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The leading digital ‘onlife’ telco in Germany
Reasons to invest in Telefónica Deutschland

**Germany**
An attractive and dynamic telecoms market

- 4-2-3 merger results in rational market
- Strong segmentation between premium and non-premium
- Dynamic wholesale segment
- Average data usage below European average
- Strong data growth

**An established player**
Multi-brand offering for a unique customer experience

- Multi-brand and multi-channel distribution strategy
- Strong premium proposition O₂ Free
- Mobile-centric approach with broadband/converged products for X-selling
- Added-value products and services e.g. Sky coop & O₂ banking

**Operational excellence**
Synergies and digital transformation drive growth

- Synergy case of EUR 900m OpCF savings by 2019
- Building a future-proof network
- Now shifting focus to long-term strategic transformation
- New growth areas Advanced Data Analytics and the Internet of Things

**Value proposition**
Attractive shareholder return on strong fundamentals

- Strong FCF trajectory to support dividend policy
- Committed to high payout ratio in relation to FCF
- Concrete guidance of dividend growth over 3 years (2016-18)
- Low leverage and conservative financial profile for flexibility

---

**Data monetisation potential**

**Unique business model**

**Synergies and transformation drive profitability**

**Commitment to dividend policy**

---

*WE CHOOSE IT ALL*
From MIT to M+T: Focus on Momentum and Transformation

Achievements 2015 & 2016

- Maintained **momentum**
- Relaunch of **major brands**
- Major **integration workstreams** completed, e.g. customer migration
- **Restructuring in line** with expectations
- **Synergy case upgrade**
- Operational performance in line with capital market guidance
- **Strong FCF trajectory**
- Conservative balance sheet and low leverage maintained
- Commitment to mid-term dividend

Focus 2017 and beyond

Keep the Momentum

Integrate quickly

Transform the company
Telefonica Deutschland is well positioned to lead the most attractive telco market in Europe

**Rational and balanced market structure**

- Rational market following 4 to 3 consolidation
- Tiered mobile data portfolios enabling data monetisation

**Data monetisation opportunity intact**

- Germany still a European laggard in terms of customer data usage
- Further opportunities from growing LTE adoption

**Steady adoption of a digital lifestyle**

- Music & video streaming as usage drivers
- Trend to 2 Gb/month for LTE customers

### Average data usage in MB and LTE device penetration in %

- **Western Europe**
  - 2016: 1,160 MB, 52% LTE penetration
  - 2017: 1,674 MB, 62% LTE penetration
  - +44%

- **Germany**
  - 2016: 1,160 MB
  - 2017: 1,642 MB
  - 2018: 2,156 MB
  - 2019: 2,682 MB
  - 2020: 3,246 MB
  - +29%

---

1 Market share of MSR based on reported financials by MNOs for Q1 2017

2 Source: Analysys Mason; Western Europe telecoms market: Interim forecast update 2016–2021; 4G connections in % of smartphone connections

3 Source: Analysys Mason; Total cellular data traffic generated by 3G&4G handset connections, Dec 2016
Focus on stimulating data growth in a dynamic market; new European roaming legislation in place

**Premium**
- **O₂**

**Non-premium: Own secondary brands**
- Blau
- congstar
- Ethnic brands

**Non-premium: Partner brands**
- MNVOs & Service Provider
  - Branded Reseller (selection)

---

**Premium: Tangible benefits from bigger data buckets**
- Successfully upselling O₂ Free to new and existing customers
- Celebrating **15 year anniversary** of O₂ brand with **O₂ Free 15**
  - Bigger buckets driving data usage
  - New **DSL portfolio** with higher speeds

**Non-premium: Shifting to higher price points**
- DRI/UTDI deal approved at EGM
- Larger data allowances supporting shift to **higher price points**
- **Multi-brand approach** supports customer reach

Brands with access to Telefónica Deutschland network
O₂ Free 15: Bigger data buckets clearly stimulate data growth

**Commercial momentum benefitting from anniversary promotions**

- O₂ Free 15 well received from new and existing customers
  - Clearly ARPU-accretive
- Bigger data buckets clearly stimulate data growth
  - Early stats show >3.0 GB data usage for O₂ Free 15
- Learnings to drive portfolio review

