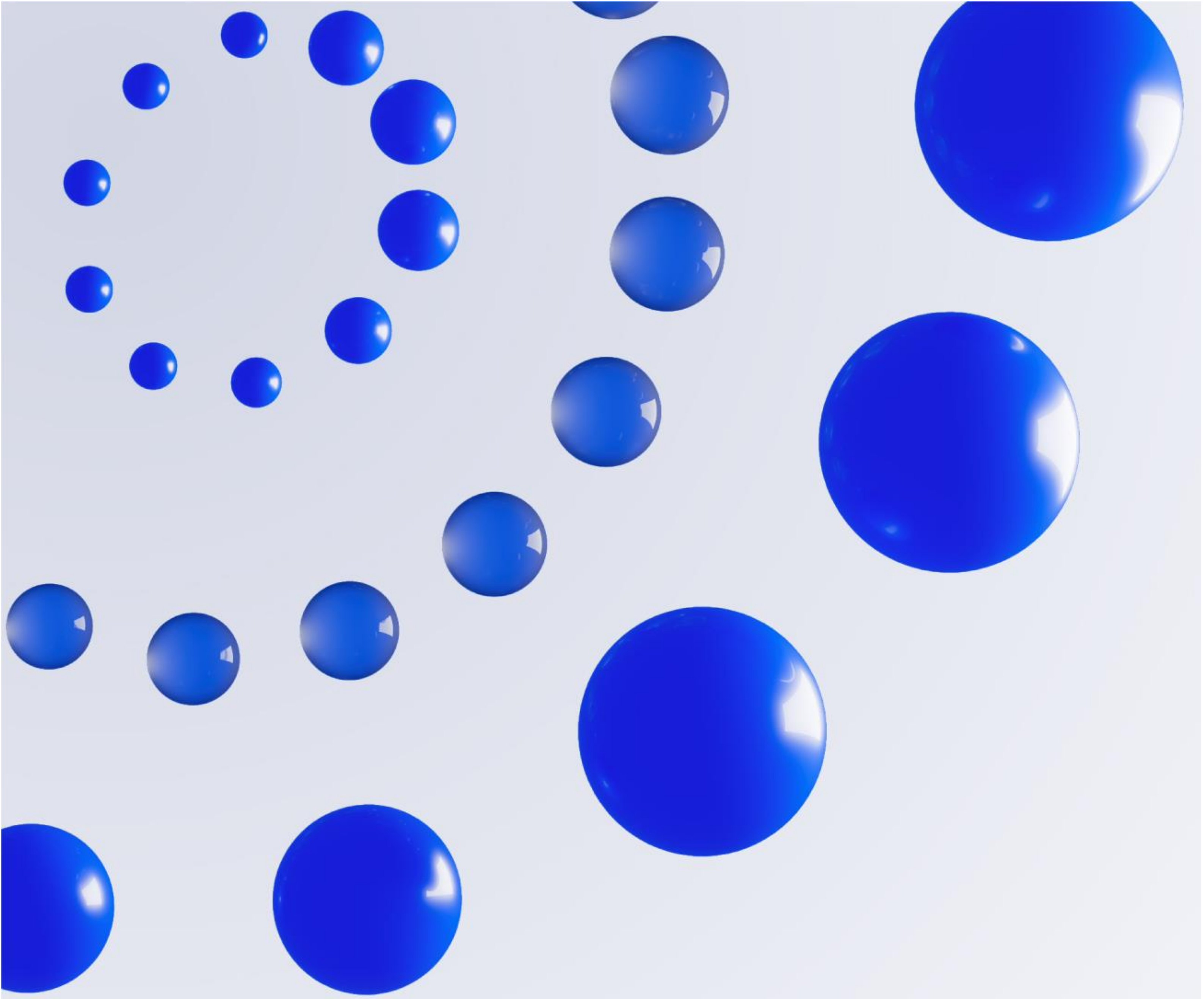

Telefónica

Results 2023 Q1

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Introduction

Adrián Zunzunegui - *Global Director of Investor Relations*

Good morning, and welcome to Telefónica's conference call to discuss January-March 2023 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.

Ángel Vilá – *Chief Operating Officer*

Presentation

Q1 23 Results

1. **Delivering our goals**

Thank you Adrián.

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

I would like to start highlighting how we continue to progress on our strategy and deliver on our goals.

Strong momentum continued in our core markets. In Spain, service revenue growth accelerated and year-on-year OIBDA trend improved, as we had anticipated. Brazil posted double-digit growth in both revenue and OIBDA. In Germany, 5G deployment progressed well and financials remained robust. In the UK, revenue stepped up another quarter. Our scaled European Cloud/Cyber champion, T. Tech, increased revenue by 44% year-on-year, largely outgrowing its market. And at T. Infra, we continued progressing in FibreCos’ rollout whilst Telxius again recorded very solid growth rates.

Group wise, the Open Gateway initiative, a joint effort for leading Telcos under GSMA sponsorship, was successfully presented during MWC 23. Whilst on the ESG side, our greenabler strategy continues anticipating regulatory needs.

