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Results
2024

Q1

GPS

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Adrián Zunzunegui - *Global Director of Investor Relations*

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

Q1 24 Results

1. **Solid start to the year, clear opportunities ahead**

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

We are pleased to report a solid start to the year, with accelerating revenue and EBITDA growth momentum. Our performance demonstrates the continued strength of our operating model and strategic execution.

Across our key markets, the commercial dynamics remained favourable. In Spain, we saw further improvement in EBITDA as our growth and efficiency efforts continue to bear fruit. Meanwhile, our operations in Brazil and Germany sustained consistent profitable growth, reaffirming the solid fundamentals and our execution in these important markets.

Notably, we achieved record low churn levels in both Spain and Brazil, reflecting our superior value proposition and helping maintain robust commercial momentum across the business. In Germany contract churn stands at a remarkable 1%.

On the network front, we are deploying fibre and 5G as per our plans. We continued to invest significantly in next-generation networks to support best customer experience, helping maintain commercial momentum. In Spain, we are on the verge of a significant milestone by nearing the completion of the copper network switch off; we will be the first European Union operator to do so.

We are making good progress and remain confident in achieving our financial outlook for the full year 2024.

And, in addition, we see near-term catalysts and positive opportunities in all our core markets. In Spain, we have already signed an MOU for a new long-term mobile network agreement with DIGI, which we expect to complete in a few weeks. In Brazil, negotiations are underway to potentially migrate to an Authorisation regime. In Germany, spectrum extension is the expected scenario, and, in the UK, fibre build is accelerating as projected NetCo receives strong interest from infra investors.

2. Stronger Telefónica, Q1 main achievements

Going into greater detail on slide 3, we continue building a stronger Telefónica.

We accelerated the rollout of our fixed infrastructure, passing an additional 9 million premises with fibre-to-the-home in the last twelve months. Telefónica Infra played a key role here, contributing around 7 million of these new premises. Our 5G coverage continues to progress rapidly, with coverage now extending to 63% of the population across our core markets, with Spain and Germany above 90%.

Our customers remain at the centre of our transformation journey. By evolving along with their needs through AI-powered tools and over 650 use cases, we are reshaping our revenue mix towards higher-value digital services and connectivity solutions. This customer-centric approach is paying off, with a group Net Promoter Score of 31.

Wider and better networks allow us to continue expanding our global customer base. We ended Q1 with 388 million total accesses, adding half a million new customers.

Simplifying our operations and corporate structure is another integral part of our transformation. We successfully concluded the delisting process for Telefónica Deutschland, achieving an ownership stake of nearly 97% to enable full operational integration going forward.

Profitable growth remains our key priority. The workforce restructuring program in Spain, now complete, will start yielding further cost savings from Q2 onwards, fuelling higher EBITDA growth in Spain. In parallel, we continue the nationwide switch-off of our legacy copper network, with more than four thousand central offices now closed since 2014. This is a process that is almost completed and another source of past and future efficiencies.

In summary, our strategic initiatives around building next-gen networks, putting customers first, and creating leaner future-fit operations are bearing fruit. This bodes well for delivering on our growth, profitability, and sustainability ambitions.

3. Telefónica Group: solid Q1 results

Moving to slide 4, we show how all of this translates into tangible financial results.

Growth

Our commercial momentum is underpinned by high-quality customer additions across our fibre and mobile accesses. This allowed us to accelerate our topline growth to 0.9% year-over-year, increasing by 1.4 percentage points sequentially from the fourth quarter. Revenue growth was fuelled by robust service revenue performance as well as our market leading B2B segment, which typically sees further uplift in the coming quarters due to seasonality.

Profitability

Importantly, this healthy top-line expansion drove profitable growth, with our EBITDA rising 1.9% year-over-year. We continued enhancing our operating leverage through diligent cost management initiatives mentioned previously.

This virtuous cycle of growth and efficiency flows through to our operating cash flow. Our EBITDAaL-CapEx margin remained stable year-on-year, supported by our ongoing capital expenditure discipline with a CapEx over Revenue ratio of just 10.4% for the quarter.

Sustainability

Under the new free cash flow definition, our Q1 performance was growing year-on-year, once adjusted for a €75m positive non-recurrent received in Brazil's WC in Q1 23. As anticipated, Q1 free cash flow is seasonally the lowest, but we expect it to ramp up through the remainder of 2024 to achieve our full-year guidance. Laura will provide more details on this later.

Our growth and profitability vectors reinforce the sustainability of our financial model. We remain fully focused on our commitment to enhance ESG standards across the organisation.

