



**RAMIRO SÁNCHEZ DE LERÍN GARCÍA-OVIES**  
*Secretario General y  
del Consejo de Administración*  
**TELEFÓNICA, S.A.**

TELEFÓNICA, S.A. (en adelante, la Compañía) de conformidad con lo establecido en el artículo 82 de la Ley del Mercado de Valores, procede por medio del presente escrito a comunicar el siguiente

### **HECHO RELEVANTE**

Telefónica y su filial alemana cotizada Telefónica Deutschland Holding AG (en adelante, Telefónica Deutschland) han firmado un contrato con la sociedad Koninklijke KPN, N.V., (en adelante, KPN), en virtud del cual Telefónica Deutschland adquirirá la filial alemana de KPN, E-Plus Mobilfunk GmbH & Co KG (E-Plus), recibiendo KPN, como contraprestación, un 24,9% de Telefónica Deutschland y 3.700 millones de euros.

Seguidamente, Telefónica comprará a KPN un 7,3% de Telefónica Deutschland por un precio total de 1.300 millones de euros, con lo que la participación de KPN en Telefónica Deutschland quedará reducida a 17,6%.

Con anterioridad, Telefónica Deutschland convocará una Junta General de Accionistas para acordar un aumento de capital con el que financiará el pago en efectivo de la operación. Telefónica suscribirá la parte proporcional que le corresponda en dicha ampliación de capital y asegurará, por sí misma o a través de terceros, la suscripción del restante porcentaje de dicha ampliación.

El cierre de esta operación está sujeto al cumplimiento de determinadas condiciones, tales como la obtención de la correspondiente autorización de la Autoridad de Competencia y la aprobación de la Junta General Extraordinaria de Accionistas de KPN.

Se acompaña Nota de Prensa y Presentación descriptiva de la operación.

En Madrid, a 23 de julio de 2013.

**COMISIÓN NACIONAL DEL MERCADO DE VALORES**  
**- MADRID -**

# NOTA DE PRENSA

## PRESS RELEASE

Madrid, 23 de julio de 2013

### TELÉFONICA ACUERDA CON KPN LA ADQUISICIÓN DE SU FILIAL E-PLUS PARA CREAR UNA TELCO DIGITAL LÍDER EN ALEMANIA

- El acuerdo contempla la compra de E-Plus por un desembolso total de 5.000 millones de euros en efectivo, de los cuales 4.140 millones correrán a cargo de Telefónica, y una participación en la Compañía resultante del 17,6%.
- En una primera fase, la operación supone el pago inicial por parte de Telefónica Deutschland a KPN de 3.700 millones de euros en efectivo, más una participación en la entidad resultante del 24,9%.
- En una segunda fase, Telefónica comprará a KPN el 7,3% de la compañía resultante, por un importe de 1.300 millones de euros, para alcanzar una participación final del 65%, KPN tendrá el 17,6% y el resto de las acciones serán capital flotante.
- El pago en efectivo, por parte de Telefónica Deutschland, se financiará mediante una ampliación de capital de 3.700 millones de euros, de los cuales Telefónica cubrirá los 2.840 correspondientes a su participación actual del 76,8%.
- La transacción supone una significativa creación de valor, gracias a la generación de unas sinergias estimadas entre 5.000 y 5.500 millones de euros.
- Con esta operación, Telefónica se convierte en el segundo operador en Europa por número de clientes móviles y por volumen de ingresos, y mejora sus ratios de crecimiento y de generación de caja.
- Además, la operación mejora el perfil de riesgo de Telefónica, que ratifica su objetivo de situar su nivel de deuda neta por debajo de los 47.000 millones de euros a finales de este año 2013.

**Madrid, 23 de julio de 2013.-** El Consejo de Telefónica ha aprobado la adquisición de E-Plus, filial de KPN en Alemania. Esta operación, que está sujeta a las autorizaciones regulatorias pertinentes y a la aprobación de las Juntas Generales Extraordinarias de Accionistas tanto de KPN como de Telefónica Deutschland, tendrá como resultado la creación de un nuevo líder en el mercado móvil alemán con 43 millones de clientes

móviles, y unos ingresos combinados de 8.600 millones de euros. Se espera que la operación pueda completarse durante la primera mitad de 2014.

La transacción ofrece un enorme potencial en términos de sinergias, especialmente en los ámbitos de la distribución, atención al cliente y servicios de red. El valor total de dichas sinergias se estima entre 5.000 y 5.500 millones de euros, descontados los costes de integración. Estas sinergias permitirán ahorros netos a partir del segundo año.

La operación se realizará en dos fases. En la primera fase, Telefónica Deutschland comprará el 100% de E-Plus por 3.700 millones de euros, en efectivo, y el 24,9% de la entidad combinada. El pago en efectivo se financiará a través de una ampliación de capital de 3.700 millones de euros, de los cuales Telefónica S.A. suscribirá el 76,8% en proporción a su participación actual, correspondiente a 2.840 millones de euros.

En la segunda fase, Telefónica S.A. comprará a KPN una participación del 7,3% en la entidad resultante, por un precio de 1.300 millones de euros. Así, al final de las dos fases de la operación, las participaciones de ambas entidades en la nueva Telefónica Deutschland serán del 65% y el 17,6%, respectivamente, mientras que el resto será capital flotante. Los fondos totales comprometidos por Telefónica en esta operación ascienden a 4.140 millones de euros del total de los 5.000 millones pagados en efectivo a KPN.

Con este anuncio, Telefónica se convierte en el segundo operador en Europa por número de clientes móviles y por volumen de ingresos, y mejora sus ratios de crecimiento y de generación de caja. Del mismo modo, Telefónica se posiciona como líder por número de accesos, calidad de red y red de distribución en tres de sus principales mercados: Alemania, Brasil y España.

La creación de una Telco Digital líder, sostenible e innovadora enfocada en los datos móviles y el desarrollo de LTE en Alemania es un paso estratégico natural para Telefónica.

Este anuncio se produce tras un año decisivo en el proceso de transformación de Telefónica, propiciado por un conjunto de iniciativas que han permitido dar un profundo giro estratégico a la Compañía. Así, hace doce meses Telefónica se fijó el objetivo estratégico de aumentar su flexibilidad financiera y reducir su apalancamiento, a través de varias medidas, entre ellas la puesta en valor de su cartera de activos.

Gracias a este proceso, la compañía ha reducido su deuda en unos 10.000 millones de euros desde junio de 2012, incluyendo las desinversiones anunciadas recientemente. Todo esto ha hecho posible retomar el reparto de dividendos, aprobado en la Junta de Accionistas de Telefónica el pasado mes de mayo y dar así continuidad a la política de pago de dividendos año tras año.

