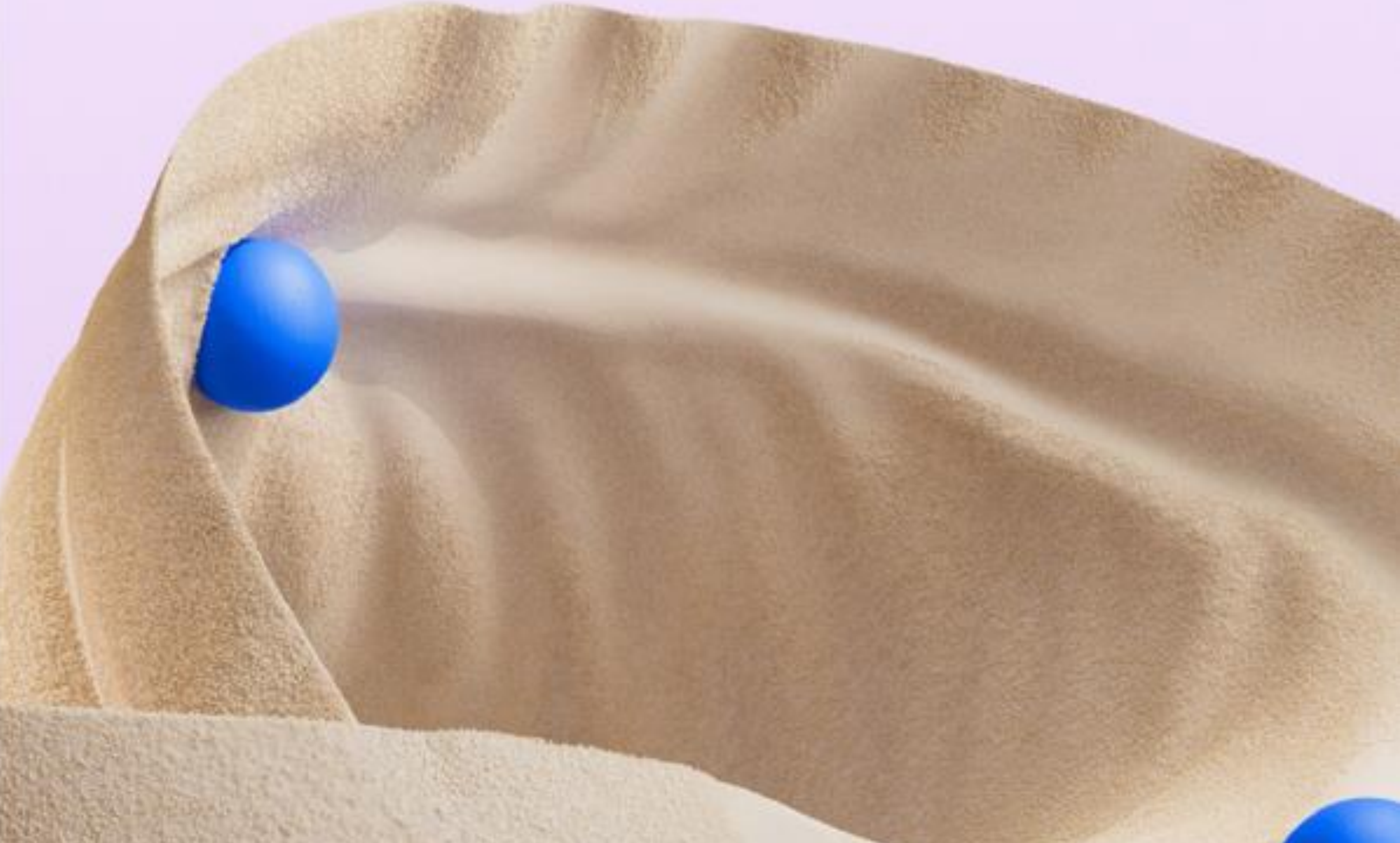
Results 2025

→ Q2



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Torsten Achtmann - *Director of Investor Relations*

Good morning, and welcome to Telefónica's conference call to discuss Q2 2025 results. I am Torsten Achtmann from Investor Relations.

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

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

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

Presentation

Marc Murtra - *Chairman and CEO*

Q2 25 Results

1. **Four principles guiding our transformation**

Good morning, everyone, and welcome to Telefónica's second quarter results conference call. With me today are Emilio Gayo, Laura Abasolo, Markus Haas, Lutz Schüler and Eduardo Navarro. It's a pleasure to have you here and as usual, we will first walk you through the slides and will then be happy to take any questions.

Six months ago, I joined to lead Telefónica with a clear goal: unlock the values that exists in the company. We're still early in our plan, but the pieces are starting to come together.

Today's results show steady operational execution, continued progress on strategic initiatives and our strategic review which we're expeditiously advancing on schedule for second half unveiling. Behind the scenes, we're making significant progress, working intensely to get this right.

