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Results 2024

Q3

GPS

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Adrián Zunzunegui - *Global Director of Investor Relations*

Good morning, and welcome to Telefónica's conference call to discuss Q3 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 Chief Operating Officer, Mr. Ángel Vilá.

Presentation

Ángel Vilá – *Chief Operating Officer*

Q3 24 Results

1. **Q3: a quarter of strong operating and strategic progress**

Thank you Adrián. Good morning and welcome to Telefónica's third quarter conference call. With me today are Laura Abasolo, Markus Haas, Lutz Schüler and Eduardo Navarro. Before going into the results presentation, we would like to express our condolences to the families of victims of recent flash floods in Spain, and our gratitude to Telefónica teams who are working 24/7 to restore communications to all those affected. God bless them all.

And now, let us first walk you through the slides and will then be happy to take any questions.

We are pleased to report solid Q3 results that prove strong operating and strategic progress.

Across our key markets, underlying performance remained strong. Spain delivered the best net adds in 6 years with record-low churn and Brazil sustained its growth momentum across all key metrics in local currency.

One of the quarter's key highlights is the acceleration of FCF growing by c.90% in Q3 and 28% in 9M and is already above our target of >10% growth for the year.

Beyond the expected back-loaded phasing, our free cash flow benefited from our industry-leading CapEx intensity of 12% up to September, reflecting optimised investments and enhanced operating leverage.

We invest more efficiently; we continued deploying next-generation networks at pace, with 5G coverage in our core markets reaching 71% and FTTH expanding to 82 million premises passed.

Importantly, we made significant progress on near-term catalysts across our core markets. In Spain, we strengthened wholesale visibility through our new FibreCo agreement with VOD/Zegona and the long-term FTTH IRU signed with MasOrange. Brazil's migration to the authorisation model is expected to complete in Q4. In Germany we enhanced our wholesale position via the Lebara contract renewal and new Lyca agreement, while expecting BNetzA's update on details of spectrum extension in early 2025. In the UK, NetCo continues to progress well, supporting our fibre strategy.

Finally, we remain confident in achieving our financial outlook for the full year 2024, despite FX headwinds.

2. **Stronger Telefónica**

Going into greater detail on the next slide, we continue to build a stronger Telefónica through network leadership, customer centricity and operational excellence.

We accelerated our fibre to the home roll out, with 2.7 million premises passed in the quarter, while our 5G coverage expanded by 6 percentage points in the last three months, achieving our 2026 target more than two years ahead of schedule. These milestones strengthen our network leadership while capital efficiency improves, supported by AI-driven solutions.

On Open Gateway, we continue making progress on industry collaboration. The API NewCo venture, will greatly simplify the process for telcos worldwide to expose their Network APIs, enabling seamless integration with hyperscalers and developer platforms through a single connection point.

Our customers, their experience and satisfaction remain a priority and AI is further improving this. Our recent investment and commercial partnership with Perplexity will further improve customer service across our markets, driving cost efficiencies, productivity gains, and faster resolutions. This quarter we added 1 million accesses to reach 393 million, while achieving a record NPS of 34.

Operational simplification and asset optimisation remain key priorities. In Spain, we've closed approximately 8 thousand central offices and remain on track to complete our copper network shutdown. We continue scaling AI across the business, having prioritised 6 key use case clusters. Meanwhile, in Hispam, we are executing on our strategy, exploring inorganic opportunities.

3. **Strong FCF and consistent underlying performance**

On slide 4,

Our underlying performance remains strong, with all three core units showing local currency growth in Q3 in line or above what seen in the first half of the year. This proves that our core business momentum continues. Reported figures were impacted by FX headwinds, particularly from the double-digit depreciation of the Brazilian real against the euro, reducing revenue growth by 4.2 p.p. and EBITDA growth by 4.7 p.p.

Nevertheless, 9M EBITDAaL-CapEx growth stands above our 2024 guided range in reported terms despite FX headwinds, demonstrating the strength of our operating model. And most importantly, our free cash flow grew significantly year-on-year in both Q3 and 9M, largely protected from currency volatility through natural hedging strategy.

4. Telefónica Group: consistent underlying performance

Moving to slide 5.

