



# Investors Presentation

Sale of Brasilcel and strategic partnership with Oi

28 July 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.



## Agenda

**Sale of Brasilcel**

**Strategic partnership with Oi**



## Highlights of revised offer for Vivo

Revised terms

### Offer of 29 June

- Euro 7,150 million
  - Option A:
    - single payment
  - Option B:
    - 1/3 payment on closing (Euro 2,383 million)
    - put rights
    - minimum 5% return on balance
    - transitional arrangements – services, governance and sale of Dedic
- PT Call on 10% held by TEF

### Offer of 28 July

- Euro 7,500 million
  - Euro 4,500 million upon closing
  - Euro 1,000 million on 30 December 2010
  - Euro 2,000 million on 31 October 2011
  - Transitional arrangements – Services and sale of Dedic
- Industrial partnership agreement with TEF
- No call over PT stock held by Telefónica

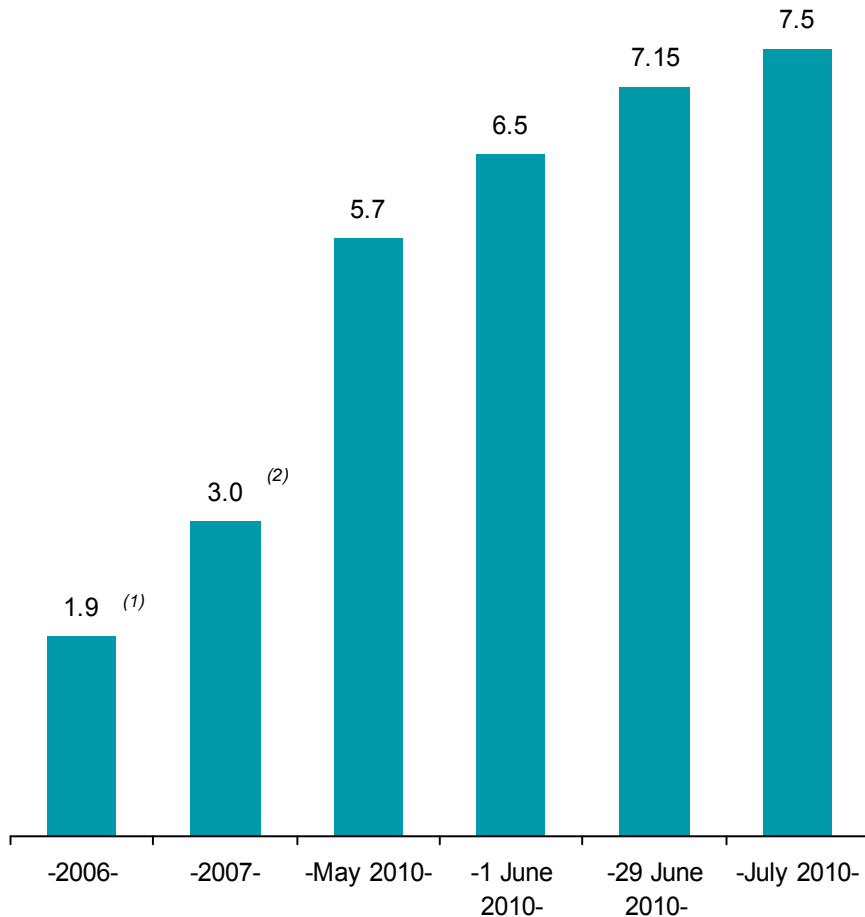


# Highlights of revised offer for Vivo

Increased offer value

## Telefónica's views on Vivo

Euro billion



(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

### • 1 June

- “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”

### • 28 July

- “Board unanimously voted in favour of the agreement with Telefónica for the sale of its interest of 50% in Brasilcel”

