



**SONAECOM**

**Best and Final Cash Offer  
of €10.50 per  
Portugal Telecom share**

**FINAL CASH OFFER**

**Premium value and cash  
certainty today**

## Best and Final Cash Offer of €10.50 per Portugal Telecom share

- **€10.50 in cash per PT ordinary share (or the USD equivalent per ADS)**
  - Sonaecom's best and final offer for PT shareholders
  - The PTM offer of €9.03/share remains unchanged
  
- **A cash offer at significant premium to PT's fundamental value reflecting the payment of transaction synergies<sup>1</sup>**
  - A €3.6bn premium to similar change of control transaction multiples
  - A €3.1bn premium to current telco peer trading multiple even despite a 33% telco market rally<sup>2</sup>
  - A €2.1bn premium to market analysts' fair valuations
  
- **Sonaecom's offer is pricing-in the transaction synergies and paying them to PT shareholders in cash today**
  - Sonaecom is assuming the execution risk of extracting these synergies<sup>1</sup>

**Sonaecom offers PT shareholders a full price and cash certainty today**

<sup>1</sup> Synergies reference point is €1.5bn, based on the median of analysts' estimates (research reports used: Millennium BCP Inv. (01/Dec/2006) and BPI (26/Sept/2006))

<sup>2</sup> M&A-Free Telco Index that includes companies such as, Belgacom, BT Group, Deutsche Telekom, France Telecom, Swisscom, Telefonica, Telekom Austria, Telenor and Vodafone. Index is based on non-weighted prices (Source: Datastream as of February 14, 2007)

**Sonaecom has put forward its Best and Final Offer, offering Full value to PT shareholders for their shares**

**It is now up to you,  
as a PT shareholder to crystallize  
your value by attending the EGM,  
voting in favour of  
amending PT's articles and  
authorizing Sonaecom to acquire  
more than 10% of PT's share capital  
and tendering your shares on or  
before March 9, 2007**

## Attend the EGM and Vote In Favour of proposed changes to the articles

- Sonaecom's **offer is subject to the amendment** of PT's articles of association
- Such **amendment requires** shareholders representing **at least one third of the share capital to be present** or represented at the EGM and **approval by a two-thirds** of the votes cast
- If the **PT articles amendment is not approved** on March 2, 2007, Sonaecom's **offer will lapse and fail**
- **Voting in favour** of the amendment of PT's articles is crucial to **enable you to receive Sonaecom's premium cash offer**

Not voting at the EGM is effectively voting against the Offer!

## Key Steps you should take Before the EGM

- 1 **Submit a letter** to the PT Chairman of the EGM, from your bank confirming your PT shares are blocked and **sign a declaration** that no more than 10% of PT's voting rights are attributable to you **before February 23**
- 2 **Contact your custodian NOW** as most of them have defined deadlines between today and Tuesday to process the vote
- 3 If you **are an ADS holder**, please refer to the voting instruction form and proxy card that was sent to you

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Alternatively, **if you would like to vote in favour** of the amendments to PT's articles at the EGM but do not want to go through the voting procedures, **we can vote on your behalf**

- 1 **Please go** to [www.sonaecom.com](http://www.sonaecom.com) and follow the respective instructions

