Results 2025

Q1

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Torsten Achtmann - *Director of Investor Relations*

Good morning, and welcome to Telefónica's conference call to discuss Q1 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 Chief Operating Officer, Mr. Emilio Gayo.

Presentation

Emilio Gayo - *Chief Operating Officer*

Q1 25 Results

1. **Operational progress**

Good morning and thank you for joining the call, my first call with the financial community. With me today are Laura Abasolo, Markus Haas, Lutz Schüler and Eduardo Navarro. Welcome everyone, it's a pleasure to have you here.

I'd like to start this call by highlighting how our progress in operations, specially along our three main pillars, customer engagement, network transformation and efficiency.

First, customer engagement. I am proud to report that we continue to excel in this area, with NPS score reaching new highs:

- Spain continues to lead the market, while Brazil and Germany show strong and consistent improvement, a clear sign of our competitive strength.
- Our portfolio of products and services also continues to improve, while we maintain focus on customer care.
- We have an outstanding market positioning of our digital ecosystems in Spain and Brazil.
- This allows for very low levels of churn and a differential ARPU.

Next, fibre and 5G.

- We rolled out fibre to over 1.5 million premises in the last three months, and we've reached 75% 5G coverage in our core markets.

- Our networks are more virtualised, more efficient and flexible and more reliable.

Finally, efficiencies.

- We progressed in the shutdown of legacy services, with copper switch-off in Spain, that will be completed this month.
- We shut down also 3G in Germany and 2G in Uruguay.
- In Hispam, we keep on executing our strategy and optimise our portfolio, including the sale of our operations in Argentina and Peru, and the signing in Colombia in just three months.
- All of this shows that we continue to execute. We want to speed-up this execution across businesses with an industrial rationale, accelerate financial flexibility and simplification, and operate under technology and operational excellence.

In parallel, we started a strategic review which we expect to complete and share with you in the second half of the year.

Please give us time to conclude this review and focus for now on the business operating performance.

2. Q1: Resilient core units

Moving to slide three, our core businesses show a strong performance:

- In Spain, growth accelerated across key commercial and financial metrics. The robust combination of our strong brands, best-in class infrastructure, unmatched portfolio and powerful channels continue to deliver strong results.
- In Brazil momentum remains steady. Our leadership remains intact, with strong growth in mobile contract and fibre accesses. Forex is impacting our reported accounts, but in local currency we continue to grow clearly above inflation.
- In Germany, operating cash profitability remained strong, showing our efficiency focus.

We have made changes to our Hispam portfolio as we continue to further reduce our exposure, and we are determined to progress in this direction. Our main financial metrics are impacted by intense competition in the different markets and by forex in reported terms. Despite this, it is worth mentioning the growth in contract net adds in Q1, which we are seeing for the first time since Q4 23.

At group level, reported results were negatively affected by forex. However, in organic terms we are growing in main metrics, and comps will ease along the year. I'd like to highlight the differential growth of B2B, 5.4% year-on-year.

Finally, net debt has decreased. Free cash flow is affected by seasonality in Q1.

In summary our core business, Spain, Brazil and Germany, continues to show resilience across all key metrics, while at the same time we are reducing our exposure in Hispam.

3. On track to meet 2025 guidance

Moving to slide four. Here we can show that we are on track to meet 2025 guidance in all financial metrics, at constant perimeter, with Q1 results being fully aligned with internal expectations.

In fact, we expect our performance to improve as the year progresses, as comps ease during the year and operational trends continue or progress. As such, we can fully reiterate our 2025 outlook.

Revenue, EBITDA and EBITDAaL minus CapEx will grow in organic terms, with CapEx to sales continuing to decline.

FCF will be similar to the figures posted in 2024. We expect a lower leverage despite the temporary increase in Q1, which is mostly driven by forex and working capital seasonality.

We also confirm 2025 cash dividend.

4. Spain: Increasingly resilient growth

Moving to slide five, we will review the start of the year in our domestic market.

Telefónica Spain commercial and financial performance continued to improve in the first quarter of the year.

We have strong commercial momentum. Q1 net adds were above Q1 24 level and we delivered customer growth in all accesses for a seventh quarter in a row. TV net adds were the best in more than six years.