4. Spain: Solid trading and efficiencies to further accelerate EBITDA growth

Our Spanish operations, which we review on slide 5, again showed a solid commercial performance during this quarter. We grew in main accesses and now for three quarters in a row we have been adding customers in all segments. In fact, during the last nine months we have turned around customer losses in convergence and pay-TV. In the latter case, we went from 130k customers lost in the prior nine months to positive net adds of 16k in the last three quarters.

In convergence, we posted net adds, thanks to an all-time low churn rate of 0.9%, (this within a quarter of tariff upgrades), and returned to gross adds growth for the first time since the second quarter of 2021.

All this resulted in growing revenue (despite declining handset sales and wholesale) and improving EBITDA growth. While we still saw limited contribution from the redundancy program savings, we expect to see further positive impact from this initiative starting in Q2. Accordingly, you should expect Q1 EBITDA growth to be the lowest in the year.

Finally, and as a proof of the superior quality of our nationwide network infrastructure and confirming the confidence partners have in our ability to provide high-quality services over such infrastructure, we can confirm that we have made very substantial progress in the negotiation of a new long-term network agreement with DIGI.

We have already signed a non-binding MOU with DIGI under which, terms and conditions are agreed in principle. We expect to conclude this agreement, subject to definitive final long-form documentation, in the next few weeks.

5. Brazil: Strong operating performance leading growth

Brazil, on slide 6, maintains its very strong performance in all lines.

A rational marketplace allows for sustained growth in accesses (12% more FTTH customers) and ARPU (we continue growing our digital ecosystem, and OTT subscriptions raised 14% year-on-year). With outstanding results in mobile contract where we simultaneously show double-digit growth in ARPU and our lowest churn rate ever, at below 1%.

Accordingly, our revenue grew well above inflation, with service revenue growth in the quarter of more than 10%. As for EBITDA growth, once again OpEx growth remained below top-line growth despite rising costs in digital services resulting in double-digit increase year-on-year. Operating cash flow also continues to expand, nearing an 18% EBITDAaL minus CapEx margin.

6. Germany: Ongoing operational and EBITDA momentum

Our German operation saw a solid start into the year, as shown on slide 7, supported by executing well on ‘Accelerated Growth & Efficiency Plan’ with front-loaded efficiencies and growth in outer years, contributing to GPS strategy.

Our core business continued to perform strongly, adding more than 150k in the quarter. Leveraging on improved 5G coverage within a quarter of repricing action, resulted into ARPU growth year-on-year. Hence, solid mobile service revenue momentum with above 2% growth, was temporarily offset by declining handset sales, on a tough comparison base effect.

Nevertheless, this flattish top-line growth translated into 5% EBITDA growth, showing improved operating leverage. In fact, EBITDAaL minus CapEx grew more than 14% year-on-year, with more than 1 percentage point improvement in margin.

7. Virgin Media O2: setting up for 2024 execution with focused investments

Moving to slide 8 to review our UK JV VMO2.

The growth of the UK telco market remains subdued, but we have been able to show improved service revenue growth across both mobile and consumer fixed, with ARPU stabilisation for the latter and low levels of churn in mobile contract.

Furthermore, and despite short-term pressures, we remain committed, and we continue deploying fibre, with build pace up 80% year-on-year in the quarter.

8. T. Tech, double-digit growth while reinforcing capabilities and credentials

Telefónica Tech, on slide 9, again showed strong double-digit growth in sales. Usual business seasonality and phasing means year-on-year growth will accelerate throughout the year, supported in addition by a strong backlog, with bookings showing growth higher than 30% during the first quarter of the year. Bookings growth was driven by the private sector, with large contracts awarded in the financial, healthcare and manufacturing sectors.

Growth is also coming in a more balanced way, with increased contribution from higher value-added services and better currency mix. We continue to gain relevance in higher growth markets. A performance that continues to be recognised by industry leaders.

9. T. Infra, a global connectivity platform to lead change

Telefonica Infra remains a key driver for our improved CapEx intensity whilst adding coverage that results into revenue growth. FTTH build pace accelerates as much as 60% from last year, contributing to increase network differentiation and capabilities, under optimal investment models.

In parallel, Telxius, our best-in-class international connectivity infrastructure maintained a high profitability, above 50% and is opening of a new route connecting the Dominican Republic.

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

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

10. Hispam: Helping to build a more rational ecosystem

Thank you, Ángel and good morning, everyone. Before reviewing this quarter's financial and ESG performance, let's go through Hispam performance.

