



# Telefónica's offer for 50% of Brasilcel

**Zeinal Bava**  
Chief Executive Officer

Lisbon, 17 June 2010



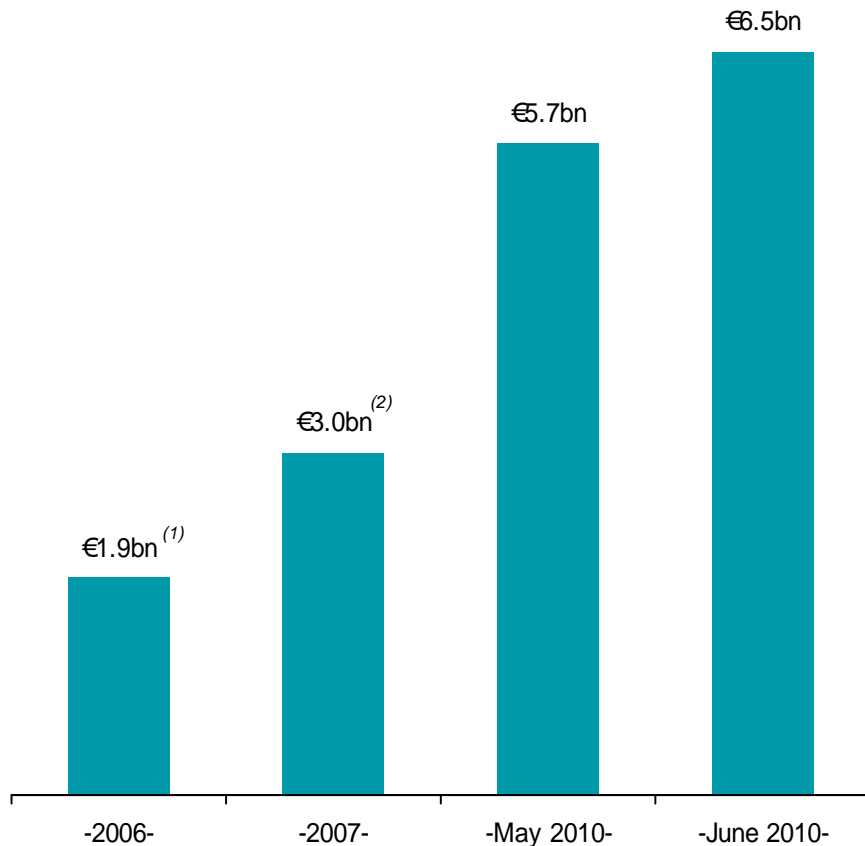
## Important notice

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.



## 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?

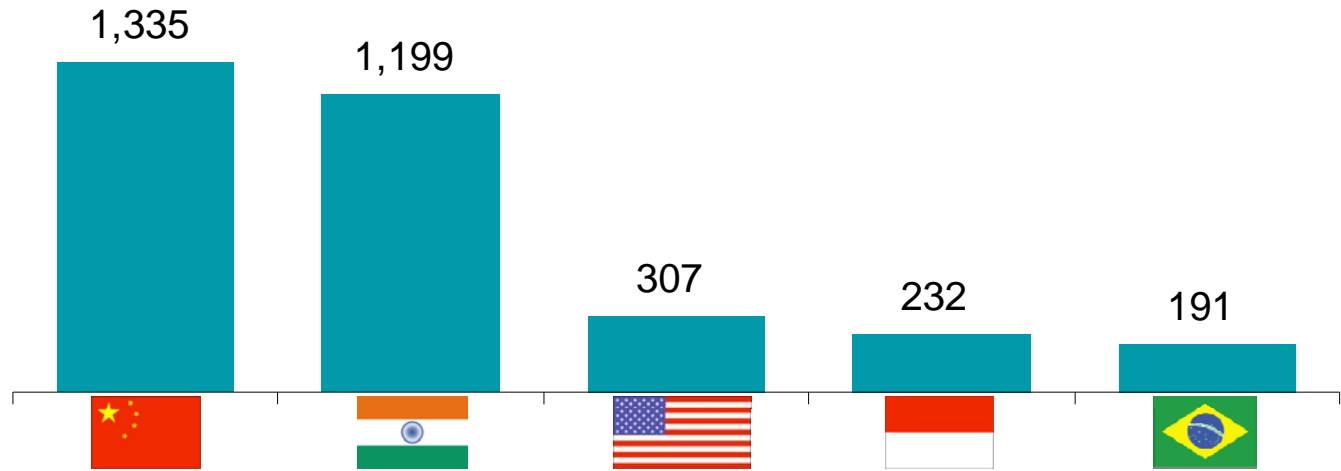


# A very large market set to outpace Western European Economies

Population (m)  
IMF. Dec 2009

World  
**5**

LatAm  
**1**



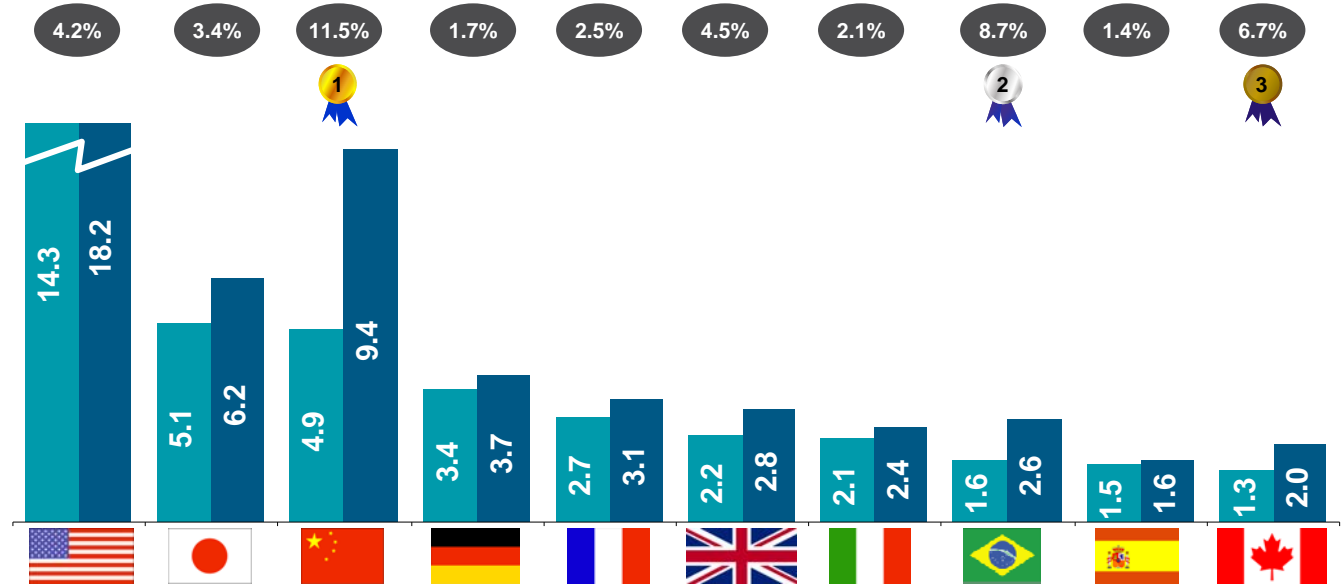
Gross Domestic Product (US\$trn)  
IMF. Current Price - Dec 2009 – Dec 2015

