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Results 2024

Q2

GPS

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Adrián Zunzunegui - *Global Director of Investor Relations*

Good morning, and welcome to Telefónica's conference call to discuss Q2 2024 results. I am Adrián Zunzunegui from Investor Relations.

Before proceeding, let me mention that the financial information contained in this document has been prepared under international financial reporting standards, as adopted by the European Union. This financial information is unaudited.

This conference call and webcast, including the Q&A session, may contain forward-looking statements and information relating to the Telefónica Group. These statements may include financial or operating forecasts and estimates or statements regarding plans, objectives, and expectations regarding different matters. All forward-looking statements involve risks and uncertainties that could cause the final developments and results to materially differ from those expressed or implied by such statements.

We encourage you to review our publicly available disclosure documents filed with the relevant securities market regulators. If you don't have a copy of the relevant press release and the slides, please contact Telefónica's Investor Relations team in Madrid or London. Now let me turn the call over to our Chairman and Chief Executive Officer, Mr. José María Álvarez-Pallete.

Presentation

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

Q2 24 Results

1. **Strong Q2 results confirm that our strategy is working**

Good morning and welcome to Telefónica’s second quarter conference call. With me today are Angel Vilá, Laura Abasolo, Markus Haas, Lutz Schüler, and Eduardo Navarro. As usual, we will first walk you through the slides and will then be happy to take any questions.

We are pleased to report solid Q2 results that demonstrate the continued success of our strategy. Our top-line growth has accelerated, with revenue up 1.2% year-on-year, driven by sequential improvements in both our B2B and B2C segments. Notably, all our main markets are growing revenue.

Our key markets are showing positive commercial momentum. In Spain, we're achieving annual growth across all main customer segments, Germany is expanding in all main access categories, and Brazil is hitting record customer levels. This confirms our commitment to putting customers first.

Importantly, we've seen robust growth in EBITDAaL minus CapEx, which increased by 11.5% year-on-year. This impressive double-digit growth this quarter puts us year to date already trending above our full year guidance and positions us well for the second half of the year. The strong performance was supported by our solid CapEx to sales ratio of 12.1% in the second quarter, reflecting our efficient capital allocation.

This performance is also driven by our focus on operational efficiency. Our OpEx reflects the full impact of Spain's personnel restructuring program and ongoing efficiencies from the decommissioning of legacy copper and other legacy networks within our portfolio.

We continue seeking further efficiencies. Within our strategic goal to modulate exposure to Hispam while creating value for our shareholders, we have signed a non-binding MoU with Millicom for a potential corporate transaction of our operations in Colombia. In Spain we have as well signed a non-binding MoU with Vodafone for the creation of a FibreCo that should bring further rationality and network optimization to the FTTH market.

Accordingly, we continue making good progress and remain confident in achieving our financial outlook for the full year 2024.

2. Telefónica Group: improved growth momentum in Q2

Moving to slide 3, we show how this strong momentum, translates into tangible financial results.

Starting with Growth

Our top-line growth accelerated to +1.2% on strong service revenue (that grows by 2.2%). All main units showed revenue growth in euro terms, despite headwinds from weaker FX rates. This momentum is driven by high-quality customer additions across our fibre and mobile accesses, with premises passed by fibre-to-the-home growing 13% year-on-year.

Profitability remains core

This healthy top-line expansion is driving profitable growth, with our EBITDA rising 1.8% year-on-year in Q2. We're seeing a virtuous cycle of growth and efficiency that flows through to our operating cash flow. Our EBITDAaL-CapEx growth has accelerated by as much as 15 percentage points versus Q1, supported by our ongoing capital expenditure discipline. Our CapEx over Revenue ratio stands at just 12.1% for the quarter, demonstrating our commitment to efficient capital allocation. Importantly, this growth is flowing through to the bottom line.

Adding Sustainability

Our Q2 free cash flow performance keeps us firmly on track to meet our full-year targets. Excluding extraordinary tax payments in Peru, our FCF is growing by over 20%. We had a timing-related 279-million-euro payment in Q2. This was already factored into our guidance and doesn't affect our outlook. We remain confident in achieving our FCF objectives for the year. Laura will provide more details later.

3. Stronger Telefónica

Going into greater detail on slide 4.

Our network transformation continues at pace. In Q2, we expanded our fibre-to-the-home footprint by an additional 2 million premises. 5G coverage now reaches 66% of the population across our core markets, a 3-percentage point increase this quarter. Spain and Germany lead the charge, with average 5G coverage exceeding 90%.

Our customers remain at the centre of our transformation journey. We closed Q2 with 392 million total accesses, adding 4 million new customers, which is an eightfold increase from the previous quarter. Churn continues its downward trend, while our industry leading NPS saw further sequential improvement.

We're laser-focused on operational simplification to drive profitable growth. The workforce restructuring program in Spain is already delivering full cost savings, fuelling higher EBITDA growth as we've made significant progress in our nationwide copper network switch-off, with over four thousand central offices closed since 2014. This strategic shift is a key driver in reducing CapEx, boosting our operating cash flow and free cash flow growth.

AI is embedded in our business and how we do business. Our networks are becoming more open and more intelligent through softwarisation and automation. We're digitalising to be closer to customers, enhancing offers with increased personalisation. AI is also helping to streamline our CapEx deployment and boosting efficiency across the organisation. We're fundamentally changing how we operate and deliver value to customers and stakeholders.

