

07 JUNE 2010

SONAECOM

TELECOMMUNICATIONS

ANALYST: DAVID SANTOS

COMPANY REPORT**Once again, rumours of a merger with Zon arise...***...Until then remains profitability focus*

We upgrade our recommendation by 4.7% from hold to buy, assigning a price target of 1.728€, which represents an upside of 25.1% relatively to the current price. Also, **we alert for the possibility of M&A with Zon, a scenario that if confirmed, increases the price target up to 2.08€**, translating into an upside of 50.1%.

- Fixed and Mobile businesses have been rewarded with higher EBITDA margins due to cost control initiatives prompted by their full integration under the Optimus brand, **1Q2010 reassured the sustainability of these cost savings.**
- The NRA final decision regarding the proposed mobile termination rates glide path is expected to be published in August. Despite the end of asymmetries, Optimus will still attain a higher EBITDA margin since it is a net payer regarding mobile termination fees, achieving 29% in FY2016.
- Despite the fixed business turnover registering a continuous decrease, CAGR 16/10 -1.82%, **we expect FTTH clients to represent half of customer revenues in FY2016**, originating 51M in revenues. EBITDA margin to achieve its bottom in FY2011 with 1.36%, and then growing up to 5.44% in FY2016, driven by lower ULL rental fees.
- Media to still present negative EBITDA margins, far away from break-even and with no perspectives to improve to positive operational results, with lack of scale and a negative growth advertising and paid circulation market being the main causes.

Recommendation: BUY

Vs Previous Recommendation HOLD

Price Target FY10: 1.728 €

Vs Previous Price Target 1.650 €

Price (as of 7-Jun-10) 1.381 €

Reuters: SNC LS, Bloomberg: SNC PL

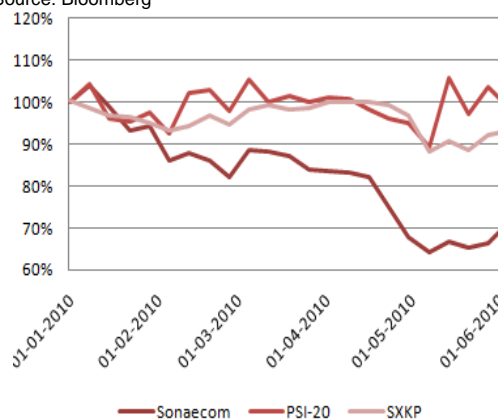
52-week range (€) 1.37 - 1.53

Market Cap (€m) 505.787

Outstanding Shares (m) 366.247

52-week return - 26.15%

Source: Bloomberg



Source: Bloomberg, YTD Values

(Values in € millions)	2009	2010E	2011E
Revenues	949,40	919,23	899,84
EBITDA	175,67	174,78	183,25
Net Profit	6,08	8,82	16,29
EPS	1,66%	2,41%	4,45%
P/E	104,08	57,36	31,05
EV/EBITDA	5,25	5,01	5,07
ROE	0,65%	0,94%	1,71%
ROIC	0,91%	1,35%	1,89%
Market-to-Book	0,54	0,54	0,54

Source: Bloomberg, Company Data and Analyst Estimates

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Investment Case

Despite having the second highest return in 2009, Sonaecom is currently underperforming the market in a YTD basis. Being able to improve its operational performance, especially in the mobile business where it managed to increase its number of subscribers by 8% y/y, and to achieve positive FCF for the last 3 years, is still not enough for investors. Currently, being quoted at half of its book-price, Sonaecom can be accused of being destroying shareholder value, despite the headwinds from achieving higher EBITDA margins in FY2009.

According to our estimations, FY2009 ROIC was circa 1%, which is significantly lower than our wacc estimation. Also, the lack of dividend payment makes this company to be even more unattractive for the investor.

In our analysis we will decompose the various growth and cost drivers inherent to Sonaecom, analyse FTTH as a NPVGO, and make a deep analysis concerning the scenario of consolidation with Zon,

Company Overview

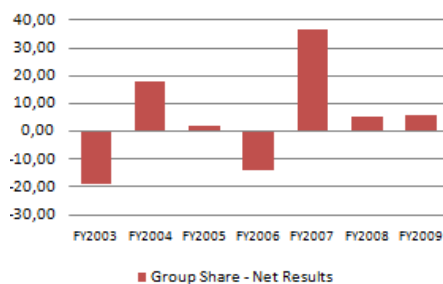


Exhibit 1 – Source: Company Data

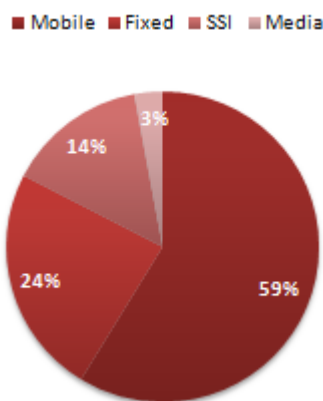


Exhibit 2 – Turnover contribution per business unit in 2009; Source: Company Data

Sonaecom was created in 1994 with the objective of being Sonae Group arm in telecommunications, information systems and media businesses. In FY2009, consolidated turnover amounted to 950 million euros, with the main contribution coming from the mobile unit, Optimus. In 2007, Sonaecom started the merger process between Novis, Clix (the fixed business brands), and Optimus, which culminated this year. Nowadays, Optimus brand is the only Portuguese brand managing fully integrated mobile and fixed units, a subject which will be further discussed. Despite the integration, wireline business still underperforms against Optimus, displaying low EBITDA margins caused by lack of scale in a highly investment demanding market. Taking the Sonaecom name through the world is the SSI division, which holds WeDo, Bizdirect, MainRoad and Saphety. SSI has been achieving exponential growth since inception, however EBITDA margins have been stagnated at circa 5%, which presents a challenge in this segment development. The media unit holds Público, a well regarded newspaper in Portugal. This segment also underperforms due to the changing media advertising environment, presenting circa -9% operational margins for the last 3 years.

Overall, Sonaecom has not been able to attain positive consolidated net results for , investors yet, having a null dividend yield, with ROIC FY2009 being 0.15%, a value that implies value destruction when compared with an estimated

WACC of 7.46¹%.

Shareholder structure

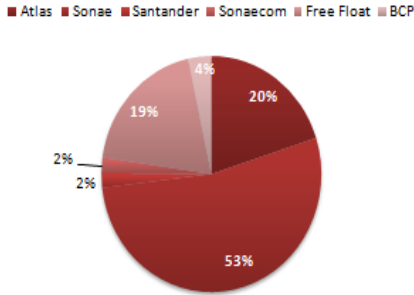


Exhibit 3 – Shareholder Structure; Source: Company Data

The shareholder structure of Sonaecom has remained quite stable along the years. Controlled by Sonae SGPS, the company owned by Belmiro de Azevedo family, Sonaecom remains out of the market for corporate control, which some may see as unhandy when one of the biggest opportunities for a profitability would be a M&A operation involving this company. France Telecom holds a 20% stake, a presence that has been more than a simple investment. Actually, Sonaecom started as a joint venture between Sonae Group and France Telecom for investing in the Portuguese mobile market. When Sonaecom switched their colours from blue to orange, speculation had been made that it would be sold to France Telecom (whose mobile unit name is Orange). In the ambit of the incentives plan created for management SNC currently holds 2.1% of its own shares. Both BCP and Santander are also institutional investors with a combined participation of around 5.4%. The market free-float is around 19.25%. This stabilized shareholder structure allows the company safety from corporate raiders and hostile tender offers, which translates into a lower stock valuation.

Optimus was only able to offer iPhone in the Portuguese market due to the alliance with France Telecom, otherwise it would be very hard for a small cap like Sonaecom to make a deal with Apple by itself.

Source: Investor Relations information

The Telecommunications Sector

EU27 Telecom Overview

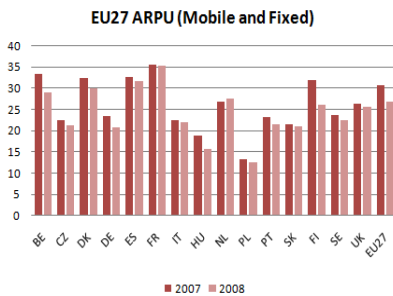


Exhibit 4 – Source: European Commission

Despite the recent economic downturn, the European market for telecommunications reports a positive growth rate both for the fixed (0.15%) and mobile businesses (0.89%), and in 2008 it represented 2.8% of total EU27 GDP, whereas in Portugal it amounted to 4.9%. Regarding the fixed business, the substitution effect between fixed and mobile telephony is forcing a growth slowdown. However, this effect is counter-balanced by the investment in NGN and the convergence towards bundle packages adherence. As to the mobile business, mobile broadband users increase has compensated ARPU evolution negative trend.

The telecommunications business is regulated by independent national regulatory authorities (NRAs), however, it is ultimately the European Commission who gives the main directives regarding regulation. Currently, the main EU regulatory issues concern:

¹ Analyst Wacc estimation, refer to note 29.

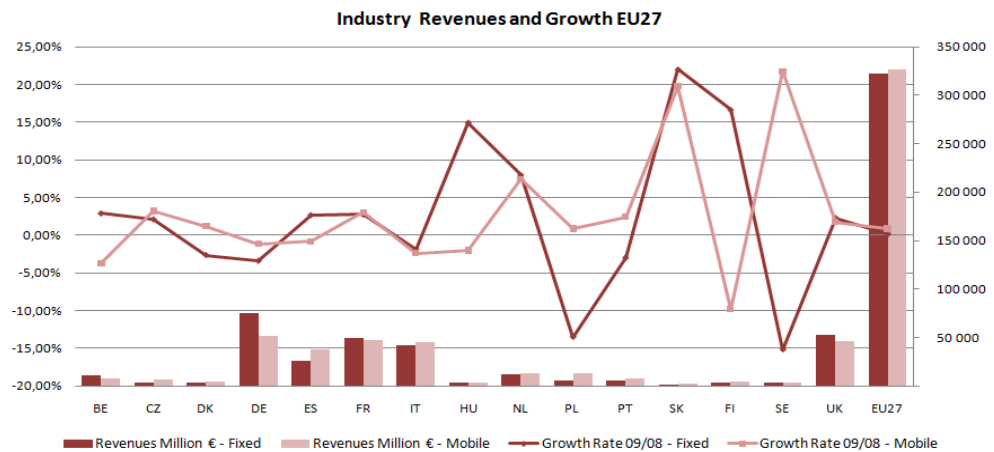


Exhibit 5 – Source: European Commission

- NGA regulation uncertainty has delayed further NGN roll-out across Europe, however commissary Viviane Reding already pointed to a network sharing decision², with country specific NRA’s having some autonomy.

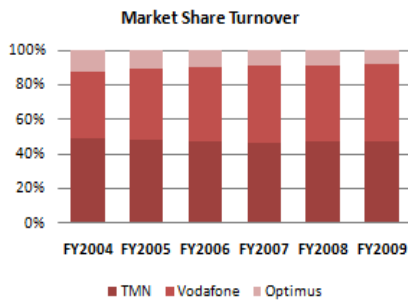


Exhibit 64 – Source: Company Data

- The fixed-mobile convergence demands careful attention by NRAs as it may pose threats to network neutrality, namely with mobile services presenting fixed-like tariffs³;

- The efforts to continue the reduction in MTRs;

- The attribution of the frequency bandwidth that will become available after the switch-off of the analogue TV broadcasting is complete;

Mobile Business

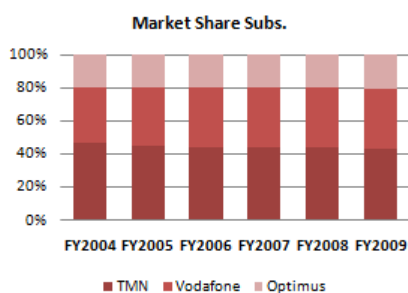


Exhibit 6 – Source: Companies Data

The portuguese mobile service business is currently dominated by three main players: TMN is the current market leader in subscriptions, holding a market share close to 50%. TMN is the incumbent mobile communications services provider, belonging to PT Group, the historical electronic communications provider in Portugal. TMN was founded in 1991 and since then it has hold market leadership. Vodafone/Telecel is the second player in subscriptions, and currently tied with TMN in revenues (exhibit 64). Telecel started its activity one year after TMN, and in 2000 was fully acquired by Vodafone, the at the time mobile communications behemoth. Optimus was created in 1998 as a joint-venture between SONAE group and France Telecom for the portuguese mobile

² Next Generation Access: Economic Analysis and Regulatory Principles – European Regulators Group Public Consultation

³ Report on Fixed Mobile Convergence – ERG

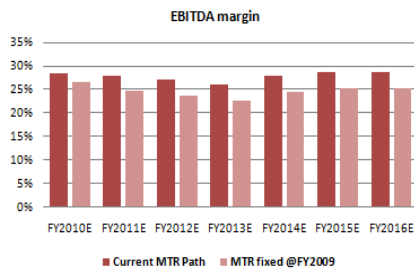


Exhibit 7 – Source: Analyst Estimates and Anacom

The smaller network effect existent in Optimus has been one of the causes of smaller EBITDAs than the other Significant Market Power players.

telecommunications sector. In the early years of activity, Optimus registered high momentum, capturing a significant part of the market and even achieving internationally recognized awards such as Best Technical Innovation in 1999, and Best GSM Service for Customers in 2000. Nowadays, despite positive operating performance, Optimus is facing a tougher situation due to a saturated market with penetration circa 150%⁴ in FY2009. Further challenges imposed to Optimus contemplate:

- The higher *network effect*⁵ posed by its competitors, which can be perceivable by the disparity between Optimus customers and turnover market shares, with significantly lower EBITDA margins.
- NRA⁶ actions such as the MTR⁷ asymmetries ending, or the attribution of frequency bandwidth;
- Maintain the historically high EBITDA margin reported for FY2009.

