

06 JANUARY 2010

SONAECOM

TELECOMMUNICATIONS

ANALYST: FRANCISCA SILVA

COMPANY REPORT**Returning to the old profitability strategy rather than growth....***On the back of MTR cuts...*

- We are initiating the coverage of Sonaecom (SNC) with a Hold recommendation as our price target of € 2.20 presents a restrained 12% upside potential for the year 2010.
- **Optimus** is Sonaecom's core business. We anticipate top line performance to be driven in coming years mainly by increasing penetration of mobile broadband. EBITDA has been presenting a strong performance and we anticipate continual improvements in the next few years on the back of further MTR cuts and on the ability demonstrated in the last quarters to reduce costs.
- **Sonaecom Fixed** has been presenting a weak performance as a consequence of Fixed Market deterioration and lack of a competitive bundle offer. Fibre build up remains doubtful and we anticipate an adjustment to macroeconomic conditions. We forecast revenues and EBITDA to slightly benefit in the coming years from the transference of ULL clients to Fibre.
- We expect **SSI** to continue posting positive results although with top line growth being affected by a fall in IT equipment sales. We expect **Público's** performance to continue to be penalized by the market dynamic in terms of circulation figures but we expect a recovery in the advertising market.
- Faced with huge competitive pressure, we believe an M&A operation seems to be the main upside potential for our target company. We consider this operation highly rational as it would bring substantial synergies for both companies (€362mn). We do not expect it to happen immediately as it is being constrained by companies' divergent perspectives, but we believe is just a matter of time.

Recommendation: HOLD**Price Target FY10:** 2.20 €*Potential* 12%**Price (as of 6-Jan-10)** 1.96 €

Reuters: SNC LS , Bloomberg: SNC PL

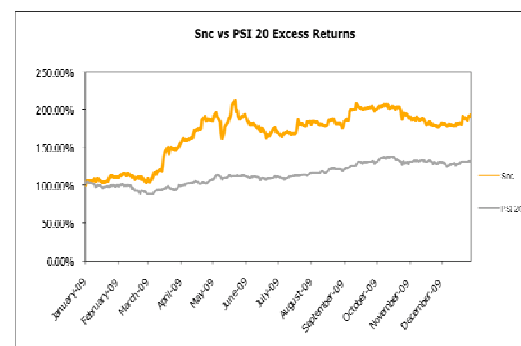
52-week range (€) 0.925-2.149

Market Cap (€m) 720.04

Outstanding Shares (m) 366.247

Float 67.58

Source: Bloomberg and Nova Equity Research Team



Source: Bloomberg

(Values in € millions)	2008	2009E	2010E
Revenues	976.2	956.5	944.0
EBITDA	160.4	173.7	168.5
EBITDA margin	16.4%	18.2%	17.8%
Depreciation	-157.6	-157.2	-155.0
EBIT	2.8	16.5	13.5
Net Income	5.2	0.4	-3.7
Net Debt	299.7	324.7	312.00
Capex	192.1	140.6	135.7

Source: Company data and Nova Equity Research Team

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Valuation

Investment Case

We are initiating the coverage of Sonaecom (SNC) and we rate our target company with a Hold recommendation as our price target of € 2.20 offers a restrained 12% upside potential for the year 2010. We did not incorporate in our base case valuation any hypothetical merger between Sonaecom and Zon since we do not expect this to happen immediately. However, as we consider that a Merger or an Acquisition might be a possibility for Sonaecom to achieve a competitive scale and, therefore, to take advantage of the network effect, competing more efficiently, we further evaluate the possible synergies resulting from this process.

Valuation Methodology

We value Sonaecom using a DCF model for 10-year period through a Sum-of-the-parts analysis as Sonaecom is a holding company with different business profiles and this is the most appropriate method to catch the company risk profile. A different Cash Flow was estimated for each of SNC's units and then discounted at an appropriate WACC rate reaching a total enterprise value for Sonaecom of €1118.40mn in 2010. After subtracting the expected value for 2010 Net Debt of €312.00m and dividing the result by the number of shares, we obtained a € 2.20 Price Target.

Table I: Valuation

Business	Value (€mn)	SNC stake (%)	EV	Weight	Method
Optimus	984,0	100%	983,95	88%	DCF (WACC=7,9%; g=2%)
Sonaecom Fixed	31,3	100%	31,35	3%	DCF (WACC=8,3%; g=0%)
Público	8,9	100%	8,87	1%	DCF (WACC=8,1%; g=0%)
SSI	94,2	100%	94,23	8%	DCF (WACC=8,1%; g=2%)
Total EV (€mn)	1118,4		1118,40	100%	
Net Debt 2010 (€mn)	312,00				
Equity Value	806,40				
# Shares	366				
Price Target	2,20				
Current Price	1,96				
Upside Potential	12,4%				

Source: Nova Equity Research Team

Main assumptions:

Our base case scenario estimates 10 years of expected Cash Flows for each of Sonaecom's four business units plus its terminal value which starts to be accounted in 2020. The terminal growth rate is different for each business unit reflecting different perceptions for future performance of SNC business areas.

A different WACC was considered for each area as SNC operates in different segments; for this reason, we estimated different betas to incorporate different systematic risk. The percentage of Debt over total Equity was chosen according to

Sonaecom Guidance (30%). The cost of debt (rd) reflects an average of the past rates at which Sonaecom financed its operations, company guidance and our perspectives for EURIBOR as SNC cost of debt is indexed to it (6%).

Table II: Sonaecom DCF Assumptions

	Optimus	SCF	Público	SSI
Re	10,3%	10,9%	10,6%	10,6%
Rf	3,37%	3,37%	3,37%	3,37%
Market Premium	6,00%	6,00%	6,00%	6,00%
Beta (leveraged)	1,15	1,25	1,2	1,2
Rd	4,41%	4,41%	4,41%	4,41%
Cost of debt	6,00%	6,00%	6,00%	6,00%
Tax Rate	26,5%	26,5%	26,5%	26,5%
Leverage	30%	30%	30%	30%
WACC	7,9%	8,3%	8,1%	8,1%
g	2%	0%	0%	2%

Source: Nova Equity Research Team and Bloomberg

Using CAPM we were able to compute the cost of Equity (re) for each business unit;

- We used the 10-year German Bond as the risk free rate (3.37%) and a Market Premium of 5.75%.

- In order to estimate each business Beta, we selected a group of comparable companies and we unlevered the obtained betas (regression with DJ EURO STOXX600) based on their last reported D/E ratios and respective tax rates. We then computed an average of the obtained unlevered betas and we turned to leverage the average beta according to our capital structure at market values.

Being the core business of our target company, we ran a sensitivity analysis of Sonaecom valuation to different levels of Optimus WACC and perpetuity growth rate. We can conclude that perpetuity growth rate would have to be 0.5% lower and at the same time WACC 0.5% higher to get our price target at current market prices.

Table II b: Optimus Sensitivity analysis

€ per share		Perpetuity Growth Rate		
		1,5%	2,0%	2,5%
WACC	7,4%	2,31	2,47	2,67
	7,9%	2,07	2,20	2,36
	8,4%	1,89	2	2,12

Source: Nova Equity Research Team

Relative Valuation – Comparables

We selected a group of EU Telco companies to compare the value of our target company with the values assessed by the market for similar companies in order to measure the value and growth prospective of our stock. As Sonaecom's core business is telecommunications and mostly mobile (88% EV) we chose two groups of comparables: pure mobile operators and integrated operators. We should state that SNC multiples are not directly comparable with its peers as the company is not a pure mobile operator and in the fixed business it is a fragile operator which leads us to say that is also not an integrated operator.

Table III: Sector Peers

	Price	EV/Rev. (x)		EV/EBITDA (x)		EBITDA mg
	Last Price	2009E	2010E	2009E	2010E	2009E
Vodafone	143,7	2,55	2,51	7,56	7,49	35,33%
Mobistar	47,9	2,05	2,07	5,64	5,73	38,60%
Mobile Telesystem	7,27	2,19	1,95	4,68	4,1	50,17%
Telefonica O2	418	2,02	2,04	4,58	4,73	42,56%
Simple average	-	2,20	2,14	5,62	5,51	41,67%
Sonaecom	1,96	1,02	1,05	5,85	5,77	16,43%
Sonaecom	2,2	1,17	1,18	5,93	6,64	18,24%
Portugal Telecom	8,52	2,2	2,09	6,16	5,89	34,91%
France Telecom	17,43	1,65	1,68	4,86	4,93	35,51%
KPN	11,84	2,24	2,23	5,89	5,67	35,06%
Telefonica	19,52	2,42	2,38	6,11	6,03	39,55%
Telecom Itália	1,09	2,04	2,05	5,08	5,13	37,69%
SwissCom	395,6	2,61	2,61	6,6	6,65	36,86%
Telenor	81,05	1,77	1,74	5,66	6,18	31,18%
Belgacom	25,32	1,73	1,71	5,41	5,4	33,78%
Telekom Austria	9,95	1,59	1,63	5,32	4,54	25,15%
Simple average	-	2,03	2,01	5,68	5,60	34,41%
Sonaecom (A)	1,96	1,02	1,05	5,85	5,77	16,43%
Sonaecom (B)	2,2	1,17	1,18	5,93	6,64	18,24%

(A)Market consensus (B)Nova Equity Research Estimates

Source: Nova Equity Research Team and Bloomberg

Sonaecom is trading at a premium to its peers (EV/EBITDA) for both mobile players and integrated operators. In our perspective it is not reasonable that SNC trades at a premium as although margins have improved in 3Q 2009, SNC continues to be an operator under pressure with lack of scale and limited growth perspectives which is a constraint for its margins. This is also reflected in EBITDA margins, having a much smaller subscribers base, SNC could not benefit from scale benefits as it happens with its peers. Therefore we would expect SNC to compare unfavourably with EU telcos. We believe this premium reflects YTD performance of SNC during 2009 which was greatly above the average. Moreover, implicit to it could be a speculative M&A operation as this issue was again mentioned in 2009.

Company overview

Sonaecom was founded in 1994 and is Sonae SGPS's Telecommunications holding. Sonaecom operates in three business units: Telecommunications (Fixed and Mobile), Media and Software and Systems Information. The group's core business is in the telecommunication sector. SNC provides its services for both corporate and residential customers in Portugal.



Company description

Sonaecom's mobile business is carried out under the brand Optimus, providing mobile telecommunication services. Wireline services are provided under the brand Clix for residential clients and Novis for small to medium sized enterprises (SMEs) and Corporate. The media sector of the company is represented by Público, a daily newspaper in Portugal. Wedo, Bizdirect, Mainroad and Saphety are the companies providing IT & SI consultancy services.

Optimus has been the key driver of Sonaecom performance. For a better understanding of the importance of each business unit for the overall company it is relevant to state that for 2010 we expect enterprise value to be divided as the follows: Optimus represented 88% of total revenues, Sonaecom Fixed 3%, SSI 8% and the remaining 1% was generated by the Público division.

Shareholder structure

Table IV: Shareholders structure

	Stake
Sonae SGPS	53,2%
France Telecom	20,0%
BCP	3,4%
Own shares	1,9%
Free Float	21,5%

Source: Company Data

Sonaecom is owned by three main investors: **Sonae SGPS** (53.16%), **France Telecom** (20%) and **BCP** (3.41%), with the remaining shares being divided between 1.90% of own shares and 21.43% of Free Float.

