PORTUGAL TELECOM SGPS SA
Form 20-F
April 30, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2013

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-13758

PORTUGAL TELECOM, SGPS, S.A.

(Exact name of Registrant as specified in its charter)

The Portuguese Republic

(Jurisdiction of incorporation or organization)

Av. Fontes Pereira de Melo, 40, 1069-300 Lisboa, Portugal

(Address of principal executive offices)

Nuno Vieira, Investor Relations Director, Tel. +351 21 500 1701, Fax +351 21 500 0800
Av. Fontes Pereira de Melo, 40, 1069-300 Lisboa, Portugal

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one ordinary share, nominal value €0.03 per share	New York Stock Exchange
Ordinary shares, nominal value €0.03 each	New York Stock Exchange*

* Not for trading but only in connection with the registration of American Depositary Shares, or the ADSs.

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary shares, nominal value €0.03 per share	896,512,000
Class A shares, nominal value €0.03 per share	500

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o (Note: None required of the registrant)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer ý Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o International Financial Reporting Standards as issued by the International Accounting Standards Board ý Other o

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

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CERTAIN DEFINED TERMS

Unless the context otherwise requires, the terms "Portugal" refers to the Portuguese Republic, including the Madeira Islands and the Azores Islands; the term "EU" refers to the European Union; and the terms "United States" and "U.S." refer to the United States of America.

We use the term "Portugal Telecom" to refer to Portugal Telecom, SGPS S.A. and not to its subsidiaries. Unless the context implies otherwise, the terms "we," "our" or "us" refer to Portugal Telecom and its consolidated subsidiaries.

We use the term "Oi" to refer to Oi S.A., a Brazilian company, and we use the term "Oi Group" to refer, collectively, to Telemar Participações S.A., its subsidiary Oi and Oi's subsidiaries.

We use the term "TmarPart" to refer to Telemar Participações S.A.

We use the term "Business Combination" to refer to the proposed combination of the businesses of Portugal Telecom, Oi, AG Telecom Participações S.A., or AG Telecom, LF Tel S.A., or LF Tel, PASA Participações S.A., or PASA, EDSP75 Participações S.A., or EDSP75, Bratel Brasil S.A., or Bratel Brasil (and, together with AG Telecom, LF Tel, PASA, EDSP75 and TmarPart, the "Oi Holding Companies") into TmarPart pursuant to which, among other things, Oi is expected to become the owner of the interests in the companies that hold all of (i) our operating assets except interests held directly or indirectly in Oi, Contax Participações S.A., or Contax Participações, and Bratel B.V. and (ii) our liabilities at the time of contribution and a wholly owned subsidiary of TmarPart, and we are expected to merge with and into TmarPart with TmarPart as the surviving company. The Business Combination is expected to be accomplished through three primary transactions:

- a capital increase of Oi, or the Capital Increase, in which Oi is expected to issue (1) common and preferred shares for cash to investors, with a priority right of subscription for existing holders in Brazil of common shares and preferred shares of Oi, and (2) common and preferred shares to us in exchange for the transfer by us to Oi of all of the shares of PT Portugal, which is expected to own (a) all of our operating assets, except interests held directly or indirectly in Oi, Contax Participações and our subsidiary Bratel B.V. (which is expected to hold cash and cash equivalents that may be used to subscribe for the debentures described under "*Item 4 Information on the Company Our Businesses Proposed Business Combination with Oi and TmarPart Steps of the Business Combination Recapitalization of TmarPart*"), and (b) all of our liabilities at the time of the transfer;

- a merger of shares (*incorporação de ações*), or the merger of shares, under Brazilian law, a Brazilian transaction in which, subject to the approvals of the holders of voting shares of Oi and TmarPart, all of the Oi shares not owned by TmarPart will be exchanged for TmarPart common shares and Oi will become a wholly-owned subsidiary of TmarPart; and

- a merger (*incorporação*), or the merger, under Portuguese and Brazilian law, of us with and into TmarPart, with TmarPart as the surviving company. Pursuant to the proposed merger, each of our issued and then outstanding ordinary shares will be cancelled and the holder thereof will automatically receive TmarPart common shares. As a result of the merger, we will cease to exist.

See "*Item 4 Information on the Company Our Businesses Proposed Business Combination with Oi and TmarPart*."

References to "Euros," "EUR" or "€" are to the Euro. References herein to "U.S. dollars," "$" or "US$" are to United States dollars. References to "Real," "Reais" or "R$" are to Brazilian Reais.

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PRESENTATION OF FINANCIAL INFORMATION

Preparation of Financial Statements in IFRS

Our audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB.

Because we have voluntarily adopted IFRS 11, *Joint Arrangements*, before we were required to do so in the EU, as described below under " *Presentation of Brazilian Operations*," as of December 31, 2013, 2012, and 2011, there were no unendorsed standards effective as of and for the years ended December 31, 2013, 2012, and 2011, respectively, that affected our consolidated financial statements, and there was no difference between EU-IFRS and IFRS as issued by the IASB as applied by Portugal Telecom. Accordingly, our consolidated financial statements as of and for the years ended December 31, 2013, 2012, and 2011 were prepared in accordance with IFRS as issued by the IASB. IFRS comprise the accounting standards issued by the IASB and interpretations issued by the International Financial Reporting Interpretations Committee, or IFRIC.

We publish our consolidated financial statements in Euro, the single EU currency adopted by certain participating member countries of the European Union, including Portugal, as of January 1, 1999. The Federal Reserve Bank of New York's noon buying rate in the City of New York for Euros was €0.7226= US$1.00 on April 25, 2014, and the noon buying rate on that date for Reais was R$2.2357= US$1.00. We are not representing that the Euro, US$ or R$ amounts shown herein could have been or could be converted at any particular rate or at all. See "*Item 3 Key Information Exchange Rates*" for further information regarding the rates of exchange between Euros and U.S. dollars and between Reais and U.S. dollars.