Looking ahead, we are shaping opportunities in our core markets such as in-market consolidation in Spain, stellar growth and lower capital intensity in Brazil, normalised levels of CapEx to Sales in Germany and ongoing capture of synergies in VMO2, with more than 50% of run-rate expected by year-end. T. Tech, where we ambition to grow double digit this year, continues to be a source of value. T. Infra will further expand its fibre networks whilst assessing consolidation opportunities. And optionality remains on self-sustainable T. Hispam.

Finally, from an industry point of view, the coming months are key for next steps on fair share regulation and a broad fairer regulation environment.

2. **A strong start to 2023**

On slide 3, we can see that we had a strong start to 2023.

Revenue growth accelerated during the quarter, both in organic and reported terms. Moreover, all business lines are growing, with a good uptake of price increases, supporting a sequential service revenue improvement to +4.2% year-on-year in organic terms. B2B continues to perform strongly with 9% year-on-year growth and remains one of the key and differentiating growth drivers of the group.

Commercial traction strengthened, with fibre and mobile contract accesses growing 16% and 7% year-on-year respectively, while 5G deployment is progressing well. Our focused investments in next generation networks and quality of service allowed us to post record levels of NPS and lower churn rates in a quarter of proven pricing power.

This resilient performance coupled with proactive management of efficiencies within a streamlined operational model, resulted in the third consecutive quarter of underlying OIBDA growth year-on-year.

Financially speaking, net debt and leverage declined, despite FCF seasonality in Q1. As such, the balance sheet remains strong, with a light maturity profile, strong liquidity, limited debt refinancing ahead and a high portion of debt in long-term fixed rate.

Lastly, and along the lines of legacy shutdowns, we announced the Spanish full copper switch-off for April 2024, the best example of our sustainability pathway in the transformation of our networks.

3. **Key financial metrics**

Moving to slide number 4 to review our key financial metrics in figures.

In organic terms, revenue growth accelerated 1.0 percentage point to 4.9%, while OIBDA maintained a steady growth of 1.1%, with CapEx increasing by just 0.7%, all resulting in a 2.1% annual growth in OIBDA-CapEx.

In reported terms, revenue growth improved sequentially by 1.3 percentage points to 6.7% year-on-year, while underlying OIBDA increased 2.4% year-on-year. FX continued to be a tailwind in the quarter.

FCF reached 454 million euro, along the usual CapEx and Working Capital seasonality in this period of the year, while net debt declined 0.2 billion euro in the quarter or 3.5% lower year-on-year.

4. **Well on track for 2023 guidance**

Moving to slide 5, let me tell you that we are well on track to fulfil our 2023 guidance of "low-single-digit growth" in both revenue and OIBDA, and around 14% CapEx to Sales, despite inflationary pressures.

We expect the strong momentum and current positive trends to continue further supported by some price actions taking place in Q2. Energy cost pressure and overall inflation continues easing, further supporting our OIBDA evolution.

As part of our shareholder remuneration, we cancelled 25 own million shares, and we will be paying 0.15€/share in cash, the second tranche of the 2022 dividend, the 15th of June. As for the 2023 dividend, 0.15 €/share will be payable the 14th of December and another 0.15 €/share in June 2024, both in cash.

5. On target to achieve ESG goals

Turning to page 6, we continue working quarter after quarter to achieve our ambitious ESG targets.

On the Environmental side, our efforts in reducing Scope 3 emissions were once again recognised, as we have been named CDP's Supplier Engagement Leader for the 4th consecutive year.

Within the Social pillar, we are pushing ahead with network rollouts to connect more people, as well as promoting affordability with social tariffs. We are immensely proud that the World Benchmarking Alliance has, for the 2nd year running, ranked Telefónica in pole position within its Digital Inclusion Benchmark.

On the Governance side, we highlight the renewal of ESG certifications across T. Hispam, while we continue to lead the sector in sustainable linked financing.

6. Spain

Moving to slide 7, we can see that Telefónica España successfully started into the year with supportive commercial momentum and better financials.

Fixed broadband and contract accesses posted their best quarterly performance since the end of the pandemic in Q3 20. A new record-low churn of 0.9% helped to deliver contract net adds for the 3rd consecutive quarter and return to year-on-year growth in FBB (for the first time since Q2 19). We achieved this better commercial momentum despite the tariffs' revision that took place in mid-January, a proof point of our pricing power amidst an increasingly rational market.

Service revenue growth accelerated to +1.0% in Q1 23 driven by retail revenue growth, which accelerated by 0.8 percentage points vs. Q4 to +1.7% year-on-year. This acceleration is driven by a growing ARPU, better trading and double-digit growth of IT revenues.

Likewise, OIBDA continued its recovery path, and limited its decline to 1.7% year-on-year, as a result of the mentioned better revenue trends and despite higher personnel costs. OIBDA-CapEx margin remained at benchmark organic levels of 26%.

7. Germany

Moving to Germany on slide 8, it delivered a robust start to the year, with another quarter of good commercial traction and sustained financial performance.

The Company implemented it's "more-for-more" strategy across all brands and portfolios, backed by its widely acknowledged network, products, and services quality, and extended ESG leadership.

T. Deutschland's 5G network is well on track to deliver ~90% pop coverage by year-end 2023.

Revenue posted strong organic growth at 8.0% year-on-year in the first quarter. OIBDA grew +1.7% year-on-year, supported by operational leverage mainly in mobile, which was partially offset by anticipated inflationary cost pressures.