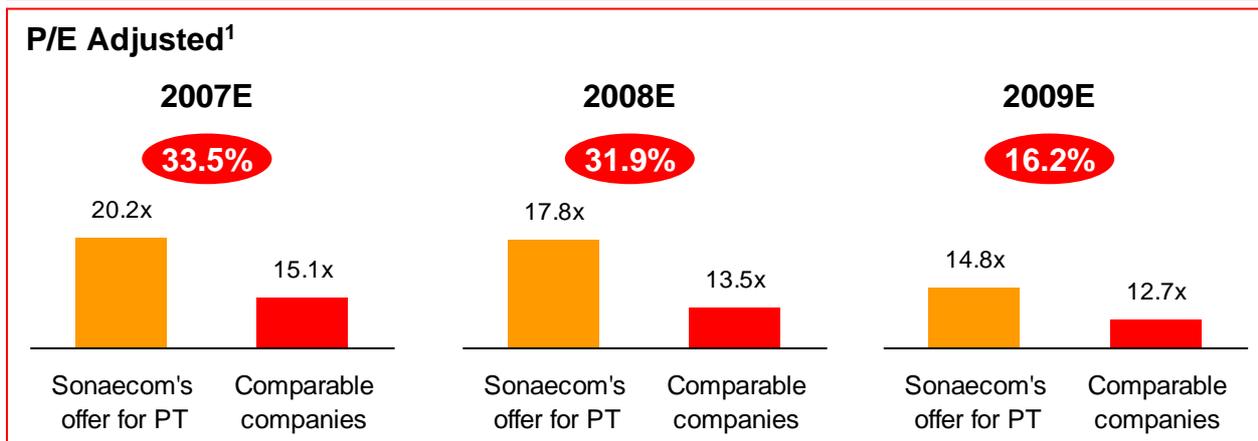
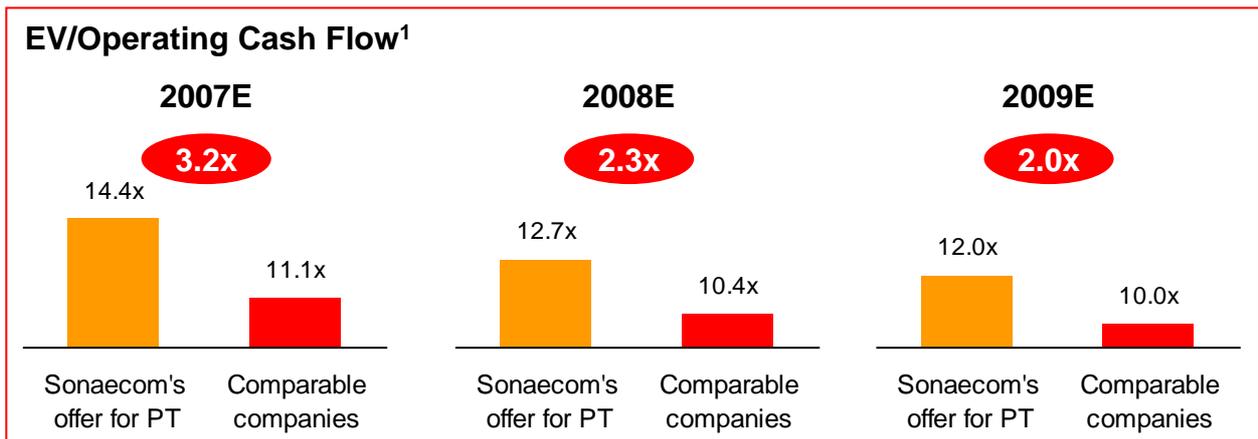
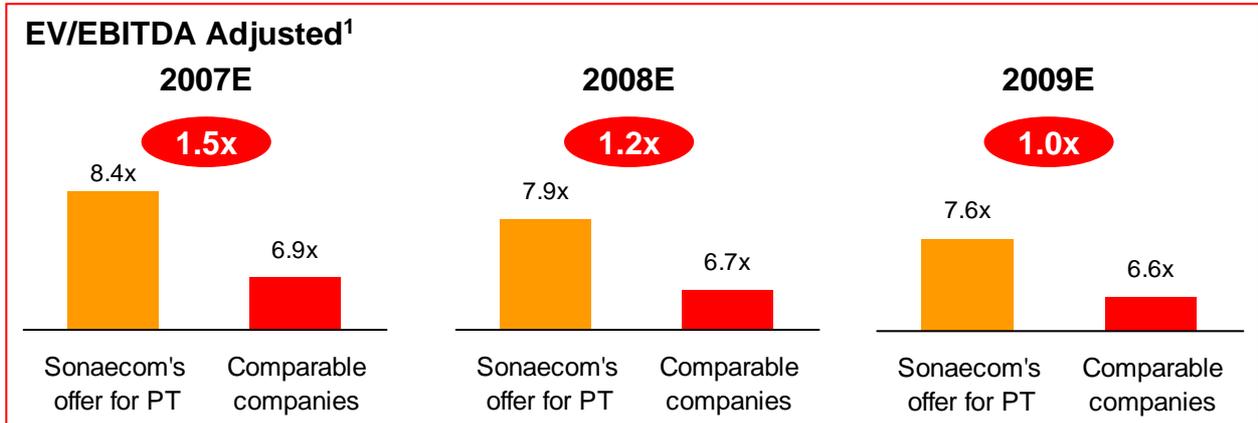
**Not voting in favour of the amendment will prevent you from receiving Sonaecom's premium cash offer**