Presentation of Brazilian Operations

On March 28, 2011 we acquired a direct and indirect economic interest of 25.3% in Telemar Norte Leste S.A., or Telemar, through a 25.6% economic interest in TmarPart, a fixed line telecommunications operator in Brazil that was controlled by Tele Norte Leste Participações S.A., the parent company of the Oi Group at that time, and that controlled, directly or indirectly, the majority of the voting shares of the companies included in the Oi Group, primarily its mobile telecommunications operators, another fixed line telecommunications operator and several other support and holding companies. Our economic interest in the Oi Group decreased to 23.2% (from the initial 25.3% economic interest held in Telemar) as a result of a corporate reorganization of the Oi Group in 2012, or the 2012 Oi corporate reorganization, described in "*Item 4 Information on the Company Our Businesses Proposed Business Combination with Oi and TmarPart Strategic Partnership with Oi Reorganization of the Oi Group.*"

Concurrently with our investment in Oi, we acquired a 16.2% economic interest in CTX Participações S.A., or CTX, the controlling shareholder of Contax Participações S.A., or Contax Participações and Contax S.A., or Contax, a provider of contact center, business process outsourcing, or BPO, and IT services in Brazil and other countries in Latin America. Even before our investment in Contax, we provided call center and Information Technology/Information Systems, or IT/IS services, in Brazil through our subsidiary Dedic, S.A., or Dedic, and its subsidiary GPTI Tecnologias de Informação, S.A., or GPTI. On June 30, 2011, we merged Dedic and GPTI into Contax, and our economic interest in Contax increased to 19.5%. On April 2, 2013, our economic interest in Contax increased to 21.1% through the transaction described in "*Item 4 Information on the Company Other International Operations Contax.*"

In our consolidated financial statements reported in our Annual Reports on Form 20-F for the years ended December 31, 2011 and December 31, 2012, we proportionally consolidated 25.6% of

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TmarPart for the period beginning April 1, 2011, following IFRS, as issued by the IASB. In addition, in our consolidated financial statements reported in our Annual Reports on Form 20-F for prior years, we proportionally consolidated Contax beginning April 1, 2011 (Contax's results included the results of Dedic and GPTI beginning July 1, 2011).

We reviewed and assessed the classification of the group's investments in joint arrangements in accordance with the requirements of IFRS 11 and concluded that the investments in TmarPart and CTX should be classified as joint ventures under IFRS 11 and accounted for using the equity method.

As a result of the adoption of the IFRS 11 and of the amendments to IAS 19, *Employee Benefits*, or IAS 19, we restated the previously reported consolidated statements of financial position as of December 31, 2012 and 2011 and the consolidated income statements for the periods then ended, as detailed in Note 4 to our audited consolidated financial statements. In addition, we retrospectiely adjusted the selected consolidated financial data in "*Item 3 Selected Consolidated Financial Data*" for the years ended December 31, 2009, December 31, 2010, December 31, 2011 and December 31, 2012 to reflect the adoption of the IFRS 11 and the amendments to IAS 19.

FORWARD-LOOKING STATEMENTS

This Form 20-F includes, and documents incorporated by reference herein and future public filings and oral and written statements by our management may include, statements that constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. These statements are based on the beliefs and assumptions of our management and on information available to management at the time such statements were made. Forward-looking statements include, but are not limited to: (a) information concerning possible or assumed future results of our operations, earnings, industry conditions, demand and pricing for our services and other aspects of our business under "*Item 4 Information on the Company*," "*Item 5 Operating and Financial Review and Prospects*" and "*Item 11 Quantitative and Qualitative Disclosures About Market Risk*"; and (b) statements that are preceded by, followed by or include the words "believes," "expects," "anticipates," "intends," "is confident," "plans," "estimates," "may," "might," "could," "would," the negatives of such terms or similar expressions.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although we make such statements based on assumptions that we believe to be reasonable, there can be no assurance that actual results will not differ materially from our expectations. Many of the factors that will determine these results are beyond our ability to control or predict. We do not intend to review or revise any particular forward-looking statements referenced in this Form 20-F in light of future events or to provide reasons why actual results may differ. Investors are cautioned not to put undue reliance on any forward-looking statements.

Any of the following important factors, and any of those important factors described elsewhere in this or in other of our U.S. Securities and Exchange Commission, or SEC, filings, among other things, could cause our results to differ from any results that might be projected, forecasted or estimated by us in any such forward-looking statements:

- material adverse changes in economic conditions in Portugal, Brazil or the other countries in which we have operations and investments;
- the risks and uncertainties associated with the Business Combination;
- the effects of intense competition in Portugal, Brazil and the other countries in which we have operations and investments;
- changes in telecommunications technology that could lead to obsolescence of our infrastructure;

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the development and marketing of new products and services and market acceptance of such products and services;

risks and uncertainties related to national and supranational regulation; and

the adverse determination of disputes under litigation.

PART I

ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

We are not required to provide the information called for by Item 1.

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

We are not required to provide the information called for by Item 2.

ITEM 3 KEY INFORMATION

Selected Consolidated Financial Data

The selected consolidated statement of financial position data as of December 31, 2011, 2012 and 2013 and the selected consolidated statement of income and cash flow data for each of the years then ended have been derived from our audited consolidated financial statements included herein prepared in accordance with IFRS, as issued by the IASB. The selected consolidated statement of financial position data as of December 31, 2009 and 2010 and the selected consolidated statement of income and cash flow data for the years then ended have been derived from our audited consolidated financial statements prepared in accordance with IFRS and have been retrospectively adjusted for the adoption of IFRS 11 and the amendments to IAS 19.

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The information set forth below is qualified by reference to, and should be read in conjunction with, our audited consolidated financial statements and the notes thereto and also "*Item 5 Operating and Financial Review and Prospects*" included in this Form 20-F.