Post the successful completion of the 3 year "Investment for growth" programme, T. Deutschland returned to a normalized CapEx envelope and declined -7.2% year-on-year to 11.7% CapEx to Sales, resulting in operating cash flow growth of 8.6% organic.

8. Virgin Media O2

We now move on to slide 9, to the UK and our joint venture Virgin Media O2, which focused on operational progress and accelerating long- term growth drivers.

VMO2 delivered resilient trading performance, with a stable customer base of 58m while keeping churn steady and at low levels of just 1.0%. Broadband adds remained healthy during the quarter.

Network investment continued, with 108k premises deployed during the quarter, and with 5G connectivity now available in over 2,100 towns and cities. Q1 was the first full quarter of network rollout on behalf of Nexfibre, and delivery is being prepared to ramp up through the year.

In the first quarter, revenue growth accelerated to +3.9% year-on-year organically, underpinned by the increase in mobile and Nexfibre revenue. At the same time, OIBDA grew +1.4%, impacted by phasing of both fixed price increase and synergies, and higher costs, mainly energy.

9. Brazil

Moving to Brazil on slide 10.

Vivo started 2023 posting once again a very strong set of results, both commercially and financially.

Mobile market share reached 39% in February, increasing by 1 percentage point since Oi mobile assets acquisition, and by 2 percentage points in the contract segment to 43.7%. Vivo continues to be the clear market leader in a more rational environment.

Vivo connected 813k new accesses to our FTTH network in the last twelve months, twice the performance of the second player in the market, thanks to our leading footprint and differential value proposition.

Revenue growth accelerated to +12.1% year-on-year in Q1 23, the highest revenue growth seen in 10 years, thanks to growing accesses, price increases and the good performance of digital services.

In terms of operational leverage, OIBDA-CapEx grew 22.7% year-on-year, as a result of growing OIBDA close to 10% and lower CapEx intensity, in line with the target of bringing it down below BRL9bn by 2023.

10. T.Tech, a global next-generation IT provider

Slide 11 reviews the performance of T. Tech, a global next-generation IT provider with a distinctive growth profile.

T. Tech continued to outperform the market in Q1 23, with a 43% year-on-year revenue growth, +27% in constant perimeter, proving the benefits of its transformation into a leading scaled provider of advanced IT solutions.

The growing partner ecosystems and its diversified team of ~6.2k professionals, with close to 4k certifications in strategic partners' technologies, are key for T.Tech to become a reference player in delivering a differentiated digitalisation journey with higher relevance of Managed Services.

Bookings increased by 40% over the last twelve months which supports future revenue flows.

Leveraging T. Tech's success, Telefónica's position in the B2B large global deals category clearly improved. According to industry analysts Telefónica gained 4th place and entered the first division of telcos providing global IT services, after years of steady progress from a regional player to a supra-regional operator.

11. T.Infra, consolidating our leadership of FibreCos and critical infrastructure

Turning to slide 12, Telefónica Infra continued to consolidate its leading portfolio of FibreCos which already covers 15 million premises passed as of March 23.

• Bluevía's deployment in Spain is progressing as planned and has already met more than 80 percent of its deployment target.

• UGG in Germany continued to promote MoU sign-ins, with more than 870 thousand households as of the end of March.

• Nexfibre in the UK is scaling up the team, processes, and interaction with VMO2.

• FiBrasil is already present in 151 cities in 22 Brazilian states, with 4.3 million premises passed.

• ONNet Fibra Chile and ONNet Fibra Colombia are both leading their markets, with 3.7 million and 2.6 million premises passed respectively.

Moreover, Telxius posted again healthy financials, with rising revenue and OIBDA growing for the fifth quarter in a row. Thanks to continuous cost management, Telxius achieved an impressive OIBDA margin of 54.2%.

I will now hand it over to Laura, who will review Hispam's operations and the Group's financial results.

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

12. T.Hispam, capturing value growth opportunities

Thank you Ángel,

Moving to T. Hispam. We continue to focus on value growth, improving returns while reducing invested capital in the region.

Contract accesses grew +4% year-on-year, especially in Mexico and Colombia with +13% and +7%, respectively. The transformation to fibre continued supported by the InfraCos. Fibre up-take remained high at 30%, despite the fast FTTH deployment.

Revenue continued to grow and was up 1.6% year-on-year thanks to the good performance in both contract and FTTH. OIBDA declined by 3.9% namely impacted by high commercial activity and the InfraCo model in Chile.

13. Further deleverage, sound liquidity and contained cost

Turning to slide 14, Telefónica maintains above 80% of its debt linked to fixed rates, mainly in euro with an average life of 13.2 years, which places us in a comfortable position to face any market environment.

We maintain a solid liquidity position of 21.4 billion euro that together with a light maturity profile, allows us to cover debt maturities over the next three years.

Meanwhile, net financial debt and leverage ratio continued their downward trend. Net financial debt declined from 26.7 billion euro in December to 26.4 billion euro in March. Net debt to OIBDAal ratio improved from 2.54x in December to 2.51x in March.