**Market shifting to bigger buckets**

- Germany converging with other European markets
- Bigger data buckets a lever for significant revenue opportunities
- Markets investments needed to partake in this revenue opportunity
- Continued commercial investments in a rational environment:
  - Brand campaigns
  - Retail channels
  - Selected subsidies
  - Customer service

---

4G high-speed volume + 3G flat throttled to 1 Mbps

---

H1 ‘17

Retail Postpaid ARPU

15.5

O₂ Free 15

EUR 30

Postpaid ARPU (blended)

Retail price
Data growth benefitting from LTE and bigger data buckets

**Data traffic continues to grow**

**Traffic (TB/quarter)**

- Q1 ’16: 51,599
- Q2 ’16: 61,726
- Q3 ’16: 74,361
- Q4 ’16: 81,641
- Q1 ’17: 86,423
- Q2 ’17: 98,612

+60%

**Sustained demand for LTE**

**LTE customers (million)**

- Q1 ’16: 8.7
- Q2 ’16: 9.4
- Q3 ’16: 10.6
- Q4 ’16: 12.1
- Q1 ’17: 14.0
- Q2 ’17: 14.4

+53%

**LTE usage driven by music and video streaming**

**Average data usage for O₂ consumer LTE customers (GB)**

- Q1 ’16: 1.2
- Q2 ’16: 1.4
- Q3 ’16: 1.6
- Q4 ’16: 1.6
- Q1 ’17: 1.8
- Q2 ’17: 2.0

+48%

- LTE customer base up 53% y-o-y to 14.4 million in maturing market
- Music & video streaming key drivers of data traffic growth; up ~60% y-o-y
- Average monthly data usage for O₂ consumer LTE customers up ~48% y-o-y to 2.0 GB
Network integration on track; award for service-oriented monitoring of quality

Network integration timeline 2016 - 2019

- **3G National Roaming** for all customers
  - April/May 15
- Deal to transfer **7,700 sites** to DTE
  - July 15
- **Sale of towers** to Telxius
  - April 16
- **Consolidation & roll-out 4G network**
  - July 16
- **Implementation of SON & SOC**
  - April 17
- **Implementation of CEM**
  - May 17

- Decommissioning of **14k sites**
- Roll-out of **30k LTE elements**
- Utilisation of **new licenses**
- Pilot network for **5G**

- Top speeds of **1.65 Gbps in trials**

- Network consolidation entering ultimate phase; first cities completed
- Focus on customer experience: Customer Experience Management (CEM)-tool for real-time monitoring of service quality and remedies
- Steady quality gains again confirmed by latest independent network test
Fixed infrastructure model to complement our mobile network for best high-speed experience

Access to best available fixed NGA network

NGA coverage targets (% of covered households)

- Nationwide access to DT NGA network
- DT is currently upgrading larger cities to VDSL vectoring and 100 Mbps

With a competitive bundled offer

O₂ DSL all-in (Download speed, Mbps)

- O₂ Blue One offers flexible combination of fixed & mobile offers with progressive value-based discounts
- Active cross-selling of fixed & mobile propositions

### Maximum speed

<table>
<thead>
<tr>
<th></th>
<th>Download</th>
<th>Upload</th>
</tr>
</thead>
<tbody>
<tr>
<td>VDSL</td>
<td>50</td>
<td>10</td>
</tr>
<tr>
<td>VDSL Vectoring</td>
<td>250</td>
<td>100</td>
</tr>
</tbody>
</table>

### NGA coverage targets

- YE 2016: 50 Mbps
- 2018 ambition: 100 Mbps

### O₂ DSL all-in

<table>
<thead>
<tr>
<th>Size</th>
<th>Maximum speed (Up &amp; Download, Mbps)</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>XS</td>
<td>10 Mbps</td>
<td>€24.99</td>
</tr>
<tr>
<td>S</td>
<td>25 Mbps</td>
<td>€29.99</td>
</tr>
<tr>
<td>M</td>
<td>50 Mbps</td>
<td>€34.99</td>
</tr>
<tr>
<td>L</td>
<td>100 Mbps</td>
<td>€39.99</td>
</tr>
</tbody>
</table>

1 NGA: Next Generation Access including VDSL, Vectoring and future FTTX deployments
Our vision of the OnLife Telco: We believe in the benefits of transformation

Integration nearing completion

- Finalisation of integration workstreams by year-end 2018
  - FTE restructuring
  - Network integration
- On track to achieve 75% of total OpCF savings target of EUR 900 million by year-end 2017

