FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Telefonica Deutschland at 'BBB'; Outlook Stable

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Fitch Ratings - Milan - 26 Sep 2025: Fitch Ratings has affirmed Telefonica Deutschland Holding AG's (TEF DE) Long-Term Issuer Default Rating (IDR) and Telefonica Germany GmbH & Co. OHG's senior unsecured rating at 'BBB'. The Outlook on the Long-Term IDR is Stable.

TEF DE is rated on a consolidated group profile basis with its parent Telefonica SA (BBB/Stable) and one notch below its Standalone Credit Profile (SCP), which we have revised to 'bbb+' from 'bbb'. This is based on an assessment of 'Open' Access and Control and Ring Fencing under Fitch's Parent Subsidiary Linkage (PSL) criteria.

The improved SCP is driven by lower leverage, a strong improvement in cash flow from operations (CFO) less capex to gross debt, and greater free cash flow (FCF) stability as the financial impact of the loss of a significant wholesale contract with 1&1 Mobilfunk GmbH eases. The SCP reflects TEF DE's solid position in a broadly rational German mobile market, well-invested networks and a conservative financial policy.

KEY RATING DRIVERS

Rational German Market: TEF DE has about a 32% mobile network service revenue market share in Germany and is one of three main mobile network operators. The partnership approach with mobile virtual network operator (MVNO) wholesale customers enables TEF DE to effectively reach niche and complementary market segments. This strategy carries some risk with wholesale customers, but when managed effectively it helps improve network utilisation and scale economics. The network sharing approach in rural and low-dense urban areas with competitors Vodafone and T-Mobile will support capex reduction while improving coverage.

Competition Likely to Stabilise: We expect promotional activities in the German mobile market will keep competitive intensity high in the short term, driven by Vodafone Germany seeking to stabilise and increase its service revenues and TEF DE seeking to improve network capacity utilisation following the loss of the 1&1 wholesale customer base. As both companies start achieving their aims, the potential improvement in the German macroeconomic environment in the next two to three years is likely to support greater market equilibrium.

Moderate 1&1 Network Build Risks: 1&1 continues to gradually build its own mobile network and has a partnership agreement with Vodafone Germany. This could prevent market equilibrium from being achieved or sustained under some scenarios. However, the risk is lowered as 1&1 has a significant existing mobile retail customer base and is likely to remain dependent on Vodafone Germany for network coverage in the medium term. This should limit the competitive impact that a new mobile network operator would otherwise typically have.

Easing Impact from Contract Loss: We expect that the migration of wholesale customers from the loss of the 1&1 contract will be complete by end-2025. As a result, we expect TEF DE's EBITDA is likely to trough in 2026 with a return to growth in 2027. TEF DE has been able to partially offset the impact by increasing its postpaid subscriber base, raising revenues through partnerships and extracting cost efficiencies. TEF DE's recent partnership with Siemens in water treatment is an example of the company's innovation in the machine-to-machine segment with the use of 5G-slicing technology that is outside typical MVNO partnership models.

Supportive Fixed-line Strategy: TEF DE's fixed-line strategy is geared towards supporting the core mobile product portfolio by providing cross-selling opportunities and a fixed mobile convergent product proposition capability. The company has good access to fixed-line networks on a wholesale basis in Germany with access to Deutsche Telekom's and Vodafone's fixed-line networks and a growing number of alternative fixed-line providers. This provides it with the scope to offer customers a technology agnostic broadband proposition and purchasing power in wholesale contract negotiations.

Reduced Leverage: TEF DE has significantly reduced its debt this year, cancelling a EUR750 million syndicated loan facility and repaid a EUR600 million bond. We expect EBITDA net leverage of 0.2x at 2025 and potentially trend into negative territory by 2027 because of organic cash generation. We expect EBITDA margins will remain lower than TEF DE's peer average, but remain stable and strengthen. The lower margins are offset at the FCF level as usage of tax losses, reduced interest payments and an amended dividend policy drive FCF margins of 5% to 6% over the next five years. Our expectation of solid CFO - capex to gross debt was a key driver of the revision of the SCP to 'bbb+'.

Consolidated Rating Profile: TEF DE is 97% owned by Telefonica SA following an increase in its stake in November 2023 and the delisting in April 2024. The high level of economic ownership, combined with centralised financing and cash pooling has led to an assessment of Open Access and Control and Ring Fencing under Fitch's PSL criteria based on a stronger subsidiary path. These factors have outweighed the lack of a domination agreement that prevents full access and control over assets and operations by the parent and the necessity of conducting all related party transactions on an arm's-length basis.

PEER ANALYSIS

TEF DE has strong market positions in the German mobile market. Unlike its peers, the company derives a significant share of its wholesale revenue from MVNOs, which could expose it to some revenue volatility.

TEF DE's operating profile is weaker than that of its larger and more diversified European telecoms peers but manages leverage on a more conservative basis. Peers such as Deutsche Telekom AG (BBB+/Stable), Orange S.A. (BBB+/Stable) and Vodafone Group plc (BBB/Positive), have greater scale and geographic diversification that can help mitigate potential domestic performance weakness.

Other peers that focus on domestic markets, such as Royal KPN N.V. (BBB/Stable), NOS, S.G.P.S., S.A. (BBB/Stable) and BT Group plc (BBB/Stable), have higher leverage but benefit from higher EBITDA margins and strong domestic positions in mobile and fixed line and the ownership of substantial fixed-line infrastructure.

KEY ASSUMPTIONS

- Revenue decline of 3.4% in 2025 and 1.8% in 2026. Growth of about 0.6%-1% in the subsequent two years.

- Fitch-defined EBITDA margin declining to 22.6% in 2025, 22.2% in 2026 and gradually improving to about 22.6% by 2028.

- Cash capex (including spectrum payments) averaging at about 14.4% of revenue in 2025 to2028.

- Zero cash dividends during 2025 to 2028.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A downgrade of the rating of TEF DE's parent, Telefonica SA, would lead to a downgrade of TEF DE's rating.

- The SCP would be revised down if i) Fitch-defined EBITDA net leverage trended above 1.2x on a sustained basis; ii) CFO less capex/gross debt was sustained at or below 16% (excluding one-off spectrum costs); and iii) there was pressure on FCF driven by EBITDA erosion, competitive pressure and a weakening market position.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- An upgrade of TEF DE's parent would lead to an upgrade of TEF DE's rating.

- The SCP is unlikely to be revised up in the medium term, given the company's concentrated mobile network-centric operating profile and potential competitive market risks.

LIQUIDITY AND DEBT STRUCTURE

TEF DE has good liquidity, with EUR402 million of cash and cash equivalents on balance sheet at 31 December 2024. The company has access to EUR130 million bilateral revolving credit facilities and a EUR1.347 billion Telfisa overdraft facility provided by its parent. We expect TEF DE to repay existing external debt and centralise its funding needs at the parent level.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

TEF DE's ratings are linked to the IDR of Telefonica SA.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Sector Forecasts Monitor data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Telefonica Germany GmbH & Co. OHG				
senior unsecured	LT	BBB	Affirmed	BBB
Telefonica Deutschland Holding AG	LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub. 27 Jun 2025)

Corporate Rating Criteria (pub. 27 Jun 2025) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 27 Jun 2025)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Telefonica Deutschland Holding AG	EU Issued, UK Endorsed
Telefonica Germany GmbH & Co. OHG	EU Issued, UK Endorsed

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