As of March 2023, we have contained our debt related interest cost at 3.87%, thanks to the solid position of fixed interest rates in strong currencies which allow us to navigate the rise in rates.

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

Ángel Vilá – Chief Operating Officer

14. Positive momentum in Q1 2023

To wrap-up, on slide 15, Q1 delivered again positive momentum, continuing with a resilient performance whilst further executing our strategy.

First, our differentiated and premium infrastructure is clearly paying off in terms of churn and NPS, which helped Q1 revenue growth to accelerate on the back of our proven pricing power. Furthermore, OIBDA maintained a steady performance thanks to efficiencies that allow us to mitigate inflationary pressures.

Secondly, our balance sheet was further strengthened thanks to our proactive debt management.

Third, Q1 performance coupled with maintained positive momentum allow us to reiterate full year guidance and dividend.

Fourth, our sustainability pathway is demonstrated with the transformation of our networks. On ESG, we are progressing well and anticipating regulatory needs.

And finally, we continue to shape opportunities that should create value for our shareholders.

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

Q&A Session

David Wright – *BofA*

Good morning, thank you for the call and taking questions. A couple from me; I noticed on the OIBDA beat today, it was quite material at the "Other" level, I think you recorded about EUR 53 million above consensus, give or take. Now I understand some of that is driven by Telxius and Telefónica Tech, where you've obviously given some quite optimistic commentary in the presentation. So, I wondered, could you give us a little bit of a gap of guidance where we could expect that line to trend this year, please? Or is there something else that is exceptional?

And maybe, Laura, just for you on Hispam. We've obviously seen the OIBDA, year-on-year OIBDA starting to go into decline again. But I think that is partly new state due to the InfraCo model, which means you're now bringing on wholesale cost. I wondered if you could give us an idea of what the OIBDA minus CapEx organic trend is perhaps Q4 and Q1 to really understand to what extent that decapitalization is working. So those 2 questions from me, thank you very much.

Ángel Vilá – *Chief Operating Officer*

Hi, David. On the first one, on the OIBDA that we have in "others", here there are some businesses which are included along this line, one of them being Telxius, the unit that holds our submarine cable. We have some detail on slide number 12 on the performance of this unit, which is growing revenues at a high-single digit level, and OIBDA at double-digit level with 54% rate of margin. That's an actual business, which is performing very nicely, included in that line.

Second element would be the Telefónica Tech companies that got acquired (in the U.K., we bought Cancom U.K. and then a company called Incremental, and the Telefónica Tech company we acquired in Germany and the DACH region called BE-terna). These are also included in this element of "Other companies, eliminations and others". These two companies are growing revenues double digit with margins of around 14-15%. So you have actual businesses, I would say Hidden Jewels in this line, which are performing quite nicely.

And the third relevant element in this line is the efficiencies that we are achieving on group corporate costs given our efforts to optimize our operating models.

So we would be aiming to continue providing positive results on this line in the coming quarters.

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

Hello David, on your question on Hispam, as you said, year-on-year variations are softer this quarter, this has to do with the CapEx to OpEx model, and it also has to do with the fact that we are going faster commercially. These InfraCo models are allowing us to start connecting homes faster than what we could have done with our own CapEx. And therefore, we have more commercial spend, but at the same time, we are building a high value access base so we will be stronger for the future.

I think when you look at Hispam, you have to look at it in its trajectory since the beginning of 2020, when we decided a new strategy as non-core. OIBDA minus CapEx has improved tremendously in the last three years, we have been posting very good results as we transition to a leaner model. Focus, as I said, is on value customers and building on a different way of deploying infrastructure, which is being very valid to build that value base.

We are better in general terms in market share, and these results were very much aligned with our expectations. Maybe Peru is being a bit softer due to the political environment, and also there's a lot of portability and we need to cool down the market there, but we are in that trend.

I'd rather talk to you about the OIBDA-CapEx for the full year, which is how we are working. We are working on a full year basis, and we are still ambitious to grow OIBDA-CapEx in 2023, as has been the case in the accumulated from 2020 to 2022.

We keep on working on reducing capital employed. We keep focusing on being super rational on spectrum options. We just had the Uruguay spectrum option a couple of days ago, which was at reserve price, very well managed. Again, following the strategy we already announced a few years ago, and we are executing thoroughly.

David Wright – *BofA*

If I could just ask an additional follow-up. Ángel, given that Q1 OIBDA at the "Other line", you said you want to remain positive, but is there any reason we shouldn't be sustaining those kind of levels given the growth in the underlying businesses and the acquisitions? Any reason not to imagine its trends broadly similarly for the rest of the year?

Ángel Vilá – *Chief Operating Officer*

As you know, we don't guide by line, but the businesses which are in this line, and I was quite explicit about which companies are included, are all of them in growth mode, both in revenues and in OIBDA with steady margins. So, there would be no reason to, at least for the element that corresponds to those businesses, not to project them not only steady, but growing.

Georgios Ierodiaconou - *Citi*

Good morning and thank you for taking my questions. I have two questions on Spain, please. The first one is just to understand the outlook we should expect in terms of ARPU for the business, as there were price increases in January. We've seen the ARPU continue to grow, but perhaps not accelerate that much. So, I was curious, Ángel, if this is down to tougher comps because you did some price increases also in January last year, or whether you are seeing optimization within MiMovistar with perhaps that effect may be also affecting the future quarters. Could you give us perhaps an idea of the mix between those two effects?

