



# Telefónica's offer for 50% of Brasilcel

**Zeinal Bava**  
Chief Executive Officer

8 June 2010



## Important notice

This release contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking statements are not statements of historical fact, and reflect goals of the company's management. The words "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "plans," "predicts," "projects" and "targets" and similar words are intended to identify these forward-looking statements, which necessarily involve known and unknown risks and uncertainties. Accordingly, the results of operations of the company to be achieved may be different from the company's current goals and the reader should not place undue reliance on these forward-looking statements. Forward-looking statements speak only as of the date they are made, and the company does not undertake any obligation to update them in light of new information or future developments.



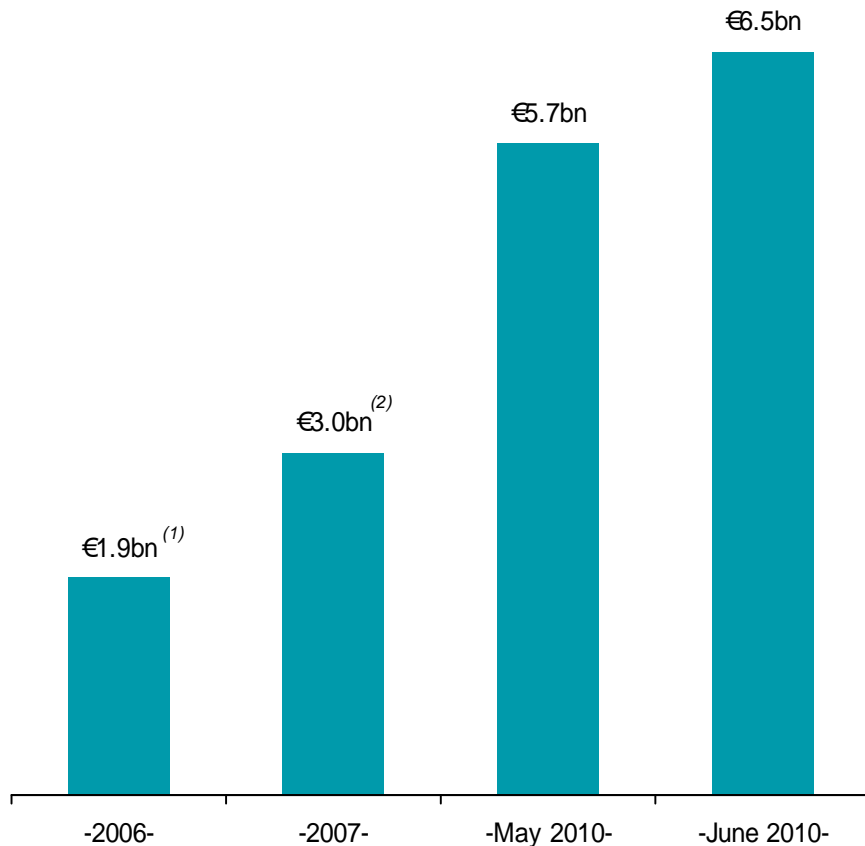
## Telefónica revised its offer for 50% of Brasilcel

- TEF offers to buy PT's shares in Brasilcel and proposes two Alternative Structures
- Alternative A
  - Price of €6.5bn in cash at closing
  - Managed exit of TEF from PT
- Alternative B
  - Aggregate consideration of €6.5bn in two parts:
    - 1/3 in cash at closing
    - 2/3 through a put option exercisable at any time from closing of the transaction for a period of 3 years plus an annual 5% dividend
- Unconditional Offer
- In addition, TEF proposes:
  - Managed exit of TEF from PT
  - Arrangements to provide for the effective separation of operations over time



## PT's response to Telefónica's new offer

### Telefónica's Views on Vivo



(1) Based on article from Wall Street Journal online 17 May 2010

(2) Based on article from Financial Times, 10 July 2007

### PT's Board Response

- “Request a Shareholder’s Meeting so that PT’s Shareholders may come to a decision on the offer”

**BUT**

- “The offer does not reflect the strategic value of this asset for Telefónica”

***PT Board referred the revised offer to shareholders due to its magnitude and strategic relevance***

- *“In accordance with the law and the Articles of Association, I hereby call a General Meeting of the Shareholders of Portugal Telecom, SGPS S.A. to be held [...] on 30 June 2010, at 10:00 a.m., with the following agenda:*
- *To resolve on the proposal received from Telefónica on 1 June 2010 regarding the acquisition of the shares held by companies of the Portugal Telecom Group in Brasilcel, N.V., under the terms and at the price of the current offer or at a higher price presented”*