Business model of the future

- Process of aggregating transformation initiatives into overall programme
- Telefónica NEXT successfully driving ADA and IoT initiatives
- Tangible transformation benefits for revenue and profitability
Comfortable liquidity position per 31.06.2017 and conservative financing policy

Smooth maturity profile and diversified financing mix

Financing and interest mix

Leverage ratio at 0.9x

1 Financial debt/OIBDA (last 12 months)
FCF affected by seasonality of rental payments

Evolution of Free Cash Flow (FCF)\(^1\) YTD June 2017 (in EUR m)

<table>
<thead>
<tr>
<th>OIBDA</th>
<th>CapEx(^2)</th>
<th>Prepayments</th>
<th>Restructuring</th>
<th>Other working capital movements</th>
<th>Other</th>
<th>FCF (^1) pre dividend and spectrum payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>841</td>
<td>(433)</td>
<td>(221)</td>
<td>(50)</td>
<td>(56)</td>
<td>(14)</td>
<td>68</td>
</tr>
</tbody>
</table>

1 Free cash flow pre dividend and spectrum payment is defined as the sum of cash flow from operating activities and 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 Debt\(^3\) (y-o-y in EUR m) – Leverage ratio\(^3\) increases due to dividend payment

Leverage ratio\(^3\) 0.4x

<table>
<thead>
<tr>
<th>Net debt 31.12.2016</th>
<th>FCF(^1) pre dividend and Spectrum payments</th>
<th>Dividend</th>
<th>Other</th>
<th>Net debt 30.06.2107</th>
</tr>
</thead>
<tbody>
<tr>
<td>+798</td>
<td>-68</td>
<td>+744</td>
<td>+101</td>
<td>+1.575</td>
</tr>
</tbody>
</table>

3 For definition of net debt & leverage ratio please refer to Q2 2017 earnings release

WE CHOOSE IT ALL...
We will maintain an attractive shareholder remuneration policy

**Shareholder remuneration policy – Main guidelines**

1. Maintain high payout in relation to FCF
2. Consider expected future synergy generation in dividend proposals
3. Keep leverage ratio at or below 1.0x over the medium term; target will be continually reviewed
4. Annual dividend growth over 3 years, starting with EUR 0.25 per share 2016

---

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

1. Drive momentum in an attractive and dynamic telecoms market
   - Attractive and dynamic telco market
   - Significant data monetisation opportunity
   - Excellent competitive position

2. Shaping the digital transformation for an exceptional customer experience
   - Multi-brand, multi-channel go-to-market strategy
   - Successful up- and cross-selling mechanisms
   - Digitalisation of customer relationships: Offering choice and value

3. Lean & efficient operations to drive growth in profitability and FCF
   - Simplified and lean operating model
   - 4G network integration in full swing
   - Ambitious synergy target: EUR 900m OpCF savings in year 5

4. Attractive shareholder return & financial flexibility on strong fundamentals
   - Commitment to attractive dividend policy
   - Conservative financing policy
   - High financial flexibility
Back-up
Q2 2017: Operating momentum & synergy capture on track

**MSR -0.4% y-o-y** (excl. regulatory effects)
- MSR incl. regulatory effects -3.0% year-on-year; trends improving sequentially
- Tailwinds from O₂ Free, headwinds regulation & legacy base effect
- Recovery in discount pricing supports stable postpaid churn

**Net adds**
- +197k postpaid
- +88k VDSL
- Solid operational momentum in the quarter driven by O₂ Free & birthday promotions
- Share of postpaid wholesale trading stabilising on back of tariff adjustments
- Continued strong demand for VDSL; wholesale migration effects visible

**OIBDA¹**
- +5.0% y-o-y
- OIBDA benefitting from successful synergy capture; further margin improvement
- Approx. EUR 40 million of synergies, stemming from roll-over effects & additional savings
- Maintain focus on long-term strategic transformation activities

**OpCF²**
- Stable y-o-y
- OpCF benefits from additional EUR 10 million Capex synergies
- Cash flow trajectory supports dividend commitment
- Leverage at 0.9x, in line with target

---
¹ Excluding exceptional effects. For details please refer to further materials of the 2017 results release
² Excluding the extraordinary gain related with the sale of passive tower infrastructure to Telxius in Q2-2016
Reiterating full-year 2017 outlook; positive trends intact

