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Introduction

Adrián Zunzunegui - *Global Director of Investor Relations*

Good morning, and welcome to Telefónica's conference call to discuss January-December 2022 results. I am Adrián Zunzunegui from Investor Relations.

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

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

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

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

Presentation

Q4 22 Results

1. **Our strategic framework**

Thank you Adrián.

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

I would like to start looking at the strategic plan we shared with you back in November 2019. We then said we were to focus on our key markets, where we intended to be more relevant, and aim for sustainable growth. We also wanted to reduce capital employed exposure to Hispam, whilst addressing efficiency. To promote growth opportunities through the launch of Telefonica Tech and Telefonica Infra, and at the same time leverage value of our infrastructures. All under a new operating model in which best and digitised networks anchored everything.

We could not anticipate the challenges we have faced since then. But we overcame them; through execution we have addressed and adapted to difficulties, proven our resilience, and managed to deliver under difficult circumstances.

Let me run you through this progress on the next few slides.

2. **Resilience, execution, delivery**

As you can see on slide 3, we delivered on our commitments and have met or exceeded our guidance for the past 6 years. Through consistent financial performance and steady execution quarter after quarter Telefonica returned back to growth.

We are proactively addressing the headwinds the business faces. We are mitigating inflationary pressures through price actions in all markets based on the pricing power we build. We are constantly optimising our cost structure and have a very focused investment strategy. This shows the resilience of our business.

We are shaping the regulatory debate to bring rationality back into the sector. Recent spectrum auctions show a more rational approach from us industry players, and now jointly pursue a more reasonable regulatory environment. In this respect, the fair share consultation process just to be opened by the European Commission hints a potential change in the playing field.

And finally, we continue capitalising on the opportunities the business has. We completed in-market consolidation in the UK and Brazil. We are actively embracing the industry transformation by chairing the GSMA and by joining forces with other operators to develop NaaS. Whilst continuing to build on our leading position in ESG.

3. **Focus on executing our strategy**

Moving to next slide. We continue building customer-focused networks of the future. We further strengthened digital infrastructures and platforms across our markets. We have already launched 5G in our core markets, and we are leaders in fibre to the home, with 64.5 million premises passed.

We are pioneers in building stronger networks via alternative deployment models. And we are also pioneers in switching-off legacy networks. We will be the first telco worldwide to fully shut down a copper network, our case in Spain in 2024. We are also shutting down our legacy mobile networks and have so far turned off 3G networks in Germany and expected to do it in 2025 in Spain.

This network modernisation improved the rate of digitised processes, 14 percentage points since December 2019, while traffic per customer multiplied by 2 times in Fixed Broadband and Mobile Broadband. At the same time, we continue to be pioneers in the telco cloud paradigm.

4. **Advancing in the transformation of our company**

Moving to the next slide, this stronger and transformed Telefónica lies on a strong financial foundation, as shown on slide 5.A growing base of high-value and loyal customers is the driver for revenue growth. Revenue, that along with our digital transformation, have evolved significantly over the last few years. The weight of revenue coming from BB and Services beyond Connectivity over total service revenue increased to 73% versus 64% in 2019, while voice and access weight declined to 27% versus 34% in 2019.

Organic revenue growth that is profitable and sustainable; we are already above pre-pandemic growth rates. Throughout the same period our capital intensity has come down, and will come down further in the future, which will continue fuelling FCF growth. We continue optimising capital allocation.

Between 2019 and 2022 we generated a cumulative FCF of 18 billion euros, which allowed us to reduce debt over this period by 11 billion euros and to improve shareholder's equity as much as 46% higher than in 2019. Our focused strategy drives performance and better outcomes. And ultimately allows us to remunerate our shareholders, to whom we have devoted more than 9 billion euros since 2019.

5. **2022: Strategy execution adds quality growth**

Moving to slide 6, you can see that the proof points achieved in 2022 are the result of our successfully executed strategy.

During the year, revenue, OIBDA and OIBDA-CapEx organic growth has steadily progressed, which allowed us to fulfil our updated guidance, despite a challenging macro environment. Cost containment and cost efficiencies were key to offset inflationary headwinds and to achieve a stable organic margin year-on-year. Prudent capital allocation has been crucial, supporting our robust FCF, a well-covered dividend and a high liquidity cushion.

Across our four core markets, we strengthened our competitive position. Spain has posted top-line growth for seven consecutive quarters. In Brazil, we have reinforced our market leadership, after integrating the Oi mobile base, and achieved double digit revenue and OIBDA growth. In Germany, record commercial traction supported by a state-of-the-art network translated into healthy revenue and OIBDA growth. Whilst in the UK, we made good operational progress and synergy realisation ensured sound profitability.

Looking ahead, we remain excited about the opportunities. At T. Tech we continue to build new capabilities that will support the sustainability of growth. At T. Infra we continue to execute on the fibre roll outs, building optionality for the future. In T. Hispam the sustainable profitable growth increases optionality as well. B2B will in turn benefit from a digitalisation boost.

