutschland Holding AG had share capital of EUR 2,975 million, which is consistent with the prior year and is 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. Each no par value share has one vote at the Annual General Meeting. The registered share capital is fully paid.

As of 31 December 2018, Telefónica Deutschland Holding AG did not hold any of its own shares.

In accordance with section 6 (2) of the articles of association, the shareholders do not have the right to securitise shares. Each no par value share grants one vote at the Annual General Meeting. The shares are freely transferable.

Authorised capital
Telefónica Deutschland Holding AG had authorised capital 2016/I of EUR 1,487,277,496 as of 31 December 2018.

Conditional capital
The share capital of Telefónica Deutschland Holding AG is conditionally increased by up to EUR 558,472,700 by issuing up to 558,472,700 new non-par value registered shares (Conditional Capital 2014/I).

Additional paid-in capital
As a result of cash and non-cash capital increases in connection with the acquisition of the E-Plus Group, which were entered in the commercial register on 18 September and 7 October 2014, additional paid-in capital increased in 2014 by EUR 4,800 million (unchanged) as of 31 December 2018, in the amount of EUR 4,800 million.

With the entry in the commercial register on 4 June 2018, the part of the tied capital reserve of EUR 4,535,097,828.00 was converted into a free capital reserve (section 272 (2) no. 4 HGB).

Retained earnings

Legal reserve

Retained earnings contain a legal reserve in accordance with section 150 (2) of the German Stock Corporation Act (Aktiengesetz – AktG) of EUR 0.014 million (2017: EUR 0.014 million).

Proposed dividend for financial year 2018 to be paid in 2019

On 29 October 2018, the Management Board of Telefónica Deutschland resolved to propose a total cash dividend of EUR 803 million or EUR 0.27 per share at the next Annual General Meeting, which is scheduled for 21 May 2019.

Dividend distribution in the financial year

On 17 May 2018, the Annual General Meeting of Telefónica Deutschland resolved to distribute a dividend of EUR 0.26 for each no par value share for financial year 2017, in total around EUR 773 million.

Dividend distribution in the previous year

On 9 May 2017, the Annual General Meeting of Telefónica Deutschland resolved to distribute a dividend of EUR 0.25 for each no par value share for financial year 2016, in total around EUR 744 million.

4.10. Interest-bearing debt

As of 31 December		**2018**		2017
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Bonds	1,099	16	504	613
Promissory notes and registered bonds	474	79	299	4
Loans	408	42	450	0
Finance leases	22	8	15	19
Contribution and compensation obligations	–	–	–	2
Interest-bearing debt	**2,004**	**145**	**1,268**	**637**

For the maturity profile of the listed liabilities, see the disclosures in the Management Report, Risk Management and Financial Instruments. Long-term interest-bearing debt with a remaining term greater than five years remains in the amount of EUR 931 million.

Bonds

In February 2014, Telefónica Deutschland Group placed a bond with a nominal value of EUR 500 million. The bond will mature on 10 February 2021. The senior unsecured seven-year bond was issued by O2 Telefónica Deutschland Finanzierungs GmbH, Munich, and is guaranteed by Telefónica Deutschland Holding AG. The coupon for the fixed interest bond is 2.375% and the issue price was at 99.624%. The issue spread was 100 basis points over the seven-year euro mid-swap rate, resulting in a yield of 2.434%. O2 Telefónica Deutschland Finanzierungs GmbH, Munich, has made the net proceeds of the bond issue available to Telefonica Germany GmbH & Co. OHG in the form of a loan.

Another bond of the Telefónica Deutschland Group was issued on 5 July 2018 with a nominal value of EUR 600 million. The fixed interest rate is 1.75% and the bond matures on 5 July 2025. The senior unsecured seven-year bond was also issued by O2 Telefónica Deutschland Finanzierungs GmbH, Munich, and is guaranteed by Telefónica Deutschland Holding AG. The bond is used to refinance the bond due in November, which has been meanwhile repaid, and it is for general business purposes. O2 Telefónica Deutschland Finanzierungs GmbH, Munich, has made the net proceeds of the bond issue available to Telefonica Germany GmbH & Co. OHG in the form of a loan.

The bond is recognised at amortised cost using the effective interest method.

An interest rate swap in the amount of EUR 150 million was concluded on part of the nominal value of the aforementioned bond of February 2014, which is recognised as a fair value hedge. On the basis of this interest rate swap contract, the Telefónica Deutschland Group pays a variable interest rate based on the three-month Euribor on a nominal amount of EUR 150 million and receives a fixed interest rate of 1.268% on the same amount in return. This interest rate swap has a positive clean fair value (i.e. excluding accrued interest) of EUR 5 million and is recognised in the Consolidated Statement of Financial Position under Other financial assets. The adjustment of the carrying amount of non-current financial liabilities results in a cumulative loss of EUR 5 million (cumulative loss in 2017 EUR 8 million and gain of EUR 3 million in 2018), while the related clean price of the interest rate swap results in a cumulative gain of EUR 5 million (cumulative gain in 2017 EUR 8 million and loss of EUR 4 million in 2017). The fair value of the dirty price (i.e. including accrued interest) of the interest rate swap that hedges the financial debt as of 31 December 2018 is EUR 6 million (2017: EUR 10 million) and is recognised in the balance sheet item Other financial assets.

The fair value of the swap, changes in its fair value and the amortisation of the fair value are recognised in Financial result.

The hedged nominal value of the financial liabilities amounts to EUR 150 million. This means that 14% of the company's bond portfolio was switched from fixed interest to variable interest.

The adjustment of the carrying amount of the bonds is determined by discounting the contractual future cash flows at currently applicable interest rates with comparable conditions and residual terms.

All factors that market participants would normally consider are included in the measurement of the fair value of the interest rate swaps, including the credit risks of the contract parties. The fair value of the interest swaps results from discounting the expected future payments over the remaining term of the contract using current market interest rates and yield curves.

For further information on hedge accounting, please refer to the comments in the Combined Management Report, Risk Management and Financial Instruments.

Promissory notes/registered bonds
On 13 March 2015, the Telefónica Deutschland Group completed an initial placement of promissory notes and registered bonds with a volume of EUR 300 million.

The promissory notes placed with a volume of EUR 172 million have unsecured tranches with terms of five, eight and ten years, with both fixed and floating interest rates. The average interest rate of the tranches with fixed interest rates is 1.38% p.a. The variable tranches bear interest at Euribor money market conditions plus an agreed margin.

The registered bonds placed have terms of 12, 15 and 17 years and a fixed interest rate. The tranches amount to EUR 3 million, EUR 33 million and EUR 92 million, respectively, and bear interest at 2.000%, 2.250% and 2.375%.

All tranches were issued at par.

The Telefonica Deutschland Group also placed promissory note loans in various tranches and a registered bond with a total volume of EUR 250 million via Telefónica Germany GmbH & Co. OHG in February 2018. The promissory note loans placed have tranches with terms of 1 year with fixed interest rates as well as terms of 5 and 7 years with variable and fixed interest rates and a 10-year tranche with a fixed interest rate. The respective interest rates for the fixed tranches with terms of 1, 5, 7 and 10 years are 0.03%, 1.051%, 1.468% and 1.962% p.a. respectively. The registered bond has a term of 15 years and a fixed interest rate of 2.506% p.a. The interest on the variable tranches is based on Euribor money market terms plus an agreed margin. All tranches were issued at par.

Loans
The Group signed a EUR 750 million revolving credit facility (RCF) on 22 March 2016. The term of this credit facility was extended by one year until March 2023 for the last time in February 2018. The RCF bears a variable interest rate at Euribor money market conditions plus an agreed margin. As of 31 December 2018, the credit facility had not been used.

