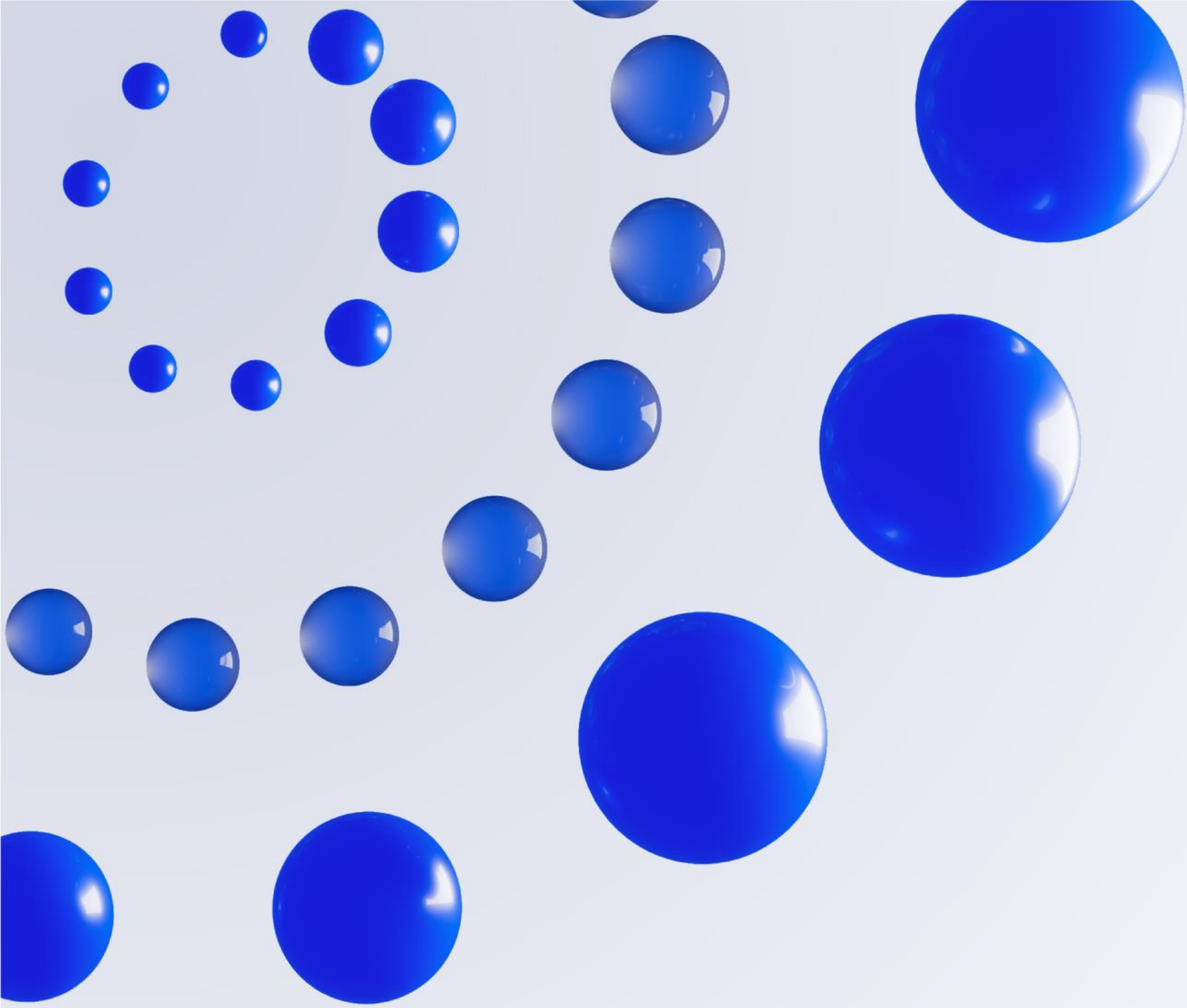

Telefónica

Results 2023 Q4

Important Notice:

Although we try to accurately reflect speeches delivered, the actual speech as it was delivered may deviate from the script made available on our website.

Introduction

Adrián Zunzunegui - *Global Director of Investor Relations*

Good morning, and welcome to Telefónica's conference call to discuss January-December 2023 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 CEO, MR José María Álvarez-Pallete.

Presentation

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

Q4 23 Results

1. **Transform, Deliver and Commit**

Good morning and thank you all for joining us today. Reflecting on 2023, I am proud of the progress we have made as a company and the dedication and resilience demonstrated by our teams worldwide. 2023 was a pivotal year for Telefonica where we enhanced our networks, our operations, and our overall customer experience. While there is clearly a lot more to do, I am confident that we have a solid foundation to build upon. As we continue to execute against our strategy, we delivered on our promises in 2023 and are comfortably on track to meet the GPS plan ambitions we shared with you last November. With the GPS plan as our guide, we stand ready and eager to embrace the opportunities that 2024 holds.

In 2023, we not only achieved our upgraded 2023 guidance, but also - importantly - over-delivered in terms of FCF generation. We are growing revenues, with B2B remaining a differential engine, growing 6.3% year-on-year in organic terms, significantly above the overall 3.7% top-line organic growth. OIBDA also grew more than 3% and we reduced CapEx by another 3%, allowing us to expand our OIBDA-CapEx margin to 19%. In turn, this higher OIBDA and lower capital intensity contributed to the very strong FCF of 4.2 billion euro, 200 million above what we guided to in July.

