Telefónica

RESULTS 2026 Q2

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Torsten Achtmann – *Global Head of Investor Relations*

Good morning, and welcome to Telefónica's conference call to discuss January-June 2026 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.

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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. Now let me turn the call over to our Chairman and CEO, Mr. Marc Murtra.

Presentation

Marc Murtra - *Chairman and CEO*

Q2 26 Results

1. **Strong execution drives consistent and resilient growth and adj. OpCFaL guidance upgrade**

Good morning, everyone. I am here today with Emilio Gayo, our COO, Juan Azcue, our CFO, Borja Ochoa, our CEO for Telefónica Spain, Santiago Argelich, CEO for Telefónica Germany and Lutz Schüler, CEO of VMO2.

At Telefónica we have taken on the challenge of becoming the best gateway for citizens to access digital technologies. We are doing it through our Transform & Grow strategic plan, which, as we will explain in this presentation, is turning our ambition into results through disciplined execution.

This slide shows the strong execution achieved in the second quarter, delivering against our strategic roadmap and driving consistent and resilient growth.

We accelerated y-o-y growth in constant terms in adjusted EBITDA and adjusted OpCFaL at the Group level, as well as in Spain and Brazil. In Germany, we continued to grow in adjusted EBITDA ex 1&1.

In addition to strict cost control, we continued to foster efficiency gains through redundancy programmes, AI, automation, channel management, legacy shutdown, tech and operational excellence.

We continued with commercial traction leveraging network leadership. In Spain, we recorded positive net adds in main services for 12 consecutive quarters, in Brazil we recorded growth in value accesses again and in Germany, churn remained at a low level.

FCF reached €611m in the quarter, €278m more than in the previous quarter. FCF is back end-loaded, accelerating in H2.

We have further deleveraged to 2.68x, reducing net financial debt to €25.3bn.

The improvement in operating leverage and in Spain and Brasil gives us the confidence to upgrade our Group 2026 guidance for adjusted OpCFaL from our previous guidance of over 2% to over 3%. We are on track to fulfill 2026 guidance in all other metrics.

Nevertheless, due to the weakness in handsets mainly in Germany, we expect to be at the low-end of our revenue growth range. The more important service revenue growth is at a healthy 1.0% in the H1.

While we maintain our adjusted EBITDA guidance, we expect to be at the high-end of the range due to our good performance in Spain and Brasil.

Finally, 2026 dividend of €0.15 will be paid in June 2027. To note that we paid the 18th of June the second tranche of the 2025 dividend, €0.15.

2. Consistent execution of Transform & Grow plan in Q2

On slide two, let me walk you through the progress we have made across the strategic pillars of our Transform & Grow plan.

On customer experience, accesses grew 5% year-on-year and NPS remained sound at 34. Spain and Brazil reached historical low levels of churn.

In B2C, we delivered 1.4% year-on-year growth. In Spain, Movistar Plus launched Plan Libre Cine y Series and Movistar Fast Pass. Brazil is the first player offering complimentary access to Google Gemini AI Plus. Germany strengthened the convergent offering with new bundles. UK O2 Satellite is now supported on iPhone and Google Pixel devices, and we launched a partnership with Monzo.

In B2B, we continue to build on our strong momentum with revenue growth of 6.7% year-on-year. In Spain, we strengthened our sovereign cloud proposition, while in Brazil we launched a partnership with Ecovias, in Germany with EWE and Deichmann.

In addition, our infrastructure expanded in fibre to 77 million premises passed and 5G coverage to 83% on average in our core markets, while improving network quality. We completed the deployment of 17 Edge nodes in Spain and are participating in the Spanish AI Gigafactory consortium.

Fifth, on simplification, we are capturing the efficiencies from redundancy programs and legacy networks switch-off. Notably, in Germany we are starting an operational and strategic reorganization, that Emilio will explain in more detail later.

Overall, these achievements demonstrate the consistent execution of our Transform & Grow plan.

I will now pass the presentation to Emilio for the operating business review.

Emilio Gayo - *COO*

3. **Spain: Steady operational momentum accelerating financial growth**

Thank you, Marc. On slide three, we review our domestic business.

In the second quarter of the year, Telefónica España continued to excel, delivering strong commercial and financial performance.

Quarterly net adds were solid again:

FBB was supported by more connections in secondary homes.

Contract net adds almost doubled quarter-on-quarter, with top portability results, well above 2025 average.

TV accesses increased by 7%, supported by the broadest and most differentiated content proposition in the market and by excellent retention of sports customers, enabled by our unique offering of football leagues and tournaments, including Spain's recent World Cup victory.