- The growth in B2C is driven by our segmented and flexible offering, an attractive ecosystem with a very positive performance and our focus on customer care and service excellence.
- I would like to highlight the increase in devices sold and the performance of Movistar Prosegur Alarmas, which is the second largest player in the alarm market in Spain. All this means Telefónica Spain has the best churn and ARPU compared with our competitors in the convergent market.
- We have also seen strong growth in B2B, fostered by double-digit growth IT sales in the corporate segment. These sales are thanks to our cutting-edge technologies and highly experienced salesforce, combined with the extension of long-term contracts with large enterprises.
- Wholesale revenues declined in Q1 as was already anticipated. Nevertheless, the new long-term agreements signed in 2024 give stability to this revenue flow.

As a result, domestic revenue grew by 1.7% year-on-year, with EBITDAaL accelerating by 1%, quarter-on-quarter.

On top of that, the reduction in CapEx led to a 2% improvement in operating cash flow generation. Let me say that our best practice CapEx to Sales does not come at the expense of networks coverage and quality. We have passed 1.3 million premises with fibre in the last year, and we have already activated Stand Alone across the 5G network. All this means advanced functionalities to our customers.

In summary, a strong performance with an outstanding set of commercial and financial KPIs.

5. **Brazil: Real growth and strong profitability**

On to slide six, Telefónica Brazil again showed solid commercial momentum, remaining a leader in both postpaid and fibre.

Vivo reached the largest customer base in its history. Vivo Total, our market-leading full bundle, grew 77% in accesses year-on-year. In addition, digital services penetration accelerated, reaching more than 11% of total revenue, thanks to our ecosystem of services.

Revenue rose 6%, above inflation, due to double-digit growth of our flagship services. This was driven by higher ARPU, growth in mobile contract and fibre accesses, acceleration in digital services, and a strong B2B performance. Prepaid to postpaid migration is leading to ARPU growth and improves customer satisfaction. We are capturing an increasing share of wallet thanks to our differential portfolio, ranging from connectivity to digital solutions.

Despite this commercial push, we achieved a 14.5% increase in EBITDAaL minus CapEx, with margin expansion. Finally, in April, we formalised the agreement with Anatel to migrate to the authorization regime. This is an important step that will enable greater business transformation and deliver positive commercial and financial impacts, thanks to an improved service quality to cooper customers, OpEx reductions and assets sales.

In summary, Brazil is performing solidly, and we expect to maintain these results throughout the year.

6. **Germany: Operating leverage focus**

Moving to slide seven, Telefónica Deutschland maintained a robust commercial momentum in mobile, with a year-on-year growth in contract net adds.

This was achieved by B2B customer wins and stronger B2P partnerships, as well as the attractiveness of the O2 brand. Both ARPU and churn in O2 contracts remained stable, as we continue to focus on operational leverage in a market with increased commercial and promotional activity. In the fixed segment, ARPU increased by 5% year-on-year, based on improved value mix due to the demand for higher speed packages.

Revenue was impacted by headwinds related to the B2P combined with weaker handset sales. However, this is in-line with market trends. EBITDA also faced difficult year-on-year comps. Nevertheless, efficiency gains, combined with successfully implemented growth initiatives in both the consumer and partner businesses, helped maintain a stable EBITDA margin. EBITDAaL minus CapEx grew by 4.8% year-on-year.

I'd also like to highlight that the German regulator confirmed the five-year spectrum prolongation until 2030.

In summary, Telefónica Deutschland remains focused on operational improvement while at the same time increasing efficiency.

7. VMO2: Key network programmes of fibre and 5G rollout progress

Moving to slide eight, now I'd like to update you on Virgin Media O2.

In Q1, despite a tougher trading environment, we remained focused on delivering fast and reliable connectivity while protecting customer value. We continued to invest in our UK networks and services, ensuring we remain in a good position for the future.

Our 5G population coverage reached 77%, and we expanded our fixed network footprint to over 18.4 million premises passed, of which 5 million are fibre homes.

In mobile, contract churn remained stable at a low 1.1% year-on-year, proving that our efforts to increase customer retention are working. The joint venture just refreshed its portfolio, with better airtime rates and multi-SIM offerings. In our fixed consumer business, ARPU grew, once again supported by our value strategy.

Revenue has begun to grow again, excluding handsets and nexfibre, which reflects the successful phasing of price increases into service revenue. This contributed to EBITDA growth, further supported by cost efficiencies. EBITDAaL minus CapEx grew by 15.2%, and the margin improved, reflecting CapEx seasonality.