Underlying revenue growth has been solid reflecting strong commercial traction and is underpinned by the increase in high-value accesses, especially fibre. At the same time, we continue to see strong demand on B2B, with IT services seeing double-digit growth.

Profitability remains a focus. Operating leverage improved vs Q3 23 as CapEx declined 6.3%, driven by legacy network switch-offs, AI implementation, and other digital transformation initiatives. These efforts among others continue supporting our margins.

On sustainability, our free cash flow trends continue to strengthen, growing at a pace that reinforces our confidence in achieving our target of more than 10% growth for the full year.

5. Spain: improving commercial momentum, accelerating EBITDA growth

On slide 6 we review the positive performance of the KPIs and financials at Telefonica Spain.

Q3 marked an excellent commercial quarter, with the best net adds in 6 years and all accesses showing year-on-year growth.

Telefónica Spain continued to excel in a competitive market leveraging its superior quality and customer service and achieved the lowest churn level in a decade and the best ever NPS.

Our focus remains on protecting our high value convergent customer base with a balanced combination of churn and ARPU. We believe that a rational approach is the right strategy to sustain revenue growth.

Revenue growth continued in Q3, in line with prior quarters, while EBITDA growth improved up to 1.0% year-on-year, on the back of further transformation efficiencies. This EBITDA growth together with a quarter-on-quarter stabilisation of leases, translated into a further visible sequential improvement in EBITDAaL, that stabilised year-on-year in Q3 already.

Finally, let me highlight two relevant topics that enhance our business’ sustainability:

We are pleased with the recent success in the wholesale business. Leveraging our superior network quality and expertise, we extended all existing agreements, and incorporated new ones, with rational and value accretive terms. Hence, our wholesale business is secured for the long term, and we have further visibility and stability in the overall market.

For the future, we believe the ongoing deregulation process is creating new opportunities in the Spanish market.

6. Brazil: sustained growth, expanding profitability

Telefónica Brazil continued to enhance customer value, driven by the robust expansion of its contract access base and fibre connections, which support ARPU growth and keep churn rates very low. To highlight that we have the largest network across Latam.

Revenue increased by 7.1%, in local currency boosted by the strong performance of mobile service revenue, the growth in FTTH, and the ongoing expansion of digital services.

Despite the higher contribution from digital services, both EBITDA and the EBITDAaL-CapEx margins showed year-on-year increases of 0.2 and 2.1 percentage points, respectively.

Finally, we remain very optimistic about the migration from a concession to an authorisation, with a final agreement in expected in Q4 24, as mentioned before.

7. Germany: continued commercial traction on core business strength

Our German operations maintained strong momentum in Q3, with consistent growth in contract net adds quarter-on-quarter and a low O2 contract churn of 1.0%, reflecting our brand appeal and network quality. On the network front, 5G population coverage reached ~97%, with '5G Plus' celebrating its first anniversary, and the O2 network was rated 'excellent' in the latest Smartphone Magazine test.

We further strengthened our position with the relaunch of ‘O2 TV’ and a tariff simplification, reinforcing our value-for-money leadership. We also strengthened our B2P positioning, re-filling freed-up network capacity through the renewal of contracts with Freenet, Lebara and a new agreement with Lyca.

Financially, revenue faced headwinds due to MTR reductions and the shift in the 1&1 business model, with revenue declining by 1.6% year-on-year in Q3. However, sustained EBITDA growth of 3% year-on-year was achieved through focused execution of the ‘Accelerated Growth & Efficiency Plan’ and disciplined cost management.

8. VMO2: commercial momentum and targeted investments

Moving to slide 9, to review our UK operations at VMO2.

In Q3, we remained committed to our strategy to invest in our foundations and key drivers for future growth. We returned to fixed-line customer growth in Q3, adding 16k broadband customers, and at the same time fixed ARPU increased by 2.2% year-on-year. In our wireless business O2 mobile contract churn improved to 1.1%.

Furthermore, fibre deployment has significantly accelerated, with a notable 44% year-on-year increase in our build rate in the first nine months of 2024. We also established a new long-term partnership with Cellnex UK to provide tower infrastructure and associated services and monetised a further 8% stake in CTIL, while retaining co-control.

Regarding financials, revenue fell by 0.7% year-on-year in Q3, mainly affected by hardware weakness. Despite this, we have achieved stable combined consumer fixed and mobile revenue, excluding handsets. EBITDA also decreased by 2.7% year-on-year due to ongoing investments in IT and Nexfibre initiatives.

