

Edgar Filing: PORTUGAL TELECOM SGPS SA - Form 425

PORTUGAL TELECOM SGPS SA

Form 425

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Pursuant to Rules 425 and 163 of the Securities Act of 1933

Subject Company: Oi S.A.

Commission File No.: 001-15256

Subject Company: Portugal Telecom SGPS S.A.

Commission File No.: 001-13758

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Consolidation of the industrial alliance between Oi
and Portugal Telecom
London, 2 October 2013

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IMPORTANT NOTICE

In the context of the recently announced intention by Portugal Telecom SGPS (PT), Oi S.A (Oi), Telemar Participações S.A (TPart), AG Telecom (AG Tel.) and LF Telecom (LF Tel.), to combine PT and Oi, PT and Oi have distributed this document for the sole purpose of providing complementary information and explaining the companies' perspective on the Transaction that is to be proposed for the approval of the Extraordinary General Meetings (EGM) of PT and Oi, to be convened for that purpose. The facts contained in this document are from public sources or have been prepared by both management teams.

This document does not represent in any way the agreement to participate in the Transaction. The Transaction would occur only upon the approval of the Transaction at the EGMs and the satisfaction of the conditions to which the Transaction is subject and in compliance with the rules and regulations established for such transactions in Portugal, Brazil, the USA and any other relevant jurisdiction.

Forward-Looking Statements

This document 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 facts, including statements regarding the outlook and expectations of PT, Oi and the entity that will combine their businesses (HoldCo), business strategies, future synergies and cost savings, future performance and future liquidity. These statements reflect the current outlook of the management of PT, Oi and HoldCo and are subject to a number of risks and uncertainties.

The words anticipates, believes, estimates, expects, forecasts, intends, plans, predicts, projects, may, may not, should, could, targets and goal and similar words are intended to identify these forward-looking statements. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, operational factors, corporate approvals and other factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations. All forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements set forth in this paragraph. Forward-looking statements speak only as of the date they are made. Except as required by the U.S. federal securities laws and the rules and regulations of the SEC or of regulatory authorities in other applicable jurisdictions, we do not have any intention or obligation to update or to publicly announce the results of any revisions to any of the forward-looking statements to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting forward-looking statements. You are advised, however, to consult any further disclosures PT, Oi or HoldCo makes on related matters in reports and communications PT, Oi and HoldCo file with the SEC.

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IMPORTANT NOTICE

This communication does not constitute an offer, solicitation or sale in any jurisdiction in which such offer, solicitation or sale is unlawful prior to registration or qualification under the securities laws of that jurisdiction.

This communication contains information with respect to (1) the proposed Oi capital increase and related public offering of common and preferred shares by Oi, (2) the proposed incorporation of Oi shares (*incorporação de ações*) into HoldCo and (2) the proposed incorporation (*incorporação*) of PT into Holdco.

Oi may file a registration statement (including a prospectus) with the U.S. Securities and Exchange Commission (the "SEC") for the offering of its common shares and preferred shares to be issued in connection with the proposed Oi capital increase. Before you invest, you should read the prospectus in that registration statement and other documents Oi has filed with the SEC for more complete information about that offering. You may get these documents for free by visiting EDGAR on the SEC Web site at www.sec.gov. Alternatively, you may request that we send you the prospectus after filing if you request it by calling toll-free 1- 855-672-2332.

In connection with the proposed incorporation of Oi shares into HoldCo and the proposed merger of PT into HoldCo, HoldCo and its affiliates plans to file with the SEC (1) one or more registration statements on Form F-4, containing a prospectus(es) that will be filed with the SEC for U.S. holders of ordinary shares of Oi and PT and to holders of ADRs representing such shares and (2) other documents regarding the proposed Transaction.