World  
**8**

LatAm  
**1**

2009

2015



2009A 2015E % '09-15 CAGR

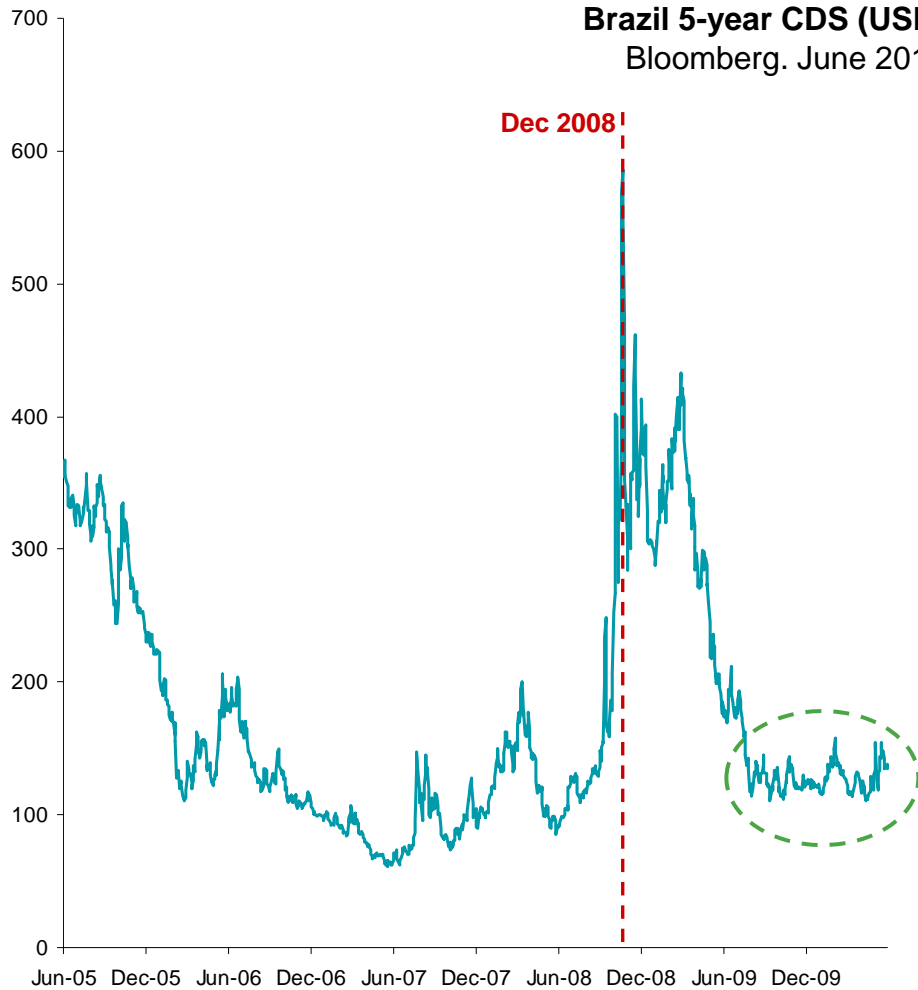
Source: World Economic Outlook April 2010



# Increasingly stable investment environment

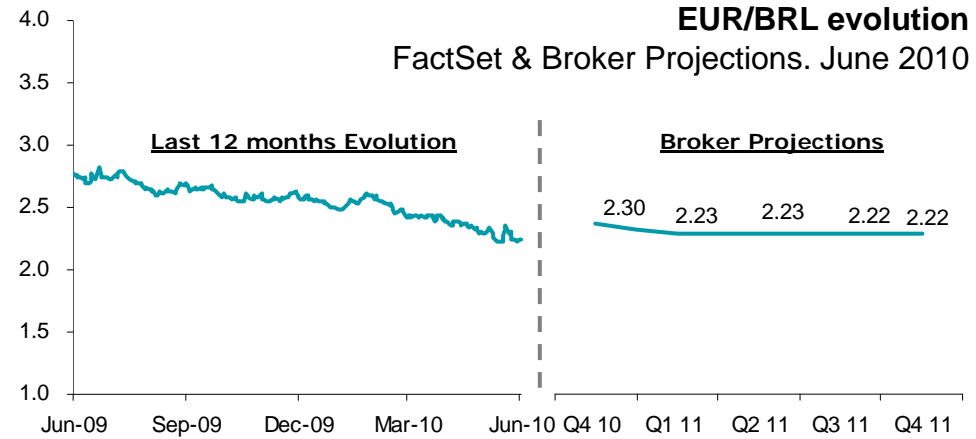
### Brazilian CDS Close from 5-Year Low

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



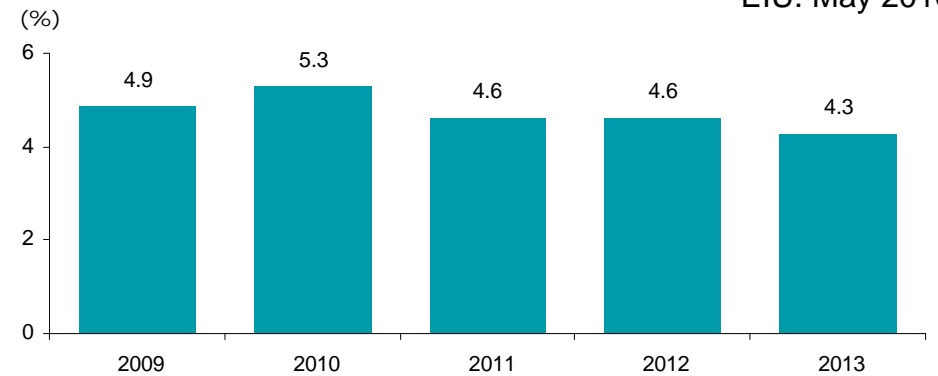
### BRL has Gained Momentum vs. Euro and Expected to Stabilize

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



### Inflation is Under Control

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



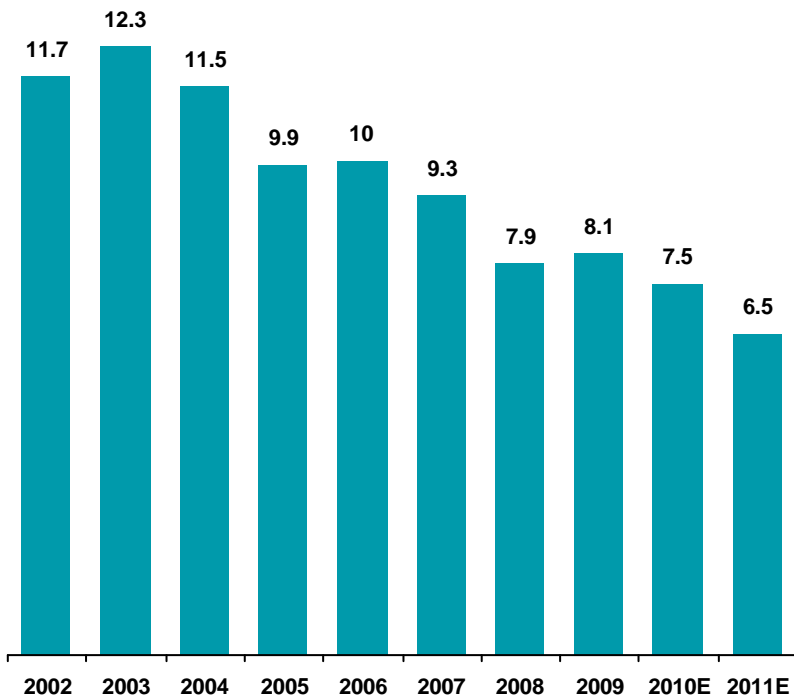
Source: Bloomberg, FactSet, Economist Intelligence Unit



