



# Update on the acquisition of PT's stake in Brasilcel and Vivo-Telesp combination

October 1st, 2010

*Telefónica*

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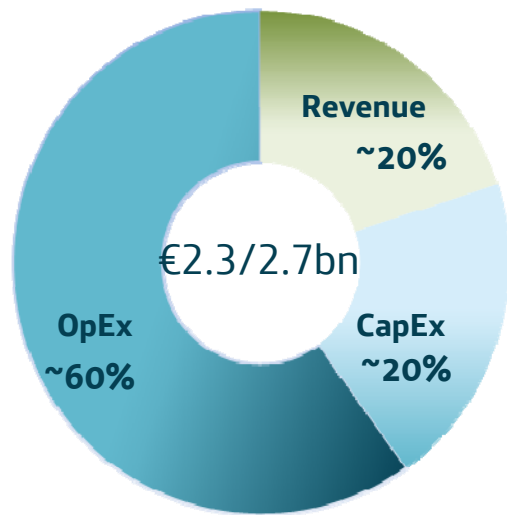
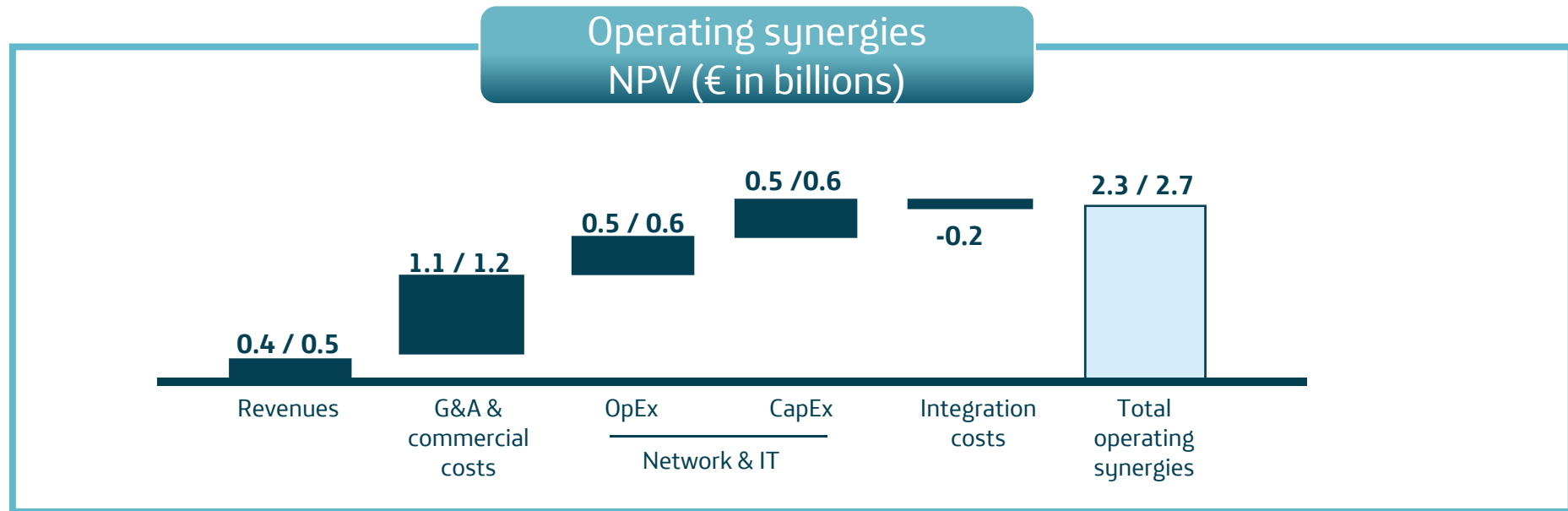
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# Operating synergies are maximized by our regional & integrated management model ...

