

Earnings Report 1H2023

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Financial and Operational Results

• 1H23 Revenues:

- Telco Service Revenues of €1,233M (+5.0% YoY)
- Total Service Revenues of €1,365M (+3.1% YoY) impacted by the decline in Other Service Revenues mostly due to reduced low-margin Energy reselling revenues
- Total Revenues of €1,479M (+2.5% YoY)

Table 1 – Revenue Split

(€M)	1Q22	1H22	9M22	FY22	1Q23	1H23	YoY
Telco Service Revenues	587	1,174	1,760	2,350	610	1,233	5.0%
Other Service Revenues	84	150	228	297	67	132	-12.1%
Total Service Revenues	670	1,324	1,988	2,647	677	1,365	3.1%
Other Revenues	63	119	184	247	63	114	-3.9%
Total Revenues	733	1,443	2,172	2,894	740	1,479	2.5%

Source: Company

• 1H23 EBITDA:

- EBITDA pre-IFRS of €518M (+20% YoY)
- Reported Adjusted EBITDA of €602M (+12% YoY)
- Adjusted EBITDA margin of 41% (c.+4pp YoY)

• 1H23 Capex:

- Total Net Capex reached €204M, out of which:
 - Recurring Capex accounted for €165M (11% of total revenues)
 - Growth Capex accounted for €54M
 - Cash from disposals of €15M (mostly from routers refurbished and other network sales)

• 1H23 Cash flow and Net debt:

- Recurrent Operating CF, calculated as Adjusted EBITDA for the year less Recurrent Capex and the Change in Lease Liabilities (IFRS16 related) amounted to €408M for the period
- Adjusted Cash Flow from Operations reached €12M, once the impact of Growth Capex, Deferred Capex Payments, Interest and Taxes payments as well as NWC adjustments and others are considered
- Adjusted Cash Flow turned positive and reached €35M in 2Q23 which implies a turnaround vs €-23M in 1Q23

- It is worth noting that Cash Flow from Operations in each first quarter is impacted by seasonal factors including: i) higher working capital needs which tend to progressively come down throughout the year and, ii) deferred capex payments mostly from the Pomelo contract. These payments have been taking place in the first quarter of each of the last four years with no further payments from this project expected from next year
- Reported Net Debt stood at €6.4bn at the end of the quarter and almost unchanged QoQ.
- This is however a minor increase (+2.5%) against the net debt reported as of December 2022, mostly due to the Cash Flow from Operations seasonal factors explained above for 1Q23 as well as non-recurrent equity payments for the equity capital contribution in the Ucles project that took also place in 1Q23.
- Total Leverage of 5.2x and Senior Leverage of 4.3x (please see details of the calculations later in this report)

Table 2 – Key Financials

Key Financials (€M)	1Q22	1H22	9M22	FY22	1Q23	1H23	YoY
Service Revenues	670	1,324	1,988	2,647	677	1,365	3.1%
Total Revenues	733	1,443	2,172	2,894	740	1,479	2.5%
Adjusted EBITDA	277	540	842	1,199	286	602	11.5%
Adjusted EBITDA margin (%)	38%	37%	39%	41%	39%	41%	
Net Accrued Capex	124	257	394	470	97	204	
Fiber Network footprint (Mn of BUs)	27.2	27.5	27.7	28.1	28.4	28.9	
Cash Flow from Operations	-118	-93	-41	131	-23	12	
Total Leverage Net Debt/Structuring EBITDA (x)	5.0	5.3	5.2	5.1	5.2	5.2	