**Sonaecom Offers Full Value  
and Cash Certainty Today**

**Transaction Synergies are Priced-in  
and Paid Upfront in Cash Today**

# Sonaecom's Best and Final Offer values PT at a significant premium to comparable Trading Multiples

Multiples of comparable listed European telecommunications companies vs. multiple of Sonaecom's Offer for PT

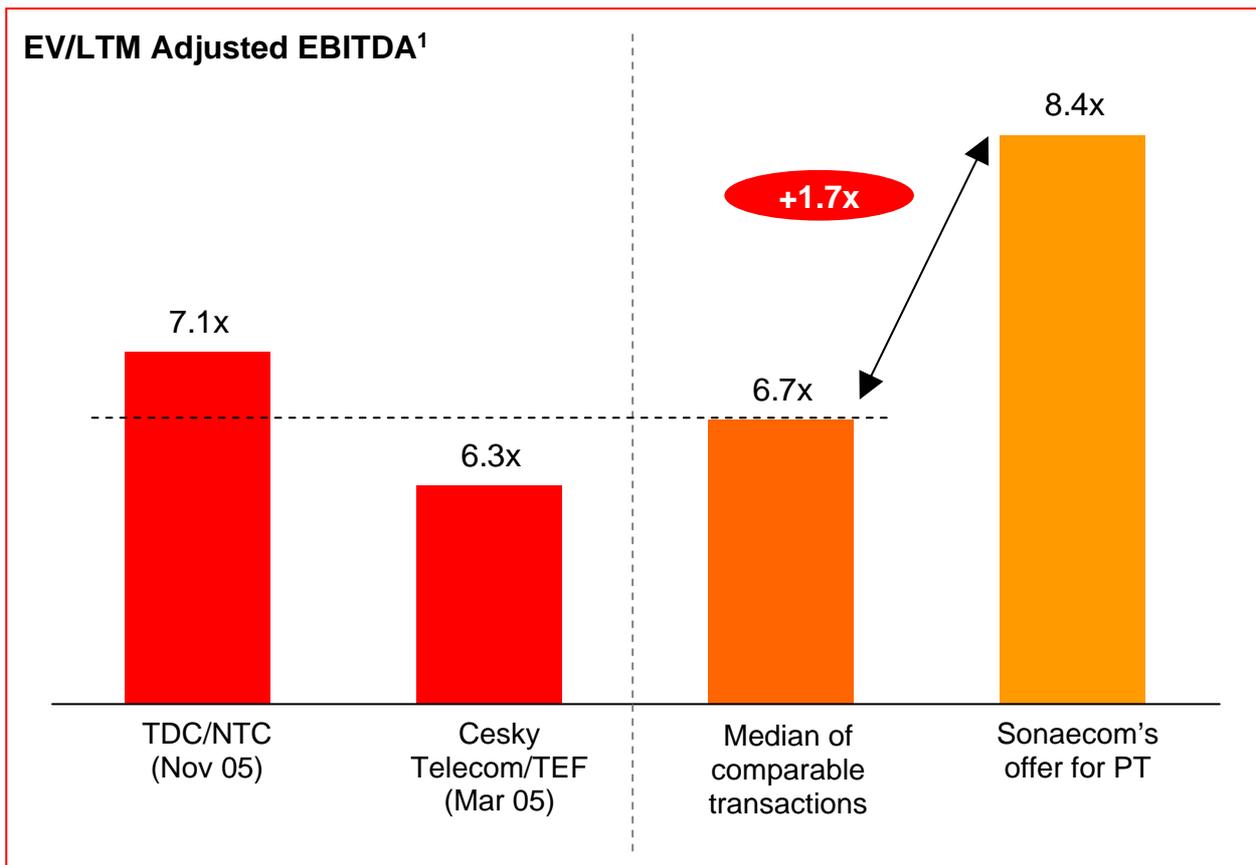


**Sonaecom's Offer is at a €3.1bn premium to current trading multiples of comparable companies and more than €1.1bn premium to the original offer price**