	Year Ended December 31,				
	2009 (Restated)	2010 (Restated)	2011 (Restated)	2012 (Restated)	2013
	(EUR Millions)				
Statement of Income Data(1):					
Continuing operations					
Revenues:					
Services rendered	3,492.0	3,516.0	3,204.4	2,897.9	2,736.5
Sales	197.2	165.6	129.4	140.5	131.1
Other revenues	44.3	60.6	45.9	40.5	43.6
Total revenues	**3,733.4**	**3,742.3**	**3,379.7**	**3,079.0**	**2,911.2**
Costs, expenses losses and income:					
Wages and salaries	546.7	637.1	515.1	413.6	399.3
Direct costs	522.4	547.6	491.0	457.4	458.8
Costs of products sold	207.3	179.9	138.1	138.1	134.8
Marketing and publicity	78.6	81.1	82.7	72.2	68.5
Supplies and external services	733.3	724.5	684.0	640.6	619.3
Indirect taxes	57.8	45.4	41.2	43.8	42.3
Provisions and adjustments	30.5	35.0	21.2	23.3	25.8
Depreciation and amortization	716.9	758.6	780.6	765.3	726.3
Net post retirement benefits costs	97.1	50.9	61.0	57.5	40.5
Curtailment and settlement costs	14.9	148.6	36.4	2.4	127.1
Gains on disposals of fixed assets, net	(2.0)	(5.5)	(0.5)	(3.5)	(3.4)
Other costs (gains), net	45.6	141.2	21.8	(23.4)	(73.4)
Income before financial results and taxes	**684.4**	**397.9**	**507.2**	**491.8**	**345.4**
Minus: Financial costs (gains), net	(200.7)	81.6	0.6	56.1	(104.6)
Income before taxes	**885.1**	**316.3**	**506.6**	**435.7**	**450.0**
Minus: Income taxes	184.0	73.6	99.1	125.6	62.0
Net income from continuing operations	**701.1**	**242.8**	**407.6**	**310.1**	**388.0**
Discontinued operations					
Net income from discontinued operations(6)	82.5	5,565.4			
Net income	**783.5**	**5,808.2**	**407.6**	**310.1**	**388.0**
Attributable to non-controlling interests	104.5	147.9	73.7	84.3	57.0
Attributable to equity holders of the parent	**679.1**	**5,660.3**	**333.9**	**225.8**	**331.0**
Income before financial results and taxes per ordinary share, A share and ADS(2)	0.76	0.44	0.57	0.55	0.39
Earnings per ordinary share, A share and ADS:					
Basic(3)	0.78	6.46	0.39	0.26	0.39

Diluted(4)	0.75	6.05	0.39	0.26	0.39
Earnings per ordinary share, A share and ADS from continuing operations, net of non-controlling interests:					
Basic(3)	0.73	0.18	0.39	0.26	0.39
Diluted(4)	0.71	0.18	0.39	0.26	0.39
Cash dividends per ordinary share, A share and ADS(5)	0.575	2.300	0.65	0.325	0.10
Share capital	26.9	26.9	26.9	26.9	26.9

(1)

We applied retrospectively, from January 1, 2009, IFRS 11, *Joint Arrangements*, and the amendments to IAS 19, *Employee Benefits*, the application of which is mandatory as from January 1, 2013 under IFRS as issued by the IASB.

(2)

Based on 896,512,500 ordinary and A shares for all periods presented.

(3)

The weighted average number of shares for purposes of calculating basic earnings per share is computed based on the average ordinary and A shares issued and the average number of treasury shares.

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(4)

The weighted average number of shares for purposes of calculating diluted earnings per share is computed based on the average ordinary and A shares issued and the average number of treasury shares adjusted by the number of shares from the exchangeable bonds issued on August 28, 2007.

(5)

Cash dividends per ordinary share, A share and American Depositary Share, or ADS, for the years ended December 31, 2009, 2010, 2011 and 2012 were €0.575, €2.30, €0.65 and €0.325, respectively, before applicable withholding tax. Cash dividends per ordinary share, A share and ADS for the years ended December 31, 2009, 2010, 2011 and 2012 were US$0.71, US$3.18, US$0.82 and US$0.42, respectively, using the exchange rate in effect on the date on which each dividend was paid, before applicable withholding tax. The dividend amounts set forth above for each year are the amounts paid with respect to the results of operations for those fiscal years, even when the actual date of payment fell in a different year. See "*Item 8 Financial Information Distributions to Shareholders Dividend Information*." Cash dividends for the year ended December 31, 2012 corresponded to an ordinary dividend per share of €0.325 and was paid in May 2013. Cash dividends for the year ended December 31, 2011 corresponded to an ordinary dividend per share of €0.65, of which €0.215 was paid on January 4, 2012 as an advance over the profits relating to 2011, as approved by our Board of Directors on December 15, 2011, and the remaining €0.435 was paid in May 2012, as approved at our Annual Shareholders' Meeting held on April 27, 2012. Cash dividends for the year ended December 31, 2010 included (1) an extraordinary dividend per share of €1.65, of which €1.00 was paid in December 2010 and the remaining €0.65 was paid in 2011, as approved at our Annual Shareholders' Meeting held on May 6, 2011; and (2) an ordinary cash dividend of €0.65 per share also approved at the Annual Shareholders' Meeting.

On August 14, 2013, our board of directors announced a shareholder remuneration policy consisting of an ordinary cash dividend of €0.10 (US$0.13838 at the exchange rate on April 25, 2014) per share, "A" share and ADS for the fiscal years ending December 31, 2013 and December 31, 2014, before applicable withholding tax. The dividend payment for the fiscal year 2013, corresponding to an ordinary dividend per share of €0.10, was approved by our 2014 Annual Shareholders' Meeting held on April 30, 2014.

(6)

Represents the net income of Vivo Participações S.A., or Vivo. We provided mobile telecommunications services in Brazil through Vivo until September 2010. We held our participation in Vivo through our 50% interest in Brasilcel N.V., a joint venture with Telefónica, S.A., or Telefónica. On July 28, 2010, we reached an agreement with Telefónica for them to buy from us our 50% interest in Brasilcel N.V. We closed the transaction on September 27, 2010.

