

MUNICH, 23 February 2022

Preliminary results for January to December 2021

Strong FY21 growth momentum fuels confident FY22 outlook

- **Delivered FY21 at top-end of double-upgraded outlook – growth momentum continues including >1.5m mobile postpaid net additions**
- **FY21 revenue growth of +3.1% y-o-y mainly driven by continued strong MSR performance, +3.5% y-o-y; O₂ Free portfolio driving sustained ARPU-growth**
- **FY21 OIBDA¹ grew +3.9% y-o-y on back of strong top-line growth, efficiency gains and effective cost management**
- **C/S ratio of 16.5% in FY21 – passed Capex peak in-line with ‘investment for growth’ programme**
- **Raised 2025 ambition for network energy efficiency to 87% reduction in energy consumption, up from 82%**
- **Confident FY22 outlook based on continued growth momentum, achieved network parity, and leading ESG strategy**
- **FY21 dividend proposal of EURc 18 per share to AGM in-line with dividend floor**

Operating performance

In a dynamic yet rational telco market, Telefónica Deutschland continued to drive strong commercial traction in Q4 21. Continued high customer demand for the O₂ Free portfolio and ongoing core business momentum drove net additions up almost 50% to >1.5 million in FY21. The customer attractiveness of the O₂ Free portfolio combined with network parity drove historic low churn levels and achieved a ‘very good’ rating in all five categories of the respective connect magazine’s test with O₂ Free winning four of those.

Telefónica Deutschland delivered sustained financial momentum throughout FY21, posting the highest FY revenues and OIBDA¹ in the company’s history.

The company pushed ahead with its 5G rollout, as part of its ‘investment for growth’ programme, reaching ~30% of the German population with all available 5G frequencies at year-end, thereof 15% with fast 3.6 GHz.

At the same time, the company completed its accelerated 3G switch-off by year end 2021, thus improving the energy efficiency of its O₂ network and achieving its 2025 energy efficiency target ahead of schedule. Consequently, the company has raised its 2025 ambition for network energy efficiency to 87% reduction in energy consumption per data volume (GWh/PB), up from previously 82%.

The O₂ network was again awarded a ‘very good’ rating in the renowned connect magazine network test, achieving the best result in Telefónica Deutschland’s history despite tougher test criteria. This is the result of the company’s continuous network expansion strategy including the focus on a fast 5G network, which also supports continued historic low churn levels of the O₂ brand.

Top ESG rating providers highly rate and recognise Telefónica Deutschland for its leading ESG strategy.

¹ Adjusted for exceptional effects. In Q4 21, exceptional effects amounted to EUR -4m of restructuring costs (EUR -11m in Q4 20). In FY21 exceptional effects of EUR +243m mainly include a capital gain related to the spin-off and sale of the operations of the final tranche of ~4k mobile sites passive infrastructure to Telxius (EUR +262m) as well as restructuring expenses and other exceptional items (EUR -19m). In FY20, exceptional effects of EUR +364m included the net capital gain from the sale of assets (EUR +401m) as well as restructuring costs and other exceptional items (EUR -38m).

Telefónica Deutschland announces a dividend proposal of EURc 18 per share for FY21 to the AGM. This dividend proposal is in-line with the dividend floor for the financial years 2021-23 announced at the company's [Strategy Update](#) on 19 January 2021. Hereby, Telefónica Deutschland confirms its strong commitment to attractive shareholder remuneration while financial flexibility remains the company's foremost priority during unprecedented C-19 times.

Mobile business

Mobile postpaid posted strong growth with +518k net additions in Q4 21, up +19.0% y-o-y in Q4 21 (+1,526k in FY21, +46% y-o-y) driven by sustained customer demand and historic low churn levels for the O₂ Free portfolio as well as a solid contribution from partner brands.

M2M reported +39k net additions in Q4 21 (+203k in FY21) versus +55k in Q4 20 (+218k in FY20).

