

Telefónica

Creating the Leading Integrated Telco in Brazil

29 August 2014

Telefónica, S.A.
Investor Relations

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Transaction Summary

Key Terms

- Telefónica and Telefónica Brasil have entered into an exclusivity agreement with Vivendi in relation to their binding offer to acquire 100% of GVT
- Total implied consideration for 100% of GVT of €7.45bn, through a combination of cash and a stake in the enlarged Telefónica Brasil
 - (i) €4.66bn of cash, financed through a capital increase at Telefónica Brasil
 - (ii) 12.0% stake in the enlarged Telefónica Brasil (after capital increase)
- Telefónica offered Vivendi the opportunity to swap, a 4.5% stake in the enlarged Telefónica Brasil in return for a voting stake of 8.3% in Telecom Italia held by Telefónica
 - Vivendi to decide at the time of signing of the definitive agreements if it wishes to receive the Telecom Italia shares
- Cooperation between Telefónica and Vivendi's subsidiaries globally for the distribution of media content
- Transaction to unlock significant value, with synergies of at least €4.7bn NPV

Expected Key Dates

- Exclusivity period of 3 months
- Signing of definitive agreements after Vivendi's workers' council review
- Telefónica Brasil shareholders' approval required at Telefónica Brasil's General Meeting
- Transaction expected to close in mid 2015, following clearance from relevant authorities

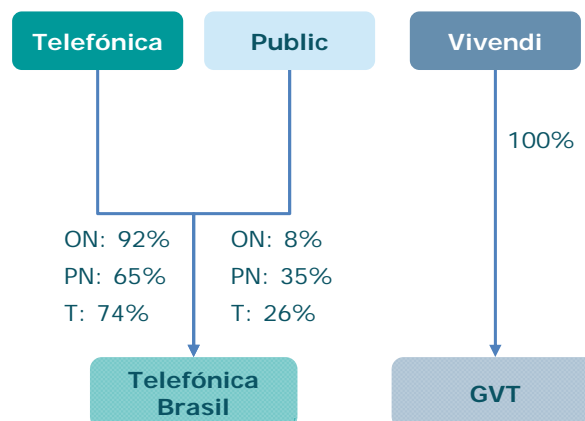
Proposed Transaction Structure

Transaction Summary

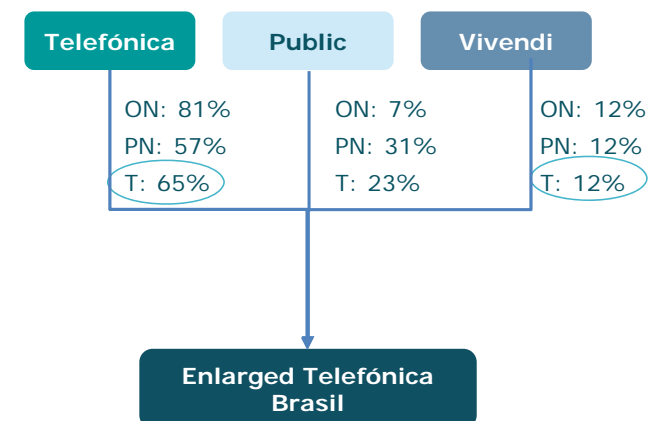
Total consideration of €7.45bn

- Acquisition of GVT by Telefónica Brasil for a combination of cash and a stake in the enlarged Telefónica Brasil
 - €4.66bn in cash, financed through a capital increase at Telefónica Brasil
 - 12.0% stake in the enlarged Telefónica Brasil (after capital increase)
- Vivendi could request that, Telefónica exchanges 1,110m Telecom Italia ordinary shares (8.3% of voting capital) it owns for 4.5% stake in the enlarged Telefónica Brasil