	Year Ended December 31,				
	2009 (Restated)	2010 (Restated)	2011 (Restated)	2012 (Restated)	2013
	(EUR Millions)				
Cash Flow Data:					
Cash flows from operating activities	1,927.5	903.8	1,189.5	1,061.8	853.7
Cash flows from investing activities	(597.8)	4,263.7	(1,929.4)	(575.0)	(364.1)
Cash flows from financing activities	(997.3)	(1,571.2)	(379.4)	(2,112.9)	(764.7)

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	Year Ended December 31,				
	2009 (Restated)	2010 (Restated)	2011 (Restated)	2012 (Restated)	2013
	(EUR Millions)				
Statement of Financial Position Data:					
Current assets	2,505.2	8,855.4	5,503.1	4,102.5	3,973.2
Investments in joint ventures	2,898.4		3,509.6	2,980.1	2,408.2
Investments in group companies	597.2	361.5	532.5	406.8	511.3
Other investments	16.1	17.7	15.3	12.7	22.2
Goodwill		416.6	353.0	425.7	380.6
Tangible assets	3,538.0	3,874.6	3,656.1	3,578.9	3,438.5
Intangible assets	1,100.7	695.1	800.7	757.5	717.7
Post retirement benefits	67.6	1.9	1.7	1.6	1.8
Deferred tax assets	595.4	648.5	590.5	560.4	564.9
Other non-current assets	286.4	294.0	101.7	2.9	1.9
Total assets	**11,605.2**	**15,165.4**	**15,064.3**	**12,829.1**	**12,020.4**
Current liabilities	2,146.5	2,683.7	4,764.8	2,994.8	3,024.6
Medium and long term debt	5,720.4	6,254.4	5,708.0	5,979.4	5,879.2
Accrued post retirement liability	1,535.0	950.5	913.6	835.4	960.9
Deferred tax liabilities	363.9	311.6	276.7	270.4	243.8
Other non-current liabilities	341.3	342.3	338.3	211.8	45.1
Total liabilities	**10,107.1**	**10,542.5**	**12,001.4**	**10,291.8**	**10,153.6**
Equity excluding non-controlling interests	1,335.8	4,406.2	2,840.6	2,304.6	1,641.3
Non-controlling interests	162.2	216.7	222.2	232.7	225.5
Total equity	**1,498.0**	**4,622.9**	**3,062.9**	**2,537.3**	**1,866.8**
Total liabilities and shareholders' equity	**11,605.2**	**15,165.4**	**15,064.3**	**12,829.1**	**12,020.4**
Number of ordinary shares	896.5	896.5	896.5	896.5	896.5
Share capital(1)	26.9	26.9	26.9	26.9	26.9

(1) As of the dates indicated, we did not have any redeemable preferred stock.

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Exchange Rates

Euro

A substantial portion of our revenues, assets, liabilities and expenses are denominated in Euros. We have published our audited consolidated financial statements in Euros, and our shares trade in Euros on the regulated market Euronext Lisbon.

Our dividends, when paid in cash, are denominated in Euros. As a result, exchange rate fluctuations have affected and will affect the U.S. dollar amounts received by holders of ADSs on conversion of such dividends by Deutsche Bank Trust Company Americas, as the ADS depositary. Deutsche Bank Trust Company Americas converts dividends it receives in foreign currency into U.S. dollars upon receipt, by sale or such other manner as it has determined and distributes such U.S. dollars to holders of ADSs, net of Deutsche Bank Trust Company Americas' expenses of conversion, any applicable taxes and other governmental charges. Exchange rate fluctuations may also affect the U.S. dollar price of the ADSs on the New York Stock Exchange.

The following tables show, for the period and dates indicated, certain information regarding the U.S. dollar/Euro exchange rate. The information is based on the noon buying rate in the City of New York for cable transfers in Euro. On April 25, 2014, the Euro/U.S. dollar exchange rate was €0.7226 per US$1.00.

Year ended December 31,	Average Rate(1)
	(EUR per US$1.00)
2009	0.7166
2010	0.7567
2011	0.7142
2012	0.7736
2013	0.8143

(1) The average rate is calculated as the average of the noon buying rates on the last day of each month during the period.

Period	High	Low
	(EUR per US$1.00)	
October 2013	0.7413	0.7241
November 2013	0.7487	0.7350
December 2013	0.7379	0.7238
January 2014	0.7407	0.7309
February 2014	0.7404	0.7243
March 2014	0.7283	0.7180
April 2014 (through April 25, 2014)	0.7297	0.7195

None of the 28 member countries of the European Union has imposed any exchange controls on the Euro.

Brazilian Real

Because of the acquisition of our investments in Oi and Contax, we have a large exposure to the Brazilian Real. Consequently, exchange rate fluctuations between the Euro and the Real affect our total assets, shareholders' equity and equity in losses on joint ventures. See "*Item 5 Operating and Financial Review and Prospects Exchange Rate Exposure to the Brazilian Real*."

The Brazilian government may impose temporary restrictions on the conversion of Reais into foreign currencies and on the remittance to foreign investors of proceeds from their investments in

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Brazil. Brazilian law permits the government to impose these restrictions whenever there is a serious imbalance in Brazil's balance of payments or reason to foresee a serious imbalance.

The following tables show, for the periods and date indicated, certain information regarding the Real/U.S. dollar exchange rate. On April 25, 2014, the Real/U.S. dollar exchange rate was R$2.2357 per US$1.00. The information is based on the noon buying rate in the City of New York for cable transfers in Brazilian Reais as certified for United States customs purposes by the Federal Reserve Bank of New York.

Year ended December 31,	Average Rate(1)
	(R$ per US$1.00)
2009	1.987
2010	1.757
2011	1.668
2012	1.952
2013	2.1776

(1) The average rate is calculated as the average of the noon buying rates on the last day of each month during the period.