Mobile prepaid registered -188k net disconnections in Q4 21 (-310k net disconnections in FY21) compared to -247k net disconnections in Q4 20 (-813k net disconnections in FY20) mainly reflecting the steady market trend of prepaid to postpaid migration and seasonal dynamics.

Churn in the O₂ brand remained at historic low levels with 1.0% in Q4 21 (flat y-o-y) and 0.9% in FY21, an improvement of 0.2 p.p. y-o-y.

Telefónica Deutschland's **mobile customer accesses** climbed to 45.7m (+3.2% y-o-y) as of 31 Dec-21, driven by the increasing contribution of the **mobile postpaid base ex M2M**, up +6.5% y-o-y to 25.1m accesses (54.9% of total mobile base). **M2M accesses** totalled 1.6m, +14.4% y-o-y and **mobile prepaid base** declined -1.6% y-o-y to 19.0m.

O₂ postpaid ARPU continued its upwards trend, posting +0.7% y-o-y growth in Q4 21 and +0.2% y-o-y in FY21. **Prepaid ARPU** stood at EUR 6.5 in Q4 21, up +4.4% y-o-y (+4.0% y-o-y to EUR 6.3 in FY21).

Fixed business

Fixed broadband customer base totalled 2.3m accesses at year-end 2021 (+0.1% y-o-y) driven by the sustained growth of the **VDSL base** (+2.0% y-o-y to 1.8m accesses), which maintained 81% share of fixed broadband customer base with fibre and cable gaining traction in customer demand for the O₂ Free my Home portfolio.

Fixed net additions posted a second consecutive quarter of growth with a sequential improvement to +7k net additions in Q4 21 (+1k net additions in FY 21) in a market focused on high-speed fixed connectivity. VDSL recorded +10k net additions in Q4 21 (+36k net additions in FY21) and there was ongoing robust customer demand for cable and fibre accesses as well as for fixed-mobile substitution (FMS) products.

Fixed churn remained flat y-o-y at low levels of 0.9% in both, Q4 21 and FY21.

Fixed broadband ARPU continued to grow reflecting the increasing share of high value customers in the base, posting +2.1% y-o-y growth to EUR 24.4 in Q4 21, (+1.7% to EUR 24.2 in FY21).

Financial performance

Revenues were up +1.6% y-o-y to EUR 2,055m in Q4 21, (FY21 EUR 7,765m, +3.1% y-o-y; underlying² +2.6% y-o-y) mainly driven by the continued strong performance of mobile service revenues with the O₂ Free portfolio fuelling sustained ARPU-growth.

Mobile service revenues³ grew +2.6% y-o-y in Q4 21 to EUR 1,394m (FY21 EUR 5,492m, +3.5% y-o-y; underlying² +2.7% y-o-y). The ongoing success of the O₂ brand and solid partner performance more than compensated the impact from the MTR cut effective 1 Jul-21, less sequential support from roaming and tougher comps in Q4.

Handset revenues declined -1.1% y-o-y to EUR 446m in Q4 21 (+1.9% y-o-y to EUR 1,450m in FY21) mainly reflecting launch-cycles of mobile devices and a steady customer demand for high-value handsets.

Fixed revenues continued to grow, recording **+4.4% y-o-y growth to EUR 211m in Q4 21** (+3.6% y-o-y to EUR 814m in FY21) reflecting the increasing share of high value customers in the base.

Other income⁴ reached EUR 50m in Q4 21 and EUR 402m in FY21 (EUR 47m in Q4 20 and EUR 542m in FY 20).

Operating expenses⁵ included restructuring expenses and other exceptional items in the amount of EUR -4m in Q4 21 (EUR -19m in FY21) and were up **+3.0% y-o-y to EUR 1,485m in Q4 21** (+2.3% y-o-y to EUR 5,514m in FY21).