Sonae SGPS was founded in 1959 and originally its activity was focused on the wood sector. Later, in the eighties, it started to expand its business through a diversification strategy. The group's presence in the telecoms industry started in 1994 on the back of Sonaecom. At that time it was already operating in three other sectors: wood, retail and shopping centers.

As a Holding company, it has to manage its diversified portfolio of companies, defining the guidelines and strategies for each business, trying to capture new business opportunities and taking advantage of potential synergies between group companies.

Sonae SGPS market capitalization is 1740.00M; at the moment is composed of: Sonae Sierra, Sonae Investimentos and Sonaecom which represents 10% of Sonae's NAV. After the acquisition of Carrefour, Sonae became too leverage (Net Debt/ EBITDA 5.92x). Regarding its strategy, Sonae is focusing on the group's expansion in higher growth potential business areas such as Distribution and Shopping Centers.

France Telecom was founded in 1990. The Group's principal activity is to provide consumer and business fixed and mobile voice and data services. It is the reference partner for Sonaecom, bringing experience and know-how in those areas. **FT has a strategic co-operation with Sonaecom in four main segments:** Roaming and Interconnection, Preferred networks partner arrangements, multimedia services and handset procurement. In 2000 it consolidated its mobile position with Orange and is now the second largest European mobile telecommunications group with a market capitalization of 46006.03M.

Although a possible acquisition by FT is a long lasting issue, we believe the current situation in the Portuguese telecoms market is not very attractive. Even though FT already has a position in the Iberian market (Amena), we consider the Portuguese and Spanish mobile market offer different opportunities as the Portuguese market is already saturated (141.5% penetration rate in July 2009) in comparison with the Spanish penetration rate (119%), which is still below the E.U. average (122.4%). Moreover, FT management has announced they are currently looking for minority participations which rules out the possibility of an acquisition.

BCP pension fund was the last to join the company's shareholder structure (October 20, 2009), after buying its participation directly from the ex-shareholder

EDP. We perceive the decision to buy this stake as an investment strategy followed by the BCP fund, given that the main goal of an investment fund is to generate profit for investors. They must have seen an opportunity in the SNC stock price to receive future returns.

Analysing SNC's shareholder structure and the impact in its business, our main conclusion is that the commitment of SNC's main shareholder to expand its distribution and shopping centres abroad and the lack of interest that has been demonstrated in the telecommunication unit, including regular statements presenting willingness to integrate an M&A operation even losing control over the company, increase the possibility of a consolidation operation.

The Sector

E.U Telecommunication Sector

Bearing in mind the European Commission¹ report, we would like to summarize last year's (2008) evolution of the sector in the E.U.

Telecommunications provide a strong contribution to the Community GDP; Telco's revenues in 2008 (€ 361 billion) represented around 3% of it. In 2008 this sector grew 1.3% in real terms which means it grew higher than the GDP (1% real growth rate).

Despite being a significant contributor to the GDP, 2008 telecommunication growth was smaller than in the previous year, which is a result of the high penetration ratio of 119% already achieved by mobile services in the E.U. (penetration rate is above 100% in 23 countries). It was also a consequence of the macroeconomic conditions that we are experiencing nowadays; although the financial crisis affected both operators' capacity to invest and subscribers expenditure capacity, it has a minor impact in this sector in comparison with other sectors due to the essential nature of telecoms services which allow for more stable cash flows and low debt levels.

Table V: Service revenue growth

	3Q 08	4Q 08	1Q 09	2Q 09
Portugal	4,8%	1,4%	0,2%	-1,4%
France	7,3%	4,7%	3,7%	3,1%
UK	5,7%	2,5%	0,0%	-1,6%
Spain	2,1%	-1,7%	-5,8%	-6,3%
Italy	2,8%	3,3%	-0,3%	1,2%

Source: Companies data and Nova Equity Research

We have been observing to a slow pace in the growth of European service revenues. This is a consequence of both high penetration already achieved and pressure on voice usage and price. Revenues growth has mainly been driven by mobile broadband (€4billion) and multiple play offers.

Even though fixed business revenues still have a considerable weight in the total amount of revenues (49%), these have been affected by Fixed-Mobile substitution and the fixed business is continuously losing importance.

¹ Progress Report on the Single European market for electronic communication in 2008 (14th report).

Concerning the drivers for the Mobile segment, voice services continue to be the main contributor for revenues but SMS (11%) and Broadband (3%) are clearly increasing their importance. We expect broadband to be the main booster for the future performance of the mobile market.

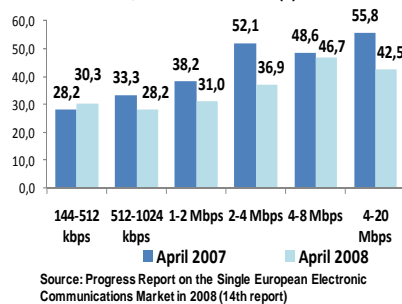
For the Fixed business, multiple play offers (including broadband) are the main driver for future evolution of revenues.

Considering **Broadband**, fixed Broadband penetration achieved 22.9% (+2.8% YoY) in 2008 but, as in Fixed Voice, the growth of this service has been prevented by the rising preference for Mobile Broadband, which, although with lower speed, is increasing in importance with 13% of penetration ratio. The competition in this segment leads to a decrease in prices and increase in speed and capacity, benefiting consumers.

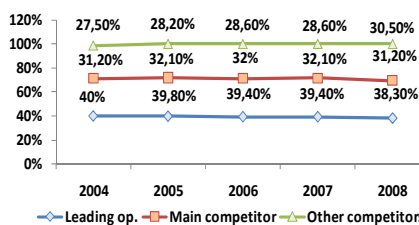
Measures have been taken by the regulators in order to increase competition and create opportunities for alternative operators against the incumbent operators. Portability (+26% YoY) is one of these measures. Furthermore, in line with the aforementioned, the number of direct accesses in 2008 presented a +5% YoY growth.

On average the price of **Fixed services** has been slightly decreasing. Regarding **Mobile Services**, price decline is nowadays a tendency viewed by the European Commission as result of the Regulator activity and competitive environment.

Graph I: Price comparison for broadband offers EU27, total cost/month (€)



Graph II: EU average mobile operators' market share



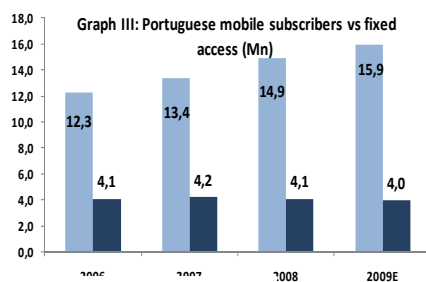
Portuguese Telecommunication Sector

In order to better understand the position of Sonaecom in the Portuguese Telecom Market we will attempt to describe the current situation and the future outlook of the sector.

The Portuguese Telco sector is extremely competitive with three main players in the fixed segment: Portugal Telecom (PT), ZON and Sonaecom and three mobile operators: Vodafone, PT and Sonaecom, which we consider too many for a market with only around 10 million inhabitants. If we compare the Portuguese market with France, which has 65mn inhabitants and the same number of mobile operators (3), we can perceive an imbalance.

Potential subscribers for mobile services will always be higher than for fixed services as the former are individuals and specific business lines and the latter take into account houses.

We believe the mobile and fixed segments have already achieved almost total potential market as the mobile service achieved a 146.2% penetration rate regarding mobile business and 4mn houses in a universe of 5.5mn houses (first and second houses). Opportunities in this sector arise from specific services in



both segments that still have growth potential, namely mobile broadband for the mobile segment (12.10/100 inhabitants versus Spain with 25.9/100 inhabitants) and pay-tv for the fixed segment (44/100 houses in 3Q 09).

Market players face challenging conditions related with a variety of factors affecting business. This sector is highly regulated. Furthermore, at the moment there is some uncertainty about future **Regulation** of Mobile Termination Rates and Roaming. We must state that the evolution of the telco sector is constrained by a combination of several facts: **Country Size**, **High Penetration Ratio** of the Mobile Segment (141.5% versus 122.4% E.U in July 2009) and **FTTH investment**. **Market trends** such as Fix to Mobile movement, changes on consumer behaviour (bundles) and the “fight” for contents are also creating challenges for the companies operating in this sector.

Although Telecoms’ growth is constrained by a combination of factors, we believe there are areas where growth opportunities still exist. We are going to further describe mobile and fixed market trends and growth perspectives in each Sonaecom business areas valuation.

Mobile Business - Optimus



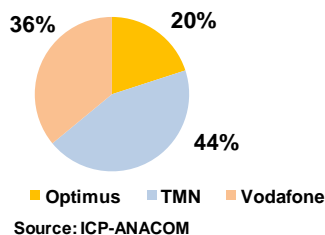
Background

Optimus is the core business of Sonaecom; it is the key contributor for Sonaecom performance. It was created in 1998 and is Portugal’s third-largest mobile operator (20%). It offers a wide variety of mobile services in three different segments: Residential, Small and Medium Size enterprises (SMES) and Corporate.

Taking a glance at Optimus Background we can verify its innovative attitude: it created the concept of flexible rechargeable pre-paid cards and later the idea of pre-paid cards without compulsory top up. In addition to this, it was the first operator to launch WAP, and Optimus also introduced the networking concept by launching a fix price tariff in 2002. In 2005 “Optimus Home” was launched, an innovative concept for the fixed-line segment which avoids the long-established monthly fee. In 2008 Optimus completely re-launched its brand trying to increase brand attractiveness, showing a different positioning and attitude as an attempt to improve its performance. It was also a year of hard investments in network upgrade, covering almost the entire country. These improvements allowed it to offer broadband services in new areas and to provide new competitive services with better quality. The Mobile Business achieved 3.3M clients in 9M 2009.

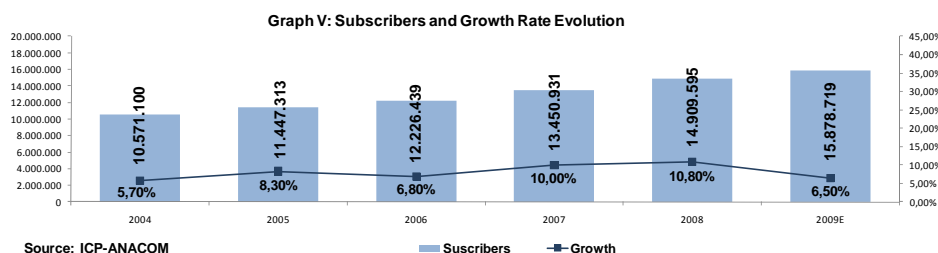
Mobile Sector Overview

Graph IV: Portuguese mobile market shares (Jun 2009)



Regarding the **Mobile business**, there are three players in this segment: TMN (44%), Vodafone (36%) and Optimus (20%). These market shares have been stable in the last 4 years which led us to label them as natural market shares. We believe the impact of the already existing MVNO (Talk to Talk Mobile, Worten Mobile, Rede4, Uzo, Vodafone Directo, Phone-ix, Zon Mobile and Continente Mobile) and the hypothetical future appearance of new MVNO should not represent a major threat for Mobile Operators' Market Shares as usually MVNO target specific market niches aiming at a limited number of clients linked to MVNO by brand or by specific markets where the main players do not want to or cannot be. Moreover, we can perceive that the three market players are already focused on the typical MVNO niches, through low cost tariff plans such as TAG (Optimus) and also with low cost brands.