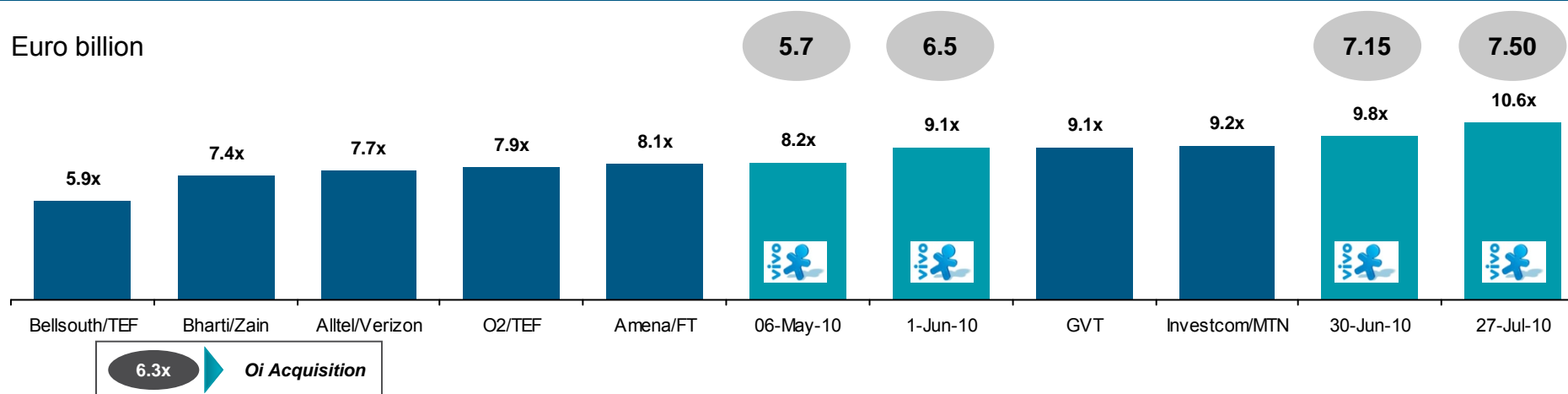


# Highlights of revised offer for Vivo

Implied EV/EBITDA Multiple

## EV/EBITDA CY+1

Euro billion



## Transaction Details

Ann. Date	Target	Acquiror	Deal Value €m	EV/EBITDA	
				FY	FY+1
Feb-10	Zain Africa BV	Bharti Airtel Limited	7,862	9.2x	7.4x
Nov-09	GVT	Vivendi	2,888	11.8x	9.1x
Jun-08	Alltel	Verizon Wireless	18,086	8.3x	7.7x
May-06	Investcom	MTN	4,370	13.4x	9.2x
Oct-05	O2	Telefonica	26,019	9.0x	7.9x
Mar-04	BellSouth	Telefonica	7,228	6.4x	5.9x
Sep-03	Orange	France Telecom	6,559	8.0x	7.4x
<b>Average</b>				<b>9.4x</b>	<b>7.8x</b>

**The offer valuation outperformed most major telecom transactions**

Source: companies release, broker estimates.

Note: Vivo offers implied multiples based on consensus EBITDA 2011E of R\$5.8 billion, reported Q1 2010 Net Debt of R\$3.9 billion and spot exchange rate as of date of each offer



# Highlights of revised offer for Vivo

Industrial partnership with Telefónica

## Scope of Partnership

- Negotiations scheduled to start in January 2011