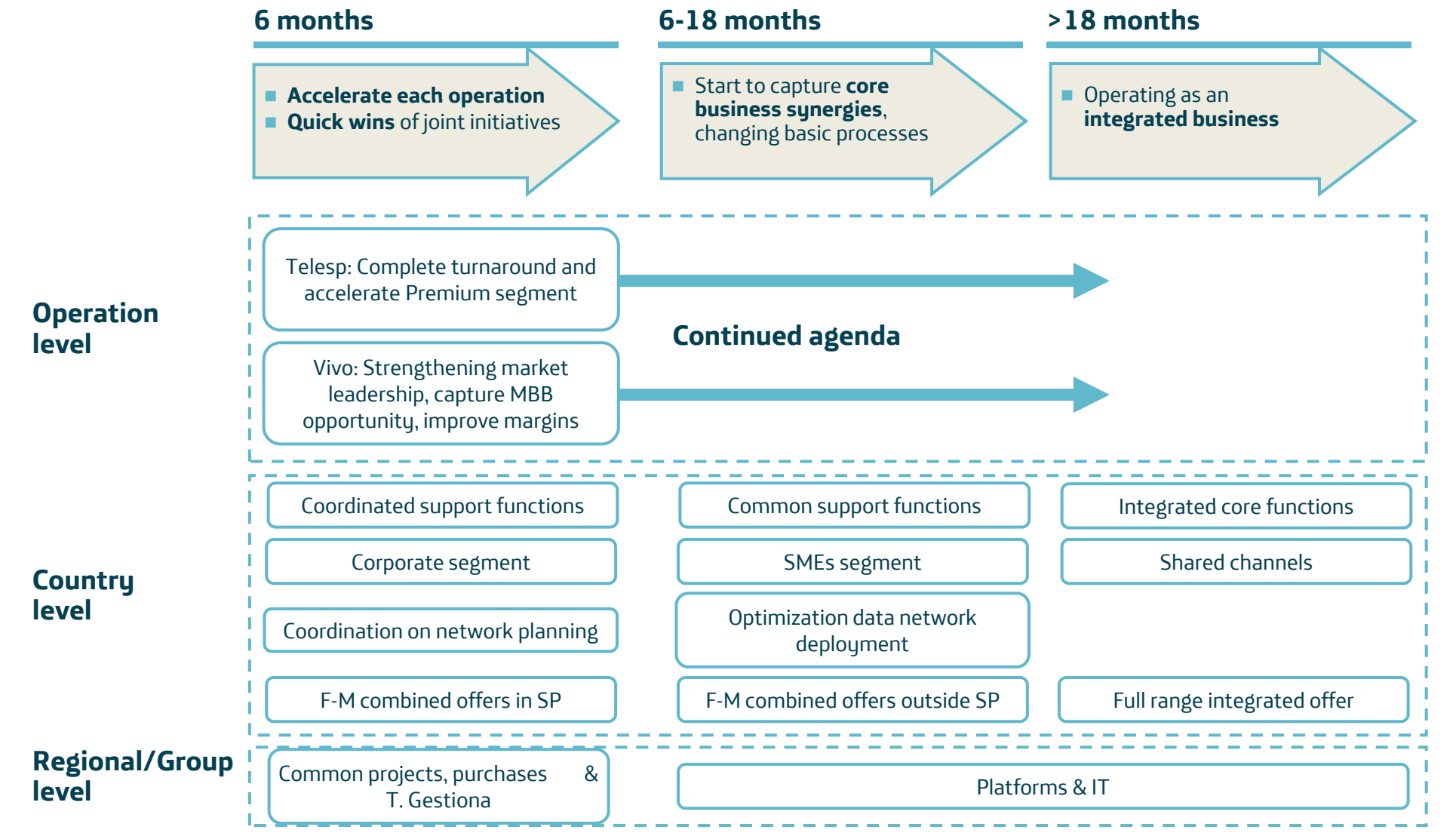
Sources	Rational	Estimated Impact <sup>(1)</sup>
Revenue	<ul style="list-style-type: none"> <li>■ Integrated offer, mainly for Corporates and SMEs.</li> <li>■ LD service ("15") for Vivo clients.</li> <li>■ Churn improvement &amp; Bundled offers.</li> <li>■ Regional contracts: extension and scale benefits.</li> </ul>	0.7-0.8% over revenues
G&A and commercial costs	<ul style="list-style-type: none"> <li>■ Personnel costs: optimization of administrative and back office functions.</li> <li>■ Administrative costs reduction (logistics, rentals,...).</li> <li>■ Call center costs reduction.</li> <li>■ Marketing and promotion costs optimization.</li> <li>■ Common distribution channel.</li> <li>■ Scale and brand integration.</li> </ul>	3-4% over G&A&C costs
Network & IT OpEx	<ul style="list-style-type: none"> <li>■ Data center and systems unification (scale synergies and improve outsourcing costs).</li> <li>■ Common traffic management and network operations.</li> <li>■ Cost reduction in backbone usage/rentals.</li> <li>■ Leverage in Vivo's network outside Sao Paulo.</li> </ul>	5-6% over N & IT costs
CapEx	<ul style="list-style-type: none"> <li>■ Use of Vivo's infrastructure outside Sao Paulo.</li> <li>■ Common network &amp; IT planning.</li> <li>■ Regional scale.</li> </ul>	3-4% over CAPEX