## What is the upside in Brazil?

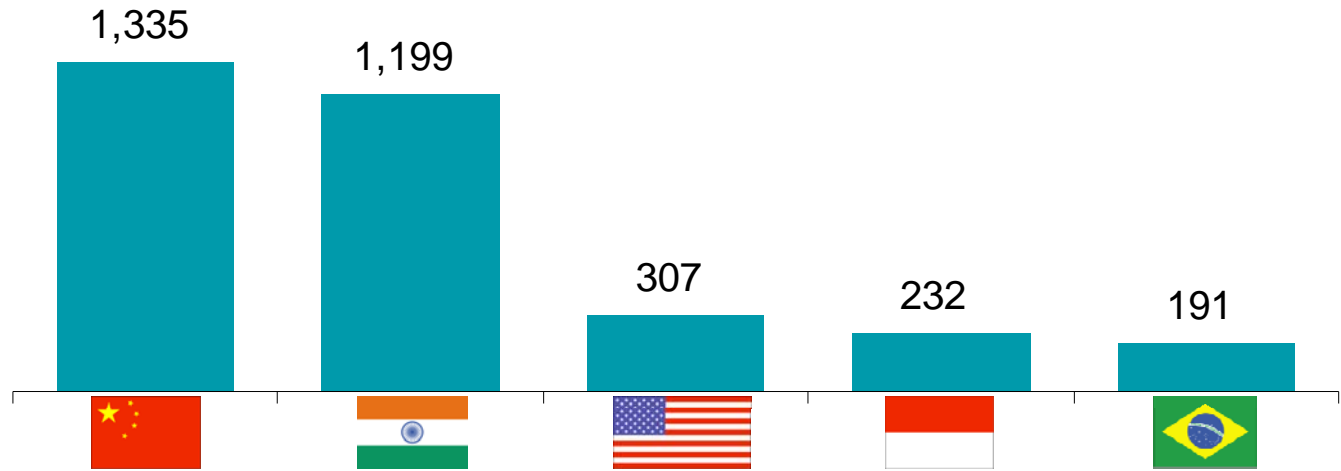


# A very large market set to outpace Western European Economies

**Population (m)**  
IMF. Dec 2009

**World**  
5

**LatAm**  
1

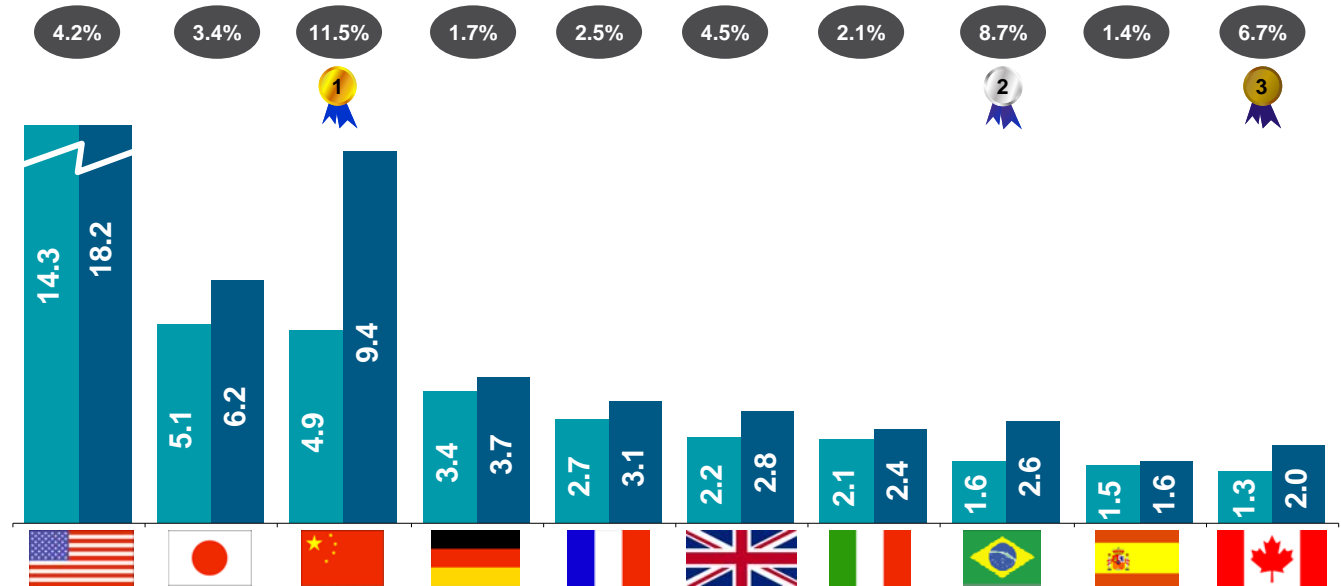


**Gross Domestic Product (US\$trn)**  
IMF. Current Price - Dec 2009 – Dec 2015

**World**  
2009: 8  
2015: 7

**LatAm**  
2009: 1  
2015: 1

2009  
2015



■ 2009A ■ 2015E % '09-15 CAGR

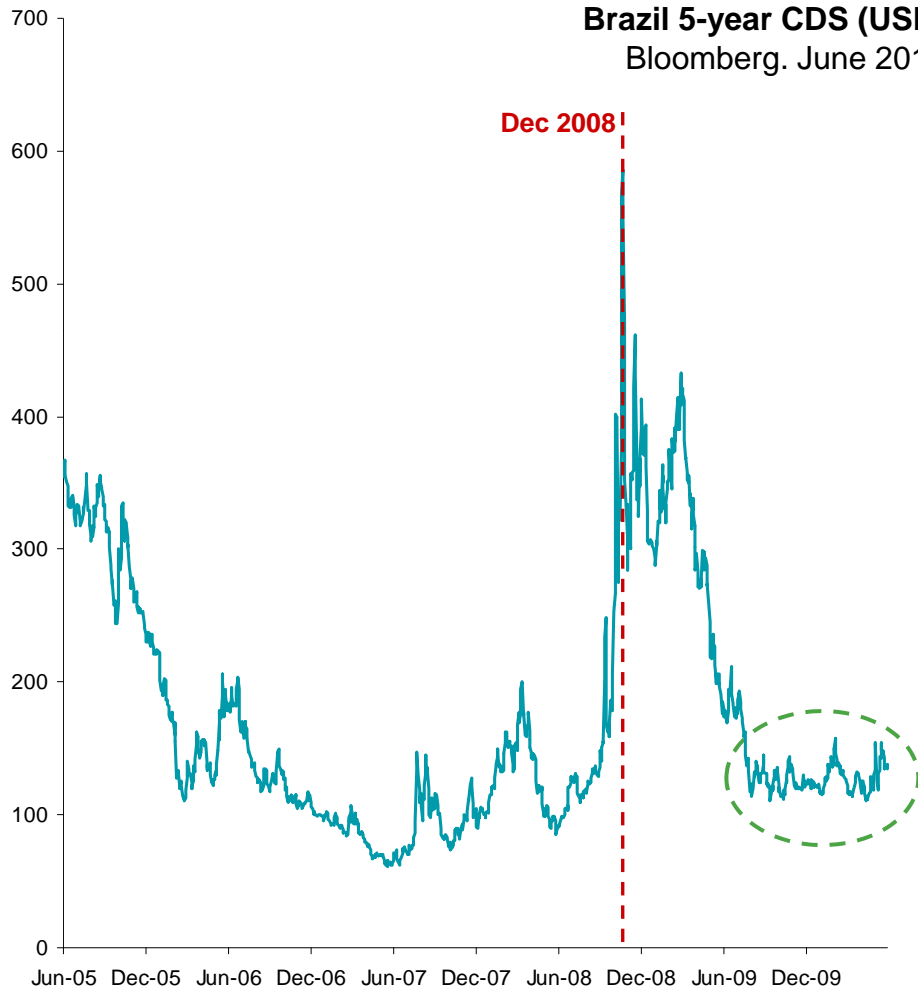
Source: World Economic Outlook April 2010



# Increasingly stable investment environment

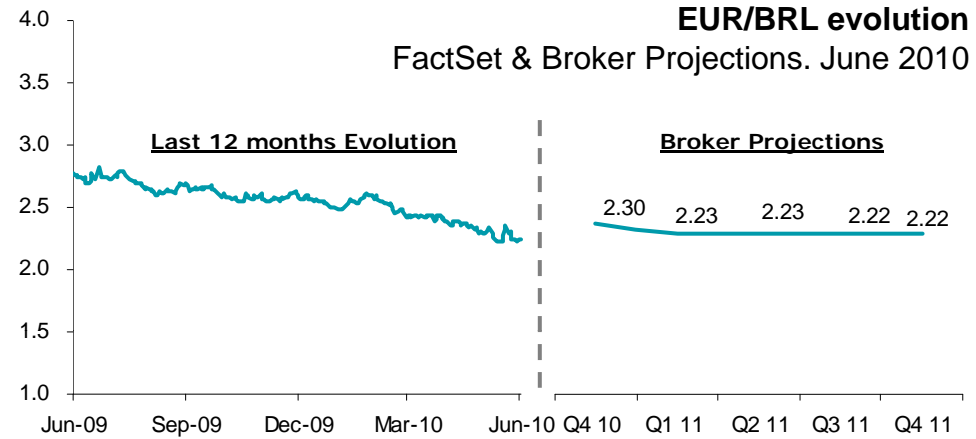
### Brazilian CDS Close from 5-Year Low

**Brazil 5-year CDS (USD)**  
Bloomberg. June 2010



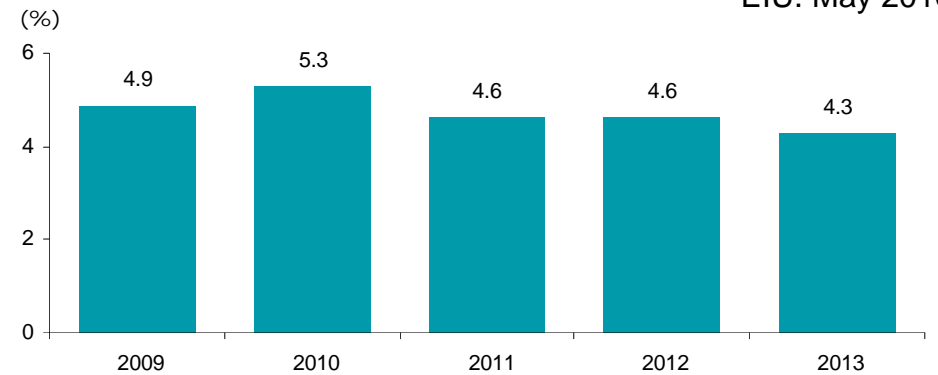
### BRL has Gained Momentum vs. Euro and Expected to Stabilize