This commercial momentum is underpinned by our differentiated strengths:

First, our 100% fibre and 5G standalone networks.

Secondly, our focus on delivering excellent customer service resulting in the lowest ever volume of complaints, down 34% year-on-year.

AI personalized campaigns are allowing us to increase upselling, retention and sales by close to 20%.

The use of AI is also improving network operation, reducing by 70% the time invested in software upgrades, and therefore, enhancing network and service quality.

We continued to enhance our flexible and transparent B2C offer, bringing innovation to our customers with AI solutions and Movistar Fast Pass, a new service that allows differential connectivity while in high-density events, like concerts.

In addition, our B2C ecosystem continues to gain traction, with alarms business growing double digit and three out-of four customers adding a device. These services increase customer engagement and revenue, while reducing churn.

We have registered the lowest churn rate ever, 0.7% , while convergent ARPU grew slightly and remains above €91, the highest in the market.

In B2B, our premium digital services continue to fuel growth steadily and already accounts for more than 50% of B2B revenue.

We have the best-in-class value proposition with services such as "Titán Connect", for business continuity, or the recent launching of our new managed cybersecurity services for the mid-market. These are examples of new levers that allow us to continue growing.

We would also like to highlight two key strategic projects that strengthen our digital sovereignty. First, the deployment of our leading Edge Computing network, with 17 nodes already activated. Second, the Spanish Consortium that will bid for the Spanish AI Gigafactory, where we have a minority stake holding. We are the tech partner in the consortium.

Regarding financials, Spain is achieving solid cash generation with growth acceleration across all KPIs.

Growth in revenues accelerated to 2.9% year-on-year, supported by better service revenue as a result of increased retail revenue that helped offset the expected decline in wholesale revenue

Adjusted EBITDA growth accelerated to 2.3% year-on-year, due to higher revenue growth and savings from the redundancy plan

In addition, CapEx discipline and the more stable leases led to a 3.7% growth in adjusted Operating cash flow after leases.

In short, our domestic business is a strong operation, delivering steady growth across the board, and we expect better year-on-year performance in H2 vs H1 in key financials.

4. Brazil: Delivering strong operational and financial growth

On to slide four.

Telefónica Brazil continued to deliver financial growth ahead of inflation, supported by strong commercial execution and margin expansion.

Operationally, we remained focused on growing our contract mobile and fibre accesses, while maintaining pricing discipline and delivering best-in-class customer experience.

In mobile, contract net adds grew 6% year-on-year underpinned by our differentiated value proposition and unique assets, as brand and network. Meanwhile, churn remained low at 1.1%, confirming the depth of our customer relationships and loyalty. Total mobile ARPU increased by 5.7% , as customers migrated to higher-value plans and use more data.

In fixed, momentum remained high, with double-digit growth on continued demand for premium connectivity and digital services.

In convergence, VIVO Total clients up 29% year-on-year, this validates the attractiveness of our convergent proposition and its ability to capture even more customers.

Revenue and adjusted EBITDA grew year-on-year well ahead of inflation, both accelerating from the previous quarter once again.

Revenue mix continued to evolve with growing relevance in contract, fibre and new business.

In B2C, performance showed the strong acceleration of new digital services, growing 33.6% over the last twelve months. This shows the sustained expansion of VIVO's ecosystem and the effectiveness of our strategy to deepen customer engagement, drive cross selling, and extract greater lifetime value from our existing base. Noteworthy, consumer electronics recorded the highest year-on-year growth in three years. In addition, we've scaled our financial services with

Vivo Pay's new installment plan, simplifying device financing for customers while driving revenue and strengthening loyalty

In B2B, digital services delivered outstanding performance, with Cloud and Digital Solutions revenues growing over 20% in the last twelve months. This growth, driven by the accelerating demand for digital transformation across multiple industries, underscores our evolution beyond more connectivity and positions Vivo as a trusted digital partner for enterprise customers. In this quarter, Vivo and EcoRodovias joined in a partnership to expand mobile coverage in over 400 kilometers of interstate roads in the states of Goiás and Minas Gerais, benefiting 1.4 million people.

Vivo remains committed to driving operational efficiency. Its largest ongoing initiative is the development of an AI-powered customer service concierge designed to enhance customer experience across billing, maintenance, and technical support, aiming for 70% of customer interactions to be resolved by digital agents.

All this, along with ongoing efficiency measures across both owned and leased infrastructure, translated into adjusted EBITDA and adjusted OpCFaL growth of 11% and 18% year-on-year, respectively.