In recent years we have observed an impressive growth rate in number of subscribers (CAGR 9% 2004-2008²), level of use (CAGR 2004-2008 of 43.4% for outgoing traffic and 40.2% for incoming traffic) and in the volume of service revenues which reached €2.7mn at the end of 2008 (4.7% YoY growth).



By the end of 2008 there were 14.9 million subscribers (CAGR 9% 2004-2008³). As this is already a mature market, we must expect this impressive growth rate to slow down in the next years. The most recent data disclosed by Anacom in 9 months 2009 announced 15.5 million subscribers reflecting a 3.3% QoQ growth and 6.9% YoY growth, which already shows the slowdown tendency.

According with data provided by Anacom, the recent evolution of subscribers was mainly driven by:

- Development and growing use of 3G/UMTS services (In September 2009, potential subscribers represented 36.8% of total mobile subscribers, indicating a 44.2% YoY growth).
- Emergence of new mobile broadband offers;
- Launching of specific offers related with the *Information society* (at the end of 2008 e-initiatives subscribers reached 534.285m);
- Appearance of new "by the second" billing tariff schemes;
- Low cost offers (Uzo);

² Anacom Data

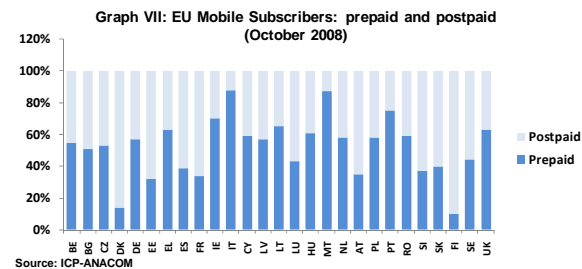
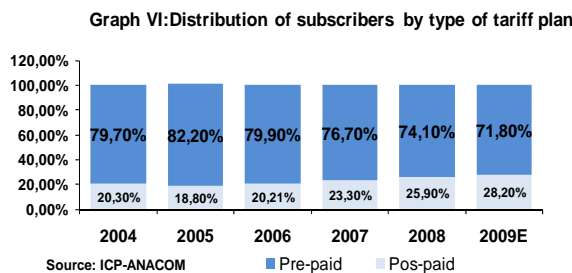
³ Anacom Data

- Development of new applications associated with machines;

Customers are divided between pre-paid and post-paid subscribers. Pre-paid services without contract continue to show a fall tendency in the overall market, while we have been seeing a recent rise in the number of post-paid card users (27.4% 9M 2009 of the total subscribers and 31% in Optimus subscribers). This evolution reflects the rising use of UMTS based services. At the end of 3rd quarter 2009, the number of subscribers with access to UMTS services reached 5.7mn. This technology is related with wireless hardware for internet access which usually involves the payment of a monthly charge.

From the operator's perspective, the increase in post-paid subscribers seems to be really attractive as it usually implies higher ARPU's, around twice times more. Prepaid subscribers usually generate less revenue as they become more cognisant of what they spend which leads them to spend less. On the other hand, according to a study provided by the E.U. Commission, countries with a higher proportion of prepaid subscribers seem to present higher overall penetration rates. The proportion of prepaid subscribers in Portugal is one of the highest in Europe but has been following EU prepaid subscribers fall tendency (61% in 2007 to 58.2% in 2008).

On average prepaid generate less revenue per month than postpaid



Portuguese high penetration rate is explained by strong competitive environment

According to Anacom, the Portuguese Mobile Market is one of the markets with a higher level of penetration in Europe. At the end of 2nd quarter 2009 it reached 141.5% which is above the E.U average (122.4 per 100 inhabitants) and ranks Portugal as the fifth among the 27 countries in the E.U.

The penetration in Portugal has been kept consistently above the average; this evolution in comparison with the EU can be explained because Portugal has a very competitive market, with many operators for just a few clients.

Table VI

Country	P. Rate (Oct 2008)	Inhabitants (2008)	M. Operators (2008)	Subsc./ Operator	Avg. EBITDA mg (2008)	Avg. ARPU (2007)
PT	136,96%	10m n	3	4.565.333	34,5%	23
FR	88,47%	65m n	3	19.168.500	32,30%	36
ES	114,27%	46m n	4	13.141.050	36,50%	26
UK	121%	61m n	5	14.762.000	23,90%	31
Italy	152%	58m n	4	22.040.000	45%	22

Source: Companies data and Nova Equity Research Team

This scenario leads operators to create new aggressive offers and promotions in order to appeal more to clients which is reflected in Portuguese telcos lower average ARPU.

Mobile penetration rate high values (Portuguese and E.U.) are not real values. The interpretation of these values must take into account:

- The existence of users who have more than one card (10% of the users);
- Cards assigned to machines, equipments and cars;
- Cards used only to have access to data services and internet (Broadband).

Broadband

At the end of 2008 potential users represented only 29% of total subscribers in comparison with 36.8% in 3rd quarter 2009

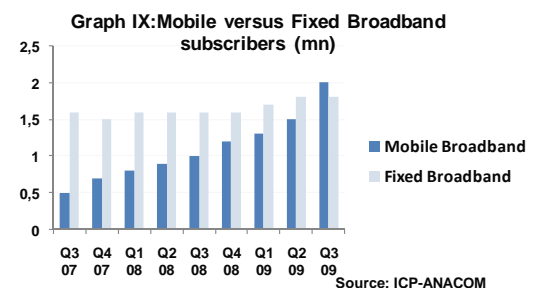
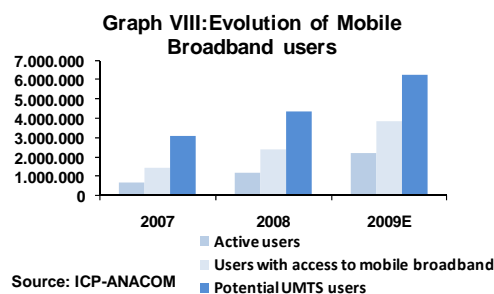
The number of users who have subscribed to mobile 3^G services has grown significantly in Portugal. In accordance with data provided by Anacom, by the end of 3rd quarter 2009 there were 5.7mn users with access to UMTS/HSPDA technology-based services⁴ (potential users), representing 36.8% of total mobile subscribers.

Of the 5.7mn potential subscribers⁵, 2.3mn were active users⁶ (15.3% of total subscribers). This value represents a 32.9% QoQ growth and 123.6% growth in a YoY basis.

Commercial services associated with UMTS/3G are: Broadband internet access, Video call, and multimedia services and data transmission.

The number of mobile broadband users has been growing at a high pace. In the 3rd quarter of 2009 potential users represented 3.4million, 500 thousand more than in the 2nd quarter (+17% QoQ and 64% YoY growth). The number of users increased as well as the level of consumption. Among the potential users, 2 million were active users which represents a 95% YoY growth and a 36.7% QoQ growth. The proportion of active users in relation to potential users has been increasing since January 2007.

Active users represent 58% of Potential users



⁴ UMTS: Universal Mobile Telecommunication System. It is a technology design for high-speed data transfer and is "Internet Ready".

⁵ Refers to those that already have equipment (mobile phone) ready to use services based on UMTS technology and have made at least one registration on the operator network.

⁶ Refers to those with adequate equipment but who have not yet registered the SIM.

As we can see, the growth in mobile broadband has been very fast over the last year surpassing fixed broadband in 3rd Quarter 2009. Fixed Broadband growth rates were much softer than mobile, 3.1% on a QoQ basis and 13.2% on a YoY basis. We see this discrepancy in the evolution of both services as a risk for the fixed market. Although fixed broadband services can deliver high speed and capacity, more consumers are supporting their broadband service subscription on flexibility rather than on network performance. We believe as mobile broadband improves capacity and speed, it will have a stronger impact on the fixed broadband as it represents an easy way to connect everywhere; according to Anacom, mobile broadband is a substitute for fixed in specific market segments, such as young individuals, people who live alone and high status individuals. However, we believe it could also be a complement as we expect quadruple play offers to continue to grow in the market.

Mobile broadband evolution has been influenced by the evolution of new techniques, resulting from increase competition, as well as changes in the offers of this kind of service by service providers presenting daily tariff schemes to access internet on the mobile phone; it was also boosted by implementation of Government initiatives (e-initiatives).

The Governmental programme, e-initiatives, is an agreement between the Government and the three mobile operators within the scope of the signed commitment to the Information Society when UMTS Licences were granted requiring each operator to contribute with a subsidy. It was launched in June 2007 and aims to promote access to the information society, and promote e-inclusion through the generalization of access to personal computers and broadband internet on very competitive terms. This programme includes:

- *E-oportunidades*: available since 11 June 2007 to workers training under the “Novas Oportunidades” program; assures the acquisition of laptops to access broadband.
- *E-escolas*: launched in September, 15, 2007; guarantees the acquisition of broadband laptops for an initial payment of €150 (when applicable) and a monthly discount for a 3-year contract.
- *E-professores*: started September,15,2007; offers all teachers of basic and secondary level a laptop for a down payment of €150 as well as broadband access for €5 less per month than normal offers, in a 3-year contract.

It is a one-year contract with a down payment of €150 with monthly payments of €15.

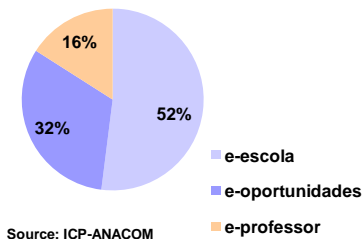
Was originally addressed to all 10th year students and it has been extended to a larger universe.

Table VII: Mobile Broadband offers

Operator	Speed	Bandwidth	Price
Vodafone	1 Mb/s	2 GB	€ 24.9
Vodafone	512 Kb/s	1 Gb	€ 17.5
Optimus	3.6 Mb/s	6 Gb	€ 34.9
Optimus	1 Mb/s	2 Gb	€ 24.9
Optimus	512 Kb/s	1 Gb	€ 17.5
TMN	1 Mb/s	2 Gb	€ 24.9
TMN	512 Kb/s	1 Gb	€ 17.5

The three players with UMTS licences joined this project, through similar offers. According with Anacom in November 2008, 99% of accesses were made through a 512kb offer. Potential users could select one of the three 3G services providers. Although TMN is responsible for ¾ of the accesses, Vodafone and Optimus have been increasing their market share. Market shares are related to both

Graph X: Proportion of members on the initiative in November 2008



commitments made by each operator and to the distribution force; as TMN took higher commitments and in fact its distribution force is stronger it has a higher market share of the *e-initiatives*.

According to the most recent available data provided by Anacom, in November 2008 total subscribers reached 534,285.

Taking into account that when the programme was launched in 3rd quarter 2007, there were 0.5mn mobile broadband subscribers and at the end of 4th quarter 2008 (last available data of *e-initiatives* programme) there were 1.2mn broadband subscribers we can see that the mobile broadband growth was mostly driven by this programme contributing with 0.5mn to a total increase of 0.7mn.

Although Anacom has not yet provided data regarding the e-initiatives programme for 2009, we expect 2009 broadband growth to have been also supported by this programme though at a smaller rate; we expect this resource to start fading as the programme is already reaching maturity. Therefore, in the coming years we should not expect broadband to continue to be supported by e-initiatives.