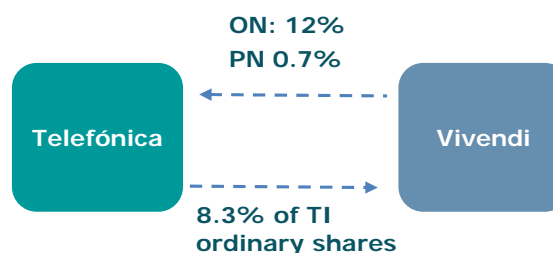
1 Pre Transaction Structure



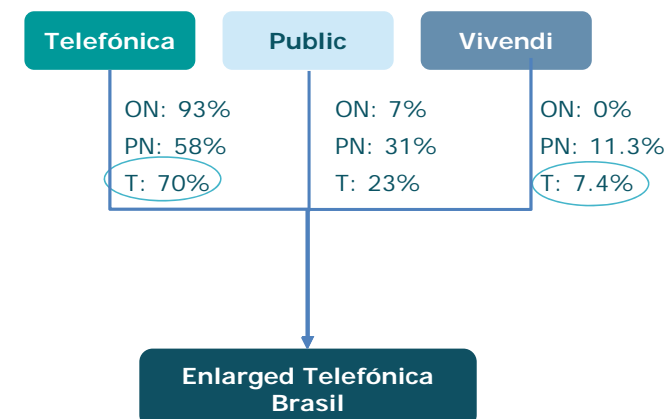
2 Post Capital Raise and Contribution in Kind



3 Optional: TI /TEF Brasil Share Swap



4 Optional: Final Ownership Structure



Transaction Rationale

1 GVT's Attractive Standalone Business

- Strong NGN with more than 10.4m Homes Passed in 152 cities/21 Brazilian states
- More than 2.5m UBB clients (86% > 10Mbps), of which 92% outside Sao Paulo
- Sustained double-digit growth (26% revenue CAGR 10-13) with further potential
- Strong management track record underpinned by impressive operating and financial performance

2 Creating a Leading Integrated Operator with Nationwide Footprint and Focus in high value segments

- Leading integrated operator with nationwide footprint and a 29% revenue share
 - ▶ Leader in mobile and UBB, well positioned in high value segments in both services
 - ▶ Enables Telefónica Brasil to offer high quality quad-play products
- Accelerating growth profile both at Telefónica and Telefónica Brasil
- Reinforced competitive positioning:
 - ▶ Mobile: bundling services and supporting LTE deployment by leveraging GVT's extensive fiber network
 - ▶ Fixed in Sao Paulo: optimizing fiber deployment by transferring operational best practices to VIVO
 - ▶ Corporate/SME: improving profitability, competitive positioning and quality of services by migrating to owned infrastructure

Transaction Rationale (Cont'd)

3

Value Crystallization through Significant Synergies

>€4.7 bn

- NPV of total synergies of at least €4.7bn, net of integration costs
 - ▶ Net savings from year one
 - ▶ Annual run-rate of operating and revenue synergies of at least €450 m; c70% of run-rate synergies by year 2017
- Revenue synergies (20% of the total):
 - ▶ Cross-selling synergies on similar customers profile, corporate and wholesale
 - ▶ Improved customer satisfaction and loyalty
- OpEx and CapEx synergies (49% of the total):
 - ▶ Leveraging GVT's fibre network for LTE deployment
 - ▶ Lower direct costs as a result of higher scale
- Incremental value from additional financial, fiscal and other synergies (31% of the total)
- Highly experienced management team with a proven track record of integration

4

Value Creation for Telefónica Brasil Shareholders

- Accelerating growth profile
- Unlocks significant value for Telefónica Brasil shareholders
- Improved profitability and enhanced cash flow generation for enlarged entity
- Increases financial flexibility, with no incremental leverage
- Maintaining optionality for potential additional sector evolution

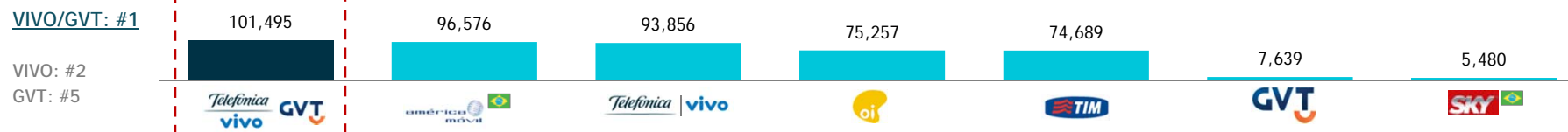
5

Value Creation for Telefónica Shareholders

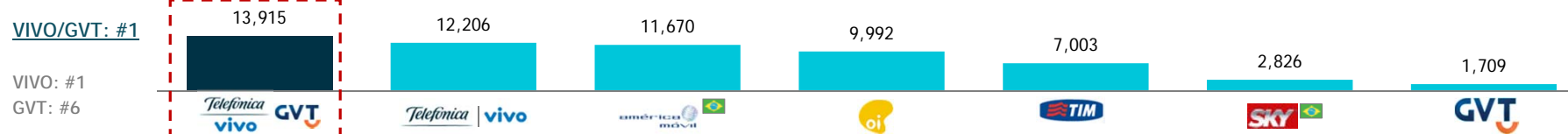
- Accelerating growth profile
- Unlocks significant value for Telefónica shareholders
- Credit-neutral financing structure, allowing leverage ratios to improve while improving market positioning in a core market
- Positive impact on Telefónica's cash flow generation profile
- FCF accretive from year 1 of full operation