Overall, Vivo has reinforced its leadership position by combining strong commercial momentum with sustained financial growth. In H2 we expect similar trends to Q2.

5. Germany: Focus on value-over-volume; 1&1 effects to annualise in H2 26

Moving on to slide five to discuss Germany.

Q2 financial performance reflects a combination of a continued weaker trend in handsets in select channels and headwinds in the partner business.

Revenue in Q2 declined over 11% year-on-year.

The decrease in revenue is mainly due to lower handset sales, down 26%. We saw healthy consumer trends for O2 My Handy, while supply chain and our focus on profitability resulted in a decline in third party channels sales, typically with very low margins.

Mobile service revenue continued to reflect the headwinds in the partner business, which, for the most part, is now behind us.

By contrast, fixed revenue posted another quarter of solid growth, 6.5%.

Adjusted EBITDA trend improved to minus 7.2%, reflecting efficiencies, stringent cost management and a better revenue mix. These measures led to a margin expansion, reaching 32.7%.

As we move into H2, we expect comps to get easier towards year-end as we will have already included most of 1&1 customer migration effects in H1. At the same time, we will continue to monitor the handset sales in third party channels and the supply chain with a focus on value.

T. Deutschland continues to execute a deep strategic transformation across the company to focus on profitable growth. First, on the commercial front:

A sustained shift to a value-over-volume strategy, with a deceleration in contract net adds quarter-on-quarter. However, the O2 contract churn remained at a low level of 1.2%, while the decline in ARPU reflects a higher share of 2nd and 3rd SIM cards.

Let me highlight the launch of the O2 Mobile Plus bundles in June. These are further promoting our value focus by fostering convergence. The combination of a first SIM with a second product ensures a minimum bundle price of €30. We also continue focusing on ensuring support and leveraging our My Handy model to complement these offers.

In fixed broadband our momentum remains healthy, with accesses growing for the 4th quarter in a row driven by both, demand for cable and fibre.

We are also transforming our B2B business, having restructured and transformed our channels and strengthened our partnerships. For example, we have reached an agreement with Deichmann to expand the use of standardised SD-WAN infrastructure in nearly 5k shops across Europe. Also, JYSK has selected us as its partner for the digitalisation of its 900 stores in Germany.

In B2P, we are working on upgrading our Partners value proposition and continue evolving our partner base, launching a strategic mobile MVNO partnership with EWE.

The company is also making progress in the execution of a new operating model to address technological change, changing market conditions and new customer demand. These enable us to run a leaner operation.

Telefonica Deutschland has announced an operational reorganisation that implies a reduction of around 1,100 full time employees in 2026 and the closure of 60 underperforming own shops. The company will address further rightsizing measures in 2027-28 with a focus on streamlining its customer service organization and its overall retail footprint.

In this context, a provision of €265 million has been recorded in Q2, and we expect additional restructuring provisions of up to €155 million to be booked most likely in H2 26.

As a whole, annual run-rate savings of around €185 million will be achieved in 2028, starting at the end of current year.

These measures are part of the transformation we are implementing in Germany, with no impact on our guidance.

In summary, T. Deutschland continued to progress in its Transform and Grow strategy in Q2 and maintained resilient underlying performance. With the execution of the transform and grow strategy we are preparing the company to return to profitable growth next year.

6. VMO2: Executing the plan to drive future value

Let’s move to slide 6.

VMO2 results are negatively impacted by weaker handset trends and a market that is affected in fixed and mobile mainly by altnet specific impacts. Nonetheless, results are in line with our expectations.

From this backdrop, VMO2 continues to execute against its strategic plan and achieved several strategic milestones during the quarter, supporting long-term value creation like:

An agreement with Monzo to launch Monzo Mobile, further reinforcing O2's position as the trusted partner of choice for MVNOs in the UK.

The new O2 Business brand, bringing together VMO2's national network scale with Daisy's expertise in connectivity and IT solutions to create a stronger proposition for business customers.

Expanded network leadership, with almost 9 million gigabit-enabled premises and the UK's largest 5G Standalone covering 87% of the population.

From a commercial perspective, VMO2 showed improvement in Q2:

In fixed, we reduced year-on-year subscriber losses while the consumer ARPU decline of 4.6% reflects competitive intensity in the broadband market.

In mobile, consumer ARPU remained stable due to our focus on value management.

In Wholesale, we maintained our strong leadership in MVNOs while continuing to build capabilities in fixed wholesale.

In addition, VMO2 confirms 2026 guidance in both revenue and adjusted EBITDA supported by on track first half performance.