We are delivering solid results across all of our markets, driving exceptional performance in Brazil and Germany, and improving trends in Spain. These successes are underpinned by our investment in the latest technologies, which have enabled significant growth in our customer base, who now enjoy the benefits of our advanced fibre and 5G networks. As we progress, our strategy of reducing exposure to legacy networks is paying dividends, allowing us to streamline operations and drive our efforts in simplifying the business. We have now reached more than 94% ownership of Telefónica Deutschland following our tender-offer, reinforcing our confidence in the German market. Our journey towards simplicity and efficiency is ongoing, and you can expect us to continue to optimize our business structure.

As we look ahead, our path is clear. We are seeing momentum in our business, and we are ready for 2024 as the first year of our Growth, Profitability and Sustainability plan. We remain committed to driving growth, enhancing our customer experience, and leading the digital transformation that will shape the future of telecom. We will share more details on guidance, but in 2024 we will grow revenues, EBITDA and EBITDAaL-Capex and our capital intensity will continue to decline. Importantly, despite a stronger 2023, we expect that FCF will grow by more than 10% this year. This strong FCF generation supports our key capital allocation priorities, including our dividend, our expectation to deleverage over time, and our path to creating significant shareholder value. I am confident in the direction of our business and the opportunities that lie ahead.

2. Stronger Telefónica

As you heard at our CMD, Telefónica is on a mission to be at the forefront of the telecommunications industry. Our journey has been and is guided by three pivotal pillars in addition to sustainability:

Firstly, our investment in cutting-edge future-proof networks has been nothing short of transformational. With the deployment of FTTH to an additional 10 million premises globally—increasing our footprint by 15% over 2022— and achieving 62% 5G coverage in our core markets, we have not only expanded our infrastructure, but we are continuing to revolutionize the connectivity landscape. Our networks are not merely conduits of communication; they are the backbone of innovation for the services and products of tomorrow. This provides us with new opportunities to monetize our network and enhances our ability to increase our return on invested capital.

Secondly, our focus on an enhanced customer experience and being a customer-centric organization has reaped considerable rewards. We're not just adding customers; we're fostering relationships, growing our customer base to 388 million. And our satisfaction metrics are growing – by example, our NPS expanded to 31 this year and we continue to be laser focused on improving the overall experience. Ultimately, trust, reliability and superior service are the backbone of Telefonica.

Lastly, our pursuit of leaner and more efficient operations has propelled us into a new level of operational excellence. We've refined our organizational structure, stripping away complexity to reveal a sleeker, more agile organization, which has improved our operating leverage to 19%. At the same time, we have optimized our structure with many employees joining our redundancy program, a strategic move that aligns our workforce with our future needs. Moreover, we've made significant progress in phasing legacy networks, including the shutdown of almost 2000 copper Central Offices in Spain, with full retail copper network shutdown to be finished by April of this year. This shift reduces costs and reallocates investments to more advanced, efficient technologies, ensuring our infrastructure meets the evolving demands of connectivity and sets the stage for future service innovations. This is not just about cost savings; it's about crafting a business that is as resilient as it is dynamic.

With a robust network infrastructure in place, a customer-centric approach with a growing base, and a relentless focus on efficiency, we are well positioned to be a global leader in fibre and 5G, and, ultimately, unlock value for shareholders.

3. Guidance delivered

Our strategic initiatives have allowed us to more than deliver on our upgraded 2023 guidance, which we set in July. In organic terms, revenue grew by 3.7% and OIBDA grew by 3.1% year-on-year. Our capital intensity continues to decline - CapEx to sales declined year-on-year to 14%.

Bottom-line, FCF ended up stronger than anticipated, reaching more than 4.2 billion euro, above our guidance of 4 billion euro. In other words, we are delivering on what we promised — driving tangible results and robust financial health.

This financial strength secures our dividend for 2023 at 0.3 euros per share, comfortably funded by our FCF of 0.75 euros per share. And even with the updated FCF calculation, we maintain a healthy FCF per share of 0.41 euros, fully covering our dividend payment.

4. **We delivered and we commit**

And whilst we delivered on organic terms, year 2023 also shows our GPS plan ambitions are already kicking-in in reported terms too.

We are back to growth in reported terms in both revenue and OIBDA by between 1% and 2% year-on-year, despite FX headwinds such the Argentinean peso devaluation. This is even more pronounced in our EBITDAal-CapEx, which grew more than 5%, demonstrating the tangible benefits of efficiency measures and declining CapEx.

The driving forces behind this growth were Brazil, Germany, and Spain, with the former being the biggest contributor to operating improvement. Looking forward, and starting in 2024, we expect Spain to increase its contribution to EBITDA growth, adding to continued growth for Brazil and Germany.

I will now hand over to Ángel to give you an overview of the progress across our core businesses during the last quarter of 2023.

Ángel Vilá – *Chief Operating Officer*

5. **Telefónica Group: strong Q4 results with exceptional FCF**

Thank you José María.

Starting with slide 6, you can see momentum has strengthened in the fourth quarter of the year. Most notably, we saw sequential acceleration in growth across our 6 key financial metrics.

Organic revenue growth stood at 4.1% year-on-year, 1.7 percentage points more than in Q3, driven by better service revenue performance and again strong B2B. A truly differentiating factor of Telefonica.

OIBDA ramped up 1.5 percentage points to +4.5% year-on-year, with all geographies growing, Spain reaching stabilization, and Brazil seeing robust growth.