Investors in ordinary shares or ADRs of PT and Oi and U.S. holders of ordinary shares of PT and Oi are urged to read the U.S. prospectus(es) regarding the Transaction, when they become available, because they will contain important information. Investors and security holders may obtain a free copy of the U.S. prospectus(es) (when available) and other documents filed by Oi, if applicable, HoldCo with the SEC at the SEC's website at www.sec.gov. A copy of the U.S. prospectus(es) (when available) may also be obtained for free from PT, or Oi or Holdco.

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CONSOLIDATION OF THE INDUSTRIAL ALLIANCE
Merger
of
Oi,
Portugal
Telecom
and
Oi
Holding
Companies
(AG
Tel,
LF
Tel
and

Tpart)

into

a corporation (CorpCo) to be listed on Novo Mercado, NYSE Euronext and NYSE

1

1

Natural fulfillment of the industrial alliance established in 2010 to create an entity with scale and diversification in strategic markets

2

2

Lower execution and operational risks and potential to crystallise value from growth opportunities

3

3

Estimated synergies of R\$ 5.5 billion (NPV)

4

4

R\$ 7 billion minimum cash capital increase with a target of R\$ 8 billion and improved FCF profile

5

5

5

OVER 100 MILLION CUSTOMERS ACROSS GEOGRAPHIES

Note: Above customer figures as at 2Q13

(1)

Public telephones.

(2)

International operations: Unitel (9,304k customers), MTC (2,200k), Timor Telecom (618k), CVT (433k), CST (135k) and other

(3)

% yoy growth for combined group.

Operational highlights

Thousand customers

Residential

Personal
Enterprise
Other
Total
Combined Group
Post-Transaction
Oi Group
PT Ex. Brazil
22,309
13,921
6,332
2,055
53,017
45,059
7,958
11,326
6,021
844
113
4,348
13,603
100,254
% y.o.y
(3)
18,438
12,242
5,296
900
46,896
40,235
6,661
8,755
5,306
615
-
2,834
667
(1)
74,757
3,870
1,679
1,036
1,155
6,120
4,824
1,297
2,570
715
229
113

1,514

12,936

(2)

25,497

+2.6%

-3.4%

+9.7%

+31.4%

+4.0%

+2.1%

+15.9%

+3.7%

+0.3%

+16.1%

+43.8%

+5.6%

+9.5%

+4.3%

Fixed lines

Broadband

Pay-TV

Prepaid

Postpaid

Fixed lines

Broadband

Pay-TV

Mobile

6
(1)
PT
figures
as
of
4Q12,
converted
at
current
exchange
rate,
EurBRL

=
 3.018
 (
 as
 at 30 September 2013).
 (2)
 Calculated as EBITDA less Capex.
 (3)
 % breakdown based on EuroBRL= 3.018 (as at 30 September 2013)
 (4)
 Assumes Africa/Asia included in Personal segment. Wholesale & Other segment including VAS.

GLOBAL SCALE AND ENHANCED DIVERSIFICATION

Breakdown by region

(3)
 %
 Revenue breakdown by customer
 segments

(3)(4)

%
 Pro-Forma 2012 financial highlights

R\$ million

Revenues

EBITDA

EBITDA margin (Pct)

Capex

Operational

FCF

(2)

Combined Group

Post-Transaction

Oi Group

PT Group

(1)

37,453

12,770

34.1%

8,560

4,209

PT Ex. Brazil

(1)

28,142

8,870

31.5%

6,564

2,306

19,916

6,847

34.4%

3,974

2,873

9,311
3,900
41.9%
1,996
1,903
75.2
3.1
21.8
69.4
2.2
28.4
Brazil
Africa/Asia
Portugal
Revenue
EBITDA
Personal
Enterprise
Wholesale & Other
Residential
32.9
30.0
4.7
32.4