Period	High	Low
	(R$ per US$1.00)	
October 2013	2.224	2.1567
November 2013	2.3345	2.2425
December 2013	2.3784	2.3106
January 2014	2.4361	2.35
February 2014	2.4373	2.33
March 2014	2.3617	2.2552
April 2014 (through April 25, 2014)	2.2795	2.194

Risk Factors

General Risks Relating to Our Company

The current economic and financial crisis has affected, and will likely continue to affect, demand for our products and services, our revenues and our profitability

The global economic and financial crisis, and the current economic recession in Portugal, have had, and are likely to continue to have, an adverse effect on the demand for our products and services and on our revenues and profitability. In recent years, a number of Eurozone countries came under severe financial pressure and their ability to raise, refinance and service their debt was put into question by markets, as demonstrated by the record high spreads during most of the year. Portugal, along with Greece and Ireland, was forced to seek support packages from the European Union/European Commission, the European Central Bank, or the ECB, and the International Monetary Fund, or the IMF, under strict conditions, while fear of contagion to other Eurozone countries forced governments to reduce debt levels through austerity measures that were seen as the cause of slow growth for some countries and stagnation in others. In 2013, global economic growth remained weak, and the global economy continued to slow down as emerging market economies faced declining growth and tighter global financial conditions. Gross domestic product, or GDP, in the Eurozone decreased for the second consecutive year, decreasing 0.4% in 2013 after a decrease of 0.7% in 2012, due to the continued restrictive fiscal policies and deleveraging of the private sector in the main developed economies, coupled with the unsolved sovereign debt crisis in the Eurozone. The Eurozone unemployment rate rose throughout 2013 and is currently above 12%. Moreover, inflation remains below the ECB's medium term target, raising concerns about underlying deflationary trends.

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In Portugal, recent government economic policy has focused on implementing the measures agreed to as part of the €78 billion financial support package from the European Union/European Commission, the ECB and the IMF. The strongly restrictive fiscal policies, the continued deleveraging in the private financial and non-financial sectors and the cooling of activity in the Eurozone contributed to a contraction in real GDP of 1.8% in 2013. Unemployment rates reached 15.3% of the active population in the last quarter of 2013, and the government deficit remained at approximately 5% of GDP. Government debt, as a percentage of GDP, was 120.6% in 2012 and 129% in 2013.

The economic recession in Portugal has had an adverse effect on the demand for our products and on our revenues and profitability. As one of Portugal's largest companies and one of its largest employers, our financial condition, revenues and profitability are closely linked to circumstances in the Portuguese economy. The recession in Portugal has had a direct effect on demand for our products and services, contributing to a decline in revenues in 2011, 2012 and 2013 across most of the customer categories of our Portuguese telecommunications business.

In these and other ways, the global economic and financial crisis and its effect on the European and Portuguese economies has significantly affected, and could continue to significantly affect, our business, liquidity and financial performance.

Financial market conditions may adversely affect our ability to obtain financing, significantly increase our cost of debt and negatively impact the fair value of our assets and liabilities

Global financial markets and economic conditions have been severely disrupted and volatile since 2008 and remain subject to significant vulnerabilities, such as the deterioration of fiscal balances and the rapid accumulation of public debt, continued deleveraging in the banking sector and limited supply of credit. At times during this period, credit markets and the debt and equity capital markets have been exceedingly distressed. From 2010 to 2013, the financial markets grew increasingly concerned about the ability of certain European countries, particularly Greece, Ireland, Portugal, Spain and Italy, to finance their deficits and service growing debt burdens amidst difficult economic conditions. This loss of confidence led to rescue measures for Greece, Ireland and Portugal by the EU, the ECB and the IMF and a bailout of the Spanish banking sector by the EU. These issues, along with the re-pricing of credit risk and the difficulties currently experienced by financial institutions, have made it difficult for companies to obtain financing. The ability of private corporations to access financing remains challenging and highly susceptible to political and economic events in the Eurozone.

As a result of the disruptions in the credit markets, many lenders have increased interest rates, enacted tighter lending standards, required more restrictive terms (including higher collateral ratios for advances, shorter maturities and smaller loan amounts) or refused to refinance existing debt at all or on terms similar to pre-crisis conditions. Changes in interest rates and exchange rates may also adversely affect the fair value of our assets and liabilities. If there is a negative impact on the fair values of our assets and liabilities, we could be required to record impairment charges.

Notwithstanding our international exposure and diversification and the fact that we believe we have sufficient sources of liquidity to meet our present funding needs, the downgrades of Portugal's sovereign debt described in the next risk factor may have a significant effect on our costs of financing, particularly given the size and prominence of our company within the Portuguese economy. The recent events in Portugal and the other factors described above could adversely affect our ability to obtain future financing to fund our operations and capital needs and adversely impact the pricing terms that we are able to obtain in any new bank financing or issuance of debt securities and thereby negatively impact our liquidity.

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Any future ratings downgrades may impair our ability to obtain financing and may significantly increase our cost of debt

Against the backdrop of the Eurozone crisis, the increased risk perception also led to consecutive downgrades of Portuguese sovereign debt by the rating agencies. In 2011, Portugal was downgraded (1) by 4 notches at Moody's Investors Service, or Moody's, from A1 on December 21, 2010 to Ba2 on July 5, 2011; (2) by 3 notches at Standard & Poor's Ratings Services, or S&P, from A- on November 30, 2011 to BBB- on December 5, 2011; and (3) by 6 notches at Fitch Ratings, or Fitch, from A+ on December 23, 2010 to BB+ on November 24, 2011. In 2012, Portugal was downgraded (1) by 1 notch at Moody's from Ba2 to Ba3 on February 13, 2012; and (2) by 3 notches at S&P from BBB to BB.