In summary, our strategic initiatives, building next-gen networks, prioritising customers, and creating leaner, future-fit operations, are yielding tangible results. This progress reinforces our confidence in delivering on our ambitious goals for growth, profitability, and sustainability.

4. **Global leader in ESG**

This quarter, Telefónica continues to consolidate its leadership in Sustainability, as shown on slide 5.

In June, we have published the annual update of our Climate Action Plan. It details our roadmap to net zero and the tangible steps we are taking to decarbonise across the value chain.

With 392 million accesses worldwide, Telefónica continues to bridge the digital divide. We are connecting people and raising awareness about the responsible use of technology.

Being a responsible technology company also means building a strong code of ethics with regards to Artificial Intelligence. Our pioneering AI code of ethics was first published in 2018. We have now updated it to include a new commitment to the environment while broadening responsibility and traceability across the value chain.

Finally, on ESG, I am very proud that TIME magazine has ranked Telefónica among the top 10 World's Most Sustainable Companies.

I will now hand over to Ángel.

Ángel Vilá – *Chief Operating Officer*

5. **Strong Q2 execution**

On slide 6 we review our execution during the last quarter. At the time of Q1 results we shared with you near-term catalysts and positive opportunities we saw ahead in all of our core markets.

In **Spain,** back in May we had signed an MoU for a new long-term mobile network agreement with DIGI, which we expected to complete in a few weeks. The full final and definitive agreement, which spans 16 years and includes both National Roaming and RAN sharing, was announced three weeks ago. This confirms our ability to provide high-quality services over our infrastructure. Which is further reaffirmed with the signing yesterday of a non-binding MoU with Vodafone to enter into exclusive discussions to create a joint FibreCo that would cover some 3.5m premises with FTTH, with a targeted take-up higher than 40%.

In **Brazil**, we said negotiations were underway to potentially migrate to an Authorisation regime. During May we reached the agreement with Anatel and the Ministry of Communications, which we expect to complete in the coming months.

In **Germany**, we expected the spectrum extension, and this was later confirmed by BnetzA. A 5-year extension is a step in the right direction. At the same time, we have progressed in the development of our wholesale agreement with Freenet.

Finally, in the **UK,** we anticipated the fibre build acceleration as projected, and the NetCo was receiving strong interest from infra investors. Investor interest has continued during the second quarter and the fibre build continues to ramp up with 5m premises passed as of June, whilst the operational and financial NetCo design remains well on track.

In addition, in the UK the mobile network sharing agreement with Vodafone has been extended beyond 2030. We are delivering tangible and clear progress in all core markets.

6. Spain: continued positive trading, revenue, and profitability

On slide 7 we review the consistent positive performance of our Spanish operation.

Progress across commercial KPIs and financials further increases the growth, profitability, and visibility of our domestic business.

We are in well segmented market, with a premium positioning. Sound commercial momentum continued and translated into the fourth straight quarter of positive net adds in main services, with all customer bases showing year-on-year growth in the quarter. In convergence, the combination of increased net adds and superior ARPU not only reflects the high value of the base but also the right balance to sustain revenue growth.

All of this resulted in revenue growth in Q2, with an acceleration in retail revenue, up to 2.6% year-on-year, and improving EBITDA growth helped by the full contribution from the redundancy program savings.

The inflection point of the EBITDAaL trend is also noteworthy, showing a sequential improvement, which is expected to continue throughout the year.

To highlight, as proof of our superior network infrastructure quality, we extended the valuable wholesale agreement with DIGI securing wholesale inflows beyond the next decade. At an operating cash flow margin similar to the previous contract.

And we continue to seek new win/win agreements with other existing wholesale partners. So, we are very pleased to announce that yesterday we signed a non-binding MoU with Vodafone Spain to enter into exclusive discussions to create a 3.5m PP FibreCo. To add further visibility and stability to the broadband market, which we continue reshaping. On top of which, opportunities will open up from the ongoing deregulation process.

7. **Spain: value creation whilst co-shaping the wholesale market**

On slide 8, let me explain in a bit more detail our recent wholesale agreements, both bringing rationality to the wholesale a market.

The **new contract with Digi** has evolved to provide National Roaming and partial RAN Sharing for the next 16 years.

Infrastructure sharing will boost the effective use of our mobile network while Digi benefits from efficient use of its new spectrum.

RAN Sharing agreement includes spectrum mutualisation in the 3.5GHz band. This will be progressively deployed and help us to release own resources devoted to this high frequency band.

Additionally, yesterday we announced the signature of a **NB MoU with Vodafone Spain** to create a joint FibreCo.

In this fibre sharing agreement, T.España will contribute c.3.5m PP of its FTTH network, and jointly with Vodafone Spain will connect an estimated base of c.1.4m customers at closing.

This model increases our fibre network returns and adds long-term visibility to our wholesale revenue via long term MSA agreements. As both parties will independently compete, in retail and wholesale markets, network utilisation will be optimised.

We also crystalise value through the valuation of part of our fibre at attractive terms. And further monetisation may be realised with a potential sale of a stake in the FibreCo.

Finally, optionality increases, with the NetCo being a vehicle to share the FTTH upgrading costs and a source to unlock additional funds in a potential market consolidation.

All in, these two new agreements are value accretive for T. España as they help us to monetise our networks, increase the visibility and sustainability of our wholesale revenue function and bring also efficiencies.