7
HIGHLIGHTS
Natural
fulfillment
of the
industrial
alliance
Attractive
operational

benefits
Merger of
Oi, PT and
Oi
Holdings

Combination into a single listed entity

Simplification of shareholding structure

Highest standard of corporate governance

Migration to Novo Mercado

One class of shares and same voting / dividend rights to all shareholders

High liquidity and diversified international shareholder base

PT and Oi have operations in strategic markets covering 260 million inhabitants

PT and Oi have been working closely together since the establishment of the industrial alliance in 2010

Cross shareholdings, board representation and participation in various committees

Transaction will align interests across all shareholders and debt holders

Unified management team with an integrated decision-making process

Combination allows for comprehensive sharing of best practices thus reducing execution risk and accelerating implementation of operational improvements

Oi has the right fundamentals with an extensive fixed / mobile infrastructure, footprint and customer base, in a growth market

PT has strong track record in technology & innovation and in delivering results

7

1

2

3

8

HIGHLIGHTS (CONT.)

Oi and PT have 100 million customers

Combined revenues, opex and capex of R\$ 37.5 billion, R\$ 24.7 billion and R\$ 8.6 billion, respectively

R\$ 5.5 billion estimated synergies (NPV)

Operating synergies of c. R\$ 3.3 billion

Financial synergies of c. R\$ 2.2 billion

Transaction is contingent on a R\$ 7 billion minimum cash capital increase with a target of R\$ 8 billion

Aiming at improving FCF profile

Operational and financial discipline

Granular approach to growth opportunities

Cost discipline / capex streamlining and optimisation

Shareholder remuneration of R\$ 500 million per annum

Focus on deleveraging

Attractive
financial and
scale benefits

Strengthened
financial
flexibility

4

5

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DESCRIPTION OF THE TRANSACTION

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Complex structure with ON and PN shares

As part of the transaction, PT SGPS, TPart, AG
Tel., LF Tel. and Oi S.A. are combined

PT shareholders to hold c. 38.1%

(1) (2)
of CorpCo

Migration to Novo Mercado and listing on BMF
Bovespa and NYSE Euronext and NYSE

PT
Oi
Oi
Free Float
35%
35%
10%
90%
56% ONs
2% PNs
19% Total
7% ONs
19% PNs
15% Total
31% ONs
61% PNs
52% Total
19%
19%
12%
12%
0% ONs
6% PNs
4% Total
0% ONs
6% PNs
4% Total
CorpCo
Free Float
One class of shares with highest governance
standards
5% ONs
6% PNs
6% Total
SIMPLIFIED SHAREHOLDER STRUCTURE WITH NOVO MERCADO
LISTING
100%
Current shareholding structure
Post transaction structure
38%
(1)
Assuming constant share price
(2)
Between 36.6% and 39.6%
TPart
LF Tel.
AG Tel.
Fundação
Atlântico
BNDES

Previ
Funcef
Petros
PT
Free Float

All steps of the transaction are fully inter-conditional

KEY TRANSACTION TERMS

Combination

of Oi and

Portugal

Telecom

Cash capital

increase

Combination through a capital increase at Oi

PT will contribute in kind its assets and liabilities (excluding its direct and indirect holdings in Oi) for Oi shares, at the same price as the concurrent cash capital increase

Valuation

of

contributed

assets

subject

to

independent

appraisal

(Laudo)

c. R\$4.5bn recapitalisation of Oi's holding (AG Tel., LF Tel. and TPart) by Portugal Telecom

Merger of TPart, AG Tel., LF Tel., Oi and PT SGPS post capital increase

One listed entity on Novo Mercado

Simplification

of the

shareholding

structure

Minimum

R\$

7

billion

cash

capital

increase

with

a

target

of

R\$

8

billion

at

Oi

as

part

of

the

transaction

R\$

2

billion

subscription

by

TPart

shareholders

and

BTG

Pactual

(1)

Commitment to the highest governance standards

Combined group will also be listed on NYSE Euronext and NYSE

Migration to

Novo

Mercado

2

3

1

4

(1)

Banco BTG Pactual S.A. (BTG Pactual), or an investment vehicle managed by Banco BTG Pactual S.A.