2 Leading Integrated Telco Operator in Brazil

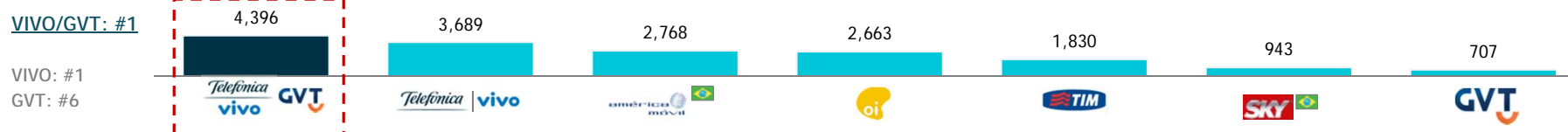
Total accesses - 1Q 2014 (000's)



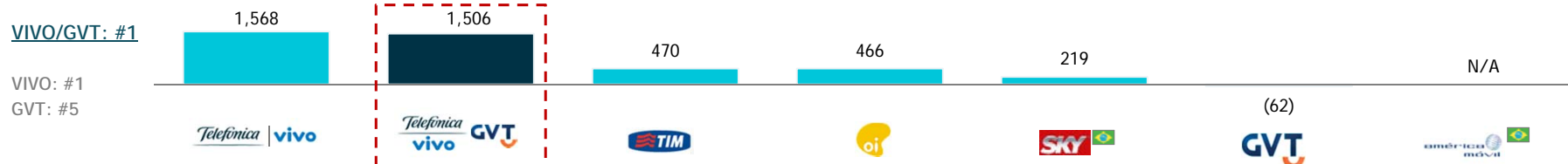
Net revenues - 2013 (€mm)



EBITDA - 2013 (€mm)



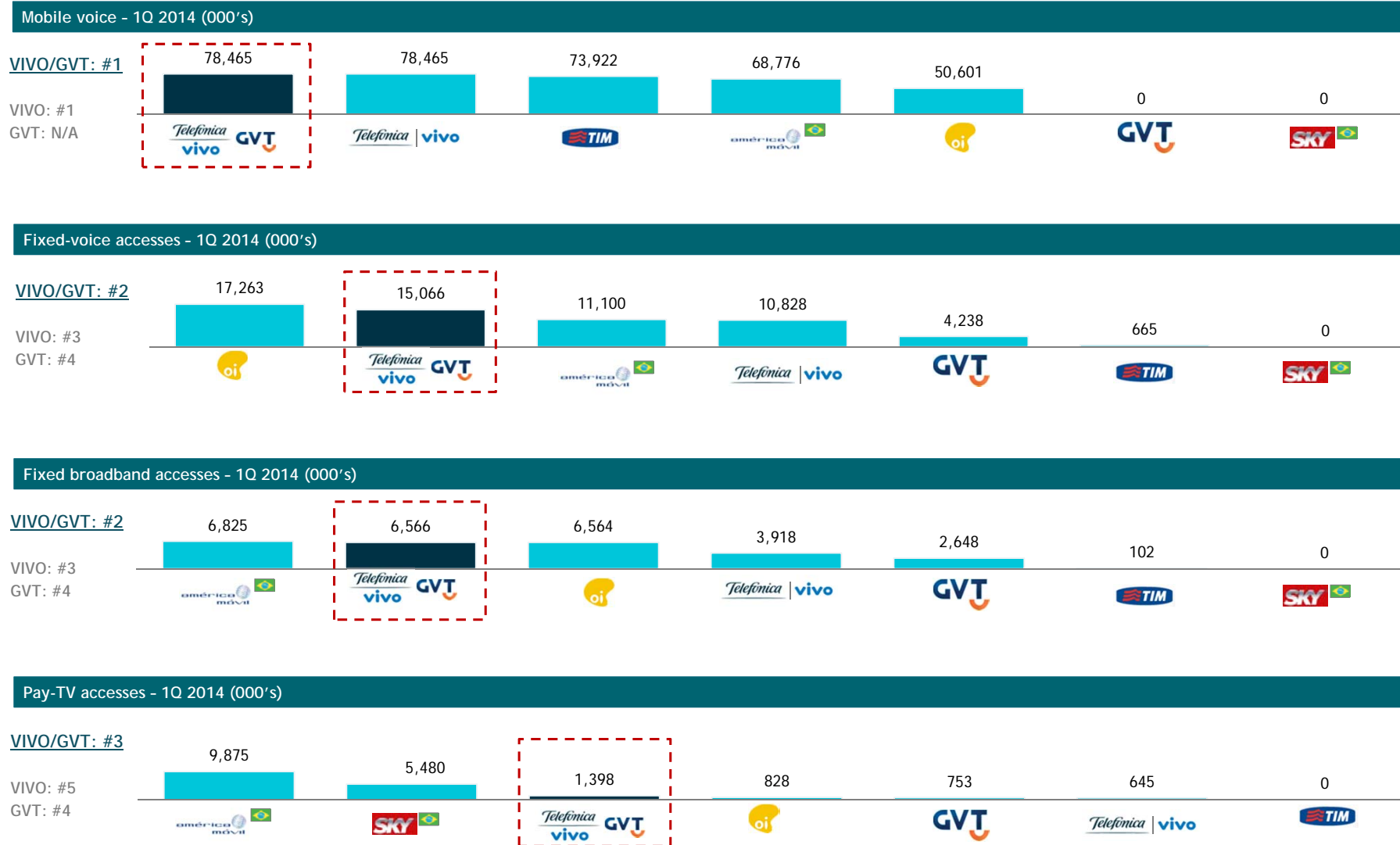
(EBITDA-Capex) - 2013 (000's)