Finalmente, es destacable señalar que la financiación de esta operación se realizará principalmente a través de instrumentos financieros que permitirán mantener

estable el ratio de endeudamiento. En este sentido, hay que subrayar que Telefónica mantiene su objetivo de situar su nivel de deuda neta por debajo de los 47.000 millones de euros a finales de este año 2013.

*Telefonica*

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# Creating a Leading Digital Telco in Germany

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23 July 2013

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Telefónica, S.A.  
Investor Relations

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The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions. Such forward-looking statements, by their nature, are not guarantees of future performance and involve risks and uncertainties, and other important factors that could cause actual developments or results to differ from those expressed in our forward looking statements. These risks and uncertainties include those discussed or identified in fuller disclosure documents filed by Telefónica with the relevant Securities Markets Regulators, and in particular, with the Spanish Market Regulator.

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# Transaction Summary

## Key Terms

- Total consideration of €5bn in cash and a 17.6% stake in the enlarged Telefónica Deutschland, as a result of two subsequent steps:
  - 1 Acquisition of E-Plus by Telefónica Deutschland for a combination of cash and a stake in the enlarged Telefónica Deutschland
    - (i) €3.70bn of cash
    - (ii) 24.9% stake in the enlarged Telefónica Deutschland (after capital increase)
  - 2 Telefónica subsequently to acquire a 7.3% stake from KPN for €1.30bn in order to maintain a 65% ownership in the enlarged Telefónica Deutschland
- Transaction to unlock significant value, with synergies of €5.0–5.5 bn NPV

## Recommended Transaction

- Recommended transaction approved by Telefónica's Board of Directors and Telefónica Deutschland's Supervisory Board
- Transaction has support from KPN's Board of Management, and from KPN's Supervisory Board

## Key Dates

- KPN shareholders' approval required at KPN's General Meeting in H2 2013
- Telefónica Deutschland shareholders' approval required at Telefónica Deutschland's General Meeting in H2 2013
- Transaction expected to close in mid 2014, following clearance from relevant authorities

# Transaction Structure

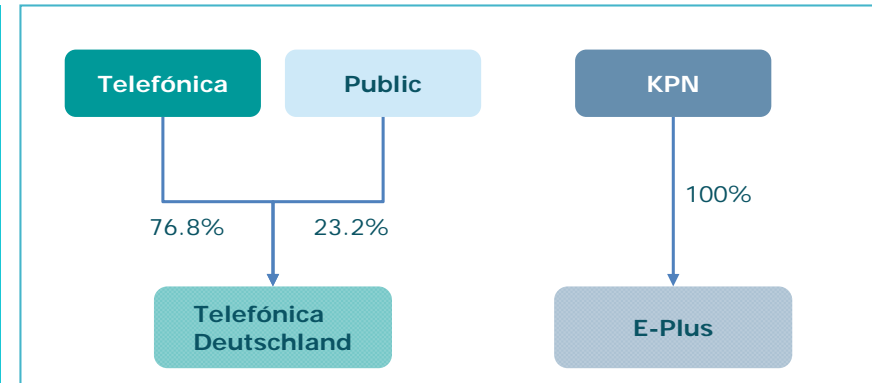
## Transaction Summary

**Total consideration of €5 Bn in cash and a 17.6% stake**

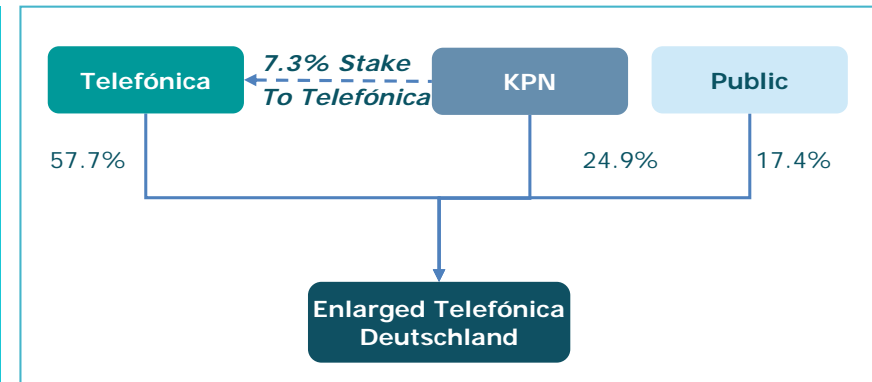
### Two Step Structure

- 1 Acquisition of E-Plus by Telefónica Deutschland for a combination of cash and a stake in the enlarged Telefónica Deutschland
  - i. €3.70bn of cash, financed through a rights issue fully underwritten by Telefónica and a group of banks
  - ii. 24.9% stake in the enlarged Telefónica Deutschland (after capital increase)
  
- 2 Telefónica subsequently to acquire a 7.3% stake of the enlarged Telefónica Deutschland from KPN for €1.30bn, post-transaction, in order to maintain a 65% ownership in the enlarged Telefónica Deutschland

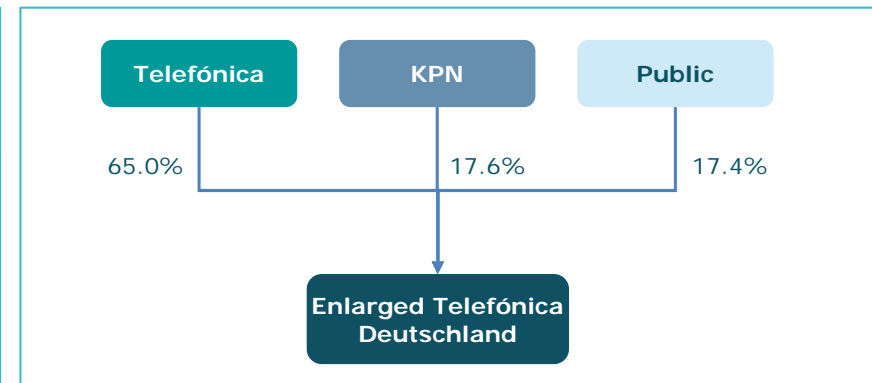
## Pre-Transaction Structure



## Intermediate Structure



## Final Ownership Structure





# Transaction Rationale

1

## Creation of a Leading Digital Telco

- A leading player with a combined customer base of 43m, 42% in postpaid
- Strong scale benefits with combined mobile revenue market share of 32%
- Driving mobile market growth in Germany since 2010:
  - ▶ +2.2pp in postpaid customer share
  - ▶ +5.8pp in prepaid customer share
- Strong capabilities in mobile data