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CONSIDERATION FOR OI AND PT SHAREHOLDERS

For each PT share:

0.6330 shares in CorpCo; plus

2.2911 equivalent in CorpCo
shares at same price as R\$ 8
billion target cash capital increase

Core Brazilian shareholders will receive 116 million shares in CorpCo as a result of the transaction

TPart shareholders and BTG Pactual

(1)
will invest R\$ 2 billion
in the capital increase

BES and Ongoing will maintain their holdings in CorpCo

1 share in CorpCo for each ON
share

0.9211 shares in CorpCo for each
PN share

(1)
Banco BTG Pactual S.A. (BTG Pactual), or an investment vehicle managed by Banco BTG Pactual S.A.

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GOVERNANCE AND TIMETABLE

Newly appointed Board of Directors with an initial term of 3 years

Chairman: José
Mauro Mettrau Carneiro da
Cunha

Vice-chairman: Henrique Manuel Fusco
Granadeiro

Board members: Alexandre Jereissati Legey,
Amílcar Morais Pires, Fernando Magalhães
Portella, Fernando Marques dos Santos,
Henrique Manuel Fusco Granadeiro, José
Maria
Ricciardi, José
Mauro Mettrau Carneiro da
Cunha,
Nuno Rocha dos Santos de Almeida e
Vasconcellos, Rafael Luís Mora Funes, Renato
Torres de Faria and Sérgio Franklin Quintella

Unified management team

Zeinal Bava, current CEO of Oi and PT
Portugal, will serve as CEO for the combined
group

Unified management team with proven track
record of managing integrated operations

Governance

Estimated timetable

Transaction steps are fully inter-conditional

Shareholder and regulatory approvals

Successful liability management at PT and Tpart

Full subscription of the capital increase

Conditions precedent

Regulatory review

and clearance

4Q 2013

Shareholders meetings

Capital increase launch

Closing

1H 2014

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PORTUGAL TELECOM -
PROVEN TRACK RECORD

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SUCCESSFUL DELIVERY OF TECHNOLOGICAL TRANSFORMATION

>90% of population covered with 4G-LTE at the end of 2012

4G-LTE network is a quality reference

Best 2G and 3G national coverage

1.6 million homes passed with 890,000km of fibre

46% of the population covered with fibre, which represents approximately 74% GDP

One of the largest, most efficient and most ecological data centres in the world (30 Pbytes capacity)

Cloud PT, leading offer in Portugal (16GB for free)

M

4

O = 4P offer including TV, fixed broadband, fixed and mobile voice

MEO the consumer choice of brand for convergence

(1) Penetration of residential triple-play customer in residential unique customers

Weight of FTTH in pay-TV customers

Penetration of triple-play

(1)

and FTTH in

Portugal

%

Penetration of triple-play

in unique customers

2Q10

2Q11

2Q12

2Q13

LEADING CONVERGENCE STRATEGY

1 Million

RGUs

25%

28%

0%

10%

18%

40% are

new RGUs

Clear market leader with
53% market share vs. main
competitor

37.6%

40.4%

19.0%

26.0%

32.8%

M

4

O RGUs

Indexed

August

May

11 January 2013

M

4

O customers

%. 2Q13

4 SIM cards

3 SIM cards

2 SIM cards

1,270

2Q12

1,157

2Q11

2Q10

2Q09

2Q13

3P

Pay-TV

Pay-TV and 3P customers

Thousand. Portugal

Weight of FTTH in pay-TV customers

Pay-tv market share

919

702

443

894

766

518

357

227

29

24

47

16

MOBILE LEADERSHIP IN PORTUGAL

+1.8%

(1)

PT estimate

(2)

Based on weighted average of Telefónica, Vodafone and Deutsche Telekom for their domestic operations (respectively Spain, Average Peers

(2)