▪ **NRA Developments**

The latest developments regarding ANACOM activity in the mobile sector that influence Optimus business are

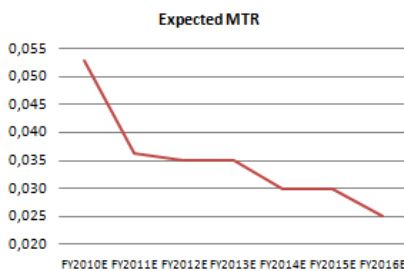


Exhibit 8 – Source: Anacom and Analyst Estimates

- **Statement of probable decision regarding the new MTR glide path:** We believe that ANACOM will follow the *Commission Recommendation on the Regulatory Treatment of Fixed and Mobile Termination Rates in EU* and thus abide for the new proposed MTR glide path. There is a downside to this decision as it ends the asymmetries. However, since Optimus presents a smaller *network effect* than the other SMPs in the market, we regard the new glide path as positive for the mobile business EBITDA margin, as the decrease in Operator Revenues is more than offset by the decrease in Direct Servicing Costs. Nevertheless, the proposed glide path still previews MTR above the European Commissary Viviane Reding recommendations of MTR between 1.5 and 3 eurocents per minute, and since there are already other NRA's proposing lower MTRs, such as England (0.0058 in FY2014), Austria (0.0251 in FY2011), Belgium (0.017 cents in FY2013), we expect Portuguese NRA to present new glide paths with lower MTR in the future.

⁴ Anacom;

⁵ Network effect is the gain that an operator has for having a higher number of subscribers. In a market with limited users, by definition the operator with highest number of subscribers will receive more money from other operators, thorough mobile termination rates, than the amount it will pay. Also, it will have higher EBITDA margins due to the scale effect inherent to the telecommunications business (high fixed costs);

⁶ National Regulatory Authorities – The Portuguese one is ANACOM;

⁷ Mobile Termination Rates – The price paid for an operator to other operator for a terminated call in an external network;

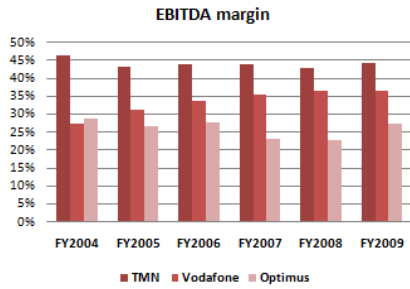


Exhibit 9 – Source: Analyst Estimates

- **The attribution of the Digital Dividend frequency band resulting from the switch-off of the analogue terrestrial system:** The switch-off in Portugal is expected to be concluded in April 2012. During the current consultation period, the attribution of the 790-862 mhz band has been an object of focus as it is referred to be allocated to mobile broadband services. Despite the protest of broadcasting companies as they rather see this band allocated to HDTV broadcasting, we expect⁸ ANACOM to allocate it to broadband services in line with its European NRA congeners. This is positive as it is in line with Optimus opinion during the public consultation, namely because it allows better coverage of broadband services in rural areas.

- **Current consultation on frequency allocation⁹:** This is an important issue as it predicts the *refarming* of the 900/1800mhz frequency. The main objective of this public consultation is to improve spectrum efficiency by coordinating UMTS and GSM services. LTE licensing attribution is also contemplated in this consultation. We expect the result of this consultation to have a neutral impact in Optimus activities as the allocation equilibrium between mobile operators should not be affected.¹⁰

▪ **Optimus**

The mobile telecommunications sector is the core business of Sonaecom, accounting for 64% of turnover in FY2010. In a market with a mobile penetration well over the average EU27, currently 150% (y/y of 9pp) in Portugal against 120% in EU27 FY2008, Optimus is currently focusing in a profitability strategy aiming for cost cutting initiatives, being able to achieve a 27.5% EBITDA margin in FY2009, y/y of 5pp. Despite a turnover decrease of 3.5% y/y, the better operating performance was achieved due to a decrease in direct servicing costs of -13% y/y, benefiting from a decrease in mobile termination rates, and in commercial costs (-15% y/y). Customer revenues have been growing at 4.2% a 2004-2009 cagr. Mobile broadband is expected to be the main driver of Optimus future growth as cellphones penetration is reaching the limit in Portugal.

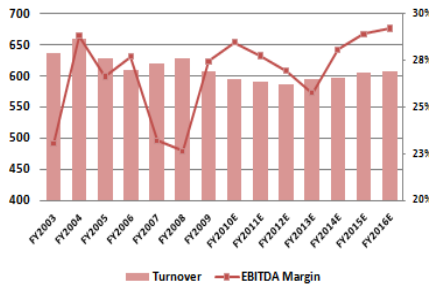


Exhibit 10: Analyst Estimates and Company Data

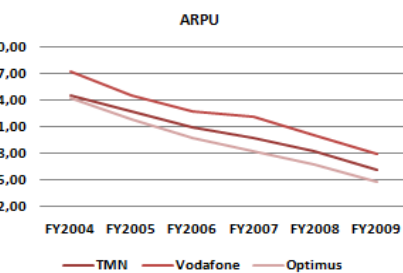


Exhibit 11 – Source: Companies Data

⁸ Report on the Public Consultation Regarding the Digital Dividend, ANACOM;

⁹ Public Consultation Regarding the National Frequency Allocation, ANACOM;

¹⁰ The Mobile Challengers is a group of European third operators, from which Sonaecom does not belong, one of their complaints is the fact that since they were the last entrants, they have been awarded with higher frequency spectrums, which they claim to be less efficient, thus requiring higher CAPEX for network implementation. In Portugal, the spectrums are equally distributed between Vodafone, Optimus and TMN;

▪ ARPU¹¹ trends

ARPU has been consistently decreasing for the 3 mobile operators operating in Portugal, namely at a -6.67% cagr 2003 2004 for Optimus. The continuous decrease in MTR helps to explain this effect, however there is much more to it. The fierce competition in this mature market (penetration rate over 100% since 2004) is the main cause of ARPU reduction, result from the decrease in post-paid tariffs, regarded to have a much higher ARPU due to lower churn rates, and less expenditure awareness by the consumer. Also, the new breed of *on-net*¹² tariffs promoted a reduction in ARPU. Its decomposition into MOU¹³ and ARPM¹⁴ shows a clear trend with MOU rising and ARPM consistently declining. More aggressive *tariffs* explain this, as it dilutes the income received by clients into free *on-net* voice calls and messages. We highlight the fact that ARPM and MOU shall be replaced by more accurate KPI¹⁵s that better translate the impact of new tariffs and data transfers.

- TAG is a pre-paid tariff that was firstly launched by Optimus in 2Q08, allowing free *on-net* voice and multimedia calls and messages between the tariff subscribers. **TAG, Moche and Extreme/Extravaganza accounted for 9% of the mobile market subscriptions.** (Source: ANACOM: *Sentido Provável de Decisão: Obrigação do Controlo de Preços*). In Exhibit 13 it is shown the impact of TAG in net additions, however, as competition launched similar tariffs this variable slows down. Currently, we are observing a new growth momentum of net additions caused by TAG having a consumable tariff. However, Vodafone already launched a counter strategy presenting a similar product, thus we expect this momentum to be interrupted in the following quarter. The cycle pattern which is observed in net additions is strongly related with the fact of Optimus being the 3rd operator, thus having incentives to launch more aggressive products in order to increase its market share. Value creation with this initiatives will depend on the cost control measures, to compensate the attractive tariffs. Historically, a significant increase in net additions as brought a slight decrease in EBITDA margin, (exhibit 65), however we deem Optimus to have been successful with these initiatives, with the increase in volume compensating the decrease in efficiency.

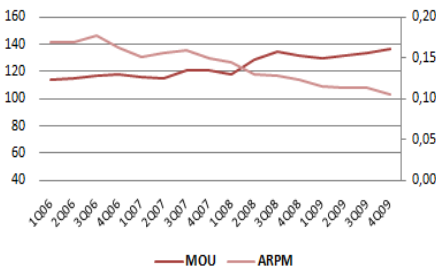


Exhibit 12 – MOU vs ARPM; Source: Company Data

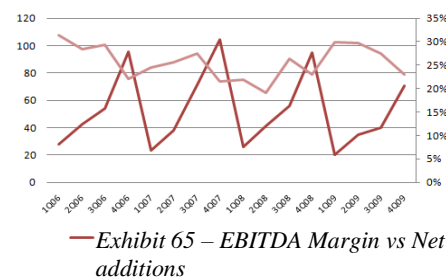


Exhibit 65 – EBITDA Margin vs Net additions

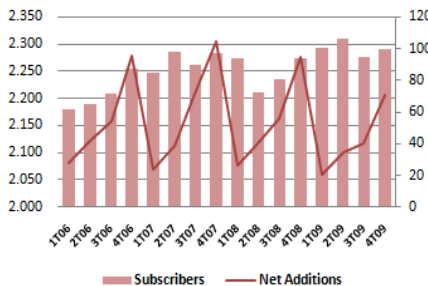


Exhibit 13 - Net Additions vs Total Subscriptions controlled for market growth; Source: Company Data and ANACOM

TMN has recently launched the A1, an Android based smartphone at a competitive price of €199.90. Optimus and Vodafone are expected to respond to this initiative with their white line brand.

¹¹ Average Revenue per User, is equal to the product of ARPM and MOU.

¹² Tariffs that focus on pricing for subscribers within the same network. A decrease in on-net tariffs and an increase in off-net tariffs trend has been verified in ANACOM draft on Probable Decision regarding MTR Glide Path, which ANACOM deems to increase market distortions, fomenting higher network effects for TMN and Vodafone.

¹³ Minutes of Use

¹⁴ Average Revenue per Minute

¹⁵ Key Performance Indicators

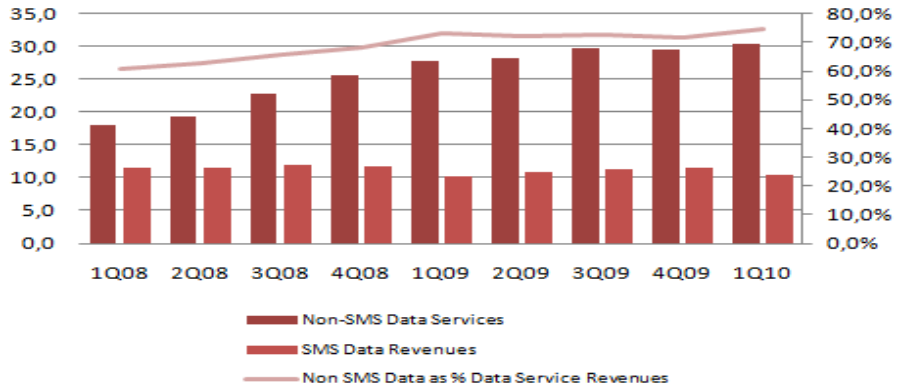
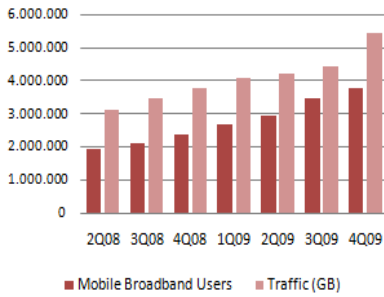
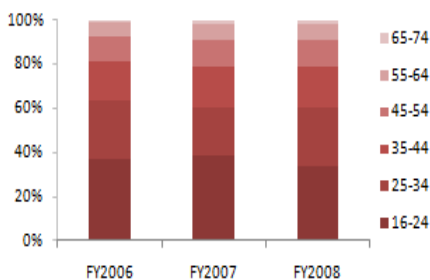


Exhibit 14 – Source: Anacom

In 1Q2010 results conference call, Ângelo Paupério stressed the importance of the “Smart” tariffs as a driver of UMTS growth, as Data as a % of Service Rev. grew 2.1pp 1Q10/1Q09 to 29.6%

- We expect UMTS (3G) and HSDPA (3.5G) data services to consistently increase in the future: UMTS and HSDPA comprise mobile broadband services such as multimedia voice calls, mobile TV and mobile net surfing. TMN and Vodafone increased their offer in post-paid tariffs in 3Q2008, namely offering combinations of voice and data usage. Optimus has launched similar offers only last January arriving late in this segment. In Portugal the amount of smartphones sold decreased by 16.25% y/y with 206 thousand units sold in 4Q09, against an universe of 1.684¹⁶ thousand cellphones sold in the same period (-1.5% y/y). This decrease can be explained with the current economic situation as smartphones are still expensive when compared with normal cellphones¹⁷. However, we expect a decrease in prices as the technology enters in more mature lifecycle stages, with increased competition from new OS such as Limo or Android, and also white line offers, which allied to better economic conditions will drive growth for smartphones sales. **Smartphones proliferation and more aggressive post-paid plans will drive UMTS and HSDPA usage upwards, as we expect to Data as % of Service Revenues to reach circa 60% in FY2016.** Kanguru, the mobile broadband for laptops will also have a very important role for future ARPU.



- In general, we will not expect Portuguese MVNO’s to be able to pose a threat for Optimus business, as their product differentiation only offers competitive advantages for specific niches, like *no-frills* customers. However, Zon Mobile is the biggest threat to Optimus operations (from the MVNO universe), namely because it can take advantage of *quadruple-play*, adding mobile services to its existing triple-play bundle.