9. Tech: the B2B commercial growth driver

Telefónica Tech, on slide 10, continued to show steady progress.

Tech is a crucial growth driver for our B2B business. Tech in the last 12 months reached €2bn revenues, a 12% annual increase.

Both funnel and bookings show an even higher growth rate than revenue, which gives us a very good visibility of the future business. Q3 bookings increased +40% year-on-year, mostly driven by large contracts from the private sector awarded from Financial, Healthcare and Manufacturing customers.

Solid commercial activity is increasing the backlog of higher value contracts, which will bring more recurrent services and revenue flows in the future enhancing the sustainability of the business.

The ongoing improvement is not only evident in the visibility of the Tech business but also in our revenue mix, with a stronger contribution from Managed & Professional services & own platforms and a higher weight of hard currency revenue, already 87% of revenue in 9M 24.

With all these positive developments we remain optimistic for the future.

10. Infra: a worldwide connectivity network

Telefónica Infra, on slide 11, continued to drive growth and accelerate digital inclusion through the efficient deployment of next-gen infrastructures. FTTH roll-out progressed at pace, having passed more than 1 million premises in the quarter to 24 million, advancing well to the target of around 30 million in 2026.

In Germany, UGG reached an agreement to acquire Infrafibre Germany, strengthening UGG's position as a fibre infrastructure provider throughout selected rural areas and accelerating the planned expansion to ~2 million premises passed.

Telxius, our global connectivity provider, maintained a double-digit growth rate in traffic and a high profitability level of close to 50% in the first nine months of the year.

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

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

11. Hispam, preserving operating leverage

Thank you Ángel.

We are continuously working to try and build a more rational environment in Hispam, reducing network overlap and use of invested capital more efficiently. Additionally, we are exploring potential opportunities for in-market consolidation in Chile and Colombia, and we will keep you updated on any developments.

Q3 24 results are impacted by the depreciation of the Mexican and Chilean peso, among other currencies, and strong competition in Chile and Peru. In the latter, where results show a sequential deterioration, reported results are hit by a €314m non-cash impairment charge.

Despite these challenges, Q3 2024 EBITDAaL-CapEx remained virtually flat compared to Q3 24 in reported terms, thanks to a reduction in leases expenses and CapEx.

12. FCF aligning with reiterated 2024 guidance

Moving on to free cash flow on slide 13.

As anticipated, our free cash flow generation showed significant momentum in Q3, delivering levels 4 times higher than the second quarter. This acceleration follows our typical seasonal pattern and has driven nine months growth to 27.7% year-on-year.

Importantly, this performance is enabled by our hedging strategy, implemented at the beginning of each year to protect the majority of our free cash flow, which ultimately drives shareholder remuneration.

This puts us in a strong position and gives us confidence in delivering both our 2024 target and our broader 2023-2026 ambitions.

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

As of September 2024, net financial debt declined by roughly 0.5bn euro from 29.2 billion euro in Jun-24 to 28.7 billion euro in Sep-24, mainly due to the solid free cash flow generation in the quarter. Net debt to EBITDAaL was slightly reduced from 2.78x to 2.76x as of Sep-24 and it is expected to be further reduced towards year end. We're committed to reduce leverage and remain on track to meet our targets.

Additionally, we will receive the proceeds from the sale of a stake in CTIL.

Meanwhile, Telefónica maintains a solid liquidity position of 19.9 billion euro that together with a light maturity profile, allows us to cover debt maturities over the next three years. Our debt is nearly 75% linked to fixed rates with an average life of close to 11 years, which places us in a comfortable position to face any market environment.

Furthermore, we lowered our debt-related interest cost to 3.61% 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 lower interest rates in Brazilian reals.

14. Solid progress across the pillars of ESG

This quarter, Telefónica continued to make solid progress in ESG.

To show how we are decarbonising the economy, we have published a new report quantifying how our B2C customers avoid emissions thanks to our services. On the supply chain side, we have led an ambitious initiative within the sector to train suppliers on lowering emissions.

On gender diversity we are progressing well; just over 1/3 of our executives are now women. Meanwhile, we are addressing the needs of B2B customers who require sustainability references, with EcoVadis ranking us in the 99th percentile of all companies assessed.

