

OUR SHARE

The objective of the Investor Relations department is to provide the public regularly, quickly and effectively with relevant information. We act as an interface between the company, the financial community and other stakeholders and inform interested parties comprehensively and transparently about the strategic and operative development of our company. We thus want to give investors the opportunity to proactively inform themselves and to enable them to make realistic assumptions about the relative assessment of the company and to take informed investment decisions.

Economic situation and capital market environment

In 2017, the German economy continued to experience a significant upswing and was therefore able to achieve a solid GDP growth of 2.2 % (price-adjusted) despite global crisis. Significant momentum came from the revived strong global demand for industrial goods. The business climate in both the commercial sector and the service sector was at a record high. The construction industry almost reached its capacity limits and the order books in the manufacturing industry improved significantly. According to the German Federal Ministry for Economics Affairs and Energy (BMWi), the uncertainty in the economy decreased as well.

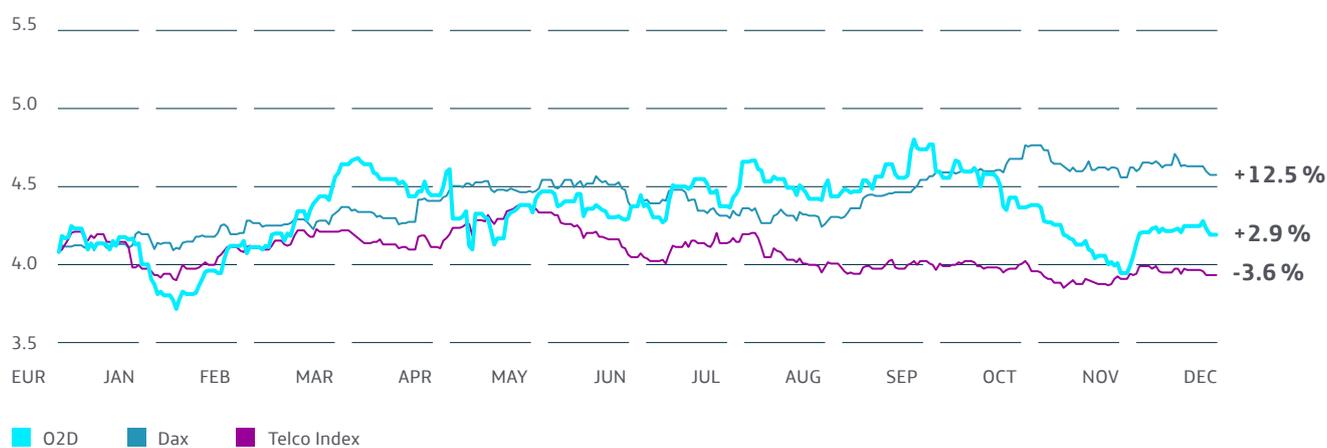
The capital markets were also able to look back on a successful 2017, notwithstanding the continuing global influences as a result of the US presidential elections and the Brexit vote in the previous year. In order to stimulate the economy, no interest rate increases were carried out in the eurozone in 2017.

The benchmark indices DAX and Stoxx 600 performed similarly over the course of 2017. Both figures recorded highs in October before going down again in the short term shortly before the end of the year due to the political unrest in Catalonia. At the end of the year, the DAX as well as the Stoxx 600 recovered and closed with an annual gain of +12.5 % and +7.7 % respectively. The European telecommunications sector was not able to follow this strong annual performance. After the first half of the year, Europe performed largely positively, but losses became noticeable from the middle of the year, among other things, due to the effects of regulatory changes. The price trend of the European telecommunications sector reversed, and the index closed the year slightly negatively at -3.6 %.

The Telefónica Deutschland share started 2017 at a price of EUR 4.07 and in February recorded the annual low of EUR 3.66. During the course of the year, the Telefónica Deutschland share performed with significantly higher volatility than the market. In September, it reached its annual high of EUR 4.86 and, at this point, was able to exceed the sector as well as German and European benchmark indices. In autumn, however, the share came under pressure and had to give up some of the gains from the summer. It recovered slightly at the end of the year, with the result that the Telefónica Deutschland share closed 2017 at EUR 4.19, an increase of 2.9% and thus ahead of the sector.