2

## Value Crystallization Through Significant Synergies

€5.0–5.5bn

- NPV of synergies of €5.0–5.5bn, net of integration costs
  - ▶ Net savings from year 2
  - ▶ Annual run-rate synergies of approx. €800 m; 75% of run-rate synergies by year 4
- Incremental value from additional revenues, financial and tax synergies
- Highly experienced management team with a proven track record of integration

3

## Enhanced Profitability & FCF in Germany

- Improved profitability and enhanced cash flow generation
- Stronger competitive position from increased scale

Source: Company data, broker research

# Transaction Rationale (Cont'd)

4

## Creating a Superior Customer Experience

- Customers to benefit from the best high speed mobile and fixed experience from a single LTE network and access to future-proof DT NGA network
- Strong multi-brand portfolio across segments
- Offering ICT / cloud solutions for business customers
- Best distribution channel and outstanding customer service
- Ready for convergence through cross-selling / up-selling opportunities
- Leveraging Telefónica's global capabilities: Digital innovation, Scale,...

5

## Value Creation for Telefónica Deutschland Shareholders

- Unlocks significant value for Telefónica Deutschland shareholders
- Increases financial flexibility (improving leverage) while maintaining an attractive shareholder remuneration
  - ▶ Conservative pro forma balance sheet
- EPS and FCF accretive from first year of full operation 1<sup>(1)</sup>

6

## Value Creation for Telefónica Shareholders

- Unlocks significant value for Telefónica shareholders
- Investing in future growth while improving leverage
- Reinforced geographical diversification, increasing exposure to an attractive market
- Positive impact on Telefónica's cash flow generation profile
- EPS and FCF accretive from year 1<sup>(1)</sup>
- Credit friendly financing structure, allowing leverage ratios to improve

1. Based on run-rate synergies before integration costs

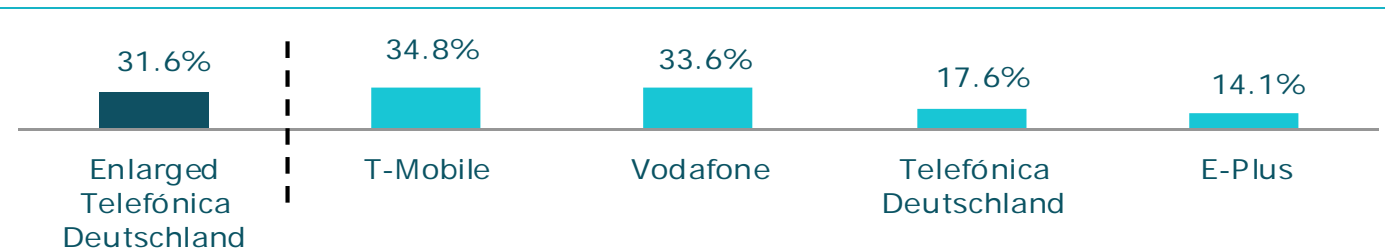
# 1 Creation of a Leading Digital Telco

Creation of a Leading Mobile Operator in Germany

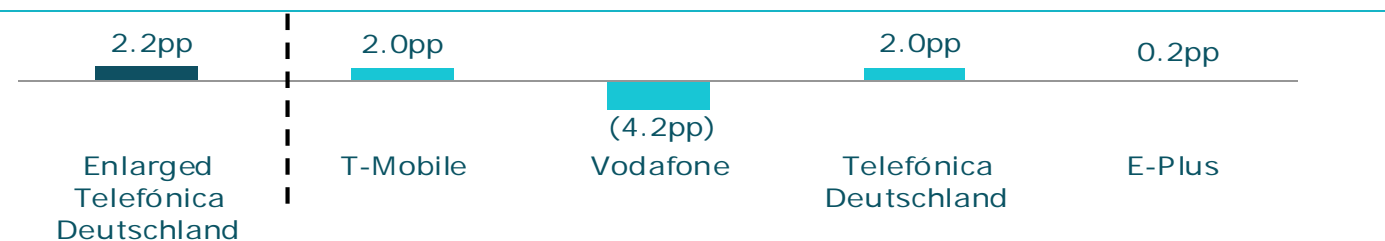
Leading Postpaid Subscriber Growth

Leading Prepaid Subscriber Growth

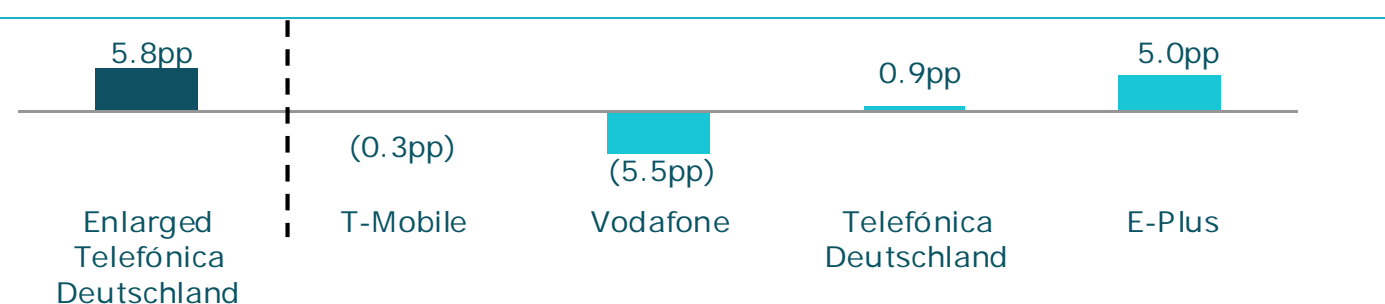
Q1 2013 Mobile Revenue Market Share (%)



2010 – 2012 Postpaid Mobile Market Share Growth (pp)



2010 – 2012 Prepaid Mobile Market Share Growth (pp)



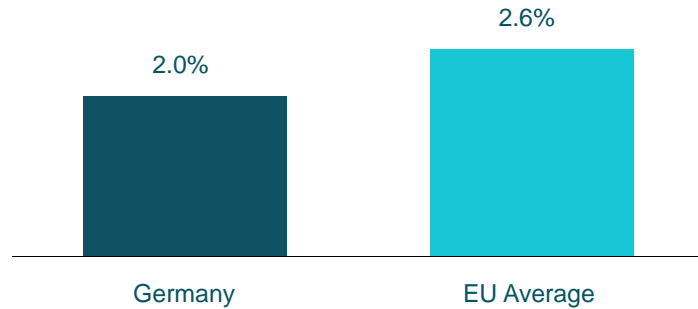
- Combining Telefónica Deutschland and E-Plus's track records of growth with Telefónica Deutschland's capacity for MBB