Finally, NetCo sale process has been paused to assess the best path forward to create value. And nexfibre will build towards a cumulative 2.5 million homes in 2025.

In summary, in the UK the team is focused on value while continues to progress in nexfibre and 5G rollout to capture growth opportunities.

8. Hispam: Progress in strategic execution

In Hispam we've accelerated the execution of our strategy in the last three months. We completed the sale of Telefónica Argentina for 1.2 billion euros in February, with simultaneous signing and closing, eliminating execution risk.

We have also signed a binding agreement to sell Telefónica Colombia, pending regulatory approval and agreements with minority shareholders.

Finally, just last month, we completed the sale of Telefónica Peru, which helps us avoid future liabilities and financing needs, while its deconsolidation improves free cash flow outlook and leverage of the group.

In summary, these steps mark strong progress in simplifying our footprint and are also indicative of our financial discipline.

9. Hispam: Towards stabilisation while reducing exposure

Moving on to slide ten, staying with Hispam, I'd like to now focus on the operational and financial performance.

We recorded positive net adds in mobile contract, the first in five quarters, thanks to better results in Chile and the launch of Movistar and Tigo's single mobile network in Colombia. On the fixed side, fibre rollout keeps advancing, with 98% of broadband now on fibre.

Revenue dropped 3.4%, mainly due to sales of copper in Chile in Q1 24. However, this drop was partially offset by a 5% growth in service revenue in Mexico.

EBITDAaL minus CapEx fell 31%, due to lower EBITDA and higher lease costs due to the single network launch in Colombia.

In summary, in Hispam we are happy with how the execution of our strategy has accelerated in the last quarter, which has resulted in a significant reduction in invested capital since December 2019.

10. Telefónica Tech / Telefónica Infra

And finally, before I pass on to Laura, on slide eleven I'd like to talk about the performance of our transversal units Telefónica Tech and Telefónica Infra.

Firstly, Telefónica Tech, the engine of our B2B segment:

- We help our customers with the digital transformation of their processes and businesses, leveraging our unique combination of leading professionals, leading technologies and the best platforms, all supported by a global ecosystem of market-leading partners.
- I'm delighted to say that Telefónica Tech has increased revenue 6.6% year-on-year.
- Commercial activity continued to grow, led by the private sector, with bookings up 7%.
- The 15% expansion in the commercial funnel, and Telefónica Tech's strong market recognition as a global leader, positions it well to capture further growth.

Secondly, Telefónica Infra.

- Our FibreCos reached 29 million premises passed, including Fiberpass in Spain.
- We recently closed the sale of our stake in Nabiax.
- And finally, our submarine cable company, Telxius, continues to show strong profitability.

I will now hand over to Laura, who will guide you through the main financial topics.

Laura Abasolo - *Chief Financial and Control Officer*

11. Accelerate FCF delivery throughout the year

Thank you, Emilio.

Moving to slide 12, we expect FCF generation to accelerate throughout the year, as FCF profile is back-end loaded and will be managed efficiently.

Q1 is affected by regular seasonality, FCF from continuing operations totaled -205 million euro vs -13 in the same period of 2024.

The higher year-on-year decline is explained by higher seasonality in working capital, leases and financial payments. The year-on-year average depreciation of the BRL also affected, but we continued with our hedging strategy which has proven successful, approx. 60%, with the combination of natural hedges and active hedging.

As we commented in our full year results last February, FCF continue to be key for driving business performance.

12. Solid balance sheet, sound liquidity and contained costs

Net financial debt has decreased by 0.1 billion euro in the first three months of the year. While our net debt to EBITDAaL ratio has increased to 2.67x due to FCF seasonality in the first quarter, as the year progresses, FCF will gain traction heading to our stated FCF target.

Furthermore, our net debt will be reduced to 25.8 billion euro after the sale of Peru and the signing of the binding agreement of Colombia and just the deconsolidation of net debt.

We maintain an ample liquidity, which together with a smooth maturity profile, allows us to cover debt maturities over the next three years. And the average cost of debt has been reduced year-on-year from 3.64% in March 2024 to 3.49% in March 2025.

13. Pragmatic ESG management to create value

Moving to slide 14, at Telefónica we have a pragmatic approach to ESG. We work exclusively on those levers that reduce risk and deliver value.

For example, on the Environmental front, we are hedging our energy costs via renewables. 30% of Group electricity consumption is now covered by PPAs.