Worth noting the sharp improvement in operating leverage in Q4 23, with OIBDA-CapEx up by 19% year-on-year in organic terms, adding more than 2 percentage points to our operating cash flow margin. This all feeds into our strong FCF generation in the quarter of more than 1.5 billion euro, more than 400 million euro higher than in the previous quarter.

6. **Spain: continuing to improve and execute**

Moving to slide 7, Telefonica España confirmed its commercial and financial recovery path in 2023. The improvement in commercial trading was consolidated and for the first time in 4 years we have posted two consecutive quarters with net adds in all accesses. We did this in the face of industry competition.

This is thanks to our superior platforms and smart commercial strategy, adapted to changing market dynamics. Moreover, whilst continuing to show benchmark low churn, the lowest in a decade, and industry leading ARPU. All continued to fuel retail revenue growth to 2.7% year-on-year in the fourth quarter.

As we committed, OIBDA stabilised in Q4, even showing slight year on year growth, supported by solid retail revenue and further efficiencies in network transformation, digitalisation, and energy consumption.

In Q4 we recognised a 1.4-billion-euro provision associated with the announced restructuring plan, which will generate around 285m euros of direct savings in personnel costs from 2025, with positive impact on cash generation since day 1.

2023 CapEx increased slightly as we remain focused on the rollout of fibre and 5G to reach the target of switching-off retail copper network by April 2024. Despite this, OIBDA-CapEx margin remained at benchmark levels, and above that of the same quarter previous year.

Telefonica España is hence stronger, better positioned, and ready to capture growth opportunities ahead.

7. **Brazil: keeping up the strong momentum**

Moving to Brazil on slide 8, where we review how Vivo keeps up with its strong commercial and operating momentum.

Vivo ended 2023 with a clear leadership position.

Its differential value proposition, superior network quality and the growing demand for bundles led to the highest mobile ARPU in 4 years. In addition, Vivo's Fiber is now present in 443 cities with 26.2 million premises passed, resulting in a 13% year-on-year increase in fibre connections.

Revenue grew by 6.9% and OIBDA by 8.9% year-on-year in the quarter, both well above inflation, thanks to strong commercial activity, price adjustments and ongoing operating efficiencies.

And this operating leverage further improves down the line, with OIBDA - CapEx margin reaching an all-time high in 2023 of 26%, as CapEx intensity declined.

8. **Germany: healthy trends in a growing market**

Moving to Germany on slide 9, which over-achieved FY23 outlook driven by robust commercial performance, on back of 'value-over-volume' focus and its successful return to low churn levels. O2 postpaid ARPU grew +1.9% y-o-y in Q4 23, reflecting customer demand for high value tariffs.

T. Deutschland made steady progress with the densification and further roll-out of its 5G network, with pop coverage already at ~95% at YE 23, up from more than 80% last year, and well on track for nationwide 5G coverage by year-end 2025. Furthermore, T. Deutschland's O2 network has been awarded a "very good" rating for a fourth year in a row by Connect magazine, reflecting the continuous investments into network quality. At the same time, CapEx intensity declined as to 13.2% in 2023.

Stronger and more advanced networks allow for strong operating performance. In Q4 23, revenue accelerated to 4.6% year-on-year growth, while OIBDA grew by 3.7% year-on-year, driven by own brand momentum, another record quarter of handsets sales, and successful cost management.

9. **Virgin Media O2: increasing customers, fibre and 5G reach**

We now move to slide 10, to the UK and our joint venture Virgin Media O2, which delivered resilient trading performance, expanding its fixed, mobile, and convergent base throughout the year despite a challenging macroeconomic backdrop.

The fixed network rollout progressed at an unprecedented pace, reaching 17 million premises passed, with a record 833k increase in 2023. In mobile, the target of 50% UK outdoor 5G coverage has been reached.

In Q4 23, revenue grew by 3.7% year-on-year while OIBDA growth accelerated to 10.6% underpinned by the realisation of synergies, price rises and cost efficiencies. We expect to reach full run rate synergies of £540m by mid-2026.

10. T. Tech: keeping above industry momentum, cornerstone of strong B2B

Slide 11 reviews T. Tech, the cornerstone of our B2B transformation.

T. Tech has completed its first 3-year cycle with a consistent over delivery; its revenue growth doubled that of the market.

Revenue grew by 27% year-on-year in 2023, or 22% in constant perimeter, to reach ~1.9 billion euro on strong foundations: a highly skilled workforce and a well-established reputation for delivering, with a sizable scale, advanced IT services for B2B digital transformation.

Momentum is robust as qualified Commercial Funnel & Bookings are growing double-digit vs. 2022. Its new organisational model continues to progress, and Tech has expanded Cybersecurity capabilities in the UK over Q4 23.

As such, T. Tech faces a new growth cycle well-positioned to deliver additional value. This will be underpinned by its strong sales pipeline, enhanced capabilities, and the realisation of operational synergies.

T. Tech has proven to be a strong player in the IT market and a key engine for the superior growth of Telefónica B2B revenue.

11. T. Infra: strengthening Telefónica's infrastructure to support growth and efficiency

Moving to slide 12,

T. Infra is strengthening Telefónica's infrastructure to support growth and efficiency.

We are accelerating fibre deployment, with around 60% year-on-year growth, to 21 million premises passed with a target in 2026 year-end of 30 million, approximately 30% of T. Group's future FTTH deployment. The portfolio of JVs across our footprint are advancing in their deployments and delivering value. As such, T. Infra is allowing us to maintain T. Group differentiation.