As shown on slide 11, we continue taking steps towards a more rational environment. We are consistently delivering growth in accesses, both in mobile contracts and FTTH/cable connections, leading the market with more than 17 million fibre to the home premises passed.

Back in 2021 and 2022 we set up neutral wholesale FTTH carriers in Chile and Colombia. In Chile, three years later, we have been able to incorporate first Entel and now Claro/VTR, fostering a more rational environment and avoiding overlap. This, together with a "cooling-down" approach in terms of commercial activity, seems to be finally translated into healthier competition, in which we are starting to see early signs.

In the meantime, we remain focused on cash generation, and though Q1 financials show large hits from both FX and handset sales, with stable underlying trends, we expect a marked improvement in the second half of the year.

11. FCF phasing fully aligned with expectations; 2024 guidance reaffirmed

Moving on to free cash flow on slide 12.

We think it is important to provide some context given we have now moved to the new stricter FCF definition. In the first quarter, free cash flow came in at minus 41 million euro, slightly below the minus 9 million euro during the same period last year on an apples-to-apples basis.

However, this year-over-year comparison is impacted by a one-time 75-million-euro benefit related to monetisation of a tax assets in Brazil, which boosted our free cash flow in the first quarter of 2023. Excluding this non-recurring item, our first quarter 2024 free cash flow would actually show an increase year-over-year of as much as 43 million euro.

This free cash flow seasonality in the opening quarter is very much in line with our expectations and what we had said during our fourth quarter call. We expect free cash flow to ramp up as we progress through 2024, consistent with prior years.

Most importantly, we remain fully on track to deliver our communicated target of more than 10% free cash flow growth for the full year.

12. Solid balance sheet reflects T. DE shares acquisition

Moving to our capital structure on slide thirteen, Telefónica maintains a robust balance sheet position to navigate any market environment.

As of March 2024, our net financial debt stood at €28.5 billion, translating to a net debt to EBITDAaL ratio of 2.71x. This anticipated increase from year-end 2023 was primarily driven by our strategic move to raise our stake in Telefónica Deutschland, and to a lesser extent free cash flow seasonality in the first quarter. Despite this temporary uptick in leverage, we remain firmly on track to align with our outlined target range for 2026.

We continue optimising our debt stack and tapping diverse funding sources. We maintain ample liquidity covering debt maturities through 2026. Furthermore, over 80% of our debt is insulated from rising rates by being long-dated, fixed-rate, and primarily euro-denominated. Our proactive liability management has further reduced the average cost of debt to 3.51% through timely refinancing exercises, allowing immunisation to rising rates environment.

We have demonstrated an excellent market execution this year. We have been active in the capital markets, raising 3.2-billion-euro long term financing at the Group, mainly through a €1.75bn dual tranche-senior green bond and a new green hybrid amounting to 1.1 billion euro, reinforcing our position as one of the leading issuers of ESG capital market financing in the international telco sector.

Ultimately, we are managing our balance sheet to fuel our capital allocation priorities. We remain focused on investing for sustainable growth, putting our board in a great position to pay the dividend, with euro 0.30 per share as a floor, steadily deleveraging towards our target range of 2.2x to 2.5x ND / EBITDAaL by 2026, and evaluating all opportunities, including share buybacks, to create shareholder value with any excess cash.

13. ESG key to realising our GPS targets

We believe that by progressing across the pillars of ESG, we can advance our GPS agenda.

On the environmental side, we are seeing growth opportunities via our Eco Smart portfolio, which has been recently recognised by the ITU. We are also working to reduce Scope 3 emissions and, as a result, CDP has included us in their Supplier Engagement Leaderboard for the 5th consecutive year.

On the social side, we see the importance of diversity in attracting and retaining talent and our progress is evidenced by our results. Since last year we have 858 additional people with disabilities working with us and a third of our executives are women.

Finally, with regards to governance, all BoD proposed resolutions were approved at the AGM and the issuance of a two tranche-senior green bond and a green hybrid this quarter reaffirms our commitment to sustainable financing.

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

14. Guidance 2024: accelerate FCF delivery even after better 2023

Thank you, Laura.

Moving to slide 15, we are well on track to achieve our 2024 guidance.

We had a solid start to the year, delivering accelerating revenue and EBITDA growth in Q1. Looking ahead, we expect EBITDAaL-CapEx to resume its upward trajectory from Q2 onwards. This will be driven by two main factors, realising the full benefits of cost savings from the Spanish workforce program, and moving past the peak impacts from lease inflation and accelerated 5G deployment that impacted Q1.

Consistent with prior years, our free cash flow generation is back-end loaded; as such, we anticipate acceleration over the remaining three quarters of 2024, and we are confident in our full year guidance.

