Offer for PT’s stake in Brasilcel

The chance for PT shareholders to crystallise an outstanding value creation opportunity

June 15th, 2010
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A simple decision for PT shareholders:

Accept Telefónica’s offer

Crystallize an outstanding value proposition implying a premium of over 60% on PT’s unaffected share price

OR

Risk living with PT’s statement

“No assurance can be provided that similar value will be delivered to shareholders for Vivo”

PT - 9 June 2010

Vote in favour of the resolution!
1. Summary of Telefónica's offer

- Revised offer addresses PT's management and shareholders concerns
- Material value creation for PT shareholders that PT cannot replicate on a standalone basis
Telefónica’s value proposition is well in excess of the €6.5bn offered for PT’s stake in Brasilcel
Summary of Telefónica’s offer

PT’s 50% Brasilcel stake
- €6.5bn cash offer for PT’s stake in Brasilcel
- Closing within 60 days of acceptance

Alternative A
- Binding, unconditional and valid until June 30th, 2010
- Fully financed and no execution risk
- Contemplated subsequent tender offer over Vivo ON shares at 80% of the price offered for PT’s ON shares

Alternative B
- €6.5bn cash offer for PT’s stake in Brasilcel
- €2.17bn cash for 1/3 of PT’s stake in Brasilcel
- Closing within 60 days of acceptance
- Put option allowing PT to sell its remaining stake for a total cash consideration of €4.33bn over 3 years from acceptance
- Put to be exercised in minimum tranches of 10%
- Brasilcel to pay annual dividends to PT representing 5% of remaining consideration, for a maximum period 3 years
- Closing with 60 days of delivery of put notice

PT’s stake in TEF
- Call option allowing PT to buy TEF’s shares in PT representing approximately 8.5% of PT share capital
- TEF to use reasonable efforts to ensure its additional 1.5% stake is also transferred to PT if call is exercised
- Call at market price with exercise date to depend on Alternative selected
- Option valid for a maximum of 3 years from acceptance

TEF’s acquisition of Dedic
- TEF to buy Brazilian call centre activities from PT (Dedic S.A., FY 09 operating revenues of R$402m)
- Price to be agreed between TEF and PT following due diligence or through a process involving international investment banks

Addressing PT’s concerns
The offer addresses PT’s management and shareholders concerns:

- Outstanding price
- Ability for PT to exit gradually while keeping full flexibility
- Flexibility for PT to buy TEF’s stake in PT, limiting risk of overhang
- PT will maintain presence in Brasilcel’s Supervisory Board
- PT services to Vivo addressed through Service Period

Outstanding value for PT’s stake in Brasilcel:

- Total value delivered well in excess of €6.5bn:
  - Value of guaranteed return well above market terms
  - Value of call offered to PT
- 179% premium over market price at the time of Telefónica’s first offer
- Implies a potential upside of over 60% to PT’s share price
- Unique value for PT not achievable on a standalone basis

Merits of the offer

<table>
<thead>
<tr>
<th>Price of PT share unaffected</th>
<th>Objective breakdown of value unaffected</th>
<th>Breakdown of value affected</th>
<th>Premium paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.7</td>
<td>2.7</td>
<td>4.8</td>
<td>62% premium</td>
</tr>
<tr>
<td>Only listed asset (hence market value reference) is Vivo</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TEF’S 1st June €6.5bn offer – premium paid (in €/share)

(1) Based on average market price 1M pre first offer
(2) Based on PT’s undisturbed price as of 10 May 2010
(3) Based on undisturbed closing price as of 10 May 2010 divided by PT number of shares
2. Assessing the value of the offer

- 179% premium to market value
- PT shareholders benefit from most of the value creation of a potential Vivo-TSP combination
PT’s response to TEF’s new offer is incomplete

What PT is saying ...

- “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”

... and what PT is failing to say

- Is the €6.5bn offer financially fair for PT’s shareholders?

  OR

- Can PT deliver more value organically?

  OR

- What will be PT’s stock price if the offer is rejected?
Value assessment of the offer

"Although Portugal Telecom recognizes that the price offered by Telefónica for Portugal Telecom’s interest in Brasilcel may appear significant when compared to traditional valuation metrics such as trading price over the last 12 months, broker target prices, trading comparables, brokers sum of the parts valuations, the discounted cashflow analysis of the Offer prepared by Telefónica, and a discounted cashflow analysis based on analyst consensus projections ...

... Portugal Telecom does not believe that the metrics listed above alone should be relied on in assessing the Offer ...

Which other methodology can be relied on to determine the value of a listed asset?

(1) According to Bloomberg data
(2) At the time of Telefónica’s first offer
What are the true comparables for intrinsic value assessment?

**PT says...**

**...but PT omits to say**

**Notes:**
1. Share prices and brokers’ average target price are as of the 10-May-2010.
2. All metric based on brokers’ consensus (IBES) as of 10-May-2010.

1. AMX has a different growth profile.
2. AMX benefits from higher margins.
3. AMX has only c.13% of its EBITDA generated in Brazil.

