

# Offer for PT's stake in Brasilcel

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

June 15<sup>th</sup>, 2010

*Telefónica*

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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"**

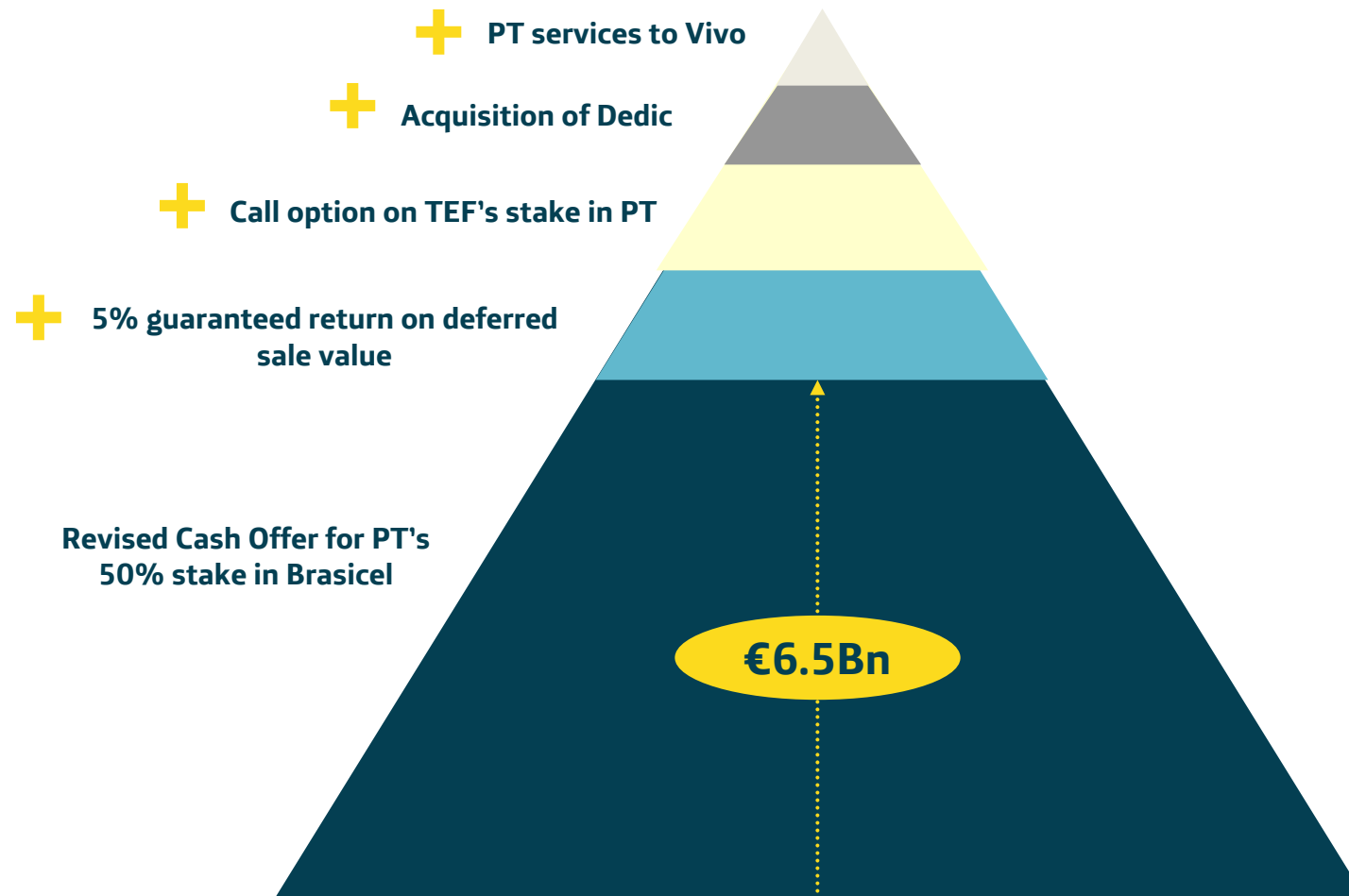
PT - 9 June 2010

**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

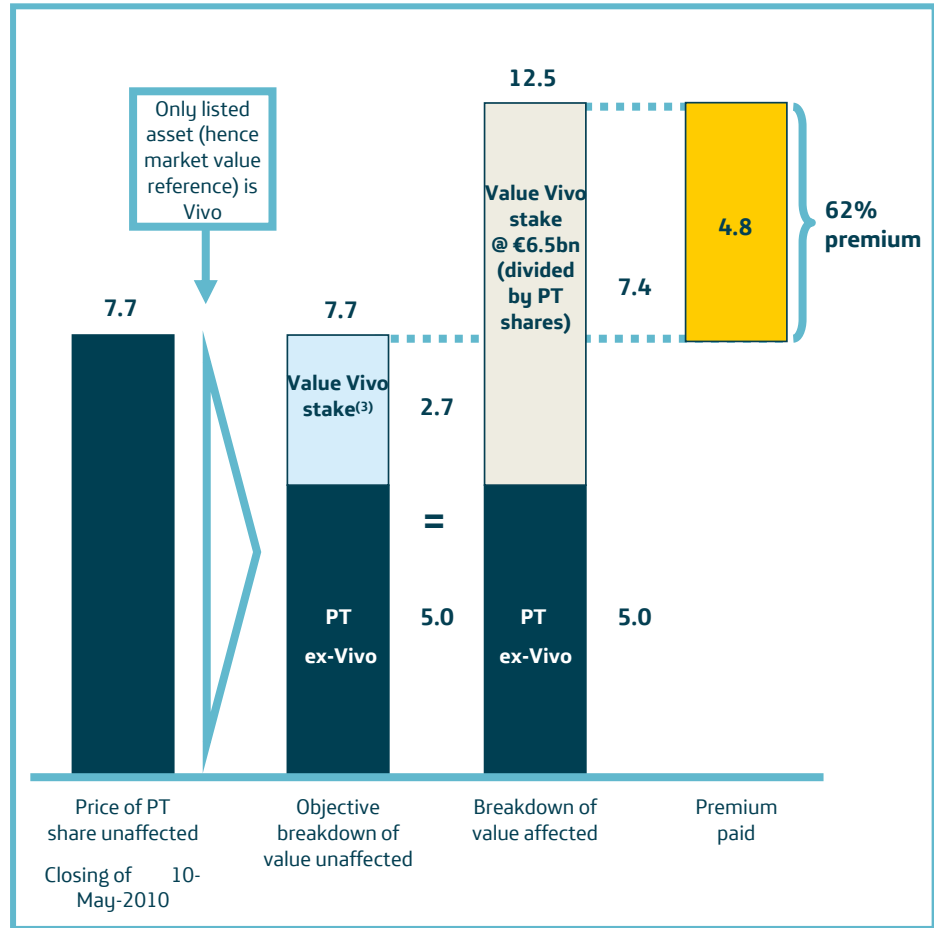
PT's 50% Brasilcel stake	<ul style="list-style-type: none"> <li>▪ <b>Binding, unconditional and valid until June 30th, 2010</b></li> <li>▪ <b>Fully financed and no execution risk</b></li> <li>▪ <b>Contemplated subsequent tender offer over Vivo ON shares at 80% of the price offered for PT's ON shares</b></li> </ul>	
	<p style="text-align: center;"><b>Alternative A</b></p> <ul style="list-style-type: none"> <li>▪ <b>€6.5bn cash offer for PT's stake in Brasilcel</b></li> <li>▪ Closing within 60 days of acceptance</li> </ul>	<p style="text-align: center;"><b>Alternative B</b></p> <ul style="list-style-type: none"> <li>▪ <b>€6.5bn cash offer for PT's stake in Brasilcel</b> <ul style="list-style-type: none"> <li>▪ €2.17bn cash for 1/3 of PT's stake in Brasilcel</li> </ul> </li> <li>1 Closing within 60 days of acceptance</li> <li>+ Put option allowing PT