Source: Company filings, Anatel and Teleco; Converted to € using average 2013 R\$/€ FX rate

1. Considers retail and corporate segments; Considers América Móvil Brazil only; Considers Oi standalone

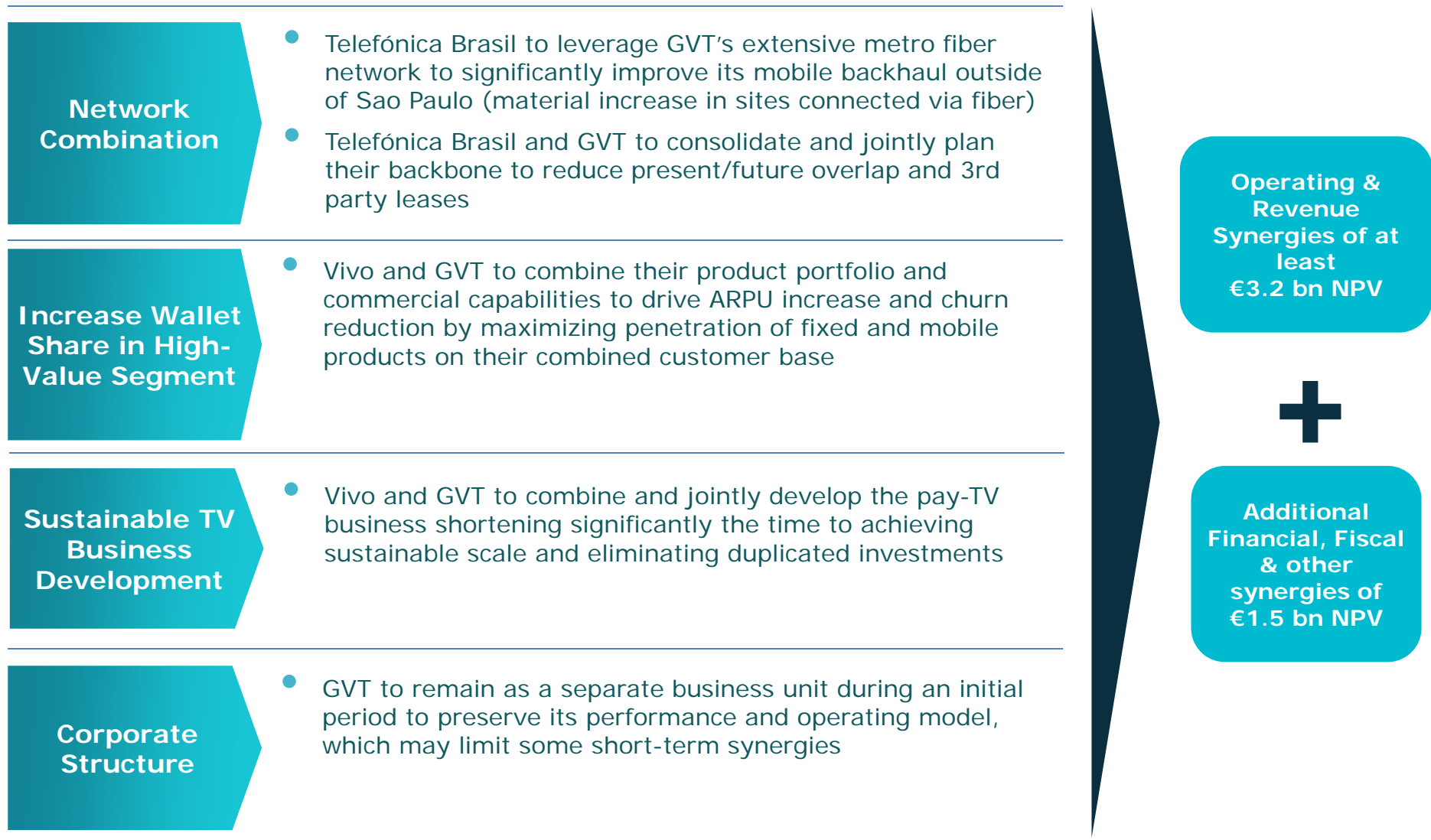
2 Leading Integrated Telco Operator in Brazil (cont'd)