Underlying\(^1\) MSR trends continue to improve

Year-on-year performance in %

<table>
<thead>
<tr>
<th>Period</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 '16</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Q3 '16</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Q4 '16</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Q1 '17</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Q2 '17</td>
<td>-0.4%</td>
</tr>
</tbody>
</table>

OIBDA\(^2\) in line with guidance

Year-on-year performance in %

<table>
<thead>
<tr>
<th>Period</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 '16</td>
<td>+1.2%</td>
</tr>
<tr>
<td>Q3 '16</td>
<td>+3.0%</td>
</tr>
<tr>
<td>Q4 '16</td>
<td>+5.3%</td>
</tr>
<tr>
<td>Q1 '17</td>
<td>+2.1%</td>
</tr>
<tr>
<td>Q2 '17</td>
<td>+5.0%</td>
</tr>
</tbody>
</table>

Baseline 2016 (EUR m)

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSR</td>
<td>5,437</td>
</tr>
<tr>
<td>OIBDA</td>
<td>1,793</td>
</tr>
<tr>
<td>CapEx</td>
<td>1,102</td>
</tr>
<tr>
<td>Dividend</td>
<td></td>
</tr>
</tbody>
</table>

Outlook 2017 (y-o-y pct. change)

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSR</td>
<td>Slightly negative to flat(^1)</td>
<td></td>
</tr>
<tr>
<td>OIBDA</td>
<td>Flat to mid single-digit % growth(^2)</td>
<td></td>
</tr>
<tr>
<td>CapEx</td>
<td>Around EUR 1 billion</td>
<td></td>
</tr>
</tbody>
</table>

Actual H1 2017 (EUR m / y-o-y pct. change)

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSR</td>
<td>Excluding the impact from regulatory effects</td>
<td>2,681 / -0.5%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>(excl. regulatory effects of EUR 70 million)</td>
<td>873 / +3.6%</td>
</tr>
<tr>
<td>CapEx</td>
<td></td>
<td>434 / +1.1%</td>
</tr>
</tbody>
</table>

Dividend growth over 3 years (2016-2018)

<table>
<thead>
<tr>
<th>(2016-2018)</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend</td>
<td>EUR 0.25 per share for FY 2016 (Payout May 2017)</td>
</tr>
</tbody>
</table>

---

\(^1\) Excluding the impact from regulatory changes; for details please refer to further materials of Q2 2017

\(^2\) Excluding exceptional effects; for details please refer to further materials of Q2 2017 results release. We have calculated a comparable for 2016; for details please refer to materials of the full year 2016 results release

WE CHOOSE IT ALL_
Updating synergy case to EUR 900 million in 2019

Synergy case 2015 - 2019 (EUR m)

- CapEx synergies
- OpEx & rev. synergies

Remaining synergies (2018/9):
Ca. EUR 230 million
(~60% Opex & ~40% Capex)

Integration workstreams

- Leaver programme
- Shop footprint optimisation
- Facility consolidation
- Customer migration
- Network integration
- Digitalisation & Simplification

- Successfully executing on all initiatives
- New total case of ~EUR 900 million OpCF synergies in 2019, driven by improved visibility and the realisation of further synergy opportunities during the integration process, e.g. additional OpEx savings from FTE restructuring and network as well as simplification efforts
- CapEx synergies primarily driven by rollout of a single LTE network
- Expecting to reach ~EUR 670 million (~75% of new total target) by year-end 2017, with OIBDA relevant synergies of ~EUR 160 million (mainly network and FTE restructuring) and Capex synergies of ~EUR 80 million

WE CHOOSE IT ALL
Strong spectrum post auction enables realisation of best network experience