On 13 June 2016, the Group signed a financing agreement with the European Investment Bank (EIB) to the value of EUR 450 million. As of 31 December 2018, this loan had been utilised in the form of two fixed-interest tranches totalling EUR 450 million. The funds provided by the EIB are due by December 2024 and May 2025 and will be repaid in equal instalments starting in December 2019 and May 2020 respectively. The benchmark interest rate for the fixed-interest tranches is determined according to the principles defined by the bodies of the EIB for loans of the same type.

On 31 July 2017, the Telefónica Deutschland Group concluded a bilateral revolving credit facility with Telfisa Global B.V., which amounted to EUR 500 million. The facility serves general business purposes. In 2018, its term was extended by one year to 31 July 2019. As of 31 December 2018, the credit facility was not used.

Finance leases
The obligations arising from finance leases mainly result from agreements for network elements concluded under sale and leaseback transactions and classified as finance leases in accordance with their contract design as well as agreements for the leasing of IT equipment.

In connection with these finance leases, the Telefónica Deutschland Group recognised the related assets under property, plant and equipment in the Consolidated Financial Statements as of 31 December 2018 and in the previous year (for further information see Note 4.3 Property, plant and equipment).

The breakdown of minimum lease payment obligations is as follows:

As of 31 December (in EUR million)	Future minimum lease payment obligations	Unamortised interest expense	2018 Present value of future minimum lease payment obligations
Due within one year	8	0	8
Due between 1 and 5 years	23	0	22
Due in more than 5 years	–	–	–
Total	**31**	**1**	**30**

As of 31 December (in EUR million)	Future minimum lease payment obligations	Unamortised interest expense	2017 Present value of future minimum lease payment obligations
Due within one year	19	1	19
Due between 1 and 5 years	15	0	15
Due in more than 5 years	–	–	–
Total	**34**	**1**	**33**

Reconciliation of debt movements to cash flow from financing activities

As of 31 December (in EUR million)	2017	Cash flow from financing activities**	Acquisitions	Fair Value Amendments	Other move-ments	2018
Bonds*	1,117	(4)	–	(3)	6	1,115
Promissory notes and registered bonds	303	250	–	–	1	554
Loans	450	–	–	–	0	450
Finance leases	33	(22)	19	–	–	30
Contribution and compensation obligations	2	–	–	–	(2)	–
Interest-bearing debt	**1,905**	**224**	**19**	**(3)**	**4**	**2,149**

* For significant movements, please refer to Note 4.10 Interest-bearing debt (bonds).
** The related interest paid from Interest-bearing debt is reported under Cash flow from operating activities and not included in the reconciliation.

4.11. Trade and other payables and deferred income

As of 31 December (in EUR million)	2018 Non-current	2018 Current	2017 Non-current	2017 Current
Trade payables to third parties	–	1,102	–	773
Accruals	17	697	17	842
Payables to related parties (Note 12 Related Parties)	–	362	–	374
Trade payables	**17**	**2,160**	**17**	**1,989**
Other payables non-trade	1	158	1	125
Other payables to related parties (Note 12 Related Parties)	1	45	–	40
Miscellaneous payables	–	56	–	69
Other payables	**1**	**260**	**1**	**235**
Trade and other payables	**19**	**2,419**	**19**	**2,224**
Deferred income	**176**	**535**	**255**	**527**

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

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

Miscellaneous payables mainly comprise debtors with credit balances.

For the maturity profile of the listed liabilities, see the disclosures in the Combined Management Report, Risk Management and Financial Instruments.

Deferred income primarily contains contract liabilities from customer payments already made on prepaid credit and other advance payments received for future services. Deferred income also includes the contract liability to make payments early, before the contractual services have been fully performed. For further information, see Note 5.1 Revenues.

It also includes customer payments from MS Mobile Service GmbH (Drillisch) received in connection with the Mobile Bitstream Access Mobile Virtual Network Operator (MBA MVNO) contract.

Other contract liabilities are broken down by maturity according to their expected utilisation. Advance payments received for prepaid credits are classified exclusively as current.

4.12. Provisions

As of 31 December (in EUR million)	2018 Non-current	2018 Current	2017 Non-current	2017 Current
Net defined benefit liability	157	–	151	–
Restructuring	23	67	43	64
Asset retirement obligations	310	111	378	73
Other provisions	36	10	28	6
Provisions	**526**	**188**	**599**	**142**

Pension obligations

The Telefónica Deutschland Group has defined benefit plans. These primarily include defined benefit rights against an external provident fund (Gruppen-Unterstützungskasse), which is managed in accordance with its articles of association, and direct commitments.

The overriding investment policy and strategy for the defined benefit plans are based on the goal of generating returns from the plan assets as well as from the reimbursement rights deriving from insurance policies which, together with the contributions, are sufficient to meet the pension obligations.

The plan assets are invested in reinsurance policies that are taken out directly by the Telefónica Deutschland Group or indirectly by the provident fund. The reimbursement rights from insurance policies result from those reinsurance policies, which were not pledged to the employees.

The requirements for the financing of pension obligations arise from the financing strategy of the provident fund and are anchored in its guidelines. The guidelines define that the expected defined benefit obligation will be settled by the provident fund. They are fully financed by the Telefónica Deutschland Group. The Telefónica Deutschland Group provides the provident fund with the necessary financial resources.

However, under its articles of association, the fund must cease or reduce its payments if the company does not make, or no longer makes, the necessary financial resources available to the fund. In this case, the employees can assert their legal right to post-employment benefits against the Telefónica Deutschland Group.

The amount of the committed benefits for the defined benefit pension plans essentially depends on the basic salary of the individual employee during the period of employment. The benefits paid include old age pensions, payments for the inability to work and benefits in the event of death to surviving dependants.

In order to minimise the biometric risks of the committed benefits (such as an early benefits claim through invalidity or death of the beneficiary), the pension or promised retirement capital is covered to the full extent (congruent) or in part by reinsurance policies. In addition, the pledging of the reinsurance policies to the pension beneficiary acts as security for the claims of the beneficiary in the event of the insolvency of the sponsoring company.

This defined benefit plan is subject to actuarial and financial risks such as life expectancy and interest rate risk as well as inflation risk. In addition, all reinsurance policies are essentially concluded with an insurance company.

In the financial year 2018, the employer's contribution to the statutory pension insurance amounts to EUR 40 million (2017: EUR 39 million).

Telefónica Deutschland Group concludes additional defined contribution plans. The contribution recognised for the defined contribution plan is EUR 2 million (2017: EUR 2 million).

The following table contains the key data for the defined benefit plans:

As of 31 December

(in EUR million)	**2018**	2017
Present value of defined benefit obligation from funded plans	(114)	(108)
Present value of defined benefit obligation from unfunded plans	(125)	(128)
Present value of the defined benefit obligation	**(239)**	**(235)**
Fair value of plan assets	90	84
thereof: surplus	**8**	**–**
Net defined benefit liability	**(157)**	**(151)**
Reimbursement rights from insurance contracts	**62**	**57**

The development of the present value of the defined benefit obligations in 2018 and 2017 was as follows:

As of 31 December

(in EUR million)	**2018**	2017
Present value of the defined benefit obligation as of 1 January	**(235)**	**(233)**
Current service costs (personnel expenses)	(9)	(9)
Interest expense (financial result)	(4)	(4)
Remeasurement of the present value of the defined benefit obligation	6	8
thereof: actuarial gains/(losses) arising from changes in financial assumptions	*(4)*	*5*
thereof: experience-based adjustments	*11*	*3*
thereof: adjustment of the demographic assumption	*(1)*	*–*
Benefits paid	3	3
Other	(0)	–
Present value of the defined benefit obligation as of 31 December	**(239)**	**(235)**

The development of the fair value of the plan assets was as follows in 2018 and 2017:

(in EUR million)	**2018**	2017
Fair value of plan assets as of 1 January	**84**	**128**
Return on plan assets excluding amounts included in interest income/(expense)	1	0
Interest income (financial result)	1	2
Employer contributions	3	6
Benefits paid	(2)	(2)
Other	2	(50)
Fair value of plan assets as of 31 December	**90**	**84**

The fair value of the reimbursement rights from insurance contracts developed in 2018 and 2017 as follows:

(in EUR million)	**2018**	2017
Fair value of reimbursement rights from insurance contracts as of 1 January	**57**	**8**
Return on reimbursement rights excluding amounts included in interest income/(expense)	0	(0)
Interest income (financial result)	1	0
Employer contributions	6	0
Benefits paid	(1)	(0)
Other	(2)	50
Fair value of reimbursement rights from insurance contracts as of 31 December	**62**	**57**

The amounts recognised under "Other" in 2017 for defined benefit obligations and the plan assets originate from the transfer of pension obligations and the related plan assets.