Taking into account that under this agreement mobile operators receive a monthly payment between €5-€15 instead of normal prices between €17.5-€34.9 we perceive that although this programme has boosted mobile broadband customers and revenues, they receive less than with normal customers (difference between normal price and the price under the programme). Besides this, margins were positive and we must take into account that they have to accomplish the established commitment.

TAG:

In 2008, the mobile market experienced a new concept, the launching of specific offers allowing free calls, SMS, MMS, video-call and MSN between members of a particular network. Optimus was the first operator to launch this, a new attractive and innovative service based on unlimited communications aimed to target the youth market. It was immediately followed by TMN and Vodafone.

- Optimus: TAG, is the only tariff where a fee is consumable. TAG members can choose between a variety of possibilities from € 5 for 15 days to a maximum of € 60 for 180 days of free communications.

Since the appearance of this concept, voice traffic has experienced strong growth rates, both in terms of **number of calls** and **minutes (MOU)**.

According with Anacom and regarding the **number of calls**, in 9 Months 2009, outgoing traffic grew 6% in comparison with the previous quarter and 9.4% compared to the last year, driven mainly by the intra-network traffic accounting for 70% of the total. In the same period, the number of incoming calls grew 5.3% on a QoQ basis and 9% in comparison with the same period last year and intra-network traffic was responsible for 70.6% of the total.

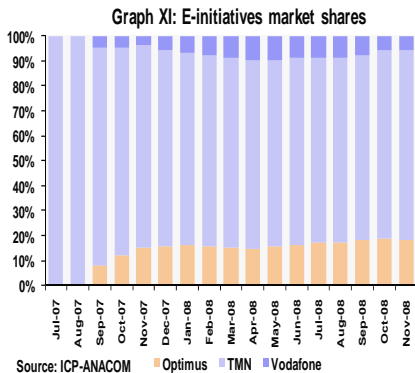


Table VIII: Unlimited communications offers

	Vodafone	TMN
Offer	Extreme/Extrav.	Moche
Monthly Fee	€91	€90

Source: Nova Equity Research Team

Higher intra-network traffic is linked with specific offers that allow free calls between the members

Outgoing/Incoming minute's growth was driven by intra-traffic accounting respectively 74.3% and 74% for the total amount of minutes.

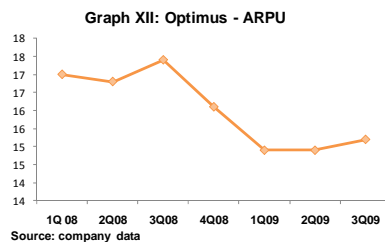
TAG was launched to invert the negative trend in traditional voice service

In 9 Months 2009, voice traffic in terms of **minutes** also registered a significant growth; the number of outgoing minutes was 7.5% higher on a QoQ basis and 14.8% superior compared to the same period last year which represents 8% more in comparison with the rise in subscribers. The number of minutes terminated in the mobile network grew 6.9% in comparison with the previous quarter and 14.5% on a YoY basis.

The launch of this service in 2008 helped to invert a negative trend in the traditional voice service. TAG allowed for the attraction of new subscribers who otherwise would not subscribe to mobile services. It helped to increase subscribers and therefore to slightly decrease network effect. Even though it contributed slightly increase Optimus subscribers, we must take into account that this service was immediately followed by Vodafone and TMN, which also increased the amount of subscribers increasing the benefit of network effect as they have a higher customer base. All in all, although Optimus benefited from this service, the benefit was even greater for TMN and Vodafone, which we believe increased the gap between Optimus and its two main competitors.

Analysing ARPU evolution since TAG launching, it is clearly visible that this service is ARPU unfriendly. TAG is not solely responsible for this effect, both downward pressure on MTR and stronger market competition are also contributing to this tendency.

Although this service is ARPU unfriendly and has been pressing revenues, it provides positive margins to Optimus. EBITDA margins are posting a positive evolution since 2nd quarter 2008 as intra-network costs, according to SNC management, are almost insignificant.



European Commission set guidance to reduce MTR

Table IX: European mobile termination rates (cent)

	Portugal	Spain	Sweden	UK	France
2Q 08	11,0 €	8,7 €	5,2 €	6,2 €	6,5 €
3Q 08	8,0 €	8,7 €	4,1 €	6,2 €	6,5 €
4Q 08	7,5 €	7,8 €	4,1 €	6,2 €	6,5 €
1Q 09	7,0 €	7,8 €	4,1 €	6,2 €	6,5 €
2Q 09	6,5 €	7,0 €	4,1 €	6,2 €	6,5 €
3Q 09	6,5 €	7,0 €	3,1 €	4,8 €	4,5 €

Source: Anacom

Regulation:

Anacom is in charge of the sector's regulation. This is a key issue in the telecoms sector, with all market participants challenging high uncertainty. The regulation hot topics are: Mobile Termination Rates (MTR) and Roaming Cuts.

Mobile Termination Rates in most countries are converging to European levels.

MTR's started their decline path in Portugal in 2007. The Anacom decision came in line with the European Commission recommendation to eliminate the existing price distortion which means the reflection of the costs actually incurred in the wholesale termination.

Optimus was always affected by a scale problem, as having a smaller client base is negatively affected by the network effect being always a net payer to its competitors. When network effect exists, the value of a service increases as more people use it. Therefore, the more people who are Optimus subscribers, the more

Net Payer: outgoing traffic is higher than incoming, paying more than receiving

valuable it is to be Optimus subscribers; the problem is that Optimus did not reach critical mass and therefore is impaired by lack of scale.

For this reason, Anacom set a temporary asymmetry from August 2008 until last October justified by the existence of a network effect penalising Optimus. This exception is a common practice in other countries in the E.U. but was applied in Portugal for the first time.

Whether asymmetry will persist in the future remains uncertain. In our opinion, MTR rates asymmetry that decreased the negative impact of the network effect over Optimus during 2009 is not expected to continue in the future. Optimus performance during 2009 demonstrated the positive impact of asymmetry on its business, being the operator in every quarter with greater improvements in operational margin.

As MTR rates decrease, the network effect also decreases and by the end of 2009 Anacom expects that the network effect will already have been partial reduced. **Thus, even without asymmetry, Sonacom will enjoy some relief from MTR cuts in the next years.**

In any case, the main doubt relates to the future glide path of MTR. Players are waiting for new indications from the Portuguese Regulator but we believe these indications should come in line with the aggressive strategy recommended by the E.U. and followed by some countries whose purpose is to decrease MTR to 0.015€- 0.030€ by 2012.

The uncertainty rests in the amount of time needed to go from the present 0.065€ in Portugal to 0.030€ recommended by the EU.

Although MTR cuts are a national matter and should be decided by national authority, Roaming as an international subject has a different approach. At the end of 2008, the European Commission announced new proposals for Roaming rules, stating that operators should cut prices of electronic communications within the E.U to prices similar to local rates; maximum chargeable prices were established and started to be applied in July 2009 (SMS: from 25p to 10p; outgoing voice calls from 40p to 38p; incoming voice call from 19p to 17p).

Regarding the negative effect of this measure on revenues and assuming that roaming in revenues are equally distributed between the three operators, the proportional impact, as a percentage of revenues, is higher in the case of Optimus. In 9 months 2009, roaming revenues suffered a 20% decline; since this line only represents less than 5% on total services revenues the overall impact on total revenues was less than 1%.

Both MTR and roaming cuts have been pressing Optimus operator revenues that have been falling since 3rd quarter 2008 from €39.2mn to €28.8 in 3rd quarter 2009.

Table X: Mobile Termination Rate in PT (cents)

	TMN	Vodafone	Optimus	Asymmetry
Before	11,0 €	11,0 €	11,0 €	0%
3Q 08	8,0 €	8,0 €	9,6 €	20%
4Q 08	7,5 €	7,5 €	9,0 €	20%
1Q 09	7,0 €	7,0 €	8,4 €	20%
2Q 09	6,5 €	6,5 €	7,8 €	20%
3Q 09	6,5 €	6,5 €	7,2 €	11%
4Q 09	6,5 €	6,5 €	6,5 €	0%
2010	€6,0	€6,0	€6,0	0%
2011	€5,4	€5,4	€5,4	0%
2012	€4,9	€4,9	€4,9	0%
2013	€4,4	€4,4	€4,4	0%
2014	€4,1	€4,1	€4,1	0%

Source: Nova Equity Research Team

**Optimus Operator
Revenues represented in
9m 2009 20% of service
revenues versus 26% in
9m 2008**

that the next bunch of subscribers will primarily be low income, increasing TAG users which mean lower ARPU (€5) and therefore lower revenues.

We forecast an inversion of the current trend from 2011 onwards, which would be driven by the private consumption recovery and higher importance of data services from total revenues which already accounts for 28.1% versus 22.7% in 9M 2008.

Optimus BB users have been increasing at a very fast rate, driven by Kanguru and e-escolas programme; both drivers are already reaching a mature phase. From 2011 onward we expect broadband to be driven mainly by Smartphone use; according to a study provided by pyramid research, Smartphone's market is in expansion and Smartphone's sales will continue to grow in Europe about 22% YoY. It is expected to capture 37% of the total world phone market in 2014 compared with the current 16% of total market. Navigation, email and internet access are top of the necessary features for new mobile phones and, therefore, that which was previously mostly for business use is becoming conventional.

As adoption of Smartphones expands, more customers are likely to take contract plans that include some form of data services.

We do not expect BB prices to increase; we rather expect the mix of ARPU to change. Pure broadband ARPU (€22) is higher than voice ARPU (€13); we believe consumer use of broadband and especially Smartphones will increase. Therefore, the proportion of users with higher ARPU will increase, leading to a rise in the total average ARPU.

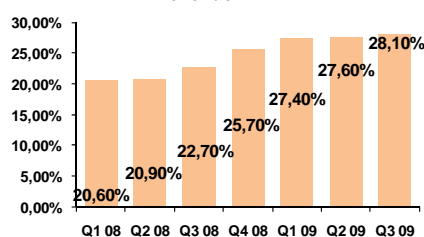
This tendency is also reflected in the increasing number of post-paid cards which usually imply a higher ARPU.

We could expect BB penetration to grow leading to higher ARPU

Smartphones will become more popular increasing the number of subscribers using mobile phone to access the internet

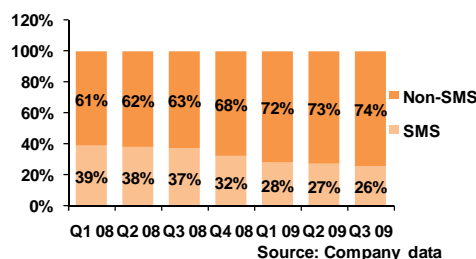
We expect Broadband pure ARPU to slightly fall in the short-term but then start to stabilize

Graph XIV: Optimus % data of service revenue



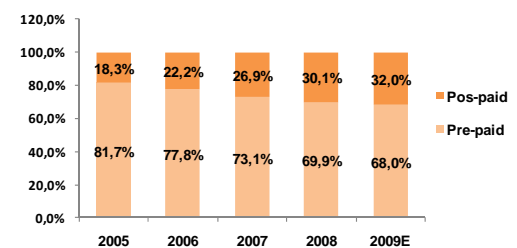
Source: Company data

Graph XV: Optimus SMS/ Non-SMS



Source: Company data

Graph XVI: Optimus % Pre-paid/Pos-paid cards



Source: Company data

Operator Revenues (Interconnection Bill) are under pressure, being affected by both MTR and Roaming cuts. Favourable asymmetry on MTR to Optimus finished at the end of 3rd quarter and now tariffs are at the same level (€ 0,065) for all operators. Moreover, we believe Anacom will determine further reduction on MTR from 2010 until 2014 (€ 0.04). We expect the downward glide in Roaming tariffs that took effect in July 2009 to continue but at a lower level.