Source: Company data, broker research

# 1 Highly Attractive Mobile Market

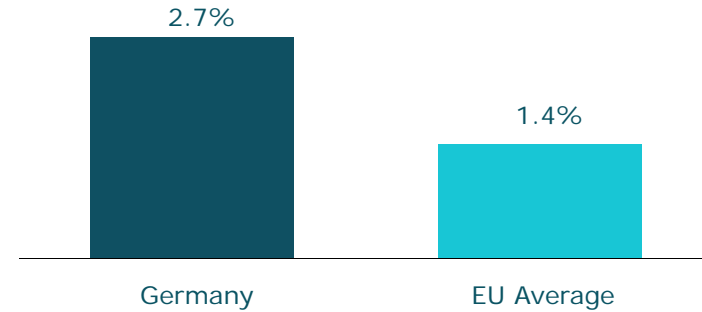
## Relatively Low Churn

Monthly Churn, 2012



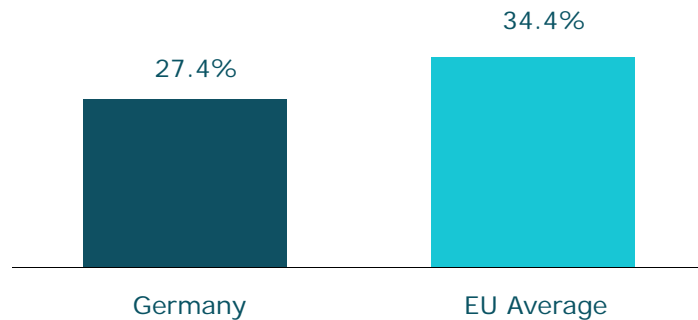
## Strong Subscriber Base Growth

2013E YoY Growth



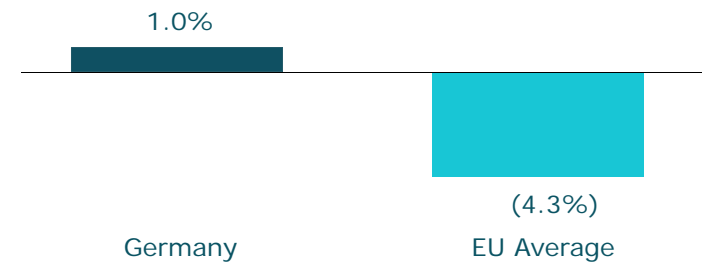
## Smartphone Penetration Upside

Smartphone Connections as % of Mobile Connections, 2012



## EBITDA Growth

2009 – 2013E CAGR



Source: WCIS, broker research

## 2 Identified and Realisable Synergies of €5.0 – 5.5 bn NPV

### Distribution and Customer Service

- Rationalisation of distribution network
- Increased efficiency in customer service costs leveraging best practices and scale
- Channel management and overheads

### Network

- Focused rollout on one common nationwide LTE network and improved quality from 3G network consolidation
- Backbone, backhaul and core network consolidation, with reduced OpEx from network integration (rentals, power, maintenance, transport costs, overheads)
- Site consolidation and rationalisation: reduction of around 14,000 sites
- Increased efficiency by leveraging scalable transmission agreement with Deutsche Telekom

### SG&A

- Reduced SG&A expenses
- Processes rationalisation
- Continued focus on becoming a more lean and agile organization

### Revenue and Other

- Exploit SME opportunity from a broader and higher quality platform
- Improved customer satisfaction
- High speed fixed broadband cross-selling opportunity across an enlarged customer base

