

Telefónica

Deutschland

Investor presentation Telefónica Deutschland

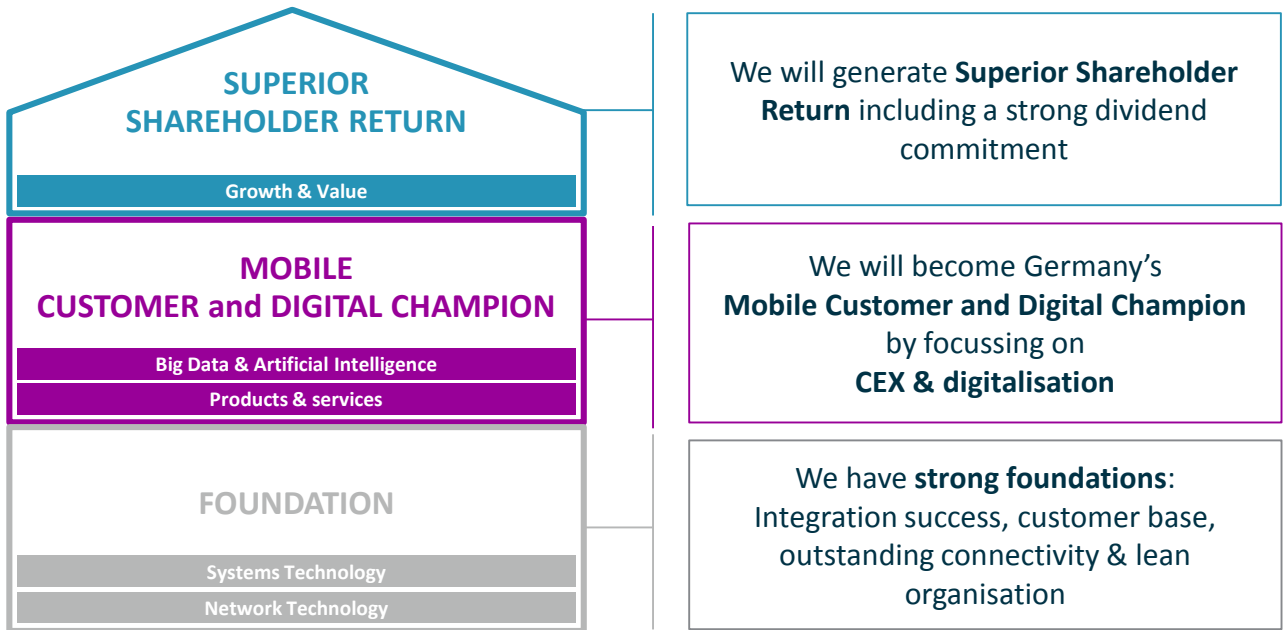


Telefónica Deutschland, Investor Relations
Q4 2017

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Becoming the Mobile Customer and Digital Champion



Largest and fastest mobile merger

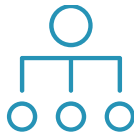
2 companies
3 years

>9,000 Employees



>25%

OIBDA growth
in 3 years



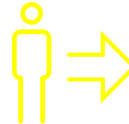
~1,600 FTE

Organisation
harmonised
in 3 years



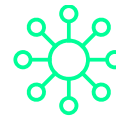
600

Shop reduction
in 3 years



>25m

Customers
migrated to one IT
stack in 2016



>14k

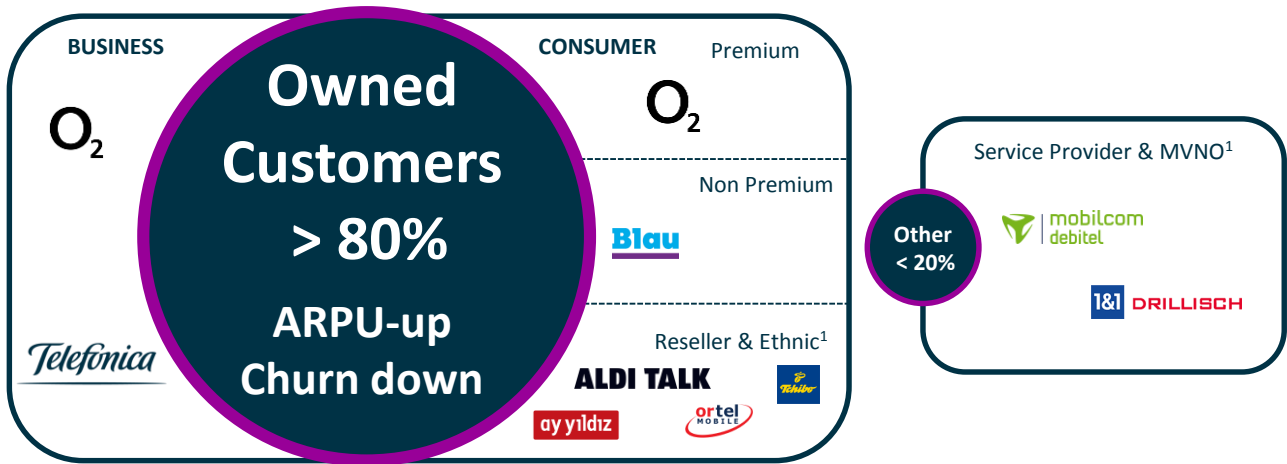
Network sites
to be consolidated
by 2019



O₂ Free

First 3G unlimited
First 4G big bucket
portfolio

Core asset: Largest owned customer base of ~35 million



¹ Not exhaustive

Our German market thesis



Environment

Largest 4 to 3 merger in Europe, rational and dynamic market; mobile data usage increase and IoT drive market opportunity with focus on retention and fair market share

Data & sensors

Device & sensor opportunity: Consumer will mainly buy IoT from an existing relationship



Convergence

Soft convergence: Limited consumer demand for quadruple play due to large FTA offering; wholesale access to incumbent broadband network

New regulatory environment

Europe needs a common regulatory framework on spectrum, as well as deregulation and a consistent framework for OTT & net neutrality to encourage investments

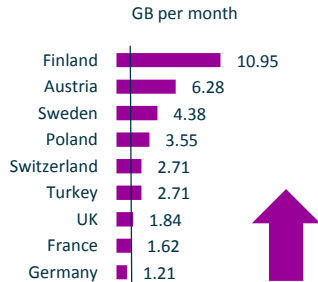


¹ FocusEconomics Consensus Forecast Euro Area (2017)

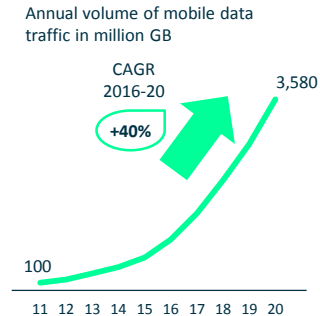
The data & device opportunity: explosive growth

MARKET TRENDS – German market with significant further growth potential

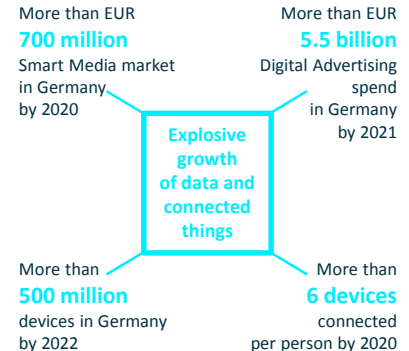
Mobile data usage in Europe¹



Mobile data traffic in Germany²



ADA and IoT growth opportunity³



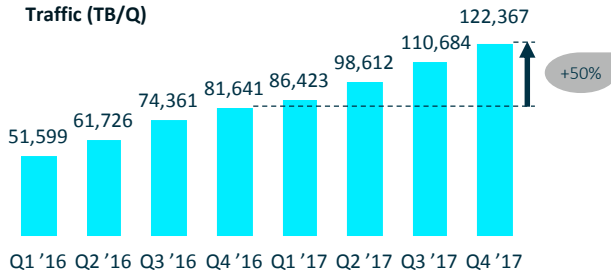
¹ Forbes/OECD (2017): 'Mobile Data Subscriptions: Which Countries Use The Most Gigabytes?'