On the Social side, we are connecting more people while providing secure services. For example, this quarter we blocked 7.8 million cyber threats in Spain.

In terms of Governance, all resolutions were approved at the last AGM, demonstrating shareholder confidence.

Finally, our efforts have led to a positive socio-economic contribution in the communities where we operate and are aligned with the United Nations SDGs.

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

Emilio Gayo - *Chief Operating Officer*

14. Key messages

Thank you, Laura.

So, to conclude my presentation and before we open for questions:

- In the first quarter we continued delivering and executing our strategy:
  - Core units showed a solid performance.
  - We keep on reducing our exposure to Hispam. This allows us to reallocate capital to core markets and core business while reducing leverage. In just three months we executed the sale of Argentina and Peru and the signing of Colombia. We expect to persist on exploring options for all other markets in the region.
  - At the same time, we are focus on capturing further efficiencies.

- We are reiterating all annual guidance, with better comps expected in the next quarters, and as usual, an acceleration in FCF generation along the year.
- We are delivering the positive results that we have shared with you today while we progress on strategic reflection. This reflection is based on our guiding principles.
  - First, customers are at the core of everything we do.
  - Second, technology and operational excellence are fundamental to our businesses.
  - Third, we apply an industrial rationale to all our decision making.
  - Fourth, our ultimate goal is to create value for all our stakeholders.
  - All of this, in a context where we believe that Europe will change. Our priority will be Europe, and we will maintain our leadership position in Brazil as a core market.

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 appreciate your comments, Emilio, about not asking around the strategic review, so I'm going to try and thread the wire on that a little bit. The first question was just to Lutz and VMO2. You did the Daisy deal this week, but you've hit pause on the NetCo process ahead of the strategic review. On that NetCo decision to pause, obviously, you need to get going with fibre expansion plans, and so the question is, do you still see a capability to go after the buy element of your fibre expansion strategy in the coming months, i.e. acquiring alt-nets, and how quickly can we see you starting to execute on that?

My second question was just on Spain. Again, I appreciate we have to wait for the strategic review, but there have been comments attributed to you in the press on the need to consolidate markets in order to strengthen Telefónica's position. In Spain, you're raising prices and growing, but not to the levels of incumbents in concentrated markets elsewhere in Europe. So, the question is, do you see that changing, or is further inorganic effort required on your part? And don't expect any specific comments, but can we assume that your thinking on consolidation in Spain would have to be limited to fixed line, given Spanish mobile has only just consolidated from four to three players, or do you not think you'll be involved in consolidation in Spain in any material way? Thank you.

Emilio Gayo - *Chief Operating Officer*

Andrew, thank you very much for your question. Regarding the Spain consolidation, we don't comment any specific operation. Our priority in Spain is to maintain commercial momentum, to sustain organic growth, and delivering our budget and executing our strategic plan. As a Group, our goal is to reinforce our core markets and core capabilities, with financial and industrial rationale.

We will focus on what we know and how to do as an industrial operator. We have already been an active player in consolidation in our core markets, examples of this are DTS, GVT, e-plus, VMO2…

At the same time, we believe Europe needs large telecommunication and technology companies. We will consider economically profitable in market consolidation, but there will be no European consolidation unless we first consider in-market consolidation. Any consolidation is positive, especially for the sustainability of the sector.

Finally, let me reiterate that our priority in Spain is to maintain commercial momentum, to sustain organic growth, and delivering our budget and executing our strategic plan.

I will let Lutz address the VMO2 question.

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

Thank you, Emilio.

First of all, the Jet deal is a very important step for us as we are creating what we call a B2B ServCo that is obviously operating on our mobile and our fixed network. But it is completely independent from the NetCo approach.

The NetCo, as you have heard, this approach is paused for now, and it's linked to the timings Emilio has shared with us for the strategic review of Telefonica. We are, as we speak, progressing with expanding our fibre network and also upgrading our HFC network to fibre, so that continues. And of course, there are conversations going on with possible consolidations with alt-nets, which is not really dependent on the creation of a NetCo. Back to you, Emilio.

Emilio Gayo - *Chief Operating Officer*

Andrew, I'd just like to remark that we see clear value in developing fibre in UK. Remember that Telefónica is the operator with the most and largest fibre deployment in Europe. And we own eight FibreCos with different models. We believe in the opportunities in the UK market, and we believe that fibre is going to be a key element on these opportunities.