8. **Brazil: expanding profitable growth**

Regarding Brazil, on slide 9, VIVO maintains its leadership in both mobile and FTTH business, as a result of strong operating momentum.

At the same time, mobile customer value increases, with contract ARPU growing 2.7% year-on-year, whilst churn is maintained at very low levels of 1.0%. Accordingly, mobile revenue grew 4.7% year-on-year reflecting market rationalisation and increasingly boosted by digital services, which are growing double digit.

Whilst on the fixed business fibre take-up reached 24% and convergent customers more than doubled year-on-year.

Strong execution helped main financial KPIs to continue posting year-on-year growth in euro terms, even despite Brazilian real depreciation. In local currency, revenue and OIBDA posted a year-on-year acceleration to +7.4% and +7.3% respectively. Way higher than inflation growth.

To note improved operating leverage margin to 15.3%, 1.2 percentage points increase year-on-year.

VIVO continues as well to reinforce its ESG commitments and has announced new targets for 2035.

Finally, an important milestone was achieved during the quarter, with the agreement with regulatory and administrative bodies to progress on the migration from concession to authorisation, which is value accretive, and should be finalised in the second half of the year.

9. Germany: robust trading momentum and growing profitability

Our German operations maintained ongoing operational and financial momentum in Q2, as shown on slide 10, driven by the focused execution of the 'Accelerated Growth & Efficiency Plan'.

Our core business continued to demonstrate robust commercial traction, with contract net additions increasing by 37% quarter-over-quarter, supported by a low O2 contract churn rate of 0.9%, which reflects our strong brand appeal and ongoing network enhancements.

Revenue remained flat year-on-year, with growth in handset sales and fixed services partially offset by declines in mobile service revenue, influenced by regulatory effects, changes in the 1&1 business model and less roaming. However, we achieved sustained EBITDA growth through ongoing commercial momentum and effective cost management.

In the first half of 2024, progress on 4G network densification and 5G deployment was significant, with over 550 new operational sites and approximately 3,400 expansion measures completed, resulting in our 5G population coverage reaching 96%.

And our business fundamentals saw significant de-risking as well during the quarter. The spectrum extension was not only already signalled by the regulator, but the position from the German government on Chinese vendors was finalised. An outcome that falls within our expected CapEx envelope hence being neutral to our long-term guidance.

10. VMO2: focus on operational progress and long-term growth

Moving to slide 11 to review our UK JV VMO2.

In the UK we have remained committed to our strategy of investing in key drivers for future success, despite the competitive landscape. We continue to focus on delivering value to our customers while transforming and simplifying our business for long-term sustainability.

We maintained our position with the highest fixed ARPU in the market, achieving 3.1% year-on-year growth driven by recent rising prices. Additionally, our combined consumer fixed and mobile revenue excluding handset remained stable, with O2 contract churn maintaining stability at 1.2%.

Furthermore, fibre deployment has significantly accelerated, with VMO2's full fibre footprint now reaching 5 million premises passed. Looking ahead, our new network sharing agreement with Vodafone UK not only strengthens our successful relationship but also strategically positions VMO2 for the potential approval of the Vodafone-Three merger, including a prospective spectrum agreement.

And finally, the NetCo carve-out is progressing well, perimeter is established, and we see continued interest from investors.

11. T.Tech, the B2B growth driver with top execution

Telefonica Tech, on slide 12, showed another strong quarter.

Since creation T. Tech is delivering quarterly double-digit year-on-year revenue growth. In the last 12 months T. Tech has generated €2bn revenues, showing a 14% annual increase.

Both funnel and bookings are showing higher growth than revenue so far, mostly driven by the private sector, with large contracts awarded. For example, two weeks ago, multinational financial player BBVA chose T. Tech to boost the cybersecurity of its operations on a global scale, with the incorporation of the most advanced technologies in AI and process automation. We also recently closed large and relevant deals with Segittur and Children's Health Hospital Ireland, in Q2. Hence, this solid trend will continue to translate into revenue growth, which we expect to accelerate throughout the remainder of the year.

We are seeing growth that is well-balanced, with increased contribution from higher value-added services, longer-dated contracts, a wider customer base, and better currency mix.

We continue to gain relevance in higher growth markets and our top delivery capabilities continue to be recognised by industry partners and analysts. This should allow T. Tech to continue growing ahead of its peers.

12. T.Infra, a worldwide connectivity network

T. Infra, on slide 13, is driving profitable growth leveraging a capital efficient deployment of future-proof infrastructure. Our FTTH build pace continues its momentum, after passing more than 1 million premises this quarter to 23 million.

Telxius, our global connectivity provider that combines next-generation subsea cables with terrestrial backhaul systems and communications hubs, maintained consistently high profitability of around 50%, and is expanding colocation facilities across USA, Spain and Latam.

And as you may be aware after looking at recent media comments, interest on Nabiax, the Data Centres business where we own 20%, is mounting. This provides us with optionality.

I will now hand it over to Laura, who will guide you through Hispam performance and the main financial situation topics.

Laura Abasolo - *Chief Financial and Control Officer & Head of T. Hispam*

13. Hispam: Helping to build a more rational ecosystem

Thank you Ángel.

As for Hispam, on slide 14, we returned to growth in main financial KPIs; service revenue, EBITDA, and EBITDAaL-CapEx.