² Bundesnetzagentur (2017): 'Jahresbericht 2016'; Analysis Mason (2017): 'Western Europe telecoms market: interim forecast update 2016-2021'

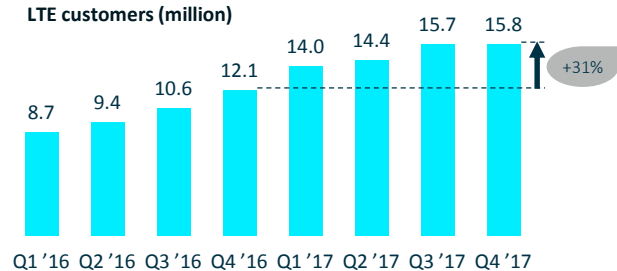
³ Company Research / Simon-Kucher & Partners analysis (2017) / Cisco VNI Global forecast (2017) / Please note: Devices including cellular, wifi & bluetooth

Strong growth in traffic on Telefónica Deutschland network

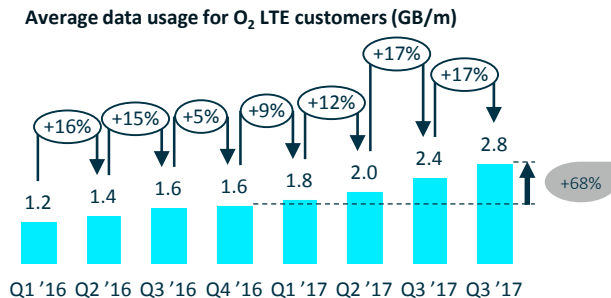
Sustained data traffic growth



LTE adoption slowing

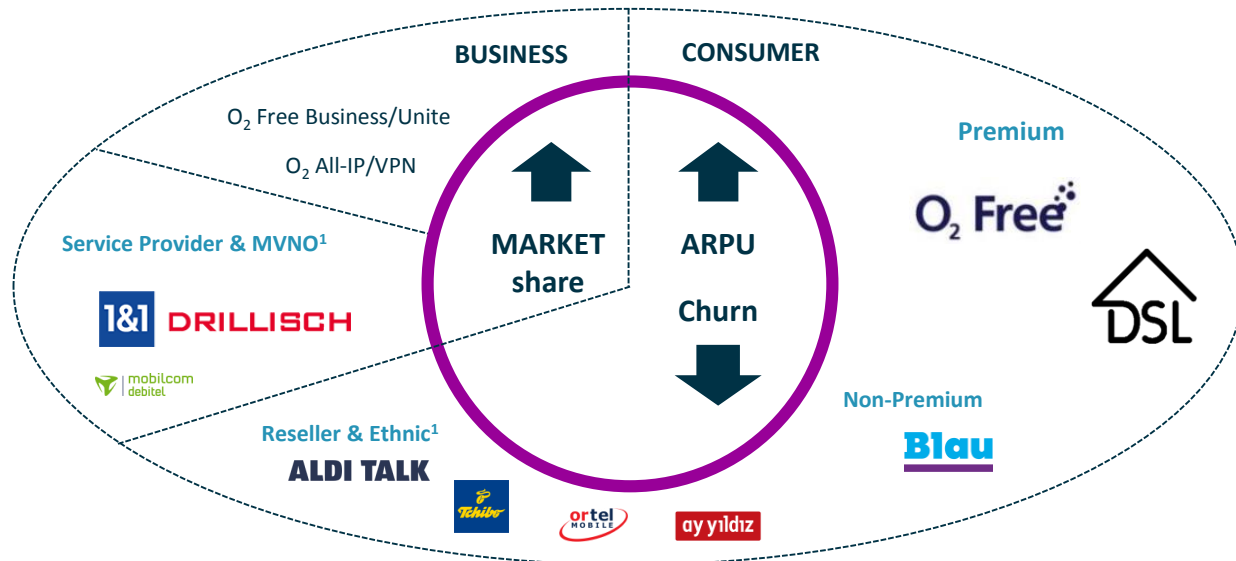


Average usage creeping up to almost 3GB



- Music & video streaming key drivers of data traffic growth of ~50% y-o-y
- Data usage for O₂ consumer LTE customers up ~70% y-o-y to almost 3 GB driven by larger data bundles; O₂ Free customers >7GB
- LTE customer base at almost 16 million, +31% y-o-y

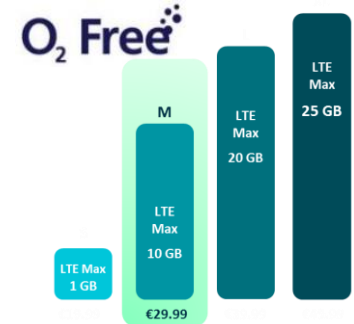
Future-proof portfolio for all segments



¹ Not exhaustive

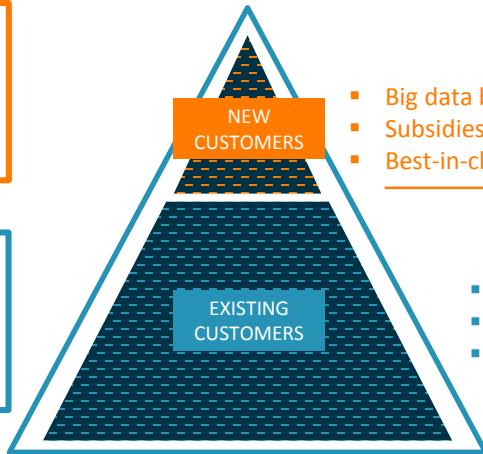
Price value leader

Provide best price-value propositions
&
remain a challenger for our competitors



~60%
new O2 Free customers pay
≥EUR 30 today

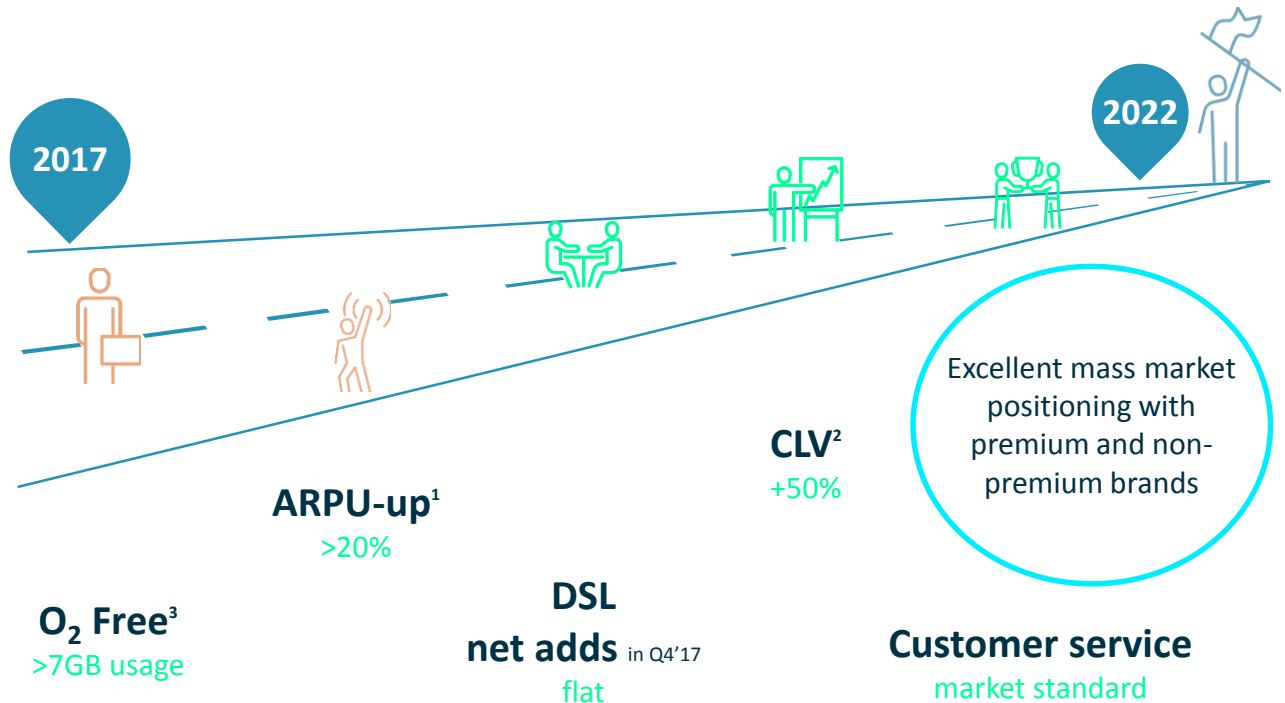
ARPU \triangle UP
CHURN ∇ DOWN
-2% pts PO churn by 2022



- Big data buckets to improve mix
- Subsidies in line with market
- Best-in-class application of behavioural economics

- Individual pricing
- Re-invest in customer benefits
- Improved # SIMs via U/X-Selling

2017 as a turning point



¹ 2017 O₂ PO new customer

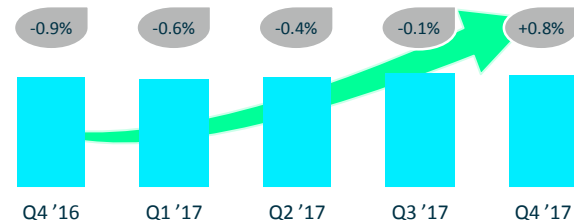
² 2017 O₂ PO new customer CLV/GA

³ 2017 O₂ Free portfolio new

Strong set of results in 2017

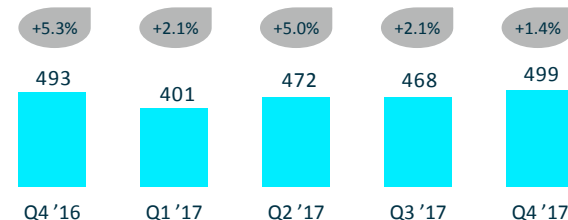
Underlying¹ MSR trends back to growth in Q4 '17