Lastly, we have an outstanding sustainability record and contribute more than 95 billion euro of positive impact towards the SDGs annually.

6. **Resilient performance in a challenging year**

Moving to slide 7. Revenue grew 4% year-on-year in organic terms, with growth in all business lines supported by service revenue and B2B growth. Commercial momentum improved for high-value accesses through a right commercial approach and active churn management. This, coupled with a continuous cost-focused approach helped OIBDA to grow 3% year-on-year, proving our resilience in a challenging year.

2022 is the first year with reported year-on-year revenue growth since 2015. Revenue grew 1.8% to almost 40 billion euros, while underlying OIBDA reached almost 13 billion euro and was broadly stable. Operating performance translated into sound FCF growth, that reached 4.6 billion euros for the year, or 0.80-euro FCF per share, more than comfortably exceeding the 2022 dividend. We maintained as well our prudent debt management during these complex times. In 2022 we have reduced the leverage ratio to 2.54 times, we have covered maturities over the next 3 years, with more than 80% of total debt fixed, and an average debt life of 13.1 years, with the average cost of our debt being down year on year at 3.76%, despite rising rates.

7. **Delivering on our commitments; we are predictable**

Slide 8 shows we delivered upon our full year updated guidance of high-end of low single digit organic growth in revenue, mid-to-high-end of low single digit organic growth in OIBDA and up to 15% in CapEx to sales ratio.

We are also confirming today the final dividend for 2022 of 0.3 euro per share in cash. The first tranche of 0.15 euro per share was paid in December and the second tranche, 0.15 euro per share, will be paid next June. Again, this dividend is more than covered with our strong FCF per share, which stood at 0.80 euro in 2022.

8. **Pressing ahead with ESG priorities, getting recognition**

Moving to slide 9, we review our progress on ESG priorities. We have a clear action plan on renewables, emissions, and energy efficiency to become net zero by 2040. We have reduced energy consumption by 7.2% since 2015, despite traffic on our networks growing 7.4 times, and we are well on track to achieve our 100% renewable electricity target by 2030 with 6 markets already across the line.

On the social pillar, we continued to expand coverage to underserved communities and ensure affordable connectivity. Within our progress on diversity and inclusion, we have increased the proportion of women directors in the Group by more than 40% over the last 5 years and brought the adjusted pay gap down to 0.7% in 2022. Looking ahead, we have committed to deepening our talent pool by doubling the number of employees with disabilities.

Finally, we remain committed to best practices in Corporate Governance, ethics, and compliance, and across our value chain. We are proud to be the largest issuer of sustainable financing in the sector, reflecting the market's confidence in our ESG performance.

And we are gratified to have received external validation and the highest recognition from some of the most prestigious rankings, such as the Carbon Disclosure Project, World Benchmarking Alliance, and Ranking Digital Rights. Across the most prominent ESG analysts, Telefónica is favourably rated as one of the top-performing telcos in ESG.

I will now hand over to Ángel to give you an overview of the progress across the operating businesses.

Ángel Vilá – *Chief Operating Officer*

9. Sequential acceleration in Revenue, OIBDA & OIBDA-CapEx

Thank you José María. Moving to slide 10 for our financial summary during the fourth quarter.

Growth sequentially accelerated year-on-year in organic terms to +3.9% in revenue, +3.5% in OIBDA and +4.7% in OIBDA-CapEx. This was well supported by accelerating service revenue and B2B growth in Q4 to 4.1% and 7.9% year-on-year respectively, including service revenue growth in Spain.

On a reported basis, this has been the third consecutive quarter of revenue growth, +5.4% year-on-year, and the second one in underlying OIBDA, +6.0% year-on-year. FX continued to be a tailwind in the quarter, adding 0.5 and 0.2 billion euro to revenue and OIBDA year-on-year.

Fourth quarter FCF was the strongest in the year, surpassing the 2-billion-euro mark and growing +77.7% year-on-year. This figure reflected the tax refund of 1.3 billion euro but also dividends from VMO2 and solid operating cash flow. Debt declined 2 billion euro versus September mainly due to the tax refund just mentioned and the sale of the 45% stake in Bluevía. Finally, financing on ESG continued with the issuances of last November and last January, of up to 1,750 million euro.

10. Structurally positioned to offset inflationary pressures

On slide 11, we detail how we are structurally well positioned to offset inflationary pressures. We have been operating in high inflationary countries for decades and know how to manage these environments. Despite the high inflation we are currently experiencing we are growing in reported revenue, in underlying OIBDA and reported FCF, as mentioned.

This is the result of successfully managing the following items:

First, our top line through pricing power and inflation pass-throughs, along with our strong position in wholesale and B2B. Improving customer metrics like NPS and churn are key in this respect.

