

*Telefónica*

---

# Creating the Leading Integrated Telco in Brazil

---

29 August 2014

---

Telefónica, S.A.  
Investor Relations

# Disclaimer

This document contains statements that constitute forward looking statements about Telefónica Group (going forward, "the Company" or Telefónica) including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations which may refer, among others, to the intent, belief or current prospects of the customer base, estimates regarding, among others, future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company.

The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions. Such forward-looking statements, by their nature, are not guarantees of future performance and involve risks and uncertainties, and other important factors that could cause actual developments or results to differ from those expressed in our forward looking statements. These risks and uncertainties include those discussed or identified in fuller disclosure documents filed by Telefónica with the relevant Securities Markets Regulators, and in particular, with the Spanish Market Regulator.

Analysts and investors, and any other person or entity that may need to take decisions, or prepare or release opinions about the securities issued by the Company, are cautioned not to place undue reliance on those forward looking statements, which speak only as of the date of this presentation.

Except as required by applicable law, Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica's business or acquisition strategy or to reflect the occurrence of unanticipated events.

This document may contain summarized information or information that has not been audited. In this sense, this information is subject to, and must be read in conjunction with, all other publicly available information, including if it is necessary, any fuller disclosure document published by Telefónica.

Finally, it is stated that neither this presentation nor any of the information contained herein constitutes an offer of purchase, sale or exchange, nor a request for an offer of purchase, sale or exchange of securities, or any advice or recommendation with respect to such securities.