This will translate into a resumption of our deleveraging trajectory. After the anticipated Q1 uptick, we expect both net debt levels and leverage ratios to resume their declining path, keeping us firmly on track towards our 2026 targets.

Importantly, this free cash flow growth allows us to more than cover our dividend.

Overall, our Q1 24 performance reinforces our confidence in delivering our full-year guidance across the board.

15. Strong start to the year, near term catalysts

To summarise, on slide 16, Telefónica's first quarter 2024 performance demonstrated solid execution as we continue delivering against our strategic roadmap.

We reported a solid set of results to start the year, keeping us firmly on track to achieve our full-year 2024 guidance across all key metrics, as well as our overarching GPS plan targeting more than 10% free cash flow CAGR between 2023 and 2026.

Across our core markets, we witnessed robust operational trends. Starting with unaltered good commercial momentum. Our growth and efficiency efforts in Spain drove an EBITDA recovery, while Brazil and Germany maintained consistent profitability growth.

Our strategic investments in fibre and 5G infrastructure elevate Telefónica's customer experience proposition further, positioning us for continued commercial momentum and topline expansion.

In parallel, we continue to streamline our operations by digitally transforming processes, optimising our workforce, and shutting down legacy networks.

Our capital allocation priorities remain firmly focused on deleveraging towards our target ranges, sustaining our dividend backed by growing free cash flows, and investing in focused growth areas.

Finally, we see positive near-term opportunities ahead in all our core markets, as mentioned at the beginning of the presentation. Including a mobile network agreement with DIGI in Spain, potential change in regime to Authorisation in Brazil, expected extension of spectrum in Germany, and in the UK, whilst fibre build and NetCo carve-out progresses, interest from infra investors is mounting.

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

Q&A Session

Andrew Lee – *Goldman Sachs*

My first question is on leases. So, there's a clear kind of distinction between your EBITDA growth in Spain, which was flattish this quarter y-o-y, and EBITDAaL -3.5% y-o-y. Your Spanish leases looked to have gone up relatively meaningfully on a year-on-year basis. They've been going up kind of 20%, which is a reasonably high level anyway on average and look to have gone up around 30% in the quarter. Could you just take us through the key drivers of your expanding lease costs and maybe give us some help in terms of understanding where they go from here?

And then the second question is just on VMO2 fixed broadband net adds. Liberty Global reported them last week and the negative net adds remain a concern for investors. So, I wondered if you could talk through your confidence or some form of recovery and whether the negative trends on the fixed line side represent any risk to your confidence in the dividend of VMO2.

Ángel Vilá – *Chief Operating Officer*

I'll take the first one on Spanish leases and, Laura, please feel free to complement.

First, as you know, since this year we guide on EBITDAaL - CapEx, and we just reaffirmed that we are reiterating all the group 2024 guidance, of course, including this EBITDAaL - CapEx growing between 1% and 2% in the year, and by 5% CAGR in the 2023 - 2026 period. So Q1 is aligned with expectations.

We have two factors to affirm that both EBITDA and EBITDAaL in Spain in Q1 are the weakest, and you will see this improving across the year.

- First, is the workforce savings barely contributed to Q1 EBITDA, just one month in the quarter. There will be a full impact from Q2 going forward.
- Then, there is an element in phasing; leases themselves in Q1 are affected by volume additions and the larger need of mobile sites for 5G, also by inflation as contract renewal in Q1 is a large one. And then higher rates that affect the accounting of leases, an impact that is already softening and may even reverse later on in the year.

Also, softer comparison bases going forward will lead to improving EBITDAaL in Spain starting from Q2 and going forward.

So, again, all guidance reiterated including EBITDAaL - CapEx, and Spain will be contributing positively going forward, at least.

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

If you want me, I will now address the Group lease liabilities evolution. We are monitoring it at the Group level, and we are definitely working on its optimization, monitoring the evolution of our businesses, situation of markets, macro context,...

I think in 2022, there was definitely an impact in leases going up due to tower deals, Oi sites, forex revaluations, higher rates, inflation adjustments,...

But definitely, we do expect more normalised trends with higher correlation to the evolution of the lease liability balance.

In the GPS plan, you know, we have high growth in EBITDAaL-CapEx. For this year, 2024, the guidance was 1% to 2% and Ángel just confirmed it.

When you look at our leases going forward, there will be some increase but is fully embedded in the free cash flow guidance of 10%.