Source: Company

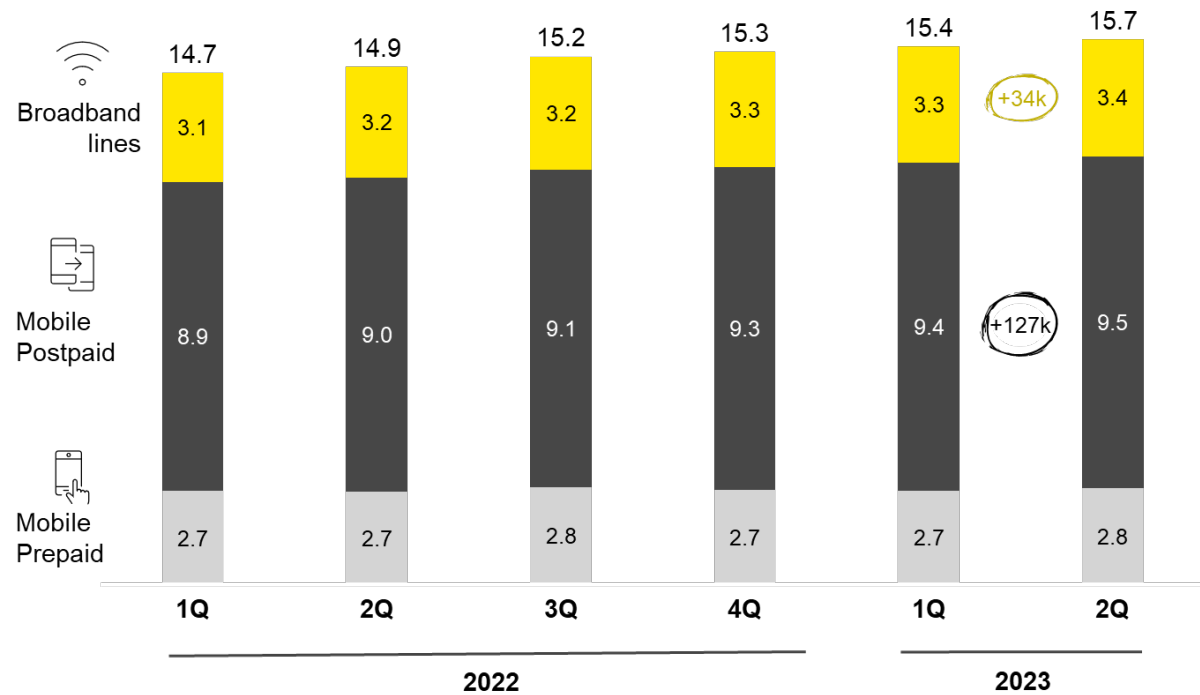
- **MASMOVIL continues its growth trajectory and reaches a total of c.15.7M lines including c.3.4M broadband lines, and >9.5M mobile postpaid**
 - At the end of 1H23, MASMOVIL reached 15.65M total lines (+5% YoY)
 - Total lines grew over the last quarter by 217K lines

Table 3 – Overview of Customer Base

Mn Lines	1Q22	1H22	9M22	FY22	1Q23	1H23	Delta 1H23/1Q23	YoY Growth
Mobile postpaid	8.87	9.00	9.11	9.27	9.40	9.53	0.13	6%
Mobile prepaid	2.69	2.67	2.80	2.72	2.70	2.76	0.06	3%
Total Mobile	11.56	11.67	11.91	11.99	12.10	12.29	0.18	5%
Broadband	3.13	3.19	3.24	3.29	3.33	3.37	0.03	6%
Total lines	14.69	14.86	15.15	15.28	15.44	15.65	0.22	5%

Source: Company

Chart 1 – Evolution of Mobile & Broadband Lines (millions)



Source: Company

- **Mobile postpaid lines grew +6% YoY**

- In 1H23, MASMOVIL reached 9,526K mobile post-paid clients, an increase of +127K lines vs. 1Q23

- **Broadband net adds of +34k in 2Q23**

- Broadband lines increased by +34K this quarter, reaching 3,366K BB lines.
- This implies a +6% growth against the number of lines reported in 1H22

Consolidated Profit and Loss Statement

Table 4 – Summarized P&L (€M)