The amounts recognised under 'Other' in 2018 for plan assets and for reimbursement rights are a result of the ban on setoffs of reimbursement rights that have not been pledged against plan assets.

In 2018, as in the previous year, there was no asset ceiling. This year there is a surplus of EUR 8 million, which is presented under other financial assets.

The main actuarial assumptions on which the determination of the present value of the defined benefit obligation as of the reporting date is based are provided in the following table (factors represent averages).

As of 31 December

	2018	2017
Discount rate	1.95%	1.75%
Nominal rate of pension payment increase	1%; 1.75%	1%; 1.75%
Fluctuation rate	(0%–20%)	(0%–20%)

The mortality tables on which the actuarial calculation of the DBO at the balance sheet dates is based are Heubeck's 2005G mortality tables for 2017 and Heubeck's 2018G mortality tables for 2018.

As of 31 December

(in years)	**2018**	2017
Life expectancy at age 65 for a retiree currently	22	21
Life expectancy of a currently aged 40 plan member at age 65	25	24

An increase or decrease in the main actuarial assumptions would have had the following effects on the present value of the defined benefit obligations as of 31 December 2018:

(in EUR million)	Increase in parameters	Decrease in parameters
Discount rate (+0.25%/-0.25%)	(12)	13
Pension increase (+0.50%/-0.50%)	9	(10)
Turnover rate (+1.00%/-1.00%)	–	–
Life expectancy (+1 year)	8	–

Increases and reductions in the discount rate and increases to pension payments do not have the same impact on the determination of the DBO due to the interest rate effects. If several assumptions are changed at the same time, the overall effect will not necessarily correspond to the sum of the individual effects due to the changes in the assumptions. In addition, the sensitivity of a change in the DBO only reflects each specific order of magnitude in the change of assumptions (for example 0.25%). If the assumptions change by a different order of magnitude, the effect on the DBO does not necessarily have to be linear.

The following table contains information regarding the analysis of the due date of expected payments:

1 January to 31 December

(in EUR million)	**2018**	2017
Benefits expected to be paid within year 1	3	2
Benefits expected to be paid within year 2	3	3
Benefits expected to be paid within year 3	3	3
Benefits expected to be paid within year 4	4	3
Benefits expected to be paid within year 5	4	3
Benefits expected to be paid within 6 to 10 years	29	24

The average expected term of the defined benefit obligation for the 2018 financial year is 21.8 years (2017: 22.8 years).

The best estimate of the contributions that will be paid into the plans in the financial year ending 31 December 2018 amounts to EUR 9 million (2017: EUR 9 million).

Other provisions

(in EUR million)	Restructuring	Asset retirement obligations	Others	Total
As of 1 January 2018	**106**	**450**	**33**	**590**
Additions	40	19	10	69
Utilisation	(51)	(49)	(0)	(101)
Release	(6)	–	(1)	(7)
Reclassifications	0	–	4	4
Interest effect	–	0	–	0
As of 31 December 2018	**90**	**421**	**46**	**556**
thereof: non-current	*23*	*310*	*36*	*369*
thereof: current	*67*	*111*	*10*	*188*

The provision for restructuring primarily reflect activities resulting from the transformation of the Telefónica Deutschland Group in connection with the integration of E-Plus that aim to increase profitability through synergies. The amount of EUR 90 million as of 31 December 2018 (2017: EUR 106 million) relates mainly to severance payments in connection with personnel headcount reductions, network consolidation, the termination of contracts with commercial agents and other activities.

In addition, there was a decline of EUR 51 million due to planned utilisation, which was offset by additions of EUR 40 million. As in the previous year, these additions are recognised in other expenses and personnel expenses (for further information see Note 5.3 Personnel expenses and 5.4 Other expenses).

The provisions for asset retirement obligations include the calculated costs for the dismantling and removal of assets (e.g. mobile equipment such as operating facilities and technology), largely based on the agreements with service providers.

The timing of utilisation and the associated outflow of cash depends on the implementation of the current network consolidation strategy.

5. Selected Explanatory Notes to the Consolidated Income Statement

5.1. Revenues

1 January to 31 December

(in EUR million)	2018	2017
Rendering of services	6,034	6,149
Other revenues	1,286	1,147
Revenues	**7,320**	**7,296**

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.

The breakdown of revenues according to mobile business and fixed line/DSL business is shown in the following table:

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

1 January to 31 December

(in EUR million)	2018	2017
Mobile business	6,539	6,415
Mobile service revenues	5,267	5,287
Handset revenues	1,272	1,128
Fixed line/DSL business revenues	767	862
Other revenues	13	19
Revenues	**7,320**	**7,296**

Mobile service revenues
The mobile service revenues are largely based on basic fees and the fees levied for voice (including incoming and outgoing calls), messaging (including SMS and MMS) and mobile data services as well as service contracts. Alongside roaming revenues, mobile service revenues include access and interconnection fees that are paid for by other service providers for calls and SMS messages delivered via our network. In addition, one-time connection charges are included insofar as these have been allocated to mobile communications services.

Handset revenues
Handset revenues include the income from the sale of mobile phones as part of the "O_2 My Handy" model, the mobile devices portion of bundled packages (mobile devices bundled offerings) for the former E-Plus brands and cash sales. Also included are revenues from the sale of mobile devices to distributors and partners and from the sale of accessories.

With the "O_2 My Handy" model, the customer can choose whether to pay the entire price of the mobile phone up front or to make an initial payment to start with and pay the remaining purchase price in twelve or 24 monthly instalments.

Fixed line/DSL business revenues
Fixed line/DSL business revenues comprise mainly revenues from DSL services for private customers, DSL activation fees for private customers, revenues from DSL mobile devices and non-recurring items (e.g. fees for change of address, number transfers, etc.), revenues from wholesale ULL (also known as wholesale DSL), revenues from the sale of DSL products, from services and from mobile devices to other service providers, who re-bundle these and sell them on to end customers and data traffic revenues from carriers

in connection with the sale and trade of minutes between carriers to connect their customer calls via the networks of other operators. DSL revenues also include fixed line revenues.

Other revenues

Other revenues relate to new business, such as advertising and financial services, e.g. the mobile service offering “O_2 More Local”, O_2 Banking and new innovative products from the IoT ADA business field.

Contract assets and Contract liabilities from customer contracts

(in EUR million)	**31 December 2018**	**1 January 2018**
Contract asset	23	17
Contract liabilities	522	513

(in EUR million)	**2018**	2017*
Amounts recognised in contract liabilities at the beginning of the period that resulted in revenue in the reporting period.	445	–

* No information for comparative period, as application of IFRS 15.C (3b)

The Telefónica Deutschland Group receives payments from customers on the basis of a billing schedule which is part of the individual contracts. The contract asset refers to the entitlement to consideration for the performance of the contractual services to be rendered. The contract asset contains contracts for which Telefónica Deutschland Group satisfied its performance obligations by transferring mobile devices and performing mobile services or fixed line/DSL services before consideration was paid or became due. Amounts already reported as receivables are not taken into account in the recognition of the contract asset.