# 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

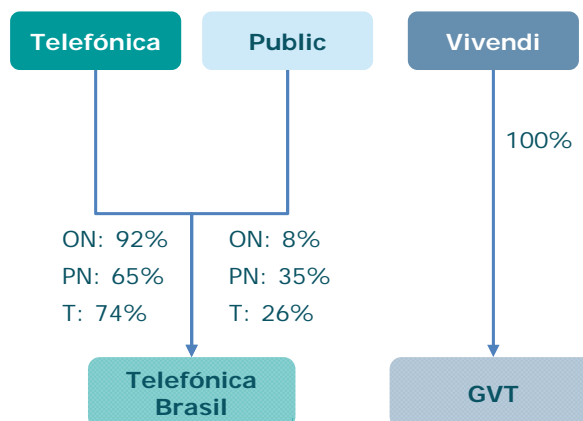
# Proposed Transaction Structure

## Transaction Summary

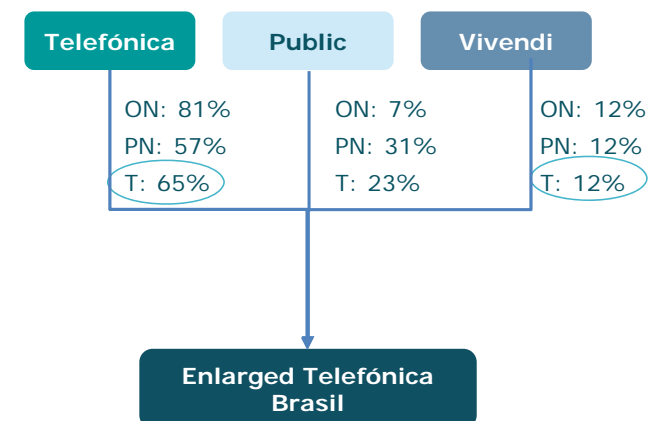
### Total consideration of €7.45bn

- 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

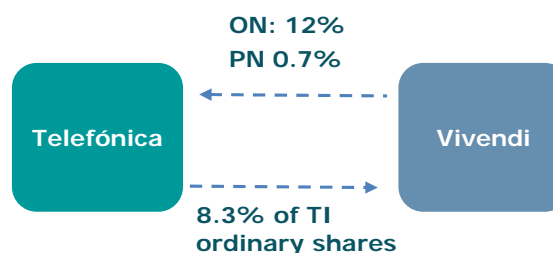
## 1 Pre Transaction Structure



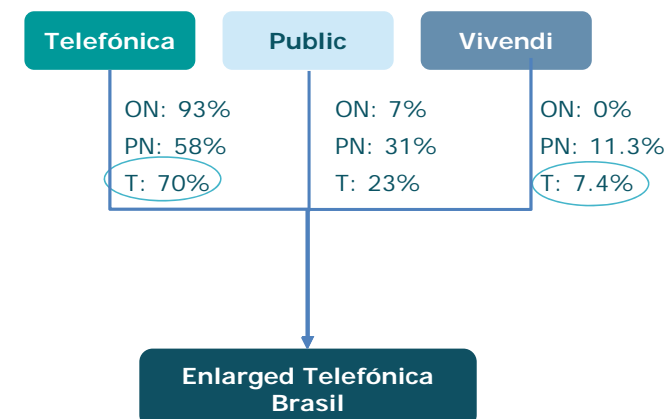
## 2 Post Capital Raise and Contribution in Kind



## 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

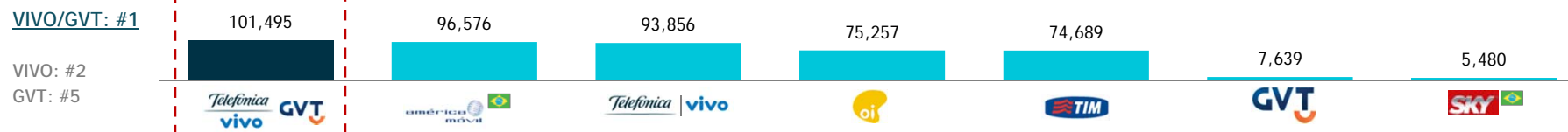
5

## Value Creation for Telefónica Shareholders

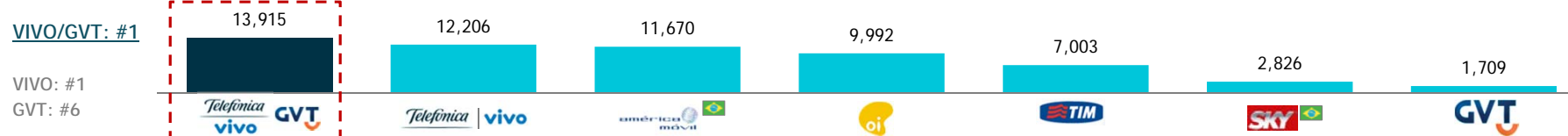
- Accelerating growth profile
- Unlocks significant value for Telefónica shareholders
- Credit-neutral financing structure, allowing leverage ratios to improve while improving market positioning in a core market
- Positive impact on Telefónica's cash flow generation profile
- FCF accretive from year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

## 2 Leading Integrated Telco Operator in Brazil

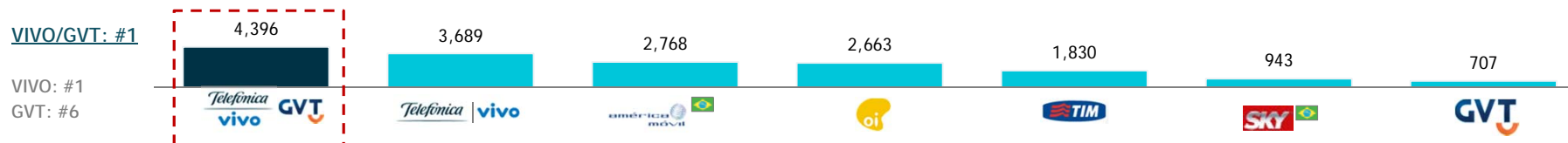
### Total accesses - 1Q 2014 (000's)