TIM Brazil is a better comparable than AMX.

Telefónica, S.A
PT’s synergy references are either non-comparable or miscalculated

### PT says...

**Precedent transactions suggest higher synergies**

<table>
<thead>
<tr>
<th>Precedents in Market Consolidation Transactions</th>
<th>Operating Synergies NPV</th>
<th>Combined Opex + Capex</th>
<th>Operating Synergies NPV % Combined Opex + Capex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orange CH / Sunrise (December 2006)</td>
<td>€2.1bn</td>
<td>€1.4bn</td>
<td>15%</td>
</tr>
<tr>
<td>Orange UK / T-Mobile UK (June 2006)</td>
<td>€1.6bn</td>
<td>€0.7bn</td>
<td>52%</td>
</tr>
<tr>
<td>TIM Brasil / Intelig (September 2008)</td>
<td>€1.4bn</td>
<td>€1.7bn</td>
<td>51%</td>
</tr>
<tr>
<td>Oi / Brasil Telecom (January 2009)</td>
<td>€4.5bn</td>
<td>€11.3bn</td>
<td>40%</td>
</tr>
<tr>
<td>SFR / Real CapTel (January 2007)</td>
<td>€2.5bn</td>
<td>€3.8bn</td>
<td>32%</td>
</tr>
<tr>
<td>Sprint / Nextel (January 2005)</td>
<td>€9.7bn</td>
<td>€23.9bn</td>
<td>30%</td>
</tr>
<tr>
<td>KPN / AT&amp;T (January 2001)</td>
<td>€11.5bn</td>
<td>€55.1bn</td>
<td>21%</td>
</tr>
<tr>
<td>Vivo / Telefónica (Telefónica)</td>
<td>€2.8bn</td>
<td>€12.6bn</td>
<td>23%</td>
</tr>
</tbody>
</table>

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### …but PT omits to say

- Not applicable: Mobile/Mobile in-market
- Not applicable: Mobile/Mobile in-market
- Miscalculated
- Not applicable: State-owned incumbent/ miscalculated
- Not applicable: Different market
- Not applicable: Mobile/Mobile in-market
- Not applicable: Different market/size

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TEF’s offer is generous vs comparable deals

**Relevant transactions for Vivo-TSP**

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Limited company disclosure</th>
<th>Synergies NPV (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TIM/intelig</td>
<td>Citi Research report (May 09)</td>
<td>15.9%</td>
</tr>
<tr>
<td></td>
<td>Synergies of c.R$2.1bn (€1.0bn)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Combined opex &amp; capex of R$13.4bn (€6.1bn)</td>
<td></td>
</tr>
<tr>
<td>AMX/Telmex</td>
<td>JPM Research report (Apr 10)</td>
<td>7.5%</td>
</tr>
<tr>
<td></td>
<td>Synergies of c.US$2.8bn (€2.1bn)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Combined opex &amp; capex of c.US$37.5bn (€28.1bn)</td>
<td></td>
</tr>
</tbody>
</table>

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(1) Implied operating synergies NPV as a percentage of combined opex and capex

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Telefónica, S.A
The market has already given its verdict on potential synergies

**Analyst estimates of Vivo–TSP synergies and premium paid by TEF**

- **13 May 2010**
  - NPV of synergies (market consensus based on 13 estimates): €2.8 billion
  - TEF share of synergies: €2.1 billion
  - Minorities’ share of synergies: €0.7 billion

- **Today**
  - NPV of synergies (market consensus based on 17 estimates): €3.1 billion
  - TEF share of synergies: €2.3 billion
  - Minorities’ share of synergies: €0.8 billion

**How much of these synergies should TEF share?**

- Minorities’ share of synergies would amount to approx. 25%
- TEF already owns 50% of Brasilcel
- TEF is giving away to PT most synergies in its €6.5bn Revised Offer
- TEF has full execution risk to implement synergies

**NPV of synergies**

<table>
<thead>
<tr>
<th>Estimate</th>
<th>€ in billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>13 May 2010</td>
<td>2.8</td>
</tr>
<tr>
<td>Today</td>
<td>3.1</td>
</tr>
</tbody>
</table>

**Minorities’ share of synergies**

<table>
<thead>
<tr>
<th>Share</th>
<th>€ in billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Today</td>
<td>0.8</td>
</tr>
<tr>
<td>13 May 2010</td>
<td>0.7</td>
</tr>
</tbody>
</table>

**TEF share of synergies**

<table>
<thead>
<tr>
<th>Share</th>
<th>€ in billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Today</td>
<td>2.3</td>
</tr>
<tr>
<td>13 May 2010</td>
<td>2.1</td>
</tr>
</tbody>
</table>

**Implied premium over TEF’s internal DCF**

<table>
<thead>
<tr>
<th>Premium</th>
<th>€ in billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Today</td>
<td>2.9</td>
</tr>
<tr>
<td>13 May 2010</td>
<td>2.8</td>
</tr>
</tbody>
</table>

**PT’s statements on synergies are not consistent**

- “Considering market consensus, announced synergies lack ambition” – PT 8 June 2010
- “All opportunities that we have to do synergies with Telefónica in Brazil we are doing” – PT CEO, Q1 10 results conference call, May 6, 2010

(1) TEF’s Q1 2010 results presentation
What can PT do with €6.5bn?