**EUR/BRL evolution**  
FactSet & Broker Projections. June 2010



### Inflation is Under Control

**Inflation evolution (%)**  
EIU. May 2010



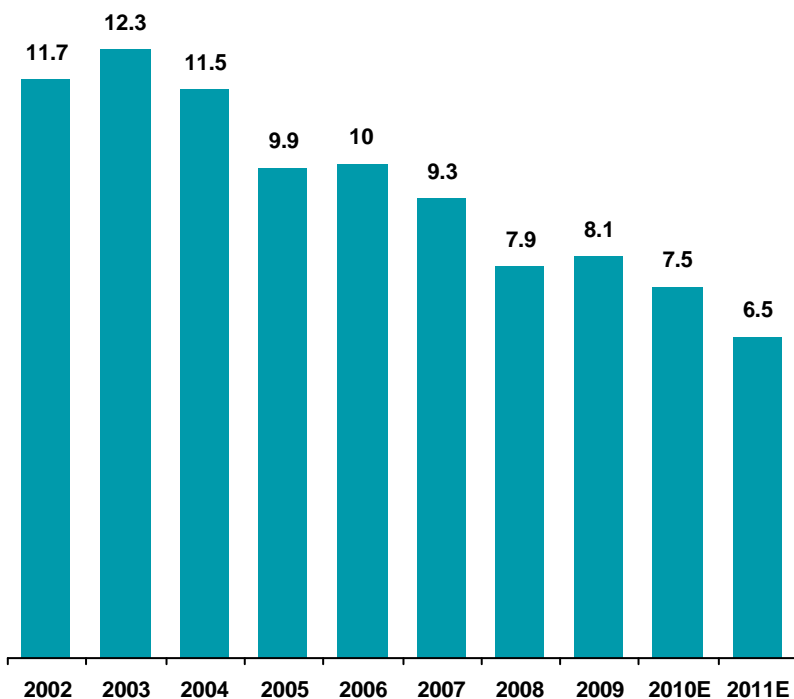
Source: Bloomberg, FactSet, Economist Intelligence Unit



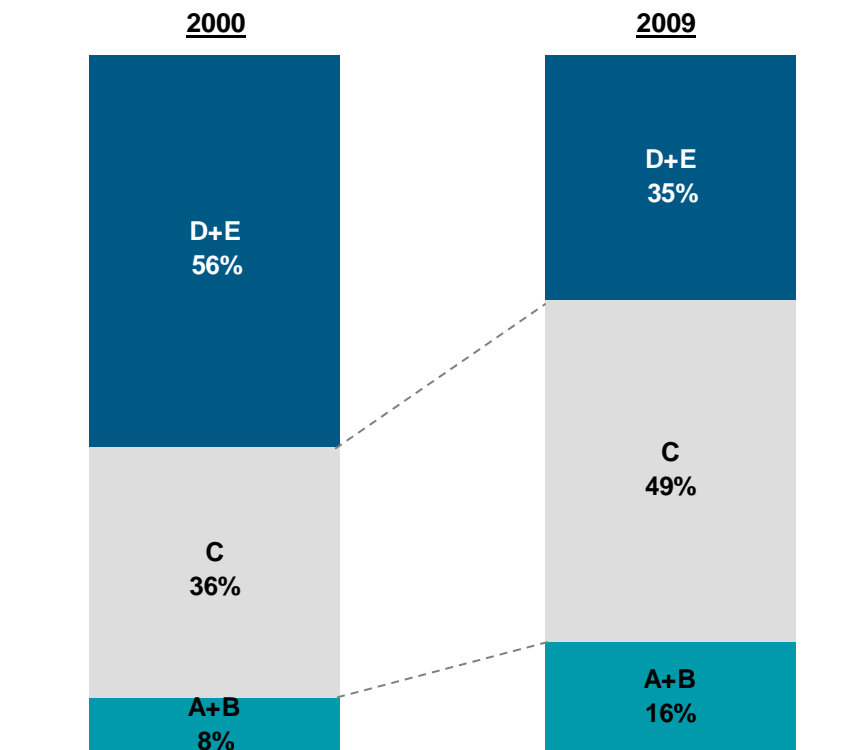
# Strong economic growth and a growing middle class...

## Unemployment

Unemployed as % of Economic Active Population



## Income Classes

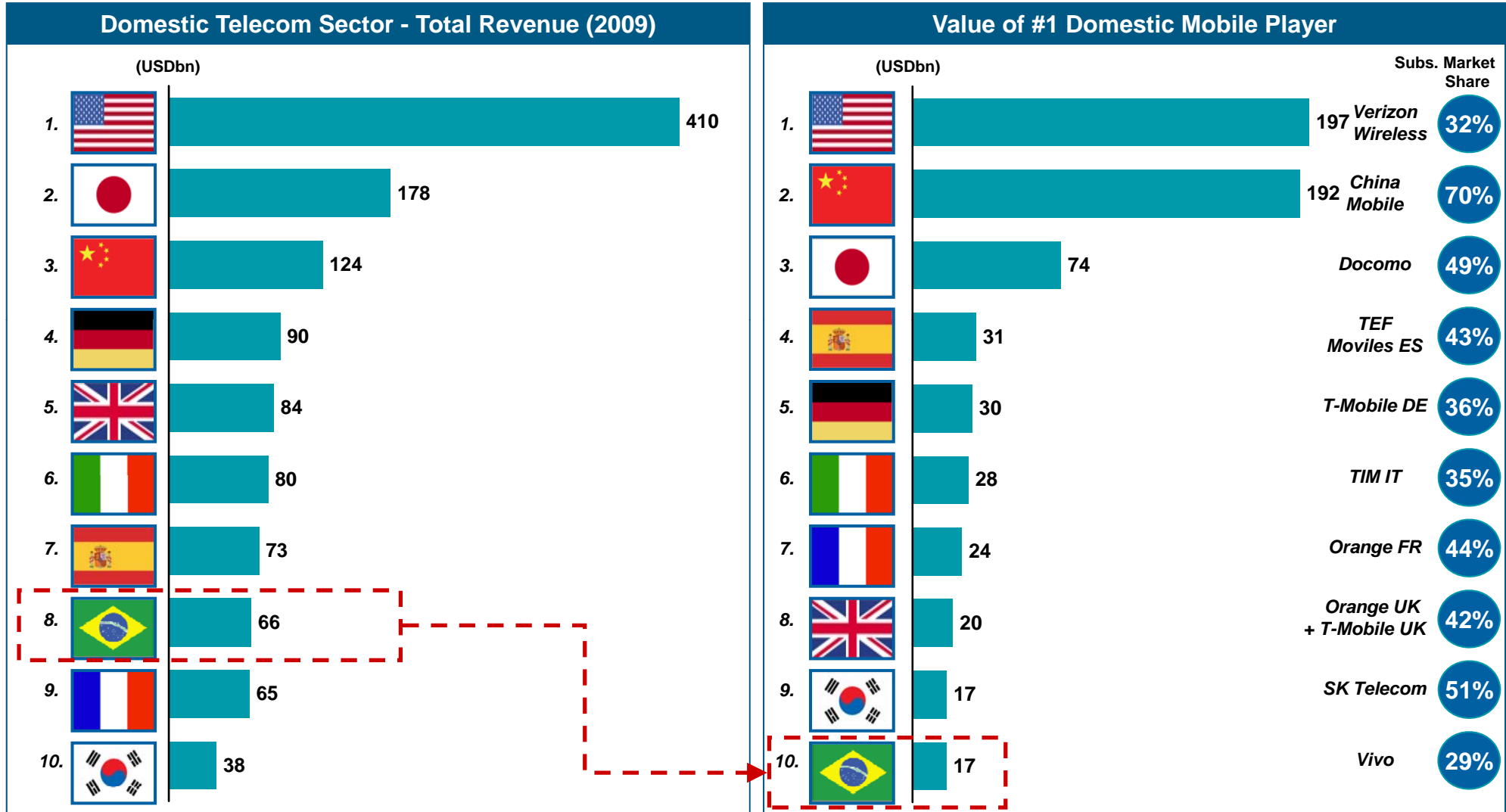


***Strong expansion in GDP per capita plus record low unemployment have resulted in a dramatic shift in income classes***

Note: Average Monthly Income by Class: A and B (R\$4,591+), C (R\$1,064-4,591), D (R\$768-1,064) and E (R\$0-768)  
Source: IBGE, Bacen and Cetelem (2009)



# The Brazilian telecoms market in perspective



Note: - EV of #1 mobile operator in each country per selected brokers average valuations  
 - Vivo valuation based on TEF's announced €3.6bn value for PT's stake in Brasilcel  
 Source: - Brokers estimates for valuation, Market share at year-end 2009 as per BofAML Wireless Matrix 2010