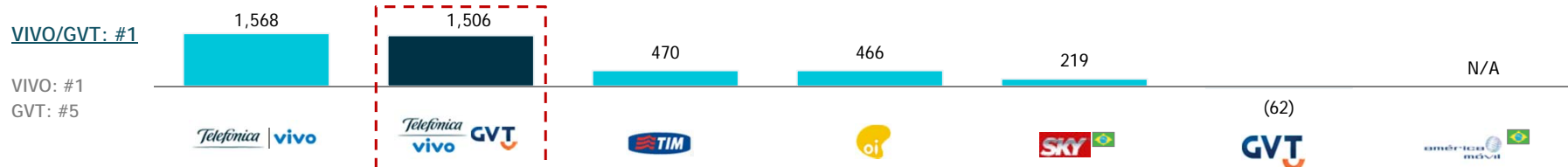
### Net revenues - 2013 (€mm)



### EBITDA - 2013 (€mm)



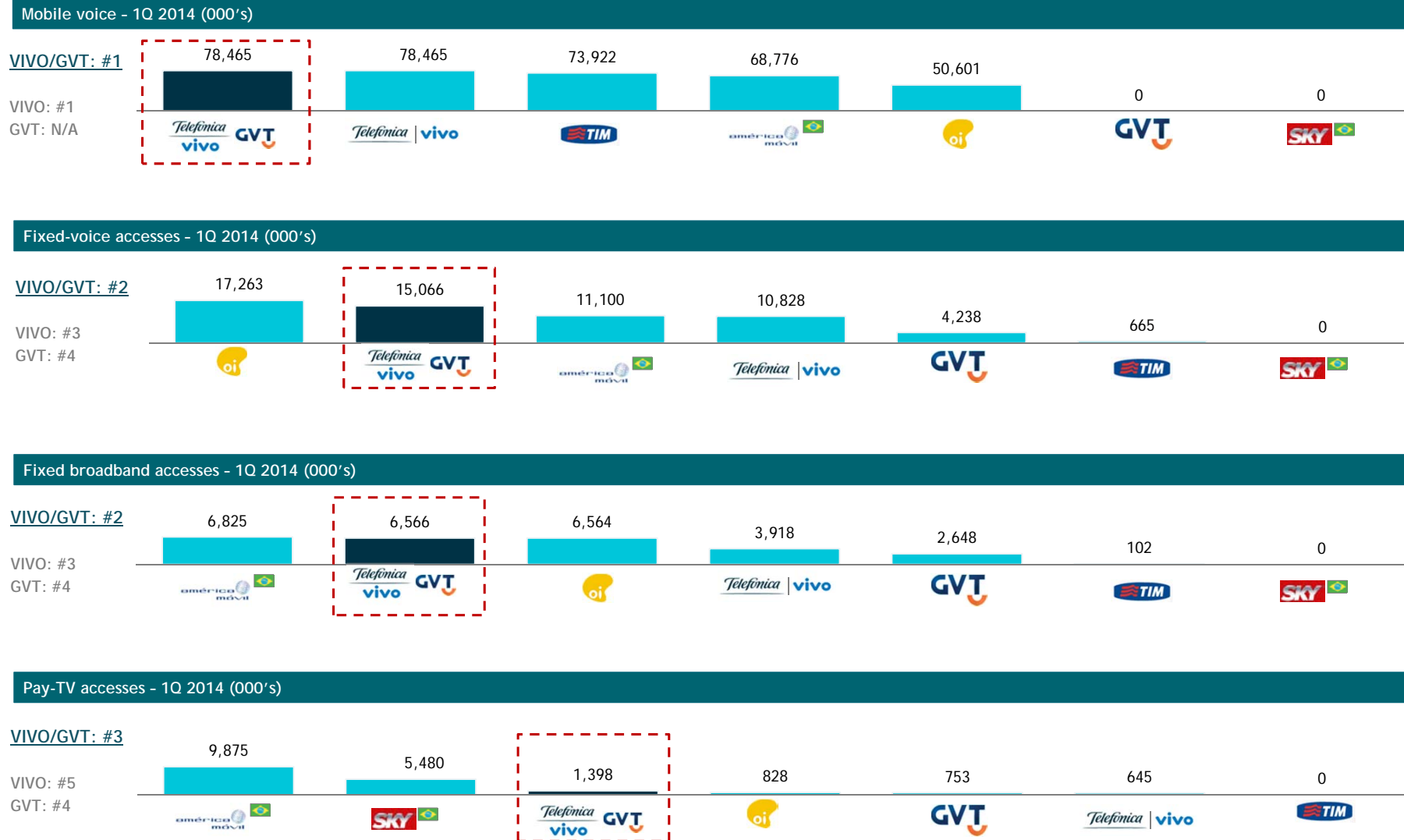
### (EBITDA-Capex) - 2013 (000's)



