Telefónica presents its GPS plan and targets FCF of €5,000 million by 2026

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The acceleration of the GPS plan is based on five vectors focused on growth in the B2C and B2B segments, on revenues derived from the relationship with partners, on obtaining greater efficiencies and on maintaining the company's differential profile with lower investment.

- Net financial debt will be reduced to a debt ratio of 2.2-2.5x/EBITDAaL in 2026.

- Telefónica also presented today its results for the third quarter of the year, a period in which net income rose 9.3% to €502 million.

- The company confirms its financial targets for the current year, revised upwards last July, as well as its shareholder remuneration commitment for 2023.

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said Telefónica Chairman José María Álvarez-Pallete.

Madrid, 8 November 2023. Telefónica is holding its Investor Day today in Madrid to share with the financial community its vision for the next three years, the key elements of its GPS plan to drive the company's growth, profitability and sustainability, and new targets for the period 2023-2026. It also presented today the company's results for the third quarter of 2023, a period in which it reported a net income of €502 million.

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The company launches its new roadmap after successfully completing its previous action plan, presented in 2019, and arrives at this point meeting all the financial targets set for 2023 and with all its strategic units strengthened.

More growth, less debt and strong shareholder remuneration

The 2023-2026 financial targets presented today anticipate a positive performance of the main indicators. Compound annual growth rate (CAGR) will be around 1% for revenues; 2% for EBITDA; 5% for EBITDAaL-CapEx; and above 10% for cash flow generation (FCF).

The new GPS (Growth, Profitability and Sustainability) plan also envisages a favourable evolution of the net financial debt to EBITDAaL ratio to 2.2-2.5x by 2026. While confirming that Telefónica has overcome its most investment requirements, the new targets also anticipate a progressive reduction in CapEX/sales to below 12% by 2026, which represents a drop of over 2 percentage points from the

2023 targets.

Telefónica remains firmly committed to creating shareholder value and guarantees the payment of a minimum dividend of €0.30 per share for the period 2023-2026.

The company also announces additional guidance by business. In the retail segment (B2C), CAGR revenue growth for 2023-2026 will be 1.5%, while in the B2B segment it will reach 5% to continue the favourable evolution recorded in recent quarters.

In relation to the financial targets set for the period 2023-2026, Telefónica introduces new features in the financial reporting system in order to simplify concepts and reinforce its commitment to transparency with the market. Guidance is now expressed in reported terms and a new reference for FCF is included, among other changes.

The achievement of these targets will already be visible in 2024 as a demonstration that the company is ready to execute the GPS plan immediately.

Although targets for next year will be set in February, Telefónica expects FCF to grow by around 10% in 2024 and CapEx to fall below 14%. This scenario will be based on both lower capital intensity and the Group's ambition to grow revenues and EBITDA.

Ambition based on five vectors

Telefónica's new plan comes after having successfully passed the 2019 plan and after executing a major transformation process that has allowed the company to raise its ambition and be ready to celebrate its Centenary.

The fruits of this transformation are shown in the quality of the networks and the increasing relevance of the customer. It is also evident in the optimisation of operations and in the firm and transversal commitment to sustainability.

The GPS plan is based on five key vectors to accelerate its fulfilment: (1) the sustainability of B2C revenue growth; (2) maintaining the good momentum of the B2B business; (3) the evolution of revenues derived from agreements with the company's partners; (4) obtaining efficiencies that help reduce the cost structure; and (5) reducing

investment, while maintaining Telefónica's differential profile in the sector.

Simplification and focus on cash generation

Telefónica is presenting these targets at a time when its financial fundamentals are stronger and more resilient, with a tailored value creation strategy and a strict capital management policy, which has facilitated the setting of a more ambitious and robust guidance, with a focus on greater than 10% cash flow growth. This evolution will increase cash generation from around €4 billion in 2023 to €5 billion in 2026. Based on the new definition of FCF that the company will use from now on 1, this annual increase of more than 10% will translate into an increase from €2.1 billion in 2023 to €3 billion in 2026. Cash flow is a priority for Telefónica and a key reference in the GPS plan to continue to reduce debt, meet financial commitments and guarantee the dividend.

The company has a solid balance sheet that enables it to cope with a dynamic macroeconomic environment and gives flexibility to access financial markets. It also has sufficient liquidity to cover the current maturity calendar. At the end of the third quarter, Telefónica had a liquidity position of €20,772 million, while accumulated maturities over the next three years stand at €10,300 million.