<sup>1</sup> Please refer to the Appendix A for further details

# Sonaecom's Best and Final Offer is at a significant premium to comparable Transaction Multiples

Recent comparable transactions in the European telecommunications industry



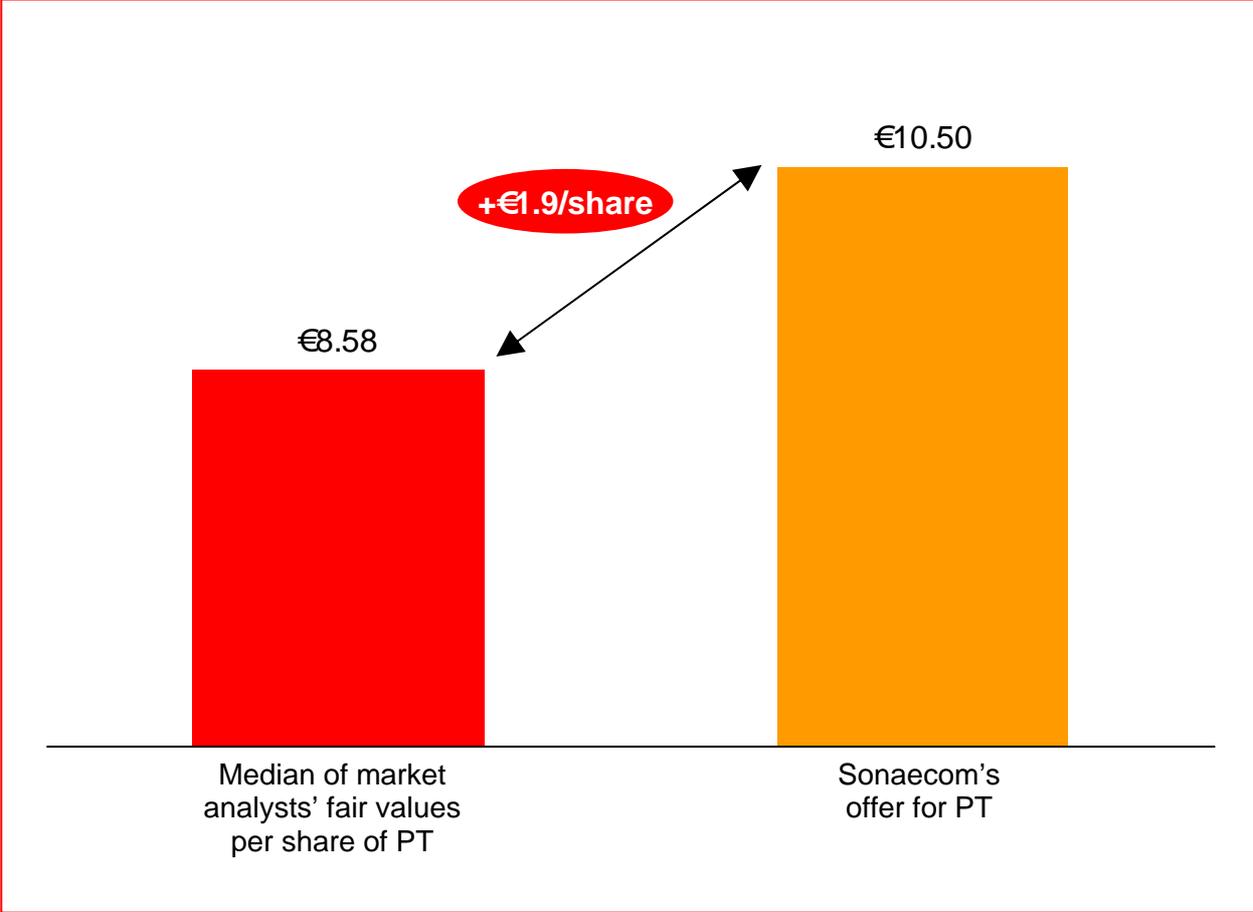
- Comparable transactions include:
  - Acquisition of TDC by NTC in November 05
  - Acquisition of Cesky Telecom by Telefonica in March 05
- Most comparable to PT as they are incumbent telecommunications companies with similar:
  - Business mix (fixed, mobile, broadband and in the case of TDC, cable)
  - Market share
  - Tax environment