Year-on-year performance in %



13 quarters of year-on-year OIBDA² growth

Year-on-year performance in %



	Baseline 2016 (EUR m)	Outlook 2017 (y-o-y pct. change)	FY 2017 actual (EUR m / y-o-y pct. change)
MSR ✓	5,437	Slightly negative to flat¹ Excl. the impact from regulatory effects (3-4%)	5,433 / -0.1% (Excl. regulatory effects of EUR 146 million)
OIBDA ✓	1,793 ²	Flat to low single-digit % growth²	1,840 / +2.6%
CapEx ✓	1,102	Around EUR 1 billion	950 / -13.7%
Dividend ✓	EUR 0.25	Dividend growth over 3 years (2016-2018)	EUR 0.26 per share for FY 2017 (Payout May 2018)

¹ Excluding the impact from regulatory changes; for details please refer to further materials of Q4 2017

² Excluding exceptional effects; for details please refer to further materials of Q4 2017 results release. We have calculated a comparable for 2016; for details please refer to materials of the full year 2016 results release

Over half of network consolidation completed, significant quality improvements

Ambition: Building the best network for customer experience until 2020

April/May 15



3G National Roaming for all customers

July 15



Deal to transfer **7,700 sites** to DTE

April 16



Tower sale to Telxius

July 16



Consolidation & roll-out **4G network**

April 17



Implementation of **SON & SOC**

May 17



Implementation of **CEM**

Excellence Award 2017

August 17



1 MNC nationwide

December 17



~8,000 sites consolidated

Decommissioning of 14k sites

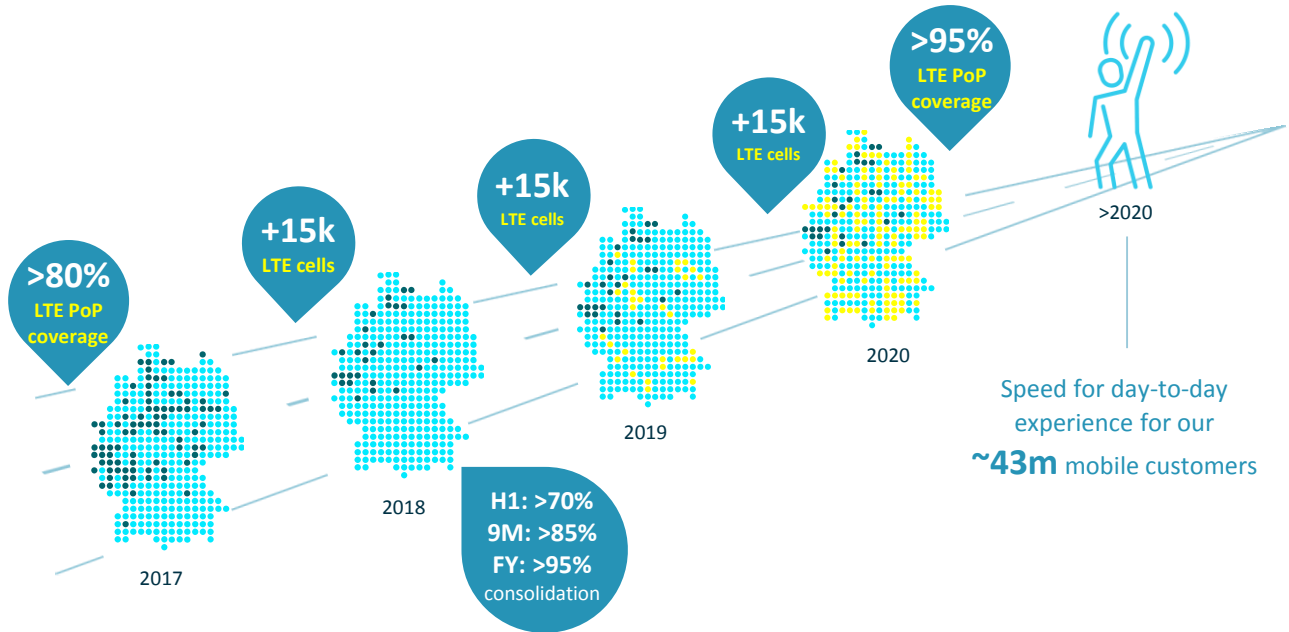
Roll-out of 45k LTE cells

Utilisation of new licenses

Pilot network for 5G

Best network for mobile customer experience

Largest network integration in Western Europe - finish consolidation in 2018

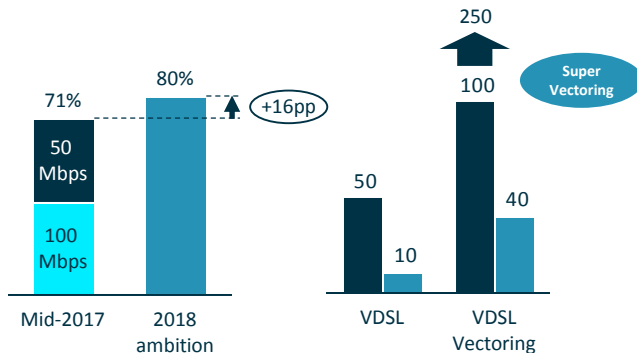


Fixed infrastructure model to complement our mobile network for best high-speed experience

Access to best available fixed NGA network¹

NGA coverage targets
(% of covered households)

Maximum speed
(Up- & Download, Mbps)
■ Download ■ Upload



- Nationwide access to DT NGA network
- DT is currently upgrading larger cities to VDSL vectoring and 100 Mbps
- In H2 2018, introduction of Super Vectoring with download speeds of up to 250 Mbps

¹ NGA: Next Generation Access including VDSL, Vectoring and future FTTH deployments

Telefonica

Deutschland

Fixed

- Access to best available fixed NGA network¹
- Fixed network: Access to 25 million households
- Full convergence capabilities

Mobile fibre backhaul

- Fiber backhaul plan as a key enabler for 5G
- Target: >90% fibre in sub-/urban areas
- Target: >25% fibre in rural areas
- Differentiated sourcing model

Transformation programme *Digital4Growth*

How to become the **MOBILE CUSTOMER** and **DIGITAL CHAMPION**?



Transformation programme *Digital4Growth*

Digital4Growth



SIMPLER



FASTER



BETTER

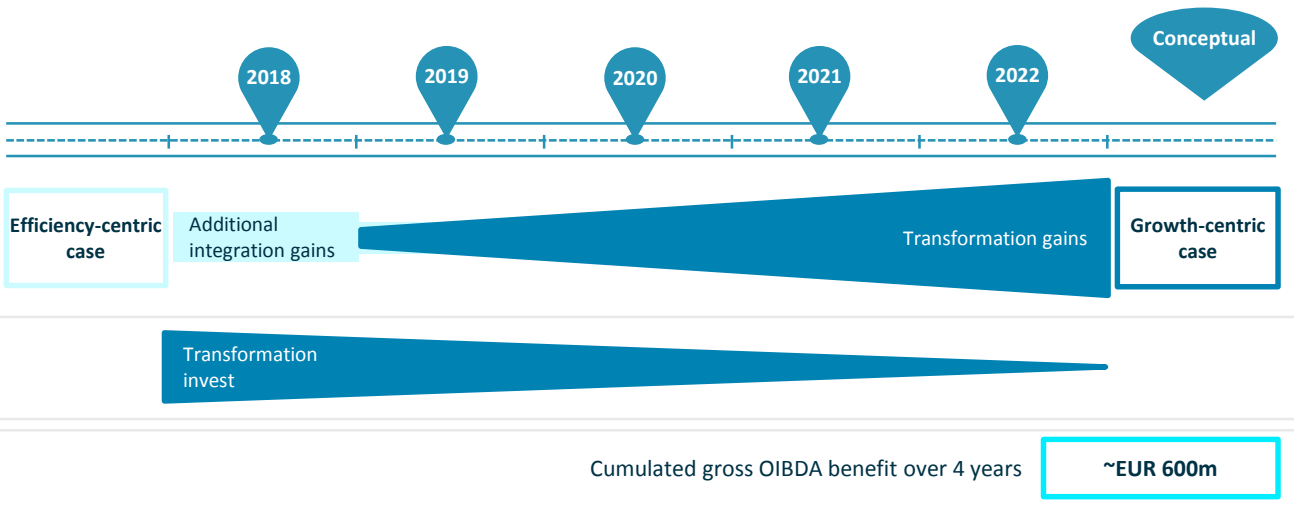
Total case: OIBDA benefit by 2022		~EUR 600m
Omnichannel	Reduced complexity	~25%
Refreshed IT architecture		
Digital speed & processes		
Smart growth		~35%
ADA & IoT		~40%
Care of the future		
Shop strategy		