to sell its remaining stake for a total cash consideration of €4.33bn over 3 years from acceptance             <ul style="list-style-type: none"> <li>▪ Put to be exercised in minimum tranches of 10%</li> </ul> </li> <li>2 Brasilcel to pay annual dividends to PT representing 5% of remaining consideration, for a maximum period 3 years             <ul style="list-style-type: none"> <li>▪ Closing with 60 days of delivery of put notice</li> </ul> </li> </ul>
TEF's stake in PT	<ul style="list-style-type: none"> <li>▪ <b>Call option allowing PT to buy TEF's shares in PT representing approximately 8.5% of PT share capital</b></li> <li>▪ <b>TEF to use reasonable efforts to ensure its additional 1.5% stake is also transferred to PT if call is exercised</b></li> <li>▪ <b>Call at market price with exercise date to depend on Alternative selected</b></li> <li>▪ <b>Option valid for a maximum of 3 years from acceptance</b></li> </ul>	
TEF's acquisition of Dedic	<ul style="list-style-type: none"> <li>▪ <b>TEF to buy Brazilian call centre activities from PT (Dedic S.A., FY 09 operating revenues of R\$402m)</b></li> <li>▪ <b>Price to be agreed between TEF and PT following due diligence or through a process involving international investment banks</b></li> </ul>	