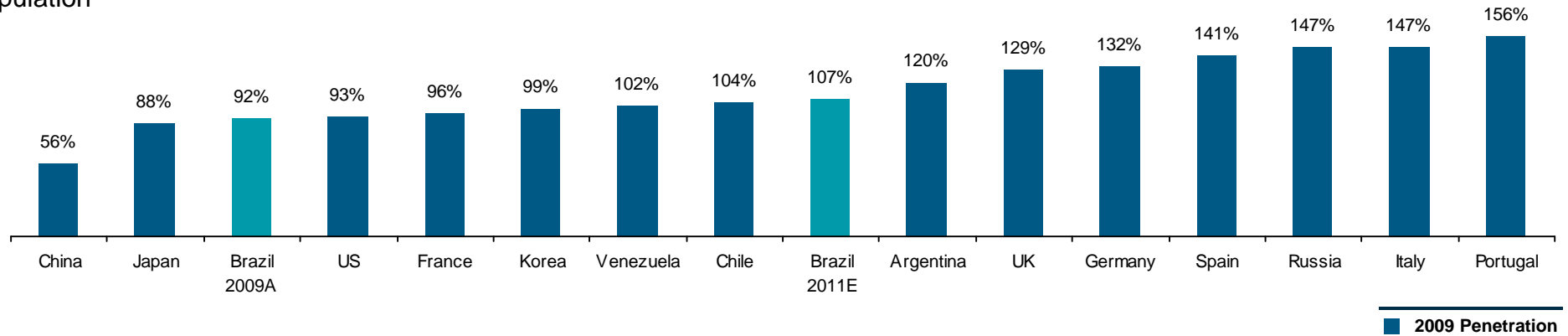
Source: Euromonitor



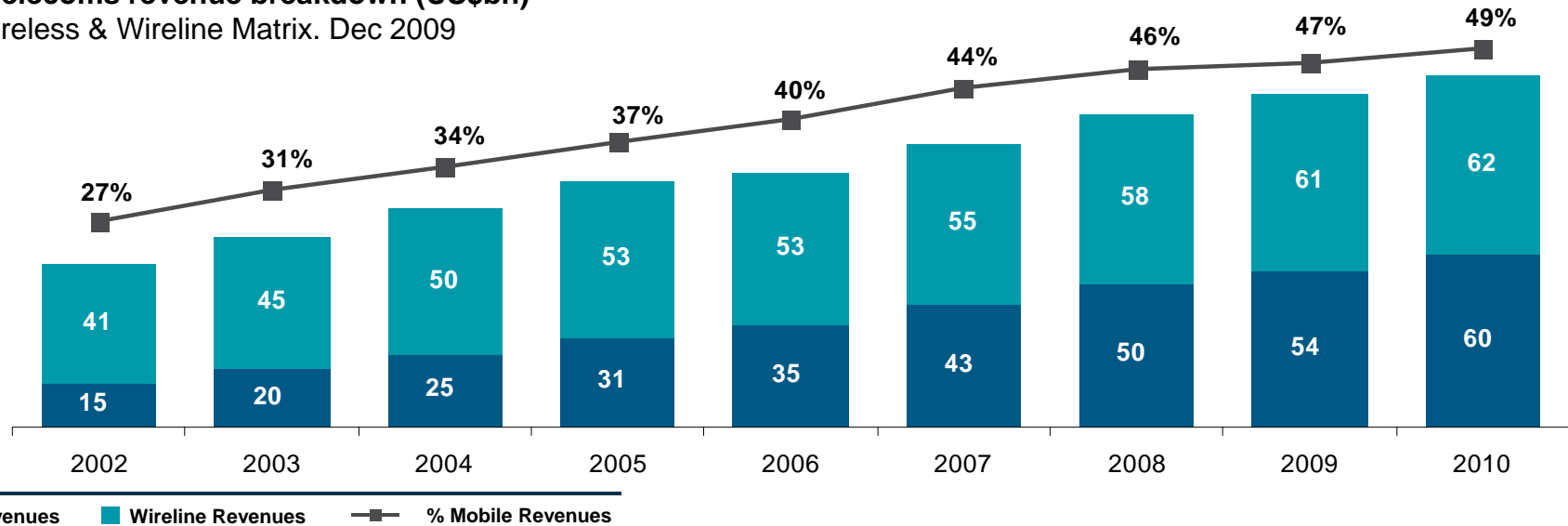
# The Brazilian mobile opportunity

Growing market from increasing penetration and fixed-to-mobile substitution

**Projected mobile penetration**  
% Population



**Brazilian Telecoms revenue breakdown (US\$bn)**  
BofAML Wireless & Wireline Matrix. Dec 2009



Source: BofAML global wireless matrix Q1 2010, BofAML global wireline matrix 2010

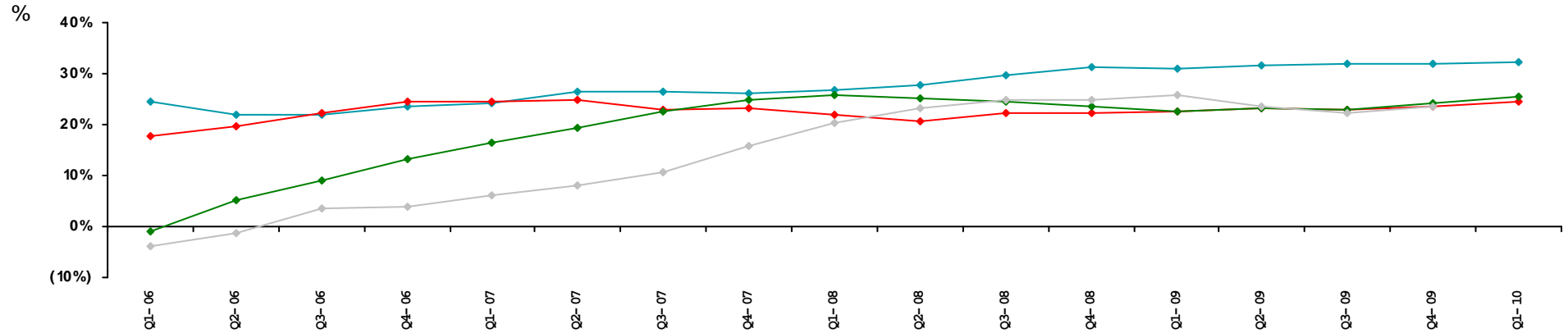


# Vivo is the rising star in Brazil

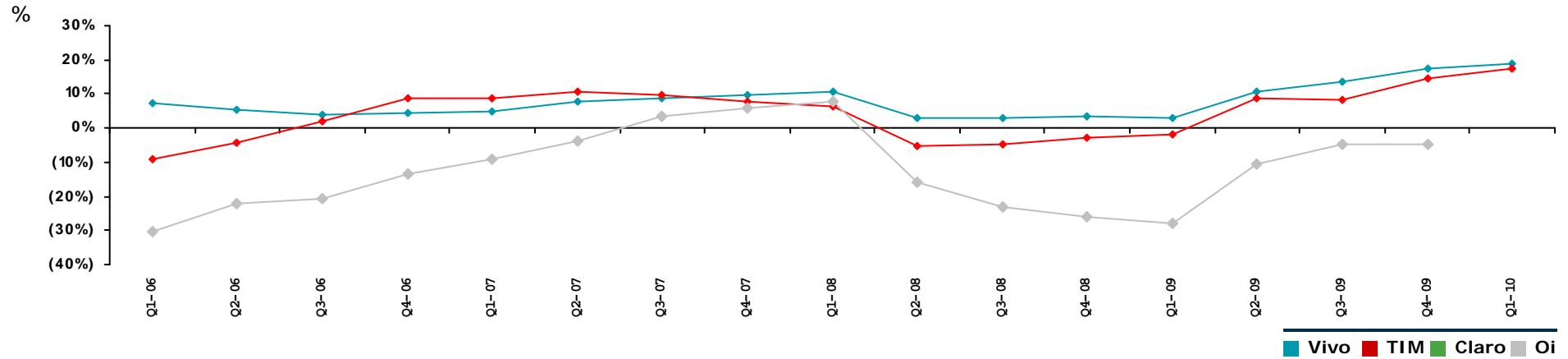
## Operating performance comparison<sup>(1)</sup>