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)

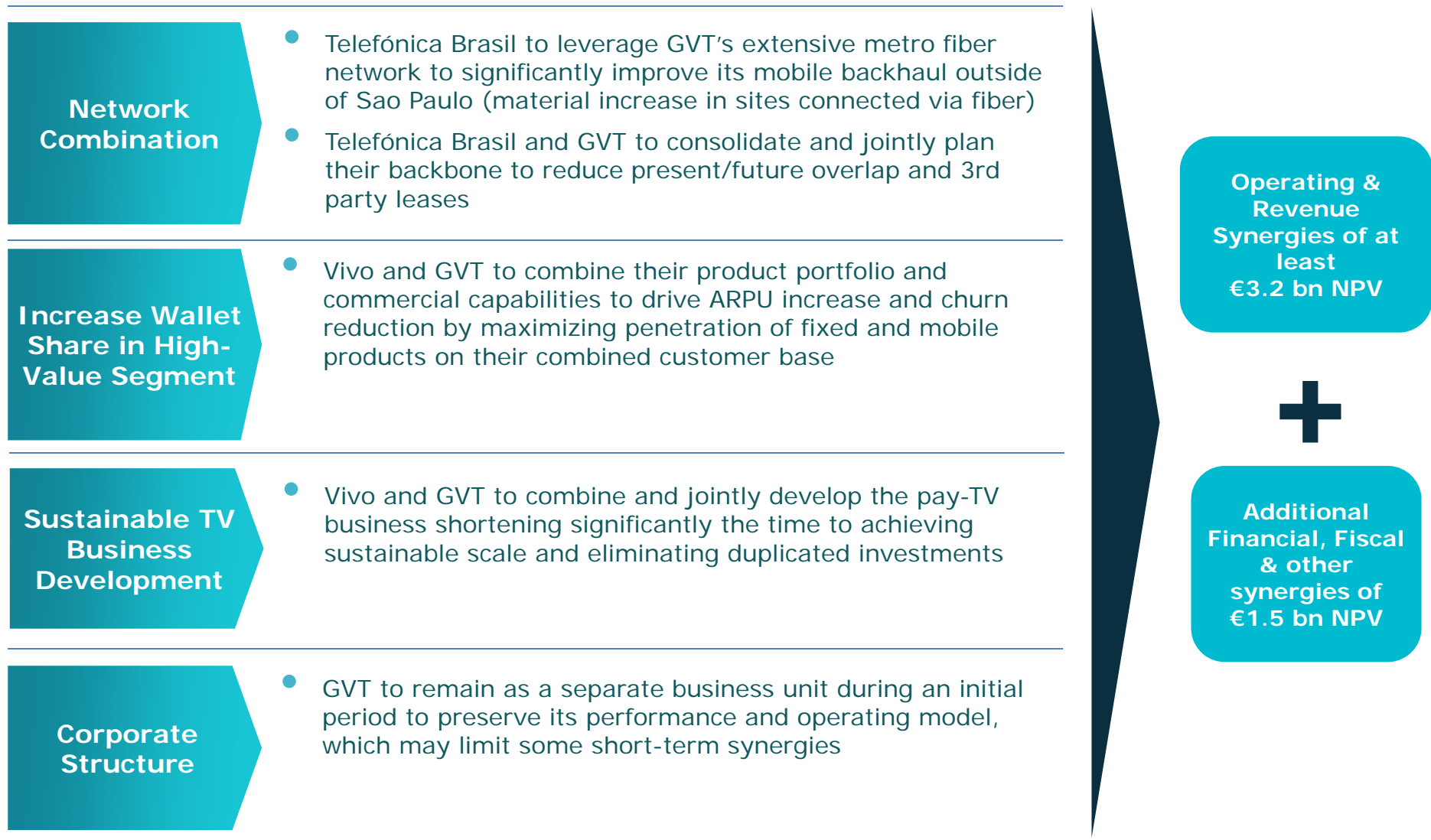


Source: Company filings, Anatel and Teleco; Converted to € using average 2013 R\$/€ FX rate