# Outstanding value delivered to shareholders, maximum flexibility offered to PT

## Merits of the offer

- **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 <sup>(1)</sup>
  - Implies a potential upside of over 60% to PT's share price <sup>(2)</sup>
  - Unique value for PT not achievable on a standalone basis

## TEF'S 1<sup>st</sup> 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?

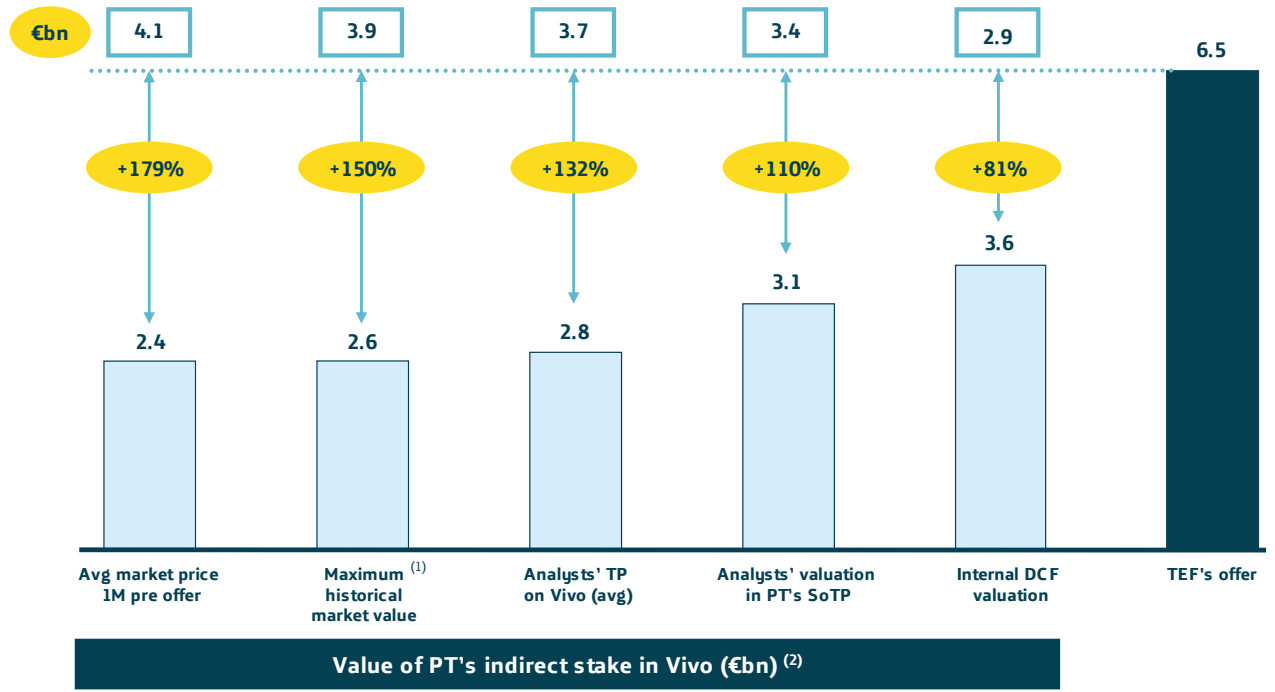