Source: Company filings, Anatel and Teleco; Converted to € using average 2013 R\$/€ FX rate

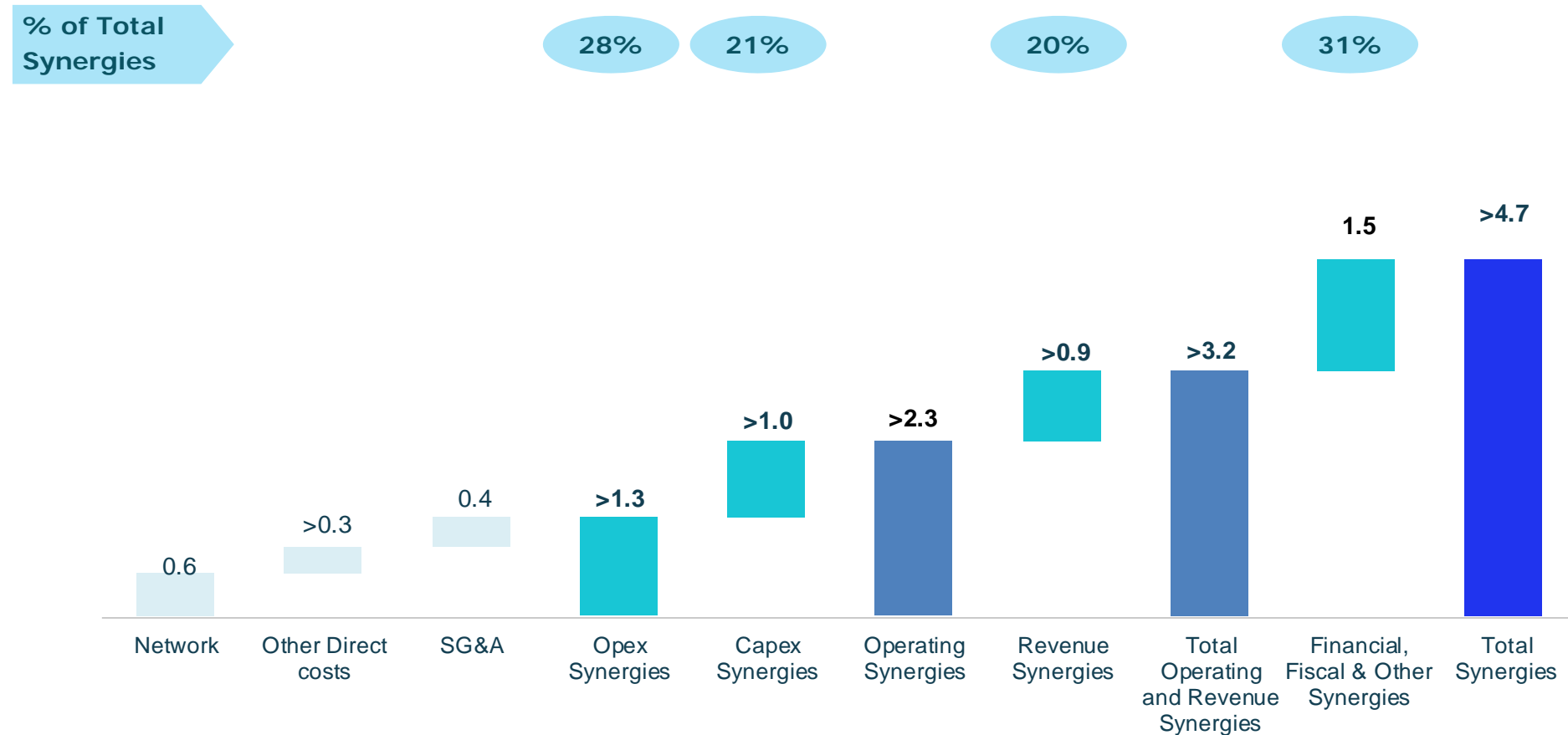
1. Considers retail and corporate segments; Considers América Móvil Brazil only; Considers Oi standalone