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

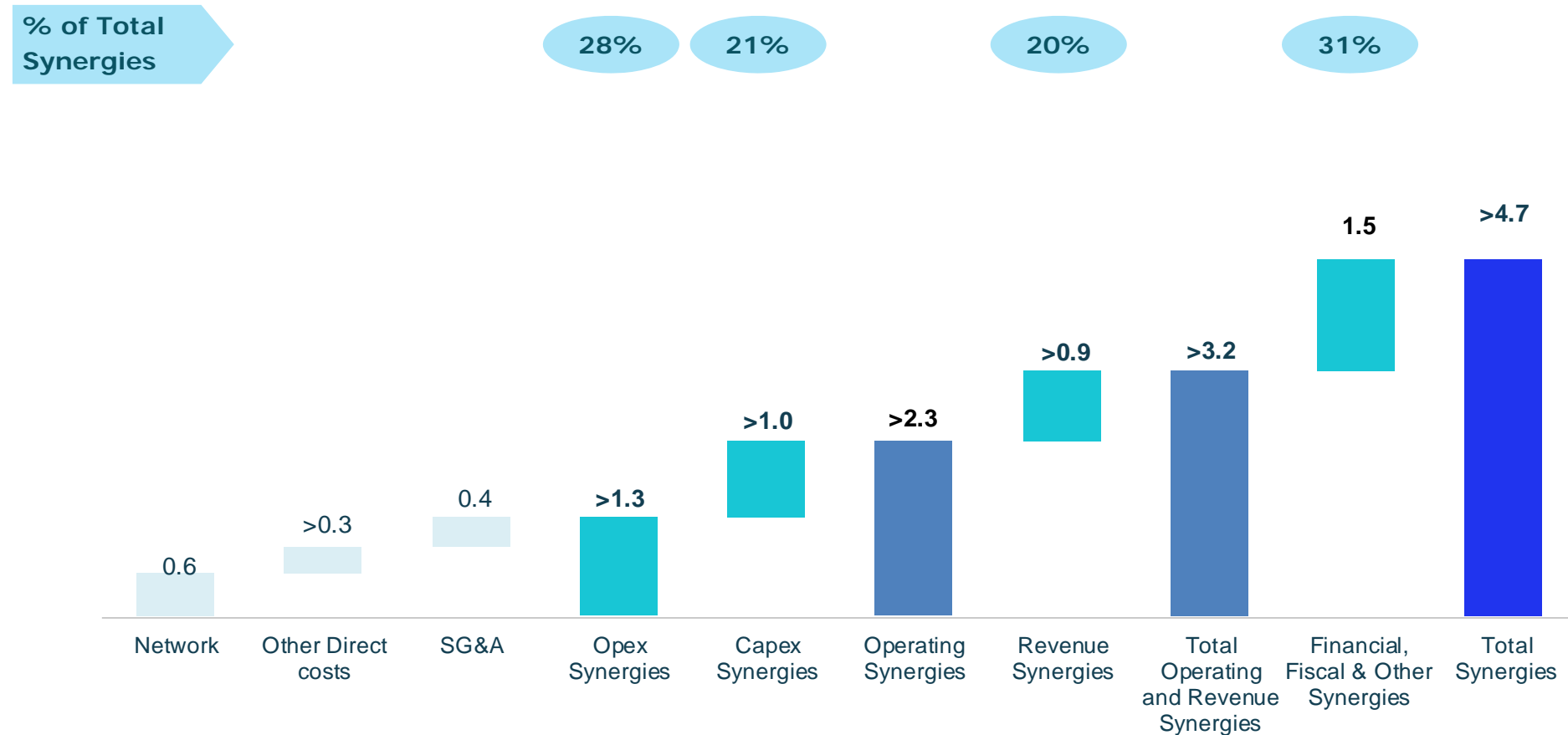


### 3 Identified Synergies of at Least €4.7bn NPV



### 3 Synergies Value of at Least €4.7bn NPV

€bn

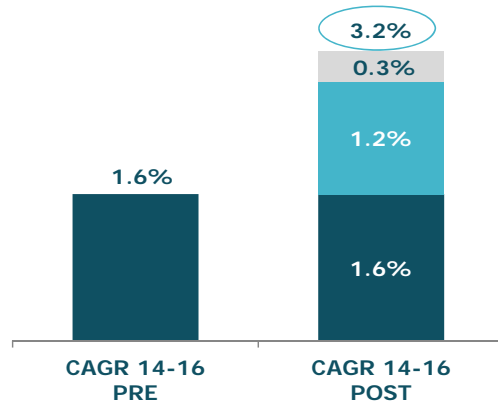


- NPV at least €4.7bn:
  - ▶ Net savings from year one
  - ▶ Run-rate operating and revenue synergies at least €450 MM from year 2020; c70% of run rate by 2017