Service revenue declined 3.9%, mainly due to continued pressure on consumer fixed and the streamlining of the product portfolio in business.

Adjusted EBITDA decreased 2.9% and remains at the high end of the guidance range.

Finally, we progressed the Netomnia acquisition to a fast-track referral to Phase 2 to reach a final approval quicker.

I will now hand-it-over to Juan, who will provide a more detailed overview of our financial performance.

Juan Azcue - *CFO*

7. **Financial performance: Third Q in a row of constant and current growth in key KPIs**

Thank you, Emilio.

Moving to slide 7, let me take you through the financial detail for the quarter and the first half of the year.

Second quarter is the third consecutive one we are growing simultaneously at constant and current rates in key KPIs.

Foreign exchange was a tailwind in Q2 mainly due to Brazilian reais appreciation vs euro.

In constant terms, we would like to stress the positive underlying momentum of our business. At Group level, revenue slowed down vs. Q1 due to a greater decline in handset sales in Germany, as Emilio previously outlined. Service revenue is the key metric and here we are maintaining trends with 0.9% growth year-on-year, mainly driven by acceleration in Spain and, to a lesser extent, Brazil. Looking at the revenue mix, B2B is up +6.7% while B2C is up +1.4%, more than compensating the wholesale decline.

Adjusted EBITDA and adjusted OpCFaL ramped up to +2.7% and +2.9% respectively, thanks to the increase in operating leverage. OpCFaL margin increased 0.4 p.p. year-on-year in both Q2 and H1.

CapEx over revenue stood at 11.6%, flat year-on-year vs H1 25.

Current FCF is €611 million, improving €278 million versus the first quarter, but still reflecting the usual seasonality in the first half, reaching €944 million.

Net financial debt declined to €25.3 billion.

8. Confident in FCF trajectory, improvement in Q2

Moving to slide 8.

During the second quarter, FCF declined year-on-year primarily due to working capital movements.

However, as I have just mentioned, quarter-on-quarter FCF improved due to an improved WC. As such, it reached €944 million in the first half of the year.

We are confident about the FCF generation, as it has been de-risked and will gain traction heading to our target, which is reaffirmed today. The reasons are:

Further acceleration in the second half due to its back end-loaded profile

More predictable and less volatile FCF, and…

Financial discipline on all the lines below adjusted OpCFaL

In summary, confident in FCF trajectory, improvement in the second half coming.

9. Leverage reduction, sound liquidity and lower interest costs

Moving to slide 9.

I would like to highlight our commitment to the investment grade credit rating, with a clear deleveraging strategy in place, with a target of ~2.5x by 2028. We have made solid progress in the first half of the year to achieve such target.

In the second quarter, our net debt to EBITDAaL ratio reached 2.68x from 2.72x in March.

On financing, Telefónica has demonstrated market execution this year aiming to achieve best timing and results.

During the second quarter, we diversified our funding sources with the Australian dollar inaugural bond issuance, having completed 5 financing transactions YTD, raising €4.5 billion long term financing at the Group ahead of recent market volatility while maintaining an ample liquidity position.

Finally, our interest cost payments decreased in the last 12 months from 3.23% to 2.95% as of June 26.

In summary, leverage reduction, sound liquidity and lower interest costs.

10. Continued progress across the sustainability pillars

See slide 10 for the Board-approved 2026-2030 Sustainability Plan, which will drive value creation across four dimensions: growth, efficiency, investment attraction and risk mitigation.

The Plan is structured around three pillars, Environmental, Social and Governance, deployed through 12 strategic lines that connect sustainability initiatives directly to operational management and business results.

On our quarterly progress, to highlight:

We updated our Climate Action Plan towards net zero, driving resilience and competitiveness, while helping customers address environmental challenges, such as reducing water use in water-stressed areas.

We have supported Venezuela through free calls and Wi-Fi, communications recovery, and humanitarian assistance.

We remain committed to integrity, with an updated Code of Ethics & Conduct and new training.

Finally, our efforts continue to be recognised externally, with inclusion in the Dow Jones Best-in-Class Europe Index, the CDP Supplier A List and Europe's Best Employers 2026 ranking.

Now, I would like to hand over to Marc, who will cover the main takeaways.

Marc Murtra - *Chairman and CEO*

11. Key takeaways: Another quarter of progress

Thank you, Juan. Let me close with where we stand and where we are heading.

Continued momentum in the second quarter is yielding results on consistent and focused execution of our Transform & Grow strategy.

Again, growth in both constant and current at Group level, alongside accelerated growth trends in adjusted EBITDA, adjusted OpCFaL and expansion of operating leverage.