As such, service revenue grew 4.9% in Q2 year-on-year. EBITDA was up 2.7% year-on-year driven by Argentina, Colombia, and Mexico. To highlight the 67% EBITDA growth of our operations in Mexico on very good contract performance and network efficiencies.

EBITDAaL-CapEx accelerated on EBITDA evolution, leases stabilisation and CapEx decline. CapEx to Sales stood at 6.6% in the first half of the year.

Lastly, T. Hispam is making progress in achieving greater rationality in the market, avoiding network overlap through different agreements on fibre and mobile.

To continue seeking market rationality, we entered into a non-binding memorandum of understanding with Millicom for a potential corporate transaction of our operations in Colombia, that may imply the sale of our stake in T. Colombia.

14. FCF on track, 2024 guidance reaffirmed

Slide 15 shows FCF performance in the first half of the year. Our Free Cash Flow performance remains strong and fully on track. We're confident in our trajectory and our ability to meet our full-year guidance of more than 10% growth.

Let me address that we've been managing a tax dispute in Peru for some time. In fact, in December 2022, we made a full provision of 0.9 billion euro for this tax litigation. The exact amount and timing of payments have been uncertain, but we've consistently incorporated our best estimates into our guidance. In Q2 of this year, we made a €279m tax payment to Peru. This amount was larger than initially expected for the quarter. However, this is primarily a timing issue. The payment was already contemplated in our full-year guidance, which remains unchanged at more than 10% growth for the full year.

With this behind us, we have even greater clarity on our FCF generation outlook, putting us in a stronger position for the second half.

Importantly, this situation is fully contemplated not just in our 2024 guidance, but also in our 2026 targets. We're in control, our position is strong, and our commitment to delivering on our FCF performance remains unwavering both for this year and through 2026.

15. Solid balance sheet, contained costs and long average life

As of June 2024, our net financial debt stood at 29.2 billion euro, translating to a net debt to OIBDA ratio of 2.78x. This anticipated increase from year-end 2023 was primarily driven by our strategic move to raise our stake in T. Deutschland and, to a lesser extent, free cash flow seasonality in the first half.

We're committed to reducing leverage and remain on track to meet our targets. Our deleveraging strategy focuses on four key areas:

Driving EBITDA growth through operational efficiencies and revenue expansion. Starting with Spain, our highest cash-conversion market, that will see EBITDA growth acceleration as from Q3.

Operating cash flow, measured as EBITDAaL minus CapEx is already growing above the guided range of between 1% and 2%. Though we see the usual CapEx phasing implying higher intensity in the second half of the year, EBITDAaL should keep improving.

Accelerating FCF generation, which as usual will be back half loaded. Even more this year.

Continued disciplined capital allocation.

You should also remember than in the second half of 2024 a couple of de-leveraging events will take place: we will receive the proceeds from the sale of a stake in CTIL and expect regulatory approval for the FibreCo in Peru. All in all, both will help bring down debt by some 0.4 billion euro. And both are certain, closed events. Just waiting to receive the proceeds.

Furthermore, we lowered our debt-related interest cost to 3.58% vs 3.80% in December last year thanks to the active refinancing exercise undertaken in previous years, the robust position at fixed interest rates in strong currencies and the reduction of interest rates in Brazilian reals.

I will now hand back to José María who will wrap up.

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

16. 2024 guidance fully confirmed

Thank you, Laura.

All operating metrics are either aligned with or exceeding full year guidance. Revenue growth of 1.1% aligns with our full year target of around 1%. EBITDA is growing 1.9% year to date, at the high end of our 1% to 2% guided range.

At Q1 results, we said EBITDAaL-CapEx would resume its upward trajectory from Q2. Indeed, it grew 11.5% year-on-year in Q2, bringing first half growth to 3.1%, above our 1% to 2% full year guidance. This is driven by full benefits from Spanish workforce cost savings, moving past Q1's peak impacts from lease inflation and accelerated 5G deployment and excellent CapEx management.

CapEx to sales stands at 11.3% year to date, below our "up to 13%" full year guidance. While usual phasing should increase CapEx intensity in the second half, we're increasingly comfortable with our 2024 CapEx guidance. We'll provide more details on the next slide.

As Laura mentioned, free cash flow generation is on track to meet full year guidance. It's back-end loaded as usual, so we expect acceleration in the remaining two quarters of 2024.

This will allow us to resume our deleveraging trajectory. After H1's uptick from the T. Deutschland offer and Q2's dividend payment, we expect net debt and leverage ratios to decline, keeping us on track for our 2026 targets.

Our strong first-half performance supports our 2024 targets and long-term strategic goals.

17. Pathway to industry leading <12% capex to revenues

As stated in the previous slide and as we show on slide 18, CapEx is among the main drivers of our FCF growth towards our 2026 targets.

Let me give you an inside-out view of how we're approaching CapEx to reach industry-leading levels of less than 12% capital intensity. Our strategy revolves around three key areas:

1. **Business Evolution**: We grow more in low-CapEx businesses, such as B2B and digital services within B2C, changing our CapEx profile. Legacy shutdown, particularly copper decommissioning, significantly reduce our maintenance CapEx. This allows us to continue to invest in growth, passing more premises with fibre-to-the-home and increasing 5G coverage. Both have higher efficiency than legacy technologies.