3 Identified Synergies of at Least €4.7bn NPV



3 Synergies Value of at Least €4.7bn NPV

€bn

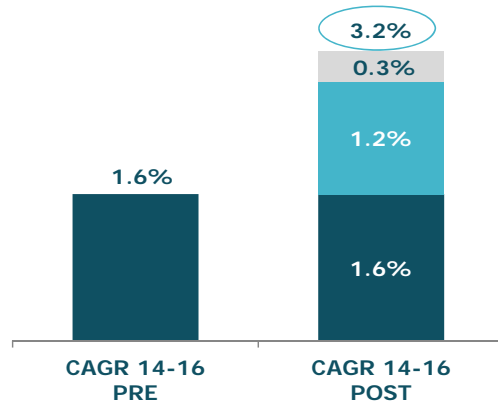


- NPV at least €4.7bn:
 - ▶ Net savings from year one
 - ▶ Run-rate operating and revenue synergies at least €450 MM from year 2020; c70% of run rate by 2017

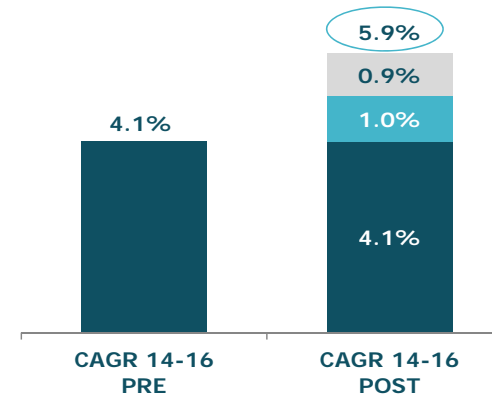
4 Attractive Transaction for Telefónica Brazil Shareholders

Pro forma Financial Impact on Telefónica Brazil

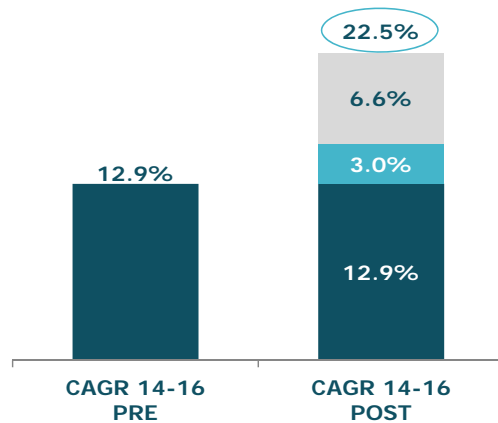
Revenues



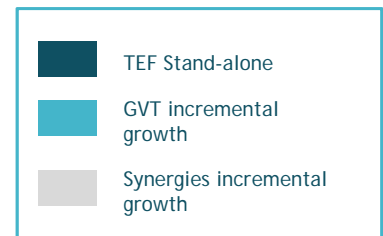
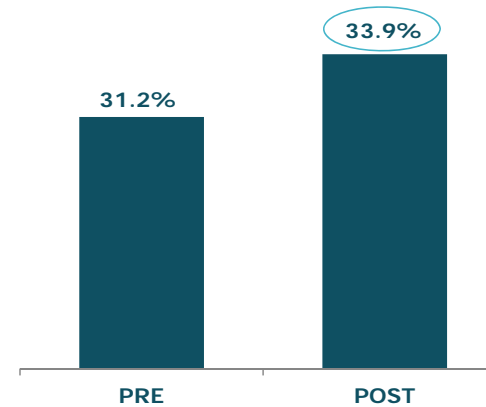
OIBDA



OpFCF (1)



OIBDA Margin (2)