... with a minimum NPV of €2.3-2.7Bn

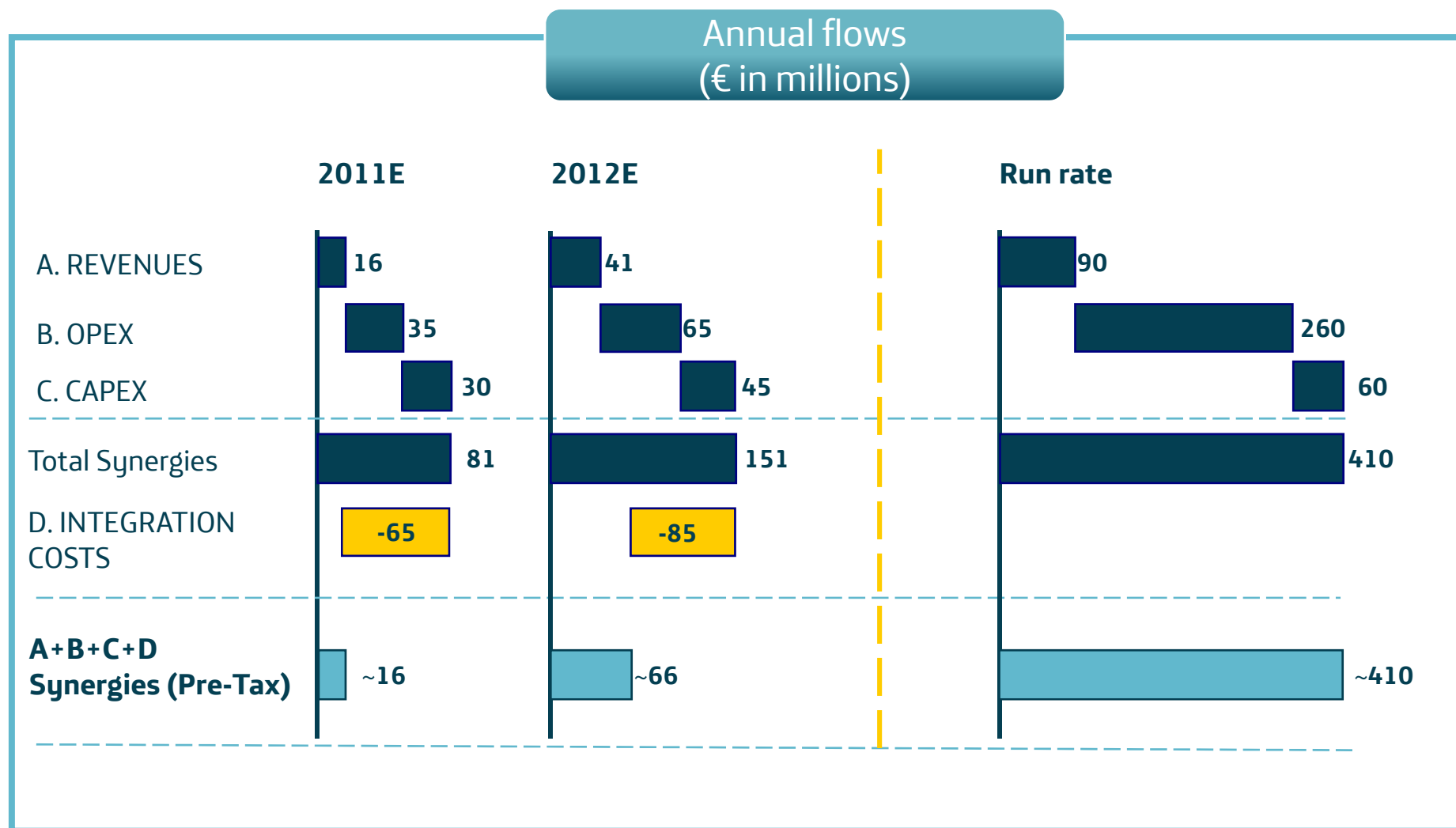


- 3-4 years to fully exploit
- Savings from year 1