2. **Network Optimisation**: We're leveraging open and disaggregated networks, virtualisation, go-to-cloud strategies, and AI & automation. Increasing deployment efficiencies and flexibility to adapt to demand. Open RAN and Open BB models are key to this transformation.

3. **Strategic Investments**: We're past peak network spending and now focusing on tech cycle optimisation. We're exploring ways to reduce capacity CapEx, such as our extended collaboration with Meta for video optimisation, aiming for more responsible network use and reduced resource usage.

No single initiative alone would be sufficient to achieve our ambitious targets. It's the combination of all three areas that creates a powerful synergy, driving us towards our goal. This approach will take us from our 2023 CapEx/Sales ratio of 13.3% to our 2026 guidance of less than 12%. This reduced capital intensity is an important lever to help achieve our target of more than 10% FCF growth CAGR through 2026.

While the second half should show usual phasing with some higher CapEx allocation, our first-half progress makes us more confident in our 2024 CapEx guidance than before.

18. Building on our momentum

To summarise, on slide 19, Telefónica's second quarter 2024 performance demonstrated again solid execution as we continue to deliver against our strategic roadmap.

We reported a solid set of results consistent with our full-year 2024 guidance across all key metrics, as well as our overarching GPS plan which targets more than 10% free cash flow CAGR between 2023 and 2026. In fact, operational leverage improves significantly with EBITDAaL-CapEx standing above the guided range for the full year.

Our core markets showed robust commercial and operational trends. In Spain, we're achieving annual growth across all main customer segments. Brazil and Germany maintained consistent profitability growth, and Hispam showed sequential improvement.

Our strategic investments in fibre and 5G infrastructure enhance Telefónica's customer experience, positioning us for continued commercial momentum and top-line expansion. CapEx intensity remains well contained, with legacy network shutdowns freeing up resources for growth.

Which coupled with streamlined operations by digitally transforming processes, and firmly focused capital allocation priorities, will allow us to deleverage going forward towards our target ranges, and further sustaining our dividend.

Finally, we continue seeing positive near-term catalysts in all our markets. Starting with deregulation. In Spain we expect full FTTH wholesale deregulation, and the removal of certain retail obligations, which should result in increased commercial flexibility. At the EU level, we see progress as well in three main topics. Including market definition, Open Internet, and Fair Share. As for the latter, we are staring to sign our first commercial agreements with large traffic generators to optimise video for a more efficient use of network resources.

In Hispam, we have entered into a non-binding memorandum of understanding with Millicom for a potential corporate transaction of our operations in Colombia. And as detailed by Angel, we have signed a non-binding MoU with Vodafone Spain to enter into exclusive negotiations for the creation of a FibreCo that should bring further rationality to the market, optimise network utilization whilst limiting overbuild risk.

This, coupled with our focus on execution, and combined with further wholesale and consolidation opportunities, will allow us to keep building on our momentum and demonstrating the continued success of our strategy. Thank you very much for listening. We are now ready to take your questions.

Q&A Session

Andrew Lee – *Goldman Sachs*

I have two questions, one on Spanish EBITDAaL growth and then the next on the group wholesale revenue growth outlook. On the Spanish EBITDAaL growth, you said you expect this to improve through 2024, but I think you delivered around half a percent decline in the second quarter if we strip out the litigation effects, while consensus still models FY24 declines and investors are noting today your negative ARPU trends in Spain. So, I wondered, if maybe you now have better visibility to give us a better idea on your expected Spanish EBITDAaL growth run rate into the end of 2024, and what you think the structural sustainable EBITDAaL growth should be in Spain longer term? Any incremental colour you can give on that Spanish EBITDAaL outlook would be really helpful.

And then on the wholesale revenue growth, how is your group wholesale revenue growth outlook changed in the medium term, given you have stated through the call that you have now signed a new DIGI wholesale contract? I am guessing there are positive externalities to your Spanish fibre wholesale business from the Vodafone Zegona MoU you just signed. Any colour you can give on your expected impact of that fibre MoU on wholesale revenues and the broader declining group wholesale revenue outlook would be really helpful.

Ángel Vilá – *Chief Operating Officer*

Thank you, Andrew, for your questions.

The first one on Spanish EBITDAaL; I got a similar question in the first quarter and as I said back then, EBITDA and EBITDAaL performance in Spain in the beginning of the year were to be the weakest you would see this year. The factors that affected leases in Q1 and partially in Q2, which were volume additions, inflation and rates affecting accounting of recurrent leases, are starting to phase out. So even if we have some non-recurrent factors affecting the year-on-year EBITDA in Q2, EBITDA growth has been improving from +0.2% in Q1 to +0.6% growth in the Q2, and year on year EBITDAaL performance has improved further by 1.8 percentage points quarter over quarter, moving from -3.5% in Q1 to -1.7% in Q2.

We are expecting further EBITDA and EBITDAaL sequential improvement in the following quarters, already starting in Q3. Not only on higher EBITDA growth but also on lower leases annual increase, which is going to help EBITDAaL to stabilize in the second half of the year.

Then, regarding the evolution of Spanish wholesale revenues, this revenue source is going to be a drag in 2024. We have a reliable network, and we are protected by solid commercial agreements, as proven by the definitive deal signed with DIGI and the MoU just announced with Vodafone. What are the drags that we are seeing as headwinds?