Telxius, with more than 100 thousand kilometres of international fibre and more than 110 thousand in 2026, maintained a high profitability, boasting an OIBDA margin above 50% in 2023 and is joining Firmina subsea cable, providing three redundant routes to connect US, Brazil, and Argentina.

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

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

12. T. Hispam: progressing in "asset-light" model

Thank you Ángel,

Moving to T. Hispam on slide 13. We continue to move towards an asset-light model in the region, resulting in a decline in the average invested capital of 37% since December 2019.

Following the regulatory approval of the mobile networks Joint Venture between Movistar and Millicom in Colombia, the two companies obtained 80 MHz in the 3,500 MHz band last December. On top of that, we expect to obtain the regulatory approval of Pangea’s deal in Peru in the second half of the year.

We continue growing in high-value customers, whilst continuing in our efforts to cool down competitive intensity in most markets. OIBDA-CapEx fell 5% year-on-year in 2023, a significant sequential improvement, on improving OIBDA and full year CapEx over revenue ratio reducing 1 p.p. year on year to 9.4%.

13. Double-digit growth of underlying EPS

On slide 14 we wanted to briefly address our bottom-line performance. Our ongoing transformation process implies non-cash one-off charges. As you know well, we have completed a workforce reduction program in Spain, and carried-on less-sizeable restructuring programs in several other countries. This coupled with goodwill impairment charge in the UK led to reported losses in 2023.

Nonetheless, and once adjusting for all these non-cash items, underlying net income grows by more than 17% year-on-year to almost 2.4 billion euros. And once we continue cancelling own shares, underlying EPS grows even further, by as much as 19%, to €0.37.

14. Solid balance sheet to face any market environment

Moving to our balance sheet, we feel comfortable with the strength of it. Telefónica has demonstrated robust financial health this year as evidenced by the solid FCF, which has comfortably covered shareholder remuneration and employee commitments.

The increase in net financial debt from 26.7 billion euro in December 2022 to 27.3 billion euro in December 2023 was mainly due to our strategic decision to increase our stake in T. Deutschland. Excluding such impact, Net Debt to OIBDA ratio would have decreased from 2.54x in Dec 22 to 2.52x in Dec 23. Despite the temporary uptick, we remain on track to align with our outlined leverage target for 2026.

We maintain a strong liquidity position of 19.5 billion euro which, together with a light maturity profile, allowing us to cover debt maturities over the next three years.

Simultaneously, we have reduced our debt-related interest cost from 3.96% to 3.80%, thanks to the active refinancing exercise undertaken in previous years and the robust position at fixed interest rates in strong currencies, allowing immunization to rising rates environment.

Telefónica maintains over 80% of its debt linked to fixed rates, primarily in euro with an average life of 11.6 years, which puts us in a comfortable position to navigate any market environment.

Overall, we have a very strong balance sheet that allows us to support our key capital allocation priorities.

15. Capital allocation: investing in our business whilst maximizing shareholder value

And our capital allocation priorities are underpinned by the strong balance sheet as well as our focus on reducing capital intensity – as we have previously discussed.

Early on, we saw the potential of fiber and invested in it when it wasn't a popular choice. Today, we are beginning to see the substantial benefits of these early investments.

To reiterate, peak CapEx is well behind us. Capital intensity has consistently decreased since 2017, from 17% then down to 13.3% in 2023. Looking ahead, we are looking for a further drop to up to 13% in 2024 and for it to continue to fall below 12% by 2026. This reduction in capital intensity is one of the main drivers behind FCF growth of more than 10% CAGR between 2023 and 2026.

But it is not the only lever behind future FCF expansion. EBITDA growth will also play a major role, thanks to flow-through of top-line growth as well as realizing efficiencies, the biggest component of which we now have certainty on. Around 285-million-euro annual EBITDA savings from the Spanish workforce reduction program are now secured. Hence a very relevant part of the needed "delta" to move FCF from slightly more than €2bn in 2023 to around €3bn in 2026 make us feel even more comfortable than last November that we will meet our commitments.

Our capital allocation priorities are crystal clear. Even as we bring down CapEx, we're continuously investing in our networks, enhancing our fiber and 5G capabilities to stay ahead of the curve. We are committed to putting our board in a great position to pay the dividend – with euro 0.30 per share as a floor. And I want to stress that our dividends are well-supported by a growing FCF. At the same time, we remain on track to deleverage to 2.2-2.5x ND / EBITDAaL range by 2026. Lastly, any excess cash in the future will be carefully evaluated for opportunities such as share buybacks.

To summarize, we have a robust balance sheet, we are committed to our investment grade credit rating, and our capital allocation priorities are clear.

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

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

16. **ESG: We keep transforming**

Thank you, Laura,

Turning to slide 17, we maintain our commitment to sustainability, as a key part of our business.

On the environmental side, I am proud to report that we have been included on the CDP Climate A-List for the 10th consecutive year. We have reduced our total emissions by 51% in the last 8 years. Furthermore, in 2023 we helped our customers to avoid 86.1 million tonnes of CO_2 in the last year through our connectivity and Eco Smart services.

In terms of social impact, our latest SDG report shows a total annual contribution to society of more than 100 billion euros. Internally, we strive for gender equality against solid targets, achieving 33% women executives and equal pay for equal work.

Regarding governance, our Board composition shows our commitment to best practices, with 40% women and 67% independents. Our rigorous measures in business ethics continue to uphold a zero-tolerance of corruption.