Secondly our OpEx, with lower weight of personnel expenses over revenue versus peers, significant long-term hedging on energy, positive environmental impact from fibre and 5G, and lower energy consumption puts us already in a comfortable position. Overall, we continue to generate further efficiencies through simplification and digitalisation.

Third, on our CapEx, as we are more advanced vs peers in terms of FTTH deployment and new partner models, along with legacy switch off allows us to be more flexible.

11. Spain

And now, let me start with the review of our businesses on slide 12.

Before reviewing the quarterly performance, let me take a step back and give an overview of our Spanish operation along the last 2 years. In a complex environment, and whilst taking action to cool down the competitive environment, Telefónica Spain managed not only to defend but reinforce its leading position.

Some claimed our ARPU was difficult to be sustained. Through our differential value proposal, increased fibre connections, premium customer care along with a rational pricing strategy, we have been able to improve NPS and churn and maintain our ARPU. Whilst stabilising our convergent and contract customer base over this period. All, widening our competitive advantage vs competition.

Revenue returned to growth, not only fuelled by handset sales but also by stabilising service revenues. Progress in both B2B and B2C allowed retail revenue to show a recovery path and deliver a 0.9% year-on-year growth in the fourth quarter of 2022, for the first-time since 2019.At the same time, OIBDA trend improved on revenue flow and savings from cost efficiency programs which helped to offset inflationary headwinds. Finally, committed to our network excellence strategy, we continued to enlarge our fibre and 5G coverage to build future growth, while maintaining a benchmark CapEx intensity to preserve our strong cash generation.

Moving to slide 13, we can see that throughout 2022 commercial performance in Spain has improved across all access segments, driven by our strategy to provide our customers enhanced value and flexibility under the new convergent portfolio of "miMovistar".

Despite the reduction of promotional activity to almost none, Telefonica Spain's commercial activity continued to improve in the quarter across all KPI's. FBB and post pay accesses continued to grow sequentially, NPS increased significantly by 7 percentage points year-on-year to 42. In convergence, full year ARPU grew 1.3% year-on-year, and churn achieved its best level since the first quarter of 2015 at 1.0%.

Revenue grew year-on-year for the 7th quarter in a row despite lower wholesale TV revenue (due to reduced direct ownership of football content). Service revenue grew year-on-year in the fourth quarter by +0.6%, for the first time since the outbreak of the pandemic. This turnaround, which we expect to maintain in the coming quarters, was underpinned by better trading, a strong performance in B2B, mobile and broadband wholesale revenue.

OIBDA trend improved by 0.7 percentage points sequentially to -2.1% year-on-year in the fourth quarter on lower energy drag, "La Liga" cost deflation and ongoing cost efficiencies, while OIBDA-CapEx margin remained at benchmark levels. Following a 6.8% average increase in tariffs since mid-January, we face 2023 with optimism hoping to bring the best from our strong position and tailwinds ahead.

12. Germany

Moving to Germany on slide 14, it again delivered a quarter of robust commercial traction, leading to a consistent financial momentum across the year.

The Company successfully completed its 3-year 'Investment for Growth' programme within the planned CapEx envelope, achieving more than 80% 5G pop coverage at year-end 2022, aiming for ~90% coverage by year-end 2023, and well on track to offer nationwide 5G-coverage by no later than year-end 2025.

Revenue and OIBDA growth accelerated to more than 6% year-on-year in Q4 22, with continued own brand momentum driving improved operational leverage, while handset sales had a record year of +13.9% year-on-year growth in FY 22. OIBDA benefited from further efficiency gains throughout the year offsetting cost headwinds.

Furthermore, Telefónica Deutschland's is pursuing a more-for-more pricing strategy from 2023 across brands and portfolios is backed by its widely acknowledged network, products, and services quality and extended ESG leadership.

13. Virgin Media O2

We now move on to slide 15, to the UK and our joint venture Virgin Media O2, which improved growth and made a strong operational progress.

The Company expanded the UK's largest gigabit network which now covers a total of 16.1 million premises, passing more than half a million new premises in 2022, while progressing in its fibre upgrade activity and making 5G services available in over 1,600 towns and cities.

In the fourth quarter, VMO2 returned to revenue growth with accelerating OIBDA trends to +9.9% year-on-year underpinned by the realisation of synergies and cost efficiencies. For the full year 2022, the revenue base was broadly stable and OIBDA grew by 6.3% year-on-year.

14. Brazil

Moving to Brazil on slide 16. Vivo ended the year with very good commercial and financial KPI momentum.

Commercially, Telefonica Brazil strengthened its leadership in mobile, mainly in contract and increased its market share by 6 percentage points in the last twelve months to 43.5%. In Fixed, Vivo accelerated FTTH deployment through different network deployment models and already reached 23m premisses passed, which makes us the leader in fibre in Latin America.

On financials, revenue grew +10.1% year-on-year in Q4 22, well above inflation for the second quarter in a row. OIBDA margin remained comfortably above 40% once again, despite the higher weight of low margin revenues and inflationary pressures.