Finally, on the governance side, we have been recognised for our reporting and transparency and we continue to lead the way in ethical AI as active participants in the development of the European Code of Practice.

I will now hand back to Ángel who will wrap up.

Ángel Vilá – *Chief Operating Officer*

15. 2024 guidance confirmed despite FX depreciation in Q3

Thank you, Laura.

On our guidance, we are on track to achieve our full year 2024 targets despite FX headwinds impacting our reported revenue and EBITDA figures.

Our underlying business performance remains strong, we are controlling the controllables, and our FCF is well protected from FX volatility through effective hedging.

This is evident in our 9M results, with EBITDAaL-CapEx and FCF already trending above targeted ranges, while CapEx to Sales remains fully aligned with guidance. Moreover, using our guidance FX assumptions, 9M results would be well within our guidance with more than 1% EBITDA growth and more than 2% EBITDAaL-CapEx growth.

Our robust FCF generation continues supporting our deleveraging trajectory toward our 2026 target range. While currency fluctuations may create short term volatility in reported figures, our nine-month performance and strategic execution reinforce our confidence in both our 2024 targets and 2023-26 plan.

16. Maximising performance through focused execution

To wrap up, on slide 17.

First, we delivered another quarter of solid business momentum across our core markets.

Second, the significant acceleration in FCF this quarter reinforces our confidence in delivering our 2024 and 2023-2026 targets of more than 10% growth.

Third, our natural hedging strategy effectively protect our FCF from currency fluctuations.

Fourth, our strategic investments in fibre and 5G infrastructure continue driving premium customer experience and satisfaction.

Fifth, we maintain disciplined balance sheet management and capital allocation, focused on meeting targets, sustaining our dividend, and investing in key growth areas.

Finally, we see clear catalysts ahead, particularly the authorization model in Brazil and increasing market rationalisation in Europe through deregulation and reduced fragmentation.

Thank you very much for listening. We are now ready to take your questions.

Q&A Session

Ondrej Cabejsek – *UBS*

Good morning, everyone. Thank you for the presentation and congratulations on the results. I've got two questions that are kind of related, I would say. If we look at Spain, you're obviously posting very good KPIs in terms of net adds that are accelerating, your churn is decreasing. There has been this year a bit of a dilution to your convergent ARPU. So, just thinking if you can maybe reflect on all the changes that we've seen in competition throughout this year from the merger to the latest rounds of back-to-school promotions by Zegona and then, the recent price cuts that Digi did. How is the market shaping up over the past, you know, three, four quarters in Spain because the trends are largely good, but not all of them good?

And then related to that, just if you can comment on again Digi price cuts, they followed the closing of the deal that you presented last quarter. Is there any relation? How do you think that competition in the lower end would unfold from here?

Ángel Vilá - *Chief Operating Officer*

Thank you for these questions.

On Spain, on the competitive environment and dynamics recently, we are seeing some players repositioning their products and strategy. Which is creating maybe some more commercial intensity, but mainly in the low end.

We believe that the market continues to be segmented and rational. We had soft summer-campaigns, market portability was very much reduced with clear winners and losers, and we were between those winners, and low market churn levels. Portability has been the lowest in 10 years if we except, of course, the 2020 pandemic lockdown.

We should not forget that all players implemented price increases this year. Yes, there is some intensity in the low end, but we maintain our rational approach with value-based services, best-in-class infrastructures, which allow us to show very consistent performance in all the KPIs. As you have seen, we have net adds in all the main services, it's the fifth quarter in a row of growth, best net adds and portability in six years, we have the best churn in a decade, it's 0.8%. If you combine this with the ARPU, which remains above €90, we have stronger customer lifetime value, which is around double of our closest follower.

The ARPU evolution, yes, in the year-on-year has a decrease of 0.4%, but this is due to a larger O2 penetration. It remains very consistently above €90 and it's a differential with respect to our competitors. We believe that one needs to look at all these KPIs altogether, and this results, as I was saying before, in the strongest value of our customer base compared to any of our competitors.

Regarding Digi, we signed with them a combination of roaming and network sharing agreement. This is value creating, it’s an agreement for the next 16 years. The revenues of this contract are going to be at least at the same level of the existing roaming contract that we have, and this sharing will be progressively implemented when Digi has full ownership of the spectrum that they will get from Orange.

