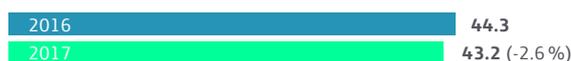


HIGHLIGHTS

OF FINANCIAL YEAR 2017

G 04 / Mobile accesses (postpaid/prepaid)

In million



In a dynamic, yet rational environment, the German mobile market has showed an increasing focus on larger data packages since the middle of 2017. With its anniversary offer, O₂ Free 15 and the update of the O₂ Free tariff portfolio at the beginning of September, Telefónica Deutschland Group was a pioneer of this development. We are hereby setting new standards for the mobile freedom of our customers. We continue to further stimulate the consumption of mobile data and, among other things, are investing in our core brand O₂. This will strengthen our market positioning.

At the same time, we have further progressed with the integration of Telefónica Deutschland and the E-Plus Group as planned. In 2017, we again successfully realised the higher synergy target set at the beginning of the year, with OIBDA-relevant savings of approx. EUR 160 million and additional capex synergies of approx. EUR 80 million. Likewise, we are making solid progress with the integration of our networks – the objective is to largely complete the consolidation by the end of 2018. We are now increasingly focusing on the digital transformation of the company and are placing the customer at the centre of our activities.

As of the end of December 2017, Telefónica Deutschland Group had 47.6 million customer accesses, -3.5% year-on-year. Mobile customer accesses declined to 43.2 million, down by 2.6% compared to the previous year. The reason for this was, in particular, the declining demand for mobile prepaid accesses due to regulatory changes. In addition, we saw a technical base adjustment at the end of the year as a result of the IT harmonisation associated with the customer migration in the year before. With 737 thousand net additions, mobile postpaid continued to register a solid trend. At the beginning of 2017, we introduced an additional access base count based on market standards for inactivity accounting. On this basis, we had more than 45.9 million mobile customer accesses as of the end of 2017.

Mobile service revenue was EUR 5,287 million, a decline of 2.8 % year-on-year, mainly due to regulatory influences, ongoing OTT trends, ongoing tariff rotations of the legacy base and a higher share of revenues from the wholesale business. Adjusted for regulatory effects from the reduction of termination rates and the European roaming regulation with a total amount of EUR 146 million, MSR in financial year 2017 remained largely flat at -0.1 % year-on-year. The sequential improvement in MSR thus continued.

Operating income before depreciation and amortisation (OIBDA) amounted to EUR 1,785 million compared to EUR 2,069 million in the previous year, which included the net capital gain from the sale of the passive mobile tower infrastructure to Telxius. Adjusted for exceptional effects¹, OIBDA amounted to EUR 1,840 million in financial year 2017, an increase of 2.6 % year-on-year compared to EUR 1,793 million in 2016². On this basis, the OIBDA margin increased by 1.3 percentage points year-on-year to 25.2 %.

Capex was 13.7 % lower in the financial year 2017 at EUR 950 million with additional synergies of approx. EUR 80 million being realised. Telefónica Deutschland Group focused on network consolidation and the further extension of LTE.

Please refer to page 44 of the Group Management Report for details on the financial outlook for 2018.

G 05 / Mobile service revenues

In million EUR

2016	5,437
2017	5,287 (-2.8 %)

(-1.1 % without regulatory effects)

G 06 / OIBDA/OIBDA Margin excluding exceptional and special effects

In million EUR

2016	2,069 (Margin 27.6 %)
2017	1,785 (Margin 24.5 %)

G 07 / Capex

In million EUR

2016	1,102
2017	950

¹ As of 31 December 2017, exceptional effects include restructuring expenses of EUR 82 million, acquisition-related consultancy fees of EUR 2 million and income from the sale of assets amounting to EUR 28 million. As at 31 December 2016, exceptional effects include restructuring expenses of EUR 89 million and the net gain on the sale of passive tower infrastructure to Telxius in the amount of EUR 352 million.

² We have calculated a comparative figure for OIBDA, adjusted by the special effects, for 2016, which includes the operating lease-related effects from the sale of Telefónica Deutschland's passive tower infrastructure in April 2016 as if it had occurred on 1 January 2016.

“We have kept all of our promises to the capital market.”

Since August 2017, Markus Rolle has been Chief Financial Officer (CFO) of Telefónica Deutschland Holding AG.

MARKUS ROLLE

2017 was a successful year for us. In a competitive environment, we have held our ground very well and also kept all of the promises we made to the capital market. This is mainly determined by three factors: we were able to increase sales trend quarter-on-quarter and actually break the zero-line in Q4 and show growth again. The second factor: OIBDA. Aside from the network consolidation, we have broadly completed integration, thereby managing to introduce the promised synergies. Despite investments in the market for future growth and increased regulatory requirements for the entire sector, we were still able to increase the operating result. A third factor is capex: in 2017, we also invested in the future of our company and spent almost one billion euros to future-proof our network in particular.

We met our financial goals for 2017. We will suggest to the Annual General Meeting increasing dividends by 4 % to 26 cents per share. We are also setting ambitious goals for 2018. We will broadly end the network integration work and open the next chapter in the history of Telefónica Deutschland: the transformation to Germany's "Mobile Customer & Digital Champion". Our customers are key, and we want to be simpler, faster and better. We are convinced that we can continue to increase our profitability in this way and be able to keep to our attractive dividend policy.

