

Munich, 11 December 2019

Telefónica Deutschland provides strategy update including mid-term ambitions for the business and announces dividend proposal for FY 2019

- Breakthrough in network quality with ‘good’ ratings in major network tests
- Accelerating growth trajectory by launching a smart investment programme to further push network quality
- Expecting revenue¹ growth of a minimum cumulated 5% in 2020-22 with continuous margin² improvement as well as C/S³ peaking at 17-18% in 2020/21 and normalising thereafter
- Dividend proposal of EUR 0.17 per share for the financial year 2019, which will be a floor during the investment phase

As Telefónica Deutschland enters the next decade, it is also entering the era of 5G and thus a new chapter in its company history.

Having started in the German market almost 25 years ago, Telefónica Deutschland has since built economies of scale and become the mobile consumer leader in the German market today. The recent network tests have confirmed a major quality enhancement the company has successfully delivered for its customers. On this basis, Telefónica Deutschland has also built significant revenue momentum in recent quarters.

In a 5G world, Telefónica Deutschland aims to further accelerate its growth trajectory in the following three areas:

- Growing mobile market share in rural areas while reinforcing our strong position in urban
- Smart bundling of fixed & mobile products and fixed-mobile-substitution to deliver technology-agnostic products for our customers
- Seizing the B2B market opportunity, particularly in the SME segment

At the same time, the company will continue to progress with its transformation programme ‘Digital4Growth’ and its ambition to become the German ‘Mobile Customer & Digital Champion’.

Telefónica Deutschland expects revenue¹ to grow by a minimum cumulated 5% in the 3-year period between 2020 and 2022. OIBDA² will benefit from the above-mentioned revenues streams as well as continued efficiency gains, as the company strives for ongoing margin improvement.

To capture these growth opportunities, Telefónica Deutschland is thus launching a 2-year network-focused investment programme. It will centre on boosting rural coverage primarily with 4G and accelerating urban capacity primarily with 5G. The basis will be a smart investment profile that foresees the re-farming of spectrum and efficient use of technologies including the envisaged switch-off of our 3G network by the end of 2022. As a result, we expect C/S to peak at 17-18% in the next two years and to return to normal levels already in 2022.

This 2-year investment programme is a necessity to maintain an attractive FCF profile in a competitive market environment going forward. Telefónica Deutschland continues to target a strong balance sheet with significant financial flexibility and low leverage, currently at 1.8x⁴ under IFRS 16 as of 30 September 2019. By

¹ Excluding negative regulatory effects

² Adjusted for exceptional effects and excluding negative regulatory effects

³ Capex to sales ratio

⁴ Leverage is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects. Leverage under IFRS 16 is calculated based on an extrapolated rolling 12-month OIBDA. It will only be possible to report a leverage ratio based on actuals under IFRS 16 with the publication of the financial statements for 2019

revising its leverage target to at or below 2.5x to reflect the above investment needs and the implementation of IFRS 16, the company maintains significant headroom for its BBB investment grade rating by Fitch.

Telefónica Deutschland remains committed to an attractive shareholder remuneration with an unchanged dividend policy since the IPO in 2012, targeting a high payout ratio to FCF⁵ after leases (FCF aL). In the context of the upcoming 2-year investment project, Telefónica Deutschland intends to propose a dividend of EUR 0.17 per share for the financial year 2019 to the AGM in May 2020. We see this as a floor during the investment phase, with potential such as by way of a possible monetising of passive infrastructure in the future and the further business development in the light of the introduction of new technology.

Telefónica Deutschland reiterates its full-year 2019 outlook. The company is hosting a live presentation in London at 10 am GMT, to follow the live webcast please register [here](#).

More information:

Telefónica Deutschland

Investor Relations

Georg-Brauchle-Ring 50

D-80992 München

t +49 (0)89 2442-1010

f +49 (0)89 2442-2000

e ir-deutschland@telefonica.com

⁵ Adjusted for leases, spectrum payments and exceptional items