- **Supplies** were lower -5.2% y-o-y to EUR 638m in Q4 21 (-1.3% y-o-y to EUR 2,403m in FY21) mainly driven by the positive effects from the MTR cut (from EURc 0.78 to EURc 0.70 as of 1 Jul-21) and lower hardware cost of sales. Connectivity-related cost of sales and hardware cost of sales accounted for 41% and 56% of FY21 supplies, respectively.
- **Personnel expenses** were up +2.8% y-o-y reaching EUR 155m in Q4 21. This is mainly reflecting the general pay-rise as of 1 Dec-21 and slightly higher restructuring costs of EUR -4m (EUR -3m in Q4 20). In FY21 personnel expenses decreased -4.2% y-o-y to EUR 585m due to lower restructuring costs (EUR -8m in FY21 vs EUR -28m in FY20), received social security payments for employees of temporarily closed own shops in H1 21 and a lower FTE base, mainly in customer service.
- **Other operating expenses** (other Opex) expanded +10.3% y-o-y to EUR 671m in Q4 21 and +7.8% y-o-y to EUR 2,454m in FY21 (including restructuring expenses and other exceptional items; EUR +0.2m in Q4 21 and EUR -12m in FY21 compared to EUR -8m and EUR -10m in prior year periods). This is mainly driven by the strong commercial momentum throughout FY21, some C-19 related phasing of marketing spend into H2 21 to enhance brand perception and technology transformation including 3G switch-off. Commercial and non-commercial costs accounted for 64% and 33% of other Opex in Q4 21, respectively. Group fees were broadly stable y-o-y and accounted for EUR 9m in Q4 21 and EUR 33m in FY21.

² Excluding non-recurrent special factors. Non-recurrent special factors amounted to EUR +14m in Q2 21 and EUR -25m in Q2 20.

³ Mobile service revenue includes base fees and fees paid by the company's customers for the usage of voice, SMS and mobile data services; it also includes access and interconnection fees as well as other charges levied on partners for the use of the company's network.

⁴ In FY21 including the capital gain related to the spin-off and sale of the operations of the final tranche of ~4k mobile sites passive infrastructure to Telxius in the amount of EUR +262m and in FY20 including the net capital gain from the sale of assets of EUR +401m.

⁵ Operating expenses include impairment losses in accordance with IFRS 9 in the amount of EUR 21m in Q4 21 and EUR 72m in FY21 (compared to EUR 10m and EUR 69m in the respective periods of 2020).

OIBDA⁶ decreased -2.3% y-o-y to EUR 624m in Q4 21 (FY21 +3.9% to EUR 2,411m, underlying⁷ growth +1.8% y-o-y) mainly due to some C-19 related phasing of marketing spend into H2 21 as well as technology transformation including 3G switch-off in combination with ongoing top-line growth and efficiency gains. OIBDA⁶ margin stood at 30.4% in Q4 21 (31.0% in FY21), down -1.2 p.p. y-o-y in Q4 21 and improved by +0.3 p.p. y-o-y in FY21.

Depreciation & Amortisation was +0.5% y-o-y reaching EUR 2,382m in FY21 as the positive effect from end of useful life of the UMTS licenses at YE20 was offset by the completion of the 3G switch-off (accelerated to YE21), further network modernisation and higher RoU asset amortisation.

Operating income stood at EUR +272m in FY21 supported by EUR +262m capital gain related with the spin-off and sale of the operations of the final tranche of ~4k mobile sites passive infrastructure to Telxius (EUR +401m capital gains related to the sale of assets in FY20).

Net financial expenses accounted for EUR -62m in FY21 versus EUR -66m in FY20.

Income tax was EUR +5m in FY21 (current tax expenses of EUR -79m offset by deferred tax income of EUR +84m) compared to EUR +80m in FY20 (current tax expenses of EUR -15m offset by deferred tax income of EUR +95m).

Total profit for the period stood at EUR +211m in FY21 compared to EUR +328m in FY20.

