

KPN to sell E-Plus to Telefónica Deutschland

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Sale of E-Plus to unlock German mobile synergies estimated at EUR 5.0-5.5 billion

KPN will receive EUR 5.0 billion in cash and a 17.6% stake in Telefónica Deutschland post transaction

Completion is subject to KPN EGM and regulatory approval

KPN post transaction will focus on its core geographies with a clear #1 position across all segments in The Netherlands and a mobile Challenger focused on continued growth in Belgium

Majority of cash proceeds to be used to further increase financial flexibility

Intention to recommence dividend payment to shareholders for 2014, subject to closing

Royal KPN N.V.'s ("KPN") Supervisory Board and Board of Management (the "KPN Boards") announce today that KPN has entered into a transaction, subject to shareholder approval, to sell and transfer 100% of its interest in E-Plus to Telefónica Deutschland for EUR 5.0 billion in cash and a 17.6% stake in Telefónica Deutschland post transaction. The transaction will unlock estimated German mobile synergies of EUR 5.0-5.5 billion.

KPN will use the majority of the cash proceeds to increase its financial flexibility and intends to recommence dividend payment to shareholders for 2014. The KPN Boards will ask shareholders to vote on the transaction at an Extraordinary General Meeting ("EGM").

Eelco Blok, CEO of KPN

"The opportunity to unlock significant value in Germany by selling E-Plus is clear and compelling. The significant premium embedded in the sale price recognizes the substantial operational synergies. The combination of E-Plus and Telefónica Deutschland will establish a mobile operator with attractive synergy and growth potential in Europe's largest economy. KPN Group post the sale of E-Plus will focus on its core geographies."

Thorsten Dirks, CEO of E-Plus

"In Germany we are implementing the next phase of our strategy towards a data-centric Challenger, which already resulted in strong postpaid net adds and data growth in the first half of 2013. I can assure you that we will remain fully focused on executing our operational strategy and will be committed to our customers and employees."

The transaction

At completion of the transaction, KPN will transfer 100% of its interest in E-Plus to Telefónica Deutschland for a consideration consisting of EUR 3.7 billion in cash and newly issued shares in Telefónica Deutschland, representing 24.9% of the share capital[1]. Simultaneously, Telefónica S.A. will acquire a 7.3% interest in Telefónica Deutschland from KPN for a cash consideration of EUR 1.3 billion. KPN's remaining interest of 17.6% in Telefónica Deutschland will be subject to a lock-up period of 180 days.

Applying the purchase price of EUR 1.3 billion for the 7.3% interest in Telefónica Deutschland acquired by Telefónica S.A. to KPN's remaining 17.6% interest in Telefónica Deutschland, implies a total transaction valuation for E-Plus of EUR 8.1 billion, which represents a 9.0x multiple on E-Plus analyst consensus FY 2013 EBITDA[2]. The actual transaction valuation may vary over time and will depend on Telefónica Deutschland's share price development.

The transaction is subject to KPN EGM approval and the KPN Boards intend to convene the EGM in the coming weeks. The KPN Boards, taking into account the interests of shareholders and other stakeholders, have approved and recommended the transaction.

Telefónica S.A. has given an irrevocable commitment to vote its 77% interest in Telefónica Deutschland in favor of the transaction at Telefónica Deutschland's EGM.

The transaction is subject to merger clearance.

In addition, the transaction is subject to other customary terms and conditions including:

A break-up fee of EUR 100 million payable by Telefónica Deutschland in case the merger control authorities do not approve the transaction

A reciprocal break-up fee of EUR 50 million payable by Telefónica Deutschland or KPN in case their respective shareholders do not approve the transaction in their respective EGM

A break-up fee of EUR 50 million payable by KPN in case it revokes its recommendation for the transaction as a result of a superior offer for E-Plus in excess of EUR 8.6 billion

Telefónica Deutschland will finance the EUR 3.7 billion cash component of the transaction through a rights offering which is fully underwritten by Telefónica S.A.

The combination of E-Plus and Telefónica Deutschland

Following the transfer of E-Plus to Telefónica Deutschland, KPN will have a 17.6% stake in the combined entity. The combination will have annual revenues of more than EUR 8 billion and total estimated synergies of EUR 5.0-5.5 billion. Additionally, it will have an enhanced competitive position with a high quality network with ample capacity to address increasing demands for high quality (data) services and an extensive distribution network.

KPN post transaction

Following completion of the transaction, KPN will focus on its core geographies with a clear number one position across all segments, fixed and mobile, consumer and corporate, in The Netherlands and a mobile Challenger focused on continued growth in Belgium. KPN is the market leader in Dutch mobile with a 45% market share and also has number one positions in domestic broadband (41% market share) and the Business segment, and shows continued strong growth in the Dutch TV market (24% market share). In The Netherlands, the significant investments over the last 2 years in fixed and mobile networks and customers are starting to yield operational results.

BASE Company has an approx. 21% market share in the Belgian mobile market, which has steadily increased over the years as a result of continued market outperformance. As a successful Challenger, BASE Company continues to have an attractive growth potential.

The majority of the EUR 5.0 billion cash proceeds from the transaction will be used to further increase financial flexibility and it is KPN's intention to recommence a dividend payment to its shareholders once the transaction has been completed. After completion of the transaction, KPN will have a strong credit profile with a pro forma net debt^[3] / EBITDA^[4] below 1.5x^[5].

Other financial implications

The consideration on a cash and debt free basis consists of an amount in cash of EUR 5.0 billion and a 17.6% stake in the combination of E-Plus and Telefónica Deutschland. Based on a fair value of EUR 8.1 billion, KPN expects to recognize a loss of EUR 1.3 billion in Q3 2013, when E-Plus is recognized as 'disposal group held for sale'. This loss relates to the deferred tax assets that in the transaction have a lower fair value than their book value under IFRS as per 30 June 2013. The impairment amount and final result from the transaction depend on the development of the fair value of the 17.6% stake in the combined entity.

[1] Post Telefónica Deutschland rights offering

[2] E-Plus EBITDA analyst consensus FY 2013 of EUR 899 million

[3] Nominal debt repayment obligations in Euro at maturity, including 50% of hybrid capital instruments, less net cash and cash equivalents

[4] Based on 12 months rolling total EBITDA excluding book gains, release of pension provisions and restructuring costs, when over EUR 20 million

[5] Pro forma adjustment per Q2 2013, including EUR 5.0 billion cash proceeds and loss of last twelve months E-Plus EBITDA

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