We extended investments in leading networks, enhancing customer experience and commercial performance.

This happened jointly with better financial performance in Spain and Brazil, while in Germany we continue to execute a strategic transformation. Our FCF improved and de-risked, expecting a better H2 performance.

We are upgrading our adjusted OpCFaL to over 3% from over 2%, reiterating the rest of metrics and our dividend of €0.15.

We are on track to be the best gateway for citizens to access digital technologies, and to become a best-in-class telco worldwide by 2035.

Thank you for your time. We are now happy to take on your questions.

Q&A Session

Andrew Lee – *Goldman Sachs*

Good morning, everyone.

I had two questions, one on Spanish competition and the second on capital allocation priorities.

On Spain, clearly good trends in the quarter. Could you just give us, obviously, you highlighted strong execution and good upselling in the mid and high tiers, and we know there's a good macro backdrop. Could you just talk about the competitive intensity in the market? Do you feel competition at the lower end is reducing? Do you feel like your price rises are landing better? And on this front, I know you're saying you expect better year-on-year performance in H2 versus H1, which is already fairly strong.

Do you think that the second quarter, 26 service revenue growth of plus 2.9% is sustainable into the second half? So that's on Spain.

And then just on capital allocation, a normal question really, any update on priorities and specifically on your consolidation intentions and then specifically on that, do you think it's helpful to wait to see how French consolidation approval is going? I know that's coming from French authorities, but likely the EU will have a hand in that as well. Do you want to see how that's going before making any moves, and if so, when do you expect to get that insight? Thank you.

Marc Murtra – *Chairman and CEO*

Emilio will answer the first question, and I'll answer the second question.

Andrew, thanks. This is Marc.

Emilio Gayo – *COO*

Andrew, thank you for your question regarding the Spanish market.

As we are seeing in Q1, Q2, we expect the same trends in terms of competition in the next quarter.

We are seeing that our strong performance and our strong assets permit us to compete very well in all the segments, especially in the high value, but also in the low value segment. When you look at the results, I would like to highlight the churn. The churn demonstrates the strong engagement that we have with our clients and the strong position that we have in terms of customer service, network, brand, channels, and products. Let me say, too, that our offering in the high value, based on our superior content strategy, permits us to maintain the highest ARPU in the market in this quarter, being able to increase year-over-year.

Then overall, our performance is strong. We think that we are able to sustain this growth in terms of B2C, and in the terms of B2B, we even are seeing better trends because we are able to develop different products and services even better than before. We are foreseeing different new revenue streams that permit us to be very optimistic. Together with our position in cybersecurity, cloud, IoT, and so on, we have a strong position for the future revenues coming from sovereignty or from defense.

Overall, together with our strong position and efficiency measures, this permit us to be confident in the improved results compared to H1, and to have a very sustainable business for the next quarters.

Marc Murtra – *Chairman and CEO*

Regarding the second question.

We can see that the new documents that the European Commission has made public with regards to M&A guidelines are a Copernican change. We can see and we can read that the definition of the market changes, and it's not so close, and it's an open definition and they very clearly state that they will be looking into what sort of investment and technological know-how a potential consolidation creates. And we can hear political leaders talking about the social contract concept. So, we can read this as a change and all our peers read it as a drastic change and a very positive change.

With regards to France, our view is as you know we don't talk about specific M&A options till it is done, it doesn't make sense. We think now we're in a phase where the market has to play its magic and this is not a 24-hour occurrence in in any case, and for us we need to, any potential deal has to have very specific cost and network synergies, the price has to be right, let me underline that, the price has to be right, and the potential accommodation with the regulatory authorities.

With regards to France, we can see that it has gone to the French authorities, the French competition authorities, that is a very interesting sign. I think another reading we make is that the operation went ahead just after the April M&A guidelines interpretation was made public, but with regards to your question, no, we do not subject our timing and our doing to any specific operation like that. We do believe that such a large operation with four players is proposed if they see a clear if they see a clear path going forward. But this is just our reading, Andrew.

Carl Murdock-Smith – *Citi*

Two questions, one on guidance, one on Spanish workforce restructuring.

Firstly, I wanted to ask why there's no EBITDA guidance increase this quarter from your guidance of 1.5% to 2.5% growth for the full year.

So, you've done 2.3% EBITDA growth in H1, including 2.7% in Q2, so above the range in Q2, and in H2 you'll increasingly lap the one, one drag in Germany. You said that you expect the Spanish EBITDA to be stronger on H1 and Brazil for the second half you were saying to be similar to Q2 which was double digit growth. So, what's getting worse elsewhere in the group or are you just being conservative?

