

*Telefónica*

---

# Rights Issue Presentation

26 March 2015

# Disclaimer

Telefónica, S.A. (together with its consolidated subsidiaries, “Telefónica” or the “Company”) has filed a registration statement (including a prospectus), and expects to file later today a prospectus supplement, for the offering to which this presentation relates. Before you invest, you should read the prospectus for more complete information about the issuer and this offering. You may get these documents for free by visiting EDGAR on the SEC web site at [www.sec.gov](http://www.sec.gov). Alternatively, Telefónica, any underwriter or any dealer participating in the offering will arrange to send you the prospectus, when available, if you request it by emailing [project\\_gisele\\_2015@jpmorgan.com](mailto:project_gisele_2015@jpmorgan.com) or [Gisele-Core@morganstanley.com](mailto:Gisele-Core@morganstanley.com)

This document contains statements that constitute forward looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 about Telefónica. The forward-looking statements in this document can be identified, in some instances, by the use of words such as “will,” “shall,” “target,” “expect,” “aim,” “hope,” “anticipate,” “should,” “may,” “might,” “assume,” “estimate,” “plan,” “intend,” “believe” and similar language or other formulations of a similar meaning or, in each case, the negative formulations thereof. Other forward-looking statements can be identified in the context in which the statements are made or by the forward-looking nature of discussions of strategy, plans or intentions. These statements include statements regarding our intent, belief or current expectations with respect to, among other things: the effect on our results of operations of competition in telecommunications markets; trends affecting our business financial condition, results of operations or cash flows; acquisitions, investments or divestments which we may make in the future; our capital expenditures plan; our estimated availability of funds; our ability to repay debt with estimated future cash flows; our shareholder remuneration policies; supervision and regulation of the telecommunications sectors where we have significant operations; our strategic partnerships; and the potential for growth and competition in current and anticipated areas of our business.

Such forward-looking statements are not guarantees of future performance and involve numerous risks and uncertainties, and actual results may differ materially from those anticipated in the forward-looking statements as a result of various factors. The risks and uncertainties involved in our businesses that could affect the matters referred to in such forward-looking statements include but are not limited to: changes in general economic, business or political conditions in the domestic or international markets in which we operate or have material investments that may affect demand for our services; exposure to currency exchange rates, interest rates or credit risk related to our treasury investments or in some of our financial transactions; existing or worsening conditions in the international financial markets; the impact of current, pending or future legislation and regulation in countries where we operate, as well as any failure to renew or obtain the necessary licenses, authorizations and concessions to carry out our operations and the impact of limitations in spectrum capacity; compliance with anti-corruption laws and regulations and economic sanctions programs; customers’ perceptions of services offered by us; the actions of existing and potential competitors in each of our markets as well as the potential effects of technological changes; failure of suppliers to provide necessary equipment and services on a timely basis; the impact of unanticipated network interruptions including due to cyber-security actions; the effect of reports suggesting that electromagnetic fields may cause health problems; the impact of impairment charges on our goodwill and assets as a result of changes in the regulatory, business or political environment; potential liability resulting from our internet access and hosting services arising from illegal or illicit use of the internet, including the inappropriate dissemination or modification of consumer data; and the outcome of pending or future litigation or other legal proceedings.

Any 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.

# Offering summary

## Offering structure

- Share capital increase with preemptive subscription rights for existing shareholders
- Public offering in Spain and Argentina and SEC registered offering in the US
- Listing of the new shares on the Barcelona, Bilbao, Madrid and Valencia Stock Exchanges and quoted on the Automated Quotation System of the Spanish Stock Exchanges. Also listed on London and Buenos Aires Stock Exchanges and, in the form of ADSs, on the NYSE and on the Lima Stock Exchange
- Rights traded on Barcelona, Bilbao, Madrid and Valencia Stock Exchanges. Also in Buenos Aires Stock Exchange

## Offering size

- €3.0bn through an offering of 281.2 million new shares pursuant to pre-emptive subscription rights

## Subscription price

- €10.84 per new share (Discount to TERP of 18.9%)

## Subscription ratio

- 1 right per each existing share
- Subscription ratio of 16 rights per 1 new share

## Use of proceeds

- Telefónica may use the proceeds from the Offering for general corporate purposes, including the partial funding of its participation in the Telefonica Brasil Capital Increase. However, the Offering is not conditioned upon the consummation of the Telefonica Brasil Capital Increase or the GVT Acquisition, and all the proceeds of the Offering may be used for general corporate purposes.