We anticipate MTR and roaming pressure to continue penalizing interconnection revenues until 2014, which is when we expect MTR to stabilize. From 2014 onwards we anticipate that operator revenues will become stable.

Table XI: Optimus operating data

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2019E	CAGR 08-14E	CAGR 14-19E
Market Penetration	131,5%	144,2%	149,5%	151,7%	154,0%	156,3%	157,9%	158,7%	162,0%	-	-
Optimus Market Share	20,7%	20,8%	20,6%	20,3%	20,0%	20,0%	20,0%	20,0%	20,0%	-	-
Optimus Subscribers	2.893.500	3.191.600	3.275.549	3.279.213	3.282.164	3.334.395	3.370.770	3.390.673	3.478.065	2,3%	0,5%
ARPU	18,2 €	16,8 €	15,0 €	14,7 €	14,9 €	15,2 €	15,5 €	15,7 €	17,2 €	-1,0%	1,8%

Source: Company data and Nova Equity Research Team

EBITDA

Although revenues are under pressure, EBITDA margin is improving. Nine months results confirmed a Robust EBITDA generation; these profitability gains were possible as a combined effect of cost savings and favourable asymmetry towards Optimus. Cost savings were mainly network and interconnection costs related with MTR cuts and with the 2008 upgrade of their 3G and fixed infrastructures which allowed backhaul costs to be reduced. We expect these cost reductions to be sustainable in the coming years as they are structural cost savings.

The rationale behind this analysis is the fact that although **MTR cuts negatively affect Revenues, the positive effect in costs is even greater resulting from the reduction in interconnection fees paid to operators, allowing increasing EBITDA margin.**

According to data provided by SNC management, an additional cut of €0.0025 would be an upside in terms of profitability of €4mn.

All in all, we expect profitability margins to remain strong in the given period (2011-2019) as the company has proven its ability to increase margins in its business through operational cost reduction and also helped by MTR cuts. As we can see by looking at both Optimus and the competitors' margins, Optimus was the operator benefiting more from MTR cuts since last year which we expect to continue with further MTR cuts.

Table: XII Mobile operators margin

EBITDA mg	3Q 08	3Q 09	YoY %
Optimus	26,30%	27,50%	1,2 pp
Vodafone	32,90%	32%	(-)0,9 pp
TMN	43,80%	44,70%	0,9 pp

Source: Companies data and Nova

Equity Research Team

CAPEX

Lower Capex needs...

Regarding **Capex**, Optimus efforts to improve 3G/3.5G coverage and network capacity in 2008 should allow it to lower its investments from 2009 onwards.

SNC lowered its capex level in the current year and announced it is planning to slightly decrease its investments due to recent updates. We are more conservative with regard to this issue. We do not believe that is possible to cut capex much further as, even though it is the smaller operator, SNC has to have the same infrastructures as big players. Therefore we expect capex for the next years to be in line with the previous year's level. This discrepancy between capex level and turnover in comparison with main competitors has huge negative impact on SNC Cash Flow. We expect Optimus **Capex** Revenues to be 15% until 2013 and after that we would expect marginal decrease until reaching 13% of revenues in 2019 which is in line with the previous year's capex level.

Table XI: Optimus Income Statement

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2019E	CAGR 08-14E	CAGR 14-19E
Revenues	619,4	629,1	620,6	620,2	625,2	642,5	663,0	677,4	757,7	1,3%	1,9%
EBITDA	153,7	142,4	170,6	161,1	165,6	170,2	175,6	179,4	200,7	4,2%	1,3%
EBITDA Margin	24,8%	22,6%	27,5%	26,0%	26,5%	26,5%	26,5%	26,5%	26,5%	-	-
EBIT	38,1	19,2	49,7	42,5	48,9	55,3	62,3	67,4	93,1	32,2%	7,2%
Capex	113	146	99	99	99	99	100	100	102	-5,2%	0,1%
Capex/Revenues	18%	23%	16%	16%	16%	15%	15%	15%	13%	-	-

Source: Company data and Nova Equity Research Team

Table XI b : Optimus DCF

	2009E	2010E	2011E	2012E	2013E	2014E	2019E
EBIT x (1-t)	36,5	31,2	36,0	40,6	45,8	49,6	68,5
Depreciation (+)	120,9	118,6	116,6	114,9	113,3	112,0	107,5
Capex (-)	-99	-99	-99	-99	-100	-100	-102
Change in Ner Working Capital	-20,5	1,5	-0,9	-2,0	-2,4	-2,1	-1,8
DCF	37,7	52,3	52,7	54,1	57,1	59,3	72,5

Source: Nova Equity Research Team

Sensitivity Analysis

Given the huge importance of Optimus for Sonaecom, as well as the challenging prospects that this unit is facing in terms of competition and regulatory environment we ran a sensitivity analysis of Sonaecom's valuation to different levels of critical variables to assess the potential impact on our price target.

The variables that we have influenced in Optimus in order to make a sensitivity analysis are: **Arpu growth rate, market share and EBITDA margin.**

Deviations of these variables from base case reflect: regulatory environment alterations, macroeconomic environment uncertainty and competitive intensity. As we can observe, our price target is most vulnerable to variations of EBITDA margins; EBITDA mg would have to be 2% lower in each year of the 10 years valuation to jeopardize our 2010 price target, which we do not consider reasonable taking into account recent improvements in terms of operational savings.

Table XI c: Sensitivity Analysis

Market Share	-1%	0%	1%
Price Target	2,08	2,2	2,32
Arpu growth rate	-2%	2%	2%
Price Target	1,96	2,2	2,47
EBITDA mg	-2%	0%	2%
	1,71	2,2	2,68

Source: Nova Equity Research Team

Wireline Business – Sonaecom Fixed

Sonaecom's opportunity to join the Fixed Market came with the liberalization of the Portuguese telcos market in January 2000. Before that, Portugal Telecom was the only operator and, therefore, it was a monopoly market. The fixed unit offers services to three segments: residential, corporate and SMES and wholesale.

Sector Overview

Concerning **Fixed Business** (Voice, Broad Band and Pay TV), this segment is being affected by hard and challenging competitive conditions. As a result, in the last two years we observed, both in Pay TV and Broadband offers, the arrival of innovative products, improved network quality and lower prices leading to a

change in the consumer behaviour to bundle offers. Regarding voice, we detect an inflexible tendency for decline in the number of clients.

We believe the only drivers for the Fixed Business Growth are Pay TV and Broadband (integrated in a bundle offer). This fact is also supported by the E.U penetration ratio of each of these segments, which are substantially higher than in Portugal, meaning that we still have scope for market growth (15.4% in Portugal versus 22.9% E.U in 2008 for Fixed Broadband⁷). In this segment, the main players are: PT, ZON, Sonaecom and also Cabovisão in the pay-tv market. Zon has a complete triple and quadruple-play offer with a strong subscriber base and an established position in their core market. It is now the leader in the Pay-tv market and is gaining market share in Broadband. PT continues to aggressively expand its presence in pay-TV and is rolling out fibre. PT fibre investment seeks to improve capacity limit, bandwidth and geographic cover, given that they believe market needs have changed and are now more demanding. Thus, there is a need to provide added value providing additional reliability, faster internet services, high definition TV and advanced communication along with entertainment services.

In the first half of 2009 PT announced it had surpassed 500,000 houses and was now aiming to reach 1 million houses by the end of 2009. Regarding Sonaecom and its fibre investment, the company fixed a target to surpass 200,000 in 2009, which has already been accomplished and which represents around 7000 subscribers; a partnership with DST was also announced and a joint-venture with Vodafone to explore alternative solutions for expanding fibre offers to other regions as a way of sharing investment risk.

NGNs heavy investment plan is a result of the existing competitiveness between players

Graph XII: Adhesions to multiple-play offers (th.)

	2007	2008	YoY	CAGR (06-08)
Total	565	744	31,70%	26,50%
Double	385	391	1,50%	7,80%
Triple	179	343	91,30%	63,70%
Quadruple	0	9	-	-

Source: Anacom

Graph XIII: Penetration rate per 100 houses

	2007	2008	YoY	CAGR (06-08)
Total	10,1	13,3	3,20%	2,50%
Double	6,9	7	0,10%	0,50%
Triple	3,2	6,1	2,90%	1,90%
Quadruple	0	0,2	0,2	0,1

Source: Anacom

Portuguese landlines reached 4.198M accesses in 3rd quarter. This value represents a 1.5% YoY and 1% QoQ growth. According to data provided by the Portuguese regulator, landline marginal growth was mainly supported by new subscribers of multiple play offers; these are integrated offers comprising combinations of: voice, internet and pay-tv; as in Portugal we have been observing a growth pay-tv adherence it has been contributing to also increase multiple play penetration (13/100 houses in 2008). In terms of population, penetration reaches 6.9/100 inhabitants which means it is above the E.U. average (10/100).

Despite this marginal growth, we must refer to the inverse evolution tendency of direct accesses vs. indirect.

Whereas direct accesses customers slightly increased, boosted by package offers, we could verify that indirect accesses customers suffered a severe drop

⁷ [2] Relatório Anacom 2008

Table XIV: Wireline Customers

	3Q08	2Q09	3Q09	YOY%
Direct Access	3.141	3.252	3.285	4,60%
Indirect Access	342	291	276	-19,30%
Pre-selection	195	161	151	-22,40%
Call-to-call	25	6	7	-74,70%
VOIP	122	124	118	-2,80%

Source: Anacom

which started in the 2^o half of 2006. We expect this tendency to continue as new operators are focused on other segments which are more attractive in terms of profitability and also due to a new competitive tariff of the incumbent operator.

Voice

Regarding voice traffic we have seen a quarter after quarter fall tendency (-3.4% fall in terms of minutes and -3.9% fall in terms of number of calls on a QoQ basis). This evolution is explained by the reduction in fixed-mobile traffic and also by the substitution of dial-up accesses by broadband ones.

Pay-Tv

Pay-tv subscribers continue to growth and, according to data provided by Anacom, reached 2.4m in 3rd quarter 2009. This represents an annual and quarter growth of 11% and 3% respectively.

This service could be supported by different technologies; cable continues to be the main technology, followed by DTH and IPTV. **Sonaecom offers its Pay-Tv service on the back of Xdsl/IP technology (IPTV) and also through fibre.**

Pay-TV is a chance for the wireline segment

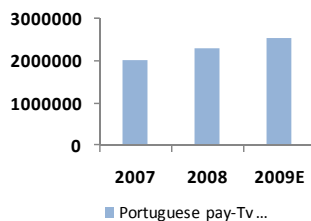
Table XV: Pay-tv subscribers market share

Zon	PT	Cabovisão	SNC	Others
66,60%	20,70%	10,60%	0,90%	1,20%

Source: Anacom

Zon is the main player in this segment (66.6% market share). Besides Zon there are two operators with significant market shares: PT and Cabovisão. Recently Vodafone launched its offer of Pay-tv supported through Xdsl/IP.