Growth-centric case:
>60% gross margin gains

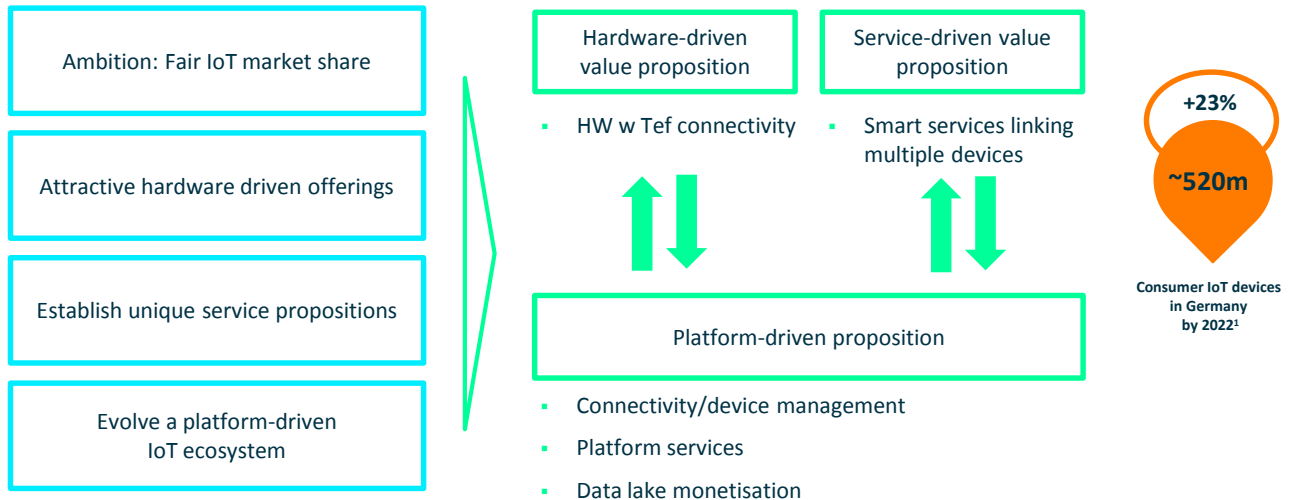


Building on the efficiency gains of the integration

Upfront transformation invest balanced by integration gains

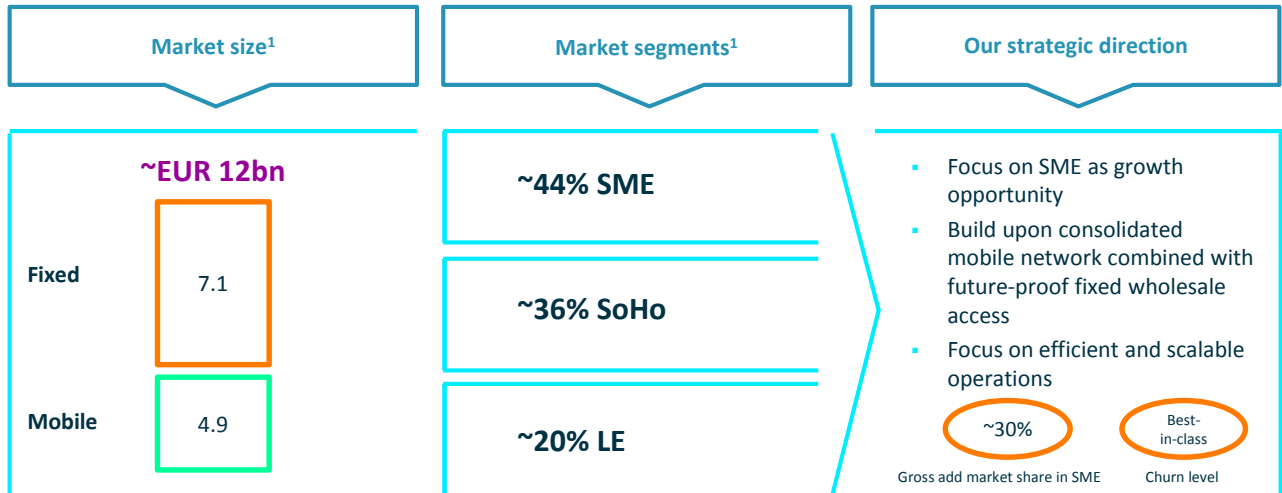


Monetising explosive IoT device growth



¹ Company Research: Simon-Kucher & Partners analysis (2017) / Cisco VNI Global forecast (2017) / Please note: Devices including cellular, wifi & bluetooth

Business market potential: Significant growth opportunity not yet captured



¹ Sources: IDC (2017): European Telco Database / mm customer strategy: 'Business Insights 2016/17' & 'Strategic Insights 2016/17'

Leverage large customer base in the reseller & ethnic segment

Benefits for partnering for TEF D

Channels

Reseller & Ethnic¹

ALDI TALK



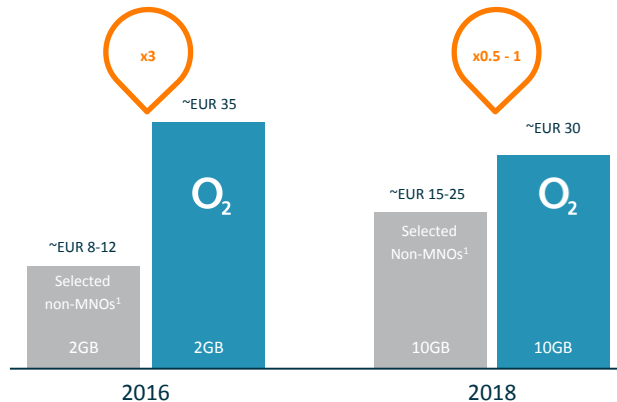
ay yıldız

- Data adoption driving growth
- Leveraging large distribution channels
- Up- and cross-selling opportunities
- Process automation driving faster go-to-market cycles

~20k PoS



Non-MNO postpaid market pricing recovered in 2017 driven by roam-like-home and big bundles

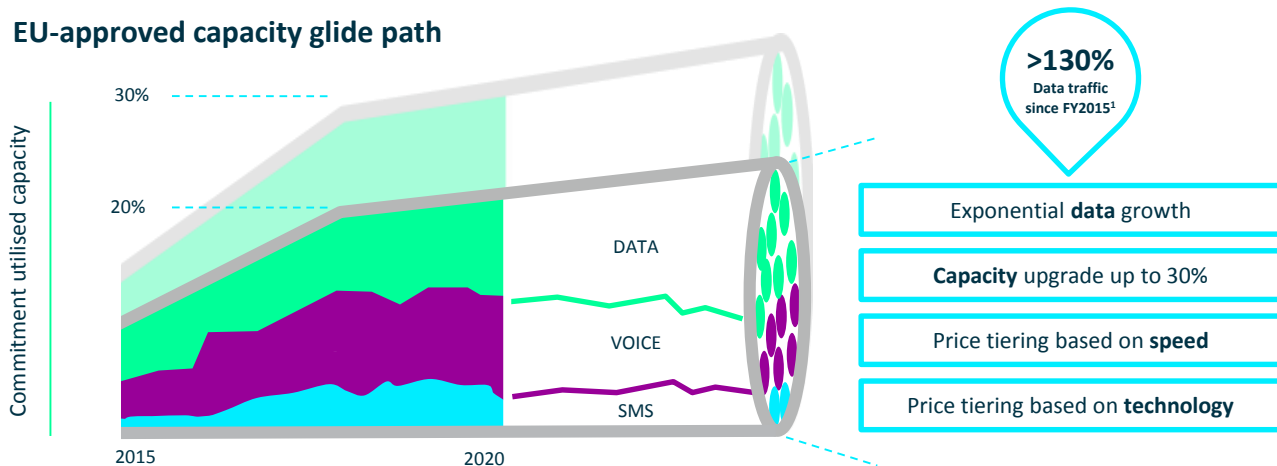


- Postpaid pricing recovered after low in summer 2016 driven by roam-like-home and big buckets
- Larger data bundles and full 4G offers support marketing between EUR 15 and EUR 30
- Migration patterns reflect market shares

¹ Selected non-MNOs = Postpaid Service Provider & MVNO; company research

MBA MVNO contract economics: Four levers for revenue growth

EU-approved capacity glide path



¹ Telefónica Deutschland mobile network traffic

Financial expectations



FY 2018 outlook¹

- Revenue: Broadly stable yoy excluding a regulatory drag of EUR 30-50m
- OIBDA: Flat to slightly positive yoy excluding a regulatory drag of EUR 40-60m
- Capex/Sales: Approx. 12-13%
- Dividend: Growth over 3 years (2016-2018)