**Sonaecom's Offer is at a €3.6bn premium to similar change of control transactions and more than €1.1bn premium to the original offer price**

<sup>1</sup> Please refer to Appendix A for further details

# Sonaecom's Best and Final Offer values PT significantly above analysts' fair target values

Median of market analysts' fair values for PT (unaffected by the offer)<sup>1</sup>



**Sonaecom's Offer is at a €2.1bn premium to analysts' fair valuations of PT and more than €1.1bn compared to the original offer price**

<sup>1</sup> Please refer to Appendix A for further details

## **Appendix A – Sources and uses**

## Bases of Calculation and Sources of Information

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EV (Enterprise Value) = Equity Value + Net Debt + Unfunded Pension Liability after tax + Minority Interests – Associates.

Equity Value = number of outstanding shares (number of company shares - number of treasury shares) x price per share.

Adjusted EBITDA = EBITDA (Operating Income Earnings Before Interest, Tax, Depreciation, Amortization) before pension expense and after curtailment costs.

EBITDA has been adjusted for the Pension expense in order for the multiples to be consistent, as the present value of the unfunded pension liability is already considered in the EV.

The curtailment costs adjustment is especially important in the case of PT, because of the recurrent nature of this item in PT (included in the last four years accounts) and due to the fact that most comparable companies (except Deutsche Telekom) do not refer to curtailment costs.

The EV used to calculate the multiples implied in the offered consideration, was € 17,913mm, calculated as described below:

(+) PT's Equity Value: € 11,636mm (€ 10.50 per share \* 1,108mm of shares, excluding 20.6mm of shares held through equity swap agreements, under the share buyback program approved in PT's General Shareholders Meeting, in April, 2005 (Source: PT's 2006 unaudited results).

(+) Net debt: € 3,757mm (Source: 2006 PT's unaudited results).

(+) Unfunded Pension Liability (after-tax): € 1,216mm (Source: PT's 2006 unaudited results; €1,654mm gross of taxes, considering a 27.5% corporate tax rate).

(+) PTM Minority interests: € 1,339mm (42% of PTM' equity value, based on company's closing price on 14 February 2007).

(+) Vivo Minority Interests of: € 929mm (portion of Vivo's equity value, based on the company's closing price on 14 February 2007). Note that Vivo is 50.00% consolidated but PT's economic interest in Vivo is only 31.38%, thus the difference between 50.00% and 31.38% should be considered as minority interests.

(-) Associates: € 964mm (median of the five market analysts that recently disclosed their estimates for PT's Associates: Bernstein, BPI, Deutsche Bank, Lehman Brothers and Millennium bcp Investimento).

## **Bases of Calculation and Sources of Information (cont'd)**

### **Page 7 (cont'd)**

PT's consolidated financials used to calculate the multiples were based on the median of market recently published analysts' estimates of major investment banks. The research reports used were the following: Ahorro Corporación (10/Nov/06), Bear Sterns (15/Feb/07), Bernstein (13/Dec/06), Credit Suisse (10/Jan/07), Deutsche Bank (01/Feb/2007), Dresdner Kleinwort (15/Jan/07), Ixis (10/Nov/06), Lehman Brothers (15/Jan/07) and Millennium bcp Invervimento (27/Dec/06). For the referred period, the only available analyst estimates not considered were Banif Inv. and Lisbon Brokers.