Finally, we remain leaders in our sector in sustainable financing, with an additional green bond already issued in 2024.

17. **Going forward, we keep transforming**

Following our strong 2023 we have even more conviction in our journey and are looking to continue to make strong progress in 2024.

The massive transformation we have undergone, improving our networks, increasing customer engagement, making our operations more efficient and ensuring business sustainability places us in a considerably improved position. Thanks to the increased relevance and loyalty from our customer base, and differential capabilities of our networks, we are prepared to enlarge our addressable market.

We are focused on reaching 70% 5G coverage in key markets by 2026, with some markets approaching 90% or beyond. Importantly, we are committed to increasing our return on capital, which is a key metric for our business. At the same time, we are looking to grow convergent customers to more than 60% and use more AI to support customer engagement, as appropriate.

We are also leveraging this transformation to double down on efficiency and boost customer experience. Fully benefitting from massive legacy switch-off, streamlining our business model. We will be realizing the advantages of our proactive investments in platforms and artificial intelligence, which will manifest as highly automated operations and content management, autonomous network management, and cutting-edge customer engagement strategies.

We will have rolled out a fully programmable network infrastructure that will reduce operating costs and introduce a new wave of personalized and real-time services to our customers. This is opening up new avenues for monetization and strengthen our value proposition, while reinforcing our ability to increase our return on invested capital.

We have a clear strategy to enhance the growth of Telefónica, making us faster, and more efficient.

18. We keep committing

As we think about this year, we remain confident that the momentum that we have built in 2023 will continue in 2024.

Importantly, our guidance for the year shows our high degree of confidence not only in the medium-term but also in year one of the GPS plan. Despite 2023's successes setting a high bar, we expect FCF to grow by more than 10%, even with the higher starting point.

That growth is driven by reported revenue growth of around 1%, EBITDA and EBITDAaL - CapEx growth of between 1 and 2%, and lower capital intensity of up to 13%. The 2024 dividend in cash of 0.3 euro per share will be paid in 2 tranches of 0.15 euro, in December 24 and June 25.

As we shared at the CMD, our ambitions going forward are even higher, with revenue growth of around 1%, EBITDA growth of around 2% and EBITDAaL-CapEx growing further to around 5% CAGR thanks to further declining capital intensity, to below 12% by 2026.

FCF will grow by a compounded rate of more than 10%, helping to reduce our leverage ratio to between 2.5 and 2.2 times in 2026 and again, allowing us to commit to a floor dividend of 30-euro cents per annum in cash, with improved dividend coverage.

19. Key takeaways

So, to recap the key takeaways for the year

In 2023 we delivered again on our guidance for the sixth year in a row. This is on a guidance we upgraded mid-year and, furthermore, we over delivered in terms of FCF generation

Despite the stronger FCF in 2023, we reiterated our guidance of more than 10% FCF growth in 2024 showing our degree of confidence. This puts us on track with our GPS plan to grow more than 10% CAGR between 2023 and 2026.

Our markets our healthier than ever. We turned around Spain, where EBITDA is already growing. Brazil performance remains stellar. These two alone make for 67% of our consolidated EBITDA. Germany, that makes for another 20%, has again guided for EBITDA growth in 2024, and Hispam is more and more self-sustained.

This momentum will last as we continue to smartly invest in best-in-class next-gen networks while we streamline our operations for the best customer experience. Remember our Spanish workforce program has been successfully completed and have now full certainty on around 285 million euro run rate of EBITDA savings from 2025. That is close to 50% of the 600-million-euro group efficiencies we guided for in the GPS plan…not a small detail.

And you can count on us remaining disciplined on capital allocation, and prudently managing our balance sheet so we can continue to increase coverage on our dividend while deleveraging remains our focus as capital intensity comes down.

We are now ready to take your questions.

Q&A Session

Andrew Lee – *Goldman Sachs*

I wanted to ask a question about how you feel European authorities are supporting your pursuit for digital infrastructure investment and higher returns? We've obviously had a lot of news this week from the EU. And specifically, if you think about the spectrum or the remedies in general, you think about the spectrum remedies for Digi, do you think that's providing a platform to have a new 4 nationwide network competitor to Telefonica in Spain? And then on the wholesale side, what is your confidence you will retain your wholesale agreement with Digi?

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

Let me take the first part of your question and then I hand it over to Ángel for the second part.

In terms of the remedies out of the Orange-MásMóvil transaction, no change on the finally approved remedy package versus the expectation that we had at the time of the Capital Markets Day, that we shared with you, and was implicit in our guidance. On that regard, no further news.

Telefonica España is back to revenue growth and as committed, we have been able to stabilize EBITDA during Q4. Our operation in Spain is becoming stronger and stronger; we have the strongest network in Spain, we have record levels of customer satisfaction, record low levels of churn and efficiencies are flowing through. We feel strong to compete in this market even though, honestly, we consider that what has happened is a missed opportunity, it is a lost opportunity to send another message.

In summary, we feel prepared to keep building on the positive trends of our Spanish unit, as stated on our Capital Markets Day, and we feel that Telefonica España is on a strong position. We are fully confident on its future.

Ángel Vilá – *Chief Operating Officer*

On the specifics of the remedies. With respect to spectrum, there is not enough spectrum in the high bands and none in the low bands. Which does not allow to build a full-fledged national network. It would be a partial network given the size and the frequencies of the spectrum blocks; these are 60 megahertz with an absence of low band frequencies. Consider for instance that Yoigo itself owns, as part of MásMóvil, more than 140 megahertz and didn't have this network.