G 08 / Share price performance 2017

1 January to 31 December, rebased



Shareholder remuneration at Telefónica Deutschland

We are maintaining our attractive shareholder remuneration policy with a high payment ratio in relation to free cash flow, and we will continue to take into account the free cash flow before restructuring provisions here.

As announced on 25 October 2017, we intend to propose to the next Annual General Meeting (expected to be held on 17 May 2018) a 4 % increase in the cash dividend to EUR 0.26 per share for financial year 2017.

Financial flexibility and a conservative financial policy remain at the core of our financing strategy. We are retaining our medium-term target of a leverage ratio (net debt/OIBDA) of at or below 1.0x and will constantly review this figure – also with regard to the implementation of IFRS 16 as of 1 January 2019.

Activities of the Investor Relations department of Telefónica Deutschland

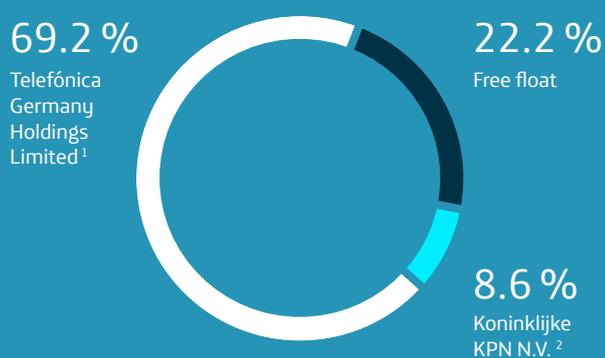
Throughout 2017, we continued the intensive and transparent dialogue with our shareholders, analysts, investors and other stakeholders. We were specifically looking for discussions with national and international investors by participating in conferences and roadshows taking place around the world.

Despite the changes to management in 2017, the Management Board and the IR team participated in 259 investor meetings (2016: 326) in Europe, North America and Asia. In total, the team was on the road for 9 weeks (2016: 14 weeks) in the last year.

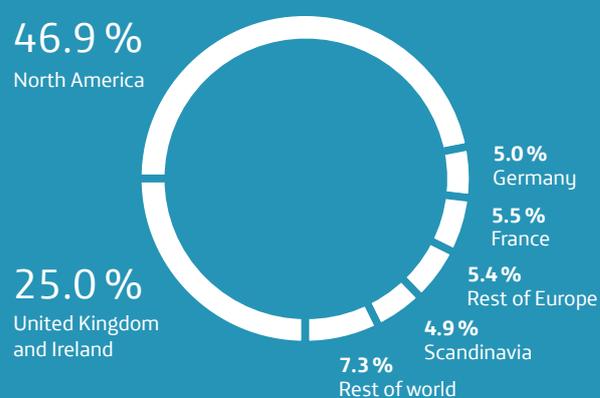
We hold telephone conferences on the publication of our annual and quarterly results. Here, investors and analysts have the opportunity to pose their questions directly to the Management Board. A replay of these conferences is available on our website for one year after the event.

Further information on the company and the Telefónica Deutschland share can be found via the contact details provided on the next page.

G 09 / Shareholder structure of Telefónica Deutschland



G 10 / Geographical distribution of free float³



¹ Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica, S.A.

² Status: 31 December 2017 according to KPN press release from 31 January 2018.

³ Source: NASDAQ, October 2017.

T 01 / Telefónica Deutschland fixed income

Issue date	Currency	Volume	Tenor	Coupon	Instrument rating	Listing
22 November 2013	EUR	600,000,000	5 years	1.875 %	BBB, stable outlook	Regulated market of the Luxembourg Stock Exchange
10 February 2014	EUR	500,000,000	7 years	2.375 %	BBB, stable outlook	Regulated market of the Luxembourg Stock Exchange

Since 2013, Telefónica Deutschland holds a long-term issuer credit rating by rating agency Fitch, which is subject to regular evaluation. Fitch confirmed the BBB rating with a stable outlook on 26 January 2016.