Operating Synergies of €4.5 bn NPV

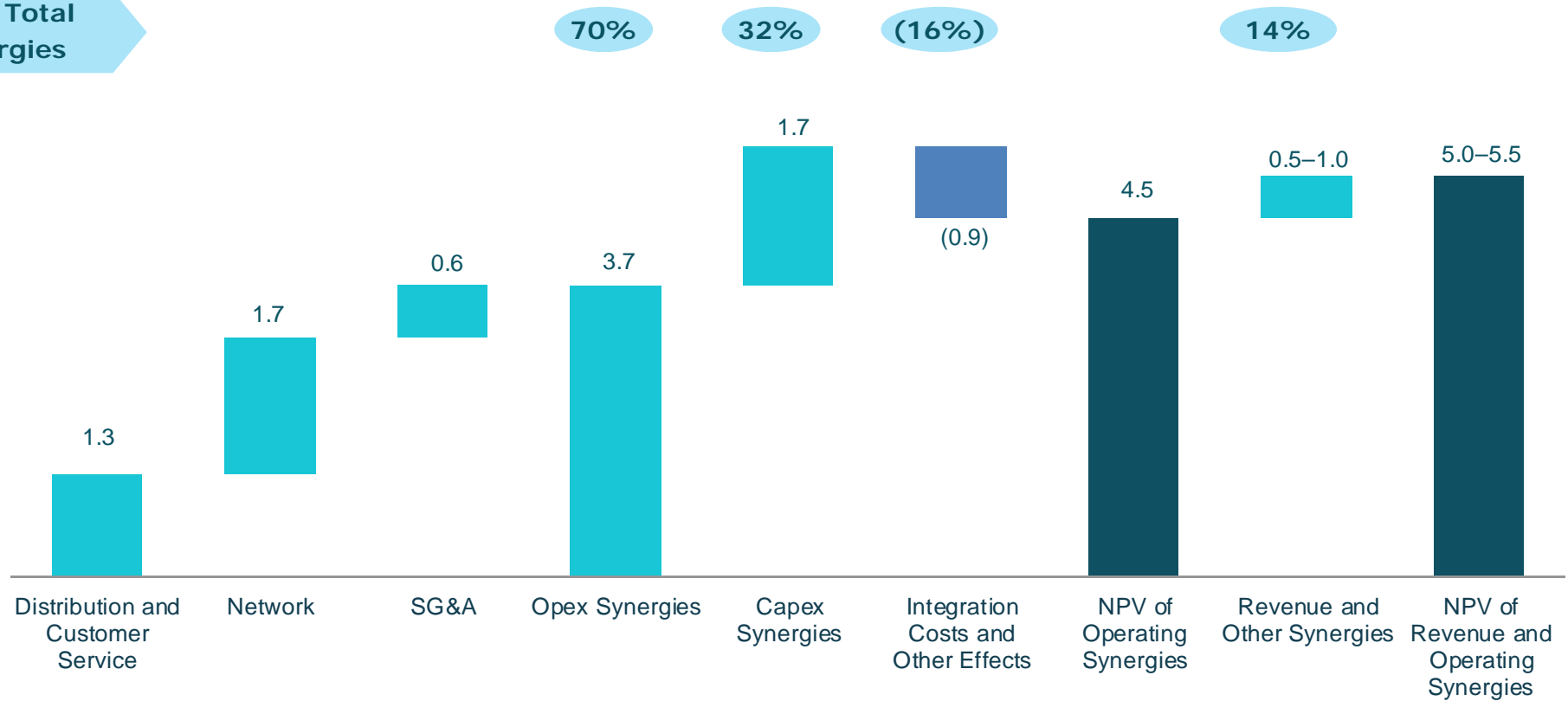


Revenue and Other Synergies of €0.5-1.0 bn NPV

## 2 Synergies Value of €5.0 - 5.5 bn NPV

€bn

% of Total Synergies



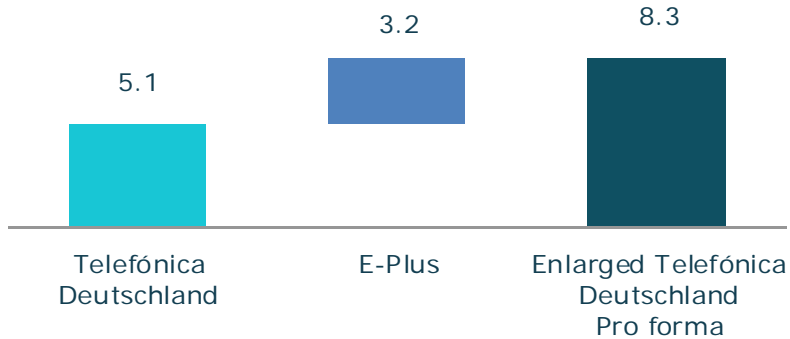
- **NPV €5.0-5.5bn:**
  - ▶ Net savings from year 2
  - ▶ Run-rate synergies approx. €800 m from year 5; 75% of run-rate synergies by year 4
- Incremental value from additional revenues, financial and tax synergies

### 3 Stronger Competitive Position from Increased Scale in Germany

Based on Consensus Forecasts

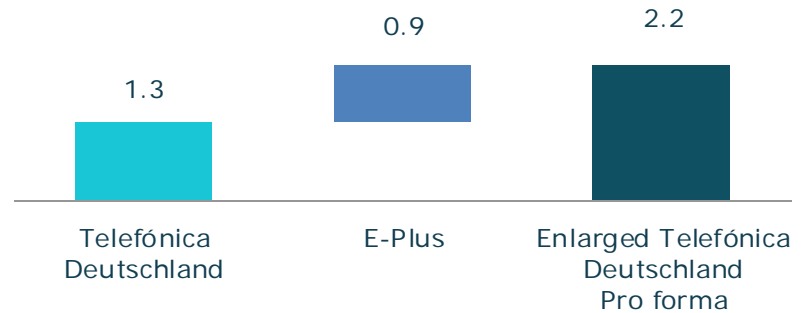
#### 2013 Revenue

€bn



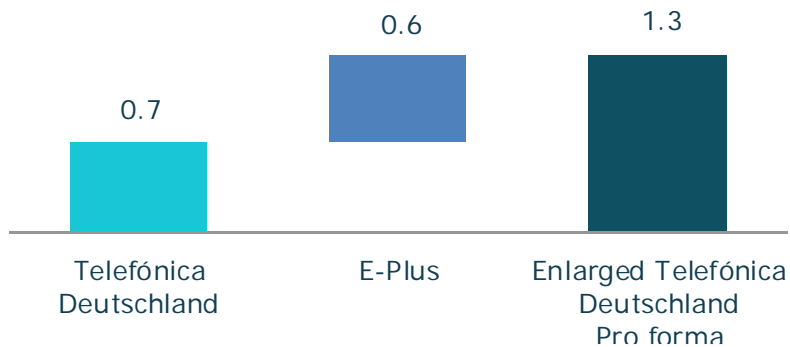
#### 2013 OIBDA

€bn



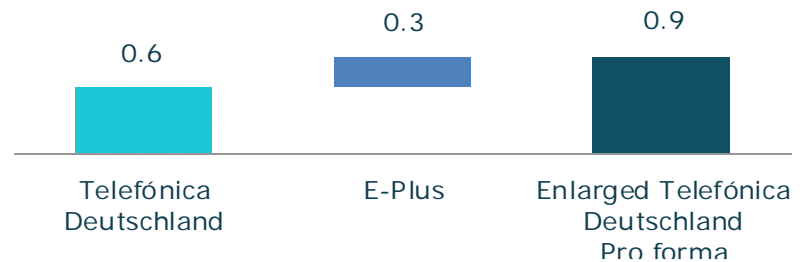
#### 2013 Capex

€bn



#### 2013 OpFCF<sup>(1)</sup>

€bn



Source: Broker consensus. Not adjusted for accounting differences, pre-synergies

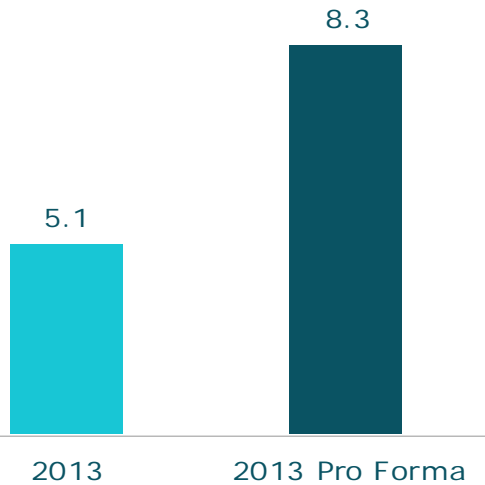
1. Defined as OIBDA-Capex

### 3 Enhanced Profitability and Cash Flow Generation in Germany

Pro forma Financial Impact on Telefónica Deutschland, based on Consensus Forecasts