Transformation case




- ~EUR 600m positive gross OIBDA effect by 2022
- Growth-centric case

Mid-term expectations¹

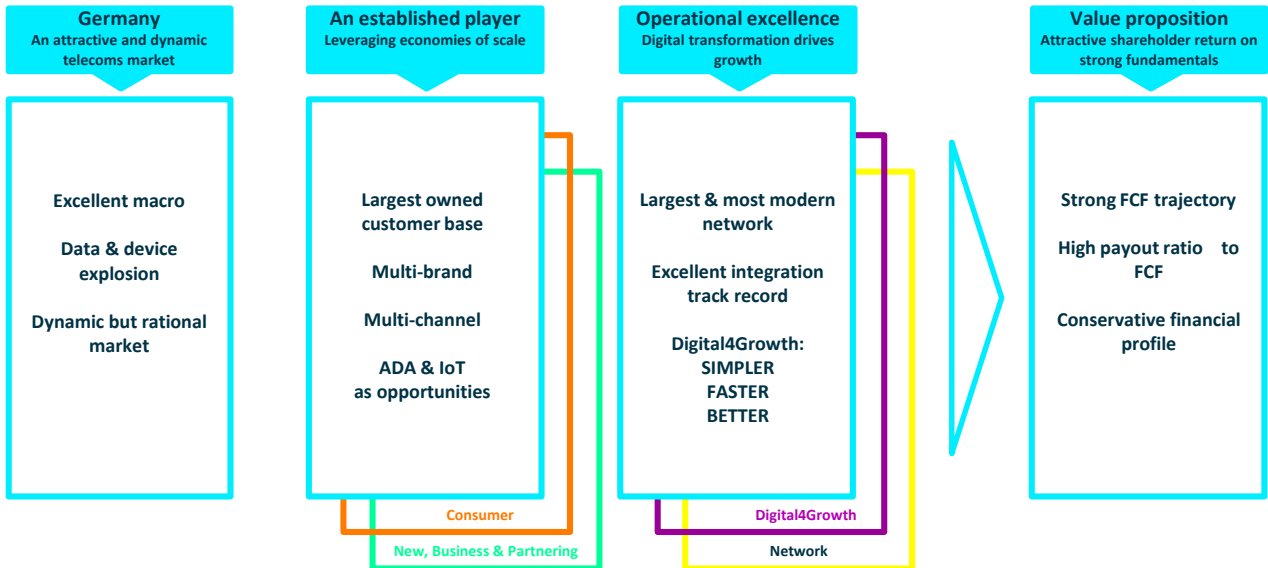
- Revenue growing in line with German market, capturing market share in IoT
- Ongoing margin improvement
- Keeping Capex stable
- Dividend: High payout ratio to FCF

¹ Telefónica The effects from the implementation of IFRS15 as of 1 January 2018 and IFRS16 as of 1 January 2019 are not reflected in the financial outlook. More information will be provided with the quarterly reporting during the period

Digital4Growth targets

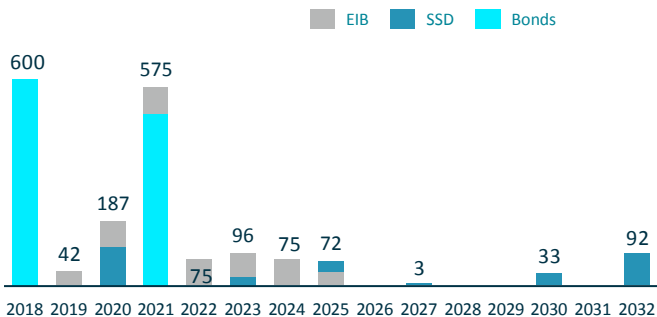
 SIMPLER	O ₂ app penetration: >80% (vs. 20% 2017)	Tariff detox: ~40%	Total IT spend/ subscriber: -15%	Postpaid churn: -2% pts
 FASTER	Lead time product changes: Within hours	Manual back-office interventions: -80%	Sales in self-assisted channels: >25% (vs. 15% 2017)	Gross adds market share in SME: ~30%
 BETTER	Connected devices/ customer: #4 (vs. #1.5 2017)	Share of eCare events: ~80% (vs. 65% 2017)	Shop reduction: >10%	IoT revenue upside: ~EUR 200-300m cumulative

Evolution of equity story: Becoming the Mobile Customer & Digital Champion

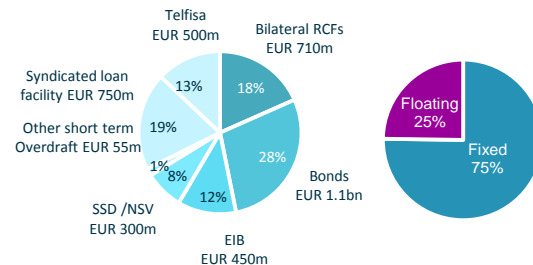


Comfortable liquidity position as per 12/2017

Smooth maturity profile and diversified financing mix (in EURm)

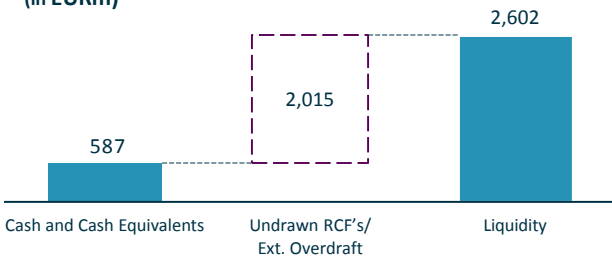


Financing and interest mix



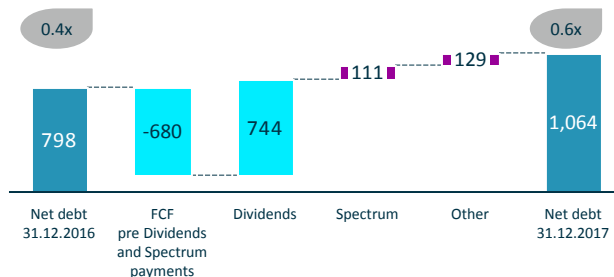
Comfortable liquidity position

(in EURm)



Leverage ratio at 0.6x¹

(in EURm)



¹ Financial debt/OIBDA (last 12 months) after management fees, before exceptionals

We will maintain an attractive shareholder remuneration policy

Shareholder remuneration policy – Main guidelines¹

Maintain high payout in relation to FCF

Consider expected future synergy generation in dividend proposals

Keep leverage ratio at or below 1.0x over the medium term; target will be continually reviewed

Annual dividend growth over 3 years, starting with of EUR 0.25 per share 2016; Proposal of EUR 0.26 for the financial year 2017 at next AGM



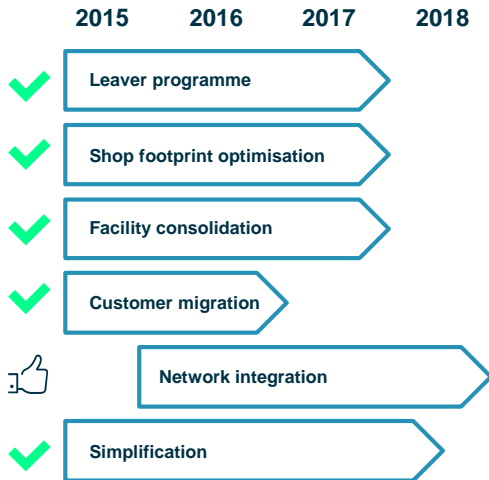
¹ Refer to the Telefónica Deutschland website for full dividend policy (www.telefonica.de)

Appendix

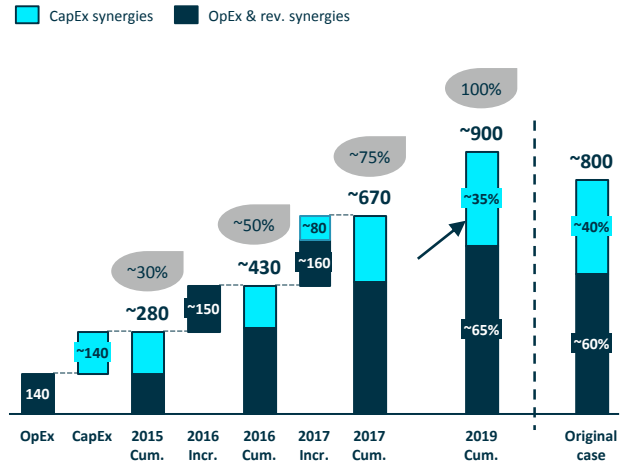


Synergies: We delivered more than we promised

Successful completion of integration workstreams



Synergy case 2015 -2019 (in EURm)



FY 2017 results fully in line with expectations; MSR excl. regulatory effects back to growth

Flat MSR¹ (excl. regulatory effects)

- Successful new O₂ Free portfolio and strong partner performance
- MSR back to growth in Q4 driven by operating momentum & incoming roaming

2.8 GB average data usage²

- 15.8 million LTE customers; +31% year-on-year
- Traffic up 68% y-o-y; usage of 2.8 GB for O₂ consumer postpaid LTE customers

OIBDA³ +2.6% y-o-y

- Integration activities on track; FTE restructuring and shop & facility optimisation finalised
- Synergy capture fully on track, ~EUR 160 million of additional in year-savings at OIBDA level
- OIBDA reflecting synergy capture, commercial investment and regulatory effects

Outlook⁴ 2018

- Revenue: Broadly stable year-on-year excluding regulatory impacts of EUR 30-50m
- OIBDA: Flat to slightly positive excluding regulatory effects of EUR 40-60m
- C/S ratio: Approx. 12-13%

¹ Excluding the negative impact from regulatory changes; for details please refer to additional materials of the Q4 2017 results release

² For O₂ consumer postpaid LTE customers

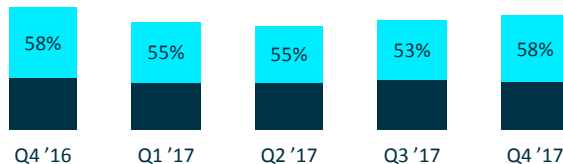
³ Excluding exceptional effects; for details please refer to additional materials of the Q4 2017 results release