- Joint R&D centre in Portugal
- Procurement
- Technology and operations
- Know-how and best practice exchange
- Benchmarking
- Joint development of business model for telco of the future

## Strategic & Financial Benefits

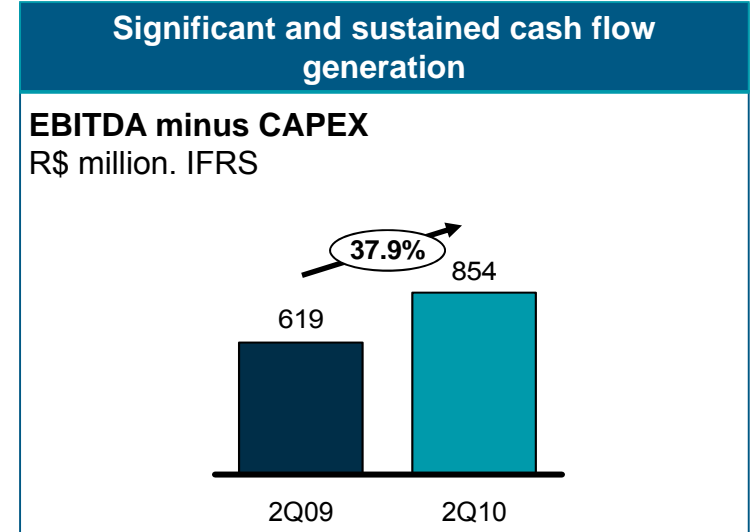
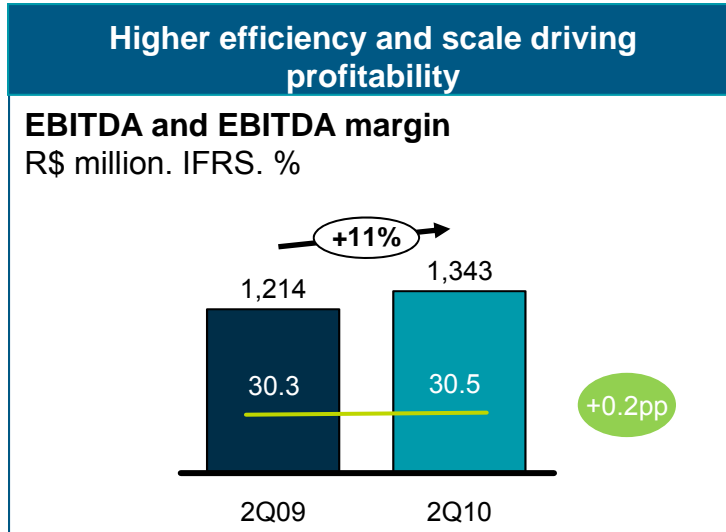
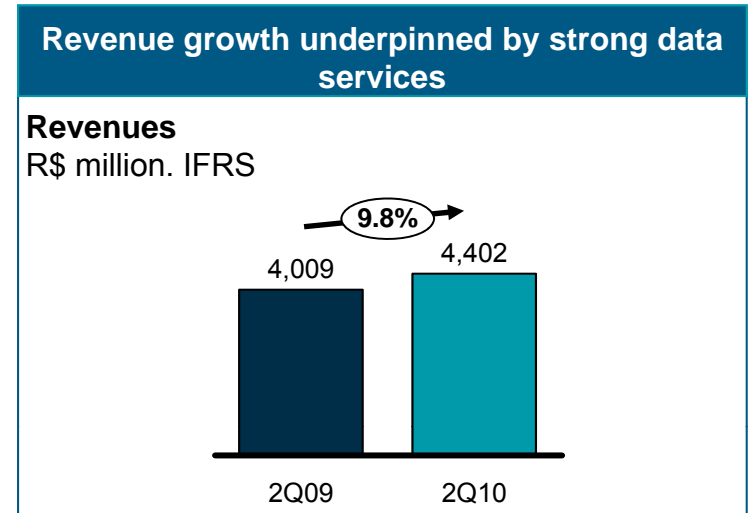
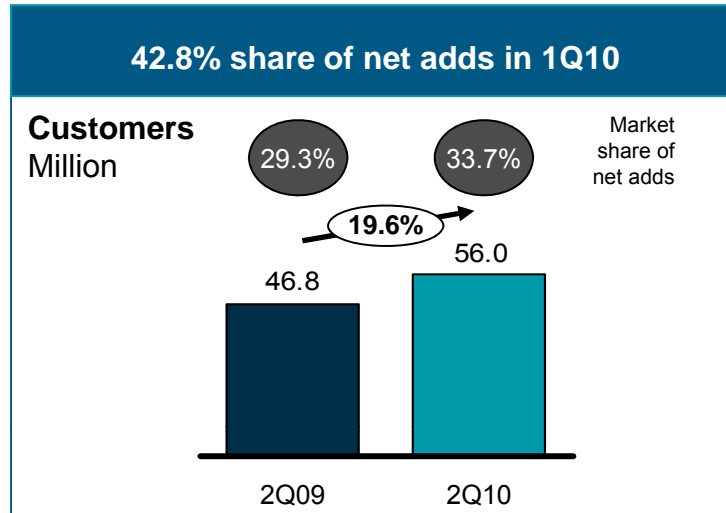
- The alliance would cover nearly 300 million fixed telephony, wireless and broadband customers in Europe, the Americas, and Africa
- The scale and best practice benefits of the alliance are in line with PT's commitment to provide best in class propositions to both its customers and shareholders alike
  - improved service offering to the customers
  - significant synergies generation, and
  - shareholders' return maximisation
- Price negotiations / bargaining power
- Access to supplier technology roadmaps
- Strategic partnership status with key industry players
- Accelerated product development cycle
- Development of own-label consumer products