## Key dates

- March 28th - April 12th : Rights trading and subscription period
- April 17th: Disbursement of the new shares and granting of the public deed evidencing the capital increase
- April 20th : Registration of capital increase
- April 21st : Admission to listing of new shares
- April 22<sup>nd</sup>: Trading of new shares
- April 24th : Settlement of “Rump” (if any)

## Lock-Up

- No disposals of Telefónica, S.A. ordinary shares within 150 days as from 26 March, subject to certain exceptions

## Underwriters/ Syndicate structure

- Joint Global Coordinators: Banco Santander, BBVA, CaixaBank, J.P. Morgan, Morgan Stanley and UBS
- Joint Bookrunners: BofAML, Barclays, BNP Paribas, Citibank, HSBC and Soc. Generale
- Co-Lead Managers: Banca IMI, Sabadell, Commerzbank, CAI, Credit Suisse, Fidentiis, Mitsubishi UFJ, Nomura and Unicredit

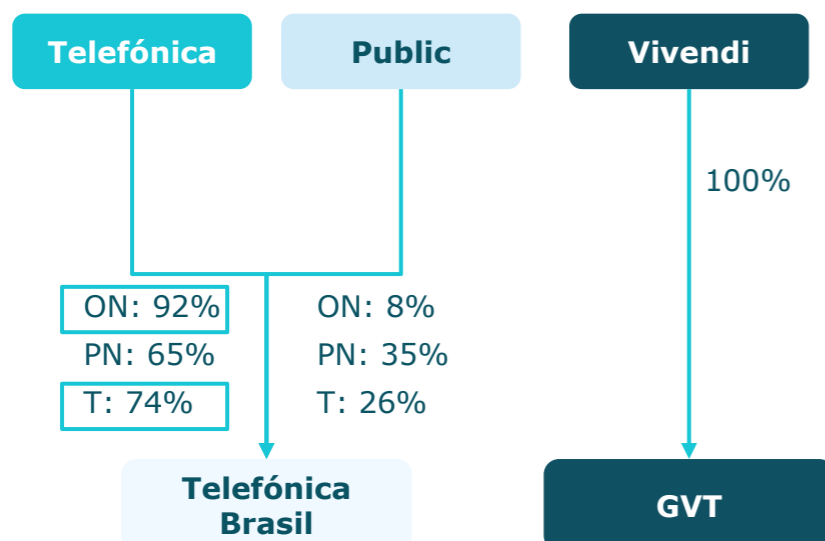
# GVT Transaction summary

## GVT Transaction

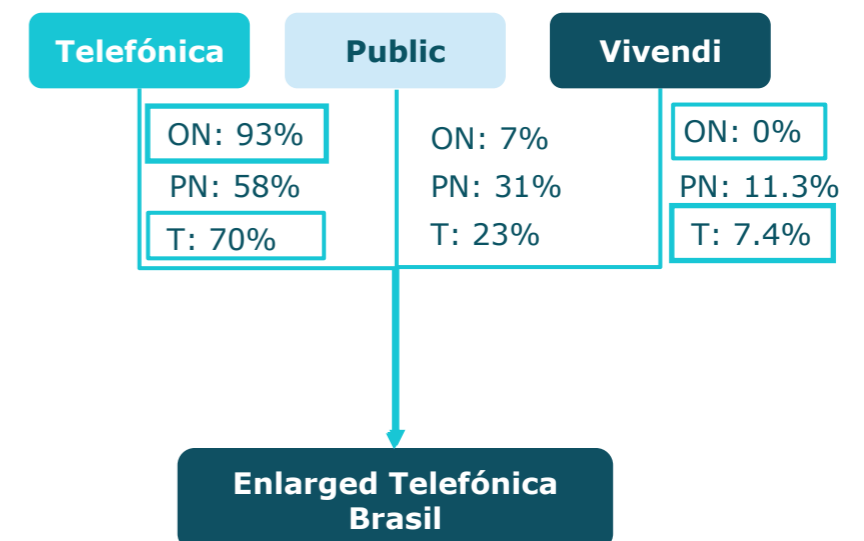
- Acquisition of 100% of GVT for a total implied consideration of **€7.45bn**, through a combination of cash and a stake in Telefónica Brasil
  - €4.66bn cash**, financed through a capital increase at Telefónica Brasil
  - 12% stake in Telefónica Brasil** (post capital increase)
- At closing, Telefónica will exchange an 8% voting stake in Telecom Italia for 4.5% stake in the enlarged Telefónica Brasil
- As a result, Vivendi will own a 7.4% stake in Telefónica Brasil