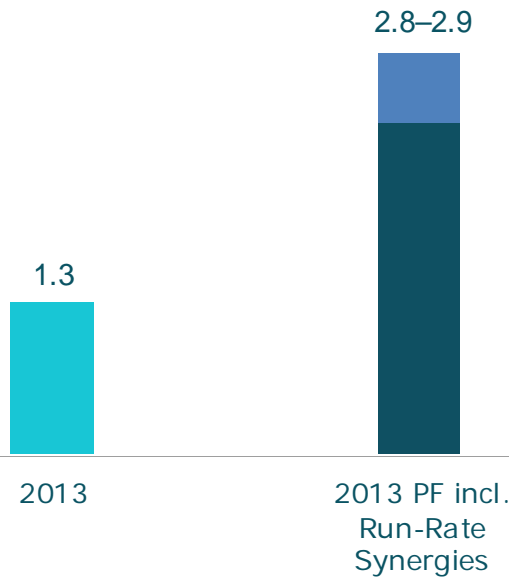
#### Revenues

€Bn



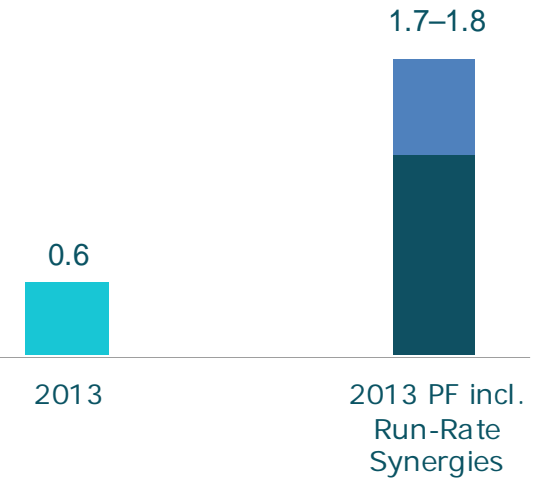
#### OIBDA

€bn



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

€bn



Run-rate synergies

- **EPS and FCF Accretive from first year of full operation<sup>(2)</sup>**

Source: Broker consensus, not adjusted for differences in accounting policies

1. Defined as OIBDA-Capex

2. Based on run-rate synergies before integration costs



## 4 Creating a Superior Customer Experience

### Single LTE Network to Deliver the Best Mobile Broadband Experience

- Strong commitment to invest in the German market
- Spectrum and network capacity to cope with growing data volumes
- Access to fibre backhaul
- Environmental benefits through reduction of sites
- Improved situation in the business sector
- Improved network quality for E-Plus subscribers through access to Telefónica Deutschland's state-of-the-art network

### Best Distribution Channel

- Over 1,800 points of sale to serve our customers directly
- Outstanding customer service to provide the best digital experience

### Multi-brand & Innovative Commercial Offer

- Combination of the most creative players in the market
- Tariff innovation, voice & mobile data bundling
- Multi-brand strategy to better serve different customer needs
- Innovative propositions to offer ICT / cloud solutions for business customers

### Additional Opportunity from Convergence Strategy

- Increased up-selling and cross-selling potential extended to E-Plus customer base
- Significant tangible benefits such as churn reduction

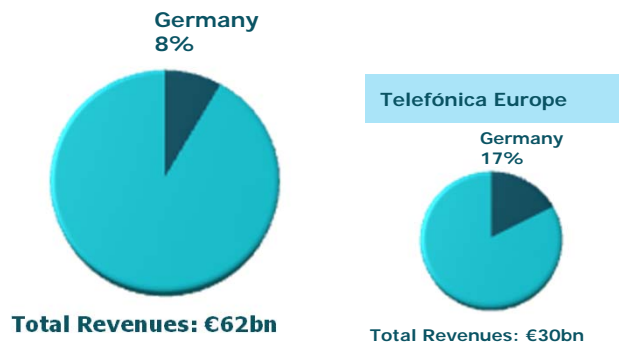
### Leveraging Telefónica's Global Capabilities

- Benefits from leveraging Telefónica's best practices
- Innovation through Telefónica Digital
- Global capacity: Data Centers, scale benefits and shared services