¹⁶ IDC Phone Tracker;

¹⁷ Companies website;

▪ Mobile Broadband

Exhibit 15 - Distribution of Broadband usage by age groups.
Source: Anacom

One of the main objectives of the European Commission is to promote generalized access to broadband in all its countries, as stated through the *i2010 Strategic Framework for Digital Competitiveness*. Despite Portugal having an xDSL coverage of 95%¹⁸ (source: *Europe’s Digital Competitiveness Report*), and being placed 3rd in terms of connection speed in EU27, fixed broadband penetration in FY2009 was 17.55%, a value way lower than the EU27 average in 2008, which was around 27%. According to a public inquiry by ANACOM, the main reasons explaining such a low penetration were mainly related to computer illiteracy and to the fact that people did not acknowledge to have a necessity for internet access.

▪ Technological Plan

In line with the European committee efforts for the Society of Information, Portugal has launched in 2005 the “Connect Portugal (Ligar Portugal)” initiative which aimed to mobilize Portugal for the use of the new technologies. In this project ambit, the *e.initiatives (e.iniciativas)* program allows professors, students from the 5th year on, and people belonging to the *New Opportunities (Novas Oportunidades) Program*, to have a laptop with mobile broadband access at a very affordable price. This program not only introduces older people to internet uses, but also fastens the process at which broadband penetration increases in younger generations. **Thus, we regard the *e.initiatives* to increase broadband penetration to values closer to the most technologically literate countries in Europe, such as The Netherlands, United Kingdom and France** (around 35% in 2008). The *e.initiatives* registered an adhesion of 40.7%, with Optimus capturing 23.6% of this market, ahead of Vodafone with 3.2% and behind TMN which has 73.2% market share. However, Optimus offer is gaining relevance as it achieved a market share of 61.4% in 4Q09¹⁹. Quickness in delivery and coverage (UMTS with 90% population coverage and HSPA with 85% at FY2009) exclusivity are contributing for this momentum. It is also interesting to notice that the higher penetrations result from adherence in rural areas, which is explained with the lack of fixed accesses to broadband.

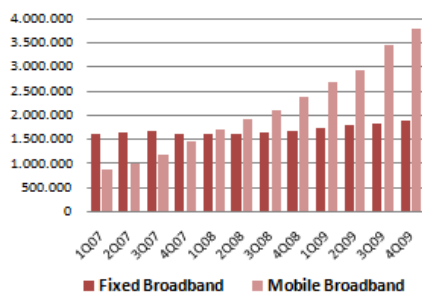


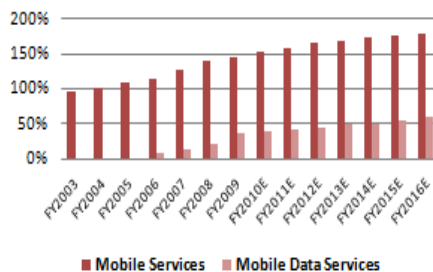
Exhibit 16 – Source: Anacom

¹⁸ Europe Digital Competitiveness Report
¹⁹ E-Initiatives Adhesion Report, KPMG 2009

▪ Optimus Kanguru

Exhibit 17 – Source: Anacom and Analyst Estimates

Penetration Rates



Optimus Kanguru is the mobile broadband for laptops delivered through the UMTS, HSDPA, and now HSPA+ network technologies. The latest allows for 21mb downlink speeds against the previous 7.2mb. Mobile broadband users have registered a y/y of 81%, whereas active users grew 114% y/y²⁰. Traffic consumption is also in line with subscriber base growth. Moreover, it is notoriously the gap between the growth in fixed broadband and mobile broadband. One explanation could be the fact that fixed broadband is counted per client, meaning that a single subscription actually grasps different users per household, whereas mobile broadband is seen as a more personal access. However, from the business point of view what matters are the revenues originated, and in this case we hold Kanguru as one of the main drivers for future Sonaecom growth, gaining more importance in ARPU. Optimus is preparing the launch of MiMo technology which will allow for downlink speeds of 42mb. Also, it has already started to test LTE technology which will achieve 100mb speeds (Source: Company Guidance). **We expect Kanguru to continue capturing this growing market through due to its competitive offers and investment in network coverage and development.**

MOBILE KPIs	FY2009	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E	CAGR 16/10
Customers (000)	3.432,60	3.580,47	3.738,98	3.904,02	3.994,35	4.087,73	4.182,81	4.279,91	3,02%
Net additions (000)	241	147,87	158,51	165,03	90,33	93,38	95,08	97,10	-6,77%
ARPU	14,8	13,93	12,91	12,63	13,16	12,81	13,23	12,99	-1,16%
Monthly Bill	12,1	11,73	11,22	10,98	11,51	11,34	11,76	11,70	-0,05%
Communications	8,70	7,73	6,86	6,48	6,71	6,34	6,56	6,20	-3,62%
Data Revenues	3,40	4,00	4,35	4,50	4,80	5,00	5,20	5,50	5,45%
Interconnection	2,8	2,20	1,69	1,64	1,64	1,47	1,47	1,29	-8,48%

Exhibit 18 – Source – Analyst Estimates and Company Reports

Income Statement	FY2009	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E	CAGR 16/10
Turnover	607,0	608,4	593,1	596,6	638,0	636,1	668,5	672,9	1,7%
Service revenues	566,4	565,6	550,4	552,9	590,5	588,2	617,6	621,1	1,6%
Customer	461,9	475,5	474,7	485,6	527,5	531,7	565,6	575,8	3,2%
Operator	104,5	90,1	75,8	67,3	63,0	56,5	51,9	45,2	-10,8%
Equipment sales	40,6	42,8	42,7	43,7	47,5	47,9	50,9	51,8	3,2%
Other Revenues	36,2	38,0	38,0	38,8	42,2	42,5	45,3	46,1	3,2%
Operating Costs	476,5	482,0	461,5	476,5	517,9	501,6	533,4	528,0	1,5%
Personnel Costs	53,7	54,8	53,4	59,7	63,8	63,6	66,8	72,7	4,8%
Direct Servicing	167,8	165,6	153,1	154,3	173,4	170,8	185,8	186,2	2,0%
Commercial Costs	134,7	139,9	142,4	149,2	159,5	146,3	153,7	148,0	0,9%
Other	109,4	109,5	100,8	101,4	108,5	108,1	113,6	107,7	-0,3%
Provisions	10,9	12,2	11,9	11,9	12,8	12,7	13,4	13,5	1,7%
EBITDA	166,7	165,7	164,8	154,2	163,6	178,3	188,4	211,1	4,1%
EBITDA %	27,5%	27,2%	27,8%	25,8%	25,6%	28,0%	28,2%	31,4%	2,4%
CAPEX	98,7	79,1	89,0	95,5	102,1	95,4	93,6	94,2	2,4%
EBITDA-CAPEX	68,0	86,6	75,8	58,8	61,5	82,9	94,8	116,9	5,1%

Exhibit 19 – Source: Analyst Estimates and Company Reports

²⁰ Source: ANACOM

The Fixed Business

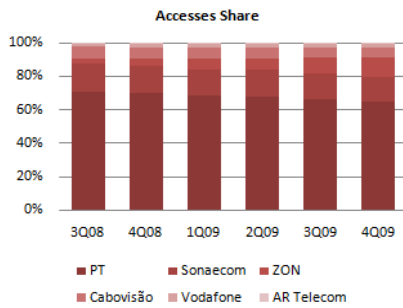


Exhibit 20 – Source: ANACOM

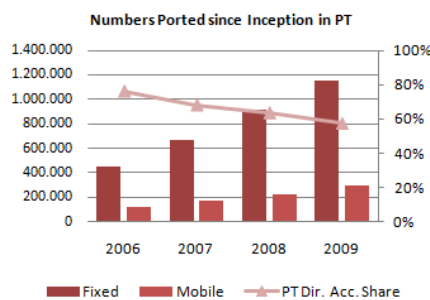


Exhibit 21 – Source: ANACOM

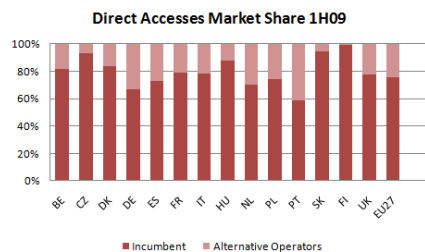


Exhibit 22 – Source: ANACOM

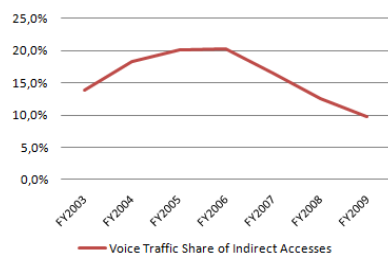


Exhibit 23 – Source: ANACOM

In 2000, the Portuguese fixed telecom market was liberalized, with ANACOM forcing the incumbent, Portugal Telecom, to give access to their copper line for other operators through the Unbundled Local Loop. Sonaecom began operating under Novis and Clix brands, each offering enterprise and residential solutions respectively. Until 2006, Sonaecom offer consisted in a double play product, net and voice. In 2002, it started launching offers based on their own fixed network, and in 2004 it conquered market share offering the highest internet speeds available in Portugal at a lower price than competition. Unlike the incumbent, Sonaecom offer did not require a monthly subscription payment, thus being the main differentiation in their product. Portability was determinant for attracting clients to alternative operators since it allows for a user to maintain its phone number regardless of the operator. In fact, alternative operators in Portugal have a much higher market share of direct accesses than in the EU27 average, meaning that they have been bringing competitive offers against the historical operator.

In 2006, Clix used IPTV to launch its first triple-play offer. However, this has not been a relevant product since in FY2009 it only accounted for 1%²¹ of the pay-tv market. Also, it was in this year that Sonaecom launched a tender offer for the acquisition of the incumbent, Portugal Telecom. Despite having failed, this move increased competition in the fixed business with the separation of the copper and cable lines, with Zon, ex-PTM, being separated from Portugal Telecom.

In 2007, Oni and Tele2 subscriber base were absorbed into Clix and Novis, for a 19M and 14M euro each. In 2008, the merger process between Sonaecom fixed and mobile business began, and culminated in 2010 with all activities being placed under Optimus brand. It was also the first company to launch a residential FTTH offer, having at the moment around 200 thousand homes passed with this technology. The future for this business remains surrounded with uncertainty, namely due to i) the fierce competition with an almost duopoly between Zon and PT ii) the entrance of new players such as Vodafone in the FTTH business and iii) the exponential growth in fixed broadband services and products, as well as new pay-TV modalities. Currently, the fixed service offers are trending into packages, meaning that consumers will chose one company only to provide all services needed in triple and quadruple play offers, with voice, fixed broadband, pay-TV and mobile services being the factors of choice.

²¹ Source: ANACOM

▪ Voice

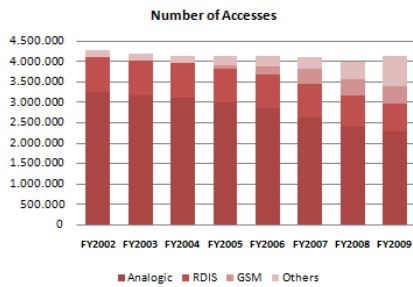


Exhibit 24 – Source: Anacom

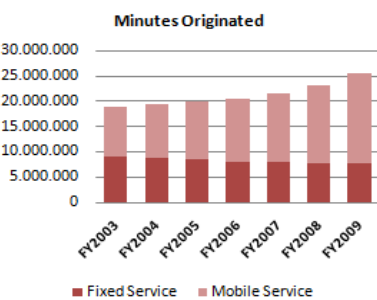


Exhibit 25 – Source: Anacom

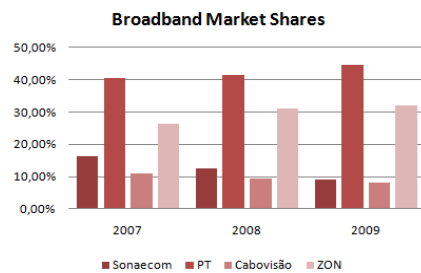


Exhibit 26 – Source: Anacom

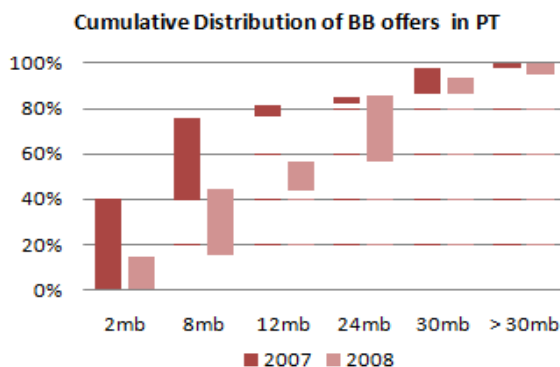


Exhibit 23 – Source: Anacom

Fixed telephony has been delivered in Portugal through the copper line used by the incumbent. The regulation for this use consists in the LLU, the Local Loop Unbundling offer for other operators. Complementing, there are the Reference Interconnection Offer, Reference Internet Access Offer, and Reference Leased Lines Offer by PT.

Despite the number of accesses being situated around 4 million since 2002, out of circa 5.5 million houses in Portugal, there has been a reduction in the traditional PTSN and IDSN accesses (CAGR 05/09 of -6.6% and -4.2% respectively) much at the expense of growth in GSM based fixed offers (CAGR 05/09 of 56%) and “Others”, where VoIP services are included with a CAGR 05/09 34.5%. Also, the fixed voice service has been losing origination minutes to the mobile service (see exhibit 25) due to the substitution effect between these two factors. We expect the number of originated minutes in fixed line to attain a positive momentum with the increase in bundled offers, however it does not translate necessarily into higher revenues as the majority of them include zero cost tariffs for national calls.