- Telefónica intends to subscribe at least its proportionate share of Telefónica Brasil capital increase (approx. €3.4bn)
- Telefónica intends to use proceeds from the Offering to fund a portion of its participation in Telefónica Brasil capital increase (the Offering size of €3.0bn being smaller in order to minimize shareholders' dilution)
- The GVT transaction has been approved by Anatel and CADE subject to certain conditions

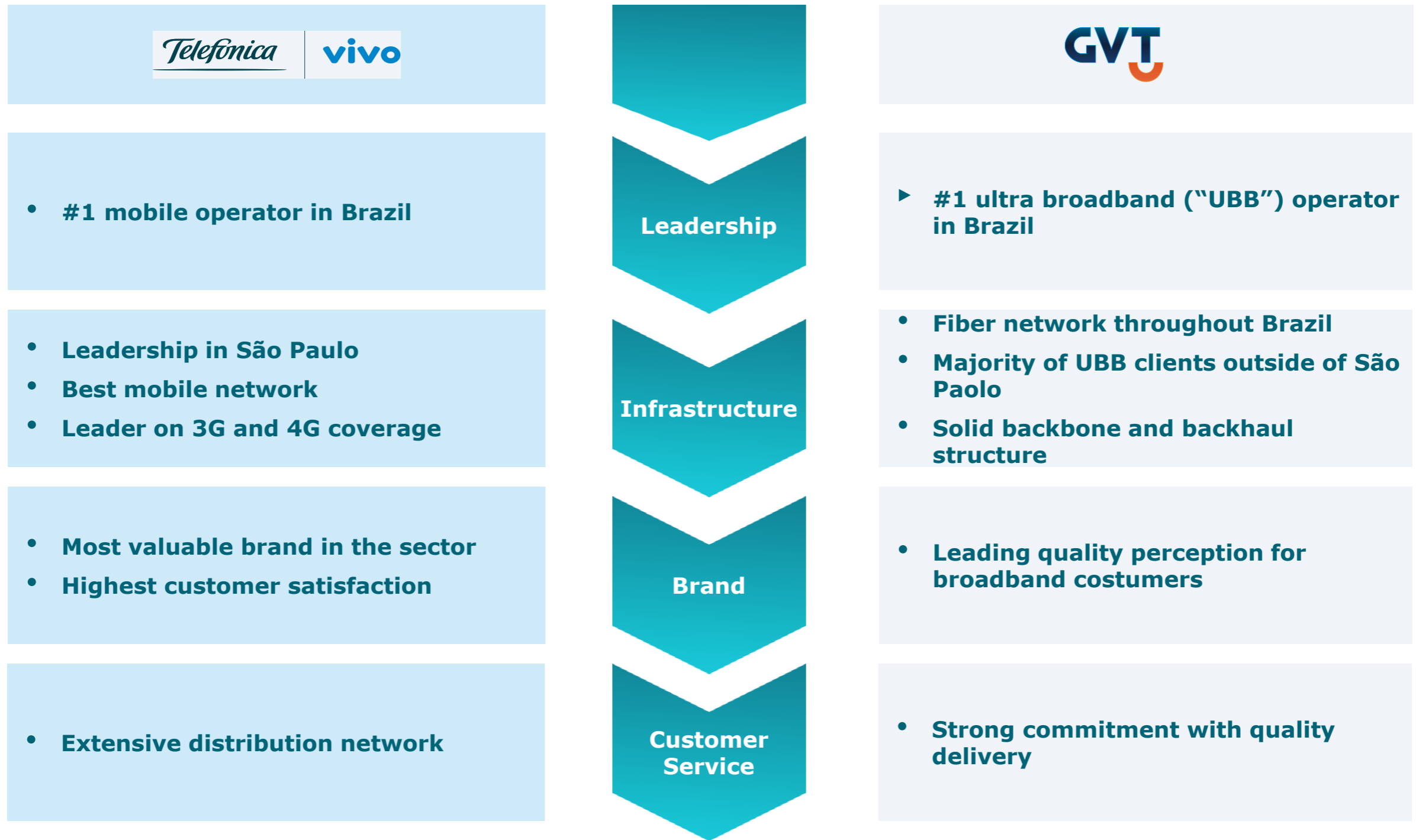
## Current Structure



## Post GVT Acquisition



# GVT acquisition: The perfect fit





# Creating the Leader in the Brazilian Telecom & Pay TV market



# Key investment highlights



# 1 Ongoing Transformation Driving Growth and Efficiency

**2012-14**

**TRANSFORMING THE BUSINESS IN ORDER TO...**

- Investing to set the foundation for growth
- Monetising data opportunity
- Growing digital revenues
- Simplifying the business
- Extracting value from scale
- Proactively managing regulation
- Focusing portfolio
- Recovering financial flexibility
- De-risking the balance sheet
- Displaying clear proof points

**FY 14 GUIDANCE ACHIEVED** ✓

**2015-16E**

**...RETURN TO SUSTAINABLE PROFITABLE GROWTH**

- Accelerate growth
- Monetise booming data reality
- Invest further to grow (2017 to revert)
- Continue to simplify & transform
- Deliver synergies from consolidation (Germany, Brazil)
- Maintain leading profitability
- Continue to strengthen portfolio
- Maintain financial flexibility to support sustainable growth
- Grow cash dividend (Post proposed O2 UK sale closing)