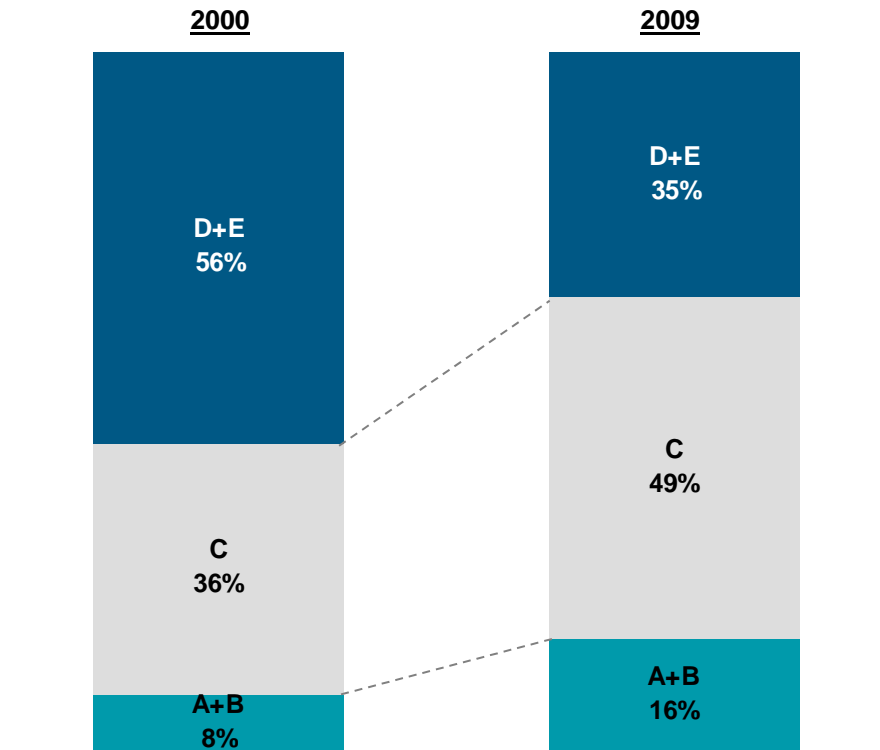
# Strong economic growth and a growing middle class...

## Unemployment

Unemployed as % of Economic Active Population



## Income Classes

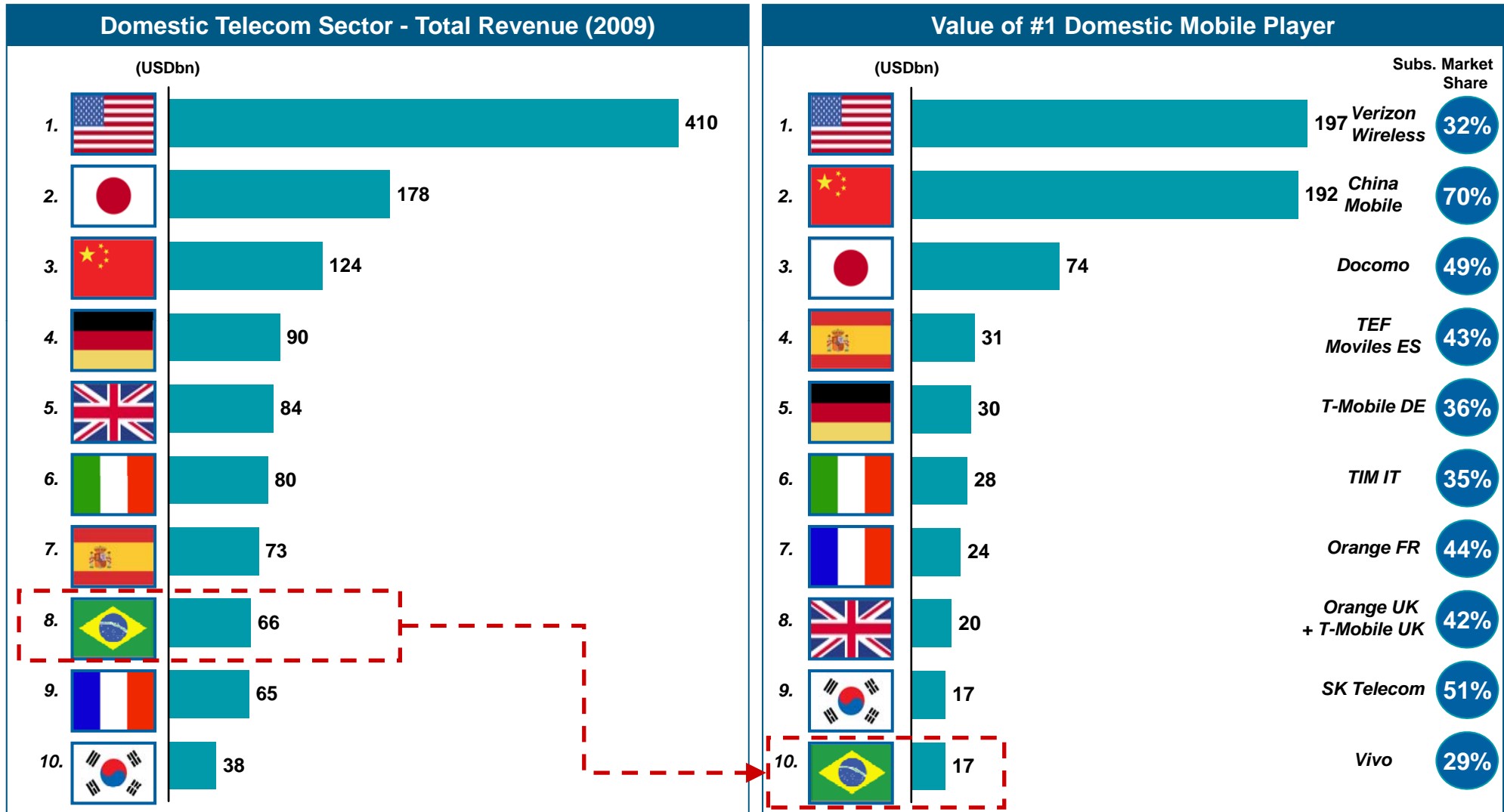


***Strong expansion in GDP per capita plus record low unemployment have resulted in a dramatic shift in income classes***

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



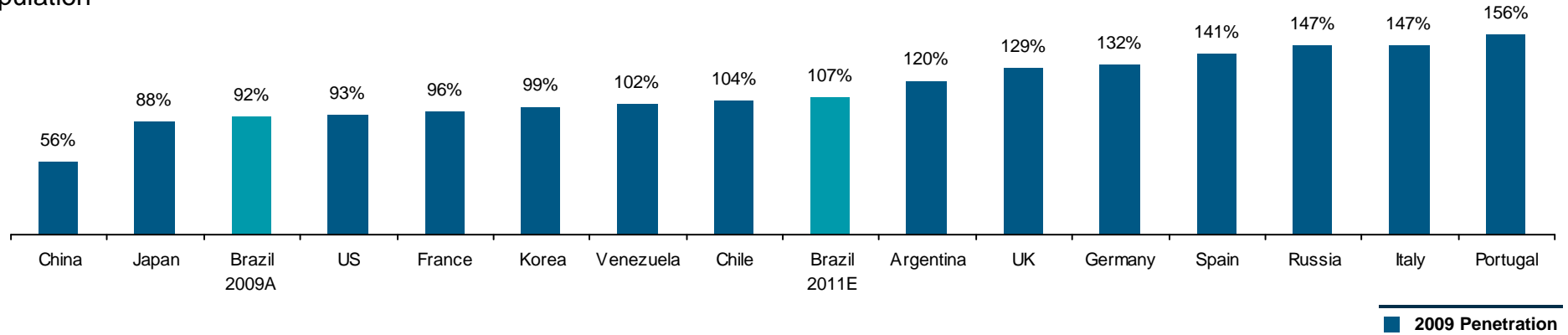
Note: - EV of #1 mobile operator in each country per selected brokers average valuations  
 - Vivo valuation based on TEF's announced €3.6bn value for PT's stake in Brasilcel  
 Source: - Brokers estimates for valuation, Market share at year-end 2009 as per BofAML Wireless Matrix 2010