▪ Fixed Broadband

This product has been served mainly by cable, trough the NETCABO offer, and through SAPO ADSL, offered by Portugal Telecom. The demand for high speed internet has been increasing in Portugal at a CAGR 09/00 of 21.1%.The increase in demand has been driven by technology availability, as Portugal territory is covered by 95%, the speed offered, and also by services and products matching the capabilities of the network such as HDTV or VoD.

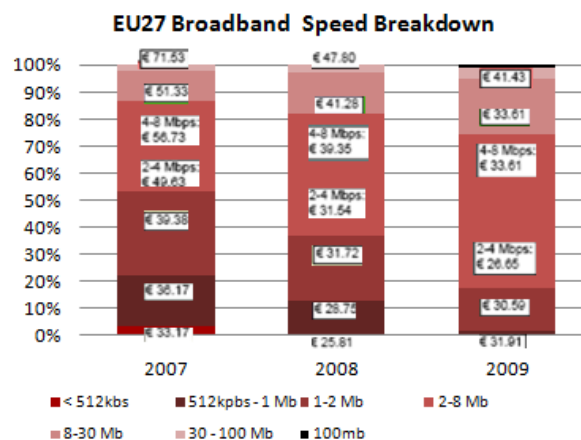


Exhibit 24 – Source: European Commission

The increase in transmission centrals with ADSL+ and the adoption of NGN in Portugal and Europe has translated into higher contracted speeds. In 2007 40% of the broadband clients were using connections with speeds up to 2mb, whereas in 2008 this value was close to 16%. We also point the increase in clients using offers with speeds above 30Mbps (exhibit 23). This trend is confirmed with EU27 broadband speeds breakdown, where contracted velocities between 512Kbps and 1Mbps are almost inexistent in 2009. (exhibit 24) The increase in 8Mbps-30Mbps is also notorious, accounting for 21% in 2009 against 11% in 2007. We consider this trend to be sustainable in the future due to i) the continuous roll-out of NGN, ii) the fact that an increase in speed connection does not mean an increase in price as operators are automatically upgrading their speeds without a change in price, using it as either a differentiation factor or just to keep up with the market trend. For instance, whereas the median price offer for connections in the 30Mbps-100Mbps range was 51.33€ in 2007, it is currently 33.61€, meaning that price distribution is more closely related with the speed relative to other offers in the market than by the speed itself.

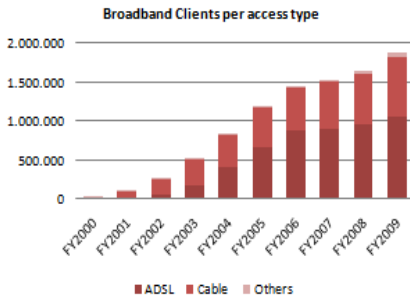


Exhibit 25 – Source: Anacom

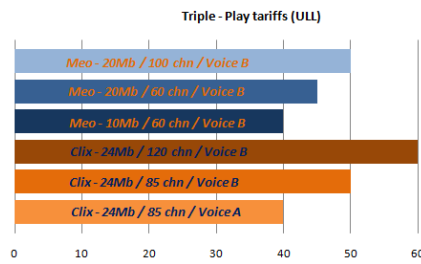


Exhibit 26: Source: Anacom

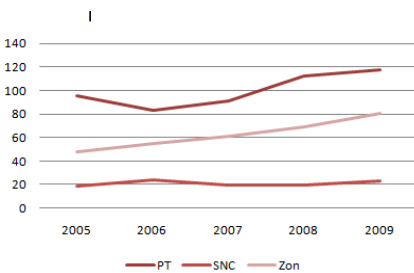
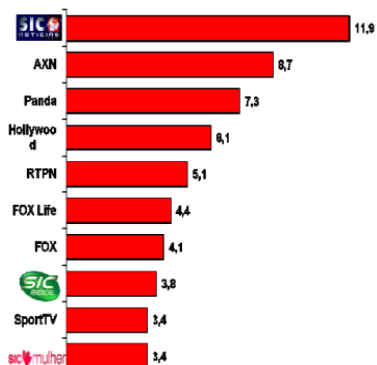


Exhibit 27: Commercial Costs in Mn € Source: Companies Data

Sonaecom has been trending negatively in this sector with the clients market share of broadband decreasing at a CAGR 09/07 of -25%. Despite still having a competitive offer in the broadband chapter, either in ULL and FTTH networks, the decrease in market share can be explained with the increase in its main competitors commercial expenditures, which Sonaecom did not keep up with due to pressure to present positive EBITDA margins in this business. Exhibit 26 shows that on paper, the triple-play offer on copper line by Sonaecom seems to be very competitive against Meo, whereas for 40€, a Sonaecom customer gets additional 4Mbps of bandwidth, 25 more TV channels, losing in the voice tariffs as it does not allow for free calls in the fixed line. Thus, we believe that Meo continuous marketing campaign, starring famous Portuguese humorists, to be one of the main factors explaining its y/y growth of 7% in the broadband, and more relevant, 68% y/y in Pay-TV.

Exhibit 28 – Cable Channels Share Rating; Source: Impresa company report



CLIX Smart TV

Launched in 2006 as a residential offer, Clix IPTV was not able to gain a considerable position in a market dominated by Zon’s cable offer. Zon and Cabovisão, which in 2Q08 held 90% of Pay-TV market share together through their cable offers, arrived FY2009 with circa 75% of combined share (65% held by Zon and 10% belonging to Cabovisão), a phenomena explained by the

entrance of the incumbent in the Pay-TV market through Meo.

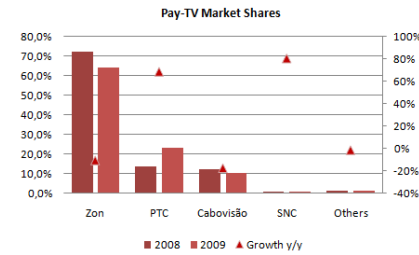


Exhibit 29 – Source: Anacom

	TV	Net	Voice	Mobile
Optimus	D	C	C	B
Zon	B	C	D	-
Vodafone	D	D	C	A
PT	C	D	C	B
Cabovisão	B	C	B	-

A	< 0,7
B	0,7 - 1,8
C	1,8 - 4,9
D	> 4,9

Exhibit 30 – Number of complaints for 1000 thousand clients; Source: Anacom

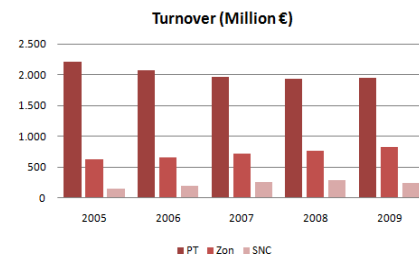


Exhibit 31 – Fixed business turnover; Source: Companies Data

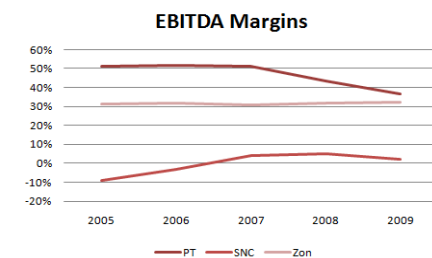


Exhibit 32 – Source: Companies Data

Currently, the premium contents have been subject of back-and-forth accusations between Meo, Optimus fixed and Zon managers, with the formers contesting the dominant position of Zon in this business. In fact, Sport TV and TV Cine, the most relevant premium channels, are controlled by Zon, with a 50% and 100% participation respectively. Outside of the premium contents, Zon also holds a JV with Dreamia, currently owner of Hollywood and MOV channels, as well as infant contents.

Moreover, the Smart TV capabilities have been at a subpar level comparing with its main competitor, Meo. Despite currently offering a broader range of services, keeping up with Meo in the discretionary channel activation and series recording, and also unique features like Restart TV and Social Networks access, the service has been recognized as having a worse quality than its competitors (Exhibit 30).

Financial Performance

Sonaecom fixed business has been underperforming in the market by presenting weak EBITDA margins, especially when compared with its main competitors. Sonaecom is struggling to remain above break-even, which has registered a CAGR 09/07 of -22%, whereas Zon has been growing at 2.6% CAGR 09/07, and PT registering a significant reduction at a -15.8%. Regarding turnover, both Sonaecom and PT registered a decrease of CAGR 09/07 of -2% and -0.4% respectively, with Zon increasing at a 7.24% CAGR 09/07. The main factors that have been harming Sonaecom EBITDA margin in this business are i) a business model that implies high fixed costs, thus requiring either a higher number of subscribers or higher prices to attain break-even; ii) the fierce competition brought by Meo to Zon, which is leading to a price war that Sonaecom must follow as to defend its customer base; iii) the trend towards bundle-packs adherence, where customers will pay more attention to the overall package offered rather in single aspects where Sonaecom has a competitive advantage (ULL broadband speeds offered); iv) the fact that Pay-TV has become a more differentiation factor for offers, which is in our opinion the weakest service offered by Sonaecom; v) Sonaecom upgraded automatically all broadband clients to maximum broadband speed without charging an extra fee as means to retain its customer base; vi) specificities of the contents business, where PT has already filled a complaint to ERC accusing Zon of irrational behavior regarding premium contents pricing.

▪ Estimates

We estimate the fixed business turnover to decrease at a 1.82% rate until FY2016, to 206.33M.

Income Statement	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E	CAGR 16/09
Turnover	291,42	245,20	231,29	220,91	219,18	214,85	211,12	205,50	203,33	-1,82%
Service Revs	289,80	243,40	228,55	218,12	216,31	211,51	207,62	201,78	199,53	-1,92%
Customer Revs	173,10	138,70	124,24	116,24	114,85	111,17	108,18	103,70	101,98	-2,78%
Direct Access	123,70	106,40	100,95	98,15	104,26	104,41	103,37	99,95	99,20	-0,25%
Copper	-	-	92,18	84,68	76,32	68,50	61,60	55,49	50,07	-8,35%
FTTH	-	-	8,77	13,47	27,95	35,91	41,77	44,46	49,13	27,90%
Indirect Access	45,80	28,00	19,90	14,92	7,46	3,73	1,87	0,93	0,00	na
Other	3,60	4,20	3,38	3,17	3,13	3,03	2,95	2,82	2,78	-2,78%
Operator Revs.	116,60	104,70	104,31	101,88	101,46	100,34	99,44	98,08	97,55	-0,95%
Equipment Sales	1,60	2,50	2,73	2,79	2,87	3,34	3,50	3,72	3,80	4,82%
Other Revs.	4,22	2,55	2,48	2,32	2,30	2,22	2,16	2,07	2,04	-2,78%
Operating Costs	281,60	242,10	228,76	220,23	215,37	208,96	203,50	198,37	194,31	-2,31%
Personnel Costs	9,80	4,80	4,94	5,09	5,25	5,40	5,56	5,73	5,90	2,57%
Direct Servicing Costs	192,10	154,40	148,11	142,24	135,51	130,16	125,59	121,87	118,24	-3,17%
Commercial Costs	19,20	22,80	23,13	22,09	24,11	23,63	23,22	22,60	22,37	-0,48%
Other	52,30	52,30	45,64	44,18	43,93	43,32	42,79	42,00	41,69	-1,29%
Provisions and imp. losses	8,20	7,80	6,94	6,63	6,58	6,45	6,33	6,16	6,10	-1,82%
EBITDA	14,04	5,75	5,01	3,01	6,11	8,11	9,78	9,20	11,06	11,99%
EBITDA %	4,82%	2,34%	2,16%	1,36%	2,79%	3,78%	4,63%	4,48%	5,44%	14,07%
D&A	-32,97	-38,77	-36,23	-34,29	-30,65	-30,11	-29,49	-29,10	-27,43	-3,90%
EBIT	-18,92	-33,03	-31,23	-31,28	-24,54	-22,00	-19,71	-19,90	-16,36	-8,82%

Exhibit 33 – Source: Analyst estimates and company data

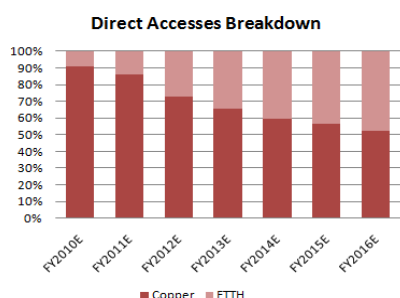


Exhibit 34 – Source: Analyst Estimates

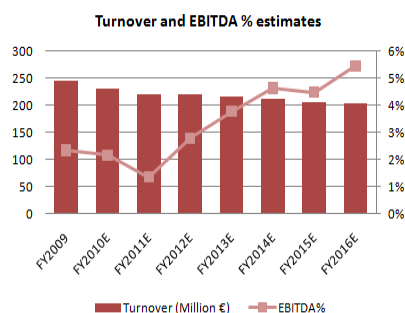


Exhibit 35 – Source: Analyst Estimates

- We expect that the reduction in direct and indirect accesses through ULL will be in the future counter balanced by an **increase in revenues from the FTTH network (CAGR 16/09 of 27.90%)**. Indirect accesses revenues are expected to be inexistent in FY2016 since in the future this service will have no competitive advantage against VoIP tariffs that allow unlimited calls for fixed numbers.

- Equipment sales are expected to grow at a 4,82% CAGR 16/09 accompanying the increase in FTTH customers.

