



To the attention of:

Mr. Henrique Granadeiro - Chairman of the Board of Directors of Portugal Telecom, SGPS S.A.

Mr. Zeinal Bava - Chief Executive Officer of Portugal Telecom, SGPS S.A.
The Board of Directors of Portugal Telecom, SGPS, S.A.

Av. Fontes Pereira de Melo, 40
1069-300 Lisbon

June 29, 2010

Dear Sirs,

We refer to the binding offer submitted by Telefónica, S.A. ("**Telefónica**") to Portugal Telecom, SGPS, SA. ("**Portugal Telecom**") on June 1st, 2010 for the acquisition by Telefónica of fifty percent (50%) of the shares of Brasilcel, N.V. (the "**Offer**"). Unless otherwise defined herein, capitalized terms in this letter shall have the meaning ascribed to them in the Offer.

As it is well known, the Offer was received and examined by the Board of Directors of Portugal Telecom at a meeting held on June 1st, 2010. At this meeting it was decided to request the Chairman of the General Shareholders' Meeting ("**Chairman**") to convene a General Meeting of Shareholders to resolve on the Offer "*under the terms and at the price of the current offer or at a higher price presented*". The Chairman decided to convene the General Shareholders' Meeting for June 30, 2010 ("**GSM**"), as published on June 7, 2010.

In view of (i) the foregoing item of the GSM's agenda and (ii) the Portugal Telecom Board of Directors' proposal under such item, Telefónica hereby communicates to Portugal Telecom its irrevocable undertaking to increase the price of the Offer so that the aggregate purchase price of the offer would amount to Euros 7,150 million (seven thousand one hundred and fifty million Euros) (the "**Increased Offer**"). Therefore:

- if Portugal Telecom elects to effect the Transaction following Alternative A, the Alternative A Consideration shall be Euros 7,150 million (seven thousand one hundred and fifty million Euros), and
- if Portugal Telecom elects to effect the Transaction following Alternative B, the Alternative B Consideration (corresponding to one third of the shares of Brasilcel, N.V. held by Portugal Telecom) shall be Euros 2,383,333,333 (two thousand three hundred and eighty three million three hundred and thirty three thousand three hundred and



thirty three Euros) and the Alternative B Put Consideration (corresponding to the remaining shares of Brasilcel, N.V. held by Portugal Telecom) shall be Euros 4,766,666,667 (four thousand seven hundred and sixty six million six hundred and sixty six thousand six hundred and sixty seven Euros).

This Increased Offer shall constitute a binding commitment of Telefónica subject to the terms and conditions set out in the letter dated June 1st, 2010, as modified in this letter. Furthermore, this Increased Offer is the final and definitive offer and Telefónica will not amend, improve, adjust, extend or in any other manner modify it.

If the GSM approves the terms and conditions of this Increased Offer, please confirm Portugal Telecom's acceptance by executing this letter below together with the letter dated June 1st, 2010 and returning one copy of both letters duly signed to us, not later than July 2, 2010.

Yours sincerely,

TELEFÓNICA, S.A.

Acknowledged and agreed:
PORTUGAL TELECOM, SGPS, SA.

By _____
Name:
Title:
Date: