

LETTER TO SHAREHOLDERS

Dear shareholders of Telefónica Deutschland,
Dear Sir or Madam,

We look back on a successful and eventful 2017. In a dynamic market environment, we have again proven with the introduction of the new O₂ Free tariff portfolio that we stand for mobile freedom in our customers' digital lives. Thanks to the large 4G data packages and a guaranteed 3G speed to further surf the web after consumption of the included high-speed volume, our customers are always able to move around in the digital world without compromising and worrying about data usage.

A good value for money ratio and a reliable, high-performance network are key components for a positive customer experience. Independent network tests based on customer assessments have confirmed the performance of our network in the already consolidated areas. We are developing the largest and most state-of-the-art network in Germany, placing real customer needs at the centre of our network investments. We will be largely completing the network consolidation by the end of 2018 and will build up our 4G network step by step. This will, among other things, allow us to be ready for the next generation of mobile technology – 5G.

We have executed our integration activities in 2017 according to plan and achieved the higher synergy targets set at the beginning of 2017. Three years post-merger, we have already realised 75 % (approximately EUR 670 million) of the cumulative operative cash flow savings target of EUR 900 million in 2019. The integration is largely completed, and we are fully on track to be able to achieve the overall target.

In addition, we are increasingly focused on the digital transformation of Telefónica Deutschland and putting our customers at the centre of our transformation agenda. We want to be the Mobile Customer & Digital Champion for our customers. Furthermore, we are firmly convinced that with the simplification and digitalisation of our processes not only will our customers be winners, but we will also be able to increase our efficiency.

The cornerstones of the digital transformation of Telefónica Deutschland are growth opportunities in the areas of "Advanced Data Analytics" and the "Internet of Things (IoT)". We are focusing on the social and economic benefits from the analysis of large volumes of data. For instance, in IoT our subsidiary Telefónica NEXT developed a software platform which assists other companies in offering smart products for end consumers.

We see ourselves as being well positioned for the future. We owe this success to the tireless efforts and commitment of our employees. We specifically would like to thank all our employees for their contribution and their openness in the integration process as well as in the start of the transformation of the company.

And, last but not least, we would like to thank our shareholders for the trust they have placed in us. We confirm our dividend outlook, with an annual increase of dividend over three years (2016–2018) and, as announced, we will propose a cash dividend in the amount of EUR 0.26 per share for the financial year 2017 at the next Annual General Meeting. The dividend is based on our belief in the expected FCF development. We therefore continue to offer our shareholders a highly attractive dividend yield.

Yours sincerely,
The Management Board



Top row (left to right):
Alfons Lösing (Chief Partner and Business Officer), Valentina Daiber (Chief Officer for Legal and Corporate Affairs), Guido Eidmann (Chief Information Officer)

Middle row (left to right):
Markus Rolle (Chief Financial Officer), Markus Haas (Chief Executive Officer, Chairman of the Executive Board of Telefónica Deutschland Holding AG), Cayetano Carbajo Martín (Chief Technology Officer)

Bottom row (left to right):
Wolfgang Metze (Chief Consumer Officer),
Nicole Gerhardt (Chief Human Resources Officer)