- FTTH to become representative of circa 50% of direct accesses revenues in FY2016. EBITDA margin will benefit from transition from copper network to FTTH, has the latter does not imply a monthly ULL rental for the incumbent, thus **explaining a reduction in Direct Servicing costs of -3.17% at CAGR 16/09**.

- D&A to slowdown at a CAGR 16/09 of -3.9% due to slower amortization rates of the FTTH network²².

- We believe that despite the merger between Sonaecom fixed and mobile business under Optimus brand, **Commercial Costs will not decrease** since i) marketing pressure is not expected to be relieved by the main players in the

²² FTTH Council, Europe

market, PT and ZON; ii) There is operational margin for this expenditure, since it does not harm the pressure for presenting positive EBITDA.

- All in all, we **expect EBITDA margin to grow up to 5.3% in FY2016**, despite the decrease in turnover.

Wireline KPIs	FY2009	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E
Total Accesses	403.212	386.586	380.802	425.288	436.599	439.037	427.996	427.471
Copper								
Direct Accesses	373.914	342.014	313.636	288.417	264.174	242.387	222.796	205.171
Voice	204.512	187.852	172.549	158.493	145.582	133.722	122.829	112.823
Broadband	135.996	119.144	104.380	91.445	80.114	70.186	61.489	53.869
TV and Others	33.405	35.017	36.707	38.478	38.478	38.478	38.478	38.478
Indirect Accesses	80.401	60.301	45.226	22.613	11.306	5.653	2.827	0
ARPA Copper (Retail)	22,46	22,46	22,50	22,05	21,61	21,18	20,75	20,34
RGU per Subscriber	1,83	1,82	1,82	1,82	1,81	1,81	1,81	1,82
FTTH								
Accesses	10.353	15.750	23.650	48.025	60.500	69.000	72.000	78.000
Voice	10.353	15.750	23.650	48.025	60.500	69.000	72.000	78.000
Broadband	10.353	15.750	23.650	48.025	60.500	69.000	72.000	78.000
TV	8.593	13.073	19.866	40.821	51.425	58.650	61.200	66.300
ARPU FTTH	45,32	46,43	47,45	48,49	49,46	50,45	51,46	52,49
Triple-Play	47,95	47,95	48,91	49,89	50,88	51,90	52,94	54,00
Double - Play	32,50	39,00	39,78	40,58	41,39	42,21	43,06	43,92
Bundled Offers								
Triple - Play	83%	83%	84%	85%	85%	85%	85%	85%
Double - Play	17%	17%	16%	15%	15%	15%	15%	15%
RGU per Subscriber	2,83	2,83	2,84	2,85	2,85	2,85	2,85	2,85
Homes Passed FTTH	200.000	225.000	275.000	425.000	550.000	600.000	600.000	600.000
Urban Areas	200.000	225.000	275.000	350.000	400.000	400.000	400.000	400.000
Rural Areas	0	0	0	75.000	150.000	200.000	200.000	200.000
Unbundled COs with transmission	198	204	210	210	210	210	210	210
Unbundled Cos with ADSL2+	179	189	199	210	210	210	210	210

Exhibit 36 – Analyst Estimates

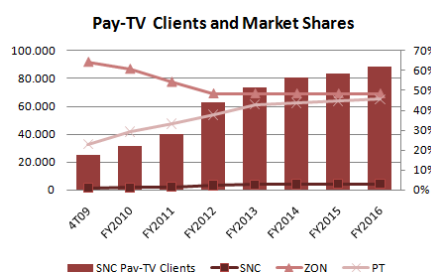


Exhibit 37 – Source: Analyst Estimates

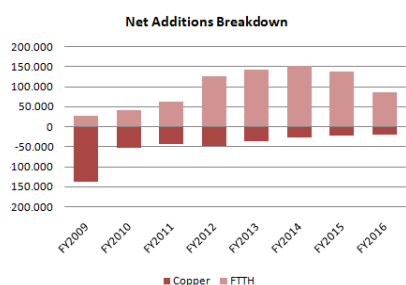


Exhibit 38 – Analyst Estimates

- Our estimates of fixed KPI's are in line with the financial estimates. Here, we **highlight the fact that circa 83% of FTTH new subscribers adhered to triple-play bundle packs**, a value that we expect to increase up to 85% in FY2016, following the general trend in the market. FTTH will drive an increase up to 3% of market share in the Pay-TV market, namely due to the i) competitive offer; ii) access to expected 200 thousand homes passed in rural areas, where PT has not developed a network yet. We expect this market to be dominated by Meo and PT in the future, with both holding close to 50% market share.

- Despite still playing an important role in the short-medium term, Sonaecom already announced that it **will decrease its investment in the copper line**, thus we expect the number of centrals to stagnate in FY2012.

- According to company reports, the corporate segment has been one of the fixed business growth drivers. Currently, Optimus Negócios is the only company offering a fixed-convergent offer for companies with the use of femtocells, a low cost technology that amplifies mobile coverage in areas with

low coverage, such as deep indoors. Also, it has launched a competitive product that nullifies asymmetries between national calls pricing, and Iberian calls.

Net Additions	FY2009	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E
Net Additions	-109.287	-9.802	18.345	77.527	107.578	124.637	115.617	64.977
Copper	-137.002	-52.001	-43.452	-47.832	-35.549	-27.440	-22.417	-20.452
Direct Accesses	-79.530	-31.900	-28.377	-25.220	-24.243	-21.787	-19.591	-17.626
Voice	-40.954	-16.660	-15.303	-14.056	-12.911	-11.859	-10.893	-10.006
Broadband	-51.742	-16.852	-14.764	-12.935	-11.332	-9.927	-8.697	-7.620
TV and Others	13.167	1.612	1.690	1.771	0	0	0	0
Indirect	-57.472	-20.100	-15.075	-22.613	-11.306	-5.653	-2.827	-2.827
FTTH Accesses	27.715	42.199	61.798	125.360	143.127	152.078	138.034	85.429
Voice	9.787	14.902	21.746	43.957	50.147	53.250	48.350	29.975
Broadband	9.787	14.902	21.746	43.957	50.147	53.250	48.350	29.975
TV	8.140	12.394	18.305	37.445	42.832	45.578	41.334	25.479

Exhibit 39 – Analyst Estimates

▪ FTTH Payoff

It is estimated that all information in the world could be transferred at the same time using only a 1 centimetre diameter fibre cable

Zeinal Bava, PT CEO, as stated that he plans to have 10Gbps offers for the residential market, at the end of 2011

As aforementioned, Sonaecom was the first company to launch a FTTH residential offer in Portugal. Despite at first having declared the will to invest 240M euro, aiming to pass a million houses, Sonaecom management quitted that objective, as they saw the competitive environment heavily worsening with PT investment. According to company reports, Sonaecom has more than 200 thousand houses passed in great Lisbon and Oporto. In our opinion, FTTH will definitely be the most relevant NGN in the future, having abilities that cannot be matched by the outdated copper investment. Unlike copper, whose bitstream limit is 30Mbps²³, FTTH has an almost unlimited data transfer capacity, and it is not affected by the distance between centrals and home. We expect that the increase in TV services, such as Super HDTV, 3D, and VoD to increase the demand for broadband speeds. This happens because in FTTH the TV signal is distributed in the same channel as the rest of the broadband, and currently, a TV transmitting an HDTV channel has an 8Mbps consumption. Also, HDTV VOD comprise files with 5 to 10 Gbps. We expect new TV services, like Internet TV which allows access to Youtube through a TV, to drive broadband demand up.

²³ FTTH Council Europe

Bandwidth Needed to Receive One TV Channel Over the Next 25 Years

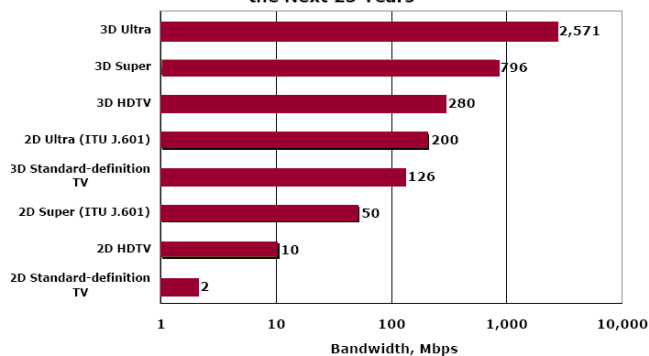


Exhibit 40 – Source: FTTH Council Europe

FTTH weight in Pay-TV

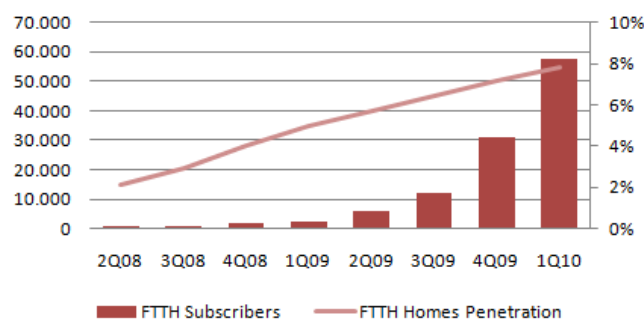


Exhibit 41 – Source: Anacom

During the ERG (European Regulation Group) public consultation regarding NGA, Sonaecom defended a creation of a single network (which would be built by the incumbent) with shared access, and although Anacom, in the same consultation, defended each country NRA autonomy for taking this decision, the European Commission alerted that shared access will be the European standard.

Sonaecom changed its strategy regarding FTTH roll-out, and signed a Joint-Venture with Vodafone, in which both companies will share a circa 400 thousand homes passed network, which could be possibly open to other operators. We highlight that this JV will not increase Homes Passed CAPEX for Sonaecom, as the 400 thousands will be composed by 200 thousand already passed homes from Sonaecom, plus 200 thousand passed homes which Vodafone will bring with its own investment. A possible downside to this agreement is that Vodafone may actually steal clients from Sonaecom, as they have been very aggressive when launching their ULL triple-play offer (currently offering a 20€ discount), and thus we estimate a 50/50 split in client acquisition from FY2014 on. Sonaecom also signed an agreement with DST in order to have access to their rural FTTH network, which according to company guidance, altogether will lead to 600 houses passed in FY2013.

Incremental Cash - Flows from FTTH	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E
FTTH Clients Revenues	5,63	8,77	13,47	27,95	35,91	41,77	44,46
- Clients Conversion to FTTH	4,91	7,09	7,12	18,53	24,33	30,01	36,21
- New Clients Acquisition	0,72	1,68	6,34	9,42	11,58	11,76	8,25
Cost Savings	3,47	4,50	5,93	4,91	3,44	1,85	1,50
- Savings in ULL fee payment	3,43	4,45	5,82	4,77	3,28	1,69	1,34
- Other Savings	0,04	0,05	0,11	0,14	0,16	0,16	0,16
CAPEX	25,63	24,72	50,14	57,25	60,83	55,21	34,17
- Homes Passed	8,75	0,00	0,00	0,00	0,00	0,00	0,00
- Homes Connected	16,88	24,72	50,14	57,25	60,83	55,21	34,17
EBITDA - CAPEX improvement	-16,53	-11,44	-30,75	-24,39	-21,48	-11,59	11,79
@ 26,5% Tax Rate	-4,38	-3,03	-8,15	-6,46	-5,69	-3,07	3,12
Incremental Cash Flow of FTTH	-12,15	-8,41	-22,60	-17,93	-15,79	-8,52	8,66
DCF @ Wacc = 7.45%	-12,15	-7,82	-19,56	-14,43	-11,82	-5,93	5,61
Terminal Value @ g=2%	104,12						
NPV of FTTH	38,02						

Exhibit 42 – Source: Analyst Estimates

We computed the NPV of this project without taking into account the investment realized in 2008 and 2009, as we consider it a sunk cost. Also, we assume that depreciation rates will not change, and for simplicity, we assume a zero tax shield from debt.

One of the main rational for the investment was related to converting copper clients to the FTTH network, originating cost savings from decrease in ULL fees payment to PT. Also, we are assuming that the converted clients are by itself an incremental cash-flow, since otherwise they would convert to other operators with NGN like Zon or PT. We identify 2 CAPEX cost drivers, homes passed and homes connected. Homes passed has been estimated to be around 350€, a value in line with Anacom and Ovum estimates for highly dense urban areas, and also according to our estimates of Sonaecom expenditure, which is circa 70M for 200 thousand homes passed. More important, is the CAPEX to connect a home. We estimate this value to be 400€ per home.

All in all, the we deem the NPV of this project to be positive, **however client retention will play a major deal in its success**, due to the high CAPEX required to connect a house.

▪ **Software and Systems Information**

The SSI division is currently composed by four companies, WeDo, Mainroad, Saphety and Bizdirect.

WeDo is a company that provides business assurance services to telecom operators, aiming to expand its scope to retailers and other businesses. WeDo already has a recognizable international presence, having sound clients like Telefónica, Oi, Vodafone, and other big telecom multinationals, having installed its solutions in 125 companies across 67 countries. Praesidium is the consulting division of WeDo, and has been also successful in providing risk management and security assignments in telecommunications. Also, a sign of international profile of WeDo is the fact that it has software--houses located in Ireland and Poland. It earned the COTEC-BPI Innovation Award in 2009.

Mainroad provides high availability and continuity services in the Portuguese market, having RTP, Mapfre, Sonae Retail as reference clients. 2009 was an important year for Mainroad since it opened a local office in Spain, which led to signing 12 contracts in this country, and it earned a second place in the Best Risk Mitigation Provider category in Data Centres Europe Award. Due to the Green IT initiative, Mainroad was also able to receive QREN funding in 2010 in order to implement new product measure and control energy consumption in data centers.