Receivables are recognised when the right to receive the consideration becomes unconditional, as the payment due date is dependent only on the course of time.

Future revenues from (partially) unsatisfied performance obligations

(in EUR million)	Of which expected to be fulfilled in ≤ 12 months	Of which expected to be fulfilled in > 12 months
Total amount of contract liabilities contracted but not yet (fully) settled as of 31 December 2018	1,120	269

Within the scope of the disclosures according to IFRS 15.120, the practical expedient in accordance with IFRS 15.121 was applied. In this context, performance obligations resulting from contracts with a maximum contract term of one year and performance obligations for which revenues were realised corresponding to the invoicing were not taken into account. Accordingly, the portion of the transaction price allocated to these partially unsatisfied performance obligations is not included in the disclosure.

The contract liability relates to payments received prematurely, i.e. before the contractual services have been fully performed. Contract liabilities are recognised as revenue as soon as (or when) the Telefónica Deutschland Group provides the contractual services.

The changes in the contract assets or contract liabilities mainly result from the (not yet effected) satisfaction of the respective performance obligations.

5.2. Other income

1 January to 31 December

(in EUR million)	2018	2017
Own work capitalised and ancillary income	177	128
Gain on disposal of assets	0	31
Other income	**177**	**159**

Own work capitalised includes direct labour costs as well as the allocable portion of indirect costs in connection with investments in non-current assets.

5.3. Personnel expenses

In financial year 2018, personnel expenses amounted to EUR 610 million (2017: EUR 642 million). Thereof, EUR 518 million (2017: EUR 552 million) related to wages and salaries, social security EUR 80 million (2017: EUR 78 million) and EUR 11 million (2017: EUR 11 million) to pensions. Personnel expenses from share-based payments are presented in Note 13 Share-based payments; personnel expenses relating to pension plans are presented in Note 4.12 Provisions.

In addition, restructuring expenses of EUR 19 million (2017: EUR 44 million) are recognised in personnel expenses. For further information, see Note 4.12 Provisions.

5.4. Other expenses

1 January to 31 December

(in EUR million)	2018	2017
Other third-party services	2,190	2,168
Other operating expenses	103	94
Allowance for current assets	7	7
Advertising	253	291
Other expenses	**2,552**	**2,560**

Other third-party services include commissions, among other things.

Other expenses as of 31 December 2018 included restructuring expenses of EUR 66 million (2017: EUR 38 million) (for further information, see Note 4.12 Provisions).

5.5. Depreciation and amortisation

1 January to 31 December

(in EUR million)	2018	2017
Depreciation of property, plant and equipment	959	862
Amortisation of intangible assets	1,029	1,008
Depreciation and amortisation	**1,987**	**1,869**

5.6. Financial result

1 January to 31 December

(in EUR million)	**2018**	2017
Interest income from financial assets	2	5
Interest expenses from financial liabilities	(42)	(37)
Interest component from measurement of provisions and other liabilities	(3)	(2)
Other exchange (losses)/gains	(0)	0
Financial result	**(42)**	**(34)**

Interest income from financial assets mainly consists of interest income from late payments.

Interest expenses from financial debt primarily comprise the interest for the bonds issued in November 2013, February 2014 and July 2018, the financing agreement signed on 13 June 2016 with the European Investment Bank (EIB), the bilateral revolving credit facility signed with the financing company of Telefonica S.A. Group, Telfisa Global B.V. on 31 July 2017, as well as for the promissory notes and registered bonds issued in March 2015 and February 2018.

Interest from finance lease obligations is also included.

5.7. Income tax

Consolidated income tax group

As of 31 December 2018, the consolidated income tax entity of Telefónica Deutschland Group comprised 17 companies (2017: 17).

Current and deferred taxes

1 January to 31 December

(in EUR million)	**2018**	2017
Current tax expense	0	(0)
Deferred tax income/(expense)	3	(262)
Income tax/(expense)	**3**	**(262)**

The movements in deferred tax assets are as follows:

(in EUR million)	**2018**	2017
As of 1 January	**162**	**427**
Deferred tax income/(expense)	3	(262)
Amount of deferred taxes recognised directly in equity as shown in the Consolidated Statement of Comprehensive Income	(2)	(3)
Adjustment due to initial application of IFRS 15	(134)	–
As of 31 December	**27**	**162**

Tax loss carried forward and temporary differences

The tax losses carried forward for which no deferred tax assets were recognised as of 31 December 2018 amounted to EUR 14,693 million for corporate income tax and EUR 14,284 million for trade tax (2017: EUR 14,439 million and EUR 14,060 million). For temporary differences of EUR 263 million in 2017 no deferred tax assets were recognised. For entities or the income tax group which had a negative taxable income in the previous year or in the current period, deferred tax assets of EUR 204 million (2017: EUR 162 million) were capitalised after setting them off against deferred tax liabilities, as the future realisation of this tax claim is to be supported by the tax income projection. The total deferred tax assets and liabilities amount to EUR 27 million (2017: EUR 162 million).

The capitalisation of tax losses carried forward is based on more conservative estimates of future income than those which would have been anticipated for other non-accounting-related purposes.

The breakdown of deferred tax assets and deferred tax liabilities from temporary differences and tax losses carried forward is as follows:

As of 31 December (in EUR million)	**2018** Deferred tax assets	**2018** Deferred tax liabilities	2017 Deferred tax assets	2017 Deferred tax liabilities
Goodwill and other intangible assets	600	(534)	853	(685)
Tangible assets	–	(200)	–	(210)
Trade and other receivables	1	(172)	10	(16)
Other current financial assets	3	(0)	8	(8)
Financial liabilities, trade and other payables	14	(5)	28	(7)
Provisions including pension provisions	111	(1)	88	(18)
Other current financial liabilities	12	(6)	23	(6)
Tax losses carried forward	204	–	102	–
Deferred tax assets/(liabilities) gross	**945**	**(918)**	**1,112**	**(951)**
Netting	(741)	741	(951)	951
Deferred tax assets/(liabilities) after netting according to Consolidated Statement of Financial Position	**204**	**177**	**162**	**–**
The total deferred tax assets/(liabilities)	**27**	**–**	**162**	**–**

The deferred taxes in the amount of EUR 945 million (2017: EUR 1,112 million) are primarily non-current deferred tax assets. The deferred tax liabilities in the amount of EUR 814 million (2017: EUR 951 million) are primarily non-current deferred tax liabilities and EUR 104 million are current deferred tax liabilities in connection with the capitalisation of short-term amortisable costs of obtaining a contract in accordance with IFRS 15, shown in Note 3 q) Standards and IFRIC interpretations issued and effective as of 31 December 2018.

Reconciliation of earnings before tax to income tax expense recognised

1 January to 31 December

(in EUR million)	2018	2017
Profit/(loss) before tax	**(233)**	**(118)**
Tax expense at prevailing statutory rate (32%)	74	38
Non-deductible expenses	(12)	(11)
Change in unrecognised temporary differences and tax losses carried forward	(60)	(289)
Other	–	(0)
Income tax	**3**	**(262)**
Current tax income/(expense)	0	(0)
Deferred tax income/(expense)	3	(262)
Income tax income/(expense)	**3**	**(262)**

6. Business Combinations

No transactions affecting the basis of consolidation were conducted by the Telefónica Deutschland Group in financial year 2018 (for more information, please see Note 10 Group Companies of the Telefónica Deutschland Group.

7. Disposal Groups

Disposal group in 2018: Sale of Shares in Shortcut I GmbH & Co. KG

By contract dated 14 September 2018, E-Plus Service GmbH sold all shares in Shortcut I GmbH & Co. KG. The sale of all shares in Shortcut I GmbH & Co. KG was completed formally and legally effective on 8 October 2018. Given the loss of control associated with the transaction, the company was deconsolidated from this date onwards. The carrying amount of the net assets sold and their impact on the consolidated financial statements were of minor significance.

