

**Banking and Capital Markets**

Sonaecom SPGS (Sonaecom) has registered its takeover bid for Portugal Telecom (PT) with the Portuguese Securities Commission (Comissão do Mercado dos Valores Mobiliários – the CMVM) maintaining its original offer of €9.50 per share.

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Sonaecom registers its takeover bid for PT

Following the Portuguese Competition Authority's (*Autoridade da Concorrência* – AdC) decision not to oppose to the proposed acquisition of PT, Sonaecom registered its offer with the CMVM, maintaining the original offer of Euro 9.5 per each of PT's shares and of Euro 9.03 for each share in PT Multimédia, SGPS (PTM). The offering will be carried out from 16 January to 9 March 2007.

Following the registration and as required by the Portuguese Securities Code, the board of PT issued a report regarding the opportunity and conditions of the offer. PT's board recommended its shareholders to refuse the offer, on the basis that Sonaecom's offer does not reward PTM's shareholders for the value it will earn should it decide to sell PTM (owner of the cable network), as a result of AdC's requirement for the horizontal separation of the fixed networks by Sonaecom (which will entail the sale of either the cooper or cable network).

PT also argued that its proposal to spin off its 58.43% interest in PTM through a distribution of shares and to increase the shareholder remuneration package already announced for the 2006-2008 period from Euro 3,000 million to Euro 3,500 million (proposals which are subject to the approval of the shareholders in an Extraordinary General Meeting to be called for that purpose) is a much more reliable and favourable solution for PT's shareholders than the sale of shares to Sonaecom.

Although Sonaecom's has overcome most of the legal hurdles, it is still possible that the offer could not be successful.

Looking at the values at which PT's shares have been trading since the offer was announced, the price appears to be low. Banco Espírito Santo, which leads the shareholders opposing to Sonaecom with 8.08% of PT's capital, repeatedly stated that it will not sell at the offered price.

On the other hand, Sonaecom will have to win over a sufficient number of shareholders to allow the unblocking of PT's articles of association, which is one of the conditions for the offer to be successful.

Some press hinted that Banco Espírito Santo could be won over if Sonaecom were to accept to retain the Banco Espírito Santo as PT's main bank after the merger. However, the option involving the payment of a different price (whatever its form) would not be legal under Portuguese securities laws and the CMVM would certainly take the matter into its own hands if it sees indications that there was some wrongdoing.

Knowing this, in order to be successful, Sonaecom will have to either raise the price to values closer to those at which PT is now trading or find a way to obtain the approval of the amendments to PT's articles from shareholders that bought shares at a price lower than €9.50.

The match is far from over.

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