Because our financial condition, revenues and profitability are closely linked to the Portuguese economy, our company's ratings under Moody's and S&P's ratings methodologies are directly linked to the Portuguese sovereign debt rating. Following the downgrade of Portuguese sovereign debt on January 21, 2012, S&P downgraded our long-term rating from BBB- to BB+, with a negative outlook, and on February 11, 2013, S&P downgraded our long-term rating to BB, with a negative outlook. On April 13, 2012, Moody's downgraded our long-term rating from Ba1 to Ba2, with a negative outlook. On August 15, 2013, Fitch downgraded our long-term rating from BBB to BBB-, with a negative outlook.

The effects of the economic and financial crisis described above, or any adverse developments in our business, could lead to additional downgrades in our credit ratings. Any such downgrades are likely to adversely affect our ability to obtain future financing to fund our operations and capital needs. Any downgrade of our ratings could have even more significant effects on our ability to obtain financing and therefore on our liquidity. For further information on these covenants, please refer to "*Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Indebtedness Covenants*."

Any worsening of the current economic and financial crisis may affect our liquidity and impact the creditworthiness of our company

In order to mitigate liquidity risks, we seek to maintain a liquidity position and an average maturity of debt that allows us to repay our short-term debt and our contractual obligations. As of December 31, 2013, the amount of available cash, plus the undrawn amount of our underwritten commercial paper lines (cash immediately available upon two or three days' notice) and our committed standby facilities available to our Portuguese operations amounted to €3,257 million, an increase from €3,016 million as of December 31, 2012. The average maturity of our debt as of December 31, 2013 was 5.5 years.

Our capital structure includes debt, cash and cash equivalents, short-term investments and equity attributable to equity holders of the parent, comprising issued capital, treasury shares, reserves and accumulated earnings. We periodically review our capital structure considering the risks associated with each of the above mentioned classes of the capital structure. We further discuss our liquidity and sources of funding in "*Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources*."

However, if economic and financial conditions in Portugal and in Europe generally were to worsen, if our cost of debt were to increase or if we were to encounter other difficulties in obtaining financing for the reasons described in the preceding three risk factors, our sources of funding, including our cash balances, operating cash inflows, funds from divestments, credit lines and cash flows obtained from financing operations, might not match our financing needs, including our operating and financing outflows, investments, shareholder remuneration and debt repayments. Any such event could have a material adverse effect on our financial position, liquidity and prospects.

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If our customers' financial conditions decline, we will be exposed to increased credit and commercial risks

Due to continued adverse economic conditions, we may encounter increased difficulty collecting accounts receivable and could be exposed to risks associated with uncollectable accounts receivable. We regularly assess the creditworthiness of our customers, and we set credit limits for our customers. Challenging economic conditions have impacted some of our customers' ability to pay their accounts receivable. Although our credit losses have historically been low and we have policies and procedures in place for managing customer finance credit risk, we may be unable to avoid future losses on our accounts receivable, which could materially adversely affect our results of operations and financial position.

We may not be able to pay our announced dividends

In 2012, we announced a shareholder remuneration policy for the fiscal years 2012 to 2014, comprised of an annual cash dividend of €0.325 per share and a share buy-back program of €200 million for the same three year period, equivalent to an additional €0.225 per share. However, on August 14, 2013, we announced a revised shareholder remuneration policy that provides for an annual cash dividend for 2013 and 2014 of €0.10 per share. This shareholder remuneration policy is subject to market conditions, our financial condition, legal limits to the distribution of assets to shareholders and other factors considered relevant by the Board of Directors at the time.

The payment of future dividends will depend on our ability to continue to generate cash flow in our businesses, which is dependent not only on our revenue stream but also on our ability to further streamline our operations and reduce our costs. In addition, significant volatility in the Real/Euro exchange rate may impair our ability to pay dividends.

If any of the conditions described above proves not to be the case or if any other circumstances (including any risks described in this "*Risk Factors*" section) impede our ability to generate cash and distributable reserves, shareholders may not receive the full remuneration we have announced, and the price of our ordinary shares and ADSs could be negatively affected.

We face intense competition globally, including increasing competition from competitors other than traditional telecommunications companies

Although the broad telecommunications sector is expected to continue to expand at a global level, an increasing market share is now occupied by adjacent sector players, such as equipment manufacturers, internet service providers and media players. These players are taking advantage of improved connectivity and platform-agnostic technologies to offer over-the-top and cloud-based services. Telecommunications operators are expected to maintain traditional access services and billing relationships over which users' access services from adjacent players such as well-known companies offering music, video, photos, apps and retail. These adjacent competitors have been able to build strong global brands. The expansion of the competitive boundaries is creating additional pressure for telecommunications operators. Notwithstanding our efforts to develop our own over-the-top and cloud-based services, we expect this broader competitive landscape to continue to pose challenges to our revenues and profitability in Portugal, Brazil and the other markets where we operate.

The telecommunications industry is subject to frequent changes in technology. Our ability to remain competitive depends on our ability to implement new technology and it is difficult to predict how new technology will affect our business

Companies in the telecommunications industry must adapt to rapid and significant technological changes that are usually difficult to anticipate. The mobile telecommunications industry in particular has experienced rapid and significant technological development and frequent improvements in capacity, quality and data-transmission speed. Technological changes may render our equipment, services and technology obsolete or inefficient, which may adversely affect our competitiveness or require them to increase their capital expenditures in order to maintain their competitive position. For example, we have made significant investments in recent years to develop our fiber-to-the-home, or FTTH, network for residential and enterprise customers, to connect our mobile network base stations and to develop our 3G network for personal services customers. Furthermore, Oi has made significant investments in the last three years in connection with the implementation of its Universal Mobile Telecommunications System, or UMTS or 3G, services, and has begun investing in the implementation of its LTE (Long Term Evolution), or 4G, services. It is possible that alternative technologies that are more advanced than those Oi currently provides may be developed. Oi may not obtain the expected benefits of its investments if more advanced technology is adopted by the market. Similarly, TmarPart, after the Business Combination, may not achieve the expected benefits of these investments in technology before more advanced technology is adopted by the market. Our LTE services, launched in March 2012 in Portugal, covered 90% of population in Portugal by the end of 2012, and in September 2013 we concluded the construction and started the operation of the first block of our data center in Covilhã, Portugal, to expand our ability to serve enterprise and other customers. We may not achieve the expected benefits of these investments in technology before more advanced technology is adopted by the market. Even if we adopt new technologies in a timely manner as they are developed, the cost of such technology may exceed the benefit to them, and we cannot assure you that, after the completion of the Business Combination, TmarPart will be able to maintain its level of competitiveness in Brazil, Portugal or Africa.