And also, on the comment you made earlier about more price increases in the second quarter, do you feel confident that the excellent KPIs you reported in Q1 can be sustained even with these price increases you are putting through?

And my second question is on B2B and the growth you are delivering, obviously that's not common for all the telcos in Europe. Do you mind just perhaps giving us a bit of an idea of what are the growth drivers there, how sustainable they are, and a bit like the comment you made earlier on some of the acquisitions in Telefonica Tech? Can you give us any indications on the gross margins of these revenues? Thank you.

Ángel Vilá – *Chief Operating Officer*

Thank you, Georgios, for the questions.

You saw that in this first quarter, we made the highest price increase that we have done for a long, long time, and potentially in history, following the adjustments for inflation. And this has resulted not only in not suffering churn, but we have experienced the lowest churn in the last I don't know how many quarters. And you can see clearly in the slide the trend of improvement of the churn.

NPS, by the way, has gone up by 9 percentage points year-on-year and the gap versus the second player has also widened. And ARPU is going up to 92.6 euro, which is a growth of 1.7% year-on-year and is a growth, if you do quarter-on-quarter, of more than 2 euro. One of the questions that you may have is with a price increase of 6.8%, ARPU is growing 1.7% year-on-year. I should say that ARPU growth is in line with what we were expecting.

The price increase was not applied to all the convergent base, it was applied to the MiMovistar brand, not to the O2 brand, and it's not applied to all the ARPU components. It's applied to the fees, but not to extra consumptions, new digital services, or advertising.

Another relevant element is that the price increase was executed in the second half of January, so it is not impacting the full quarter, but a fraction of the quarter. And there has been some repositioning between our customer base, though this is not a significant element.

Also, another relevant point when one looks at the translation of this into growth of revenues, not only of ARPU, is that we have in the wholesale line a less comparable metric year-on-year because we are selling less content because we bought 55% of La Liga, instead of 100% of La Liga. This is resulting in 1 percentage point less growth in service revenue. Service revenue growth has accelerated in the Spanish operation to 1%. It would have been 2% growth if we had had the same comparable perimeter of wholesale revenues through resale of content. This effect will annualize in the third quarter, so this detraction of 1 percentage point in the year-on-year comparison will disappear from the third quarter onwards.

We expect the effect of the price increases to continue kicking in into our revenue function and given the that we are two months and a half into the price increase and the very good customer reaction, we think that the price increase has been digested and the momentum should continue along the lines that we are seeing.

Regarding the second question on B2B, I agree with you. We have a differential performance at Telefonica Group. B2B revenues are growing 9%, in our Spanish operation B2B revenues are also growing high single digit. This is a very robust performance and is very much based on a few elements.

- We are growing market share and especially in the SME category
- We're also managing to stabilize the comms element of the B2B revenues with better performance in renewal of contracts. Essentially, the performance of Telefonica units through the pandemic allowed us to gain the confidence from our customers, from our clients.
- Also, very important, we are growing in the IT and Tech elements double-digit. We made a very strong bet a few quarters ago on cloud, cybersecurity, IoT, and big data. This is helping us help our customers in their own digitalization needs. And this is proving to be a key element in the growth of our businesses.

The companies that we acquired in geographies like the UK and Germany in Telefonica Tech are having OIBDA margins between 10% and 15% depending on the quarters. You were asking about gross margin, I don't have the figure, but in OIBDA margins, they are in that line.

The companies that we acquired are included, as we were discussing before, in “Other and eliminations”.

Georgios Ierodiaconou - *Citi*

If I can ask just a clarification based on what you described on how the price increases are coming now in the second quarter. Is it fair to assume that the ARPU momentum should improve in the future quarters? I know you don't guide line by line, but broadly speaking, is that a fair assumption?

Ángel Vilá – *Chief Operating Officer*

We see, with the tariff upgrade in mid-January (which was not effective the whole of the quarter) a positive evolution of the ARPU; so, these ARPU levels are here to stay.

Joshua Mills – *BNPP Exane*

Hi, thank you for taking my question, a couple from me. The first one is actually just coming back on this ARPU point because there's been a few questions around this. Can we clarify exactly what gets included in the convergent ARPU definition? Is it purely the service revenue side of the service components of the contracts? And, how much, if any, of the ARPU is made up of add-ons like TVs, handsets, other bits and pieces? The reason I ask is one of the reasons we might be seeing a slightly slower improvement in ARPU this quarter is that last year, you were doing more of these add-ons and that probably boosted the ARPU for Q1 2022. So, if you could give some clarification on what's in the ARPU and then what is in the service revenue it would be great.

And then secondly, on the OIBDA trajectory in Spain, you've reiterated that there should be a steady improvement through the course of the year, reaching stabilization in the second half. I guess if I think about the moving parts on the cost side, one of the tailwinds you have in the first half of the year, which won't repeat in the second half is from lower content costs. Aside from broadly improving service revenue trend through 2023, what other cost tailwinds will kick in, in the second half, which means OIBDA should be getting better rather than worse? Thank you.