**UPGRADING AMBITION FOR 2015-16E**



## 2 Positioned for growth acceleration

1

Returning to growth in Spain

- Strong macroeconomic outlook
- Positive market trends: appetite for higher value services and market rationalisation
- Key differentiation assets /infrastructure (fiber, Pay TV, LTE)

2

Fuelling data monetisation

- Higher data adoption (LTE across markets; prepaid smartphone penetration in Brazil & HispAm)
- Monetising beyond the allowances and connecting everything
- Capturing digital opportunities: video, cloud, M2M & security

3

Continued network & IT transformation

- Steady roll-out of a differential future-proof network
- Accelerating the transformation of the business leveraging Full Stacks
- Continue to optimise legacy

4

Delivering synergies on Germany & Brazil

- Additional revenue streams from upselling / cross-selling and efficiencies

5

Sustainable efficiency gains

- Delivering significant savings from simplification across markets

6

External factors: from headwinds to tailwinds

- Improved Market structure, Macro and Regulatory environment

# 3 Committed to financial discipline

## Robust Balance Sheet

- Financial flexibility recovered
- Ratings stabilisation
- Capital increase
- Balance sheet de-risked (Venezuela FX adjusted)

## Growing cash dividend:

### 2015

- €0.35/sh. voluntary scrip (Q4 15)
- €0.40/sh. Cash (Q2 16)
- Buyback: 1.5% of share capital to be cancelled (treasury)

### 2016 <sup>(1)</sup>

- €0.75/sh. Cash
- Buyback: 1.5% of share capital to be cancelled (treasury)