Active SIM cards and market shares

Thousand. %

Postpaid market share
 (1)
 %
 Data revenues
 % of service revenues
 Postpaid net adds
 Thousand
 2Q13
 16,679
 45.8
 54.2
 2Q12
 16,594
 44.1
 55.9
 2Q11
 16,318
 44.0
 56.0
 2Q10
 15,873
 44.0
 56.0
 TMN
 Other
 2Q13
 2Q12
 M
 4
 O launch
 2Q13
 53.8
 46.2
 2Q12
 51.4
 48.6
 2Q11
 49.7
 50.3
 2Q10
 50.3
 49.7
 PT
 Other
 +13pp
 2Q13
 35.6
 2Q12
 32.0
 2Q11

27.8
2Q10
25.0
2Q09
22.6
26.0
22.2
16.6
11.6
29.3
105
99
11
9
-4
17

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EFFICIENT ORGANISATION

Programming costs per customer declined 7.3% y.o.y in 1H13 and will tend to benefit from further content renegotiation

Wages and salaries to benefit from curtailment programme against a backdrop of continued efficiency gains

Maintenance and customer support costs benefiting from

fibre investments

Opex
in
1H13
still
being
impacted
by
launch
of
M
4
O

Excluding the investment in PT's Data Centre, capex declined 15.3% y.o.y in 1H13 against a backdrop of:

1.6 million homes covered with FTTH, equivalent to >46% population

92% population coverage with 4G-LTE and mobile backhauling using fibre

Transmission network that supports 100Gbps

Roll-out of Data Centre with capacity of up to 30 PB / 50,000 servers. First block was inaugurated on 23 September 2013

Going forward capex will experience a significant decline

Opex Portugal excluding D&A and PRBs

Euro million

Capex Portugal

Euro million

1H11

1H09

1H13

731

1H10

-18%

1H12

1H13

1H12

1H10

-21%

228

1H09

1H11

290

270

251
238
896
896
780
743

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PT IS WELL POSITIONED TO CREATE VALUE

Delivered superior performance despite difficult macro environment

Continued customer growth and penetration of households

Strong track record at driving cost efficiencies

Future proof technology in place

Best coverage, best speeds and highest reliability driving best customer experience

1.6 million FTTH homes passed (>46% Portuguese population)

>90% 4G-LTE population coverage

Investments in cloud positions PT well for future business opportunities
Innovative services

Strong
performance
of
disruptive
convergent
offers
with
positive
impact
on
churn

Amongst highest level of RDI as percentage of revenues in Europe

Successful launches in new opportunity areas underpinned by structured approach to
innovation

PT has demonstrated best-in-class execution in a difficult market environment
and is well positioned to take advantage of its leading market position and technology investment

NGN
network
roll-out
completed

lower
capex
levels
going
forward

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OI
UNIQUE FOOTPRINT IN A GROWTH MARKET

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FIXED-MOBILE FOOTPRINT PROVIDES A COMPETITIVE
ADVANTAGE

National

Regional

Local

115,000km national
backbone

Increasing coverage in Brazil

Present in all Brazilian states
and over 4,800 municipalities

Growth in next decade
skewed towards emerging
clusters

230,000km of fibre

2G/3G and 4G-LTE
coverage, including over
125,000 WiFi hotspots

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STRONG DEMOGRAPHICS UNDERPIN DEMAND

Rising middle class with
higher purchasing power

Higher employment

Average income growth
(2006-2011) of 8.9%

Source: Teleco, IBGE, Cetelem BGN / Ipsos.