- Mobile termination rates prices are halving, since the first part of 2024 (which by the way also affects our German operation)
- Some international traffic services were impacted by declining voice traffic

- We do not resell Formula 1, it's a content that we do not own, although this is EBITDA neutral because we were selling it as per the cost that we had on it
- Roaming prices also decreased
- And then, the pass-through that we have on energy to some of our clients that were co-located in our central offices, with the decline of energy prices is no longer supporting us

On the other hand, MVNO revenues are growing. So, we have a lot of moving parts here that are putting pressure on the wholesale revenues in Spain.

The agreements that we have signed with DIGI, if you take into account the conditions of price and expected volumes, should be going forward at least at the level of revenues that we had with the old contract, and also at the level of operating cash flow. The MoU that we have signed with Vodafone would be accretive for additional wholesale revenues that we are getting with that partner.

So, lots of moving parts, but the two agreements that we have signed are supportive of the of the wholesale revenue function for Telefonica Spain, at rational prices that would not produce erosion in the conditions of the retail market. So supportive to the wholesale revenue line, but also to the to the retail revenue line.

Andrew Lee – *Goldman Sachs*

Can you give us any sense as to the materiality of the expected boost from the Vodafone MoU on wholesale revenues, or is it too early to say?

Ángel Vilá – *Chief Operating Officer*

Sorry, it's too early to say, it's an MoU. So let us move to definitive agreements and we will be able to give a bit more colour.

Ondrej Cabejsek – *UBS*

I have two questions which are quite similar but, for me, different.

If I just look at the EBITDAaL-CapEx guidance for the year and what we have progressed thus far, you are targeting roughly 5% and you are 3.1% year to date with CapEx to sales running below the 2024 run-rate about 2 percentage points. So, if you can just maybe talk to us about the building blocks, if CapEx goes up in the second half? Where the material acceleration on the EBITDAaL may be across the group coming from to get to the 5% EBITDAaL-CapEx guidance. Please, any colour on that?

Then, just looking at the deals that you're signing in Spain specifically, or maybe just to focus on Spain and from that perspective, looking at just returns, because obviously you are enhancing the usage of your networks, you are avoiding some overbuild and you are kind of expanding the partnerships to different operators. So, just from a returns' perspective, if you can give us any colour on mid-term return on capital or some improvement that you expect from these deals? I assume they are pretty positive.

Laura Abasolo - *Chief Financial and Control Officer & Head of T. Hispam*

We have a midterm guidance of EBITDAaL-CapEx of 5% in the life of the plan. However, the guidance for the specific 2024 is in the range of 1 to 2%, and at the moment we are above 3%. So, we are doing better versus guidance.

The reason behind this, as we explained it when we gave the year guidance, as part of the GPS plan everything improves, leases though grow slightly throughout the life of the plan and that growth is higher at the beginning of our plan because of the network growth impacts, remaining CPI, which is now decreasing, interest impact of the new contracts and new ROU additions… So, all of that implies that EBITDAaL-CapEx growth is backloaded in our long-term plan.

Having said that, we are super focused on lease monitoring, we are working on all mitigation measures, we are sharing as you know, we are reducing the quantity, we are renegotiating the agreements, and you can see that it is basically linked to the 5G expansion being more acute in the first years.

We have some regions like Hispam where leases are completely on the downward trend. In Spain, as Ángel explained, the lease impact was the highest in the in the first part of the year. So, you should be comfortable with our long-term EBITDAaL-CapEx guidance and with the guidance for 24.

Ángel Vilá – *Chief Operating Officer*

And regarding your second question, you have to frame the deals that we are announcing within the restructuring of the Spanish market that has followed some consolidation or some M&A in in our market.

So, you know, this continues to be a very segmented market in which you have in B2C a premium positioning like we have in the mid-high end of the market, which is a very rational market, with some more competition in the bottom end.

In B2B, we continue growing very substantially with a very strong positioning.

And in wholesale, which is where your question I understand was focusing, the whole market is reconfiguring under a principle of rationality that we are perceiving on the side of all the players.

There is clearly, as you were saying, an objective to optimize the return on capital employed by avoiding overbuild risk. Also, at the same time, there is a need and there is willingness from the different players to optimize network utilization. And doing this in such a way that the market retains a healthy level of competitiveness, but without putting undue pressures on the market.

As we were describing on slide number eight, we have been very active in sharing, not only on the mobile side, but also on the fibre side of our infrastructure, and we believe that these are win- win agreements for the different players.

Ondrej Cabejsek – *UBS*

Sorry for the confusion with the first question, I was trying to understand by which means the growth in lease costs, especially in Spain, may be moderate? And I was maybe going to follow up by asking, in terms of the copper shutdown that is happening over this year and next year, if that is a big part in terms of moderating leases?

Ángel Vilá – *Chief Operating Officer*

I am not sure I understood exactly the question because your first question was on group level and now you were asking for some specific detail on Spain. Could you please repeat?

Ondrej Cabejsek – *UBS*

Just in terms of the lease moderation, because I guess a lot of the growth as Laura was already addressing is coming in Spain. I was just trying to understand that the growth rate in leases should therefore moderate, and I was going to follow-up specifically on the copper shutdown over this year and next year. Is that a big part of how you contain the lease growth in the mid-term as well?

Laura Abasolo - *Chief Financial and Control Officer & Head of T. Hispam*

In Spain is exactly the opposite. Leases are under control, slightly increasing at a group level. We have certain places such as Hispam which are in a downward trend, others like Brasil with the Oi transaction and the 5G regulation may be in the upside trend, although very much under control. And in the case of Spain, this is exactly the opposite, we had the highest level in the first half of the year and that should be annualizing during the year.