While I can't yet share the conclusions of our strategic review, I can ensure that every decision we're making follows four fundamental principles.

- First, customers are at the core of everything we do
- Second, technology and operational excellence are fundamental to our business
- Third, we apply an industrial rationale to all our decision making
- Fourth, our ultimate goal is to create value across all our decision making

- All under strict financial discipline, prioritising Europe and leadership in Brasil

Despite a variable macro environment, we're focused on managing what's within our control. We are confident that the transformation underway at Telefónica will create value for our shareholders and strengthen our competitive position. The strategic choices we're making will contribute to a stronger, more competitive telecom industry in Europe.

2. Solid progress in strategy execution, Q2 milestones

On slide 3, let me walk you through our second quarter operational highlights.

We are maintaining momentum across customer growth, network expansion, and portfolio optimisation. Each of these areas is part of our future.

Starting with customer focus. This quarter we added 2m accesses, to reach 349m accesses. Their experience and satisfaction remain a priority and customer lifetime value is improving, with high levels of NPS and low level of churn. We continue with portfolio renewals and new tariffs, like in Spain, with Mi Movistar and O2.

Our network build continues. We accelerated our fibre to the home roll out, with 1.5m premises added in the quarter, while our 5G coverage expanded by 2 p.p. The completion of our copper shutdown in Spain marks an important moment. We're the first major European operator to achieve this milestone. This frees up resources and focus for other endeavours.

We’re being disciplined on efficiency and portfolio management. We continued to simplify Hispam. This allows us to concentrate resources and management bandwidth where we can build competitive advantages.

3. Accelerating portfolio transformation in Hispam

In just six months, we've reshaped our Latin American footprint. We completed the sales of Argentina and Peru, signed a binding agreement for Colombia, and recently announced binding agreements for Uruguay and Ecuador. These transactions represent approximately €3bn in firm value.

Our approach focuses on concentrating resources in select markets where we have competitive advantages. The speed of execution matters as it allows us to be productive on other fronts. Each transaction strengthens our ability to invest more effectively in our core markets and has been structured to minimise execution risk. This approach is part of our capital redeployment.

This approach is an example what we want our industrial rationale to be. We evaluate every market and every investment through the lens of industrial value. We aim for a simplified organisation that can move faster and compete more effectively.

Our work in Hispam is not over.

4. Overview of key financials; acceleration in organic growth

Moving to slide 5.

Revenue reached almost €9bn in the quarter, growing 1.5% organically, EBITDA almost €3bn, plus 1.2% and EBITDAaL-CapEx was broadly stable.

FCF turned positive to €505m in the second quarter, an improvement of €718m versus Q1. In the first half FCF was €291m. FCF will continue to improve in the back half of the year, following our typical seasonality.

Foreign exchange headwinds impacted reported figures slightly higher than in Q1.

Net financial debt decreased 5.5% year-on-year to €27.6bn as of June. The first six months reflected FCF seasonality and the dividend payment in June.

Lastly, EPS from continued operations amounted to €0.7 in the second quarter and €0.15 in the first half.

5. **Delivering steady underlying performance**

Moving to slide number 6.

- Spain and Brazil, which together represent 70% of Group EBITDA, showed improving trends this quarter. Spain delivered its best Q2 net adds since Q3 18 while improving EBITDAaL-CapEx. Brazil continues its good run with record EBITDA growth since Q4 23, performing above inflation, although it was negatively impacted by the FX movements.
- Germany is facing the effects of the B2P transformation while maintaining solid consumer momentum.
- VMO2 is investing in its networks while EBITDA decline slowed on efficiencies.
- Hispam showed resilience with declining EBITDA softened and growing contract net adds.

While we transform Telefónica, our operations must continue to deliver and improve.

What we're seeing across our footprint is operational stability. This will give us space to execute our strategic initiatives while maintaining financial discipline.

6. **On track: 2025 guidance confirmed**

Our performance in Q2 is in line with expectations, reflecting different moving parts in the direction of business.

Based on our first half performance, we reiterate our full year 2025 guidance across all metrics.

- Revenue and EBITDA continued to grow, in line with our targets.
- EBITDAaL-CapEx was stable due to phasing and will improve throughout the year.
- CapEx intensity remains within our target of being below 12.5%.
- FCF already improved in Q2, and we expect this momentum to build through the second half, which is our typical seasonal pattern.
- Leverage is currently above guidance target. This temporary uptick is mainly due to FCF seasonality in the first half, the FX mix impact on the ratio and the dividend payment in June. We are expecting it to improve over the course of the year.

These results keep us on track to deliver our guidance.

Let me now hand over to Emilio to take you through our operational performance in more detail.

Emilio Gayo - *COO*

7. Q2 operating business: disciplined execution

Thank you, Marc.