# 6 Enhancing Telefónica's Geographic Diversification

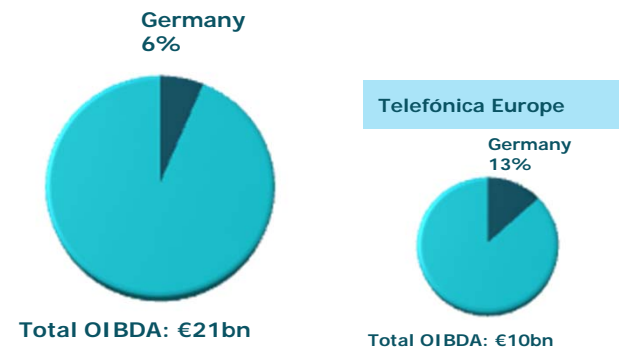
## Telefónica Revenue Breakdown

Telefónica Standalone, 2012

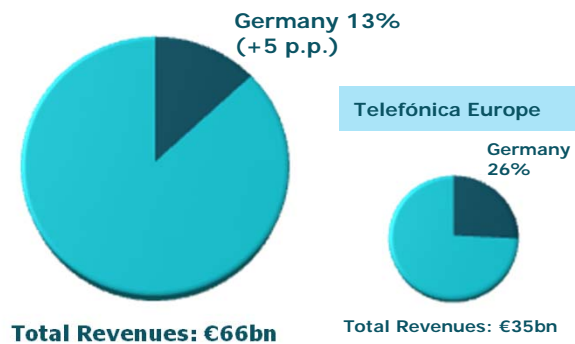


## Telefónica OIBDA<sup>(1)</sup> Breakdown

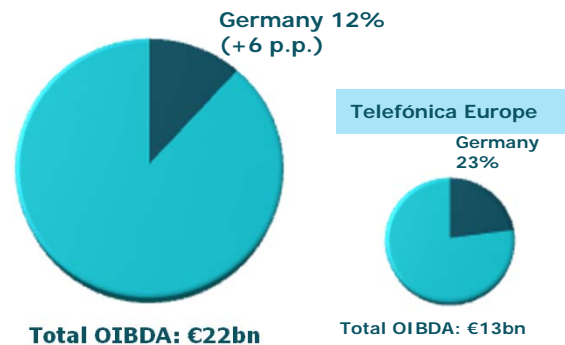
Telefónica Standalone, 2012



Pro-forma Telefónica (Pre-Synergies), 2012



Pro-forma Telefónica (Pre-Synergies), 2012

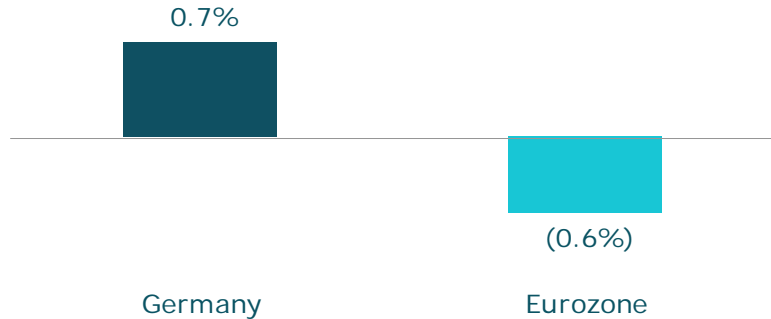


1. Underlying OIBDA

# 6 Building a Stronger Competitor in the Attractive German Market

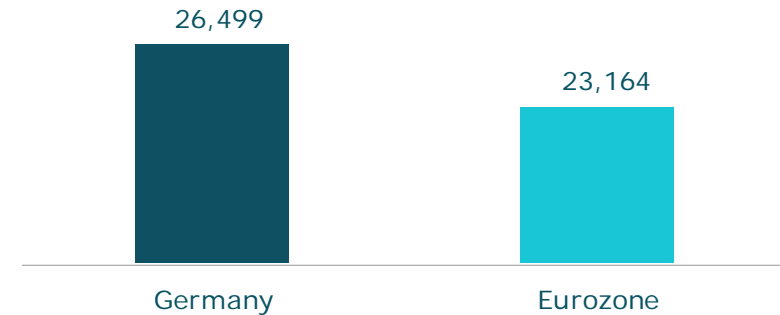
## 2011 – 2013E Real GDP CAGR

%



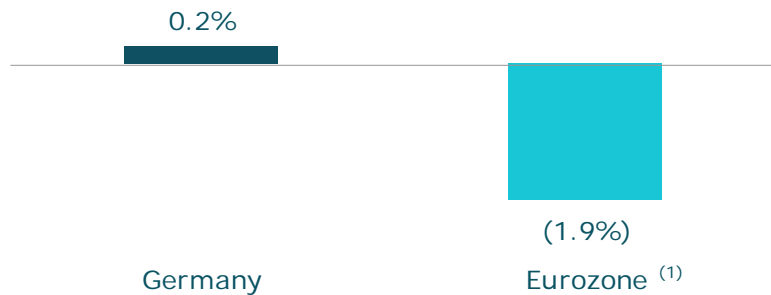
## 2012 GDP per Capita

€



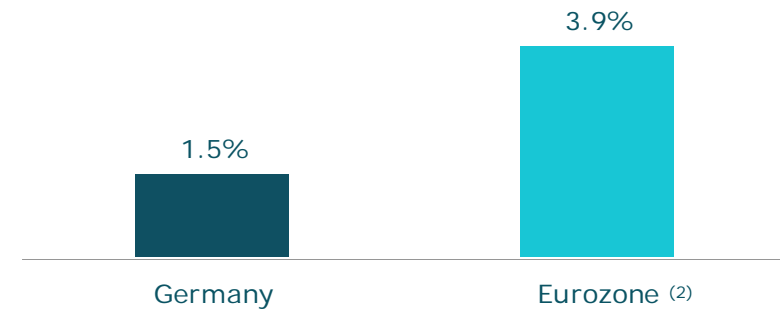
## 2011 – 2013E Telecom Market CAGR

%



## Sovereign Debt Yield

%



- The largest Telecom market in Europe with revenues of €36bn

Source: Global Insight, IMF, IDC

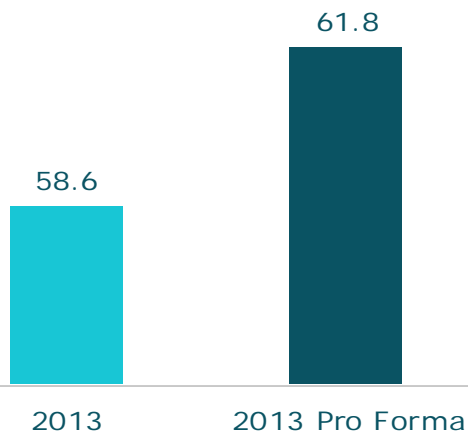
1. Excludes Cyprus, Luxembourg and Malta for which data is not available  
 2. Average 10Y Government Bond Yield of Eurozone country members as of 17 July 2013