In addition to the network, they may want to have a national roaming agreement and probably a RAN-sharing arrangement for the rest of the footprint. We are clearly in a position to negotiate with DIGI on these fronts.

Regarding the roaming agreement, the remedy is an option for DIGI, not an obligation. Our partnership with DIGI is assured under a long-term wholesale agreement. We believe that DIGI is satisfied with the deal we have now and with the service we are providing. We are in permanent discussions with DIGI and with other existing and potential wholesale customers on this type of topics. Also, bear in mind that in our recently shared 23-26 plan, and in the implied financial guidance that we are putting forward today for 2024, we are already assuming certain pricing pressure in our wholesale activity in Spain over the next period, which probably is a realistic assumption with respect to the dynamic that we expect to see in market.

We have the best network, the best infrastructure assets, and a very long-established relationship, with contractual commitments and contractual penalties, which puts us in a good position to renegotiate with DIGI a win-win arrangement for the two companies.

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

Getting back to the overall question on the European landscape and the European regulatory environment, we think that the recent white book issued by the Commission is a very good call to action. We think things are starting to change, it's just the beginning but it's a step into the right direction. We fully agree with the diagnosis, it highlights digital infrastructures are key, that the networks are going to evolve to full IP, fully programmable and autonomous network. And it also points out an unbalanced relationship between the Internet traffic generators. Therefore, it also points out in terms of the fragmentation of the market.

Overall, we think it the right diagnosis, it sets the tone for the future commission to act. We think some of the measures should go even further, but overall, we think it's a very good call to action and a step into the right direction.

Mathieu Robillard – *Barclays*

If I follow-up on the question from Andrew, is it fair to accept that this deal between Orange and MásMóvil that was approved under remedies is not going to materially change the competitive environment in Spain going forward? The second question has to do with Telefónica Deutschland, I think you mentioned in your presentation that you now own 94% of the company. I was wondering if you could share with us what are the following steps if it makes sense to completely take out the company and if there would be any benefits to do that?

Ángel Vilá – *Chief Operating Officer*

On the evolution of the Spanish market post-approval of the Orange-MásMóvil deal, of course it's a dynamic and competitive environment. The landscape is shifting in Spain with this consolidation having been approved with certain remedies. We continue to believe it should have been without remedies, but we are where we are, and this was a scenario that we were anticipating by the time of the Capital Markets Day, and we have been working on contingency actions for this type of situation.

Yes, the market will continue to be competitive, it will continue to be a segmented market between the premium segments and the medium and low-cost, which is much more dynamic, and we don't expect that segmentation and the competitiveness of the market to change.

We have very strong levers, we have been in this type of situations before, and we have seen consolidation among players before. We continue to have the best assets, we have been adapting our commercial offer to provide flexibility and modularity for our customers, we have the highest NPS we've had since 2003, we continue to see and post in the last quarter ARPU growth with a record minimum churn, and this creates the best customer lifetime value compared to the rest of our competitors.

So, we expect the market to continue to be dynamic, not to be disruptive. One has to bear in mind that Orange-MásMóvil starts its new situation as a joint venture highly levered, and this does not lead to thinking that they would want to be disruptive. And the still pending-to-be-approved Vodafone Zegona, is also a very highly leveraged transaction, with back book that the players need to defend.

We think we have we have experience on reformulations of the Spanish market, and we have very strong assets that allow us to compete and stay confident with the outlook that we're giving for 2024 and beyond.

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

Taking your question on Germany, we are really happy with the outcome of the tender offer, we think it was a fair value proposition to minority shareholders. There was and there is no specific stake needed for us to achieve our strategic objective in Germany and, as a result, we are happy with the outcome.

Let me say that we currently do not plan to support dividend payments beyond the already confirmed €0.18 per share for the fiscal year 2023, and we intend to evaluate Telefónica Deutschland's dividend policy over time as we currently do not see a need to pay dividends for the future.

Beyond that, we keep analysing all options and we'll keep you posted.

Jakob Bluestone – *BNP Paribas Exane*

Firstly, on leases, if I look at your OIBDA organic, it was about 4.5% growth in Q4. But OIBDA after leases was about 1.6%. There's a sort of 300 basis point spread between the two. Could you comment on what is the outlook for leases for next year?

And then secondly, if you can maybe just give a little bit of colour around your expectations for the other segment, given that tends to be a little bit volatile, what do you expect for EBITDA as a sort of run rate going forward?

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

On leases, as you know, we don't give a public target, but we will continue working on achieving efficiencies. It's important to say our free cash flow is fully loaded, and includes the leases, so despite leases evolution we are targeting a +10% growth in 2024, even starting from a higher basis. You should expect us to keep focusing on this, and it should have a more linear evolution as macro stabilizes and as it's linked more to the ROU additions.

Having said that, there will be some increases, basically linked to the BTS obligations and site expansion in Germany. In Brazil, it was explained yesterday, we have incorporated some of Oi's leases, although we have been very active in shutting down sites and towers, we also have regulatory obligations related to 5G in Brazil and some renovation of contracts. Spain should be broadly flat. Hispam is showing declining leases as we are turning the network off in Mexico.

No doubt we are really, really focused on this. This is part of the free cash flow, which is still strong despite this evolving having some increase. I explained the reasons behind, and you will be able to see the lease impact on a quarterly basis as we report the results.

