

*Telefonica*

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# Creating a Leading Digital Telco in Germany

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26 August 2013

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Telefónica, S.A.  
Investor Relations

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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 2<sup>nd</sup> 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

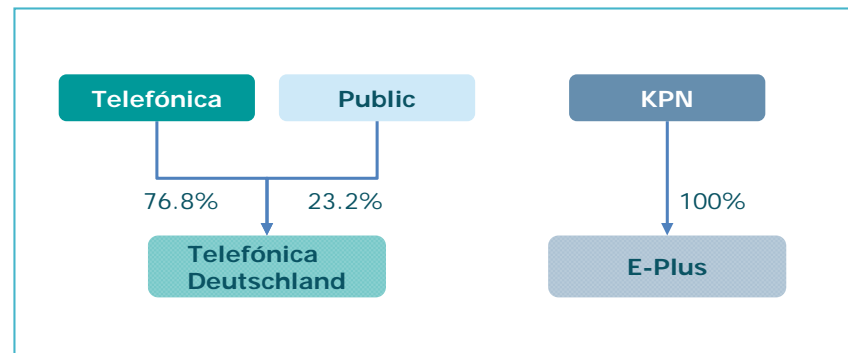
Total consideration of €5.0 bn in cash and a 20.5% stake; Telefónica to receive a call option from KPN enabling Telefónica to get to 65% ownership

### Two Step Structure

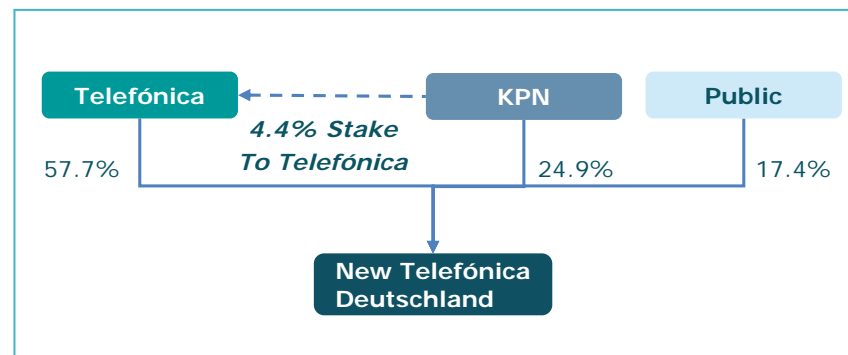
- 1 Acquisition of E-Plus by Telefónica Deutschland for a combination of cash and a stake in New Telefónica Deutschland
  - i. €3.70 bn of cash, financed through a rights issue fully underwritten by Telefónica and a group of banks
  - ii. 24.9% stake in New Telefónica Deutschland (PF for rights issue)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