OIBDA-CapEx grew 5.1% compared with 2021 despite a high CapEx spend during 2022. In this year, 2023, CapEx is expected to come down to below 9 billion reais.

15. Tech, strong growth on resilient demand of next generation IT

Moving to the next slide to review the performance of Telefonica Tech.

Telefónica Tech delivered a strong year-on-year revenue growth of +57% in 2022 to close to 1.5 billion euros, 27% annual growth in constant perimeter, outperforming its market once again

A strong product portfolio, value accretive M&A and increased geographic diversity drive this consistent outperformance.

Telefónica Tech has become a Next Gen Tech provider with a unique profile differentiated by:

- First, by having 6 thousand professionals, 80% of them located in Europe, highly skilled in Professional and Managed services
- Second, by offering a differentiated customer journey based on quality and a wide range of solutions in Cloud, Cybersecurity, IoT and Big Data, easily integrable with our best-in-class partner's services and backed by our strong Security and IoT platforms which offer a trustful path to business digitalisation.
- And third, by having an Eco Smart portfolio that helps our customers to fulfil its sustainability targets.

Commercial activity remains healthy in both Cyber & Cloud and IoT & Big Data, with bookings growing by 50% year-on-year and supporting a sustainable revenue flow going forward.

16. Infra, leading portfolio of FibreCos and critical infrastructure

Turning to slide 18, Telefónica Infra continued developing its leading portfolio of InfraCos, passing 13 million premises as of December 22.

- In Spain, Bluevía launched operations in December with an initial footprint of 3.9 million FTTH premises passed.

- UGG in Germany has signed MoUs to deploy over 720 thousand premises.
- Nexfibre in the UK, transaction closed in mid-December, already in operation.
- FiBrasil accelerated its roll-out to 3.3 million premises passed, having added 1.3 million in 2022.
- Due to their accelerated rates of deployment, ONNet Fibra Chile and ONNet Fibra Colombia have both become market leaders in their respective countries, with 3.7 million and 2.4 million premises passed respectively.

Value creation wise, as shown by recently closed transactions, show very attractive valuations for our infrastructure assets. Bluevía, where Telefónica retains a 55% stake, was valued at 27x OIBDA.

In addition, Telxius maintained its strong commercial momentum, which together with good cost management, has fuelled year-on-year OIBDA growth of 17.2 percent organically and 30.3 percent on a reported basis to 218 million euro in 2022, reaching a 52 percent margin. Earlier this year, Telxius announced the deployment of the new subsea cable Tikal, in partnership with America Móvil, which will link Guatemala and the U.S.

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*

17. T. Hispam, value growth & improved returns

Thank you Ángel,

Moving to T. Hispam.

We continued progressing in the region.

Contract accesses grew +4% year-on-year, after adding 1 million accesses in 2022. In fixed, FTTH premises passed reached 17 million, accelerating versus last year, mainly driven by the Chilean and Colombia Infracos. This growth in high value subscribers led to mobile and FBB ARPU year-on-year growth despite tough competition in main markets.

Revenue continued to grow by +2.8% year on year while EBITDA declined by -1.5%. The OIBDA decline was mainly driven by our new operational model in which we replaced CapEx for OpEx. OIBDA-CapEx increased +2.0% year-on-year in 2022, showing a clear upward trend in the last three years.

Finally, T. Hispam continues to promote inclusive connectivity and social progress based on digitisation, leaving no one behind and “internet para todos” /Internet for all is a good example with 3m people already connected.

18. Deleverage trend confirmed, contained cost and sound liquidity

Turning to slide 20, leverage ratio has been reduced for the third consecutive year despite M&A activity in 2022. Net debt to OIBDAal ratio stands at 2.54x while net financial debt was 26.7 billion euro as of December. Considering post-closing events, they will decline to 2.51x and 26.4 billion euro, respectively.

As of December, we lowered our interest cost to 3.76% vs 3.86% in December last year. Our debt is above 80% linked to fixed rates, mainly in euro and has an average life of 13.1 years, which is a strong position to face the uncertainty around interest rates movements going forward.

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.

It is to note that Telefónica reinforces its position as a leader in ESG financing. Beyond launching the industry's first green bond in 2019, the Company stands as the leading telco globally in terms of issuances with more than 6.6 billion euro of funds raised in the capital markets. In 2022, Telefónica has extended its portfolio with a sustainability-linked syndicated facility, sustainability-linked committed credit bilateral lines and the first sustainability-linked bond at Telefónica issued in Brazil. All in all, we have completed ESG financing for an amount close to 17 billion euro.

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

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

19. 2023 Guidance

Thank you, Laura.

Our 2023 guidance reflects our expectation about the undergoing transformation of our company, and we feel well positioned to continue on our profitable growth path. We continue to simplify our company and focus our investments on differentiated connectivity projects. We will of course maintain a disciplined capital allocation, adapted to market context.