8. Earnings per share

Basic earnings per share are calculated by dividing the profit for the year after tax attributable to the ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the reporting period.

Diluted earnings per share are calculated by adjusting the profit after tax attributable to the ordinary shareholders of the parent company and the weighted average number of ordinary shares outstanding in the reporting period for the effects of any dilutive effects inherent in converting potential ordinary shares.

Both basic as well as diluted earnings per share attributable to the ordinary shareholders of the parent company are calculated based on the following data in accordance with IAS 33.

1 January to 31 December

(in EUR million)	**2018**	2017
Total profit/(loss) attributable to equity holders of the parent for basic = diluted earnings	(230)	(381)
Weighted average number of ordinary shares issued (in million units)	2,975	2,975
Earnings per share in EUR (basic = diluted)	**(0.08)**	**(0.13)**

In addition, the share capital of Telefónica Deutschland Holding AG is conditionally increased (see Note 4.9 Equity). Shares from the conditional capital of a stock corporation are not part of the calculation of the earnings per share as they can be contingently issued.

9. Further information on financial assets and financial liabilities

In the following tables, the fair values of all financial assets and financial liabilities of the Telefónica Deutschland Group are disclosed in accordance with the measurement categories as determined by IFRS 9 with regard to the requirements of IFRS 13.

As of 31 December 2018, the carrying amount of current financial assets and financial liabilities represents an appropriate approximation of fair value.

In addition, the tables show the categorisation of the financial assets and financial liabilities in accordance with the importance of the input factors that were used for their respective measurement. The review is performed successively from level to level. The first stage is given priority and the subsequent stages are only used for evaluation if the requirements for the input factors of the first stage could not be fulfilled. For this purpose, three levels or measurement hierarchies are defined:

- **Level 1:** Input factors at this level are quoted (unadjusted) prices for identical assets or liabilities in active markets accessible to the entity at the measurement date.
- **Level 2:** Second level input factors are market prices other than those quoted at level one that are observable either directly or indirectly for the asset or liability.
- **Level 3:** Input factors that are not observable for the asset or liability.

As of 31 December 2018
Financial assets

(in EUR million)	Hedging accounting relationships (no measurement category according to the meaning of IFRS 9)	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Not in the scope of IFRS 7	Total carrying amount	Measurement hierarchy: Level 1 (Quoted prices)	Measurement hierarchy: Level 2 (Significant other observable input parameters)	Measurement hierarchy: Level 3 (Significant unobservable input parameters)	Measurement hierarchy: Total fair value
Non-current trade and other receivables (Note 4.4)	–	–	70	–	–	70	–	70	–	70
Other non-current financial assets (Note 4.5)	5	1	–	26	70	101	–	31	1	31
thereof: derivatives	*5*	–	–	–	–	*5*	–	*5*	–	*5*
thereof: investments in start-ups	–	*1*	–	–	–	*1*	–	–	*1*	*1*
thereof: other	–	–	–	*26*	*70*	*96*	–	*26*	–	*26*
Current trade and other receivables (Note 4.4)	–	–	682	618	1	1,301	–	1,300	–	1,300
Other current financial assets (Note 4.5)	2	–	–	8	–	9	–	9	–	9
thereof: derivatives	*2*	–	–	–	–	*2*	–	*2*	–	*2*
thereof: other	–	–	–	*8*	–	*8*	–	*8*	–	*8*
Cash and cash equivalents (Note 4.8)	–	–	–	751	–	751	–	751	–	751
Total	**6**	**1**	**752**	**1,402**	**72**	**2,233**	**–**	**2,160**	**1**	**2,161**

As of 31 December 2017
Financial assets*

(in EUR million)	Hedging accounting relationships (no measurement category according to the meaning of IAS 39)	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Not in the scope of IFRS 7	Total carrying amount	Measurement hierarchy Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant unobservable input parameters)	Total fair value
Non-current trade and other receivables (Note 4.4)	–	–	–	69	–	69	–	69	–	69
Other non-current financial assets (Note 4.5)	6	18	–	12	57	94	–	18	–	18
thereof: derivatives	*6*	–	–	–	–	*6*	–	*6*	–	*6*
thereof: investments in start-ups	–	*18*	–	–	–	*18*	–	–	–	–
thereof: other	–	–	–	*12*	*57*	*69*	–	*12*	–	*12*
Current trade and other receivables (Note 4.4)	–	–	–	1,263	2	1,265	–	1,263	–	1,263
Other current financial assets (Note 4.5)	4	–	–	13	–	17	–	17	–	17
thereof: derivatives	*4*	–	–	–	–	*4*	–	*4*	–	*4*
thereof: other	–	–	–	*13*	–	*13*	–	*13*	–	*13*
Cash and cash equivalents (Note 4.8)	–	–	–	587	–	587	–	587	–	587
Total	**10**	**18**	**–**	**1,944**	**59**	**2,032**	**–**	**1,955**	**–**	**1,955**

* The prior year's presentation was amended to improve ease of reading.

As of 31 December 2018, EUR 5 million of other non-current financial assets and EUR 2 million of other current financial assets were designated to a hedge relationship. These relate to the swap that the Group entered into in connection with the bond issuance in 2014 (for further information, see Note 4.5 Other financial assets).

The fair value of other non-current financial assets is determined by discounting future cash flows using current market interest rates, including credit risk spreads observable on the market.

New classification of financial assets according to IFRS 9:

(in EUR million)	Footnote	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 / Non-current	Original carrying amount under IAS 39 / Current	**New carrying amount under IFRS 9 / Non-current**	**New carrying amount under IFRS 9 / Current**
Trade and other receivables (factoring)	a	Loans and receivables	Financial assets measured at fair value through other comprehensive income	69	488	70	487
Trade and other receivables (other)	b	Loans and receivables	Financial assets measured at amortised cost	–	775	–	774
Investments in start-ups	c	Available-for-sale financial assets	Financial assets measured at fair value through profit or loss	18	–	18	–
Other financial assets, thereof other		Loans and receivables	Financial assets measured at amortised cost	12	13	12	13
Cash and cash equivalents		Loans and receivables	Financial assets measured at amortised cost	–	587	–	587

The reporting requirements of the Group in regard to the classification of financial instruments under IFRS 9 are described in Note 3h Accounting Policies. The adoption of the requirements led to the above mentioned reclassifications which are explained below:

a) Trade and other receivables that arise from factoring transactions were classified as loans and receivables in accordance with IAS 39. For these, the company intends to collect the contractual cash flows as well as to sell the asset. The cash flows relate exclusively to interest and principal payments on the outstanding principal amount and thus meet the cash flow criterion. Therefore, they were classified in accordance with IFRS 9 as financial assets measured at fair value through other comprehensive income.

b) The remaining part of the trade and other receivables, which was classified as loans and receivables in accordance with IAS 39 is now classified as financial assets measured at amortised cost. A decrease in impairment of EUR 1 million was recognised at the time of the transition to IFRS 9 and recorded under retained earnings as of 1 January 2018.

c) The equity instruments which were classified as available-for-sale financial assets under IAS 39 do not meet the cash flow criterion under IFRS 9. These assets are therefore classified in accordance with IFRS 9 as financial assets measured at fair value through profit or loss.