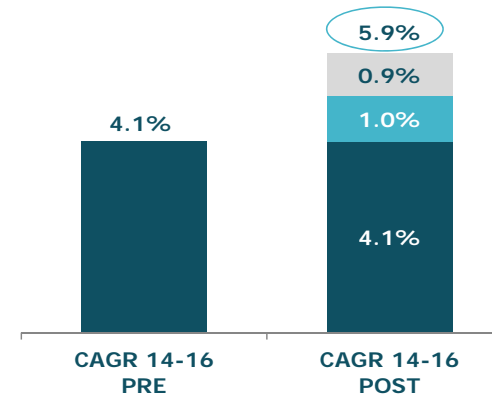
# 4 Attractive Transaction for Telefónica Brazil Shareholders

Pro forma Financial Impact on Telefónica Brazil

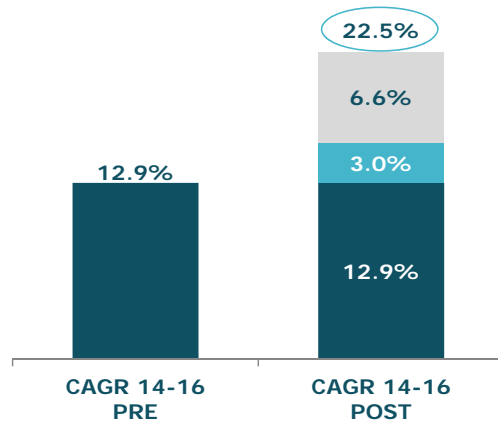
## Revenues



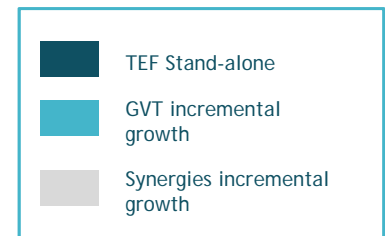
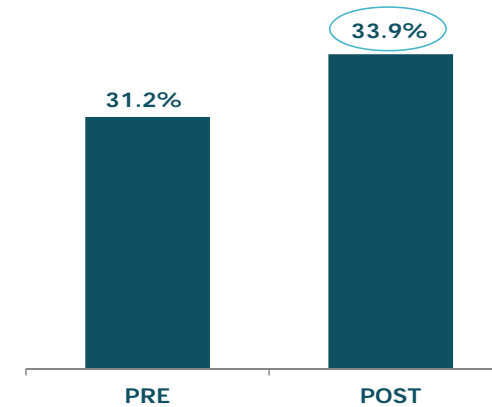
## OIBDA