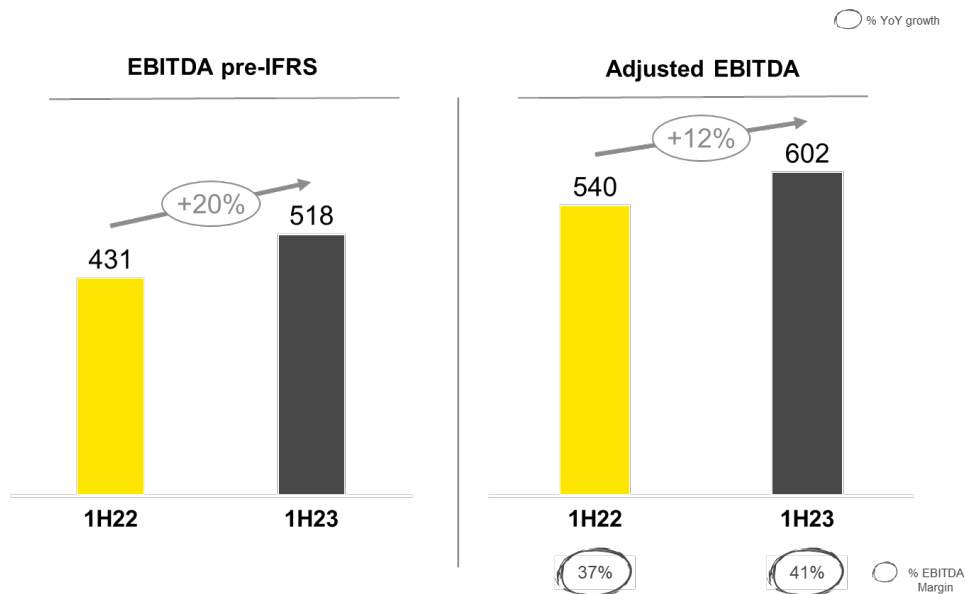
(€M)	1H22	1H23	Growth
Service Revenues	1,323.8	1,364.5	3%
Other revenues	119.1	114.6	-4%
Revenue	1,442.8	1,479.2	3%
Other operating revenue	69.1	83.0	20%
Cost of sales	-886.1	-880.2	-1%
Other operating expenses	-85.9	-79.7	-7%
Adjusted EBITDA	540.0	602.2	12%
Net one-offs	-20.2	-22.2	10%
Capital gain on sale of assets and loss impairm	1.7	-5.2	nm
Reported EBITDA	521.5	574.9	10%
Depreciation and amortization	-461.9	-467.2	1%
Result from loss of control of associates	0.0	0.0	nm
Reported EBIT	59.7	107.7	80%
Net financial expenses	-182.3	-222.6	22%
Results from equity-consolidated investments	0.0	-19.0	nm
Reported Profit before taxes	-122.6	-133.9	9%
Income tax	35.6	37.4	5%
Income / Loss from continuing operations	-87.0	-96.5	11%
Result from discontinued operations net of tax	22.6	-8.7	nm
Income / Loss for the period	-64.4	-105.2	63%

Source: Company

- **EBITDA pre-IFRS¹ of €518M in 1H23 +20% YoY**

- Once excluded the positive non-cash impact from IFRS 15 and IFRS 16, our 1H23 EBITDA pre-IFRS reached €518M +20% YoY.
- 1H23 Adjusted EBITDA² of €602M represents a +12% YoY increase
- Adjusted EBITDA margin reached 41% in 1H23 vs. 37% in 1H22 what implies a c.4pp margin expansion YoY

Chart 2 – Pre-IFRS and Adjusted EBITDA 1Q23 (€M)

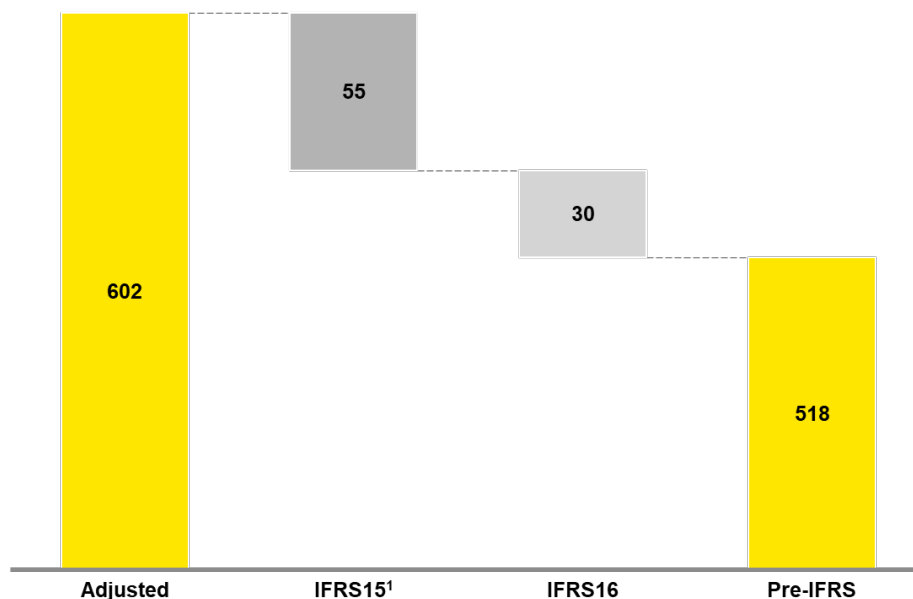


1 Pre IFRS 15 & IFRS 16 (see bridge in chart below)

2 Adjusted for one-offs

Source: Company

Chart 3 – Bridge from Adjusted EBITDA to Pre-IFRS 1H23 (€M)