The estimates used for PT's pension expense adjustment (€50mm in 2007) are based on the figures disclosed by PT's Chief Financial Officer ("CFO") on the 3Q06 earnings analysts' conference held on November 9, 2006. In 2008 and 2009, the €40mm pension expense estimates were based in the median of three market analysts.

The broker reports disclosing curtailment costs projection for PT are the following: Bear Sterns (15/Feb/07), Bernstein (13/Dec/06), Credit Suisse (10/Jan/07), Ixis (10/Nov/06) and Millennium bcp Invervimento (27/Dec/06).

Please see detail of PT's Adjusted EBITDA, Capex and Adjusted EPS 2007 to 2009 estimates, used in the calculation of the multiples implied offered consideration for PT on Appendix B.

For the comparable multiples, considered median of the multiples of Telefónica, Deutsche Telekom, France Telecom, Telecom Italia, Swisscom, Telenor, Belgacom and OTE (comparable companies).

Equity values used to calculate EVs are based on closing prices of the comparable companies on February 14, 2006. Net Debt and Unfunded Pension Liabilities were based on the last interim results published by the comparable companies.

The median of market analysts' estimates per major investment banks published after the release of the respective interim results, were used to calculate the unlisted minority interests, unlisted Associates, Adjusted EBITDA, Capex and Adjusted EPS of the comparable companies.

Comparable companies' multiples were calculated using exactly the same methodology, described above for PT, when calculating their Adjusted EBITDA, Operating Cash Flow and Capex.

Particularly, the unfunded pension liability adjustment to EV was made in the case of Deutsche Telekom, France Telecom, Telecom Italia, Swisscom, Telenor, Belgacom and OTE (companies which also have unfunded pension liabilities). The curtailment costs adjustment to EBITDA is also done in the case of comparable companies where analysts publish estimates.

Calculation of premium of €3.1bn is based on 1.4x premium (median of implied premiums to EVs multiples of comparable companies) to Adjusted 07 EBITDA, where PT's Adjusted 07 EBITDA is €2,143mm as shown in Appendix B.

## **Bases of Calculation and Sources of Information (cont'd)**

### **Page 8**

LTM refers to Last Twelve Months EBITDA prior to announcement date. TDC/NTC implied transaction multiple is pro forma for the previously announced sale of the TDC Directories business.

Latest publicly filed target company reports used to calculate the Adjusted EBITDA. TDC's EBITDA was adjusted for DKK 637mm of curtailment costs in the LTM before the announcement. TDC did not report any material unfunded pension liability or pension expenses. Cesky Telecom did not report any material unfunded pension liability, pension expense or curtailment costs below its EBITDA line. EV was calculated using offer documents to calculate transaction price, and latest publicly filed target company reports to calculate net debt and number of shares of the target.

For PT, assuming 2006 unaudited reported EBITDA of €2,424mm, adjusted to exclude the extraordinary negative post retirement benefit cost of €72mm and to include PT's forecasted cost of €64mm. After this adjustment, referred by PT on its published 2006 unaudited results (page 8), the 2006 EBITDA is €2,288mm.

PT's Adjusted 06 EBITDA assumed in the multiple calculation is assessed considering a pension expense of €64mm, as mentioned above, and 2006 reported curtailment costs of €229mm. This last value excludes the extraordinary impact resulted from the termination of the protocol with the national healthcare system, as per PT's 2006 unaudited reported results (page 3 of the document released by the company). PT's Adjusted 06 EBITDA of €2,123mm.

Calculation of premium of €3.6bn is based on 1.7x premium to Adjusted 06 EBITDA, where PT's Adjusted 06 EBITDA is €2,123mm as shown above.

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Source: International and Portuguese major investment banks published research reports that have disclosed its fair sum-of-the-parts valuation for PT, unaffected by the Offers (excluding only the Lisbon Brokers and Banif Investimentos for the considered period).

The investment banks used were: Deutsche Bank, €10.50/share (01/Feb/07); Lehman Brothers, €7.30/share (15/Jan/07); Sanford Bernstein, €8.05/share (13/Dec/06); Exane BNP Paribas, €9.10/share (13/Dec/06); Millennium BCP Inv, €11.50/share (01/Dec/06); Banco BPI, €8.02/share (26/Sep/06).

