

## TELEFÓNICA AND THE CZECH GOVERNMENT SIGN THE CONTRACT FOR THE PURCHASE OF ČESKÝ TELECOM

- César Alierta, Chairman of the Board and CEO of Telefónica, and Stanislav Gross, Prime Minister of the Czech Republic, have presided over the signing ceremony for the purchase of the Czech operator in Prague today.
- With the acquisition of Český Telecom, Telefónica expands its activities to a country with the second largest and healthiest economy among last year's new European Union members.
- The deal is a well-grounded acquisition of an integrated operator with a leading position in its market, providing attractive financial returns for Telefónica's shareholders from the very beginning.
- The acquisition of Český Telecom will increase Telefónica's customers worldwide to more than 130 million.

**Prague, 12 April, 2005.-** César Alierta, Telefónica's Chairman and CEO of the Board, and Stanislav Gross, Prime Minister of the Czech Republic, have presided today over the signing ceremony for the acquisition of a 51.1% stake in Český Telecom by the Spanish operator. The contract has been signed six days after the Czech Government unanimously approved the sale of Český Telecom to Telefónica, following the recommendation of the Czech Privatisation Committee.

### **Well-grounded acquisition of a leading integrated operator in its market**

The acquisition of Český Telecom further develops Telefónica's strategy of organic growth complemented with selective acquisitions of fixed and/or mobile telecommunication operators with strong positions in their respective markets. The acquisition allows Telefónica to benefit from increased economies of scale, in order to further improve its competitive position and its return on operations.

Český Telecom is the leading operator in fixed and mobile services in the Czech Republic, with an edge over its competitors thanks to being the sole integrated operator in its market. In December 2004, the company operated 3.4 million fixed lines and had 4.6 million mobile subscribers. Last year's turnover amounted to EUR 1,948 million, with an EBITDA of EUR 911 million and a 46.8% margin.

It is the most profitable and efficient operator in the region, with low indebtedness and attractive credit ratings (S&P rating: A-, Moody's rating: Baa1).

Given its high and stable margins, significant cash generation and relative size compared to Telefónica, the acquisition of Český Telecom is a low-risk transaction.

Telefónica supports the plans laid out by Český Telecom's successful management team, and is confident that the integration of the company into a group with global presence and experience will bring synergies and higher efficiency. Telefónica will particularly support Český Telecom in developing and capturing the high growth potential of the Czech broadband and 3<sup>rd</sup> generation markets.

### **Financially attractive deal for Telefónica shareholders**

The acquisition of the 51.1% of Český Telecom amounts to EUR 2,746 million; payable in euros, at an exchange rate of CZK 30.09 per euro. The price per share (CZK 502) was 20.8% higher than the company's trading price at closing on the day preceding the submission of bids and only 4.3% higher than the second highest bid.

The price offered implies an acquisition multiple of 6.4 times EBITDA 04, which could be further reduced to approximately 6.0 times after the compulsory tender offer for up to the remaining 48.9% shares in the company.

The price of the tender offer, to be decided in due course, will be set as the highest of the following: 85% of the price paid for the 51.1% stake; the average price of Český Telecom shares during the six months prior to closing; or a valuation prepared by an independent expert<sup>(1)</sup>.

The transaction will increase Telefónica's earnings per share by +0.3% in 2006 and +0.8% in 2007 and free cash flow to shareholders in the range of 2.5% - 3.0% in 2006 and 2007. These value creation indicators are expected to be even more favourable after the tender offer; earnings per share could increase by +1.0% in 2006 and +1.7% in 2007, with free cash flow increasing by approximately 5.0% - 5.5% in 2006 and in 2007.

Telefónica's remuneration to shareholders and its credit solvency is further reinforced with the acquisition of an asset with high operating margins and strong and growing cash generation.

### **Telefónica, third largest telecom operator worldwide**

Telefónica, third largest telecom operator worldwide in terms of market capitalisation and second largest integrated operator, is confident about the growth potential of Český Telecom in its market, where it has maintained a leading position in both fixed and mobile services. As a result of its management policy, Český Telecom has shown excellent operating results, high margins and presents a healthy financial situation.

Incorporating Český Telecom into the Telefónica Group is fully in line with Telefónica's strategic goal of becoming the largest and best integrated telecommunications company in the world by the year 2008. The acquisition of the Czech operator will allow Telefónica to reach more than 130 million customers worldwide.

César Alierta, Chairman and CEO of the Board of Telefónica, thanked the Czech Government for the trust vested into the Spanish company and expressed Telefónica's wish to contribute to the economic and social growth in the Czech Republic through a sector as dynamic as telecommunications. "We are delighted to be able to include Český Telecom among our assets. It is a well-managed company and we believe that our long-term experience in the industry will

enable us to capture its full potential in terms of growth and quality of services,” said César Alierta.

### **Integration schedule**

The transaction is subject to the approval of regulatory and competition authorities of the Czech Republic and the European Commission. This process is expected to be completed within three months.

After the acquisition of the 51.1% stake, Telefónica will incorporate Český Telecom’s fixed and mobile activities into its own operations, in which Telefónica has a leading position in the majority of the markets where it is present.

After closing the acquisition of the 51.1% stake, and in compliance with the Czech Republic legislation, Telefónica will launch a tender offer on the remaining Český Telecom shares. The tender offer process is expected to be finalised in the last quarter of 2005.

(1) Note: All estimates in this press release in relation to the tender offer impacts are assuming a tender offer price equal to 85% of the price paid for the 51% stake, and assuming 100% acceptance in the tender offer.

For more information on TELEFÓNICA please refer to:

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