# Value assessment of the offer

**PT – 9 June 2010**

**Premium offered by Telefónica's €6.5bn 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 ...*

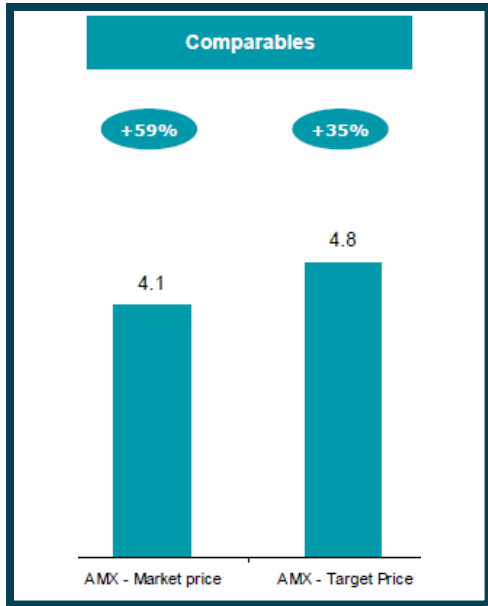


**Which other methodology can be relied on to determine the value of a listed asset?**

(1) According to Bloomberg data  
 (2) At the time of Telefónica's first offer

# What are the true comparables for intrinsic value assessment?

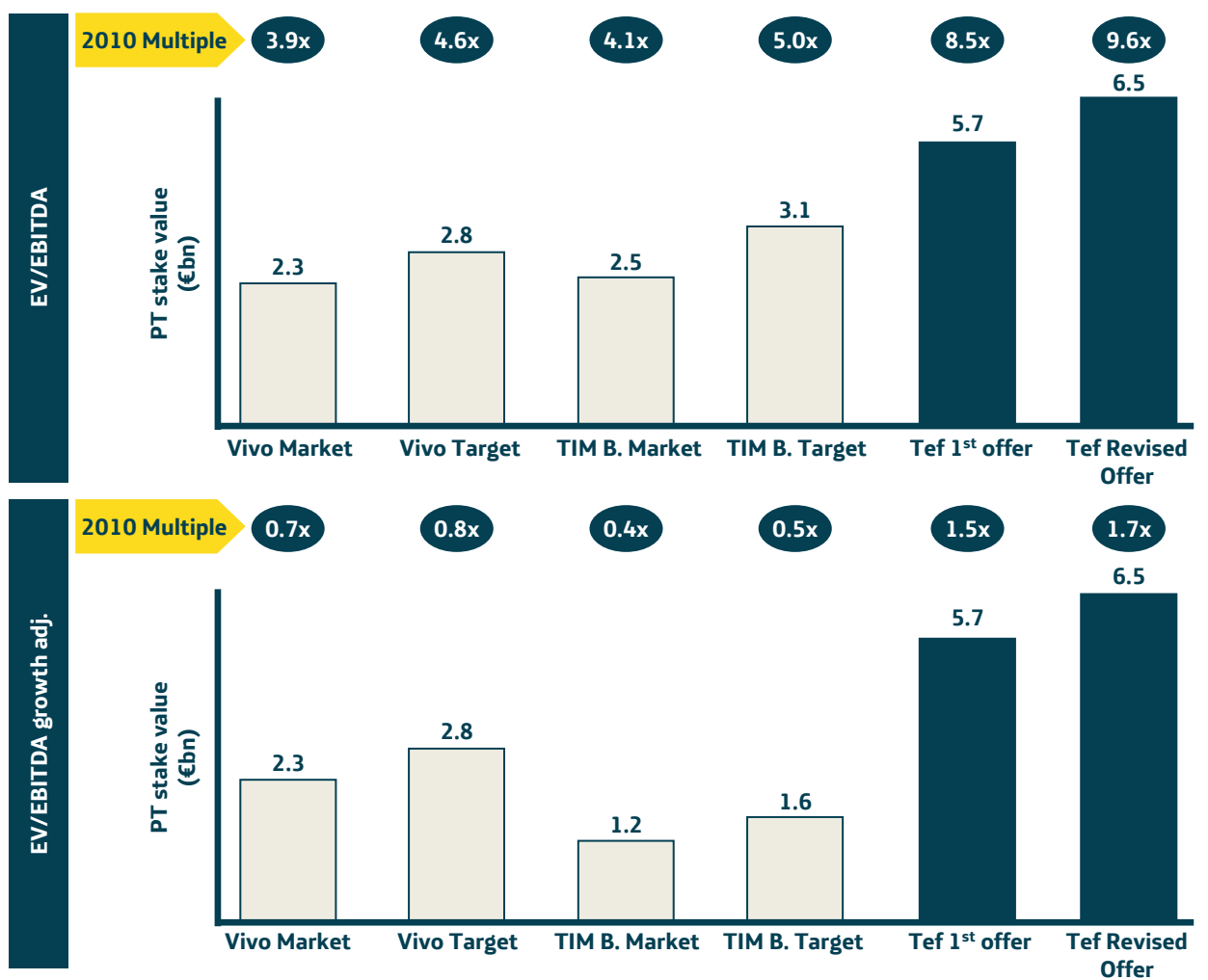
## PT says...