As such, we are guiding for “low single digit growth” in both revenues and OIBDA (year-on-year organic) and around 14% CapEx to Sales (organic and ex-spectrum). Whilst our growth ambition is a continuation of 2022 guidance, in a complex macro environment, our declining Capex to sales ratio proves investment peak is behind for Telefonica.

On dividends, we are announcing 0.3 euro per share for 2023, to be payable in cash in December 2023 and June 2024. In addition, we will propose to the next AGM, the amortisation of 0.4% shares in treasury stock. All this shows our commitment to provide our shareholders with attractive and sustainable returns.

20. Evolving our framework and boosting ambitions for 2023

Slide 22 shows our framework and ambitions for the year.

We have aligned out strategy along 5 strategic pillars:

- First, on core markets, we will continue to drive profitable growth, as a leading player in attractive, at-scale markets.
- Second, T. Tech will sustain its growth and crystallise value by focusing to be a digital B2B specialist.
- Third, T. Infra will unlock value from Telefónica’s digital infrastructure, accelerating deployments and enabling further monetisation.
- Fourth, T. Hispam as a sustainable regional player, provides optionality for the Group.
- And fifth, as a Group we add value by having a clear focus to drive shareholder value and simplicity.

21. Summary

And now to conclude, I’d like to leave you with a few key takeaways from today’s results:

First, in 2022 we delivered on our updated guidance which demonstrated our resilience and ability to manage macro challenges while we continue to execute our strategy. We are growing organically and in euro terms, with a sound FCF generation, and we see this growth as sustainable. We continue to transform our company and are at the forefront of developing new digital capabilities to build our NaaS business.

Second, Q4 posted sequentially improving growth in our main financials while we generated record FCF which allowed us to reduce net debt further.

And finally, we are announcing a positive outlook for 2023 and a dividend of 0.3 euro per share in cash, which signals the confidence we have in our business and our strategy.

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

Q&A Session

Yemi Falana – *Goldman Sachs*

Morning everyone, thanks for the helpful presentation and thanks for taking my question. A couple from me. Firstly, on Spain. Clearly, you're continuing to deliver improved dynamics within that market. Could you perhaps comment on the run rate of competitive intensity that you're seeing in 1Q relative to 4Q, and potentially talk about kind of the churn dynamics in light of the price rise?
Secondly, on capital allocation, forgive me if it's too early, but given we're past peak CapEx at Telefónica now and the U.K. business is guiding to a strong dividend stream, stronger than most had expected I would argue, how far are we from dividend growth at the group level?

Ángel Vilá – *Chief Operating Officer*

Thank you for your questions. I'll take the first one on Spain. What we see in terms of competitive intensity is that although it is, of course, a complex and competitive environment, market rationality is now a confirmed reality. Noticeable step forward towards this rationality was taken in Q4 when cooling of the market was quite visible, and there are significant proof points on this.

- Convergent promotions were gradually reduced in all the main brands during Q4 to vanish almost entirely since early December.
- Promotions in stand-alone products such as fixed broadband or post-paid were also withdrawn.
- Main brands announced price increases for the first quarter of 2023 to offset inflationary pressures. This lever has been applied by most players and by all those brands that have grown on value and quality, not so possible for brands that were capturing subscribers under a price-sensitive approach.
- Both Black Friday and Christmas campaigns were extremely soft. The Christmas campaign was almost non-existent for the first time.
- And second brands, such as O2, Lowi, Simyo are increasing prices on the value entry-level products.

We are seeing, in this beginning of the quarter in 2023, so far, following the fourth quarter, strong commercial performance. We continue to see market rationality. And what we see, at least for our figures, is the January churn staying below the four quarter levels in spite of the price increase in mid-January.

So, we expect in Q1 to continue growing year-on-year in total revenues, also in service revenues. And we are in the trend of improving sequentially the OIBDA year-on-year trend versus the last quarter of 2022.

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

Taking your question on the capital allocation and dividends. As you know, we don't guide for long term, and therefore, we are just issuing the overview for the dividend for 2023. But allow me to elaborate on why we feel confident, and why we feel that this level of dividend is very well covered.

In 2022, we posted a very strong FCF generation. For 2023, we expect FCF to continue exceeding shareholders' remuneration, labour commitments and hybrid coupons. And at the same time, as you know, we preserve, and we maintain a very high commitment to investment-grade rating. As we speak, we are growing in revenues in all business units. We are guiding, in the U.K., for revenue growth and OIBDA growth. We are guiding at the Group level the same. Germany has guided yesterday. So, all in all, in terms of the guidance of the Group, revenue growth and OIBDA growth with contained CapEx, allow us to think that OIBDA-CapEx should fuel a strong FCF generation.