**Coverage – Level playing field**

- **Telefonica**
- **EE**
- **T-Mobile**
- **Regional licenses**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>700Mhz</td>
<td>2x10</td>
<td>2x10</td>
<td>2x30</td>
<td>2x30</td>
</tr>
<tr>
<td>800Mhz</td>
<td>2x10</td>
<td>2x10</td>
<td>2x35</td>
<td>2x35</td>
</tr>
<tr>
<td>900Mhz</td>
<td>2x10</td>
<td>2x10</td>
<td>2x10</td>
<td>2x10</td>
</tr>
<tr>
<td>1,500Mhz</td>
<td>2x20</td>
<td>2x10</td>
<td>2x10</td>
<td>2x10</td>
</tr>
<tr>
<td>1,800Mhz</td>
<td>2x25</td>
<td>2x20</td>
<td>2x20</td>
<td>2x20</td>
</tr>
<tr>
<td>2,100Mhz</td>
<td>2x25</td>
<td>2x20</td>
<td>2x20</td>
<td>2x20</td>
</tr>
<tr>
<td>2,600Mhz</td>
<td>2x30</td>
<td>2x30</td>
<td>2x30</td>
<td>2x30</td>
</tr>
<tr>
<td>3,500Mhz</td>
<td>2x42</td>
<td>2x42</td>
<td>2x42</td>
<td>2x42</td>
</tr>
</tbody>
</table>

Maturity:
- 2010-2025
- 2000-2020
- 2010-2025
- 2000-2020
- 2010-2025
- 2006-2021/22

**TEF D retains spectrum leadership for capacity**

**TDD spectrum**
O₂ Free portfolio

O₂ Free
Jetzt mit noch mehr Highspeed-Datenvolumen!

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

<table>
<thead>
<tr>
<th>O₂ Free XL</th>
<th>O₂ Free L</th>
<th>O₂ Free M</th>
<th>O₂ Free S</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 GB</td>
<td>20 GB</td>
<td>10 GB</td>
<td>1 GB</td>
</tr>
<tr>
<td>Highspeed-Surfen (LTE Max.)³</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Endlos weitersurfen mit 1 MBit/s⁴</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Flatrate für Minuten/SMS in alle dt. Netze⁵</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Extra-Festnetznummer⁶</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>EU Roaming⁷</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Mtl. Grundgebühr (bei 24 Monaten Laufzeit)⁹</td>
<td><strong>49,99</strong></td>
<td><strong>39,99</strong></td>
<td><strong>29,99</strong></td>
</tr>
</tbody>
</table>

Preis-Leistungs-Tipp

⇒ *Flexibel bleiben*: O₂ Free ist auch ohne feste Laufzeit verfügbar.⁹
### O₂ DSL All-in portfolio

<table>
<thead>
<tr>
<th>O₂ DSL</th>
<th>XS</th>
<th>S</th>
<th>M</th>
<th>L</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flatrate Ins dt. Festnetz und in alle dt. Mobilfunknetze</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Unbegrenzt DSL-Surfen (mit bis zu 2.000 KBit/s)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Max. Surf-Geschwindigkeit</td>
<td>bis zu 10 MBit/s (Upload: bis zu 2,4 MBit/s)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Max. Surf-Geschwindigkeit bis* (inklusive Volumen)</td>
<td>100 GB</td>
<td>300 GB (mit Fair-Use-Mechanik**)</td>
<td>300 GB (mit Fair-Use-Mechanik**)</td>
<td>500 GB (mit Fair-Use-Mechanik**)</td>
</tr>
<tr>
<td>HomeBox 2</td>
<td>0,00 mtl.</td>
<td>0,00 mtl.</td>
<td>0,00 mtl.</td>
<td>0,00 mtl.</td>
</tr>
<tr>
<td>Bereitstellungspreis DSL-Router</td>
<td>0,00 (statt 49,99)</td>
<td>0,00 (statt 49,99)</td>
<td>0,00 (statt 49,99)</td>
<td>0,00 (statt 49,99)</td>
</tr>
<tr>
<td>Anschlusspreis</td>
<td>49,99</td>
<td>0,00 (statt 49,99)</td>
<td>0,00 (statt 49,99)</td>
<td>0,00 (statt 49,99)</td>
</tr>
<tr>
<td>Mtl. Grundgebühr für Neukunden</td>
<td><strong>9,99</strong></td>
<td><strong>14,99</strong></td>
<td><strong>19,99</strong></td>
<td><strong>24,99</strong></td>
</tr>
</tbody>
</table>
  * ab 13. Monat 24,99 (ohne Laufzeit ab 7. Monat 24,99) |
  ** Rabatt auf mtl. Grundgebühr für O₂ Kunden bis zu 10,00 |
  *** Rabatt auf mtl. Grundgebühr für Junge Leute** (Promocode 65000970) 5,00 (in den ersten 3 Monaten)**
Retail vs. wholesale trends stabilising; solid churn trends