**TIM Brazil is a better comparable than AMX**

- 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

## ...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

# PT's synergy references are either non-comparable or miscalculated

## PT says...

## ...but PT omits to say



### Precedent transactions suggest higher synergies

Precedents In-Market Consolidation Transactions		Operating Synergies NPV	Combined Opex + Capex	Operating Synergies NPV % Combined Opex+ Capex	Comparability to Vivo-TSP	Rationale
Orange CH / Sunrise (November 2009)	orange Switzerland + Sunrise	€2.1bn	€1.4bn	15%	Not applicable	Mobile/Mobile in-market
Orange UK / T-Mobile UK (September 2009)	orange UK + T-Mobile UK	€4.0bn	€7.1bn	56%	Not applicable	Mobile/Mobile in-market
TIM Brasil / Intelig (April 2009)	TIM + Intelig Telecom	€1.4bn	€5.7bn	25%	✓	Miscalculated
Oi / Brasil Telecom (January 2009)	oi + Brasil Telecom	€4.5bn	€11.3bn	40%	Not applicable	State-owned incumbent/ miscalculated
SFR / Neuf Cegetel (December 2007)	SFR + nsuf cegotel	€2.9bn	€9.8bn	30%	Not applicable	Different market
Sprint / Nextel (August 2006)	Sprint + NEXTEL	€9.7bn	€23.5bn	38%	Not applicable	Mobile/Mobile in-market
SBC / AT&T (January 2006)	SBC + AT&T	€11.5bn	€55.1bn	27%	Not applicable	Different market/size
Vivo / Telesp	vivo + Telefonica (Telesp)	€2.8bn	€12.4bn	23%		