Andrew Lee – *Goldman Sachs*

Thank you. Just to follow up to your comments from Spain, I appreciate you can't comment too much, but you've been having conversations at the EU level. Have those been encouraging on the scope to actually get in-market consolidation deals done in Europe versus previously?

Emilio Gayo - *Chief Operating Officer*

Yes, I mentioned we believe that in-market consolidation has to be the previous step before any European consolidation. Thank you, Andrew.

Mathieu Robilliard – *Barclays*

Good morning. Thank you for the presentation and welcome, Emilio, to the call. I had two questions, please. The first one was on your FCF guidance. So, you've twisted it a bit in the sense that you're now guiding for FCF excluding discontinued operations and the base, to which we should compare it, is a bit higher than it was including those operations, I think it's 2.83 or something around that. So, it does suggest that Peru and Argentina were very dilutive, and I was wondering, is it because in 2024 there was some one-offs? Or was it just generically dilutive? And if we think about the disposal of Columbia and potentially Chile, should that have also a potential accretive impact on FCF when that happens?

And if I may, you say it should be similar, the FCF in 2025 to 2024. Obviously, I'm not a native English speaker, does similar means flattish or is it a bit broader than that in terms of variation?

And then lastly on Germany, 1&1 continues to insist that they will get some low-band spectrum. I don't know if you can give us any update on your thoughts on that one. Thank you.

Emilio Gayo - *Chief Operating Officer*

Matthew, thank you for your question and thank you for your warm welcome. Related to FCF, I would like to reiterate our guidance and I'm going to let Laura answer and give you more details about your question

Laura Abasolo - *Chief Financial and Control Officer*

Thank you, Matthew, for your question.

There were a few questions within the FCF, one was the guidance, another one was the tweaking, and I will explain that has not been the case, and the third one is the Peru and Argentina contribution so far and whether they were dilutive or not.

So, first answer, our guidance remains unchanged. We expect 2025 to be similar to 2024. Similar seems stable, around the same plus minus, you can call it flattish if you want, but I think similar, stable is what we said is and stick to it. We also said under the same consolidation perimeter, and perimeter has indeed changed as Argentina and Peru are now reported as discontinued operations. Argentina has already been deconsolidated since the 24th of February and Peru will be deconsolidated on April 1st.

So, the FCF of Peru has gone through the FCF of Telefonica and Q1 under the discontinued operations line. We are focusing indeed on the FCF generated from continuing operations and, if we do that, the base for 2024 would have improved EUR 0.2 billion approximately. It's not because Argentina was dilutive, it's because of the negative contribution from Peru, which, as you may remember, included payments related to Sunat. So, there was more negative from Peru that offset the positive contribution from Argentina.

On the changing or tweaking of the FCF, I'm very happy to go through full FCF as well. I truly believe that, as these companies are no longer in our perimeter, it doesn't make sense to keep on focusing on that. So, we think continuing operations FCF shows much better the underlying. But, if you include the FCF from discontinued operations as well, then the base will be the 2.6 we reported last year, and we should include the -153EUR million you have on Slide 12, and under that definition we would also give a guidance of a stable FCF.

So, we´d rather focus on continuing operations FCF, but to simplify it, we confirm a FCF under both metrics. So, nothing has changed, we remain with the guidance we provided, and we are very committed and certain that we can achieve such guidance.

And finally, you asked about Colombia and Chile. Chile, there's nothing to report on it, they are just rumours, and we don't say anything about deals until they happen. On the impact of Colombia, I think most of 2025 is going to include FCF of Colombia in any way, so it's too soon to talk about that. We expect the regulatory process to be longer, and we are expecting an outcome around late Q4. I hope I have answered your questions, Mathieu.

Emilio Gayo - *Chief Operating Officer*

Regarding the question about Germany, let me hand over to Markus to give you more details.

Markus Haas - *CEO Telefónica Deutschland*

Good morning, Mathieu. I think, first of all, it's a really big achievement that Germany extended the spectrum for the next five years, this is a real game-changer in the overall context.

To your question, BNetzA's decision to grant 2.5 megahertz in the low bond spectrum to 1&1 is directed to all the three established MNOs. As we all know, Telefonica Germany is already granting a spectrum sublease to 1&1 of 2x10 megahertz in the 2.6 band. This obligation will be extended, and Telefonica clearly will deliver against this request.