Calculation of premium of €2.1bn is based on €1.93 per share premium of Sonaecom's offer of the median analysts' fair value targets for PT, multiplied by 1,108mm number of outstanding shares (after treasury shares).

**Appendix B – Detail of PT’s Adjusted EBITDA, Capex and Adjusted EPS 2007 to 2009 estimates, used in the calculation of the multiples implied offered consideration for PT**

#### A. Analyst's EBITDA Estimates for PT

##### 1. Estimated EBITDA on February 2007 (€million)

Analyst	Date	2007E	2008E	2009E
Millenium BCP	27-Dec-06	2,232	2,362	2,399
Ahorro Corporacion	10-Nov-06	2,401	2,491	2,546
Ixis	10-Nov-06	2,302	2,414	
Bernstein Research	13-Dec-06	2,206	2,252	2,320
Credit Suisse	10-Jan-07	2,271	2,328	2,434
DW	15-Jan-07	2,294	2,386	
Lehman Brothers	15-Jan-07	2,219	2,234	2,345
Deutsche Bank	1-Feb-07	2,263	2,301	
Bear Sterns	15-Feb-07	2,330	2,376	2,394
<b>Median</b>		<b>2,271</b>	<b>2,362</b>	<b>2,397</b>

#### B. Analyst's Curtailment Costs Estimates for PT

##### 1. Curtailment costs estimates on February 2007 (€million)

Analyst	Date	2007E	2008E	2009E
Millenium BCP	27-Dec-06	196	235	59
Ixis	10-Nov-06	125	125	
Bernstein Research	13-Dec-06	178	78	79
Credit Suisse	10-Jan-07	263	265	0
Bear Sterns	15-Feb-07	102	91	83
<b>Median</b>		<b>178</b>	<b>125</b>	<b>69</b>

#### C. Pension Expenses Estimates for PT

##### 1. Pension expense estimates on February 2007 (€million)

Source	Date	2007E	2008E	2009E
PT's CFO figures disclosed	9-Nov-06	50		
Millenium BCP	27-Dec-06		38	34
Bernstein Research	13-Dec-06		40	40
Bear Sterns	15-Feb-07		66	66
<b>Median<sup>1</sup></b>		<b>50</b>	<b>40</b>	<b>40</b>

<sup>1</sup> PT's CFO figures disclosed to 2006 and 2007, and median of analyst's estimates for 2008

#### D. Analyst's Adjusted EBITDA for PT

##### 1. Adjusted EBITDA estimates on February 2006 (€million)

	2007E	2008E	2009E
Median of EBITDA Estimates	2,271	2,362	2,397
(+) Median of pension expenses estimates	50	40	40
(-) Median of curtailment costs estimates	178	125	69
<b>EBITDA Adjusted</b>	<b>2,143</b>	<b>2,277</b>	<b>2,368</b>

## E. Analyst's Capex Estimates for PT

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### 1. Capex estimates on February 2007 (€million)

Analyst	Date	2007E	2008E	2009E
Millenium BCP	27-Dec-06	837	806	751
Ahorro Corporacion	10-Nov-06	926	915	1,038
Ixis	10-Nov-06	871	855	
Bernstein Research	13-Dec-06	1,022	903	917
Credit Suisse	10-Jan-07	855	828	789
Lehman Brothers	15-Jan-07	979	949	958
Deutsche Bank	1-Feb-07	790	858	
Bear Sterns	15-Feb-07	924	870	828
<b>Median</b>		<b>898</b>	<b>864</b>	<b>873</b>

## F. Analyst's EPS Estimates for PT

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### 1. Adjusted EPS estimates on February 2007 (€/share)

Analyst	Date	2007E	2008E	2009E
Millenium BCP	27-Dec-06	0.55		
Ahorro Corporacion	10-Nov-06	0.64	0.73	0.71
Ixis	10-Nov-06	0.41	0.51	
DW	15-Jan-07	0.49	0.59	
<b>Median</b>		<b>0.52</b>	<b>0.59</b>	<b>0.71</b>