**TEF's offer is generous vs comparable deals**

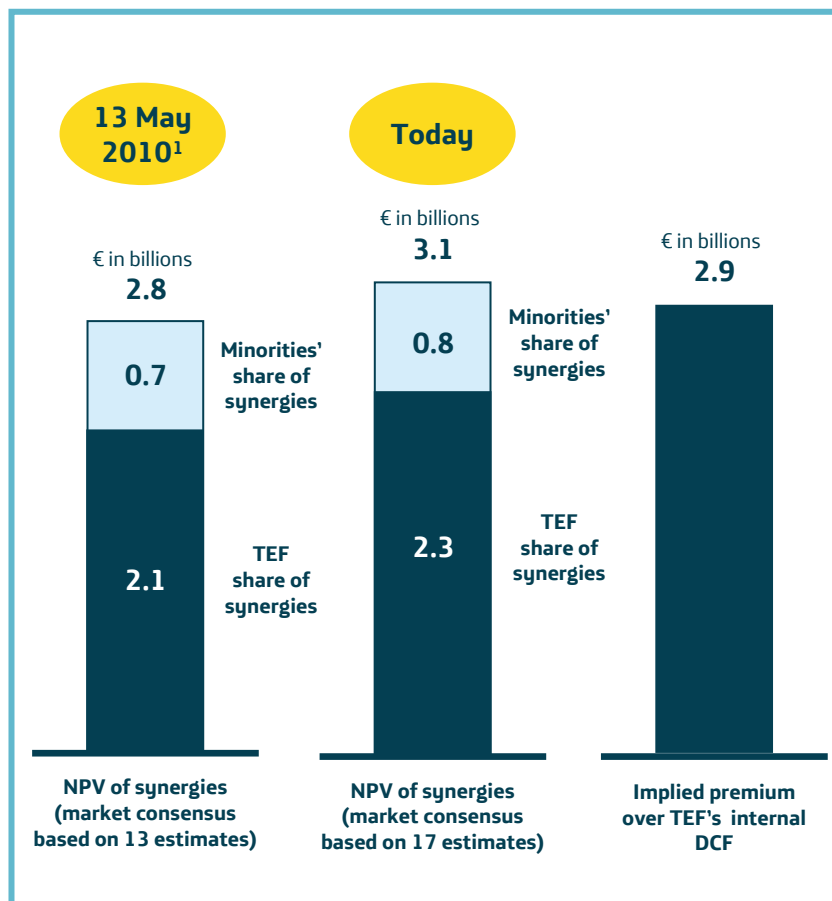
### Relevant transactions for Vivo-TSP

			Synergies NPV (%) <sup>1</sup>
TIM/intelig	Limited company disclosure	Citi Research report (May 09) <ul style="list-style-type: none"> <li>Synergies of c.R\$2.1bn (€1.0bn)</li> <li>Combined opex &amp; capex of R\$13.4bn (€6.1bn)</li> </ul>	15.9%
AMX/Telmex	Limited company disclosure	JPM Research report (Apr 10) <ul style="list-style-type: none"> <li>Synergies of c.US\$2.8bn (€2.1bn)</li> <li>Combined opex &amp; capex of c.US\$37.5bn (€28.1bn)</li> </ul>	7.5%