# 6 Attractive Transaction for Telefónica Shareholders

Pro forma Financial Impact on Telefónica Group, based on Consensus Forecasts

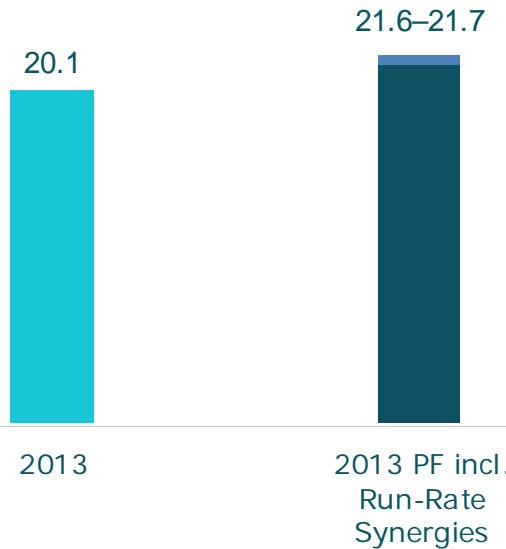
## Revenues

€Bn



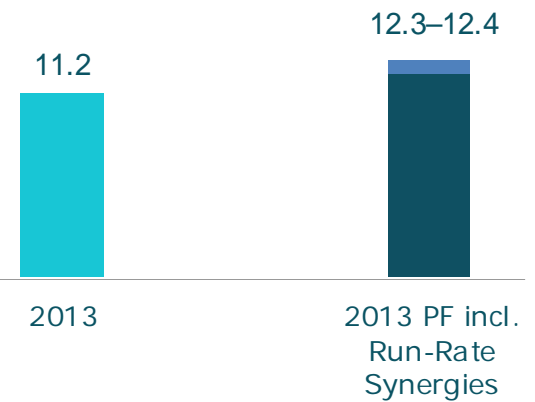
## OIBDA

€bn



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

€bn



Run-rate synergies

- **EPS and FCF Accretive from first year of full operation<sup>(2)</sup>**

Source: Broker consensus, not adjusted for differences in accounting policies

1. Defined as OIBDA-Capex

2. Based on run-rate synergies before integration costs

## 6 Financing Without Increasing Leverage

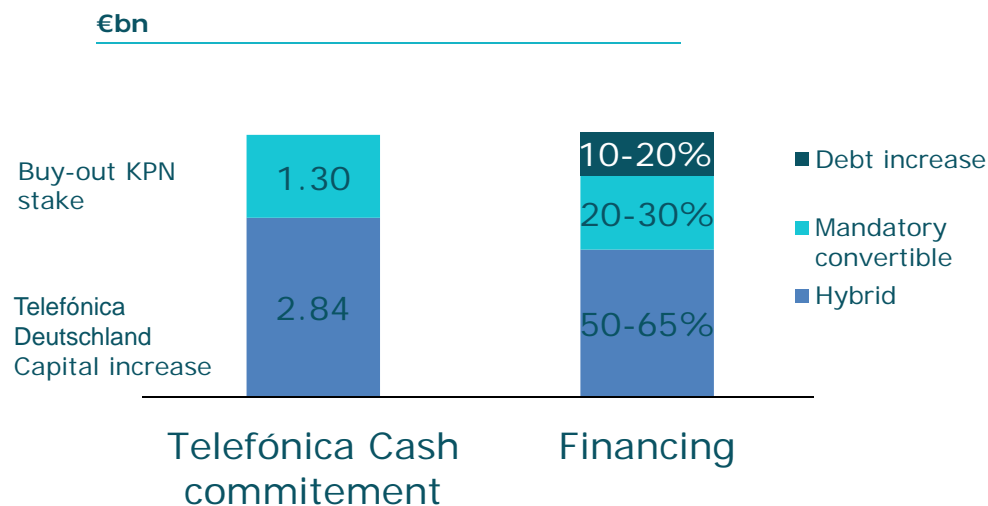
### Telefónica Cash Commitment

- Rights Issue in enlarged Telefónica Deutschland of €3.70bn. Telefónica subscribes pro-rata to its stake of 76.8%, €2.84bn
- €1.30bn to KPN for 7.3% stake in the enlarged Telefónica Deutschland

### Financing without Increasing Leverage

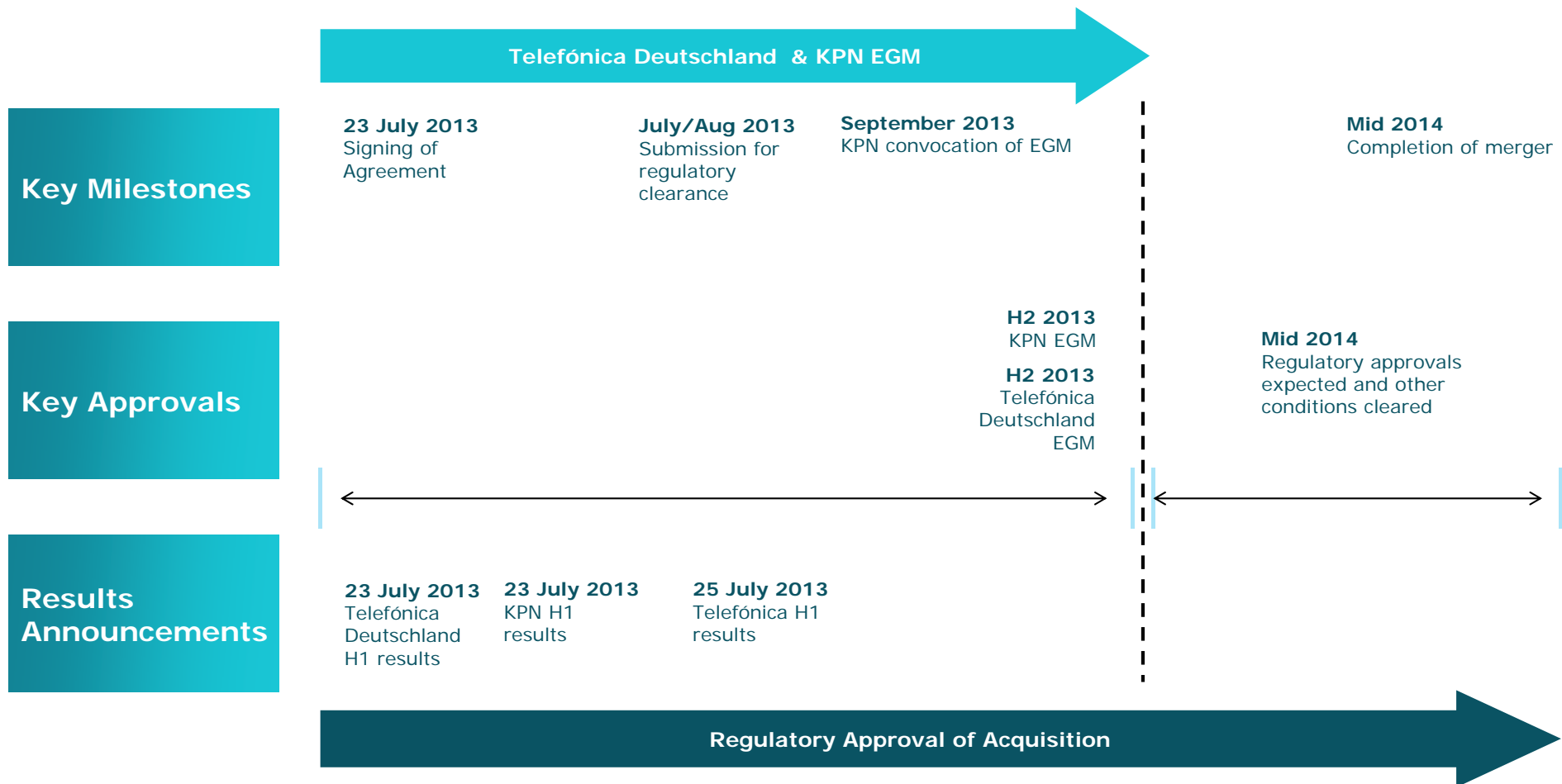
- Total financing required of €4.14bn
  - ▶ 50-65% Hybrid, 100% equity under IFRS/ 50% equity for credit rating agencies
  - ▶ 20-30% Mandatory Convertible, 100% treated as equity under IFRS & credit rating agencies
  - ▶ 10-20% Incremental debt, in addition to the debt component of the hybrid bond

### Cash Payment to KPN



- Limited debt increase
  - ▶ 1/3 long term financing considered
  - ▶ 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 to further soften impacts
- FCF generation till deal completion adding headroom

# Expected Transaction Timetable



# Closing Remarks

- Post transaction, Telefónica would have the second largest subscriber base in Europe
- In each of its top 3 markets (Spain, Brazil and Germany), Telefónica would be the leader in terms of subscribers and network quality
- A natural strategic move for Telefónica Deutschland to create a leading Digital Telco focused on mobile data and LTE enhancement
- Significant value creation through €5.0 – 5.5 bn NPV synergies crystallization
- Reinforces Telefónica's geographical diversification towards Germany
- Germany is the largest mobile market in Europe and is the most advanced in data monetisation
- Substantial value creation for Telefónica and Telefónica Deutschland Shareholders
  - ▶ 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

*Telefónica*

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