Graph XVII: Portuguese pay-Tv subscribers



Source: ICP-ANACOM

We believe this segment has a lot of space to grow if we consider current penetration of 44/100 houses in comparison with other E.U. countries such as the Netherlands that already has a penetration ratio near to 100%; we verify that the Portuguese pay-tv market is far from being saturated. Moreover, according to a survey by Anacom, high price is the main barrier for subscribers of this service. Therefore, as prices are decreasing, more subscribers will join.

As we can see, **Sonaecom has a very irrelevant position in this segment (1%)**, which we do not expect to change as a consequence of its weak pay-tv offer. SNC immaterial position in this segment is a consequence, firstly, of a low market addressable base of only around 1.5mn line, in comparison with ZON which has an addressable base of 3.5mn; commercial efforts are substantially lower than its competitors and people are much more aware of MEO and ZON offer; SNC offer is mainly supported through Xdsl/IP technology which does not provide a high quality service due to its limited HD capacity. This technology also does not allow for provision of this service for more than one TV. Moreover, according to a survey by Anacom, operator choice by subscribers is made in accordance with two main factors: best contents and lower prices; for both, Zon and PT are respectively the players in a better position to attract new subscribers.

Although we believe this is going to be the main driver for this segment **we do not expect SNC to take advantage of this opportunity as it has only 1% of market share and does not have a competitive offer.**

Fixed Broad Band

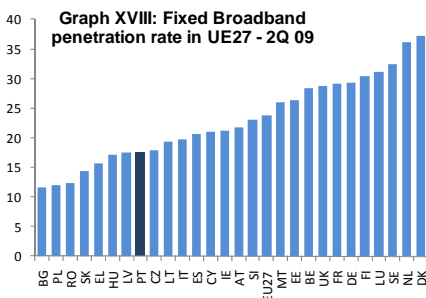
Table XVI: Fixed broadband subs. (mn)

2Q 09	3Q 09	% QoQ	% YoY
1.752	1.806	3.1%	13.2%

Source: ICP-ANACOM

Fixed Broadband reached 1.8mn subscribers in 3rd quarter 2009. This figure has been increasing but SNC's position has been deteriorating and has not been following this evolution, losing not only market share but absolute numbers of subscribers.

We believe this is a driver for fixed segment growth in the coming years, offering high growth potential; at the end of 3rd quarter 2009 fixed broadband penetration in Portugal was 17/100 inhabitants (+0.5% QoQ and 2% YoY), which means it is below the EU average (23.8% versus Portugal 17.6% in July 2009) and also much below top countries such as Denmark (37.2). Most European countries, including France (29.1%) and the UK (29.8%), have already achieved higher levels of penetration rates, which leads us to assume this is a service in expansion in Portugal which we expect to boost revenues in the fixed segment in coming years.



Source: ICP-ANACOM

Table XVII

Fixed broadband Market Share Evolution

	3Q 08	4Q 08	1Q 09	2Q 09	3Q 09
ZON	35.3%	37.2%	44%	44.7%	45%
PT	34.2%	36.2%	33%	32.8%	31.7%
SNC	14.4%	11.8%	11%	11.1%	10%
Cabo	9.9%	7.9%	5.8%	5.2%	7.1%

Source: ICP-ANACOM

Even if we perceive a growth potential of this service, we do not expect SNC to follow this evolution. Rather, we expect further losses in market shares in the coming years.

According to a survey provided by Anacom, the choice of BB provider is connected with low price offers and if the client already has another service from the same operator. In both cases, Sonaecom has a weak position as it has a fragile bundle offer and it is impossible to attract new clients based on other provided services. Moreover, SNC management has already stated that it does not wish to enter the war prices that have been happening between ZON and PT; instead, the company will focus on providing additional services for the existing subscribers and not focus on attracting new customers.

Fibre Plan

Sonaecom announced its fibre roll out plan in February 2008. This strong investment came as a result of the recognition that the LLU model remains fragile compared with Zon's competitive cable infrastructure and strong market position and with the possibility of PT starting to invest in NGN's, which actually happened. SNC Management rationale behind fibre plan:

- Increase competitiveness as reduces dependence on incumbent (higher control on the delivered quality);

- Increase customer loyalty providing unlimited bandwidths and a wide range of applications and functionalities (enhancing its bundle offer);
- Lower Operational Cost (leased lines and other network costs);and,
- Increase 3-Play subscribers as could provide much better contents.

Our model considers a mix between LLU and fibre as we perceived that even if SNC increases its level of subscribers' penetration to homes passed, there will always be direct clients connected through LLU.

Under fibre offer, SNC will provide services with HD and it will be possible to have pay-tv in more than one division at the customer's house. Taking into account the limitations in terms of addressable market, low commercial activity and the fact that SNC is only following competitors' offers, fibre upside potential is limited to LLU transfers to fibre and to an up selling opportunity of double-play customers who have not yet subscribed to pay-tv due to low definition quality or because of the weak signal.

Estimates

The Market Share in the Fixed Business is declining as a result of the tough competitive environment as the two main competitors, ZON and PT, are cutting their prices aggressively (PT-Tv, Zon-Fixed Voice and Vodafone- Fixed Broadband) and, as was stated in the 3Q Sonaecom Conference Call, Sonaecom does not want to replicate this "Market Destruction" in order to capture new clients.

REVENUES

Sonaecom has been losing accesses in the last quarters, as a result of the fixed market deterioration and due to a lack of a competitive triple-play offer. We expect previous trends in terms of declining net adds to continue but at a lower rate; we are going to continue observing this ongoing fixed line loss and we should not expect the competitive environment to recede.

Concerning direct losses, Wholesale and Corporate SMES are contributing to attenuate the decline of net adds. Residential segment (1/3 of this segment) is having the worst performance.

Moreover, revenues are immediately benefiting from transferring LLU clients to fibre in the residential segment. Although we expect these improvements to continue, we expect it at a moderate and limited rate as fibre investment pace has been slowing down.

Regarding indirect assesses, we believe this is an irreversible trend and we expect it to continue to fall until 2019 at an average annual rate of 10%.

SNC does not want do capture clients "at any price"

Table XVIII: SNC Wireline Business

	3Q08	2Q09	3Q09	YoY%	QoQ%
Dir. Accesses	476	432	426	-10%	-2%
Ind. Accesses	168	95	87	-48%	-9%
Total	644	528	513	-20%	-3%

Source: Company data and Nova Equity Research

Residential Market is now a duopoly (Zon and PT)

Recent improvements are related with immediate benefit of migrating LLU clients to FTTH.

EBITDA

Although operating revenues have been decreasing as a result of fixed line losses, we continue to observe positive margins which mean operating costs have been adjusted to activity level which we expect to continue to happen in coming years.

We should not expect conditions in the residential market to improve, but we believe by the end of 2011, this business unit will benefit from some stabilization provided by the wholesale and corporate segment which has been able to manage positive contributions.

CAPEX

Regarding **Capex**, €240mn was initially estimated for the fibre investment plan. So far only €70mn has been invested. This value seems to confirm that SNC is hesitant about future evolution of the fibre plan.

At the moment there is a high uncertainty about the profitability of this business; SNC has low visibility concerning customers' willingness to spend around €50 for a fibre triple-play instead of the current €30. Moreover, with Zon's recent network update and PT's heavy investment in fibre, the return on SNC investment seems to be uncertain.

Currently 200,000 houses have already been passed. For the coming years, we are more cautious in establishing targets. At the moment, SNC has almost covered most populated urban areas (Lisbon and Oporto), which are also the regions with higher pay-tv penetration rate and higher economic level; as this plan represents high initial investments and a cost structure with a high proportion of fixed costs we believe these are the most attractive areas. According to a study provided by Anacom, Pay-TV subscribers are mostly located in densely populated areas.

We set a new target of 300,000 passed houses in 2014 as at this time we do not expect fibre investment to go much further; current penetration rate (4%) lead us to say that at the moment does not make sense to continue fibre deployment without receiving the adequate return. Moreover, we believe further investments will be made in partnership (Vodafone and DST) expanding this plan to other areas and at the same time sharing the risk.

Although we do not expect a great evolution in SNC's Wireline business, we believe the company is going to continue to follow this business as it gives company trustworthiness and is also a way to develop know-how in this segment, waiting for a possible merger with ZON which would increase its scale in the Fixed Unit.

Lower Capex needs than previously forecast; fibre plan will be extended in time.

Table IX: Pay-TV subscribers per Region - 3Q09

Lisbon	North	Center	Alentejo	Algarve	RAA	RAM
37,3%	27,6%	17,0%	5,7%	4,3%	4,0%	4,0%

Source: ICP-ANACOM

Fixed business as a way to develop know-how

Table XX:SNC Fixed Income Statement

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2019E	CAGR 08-15	CAGR 15-19
Total Accesses	775.623	592.900	446.609	435.609	426.782	420.026	420.680	425.163	457.680	-3,9%	1,5%
Direct	470.673	455.027	377.672	370.119	364.567	360.922	364.531	371.821	410.442	-2,2%	2,0%
Indirect	304.950	137.873	68.937	65.490	62.215	59.104	56.149	53.342	47.238	-11,1%	-2,4%
Revenues	255,40	291,40	257,08	243,01	246,75	249,94	254,56	260,40	274,90	-1,3%	0,6%
EBITDA	9,70	14,00	4,88	8,51	14,80	22,49	22,91	23,44	32,99	23,3%	32,8%
EBITDA Margin %	3,80%	4,80%	1,90%	3,50%	6,00%	9,00%	9,00%	9,00%	12,00%		
EBIT	-32	-18,9	-28,72	-25,14	-18,43	-10,26	-9,35	-8,19	4,67		
CAPEX	49,8	44,5	38,56	34,02	29,61	28,49	28,00	26,04	21,99		
Capex/Revenues	19,5%	15,3%	15,0%	14,0%	12,0%	11,4%	11,0%	10,0%	8,0%		

Source: Company data and Nova Equity Research Team

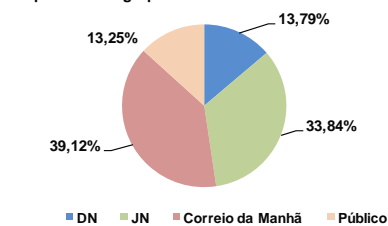
Table XX b: Sonaecom Fixed DCF

	2009E	2010E	2011E	2012E	2013E	2014E	2019E
EBIT x (1-t)	-21,1	-18,5	-13,5	-7,5	-6,9	-6,0	3,4
Depreciation (+)	33,6	33,6	33,2	32,7	32,3	31,6	28,3
Capex (-)	-39	-34	-30	-28	-28	-26	-22
Change in Ner Working Capita	-8,4	0,6	-0,4	-0,8	-1,0	-0,9	-0,7
DCF	-34,5	-18,2	-10,3	-4,1	-3,6	-1,3	9,0

Source: Company data and Nova Equity Research Team

Público- Online and Media

Graph IX: Average paid circulation 3Q 09



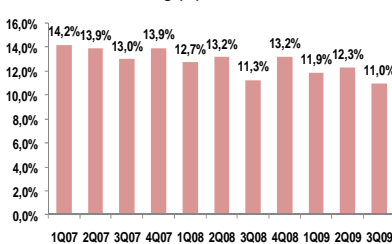
Source: APCT

Graph XX: Sonaecom - Average Paid Circulation



Source: Company data

Graph XXI: Sonaecom - Market Share on advertising (%)



Source: Company data

We expect negative trends affecting circulation figures to continue

Público was founded in 1995, and its main intention was to compete in the Generalist Daily Newspaper segment of the Newspaper market. Additionally this area incorporates on-line portals such as Clix.pt and Miau.pt. The Portuguese advertising market has three main players: Impresa, Media Capital and Cofina. Sonaecom has a small presence in this market, having scale problems since its presence is only through one newspaper. Público ranks 4th in terms of circulation and 4th in terms of advertising market share.