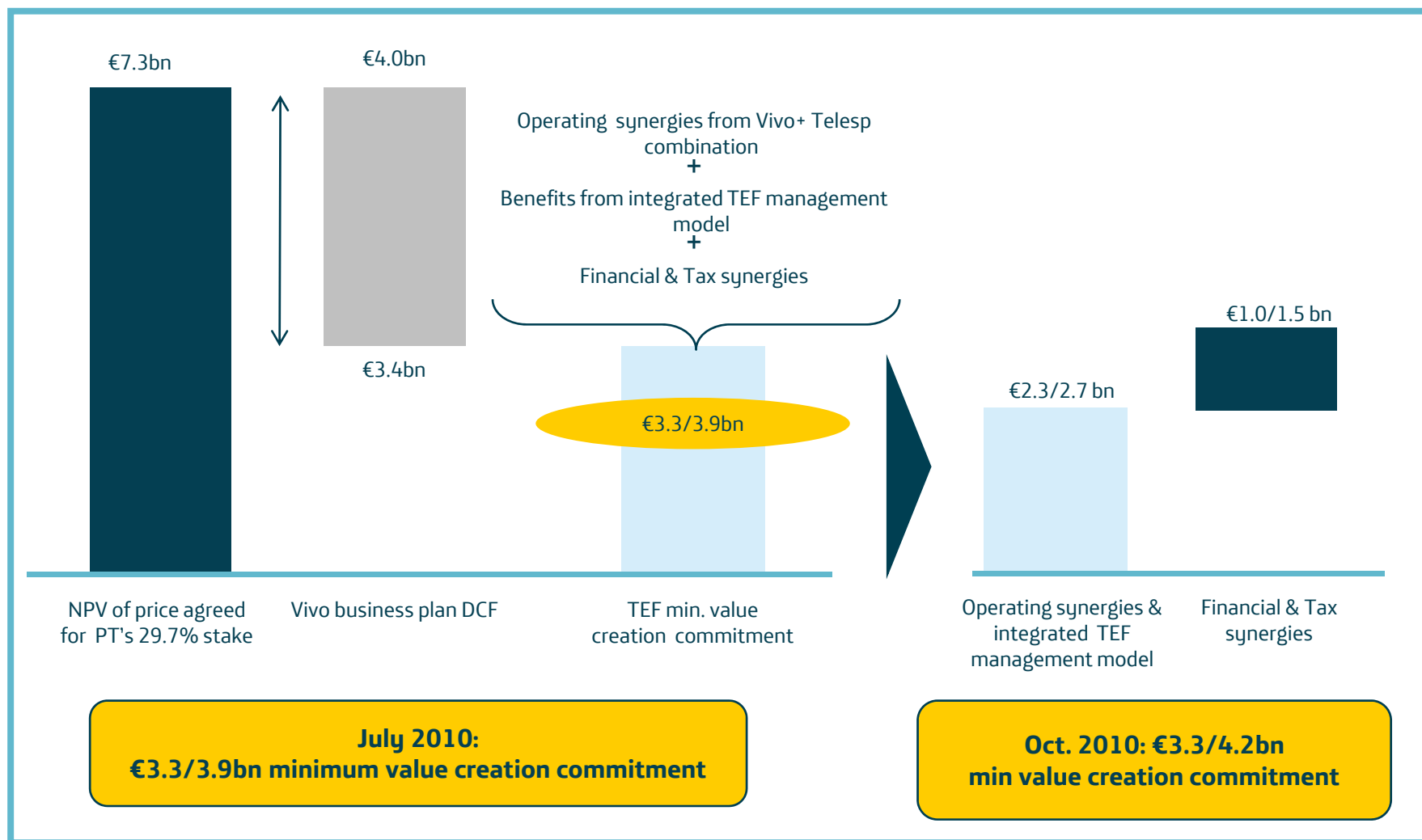
# Clear execution path to fully capture synergies while maintaining focus to sustain commercial momentum