⁴ The effects from the implementation of IFRS15 as of 1 January 2018 and IFRS16 as of 1 January 2019 are not reflected in the financial outlook. More information will be provided with the quarterly reporting during the period

Strong partner momentum, retail on track – Effective churn management

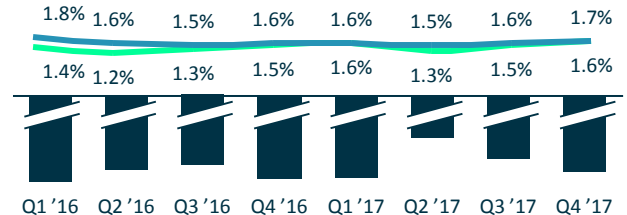
Visible effect from price increases

PO gross adds (abs) GA partner brands GA retail brands



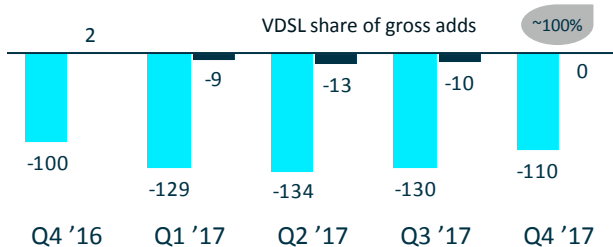
Maintaining retention focus

Postpaid churn O₂ (%) Retail & wholesale (%) Retail brands



VDSL drives fixed trading

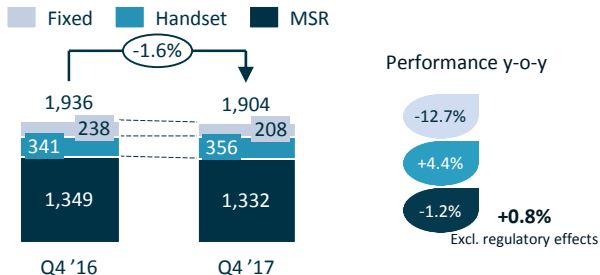
Net adds (in thousand) DSL wholesale DSL retail



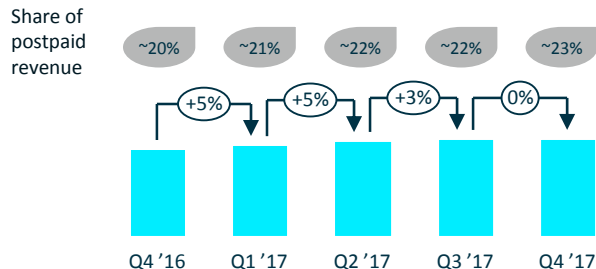
- Strong partner trading despite more benign pricing environment, focus on 4G
- Churn in O₂ consumer remains stable, with seasonal uptick in Q4
- VDSL with solid net adds of 89 thousand; wholesale migration in line with expectations

Underlying MSR trends back to growth

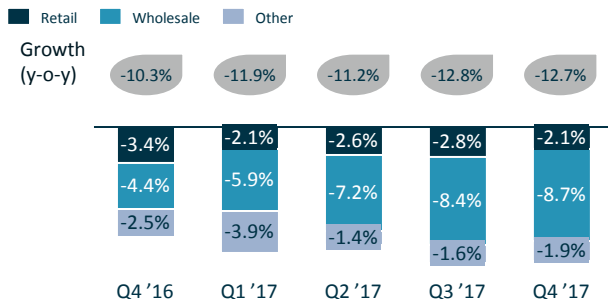
Revenue structure (in EUR m)



MSR from partner business (in EUR m)



Contribution to fixed revenue y-o-y¹ performance

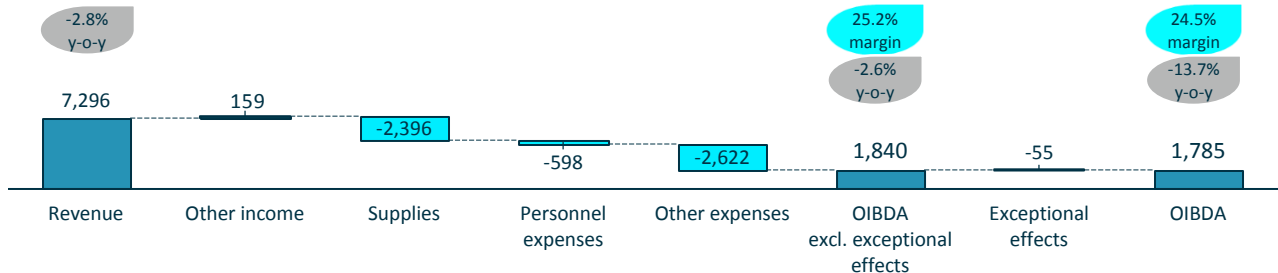


- Underlying MSR back to growth, supported by visitor roaming
- Negative regulatory effects more benign due to slow uptake of RLH
- Stable trend of partner revenue share
- Handset revenue continues to improve
- Fixed revenue reflects wholesale migration

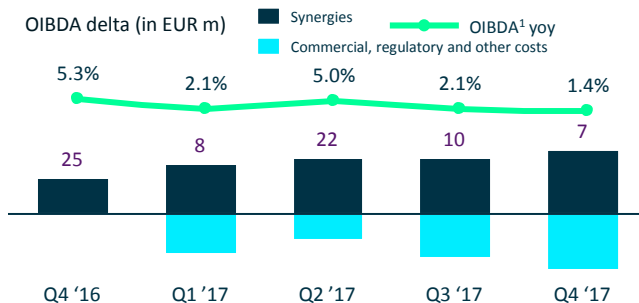
¹Please note a change in the definition of the fixed retail/wholesale split, which better reflects revenue allocation across segments

OIBDA reflects successful synergy capture, RLH-regulation and investment activities

Structure of OIBDA for January to December 2017 (in EUR m)



OIBDA growth on the back of synergy delivery

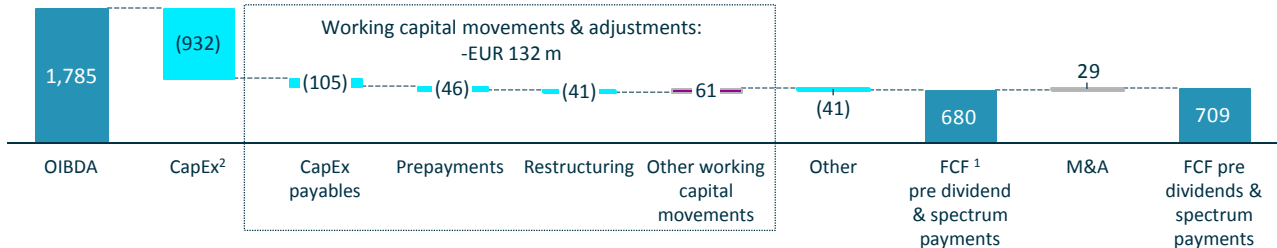


- Successful synergy capture with incremental savings of ~EUR 45 million in Q4 due to lever programme, network consolidation & shop optimisation
- OIBDA in line with expectations; regulatory effects of EUR 51m (~3% OIBDA y-o-y)
- OIBDA¹ margin at 25.2%, up 1.3 pp y-o-y

¹Excluding exceptional effects; for details please refer to additional materials of the Q4 2017 results release

Financial leverage in line with target

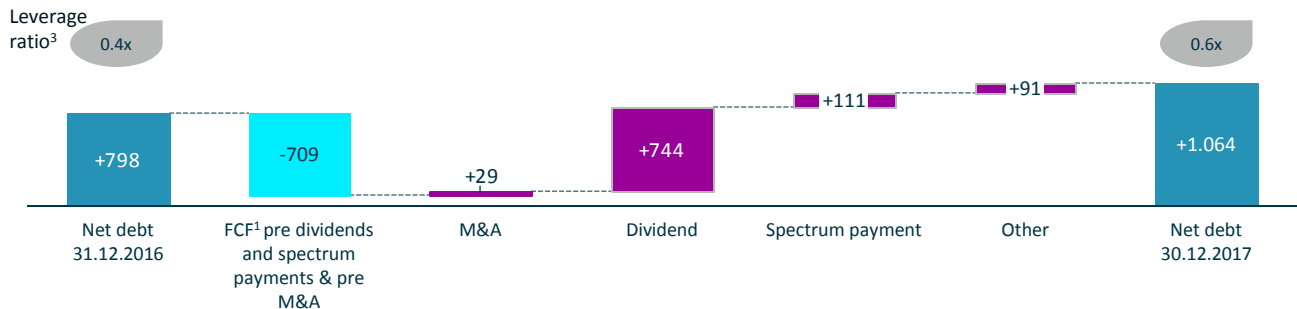
Evolution of Free Cash Flow (FCF)¹ YTD December 2017 (in EUR m)



¹ FCF pre dividend & spectrum payments is defined as the sum of cash flow from operating activities & cash flow from investing activities

² Excluding additions from capitalised finance leases and capitalised costs on borrowed capital for investments in spectrum.