On the low band, BNetzA reflects in its decision that 1&1 might want to approach it's national roaming host, Vodafone, for such a grant first. So, Telefonica Germany, from that perspective, is not in the lead for offering additional spectrum in that sense.

Fernando Cordero - *Banco Santander*

Good morning. Thanks for taking my two questions, and also welcome, Emilio, to the call. The first question is on Spain, and as a follow-up on your comment on your priority on the commercial momentum, I would like to understand which are your views regarding one of the key drivers in my view on the current trends on the Spanish market, which is the even higher than 3% growth year-on-year on fixed broadband. In that sense, that growth is allowing all the players to post net adds, and in that sense, which is your view on how long this growth trend can persist, and what are the reasons behind this nice trend of the whole fixed broadband market in Spain?

The second question is for Laura, and particularly on the financial structure. We have seen the disposals of Argentina and Peru, and more are likely to come. I want to understand the impact of those disposals on your balance sheet flexibility, and particularly on the impact on the credit rating. Should we expect that you can just directly reallocate the capital to be extracted from Hispam to any other initiative, or can also we can also expect that the credit ratings may give you more flexibility, given that the risk profile of the Group is diminishing or is being reduced with the exit from Hispam? Just understand if there is a qualitative increase of flexibility on your balance sheet from the exit from Hispam. Thank you.

Emilio Gayo - *Chief Operating Officer*

Fernando, thank you very much for your question, and again, thank you for your warm welcome.

Regarding Telefonica Spain, first of all, I'd like to highlight that Telefonica Spain, in Q1, has had a really excellent performance, with all main services accelerating in their year-on-year growth. We expect in the next quarter to continue with this performance. We don't see relevant changes in the market, with similar trends in terms of competition.

In the case of our revenues, first of all, talking about B2C, I will say that our B2C trends are really excellent too, and we think we are able to maintain these trends, because they are based in structural advantages. We are talking about our brands, we are talking about our customer care policies, we are talking about our networks.

These advantages allow us to see ahead the same kind of trends in B2C. Remember that we maintain the highest ARPU and the highest NPS on the market.

In terms of B2B, we realize that we are performing very well too, and we see growth ahead. The funnels are increasing and our capabilities both in Telefonica Tech and Telefonica Spain allow us to be very positive in the performance for the next quarters.

In terms of wholesale revenues, which are declining, it's something that was predicted. It was based on a long-term agreement that gives us a sustainability and was included in our guidance. We see a strong performance ahead, and we are pretty sure and confident in the performance of Telefonica Spain.

Laura Abasolo - *Chief Financial and Control Officer*

Fernando, thank you for your question. Let me explain the impacts of the announced and executed sales.

The sale of Argentina reduced leverage by 0.02x. In the case of Peru, it will reduce leverage by approximately 0.01x in Q2. But also, it's very important to mention that Telefonica Group will no longer account for the negative operative cash flow nor consolidate the current or potential future debt of the company.

Colombia has a further deleveraging impact. We have accounted in the post-closing, you can see we have included the deconsolidation of the Colombian net debt as of March, and the whole lot will bring our net debt as of today post-closing at EUR25.8 billion.

But as we said, it's not only the quantum, it's not only the ratio, it's definitely the quality of the FCF and I can confirm credit ratings see this as a very clear positive and it will improve the quality of our FCF and the quality of our leverage ratios as well. They also welcome the strict capital allocation, which can be to deleverage. They also welcome when we reallocate to business where there are definitely higher returns, which is the case because we are exiting businesses with lower returns than our core businesses, and they really welcome this simplification of the portfolio.FCFs are higher quality in a simpler organization. All this has been achieved through these three disposals.

On credit ratings, if I may add, we had already the annual meetings with them in the month of April. A stable outlook is maintained as there's no specific concern whatsoever, just the opposite. We ended up the year better than expected and all this strategic capital allocation around Hispam is being a clear positive. Obviously, the strategic review is pending, and we will announce on the second half of the year our findings and we will definitely do a special focus on the financial policy and the capital structure supporting that plan.

Fernando Cordero - *Banco Santander*

Many thanks, Laura. Just to clarify, if I understood you well, what you are saying is that your balance sheet flexibility will improve on top of the pure quantitative effect from the disposals, given the, let's say, lower risk profile.

Laura Abasolo - *Chief Financial and Control Officer*

Absolutely. That's right, Fernando.