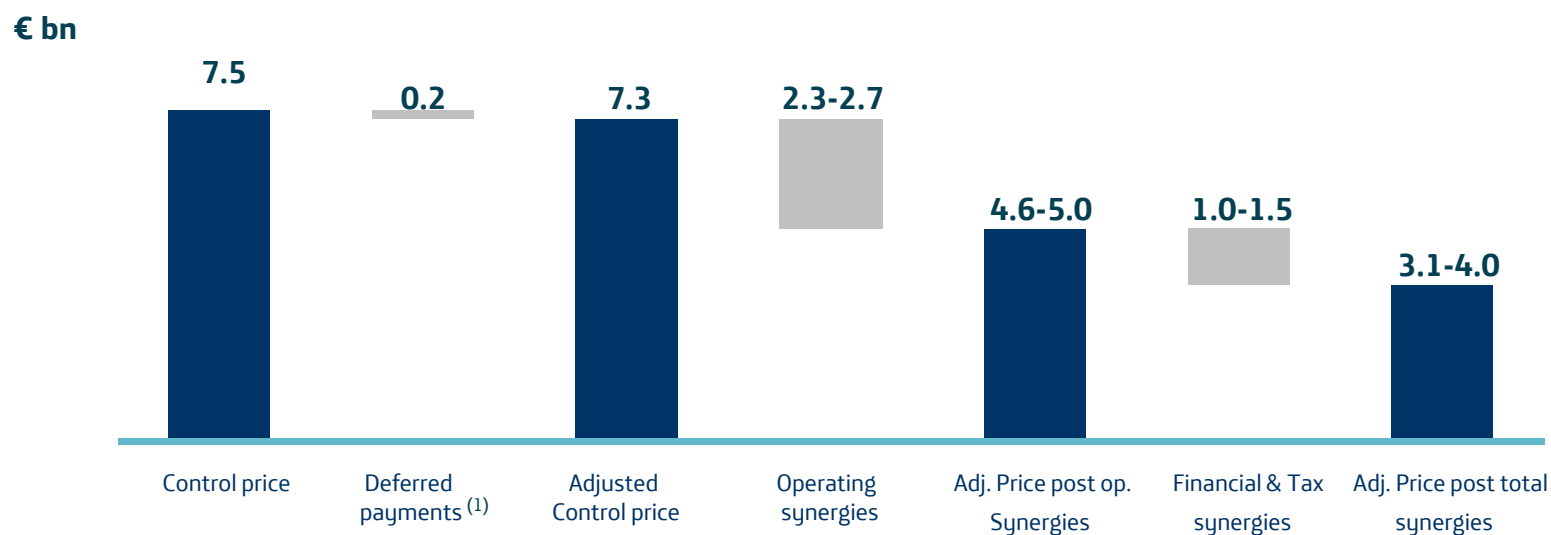
# Realistic timetable for execution



# Value creation commitment supported by operating, financial & tax synergies



# Control price averaged down by synergies



<u>EV/Ebitda'10</u>	11.9x	11.6x	10.4x-10.6x	9.8x-10.2x
<u>EV/Ebitda'11</u>	10.6x	10.4x	9.3x-9.5x	8.7x-9.1x

These multiples will be further enhanced post the Tender offer on ON's



# A transaction with positive tangible results from day 1

- Strengthened position in the booming Brazilian market
- EPS and FCF accretive from 2010:
  - +€3.5bn impact in net income in 2010 derived from the business combination achieved in stages in Vivo (+€0.8/share)
- €2.3/2.7bn<sup>1</sup> from operating synergies and benefits from Telefónica's management model
- Additional €1/1.5bn<sup>1</sup> savings from financial and tax synergies
- Limited Impact on leverage (0.3x)
- Fair treatment of minorities guaranteed by TEF's long track record and willingness to keep continued access to the market in best conditions

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