As of 31 December 2018
Financial liabilities

(in EUR million)	Financial liabilities measured at amortised cost	Finance leases	Not in the scope of IFRS 7	Total carrying amount	Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant un-observable input parameters)	Total fair value
					Measurement hierarchy			
Non-current interest-bearing debt (Note 4.10)	1,981	22	–	2,004	1,130	907	–	2,036
Non-current trade and other payables (Note 4.11)	17	–	1	18	–	17	–	17
Current interest-bearing debt (Note 4.10)	137	8	–	145	–	145	–	145
Current trade and other payables (Note 4.11)	2,376	–	43	2,419	–	2,376	–	2,376
Total	**4,512**	**30**	**44**	**4,586**	**1,130**	**3,445**	**–**	**4,575**

As of 31 December 2017
Financial liabilities*

(in EUR million)	Financial liabilities measured at amortised cost	Finance leases	Not in the scope of IFRS 7	Total carrying amount	Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant unobservable input parameters)	Total fair value
					Measurement hierarchy			
Non-current interest-bearing debt (Note 4.10)	1,253	15	–	1,268	537	778	–	1,315
Non-current trade and other payables (Note 4.11)	17	–	1	18	–	17	–	17
Current interest-bearing debt (Note 4.10)	620	17	–	637	615	25	–	639
Current trade and other payables (Note 4.11)	2,161	–	62	2,223	–	2,161	–	2,161
Total	**4,051**	**31**	**64**	**4,147**	**1,152**	**2,981**	**–**	**4,133**

* The prior year's presentation was amended to improve ease of reading.

As of 31 December 2018, non-current interest-bearing debts with a carrying amount of EUR 155 million are designed to a hedging relationship. These relate to a portion of the bonds, which are each accounted for with an interest rate swap as a fair value hedge (for further information see Note 4.10 Interest-bearing debt).

The fair value of the bonds (non-current and current interest-bearing debt) is determined based on primary market values (unadjusted quoted prices in active markets, level 1). The fair value of other non-current interest-bearing debt is determined by discounting future cash flows using current market interest rates, including credit risk spreads observable on the market.

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

Please see the respective notes for further information.

The following table shows the net gains and losses per measurement category in accordance with IFRS 9:

	Amortised cost		At fair value through profit or loss		At fair value through other comprehensive income
1 January to 31 December 2018 (in EUR million)	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial assets
Net result from disposals	–	–	16	–	–
Result from valuations	1	(1)	–	–	–
Impairment/reversal of impairment losses	(31)	–	–	–	(46)
Effective interest income	2	–	–	–	–
Effective interest expense	–	(42)	–	–	–
Fee income/expenditure	–	–	–	–	–
Total	**(29)**	**(42)**	**16**	**–**	**(46)**

10. Group Companies of the Telefónica Deutschland Group

In accordance with sections 285 and 313 of the German Commercial Code (HGB), the following table lists the companies making up the Telefónica Deutschland Group as of 31 December 2018.

For detailed information, please refer to the list of shareholdings published with the Annual Financial Statements of Telefónica Deutschland Holding AG in the German Federal Gazette.

31 December 2018

Company name, registered office	Country	Consolidation	Share in % as of
Parent company			
Telefónica Deutschland Holding AG, Munich, Germany	Germany	n/a	n/a
Subsidiaries			
Telefónica Germany Management GmbH, Munich[2]	Germany	Full financial year	100%
Telefónica Germany GmbH & Co. OHG, Munich[1]	Germany	Full financial year	100%
Telefónica Germany 1. Beteiligungsgesellschaft mbH, Munich[2]	Germany	Full financial year	100%
TGCS Rostock GmbH, Munich[2]	Germany	Full financial year	100%
Telefónica Germany Next GmbH, Munich[2]	Germany	Full financial year	100%
Minodes GmbH, Berlin[2]	Germany	Full financial year	100%
Telefónica Germany Retail GmbH, Dusseldorf[2]	Germany	Full financial year	100%
Wayra Deutschland GmbH, Munich[2]	Germany	Full financial year	100%
O2 Telefónica Deutschland Finanzierungs GmbH, Munich	Germany	Full financial year	100%
TGCS Bremen GmbH, Munich[2]	Germany	Full financial year	100%
TGCS Hamburg GmbH, Munich[2]	Germany	Full financial year	100%
TGCS Nürnberg GmbH, Munich[2]	Germany	Full financial year	100%
E-Plus Service GmbH, Dusseldorf[2]	Germany	Full financial year	100%
TGCS Essen & Potsdam GmbH, Potsdam[2]	Germany	Full financial year	100%
TGCS Berlin GmbH, Dusseldorf[2]	Germany	Full financial year	100%
AY YILDIZ Communications GmbH, Dusseldorf[2]	Germany	Full financial year	100%
Ortel Mobile GmbH, Dusseldorf[2]	Germany	Full financial year	100%
TFS Potsdam GmbH, Potsdam[2]	Germany	Full financial year	100%
Joint operations			
TCHIBO Mobilfunk Beteiligungs-GmbH, Hamburg	Germany	Full financial year	50%
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg	Germany	Full financial year	50%
Other investments[3]			
MNP GbR, Dusseldorf[4]	Germany	Full financial year	33%

[1] These entities use the exemption provisions pursuant to section 264b HGB.

[2] These entities use the exemption provisions pursuant to section 264 (3) HGB.

[3] Other investments are not included in the consolidation.

[4] The company reported total equity of EUR 205 thousand as of 31 December 2017. Net income amounted to EUR +102 thousand for financial year 2017.

During the third quarter of 2018, co-trade GmbH was merged into Telefónica Germany Retail GmbH and Erste MVV Mobilfunk Vermögensverwaltungsgesellschaft mbH into E-Plus Service GmbH retrospective as of 1 January 2018.

In addition, E-Plus Service GmbH has sold all shares in Shortcut I GmbH & Co. KG in the third quarter of 2018. The sale was formally and legally completed in the fourth quarter of 2018.

11. Joint operations

Telefónica Germany GmbH & Co. OHG jointly controls TCHIBO Mobilfunk Beteiligungs-GmbH, Hamburg, and TCHIBO Mobilfunk GmbH & Co. KG, Hamburg, jointly with TCHIBO GmbH, Hamburg.

The business objective of TCHIBO Mobilfunk Beteiligungs GmbH is the holding of interests in other companies. The business objective of TCHIBO Mobilfunk GmbH & Co. KG, where TCHIBO Mobilfunk Beteiligungs GmbH is its personally liable shareholder, is the marketing and sales of mobile communications services to be rendered by third parties and the marketing and sales of mobile devices.

As part of the joint operation in TCHIBO Mobilfunk GmbH & Co. KG, Telefónica Germany GmbH & Co. OHG reimburses the company for sales and marketing services provided by the latter, on the one hand, and supplies the company with mobile communications devices, on the other.

12. Related Parties

Related parties within the meaning of IAS 24 are defined as natural persons and companies that can be influenced by the Telefónica Deutschland Group, that can exercise a material influence over the Telefónica Deutschland Group, or that are materially influenced by another related party of the Telefónica Deutschland Group.

Transactions with related parties include transactions between the Telefónica Deutschland Group and the Telefónica, S.A. Group.

Telefónica Deutschland Holding AG is the parent company of the Telefónica Deutschland Group. It is included in the Consolidated Financial Statements of the ultimate parent company, Telefónica, S.A., Madrid, Spain (Telefónica, S.A.; its group: the Telefónica, S.A. Group). The direct parent company of the Telefónica Deutschland Group is Telefónica Germany Holdings Limited, a wholly owned subsidiary of O2 (Europe) Limited, Slough, United Kingdom (O2 (Europe) Limited), and an indirect subsidiary of Telefónica, S.A. The companies of the Telefónica, S.A. Group are related parties as Telefónica, S.A. controls the Telefónica Deutschland Group.

Note 10 Group Companies of the Telefónica Deutschland Group provides an overview of the companies making up the Telefónica Deutschland Group. In 2017 and 2018, the following were related parties from the perspective of the Telefónica Deutschland Group:

— Telefónica, S.A. and its subsidiaries, and significant investments of Telefónica, S.A. Group (see Note 12.1 Transactions with the Telefónica, S.A. Group),

— Members of the Management Board and Supervisory Board of the Telefónica, S.A. Group and members of the Management Board and Supervisory Board of the Telefónica Deutschland Group (see Note 12.2 Transactions with Management Board and Supervisory Board),

The extent of the transactions conducted with the Telefónica, S.A. Group and other related parties can be seen in the overviews below.