And then secondly, to what extent will there be any incremental quarter-over-quarter benefit from Spanish workforce restructuring in Q3 or was Q2 nearly at full run rate? So, at Q1 you commented that Q1 had €20 million of the €250 million of benefit workforce restructuring over the full year. So, can you just provide an update of how much benefit you saw in Q2? Thank you.

Emilio Gayo – *COO*

Thank you very much for your questions.

Regarding the first question about the EBITDA guidance, as you mentioned, we are seeing a very strong performance in our Spanish operation. I explained in the question before what the reason for this strong performance is. At the same time, we are putting on the table really an extraordinary set of results in Brazil in all the financial metrics.

In the case of Germany, we are expecting to improve trends during the second half, but we are in the middle of a transformation plan, a transformation plan that tries to work over all the aspects. First in the commercial aspect, changing our strategy from volume to value. Secondly, in the operating model with the restructuring plan that we have announced recently.

We are saying that we are looking or we have to look to finish the year with the EBITDA at the high range of the guidance. We want to be prudent at the same time, and we want to maintain some flexibility because the transformation of a company is not something that you can be sure when the things happen. We are pretty sure about the measure that we are doing. We are very confident with the execution of these measures, but things can take more time than you expected at the beginning, facing the different activities that you are doing and it means that if you want to be a prudent manager and you want to be flexible to take the right decision in any moment, it is better to act in this way.

Regarding the second question, as you mentioned, we have achieved in the Spanish operation €20 million savings in the first quarter. We are close to €90 million in H1 and we expect to reach the €250 million that we planned at the beginning of the redundancy programme at the end of the year. We are on track, even I would say that it is slightly better than we expected. But we are on plan and we feel that we will obtain the savings for this year and the savings for 2027 and 2028 that we have planned from the beginning of the redundancy programme.

Joshua Mills - *BNP Paribas*

Hi guys. Thank you.

A couple of questions from me, one on the UK and one on Germany.

So, as we saw last week with the VMO2 results, there are some quite tough trends in that market, and the leverage is now at 5.9x above the 4x to 5x range targeted on the conference called. Liberty made the point that you and they are very aligned about plans for that asset and discussed potential organic or inorganic deleveraging strategies.

My question is given your previous commentary around the focus on the UK as a core market and the focus on infrastructure ownership at a high level. How do you think about the potential for asset sales potentially writing third party financing in order to bring that leverage down? And if you're not thinking about that, how do you look at the future leverage profile of that business and your ability to take cash out of it in the form of dividends? Any high level comments would be very much appreciated, I think.

And then secondly, on Germany, you've talked about the financial trends improving in the second half. It does look like some of the operational performance on net ads and sharing is a little bit weaker. And so, as part of your cost-cutting plan and the plan to reduce store count, do you feel the need to lean a bit more heavily on third-party operators like Freenet, and specifically on the Freenet point given you're in negotiations around an MSP deal can you give us an update on how those talks are going? Thanks very much.

Juan Azcue - *CFO*

Okay. Thank you, Joshua, for the questions. I'll take the first one on the UK.

So, as an overarching reflection VMO2 is a strategically important UK asset. It's the largest mobile network and the second largest fixed provider in the country. Both Liberty and us are fully committed to its success and are completely aligned.

VMO2 has been investing in its future growth and competitiveness. I recognize that the current leverage the 5.8x is not where we want to be, and we want to deleverage faster towards the 4x to 5x range that you mentioned.

Both Liberty and us are committed to be proactive, managing the balance sheet, and we have the levers to pull to materially increase free cash flow and accelerate that deleveraging. We are working closely also with VMO2 on updating the company's long-term business plan, including organic and inorganic options.

Growth levers will include immediate and short-term OpEx and CapEx efficiency opportunities that we see, and longer-term opportunities such as B2B, fixed-mobile convergence, or the wholesale opportunity. Then finally, I would like to remind you that we don't have refinancing maturities until 2029, so we don't need to access the market right now. What we have to do is take action to create a plan that accelerates the deleveraging that you're mentioning, and we plan to do so.

Santiago Argelich – *CEO Telefonica Deutschland*

Joshua, regarding, your question on Germany, we continue focusing on our own customers and strengthening our value-over-volume strategy.

However, we also have a strong partnership with a number of players, a number of partners in the German market. One of those is Freenet, with whom we have ongoing commercial arrangements that we obviously discuss and try to improve over time on a continuous basis. We also have been working on strengthening the relationship with other partners like our historical partner, ALDI TALK, but we're also opening the network to additional partnerships that we will be announcing in due time.