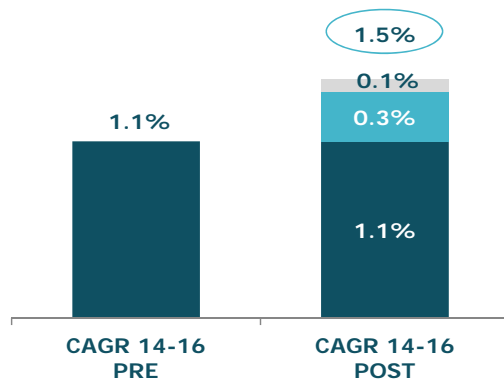
Source: Broker consensus, not adjusted for differences in accounting policies

1. Defined as OIBDA-Capex
2. 2015 (post includes run rate synergies)

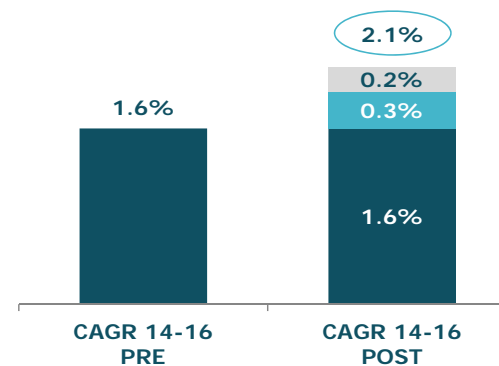
5 Attractive Transaction for Telefónica Shareholders

Pro forma Financial Impact on Telefónica Group

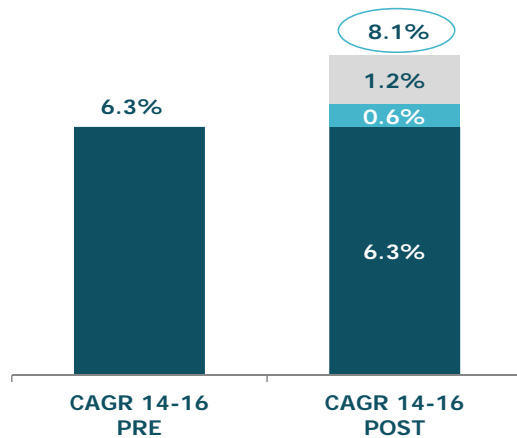
Revenues



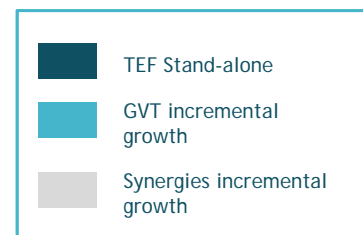
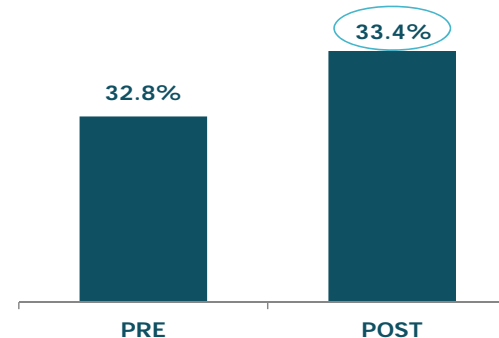
OIBDA



OpFCF (1)



OIBDA Margin (2)