Akhil Dattani – *JP Morgan*

Good morning, and thanks for taking the questions. I've got two as well, please, if I can. The first was just on changes that have been made to the organizational structure of Telefonica year to date. I just wondered if you could quickly update us on the major changes, I guess, we're aware of obviously, Emilio, you coming in as the COO, we've had a change in Spain and change in Telefonica Tech. I just wondered if there's any other major changes you'd highlight? And if you could maybe just help us understand the general thinking behind these changes. Is it just a new COO and a need to or desire to create some change or the specific initiatives in terms of what you're hoping to bring into the Group through these changes?

Then, the second question is around, I guess, a much bigger picture question around the strategic review. It's not about any details, it's just more about the philosophy behind it. You've probably seen there've been rumors around you as a Group looking at some pretty transformational potential moves to the group as a function of that strategic review. I guess what I'm trying to understand is when we see headlines on Bloomberg in regard to maybe a potential rights issue, maybe dividend cuts, I guess what I'm trying to say is could those sorts of major capital allocation changes end up being part of this? Or should we, and so therefore, anything and everything is on the table or are these things being maybe slightly overplayed in the press and these are more evolutionary rather than transformational? Thanks a lot.

Emilio Gayo - *Chief Operating Officer*

Akhil, thank you very much for your question. Talking about the organization, we have done some changes related to some movements that have produced in the company. The rationale is to assure that we execute in the same way, and we execute our plan and deliver our budget. This is the main rationale of all changes that we have done.

Regarding if there will be more changes after the strategic plan, I will not comment anything because it depends on the strategic review. We will see the results and we will share with you in the second half of the year any kind of change or any kind of transformation that we decide or not decide to do.

Laura Abasolo - Chief Financial and Control Officer

Akhil, thank you for the question. On the part of the transformational versus evolutionary movements on the capital structure, as everything else, it's really too soon to say anything or cover that.

This will definitely be part of the strategic review we are undertaking. We are going to review our capital structure, which is the base that will support the rest, and will support best the plan.We will present our conclusions, as everything else, in the second half of 2025.

Let me share some points on the flexibility with which we start this strategic review. I think the fact we are reducing our exposure to Hispam, the new Group being much more focused on core operations could support higher leverage than the previous configuration of the Group. We continue with a very strict capital allocation policy. Leverage ratio needs to be also in combination with the decreasing quantum, quality of FCF, liquidity, life and cost of debt as I always emphasize. Asset recycling into a the FCF generating business is also part of the debate.

We have plenty of options and, as I said at the beginning, the strategic review will include the most suitable capital structure to support this plan, and you can be sure that we will always look to finance anything in the most efficient way to maximize shareholder value. As we said in the presentation and Emilio also mentioned, within the guidelines of our strategy framework, one of them, and probably the most important, is the value creation for all stakeholders.

James Ratzer - *New Street*

Good morning and thank you for taking my two questions. The first question was, coming back to the FCF guidance, thank you for the new base figure you've given. I think if I look at EUR2.85 billion as the base for 2024, you're saying that will be flat or stay similar on an organic basis. So, I'm estimating you'll have around EUR100 million to EUR150 million of FX weakness this year, assuming current FX rates are broadly stable. So that would mean you should report around

EUR2.7 billion to EUR2.75 billion of continuing operations FCF. Consensus though on the sheet you sent around is at EUR2.4 billion. So, when you look at the consensus figures you've gathered, where do you think they're too low? Which line items stand out to you as a EUR300 million to EUR350 million gap is reasonably sizable?

The second question I had, and maybe this is one for Markus, is really on Germany. I think a lot of people have been rather worried about what could be a kind of pending mobile price war in Germany. And yet this quarter your O_2 contract ARPU has recovered very strongly to being stable, having been down 3% in Q4. Now I know there's a bit of an MTR boost in there, maybe about 140 basis points of that recovery. But what else has really led to that improvement in ARPU you've seen in Q1? Can a stable ARPU be maintained for the year, or can that maybe even get better through the year? It'd just be great to hear your views on how you're actually seeing the competitive environment in Germany and ARPU developing through the year. Thank you.

Emilio Gayo - *Chief Operating Officer*

James, thank you very much for your questions. Laura and Marcus will answer them.

Laura Abasolo - *Chief Financial and Control Officer*

Thank you, James.

I'll start with the FCF question. As you said, the basis for FCF from continuing operations to remain stable is a combination of many things, as usual. The most important is the growing organic EBITDAaL-CapEx, which is embedded in our guidance in 2025.