### Best Performing Mobile Operator

LTM EBITDA Margin – Brazilian Mobile Operators



LTM OpFCF<sup>(2)</sup> Margin - Brazilian Mobile Operators



**Profitability in Brazil remains low vs. international benchmark**  
**Market consolidation has not happened yet and should improve profitability**

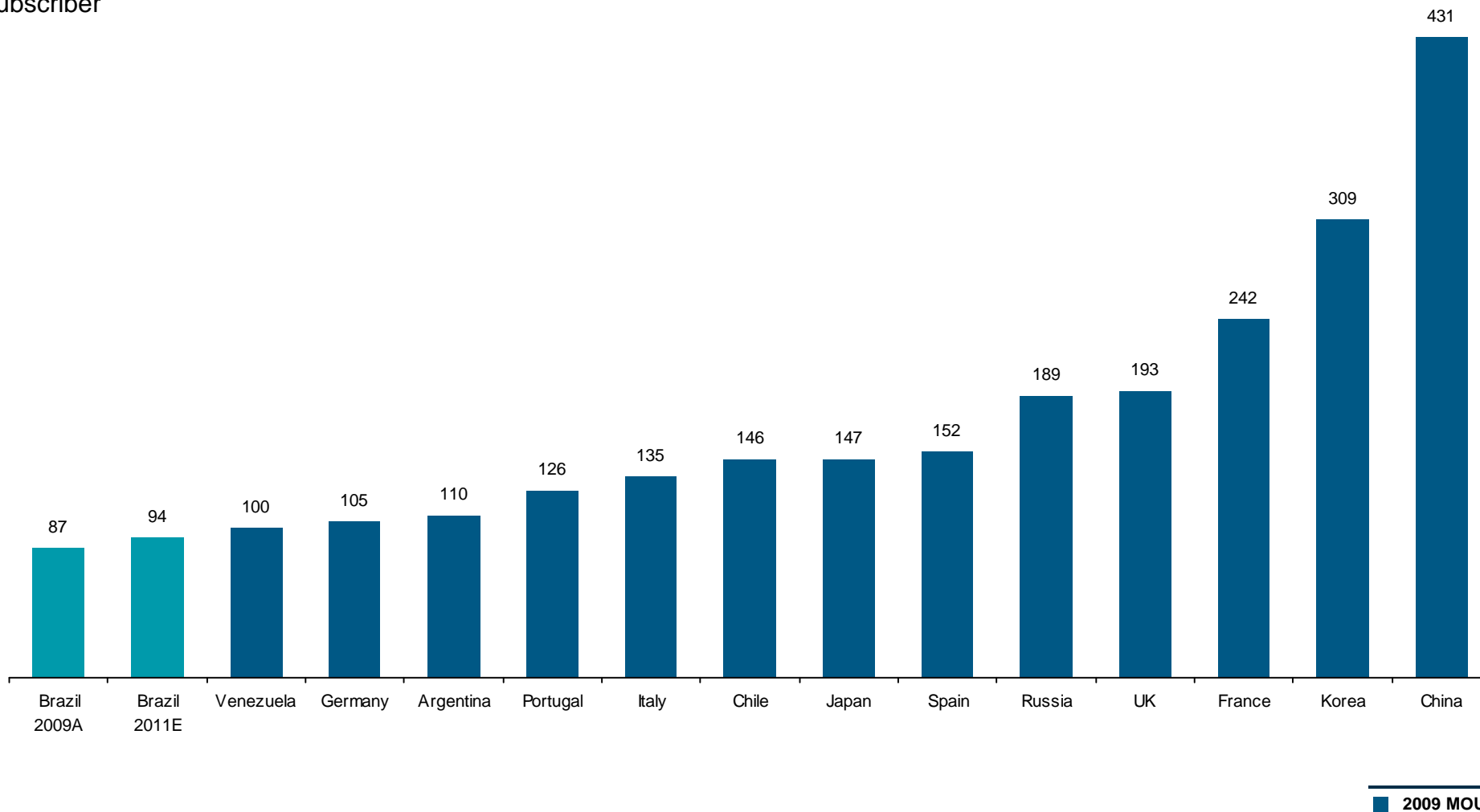
Note: Claro Capex not available

Source: Company filings (1) Vivo metrics as per Vivo reporting (2) Defined as EBITDA - Capex



# Large upside remaining on voice revenues...

Monthly MOU  
Per subscriber

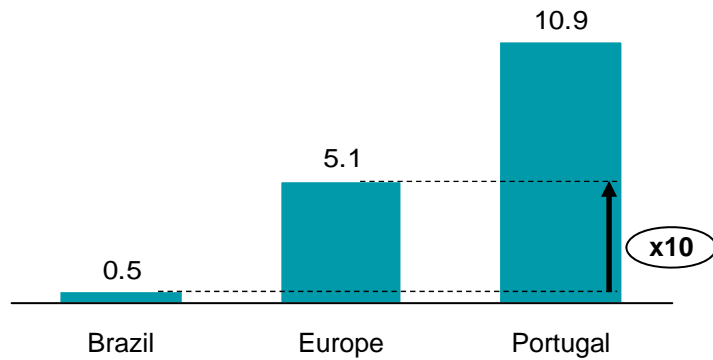


Source: BofAML global wireless matrix Q1 2010

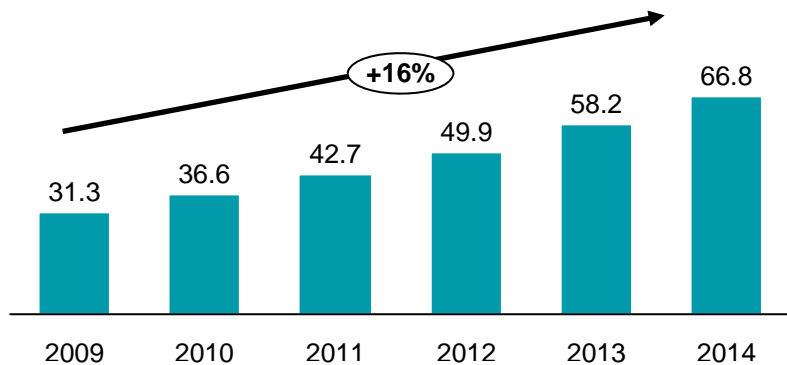


# Mobile data with high growth potential

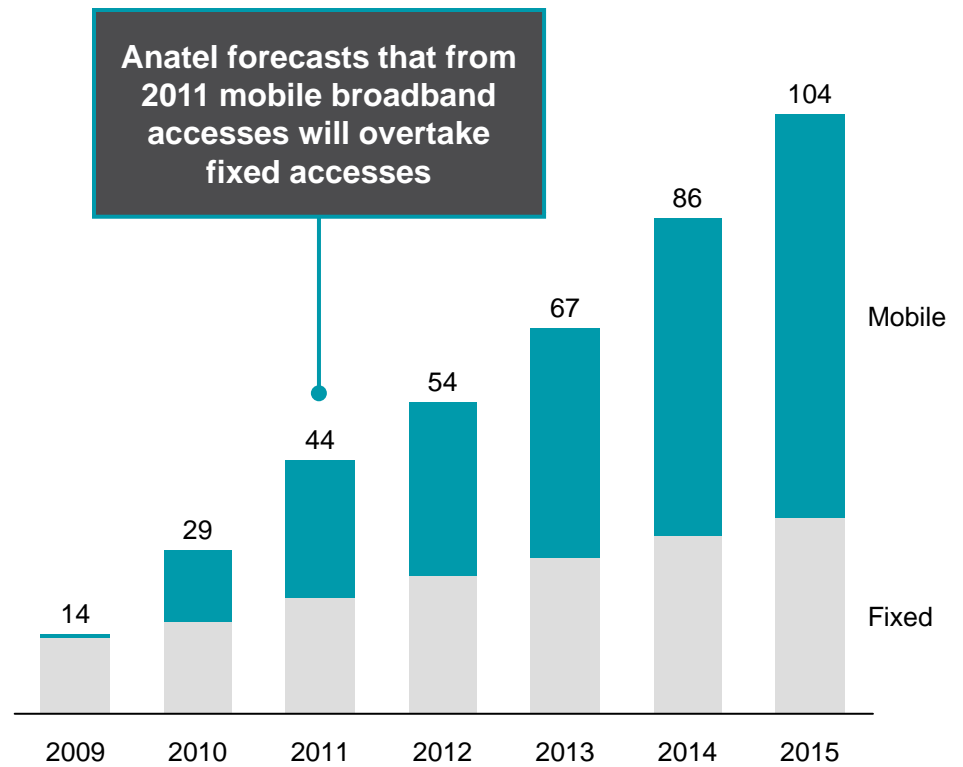
**Potential penetration of mobile broadband**  
% population. 2009