Público's performance has been penalized by two main factors: market dynamics for the daily paid newspapers and severe deterioration of the advertising market. Regarding the first dynamic, competitive pressure arising from both on-line readers and free daily newspapers led the average paid circulation to fall (-13% YoY 9m09) negatively affecting Público revenues. Moreover, concerning the advertising, market dynamics had been deteriorating as a result of the Macroeconomic environment which led companies to cut their advertising budget. In 9Months 2009 Publico's market share of advertising remained flat on a YoY basis but with advertising revenues dropping 11%. The negative tendency in the top line during the 9 months of 2009 was partially compensated by savings achieved in costs, mainly in commercial costs (-20% YoY) and in other operational costs (-12% YoY).

We do not anticipate major changes in the future regarding negative trends affecting the press segment in terms of circulation figures. On-line is the only area

Expected improvement in the advertising market has limited impact on Público revenues

On-line is the only source of growth

EBITDA break-even in 2011

with growth prospects. Regarding the advertising market, as this dynamic is strictly linked to the Macro Environment we believe that with the recent improvements in Portuguese economic activity and the improvement in expectations for the future, advertising market dynamics should improve in the next years, recovering advertising revenues. Although we expect circumstances to improve, the impact on Público's performance would be limited to its small market share in this market (11%), where we do not expect major improvements, with "Correio da Manhã" being the leader in this line. However, we must consider the potential positive impact of the digital part which represents broadly 8%⁸ of the revenues, and which has been the only line with positive evolution. We expect this area to represent 12% in the next years. However, at the moment there is high uncertainty in relation to the future evolution of the digital part. The only certainty is that internet still has a small base of clients and therefore this base can only increase. The current prices are still low and, since there is still a margin for selling, as the number of clients increases the price will tend to rise.

Concerning the cost cutting program implemented, we believe this is going to continue but with limited possibility to cut costs much further. Combining both effects mentioned above simultaneously with the recent EBITDA margin improvements versus previous year and previous quarter, led us to expect Público to achieve break-even in 2011.

Table XXI: Público Income Statement

€mn	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2019E	CAGR 08-15	CAGR 15-19
Revenues	33,2	32,4	30,8	31,3	32,1	32,7	33,0	33,4	35,1	0%	1%
Advertising Sales	18,2	17,5	15,6	14,3	13,5	12,1	12,5	13,3	15,8	0%	2%
Newspapers Sales	12,3	12,9	12,2	11,8	12,0	12,0	12,1	12,3	13,5	1%	1%
Associated Product Sales	25,1	13,7	8,7	7,1	6,9	6,7	6,6	6,5	5,8	-2%	-2%
EBITDA	-3,27	-3,22	-2,75	-0,61	0,66	1,00	1,17	1,52	1,77	-24%	3%
EBITDA mg	-9,86%	-9,93%	-8,94%	-1,94%	2,05%	3,05%	3,55%	4,55%	5,05%	-	-
Capex	0,7	0,8	0,6	0,5	0,4	0,5	0,4	0,3	0,3	-	-

Source: company data and Nova Equity Research Team

Table XXI b: Público DCF

	2009E	2010E	2011E	2012E	2013E	2014E	2019E
EBIT x (1-t)	-2,6	-1,0	0,0	0,3	0,4	0,7	1,0
Depreciation (+)	0,7	0,7	0,7	0,7	0,6	0,6	0,5
Capex (-)	-0,6	-0,5	-0,4	-0,5	-0,4	-0,3	-0,4
Change in Ner Working Capital (-)	-1,1	0,1	0,0	-0,1	-0,1	-0,1	-0,1
DCF	-3,5	-0,6	0,2	0,3	0,5	0,8	1,0

Source: Company data and Nova Equity Research Team

Software System Information

SSI was created in 2002 and is Sonaecom's IT/IS and consulting provider which has been able to grow through acquisitions. SSI has been achieving a good set of

⁸ Interview with Pedro Nunes Pedro (Público Administrador) in *Meios&Publicidade*

operational and financial results with a healthy top line and profitability growth; all companies have been positively contributing.

- **Wedo:** provider of system information and revenue assurance focus in telecoms sector. This company represents broadly 60% of this business unit. It has been growing and now has a strong international presence with clients around the world. As there are only a few players focused on this market niche, this company has a high growth potential. Currently it mainly provides revenue assurance services to telcos, but is now starting to diversify its business trying to expand this service to other sectors and to other functionalities such as fraud detection.
- **Mainroad:** provides IT services; this is a valuable service for companies that don't want to have an IT department and therefore outsource this service. This company has been growing outside the Sonae group, providing services to a range of companies. It is now entering the Spanish market.
- **Bizdirect:** provider of eSourcing and eProcurement commercial solutions. This company's main activity is to sell hardware. It has been responsible for the recent evolution in this business area as it is linked to the *e-escolas* programme, which experienced an impressive growth in the last year rising SSI equipment sales.
- **Saphety:** provider of trusted services, electronic invoice and B2B security transactions. We must state that this company is one of the selected suppliers of online platforms to "*Agência de negócios e Contas públicas do Governo*".

Going forward, we expect this evolution to continue to be supported both by the international expansion of Wedo and leading position in the international Revenue Assurance market and by the growth market penetration of Mainroad, Bizdirect and Saphety. Equipment sales have been the main driver for top line growth; this line benefited from the deployment of the e-schools programs launched by the Government and this sort of performance will soon start to fade as it has already achieved high penetration. We could expect the impact of the e-schools programme to decrease; revenues growth should continue to deliver a stable positive top line growth but at lower rate driven by the reduction of the equipment sales. Regarding EBITDA margins, we anticipate a recovery as equipment sales carry low margins and this line will reduce its contribution to the total turnover of this business unit; service revenues will increase their contribution and as they benefit from large margins, we could anticipate higher margins in coming years.

Table XXII: Software and Systems Information Income Statement

€mn	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2019E	CAGR 08-15	CAGR 15-19
Operating Revenues	79,5	120,2	144,0	144,5	143,1	138,8	135,7	136,3	148,4	8%	2%
Service Revenues	47,1	60,9	67,0	69,0	71,4	74,2	77,6	81,1	98,6	8%	4%
Equipment Sales	32,5	59,3	77,1	75,5	71,7	64,6	58,1	55,2	49,8	9%	-2%
EBITDA	4,6	7,1	7,2	8,0	7,9	9,0	8,8	8,9	11,9	13%	6%
EBITDA Margin	5,8%	5,9%	5,0%	5,5%	5,5%	6,5%	6,5%	6,5%	8,0%	-	-
Capex	0,7	1,8	2,2	2,2	2,1	2,1	2,0	2,0	1,5	-	-

Source: Company data and Nova Equity Research Team

Table XXII b: SSI DCF

	2009E	2010E	2011E	2012E	2013E	2014E	2019E
EBIT x (1-t)	3,9	4,4	4,3	5,2	5,0	5,0	7,4
Depreciation (+)	2,0	2,0	2,0	2,0	2,0	2,0	1,8
Capex (-)	-2	-2	-2	-2	-2	-2	-1
Change in Ner Working Capita	-2,6	0,2	-0,1	-0,3	-0,3	-0,3	-0,2
DCF	1,0	4,4	4,1	4,8	4,7	4,7	7,5

Source: Nova Equity Research Team

Scenarios

Consolidation with ZON

Speculation about a merger between Sonaecom and Zon is an old issue; once again, it has been revitalized during 2009 on the back of Sonae's CEO's comments.

Regarding this issue, we can observe divergent perspectives from the administration of both companies; on the Sonaecom side, Mr. Paulo Azevedo stated during this year that a restructure process should bring advantages for the Telco sector; moreover, he emphasized that it would make sense for SNC to be evolved in such a process which could change SNC's position in this market. He also stated that Sonae would be willing to forego a control position in the combined company. On the other side, we have heard Mr. Rodrigo Costa saying that Zon is concentrating on its Organic Growth and he believes there is no need to be involved in an M&A operation as there are no additional benefits resulting from it.

We believe this scenario could be an upward potential for our Target Company, as it could bring substantial synergies (higher scale, Capex and Opex savings) for both companies. Having a complementary business they would become stronger and would be in a better position to beat PT as they would benefit from a robust balance sheet, higher investment capacity and would gain scale, enlarging the network which is crucial in the telecommunications sector.

Looking at the benefits this operation could bring for each specific company, on one hand, Zon Pay-tv and broadband subscribers would allow SNC to consolidate its position in this segment; achieving a competitive scale and taking advantage of the network effect, it would allow SNC to be the second player in the market which is in line with its leadership goals. Concerning ZON, this operation would enable costs savings and operational benefits; benefits are linked to the possibility of

Divergent perspectives on both companies Management...

They would become a strong quadruple-play company

SNC would consolidate its position in the Wireline segment

Zon would benefit from SNC infrastructures

Positive stocks movement in rumours days proves consolidation benefits

Table XXIII: Zon Shareholders structure
Against

BES	Visabeira	Ongoing	Telefonica
12,30%	2,20%	3,20%	5,50%

Favourable	
BPI	J.Berardo
8,9	4,30%

Source: Nova Equity Research Team

expanding its infrastructures on the back of SNC backbone as it has only a cable network; moreover, the group would reinforce the mobile offer benefiting from SNC's 3.3mn subscribers.

Our opinion is also supported by market movements in the days of the rumours (11-09-2009 to 15-09-2009). If we look at SNC and Zon prices on those specific days, we can observe that the market assumes this operation is positive for both companies.

Despite this positive point of view, we do not expect it to happen immediately. At the moment, there is a strong barrier to concluding this operation: both companies' shareholders seem to have different positions regarding this issue, especially due to ZON's common shareholders with PT (23,2%), who are not interested in this operation as it could turn ZON in a much strong competitor to PT. CGD is the state owned Portuguese savings bank, which is also a PT shareholder, and has not manifested a clear position regarding this issue. Voting rights are limited to 10% which means SNC needs 2/3 of the total capital and therefore previous shareholders are enough to block this operation.

Thus, we expect this scenario to occur as soon as Zon starts to lose its leadership position for Pay-Tv. PT CEO'S statements (November 2009) clearly indicate that their goal for MEO (Pay-TV service) is to be the leader in 2012; we believe Zon is going to lose its leadership position in PAY-TV and therefore seek a partnership to be better positioned to beat Portugal Telecom.