Let me start by giving an overview of the main themes in our core operating businesses.

- First, commercial momentum remained steady:

We are showing very sound levels of net adds, low churn and our digital ecosystems continue to gain traction.

To highlight, in Spain we achieved the highest quarterly net additions since the third quarter of 2018 and Vivo increased the number of OTT subscribers by 35%.

- Second, our networks are a key differentiating factor for the quality of our services, product offerings and customer satisfaction.

As an example, in Spain and Brazil we have superior NPS compared to our competitors.

Also, the lifetime value of our convergent customers is the best in our domestic market, twice the figure of our closest competitors.

- Third, our performance in key markets and our divestments in Hispam show our focus on execution:

In Spain and Brazil, we had improved financial trends year-on-year in the second quarter.

In Germany, we are focused on mitigating the impact of the migration of 1&1, showing growth in underlying terms.

Finally, in the UK, Virgin Media O2's EBITDA improved their decline reflecting cost efficiencies.

8. Spain: Accelerating growth in customers and financials

On to slide 9, performance in Spain was excellent, with accelerating growth in customers and financials.

Momentum in Q2 was again very strong, achieving the highest net adds in more than six years.

The year-on-year growth of our key services accelerated. There were several drivers behind this:

- We saw a convergent churn reaching 0.8%, its lowest level in more than eleven years.
- There was an improved portability balance.
- And finally, we had 89k in TV net adds, the highest number in more than six years.

This has been possible on Telefónica España reinforcing its market positioning during Q2 with a segmented commercial strategy.

We improved O2 and Movistar's value propositions with additional features such as new TV content, increased fibre speed and more mobile data.

On top of this, we launched “Movistar por ti”, a personalised customer care plan that deeply changes the way we serve our subscribers.

This approach is a structural change in the market. It will drive a further expansion of our best-in-class NPS in Spain and a sustained reduction in claims, which were already on the decline.

This proves our commitment to excel in customer experience, in a market where trust and quality are key loyalty factors to drive commercial performance.

Meanwhile, convergent ARPU remained the best in the market, above €90, despite the end of the football season and the higher O2 penetration.

Strong financial performance continued, with improved growth across metrics.

Q2 revenue growth increased year-on-year thanks to sustained growth in service revenue and higher handset sales.

Retail revenue increased above inflation, driven by customer growth, price upgrades, and higher weight of services beyond connectivity. We delivered growth in both B2C and B2B. There was double-digit growth in IT sales, which already accounts for over 50% of B2B revenue with a record-high IT backlog.

As expected, wholesale and other revenue declined due to the renewal of wholesale agreements, which added long term sustainability.

The year-on-year growth in EBITDAaL in Q2 also accelerated.

This performance is driven by several factors: revenue growth, stabilisation of leases, efficiencies in network transformation and hyper-automation.

Also, copper network shutdown was completed in May.

EBITDAaL-CapEx increased over 2% in H1, showing our leading cash-conversion in the domestic market.

In summary, in Spain we continue to leverage our solid fundamentals to deliver a stronger performance.

9. Brazil: Growth in high value accesses and accelerating financial growth

On to the next slide.

Telefónica Brasil’s performance in Q2 was again marked by solid growth both in operations and financially, thanks to our sustained leadership and a quality customer base.

Upselling initiatives from prepaid to contract plans, our focus on convergence, and our commitment to offer the best services led to a 6.0% increase in our contract accesses and more than 63% in Vivo Total.

Our ability to retain high-value customers, despite increasing prices, is reflected in postpaid churn, which remained very low in Q2 at 1.1%.

The growth in TV accesses and the 42% increase in revenue from cloud services are two examples of the increasing traction of our digital ecosystem in Brazil

Revenue increased by 7% and continues to outpace inflation thanks to two factors:

- Firstly, strong growth in postpaid and fibre, showcasing Vivo's successful convergence strategy.
- Secondly, growth in real terms of our fixed and mobile revenue.

Despite this strong commercial momentum, we were still able to maximise efficiencies, which resulted in OpEx growing below inflation.

Vivo delivered the highest EBITDA year-on-year growth since Q4 23, with margin expansion.

In Brazil, we have expanded our fibre footprint to 30m premises passed.

To highlight, on the tenth of July, Telefónica acquired the 50%stake of Fibrasil owned by CDPQ, strengthening Vivo's leadership in fibre. This cost 850m reais.

In addition, we have integrated the IoT & Big Data business into the Cloud business. This change will allow greater simplicity and increased efficiencies.

In summary, I'm happy to report that Brazil is performing excellently.

We expect to maintain these results throughout the next quarters.

10. Germany: focused on mitigating the effect of 1&1 migration

Moving to slide 11.

Telefónica Deutschland's reported financials were impacted by the migration of the 1&1 customer base and the partners businesses transformation.