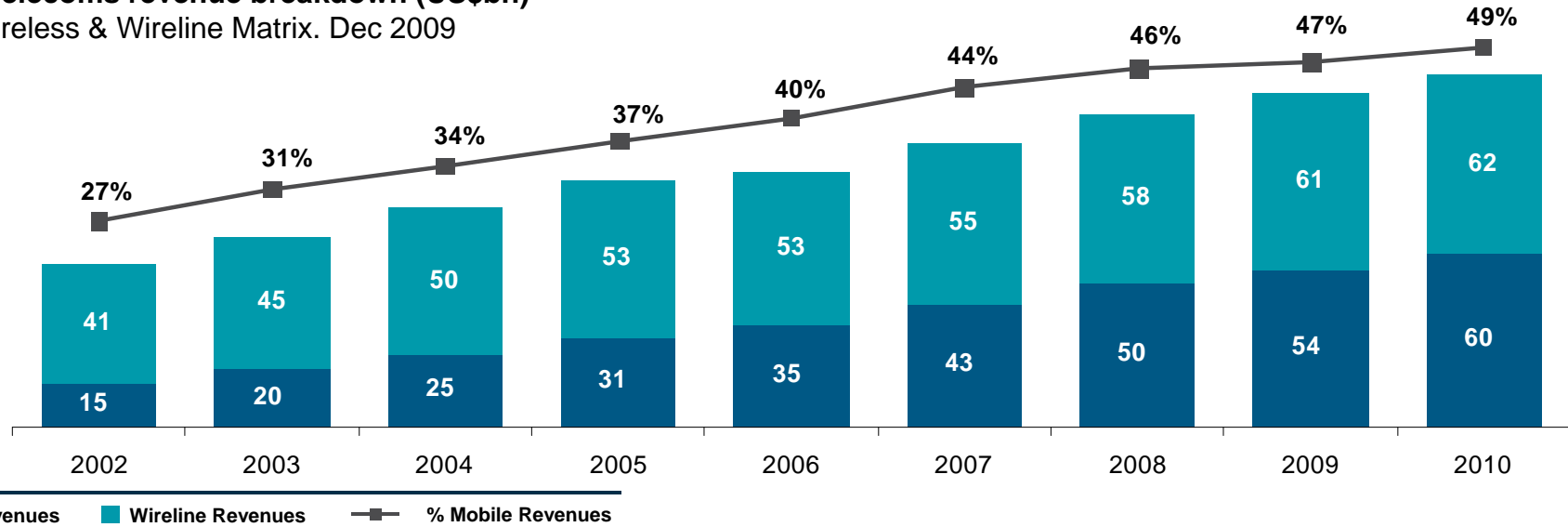
# The Brazilian mobile opportunity

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

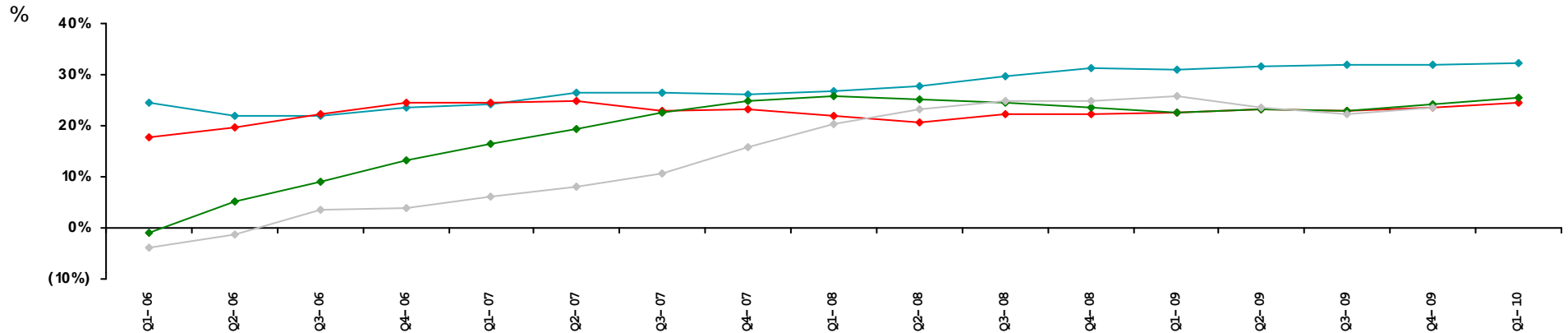


# Vivo is the rising star in Brazil

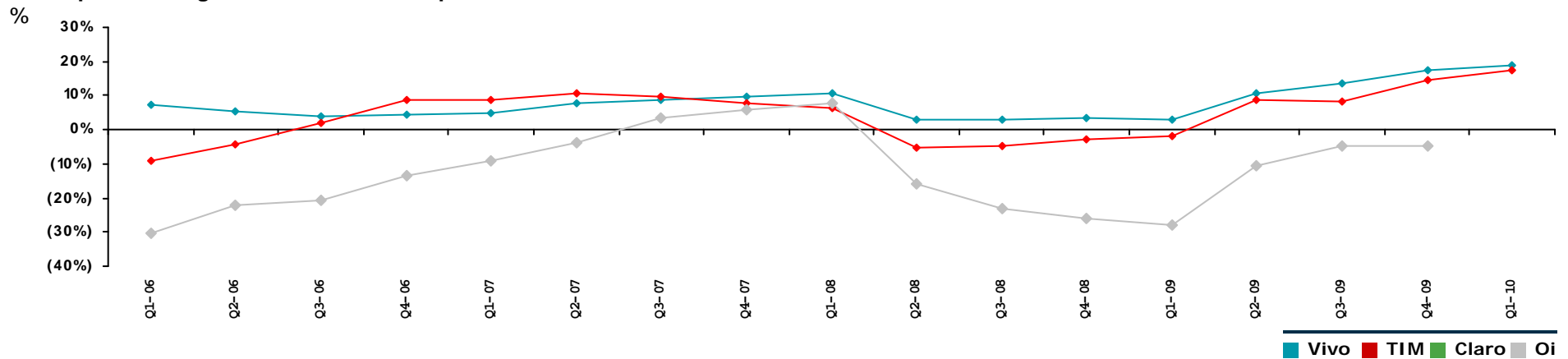
## Operating performance comparison<sup>(1)</sup>

