

**Competition watchdog approves Zon - Optimus merger**

- Sonaecom and Zon disclosed yesterday that the Competition Authority issued the final deliberation stating non-opposition to the merger between Optimus and Zon Multimédia.
- The final decision maintains the remedies that were already included in the draft decision. These are directed at the fibre network Optimus shares with Vodafone (500k houses) which was already expected given the overlapping of this infrastructure with Zon's network.
- Commitments are: the extension of the fibre network sharing agreement between Optimus and Vodafone; the amendment of the latter agreement in order for the limitation of liability not to apply in the event of unjustified contract termination by Optimus or contract termination by Vodafone Portugal for reasons attributable to Optimus; Optimus will not charge its triple play fibre customers the payment of amounts due by virtue of loyalty clauses in the event of a request for termination of services during a period of 6 months; Optimus will have to be open to negotiate with third parties the wholesale access to its fibre network; and Optimus will negotiate and enter into a call option agreement with Vodafone for the purchase of Optimus' fibre network.
- The next step will be Zon Multimédia calling for an extraordinary shareholders meeting to elect a new executive committee and Board of Directors, and to decide on the corporate governance model that will rule the new company. It is expected that the CEOs of both companies, Rodrigo Costa from Zon and Miguel Almeida from Optimus, remain in the new company, at least during the integration phase.
- With the merger approval, Isabel dos Santos should pay c. €113 mn to Sonaecom. This amount ensures her a 50% stake in vehicle ZOPT, while Sonaecom will hold the other 50%. ZOPT will have a controlling stake in Zon Optimus (>50% of capital) and Sonaecom will have an additional direct stake of 7.2% in Zon Optimus. After regulatory approval, Sonaecom's future needs to be defined. It doesn't make sense to maintain Sonaecom as a holding with an economic interest of 32% in Zon Optimus, plus much smaller businesses SSI and Público, trading at a discount vs. Zon Optimus (currently at 24%). Investors want to know what will become of Sonaecom, and obviously when will the €113 mn cash be distributed.
- We remind that our price targets for both Zon Multimédia and Sonaecom already incorporate merger of Optimus with Zon. Specifically our valuations include our estimate of €375 mn in merger synergies (NPV), which corresponds to the midpoint of the interval provided by both companies.

Sonaecom - Rating: Buy; Target (YE13): €2.20; Price: €1.818

Zon Multimédia - Rating: Neutral; Target (YE13): €4.30; Price: €4.23

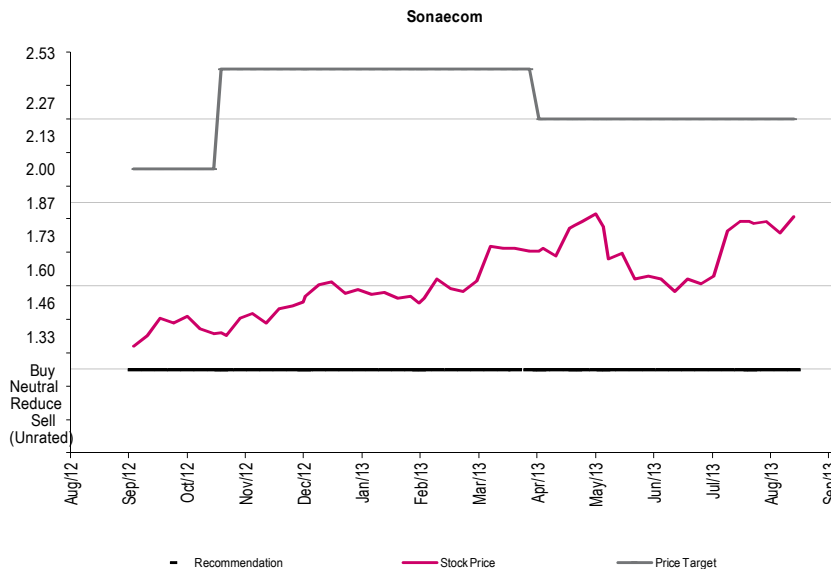
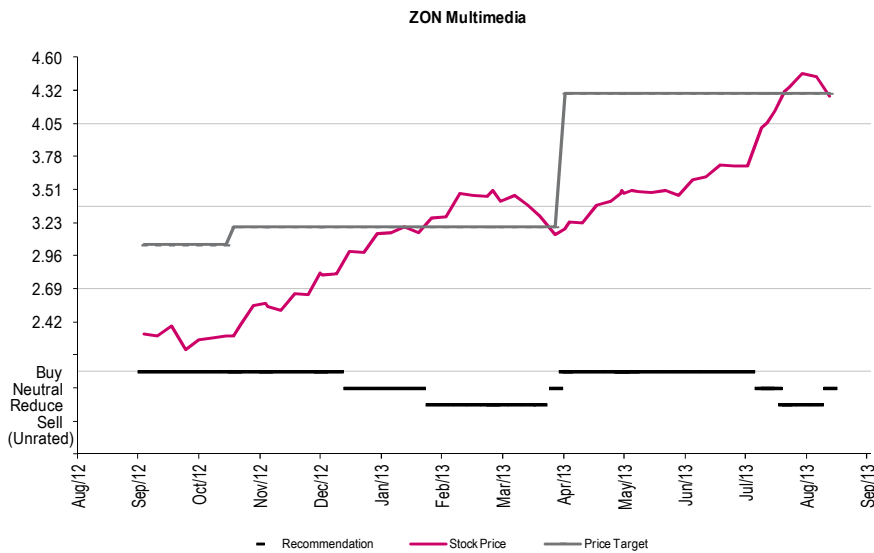
Alexandra Delgado, CFA, Eq. Analyst  
+351 21 0037 827  
alexandra.delgado@millenniumbcp.pt

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