Ángel Vilá – *Chief Operating Officer*

Thank you for your questions. Let me try to give you more colour on the ARPU.

ARPU of course includes the communications, the connection, the mobile, the TV options, the TV add-ons and the mobile add-ons. It's the same definition of ARPU, convergent ARPU, that we have been applying consistently for now all the last years.

The growth of ARPU that we're seeing year-on-year and quarter-on-quarter can be broken down across different areas.

- On the positive side, more for more, the price increases. Both, the one that we had this year in January, and the one we had last year in the month of February
- We also have the higher contribution of new services in the portfolio.
- The reduction of promotions is quite relevant. The market continues to be very rational and the dilutive effect that promotions have on the calculation of ARPU is disappearing.
- On the negative side, we are experiencing a little bit less out-of-bundle.
- On the mix, because this convergent ARPU is the mix of the brand miMovistar and the brand O2, the growing penetration of the O2 brand is reducing slightly the ARPU
- And then now that we have less content on LaLiga and so on, we have the elements on lower revenue from advertising.

But this ARPU, we see it resilient and visibly higher than it was one year ago.

On the outlook, on revenues we see service revenue continuing to grow. We are having less handset revenues than we had last year because we had a very strong performance in 2022, when we introduced the new MiMovistar offer that included all type of electronic devices and possibilities for the customer. So we have less handset and devices revenue, but service revenue is growing. We see this strong momentum in trading, the solid conversion ARPU that will continue to develop, and the new digital services ecosystem. We see growth in communications and especially in IT and Tech in the B2B side. The B2B digitalization and the impact of European recovery funds expected also in the also in the second half, although we have less TV contents to wholesale.

In OIBDA, this sound behaviour of revenues has to continue contributing to the year-on-year recovery. We reiterate that we aim to stabilisation at some point in the second half.

Margins, you saw the first quarter of 36%, we expect margins to stand in the mid-high 30s and the CapEx will continue of course to be benchmark, in-line with what we had last year which was 12%, because CapEx peak is behind.

The cost components that will help us here; 1) personnel cost: Once we have done all the negotiations not only with the employees in the collective agreement but the employee side collective agreement, that cost increases slightly above 6% which is less than the price increases; 2) Energy prices, we continue to expect a year-on-year decline, and 3) we continue with efficiencies from network transformation, the savings of lower price of La Liga, and the continued efforts to make a more efficient digitized operating model.

All in all, we expect the trend of recovery of OIBDA to continue. We reiterate that we expect in the second half, at some point, stabilization on the year-on-year comparison, and margins of OIBDA to be in the high-30s.

Mathieu Robillard – *Barclays*

Good morning and thank you for the presentation. I have two questions, please. First, on Spain, you may have touched on it, but I could have missed it, which is on the Pay TV, where I think since the end of April, you have no more regulatory obligation to wholesale it and no more regulation on the price at which you need to wholesale it. How do you see that going forward? And could it have an impact, the fact that you changed the prices or some of the providers join you or do not join you? Is that starting from September 2023?

And then a second question on leverage. You showed good progress on your deleveraging on your slides. And I think rating agencies also see you delever. But at least for one of them, you still remain quite high in terms of the rating adjusted leverage. And I was wondering if you could give us a bit of colour in terms of what will lead you to deleveraging throughout 2023. I realize you don't give guidance, but if you can point out the main elements that you expect will contribute to deleveraging.

Ángel Vilá – *Chief Operating Officer*

Thank you, Mathieu for your questions. The remedies that the CNMC had imposed from the DTS acquisition in 2015 expired as of 30th of April. So now Telefónica Spain has much more flexibility to shape the contents' offering. We are no longer a dominant player in the Pay TV market, given the much higher subscriber shares of other platforms, and we will assess in this new scenario the policy that we want to apply. Of course, always staying competitive and being respectful with the competitive nature of the market.

We now have a different flexibility in terms of which content we could keep, or we would also want to share, more flexibility on the pricing of such content, more flexibility on the bundling, more flexibility on elements like must-carry channels that we no longer have to carry. So, much more flexibility in order to shape our offer to be more attuned to the needs of our customers and also to be more efficient on the cost side of certain content that we could not need to carry going forward as well.

This provides us much more commercial flexibility that we will use to continue to reinforce our very strong performance in the Spanish business.

Mathieu Robillard – *Barclays*

And if I may follow up. I think that the CNMC, you had bought the rights for, if I remember correctly, three or five years, the CNMC disputed the length of the contract. Has that been resolved in terms of LaLiga contract?

Ángel Vilá – *Chief Operating Officer*

The last auction of LaLiga was for five years. With the previous remedies there was a restriction of us acquiring the rights for a no-longer than 3-year period. Those remedies are no longer in place. There is still a dialogue with the CNMC, but that limitation is no longer applicable going forward.

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

Hello Mathieu, on your question on leverage and trajectory. We do not have a public leverage target ratio, but we do have a target of being committed to investment-grade credit rating and deleverage remains a priority for us. Our main driver is going to be a steady organic OIBDA improvement, that has been the case, and the CapEx peak being definitely behind. Thus, the main driver for reducing net debt should be free cash flow generation.

