

THE TELEFÓNICA PARTIAL ACQUISITION OF SOGECABLE

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The Spanish firms Prisa and Telefónica announced in late November 2009 the purchase by the latter of 21% of Sogecable -owned 100% by Prisa-, a company dedicated to the pay TV business which is developed through the Digital+ platform. The telecom operator paid 470 million euros, implying a total valuation of Sogecable of 2,350 million euros. The payment was verified in part through the amortization of the Sogecable's subordinated debt that was signed by Telefónica in 2003 as part of the integration of Via Digital in Sogecable, operation that was valued at 230 million euros approximately. The remaining amount, 240 million euros, was paid in cash.

Prior to the execution of the agreement, Prisa proceed to merge the two pay-TV companies of the group: Canal Satélite Digital and CTS Distribuidora de Televisión Digital, as well as other related activities.

In addition to the share exchange, Telefónica and Prisa had signed a shareholders' agreement regulating the management principles of the company after the acquisition by the telecom operator. According to this agreement Telefónica would be entitled to appoint two members of the board of the new company.

Telefónica and Prisa also signed a collaboration agreement in order to explore possible areas of cooperation in the development of their respective businesses in Spain.

With this transaction, Telefónica returned to the satellite pay-TV business in which participated in the past, first through Vía Digital and later with its participation in Sogecable, Prisa group subsidiary. The telecom operator sold its stake in May 2008, as part of the takeover bid launched by Prisa for Sogecable. At that time, the company also included in the operation the free-to-air channel Cuatro.

The Chief Executive of Telefónica, Cesar Alierta, valued the operation as a great opportunity to complete its global offering, which would provide a bigger and broader response to customer preferences. Also, it would maximize its position in a market with an enormous growth potential. As for Juan Luis Cebrián, President of the Executive Committee and CEO of Prisa, said that the operation involved the presence of the best conceivable strategic partner for the company, stating as well that the Digital+ divestment was framed within the series of decisions that Prisa came rushing to ensure the financial stability of the company.