Ondrej Cabejsek – *UBS*

Thank you. Can I maybe follow up on Digi? You mentioned the contract to you is actually value-enhancing. So, were you surprised at all about the fact that, you know, a couple of maybe weeks or months later Digi again cut prices? What does this mean for the competition in the market from their side?

Ángel Vilá - *Chief Operating Officer*

Well, in general, and this applies not only to the Digi agreement, we have been very careful when renegotiating all the wholesale agreements, and when negotiating new ones. In such a way that they bring rationality and visibility to the market. We have been extremely careful not to create conditions in wholesale contracts that may create distortions.

Spain is already a very competitive market and there is full availability of wholesale offers to the different players, but we have been working on this with a mentality of being very rational in the renegotiation of contracts.

Within the Digi contract, the roaming is structured around a scheme that depends on the number of subscribers and the consumption of traffic and given the projections that we have, we feel comfortable on that. The RAN sharing will depend on the number of sites that will eventually be shared.

Mathieu Robilliard - *Barclays*

Good morning and thank you for the presentation. I had a question about the guidance and how you qualify it.

I understand that you say you have reiterated all the guidance despite the FX headwind, but at the same time it seems to be a bit nuanced in the way you comment possibly for the EBITDA and the revenue growth for this year. So, I just want to clarify if at this stage you still believe you could reach, despite where the FX is, the full year guidance for revenues or EBITDA and whether your level of confidence had remained stable or decreased a bit because of the FX? Sorry, it may seem a bit pedantic, but I just wanted to make sure I understood exactly what you're saying there.

And then the second question was about the German market where clearly, you're posting a strong performance. We've seen quite a few moves in the market, some initiated by competitors, some initiated by you. I was wondering how you saw the competitive environment developing both on mobile but also on fixed, where we've seen aggressive offers for high-speed broadband.

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

Thank you, Mathieu. For the question on guidance, please let me emphasize that we are not qualifying nor changing the guidance. As per the Capital Markets Day, we changed our focus and guidance into reported and current terms, and we aim to grow in euro terms.

This applies, I remind you, only to revenue and EBITDA as free cash flow has always been in current terms. For that, obviously we make our own FX assumptions, and mild variations will not affect that.

We are now in a moment that in the Q3 there was a more abrupt change in the Brazilian reais, with a depreciation year-on-year of more than 13% spot, and that can temporarily affect our headline reported growth. But we are really, really confident on the Brazilian operation.

Let me remind you that Brazil is growing both in euro terms and even more in local currency. In local currency they are growing above 7%, both revenue and EBITDA, which is well above inflation, and that's the best way to compensate any FX changes.

We are really committed to keep on with a very strong underlying performance of our core business units, which is not only Brazil, as we show in the presentation and in the first question. Spain's EBITDA growth is accelerating and is posting strong commercial results. It’s the same for Germany, EBITDA continues growing low to mid-single digit in Q3 and operating cash flow, EBITDAaL-CapEx, is growing almost 8% year-on-year. I must admit Hispam remains more volatile with less linear performance, particularly in Peru and Chile. But some countries are definitely doing better than others.

But going to the guidance specific question, based on our current FX assumptions for the year, we are fine with the guidance committed, and that's why we have confirmed it.

It is true that we cannot speculate on potential FX moves, we have to see now the reaction to the US election. But again, what we need to protect is our free cash flow, it’s the focus. Free cash flow is much more hedged, and the impact in it is minimal. First, because we have a natural hedge. Secondly, because we also do financial hedges and we are also having debt in local currencies, which is also helping on our net debt-to-EBITDAaL ratio and in the solvency ratio.

So, high level of confidence. We expect the core business units to keep being in the same good line of direction for Q4. And based on our current FX, we definitely feel we can make the guidance.

Mathieu Robilliard - *Barclays*

Thank you. If I may, just to make sure I fully understood. Based on your current FX forecast, you believe that the guidance then is safe? Are your assumptions for FX that, for instance, Brazil reais trajectory would move in the more positive territory or is that based on what it is today? What do you think of the businesses on a local currency basis?