Exhibit 43 – Mainroad business

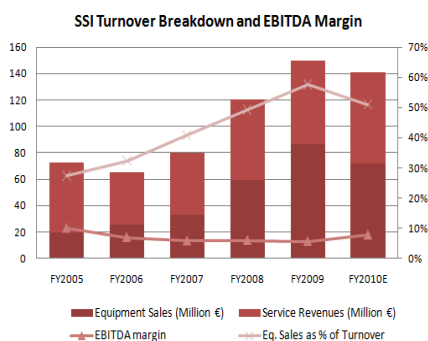


Exhibit 44 – Source:Analyst Estimates and Company Data

Bizdirect offers a broad range of informational offers, from hardware, to value-added software solutions such as vOffice. Bizdirect has also played an important role in the e-initiatives program, being Optimus hardware supply partner. Up to date, Bizdirect has gathered reference clients like such as CGD, Cimpor and Itáu.

Saphety targets the B2B market, aiming to improve its clients automatic processes offering mainly electronic invoicing services. Its operations quality has earned Saphety contracts with Jerónimo Martins, Auchan and Intermarché in the retail business, and other sound names like Nestlé and in the Public sector.

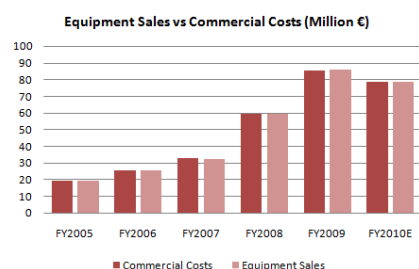


Exhibit 45 – Source: Company Data

Financial Performance and Estimates

With turnover registering a 32.05% CAGR 09/06, SSI EBITDA margin in FY2009, 5.59%, was still significantly low when compared with other companies in the same industry which averaged 17.19%. Bizdirect is one of the responsible for bringing EBITDA margins down, as it is the company with the highest focus of equipment sales. In exhibit x it is possible to see that EBITDA margin is decreasing with the increase of Equipment Sales as % of Turnover, thus supporting our analysis.

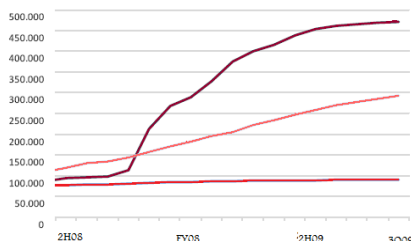


Exhibit 46 – Source: Number of e-initiatives laptops sold

Legend:
 - e.escola (dark red line)
 - e.oportunidades (light red line)
 - e.professor (red line)

- We expect Equipment as a % of Turnover to decrease from now on, following the slowing trend of e-initiatives equipment sales.(exhibit 44), with e-escolas clearly stagnating due to having already attained a penetration rate of 43.8%.

- Service revenues to continue growing at 9.1% CAGR 16/10. Despite the 1Q10 slowdown, WeDo already announced that it has signed 12 significant deals, and so we expect its international expansion to continue, assuming a more conservative employee number growth rate, 2.3% CAGR 16/10.

Our estimations for SSI division are:

Income Statement	FY2008	FY2009	FY2010E	2011E	2012E	2013E	2014E	2015E	2016E	CAGR 16/10
Turnover	120,1	149,9	140,97	150,95	158,01	163,78	170,38	177,82	186,11	4,74%
Service Revenues	60,9	63,6	69,08	77,81	85,28	92,17	99,61	107,65	116,34	9,08%
Equipment Sales	59,3	86,3	71,90	73,13	72,73	71,62	70,78	70,17	69,77	-0,50%
Other Revenues	2,4	0,4	1,41	1,51	1,58	1,64	1,70	1,78	1,86	4,74%
Operating Costs	115,4	142,0	131,47	136,50	138,46	139,00	139,99	141,38	143,15	1,43%
Personnel Costs	27,1	28,3	31,31	33,10	34,05	34,54	35,03	35,53	36,04	2,37%
Commercial Costs	59,3	85,7	71,82	73,06	72,65	71,54	70,71	70,10	69,70	-0,50%
Other Operating Costs	28,9	27,9	28,19	30,19	31,60	32,76	34,08	35,56	37,22	4,74%
Provisions	0,1	0,1	0,14	0,15	0,16	0,16	0,17	0,18	0,19	4,74%
EBITDA	7,1	8,4	10,91	15,95	21,12	26,42	32,10	38,22	44,82	26,55%
EBITDA %	0,1	0,1	8%	11%	13%	16%	19%	21%	24%	20,82%

Exhibit 47 – Source: Company Data and Analyst Estimates

▪ Enabler – Wipro Case

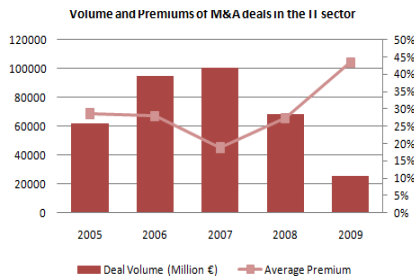


Exhibit 48: Source: Bloomberg

Until 2006, Enabler was also a part of the SSI division. Founded in 1997 and acquired by Sonaecom in 2000 by 4 million €, it started by providing IT implementation systems for the retail division of Sonae SGPS, and by 2002 already had retail giant Tesco as a client. The operational competence of this company attracted IT specialized companies, and in 2006 it was acquired by Wipro, an Indian company with a turnover of (por aki). In a conference in Universidade Nova de Lisboa, the Enabler CEO stated that the main reason for him to choose to be sold to Wipro was because Sonaecom core business was not SSI, and thus it would be harder for him to exploit the full capacity of Enabler under Sonaecom ownership. The price paid for this deal was 48 million €, which according to our estimates leads to an EBITDA multiple of 20.

Taking this comparable into account and extrapolating to other SSI division stars, such as WeDo and Mainroad, we will choose to evaluate this business unit using average Acquisition Price / EBITDA multiple in deals within the same industry, in Europe and North America. Our assumption is that like Enabler, once a company becomes attractive will be acquired by an important player in the SSI industry, thus our estimates are only used as means to consolidation, not reflecting in our opinion, the intrinsic value of SSI for Sonaecom.

▪ Media

Sonaecom also has ownership of Público, a daily newspaper that currently holds 4.4% of addressable clients, and the corresponding website, Público Online. Besides, it also has Miao.pt, an auction website. The advertising expenditure market has been shrinking up to 2002 levels, and average paid circulation, according to APCT Bulletin 09/08, decreased by 7.3%. Público's average paid circulation has been decreasing at -6.5% CAGR 09/05, with the market share of advertising expenditures also decreasing at a - CAGR 09/05 - 7.4%. Also, the entrance of "i", a new newspaper in the market, and the growing importance of free newspapers such as Metro or Destak, also increase the competition in the advertising market, reinforcing our pessimistic expectations. In our opinion, the decrease in average circulation paid will continue, with broadband playing an increasing important role in delivering news. Consequently, having less circulation will make journals a more inefficient way to advertise, and so we also expect a reduction in advertising sales at a CAGR 16/10. Summarizing, we expect turnover to follow its current trend, at a CAGR 16/10 of -2.57%. We also expect that the effort started in 2006 for the restructuring of this division to translate into a -4.35% EBITDA margin in FY2016E. Also, in 2009 Sonaecom acquired 50% of Unipress, a graphic center,

and thus this new company results are consolidated in this division, thus changing its dynamics.

Media KPI	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E	2016	CAGR 16/10
Average paid circulation	42.345	37.335	36.110	33.740	33.186	32.097	31.570	30.534	30.033	29.047	-3,02%
Market share of advertising (%)	12,50%	11,70%	10,8%	10,0%	9,3%	8,6%	8,5%	8,3%	8,1%	8,0%	-4,65%
Adressable Audience	4,50%	4,40%	4,4%	4,4%	4,4%	4,3%	4,3%	4,3%	4,3%	4,3%	-0,38%
Employees	256	245	239	234	229	224	219	214	209	204	-2,26%

Exhibit 49 – Source: Analyst Estimates and Company Data

Income Statement	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E	CAGR 16/10
Turnover	32,31	30,40	29,73	29,07	28,83	27,71	27,11	26,40	25,43	-2,57%
Advertising Sales	13,46	13,19	12,96	12,52	12,09	11,26	10,87	10,13	9,43	-5,16%
Newspaper Sales	12,04	12,42	12,30	12,19	12,13	12,01	11,90	11,79	11,68	-0,87%
Associated Product Sales	6,94	4,79	4,46	4,36	4,61	4,43	4,34	4,49	4,32	-0,51%
Other Revenues	0,72	0,29	0,50	0,50	0,50	0,50	0,50	0,50	0,50	0,00%
Operating Costs	36,12	33,35	33,08	32,04	31,34	30,03	29,12	28,16	27,04	-3,30%
Personnel Costs	11,28	11,89	11,25	11,00	10,75	10,51	10,27	10,04	9,81	-2,26%
Commercial Costs	12,60	10,35	10,62	10,09	9,72	9,08	8,63	8,16	7,64	-5,34%
Other Operating Costs	12,18	10,90	11,00	10,75	10,67	10,25	10,03	9,77	9,41	-2,57%
Provisions	0,18	0,21	0,21	0,20	0,20	0,19	0,19	0,18	0,18	-2,57%
EBITDA	-3,08	-2,66	-2,85	-2,48	-2,01	-1,82	-1,51	-1,25	-1,11	-14,62%
EBITDA %	-9,54%	-8,75%	-9,60%	-8,53%	-6,97%	-6,57%	-5,56%	-4,74%	-4,35%	na

Exhibit 50 – Source: Analyst Estimates and Company Data

M&A: Sonaecom and Zon

Consolidation between Sonaecom and Zon are old news since 2008, when Paulo de Azevedo, currently the Sonae SGPS CEO, stated that he was having conversations with Zon shareholders about this vision. With the financial crisis hitting strongly the Portuguese market in late 2008, this subject was brought up again only in May 2009, with Zon and Sonaecom shares registering momentum towards consolidation perspectives. Then again, a year has passed until a new wave of speculation arose again. Telefónica, the Spanish telecom incumbent, has recently presented an offer of 5.700 mn €, which already amounts to 6.500 mn €, in order to acquire PT participation of Brasicele, the holder of Vivo, a Brazilian star telecom company in which PT trusts its growth perspectives. In the last bid, Telefónica also stated that if PT agrees to sell Vivo, then it would sell its PT participation of 10%. Accompanying this bid was a steep increase in Sonaecom and Zon share price (12% and 5% respectively at the bid date) and thus we will breakdown the effects that led to this price behavior.

▪ Shareholder Structure

Common Shareholders	ZON	PT
Caixa Geral de Depósitos	11,71%	7,30%
Telefónica, S.A.	5,46%	10,00%
Grupo Espírito Santo	11,74%	7,99%
Joaquim Alves Ferreira de Oliveira	4,84%	2,28%
Ongoing Strategy Investments	3,16%	6,74%
Grupo Visabeira, SGPS, S.A.	2,15%	2,01%
Total	39,1%	36,3%

The shareholders structures from both companies seem to be in the way of consolidation for different reasons. One of the main issues with Zon is that fact that, being a result from a spin-off of PT cable line, there are still many shareholders in common, namely CGD (the state owned bank which played an important role in PT defense, at the time of Sonaecom tender offer) with 11.71% share in Zon and 7.30% in PT; Banco Espírito

Exhibit 51 – Source: Company Data

Santo, which was also against Sonaecom tender offer, holding 12% in Zon and 8% in PT; Controlinvest/Joaquim de Oliveira, Ongoing and Visabeira Group also with considerable qualified positions. These shareholders have a conflict of interests, as they may perceive a consolidation with Sonaecom to harm their investment in PT. However, in January 2010 Isabel dos Santos acquired a 10% participation in Zon, which allied to the possibility of Sonae SGPS entering in Angola through a partnership with her, may bring an important yes node to the merger, also with the support of Joe Berardo (4.34% participation). The main point is that currently Telefónica is also a part of the shareholders with a conflict of interests regarding the merger, holding 5.5% of Zon. Leaving PT position, Telefónica would probably be available to agree with a merger, thus explaining the price jump.

As for Sonaecom, the 53.2% ownership of Sonae SGPS can also be seen as a problem for the realization of this merger but for a different reason. Paulo de Azevedo already stated that due to his expectations regarding future growth possibilities for Sonaecom, he is willing to abdicate control of a company arisen from the merger. However, with a 53.2% participation, and a declaration of not wanting to sell it, Sonae SGPS would eventually become the biggest shareholder of the new company. Despite Paulo de Azevedo declarations, we would expect some conditions to be made, as even though Sonaecom would be the "swallowed" company, it will actually bring an important chunk of synergies for Zon.

▪ Synergies and Value Creation

Negative effects:

- In this scenario Sonaecom will have to resign its agreement with Vodafone, which would increase its current circa 200 thousand houses passed, to 400 thousand houses without any CAPEX for this matter. Thus Sonaecom loses the revenues that would gather through this network.

- The biggest part of Sonaecom accesses are on the copper line. However, we do not believe that after a merger with Zon, the NRA would allow a company to operate a Copper, FTTH, and Cable network at the same time (the NRA demanded a separation from cable and copper lines with the failure of Sonaecom tender offer). We then assume that a client will be able to choose to upgrade to FTTH or Eurodocsis 3.0 (the NGN networks of the combined company, or he will choose to resign and go to other operator. The fact is, despite the market trend, there are very competitive double-play (Net+Voice) DSL offers like Sapo and Vodafone, which is the current copper client profile of

Sonaecom. Thus, we assume that circa 20% of these will leave the subscriber base. We are assuming that the new company will still launch low-end double-play offers (Voice+Net) to retain Sonaecom subscriber base. Also, we estimate the cost of upgrading the customers to the NGN of the new company to be around 17 mn euro.