So EBITDAaL-CapEx won't be a problem at Spain's level, and the worst quarter has been Q1 and that will be annualised. Maybe now its clearer, otherwise you can ask Investor Relations and they can provide you full detail, but the message in Spain was just the opposite.

Ángel Vilá – *Chief Operating Officer*

Yes, as I said in a previous response, leases growth in Spain should continue easing quarter on quarter to reach EBITDAaL stabilization in the second half.

Mathieu Robilliard - *Barclays*

I had a question on the free cash flow. So as Laura pointed out, there is a one-off linked to a payment in Peru. And as you said, initially, there was a €900 million provision for that item. Now, I understand you may not want to share your expectations for what will be the final total payment until it is not settled, but in case of the reminder of what you would have to pay to be done in 2024? And again, I'm not sure what is in your numbers, but I think so far you have probably paid more than half of it, so if you had to pay theoretically of the rest of it in FY24, would your full year guidance still be met for FY24?

Then I had a second question on Hispam. As you flagged, CapEx is very low, I think you said 5.6% of revenues. I understand that in a country like Mexico, you are essentially operating like an

MVNO, but in countries like Peru, Chile, Colombia or even Argentina, you do have a network. I was wondering how it was possible to maintain the quality of the network with such a low CapEx, and whether that number would spike back again in H2 or if you think this is something sustainable?

Laura Abasolo - *Chief Financial and Control Officer & Head of T. Hispam*

Thank you, Mathieu, for the question and very happy to talk to you about Peru so I can clarify it. As you said and I said, there is a provision of around €0.9 billion, specifically €845 million are the specific ones to 1998-2001 that have taken so long and there is so much related to interest and some of that is still under discussion.

On the payment you were right, we have paid approximately half already because on top of the €284m payment we did in 2024, we had an outflow of around €123m in 2023.

But the remaining is not going to be paid in 2024, the Peruvian law allows for fractioning and the fractioning will start from 2025 and beyond, so it will go even beyond the GPS plan.

We are we are fully in control of the situation. Obviously, the timings of the payments so far have been uncertain, but with the fractioning and the agreement with the Peruvian authorities it will be much more certain. The punchline here is this has been included in our guidance and in our estimates, both for 2024 and for the mid-term guidance, so it doesn't affect whatsoever the 10% growth in 2024, nor the 10% growth all the way through 2026.

There has been much concentration in Q2 which is not ideal, but on the other hand, as I said, now we have more certainty, and it does not put in jeopardy at all our free cash flow guidance. We are very confident on the free cash flow growth trajectory and completely on track to meet our full year guidance.

On the Hispam situation regarding CapEx. Usually CapEx is also backloaded, so you shouldn't expect the 6.6% over revenue that we have at the moment. We run Hispam within a 10% envelop approximately, we can be a little bit up and down, but that is the figure that you should have in mind.

That doesn't mean we invest 10%, we invest in different ways.

- In the case of the fibre, this goes through the FibreCos, so we are accessing the best ultrabroadband technology in the region through those vehicles instead of doing it through CapEx
- We have just gone through very successful RAN negotiations for 5G in the region
- In some cases, we are sharing network as we did in in Colombia and we are happy to share network elsewhere in the region

So, you should expect us to do it in a very disruptive way, asset-light, sharing, through vehicles, but the 10% in that framework allows us to put a good technology at the service of our customers.

David Wright – *Bank of America*

First, just on guidance, you chose to guide in moving currency, which I guess was always a risk that could perhaps be backfiring a little now with the Brazilian real just gapping out a little and I guess if I just did a simple back of the envelope, Brazil is give or take 30% of your group EBITDA. I think the currency have been very stable around 5.5 to the euro, looks to be now around 6 to the euro, so there's a 10% depreciation on something that contributes 30% of group EBITDA, which I guess dirty math says 3% drag over time. Given your group outlook is around 2% CAGR to 2026, I am just wondering how that can be captured or whether your guidance does assume that the Brazilian real winds back in a little?

And my second question, just a little bit of a mix-up from my understanding; you said that UK fibre was all on track but that is not quite what was said in the Liberty Global call, where I think it was made clear that the nexfibre build had actually lagged expectations a little. If I'm right, I think you're behind the curve monetizing some of that fibre infrastructure, so contradicting messages there.

Laura Abasolo - *Chief Financial and Control Officer & Head of T. Hispam*

Thank you, David. On the Brazilian reais I think it is soon to see how we will finish the year because we think the fundamentals are solid; solid GDP growth and external accounts remain consistent. I think it has to do with uncertainties regarding domestic fiscal and monetary policy, but it could definitely improve.

In any case, we protect ourselves from FX in different ways.

- We protect the solvency and the ratio, the net debt to EBITDAaL by putting debt in local currencies, as is the case in Brazil and some of the Hispam OBs
- There is a natural hedge as the revenue impact is much higher and it diminishes till it gets all the way to free cash flow.
- And, on top of that, for the given year we hedge 70% or above of the free cash flow that comes from Brazil; this year has not been an exception and we have hedged that free cash flow at better rates than the ones we have at the moment.

What is definitely true is that once we consolidate into euros, it's not only the Brazilian reais impacting, but also every currency. Up to June 2024 the FX impact has only been 11 million in revenue and 2 million in EBITDA.