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

We have assumptions on the reais which could be similar to what we have today. But it may definitely vary, and it also depends on the average. As I said, it's very difficult to speculate on potential FX moves.

We will focus attention on the strength of the operations, we will focus attention on Brazil growing, both in local and euro terms. It has been growing locally very strongly, overperforming inflation no doubt. And we'll put all our focus on the free cash flow. You have seen how strong it has been in the first nine months of the year, regardless of the FX moves.

Let me remind you that the FX hedge we do for the Brazilian reais is not flowing through free cash flow yet, it's flowing through the P&L. But when we close the derivatives at year-end, we will have all the compensation impact for Q4. So, very, very focused on free cash flow, a resilient free cash flow and resilient core business units.

Ángel Vilá - *Chief Operating Officer*

And in Germany, we have been simplifying and sharpening our portfolio to remain leaders in value for money. Markus, if you could help me elaborate on this question.

Markus Haas - *CEO Telefónica Deutschland*

Our Q3 performance has clearly shown that our focus on value for money and the segmentation of the market has delivered very strong commercial results. Also, the new portfolio that we launched yesterday shows that we focus on customers around the €30 ARPU price point, this is all mobile service revenue accretive. So, from that perspective, we fully focus on our value for money strategy. Consequently, as in the past, we clearly believe in segmentation and value growth.

On the fixed question that you raised, Telefonica Deutschland has access to all infrastructures in the German market. So, we also have the possibility clearly to join promotional activities also on the cable networks in order to also shift volumes between technologies. We clearly also have been able to show very strong fixed service revenue growth with the Q3 results.

Luigi Minerva - *HSBC*

Good morning. Thanks for taking my two questions. The first one is on the tower leases and the potential opportunities in the Spanish market, i.e. I was referring to the press rumors about negotiations between Vodafone Spain and Totem, where Vodafone Spain is trying arguably to get better terms, perhaps getting out of anchor tenancy terms, switching towards secondary tenancy terms. So, I was wondering if your agreement with American Tower can offer at some point some upside? And, if I remember well, there is no all-or-nothing clause at renewal of the current agreement with American Tower? So, I'd be interested in hearing your views on that.

And secondly, one question on free cash flow, if I may. The reported one is 27% up year-to-date, well ahead of guidance of 10%. However, as usual in the Telefónica free cash flow, there are many moving parts and some are organic, some are not. Particularly I'm wondering if it's appropriate to keep the €298 million of rural 5G subsidy in your free cash flow definition for guidance matters, because if I simply adjust to the year-to-date free cash flow by those two €298 million, you're actually down 10% year-to-date compared to 2023?

Ángel Vilá - *Chief Operating Officer*

Thank you for your questions, I'll take the first one on tower leases.

We cannot comment on competitors' intentions to renegotiate their lease contracts with third parties. What I can say is that all our agreements with TowerCos in Spain are flexible, allowing us to renegotiate and capture efficiencies, and we don't have, in the name that you alluded to, all-or-nothing clauses.

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

On the free cash flow, yes, we did have a good performance. We have said, as usual, that it will be backloaded in the year. It has been very strong for the first nine months, and it will be even stronger for Q4, so we will hit the 10% guidance we provided.

It's again bits and pieces, we have a delta of more than €200 million year-on-year and one third of that approximately comes from operating cash flow, EBITDAaL - CapEx. Then, if you go below, working capital, and I will talk specifically about the subsidies question you mentioned, let me remind you that working capital is still negative. We are still consuming, but it has a better year-on-year comparison.

We also are benefiting from lower dividend leakage, as we made the Telefonica Deutschland operation, and we also have financial payments as you see, really, really controlled and even lower.

We remain working on the tax payments, there we have this year the Peruvian tax payments and we also have the back and forward of the tax in advance in Spain, that it also has some seasonality.

But we are very happy with the strong growth of our free cash flow, and we anticipate that growth to continue in Q4, again, based on the continued momentum on EBITDAaL, the solid operational base, working capital should reverse, and the continuous optimization on interests, leases, and tax payments.

On the 5G subsidies, this is a working capital movement, no doubt, which doesn't happen specifically this year, it's part of the rural deployment and part of the Unico program. This is ultimately less CapEx, and it is true that it concentrates at certain times of the year, but last year we also had the benefit of the judicial review in Brazil and this year we have nothing in that regard, so it's not just a matter of taking it out. This, as I said, is another working capital element, as many others.