- We estimate legal and administrative costs to be up to 100 mn €, and integration costs starting at 20 mn € in FY2010, and being inexistent in FY2014.

Positive Effects:

- Cost saving opportunities will arise mainly from transferring the client base of Sonaecom to an wholly owned infra-structure, meaning that there will be no need for ULL rental fees payment to PT. In Portugal the price of ULL rental ranges from 18€ for shared access up to 51€ for full ULL. Also, Sonaecom will benefit from better contents conditions.

- Zon already has 81 thousand mobile clients (mainly including mobile broadband ones), through a MVNO with Vodafone. Although the terms of the MVNO are not disclosed, we assume an EBITDA margin of 0%, and we incorporate these clients into Optimus client base, assigning them Optimus EBITDA margin.

- Savings in marketing, personnel, commercial costs, and other issues subject to duplication in a merger.

Top Shareholders	
Sonae SGPS	17,0%
CGD	8,0%
BES	8,0%
France Telecom	6,4%
Kento Holding	6,8%

Exhibit 52: Top Shareholders from the merged company – Source: Nova Equity Research Estimates

	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E
EBITDA	72,54	79,72	67,53	56,03	49,78	46,05	40,64
- (A) Loosing Vodafone FTTH partnership	0,00	-2,83	-10,94	-17,75	-20,45	-20,99	-23,55
- (B) Loosing double-play clients	-4,40	-6,00	-3,10	-2,80	-2,13	-1,93	-1,74
- (C) IPTV synergies (Contents)	3,64	4,08	6,00	6,80	7,34	7,54	7,92
- (D) LLU Rental Savings	51,92	45,87	36,94	30,78	25,66	21,75	17,73
- (E) MVNO EBITDA improvement	0,51	1,10	1,13	1,49	1,86	2,19	2,78
- (F) Marketing Costs Savings	10	10	10	10	10	10	10
- (G) Outsourcing Cost Savings	25	25	25	25	25	25	25
- (H) Personnel Costs Savings	2,5	2,5	2,5	2,5	2,5	2,5	2,5
- (I) Upgrading Clients to NGN	-17	0	0	0	0	0	0
Implementation	-120	-15	-10	-5	0	0	0
- (J) Integration Costs	-20	-15	-10	-5	0	0	0
- (K) Legal and Administrative Fees	-100	0	0	0	0	0	0
Total Merger Costs/Benefits	-47,46	64,72	57,53	51,03	49,78	46,05	40,64
Total Merger Costs/Benefits *(1-tax)	-34,88	47,57	42,29	37,50	36,59	33,85	29,87
DCF	-34,88	44,25	36,59	30,19	27,40	23,58	19,35
Terminal Value	258,06						
NPV of Synergies	404,54						

Exhibit 53 – Source: Analyst Estimates

M&A Valuation	Zon	Sonaecom
Wacc	7,47%	7,52%
Sinergies WACC	7,48%	
Equity	1.662,94	632,51
Sinergies	161,36	243,18
Equity + Synergies	1.824,30	875,69
Value of New Company	2.699,99	
Ownership	68%	32%

Exhibit 54 – Source: Analysts Estimates

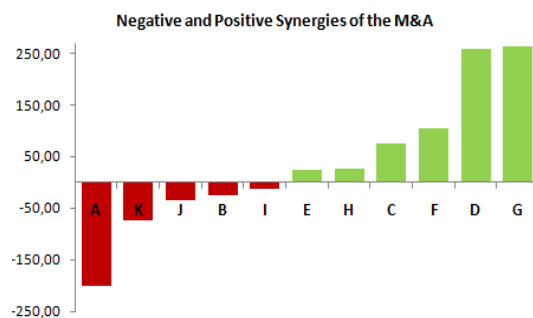
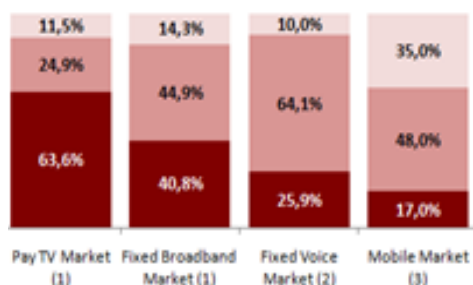


Exhibit 55 – Source: Analysts Estimates



(1) 1Q10 market shares, ANACOM
(2) 4Q09 market shares, ANACOM

Exhibit 56 – Combined Market Shares

In our opinion there is value to a merger between Zon and Sonaecom, amounting to 404 mn €. We used EV Nova ER analyst estimates in order to compute the fair value of the position of each company into the merged one, with Sonaecom having a 32% position. Still, Sonae SGPS would remain as the main shareholder, with much higher participation than the other ones. However, we trust that in order to increase shareholder value, this issue would be solved, not being an impediment for the realization of the deal. Then, the new company would be able to better benefit from the fixed-mobile convergence trend, leaving an open road for four-play and five-play (including cellphone) bundle packs exploration. (ver aki os market shares combinados) The new company would have a market share of circa 40%, against PT with 44.5%.

Wacc	Telecommunications	Media
R_f^{24}	2,85%	2,85%
β^{25}	0,87	0,79
R_m^{26}	6,34%	6,34%
R_s^{27}	8,37%	7,86%
R_b^{28}	3,34%	3,34%
Target D/E	40%	40%
wacc²⁹	7,46%	7,03%
g^{30}	2%	0%

Exhibit 58 – Source: Analyst Estimates

Valuation

We used the Sum-of-the-Parts methodology to evaluate Sonaecom. Telecommunications was evaluated as a whole through the discounted cash-flows method. For us it makes sense to value the mobile and fixed business together as its peers also operate fixed and mobile lines, but also because it is the way Sonaecom consolidates its accounts.

²⁴ Risk-Free calculated as being the yield of a 10 year German Bund;

²⁵ Obtained by regressing Sonaecom returns on SXXP returns, representative of the european market. For media it was obtained using a peer media companies average, unlevering and levering beta using: $\beta_{unlevered} = \beta_{levered} / (1 + \frac{D}{E} \times (1 - T_c))$, where debt beta is 0;

²⁶ Market Premium reflects an assumed mature market return plus a country risk Premium, obtained through CDS of Portuguese Sovereign debt against the german Bund;

²⁷ Cost of levered equity;

²⁸ Cost of debt, computed using an implied rating of BBB assigned to Sonaecom;

²⁹ $WACC = (\frac{E}{D+E} * R_s + \frac{D}{D+E} * R_b * (1 - T_c))$;

³⁰ Growth rate for Telecommunications is 2%, which is the expected long-term inflation rate. For media, we assumed a 0 growth rate as it reflects our expectations for the business;

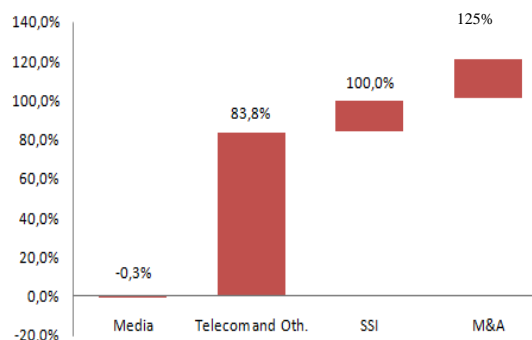


Exhibit 59 – Contribution of each business unit to Equity Value: Source: Analyst Estimates

Sum-of-the-Parts	DCF	Price/EBITDA
Telecommunications	752,58	
Media	-2,59	
SSI		146,78
NPV Security Transaction		-71,03
NPV of Deferred Tax Assets		81,52
Enterprise Value		907,26
(+) Loans		382,30
(-) Cash and Cash Equivalents		98,56
Equity Value		623,53
Outstanding Shares #		366,246
Share Price		1,727
Upside from M&A		0,36
Share Price with M&A		2,06

Exhibit 60 – Source: Analyst Estimates

The Media division is also valued with the DCF method as we believe that despite the results, Sonae SGPS will maintain its ownership in one of the most relevant daily newspapers in Portugal. As for SSI, we assumed an Acquisition Price / EBITDA multiple of 13.45, which is the median value in similar transactions, within the same industry, in Europe and North America.

Our valuation results in a price target of 1.70, representing an upside of 23%. In the event of consolidation with Zon, we expect an upside of 49%, with Sonaecom valuing at 2.06€ a share.

- **Cost-of-debt** was calculated through a peer analysis by analyzing their S&P rating, and comparing main financial ratios with the ones presented by Sonaecom, in order to infer a rating and consequently a cost-of-debt. Despite Sonaecom holding a conservative capital structure, having a Net Debt-to-Equity and Debt-to-EBITDA 80% and 25% inferior than the peer average, this by itself does not translate into a lower cost of debt. In what concerns operational ratios, Sonaecom has much weaker positions than its peers, with an inferior operational income (EBIT) to interest expenses by 60%. Also, lower ROE and EV/EBITDA multiples penalize Sonaecom, which besides the financial issues, it is competing in a very competitive and mature market. All in all, we assign a BBB rating to Sonaecom, which in our opinion not only reflects its current operational difficulties, but also its conservative approach on dealing with an available 574M credit facility. Thus, the cost-of-debt for Sonaecom is 3.25%, (nota a dizer que a maior parte da divida é a 5 anos mais ou menos). According com Sonaecom, it does not hold derivative instruments.

Securitization Transaction - In 2008 Sonaecom received 100M in a securitization transaction. Due to this contract, Sonaecom will have a cash-

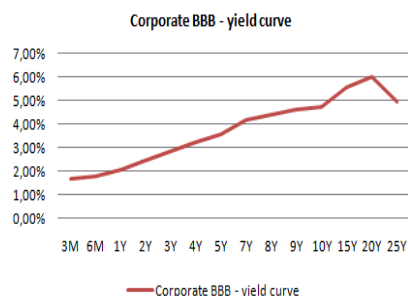


Exhibit 61 – Source: Bloomberg

Debt (Mn€)	Maturity (years)	Rate
150	5	3,55%
165	5	3,55%
43	1	1,80%
358	4,52	3,34%

Exhibit 62 – Source: Company Data

outflow of circa 20M per year which we discounted to isolate its impact for Sonaecom EV.

Deferred Tax Assets - Since it began its activity, Sonaecom has accumulated up to 121M in deferred tax assets, where 11M are attributed to deductible net losses, and the remaining to accounting adjustments like the conversion to IAS/IFRS. We valued the company assuming there were no tax credits, and then we added a NPV of these tax assets, assuming they will be consumable according to the company results.

CAPEX – We expect Mobile Capex to start growing up to 16% of turnover in FY2012 due to the LTE upgrade investment. PT already stated that it plans to launch an LTE offer still in this year, which we believe that Sonaecom will have to eventually match. Inferences from FTTH can be made, and thus a joint investment between Vodafone and Sonaecom should not be ignored, as since both have the capacity to invest in this market, they may share costs in this issue, which would give them more stable free-cash-flows than for PT, the company that has proposed to realize the investment.

CAPEX	2009	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E	CAGR 16/10
Mobile	98,71	79,09	88,97	95,46	102,08	95,41	93,58	94,20	2,96%
% of Turnover	14%	13%	15%	16%	16%	15%	14%	14%	1,24%
Fixed	49,40	29,63	28,72	54,14	59,25	60,83	55,21	34,17	2,41%
FTTH Roll Out	8,75	0,00	0,00	0,00	0,00	0,00	0,00	0,00	nd
Home Connection	16,88	24,72	50,14	57,25	60,83	55,21	34,17	34,17	5,55%
LLU Investment	4,00	4,00	4,00	2,00	0,00	0,00	0,00	0,00	-100,00%
% of Turnover	0,20	13%	13%	25%	28%	29%	27%	17%	4,55%
Media	0,79	0,89	0,87	1,44	0,83	0,54	0,53	0,51	-8,96%
% of Turnover	3%	3%	3%	5%	3%	2%	2%	2%	-6,53%
SSI	3,18	2,11	2,26	2,37	2,46	2,56	2,67	2,79	4,74%
% of Turnover	2%	2%	2%	2%	2%	2%	2%	2%	0,00%
TOTAL	150,67	111,73	120,83	153,41	164,62	159,34	151,99	131,67	2,78%
CAPEX	136,17	111,73	120,83	153,41	164,62	159,34	151,99	131,67	2,78%

Exhibit 63 – Source: Analyst Estimates

Fixed business Capex is expected to grow up to 29% of turnover in FY2014, at the peak of our estimated FTTH customer acquisition, due to connecting houses expenses. However, we estimate it to slowdown to 17% of turnover in FY2016. Fixed business Capex will be almost exclusively due to FTTH, as Miguel Almeida, President of Optimus Telecommunications, stated that Sonaecom was disinvesting in copper lines.

Overall, we estimate CAPEX to grow at a 2.78% CAGR 16/10.

- **Sensitivity Analysis and Valuation Risks**

Multiple \ Wacc	6,46%	7,46%	8,46%
12,45	2,21	1,70	1,35
13,45	2,23	1,73	1,38
14,45	2,27	1,76	1,41

The sensitivity analysis shows that the price volatility between the best and the worst case scenerario, excluding the merger impact, ranges from 1.41 to 2.21. Although being a great difference from our estimated value, 1.727, we highlight that in any of the case scenarios the price is 2.55, meaning, the book-price.