15%

34%

51%

22%

53%

25%

AB Class

C Class

DE Class

AB Class

C Class

DE Class

2005

2010

Change in demographics

% of population

Unemployment rate

% of population

Average monthly household income

R\$

10.4

Jun-08

7.8

Jun-10

7.0

Jun-12

5.9

Jun-13

6.0

Jun-06

720

643

596

764

912

2008

2007

2011

2006

2009

GROWTH OPPORTUNITY DRIVEN BY CONVERGENCE AND
MOBILITY

AM
PA
AP
RR
AC
RO
MT
MS

TO
GO
DF
BA
SE
AL
PE
PB
RN
CE
MA
PI
MG
ES
RJ
SP
PR
RS
SC

Northern Region

Pop.: **12.55**

MS Fixed: **69%**

MS Broadband: **49%**

MS Mobile: **14%**

Mid-West Region

Pop.: **18.19**

MS Fixed: **66%**

MS Broadband: **51%**

MS Mobile: **17%**

Ceará
Region

Pop.: **18.48**

MS Fixed: **75%**

MS Broadband: **58%**

MS Mobile:

30%

Pernambuco Region

Pop.: **19.14**

MS Fixed: **65%**

MS Broadband: **38%**

MS Mobile: **30%**

Bahia Region

Pop.: **16.27**

MS Fixed: **69%**

MS Broadband: **62%**

MS Mobile: **21%**

Southern Region

Pop.: **27.73**

MS Fixed: **60%**

MS Broadband: **41%**

MS Mobile: **14%**

São Paulo Region

Pop.: **41.90**

MS Fixed: **NA**

MS Broadband: **NA**

MS Mobile: **14%**

Minas Gerais Region

Pop.: **23.43**

MS Fixed: **62%**

MS Broadband: **46%**

MS Mobile: **22%**

Rio de Janeiro Region

Pop.: **16.23**

MS Fixed: **70%**

MS Broadband: **56%**

MS Mobile: **17%**

Pop.: Population in million

MS: Regional Market Share in %

23

Source: Teleco / Data Q2 2013, except population, since 2012.

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FOUR KEY PRIORITIES

Consolidation of
business model and
growth

Lower unit costs and
capex

Asset Sales

Focus on Cash flow

Customers

1

Culture

3

Operational excellence
with focus on improving
productivity

Teamwork, regional
empowerment and
intelligence with
increased accountability
Data analytics

In-depth analytical tools for
decision-making

Segmentation

Statistical
models

Data
mining

Operations

2

Finance

4

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CUSTOMER NEEDS SHAPE COMMERCIAL OPERATIONS

Residential: convergence & bundling

Business services

Mobile postpaid

Mobile prepaid

Data and enhanced voice

Managed Services

Private networks

Infrastructure solutions (data centres)

IT solutions (cloud)

Simplification of offers

Focus of communication strategy by segment

Automation of marketing campaigns to drive recharges, upsell and cross-sell

Increased 3G coverage and capability

Largest WiFi footprint as a differentiator

Focus on data and VAS

Disciplined approach to handset subsidies

Low end: attractive entry offers, focusing on costs

Value for money: customer in search of Internet speed, bundles and Premium TV

High end: differentiation products and services (Fixed-Mobile and voice/video/data convergence)

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IMPLEMENTATION OF IMPROVEMENT IN ENGINEERING,
OPERATIONS AND IT

Control and management tools
(geo-referencing, performance
metrics)

Leverage experience in the
deployment of new

technologies
(IPTV, LTE, IMS,
IPv6, among others)

Technology roadmap
with
prioritisation (2G vs. 3G vs. 4G,
DSL vs. fibre, etc.)
Planning and
network deployment
Centralised operations
and field management
Management of IT productivity
levels

In-depth assessment
of
technical performance

Creation of an **action plan**
aligned with **regional needs**

Pilot of **new field technicians**
management tool started
in Sep-13

Improvement of re-do rate
and
first-time right rate

Productivity gains

Actions to improve IT productivity:
Conducting productivity
benchmarks
Working with suppliers
to
identify areas for **joint**
improvement
Search for additional gains
through technological synergy
and greater balance between
suppliers

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INITIATIVES TO IMPROVE CASH FLOW