**PC's penetration potential in Brazil**  
Million personal computers



**Mobile and fixed broadband accesses**  
Million

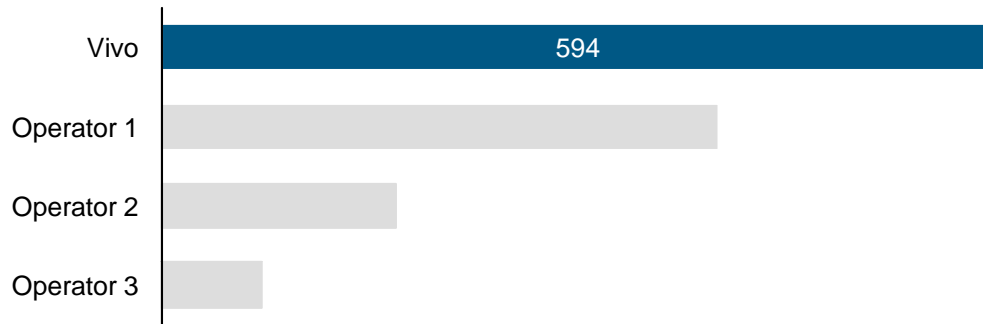


Source: National regulators; IDC; European commission; Pyramid Research



# Vivo is well positioned to capture broadband growth potential

**Municipalities with 3G coverage**  
municipalities. Mar 2010



## Wide data enabled equipment portfolio

**3G access smartphones**



**wireless broadband data cards**



- Vivo has invested in network and developed preferred supplier relationships to ensure it is best positioned to take advantage of growth opportunities in mobile broadband
- Vivo is well positioned to capture growth potential with an extensive coverage in terms of municipalities (~600) and population (61%) corresponding to 117 million people
- Vivo is committed to have the best in market QoS and 3G coverage and this will be further re-enforced in the future



## Vivo investment highlights

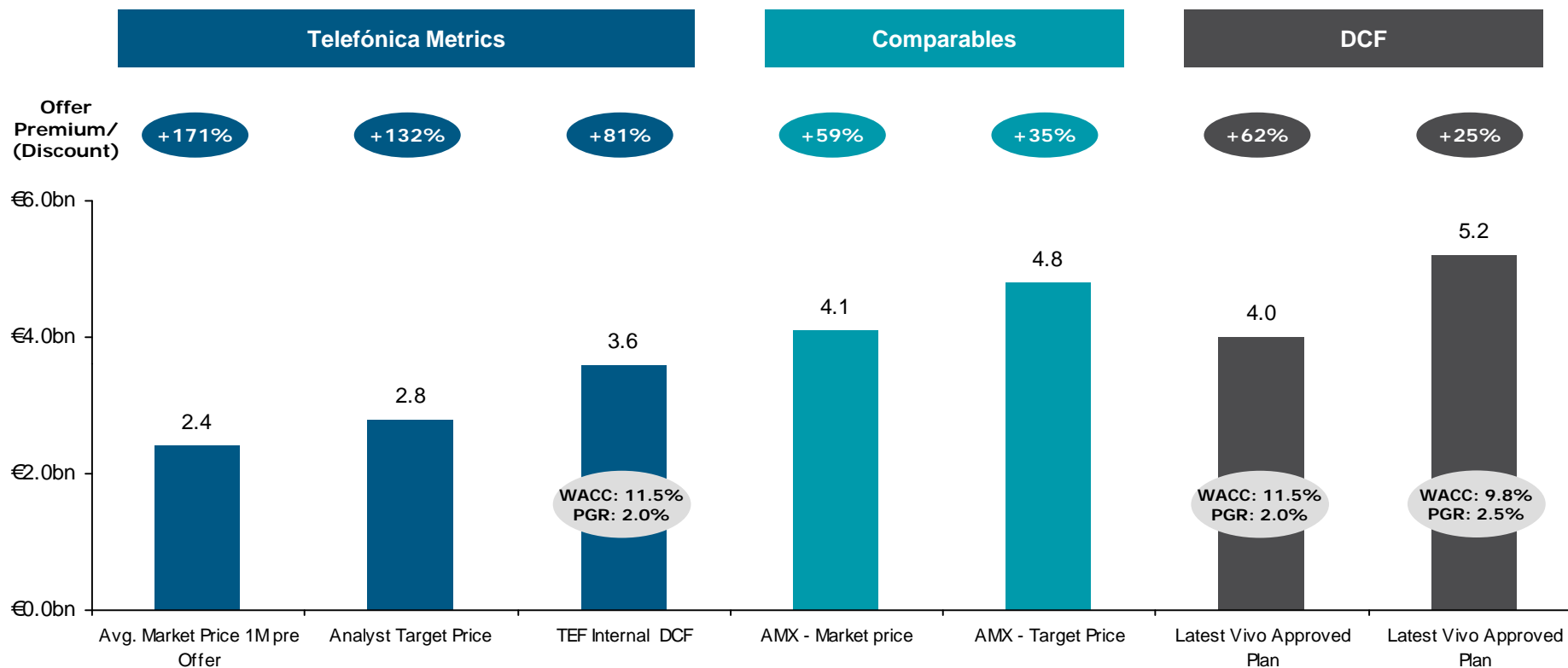
- Vivo to benefit from the growth of the Brazilian Market
- Leadership in voice and data despite aggressive competitive market conditions
- Country's largest network with coverage of more than 2,900 municipalities
- Customer net additions and MOUs showing sequential improvement
- Wireless data is driving growth
- Improved profitability due to higher efficiency and scale
- Strong cash flow generation and attractive dividend payout



## Breakdown of Telefónica's Offer



# Intrinsic value assessment










































**Telefónica is using a WACC of 11.5% and a PGR of 2.0% vs. broker consensus of 9.8% and 2.5% respectively**

Note: BRL:EUR exchange rate of 0.452  
 Source: Company filings, broker consensus reported by FactSet, Latest Vivo approved plan



# Precedent transactions suggest higher synergies

Precedents In-Market Consolidation Transactions	Operating Synergies NPV	Combined Opex + Capex	Operating Synergies NPV % Combined Opex+ Capex
<b>Orange CH / Sunrise</b> <i>(November 2009)</i>  + <b>Sunrise</b> Switzerland	 €2.1bn	 €1.4bn	 151%
<b>Orange UK / T-Mobile UK</b> <i>(September 2009)</i>  +  UK	 €4.0bn	 €7.1bn	 56%
<b>TIM Brasil / Intelig</b> <i>(April 2009)</i>  +  TIM	 €1.4bn	 €5.7bn	 25%
<b>Oi / Brasil Telecom</b> <i>(January 2009)</i>  +  Oi	 €4.5bn	 €11.3bn	 40%
<b>SFR / Neuf Cegetel</b> <i>(December 2007)</i>  +  SFR	 €2.9bn	 €9.8bn	 30%
<b>Sprint / Nextel</b> <i>(August 2005)</i>  +  Sprint	 €9.7bn	 €23.5bn	 38%
<b>SBC / AT&amp;T</b> <i>(January 2005)</i>  +  SBC	 €11.5bn	 €55.1bn	 27%
<b>Vivo / Telesp</b>  +  Vivo	 €2.8bn	 €12.4bn	 23%