While we continue looking for additional growth and efficiency measures to mitigate this impact, the underlying performance showed growth across revenue, mobile service revenue and EBITDA.

Higher promotional activity continued across segments in what is a more mature market.

In mobile, we saw robust customer additions, with contract net adds increasing double-digit quarter-on-quarter.

Additionally, O2 contract churn remained stable year-on-year at a low of 0.9%, reflecting the strength of the O2 brand.

In the B2B segment, we signed a major new customer, a German and European market leader in shoe retail.

Also, Telefónica Deutschland announced a strategic partnership with Siemens.

Together, both companies will transform the water industry with the first fully integrated connectivity solution based on 5G network slicing.

On the financial side, revenue declined year-on-year, mainly due to lower mobile service revenue.

EBITDA declined 6.0% year-on-year, reflecting the impact of the 1&1 customer migration.

We expect this impact to continue as more customers migrate off our network.

In summary, while financials reflect temporary pressures, Telefónica Deutschland continues to execute on its strategy to position the company for growth once the impact of the 1&1 migration is over.

We aim to achieve this through investing in network leadership, apply efficiency measures, and driving sustainable commercial performance through focused growth initiatives in all segments. All of this will help drive profitable growth.

11. VMO2: Focus on value over volume

Moving to slide 12.

The UK mobile market remained competitive in Q2 and Virgin Media O2 stays focused on customer loyalty and protecting value.

O2 contract churn improved to 1.1%, driven by an enhanced customer experience and ongoing investment in network quality.

In fixed, we're stepping up our retention efforts as we adapt to the evolving market conditions, including the implementation of One Touch Switch. At the same time, we expanded our fixed network footprint to over 18.5m premises passed, with more than 7m on fibre.

During the quarter, we received regulatory approval to create a new B2B company, with the transaction expected to close on August 1st.

We also announced an agreement to acquire 78.8 MHz of spectrum from Vodafone UK for 343m million pounds.

This acquisition will be partially funded by last year’s minority stake sale in Cornerstone.

This transaction will bring our total mobile spectrum share to around 30%, strengthening our network capacity. It will also support greater balance across UK operators, enhancing competition, improving coverage, and elevating customer experience.

Spectrum transfer is expected to begin in the second half of the year, subject to Ofcom’s approval.

Financially, revenue declined by 5.5% year-on-year, mainly due to three factors: the phasing of price increases under the new Pounds and Pence approach, lower handset volumes, and reduced nexfibre build activity.

However, EBITDA declined due to a reduction in nexfibre construction.

Excluding this, EBITDA growth accelerated in Q2 reflecting the cost optimisation efforts following the 2024 investments in IT and digital transformation.

In summary, the UK business is progressing, with steady network expansion, early signs of financial stabilisation, and continued focus on customer value.

12. Hispam: Better commercial trends

Moving to the slide 13 and the operating performance in Hispam, which now includes four countries.

For the second consecutive quarter we posted positive contract net adds in the region.

These positive results are driven by:

- The improved network quality in Colombia due to the launch of Movistar and Tigo's single mobile network.
- Our great performance in Mexico.
- And a better regulatory environment in Chile.

On the fixed business, almost 100% of our broadband customers already have fibre.

Revenue decreased year-on-year, mainly due to sales of copper in Chile in the first half of 2024.

EBITDA decreased 2.8% year-on-year but improved sequentially due to Colombia.

13. Telefónica Tech / Telefónica Infra

On to slide 14 to review our transversal units.

Firstly, regarding Telefónica Tech:

Revenue growth rate improved quarter-on-quarter to over 12.0% year-on-year in Q2, with bookings growing in line with revenues. By sector, the performance is driven by the solid demand in Financial Services, Healthcare and Public Administrations. And we reinforced our AI & Data capabilities to expand our offer.

Secondly, onto Telefónica Infra:

Our FibreCos have already reached 29m premises passed, representing 35% of Group deployment. Our submarine cable business delivered sustained profitability, with margins of around 50%. Telxius has signed a partnership with Google to provide the necessary infrastructure to land their new subsea cable in Spain.

In summary, consistent execution continues across our markets and businesses.

I will now hand over to Laura, for the main financial topics.

Laura Abasolo - *CFCO*

14. FCF improvement, solid balance sheet

Thank you, Emilio,

FCF has improved by €718m to €505m in the second quarter and €291m in the first six months of the year.

FCF follows its usual seasonality in the first half, and this has been reflected in the evolution of net financial debt and the leverage ratio, which has increased to 2.78x.

However, as the year progresses, FCF will gain traction heading to our targets.

Furthermore, our net debt will be reduced to €26.0bn after the sales of Telefónica Ecuador, Uruguay and Colombia, and acquisition of the 50% of FiBrasil.

We maintain ample liquidity, which covers debt maturities over the next three years.

