

Edgar Filing: OI S.A. - Form 425

OI S.A.  
Form 425  
October 02, 2013

Filed by Oi S.A.

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

1  
Consolidation of the industrial alliance between Oi  
and Portugal Telecom  
London, 2 October 2013

2

### 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 operations 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.

3

**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](http://www.sec.gov). Alternatively, you may request to 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](http://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.

4  
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



9

DESCRIPTION OF THE TRANSACTION

10

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.

11

12

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.

13

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 Moraes 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

14  
PORTUGAL TELECOM -  
PROVEN TRACK RECORD

15

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

18

**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

19

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



20  
OI  
UNIQUE FOOTPRINT IN A GROWTH MARKET

21

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

22

**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.

24

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

25

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)

26

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

27

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

28  
STRATEGIC VISION

29

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

30

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