Intercompany charges are based on cost-plus or similar allocation methods.

12.1. Transactions with the Telefónica, S.A. Group

Receivables from and liabilities to the Telefónica, S.A. Group
The Telefónica Deutschland Group reports the following receivables from and liabilities to the companies belonging to the Telefónica, S.A. Group:

As of 31 December

(in EUR million)	2018	2017
Receivables from the Telefónica, S.A. Group	**778**	**650**
that are recognised in the following items in the Consolidated Statement of Financial Position:		
Cash and cash equivalents (cash pooling)	737	573
Trade and other receivables	40	77
Liabilities to the Telefónica, S.A. Group	**408**	**415**
that are recognised in the following items in the Consolidated Statement of Financial Position:		
Trade and other payables	408	415
Interest-bearing debt	–	0

Cash and cash equivalents (cash pooling)
The receivables from the Telefónica, S.A. Group as a result of cash pooling relate to the cash pooling agreement with Telfisa Global B.V.

Trade and other receivables
These receivables result from transactions in goods and services such as roaming and commissions for insurance services, as well as licence agreements between Telefónica Deutschland Group and the Telefónica, S.A. Group. As of the reporting dates of 31 December, the line item contains receivables from Telefónica, S.A. of EUR 4 million in 2018 (2017: EUR 2 million).

Trade and other payables
This item primarily relates to liabilities sold by the suppliers of Telefónica Germany GmbH & Co. OHG to Telefónica Factoring España, S.A., in which Telefónica, S.A. has an interest. In addition, the item includes licence agreements, social security benefits and lease benefits for the entire Telefónica, S.A. Group.

As of the reporting dates of 31 December, the item contains other payables to Telefónica, S.A. of EUR 7 million in 2018 (2017: EUR 3 million).

Interest-bearing debt
The interest bearing debt is related to the loan agreement concluded with Telfisa Global B.V.

Revenues, other income and expenses relating to the Telefónica, S.A. Group

1 January to 31 December	Revenues, other income and interest income		Expenses	
(in EUR million)	**2018**	2017	**2018**	2017
Telefónica, S.A. Group	39	44	(148)	(176)

Revenues and other income are primarily generated from goods and services such as roaming, mobile phone insurance, wholesale voice, etc. and, in the previous year, additionally from the sale of passive tower infrastructure.

Expenses include group fees totalling EUR 37 million in 2018 (2017: EUR 36 million), together with expenses relating to the purchase of goods and services, rent, as well as other expenses in connection with transactions with the Telefónica, S.A. Group, e.g. IT services.

12.2. Transactions with Management Board and Supervisory Board

a) Management Board
In financial year 2018, the key management personnel included the following members of the Management Board:

— Markus Haas (CEO)

— Markus Rolle

— Wolfgang Metze

— Alfons Lösing

— Cayetano Carbajo Martín

— Nicole Gerhardt

— Valentina Daiber

— Guido Eidmann

The remuneration system of Telefónica Deutschland Group for the members of the Management Board and the Supervisory Board is described in further detail in the Combined Management Report, Remuneration Report.

In the financial years to which the Consolidated Financial Statements relate, the members of the Management Board have not carried out any transactions with the Telefónica Deutschland Group other than as part of the normal trading and business activities of the Telefónica Deutschland Group.

In accordance with section 314 (1) no. 6a HGB, the total remuneration granted to the Management Board of Telefónica Deutschland Holding AG for the financial year ended 31 December 2018 amounted to EUR 6,163 thousand. The total remuneration in the reporting year includes share-based compensation for the transfer of shares without consideration with a fair value at the time they were granted of EUR 559 thousand, with 105,556 shares.

The Telefónica Deutschland Group has not currently granted the members of its Management Board any security or loans and have not assumed any guarantees for them.

The total remuneration granted to the Management Board in accordance with section 314 (1) no. 6a HGB in 2017 amounted to EUR 4,147 thousand. The total remuneration in financial year 2017 contains no share-based payments regarding the transfer of shares without consideration.

Salaries and other benefits according to IAS 24.17 that were granted to active Management Board members are composed as follows:

1 January to 31 December

(in EUR thousand)	2018	2017
Total remuneration	**6,883**	**4,611**
thereof:		
Short-term employee benefits	5,604	3,884
Other long-term employee benefits	679	367
Share-based payments	131	93
Service cost	469	268

Due to the conditional rights to the free transfer of shares (bonus shares) for Telefónica, S.A.'s share options for the Management Board members (for further information see the Management Report, Remuneration system for Board Members) the following changes took place:

(in units)	2018	2017
Share options as of 1 January	**60,345**	**111,242**
Forfeited share options	(60,345)	(65,990)
Newly issued share options	105,556	–
Change in composition of Management Board	–	37,345
Actual share assignment	–	(22,252)
Share options as of 31 December	**105,556**	**60,345**

The defined benefit pension obligations for the Management Board members in financial year 2018 amounted to EUR 2,980 thousand (2017: EUR 2,248 thousand).

As of 31 December 2018 and 2017, the pension obligations for the members of the former management and their surviving dependants amounted to EUR 16,195 thousand (2017: EUR 14,448 thousand).

For further details of the pension obligations of the Telefónica Deutschland Group, please refer to Note 4.12 Provisions.

As of 31 December 2018, the total remuneration expense for the members of the former management and their surviving dependants amounted to EUR 468 thousand (2017: EUR 182 thousand).

b) Supervisory Board

Name	Member of the Supervisory Board	Remuneration in EUR
Eva Castillo Sanz*	since 5 October 2012 to 25 May 2018	27
Laura Abasolo García de Baquedano**	Since 12 May 2015	2
María García-Legaz Ponce	Since 7 June 2018	2
Patricia Cobian González	Since 18 September 2012	2
Michael Hoffmann	Since 5 October 2012	70
Enrique Medina Malo	since 18 September 2012 to 24 July 2018	2
Pablo de Carvajal Gonzalez	Since 25 July 2018	2
Sally Anne Ashford	Since 18 September 2014	20
Peter Erskine	Since 19 May 2016	20
Julio Linares López	Since 16 October 2017	20
Christoph Braun***	Since 1 July 2016	39
Thomas Pfeil	Since 3 June 2013	20
Dr. Jan-Erik Walter	Since 3 June 2013	20
Marcus Thurand	since 3 June 2013 to 17 May 2018	8
Martin Butz	Since 17 May 2018	13
Christoph Heil	since 3 June 2013 to 17 May 2018	8
Sandra Hofmann	Since 17 May 2018	13
Claudia Weber	Since 3 June 2013	20
Joachim Rieger****	Since 31 October 2014	25
Jürgen Thierfelder****	Since 31 October 2014	23

* Ms Castillo Sanz was Chair of the Supervisory Board until 25 April 2018 (inclusive) and has been an ordinary member of the Supervisory Board since 26 April 2018.

** Ms Abasolo García de Baquedano has been Chair of the Supervisory Board since 3 May 2018.

*** Mr Braun was no longer Deputy Chairman after the end of his first term of office at the close of the Annual General Meeting on 17 May 2018 until his re-election as Deputy Chairman on 13 June 2018.

**** In addition to their remuneration in accordance with section 20 of the Telefónica Deutschland Holding AG's articles of association, Mr Joachim Rieger and Mr Jürgen Thierfelder shall receive annual remuneration for their activities as members of the Supervisory Board of the subsidiaries TGCS Essen & Potsdam GmbH and Telefónica Germany Retail GmbH. Such remuneration amounts to EUR 4,500 each and is already included in the table (pro rata where applicable). Mr Thierfelder is no longer a member of the Supervisory Board of Telefónica Germany Retail GmbH as of 14 September 2018.