### 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**

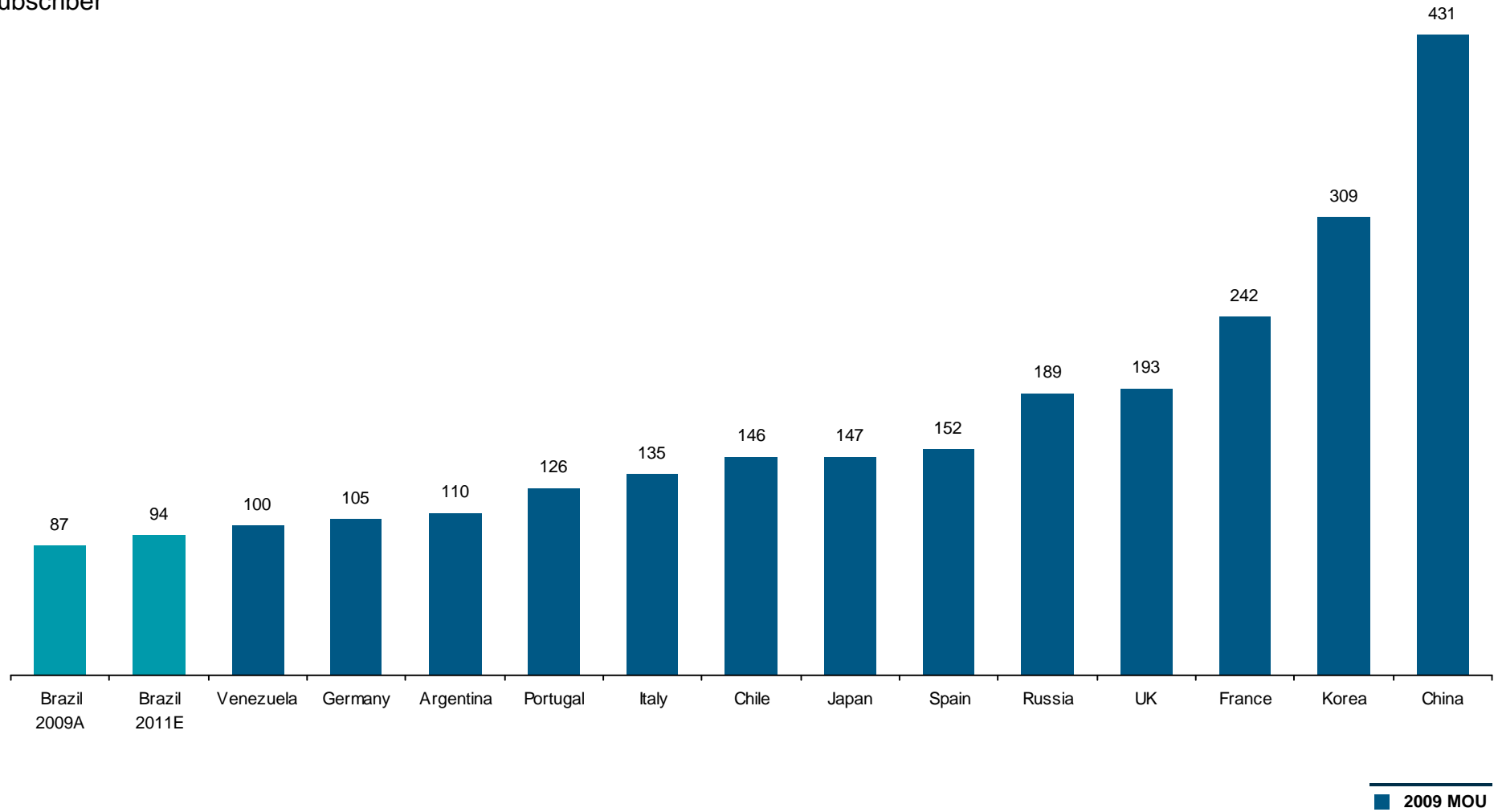
Note: Claro Capex not available

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

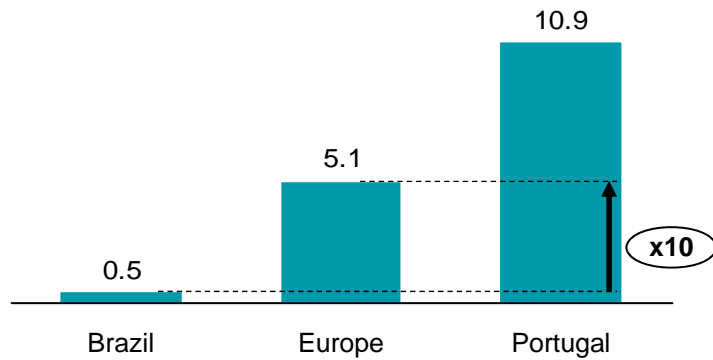


Source: BofAML global wireless matrix Q1 2010

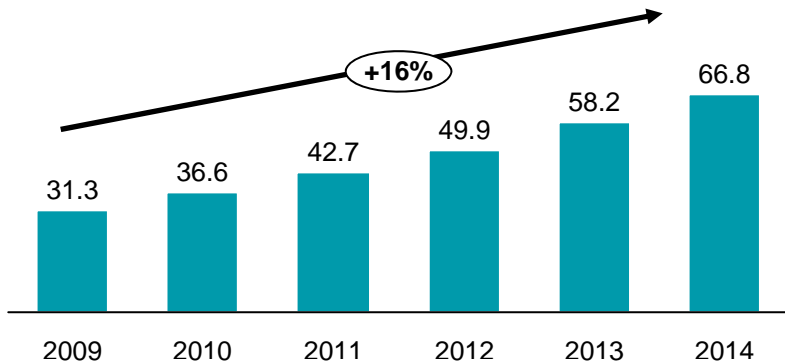


# Mobile data with high growth potential

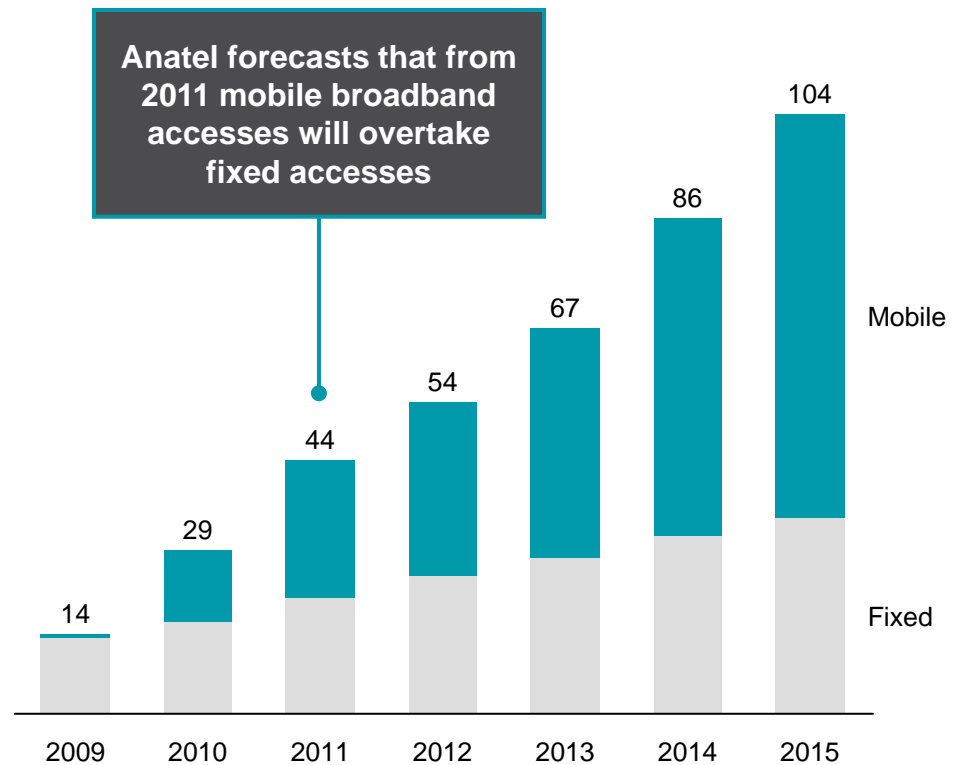
**Potential penetration of mobile broadband**  
% population. 2009