Our operations are dependent upon our networks. A system failure could cause delays or interruptions of service, which could cause us to suffer losses

Failure in our networks, or our backup mechanisms, may result in service delays or interruptions and limit their ability to provide customers with reliable service over the networks. Some of the risks to the networks and infrastructure include (1) physical damage to access lines and long-distance optical cables; (2) power surges or outages; (3) software defects; (4) disruptions beyond our control; (5) breaches of security; and (6) natural disasters. The occurrence of any such event could cause interruptions in service or reduce capacity for customers, either of which could reduce our gross operating revenue or cause us to incur additional expenses. In addition, the occurrence of any such event may subject us to penalties and other sanctions imposed by the Portuguese telecommunications regulator (the *Autoridade Nacional das Comunicações*, or ANACOM) (in the case of our businesses in Portugal) and by the Brazilian telecommunications regulator (the *Agência Nacional de Telecomunicações,* or ANATEL) (in the case of Oi's businesses in Brazil) and may adversely affect our business and results of operations.

The mobile telecommunications industry and participants in this industry, including us, may be harmed by reports suggesting that radio frequency emissions cause health problems and interfere with medical devices

Media and other entities frequently suggest that the electromagnetic emissions from mobile handsets and base stations may cause health problems. If consumers harbor health-related concerns, they may be discouraged from using mobile handsets. These concerns could have an adverse effect on the mobile telecommunications industry and, possibly, expose mobile services providers to litigation. We cannot assure you that further medical research and studies will refute a link between the electromagnetic emissions of mobile handsets and base stations, including on frequency ranges we use to provide mobile services, and these health concerns. Government authorities could increase regulation on electromagnetic emissions of mobile handsets and base stations, which could have an adverse effect on our business, financial condition and results of operations. The expansion of our network may be affected by these perceived risks if we experience problems in finding new sites, which in turn may delay the expansion and may affect the quality of our services.

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On January 18, 2003, ANACOM issued a regulation pursuant to Decree-Law No. 11/2003, which requires entities, including us, that are qualified to install and use radio communication stations for public broadcasting, to submit to ANACOM for approval an annual plan that monitors and measures the intensity levels of the electromagnetic waves emitted from these radio communication stations, especially stations located near the general population. In 2004, pursuant to Decree-Law No. 11/2003, the Portuguese government adopted an ordinance that limits emission and exposure to electromagnetic fields with frequencies between 0 kHz and 300 GHz. Although we believe that these regulations or ordinances do not have a material impact on us, the Portuguese government may adopt new laws or regulations regarding electromagnetic emissions and exposure, which could have an adverse effect on our business.

In addition, ANATEL may also enact new laws or regulations regarding electromagnetic emissions and exposure, which could have an adverse effect on Oi's business.

We have a substantial amount of existing debt, which could restrict our financing and operating flexibility and have other adverse consequences

As of December 31, 2013, we had total consolidated gross debt of €7,371.1 million. Our existing level of indebtedness and the requirements and limitations imposed by our debt instruments could adversely affect our financial condition or results of operations. In particular, the terms of some of these debt instruments restrict our ability to:

- incur additional debt;
- grant liens;
- pledge assets;
- sell or dispose of assets; and
- make certain acquisitions, mergers and consolidations.

Furthermore, some of our debt instruments include financial covenants that require us to maintain certain specified financial ratios. Additionally, the instruments governing a substantial portion of its indebtedness contain cross-default or cross-acceleration clauses, and the occurrence of an event of default under one of these instruments could trigger an event of default under other indebtedness or enable the creditors under other indebtedness to accelerate that indebtedness.

If we are unable to incur additional debt, we may be unable to invest in our business and make necessary or advisable capital expenditures, which could reduce future net operating revenue and adversely affect our profitability. In addition, cash required to serve our existing indebtedness reduces the amount available to us to make capital expenditures.

If we are unable to meet our debt service obligations or comply with our debt covenants, we could be forced to renegotiate or refinance our indebtedness, seek additional equity capital or sell assets. We may be unable to obtain financing or sell assets on satisfactory terms, or at all. For more information regarding our debt instruments and our indebtedness as of December 31, 2013, see "*Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Indebtedness.*"

Unfunded post retirement benefits obligations may put us at a disadvantage to our competitors and could adversely affect our financial performance

We have unfunded post retirement benefits obligations that may limit our future use and availability of capital and adversely affect our financial and operating results. Although in December 2010, we transferred to the Portuguese government the post retirement benefits obligations relating to regulated pensions of Caixa Geral de Aposentações and Marconi, we retained all other obligations,

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including (1) salaries to suspended and pre-retired employees amounting to €852 million as of December 31, 2013, which we must pay monthly directly to the beneficiaries until their retirement age and (2) €494 million in obligations related to pension supplements and healthcare as of December 31, 2013, which are backed by plan assets with a market value of €386 million, resulting in unfunded obligations of €959 million.

Any decrease in the market value of our plan assets relating to our pension supplements and healthcare obligations could increase our unfunded position. Although there is in place an investment policy with capital preservation targets, in the current economic and financial crisis, in particular, the market value of our plan assets is volatile and poses a risk. In addition, our obligations to pay salaries to suspended and pre-retired employees are unfunded. The value of the obligations referred to above may also fluctuate, depending on demographic, financial, legal or regulatory factors that are beyond our control. Any significant increase in our unfunded obligations could adversely affect our ability to raise capital, require us to use cash flows that we would otherwise use for capital investments, implementing our strategy or other purposes and adversely affect perceptions of our overall financial strength, which could negatively affect the price of our ordinary shares and ADSs.