1 Including IFRS3 impact from MASMOVIL takeover bid by Lorca and Euskaltel acquisition

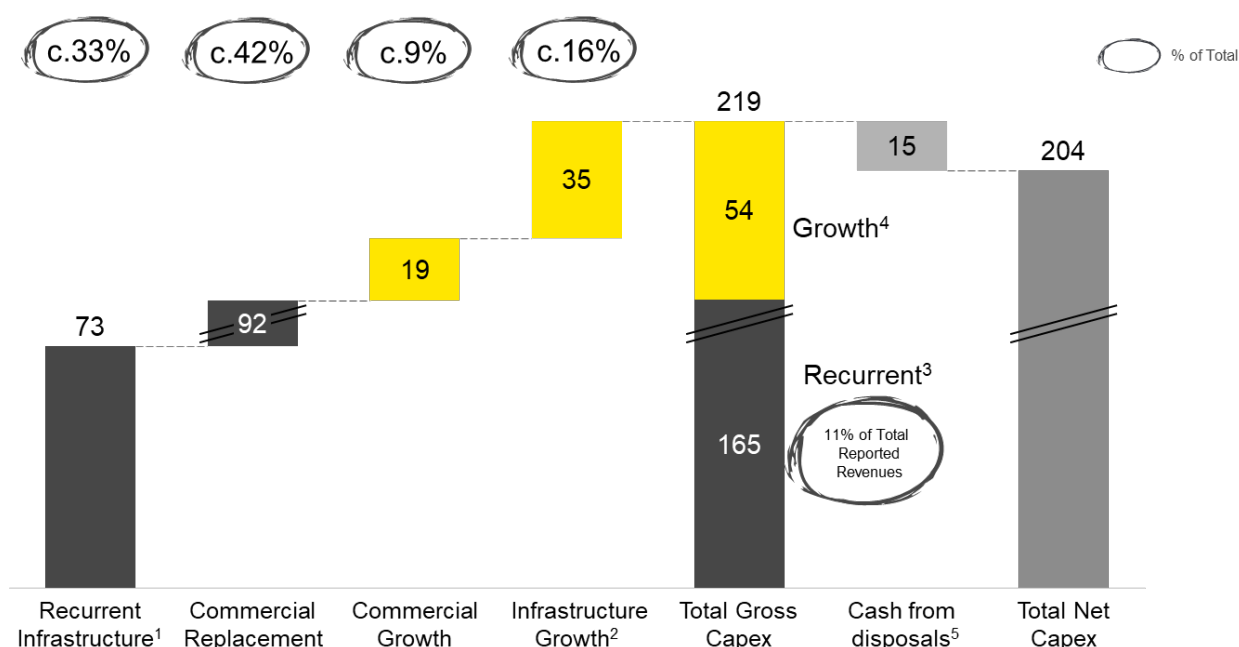
Source: Company

Cash Flow Statement

- **Reported Net Capex of €204M in 1H23**

- Total Reported Net Capex reached €204M in 1H23
- Total Reported Gross Capex is split between Recurrent and Growth Capex, the former representing 75% of Group's Gross Capex during the period, while Growth Capex reached the remaining 25%
- Recurrent capex remains just around 11% of Total Revenues during 1H23 (<13% of Total Revenues as of FY22)

Chart 4 – Net Capex 1H23 (€M)