**Distribute and reinvest**

- **6.5**
  - TEF's Revised Offer

- **0.9**
  - Minimum extraordinary dividend as requested by TEF

- **5.6**
  - Financial flexibility & reinvest in Brazil

- €1/share
- 13% return

**Delever and distribute**

- **6.5**
  - TEF's Revised Offer

- **3.0**
  - Financial flexibility

- **3.5**
  - Potential extraordinary dividend

- €4/share
- 52% return

- Ordinary dividend
  - €0.575/share
  - 7.5% return

- Funds to be allocated for significant deleveraging (PF ND/EBITDA of c.1.3x, on an unadjusted basis)
- Addresses rating agencies concerns and protects PT's credit rating
- Extraordinary dividend would imply a total return close to 60%

- Extraordinary dividend would imply a total return in excess of 20%
- PT would keep all flexibility to allocate funds to delever or reinvest in growth markets

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(1) Based on undisturbed share price of €7.7/share as of 10 May 2010
(2) Ordinary dividend announced by PT.
(3) Based on consensus brokers' estimates, pro forma 2010

PT has ample flexibility to remunerate its shareholders and invest in growth opportunities
3. Next steps

- You should vote as soon as possible
- Your investment could be at risk if the offer is not accepted
### Key dates to PT's General Shareholders Meeting

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 Jun</td>
<td>PT calls GSM</td>
</tr>
<tr>
<td>7 Jun</td>
<td>Preparatory information available on PT website<a href="#">^1</a></td>
</tr>
<tr>
<td>14 Jun 5PM</td>
<td>Requests for correspondence and email voting must be received by the Chairman of GM<a href="#">^2</a></td>
</tr>
<tr>
<td>17 Jun</td>
<td>Deadline for receipt of shareholders' statements about their intention to participate in GM</td>
</tr>
<tr>
<td>22 Jun 11:59PM</td>
<td>Deadline for receipt of shareholders' statements about their intention to participate in GM</td>
</tr>
<tr>
<td>30 Jun 10AM</td>
<td>GSM</td>
</tr>
<tr>
<td>8 Jun - 14 Jun 11:59PM</td>
<td>5 day period to insert items on GM agenda and submit resolution proposals to Chairman of GM</td>
</tr>
<tr>
<td>21 Jun – 25 Jun 5PM</td>
<td>Electronic vote casting period<a href="#">^3</a></td>
</tr>
<tr>
<td>23 Jun 00:00AM</td>
<td>Record Date</td>
</tr>
</tbody>
</table>

- **TEF expects strong support from shareholders**
- **Simple majority resolution**
- **Resolution not a Golden Share matter**
- **No share blocking**
- **Proxy solicitation firm Georgeson engaged by TEF**

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[^1]: Appendices and other preparatory information data
[^2]: Shareholders must provide (certified) signature and mailing address to which forms/passwords are to be sent. Deadline not applicable for shareholders who directly download correspondence voting forms from the PT website.
[^3]: The 25th is the Deadline for a) submission of Shareholders’ Representation letter and b) correspondence vote delivery. All times are GMT.
What if the revised offer is not accepted on 30th June?

PT share price performance since TEF’s 1st offer

PT share price has materially benefitted from Telefónica’s offer: if the revised offer is not accepted, PT share price is likely to go down

PT says…

- “The Offer does not reflect the strategic value of Vivo for Telefónica”
  PT – 9 June 2010

- “No consideration should be given to Telefónica’s suggestions relating to Brasilcel”
  PT – 9 June 2010

But…

- “Shareholders should note that in the event that the Offer is rejected no assurance can be provided that similar value will be delivered to shareholders”
  PT – 9 June 2010

- “Status quo is not an option anymore, everything is possible”
  Main PT local shareholder, J.de Negocios, 26 May 2010

- “Because Vivo is a joint venture, we do not have free access to cash flows from Vivo … Because of the composition of Brasilcel’s Supervisory Board and the 50% interest of each party in the joint venture, it will effectively be necessary for Telefónica and us to agree to transfer funds from Vivo […] to us […]”
  PT 20F – April 2010

Source: Bloomberg as of 11-Jun-2010
Notes:
(1) Market-cap weighted index composed of Western Europe incumbent telecom operators
A simple decision for PT shareholders:

Accept Telefónica’s offer

Crystallize an outstanding value proposition implying a premium of over 60% on PT's unaffected share price

OR

Risk living with PT's statement

“No assurance can be provided that similar value will be delivered to shareholders for Vivo”

PT - 9 June 2010

Vote in favour of the resolution!