1 New reference FCF (incl. leases principal payments): ex spectrum, includes cost to capture, hybrid coupons, commitments, excludes VMO2 recaps.

More growth at Telefónica Tech and Telefónica Infra

Telefónica Tech's strategic digital services unit continues to play an important role in the targets announced today. Launched as one of the main axes of the 2019 action plan, in recent years it has led a solid growth story that will continue in the 2023-2026 period.

In this period it will record an CAGR of 18%, above the market, to end 2026 with €3 billion revenues.

Telefónica Infra, the unit created in 2019 to unlock and develop the value of the company's telecoms infrastructure, will continue the expansion it has already undergone in recent years. By 2026, its fibre-to-the-home (FTTH) footprint will reach approximately 30 million

premises, up from 20 million today. This increase will contribute to the total Group volume of premises passed with FTTH exceeding 100 million by 2026.

Sustainability as a transversal pillar

Sustainability will be another of Telefónica's fundamental pillars in the 2023-2026 period. The company will accelerate its already sound performance around environmental, social and governance issues, with special attention to employees.

On the one hand, the company will intensify its collaboration with the telco industry to lead the process of achieving a fairer regulatory environment for the sector. On the other hand, the pillars of ESG will lead our customer relationship and value proposition based on our principles of integrity, transparency, and simplicity. We remain steadfast to meeting our goal of achieving net zero emissions by 2040, based on renewables, efficiency, and circularity. Within the governance pillar we continue to strengthen our organization, via a commitment to gender parity at the Company's top governing bodies by 2030.

In addition, Telefónica is working to accelerate people growth fostering diversity, mobility, and reskilling to increase agility and ensure a responsible management of the digital transition with a motivated workforce.

Third quarter results: further growth and targets confirmation

Coinciding with the celebration of the Capital Markets Day, Telefónica also announced today its third quarter 2023 results.

Between July and September, revenues remained stable at €10,321 million and net income reached €502 million, 9.3% more than in the same period of 2022. OIBDA grew again in the third quarter, accelerating 2.5% to €3,330 million,

Following the solid performance in the third quarter, the company confirms both its full-year guidance, revised upwards in July, and its shareholder remuneration commitment for 2023.

Outstanding contribution from global business

Telefónica Tech once again recorded outstanding revenue growth of 14.4% year-on-year in the quarter, to €442 million, and 30% in the year to date, to €1,327 million.

Telefónica Infra continued to consolidate its attractive asset portfolio. At the end of the third quarter, the company had a total of 20 million premises passed with FTTH, reinforcing Telefónica's infrastructure.

Free cash flow generation and financial strength

OIBDA-CapEx increased 9.3% in the third quarter, while the ratio of capex to revenues, part of the company's guidance, stood at 13.4%, in line with expectations for the full year.

Free cash flow generation continued its sequential improvement throughout the year, reaching €1,130 million in the quarter and €2,426 million for the full year.

Net debt decreased by €942 million in the quarter to €26,537 million at 30 September.

Leadership in infrastructure deployment

The transformation of the company's networks and systems is facilitating the acceleration of fixed and mobile infrastructure deployments, mainly fibre and 5G technology, and the switch-off of the copper network in Spain, scheduled for 2024.

In terms of ultrafast broadband, Telefónica maintained its global leadership with a total of 171.2 million premises passed, of which 70.3 million were FTTH, up 13% year-on-year. At 30 September, 5G coverage reached 87% of the population in Spain, 92% in Germany, 42% in Brazil and 49% in the UK.

Telefónica's customer base grew by 0.3% to 384.8 million accesses, with increases in the high value added segments of 14% in FTTH accesses and 3% in mobile contract.

Telefónica continues to lead in ESG

In relation to the evolution of the company's sustainability indicators, Telefónica has updated its Climate Action Plan, anticipating various regulatory requirements and in line with the TCFD recommendations,

and includes further details of climate related risks and opportunities.

During the quarter, Telefónica also made progress in respecting and promoting the rights of all people, becoming one of the first telcos to publish a human rights/environmental impact assessment in view of the new due diligence requirements. Telefónica published its first global impact assessment in 2013.

Finally, we continue to advance in sustainable financing with a €750 million green hybrid issued during this quarter. This issuance was in accordance with the company's Sustainable Financing Framework, updated last July, which seeks to meet best market practices and investors' expectations.

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