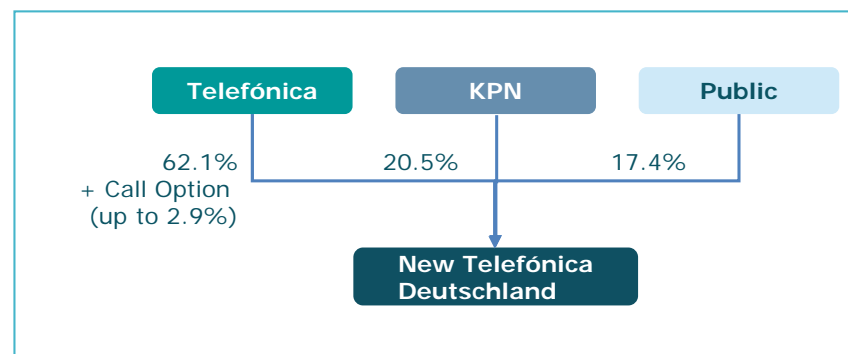
## Pre-Transaction Structure



## Intermediate Structure

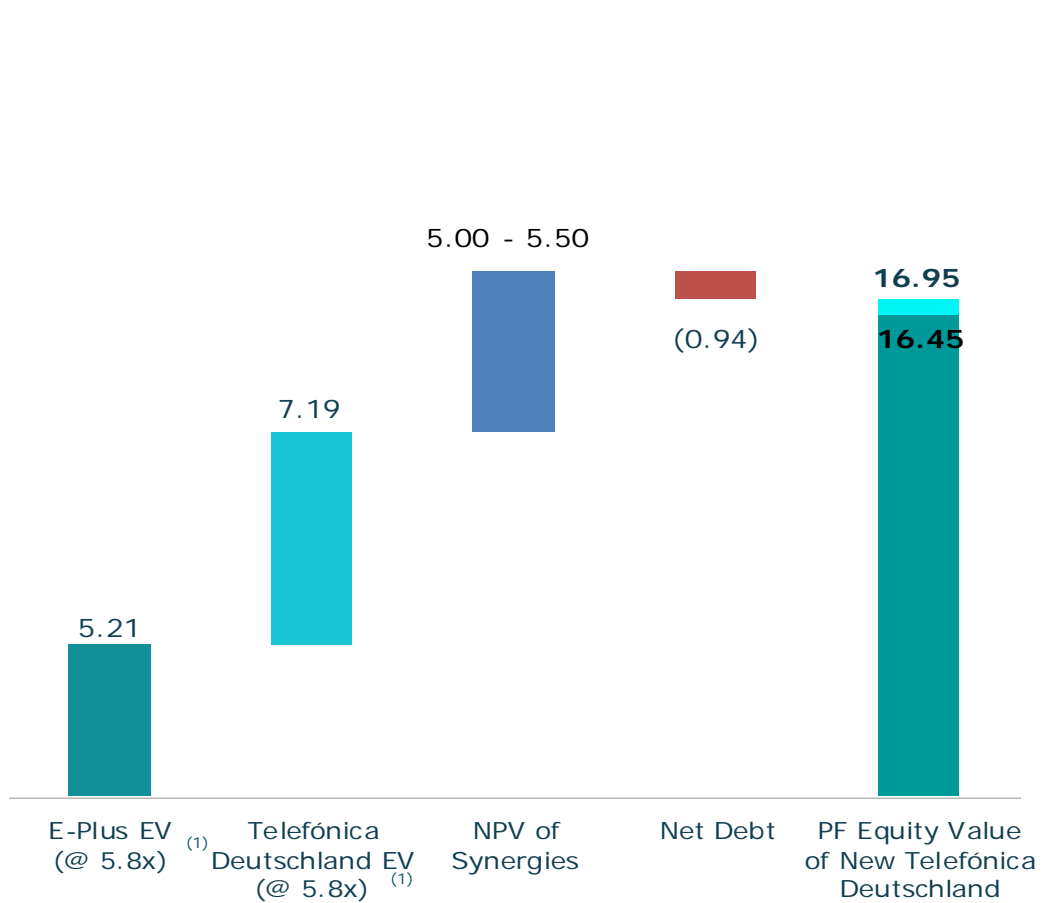


## Structure At Closing



# Valuation references

€bn



	Implied Offer Value	
€ Bn	Based on Telefonía Deutschland's Undisturbed Multiple	
Synergies	5.00	5.50
<b>Pro Forma New Tef De Equity Value</b>	<b>16.45</b>	<b>16.95</b>
Cash	5.00	5.00
20.5% Stake	3.37	3.48
<b>Implied Value</b>	<b>8.37</b>	<b>8.48</b>
<b>Multiples</b>		
<b>EBITDA LTM</b>	7.5x	7.6x
<b>OpFCF LTM</b>	16.6x	16.8x
<b>EBITDA'13 Consensus + Run-Rate Synergies</b>	5.6x	5.7x
<b>OpFCF'13 Consensus + Run-Rate Synergies</b>	7.9x	8.0x

1. Olvia 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  
 Telefonía Deutschland estimated '13 Ebitda from analysts consensus

# Financing Without Increasing Leverage

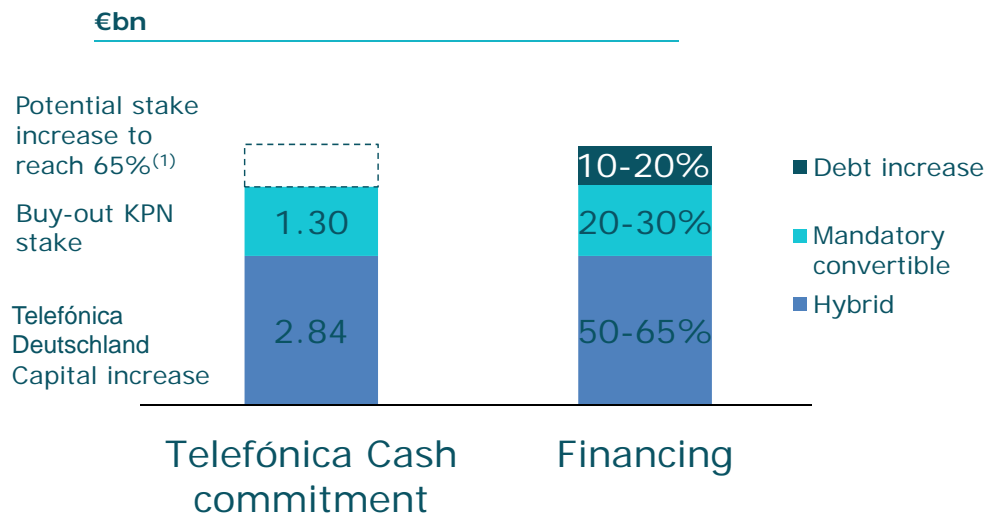
## Telefónica Cash Commitment

- 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



- 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 13**  
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

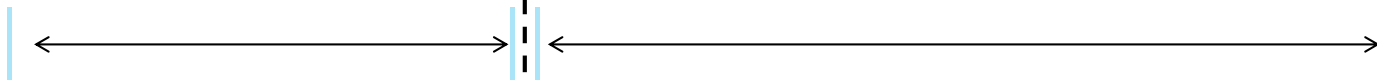
## Key Approvals

**2 Oct 13**  
KPN EGM

**H1 2014**  
Telefónica  
Deutschland  
EGM

**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



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