Leases liability is distributed differently across geographies, you will see some increase in Germany driven by build-to-suit obligations, and site expansions as well in Brazil. But Spain should maintain a broadly flat lease position with ROU additions in line with principal payments and Hispam is going to show declining leases.

So, a lot of focus on this and this is just a quarter affected by seasonality. We reiterate our short and mid-term guidance regarding EBITDAaL - CapEx.

Andrew Lee – *Goldman Sachs*

Can I just make sure I understood, Laura, what you have said on Spain going forward. You are expecting for leases to be broadly flat going forward, but what is a normalized trend in leases once we go to the tough comps, etcetera?

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

The flat liability position is more across the life of the plan, so, here, we are talking long term.

We do not disclose our lease payments evolution, nor for the Group, as is part of the free cash flow growth, nor for a specific region.

Over time, Spain will not be increasing leases liability, and ROU additions will be very much in line with the principal payments. I hope that helps.

Andrew Lee – *Goldman Sachs*

So more normal trends from Q2 even this year, not flat, but more normalized?

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

The normalized trend I was talking about is long term, in the GPS plan 2024 to 2026. One quarter has seasonality and is not showing a trend. I wanted to focus on the long-term trend, which I think is the more valuable comment.

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

Compared to a year ago, we made 50k less net adds, so where is that coming from? Three drivers, I would say.

- One is that the market is simply smaller this year compared to a year ago, according to our data, 9%.
- Second, we have obviously more aggressive offers from Altnets impacting us slightly, but not really a lot.
- And third, we are now selling obviously fiber in our network expanded area. And this is a new technology and new product, and we are doing better month over month over month.

Now, second part of your question, will the evolution of the fixed P&L have a negative impact on the dividend? I would say the opposite is the case. When you look at our ARPU the two years before, the ARPU was shrinking month over month and then we did a price increase, and then it kept shrinking. Since six months our fixed ARPU is flat before the price rise. And now obviously in April, the price rise kicked in and therefore you will see a growing ARPU.

The reason for that is that we put everything now in place, what we planned for in 2023, understanding each household, coming up with personal pricing and personal offerings, and that helped us to maximize the retained revenue, which is nothing else than ARPU.

So therefore, if I compare it to my budget, we are doing better in fact, not worse. So, we are very confident on the fixed P&L.

Ondrej Cabejsek – *UBS*

Two questions for me then as well, please. On the DIGI memorandum of understanding, and I know you said it's early days, but can you just conceptually speak about, how the fundamentals of that might be different because, obviously, we have a different situation in the form of remedies basically being given to DIGI. We have an experience in Germany that, obviously, is the memento you have. But maybe two competitors now, one with a fallback option to DIGI as part of the remedy and then, the other one openly talking about wanting to get DIGI onto their network. So, just in the context of all of this, how long term is the deal, is it longer than the previous one? Especially how different it might be compared to the current one?

And then, the second question, is on the Spanish market. Where we've got, some deals happening, some consolidation, some further potential consolidation, we've got plans for further fibre builds. So, conceptually, just talking about wholesale, in the same way that you're seeing in the U.K., what do you think may be the outlook in terms of wholesale on fibre in Spain, are you likely to see further pressure to basically prevent overbuild and drive further consolidation or some kind of stabilization in the market towards a smaller number of infrastructure players?

Ángel Vilá – *Chief Operating Officer*

The first one on Digi. As I said during the presentation, we have already signed an initial MOU agreement, which is pending the long-form documentation that we expect to complete in the next few weeks. As you can understand, the terms under negotiation are subject to confidentiality agreements. But, in any case, I can share with you some principles or some high-level comments.

- First, this is a mobile network collaboration agreement that goes beyond roaming to include some sharing.
- Second, the deal is a long-term agreement, initially aimed to last for longer, much longer than the existing agreement. It's a contract that goes way beyond traditional roaming agreements.

- Third, that under the agreed unit costs and the projected volumes over the life of the agreement, we expect revenue flow to be equivalent at least to what we received in the existing contract.

This is the maximum I can say; other commercial terms are under confidentiality agreements and when the contract is completed, we will be able to share potentially other details.

This should be a win-win, this is designed to be a win-win agreement for both parties. We have a long-standing relationship with DIGI as a partner. We have an excellent relationship with them and have lots of respect for this partner.

And this confirms the confidence that partners have in the superiority of our nationwide infrastructure and our ability to provide high-quality services over that infrastructure. This will add sustainability and long-term visibility to our wholesale activities in the Spanish market, which is a relevant line.

On your second question regarding the evolution of the market environment, on what could apply to wholesale according to the recent deals, overbuild and so on.