Quality of sales

Reduced bad debt

Investment optimisation

Churn reduction

Detailed assessment
models

Granular approach

Regional focus

Cost discipline
In-depth diagnosis
with regional action
plan
Country- and
channel-wide to
ensure sustainable
churn reduction
Review of sales
processes
Identification of
outliers
Improve the quality
and productivity of
sales channels
Portfolio
segmentation
Review of scoring
models
Review of billing
partners
management
policies

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STRATEGIC VISION

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STRATEGIC VISION FOR THE COMBINED OI AND PT

Attractive markets of operation

Brazil: High growth prospects

Portugal: Geared for economic recovery

CorpCo to deliver top line growth

Consolidate business model in Brazil around convergent offers and mobility

Leverage on PT's leadership in technology and innovation to capture

opportunities to diversify scope of services offered in Brazil
Improve cash flow profile by instilling strong financial discipline

Monetise significant synergies (NPV of R\$ 5.5 billion)

Maintain strong discipline in cost and capex

Focus on deleveraging

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ATTRACTIVE MARKETS OF OPERATION

Growth potential in Brazil

PT has successfully delivered on execution

Source: Company results presentations, BofAML Wireless Matrix, BofAML European Telecoms Matrix, Screen Digest.

(1) Penetration as of 2012. (2) Mobile market share corresponds to postpaid mobile market share (PT estimate). PT's 3P market

Driving Convergence and Fibre Penetration in Portugal

3P

TV

Mobile

+4pp

+8pp

+4pp

(3)

UK

Brazil

+33pp

+67pp

Portugal

USA

Smartphone penetration

3G penetration

+24pp

+55pp

Portugal

USA

UK

Brazil

Broadband

Pay-TV

Mobile, 3P and pay-TV market shares

%

+24pp

+18pp

2Q13

2Q12

2Q11

2Q10

3P and FTTH Penetration

%. % of pay-TV customers

FTTH

3G penetration

Pay TV and Broadband Penetration

(1)

% of households. % of population

Successfully

Gaining

Market

Shares

(2)

Significant Potential for 3G and Smartphone

Take-up

(1)

% of population

102

81

77

35

33

39

49
16
79
54
26
86
22
34
10
28
43
38
30
19
28
25
18
10
50%
51%
54%
33%
38%
41%
49%
51%
53%
2Q11
2Q12
2Q13

Incremental
Innovation
CONSOLIDATE BUSINESS MODEL AROUND CONVERGENCE AND
MOBILITY
Convergence
Innovation
Next
generation
networks
Cloud

>90% 4G-LTE coverage

#1 European fibre infrastructure

One of the largest and most energy efficient data centres in the world

115,000km national backbone
(largest coverage in Brazil)

230,000km fibre coverage

Presence in all states and
4,800 municipalities

Roll-out of efficient 4G-LTE
technology (50% coverage of 6
cities)

Cloud offer has been launched and provides
valued added IT solutions for customers

Twin Programme in Brazil

Structured Approach to Innovation

Medium

Long

Time Horizon

Risk

Business

Development

Coordination

of cross

segment,

structural

projects

Short

Planned

Innovation

Exploratory

Innovation

Short

Medium

Long

Incremental

Innovation

Planned

Innovation

Exploratory

Innovation

Manaus

Cities that already have Oi s 4G

Cities that already have Oi s 4G

by December 2013

Fortaleza

Recife

Salvador

Belo Horizonte

Rio de Janeiro

Brasília

São Paulo

Curitiba

Porto Alegre

Cuiabá

Natal

Inovação

Disruptive

Intermediate

Incremental

Oi Conta Total

w/ TV

Oi ContaTotal

Casa Total

Internet Total

Fixo Total

4P

3P

3P

2P

2P

31

32

RELEVANT MANAGEMENT EXPERTISE

Convergence

Next

generation

networks

Operational

excellence

Strong track record of cost
cutting throughout the cycle

NGN network rollout completed:
more capex efficiencies

#2 operator in Europe to launch 4P

Strong success / leadership

MEO consumer brand of choice

4G-LTE

FTTH

Cloud

Share best practices

Leverage PT's products and
platform for Brazilian launch

Strong Pay-TV take-up in Brazil

Commitment to operational
excellence under new
management

Leverage largest network in Brazil

Launch of cloud offers

Complete future proof technology
network

33

ACTION PLAN IN PLACE TO DELIVER SHORT TERM
EFFICIENCY GAINS

1

1

IT platform

Implement best practice IT architecture to
improve time to market and reduce costs
Commitment to Achieve Operational Excellence