Evolution of Net Debt³ (y-o-y in EUR m) – Leverage³ in line with target



³ For definition of net debt & leverage ratio please refer to Q4 2017 earnings release

Outlook 2018: Entering a new chapter and changing KPIs

	Baseline 2016 (EUR m)	Outlook 2017 (y-o-y pct. change)	Actual 2017 (EUR m / y-o-y pct. change)	Outlook³ 2018 (y-o-y pct. change)
Revenue	7,503	-----	7,296 / -2.8%	Broadly stable <u>Excluding</u> negative regulatory effects of EUR 30-50 million
MSR	5,437	Slightly negative to flat <u>Excl.</u> negative regulatory effects of 3-4% y-o-y	5,433 / -0.1% Excl. regulatory effects of EUR 146m	-----
OIBDA	1,793 ¹	Flat to low single-digit % growth	1,840¹ / +2.6%	Flat to slightly positive <u>Excluding</u> negative regulatory effects of EUR 40-60 million
CapEx	1,102	Around EUR 1 billion	950 / -13.7%	-----
C/S	14.7%	-----	13.0%	Approx. 12-13%
Dividend	EUR 0.25 per share	EUR 0.26 per share ²	EUR 0.26 per share ²	Annual Dividend growth over 3 years (2016-2018)

¹ Excluding exceptional effects. We have calculated a comparable for 2016 as if the sale of tower asset to Telxius SA had happened as of 1 January 2016

² Proposal. Subject to AGM resolution

³ The effects from the implementation of IFRS15 as of 1 January 2018 and IFRS16 as of 1 January 2019 are not reflected in the financial outlook. More information will be provided with the quarterly reporting during the period

O₂ Free portfolio and O₂ DSL portfolio

O₂ Free

Jetzt mit noch mehr Highspeed-Datenvolumen¹

In den neuen O₂ Free-Smartphone-Tarifen gibt es jetzt dauerhaft noch mehr Highspeed-Datenvolumen.¹ Immer inklusive: die O₂ Free Weitersurf-Garantie zum Endlos-Weitersurfen mit 1 MBit/s, auch wenn dein Highspeed-Datenvolumen verbraucht ist.²

Neu:
mehr Daten-
volumen¹

EINE *Telefonica* MARKE

O₂ DSL Für Privatkunden und Junge Leute

Neu
ab 29,18
Unbegrenzt
Highspeed-Surfen bei
O₂ DSL M und L
für O₂ Postpaid
Kunden

	O ₂ Free XL 25 GB	O ₂ Free L 20 GB	Preis-Leistungs-Tipp O ₂ Free M 10 GB	O ₂ Free S 1 GB
Highspeed-Surfen (LTE Max.) ³	✓	✓	✓	✓
Endlos weitersurfen mit 1 MBit/s ²	✓	✓	✓	✓
Flatrate für Minuten/SMS in alle dt. Netz ⁴	✓	✓	✓	✓
Extra-Festnetznummer ⁴	✓	✓	✓	✓
EU Roaming ⁵	✓	✓	✓	✓
Mtl. Grundgebühr reduziert für O ₂ Kunden ⁶	44,99	34,99	24,99	14,99
Mtl. Grundgebühr (bei 24 Monaten Laufzeit) ⁷	49,99	39,99	29,99	19,99

Preis in € inkl. MwSt.

⇒ **Flexibel bleiben:** O₂ Free ist auch ohne feste Laufzeit verfügbar.⁸

	O ₂ DSL L 100 MBit/s	Unser Tipp O ₂ DSL M 50 MBit/s	O ₂ DSL S 25 MBit/s	O ₂ DSL XS 10 MBit/s
Flatrate ins dt. Festnetz und in alle dt. Mobilfunknetze	✓	✓	✓	✓
Unbegrenzt DSL-Surfen (mit bis zu 2.000 KB/s) ⁹	✓	✓	✓	✓
Maximale Surf-Geschwindigkeit*	bis zu 100 MBit/s (Upstream bis zu 40 MBit/s)	bis zu 50 MBit/s (Upstream bis zu 10 MBit/s)	bis zu 25 MBit/s (Upstream bis zu 5 MBit/s)	bis zu 10 MBit/s (Upstream bis zu 2,4 MBit/s)
Maximale Surf-Geschwindigkeit bis (inklusive Volumen)	500 GB (mit Fair-Use-Mechanik**) NEU: unbegrenzt für O ₂ Kunden	300 GB (mit Fair-Use-Mechanik**) NEU: unbegrenzt für O ₂ Kunden	300 GB (mit Fair-Use-Mechanik**) NEU: unbegrenzt für O ₂ Kunden	bis zu 100 GB
HomeBox 2/ AVM FRITZ!Box 7490	1,99 mtl./3,99 mtl.	1,99 mtl./3,99 mtl.	1,99 mtl./3,99 mtl.	1,99 mtl./3,99 mtl.
Anschlussgebühr	0,- (statt 49,99)	0,- (statt 49,99)	29,99 (statt 49,99)	49,99
Bereitstellungspreis DSL-Router	0,- (ohne Laufzeit 49,99)	0,- (ohne Laufzeit 49,99)	0,- (ohne Laufzeit 49,99)	0,- (ohne Laufzeit 49,99)
Mtl. Grundgebühr für Neukunden	24,99 ab 13. Monat 39,99 (ohne Laufzeit ab 7. Monat 39,99)	14,99 ab 13. Monat 34,99 (ohne Laufzeit ab 7. Monat 34,99)	14,99 ab 13. Monat 29,99 (ohne Laufzeit ab 7. Monat 29,99)	9,99 ab 13. Monat 24,99 (ohne Laufzeit ab 7. Monat 24,99)
Rabatt auf mtl. Grundgebühr für O ₂ Kunden	bis zu 10,-	bis zu 10,-	bis zu 10,-	-
Gesamtpreis mit Laufzeit	280,-	340,-	250,-	230,-
Gesamtpreis ohne Laufzeit	140,-	170,-	110,-	90,-

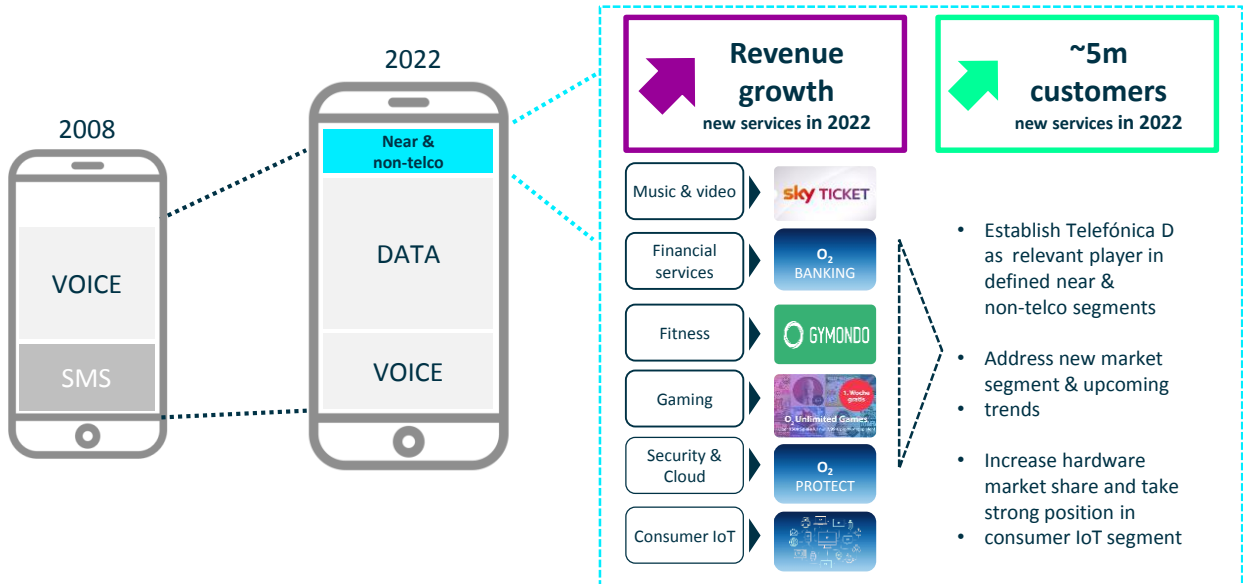
Preis in € inkl. MwSt.