James Ratzer – *New Street*

Yes, thank you very much indeed. Yeah, good morning. So, I had a couple of questions, one on Spain, one on Germany, please.

So, on Spain in particular, your retail revenues really strongly accelerated in Q2 from the trends we've seen in the past kind of five or six quarters. And it seems it specifically comes from some of your kind of non-converged services. So, I was really interested in digging in what specifically changed in Q2 that wasn't there, say, in Q1 or Q4, that drove that pickup. And how sustainable is that specifically going into the next couple of quarters.

And then secondly on Germany, I'd love to dig in a bit more about thoughts around revenue growth, because you've talked here about a new cost reduction plan, but what we see increasingly worldwide is that operators with kind of spare mobile capacity and lack of fixed infrastructure are pushing into FWA, and we've seen that's been quite a big support for revenue growth for some other operators worldwide. You've obviously lost capacity utilization with the 1&1 migration, so why are you not being more vocal about wanting to push into FWA as a potential source of revenue growth in Germany? Thank you.

Emilio Gayo – *COO*

James, thank you for your question.

Regarding the Spanish market. Again, we are seeing very solid performance during these quarters. Perhaps a main differentiation these quarters is the management that we have done in the base of football subscribers, that probably with some AI tools that we have used and with the rights that we acquired of the World Cup, we are able to manage in a better trend.

That is a trend that we can sustain in the third quarter, fourth quarter, because when you are able to maintain the football clients during the second quarter, they stay in the third and fourth quarter.

The rest of the things that are happening in the market are the things I mentioned before. We are working very hard in the service excellence. Working very hard to launch new products and services, both in B2C and B2B, and we feel that all these efforts are sustained for the next coming quarters.

There is no magic behind the revenues of Spain. There is a lot of work, a lot of right strategy, a lot of products and services that make sense, a lot of right selection of contents in our TV, and a right ecosystem. For example, we always mention the alarm business. We had, 5 years ago, less than 200,000 clients, and we have close to 700,000 clients today.

These are the samples that permit us to be confident in the future of Telefónica Spain in the retail business.

Regarding T. Germany question, I'm going to hand it over to Santiago to give you more colour about it.

Santiago Argelich – *CEO Telefonica Deutschland*

James, to your question on Germany, what we are seeing in Germany is a more disciplined promotional activity, despite some examples around the Football World Cup that we saw, but overall, we see inflection point from the last two years with very intense promotional activity.

That obviously sets a transition in terms of gross adds, net adds, as well as ARPU.

Now, to your concrete question about fixed wireless access. Now, we use fixed wireless access in an opportunistic way, where we do not have possibilities to use other technologies. The German market, very specifically, is quite steady slowly growing migration to fibre with a consolidated cable network, but a very resilient VDSL technology.

In that environment, we can fit wireless access as a complementary, as an additional technology to complement a very rich existing offer.

James Ratzer – *New Street*

Thank you, Santiago. Is that something that you see ramping up more commercial efforts on going into 2027?

Santiago Argelich – *CEO Telefonica Deutschland*

Excuse me. Could you repeat the question? I'm not sure I understand what you meant.

James Ratzer – *New Street*

No, just follow up. You were talking there about FWA being complementary to fibre, but I was just interested whether that's something you would increase your commercial efforts on with FWA in Germany going into 2027?

Santiago Argelich – *CEO Telefonica Deutschland*

No, the answer is no. We balance very carefully the impact on quality and capacity in our network, and we try to use a well-balanced approach to fixed wireless access.

Emmet Kelly – *Morgan Stanley*

Yes, good morning, everybody. Thanks for taking the questions.

My first question is on data centres, please. We've seen other telcos, in particular Deutsche Telekom and Orange, stepping up their efforts in building data centres or developing partnerships, like Orange did with Goodman, which was announced yesterday. Can you just give us a quick reminder, Marc, of where Telefonica is on a data centre build at the moment? And I also recall, I think some comments were attributed to you in the press last year saying if European telco consolidation were to come through, data centres and data sovereignty were areas that Telefonica would look to invest more in if that were to transpire. So maybe a few comments around that, please.

And then the second question is just on German competition, just as a follow-up. Obviously, competition was extremely intense last year, especially during the summer months. Can you give a kind of an update on competitive dynamics in particular in the value-for-money segment where O2 Germany has been very active over the last 5 years or 10 years? And can you maybe just say a few words on the underlying EBITDA trends in Q2, how these compare with Q1 I don't expect a growth rate, but just any commentary about whether it's the same, got better, got worse. Thank you.