CapEx⁸ increased +28.7% y-o-y amounting EUR 474m in Q4 21 (+17.3% y-o-y to EUR 1,284m in FY21) with a C/S ratio of 23.1% (16.5% in FY21). Telefónica Deutschland passed its Capex peak in FY21. The company is on track for normalised C/S levels towards YE22, in-line with the company's 'investment for growth' programme to capture valuable revenue and OIBDA growth opportunities.

Operating cash flow (OIBDA minus CapEx⁸) decreased -13.8% y-o-y and reached EUR 1,369m in FY21. Excluding exceptional effects, operating cash flow amounted to EUR 1,127m in FY21, down -8.0% y-o-y.

Free cash flow (FCF)⁹ amounted to EUR 1,502m in FY21 (EUR 1,896m in FY20) and included EUR 540m proceeds mainly from the before mentioned sale of assets to Telxius. Lease payments, primarily for leased lines and antenna sites, amounted to EUR -602m in FY21 (EUR -547m in FY20). As a result, FCFaL stood at EUR +900m in FY21 including the before mentioned effects compared to EUR +1,349m in FY20.

Working capital movements were negative in the amount of EUR -96m in FY21. This development was mainly driven by an increase in capex payables (EUR 117m), increased pre-payments (EUR -9m), net restructuring impacts (EUR 5m) as well as other working capital movements of EUR -210m. The latter include the development of trade and other payables (EUR 172m), which was outweighed by other working capital movements, especially trade and other receivables of EUR -322m (driven by lower silent factoring and higher revenues).

⁶ Adjusted for exceptional effects. In Q4 21, exceptional effects amounted to EUR -4m of restructuring costs (EUR -11m in Q4 20). In FY21 exceptional effects of EUR +243m mainly include a capital gain related to the spin-off and sale of the operations of the final tranche of ~4k mobile sites passive infrastructure to Telxius (EUR +262m) as well as restructuring expenses and other exceptional items (EUR -19m). In FY20, exceptional effects of EUR +364m included the net capital gain from the sale of assets (EUR +401m) as well as restructuring costs and other exceptional items (EUR -38m).

⁷ Excluding non-recurrent special factors and excluding received social security payments. Non-recurrent special factors amounted to EUR +12m in Q2 21 and EUR -25m in Q2 20.

⁸ CapEx includes additions to property, plant and equipment and other intangible assets while investments for spectrum licenses and additions from capitalised right-of-use assets are not included.

⁹ Free cash flow pre dividends and payments for spectrum (FCF) 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.

Consolidated net financial debt¹⁰ amounted to EUR 3,045m as of 31 Dec-21, and included the FY20 dividend payment of EUR 535m in May 2021 as well as a net increase in lease liabilities of EUR 489m reflecting IFRS 16 accounting for the before mentioned transfer of ~4k mobile sites passive infrastructure to Telxius as well as for regular contract renewals. The resulting leverage ratio of 1.3x¹¹ remained well below the company's self-defined upper limit of at or below 2.5x and leaves comfortable leverage headroom with regards to the company's BBB-rating with stable outlook by Fitch.

Financial outlook FY22

FY22 marks the final year of Telefónica Deutschland's three-year 'investment for growth' programme with focus on three growth pillars:

- Growing mobile market share in rural areas while reinforcing a strong market position in urban
- Smart bundling of fixed & mobile products as well as fixed mobile substitution (FMS)
- Seizing the B2B market opportunity, particularly in the SME segment.

In 2022, Telefónica Deutschland will continue to build on the sustained operational and financial momentum delivered in financial year 2021, leveraging the focused execution and the achievements in the first two years of the programme, in particular its network quality equalisation. The O₂ network was again awarded a 'very good' rating in the renowned connect magazine test, achieving the best result in Telefónica Deutschland's history despite tougher test criteria. This is the result of the company's continuous network expansion strategy including the focus on a fast 5G network, which also supports the ongoing historic lows in churn for the O₂ brand.