So overall, considering that all lines below operational FCF, we continue proactively managing working capital, our JV is going to deliver a very strong dividend, lease payments should not change much year-on-year, interest cost remains under control. We think that we should prove, along the year, that the dividend is very well covered and that we are in a well-covered position. So, we'll retake the questions at year-end.

David Wright – *BofA*

Two very quick questions. The first is perhaps just for Laura. Just if you could give us a little guidance on where you expect cash tax and working capital to trend through 2023, please?

And then secondly, my question is a little bit more strategic, perhaps for Lutz and maybe yourself José María and Ángel. But just on VMO2; it seems quite an aggressive recapitalization that seems more predicated on the synergies. The actual revenue growth of VMO2, I think, it continues to labour, and there doesn't seem to be any monetization of the price rises in the U.K. And it also seems like you are very, very behind the curve on your 2028 rollout ambitions. So, I think even with the Q4 run rate, you would only manage about 750,000 lighting lines, and you obviously need a run rate of about 3 million a year to make that target. So, is there not a likelihood of an increased CapEx? And therefore, I come back to my original question, why would you relever so aggressively when the fundamentals remain a little bit more unproven and there is a CapEx hike ahead? And of course, that higher leverage does come into the group leverage from the agency. So, it just seems a little back to front to me. So, if you could explain that thinking.

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

Thank you, David. Taking the first question on cash tax and working capital. I used to say that cash tax was more predictable. But these days, with the super positive tax refund we received and payments in advance we have to do in Spain is less so. But looking at '23, '24, we see that our tax cash rate could be along 23% more or less. Obviously, then we may have some one-offs but that should be the structural cash tax payment.

In working capital, we continue doing our usual activities. I mean working capital sometimes is affected by the spectrum because we do not pay it all at once and it continues flowing through working capital. In the past, we also had a positive impact from the judicial review in Brazil. But excluding that, it's just CapEx seasonality and deferred or advance payments. We are not doing any supply financing. We have some handset financing, but very low numbers. So, we still expect working capital to contribute positively to the FCF, but not in huge amounts, and we are not seeing worsening conditions in the actions around working capital. So, I would say quite business as usual and similar trends what you've seen, excluding spectrum and the Brazilian tax recovery in 2022 and 2021.

Lutz Schüler - *Chief Executive Officer of Virgin Media*

So first of all, on the revenue side, although it's flat for the year, the underlying service revenue is actually growing, and therefore, the underlying gross margin is growing. So, it's not really flat. And as you can see from our guidance, we are more positive for '23. So, we are from a flat year in overall revenue, guiding revenue growth into '23.

From your CapEx investment assumption, I'm not so sure if I can follow that, because we have actually disclosed Lightning numbers for fibre rollout, but we are not behind because we have not disclosed so far, the cable fibre upgrade numbers. So, we have upgraded to fibre more than

1 million homes this year, and we will upgrade to fibre, including network expansion next year, 1.5 million homes. So therefore, we are obviously not guiding a longer-term CapEx investment over the year '23. But I'm not so sure if you take the right assumptions in the model.

So therefore, we see a sustainable EBITDA growth coming also from revenue in the midterm. And we also we are not behind in fibre rollout at all. We're not talking about it because our customers today are buying our 1 gigabit speed solution based on the coax network. Hopefully, that helps.

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

David, if I may complement with the capital structure and the dividends. As you rightly mentioned, we are anticipating a strong dividend of GBP 1.8 billion to GBP 2 billion, including both FCF and recapitalization. The leverage is what we have decided at the shareholders level, 4x to 5x net leverage range, but this is a cash-generating business with organic and synergy-driven opportunities, and it will continue growing. Having said that, let me remind you that the debt tenor is 6.5 years, excluding vendor finance, and the average cost of debt is 4.7%. Its financing strategy means it's not forced to go into debt markets at inopportune times and we will continue to optimize this based on market conditions. Right now, we are seeing the markets are again open, so, I think we are being proactive and prudently managing, tapping the markets at the right moment at the JV level as well.

Carl Murdock-Smith - *Berenberg*

Almost following up on David's question and slightly on Slide 18, when you're looking at infra and the opportunities and the rollout progress there. I was wondering if you could talk slightly, both at the group level, but also again potentially Lutz on the U.K. level, how you think about organic versus acquisitive opportunities regarding infrastructure, given potentially struggling smaller AltNets, given higher inflation and interest costs? Thank you.

Ángel Vilá – *Chief Operating Officer*

Let me take first the view from the group, and then I'll also hand over to Lutz to complement.

FibreCos are very efficient alternative infrastructure investment vehicles because they allow us to accelerate fibre deployment, putting together infrastructure money, infrastructure funds with our strategic view. And we have been pioneers in doing, through Telefónica Infra, this type of vehicles. We are covering through the fibre vehicles that you have on Slide #18, 13 million homes passed by the end of 2022. We are aiming to cover 25 million by 2026.