The average cost of debt has been reduced year-on-year from 3.64% in June 2024 to 3.30% in June 2025.

We continue with our prudent financial policy and FCF management, which are key priorities for us.

15. Leading in sustainability

Turning to page 16.

This quarter, we have made significant strides in our sustainability efforts.

On the environmental front, we have published an updated Climate Action Plan marking a clear pathway towards our ambition to be net zero by 2040. Furthermore, Telefónica has been included as a Supplier Engagement Leader by CDP for the 6th year running, in recognition of our efforts to reduce value chain emissions.

On the social side, our customer-centric approach has led us to launch a new personalised service model in Spain. We also remain committed to diversity and inclusion initiatives. This quarter we achieved 34% female executives.

Looking at governance, we have been recognised for our transparency, receiving awards for both fiscal and sustainability reporting.

Finally, I am pleased to share that TIME Magazine considers Telefónica as the 2nd Most Sustainable Company in the world.

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

Marc Murtra - *Chairman and CEO*

16. Delivering another solid quarter and building Telefónica's next chapter

Thank you, Laura.

To summarise, our second quarter offers data to show how we’re managing this transition period. We're maintaining operational performance while we prepare for the changes ahead.

We are making progress on portfolio focus with five Hispam transactions. Our networks continue to evolve, including completing the copper shutdown in Spain.

We're on track to meet our financial guidance.

Our strategic review continues on schedule.

We're taking a hard look at how to position Telefónica in a changing industry. I look forward to sharing our conclusions in the second half of the year.

Thank you very much for your attention, and we are now ready to take your questions.

Q&A Session

Andrew Lee – *Goldman Sachs*

Good morning, everyone. I had two questions, one on Spain and one on the UK. Just noting Emilio's, I guess, pretty bullish comments on the strong KPIs in Spain, but revenue and EBITDA growth still remains pretty low versus peers across Europe. So, the question is, do you expect growth to accelerate meaningfully organically to more encouraging levels or does Spain still need fixing and what are the potential opportunities to fix that if so?

Secondly, on the UK., the KPI is weakened again, but the fibre market looks ripe for consolidation. I know your NetCo creation process keeps stalling, but the question is, is VMO2 in a position financially to be able to pursue what it wants to do on fibre consolidation or are there still inorganic things that need to be done to put yourself in a position to succeed there? Thank you.

Emilio Gayo - *COO*

Thank you, Andrew. Regarding the question about Spain, I will say that we aim to deliver revenue year-on-year growth higher than in 2024, fostered by handset sales and retail. We see B2C growth ahead, driven by a better customer experience, best-in-class churn, the January 2025 price increase and solid mix of converging KPIs, supporting customer lifetime value, new subscriber on O2 and direct-to-consumer Movistar Plus, and a solid new service ecosystem increasing the traction of our portfolio.

In B2B, we have strong B2B momentum. As communication and IT converge, we are the player with the best commercial offer. IT is the growth engine, while communications are protected by portfolio revamps.

In terms of wholesale, we expect wholesale and others to decline year-on-year. Nevertheless, we have a more sustainable wholesale business derived from the agreement signed in 2024.

In terms of EBITDA and the path of costs, we expect to continue capturing savings from efficiencies such as network transformation, simplification of processes and systems, and optimised commercial costs from automation and a higher use of online channels.

As a result, we expect 2025 EBITDA and EBITDAaL to show higher year-on-year growth than in 2024.

Marc Murtra - *Chairman and CEO*

Regarding the VMO2 question, Andrew, there are different opportunities in the UK Market, some of which you have mentioned. I think we have different ways of capturing the opportunities we are interested in, but I cannot comment on any specifics due to us wanting to keep confidentiality with regards to what we want to do on the M&A side and to maintain flexibility with regards to how we perceive those opportunities. I'm sorry for the ambiguous answer.

Andrew Lee – *Goldman Sachs*

Thank you. On Spain, 2025 having higher growth than 2024 in revenue and EBITDA I guess that's the minimum that you'd want to see from that business. Would you expect further acceleration organically into 2026 and beyond, or does something need to change in the market for you to achieve that?

Emilio Gayo - *COO*

Andrew, we have commented that we have a strategic review during this part of the year, and we will talk about the objectives and the targets of 2026 at the end of this strategic review.

Joshua Mills – *Exane BNP*

Hi guys, thank you for the questions. I have two as well, please. Marc, I understand we won't get much more detail on this until we arrive at the strategic review, but I'd love to hear some high-level thoughts about the tech and cyber security opportunities for yourself, but also telcos more generally in Europe. It's an area you've talked about, but it's also one investors have been sceptical around the ability for telcos to create value in historically. So, I guess the question is, when you talk about adjacent areas, industrial rationale for your strategic review, what makes tech investments different now to in the past? And more specifically, what strengths do you think Telefonica brings to the table versus some of your telco peers? That would be the first question.

