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Telefónica Deutschland's Strategy Update confirms successful start into growth era, highlighting grey spot sharing co-operations and enhanced dividend proposal

- Core business momentum intact, confirming FY20 outlook at Strategy Update
- Further efficiencies from bilateral active network sharing in grey spots with Deutsche Telekom and Vodafone
- Enhanced dividend proposal of EURc 18 per share for FY20 and extended as dividend floor until 2023

Telefónica Deutschland has entered its growth decade in 2020. This 5G era aims at accelerating sustainable growth on the back of the company's scale benefits and transformation agenda.

One year into the execution of the company's investment for growth programme, Telefónica Deutschland has delivered solid nine-month 2020 results with improving trends in Q3 20 mainly driven by the strong traction of the O₂ Free portfolio. Telefónica Deutschland is focusing on own business dynamics leveraging equalised network quality for its three growth pillars.

- Growing mobile market share in rural areas while reinforcing strong position in urban
- Smart bundling of mobile & mobile as well as fixed & mobile products based on technology agnostic approach
- Seizing the B2B market opportunity, particularly in SME

In 2020, Telefónica Deutschland accelerated the rollout of its 4G network to achieve coverage obligations, reaching 98% of households nationwide and minimum 97% of households in each of the 16 federal states at year end despite the challenging COVID-19 environment. Also, the company's 5G network went live in the 15 largest German cities. The 'very good' rating awarded in the connect magazine test has been a confirmation of Telefónica Deutschland's strong network enhancements.

On top, Telefónica Deutschland continues to improve network coverage by engaging in network sharing opportunities. The company announces today an MoU with Deutsche Telekom and a similar agreement with Vodafone for bilateral active network sharing in so-called 'grey spots', targeting a combined minimum of 1,200 sites. Furthermore, Telefónica Deutschland participates in the trilateral passive sharing agreement of the German MNOs for a joint fulfilment of the industry coverage obligations from the 2019 spectrum auction. As announced in November 2019, each of the three involved parties is building an equal share of a total of 6,000 sites in white spots.

Telefónica Deutschland confirms its FY20 outlook and refines midterm guidance while continuously monitoring the COVID-19 environment. The company maintains its investment for growth programme launched a year ago. This network focused programme is expected to deliver cumulated revenue growth of minimum 5% over the three-year period 2020-22. OIBDA adjusted for exceptional effects and excluding COVID-19 effects is anticipated to benefit from the above-mentioned revenues streams and continued efficiency gains, as the company strives for ongoing margin improvement.

The investment programme also supports Telefónica Deutschland's ESG strategy which is fully integrated in the company's overall business strategy. On the back of the significantly increased 4G coverage and high data usage trends, Telefónica Deutschland has brought forward its plan to switch-off the 3G network by the end of this year. Hence, the overall unchanged investment envelope is increasingly shifting from 4G to 5G while

seeing some minor phasing into 2021/22. As a result, C/S is expected to peak at 17-18% in 2021 and to normalise towards the end of 2022.

Telefónica Deutschland continues to target a strong balance sheet with significant financial flexibility and low leverage. With a leverage ratio of 1.6x¹ as of 30 September 2020, the company is well below its self-defined target of at our below 2.5x and maintains significant headroom for its Fitch BBB investment grade rating.

In the context of the spin-off and sale of the operations of Telefónica Deutschland's passive infrastructure on c.10,100 mobile sites to Telxius in two tranches for a total purchase price of EUR 1.5 billion in June 2020, Telefónica Deutschland considers financial flexibility during the unprecedented COVID times as the first and foremost priority. At the same time, the company remains committed to an attractive shareholder remuneration, targeting a high pay-out ratio to Free Cash Flow² after leases (FCFaL).

Besides the recently announced German FTTH investment in a 10% minority stake of Unsere Grüne Glasfaser (UGG) offering attractive long-term returns and the funding of sustainable business development, Telefónica Deutschland announces today an enhanced shareholder remuneration. Telefónica Deutschland intends to propose an increased dividend of EURc 18 per share for FY20 to the AGM in May 2021. A dividend of EURc 18 will also be the increased floor for the years 2021 to 2023 extending the current dividend floor period by one year.

Telefónica Deutschland's management team is hosting a virtual presentation today at 10 am CET / 9 am GMT followed by a Q&A session. Please register [here](#) to participate in the event.

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¹ Leverage ratio is defined as net financial debt divided by OIBDA of the last twelve months adjusted for exceptional effects.

² Free Cash Flow pre dividends and payments for spectrum is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum as well as related interest payments.