Visible effect from price increases

<table>
<thead>
<tr>
<th>PO gross adds (abs)</th>
<th>GA partner brands</th>
<th>GA retail brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 '16</td>
<td>53%</td>
<td></td>
</tr>
<tr>
<td>Q3 '16</td>
<td>59%</td>
<td></td>
</tr>
<tr>
<td>Q4 '16</td>
<td>58%</td>
<td></td>
</tr>
<tr>
<td>Q1 '17</td>
<td>55%</td>
<td></td>
</tr>
<tr>
<td>Q2 '17</td>
<td>55%</td>
<td></td>
</tr>
</tbody>
</table>

VDSL drives fixed trading

<table>
<thead>
<tr>
<th>Net adds (in thousand)</th>
<th>DSL wholesale</th>
<th>DSL retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 '16</td>
<td>-60</td>
<td>2</td>
</tr>
<tr>
<td>Q3 '16</td>
<td>-59</td>
<td>-2</td>
</tr>
<tr>
<td>Q4 '16</td>
<td>-100</td>
<td>2</td>
</tr>
<tr>
<td>Q1 '17</td>
<td>-129</td>
<td>-9</td>
</tr>
<tr>
<td>Q2 '17</td>
<td>-134</td>
<td>-13</td>
</tr>
</tbody>
</table>

Maintaining retention focus

<table>
<thead>
<tr>
<th>Postpaid churn</th>
<th>Retained brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 '15</td>
<td>1.5</td>
</tr>
<tr>
<td>Q2 '15</td>
<td>1.6</td>
</tr>
<tr>
<td>Q3 '15</td>
<td>1.3</td>
</tr>
<tr>
<td>Q4 '15</td>
<td>1.4</td>
</tr>
<tr>
<td>Q2 '16</td>
<td>1.3</td>
</tr>
<tr>
<td>Q1 '16</td>
<td>1.4</td>
</tr>
<tr>
<td>Q2 '17</td>
<td>1.3</td>
</tr>
</tbody>
</table>

- Partner trading stabilising at prior quarter levels; reflecting changes in pricing
- Churn in O₂ consumer remains low, seasonal improvements in line with prior years
- Strong demand for VDSL with +88 thousand net adds, migration of wholesale customers continues as expected
MSR trends further improving, handset business stabilising

Revenue structure (in EUR m)

<table>
<thead>
<tr>
<th></th>
<th>Fixed</th>
<th>Hardware</th>
<th>MSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 '16</td>
<td>1,834</td>
<td>245</td>
<td>1,771</td>
</tr>
<tr>
<td>Q2 '17</td>
<td>1,358</td>
<td>226</td>
<td>1,318</td>
</tr>
</tbody>
</table>

Performance y-o-y

-3.4% Excl. regulatory effects

MSR from partner business (in EUR m)

Share of postpaid revenue

~18% ~19% ~20% ~21% ~22%

-11.2% +1.5% -3.0% -0.4%

Growth (y-o-y)

-5.9% -4.3% -10.3% -11.9% -11.2%

Contribution to fixed revenue y-o-y² performance

Retail Wholesale Other

<table>
<thead>
<tr>
<th></th>
<th>Q2 ’16</th>
<th>Q3 ’16</th>
<th>Q4 ’16</th>
<th>Q1 ’17</th>
<th>Q2 ’17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 ’16</td>
<td>1.6%</td>
<td>3.7%</td>
<td>-4.2%</td>
<td>-3.3%</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Q3 ’16</td>
<td>-5.9%</td>
<td>-3.1%</td>
<td>-3.4%</td>
<td>-3.1%</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Q4 ’16</td>
<td>-10.3%</td>
<td>-4.4%</td>
<td>-3.4%</td>
<td>-4.4%</td>
<td>-5.9%</td>
</tr>
<tr>
<td>Q1 ’17</td>
<td>-11.9%</td>
<td>-4.8%</td>
<td>-2.5%</td>
<td>-2.5%</td>
<td>-3.9%</td>
</tr>
<tr>
<td>Q2 ’17</td>
<td>-11.2%</td>
<td>-7.2%</td>
<td>-3.9%</td>
<td>-1.4%</td>
<td>-7.2%</td>
</tr>
</tbody>
</table>

² Please note a change in the definition of the fixed retail/wholesale split, which better reflects revenue allocation across segments