And then the second question just on the UK., if I come back to the results we saw this morning, slightly weaker revenue than expected, EBITDA still growing in absolute terms, looks in order to meet the guidance for revenue growth for the year, you'll have to accelerate in the second half of 2025. What will drive that acceleration in revenue growth on a guidance basis with VMO2? And perhaps in that context, if you could give a bit of colour around competition in the fixed market as well, that'd be great.

Marc Murtra - *Chairman and CEO*

Okay, thanks. So, with regards to the first question, yes, markets have been sceptical, and I would say with good reason, in the past, with regards to what telecom operators can do in the tech and cybersecurity part of the world and I would say specifically in the product area, not so much in the integration area.

What we do think and what we're analysing are two large changes that have occurred in the last six to twelve months.

- The first is the envigored notion of strategic autonomy. Europe and the different nation states have stated we need technological strategic autonomy, and that in our mind means having cybersecurity technology in Europe, which does not exist.
- The second is the announced, I would qualify as huge, defense investments. And a lot of the announced huge defense investments will be in creating technology. Cybersecurity, of course, is a twin brother of cyber defense.

So, with regards to the first point, we expect conditions regarding the cyber security market to change driven by European political will, and if that happens, we would react accordingly. And the second, we expect large investments in the area of cyber defense, which we think those that operate in cyber security can capture.

What strengths do companies like Telefonica bring to the cyber security area? We have, and other large telecom operators have, a large, long and deep experience in integrating and managing cyber security products. So, we are near the cyber security space, we are part of the cyber security space, but it is true we haven't created cyber security products.

Emilio Gayo - *COO*

Regarding the revenues in UK, during the conference call we explained some factors that explain the evolution of revenues. I'm going to hand over to Lutz to give you more colour on that.

Lutz Schüler - *CEO Virgin Media O2*

Thank you, Emilio, good morning. The fixed market in the UK is impacted by One Touch Switch and also by high promotions from altnets and also some direct competitors. So, as a result of that, we have the second quarter in a row negative net adds, so that is correct.

What we are doing is that we have a very sophisticated machine to manage retention in the right way, and now we’ve turned this machine to prevention, and we have made good progress in the second half here.

Now, to your question, how do we come to service revenue growth during the course of 2025? So, obviously we have guided revenue excluding hardware and construction revenue which has been flat in the first half year. Within that, consumer has been growing so consumer service revenue has been growing and B2B revenue has been shrinking a bit. We have a pretty encouraging funnel on the B2B side, so we think we will get some bigger deals closed in second half of this year and therefore we stick to our guidance.

Akhil Dattani – *JP Morgan*

Hi, Morning. Thanks for taking the questions. I've got two, please, as well. The first is just on the strategic review that you're running, and I guess I wanted to stand away from the industrial side where I appreciate it's going to be hard for you to comment specifically. But I wanted to ask a more philosophical question around the balance sheet. There's been a perennial debate in the market around leverage across the sector and whether that constrains the ability to invest freely or to take proactive measures on acquisitions to drive strategic growth. And I just wondered, now you're six months into the process of reviewing what you want to do. Can you just talk us through how you think about the balance sheet? And I guess the context being Telefonica is probably at the upper end of the peer group on leverage. Do you think that is any sort of constraint? Do you think it is important to create more financial flexibility? Or conversely, do you think given cash flow is improving, it isn't a relevant factor? I'd love to understand that a little bit better.

And then the second one is actually just in reference to a comment you made in the press on the industrial plan. And I guess I just wanted to understand how we should interpret it specifically. It was in Spanish, so maybe there's a translation related issue here. But effectively, what the article seemed to quote you as saying is that you're looking to place a lot of bets to make sure that a few succeed. I guess what I was really trying to understand is what is that in relation to. Were you talking about industrial journeys across different markets? Is that specifically in relation to M&A? Can you maybe just clarify what you meant by wanting to take a multitude of bets to make sure a few of these deliver? Thanks a lot.

Marc Murtra - *Chairman and CEO*

Sure, Akhil. And, actually, the philosophical questions are the ones I really enjoy. So, regarding your first and philosophical questions, I'd break it down to two different points.

The first one, we will not compromise our net debt grade. We have, of course, net financial debt, we have hybrids, and we have other liabilities. So, we're not going to move with regards to the ratios we have, and we have promised we will keep.

With regards to operations, of course, operations also include acquiring EBITDA. So, any acquisition can include the acquisition of EBITDA. If the target one is acquiring has a larger leverage than our leverage, that is a leverage problem. If it has a lower leverage, that is not necessarily a leverage problem. And it is our technical belief that if we have good targets, the market offers good options to finance those.