Working capital is seasonal, every quarter has its ups and downs, we are still consuming but it will reverse. It is very related to our operations, so again, we are very confident on the free cash flow for the year and I'm very satisfied with this year-on-year performance.

Fernando Cordero - *Banco Santander*

Good morning and thanks for taking my question, which is related with Telefónica Tech. Thanks for the update on the top line performance. I would like to understand as well how is the profitability of Telefónica Tech performing, particularly within the different products and services segments? And, within Telefonica Tech, which are the ones that are performing strongly, and which are the ones that are lagging right now?

Ángel Vilá - *Chief Operating Officer*

Thank you, Fernando.

As you saw in the presentation, Telefonica Tech continues to grow above comparables and above the growth rate of the group. It's a crucial growth driver that helps us outperform in the B2B segment.

The revenue growth had a slight slowdown in Q3, in the growth rate versus previous quarters, for a reason of displacement of some projects because there are some seasonal fluctuations in revenues and sale activities, and also linked to the change of mix.

We are getting into greater weight of more complex projects with more consulting and professional services elements, which on one hand have longer terms of revenue conversion, but also will have a positive impact on the recurrence and predictability of the revenue. So, we are moving into contracts that have more time to prepare and then start giving the operations, but then become recurrent and give us long visibility to the future.

Bookings are very strong in Q3 in particular, 40% growth of bookings. And with this change of mix of projects into more complexity, more value added, this is also improving the margins and the profitability of Telefónica Tech, which is going in the direction that we wanted it to be in the three-year plan. We are progressing nicely towards the objective of reaching the target that we stated at the Capital Markets Day of €3 billion revenues by 2026.

Keval Khiroya - *Deutsche Bank*

Thanks for taking the questions, I have two, please. Firstly, your Q3 EBITDA grew 1%, but I estimate it fell 4% roughly excluding count reduction benefit, which is a deterioration on last year. What do you think are the main barriers to achieving a better EBITDA performance and how do we think about the 2025 EBITDA trajectory in Spain?

Secondly, you've mentioned the IOU with MasOrange. Will there be any upfront payments from MasOrange towards the agreement? Will you include that in your EBITDA and free cash flow, and will it count towards guidance?

Ángel Vilá - *Chief Operating Officer*

On the EBITDA in Spain, it's growing 1% year-on-year in the third quarter. We managed to get it into positive in the final quarter of last year, we guided for growth for the full 2024, and you saw in the first quarter it was 0.2%, in the second quarter 0.6% and in the third quarter it's growing 1%. This reflects revenue growth and efficiencies, including the redundancy plan and the copper switch off.

This improvement, or acceleration in the growth rate, is on the back of several moving parts. On one hand, we have additional revenues, some of them coming with lower margin. On the other hand, we have efficiencies coming from headcount re-sizing and, you know, digitalization and AI initiatives.

We have, on the other hand, because one could even expect a bit higher EBITDA growth, some elements that either are annualizing or no longer contributing to growth. For instance, the energy prices that in part we are passing through to customers no longer help or drag in any direction. The price of the content that we are selling in LaLiga also has changed, but we have suppressions of fees like the one that we had to finance the TV in Spain.

So, all in all, lots of moving parts, but EBITDA for the Spanish operation is expected to grow.

And this, by the way, combined with the stabilization of leases, is getting our EBITDA after leases into the positive territory, as we said it would be in the second half of the year; we have already achieved that in Q3.

On the contract regarding Orange, we cannot disclose these types of details. This was a contract that was signed in the month of August. The fibre network agreement replaces deals that we had independently with Orange and with MASMOVIL. We are evolving these towards a single relationship on a full nationwide deal, and we have entered into new IRUs agreements. There is some CPI indexation, but I cannot disclose more information because of confidentiality clauses in the agreement.

James Ratzer - *New Street*

Good morning. Thank you very much indeed for taking the questions, I have two please. I suppose you had your centennial celebration back in April of this year when the copper shutdown of the network was a big kind of milestone for you. So, what I'd be interested in understanding is, can you help us give an update on how that process is going? You know, how many exchanges have you now shutdown? How much cost savings from this have you already been able to achieve? And, in particular, how much more could there still be to come over the next few years, cost savings, from the copper shutdown?