It's critical that all these Infra fibreCos have our local operating businesses as anchor client. And this is differential versus alt-net fibreCos because this gives the best prospect for the critical ratio of homes connected to homes passed, which is critical for the return on investment.

In some markets, not in the case of Spain, but in some markets, the gap of lower deployment of fibre has resulted in the creation of several alt-nets. And again, some of these, given the increasing cost of construction, because of inflation, or the increased cost of funding and some pressure on wholesale prices, sometimes from regulation, sometimes from the behaviour of certain players, are stressing the business plan of these alt-nets that do not enjoy as our fibreCos do, the benefit of having an anchor client in our OBs.

So, we think that this may lead to potential consolidation in the alt-net fibreCos' space in several geographies. We do not comment on any specific name, but we see such opportunities in most of the markets, and we have already consolidated one asset in Brazil, our fibreCo in Chile is consolidating another asset. This always done in a return on capital employed, very effective way.

I don't know, Lutz, if you want to complement?

Lutz Schüler - *Chief Executive Officer of Virgin Media*

Yes. Thanks, Ángel. Obviously, Virgin Media O2 is not a shareholder of NexFibre. So, we are building the network, the shareholders are Telefónica, Liberty Global and Infravía.

But I can reassure that we keep accelerating the rollout from '22 into '23. So obviously, we have been doing that from '21 into '22, and we will continue doing that. And your question concerning possible consolidation in the market. I mean, alt-nets have now built 7.6 million fibre homes in the U.K. You see that the penetration of these alt-nets is around 15% to 18%, so very low. And therefore, with increased capital cost, it is indeed to question how many will be long-term sustainable. And of course, the shareholders I just mentioned will have an opportunistic view on it, and we will be open for consolidation, as you can expect.

Georgios Ierodiaconou - *Citigroup Inc*

I had one follow up on Spain from the first question. I think Ángel, you mentioned you gave us a lot of colour on the KPIs. I was wondering if you could also clarify your comment about EBITDA improvement, whether that is based for the whole year or just for the start of the year? Because I understand the comps on the labour cost, in particular, are a bit favourable initially, maybe not so favourable later in the year. So, if you could perhaps give us a bit of an idea whether we should look at the much better 2023 or just the start of it.

And also, on that, if you could comment also on whether the promotional environment, obviously, is better, whether you are seeing any downtrading in MiMovistar? Or whether on that respect, you are also seeing your behaviour exceeding your expectations?

And then my second question is more on an industry-wide, and I appreciate José María that there's probably going to be some statements coming out from the commissioners in the coming days. I'm just curious, you've mentioned earlier the spectrum terms improving across Europe. What else are you expecting to see over the course of the next couple of years? And when do you think we get some clarity on the support that the industry may be getting from regulation and maybe other actions that are taken?

Ángel Vilá – *Chief Operating Officer*

I'll take the first questions on Spain. You were asking about OIBDA, let me give you a wider view on the outlook (which is not guidance as I always have to say) for Spain in 2023.

We expect for the year, revenues to continue showing year-on-year increase. We have very good momentum. We have now several quarters in a row of growth. We are already growing in service revenue. And we believe that the service revenue will keep on growing in 2023, in the year, leveraging on several levers.

- First, the trading recovery.
- The tariff upgrade, and the evolution of NPS and churn leads us to expect a solid convergent ARPU.
- We are getting revenues from new digital services ecosystem,
- Clearly, B2B, in communications and IT, is growing.
- The impact from European Union recovery funds should be more notable.

And despite some headwinds of lower wholesale TV revenue because we have less content now. We keep expecting, and we see, service revenue continues to grow year-on-year. Handset sales could decline. But all in all, the full revenues will continue to show a year-on-year increase.

This behaviour of revenues, combined with strict cost management, will contribute to continue the year-on-year recovery trend that we have seen in OIBDA in 2023. As you can see in the second Spanish slide, every quarter the year-on-year evolution has improved, and we expect that to continue to be the case in 2023, reaching at some point in the second half, we don't know in which quarter, stabilization of year-on-year OIBDA. We expect margins to stand in the mid-high 30s for the Spanish operation. You saw the margin in the fourth quarter, very strong. And then for CapEx, we expect it to be in line in terms of CapEx intensity as in 2022.

You were also asking about downtrading. We're not seeing that to be the case. And the proof point is the ARPU performance. We have seen convergent ARPU in the fourth quarter at EUR 90.3, showing year-on-year very good progress. And this is the result of several moving parts. We had some more for more in February. We had, as I was saying at the beginning, almost no promotions in the fourth quarter. So, reducing the dilutive promotions effect has been helping. The SME portfolio has been also supporting this. And the stickiness that we are seeing in the price increases that were already put in place by mid-January gives us a good expectation for the ARPU going forward into 2023.

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

Taking your question on regulation globally or more broadly.

Well, the starting point. The European sector, as a telecom sector, has a very low return on capital employed. Return on capital employed barely beats cost of capital. And that's because of the sector is too fragmented. The average European mobile operator covers 5 million people, where the average U.S. mobile operator covers 107 million people.