So, with regards to your final sub-question, the way we see it, our leverage and being on the upper end of the leverage is a constraint. It is relevant, but we don't think it will be strategically limiting to us. We can find solutions for good operations, that is always under the initial constraint that we will always be investment grade. So that would be my answer to your first question, Akhil.

With the second one, the answer that you read that was originally in Spanish, it has to do with assuming more calculated risks. So, at the end of the day, risk goes with return. The reason we want to acquire a larger scale is because there are larger economies of scale. We think that is good for Europe. And we think as part of the idea, please let us gain scale, let us consolidate the European market, and then we will be able to invest in technology.

And investments in technology have high risk. So, I’m not discussing launching huge operations with high risk, because that is not the nature of what we do but being having the balance sheet and the capability eventually of launching small operations that might have a higher risk profile and then detecting those that have or create traction and being able to double down.

What I was saying is that risk goes with return, and we need scale, or we want larger scale to be able to take on more calculated risks. Any high-risk operation that we ever take would be of limited scope initially. If that works, we would scale it up appropriately. So, I was not referring to what one would imagine like a large or significant M&A operation. It had to do with technology or more limited operations.

Nick Lyall - *Berenberg*

Hi there, morning. Could I ask two as well, please? Firstly, on Germany, is it possible for you to give us the underlying ARPU move of the remaining €17.6 million contract subs on the Telefonica brand, please? And then secondly, on Spain, you mentioned copper savings as you shut down the network and you're first in Europe. Could you give us more details on what you've found so far in terms of savings and maybe a bit of help on what future savings you might be able to take as you shut down copper? Thanks very much.

Emilio Gayo - *COO*

Thank you, Nick. Regarding the Telefonica Deutschland question, I'm going to hand over to Markus to give you more information about that.

Markus Haas - *CEO Telefónica Deutschland*

Thank you. I think in the reported average postpaid ARPU, you clearly see the wholesale customers included. So, with the phase-out and the migration, there's a technical effect. So, the ARPU will finally grow to the ARPU by year-end and then you will see next year the full own postpaid ARPU with the reduction of the wholesale customers.

It's clearly, we always said it's significantly higher than the reported number that you see. While we don't have a segment reporting for the different customer types, you will clearly see a constant improvement. But what we can say is we have a broadly stable ARPU with our own customers as reported and presented earlier. The small reduction is mainly driven by family cards and second SIM cards, but the overall ARPU trend in the O2 postpaid base and it's clearly the major or the lion's share in the 17 million that you mentioned is broadly stable.

Emilio Gayo - *COO*

Nick, regarding the copper question, just a reminder that Telefonica is the European leader in copper switch-off, having shut down the entire copper network. Today, we are a fibre company with not even a single copper subscriber.

We have consolidated structural efficiencies from the copper switch-off with a total benefit of more than 1 p.p. in 2024 EBITDA margin. These efficiencies are derived from lower energy consumption, lower technical failures, optimized cost in call centres, lower maintenance costs, and a staff resizing enabled by the technological upgrade.

The end of the fibre rollout and copper switch-off do not mean the end of the network transformation. Telefonica has to continue dismantling copper facilities. In fact, we aim at reaching a run rate with an additional 0.5 p.p. in margin when transformation is over, that will be in around three more years.

Nick Lyall - *Berenberg*

Okay, great. In summary, is it 1 p.p. margin improvement this year EBITDAaL-CapEx, and then 0.5% over the next three years? Is that roughly what you're guiding to with that copper move?

Emilio Gayo - *COO*

No, it's 1 p.p. in 2024, and in the next coming years, after all the transformation that it will take three years, it will be an additional 0.5 p.p. in margin.

David Wright – *Bank of America*

Hello, guys. Thank you for taking my question. I just noticed in the release, in the Telefonica Deutschland section, you talk about, and I quote, mounting consumer reluctance to spend. And I guess independently, we have seen, perhaps with the 1&1 profit warning recently, consumer desire to maybe raise usage. So, how should we think about that? Is the consumer looking to grow data, but really doesn't want to spend any more? Are you finding major opposition? And do you think that is a barrier to wider price increases in the near term in Germany that some of your competitors are maybe considering? Thank you.

Emilio Gayo - *COO*

David, thank you very much for the question. I'm going to hand over to Markus to give you an explanation with more detail.

Markus Haas - *CEO Telefónica Deutschland*

Thank you for your question, David. I think we see two unfold if you look at the pre-paid and the post-paid segments.

What we clearly have seen is that in the pre-paid segment, we have been able to increase our promotions and tariffs by 10% with the launch of unlimited on-demand in the last quarter, it was a very successful proposition. So, we see the willingness to pay more for more data if the proposition is right.

Clearly, we need to model smart models and also smart tariff plans that we saw, but especially the unlimited off-demand that Telefonica introduced to the German market last year is clearly a way to monetize data by not giving the full unlimited. The full unlimited plans are currently set at €60. Clearly, there are promotional activities on them, but every unlimited customer on our network grades is ARPU equative. So, whenever customers choose unlimited, we increase the average ARPU of the customer base.