## OpFCF (1)



## OIBDA Margin (2)



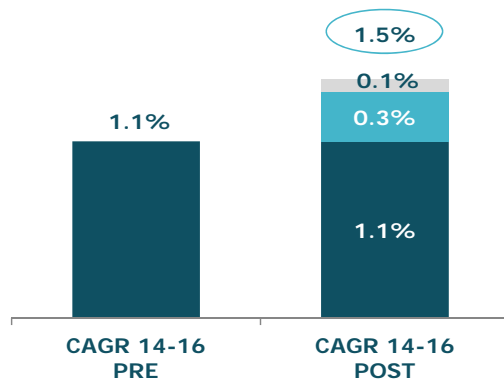
Source: Broker consensus, not adjusted for differences in accounting policies

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

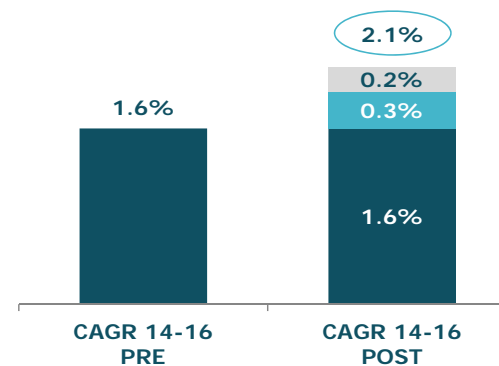
# 5 Attractive Transaction for Telefónica Shareholders

Pro forma Financial Impact on Telefónica Group

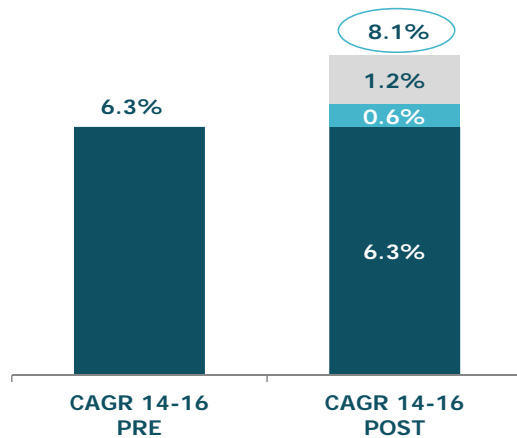
## Revenues



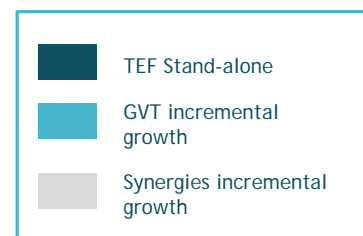
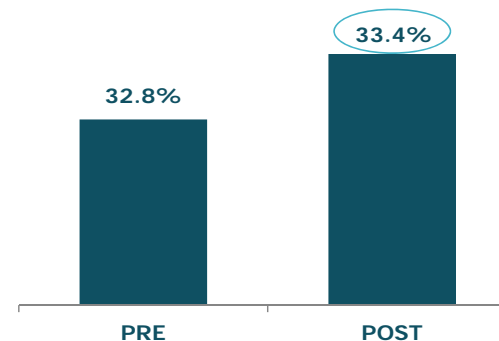
## OIBDA



