



Press Release | Lisbon | 28 March 2011

## Update on PT's investment in and strategic partnership with Oi – conclusion of the transaction

Following the announcement regarding Portugal Telecom's ("PT") investment in and strategic partnership with Oi and the completion of the capital increase launched by Oi, PT informs that it has acquired a direct and indirect stake of 25.28% in Telemar Norte Leste ("TMAR") for a cash consideration of R\$ 8.32 billion.

As a result of the capital increases undertaken as part of PT's investment in Oi, Tele Norte Leste's ("TNL") pro-forma net debt for 2010 was reduced by R\$ 6.0 billion to R\$ 12.7 billion and pro-forma net debt to EBITDA now stands at 1.2x, thus enhancing significantly Oi's financial profile.

As previously stated the corporate governance rights attributed to PT will allow the proportional consolidation of its 25.6% direct and indirect stake in Telemar Participações S.A. ("TmarPart"), which fully consolidates TNL and TMAR. This proportional consolidation will take place from 1 April 2011.

PT's investment in Oi is structured as follows: (1) a 35% stake in AG Telecom Participações S.A. ("AG"); (2) a 35% stake in LF Tel S.A. ("LF"); (3) a 12.07% stake in TmarPart; (4) a 10.49% stake in TNL, and (5) a 9.43% stake in TMAR. These combined investments equate to a 25.28% direct and indirect stake in TMAR of which around two thirds are held directly in listed companies, as detailed below:

(Thousand shares)	PT		AG		LF		TmarPart		TNL		Others		Total	
	# Shares	% Shares	# Shares	% Shares	# Shares	% Shares	# Shares	% Shares	# Shares	% Shares	# Shares	% Shares	# Shares	% Shares
<b>AG</b>														
Common		35.0%		n/a		0.0%		0.0%		0.0%		65.0%		100.0%
<b>LF</b>														
Common		35.0%		0.0%		n/a		0.0%		0.0%		65.0%		100.0%
<b>TmarPart</b>														
Common		12.1%		19.3%		19.3%		n/a		0.0%		49.2%		100.0%
<b>TNL</b>														
Common	20,752	11.3%	-	0.0%	-	0.0%	103,814	56.4%	n/a	n/a	59,442	32.3%	184,008	100.0%
Preferred	28,299	10.0%	11,413	4.0%	11,413	4.0%	-	0.0%	n/a	n/a	232,342	82.0%	283,466	100.0%
Total	49,051	10.5%	11,413	2.4%	11,413	2.4%	103,814	22.2%	n/a	n/a	291,784	62.4%	467,474	100.0%
<b>TMAR</b>														
Common	-	0.0%	-	0.0%	-	0.0%	-	0.0%	150,971	98.0%	3,061	2.0%	154,032	100.0%
Preferred	32,476	17.1%	11,240	5.9%	11,240	5.9%	13,079	6.9%	91,250	48.0%	30,956	16.3%	190,241	100.0%
Total	32,476	9.4%	11,240	3.3%	11,240	3.3%	13,079	3.8%	242,221	70.4%	34,017	9.9%	344,273	100.0%

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Public company  
Share capital Euro 26,895,375  
Registered in the Commercial  
Registry Office of Lisbon  
and Corporation no. 503 215 058

Portugal Telecom is listed on the  
Euronext and New York Stock  
Exchange. Information may be  
accessed on the Reuters under the  
symbols PTC.LS and PT and on  
Bloomberg under the symbol PTC  
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PT's Economic Interest in TMAR	
Through AG	3.1%
Through LF	3.1%
Through TmarPart	2.3%
Through TNL	7.4%
Direct in TMAR	9.4%
<b>Total</b>	<b>25.3%</b>

PT has also concluded the acquisition of a 16.2% stake in CTX for R\$ 116 million. As a result of this purchase, PT has acquired a direct and indirect stake (via AG and LF) of 42.0% in CTX, which will be proportionally consolidated as from 1 April 2011. CTX fully consolidates Contax. As previously announced, the next step of this transaction includes the merger of Dedic/GPTI with Contax. According to Brazilian securities regulation governing transactions an independent committee will be created to analyse the proposed exchange ratio and make a recommendation to Contax's Board of Directors. The merger is subject to Board of Directors and Shareholders approval at both companies.

Final closing of both transactions announced today will take place up to or on 1 April 2011.

Following the merger, considering the proposed exchange ratio, CTX will acquire R\$ 49.7 million in Contax shares held by PT, PT will subscribe a capital increase in CTX using Contax's shares and Contax will repay R\$ 162.6 million intercompany loans that Dedic/GPTI has with PT. As a result, PT will hold a direct and indirect stake in CTX of 44.4%, which will then be proportionally consolidated.

Upon completion of both Oi's and Contax's transactions, PT will proportionally consolidate 25.6% of Oi and 44.4% of CTX and the total combined investment will stand at R\$ 8.2 billion, with an implied EV/2010 EBITDA multiple of 5.8x.

Following these transactions, PT will continue to benefit from a robust balance sheet and significant financial flexibility, with a cash flow profile consistent with its attractive shareholder remuneration policy and an investment grade rating.