## IMPORTANT NOTICE

This document relates to the tender offer being made in Portugal (the "Portuguese Offer") by Sonaecom, SGPS, S.A. ("Sonaecom") and Sonaecom, B.V. for all ordinary shares and class A shares of Portugal Telecom, SGPS, S.A. ("PT"). The Portuguese Offer is made solely by a prospectus containing and setting out the terms and conditions of the Portuguese Offer (the "Portuguese Prospectus"). PT investors and security holders are urged to read the Portuguese Prospectus regarding the tender offer for PT in Portugal, because it contains important information. The Portuguese Prospectus and certain complementary documentation have been filed in Portugal with the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários) (the "CMVM"). Free copies of the Portuguese Prospectus are available on the CMVM's website at [www.cmvm.pt](http://www.cmvm.pt). The Portuguese Prospectus is also available from Sonaecom on its website at [www.sonae.com](http://www.sonae.com). Copies of the Portuguese Prospectus will not be mailed or otherwise distributed in or sent into or made available in the United States.

U.S. persons who hold ordinary shares of PT and holders of American Depositary Shares of PT wherever located may participate in the tender offer by Sonae, SGPS, S.A. ("Sonae"), Sonaecom, and Sonaecom, B.V. (together with Sonae and Sonaecom, the "Purchasers"), for PT shares being conducted in the United States. The Purchasers have filed with the United States Securities and Exchange Commission (the "SEC") a statement on Schedule TO, which includes an offer to purchase and related offer materials for all ordinary shares held by U.S. persons and for PT ADSs held by holders wherever located (collectively, the "Tender Offer Statement"). PT has filed a Solicitation/ Recommendation Statement on form Schedule 14D-9 with the SEC. U.S. persons who hold ordinary shares of PT and holders of American Depositary Shares of PT wherever located are advised to read the Tender Offer Statement and the Solicitation/Recommendation Statement because they contain important information. U.S. INVESTORS AND U.S. HOLDERS OF PT SECURITIES AND ALL HOLDERS OF ADSs ARE URGED TO READ THE OFFER TO PURCHASE, THE STATEMENT ON SCHEDULE TO, AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC, AS WELL AS ANY AMENDMENTS AND SUPPLEMENTS TO THOSE DOCUMENTS, BECAUSE THEY CONTAIN IMPORTANT INFORMATION. Investors and security holders may obtain free copies of the offer to purchase and related offer materials and the statement on Schedule TO, as well as other relevant documents filed with the SEC, at the SEC's website at [www.sec.gov](http://www.sec.gov). The offer to purchase and other transaction-related documents are being mailed to holders of PT securities eligible to participate in the U.S. offer and additional copies may be obtained for free from Innisfree M&A Incorporated, the information agent: 501 Madison Avenue, 20th Floor, New York, New York 10022, Toll Free (888) 750-5834, Banks and Brokers Call Collect (212) 750-5833.

This document does not constitute an invitation to sell or an offer to buy any securities or a solicitation of any vote or approval.

This document may contain forward-looking information and statements about Sonae, Sonaecom, PT or their combined businesses after completion of the proposed U.S. and Portuguese offers, based on the Purchasers' current expectations or beliefs. Forward-looking statements are statements that are not historical facts. These forward-looking statements may relate to, among other things: management strategies; synergies and cost savings; future operations, products and services; integration of the businesses; market position; planned asset disposal and capital expenditures; net debt levels and EBITDA; and earnings per share growth, dividend policy and timing and benefits of the offer and the combined company. These forward-looking statements are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forwarding-looking statements, including, but not limited to, changes in regulation, the telecommunications industry and economic conditions; the ability to integrate the businesses; obtaining any applicable governmental approvals and complying with any conditions related thereto; costs relating to the offer and the integration; litigation; and the effects of competition. Forward-looking statements may be identified by words such as "believes," "expects," "anticipates," "projects," "intends," "should," "seeks," "estimates," "future" or similar expressions. Although these statements reflect our current expectations, which we believe are reasonable, investors and PT shareholders are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond our control, that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. You are cautioned not to put undue reliance on any forward-looking information or statements. We do not undertake any obligation to update any forward-looking information or statements.