## Support sustainable operating growth

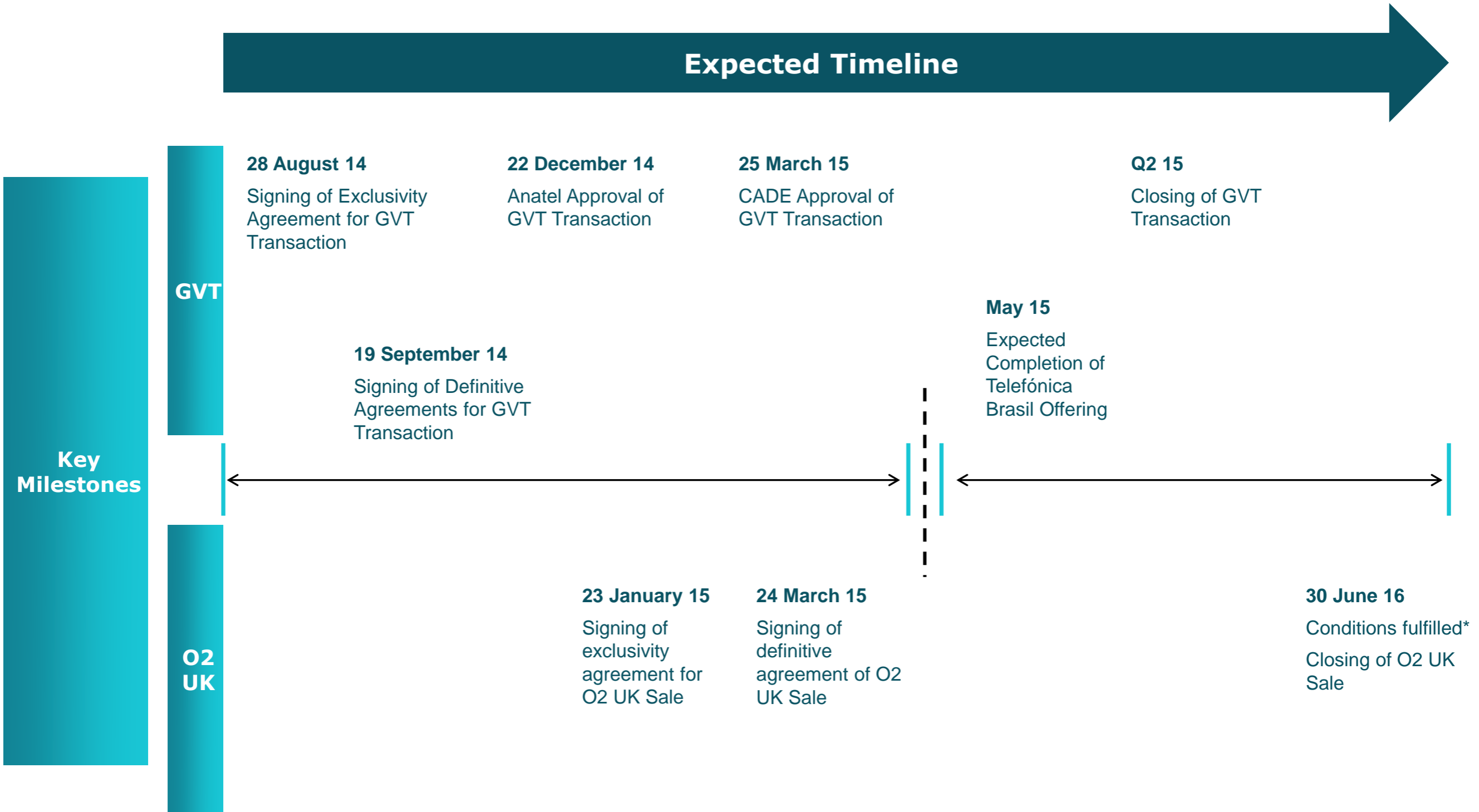
- Organic growth fuelled by temporary increase in CapEx intensity
- Inorganic opportunities: **Portfolio strengthening strategy remains in place**

## Attractive shareholder remuneration

- Sustainable Dividend
- Tactical buybacks & share cancellations to mitigate scrip dividend dilution

(1) Subject to the closing of the proposed sale of O2 UK

# Timetable for Key ongoing Transactions



\* This date may be extended to 30 September 2016 in circumstances specified in SPA



*Telefonica*

---

For further information:  
**Investor Relations**  
Tel. +34 91 482 87 00  
[ir@telefonica.com](mailto:ir@telefonica.com)  
[www.telefonica.com/investors](http://www.telefonica.com/investors)