**Telefónica announced €2.8bn synergies including revenue synergies and tax credits (vs. combined Vivo/Telesp Opex and Capex of c.€57bn over the next 5 years). Considering precedent transactions, announced synergies lack ambition**



## Implied intrinsic EBITDA multiples of Telefónica's offer

	€6,500m			
Synergies (€m)	2,800	3,000	4,000	5,000
Minority Share of Synergies 25% (€m)	700	750	1,000	1,250
Telefónica's Share (€m)	2,100	2,250	3,000	3,750
<b>Price Paid for 50% of Brasilcel ex. Synergies (€m)</b>	<b>4,400</b>	<b>4,250</b>	<b>3,500</b>	<b>2,750</b>
<u>EV/EBITDA</u>				
2010E	6.6x	6.4x	5.4x	4.4x
2011E	6.2x	6.0x	5.1x	4.1x

Note: EBITDA projections excluding synergies as per FactSet consensus as of 04/06/2010 (EBITDA2010E:R\$5.6bn and 2011E: R\$5.9bn), Net debt as reported in Q1 10 of R\$3.9bn  
BRL:EUR exchange rate of 0.452



## Strategic value of Vivo for Telefónica

***PT's Board:  
"The offer does not  
reflect the strategic  
value of this asset for  
Telefónica"***

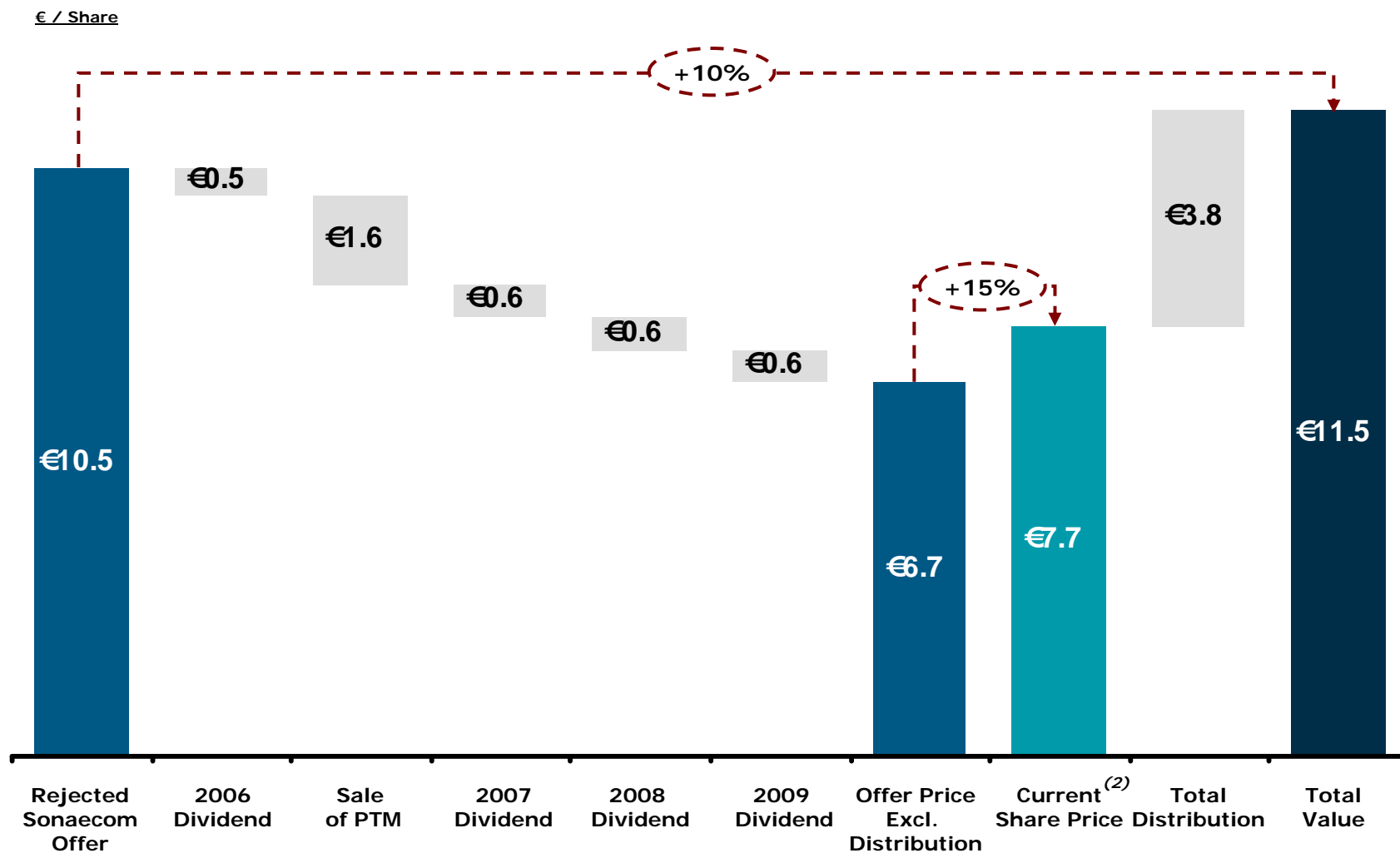
- Brazilian market offers strong growth potential
- Vivo is the leading mobile operator and has value upside from increasing fixed-to mobile migration and mobile broadband penetration
- Considering market consensus, announced synergies lack ambition
- Excluding synergies, implied acquisition multiples are low



**We are focused on shareholder value**



# We asked you to back us before and we did not let you down.... ...even though capital markets are down 30% in the interim period<sup>(1)</sup>