Telefonica

Deutschland

Public – Nicht vertraulich

Product and service extension associated with additional willingness to pay



Value generation drives our success

Develop existing customers & Attract high-value new customers

- Focus on ARPU-up & churn-down
- Driving data usage via mobile freedom
- Up- and cross-selling

-2% pts
PO Churn
by 2022

~60%
new O₂ Free customers pay
≥EUR 30 today

Willingness to pay

- Data growth as monetisation opportunity
- Near & non-telco as value drivers
- Strong position in consumer IoT

Connected devices
per customer:
#4 by 2022

Enhance customer experience & digitalisation

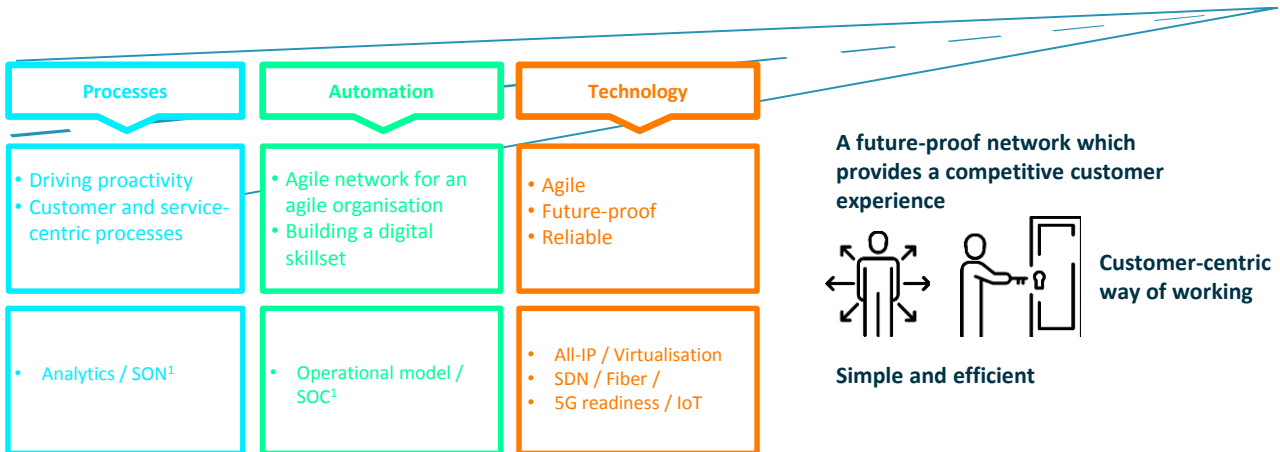
- Omnichannel experience
- Digital transformation of touchpoints
- AI to increase automation & reduce cost

~80%
Share of eCare events
by 2022

>80%
O₂ app
penetration
by 2022

From integration to transformation

Targeting 'Simpler, Faster, Better' in three dimensions:

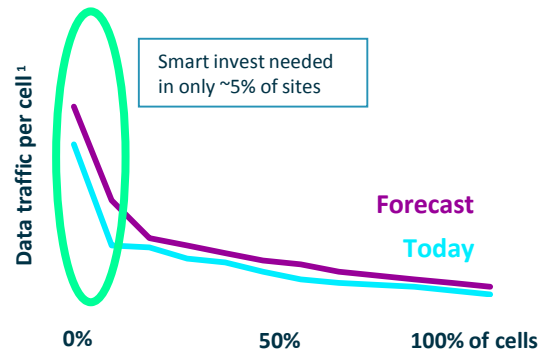
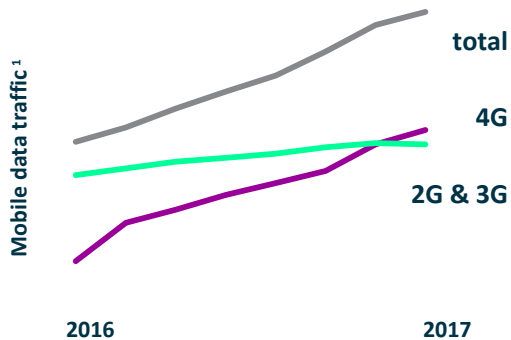


¹ Service Operations Centre (SOC), Self Organising Network (SON)

Ready for accelerating capacity demand

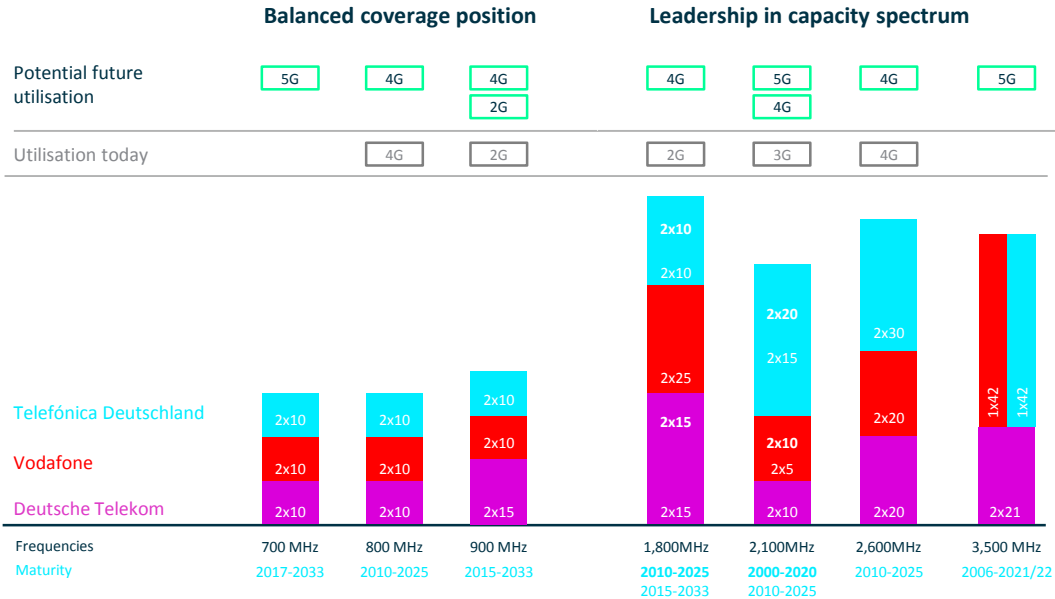
Increasing data volumes,
driven by 4G big bucket propositions

~95% of network capacity is capable of carrying even
more traffic volumes, ~5% require capacity upgrades



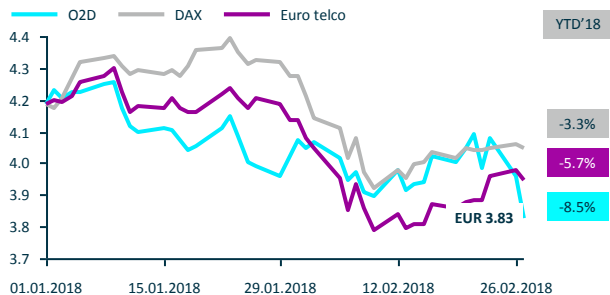
¹ Company research: Network Analysis (2016-2017)

Future-proof spectrum setup, to enable best customer experience



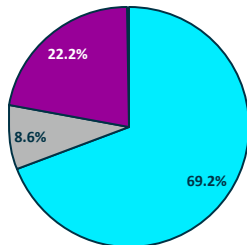
O2D - Factsheet

Share price development until 27.02.2018



Shareholder structure as of 31.12.2017¹

- Telefónica Germany Holdings Ltd ²
- Koninklijke KPN N.V.
- Freefloat

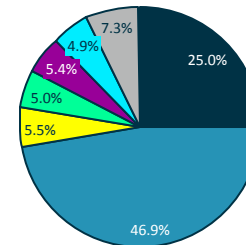


Telefónica Deutschland at a glance

Market segment	Prime Standard
Industry	Telecommunications
Shares outstanding	2,974,554,993 shares
Share capital	EUR 2,974.6 m
Market cap (as of 31.12.2017)	EUR 12,451.5 m
Share price (as of 31.12.2017)	EUR 4.186

Regional split of shareholder structure³

- UK & Ireland
- North America
- France
- Germany
- Continental Europe
- Scandinavia
- Rest of World



¹ According to shareholders register as of 31 December 2017

² Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica S.A

³ Source: NASDAQ; Shareholder ID as of October 2017

Quarterly detail of relevant financial and operating data for Telefónica Deutschland

Financials	2016					2017				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Revenues	1.858	1.834	1.876	1.936	7.503	1.771	1.771	1.850	1.904	7.296
Mobile service revenues	1.336	1.358	1.394	1.349	5.437	1.292	1.318	1.344	1.332	5.287
Mobile service revenues (ex regulatory effects)	-	-	-	-	-	1.328	1.353	1.392	1.361	5.433
OIBDA post Group fees, pre exceptionals ¹	392	450	458	493	1.793	401	472	468	499	1.840
CapEx	218	212	314	358	1.102	208	226	254	262	950
Revenue and Opex related Synergies	~55	~40	~30	~25	~150	~35	~40	~40	~45	~160

Accesses	2016					2017				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Total Accesses	48.252	48.605	49.196	49.346	49.346	49.550	49.907	49.403	47.604	47.604
o/w Mobile	43.008	43.417	44.074	44.321	44.321	44.675	45.194	44.842	43.155	43.155
Prepay	23.744	23.814	23.873	23.784	23.784	23.967	24.289	23.754	21.881	21.881
Postpay	19.264	19.603	20.201	20.537	20.537	20.708	20.905	21.088	21.274	21.274

¹ Exceptional effects include restructuring costs as well as the net capital gain from the sale of Telefónica Deutschland's passive tower infrastructure in April 2016. We have calculated a pro-forma OIBDA of EUR 1,793m for 2016, which includes the operating lease-related effects related with the before mentioned sale of assets as if it had occurred on 1 January 2016

Telefonica