The multi-brand and multi-channel strategy remains the backbone of Telefónica Deutschland's go-to-market strategy and the company continues to focus on both, ARPU-up and churn-down. Postpaid is the strongest value-generator for the business, driven mainly by own brand performance. In prepaid, the company expects the current trend of pre- to postpaid migration to continue. Telefónica Deutschland Group assumes pricing in the premium and discount segments to remain stable in 2022 based on current market dynamics and expects a more benign C-19 environment.

Telefónica Deutschland anticipates regulatory changes to remain a headwind for its financial performance in 2022. Revenues, and to a lesser extent OIBDA, will be impacted mainly by the drag of the termination rate cut for mobile voice minutes from EUR 0.70 cents to EUR 0.55 cents as of 1 January 2022.

At the same time, Telefónica Deutschland will continue to pursue its path of digital transformation and as a result expects to benefit from top-line growth as well as efficiency gains. Telefónica Deutschland emphasizes sustainable growth and, as part of its ESG targets, is committed to achieve net zero CO₂ emissions by 2025. Already today, Telefonica Deutschland uses 100% electricity from renewable sources.

As a result, Telefónica Deutschland's sustained mobile service revenues momentum continues to be the main driver of the company's revenue trajectory. Telefónica Deutschland expects roaming revenues to show further recovery over the course of the year with anticipated easing of C-19 restrictions.

Handset revenues continue to depend on market dynamics as well as the launch cycles and availability of new smartphones. As in the past, handset margins continue to be broadly OIBDA neutral.

¹⁰ Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing liabilities as well as cash and cash equivalents and excludes payables for spectrum.

¹¹ Leverage ratio is defined as net financial debt divided by OIBDA of the last twelve months adjusted for exceptional effects.

On the fixed business side, the technology-agnostic approach of Telefónica Deutschland includes all key infrastructures (i.e. VDSL, cable, fibre, FMS) enabling the company to match individual customer needs in the best way.

In this context, Telefónica Deutschland expects both, financial year 2022 total revenues and OIBDA adjusted for exceptional effects, to post ‘low single-digit percentage year-on-year growth’ with further adjusted OIBDA margin expansion while including regulatory headwinds of ca. EUR -70 to -80 million’ at revenues and ca. EUR -15 to -20 million at OIBDA level, respectively.

To fully capture these revenues and OIBDA growth opportunities, Telefónica Deutschland will continue its network-focused investment programme which peaked in 2021. It is aimed at boosting rural coverage primarily with 4G and adding urban capacity preferably through 5G. Telefónica Deutschland expects a CapEx to Sales ratio (C/S) of 14% - 15% in the financial year 2022 with C/S normalising towards year end.

Telefónica Deutschland’s assumptions are based on broadly unchanged overall economic conditions, current competitive dynamics, and existing wholesale relationships. At the same time, management is continuously monitoring and analysing the impact on the company from the C-19 environment including worldwide supply chain developments.

| | Actual 2021 | Outlook 2022¹² |
|--|--------------------|---|
| Revenues | EUR 7,765 million | low single digit percentage year-on-year growth |
| OIBDA Adjusted for exceptional effects | EUR 2,411 million | low single digit percentage year-on-year growth, further margin expansion |
| Capex to Sales Ratio | 16.5% | 14% - 15% |

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¹² Including regulatory headwinds of ca. EUR -70 to -80 million at revenues level and ca. EUR -15 to -20 million at OIBDA level.

[Link to detailed Data Tables](#)

Further information

Telefónica Deutschland Holding AG
Investor Relations
Georg-Brauchle-Ring 50
80992 München

Christian Kern, Director Investor Relations; (m) +49 179 9000 208

Marion Polzer, CIRO, Head of Investor Relations; (m) +49 176 7290 1221

Eugen Albrecht, CIRO, Senior Investor Relations Officer; (m) +49 176 3147 5260

(t) +49 89 2442 1010

ir-deutschland@telefonica.com

www.telefonica.de/investor-relations

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