Creating a Leading Digital Telco in Germany

26 August 2013
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**Transaction Summary**

**Key Terms**

- Total consideration of €5bn in cash and a 20.5% stake in New Telefónica Deutschland:
  1. Acquisition of E-Plus by Telefónica Deutschland for a combination of cash and a stake in New Telefónica Deutschland
     - (i) €3.70bn of cash
     - (ii) 24.9% stake in enlarged Telefónica Deutschland (after capital increase)
  2. Telefónica subsequently will pay to KPN €1.30bn for:
     - (i) 4.4% stake in New Telefónica Deutschland
     - (ii) Call option, exercisable in one year, for up to a further 2.9% stake from KPN
- Transaction to unlock significant value, with synergies of €5.0–5.5 bn NPV

**Recommended Transaction**

- Transaction has unanimous support from KPN’s Board of Management and from KPN’s Supervisory Board
- Irrevocable commitment from America Movil to vote in favour of the transaction at KPN’s EGM

**Key Dates**

- KPN shareholders’ approval required at KPN's EGM on 2nd October 2013
- Telefónica Deutschland shareholders’ approval required at Telefónica Deutschland’s General Meeting in H1 2014
- Transaction expected to close in mid 2014, following clearance from relevant authorities
Transaction Structure

Transaction Summary

Total consideration of €5.0 bn in cash and a 20.5% stake; Telefónica to receive a call option from KPN enabling Telefónica to get to 65% ownership

Two Step Structure

1. Acquisition of E-Plus by Telefónica Deutschland for a combination of cash and a stake in New Telefónica Deutschland
   i. €3.70 bn of cash, financed through a rights issue fully underwritten by Telefónica and a group of banks
   ii. 24.9% stake in New Telefónica Deutschland (PF for rights issue)

2. Telefónica subsequently will pay to KPN €1.30bn for:
   i. 4.4% stake in New Telefónica Deutschland
   ii. Call option, exercisable in one year, for up to a further 2.9% stake from KPN. Telefónica may exercise its call option for up to €510 mn plus interest

   Alternatively, Telefonica may increase its stake by buying shares directly from the market

Pre-Transaction Structure

Intermediate Structure

Structure At Closing
Valuation references

<table>
<thead>
<tr>
<th>E-Plus EV (@ 5.8x) (1)</th>
<th>Telefónica Deutschland EV (@ 5.8x) (1)</th>
<th>NPV of Synergies</th>
<th>Net Debt</th>
<th>PF Equity Value of New Telefónica Deutschland</th>
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<tbody>
<tr>
<td>5.21</td>
<td>7.19</td>
<td>(0.94)</td>
<td></td>
<td>16.45</td>
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<td>5.00 - 5.50</td>
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<table>
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<tr>
<th>Synergies</th>
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<tr>
<td>Pro Forma New Tef De Equity Value</td>
<td>16.45</td>
<td>16.95</td>
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<tr>
<td>Cash</td>
<td>5.00</td>
<td>5.00</td>
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<tr>
<td>20.5% Stake</td>
<td>3.37</td>
<td>3.48</td>
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<tr>
<td>Implied Value</td>
<td>8.37</td>
<td>8.48</td>
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<th>Multiples</th>
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<tr>
<td>EBITDA LTM</td>
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<td>OpFCF LTM</td>
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<tr>
<td>EBITDA'13 Consensus + Run-Rate Synergies</td>
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<tr>
<td>OpFCF'13 Consensus + Run-Rate Synergies</td>
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1. Olivia AV/13E EBITDA implied from average share price over last four weeks to 17 July 2013
   E Plus estimated 13 Ebitda from KPN Shareholder’s Circular
   Telefónica Deutschland estimated 13 Ebitda from analysts consensus
Financing Without Increasing Leverage

Telefónica Cash Commitment

- Rights Issue in New Telefónica Deutschland of €3.70bn. Telefónica subscribes pro-rata to its stake of 76.8%, €2.84bn
- €1.30bn to KPN for 4.4% stake and call option for up to 2.9% in New Telefónica Deutschland
- Total financing required of €4.14bn (excl. potential exercise of call option).

Financing without Increasing Leverage

- Envisaged financing structure with significant equity financing component:
  - 50-65% Hybrid, 100% equity under IFRS/ 50% equity for credit rating agencies
  - 20-30% Mandatory Convertible, 90% treated as equity under IFRS & credit rating agencies
  - 10-20% Incremental debt, in addition to the debt component of the hybrid bond

Sources / Uses

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<th>Cbn</th>
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<tr>
<td>Potential stake</td>
<td>1.30</td>
<td>2.84</td>
</tr>
<tr>
<td>increase to reach 65%</td>
<td>10-20%</td>
<td>50-65%</td>
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<tr>
<td>Buy-out KPN stake</td>
<td>20-30%</td>
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<tr>
<td>Telefónica</td>
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<td>1.30</td>
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<tr>
<td>Deutschland Capital increase</td>
<td>2.84</td>
<td>50-65%</td>
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- Limited debt increase
  - Weighting around 2x incremental OIBDA, excluding synergies
- Neutral to positive metric impact in short term
  - Net debt/ratio preserved
  - Keeping strong liquidity to maintain 24 months maturities covered
- Alternative financing in process further soften impacts
- Further FCF till deal completion adding headroom

1. Through exercise of call option or other means
Expected Transaction Timetable

**Key Milestones**

- **26 August 2013**
  - Announcement of the agreement with America Movil:
    - Unanimous support by KPN Supervisory Board
    - Irrevocable commitment from America Movil to support the transaction in KPN’s EGM

**Key Approvals**

- **2 Oct 2013**
  - KPN EGM
- **H1 2014**
  - Telefónica Deutschland EGM

**Regulatory Approval of Acquisition**

- **Q2 2014**
  - Regulatory approvals expected and other conditions cleared

- **Mid 2014**
  - Completion of merger
Conclusion

- Decisively increased execution certainty: Unanimous KPN board approval and irrevocable commitment from America Movil to vote in favour of the transaction at KPN’s EGM
- Reinforces Telefónica’s geographical diversification towards Germany, the largest mobile market in Europe and the most advanced in data monetisation
- Post transaction, Telefónica would have the second largest subscriber base in Europe
- In each of its top 3 markets (Spain, Brazil and Germany), Telefónica will be leading in terms of subscribers and network quality
- A natural strategic move for Telefónica Deutschland to create a leading Digital Telco with focus on mobile data and LTE enhancement
- Substantial value creation for Telefónica and Telefónica Deutschland Shareholders
  - Significant value creation through €5.0 – 5.5 bn NPV synergies crystallization
  - Investing in future growth while improving financial flexibility
  - Enhancing cash flow generation profile
  - Accretive for Telefónica and Telefónica Deutschland EPS and FCF from year 1
- Reiterated commitment to leverage targets and remuneration policy: transaction structure designed to maintain / improve leverage metrics