## 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<sup>(3)</sup>

## 6 Transaction Entirely Financed with Equity

### Telefónica Cash Commitment

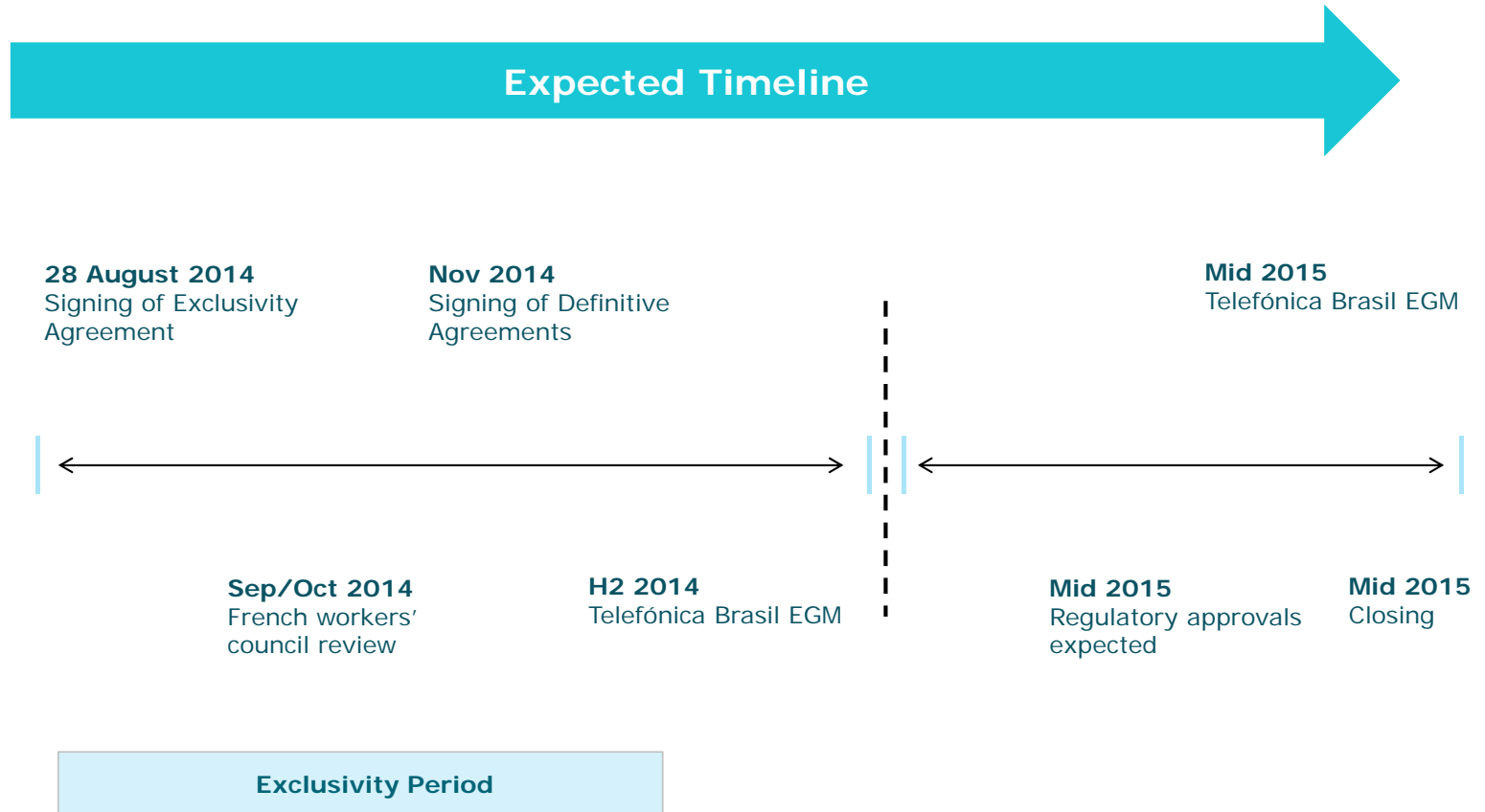
- Transaction entirely financed with equity at both Telefónica and Telefónica Brasil to strengthen Telefónica's capital structure
  - ▶ The cash consideration to Vivendi will be fully financed through a capital increase at Telefónica Brasil
  - ▶ Telefónica will subscribe its proportionate share of 73.9%, 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*

---