As we have stated in the past, we think that the map of the Spanish telco sector is being redefined with the birth of Masorange, the new status of DIGI as remedy-taker and now a continued partner with us, and then the proposed transaction between Vodafone and Zegona.

We believe, regarding this reconfiguration of the sector, that we have lived through previous scenarios similar to this and we have a proven track-record of adaptation to changing conditions. We will have conversations with Masorange also regarding our wholesale contracts with them. Again, with the mentality of a win-win approach.

Regarding Vodafone and Zegona, in the past, we have been open to conversations with Vodafone regarding possibility of them migrating (totally or partially) their cable into our fibre infrastructure, and these type of options and structures would be available for conversations with Zegona when their deal completes.

Ondrej Cabejsek – *UBS*

Can I just clarify, can you just confirm that the DIGI deal includes RAN sharing?

Ángel Vilá – *Chief Operating Officer*

It goes beyond pure roaming, and it will include sharing components. We will give more details when the deal is with definitive agreement.

Nawar Cristini – *Morgan Stanley*

When you provided your Capital Markets Day targets back in November, there were a number of unknowns, including the confirmation of the Orange - MásMóvil remedy package. And of course, the outcome of the review of the DIGI contract that you've just discussed. So today, you have clarity on both.

I was keen to hear how these have landed versus the initial assumptions that you have baked in the guidance? Angel you just discussed how the terms compared to the previous contracts, but it will be interesting as well to give us a bit of color on how these terms compare to the assumptions that you have baked in the guidance?

Ángel Vilá – *Chief Operating Officer*

We had been stating all along last year and in the Capital Markets Day that we didn't see the need for remedies in the Orange - MásMóvil transaction. Now we have Masorange with us with some remedies that entail this acquisition of spectrum by DIGI, and the option for a national roaming agreement with Masorange. We also have been stating that we would be very active in negotiating with DIGI to maintain them with us, to continue the relationship, which we can confirm that we are going successfully in that direction.

In the Capital Market Day, we were making assumptions on some erosion or dilution that we could have in the renewal of some wholesale contracts. We maintain the guidance that we have stated to the market and will see if at some point we need to change or upgrade that guidance. It's too early to do now, there are still lots of moving pieces.

We are progressing very well with DIGI, we have conversations with Masorange now that they have closed, and we will be open to have conversations with Vodafone Zegona when they close.

As for the DIGI contract, I cannot be very explicit at this stage, but with the unit cost, the terms and conditions that we have in the MOU, and the projected volumes, we expect revenue flow to be equivalent at least to what we have in the current contract and with a much, much longer extension than the current contract. This should provide visibility and stability to a key component in the wholesale revenue function in Spain.

Nawar Cristini – *Morgan Stanley*

I just have a follow-up on the DIGI renewal. So, the competition over this deal seems intense, in particular when it comes to price, as other competitors were also trying to make a proposal over this business. If we look at the previous MVNO renewals across Europe, it seems to be that the main driver of them is price. So, could you discuss the key ingredients which drove success for your guides here, given the competitive pressure that was over this contract from a price perspective?

Ángel Vilá – *Chief Operating Officer*

Again, the agreement is pending definitive final form. So, I cannot share more details. But this is not a pure roaming agreement. It also entails component of sharing, which, you know, have not necessarily the same dynamics as pure roaming conversations have.

Georgios Ierodiaconou - *Citi*

I have two follow-up questions on Spain, please. The first one is a bit linked between the DIGI extension and also what we've seen around leases. I'm just curious, Angel, you mentioned the revenue flow is expected to be similar. If you can give us an indication as to what effects any arrangements you could have on ran sharing or net slicing or whatever you may agree with another partner could have on lease cost or OpEx, whether that is also neutral or maybe positive? Just to get a bit of a feeling around the bottom-line implications.

And then my second question is on your comments around wholesale arrangements in FTTH. If you can give us an idea in terms of the timing or any processes that are still pending for you to start agreements and negotiations about fiber arrangements in what used to be the non-competitive areas in the past?

Ángel Vilá – *Chief Operating Officer*

On your first question, I'm afraid I need to insist that the agreement is pending definitive final form. So, I cannot give more details, but we will be wholesaling to DIGI, any lease obligations probably would appear on their side rather than on ours.

With respect to other conversations, we are already in conversations with Masorange. Of course, we had to wait until they would complete the transaction. We have plenty of existing wholesale relationships with them coming from the former Orange, from the former MásMóvil, this entails fibre, this entails soccer content… So, we have plenty of elements that we are working so that we can achieve a win-win situation for both players in these contracts.