So, our guidance as you correctly said is in euros because we think we have to grow in euros. But it is also true that we gave the FX attached to that guidance, and sometimes the FX in a given year may not reflect the fundamentals. If that FX could divert in a huge amount, then we will need to reconcile a bit the FX of the guidance and the actual FX. The punchline here again is that we think that fundamentals behind the reais are strong, and it will converge to the assumptions we used when we gave the long-term guidance, and this is a long-term game.

Ángel Vilá – *Chief Operating Officer*

And regarding your second question, I'll pass it to Lutz to make sure that we do not incur in any inconsistency in the messages.

Lutz Schüler - *Chief Executive Officer of Virgin Media O2*

Can you repeat, please?

David Wright – *Bank of America*

The message from Angel was that UK fibre build is all on track, but I don't think that was the message on Friday's call. I thought you were lagging targets perhaps a little, with some of the conversion, I think it might have been more the nexfibre footprint.

Lutz Schüler - *Chief Executive Officer of Virgin Media O2*

We are on track with the build on nexfibre. We had a record quarter in Q2 with almost 300k homes released, and we are also on track with Fibre Up. I think what I said on the call was that we are a bit behind our ambition of selling into the fibre homes with nexfibre, because here we are investing, and we want to generate more customers in the second half of this year. But with the build, we are fully on track.

David Wright – *Bank of America*

Okay, thank you. And maybe, Laura, just to double check. I guess if the currency does remain a little weaker than the potential situation we are looking at, you could see a sort of revenue EBITDA impact? The point you are making is that it's protected at free cash flow because of the various hedging mechanisms and CapEx? That's the point here, the cash flow is secure.

Laura Abasolo - *Chief Financial and Control Officer & Head of T. Hispam*

Yeah, that is exactly the point, David. That is why we are so confident on our free cash flow guidance for the year and our ability to deliver the 10% growth.

James Ratzer – *New Street Research*

I have two questions, please, both on your wholesale agreements that you have just signed.

The first one on the DIGI contract, I am intrigued by the line in your presentation where you say the revenue will also be driven by traffic-driven growth, I was wondering If we could just kind of go through the economics of the deal little bit more? Because predicting how data pricing is going to develop over a one or two year, let alone sixteen-year view, is very difficult. So, you know, we saw in Germany when Vodafone signed an NRA with 1&1, it was actually linked to network costs to give a bit more security to the market. I mean, how can you help to give us some confidence around the pricing that DIGI get with this wholesale agreement that they can't be disruptive or more disruptive on market pricing?

And then the second question I had please was your announcing here today as well that you have expanded your wholesale agreement with Freenet in Germany, which I think is a new announcement today. Could you kind of run through a bit more of the economics on that in more detail? Are you expecting Freenet now to bring more traffic over from Vodafone and Deutsche Telekom? Would just love to hear a bit more of the details of how that agreement will work.

Ángel Vilá – *Chief Operating Officer*

I will take the first one on DIGI and will hand the second question to Markus Haas, who is also connected.

First thing I would like to say is that we moved swiftly from an MoU to a full-fledged definitive contract in two months with DIGI, because we have lots of experience in wholesale contracts, and a very long-standing relationship. I think the case that you alluded to in Germany is taking a little bit more time.

Another difference of the two cases is this is not a capacity deal whatsoever; we need to be very clear. We are expecting and we have projected future volumes and we have a pricing mechanism which is structured with payments that depend on the number of subscribers and their consumed traffic. It is not based on the costs of our network. Now, regarding the RAN sharing, it will depend on the number of sites that will be shared and there will be a payment on that one.

Markus Haas - *CEO Telefónica Deutschland*

Thanks, James, for the question. We renewed our agreement with Freenet, is a ten-year deal, with a steep customer increase and we foresee the full run-rate of this strong increase of customers on our network coming from Freenet already in 2026, clearly compensating some of the effects that we will see from 1&1.

So, overall, it's a win-win deal that we signed, it is long-term and is substantial increase of the relationship and partnership that we have with Freenet going forward.

James Ratzer – *New Street Research*

Markus on that, I mean you mentioned that increase in customer numbers. I mean, are you able to just quantify that a bit more? What are you expecting for customer growth from Freenet then on your network out to 2026, or future revenue growth from the deal?

Markus Haas - *CEO Telefónica Deutschland*

It's a significant increase. I think we should respect that Freenet is also listed company and that is all we can share on this call. So, from that perspective, it is a significant increase of our partnership. This is what I can say and it's a fast ramp-up, so we will see already the full run-rate effects reflected in our 2026 numbers in Germany.

James Ratzer – *New Street Research*

Angel could I just follow up on just on the traffic growth point. I mean, traffic growth is growing at kind of 30-40% per annum in Spain, but presumably the DIGI wholesale revenues are not going to grow in-line with traffic growth. There must be some price deflator baked into your contract, how does that work to just offset traffic growth?

Ángel Vilá – *Chief Operating Officer*

I'm afraid I cannot disclose commercially-sensitive information, but the projections and the figures that we have is that the yearly revenues will be broadly in-line with the current ones. And this is as much as we can say on this agreement.

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

Thank you very much for your participation. And we certainly hope that we have provided some useful insights for you. Should you still have further questions we kindly ask you to contact our Investor Relations department. Good morning and thank you.