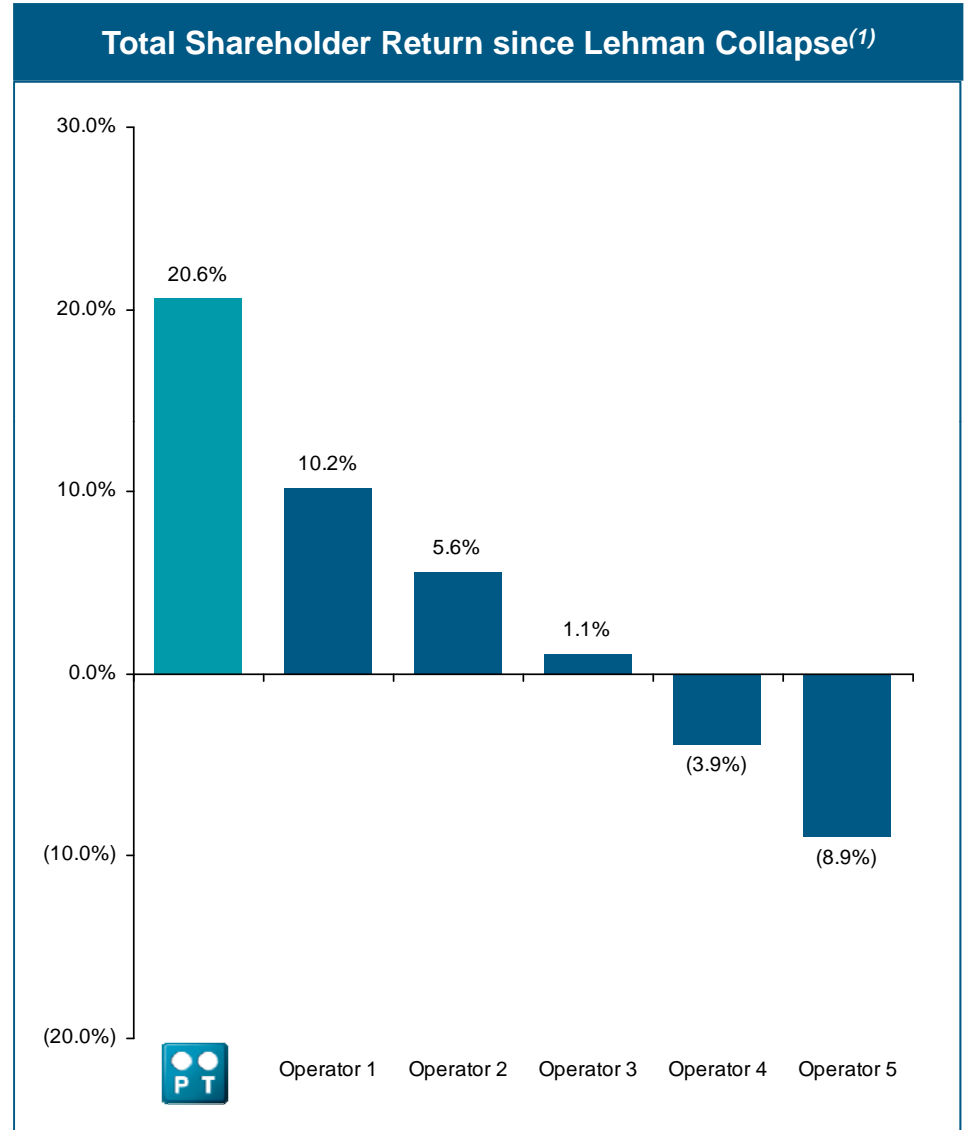
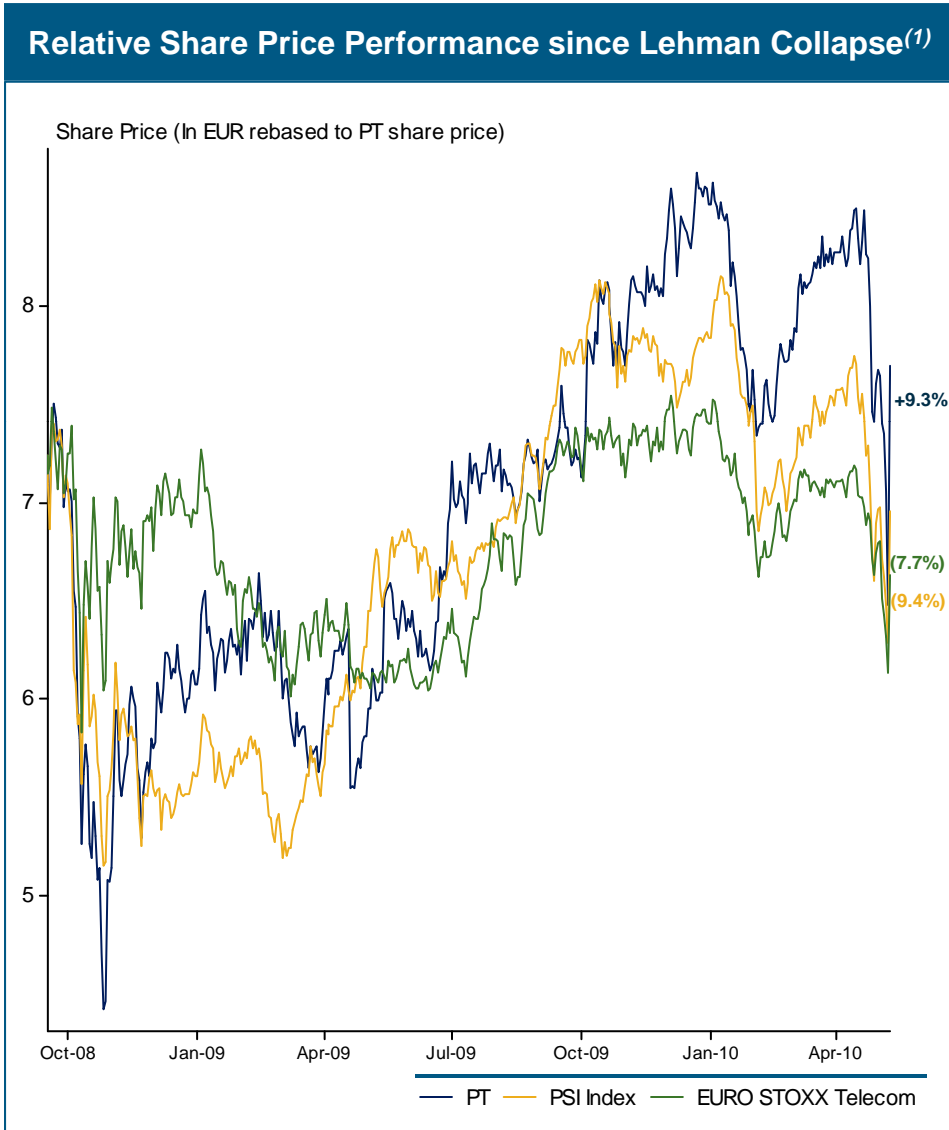


(1) PSI index performance between 2 March 2007 and 10 May 2010

(2) Pre-offer PT share price as at 10 May 2010



# Best performing telco in EMEA



Source: Bloomberg, Market data from FactSet until 10 May 2010, Company information (1) 15 September 2008



## PT investment highlights

- Solid customer growth in the domestic and international markets against intense competition and a challenging economic environment
- Best in class operational and financial execution
- Strong financial flexibility and predictable and attractive shareholder remuneration
- Management is committed to maintaining strict cost, financial, operational and strategic discipline to deliver on results and shareholder remuneration
- Board of PT is fully aligned with and supportive of business strategy
- Long-term shareholders of PT have always been supportive of the company since privatisation and even in challenging times



# Frequently Asked Questions



## Frequently Asked Questions

- **Could Telefónica increase its Offer?**

Telefónica is free to increase its offer at any time. It can raise it prior to the EGM, in which case shareholders would vote on the increased offer. It can also make a higher offer after the EGM, in which case Portugal Telecom would take necessary action to allow shareholders to opine on the revised proposal

- **What will happen if the Offer is rejected? Could Telefónica frustrate PT (dissolution of Brasilcel; blocking of dividend)?**

No Consideration Should Be Given to Telefónica's Suggestions Relating to Brasilcel. In assessing the Offer and forming a view as to whether the Offer should be accepted or rejected, no consideration should be given to Telefónica's suggestions over the past few weeks that Telefónica could or would seek dissolution/liquidation of Brasilcel and/or block dividends payment at Brasilcel

Based on the advice of its legal advisors, Portugal Telecom's board of directors rejects these suggestions. Portugal Telecom's board of directors is convinced that Telefónica's suggestions are intimidating in nature and any resulting action would amount to an unreasonable attempt to frustrate its joint venture partner

- **What will happen to Portugal Telecom if the Offer is rejected?**

Portugal Telecom will continue to contribute to the success of Vivo through Brasilcel. We will remain open to any discussion on the joint venture that maximizes value to Portugal Telecom and Vivo shareholders

- **What would the use of proceed be?**

In the event of a disposal of PT's stake in Brasilcel, Portugal Telecom expects to use the proceeds of the sale for general corporate purposes, including future investments, financing of capital expenditure, repayment of existing indebtedness, repurchase of shares and distribution to shareholders. Decisions regarding the use of such proceeds will be taken with a view to furthering the best interests of Portugal Telecom and maximizing value for its shareholders. No assurances can be made that all or a part of the proceeds from the sale of Brasilcel will be returned to shareholders. Portugal Telecom's track record in delivering value to shareholders over time stands for itself



## Frequently Asked Questions

- **What is the timing of the Shareholders Meeting?**

The EGM is expected to take on June 30<sup>th</sup>, 2010

- **What will be the voting threshold?**

The decision will be taken by a simple majority (50% of present)

- **Can the Golden Share veto the transaction?**

This is not a Golden Share matter

- **What is the minimum Quorum for the decision?**

No quorum required for meeting to be held

- **Will TEF be allowed to vote at the EGM?**

This is a question for the Chairman of the EGM

- **What alternative will the Board implement if the decision is made to accept ?**

If shareholders vote in favor of the offer, the board will review the merits of alternatives A and B in the best interest of shareholders



For further information:  
Nuno Vieira  
Investor Relations Director  
+351 21 500 1701  
[nuno.t.vieira@telecom.pt](mailto:nuno.t.vieira@telecom.pt)  
[www.telecom.pt](http://www.telecom.pt)