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



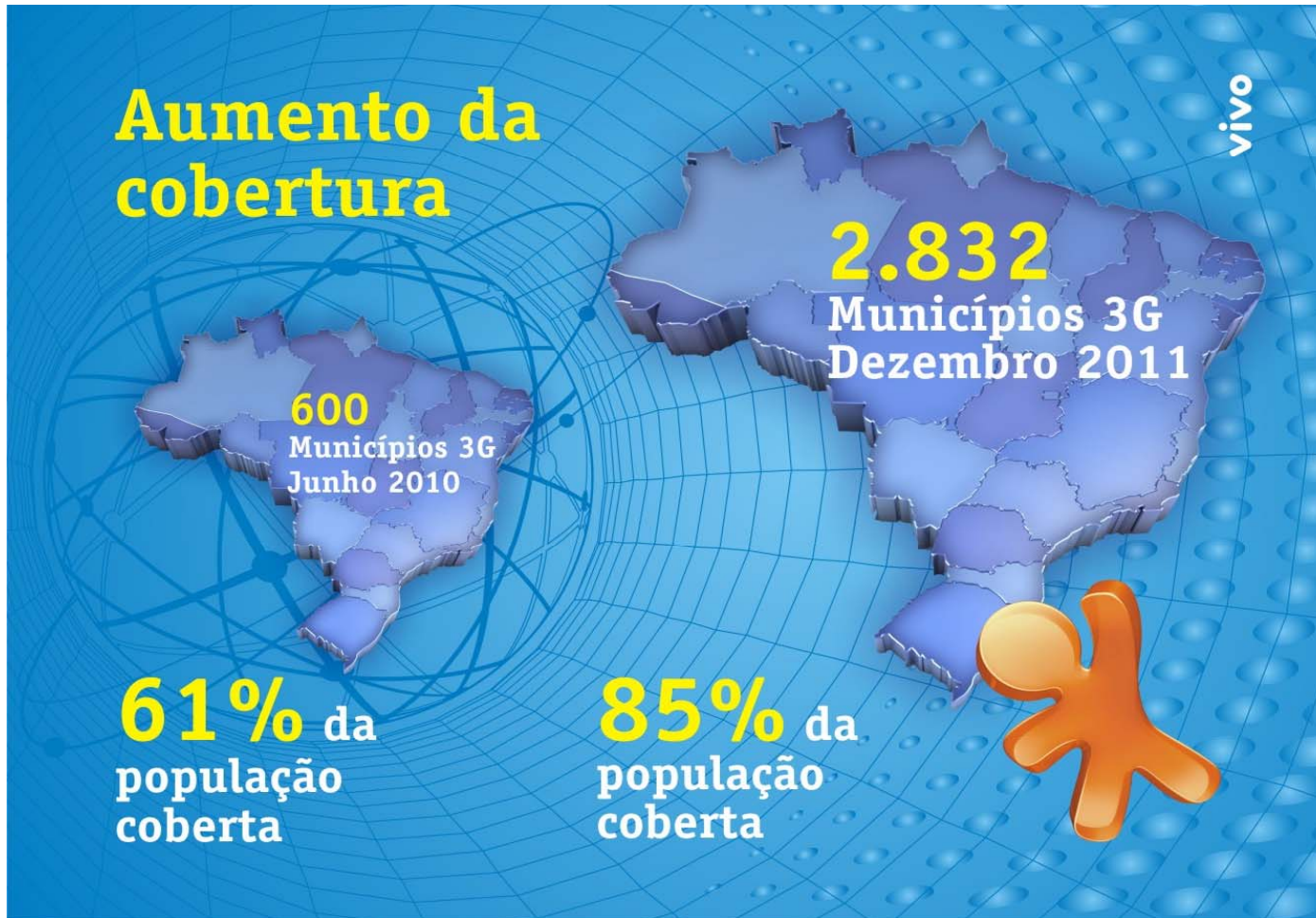
**Mobile and fixed broadband accesses**  
Million



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



# Vivo will cover 85% of the Brazilian population with 3G by December 2011



- Increase in coverage:
- 2,832 municipalities with 3G coverage in 2011 vs. 600 currently
- 85% of population covered with 3G in 2011 vs. 61% currently



## Vivo investment highlights

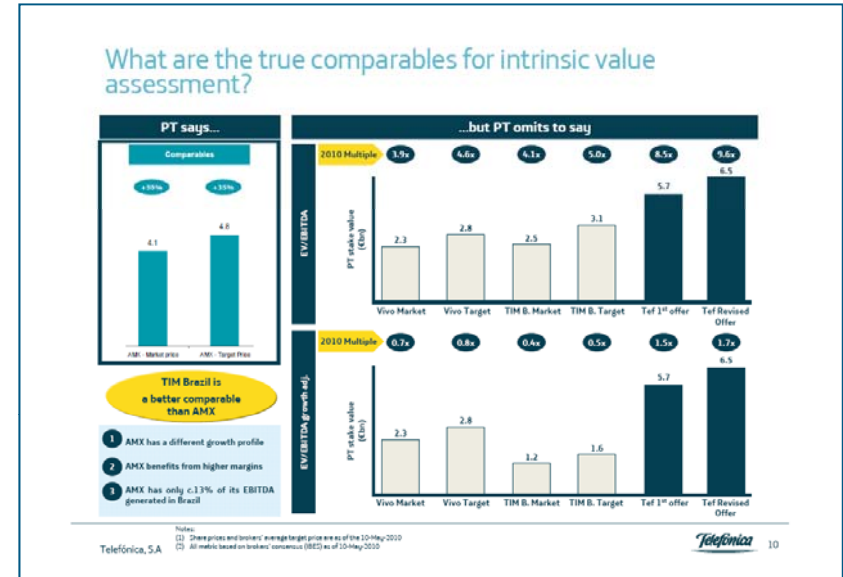
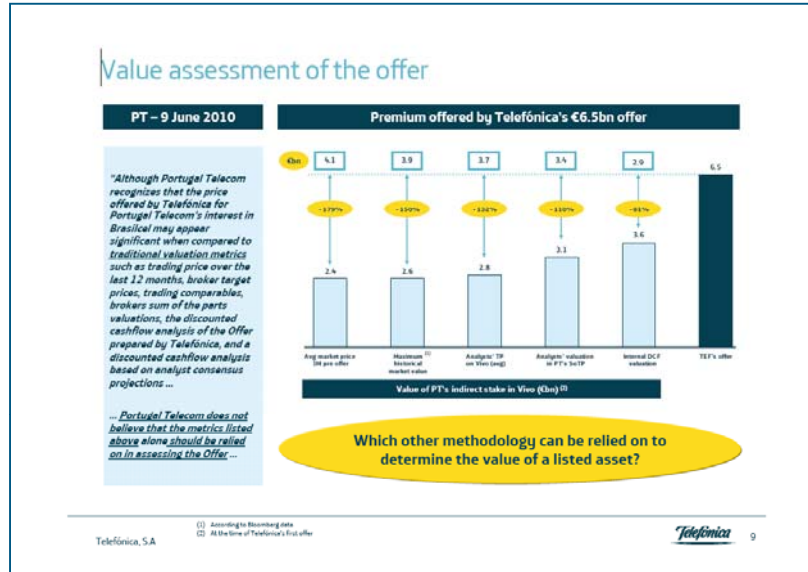
- Significant optionality in the Brazilian economy
- Vivo to benefit from increasing penetration of mobile and voice and data growth
- Leadership in voice and data despite aggressive competitive market conditions
- Country's largest network with coverage of more than 2,900 municipalities
- Customer net 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 payments



## Breakdown of Telefónica's Offer



# Telefónica's most recent statements continue to ignore the intrinsic value arguments

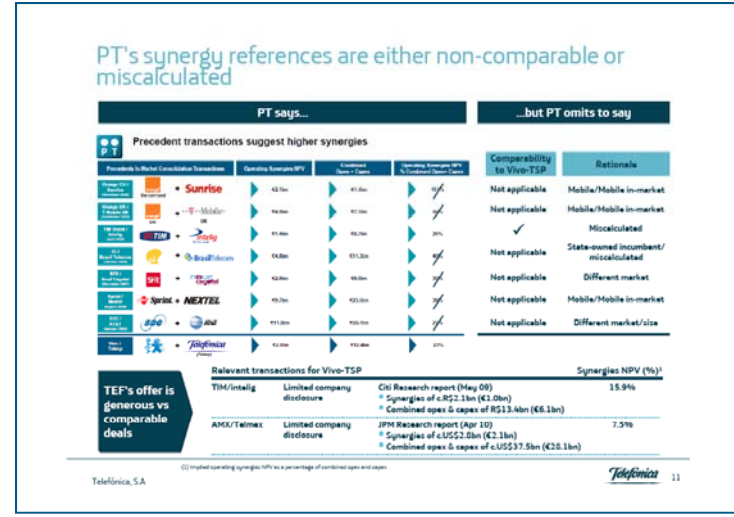
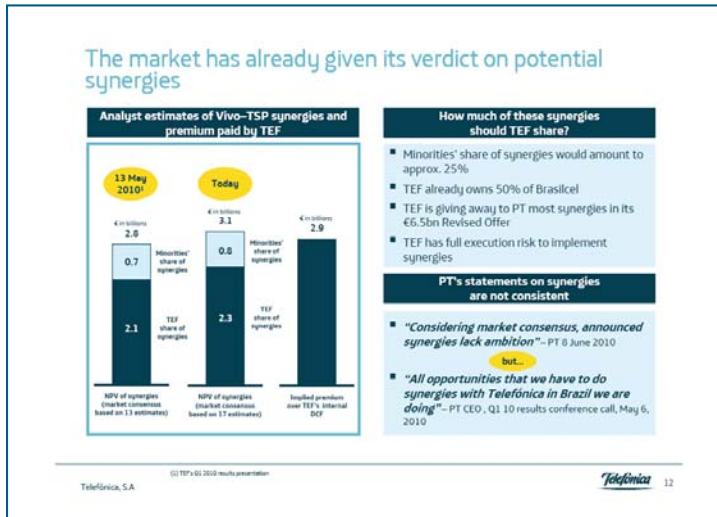


- Several metrics indicate that the intrinsic value of Vivo is significantly in excess of €3.6bn
- Why doesn't Telefónica use the latest business plan approved by the Board of Vivo?
- Why doesn't Telefónica use, at least, the market consensus WACC (9.8%) and perpetual growth rate (2.5%)?