I think the situation is unsustainable and data volumes are growing 30% year-on-year. So, the networks need to be there. And the overall problem is that the current framework for the regulation was designed at the time of copper incumbent monopolies. And now we are fibre companies, and there is a huge fragmentation in number of competitors. It was thought at the time of voice, and it is now the time of data. As a result, the overall competition policy and the rules have become obsolete. And I think they are going to evolve. I think that the move is for an evolution because in other regions of the world, they have evolved. We think that Europe is starting to evolve in that regard, and we see the Commission more open to this kind of debate.

More specifically, keep in mind that 56% -- roughly 60% of data volumes today in Europe, in all networks, are being generated by six players, which are not contributing to the huge investment need for deploying that amount of capacity. European companies, we invest in the neighbourhood of EUR 30 billion to EUR 35 billion adjusting capacity of the network, and we are taking the hit on that. So, there is a debate ongoing that I think is going to be heated in the next few days around the need for a fair share contribution of that effort among the different parties. And I think that the debate is fair, the debate is needed, and the debate is very dynamic, I would say.
And in terms of consolidation for the avoidance of doubt, in the case of Spain, we are in favour of the Orange MásMóvil transaction, and we think it should be approved without remedies because I think it proves the situation of our sectors. So, we are stating the same thing when we are not part of the consolidation process and in fact, it's going to be affecting us here in our home market, but time has come for a more rational approach.

Fernando Cordero Barreira - *Banco Santander*

Thanks for taking my two questions. The first question is regarding the strategic guidance that you have updated and particularly on Telefónica Tech and with your understanding the capitalization opportunities there, in that sense you have mentioned in the past that the M&A trend in order to enlarge the business was already made. So, in that sense, do you believe that you're already prepared to incorporate some financial partners there? Or what is, let's say, the meaning of this capitalization process?

And the second question is, coming back to Spain, I agree on the fact that the operational projects regarding the decommissioning of the copper network is a relevant one. I believe also that you are starting to have some visibility on the endgame in terms of OpEx and CapEx savings on the front, just willing to understand if there is any novelty in terms of quantifying the impact of decommissioning the copper network, particularly in terms of finance?

Ángel Vilá – *Chief Operating Officer*

Thank you, Fernando. On Telefónica Tech, I understand there were two parts to your question. One, our M&A strategy, so far, with the company; and second, crystallization of value.

Let me start with the M&A strategy of Telefónica Tech. We have been expanding our scale and capabilities with very selective acquisitions, which are now mostly completed. We wanted to expand our service offering. And for this, we acquired, for instance in Spain, a company called Altostratus which is specialized in multi-cloud services and Google Cloud premier partner for Southern Europe, and Geprom also in Spain, small acquisition, which reinforced our capabilities in Industry 5.0. But we also wanted to expand and strengthen our geographic presence, most notably in European markets where we were more consumer-facing.

So, in the U.K. which accounts for a not small part of Telefónica Tech's total addressable market, we have made two significant acquisitions. The former Cancom U.K. and Ireland, now renamed Telefónica Tech U.K. and Ireland, that was in 2021. And then we acquired in March 2022, a company called Incremental. Thanks to these acquisitions, we have now nationwide coverage with cloud, cybersecurity, data capabilities, more than 1,000 highly skilled professionals. And we have extensive accreditations in Microsoft solutions.

And for the rest of Europe, and a special focus in Germany, we made the acquisition of BE-terna. And thanks to this, we have reached a strong position in Germany and in the DACH market.

With this, Telefónica Tech continues to show a very strong growth momentum. I was through the presentation talking about the revenue growth with and without the change of perimeter.

And we continue progressing in the plan that we had which, at some point, may entail crystallization of the value through different methods. We are trying to give you more and more visibility of this unit in our presentations and reports so that hopefully, at some point, you can reflect it in our sum-of-the-parts.

Second question, I think, it was regarding the benefits from copper network shutdown, which is planned for 2024. We should say that dismantling the copper network brings both OpEx and CapEx savings. Because running a fibre network is much cheaper than running a copper network, less maintenance, much more efficient in terms of energy consumption. Fibre is 85% more efficient than copper.

Some of these benefits are already being captured either in revenues through sales of copper, sale of real estate. Also, in OpEx and CapEx, we are already experiencing lower cost of maintenance, energy consumption, less failure rates, less call centre attentions.

So, in 2023, we will continue gradually capturing those. And then the process will continue when, in 2024, as was said in the presentation, we would be the first telco globally to switch-off the copper network. Due to regulatory obligations, we will need to maintain the wholesale services for extra 6 months after switch-off, but that will be the case.

So, network transformation efficiencies will continue increasing year-on-year until this transformation is completed, and then structural benefits will remain. Clearly, reduced OpEx, via lower network costs and lower recurrent investments.

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

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