Marc Murtra – *Chairman and CEO*

Thanks, Emmet.

So, I'll answer the first question and the team will complement, and Emilio will answer the second question and Santiago might complement.

So, with regards to data centres, one way of seeing it is there's three planes.

With regards to what an AI gigafactory would be, I think we've commented, and we are part of the Spanish consortium that is applying for a European Commission project.

With regards to data centres specifically, we as Telefonica exited this business some years ago, and with regards to our transform and grow plan, we have no comments. We're focusing on what we're focusing, and we're not doing anything other than that. With regards to my public comments to the press, they have to do with a generic geostrategic analysis that if Europe is going to compete technologically, it is going to need companies of scale and European telcos could, or in my view, should play a role in that. But we will cross that bridge when we get to that river. We would always work on discipline, we would work on demand, and we would see what it is we do. We're not in that scenario in our plan.

And then there's the third plane, which has to do with edge nodes and edge data centres, which I'll pass on to Emilio.

Emilio Gayo – *COO*

Regarding the first one, complementing the comments of Marc, as he mentioned, we have two projects that really work in the data centre area.

The first one is edge computing. We have 17 nodes. Now, I'm going to hand it over to Borja to give you more colour about that.

And the AI gigafactory. We have a consortium that we are leading from the tech point of view, even with a minority stake. And it is part of our strategy to have a sovereignty position in the world of data canters or data strategy. Borja will give you more colour about these projects.

Borja Ochoa – *CEO Telefónica Spain*

Regarding the edge network, what we have done is basically try to transform our copper central offices into data centres. As Emilio said before, we have already implemented 17 nodes this year. We are also incorporating, apart from data centre capabilities, some other AI capabilities and low-latency communication capabilities, basically, to give services to all the industrial ecosystem around these edge centres, edge nodes.

So, this is, together with gigafactories, the main part of our sovereignty approach in terms of infrastructure.

Emilio Gayo – *COO*

Thank you, Emmet.

Regarding the second question about Germany, I'm going to hand it over to Santiago to talk about the competitive environment. Just to say that we are seeing some signs of a better environment, that Santiago will explain better later.

With respect to the EBITDA underlying, we are confident in the evolution. We are seeing, as I said, the last quarter we mentioned one single-digit growth.

We feel comfortable that trends in Germany in H2 will be better than H1, taking into account that, this is something important, in the second quarter we estimate that we have bottomed out in terms of total service revenue in absolute terms.

Because of that, we are confident in the evolution, taking into account again that we are in the middle of a transformation plan that takes time in order to address all the activities that we have planned. And Santiago will explain a little bit more about the competitive environment.

Santiago Argelich – *CEO Telefonica Deutschland*

Yes, Emmet. So, we are seeing somewhat more discipline promotional activity compared to last year.

And this despite some actions, as I mentioned, around the football world championship, we have always seen an activity on the discounted market with marginal or no effect on the market dynamics. We are, as O2 Telefónica, aiming to maintain our customer market share and prioritizing profitable growth. The best example is our new O2 Plus bundles, launched in June, where we promote clearly value over volume. This reflects in our trading momentum.

The portfolio emphasizes convergence and value, focusing on a minimum bundle price of €30.

Torsten Achtmann - *Global Head of Investor Relations*

Thank you. We have time for one last question please.

Mathieu Robilliard – *Barclays*

Yes, good morning. Thank you for the presentation.

I had a question on Brazil. You had solid results, but there seems to be some concerns about the competitive environment. So maybe you could share with us what are your thoughts on how the competitive environment is looking and what you expect for the second half of the year, again, in the backdrop where results were actually pretty strong. Thank you.

Marc Murtra – *Chairman and CEO*

Emilio will answer this question.

Emilio Gayo – *COO*

Mathieu, thank you for your question.

As Christian explained in his conference call, we are seeing the same activity than in the previous quarter. We don't see a more complicated market. It's true that there were some launches of product that seems more competitive, but at the end were prices that were in the market before. Then in terms of competition, we don't foresee a worse scenario.

In any case I think Telefonica Brazil, Vivo, is demonstrating the capability to manage the market with a very good result in mobile service revenues and in fixed revenues and of course in the total revenue and EBITDA. Again, and it's similar in some aspects to Spain, the strong performance and the strong proposition in terms of ecosystem, in terms of convergent offer and in terms of products and services in the mobile market permit us to be confident, even if the conditions of the market change in the future, that we are not seeing today.

Marc Murtra – *Chairman and CEO*

Thank you, everybody. I hope you can all take some time off and see you soon or speak to you soon. Bye.