# Highlights of Revised offer for Vivo

Vivo 2Q10 Results - Market leader and strong cash flow generation

- Comprehensive turnaround plan (e.g., change for GSM technology, brand repositioning)
- Nationwide coverage with the acquisition of Telemig and Northeast licenses
- Launch of promotion campaigns and the rise of voice and data penetration



*Vivo's performance is evidence of PT's ability to create value through strong partnerships*



## Vivo's transaction conclusions

**Value enhancing transaction**

**Crystallise full strategic value of asset**

**Leave Vivo on track with good operational performance**



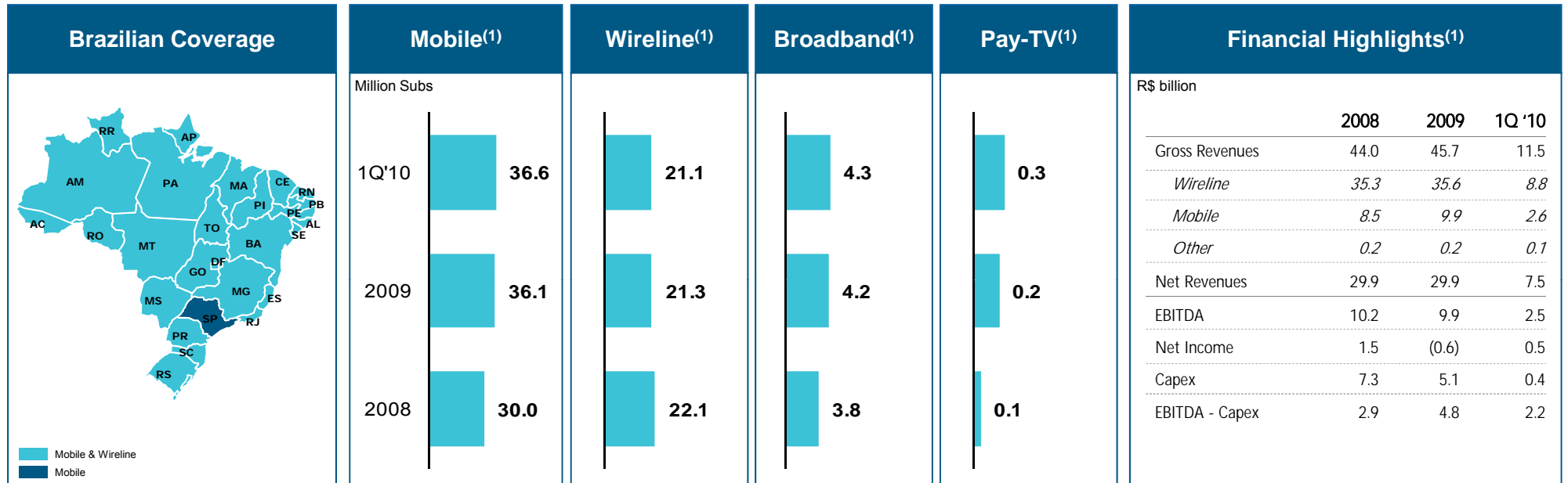
## Agenda

Sale of Brasilcel

Strategic partnership with Oi



# Oi overview



***Largest telecom company in Brazil, with more than 62 million customers, and a clear leader in fixed to mobile convergence***

Source: Oi Corporate Presentation and 1Q10 Results Presentation


Note:

1. Includes the consolidation of Brasil Telecom (Brt) acquired in 2008

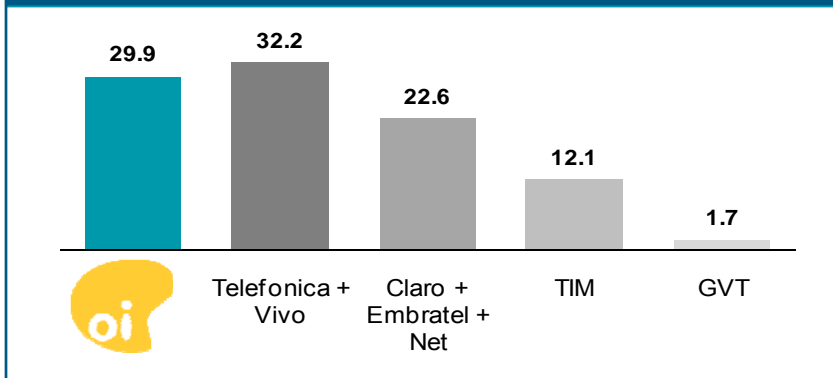


# Brazilian telecom landscape

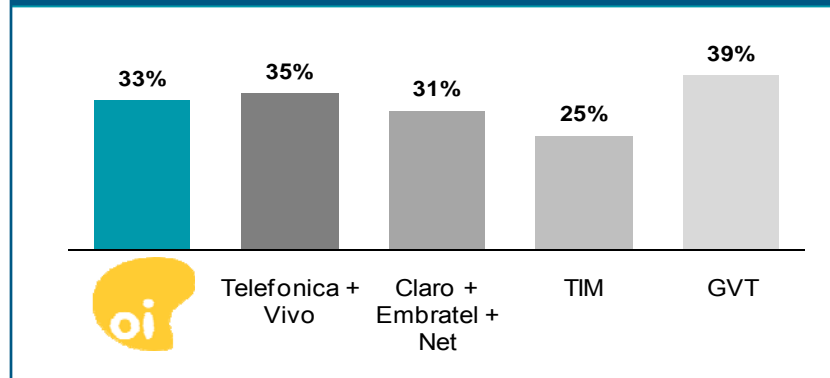
## Competitive landscape – Oi market share vs main competitors <sup>(1)</sup>

	Wireline	Broadband	Pay-TV	Mobile	Total Subs
	51%	36%	4%	20%	62.3M
Telefonica + Vivo	27%	24%	6%	30%	68.4M
Claro + Embratel + Net	15%	25%	51%	25%	60.0M
TIM	-	-	-	24%	42.4M
GVT	4%	6%	-	-	2.3M

## Net Revenues <sup>(2)</sup>



## EBITDA Margin <sup>(2)</sup>



**Transaction gives access to Oi's nationwide (ex SP) offering of fixed and mobile telephony**

Source: Teleco, Company Filings

Notes:

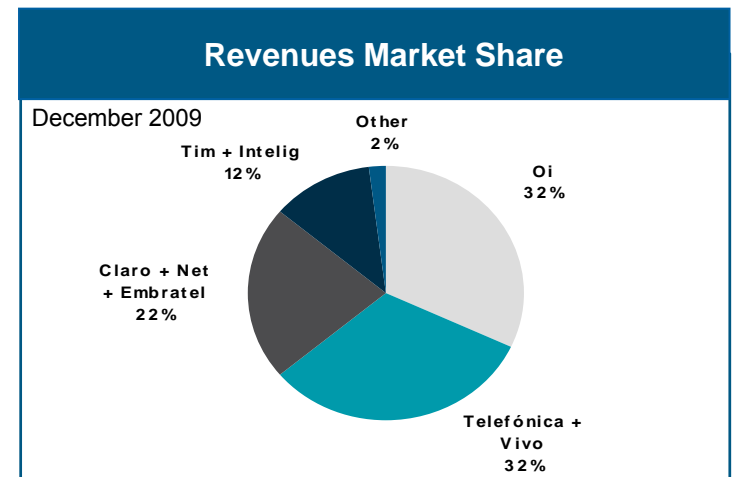
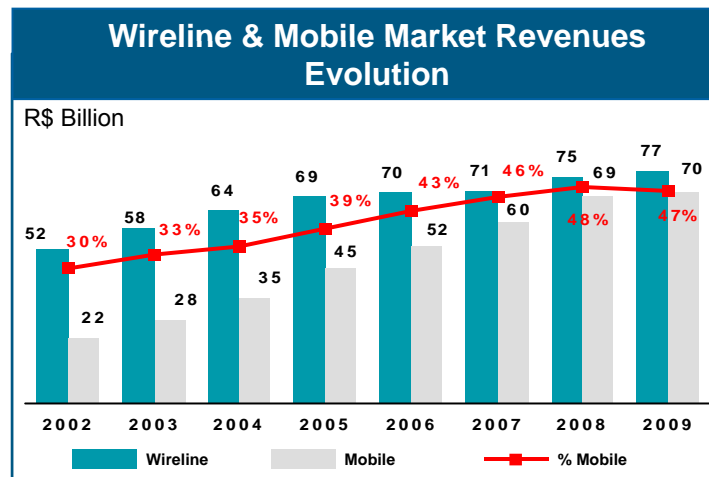
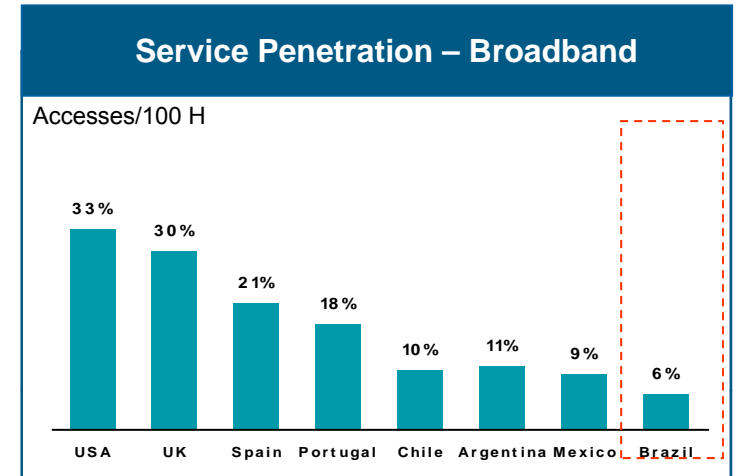
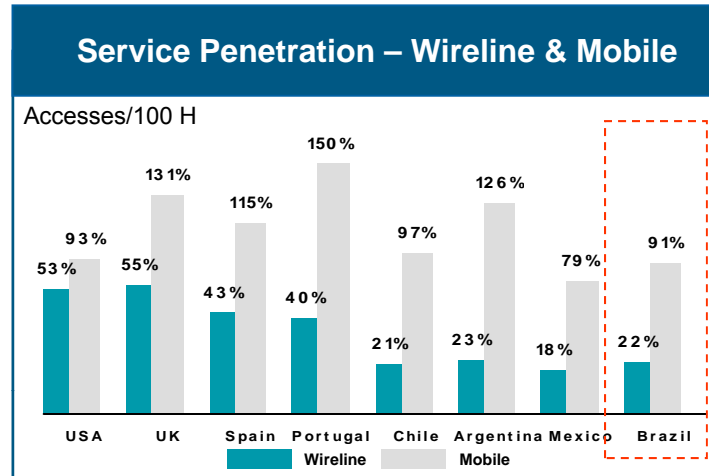
1. As of March 2010

2. Data as of 2009YE



# F2M convergence in the Brazilian market

- In recent years the Brazilian market has been shifting from wireline to wireless segment, both in terms of subscribers and traffic, as well as in revenues generated
- However, fixed line operators still hold the upper hand in segments such as broadband as a result of superior quality and competitive prices
- Moreover, convergence is playing a role in the evolution of the market, with bundled offers responsible for increased penetration of wireline in Brazil over the last years



Source: Anatel, Teleco.



## PT has a strong track record on strategic partnerships

### Extensive Know-How

- Extensive expertise in fixed-mobile convergence
- Successful track record in the Brazilian mobile market
- Experience of leadership in mobile broadband, evidenced by superior mobile margins
- Unique expertise on pay-TV
- Competitive offering of bundled services on top of fixed-line infrastructure
- Track record of cost efficiencies and back-office integration
- Best-in-class technological and innovation skills recognized by key telecom players worldwide

### Financial Strength

- Oi has strong cash-flow generation
- Additional cash from transaction will allow Oi to invest in growth opportunities with confidence

### Growth Opportunities

- Oi's fixed line network development through the offering of innovative triple play services
- New cable law in Brazil should enable IPTV deployment across Oi's network which can be leveraged on PT's recent success with Meo
- Possibility to explore synergies between Oi and PT's international operations
- Leverage off the leading Portuguese-speaking telecom in the international markets, particularly in Africa