1 Includes all maintenance of both fixed and mobile infrastructures, plus IT & spectrum Capex

2 Includes all infrastructure Capex that is not accounted under maintenance infrastructure Capex

3 Includes churn related (replacement) commercial Capex and maintenance infrastructure Capex

4 FTTH network deployment & commercial growth-related capex

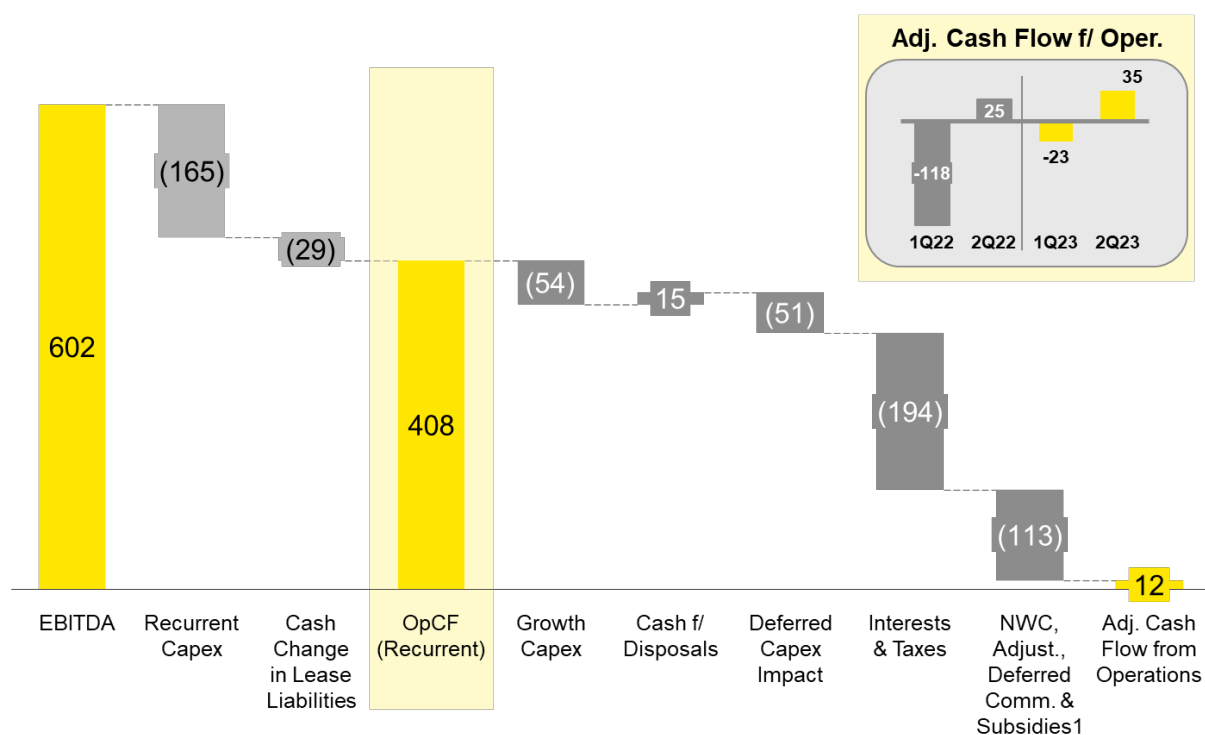
5 Including routers refurbished and other network sales

Source: Company

- Recurrent Capex amounted to €165M during the period, of which:
 - Infrastructure Recurrent Capex reached €73M in 1H23, representing c.33% of Total Gross Capex
It includes mainly Capex devoted to maintenance of Group's both fixed and mobile infrastructure, plus IT and spectrum Capex
 - Commercial Replacement Capex amounted to €92M, representing commercial investment required to replace the broadband lines that have churned over the period, for a total of c.42% of Total Gross Capex

- Growth Capex reached €54M in 1H23, and is comprised of:
 - Commercial Growth Capex amounted to €19M (c.9% of Total Gross Capex), which represents the commercial investment required to accommodate the net new broadband lines obtained over the period
 - Infrastructure Growth Capex reached €35M, or c.16% of Total Gross Capex. It includes direct investments in growing our network and, the remaining of Infrastructure Capex not accounted for under Recurrent Infrastructure Capex.
 - Asset sales for €15M were mostly driven by routers refurbished and other network sales
- **Adj. Cash Flow from Operations of €12M in 1H23 showing a positive YoY evolution**
 - Adj. EBITDA reached, as previously discussed, €602M in 1H23, while Recurrent Capex amounted to €165M in the same period
 - IFRS16-related change in cash lease liabilities totaled €29M in 1H23
 - The above allowed the Group to report €408M of Recurrent Operating Cash Flow during the period
 - Growth Capex including both commercial and infrastructure capex reached €54M or €39M net of €15M asset sales
 - Cash out-flows resulting from the payment of Capex incurred in previous periods (for instance the 2023 installment from the 2019 contract signed with Orange plus some seasonality factors) implied a Deferred Capex outflow of €51M in 1H23.
 - Interest and taxes implied €194M of cash outflow, mostly impacted by the higher level of debt since the Euskaltel's acquisition, higher interest costs and payments' calendar
 - NWC, Adjustments, Deferred Commissions & Subsidies (including IFRS15 adjustments) were €-113M this period
 - As already mentioned earlier in this report, some items like deferred capex payments and NWC have a higher negative impact on Cash Flow from operations at the beginning of the year.
 - As a result, 1Q23 Cash Flow from Operations was negative this quarter at €-23M but, turning into positive €35M in 2Q23. Both imply a material improvement vs. -€118M reported in 1Q22 and €25M in 2Q22
 - It should be noted however, that FY22 CF from Operations of €131M was supported by €89M of Assets Sales, while in 1H23 there have only been €15M accounted for
- **Cash Flow movements below Adj. Cash Flow f/ Operations**
 - One-offs include integration & migration costs plus accrued penalties for €47M
 - M&A payments for €81M mainly including the pending equity contribution for our minority stake in Ucles in 1Q23