On the "others", this is usually difficult to track, I know that, because it has many bits and pieces. It includes the headquarters and the global units, which had some restructuring costs this year. Therefore, that is impacting negatively OIBDA in this line. However, as part of the GPS plan, we are driving efficiencies at the headquarters and Global Units, so that should be moving in the right direction. We also have Telefonica Infra, with Telxius slightly below last year EBITDA in euro. Telefonica Tech just the opposite, which is going to drive this line in 2024, which I'll explain later, Telefonica Tech improving margins. And then we have what we call instrumental companies, some of them are operational, like our supply company. And, as we have reduced CapEx, that should be decreasing their impact over time. We have the roaming, which is basically stable. We also have financial, like insurance, and those are usually insignificant figures.

So, you should expect this not being negative, the negative being linked to the restructuring I mentioned. It should be a positive balance, and it should be Telefonica Tech driving growth and also headquarters being more efficient driving growth. And on the opposite direction, some operational companies like the supply company reflecting our lower CapEx and CapEx peak being behind.

David Wright – *Bank of America*

A little bit of a step through from the kind of operating cash flow, the EBITDA-CapEx, down to free cash flow, please? Maybe just a little bit of guidance if you could give us on working capital, cash tax, just the moving parts essentially below the operating free cash through to the free cash flow guidance? That would be really useful.

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

On free cash flow expectations, first, this is an absolute priority to us. This was obviously reemphasized on our Capital Markets Day, and prior in the year when we for the first time committed to a 4bn bar that we have surpassed comfortably. That surpass means our dividend has better coverage, and we can improve the deleverage path. You saw that was improved before the Telefonica Deutschland minorities purchase, so very confident on our levers around free cash flow evolution.

The free cash flow growth will be very much anchored in the EBITDA-CapEx performance. EBITDA is growing, the guidance is between 1% to 2%, and CapEx is decreasing. We are putting a maximum of 13%, and we will keep on working on all the items below.

Working capital will continue to have a positive balance, but in line with what it has been in 2023 and 2022. Working capital is sometimes not easy to follow because we have spectrum impacts, as we don't pay all spectrum at once in some cases, but excluding that, it has followed very business as usual. It's been very much linked to the CapEx needs, to the commercial, we had an acceleration on handsets revenue this year. We don't do any supply financing, so it's pretty clean and it's all linked to the operations and the “business as usual”, and it will have a positive contribution but not differential from 2023 or 2022.

Financial payments, you are seeing how we are optimizing this, we continue with a very strong liquidity cushion. 80% of our debt at fixed rates and 100% of euro is shielding us, and that figure has been decreasing in the part of net debt related financial payments.

For tax payments, similar guidance to the Capital Markets Day, we continue with a normalized rate of 20% to 25%.

And VMO2 dividends are confirmed. There's been guidance of GBP 850M, that includes proceeds of CTIL and no recaps, and adjusted Free Cash Flow guidance embedded in that GBP 850M is GBP 500M, that was guided by VMO2 last week.

Dividend paid off minorities, obviously a positive contribution for the lower leakage from Telefónica Deutschland, and on leases, as I mentioned in the previous question, a slight increase. Commitments also an increase, and that's linked to the latest restructuring in Spain, but despite that we are increasing FCF more than 10%. And hybrid coupon payments very, very stable. I mean, a slight increase you saw from the previous, but very stable around the €0.3bn per year.

I go through every line because in fact there's work around every line, and the combination of everything anchored with EBITDA-CapEx strong performance, places us very comfortable to give this guidance and confirm this guidance today.

James Ratzer – *New Street Research*

If I could just focus on the EBITDA guidance, you've given for this year of 1% to 2%. Now within that you've guided that in Spain, the savings from the new restructuring program should add about €200M to EBITDA for this year, so that alone should be around 1.5% growth for Telefonica Group EBITDA, so right in the middle of the guidance range. Which would seem to imply, if I'm doing my math right, that excluding that new benefit, the rest of the group would be flat? So, what's guiding that, is that conservative? Could we expect to see you move the EBITDA guidance up as we go through the year?

And then the second question I had was regarding VMO2. Your co-controlling shareholder, Liberty Global, gave a big presentation last Friday in which they talked about the creation of a new Virgin Media NetCo. As the joint shareholder in the entity, we'd just love to get your thoughts on what your views are for that NetCo? Would you be interested in potentially selling a stake in that NetCo going forward?

I also see you have changed your valuation of VMO2 on the balance sheet, could you just give us the new details you are using of the cost of capital and the revenue assumptions? I think previously you were using 6.9% and 0% to 3% revenue growth. So just love to get the updated parameters you're using for the new balance sheet valuation.

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

I'll start taking part of the first one and I'll hand it over to Ángel to contribute on a business-by-business point of view.

In terms of our EBITDA guidance, for the 1% to 2%, remember that we are starting from a stronger figure in 2023, which is good news, with stronger traction in the businesses in terms of revenue B2C, B2B and wholesale.

Remember as well that we are guiding in reported terms, and we are embedding a devaluation of the Argentinean peso that was not there at the time of the Capital Markets Day, and despite that, we stick to the commitment that we have been giving.

Also, you were right in mentioning the impact of workforce reduction in Spain, that there will be incremental over the year, jointly with the switch-off of copper. You will see an accelerated trend in EBITDA over all the year, and we are fully committed to the guidance that we gave at the time of the Capital Markets Day.

Ángel Vilá – *Chief Operating Officer*

And to elaborate a bit more on the outlook by OBs,

- Spain expects for full year both revenue and EBITDA growth, for the first time since 2019.
- Germany's guidance, as issued yesterday, is slightly positive revenue growth and low to low mid-single digit EBITDA growth.
- Brazil's intention is to maintain both, a strong revenue growth and EBITDA growth.