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

# The market has already given its verdict on potential synergies

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



## How much of these synergies should TEF share?

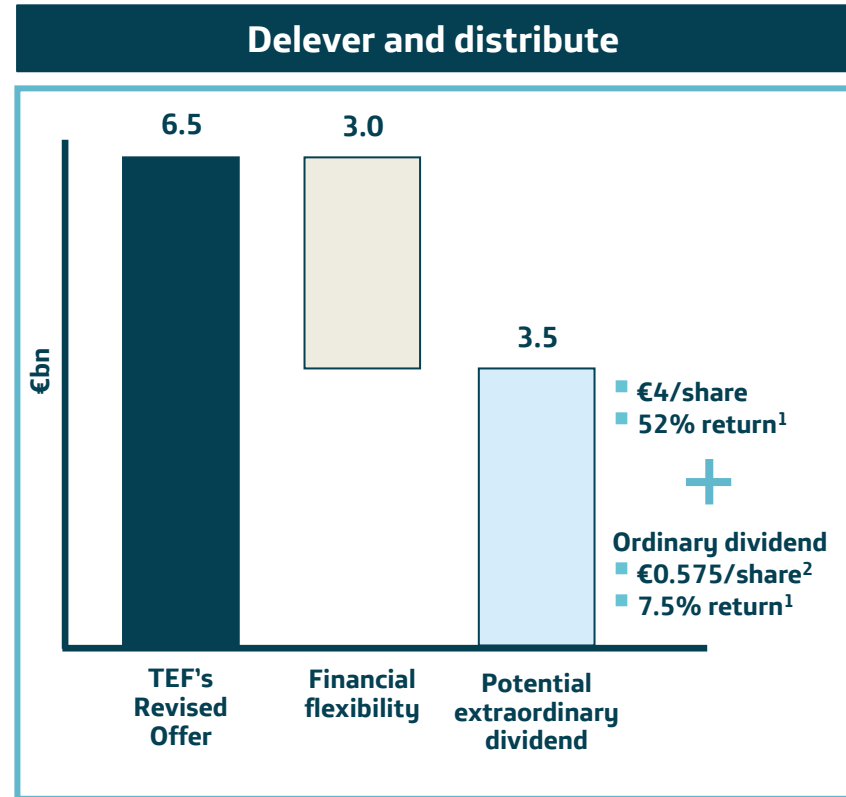
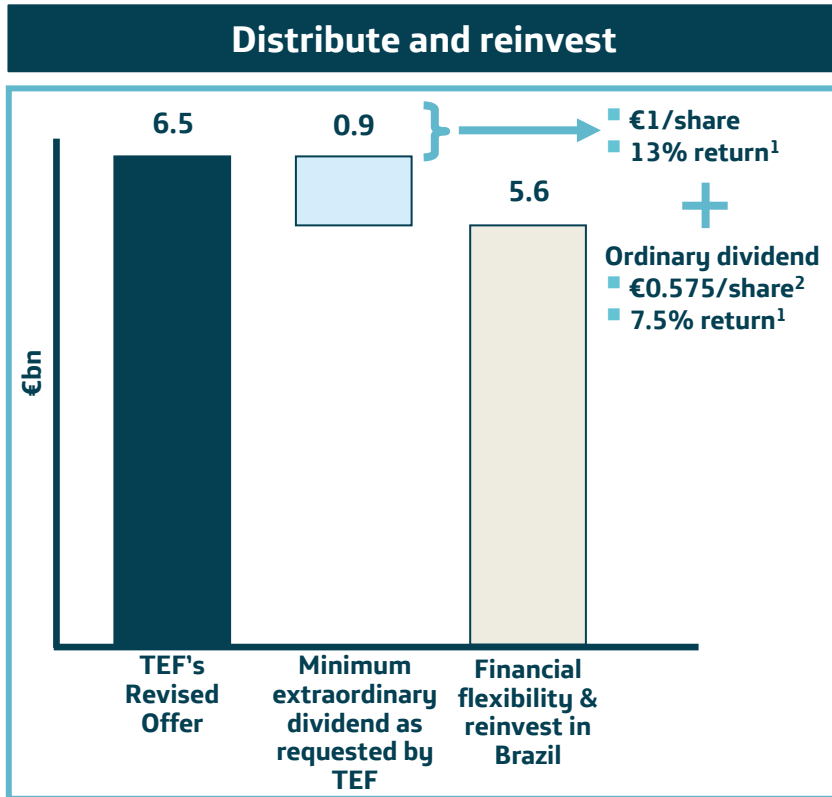
- Minorities' share of synergies would amount to approx. 25%
- TEF already owns 50% of Brasilcel
- TEF is giving away to PT most synergies in its €6.5bn Revised Offer
- TEF has full execution risk to implement synergies

## PT's statements on synergies are not consistent

- *"Considering market consensus, announced synergies lack ambition"* – PT 8 June 2010
- but...
- *"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?



- 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

- Funds to be allocated for significant deleveraging (PF ND/EBITDA<sup>3</sup> 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%