Chart 5 – Cash Flow from Operations 1H23 (€M)



1 Includes IFRS15
Source: Company

Table 5 – Cash Flow (€M)

(Million €)	1H23
Adjusted EBITDA	602
NWC, Adjustments, Deferred Commissions and Subsidies	(105)
Payments from lease liabilities (IFRS16)	(29)
Net Financial expenses	(188)
Corporate tax	(7)
Cash Flow from operations before Capex	274
Accrued Net Capex	(219)
Payments for previous periods Capex	(51)
Cash from sale of assets (includ. special projects)	15
Cash Flow from Capex	(254)
Other	(8)
Adjusted Cash Flow from operations	12
One-offs	(47)
Cash Flow from operations	(35)
M&A	(81)
Financing	111
Net increase/(decrease) in cash and cash equivalents	(5)

Source: Company

- **Accounting Net Debt, as calculated by the Company, reached €6,436M at the end of the quarter, almost unchanged vs the €6,442M reported last quarter**
 - The Group's accounting Net Debt reached €6,436M on Company's calculations
 - The Group's nominal Net Debt of €6.5BN as of end of 1H23 mainly included:
 - Two TLBs for a total nominal value of €3.2bn: a TLB1 for €2.2bn with 420b.p. margin over Euribor and 9/27 maturity and a TLB2 for 1.0bn with 370b.p. margin on Euribor and same maturity.
 - Senior Secured Notes for €2.35bn on nominal value with 4% coupon and maturity on 9/27
 - Senior Notes for €453M (nominal value) 5.125% coupon & maturity on 9/29 after having bought back in the market bonds for a total value of €47M
 - Commercial paper for €268M
 - RCF for €120M
 - Other debts which netted of cash accounted for €129M (excluding lease liabilities)

The small increase in Accounting Net Debt from €6.282bn reported at the end of FY22, is explained by:

- Adjusted Cash Flow from Operations for €12M
- M&A cash outflows for a total of €81M mostly including the payment of the capital increase for a minority stake in Ucles
- Cash one-off costs for a total of €47M explained by accrued penalties from the Euskaltel acquisition plus migration and integration costs
- Other increases in Net Debt without impact on cash for €38M

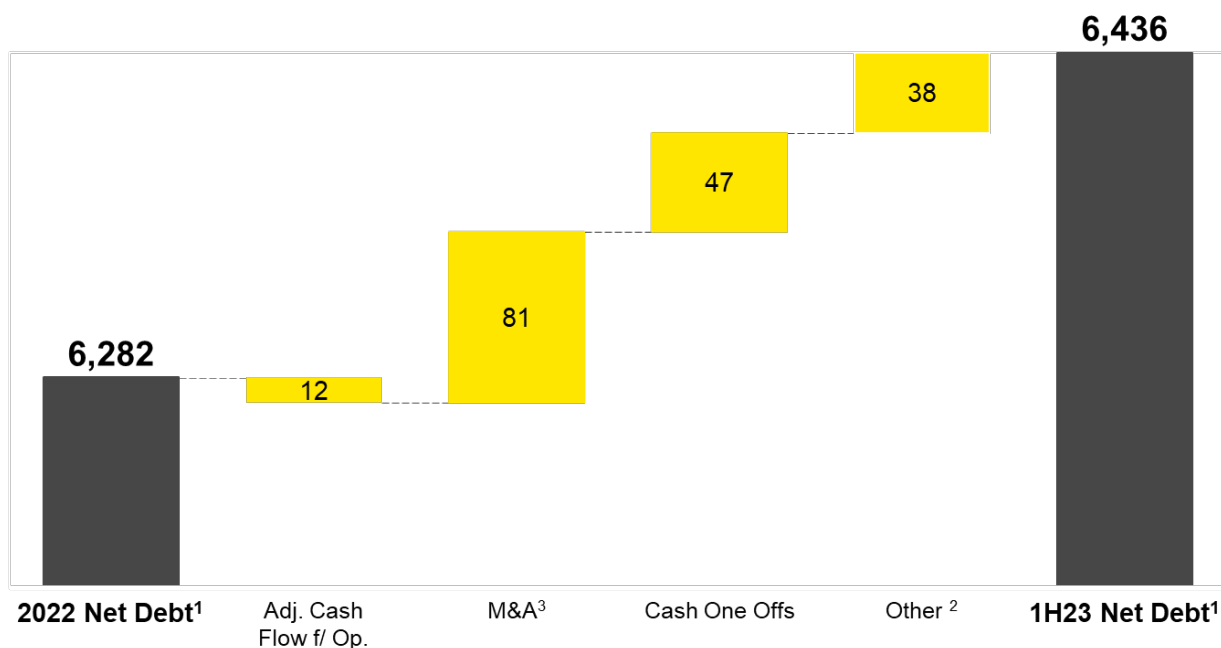
Table 6 – Accounting Net Debt Overview (€M)