So here you can see that the hard currency revenues and EBITDAs have guided or have an outlook of growth, and Brazil, ex FX (but the Brazilian real is behaving very nicely) should be showing growth at least aligned or above the group guidance.

In Hispam, which is an EBITDAaL-CapEx story, José María already commented on some FX pressures we are experiencing, and we are reporting from this year onwards on a reported basis.

By the way, just to complete the outlook, CapEx intensity, CapEx/Sales, we're guiding for the group for declining intensity. In Spain it will be declining intensity, in Germany the guidance, as issued yesterday, is a range 13% to 14%, Brazil also indicated that they will reduce capital intensity. Hispam will maintain the same levels than in 2023.

James Ratzer – *New Street Research*

Spanish EBITDA for this year will grow, but would it grow if you didn't do the headcount savings of €200M which I suppose is a new benefit for this year?

Ángel Vilá – *Chief Operating Officer*

We expect Spanish EBITDA growth for the year, we see also that trend building up across the quarters. It will be progressing along the year because we have several elements that kick in at different moments in the year. The people reduction plan kicks in from the 1st of March, because employees will be exiting on the 29th of February; price increases that we are putting forward also don't kick in for the full Q1, but they gradually build up across the quarter; we switch-off the retail corporate network in April and this will accelerate savings across the year.

For the full year, EBITDA growth is the outlook that we have, with growing momentum quarter on quarter.

Going to the second question, which was on the NetCo that we are building in the UK alongside our partners, It's all about focus and optionality.

Focus; we are creating 100% owned NetCo under VMO2 that will be able to provide more emphasis, more focus on the fibre upgrade and the wholesale revenue through having a dedicated team, a dedicated strategy, and a dedicated balance sheet. So, focus on this migration and upgrade.

And second, optionality; this vehicle can give us with our partners optionality to accelerate this upgrade, both passing and connecting if needed. Gives us optionality to find new financing options and to raise money. And also gives us optionality to consolidate, this can create a currency for consolidation in the space.

It’s a project that we clearly support, we are very excited about, and it's about focusing on this fibre upgrade and giving us optionality going forward. All of these, by the way, without affecting the financial commitments of the joint venture to its shareholders.

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

And finally, James, on the question on balance sheet impacts.

As you know, we carry out the annual goodwill impairment test at the end of the year. The future cash flows used in the value for this calculation is the business plan approved by the Board of Directors of VMO2. On that business plan we have guided on 2024 already, we do not provide longer term guidance. But we have positioned 2024 as a transitional year, and better prospects from 2024 onwards.

The impairment is a consequence of this new business plan, but even more of the increase in the discount rate. We have applied a discount rate of 7.5% after taxes compared to 7.3% the previous year; we are reflecting the macroeconomic conditions, competitive environment in the UK and also the increase in the financial rates.

Growth to perpetuity remains the same at 1%, you have all the detail in our annual accounts. And I just wanted to point out that this is very sensitive to WACC; should that 7.5% WACC decrease, which I think it could be definitely the case in the mid-term, that implied valuation would improve significantly. I think you have all the sensitivities in our annual accounts, but a 50-basis points improvement in WACC could imply a higher valuation just at Telefonica's side of €1.4bn, so extremely sensitive and thus the main reason behind the balance sheet impact that you have seen.

Keval Khiroya - *Deutsche Bank*

So firstly, you´ve had a bit more time to think about your plan for Germany once 1&1 leaves your network. Telefónica Deutschland yesterday suggested a retail-centric approach in 2025-26 would be key, but what gives you the confidence that such an approach won't be disruptive to the wider German market?

And secondly, you implemented a 4pp lower price rise in Spain than the prior year. Can you comment on whether this should lead to lower revenue growth than the 1.6% service revenue growth seen in Spain in 2023? Or are there any other offsets we should be mindful of?

Ángel Vilá – *Chief Operating Officer*

In Germany, we are completely focused in the recovery plan, what we call our "Accelerated Growth and Efficiency Plan".

This has several elements. We have an element of using the capacity of the network that has been or will progressively be freed by 1&1. And here, we are going to work once we are not bound by the remedies that arose from the E-Plus transaction: we can grow both on retail and yes, we are aiming to grow our own customer base, and also deepening some wholesale partnership relationships that we already have.

We are doing this, and you have seen last year we were the only ones to propose price increases in mobile, the market didn´t follow, so we have been looking at a value-over-volume approach, and now we are seeing also opportunities with the family plans to grow in convergence.

We have always been rational, but we aim to grow, and this is behind the guidance that was given yesterday by Telefonica Deutschland of slight growth in revenues.

Regarding the price rises in Spain, we are increasing slightly below inflation 3.1%, our prices for the MiMovistar bundles, not the O_2 bundles and some of the components. It's a lower price increase than last year, but we are seeing, we are experiencing very strong commercial momentum. We are growing in all type of accesses. We're getting net adds with higher ARPU, better NPS, record low churn, this is in big part the result of how we modified the offer and made it more flexible with MiMovistar compared to the previous Fusión packages.

And when you look at the slide number 7 in our presentation in Spain, if you look at the trend of retail revenues, and the acceleration that we achieved 2.7% growth in the last quarter, but this has been accelerating over the last quarters. This is what underlies our expectation of revenue growth to continue in Spain for 2024.