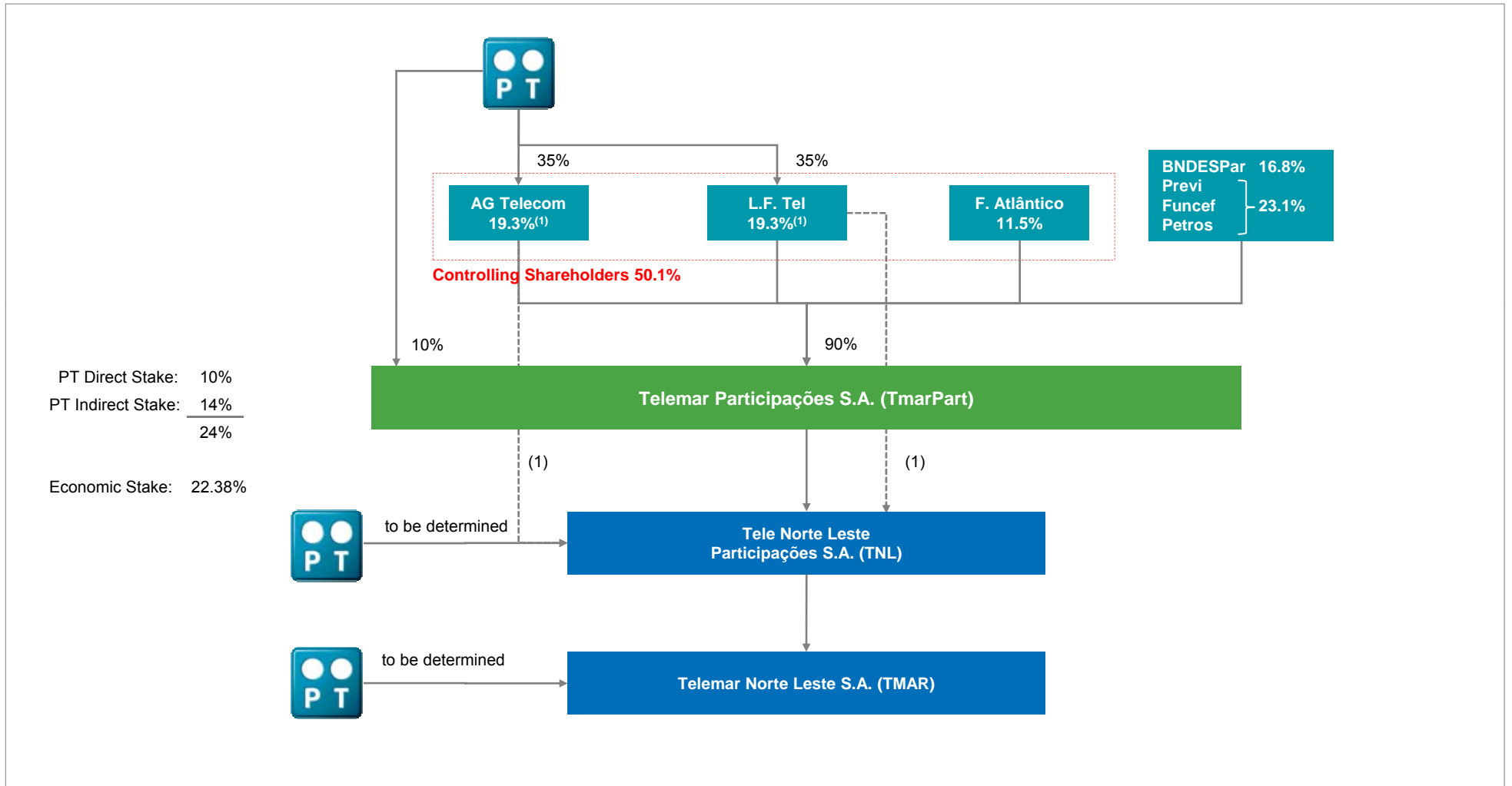
# Transaction structure

R\$ billion	Maximum Disbursement	Description
TmarPart + Other Assets	4.7	<ul style="list-style-type: none"> <li>Acquisition of a minority 35% stake in TmarPart shareholders AG and LF, which also hold significant financial assets</li> <li>PT to sign a Shareholders Agreement with both AG and LF obtaining important rights</li> <li>Acquisition of a direct 10% stake in TmarPart</li> <li>Call for a capital increase of R\$4.2 billion in TmarPart</li> <li>PT to subscribe to the existing TmarPart Shareholders Agreement</li> </ul>
TNLP	2.0	<ul style="list-style-type: none"> <li>Call for a capital increase in TNLP at market price amounting to R\$12.0 billion:               <ul style="list-style-type: none"> <li>TmarPart to subscribe proportionally to its shareholding</li> <li>PT: up to R\$2.0 billion, limited to remaining unsubscribed shares</li> </ul> </li> </ul>
Telemar	1.7	<ul style="list-style-type: none"> <li>Call for a capital increase in TMAR at market price amounting to R\$12.0 billion:               <ul style="list-style-type: none"> <li>TNLP to subscribe proportionally to its shareholding</li> <li>PT: up to R\$1.7 billion, limited to remaining unsubscribed shares</li> </ul> </li> <li>Telemar will look to acquire a stake up to 10% in PT</li> </ul>
<b>Total</b>	<b>8.4</b>	<ul style="list-style-type: none"> <li><b>Acquisition of a total economic interest of at least 22.38% in TMAR, corresponding to a maximum investment of R\$8.4 billion</b> <ul style="list-style-type: none"> <li>EBITDA multiple of 6.3x</li> </ul> </li> </ul>