On that regard, we are well on track to achieve sound free cash flow in 2023. We see that growth accelerating forward throughout 2023, exceeding shareholders' remuneration, commitments, and hybrid coupons and, therefore, allowing for further deleverage. That free cash flow generation is very much anchored in the positive underlying operating cash flow trend. But we also optimize every single line below that.

Another thing which is very important is how we are prioritizing balance sheet strength. Our prudent debt management has allowed us to be more resilient in the current environment. We have a very strong liquidity position and a light maturity profile. And we are anticipating much of the liability management, we are really tapping the markets at the right moment.

We continue having a very strict capital allocation. Inorganically, we also have a top-quality asset base, which could complement the sound free cash flow generation.

On the credit ratings agencies, we have regular meetings with them. I think they have seen that we have fulfilled the guidance for the last few years, that we have had a strong start of the year, and we also finished the year very strong despite everything that has happened. We have shown our resilience and rating agencies definitely value our strong commitment and welcome the measures we take to protect the credit rating.

Yemi Falana – *Goldman Sachs*

Morning, thanks for taking my questions. Taking a step back from the results, it seems Spain was solid, and you expect that to continue. Telxius and Telefónica Tech ultimately came in better than expected and that should continue. But the area that was a bit soft was on the free cash flow side. So maybe focusing in there, could you walk us through the cash flow items, do they get better through the year? I think you're expecting a reversal on the working capital side, for example. What's your level of confidence there? Could you talk us through any kind of key moving parts?

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

Free cash flow for Q1 was aligned with our expectations, it's always very affected by seasonality in Q1, and free cash flow generation is generally back-end loaded. We are well on track to achieve a sound free cash flow in 2023, and that growth will be accelerating forward to the end of 2023.

The moving parts are the growing OIBDA leveraged on top line and also efficiencies and the lower CapEx, 1 percentage below what it was a year ago. You are seeing OIBDA minus CapEx is already growing in Q1, and that should continue.

Below operating cash flow, you're right, working capital should reverse and it will have a positive balance.

Working capital in Q1 reflected seasonality as always, handset or supplier financing had no differential impact, and it's been meaningless and not contributing to working capital. It's been seasonality, deferred receipts or payments, and part of that is going to change as we approach the year end as every year does.

We will continue optimizing our financial payments, our financial debt-related cost is very attractive, and we will keep on working on that trend. In the case of tax, it's sometimes affected by refunds and payments in advance, but we expect a normalized tax payment standing at around 23%, which is below the nominal rate. We have to emphasize on the cash inflows from the U.K. JV, which is on track to deliver that. We gave a guidance of GBP 1.8 to 2 billion.

On leases, we are working on its optimization. I think part of the peak came last year with inflation, FX and so on, and those should be more stable this year, but we are also monitoring that very closely. We will continue to manage every single line, starting from consolidating the improvement of the operational trends. I think it's worth mentioning how resilient free cash flow has been in all those past years. Over the last 7 years, we generated as much of 32 billion euro cumulative free cash flow, including 3 billion euro on spectrum. It is also important to mention that spectrum on our core OBs has been mostly secured, so that shouldn't be a detractor in free cash flow, a relevant one, in the near term. And, definitely, free cash flow continues for us to be an absolute priority, and to link it to the previous question from Mathieu, our main lever for deleverage. We are working on that and are confident on a sound result for the full 2023.

Yemi Falana – *Goldman Sachs*

One follow-up question. On the lease side, it seems like kind of inflation year-over-year was about 6%. Is that a clean number ex FX? Or is FX a driver within the cost bucket? And could you maybe give us a steer as to where you expect to be from a kind of lease inflation perspective on a full year basis kind of excluding FX? Clearly, it does seem like free tax rate doesn't materially improve through the year.

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

It's difficult to give guidance on inflation for leases because not every lease is affected by inflation. Some leases are affected by other indexes and in some cases, we have very long-term leases where we can renegotiate lengthening the terms and getting better terms.

Last year, as you rightly said, it was a combination of FX, which affected positively revenue and OIBDA, but it had the opposite effect in leases. Also, some of the inflation, similar indexes adjustments and also that we incorporated a new right of use of Oi for instance or build-to-suite we are doing in Germany.

The full combination of that gave an uptake a little bit above what should be the general trend. But it's not as easy to give you an inflation target because there's a lot of moving parts. It is definitely a priority for us, and we will keep optimizing this line.

Carl Murdock-Smith - *Berenberg*

Thank you. If I look at the income statement versus consensus, one of the biggest beats this quarter is net financial expense at 266 million euro, that's quite a surprise and lower than every analyst in consensus, given rising interest rates and 80% of debt being fixed. I was wondering if there are any positive one-offs in that cost line this quarter? Or should we be thinking interest costs could be sustainably lower than previously expected going forward? So that's question number one.

Question number two is on your comments about the legacy copper switch-off in Spain by April 2024. I was wondering if you could just expand a bit more on that in terms of quantitatively what could be the near-term financial impacts of that as we go past April 2024?

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

Hi Carl, on the financial expense question, it may have been below consensus, but that is because of the good management we are doing as there hasn't been any significant one-offs. Actually, when compared with last year, in Q1 22 we had some reversal of provisions for some items, it was certainly more positive last year in the other expenses side.