- If TIM Brasil is a better comparable, at what valuation does Telefónica believe it could acquire control?



# Telefónica continues to rely on market estimates for the value of synergies

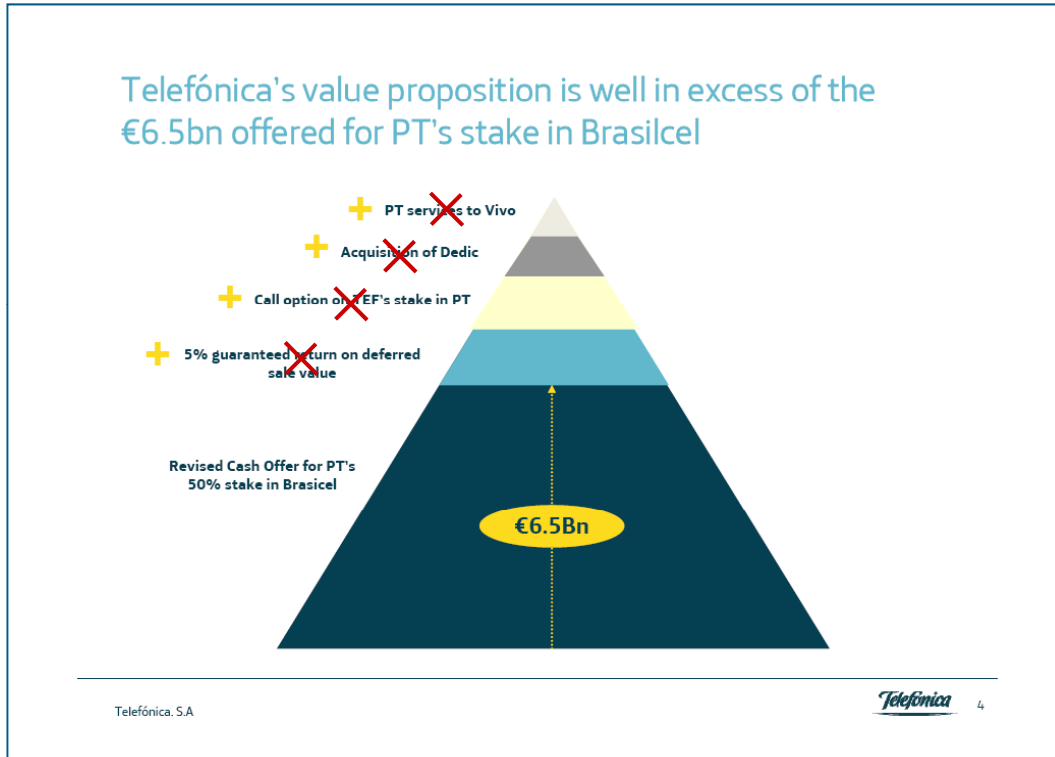


- Value of synergies are unambitious at €2.8bn
- What is Telefónica's bottom up synergies analysis including tax, opex, capex and revenues?
- Telefónica knows both companies. On synergies, why hide behind research reports?

- If precedents are not applicable, shouldn't Telefónica provide a detailed analysis on synergies?
- Operators usually give information to the market on synergies, not the reverse. TIM Brasil said they could generate R\$1.2bn of synergies over the first three years only!
- In the acquisition of O2 and of Bell South's assets in Latam, Telefónica provided guidance on synergies. Why is this case different?



# Telefónica's "value proposition" is erroneous



- Services are existing and essential to Vivo and need to be delivered by PT
- Dedic has a stand-alone value and cannot be seen as an upside on Vivo
- VWAP is an appropriate methodology for buying shares in the market
- 5% return is lower than Telefónica's current funding cost<sup>(1)</sup> and only means that PT would fund Telefónica with no value upside for example from higher synergies

*How much is Telefónica paying if not €6.5bn?*

(1) "Interest expenses for 2010 are expected to be around 5.5%-5.75% (<6% guided in October 2009)" - Telefónica presentation dated June 8th 2010



## Implied intrinsic EBITDA multiples of Telefónica's offer are low

	€6,500m			
<b>Synergies (€m)</b>	<b>2,800</b>	<b>3,000</b>	<b>4,000</b>	<b>5,000</b>
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
<u>EV/EBITDA (PN Averaged Down)</u>				
2010E	5.7x	5.6x	5.0x	4.4x
2011E	5.4x	5.3x	4.7x	4.2x

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  
 In PN averaged down case, minority ON shares are assumed purchased at 80% of the value offered for the controlling ON shares. Minority PN shares are assumed purchased at a value implied by TEF's "intrinsic value" of €3.6bn for 50% of Brasilcel



# Telefónica has tried to intimidate PT shareholders to force them to accept the offer... and failed...

*“Analysts said Telefónica might ask the courts to dissolve Brasilcel if Portugal Telecom's shareholders rejected the Spanish group's €6.5bn offer”*

*Financial Times, 3 June 2010*

*“There is no obligation on us to act favourably in Brasilcel”. “The money could stay in Brasilcel indefinitely.”*

*Financial Times, 25 May 2010*

*“It [a hostile takeover bid] could always be revisited,” he told the Financial Times*

*Financial Times, 25 May 2010*

## PT Clarification Statements

- *“No consideration should be given to Telefónica’s suggestions that it could seek dissolution of Brasilcel. Based on the advice of its legal advisors, Portugal Telecom rejects these suggestion”*
- *“Portugal Telecom would have a strong case against Telefónica if Telefónica were to block dividends solely in order to put undue pressure on Portugal Telecom. We believe there are solid reasons to affirm that by acting in such a manner Telefónica would be abusing its position as a 50% shareholder”*
- *“After the declarations made by Telefónica's CFO, he should quit the PT board as he failed his duty of loyalty to PT and has a conflict of interests”*

**Telefónica  
has no  
response**



## ...but is still trying to intimidate investors

A simple decision for PT shareholders:

<p>Accept Telefónica's offer</p> <p>↓</p> <p>Crystallize an outstanding value proposition implying a premium of over 60% on PT's unaffected share price</p>	OR	<p>Risk living with PT's statement</p> <p>↓</p> <p>"No assurance can be provided that similar value will be delivered to shareholders for Vivo"</p> <p>PT - 9 June 2010</p>
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Vote in favour of the resolution!

Telefónica, S.A. 3



- What guarantee does Telefónica give you that PT shares will trade over 60% of PT's unaffected share price if you accept the offer?

