Joint Venture Agreement

Telefónica S.A.

Portugal Telecom, SGPS, S.A.
Safe Harbour

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Agreement Highlights

- Creation of South America’s largest wireless operator
- Increase of cross-shareholding participations
  - TEF up to 10% of PT
  - PT up to 1.5% of TEF

A further step ahead of our partnership
Why we are doing it... Investors demand consolidation in Brazil

**CURRENT SITUATION**
- Fragmented cellular market (10 regions, 19 operators)
- 9 new PCS licenses to be auctioned: 3 additional competitors by region

**OPTIONS**
- PCS
  - High licenses costs
  - Extensive CAPEX requirements
  - New entrant approach
  - Start-up losses
- Band A/B Consolidation
  - Existing customer base
  - Operating Synergies
  - Network already in place
  - Avoid PCS licenses costs
  - Already profitable since the beginning

**STRATEGIC DECISION**
- Lead the first and best positioned consolidation initiative by:
  - controlled customers
  - GDP exposure
  - market attractiveness
  - POPs
  - Market share

*Again, value delivery through first mover advantage*
The undisputed wireless leader in Brazil is born....

• More than 9 MM controlled customers
(42% of total market)

• Overpassing 2nd and 3rd operators total customer base

• Potential market over 90 MM POPs
(56% of total market)

• Leadership in 4 of 5 richest areas in Brazil

• Unique cellular player operating in Sao Paulo and Rio de Janeiro
... from our stakes...

Firm (%economic / %vote)

- Telesp Celular Participações: 41.2% / 85.1%
- Global Telecom: 83.0% / 49.0%
- TeleSudeste Celular Part.: 81.6% / 75.7%
- CRT Celular: 43.9% / 75.4%
- TeleLeste Celular Part.: 10.8% / 21.9%
...which are each the leaders

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>CUSTOMERS ('000)</th>
<th>% ANNUAL INCREASE</th>
<th>POPS (million)</th>
<th>MARKET RANKING</th>
<th>GAP v. 2ND OPERATOR ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telesudeste Celular</td>
<td>2,503</td>
<td>35%</td>
<td>17</td>
<td>#1</td>
<td>1,066</td>
</tr>
<tr>
<td>CRT Celular</td>
<td>1,452</td>
<td>50%</td>
<td>10</td>
<td>#1</td>
<td>952</td>
</tr>
<tr>
<td>Teleleste</td>
<td>674</td>
<td>26%</td>
<td>15</td>
<td>#1</td>
<td>244</td>
</tr>
<tr>
<td>Telesp Celular</td>
<td>4,300</td>
<td>49%</td>
<td>35</td>
<td>#1</td>
<td>2,526</td>
</tr>
<tr>
<td>Global Telecom</td>
<td>463</td>
<td>186%</td>
<td>15</td>
<td>#2</td>
<td>n.m.</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>9,393</strong></td>
<td><strong>47%</strong></td>
<td><strong>93</strong></td>
<td><strong>#1</strong></td>
<td><strong>4,788</strong></td>
</tr>
</tbody>
</table>

**60% of average market share in the operation areas**

estimated data as of December-00
... and now far ahead of competitors

<table>
<thead>
<tr>
<th>Joint Venture TEM / PTM</th>
<th>Bell South</th>
<th>Telecom Americas</th>
<th>Telecom Italia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers (‘000)</td>
<td>9,393</td>
<td>2,583</td>
<td>2,238</td>
</tr>
<tr>
<td>TOTAL POPS (MM)</td>
<td>93</td>
<td>53</td>
<td>39</td>
</tr>
<tr>
<td>% POPs</td>
<td>56%</td>
<td>34%</td>
<td>25%</td>
</tr>
<tr>
<td>% GDP</td>
<td>71%</td>
<td>40%</td>
<td>28%</td>
</tr>
</tbody>
</table>

[Maps of Brazil for each company]
## Capitalizing our financial strength

<table>
<thead>
<tr>
<th>REGIONS</th>
<th>Jan-Sep 2000 (*)</th>
<th>Jan-Sep 2000 (*)</th>
<th>% GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>REVENUES (mUS$)</td>
<td>EBITDA (mUS$)</td>
<td></td>
</tr>
<tr>
<td>Sao Paulo</td>
<td>1,113</td>
<td>368</td>
<td>36%</td>
</tr>
<tr>
<td>Rio de Janeiro &amp; E Santo</td>
<td>615</td>
<td>223</td>
<td>13%</td>
</tr>
<tr>
<td>Rio Grande do Sul</td>
<td>307</td>
<td>117</td>
<td>8%</td>
</tr>
<tr>
<td>Bahia &amp; Sergipe</td>
<td>137</td>
<td>40</td>
<td>5%</td>
</tr>
<tr>
<td>Sta.Catarina &amp; Paraná</td>
<td>137</td>
<td>-76</td>
<td>10%</td>
</tr>
<tr>
<td><strong>TOTAL (aggregated)</strong></td>
<td><strong>2,309</strong></td>
<td><strong>672</strong></td>
<td><strong>72%</strong></td>
</tr>
</tbody>
</table>

January-December for Global Telecom (Sta.Catarina & Paraná)
Structure of the JV agreement (I)

Participations
- 50% - 50%
- Joint management and control of the JV

Initial assets to transfer
- PTM: Telesp Celular Part. + Global Telecom
- TEM: Tele Sudeste Celular Part. + Celular CRT Participações + Tele Leste Celular Participações (*)

Timing
- As soon as ANATEL approves the transaction. Estimated to be incorporated in 2002
- Migrating from concession to authorization

New acquisitions in Brazil
- To be transferred to JV

(*) Subject to shareholders approval
**Corporate Governance**

- Board of Directors of 6 members:
  - 3 appointed by TEM (including Chairman)
  - 3 appointed by PT (including Vice-Chairman)

- Voting approvals: 4 out of 6 members

- CEO appointed by PT, CFO appointed by TEM

- COOs of wireless operators to be appointed by the party making the contribution

- Strategic decisions will need Board approval

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1 Subject to shareholders approval
Benefits for the partners

- Broader footprint in the richest regions of the country
- Strengthen competitive position
- Consolidated leadership: more customers than the second and third competitors together
- Unmatched position to take advantage of consolidation opportunities
- Control of operations
- Important savings in relation to PCS auctions (licenses fees, CAPEX,...)
- Significant synergies
- Combination of leading innovators in the region (wireless internet, VAS,...)

Creating shareholder value by generating superior returns