(€m)	1H23
TLB	3,124
Senior Secured Notes	2,343
Senior Notes	451
RCF	121
Commercial paper	268
M&A deferred payments	31
Other bank debt, grants, deposits & guarantees	120
Total Gross Debt (as per Company's calculations)	6,458
Cash & Equivalents	22
Group's Net Debt (as per Company's calculations)	6,436

Source: Company

Note: Net Debt is calculated excluding some debts, mainly debts without cash interest charges, with shareholders, and €213M of financial leases under IFRS16 accounting practices

Chart 6 – Change in Accounting Net Debt (€M)



1 As per Company's calculations, excludes IFRS16 financial leases adjustment

2 Includes other accrued debt and interest in B/S

3 Mainly equity contributions

Source: Company

- Total Net Debt LTM¹ leverage of 5.2x and 4.3x on Senior Secured basis**

(€m)	1H23
TLB	3,200
Senior Secured Notes	2,350
Senior Notes	453
RCF	120
Commercial paper	268
M&A deferred payments	31
Other debts	108
Other Debts (grants, deposits and guarantees)	12
Finance leases	213
Cash & Equivalents	-22
Total Net Debt (for leverage)	6,732
LTM Structuring EBITDA	1,307
Total Net Debt LTM Leverage	5.2
Senior Secured Net Debt	5,648
Senior Secured Net Debt LTM Leverage	4.3

Note: The above net debt is nominal (vs. accounting in previous Table) and includes debt from leases

1: LTM Adjusted EBITDA plus synergies, run rate and NetCo Adj.

Source: Company.

Appendix – Lorca JV Co Reported Consolidated Financial Statements

Consolidated Balance Sheet

In thousands of Euros

	30/06/2023	30/06/2022
Assets		
Goodwill	4,470,529	4,471,054
Intangible assets	2,955,303	3,345,827
Property, plant and equipment	1,892,825	1,967,552
Rights of use	208,599	229,627
Cost of obtaining contracts with customers	271,893	160,273
Contractual assets	56,664	46,052
Investments accounted for using the equity method	205,760	62,733
Derivatives financial instruments	21,338	
Other investments	44,409	28,053
Prepayments for non-current assets	96,536	67,469
Deferred tax assets	636,075	603,435
Total non-current assets	10,859,931	10,982,075
Current assets held for sale	215,857	333,680
Inventories	9,866	37,349
Trade and other receivables	354,988	408,877
Cost of obtaining contracts with customers and contractual assets	121,219	130,220
Contractual assets	111,016	110,054
Current tax assets	5,344	5,043
Derivatives financial instruments	16,093	
Other investments	30,408	17,203
Prepayments for current assets	67,561	52,302
Cash and cash equivalents	22,201	31,331
Total current assets	954,553	1,126,059
Total assets	11,814,484	12,108,134
Equity		
Capital	20,512	20,512
Share premium	2,030,662	2,030,662
Retained earnings	(105,173)	(63,426)
Reserves	554,272	87,840
Own shares		(478)
Other reserves	28,140	
Translation differences	(2)	(2)
Equity attributable to equity holders of the Parent	2,528,411	2,075,108
Non-controlling interests	(206)	(1,586)
Total equity	2,528,205	2,073,522
Liabilities		
Loans and borrowings	3,108,583	3,586,313
Derivative financial instruments	-	834
Other payables	159,798	187,134
Finance lease payables	167,456	190,267
Other financial liabilities	2,763,014	2,882,326
Provisions	74,780	126,750
Government grants	8,078	6,395
Trade and other payables	49,664	31,736
Deferred tax liabilities	455,178	493,550
Other non-current liabilities	228,325	213,388
Total non-current liabilities	7,014,876	7,718,693
Liabilities related to non-current assets held for sale	143,857	204,346
Loans and borrowings	244,901	152,858
Current tax liabilities	29,119	18,007
Other payables	241,208	261,975
Finance lease payables	45,083	45,059
Other financial liabilities	341,253	347,545
Trade and other payables	1,184,874	1,261,237
Provisions	41,108	24,892
Total current liabilities	2,271,403	2,315,919
Total liabilities	9,286,279	10,034,612
Total equity and liabilities	11,814,484	12,108,134