Area of Focus

2

2

Field force

Improve installation time, productivity, redo rates and prevent customer calls and truck rolls

3

3

Customer care

Promote selfcare and improve service and collection cost per customer

4

4

Sales

Focus on lower churn and maximise customer lifetime value

5

5

G&A

Leaner structure and internal culture of cost and financial discipline

34
FINANCIAL PROFILE

35

SCALE AND DIVERSIFICATION

>100 million customers

c. 260 million population under coverage

Regional diversification: Brazil, Portugal, Africa/Asia

Product and customer diversification

Combined Financial Profile

Pro-Forma

2012,

R\$bn

(1)

34%

11%

%

Margin

(2)

4.7%

32.4%

1.0

0.2

OpFCF

4.2

0.5

8.3

2.3

EBITDA

12.8

3.4

8.9

Revenues

37.5

1.7

28.1

Africa/Asia

Portugal

Brazil

30.0

32.9

Wholesale & Other

Enterprise

Personal

Residential

Revenue

breakdown

by

customer

segments

(3)(4)

%

Note: OpFCF defined as EBITDA less Capex.

(1)

PT figures as at 4Q12, converted at current exchange rate, EurBRL = 3.018 (as at 30 September 2013).

(2)

% of revenues.

(3)

% breakdown based on BRL:EUR = 3.018 (as at 30 September 2013).

(4)

Assumes Africa/Asia included in Personal segment. Wholesale & Other segment including VAS.

36

IMPROVED FINANCIAL FLEXIBILITY

Minimum

R\$

7

billion

cash

capital

increase

with

a
target
of
R\$
8
billion
to
reduce
the
leverage
of
the group

Commitment to deleveraging

Improve FCF profile

Impact of efficiencies

Positive impact of synergies

Improved cash management with centralised treasury

Pro
forma
net
debt
of
R\$
41.2
billion
(1)
equivalent
to
a
net
debt
/
EBITDA
of
3.3x
(2)

Key points

(1)

PT's net debt converted at current EUR:BRL of 3.018 (as at 30 September 2013); OI's net debt excludes PT stake of R\$773m

(2)

Based on LTM EBITDA June 2013.

37
SIZEABLE SYNERGY POTENTIAL
192
261
69
Run Rate
(R\$million)
(3)
Total synergies
5.5

Financial synergies

2.2

Operational synergies

3.3

Capex synergies

1.2

Opex synergies

2.1

Procurement opex

Procurement capex

IT/Network Opex

IT/Network Capex

Other opex

Other capex

Organisational

Operating synergies breakdown

(1)

%

Synergies NPV Overview

(2)

R\$ billion

Operational excellence and commitment to financial discipline

Impact of efficiency gains

Operating and financial synergies

Key points

Note: Above synergy figures as per company guidance.

(1) Based on run-rate. (2) NPV valuation as at 31-Dec-13 based on 10% discount rate. (3) Pre-tax.

11.6

11.6

6.7

3.0

16.1

11.8

39.3

38

CONCLUSION

Attractive growth prospects in diversified footprint with reduced execution risk

Improved time to market to crystallize growth opportunities in Brazil

Synergies and efficiency gains to underpin FCF improvement

Improved balance sheet flexibility reduces financial risk and will underpin future investments in the growth of the business

Simplified governance and listing on Novo Mercado, NYSE Euronext and NYSE

Growth in Brazil

Leverage investments already made in Portugal