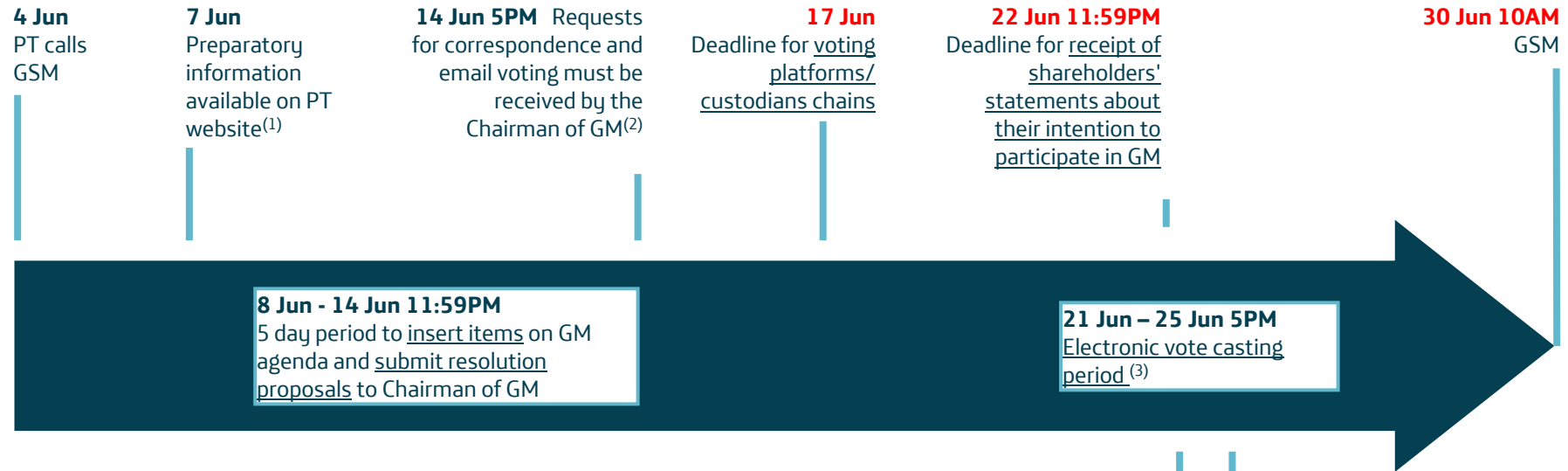
**PT has ample flexibility to remunerate its shareholders and invest in growth opportunities**

(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

### 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



- **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**

**23 Jun 00:00AM**  
Record Date

**23 Jun 11:59PM**  
Deadline for submission of  
information by financial  
intermediaries, whose clients  
have informed of their intent  
to take part in GM

**Notes:**

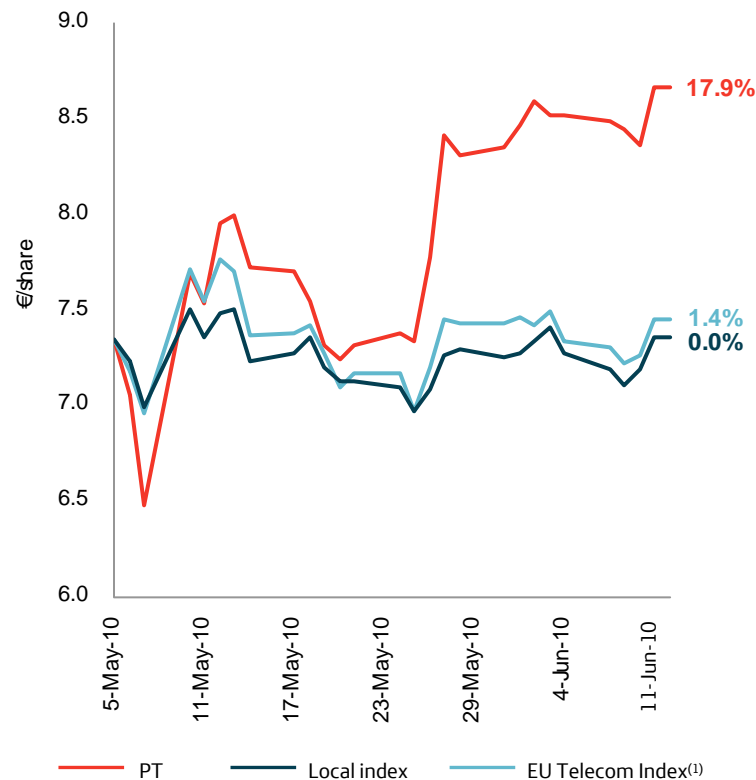
- (1) Appendices and other preparatory information data
- (2) Shareholders must provide (certified) signature and mailing address to which forms/passwords are to be sent  
Deadline not applicable for shareholders who directly download correspondence voting forms from the PT website
- (3) The 25<sup>th</sup> is the Deadline for a) submission of Shareholders' Representation letter and b) correspondence vote delivery
- (4) All times are GMT



# What if the revised offer is not accepted on 30<sup>th</sup> 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 Negócios, 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

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PT - 9 June 2010

**Vote in favour of the resolution!**

*Telefónica*

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