Consolidated Financials

Income Statement	FY2009	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E	FY2016
Turnover	949,40	919,23	899,84	905,65	958,23	958,41	989,04	999,81	999,81
Mobile	607,02	608,38	593,13	596,61	637,99	636,07	668,46	672,88	672,88
Wireline	245,20	228,55	218,12	216,31	211,51	207,62	201,78	201,78	201,78
SSI	149,91	140,97	150,95	158,01	163,78	170,38	177,82	186,11	186,11
Media	30,40	29,73	29,07	28,83	27,71	27,11	26,40	25,39	25,39
Other	7,31	0,50	0,50	0,50	0,52	0,52	0,54	0,54	0,54
Eliminations	-90,45	-88,91	-91,92	-94,61	-83,28	-83,29	-85,96	-86,89	-86,89
Other Revenues	7,02	8,51	8,48	8,67	9,34	9,40	9,95	10,12	10,12
EBITDA	175,67	174,78	183,25	181,34	191,68	213,88	222,79	240,14	240,14
Mobile	166,64	164,45	169,56	158,98	162,30	177,01	180,34	190,96	190,96
Wireline	5,75	2,27	0,22	3,24	4,78	6,28	5,48	5,48	5,48
SSI	8,38	10,91	15,95	21,12	26,42	32,10	38,22	44,82	44,82
Media	-2,66	-2,85	-2,48	-2,01	-1,82	-1,51	-1,25	-1,12	-1,12
Other	-1,17	0	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Eliminations	-1,27	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
EBITDA %	18,50%	19,01%	20,37%	20,02%	20,00%	22,32%	22,53%	24,02%	24,02%
Depreciation and Amo	-151,77	-150,77	-149,42	-147,04	-149,20	-150,34	-150,02	-145,23	-145,23
Mobile	-110,56	-111,88	-111,99	-112,36	-114,00	-114,75	-114,51	-111,89	-111,89
Wireline	-38,77	-36,04	-34,57	-31,67	-32,13	-32,35	-32,28	-30,04	-30,04
SSI	-2,02	-2,10	-2,10	-2,26	-2,30	-2,46	-2,46	-2,55	-2,55
Media	-1,71	-0,75	-0,75	-0,75	-0,77	-0,77	-0,77	-0,75	-0,75
Other	-0,16	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Eliminations	1,45	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
EBIT	23,89	24,01	33,84	34,29	42,48	63,55	72,77	94,91	94,91
EBT	11,20	11,59	21,41	21,87	30,31	51,12	60,35	82,49	82,49
Net Income	6,08	8,82	16,29	16,62	23,87	39,10	42,74	62,75	62,75

Balance Sheet	FY2009	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E	FY2016
Tangible assets	583,42	573,07	552,42	554,24	562,36	566,07	564,87	551,92	545,08
Intangible assets	273,69	245,60	236,75	237,53	241,01	242,60	242,09	236,54	233,61
Goodwill	526,11	526,11	526,11	526,11	526,11	526,11	526,11	526,11	526,11
Investments available for sale	1,21	1,21	1,21	1,21	1,21	1,21	1,21	1,21	1,21
Deferred tax assets	121,89	119,12	114,00	108,75	102,32	90,30	72,69	52,95	52,95
Other Non Operating Assets	0,05	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Total non current assets	1.506,38	1.465,11	1.430,49	1.427,84	1.433,00	1.426,29	1.406,96	1.368,72	1.358,95
Inventories	14,03	18,38	18,00	18,11	19,16	19,17	19,78	20,00	20,00
Trade debtors	158,92	156,27	152,97	153,96	162,90	162,93	168,14	169,97	169,97
Other current debtors	13,42	18,38	18,00	18,11	19,16	19,17	19,78	20,00	20,00
Other current assets	143,73	119,50	116,98	117,73	124,57	124,59	128,58	129,98	129,98
Cash and cash equivalents	83,63	98,56	124,80	119,87	117,66	149,54	190,04	263,08	329,96
Total current assets	413,73	411,10	430,74	427,79	443,46	475,40	526,31	603,02	669,89
Total assets	1.920,11	1.876,21	1.861,23	1.855,63	1.876,45	1.901,68	1.933,28	1.971,74	2.028,84
Share capital	366,25	366,25	366,25	366,25	366,25	366,25	366,25	366,25	366,25
Own shares	-12,81	-12,81	-12,81	-12,81	-12,81	-12,81	-12,81	-12,81	-12,81
Reserves	575,95	581,69	588,47	599,41	608,89	620,11	634,65	650,38	707,49
Consolidated net income/(loss) for the year	5,75	8,46	15,64	15,79	22,44	36,36	39,32	57,10	57,10
Minority interests	0,51	0,51	0,51	0,51	0,51	0,51	0,51	0,51	0,51
Total shareholders' funds	935,64	944,10	958,05	969,15	985,28	1.010,42	1.027,92	1.061,43	1.118,54
Long Term Loans	319,85	380,00	380,00	380,00	380,00	380,00	380,00	380,00	380,00
Provisions for other liabilities and charges	32,18	32,18	32,18	32,18	32,18	32,18	32,18	32,18	32,18
Securitisation of receivables	59,37	39,37	19,37	0,00	0,00	0,00	0,00	0,00	0
Other non current liabilities	33,22	33,22	33,22	33,22	33,22	33,22	33,22	33,22	33,22
Total non current liabilities	444,72	484,77	464,77	445,39	445,39	445,39	445,39	445,39	445,39
ST loans	62,31	5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00
Trade creditors	195,30	174,65	170,97	172,07	182,06	182,10	187,92	189,96	189,96
Securitisation of receivables	19,49	19,49	19,49	19,49	0,00	0,00	0,00	0,00	0,00
Other creditors	46,98	36,77	35,99	36,23	38,33	38,34	39,56	39,99	39,99
Other current liabilities	215,66	211,42	206,96	208,30	220,39	220,43	227,48	229,96	229,96
Total current liabilities	539,74	447,33	438,41	441,09	445,79	445,87	459,96	464,91	464,91
Total shareholders' funds and liabilities	1.920,11	1.876,21	1.861,23	1.855,63	1.876,45	1.901,68	1.933,28	1.971,74	2.028,84

Cash-Flow Statement	FY2009	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E	FY2016
EBIT	23,89	24,01	33,84	34,29	42,48	63,55	72,77	94,91	94,91
(+) Depreciation	151,77	150,77	149,42	147,04	149,20	150,34	150,02	145,23	145,23
(-) Income Taxation	-5,12	-2,77	-5,12	-5,25	-6,44	-12,02	-17,61	-19,74	-19,74
Δ NWC	37,94	-17,54	-2,33	0,70	6,31	0,02	3,68	1,29	0,00
Decrease (Increase) in Trade and Other Debto	41,22	-2,31	3,68	-1,10	-9,99	-0,03	-5,82	-2,05	0,00
Decrease (Increase) in Inventories	15,58	-4,35	0,39	-0,12	-1,05	0,00	-0,61	-0,22	0,00
Decrease (Increase) in Other Current Assets	-29,83	24,23	2,52	-0,76	-6,84	-0,02	-3,98	-1,40	0,00
Increase (Decrease) in Trade and Other Credit	33,08	-30,86	-4,46	1,34	12,09	0,04	7,05	2,48	0,00
Increase (Decrease) in Other Current Liabilitie	-22,10	-4,24	-4,46	1,34	12,09	0,04	7,05	2,48	0,00
Deferred Taxes	2,47	2,66	5,12	5,25	6,44	12,02	17,61	19,74	0,00
Cash-Flow from Operations	210,96	157,14	180,93	182,04	197,99	213,90	226,47	241,43	220,40
(Increase) Net Capex	-150,33	-112,33	-119,92	-149,64	-160,79	-155,64	-148,30	-126,72	-135,46
(Increase) in Investments	-0,08	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
(Increase) in other non-current Assets	-0,05	0,05	0,00	0,00	0,00	0,00	0,00	0,00	0,00
(-) Gain/Loss from Investments	0,16	0,00	0,00	0,00	0,26	0,00	0,00	0,00	0,00
(-) Dividend Payout	0,00	0,00	-1,69	-4,69	-6,32	-11,22	-21,82	-23,59	0,00
Cash-Flow from Investing	-150,30	-112,27	-121,62	-154,33	-166,85	-166,86	-170,12	-150,31	-135,46
(Decrease) in Own Shares	0,69	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
(Decrease) in Share Capital	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
(Decrease) in Loans	-23,30	2,84	0,00	0,00	0,00	0,00	0,00	0,00	0,00
(Decrease) in Others	-47,20	-20,00	-20,00	-19,37	-19,49	0,00	0,00	0,00	0,00
(Decrease) in Reserves	5,19	5,75	6,77	10,95	9,48	11,22	14,55	15,73	57,10
(Decrease) in Retained Earnings	-5,00	-5,75	-6,77	-10,95	-9,48	-11,22	-14,55	-15,73	-57,10
Interest Expense	-12,85	-12,42	-12,42	-12,42	-12,42	-12,42	-12,42	-12,42	-12,42
Minorities	-0,27	-0,35	-0,65	-0,83	-1,43	-2,74	-3,42	-5,65	-5,65
Cash-Flow from Financing	-82,75	-29,93	-33,08	-32,63	-33,35	-15,16	-15,84	-18,07	-18,07
Δ Cash	-22,09	14,93	26,24	-4,93	-2,21	31,88	40,50	73,05	66,87
Beggining Cash	105,72	83,63	98,56	124,80	119,87	117,66	149,54	190,04	263,08
Ending Cash	83,63	98,56	124,80	119,87	117,66	149,54	190,04	263,08	329,96

Liquidity Analysis	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2016
Current Ratio	0,77	0,92	0,98	0,97	0,99	1,07	1,14	1,30	1,44
Quick Ratio	0,74	0,88	0,94	0,93	0,95	1,02	1,10	1,25	1,40
Net Working Capital Ratio	-6,56%	-1,93%	-0,41%	-0,72%	-0,12%	1,55%	3,43%	7,00%	10,10%
Profitability Analysis	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2016
Return on Assets	0,31%	0,46%	0,87%	0,89%	1,28%	2,07%	2,23%	3,21%	3,14%
Return on Equity	0,65%	0,94%	1,71%	1,73%	2,44%	3,92%	4,19%	6,01%	5,76%
Profit Margin	0,64%	0,96%	1,81%	1,84%	2,49%	4,08%	4,32%	6,28%	6,28%
ROIC	0,91%	1,35%	1,89%	1,90%	2,39%	3,46%	3,67%	4,97%	4,78%
EPS	1,66%	2,41%	4,45%	4,54%	6,52%	10,68%	11,67%	17,13%	17,13%
Activity Analysis	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2016
Asset Turnover Ratio	48,77%	48,43%	48,15%	48,73%	51,35%	50,73%	51,58%	51,21%	49,98%
Accounts Receivable Turnover Ratio	4,92	5,30	5,21	5,28	5,41	5,26	5,35	5,29	5,26
Capital Structure Analysis	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2016
Debt-to-Equity Ratio	0,44	0,41	0,41	0,40	0,40	0,39	0,38	0,37	0,36
Net Debt-to-Equity Ratio	0,32	0,30	0,27	0,27	0,27	0,23	0,19	0,11	0,05
Net Debt-to-Assets	0,16	0,15	0,14	0,14	0,14	0,12	0,10	0,06	0,03
Interest Coverage Ratio (EBIT)	1,86	1,93	2,72	2,76	3,42	5,11	5,86	7,64	7,64
Interest Coverage Ratio (EBITDA)	13,67	14,07	14,75	14,59	15,43	17,21	17,93	19,33	19,33
Capital Structure Analysis	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2016
P/E Ratio	104,08	57,36	31,05	30,42	21,19	12,94	11,83	8,06	8,06
Market-to-Book Ratio	0,54	0,54	0,53	0,52	0,51	0,50	0,49	0,48	0,45

Financial Strenght Indicators	S&P Rating	Market Cap	EBIT / Int. Expenses	Debt to EBITDA	Net D/E	Net D/E LF
Telefónica	A-	70.491	nd	2,03	2,02	5,44
Vodafone	A-	88.203	5,48	2,58	0,39	7,14
Telecom Italia	BBB	16.920	nd	3,27	1,29	4,86
KPN	BBB+	17.201	4,07	2,06	2,67	5,37
France Telecom	A-	40.882	1,87	2,33	1,22	5,24
Portugal Telecom	BBB *	7.638	3,27	2,37	2,10	6,06
Deutsche Telekom	BBB+	40.190	2,75	1,97	0,99	4,04
Hellenic Telecom	BBB-	3.186	2,76	2,03	2,23	3,91
Belgacom	A+	8.413	5,87	0,88	0,70	3,62
Telenor	A-	nd	6,14	nd	0,26	nd
Swisscom	A	13.781	7,53	2,12	1,32	6,14
Jazztel	NR	637	nd	4,41	0,84	15,92
Telekom Austria	BBB	4.129	3,13	1,75	1,73	nd
Zon Multimedia	nd	974	nd	2,97	2,68	6,17
<i>Average</i>		<i>22.368</i>	<i>4,29</i>	<i>2,32</i>	<i>1,38</i>	<i>6,16</i>
Sonaecom	BBB	506	1,86	1,70	0,29	2,87
<i>Sonaecom vs Average</i>			<i>-57%</i>	<i>-27%</i>	<i>-79%</i>	<i>-53%</i>

Disclosures and Disclaimer

Research Recommendations

Buy	Expected total return (including dividends) of more than 15% over a 12-month period.
Hold	Expected total return (including dividends) between 0% and 15% over a 12-month period.
Sell	Expected negative total return (including dividends) over a 12-month period.

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