- Transaction completion is subject to PT holding a direct and indirect interest in TMAR of at least 22.38% for a total maximum consideration of R\$8.4 billion
- More than 2/3 of PT's cash out is estimated to be invested in Oi's growth through capital increases at different levels



# Oi shareholding structure (post-transaction)



Note:

1. AG e LF hold direct stakes in TNL equivalent to 0.6 million ON stocks and 11.4 million PN stocks (0.5% of total ON, 4.5% of total PN, corresponding to 3.1% of total capital prior to dilution in capital increase)



## PT to become a strategic partner of Oi

### Corporate Governance Highlights

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- Shareholders agreement to be established at AG / LF level
  - PT will have significant veto rights and will be in a position to make an important strategic contribution
  - Rights attributed to PT will enable it to proportionally consolidate TmarPart (24%)
- TmarPart Shareholders Agreement
  - PT will have same rights as remaining partners at TmarPart level
- PT will be entitled to nominate executives at TmarPart and TNLP Board
  - Two members of the Board of TmarPart (one alternate) and one Director
  - Two members of the Board of TNLP
- PT will participate in the nomination process of the CEO of Oi, observing existing shareholders' agreement of Telemar Participações
- TNLP and TmarPart will establish important strategic, financial, technology & innovation and services committees in order to enable both PT and TMAR to benefit from best practices, synergies and decide on strategic operational issues



## Timeline & precedent conditions

Preliminary Agreement	SPA Negotiation	Signing	Filing	Closing
<i>28 July 2010</i>	<i>T<sub>0</sub> = Up to 31/10</i>	<i>T<sub>0+60</sub></i>	<i>T<sub>0+95</sub></i>	<i>T<sub>0+155</sub></i>
<ul style="list-style-type: none"><li>• Signing of MoU</li><li>• Press release and public announcement</li></ul>	<ul style="list-style-type: none"><li>• Perform due diligence</li><li>• SPA and SHA negotiations</li><li>• Filing with Anatel and with CADE</li></ul>	<ul style="list-style-type: none"><li>• Anatel approval</li><li>• Signing of SPA</li><li>• Signing of SHA</li></ul>	<ul style="list-style-type: none"><li>• Filing of the documents related with the share capital increase to be performed in AG, LF, TmarPart, TNL and TMAR</li></ul>	<ul style="list-style-type: none"><li>• Closing at AG, LF and TmarPart; subscription of share capital increases at TNLP and TMAR</li></ul>

### Precedent Conditions for Completion

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- Sale of PT's stake in Vivo
- PT having secured at least a 22.38% stake at TMAR at not more than R\$8.4 billion
- PT having secured adequate governance rights on shareholders' agreement to be signed with AG and LF
- Regulatory approvals
- Satisfactory due diligence on AG, LF and TmarPart



# Swapping Vivo for Oi, enables PT to monetise value while maintaining a significant exposure to the growing Brazilian market

## Pro-Forma 2009 financial highlights

Euro Million

	PT	Vivo	PT excl. Vivo	Oi contribution to PT <sup>(1)</sup>	PT Post Transaction <sup>(1)</sup>
Revenues	6,785	3,080	3,705	2,535	6,240
EBITDA	2,502	947	1,555	844	2,399
EBITDA Margin (Pct)	37%	31%	42%	33%	38%
Capex	1,268	421	847	434	1,263
Net Debt	5,528	699	-2,671	1,077	2,184 <sup>(3)</sup>
Net Debt/ EBITDA	2.2x	0.7x	-1.7x	1.3x	0.9x <sup>(3)</sup>

**Post transaction PT will have similar scale and a stronger balance sheet**

Note: FX EUR/ BRL of 2.7674 based on PT's annual accounts for 2009 average.

Source: PT Information, Telemar Company Filings

1. Assumes consolidation of 23.53% of Telemar Part. Pro-forma information on PT+Oi based on available financial information of Oi under BRGAAP.

2. Net income adjusted for after-tax interest impact of net funds post-transaction. Average cost of debt based on PT's business plan

3. Assumes all remaining cash proceeds from Vivo sale after the acquisition will remain in PT



## Financial rationale

- Transaction enables PT to maintain its scale and scope
- PT's experience in managing fixed and mobile assets, together with Oi's strong capabilities will lead to enhanced operational performance
- Transaction will strengthen PT financials
  - Margin enhancement on EBITDA level following deconsolidation of Vivo
  - Sales proceeds allow for significant deleveraging and improvement of current credit ratings
- Pro-forma EPS accretion of 19% for 2010 and 6% for 2011 based on broker consensus for PT and Oi
- Strong FCF and dividend payout at Oi should support healthy dividend stream to PT