3. Next steps

- You should vote as soon as possible
- Your investment could be at risk if the offer is not accepted

Telefónica, S.A. 4



- If you vote against the Telefónica proposal, the investment case of PT will remain intact while Telefónica will still need to find a strategic solution for Brazil



## Strategic value of Vivo for Telefónica

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

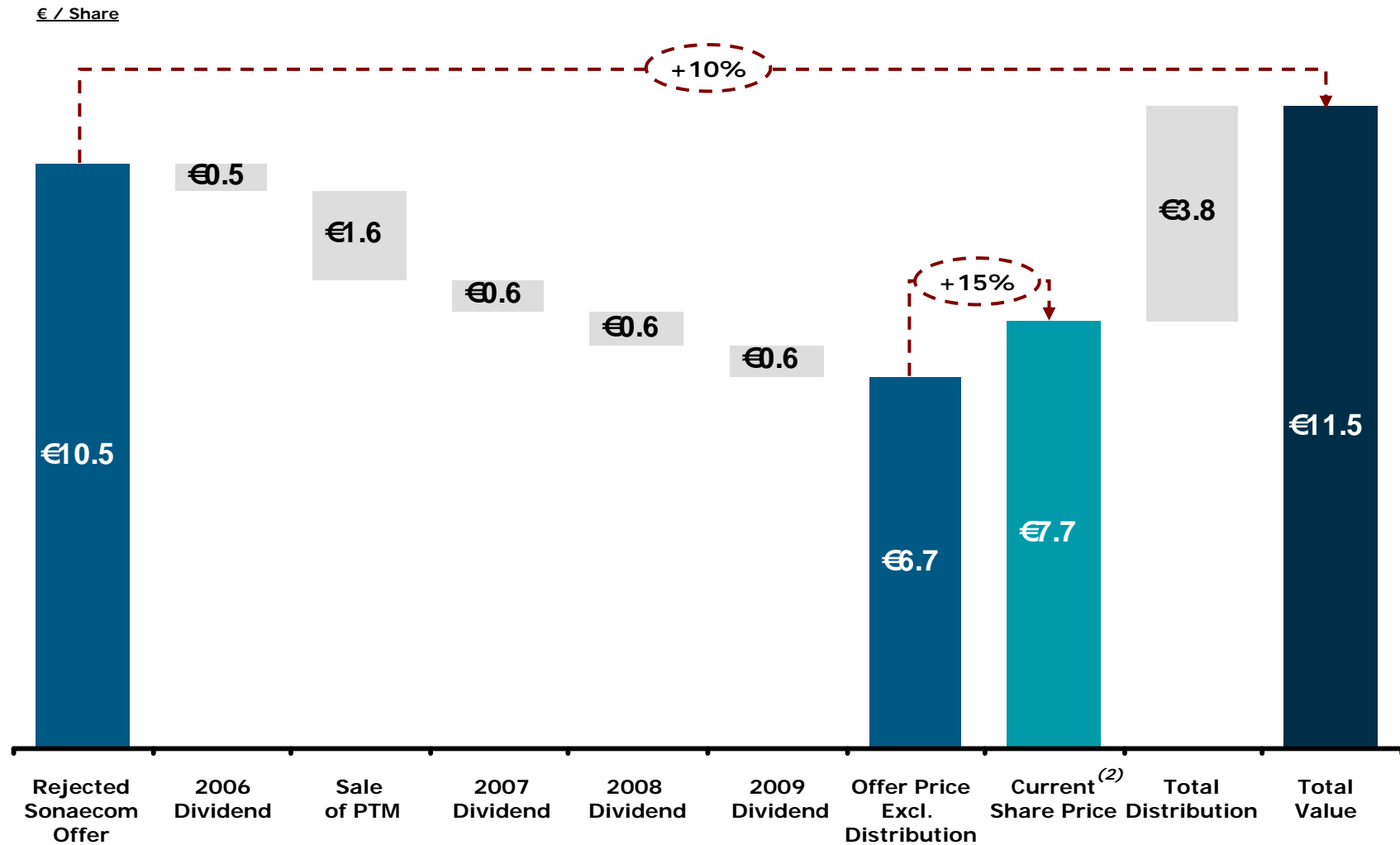
- Brazilian market offers strong growth potential
- Vivo is the leading mobile operator and has value upside from increasing fixed-to mobile migration and mobile broadband penetration
- Considering market consensus, announced synergies lack ambition
- Excluding synergies, implied acquisition multiples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

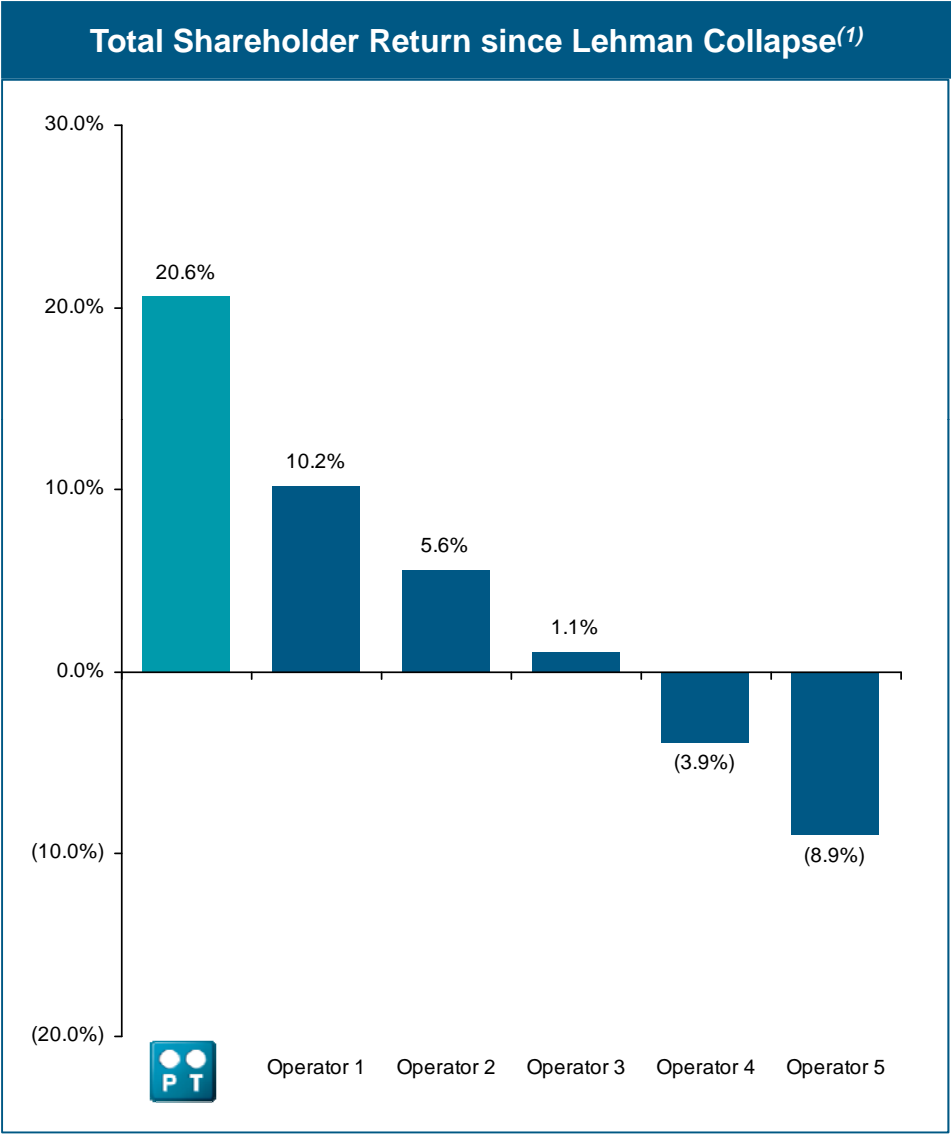


(1) PSI index performance between 2 March 2007 and 10 May 2010

(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

- Focused strategy in developing its businesses in Portugal, Brazil and sub-saharan Africa, which ensures diversification and thus lower execution and financial risks
- Solid customer growth in the domestic and international markets against intense competition and a challenging economic environment
- 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



**Shareholders of Portugal Telecom have two options:**

*Forgo optionality and crystallise value of PT's investment in Brazil now*

OR

*Empower Portugal Telecom to continue to create value by leveraging on Brazilian and Vivo exposure in the future*



# 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 proceeds 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 Telefónica 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



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