It's true that FX could affect somehow negatively, but please let me remind you that there's a very large natural hedge from FX at FCF level, and you see how much the impact we have in revenue diminishes as we go through the final FCF. Also, as we do every year, we have hedged quite a lot of our FCF coming from Brazil already, so the impact from FCF will be minimized.

On that, growing organic EBITDAaL-CapEx, all our three main markets are growing operating cash flow in organic terms, and as I said already, the quality of that is larger as we are removing the FX volatility in Argentina and the uncertainty on future FCF impact from Peru.

Below that, we will continue managing every line. There's a gap versus consensus but let me tell you that last year we overperformed on consensus and also overperformed on our guidance, so we have a good track record on managing every line below EBITDAaL-CapEx.

We should expect a positive working capital contribution in 2025, and lease payments are less affected by changes in volume and lower inflation. We also expect very stable debt-related interest costs, very proactively managed, and to continue to optimize taxes. Dividends from VMO2, as we already announced, will be slightly lower, but we also have normalized hybrids and personal payments, which are now part of the FCF. So, nothing besides the very granular management of every single line.

Hispam still brings some uncertainty on the performance, although commercial performance has improved, as Emilio explained, but that needs to be settled. Argentina and Peru have already been sold. We are waiting for regulatory authorizations in Colombia. Some things may come, but the important is the strength of the core FCF as the pillar, and the strength and management of the other financial items that we will continue managing in the right way.

Markus Haas - *CEO Telefónica Deutschland*

On Germany, the overall mobile market structure remains intact. Yes, we saw some more promotional activity in the first quarter, but overall, I think the market is growing, and there's growth potential for all players in the market, because there's still more demand for mobile data.

On Telefonica Germany, on our commercial strategy, we remain committed to profitable growth on the back, clearly, of a fair share of available gross adds in all channels. Having said that, I think you mentioned the point, we drive in the mixed profitable growth, and we have been able to stabilize our ARPU, maybe as the only player in the German market, even taking into account the ex-MTR effect that you mentioned. So overall, we drive in the mix of high value, mid value and low value profitable growth and see a good momentum with our own offers. So, we are not worried about the market structure, that's the first message.

Second message, clearly, yes, there are promotional activities, but in the mix, and that clearly shows the stable O_2 postpaid ARPU, the key revenue source, and we clearly see that we are able to drive profitable growth.

Keval Khiroya – *Deutsche Bank*

Thank you for taking the questions and I have two, please. So firstly, you've been quite vocal on consolidation benefits at a high level. Do you think there would be benefits of mobile in-market consolidation in Germany? Or do you feel you're now very much on a standalone path after you've evolved your strategy post 1&1 leaving your network?

And secondly, the Spanish headcount reduction benefits drop off in Q2. Will you have other OpEx cuts which come into effect to allow domestic EBITDA growth to accelerate? And if so, would you be able to elaborate on the source and magnitude of those, please? Thank you.

Emilio Gayo - *Chief Operating Officer*

Keval, thank you very much for your questions.

Regarding consolidation, especially in Germany, our priority in Germany is to grow our business organically. We see ahead opportunities, as Markus mentioned before, leveraging our network and our brands.

It's true that we believe Europe needs large telecommunication and technology companies, and market consolidation is needed to have a strong European telco sector. In Germany, there are already three "very good" mobile networks and we don't see much space for a fourth one. We have a responsibility to consider all options, of course, but let me stress that our priority in Germany is organic growth.

Regarding the question about the redundancy plan in Spain, our expectation is 2025 EBITDA to show higher year-to-year growth than in 2024. This is based on retail revenue growth. Remember that our retail revenue growth is growing above the inflation, and we have some tailwinds coming from the redundancy plan that we than we launched last year.

The technological transformation, both in IT networks and the shutdown of the copper, allows us to see more efficiencies. At the same time, all the simplification that we are doing in Spain, both in network system processes, permit us to see, again, more efficiencies. Artificial intelligence and automation permit us to see commercial efficiencies, too. There are many examples that permit us to further this efficiency, and, with these, we believe that we are able to maintain our business level, our performance, and financial KPIs.

Emilio Gayo - *Chief Operating Officer*

Thank you very much for your participation. We hope we have provided some useful insight for you. Should you still have further questions, we kindly ask you to contact our Investor Relations Department. Good morning and thank you very much.