Thus, if you look at the year-on-year evolution, the good results come from the management we are doing. We are benefiting from having a very high rate of 80% of fixed rates. We are also seeing that we had a big ramp-up in interest costs in Hispam and Latam last year, that's more stable there. We have also reduced slightly the leverage ratio in reais currency, and that is also helping a bit, but it's basically the deb-related financial expenses being very controlled and being optimized.

On the other expenses, there are many bits and pieces. We have hedges, we have some commercial debt, we have tax elements anytime we have a fine or a contingency, there may be financial expenses attached and that is very volatile. That is why we are working now, in market increasingly focused on interest rates raising, we are focusing more on the debt-related KPI, and that has been very well managed.

But on the other expenses, I would say it was more beneficial in 2022 and this year it is actually not helping us y-o-y, it is the debt-related piece which is bringing all the overperformance.

Ángel Vilá – *Chief Operating Officer*

Regarding the benefits from the copper network shutdown, we have confirmed the determination to decommission the copper network by April 2024. We will be one of the first telco players in the world to achieve this. In fact, we are no longer adding subscribers on copper technology since April this year.

This is already bringing OpEx and CapEx savings as running a fibre to the home network is much cheaper on the back of lower maintenance and higher efficiency in terms of energy consumption, as fibre is 85% more efficient than copper.

We're already capturing part of this in cost savings in energy, maintenance, lower failure rate, less call centre retention, and also in disposal of legacy assets, mainly copper and some real estate, although this already peaked in 2022.

We think that efficiencies will continue increasing year-by-year until transformation is completed. We will need during 2024 to continue some wholesale services, not retail, on copper for extra six months, and we will need some time for dismantling this afterwards. But all in all, we estimate that we may have captured already 0.8 percentage points in OIBDA margin from permanent efficiencies of what we have been dismantling so far, and we already have 90% of the fixed broadband customers in fibre.

And in the next two to three years, we could get an additional 1 percentage point of OIBDA margin improvement on this. Of course, there will be other moving pieces around.

This will also allow us to keep our CapEx to sales at a benchmark low level going forward.

Pilar Vico – *Credit Suisse*

Good morning, thank you for taking my questions. I have two on my side. The first one is on Spain. And I would like to get a bit more clarity on whether you're starting to see some sort of spin down? There were some comments in MasMóvil this week where they were highlighting the intensive promotional activity on the low end. I'm not pretty sure how much of this is actually being reflected into the customer base. Ángel mentioned that O2 has been quite strong this quarter, it would be good if we could get a bit more clarity here on whether these promotion activities are impacting the base?

The second one is about Brazil. It has been a very strong performance, I'm not sure if part of this is already capturing benefits from the ICMS tax reduction? when to start expecting price increases? Or if there is any sort of mechanism in place in order just to capture this potential upside?

Ángel Vilá – *Chief Operating Officer*

Thank you, Pilar. On your first question, we are seeing limited spin down. The same way that maybe in other markets like the U.K. with cost-of-living crisis is impacting partially, in Spain we are seeing a very limited spin down. We attribute to this the fact that we anticipated trends by adjusting from Fusión to MiMovistar and making the bundle more flexible, more modular, more adaptable to the customer needs.

In the end, yes, the mix of O2 has been increasing but at the same time, we have also been adding new digital services in our digital B2C ecosystem, devices and so on, that allow us to manage the different moving parts and all in all, continue increasing the ARPU at the time that we improve NPS, NPS gap, and we reduce churn.

So, nothing that concerns us and actually we anticipated it with the reconfiguration of the MiMovistar portfolio.

Regarding Brazil and ICMS, we passed that benefit to the customer. There was a different timing of adjustments. This is a tax that is applicable state-by-state, different states have applied different adjustments and in different moments of time. This process is now over, and we have passed this to the customer.

On the other side, this has allowed us to increase prices according to inflation or thereabout, both in fixed and in mobile, but the customers, thanks to this reduction of the tax have not been suffering so much in their bills. This has allowed us also in Brazil to continue growing ARPU, to grow NPS, maintain or reduce churn and achieve the spectacular rates of growth that we have been posting in the results that you saw in the market.

The ICMS, has been passed to the customers and has allowed, let's say, the customers to digest the price increases without suffering such a big impact in their overall bill, including taxes.

Pilar Vico – *Credit Suisse*

Just in terms of the promotional activity, is there anything that you are just spotting which might be worried in terms of market moves or could trigger higher commercial activity?

Ángel Vilá – *Chief Operating Officer*

What we see is that the market continues to be a two-tier market. Promotions are out of all the main brands in the higher ARPU, higher value segments. In the low-end there is more intensity of competition. I think that in their statement, MasMóvil was also pointing at the activity in those segments. So, in the lower price, lower cost and lower ARPU segment, yes, there is more of a competitive environment in those segments. But the market is confirming the rationality on the promotional activity and many other elements clearly in the mid and high-end tiers. But, we will continue to see pressures on the low end.

With this, I would like to thank everybody. We hope that we have been able to respond to your questions. If there were questions left, please don't hesitate to contact our Investor Relations team. Thank you.