- MSR trends sequentially improving, both in reported terms and excl. regulatory effects
- Stable trend for partner share of postpaid MSR
- Handset revenue stabilising in a saturated market with continued longer replacement cycles from customers
OIBDA reflects successful synergy capture and investment activities

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

- Successful synergy capture with incremental savings of approx. EUR 40 million in Q2 from FTE restructuring and network consolidation
- Market focus on promotional activities with larger data buckets drives commercial costs; continued investments into O₂ Free
- OIBDA margin at 24.6%, up 1.8 pp y-o-y

Synergies driving OIBDA growth

1 Excluding the extraordinary gain related with the sales of tower assets to Telxius in Q2 2016
**O2D - Factsheet**

**Share price development until 24.07.2017**

- **YTD '17**: +16.7%
- **+11.0%**
- **+4.4%**

**Share price development until 24.07.2017**

**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 31.03.)**: EUR 13,007.5 m
- **Share price (as of 31.03.)**: EUR 4.373

**Regional split of shareholder structure**

- **UK & Ireland**: 4.8%
- **North America**: 3.9%
- **France**: 3.9%
- **Germany**: 34.8%
- **Continental Europe**: 39.3%
- **Scandinavia**: 4.2%
- **Rest of World**: 6.6%

**Shareholder structure as of 30.06.2017**

- **Telefónica Germany Holdings Ltd**: 21.3%
- **Koninklijke KPN N.V.**: 9.5%
- **Freefloat**: 69.2%

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1. According to shareholders register as of 31 March 2017
2. Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica S.A
3. Source: Ipreo; Shareholder ID as of April 2017
4. O2D share price adjusted for dividend pay-out
Quarterly detail of relevant financial and operating data for Telefónica Deutschland

<table>
<thead>
<tr>
<th>Financials (Euros in millions)</th>
<th>2016 Q1</th>
<th>2016 Q2</th>
<th>2016 Q3</th>
<th>2016 Q4</th>
<th>2016 FY</th>
<th>2017 Q1</th>
<th>2017 Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>1,858</td>
<td>1,834</td>
<td>1,876</td>
<td>1,936</td>
<td>7,503</td>
<td>1,771</td>
<td>1,771</td>
</tr>
<tr>
<td>Mobile service revenues</td>
<td>1,336</td>
<td>1,358</td>
<td>1,394</td>
<td>1,349</td>
<td>5,437</td>
<td>1,292</td>
<td>1,318</td>
</tr>
<tr>
<td>Mobile service revenues (ex regulatory effects)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,328</td>
<td>1,353</td>
</tr>
<tr>
<td>OIBDA post Group fees, pre exceptionals</td>
<td>392</td>
<td>450</td>
<td>458</td>
<td>493</td>
<td>1,793</td>
<td>401</td>
<td>472</td>
</tr>
<tr>
<td>CapEx</td>
<td>218</td>
<td>212</td>
<td>314</td>
<td>358</td>
<td>1,102</td>
<td>208</td>
<td>226</td>
</tr>
<tr>
<td>Revenue and Opex related Synergies</td>
<td>~55</td>
<td>~40</td>
<td>~30</td>
<td>~25</td>
<td>~150</td>
<td>~35</td>
<td>~40</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accesses (EoP in k)</th>
<th>2016 Q1</th>
<th>2016 Q2</th>
<th>2016 Q3</th>
<th>2016 Q4</th>
<th>2016 FY</th>
<th>2017 Q1</th>
<th>2017 Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Accesses</td>
<td>48,252</td>
<td>48,605</td>
<td>49,196</td>
<td>49,346</td>
<td>49,346</td>
<td>49,550</td>
<td>49,907</td>
</tr>
<tr>
<td>o/w Mobile</td>
<td>43,008</td>
<td>43,417</td>
<td>44,074</td>
<td>44,321</td>
<td>44,321</td>
<td>44,675</td>
<td>45,194</td>
</tr>
<tr>
<td>Prepay</td>
<td>23,744</td>
<td>23,814</td>
<td>23,873</td>
<td>23,784</td>
<td>23,784</td>
<td>23,967</td>
<td>24,289</td>
</tr>
<tr>
<td>Postpay</td>
<td>19,264</td>
<td>19,603</td>
<td>20,201</td>
<td>20,537</td>
<td>20,537</td>
<td>20,708</td>
<td>20,905</td>
</tr>
</tbody>
</table>

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.