Source: Broker consensus

1. Defined as OIBDA-Capex
2. 2015 (post includes run rate synergies)
3. Based on run-rate synergies

- FCF Accretion from year 1 of full operation⁽³⁾

6 Transaction Entirely Financed with Equity

Telefónica Cash Commitment

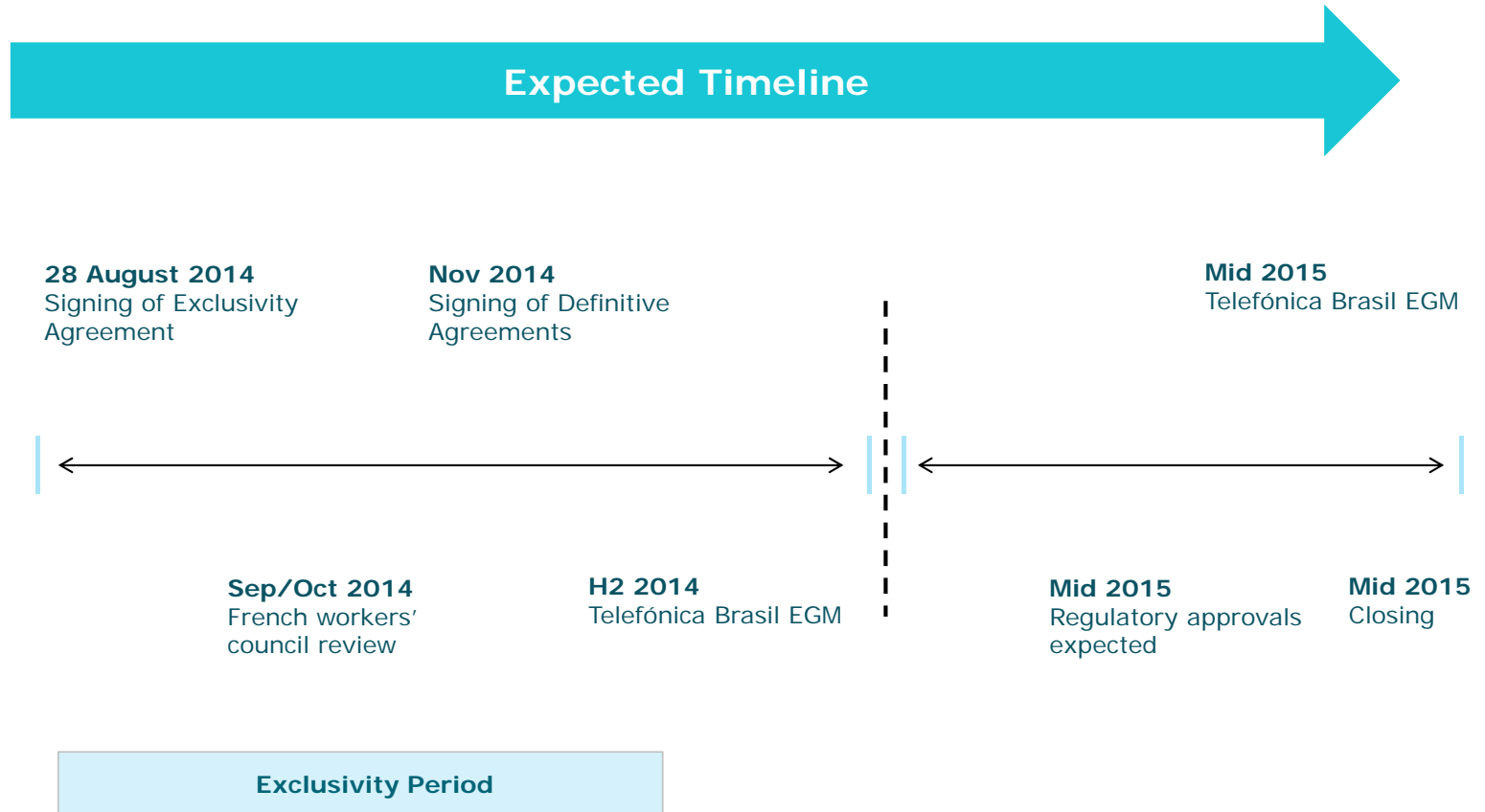
- Transaction entirely financed with equity at both Telefónica and Telefónica Brasil to strengthen Telefónica's capital structure
 - ▶ The cash consideration to Vivendi will be fully financed through a capital increase at Telefónica Brasil
 - ▶ Telefónica will subscribe its proportionate share of 73.9%, or €3.4 bn, which, in turn, will be funded through a capital increase at Telefónica level

Key Considerations

- Transaction to strengthen Telefónica's balance sheet
 - ▶ Consolidation of GVT financials and value creation from synergies with no incremental debt
 - ▶ Reduction of net debt / EBITDA ratio
- Positive metric impact in short term
 - ▶ keeping strong liquidity to accommodate next years debt maturities

Expected Transaction Timetable

Key Milestones



Closing Remarks: The Perfect Fit

- A natural strategic move in a core market to improve market positioning and growth profile while improving financial flexibility
- In each of its top 3 markets (Spain, Brazil, Germany) Telefónica to be the leader in subscribers and network quality
- Creating a leading integrated Telco in Brazil with a nationwide footprint and high value customer profile, in the largest telecoms market in LatAm
- Significant value creation through at least €4.7bn NPV synergies crystallization
- Reinforces Telefónica's geographical diversification towards key markets
- Transaction to strengthen Telefónica's balance sheet, improving leverage
- Substantial value creation for Telefónica and Telefónica Brazil shareholders
 - ▶ Improving growth profile and market positioning, while maintaining intact further optionality
 - ▶ Enhancing cash flow generation profile
 - ▶ Accretive for Telefónica FCF from year one

Telefónica