Source. – Company

Consolidated Income Statement

In thousands of Euros

	<u>30/06/2023</u>	<u>30/06/2022</u>
Revenue	1,479,167	1,442,849
Other operating income	80,630	69,087
Merchandise, raw materials and consumables used	(573,344)	(575,033)
Employee benefits expenses	(66,894)	(63,946)
Depreciation and amortisation expense	(467,166)	(461,863)
Impairment and benefit for disposals of fixed assets	(5,178)	1,745
Other operating expenses	(339,505)	(353,163)
Result from loss of control of associates	-	-
Results from operating activities	<u>107,710</u>	<u>59,676</u>
Finance income	5,797	2,150
Finance costs	(227,216)	(183,623)
Change in fair value of financial instruments	(1,164)	(78)
Exchange differences	(34)	(733)
Impairment and results from disposals of financial instruments	-	-
Gain on bargain purchase	-	-
Net finance cost	<u>(222,617)</u>	<u>(182,284)</u>
Results from equity-consolidated investments	(18,973)	(37)
Income/(Loss) for the period from continuing operations, before income tax	<u>(133,880)</u>	<u>(122,645)</u>
Income tax	37,379	35,623
Income/Loss for the period from continuing operations	<u>(96,501)</u>	<u>(87,022)</u>
Gain/Loss from discontinued operations	(8,700)	22,631
Income/Loss for the period	<u>(105,201)</u>	<u>(64,391)</u>

Source. – Company

Consolidated Cash Flow Statement

Thousand Euro

	30/06/2023	30/06/2022
Cash flow from operating activities		
Profit/(Loss) from continuing operations	(96,501)	(64,391)
Profit/(Loss) from discontinued operations	(8,700)	
Profit/(Loss) for the year	(105,201)	(64,391)
Adjustments for:		
Depreciation and amortisation	467,166	461,863
Impairment losses from trade receivables	28,439	25,351
Change in provisions	4,250	(568)
Government grants recognised	(177)	(107)
Exchange differences	34	733
Change in fair value of financial instruments	1,164	78
Capitalization of the cost of obtaining contracts with customers	73,253	51,566
Recognised costs for contractual assets	83,652	77,450
Impairment and gain of non-current assets disposal	5,178	(1,745)
Impairment and result from disposals of financial instruments	8,700	-
Financial income	(5,797)	(2,150)
Financial expenses	227,216	183,623
Results from investments accounted for using the equity method	18,973	37
Other income and expenses	5,535	5,068
Income tax income/(expense)	(37,379)	(35,623)
Changes in working capital		
- Current assets / liabilities held for sale	-	(107,753)
- Inventories	4,545	(4,311)
- Trade and other receivables	16,789	(12,125)
- Cost of obtaining contracts with customers	(119,417)	(120,369)
- Contract assets	(92,566)	(88,986)
- Other assets and liabilities	(57,171)	(58,807)
- Trade and other payables	(110,536)	23,379
- Provisions	(18,670)	(31,648)
Cash flow from operating activities	397,980	300,565
Interest paid	(187,610)	(152,848)
Income tax received/(paid)	(6,683)	6,687
Net cash flow from operating activities	203,687	154,404
Cash flow from investing activities		
Proceeds from investment on financial assets	5,088	54,393
Proceeds from sale of intangible assets	-	335
Proceeds from sale of property, plant and equipment	13,408	5,951
Payments for acquisition of property, plant and equipment	(212,821)	(245,593)
Payments for acquisition of intangible assets	(60,002)	(120,796)
Payments for acquisition of financial assets	(95,392)	(14,039)
Acquisition of subsidiaries, net of cash and cash equivalents	-	(3,436)
Net cash flow used in investing activities	(349,719)	(323,185)
Cash flow from financing activities		
Proceeds from bank borrowings	897,136	639,366
Proceeds from Government grants	351	1,019
Proceeds from other financial liabilities	8,066	
Payments for treasury shares		(478)
Payments for lease liabilities including interest	(20,292)	(29,998)
Payments for bank borrowings	(744,001)	(490,000)
Payment for other financial liabilities		(72,292)
Net cash flow from/(used in) financing activities	141,260	47,617
Net increase/(decrease) in cash and cash equivalents	(4,772)	(121,164)
Cash and cash equivalents at 1 January	26,973	152,495
Cash and cash equivalents at 31 December	22,201	31,331

Source. - Company

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