With respect to the other proposed combination, until that completes, of course, we cannot start the conversation because it would imply possibly gun jumping from one of the sides on that transaction, which we are not part to.

Georgios Ierodiaconou - *Citi*

Can I check in terms of your ability to execute these contracts, there are no pending regulatory hurdles to reaching these agreements at this point? Or do you have to wait for any technical changes?

Ángel Vilá – Chief Operating Officer

These are commercial agreements: we don't need to go through antitrust reviews of commercial agreements. Our wholesale commercial agreement is common practice, as has been always in the market.

Furthermore, one should expect that once we have ceased being the largest subscriber base in the Spanish market, we should be seeing deregulation on our activities in Spain because current regulation was designed when Telefónica was dominant, and this is no longer the case. Of course, it depends on the CNMC, but deregulation should apply to issues such as the fibre wholesale pricing, access to ducts, commercial flexibility of our offers and so on.

And this will provide us with more flexibility and more competitive levers to establish even a stronger position in the market.

David Wright – *Bank of America*

My two questions are, first of all, on Germany. There was, I think, some discussion around the operators that you had pushed a little harder in Q1, into especially the family segment, looking for kind of the second, third SIMs beyond the primary SIM. I wondered if you could talk a little about your momentum there? And also, on how you are using your no-frills brand in Germany right now, whether just pushing a little harder?

And then my second question, and I'm sorry about this Ángel, it might just be another question on DIGI that you can't answer. But I think what we're all trying to understand is to what extent this is kind of a pure wholesale deal? When you say sharing, could this include some of the DIGI spectrum, shared infrastructure, shared lease costs, etcetera? I don't know, I guess you're not going to be able to give us any more on that. Rather than, I guess, putting fuel under the fire of speculation. Is there anything you can say, anything else you can give us? I think we're all scratching our heads a little.

Markus Haas - *CEO Telefónica Deutschland*

The German market remains rational with dynamic promotions. We tested in the first quarter, clearly, the sensitivity on family activities. And you have seen we have a solid momentum in the first quarter, a good start into the year. So, from that perspective, we clearly want to capture more of the household budget, also including fixed. And we clearly saw a fair share trading with our core brand, the O2 brand, and also our no-frills brands in the market. So, as I said, a very rational market, and we clearly see sensitivities and a way for us in order to capture more of the household budget of the German market.

David Wright – *Bank of America*

Markus, could I just quickly ask you, are you feeling any pushback from competition as you sort of push into those additional SIMs? Has there been any competitive reaction of note?

Markus Haas - *CEO Telefónica Deutschland*

From our perspective, I think we follow the market very carefully, last year especially, what competition was doing. And we clearly see with a very good network quality that we can gain more share in households. I think as you've seen, we accelerated our 5G coverage, the network is performing on eye-level with competition, so we are a clear alternative in mobile for more than one family member.

And secondly, also, while we can offer every household in Germany a fixed offer, with our mix of cable, VDSL or fibre, we are in a very good position, as said, to really leverage the huge customer base that Telefónica has in Germany in order to gain more of the household share.

Ángel Vilá – *Chief Operating Officer*

And regarding your further question on DIGI, again, we cannot comment.

The market knows, and we have been stating, that the spectrum transferred by Masorange to DIGI does not allow to build a full new network and is placed in high-frequency bands. This implies that DIGI would need a national roaming agreement. They have the option through the remedies of using the Orange one.

But one can be ambitious and aim for not a pure roaming agreement that has all these renewal dynamics and so on, that were asked in a previous question, but something a bit more structural that stabilizes and gives long-term visibility to the wholesale relationship. And this is the direction that we have gone, which is good for both ourselves and for our partner.

David Wright – *Bank of America*

May I just ask one brief detail, we can see your wholesale revenue. I guess, Q1 wholesale and others were showing about EUR 420 million in Spain. Are you able to give us any kind of indication of what amount within that is the DIGI contract, and potentially the subcontract for mobile right now? Is it a EUR 200 million ballpark? Is that what we could be thinking?

Ángel Vilá – Chief Operating Officer

Again, we do not disclose this figure. Wholesale and Others in this quarter has declined but nothing to do with this. It has declined because of MTR prices declining and then the end of the Formula 1 cycle. We used to have that content and we resold it. We are not having that contract, we are not selling it anymore as we are buying it from Dazn.

So, any dynamics that you have seen in the first quarter on the wholesale line is completely unrelated to this contract. Actually, the MVNO line of wholesale is growing in the first quarter.

Keval Khiroya - *Deutsche Bank*

I've got two questions also following up on Germany as well.