The members of the Supervisory Board received remuneration of EUR 346 thousand for their activities in 2018 (2017: EUR 382 thousand)

Members of the Supervisory Board who are also employees of the Telefónica Deutschland Group also receive remuneration from their employment relationship, including entitlements from share-based payment agreements, subject to compliance with the requirements for participation in each individual case, and are entitled to pension schemes. This remuneration comprises the following for the period of appointment to the Supervisory Board:

1 January to 31 December

(in EUR thousand)	**2018**	2017
Total remuneration	**755**	**721**
thereof:		
Short-term employee benefits	730	693
Share-based payments	7	7
Service cost	18	21

As of 31 December 2018, the Telefónica Deutschland Group has not granted the members of its Supervisory Board any securities or loans, and has not assumed any guarantees on their behalf.

13. Share-based payments

As of 31 December 2018, the Telefónica Deutschland Group had made various agreements regarding share-based payments. Share-based payment transactions are accounted for as equity-settled share-based payment transactions. The financial effects of the share-based remuneration systems are, however, of minor importance for the Telefónica Deutschland Group:

— In financial year 2018, personnel expenses arising from share-based payment transactions amounted to EUR 1 million (2017: EUR 7 million).

— As of 31 December 2018, liabilities arising from share-based payment transactions amounted to EUR 4 million (2017: EUR 0 million) against Telefónica S.A. Group.

14. Information Regarding Employees

The following table presents the breakdown of the Telefónica Deutschland Group's average headcount grouped with respect to their status under employment law:

Average headcount	**2018**	2017
Office staff	8,650	9,024
thereof from joint operations	12	12
Temporary staff	340	381
Total	**8,990**	**9,405**

15. Financial Instruments and Risk Management

As of the reporting date, Telefónica Deutschland Group faces a variety of risks from financial instruments. In this regard, please refer to the statements regarding risk management and financial instruments in the Combined Management Report.

16. Capital Management

The Telefónica Deutschland Group strives to guarantee the sustainability of its business and to maximise its enterprise value by permanently monitoring its capital costs, equity ratio and OIBDA.

As of 31 December 2018, the equity ratio amounted to 54.9% compared with 58.8% as of 31 December 2017. OIBDA was EUR 1,797 million in 2018 (2017 EUR 1,785 million).

17. Contingent Assets and Liabilities

Indirect claims against the frequency allocation at 800 MHz, 1.8 GHz, 2.0 GHz and 2.6 GHz could result in the reassignment of the 800 MHz, 1.8 GHz, 2.0 GHz and 2.6 GHz frequencies purchased at the 2010 frequency auction. The above frequencies were (indirectly) contested, as there was pending litigation from several cable network operators, broadcasting companies and Airdata AG against the terms and conditions, on which the frequency allocation was based. This litigation was primarily aimed at the allocation conditions for 800 MHz, but also alternatively involved the rescission of the entire allocation decision (i.e. also affecting 1.8 GHz, 2.0 GHz and 2.6 GHz). The actions have now been dismissed in the court of last instance. This ends the legal disputes before the administrative courts. The possibility of additional legal proceedings due to as yet unasserted third-party claims against frequency allocations in 800 MHz in connection with the aforementioned legal action cannot be ruled out. If the appeals are successful, this could result in the reassignment of the frequencies for 800 MHz acquired at the 2010 frequency auction.

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.

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 results of operations.

18. Operating Leases, Purchase and Other Contractual Obligations

The following expected maturity dates apply to the obligations from operating leases, purchase and contractual obligations:

As of 31 December

(in EUR million)	**2018**	2017
Less than 1 year	475	554
1 to 5 years	1,240	1,451
Over 5 years	864	774
Obligation from operating leases	**2,579**	**2,779**

As of 31 December

(in EUR million)	**2018**	2017
Less than 1 year	1,584	1,351
1 to 5 years	758	698
Over 5 years	195	154
Purchase and other contractual obligations	**2,538**	**2,203**
Total	**5,116**	**4,982**

Obligations from operating leases are recognised when the contracts become legally effective.

The following amounts are recognised in the Consolidated Income Statement:

1 January to 31 December

(in EUR million)	**2018**	2017
Expenses for operating leases	626	642

The expenses for operating leases essentially include rental expenses for office buildings and shops, antenna sites, cars and network equipment (i.e. leased lines and cell sites). Some of the contracts contain renewal options. These relate primarily to lease contracts for network towers.

The Telefónica Deutschland Group provides absolute guarantees to secure rental obligations primarily for antenna sites. These guarantees are granted by external financial counterparts.

The guarantees amounted to EUR 96 million as of 31 December 2018 (2017: EUR 111 million).

The Telefónica Deutschland Group has entered into various sublease agreements for office buildings, cell sites and shops. The estimated payment schedule for subleases is as follows:

As of 31 December

(in EUR million)	**2018**	2017
Less than 1 year	10	13
1 to 5 years	15	17
Over 5 years	5	4
Income from subleases	**30**	**35**

The following amounts are recognised in the Consolidated Income Statement:

1 January to 31 December

(in EUR million)	**2018**	2017
Income from subleases	11	22

19. Total Auditor's Fees

In the financial years 2018 and 2017, the services listed below provided by the Group's auditors, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, are recognised in the Consolidated Income Statement.

Because the Telefónica Deutschland Group conducts all of its business in Germany, the entire amount is incurred in Germany.

1 January to 31 December

(in EUR million)	**2018**	2017
Types of fee:		
Audit services	2	2
Other certification services	0	0
Total fee	**2**	**2**

The auditor's fees include especially the fees for auditing the Consolidated Financial Statements of Telefónica Deutschland Holding AG and fees for auditing the annual financial statements of the subsidiaries. Other audit-related services were performed in financial years 2018 and 2017 only to a minor extent.

20. Subsequent Events

Change in the Supervisory Board
Supervisory Board member Jürgen Thierfelder resigned from office with effect of as the end of 31 December 2018.

Sandra Hofmann informed the Chairman of the Supervisory Board that she is resigning as a member of the Supervisory Board with effect from the end of the Supervisory Board meeting on 18 February 2019.

Mobile frequency auction
The Telefónica Deutschland Group submitted an application to the BNetzA for participation in the auction for the allocation of frequencies in the 2 GHz and 3.6 GHz ranges in due time by 25 January 2019.

On 4 February 2019, the Telefónica Deutschland Group instigated urgent procedings against Presidential Chamber Decisions III and IV of the BNetzA regarding the frequency usage regulations and the auction rules of 26 November 2018, after it had already filed an action against the decisions in December 2018. A decision on the urgent procedings is expected in the first quarter of 2019.

No additional events subject to disclosure requirements occurred after the end of the 2018 financial year.

21. Declaration of Compliance with the German Corporate Governance Code

The Management Board and the Supervisory Board last submitted a declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG) on 12 and 15 October 2018. The complete wording of the declaration of compliance is available on Telefónica Deutschland's website at **www.telefonica.de/declaration-of-compliance-2018.**

Munich, 15 February 2019

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Guido Eidmann

Nicole Gerhardt

Alfons Lösing

Cayetano Carbajo Martín

Wolfgang Metze

IMPRINT

Publisher
Telefónica Deutschland Holding AG
Georg-Brauchle-Ring 50
80992 Munich, Germany
Tel.: +49 89 2442 0
www.telefonica.de

Investor Relations
Telefónica Deutschland Holding AG
Investor Relations
Georg-Brauchle-Ring 50
80992 Munich, Germany
Tel.: +49 89 2442 1010
E-mail for private investors: shareholder-deutschland@telefonica.com
E-mail for institutional investors: ir-deutschland@telefonica.com

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www.telefonica.de/annualreport

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Telefónica Deutschland Holding AG, Munich, Germany
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