Secondly, just interested to understand what's happening with your stake in Telefónica Brazil, because I noticed this quarter it's now gone up to 76.2%, so it's been gradually increasing over the year. Could you just explain what's going on there? Do you have some target here where you're trying to take your stake in the asset?

Ángel Vilá - *Chief Operating Officer*

Thank you, James. I'll take the first question on the copper shutdown.

We have already shutdown all the retail copper. What we have still pending is with third parties that were whole buying copper from us we need to have some switches. But we are leading the copper switch off in Europe.

We have accomplished more than 90% of the shutdown of the copper network. Switching off is the right decision, this has brought us significant savings in terms of OpEx, but also of CapEx. This is allowing us to maintain EBITDA margins above 36%, that is quite consistent with what we have been having in the last year, and all along this year.

With respect to CapEx, you know, our Spanish operation is already benchmark in terms of CapEx to revenues, and we committed in the Capital Markets Day to reach a 10% CapEx over revenues intensity for the Spanish operation, which would be, you know, leading in Europe. We have behind us the two waves of CapEx that come with the fibre migration, one is passing, and the other one is connecting.

We see other players that still need to do the wave of passing, some others need to do the wave also of connecting, we have both waves behind us. This allows us to be efficient in terms of energy consumption, in terms of maintenance, in terms of CapEx. Therefore, we were able to commit, and we are on track to this CapEx intensity reduction in the Spanish operation.

James Ratzer - *New Street*

Do you have any idea of what the kind of still the incremental EBITDA margin upside might be just from the copper shutdown that's still to come?

Ángel Vilá - *Chief Operating Officer*

We don't we don't guide on CapEx margins per OB, and we don't guide forward-looking CapEx margins per OB. However, you should expect us to stay on these levels and on a downward trend on CapEx intensity, which we have been very public about.

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

The increase in the stake of Brazil is a consequence of the share buyback that Brazil is undertaking. They have recently increased from BRL 1 billion to BRL 1.5 billion and share buyback has become part of the remuneration scheme of Telefonica Brasil.

You know, they do a combination of interest on capital, dividends, capital reduction and share buyback. So that’s the result of them doing that, and automatically our participation in Brazil increases.

James Ratzer - *New Street*

Is that a conscious decision to not participate pro-rata to your stake? Do you expect that to continue and, therefore, your stake will continue to rise?

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

Now it only applies to Brazil, but it would have applied also for Germany. If the companies decide to remunerate through share buyback our general course of action is not to go for those shares.

It's a natural action that we don't take part of that, and we just automatically increase our stake. Even more in the case of Brazil, with the company doing so well. We see growth there, as I mentioned in one of my questions.

But it’s more than a conscious decision, it’s that if share buyback is part of the remuneration policy, as this is the case, our stake will increase automatically, and we don't go for those shares.

Joshua Mills – *BNP Paribas Exane*

Hi and thank you very much for taking my questions. The first one, very quickly on the 5G subsidy benefit of €200 million, is that something we should expect to continue next year and in subsequent years or was it was a one-off? A bit of guidance around that specific item would be helpful.

And then, secondly, could you just give a quick update on the progress on the Brazilian regulatory changes and when we might get an update there? As I understand it, it could be a quite meaningful opportunity for you to reallocate capital more efficiently in that market. Some sense of timing and the granularity of the guidance you'd be able to provide once you do get that change would be helpful.

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

On the 5G subsidies, it could as it depends on future deployment cases.

It has been more concentrated in this year and particularly in this quarter, but it is something which is business as usual, and it could definitely continue. Probably not at this size but it really depends on more processes in this line.

Ángel Vilá - *Chief Operating Officer*

And regarding the move from concession to authorization in Brazil, ANATEL approved the agreement already in June and the company's Board of Directors also in June.

The proposal is moving from a different regulatory regime, that allows the termination of some proceedings and some obligations. This will allow us to dispose of reversible assets, it comes with some commitments for investment, but at the same time gives us a lots of flexibility to conduct our business, and should be very accretive for our Brazilian business.

We expect it to be finally approved in the fourth quarter of this year, latest early next year, but we believe it will be fourth quarter of this year.

Thank you very much for your participation, 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.