Looking into market changes after a hypothetical consolidation we do not see major consequences which could lead CA to impose great measures that could jeopardize the operation. The number of mobile operators would remain unchanged but the number of fixed operators would be reduced; the wireline competitive environment would not change drastically as SNC has a weak position in this segment. Fixed broadband would be the segment to have a higher impact, together they could achieve 55% market share versus PT's 42%. Regarding Pay-TV, ZON is already well positioned and a merger with SNC would not change market shares very much.

Main assumptions:

We based our positive opinion about this operation on a group of assumptions regarding the types and the amounts of synergies resulting from it:

- **Revenue Synergies:** Being mainly complementary business we should not expect relevant revenues synergies.
- **Opex Synergies:** 2% annual savings on the joint company. Mainly commercial, administrative and personnel costs as there will be duplicated functions in the combined entity.

Table XXIV: Pay-Tv market share evolution
3Q 08 2Q 09 3Q 09 CAGR % (04-08)

ZON	71,20%	68,40%	66,60%	-2,90%
PT	9,60%	18,70%	20,70%	3,40%

Source: ICP-ANACOM

- **Capex Synergies:** 1,5% annual savings on the joint company. Mainly on the Fixed line together they could reduce costs as the investments that one has already made the other one does not need to make (Fibre).

Table XXV: NPV of Synergies

	2010E	2011E	2012E	2013E	2014E	2018E
Combined Costs	1388	1427	1457	1492	1529	1609
Opex synergies (%)	1%	2,00%	2,00%	2,00%	2,00%	2,00%
Opex synergies	14	29	29	30	31	32
Tax (26,5%)	4	8	8	8	8	9
Opex synergies after taxes	10	21	21	22	22	24
Integration Costs (2)	20,6	10	5	2,5	0	0
Combined Capex	344,89	327,06	316,09	300,53	282,35	281,41
Capex Savings(%)	1,00%	1,50%	1,50%	1,50%	1,50%	1,50%
Capex Savings (3)	3,45	4,91	4,74	4,51	4,24	4,22
Total Synergies (1) + (2) + (3)	-6,95	15,88	21,16	23,94	26,71	27,87
Discount factor	1,00	0,93	0,86	0,79	0,73	0,54
NPV Synergies	-6,95	14,7	18,115	18,95358	19,564	14,95843
Sum of NPV Synergies	131,23					
Terminal Value	230,77					
Total NPV Synergies	362,00					

Source: Nova Equity Research Team

Sonae had already estimated €650-700mn of synergies but we are more conservative approaching this issue and under our assumptions we obtain a €362mn NPV of synergies between Sonaecom and ZON.

After analysing synergies, the key point is to split it and define who would benefit more. We considered two possible scenarios: proportional division of synergies based on the current market capitalization and an exchange ratio based on our perception of the negotiation power of each player, which we consider more rational. Being the player most in need, SNC is in disadvantage; as an unbundler is suffering due to pressure from PT and Zon and therefore has been losing ground on the fixed business. Moreover, its lack of scale, which is a key element in this sector, puts more pressure over the future evolution of SNC.

Table XXVII: WACC ASSUMPTIONS

	Sonaecom	Zon	SNC+ZON
WACC			
Weight % Mkt Cap	34%	66%	
Current WACC	7,90%	8,2%	
Current g	2%	2,5%	
Combined WACC			8,09%
Final g			2,3%

Source: Nova Equity Research Team

Table XXVI: Merger Exchange Ratio

a) Merger at current prices		b) Merger based on the negotiated	
Exchange ratio		Exchange ratio	
SNC	34%	Sonaecom	25%
ZON	66%	ZON	75%
Total synergies	362,00	Total synergies	362,00
SNC	123,08	SNC	90,50
ZON	238,92	ZON	271,50
Price Target	2,2	Price Target	2,2
Price Target (Merger)	2,54	Price Target (Merger)	2,45
Upside potential	15,45%	Upside potential	11,36%

Source: Nova Equity Research Team

Source: Nova Equity Research Team

Considering the most reasonable scenario in our point of view (25% SNC and 75% ZON), we assess an upside potential on our price target of 11.36%.

As it is unpredictable when consolidation is going to occur we decided to take a conservative approach and we did not incorporate in our price target the hypothetical upside potential. Moreover, at the moment this operation is out of SNC control as ZON shareholders structure is the same that block PT OPA.

Financial Statements

Table XXVIII: Sonaecom Consolidated Income Statement

(€ mn)	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2019E
Revenues	892,7	976,2	956,5	944,0	951,2	968,0	990,2	1011,5	1120,1
Optimus	619,4	629,1	620,6	620,2	625,2	642,5	663,0	677,4	757,7
Sonaecom Fixed	255,4	291,4	257,1	243,0	246,7	249,9	254,6	260,4	274,9
Público	33,2	32,4	30,8	31,3	32,1	32,7	33,0	33,4	35,1
SSI	79,5	120,1	144,0	144,5	143,1	138,8	135,7	136,3	148,4
Consol. Adjustements	-94,8	-96,9	-96,0	-95,0	-96,0	-96,0	-96,0	-96,0	-96,0
EBITDA	162,0	160,4	173,7	168,5	178,4	192,0	199,5	206,0	246,7
EBITDA Margin (%)	18,1%	16,4%	18,2%	17,8%	18,8%	19,8%	20,2%	20,4%	22,0%
Optimus	153,7	142,4	170,6	161,1	165,6	170,2	175,6	179,4	200,7
Sonaecom Fixed	9,8	14,0	4,9	8,5	14,8	22,5	22,9	23,4	33,0
Público	-3,3	-3,2	-2,8	-0,6	0,7	1,0	1,2	1,5	1,8
SSI	4,6	7,1	7,2	8,0	7,9	9,0	8,8	8,9	11,9
Other & Eliminations	-2,8	0,0	-6,2	-8,6	-10,5	-10,7	-8,9	-7,2	-0,6
Depreciation & Amortization	-140,0	-157,6	-157,2	-155,0	-152,6	-150,3	-148,2	-146,2	-138,1
EBIT	22,0	2,8	16,5	13,5	25,8	41,7	51,3	59,8	108,6
Net Financial Results	-21,5	-17,8	-16,0	-17,2	-15,5	-13,3	-11,1	-9,5	-8,3
EBT	0,5	-15,0	0,5	-3,7	10,3	28,4	40,2	50,3	100,3
Taxes (26,5%)	36,6	20,2	-0,1	0,0	-2,7	-7,5	-10,7	-13,3	-26,6
Net Results	37,2	5,2	0,4	-3,7	7,6	20,9	29,6	37,0	73,7
Capex	162,8	192,1	140,5	135,7	131,2	130,4	130,0	128,5	125,5
Capex % of revenues	18,2%	19,7%	14,7%	14,4%	13,8%	13,5%	13,1%	12,7%	11,2%

Source: Company data and Nova Equity Research Team

Table XIX: Sonaecom Balance Sheet	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2019E
Total Net Assets	1758,6	1973,4	1888,0	1865,1	1845,8	1830,7	1819,3	1808,3	1772,3
Non Current Assets	1353,9	1510,7	1447,1	1427,8	1406,4	1386,5	1368,3	1350,6	1279,4
Fixed Assets	1250,8	1384,6	1379,6	1360,3	1338,9	1318,9	1300,7	1283,0	1211,6
Investments	2,0	1,2	2,0	2,0	2,0	2,0	2,0	2,1	2,2
Deferred Tax Assets	101,1	124,9	65,6	65,6	65,6	65,6	65,6	65,6	65,6
Others	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Current Assets	404,7	462,8	440,9	437,3	439,4	444,2	451,0	457,7	492,9
Inventory	24,0	29,6	30,0	30,2	30,1	29,9	30,1	30,5	33,3
Trade Debtors (Clients)	192,0	173,7	170,2	168,0	169,2	172,2	176,2	180,0	199,3
Other Short-term debtors	17,7	39,9	19,1	18,9	19,0	19,4	19,8	20,2	22,4
Liquidity	83,9	105,7	125,9	125,9	125,9	125,9	125,9	125,9	125,9
Others	87,1	113,9	95,6	94,4	95,1	96,8	99,0	101,1	112,0
Shareholders' Funds	935,4	929,0	929,1	925,1	932,4	949,5	966,5	973,6	905,4
Group Share	934,6	928,5	928,6	924,6	931,9	949,1	966,1	973,2	905,0
Minority Interests	0,9	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5
Share Capital	366,2	366,2	366,2	366,2	366,2	366,2	366,2	366,2	366,2
Acções Próprias	-8,9	-13,5	-13,5	-13,5	-13,5	-13,5	-13,5	-13,5	-13,5
Reserves	540,5	570,8	575,5	575,6	571,6	575,4	583,8	583,5	478,5
R. Líquido	36,8	5,0	0,4	-3,7	7,6	20,9	29,6	37,0	73,7
Total Liabilities	823,2	1044,5	958,9	940,0	913,4	881,2	852,8	834,7	866,9
Non Current Liabilities	422,6	571,5	501,9	489,0	458,9	418,7	379,6	351,4	331,7
Bank Loans	391,1	398,9	450,6	437,9	407,7	367,1	327,6	299,0	277,1
Provisions for Other Liabilities and Charges	30,9	32,2	32,2	32,2	32,2	32,2	32,2	32,2	32,2
Others	0,6	140,4	19,1	18,9	19,0	19,4	19,8	20,2	22,4
Current Liabilities	400,6	473,0	457,0	451,0	454,5	462,5	473,1	483,3	535,2
Bank Loans	2,6	6,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Trade Creditors (Fornecedores)	185,3	179,1	175,4	173,2	174,5	177,6	181,6	185,5	205,5
Others	212,7	287,4	281,6	277,9	280,0	284,9	291,5	297,8	329,7
Shareholders Funds + Total Liabilities	1758,6	1973,4	1888,0	1865,1	1845,8	1830,7	1819,3	1808,3	1772,3

Source: Company data and Nova Equity Research Team

Table XXX: Sonaecom CashFlow Statement
(€ mn)

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2019E
Funds From operations	162,0	160,4	173,7	168,5	178,4	192,0	199,5	206,0	246,7
NWC Changes	4,2	32,2	32,6	-2,4	1,4	3,2	3,8	3,4	2,8
Operating CashFlow	181,4	195,0	190,2	148,9	161,6	174,4	181,6	186,6	214,6
Cash From Investing activities	-150,3	-314,3	-93,6	-135,7	-131,2	-130,3	-130,0	-128,5	-125,2
Cash from financing activities	-73,9	141,2	-76,4	-13,2	-30,4	-44,0	-51,6	-58,1	-89,5
Net Increase (Decrease) in cash	-42,9	21,9	20,2	0,0	0,0	0,0	0,0	0,0	0,0
CAPEX (-)	162,8	192,1	140,5	135,7	131,2	130,4	130,0	128,5	125,5
FCF	19,8	-131,0	20,2	12,9	30,1	40,2	39,1	28,2	16,9
GROSS DEBT	393,7	405,5	450,6	437,9	407,7	367,1	327,6	299,0	277,1
LIQUIDITY	83,9	105,7	125,9	125,9	125,9	125,9	125,9	125,9	125,9
NET DEBT	309,8	299,7	324,7	312,0	281,8	241,2	201,7	173,0	151,2
Net Debt to EBITDA	1,9x	1,9x	1,9x	1,9x	1,6x	1,3x	1x	0,8x	0,6x

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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