## The proposed transaction brings value to PT's shareholders

### How will the proposed transaction benefit PT's Shareholders?

- PT maintains its exposure to high growth Brazilian market, which is strategic to PT, playing an active role in the leading integrated Brazilian player
- Transaction enables PT to maintain its scale and scope and secure access to technology, innovation and R&D, enabling it to continue to invest in new technologies and services across its core geographies
- Transaction Structure set for TMAR to be able to strengthen its balance sheet in order to pursue growth opportunities
- Transaction will be EPS and FCF accretive in 2010 and 2011
- Anticipated cash flow generation at TMAR will reduce the consolidated indebtedness levels at PT

Creates the leading Portuguese-speaking telecommunications operator with strong cash flow generation and scale to pursue value accretive opportunities both in LatAm and Africa



## The acquisition of Oi will bring PT closer to fulfil its 5 strategic objectives for 2009-2011

### 1. Reach 100 million customers at the end of 2011

- ✓ Oi has more than 62 million clients, bringing the total customers of PT to 83 million

### 2. Increase the contribution of international revenues to 2/3 of total revenues

- ✓ Oi would have contributed 41% of PT's total pro-forma revenues in 2009, thus reinforcing PT's exposure to LatAm and African markets

### 3. Reinforce our leadership in all markets where we operate

- ✓ Oi is the largest telecom player in Brazil and a clear leader in fixed to mobile convergence

### 4. Achieve top quartile operational and financial performance among European peers

- ✓ Oi enhances PT's EBITDA margin and cash flow generation, while sale proceeds increase PT's financial flexibility

### 5. Become a reference in sustainability in all the geography where we operate

- ✓ PT is committed to promote the use of "best practices" in the Brazilian market

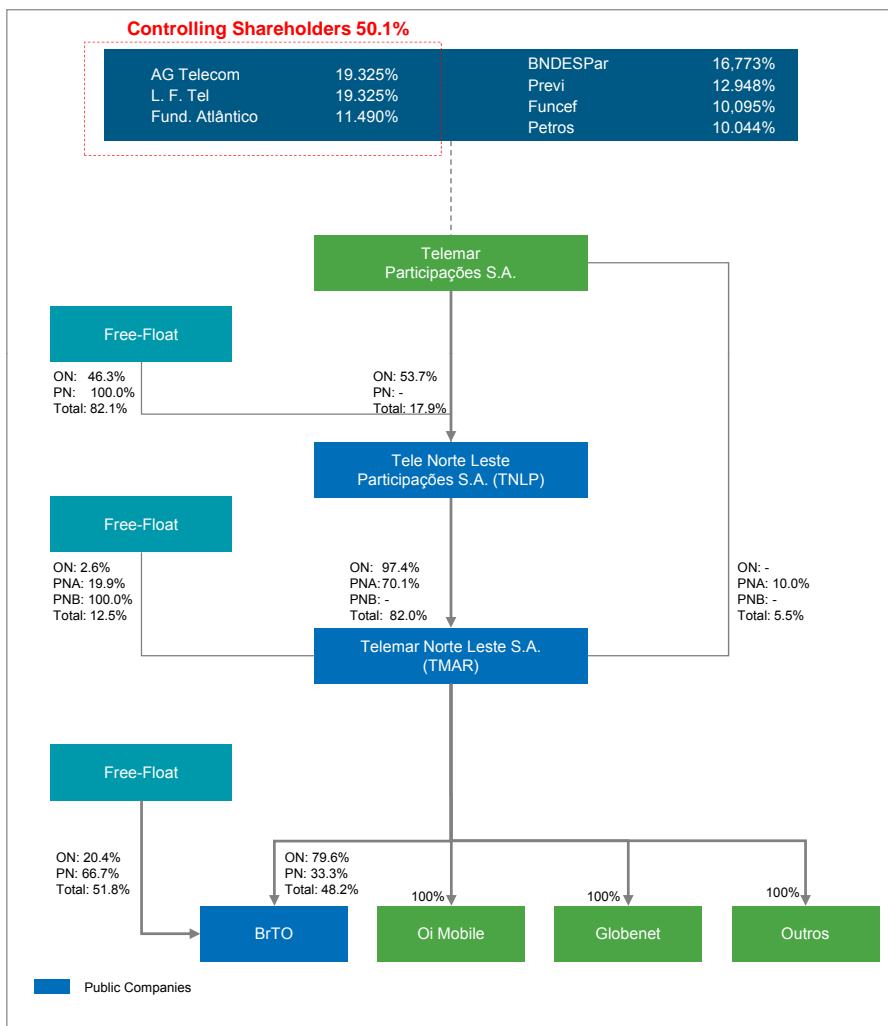


## Appendix – Supplementary materials



# Telemar shareholding structure (pre-operation)

## Current Shareholders Structure



Source Company's disclosed information

Notes

1. Tickers in Bovespa and NYSE: TNE (TNLP4 and TNE); BRTP (BRTP4 and BTP), BRTO (BRTO4 and BTM), TMAR (TMAR5)

## Telemar Participações' Main Shareholders



Source Company's disclosed information



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