So clearly, there's still demand for 20, 50, and 100 gigabyte tariff plans, and that's still the majority of the inflow that you have seen of the 180k post-paid net ads that we delivered in the last quarter. So, I think it's a mix.

There's a higher willingness to pay for unlimited, I think that's the first conclusion that we take. But clearly, we need to play it smart. And clearly, we have different underlying economics if you play like an MVNO with unlimited, of course. So, from that perspective, there's value up, and we are currently realizing that.

James Ratzer - *New Street*

Yes, good morning. Thank you for taking the questions. So, two, please. The first one goes back a little bit to what I think Josh was asking earlier on cybersecurity but would just love to dig in a bit more on what your current investments are in areas around sovereign cloud and what's included in your CapEx at the moment for data spending or gigafactory spending. I mean, I noticed with interest, Deutsche Telekom recently signed a large deal with NVIDIA to expand some of their investments in Germany. And I'm really kind of wondering whether you take your current levels and see the need to increase the spending in that area in Spain.

And then the second question was I'd just love to get a process update on the Fiberpass stake sale. Is that currently on pause at the moment as part of a strategic review like the UK NetCo sale? Or if not, and that process is ongoing at the moment, could you give us an update on expected timing for that transaction to close? Thank you.

Marc Murtra - *Chairman and CEO*

I'll have a first quick answer and then I'll pass to Emilio. With regards to the future regarding data centres or opportunities like that, that is part of course of the strategic review. You mentioned the UK., NetCo, which is not paused and it's not part of the strategic review. That is a decision we made and announced and that has to do with our industrial strategy and industrial way of working.

Emilio Gayo - *COO*

Regarding Fiberpass, I would say this process is ongoing, and it's not based in the strategic review. We have an agreement with Vodafone, and we are working on the same plan that we had before.

Regarding the first question, talking about cybersecurity or cloud, we don't see the need to invest CapEx in an important amount of cash for this kind of business.

Regarding gigafactories, I can say at this moment that there are European initiatives to invest in establishing up to five AI Gigafactories. There was a call for expression of interest, and we have responded to this expression of interest because we are interested in hosting one Gigafactory in Spain.

But at this moment, it is too early to give you more details because this is a process that will really start to be in our consideration during the last part of the year when the government or the EU finally launches the process to RFP or whatever process they consider.

Keval Khiroya – *Deutsche Bank*

Thank you. I've got two questions please. So firstly, T. Deutschland had the 2025 outlook for broadly stable EBITDA but understandably we've seen the EBITDA falling 4% in the first half. Is the business tracking in line with your expectations and when do you think EBITDA in Germany will stabilize and then grow?

And then secondly, just a question on infrastructure, Telefonica has historically had different structures on infrastructure from fully owned JVs to having minorities. Do you feel it's more important to fully own infrastructure than before? I noticed you bought out your JV partner in FiBrasil. Thank you.

Emilio Gayo - *COO*

Regarding the first question, I’m going to hand it over to Markus.

Markus Haas - *CEO Telefónica Deutschland*

I think it’s worth noting, first, on the German EBITDA, that the migration of the national roaming MVNO revenues is a two-year's journey. I think the combination of growth and efficiency measures started already bearing fruit in early 2024. So, it supported last year's EBITDA growth for Germany alone by 4.3% full-year, year-over-year. While 1&1 customer migration was suspended, as we all know, by last year by several issues on technical reasons on the partner side, we faced in 2025 tough comps on EBITDA with the pre-delivery already in 2024.

Coming back to your question, broadly stable is a range that goes from the minus to the positive, so it's around the zero point. So, overall, we feel comfortable with what we have set in the past, which is a two-year journey, and we deliver the efficiencies not on a linear basis as outlined. So, overall, we are on track with the "Accelerated growth and efficiency" plan.

Marc Murtra - *Chairman and CEO*

Regarding the second question, I would say our position is and will be, as a result of the strategic review, that we are an industrial operator, and therefore, core infrastructures of our business are better run near our business and in a simplified way, so that we can coordinate the different areas of our business, including monitoring demand and making offers, servicing that demand with infrastructures, and, of course, with a convergent offer.

I wouldn't comment too much with regard to that that is more or less than what we used to say. That is the way we operate, and that is the way we see we operate in a more efficient way from a cost point of view and from an offering in services for our clients to keep ARPU high and churn low.

Thank you, everybody. I'm sorry for the answers we didn't answer, and I think there was maybe one of you tried to ask a question, and by the time we realized, we jumped on to the next question, so we're happy to answer those offline. I hope this was a useful time of your hour, and we're looking forward to having a deeper conversation once the Board approves the new strategy and we make it public. Thanks very much. Have a good day.