Germany obviously had a strong EBITDA performance of 5% growth versus the guidance of low to low mid-single-digit growth for Germany. Do you see that 5% growth sustainable? Or are there other OpEx phasing impacts we need to think about? And could you elaborate on those if so, please?

And then secondly, with all the DIGI and wholesale discussion, you are saying that you're trying to maximize network utilization in Spain. Germany, on the other way with the loss of 1 and 1, should we still think about retail being the main lever to plug that gap? Or are you starting to talk to other wholesale partners or even thinking more strategically with network JVs or even consolidation?

Markus Haas - *CEO Telefónica Deutschland*

Let me start with Germany. I think, first of all, we had a very solid start on profitability into the year, and it is a mix of levers. The first one is strong gross margin contribution from the trading we did last year. Also, with the family offers, we see lower subscriber acquisition costs because we sell more services into the base which is more profitable, and it was good to see the sensitivity. This makes us also confident that we will deliver our part to the plan that has been presented by Telefónica last November through a mix of accelerated own customer growth within the base, additional products that we are going to sell, and leveraging the partner landscape that we have. This is enabling the combination of accelerated growth, profitable growth, and also efficiencies that we have already started to capture since the beginning of the year. Overall, we also expect profitability to grow within the guidance that has been given, so from that perspective, high confidence.

As said, on the wholesale side, we delivered growth in combination with own customer growth, where we now see possibilities. Secondly, B2B growth. We also had good momentum in this segment in the first quarter, where we accelerate step-by-step. It clearly is a smaller P&L, but overall, it gains real momentum and contributes well to the overall plan. And finally, with the existing partnerships that we have, we have all the optionality to push more or push less depending on the current stage of the market.

We are well positioned. As you know, we have access to all sales channels in the German market with own or branded resellers that gives us, as said, all the opportunities to push a little bit harder if needed in the quarter or to clearly accelerate the product portfolio in these channels in order to capture the growth.

Fernando Cordero - *Santander*

Thank you for taking my two questions. The first one is related to Spain, not in this case with wholesale but with retail. I would like to understand how do you see, at least on a qualitative basis, the performance of the ARPU for the rest of the year? We have seen a -0.4% in the first quarter. Just to understand the drivers for this performance and a qualitative outlook on the rest of the year on retail and B2C ARPU?

The second question is on the U.K., I would like to understand if there are any problems on the potential materialization of the fibre wholesale opportunity in that market? In that sense, how is the current views of Virgin Media to tackle the wholesale fixed market?

Ángel Vilá – *Chief Operating Officer*

On Spain ARPU, the convergent ARPU in the quarter reached EUR 92.2. It is EUR 1 higher than the previous quarter, thanks to the price increase that we applied in January to the Movistar portfolio. Year-on-year, the ARPU declined -0.5%, mainly on higher penetration of O2 in our base versus MiMovistar.

If one looks at the sequential difference in the quarter compared to one year ago, the main reason is that this increase is lower as the tariff upgrade in January '24 has been 3.1%, and this was softer than the one done a year ago, which was 6.8%. So, we are comfortable with the ARPU evolution.

I should say that more and more, we should not look at ARPU individually, we look at it in a whole set of the convergent KPIs.

First, the net adds and the commercial momentum, which is very positive. This is correlated to a very positive evolution of customer satisfaction through the NPS, with a minimum churn that we are in the slide putting 0.9%, but we are in the high 0.8%, leading to 0.9%. So, it's the minimum in history. And then the strong ARPU. These result in the largest subscriber lifetime value that we continue growing and we'll continue widening versus our competitors.

The second question on the U.K. regarding the fibreCo. We are progressing. As was discussed in the Liberty Global's call a few days ago, we have already appointed advisers for the design and carve-out of the NetCo. Simultaneously, we continue building at pace and accelerating the pace of fibre build and fibre migration. And we have been receiving strong inbound interest for this asset in the case that we would be open to invite investors into it.

Fernando Cordero - *Santander*

In the U.K., it's basically looking also on the potential wholesale agreements or potential wholesale clients that you may onboard on the network; to understand if you are close or not and your views on materializing this opportunity?

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

I mean there are 3 possible big wholesale partners: one is Sky, one is Vodafone, and one is TalkTalk. And I mean, as you can expect, we are in negotiation with all of them. With one party, we are advanced, but it's too early to disclose any details here.

Ángel Vilá – *Chief Operating Officer*

Thank you very much for attending this call. We hope we have been able to provide useful answers to your questions. and please contact Investor Relations for further follow-up conversation. Thank you.