See "*Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Post Retirement Benefits*" for a description of our transfer of pension obligations to the Portuguese government.

We must continue to attract and retain highly qualified employees to remain competitive

We believe that our future success largely depends on our continued ability to hire, develop, motivate and retain qualified personnel needed to develop successful new products, support our existing product range and provide services to our customers. Competition for skilled personnel and highly qualified managers in the telecommunications industry in the markets where we operate remains intense. We are continuously developing our corporate culture, remuneration, promotion and benefits policies as well as other measures aimed at empowering our employees and reducing employee turnover. However, particularly considering the poor economic conditions of the Portuguese economy and the increasing immigration trends, we may not be successful in attracting and retaining employees with appropriate skills in the future, and failure in retention and recruiting could have a material adverse effect on our business.

The PCAOB's inability to conduct inspections of auditors in Portugal makes it more difficult to evaluate the effectiveness of our auditor's audit procedures and quality control procedures

Our independent registered public accounting firm, Deloitte & Associados, SROC S.A., is registered with the Public Company Accounting Oversight Board, or PCAOB, and is accordingly required by U.S. law to undergo regular PCAOB inspections to assess its compliance with U.S. law and professional standards in connection with its audits of financial statements filed with the SEC. However, because our auditor is located in Portugal, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the local authorities, as in some other non-U.S. jurisdictions, our auditor is currently not undergoing such PCAOB inspections.

Inspections of other firms that the PCAOB has conducted outside Portugal have identified deficiencies in those firms' audit and quality control procedures, which may not be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in Portugal prevents the PCAOB from evaluating our auditor's audits and its quality control procedures. As a result, investors are deprived of the benefits of PCAOB inspections. Accordingly, although the Company's audited consolidated financial statements were audited in accordance with the standards set forth by the PCAOB, the inability of the PCAOB to conduct inspections of auditors in Portugal makes it more difficult to evaluate the effectiveness of our auditor's audit procedures and quality control procedures as compared with auditors outside Portugal that are subject to PCAOB inspections.

Risks Relating to Our Proposed Business Combination with Oi

The implementation of the Business Combination may face significant challenges, and the ultimate advantages expected to be derived from this transaction will continue to be subject to a number of factors that are beyond our control

The implementation of the Business Combination may present significant challenges, including unanticipated costs and delays, shareholder or creditor opposition, regulatory interference and excessive diversion of the attention of the management of Portugal Telecom, Oi and TmarPart from the day-to-day management of their respective operating activities. If the senior management of Portugal Telecom, Oi and TmarPart are unable to efficiently implement the Business Combination, the businesses of Portugal Telecom, Oi and TmarPart could suffer. We cannot guarantee that the management of Portugal Telecom, Oi and TmarPart will successfully or cost-effectively implement the Business Combination.

The Business Combination may not result in the benefits that we, Oi and TmarPart seek to achieve

The ultimate advantages which are expected to derive from the Business Combination, such as the achievement of economies of scale, the maximization of operational synergies, the reduction of operational risks, the optimization of efficient investments, the adoption of best operational practices, the increased liquidity for the shareholders of Oi and our shareholders and the diversification of the shareholder bases of Portugal Telecom, Oi and TmarPart, will depend upon, among other factors, TmarPart's future performance, market conditions, investor interest in TmarPart's securities, the retention of key employees, the successful integration of the companies and general economic, political and business conditions in Brazil, Portugal and other countries in which TmarPart operates. The integration of Portugal Telecom, Oi and TmarPart will be a complex, costly and time-consuming process. We cannot guarantee that the benefits that we, Oi and TmarPart seek to achieve through the Business Combination will be realized. Any failure to integrate the companies or achieve the synergies and other benefits of the Business Combination could cause significant operating inefficiencies and affect the profitability of TmarPart and its consolidated subsidiaries, including Oi.

TmarPart may have actual or potential conflicts of interest with our shareholders and noteholders relating to the Business Combination, and TmarPart's significant shareholders who negotiated the terms of the Business Combination may have different interests from shareholders and noteholders' interests

TmarPart may have actual or potential conflicts of interest with our shareholders and noteholders because Portugal Telecom, Andrade Gutierrez S.A., or Andrade Gutierrez, and Jereissati Telecom S.A., or Jereissati Telecom, the controlling shareholders of TmarPart and thus, of Oi, exercise voting control over the boards of directors of TmarPart and Oi. While the exchange ratios for the merger of shares were determined in accordance with all applicable laws and regulations in Brazil and the exchange ratio for the merger will be determined in accordance with all applicable laws and regulations in Brazil and Portugal, these ratios may be higher or lower than, from the perspective of value to unaffiliated shareholders, those that could be achieved through negotiations between parties without cross-shareholding relationships. Other terms and conditions of the Business Combination may also differ from those that could have been achieved through negotiations between parties without cross-shareholder relationships, and our shareholders and noteholders might have preferred such other terms, including any terms that might have enhanced the financial condition, liquidity or results of operations of Oi or Portugal Telecom.

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In addition, the terms of the Business Combination include the use of our funds to subscribe for convertible debentures, the proceeds of which will ultimately be used to repay substantially all of the indebtedness of AG Telecom, LF Tel and TmarPart. This use of funds to subscribe for convertible debentures and to repay substantially all of the indebtedness of these shareholders of Oi might be different than the terms of a transaction that could have been achieved in negotiations between parties without cross-shareholding relationships. Our shareholders and noteholders might have preferred different terms or a different use for Portugal Telecom's funds.

Upon the completion of the Business Combination, TmarPart and Oi will have a substantial amount of existing debt, which could restrict their financing and operating flexibility and have other adverse consequences

As of December 31, 2013, (1) Oi had aggregate outstanding indebtedness in the amount of R$35,854 million, (2) Portugal Telecom had aggregate outstanding indebtedness in the amount of €7,371.1 million (R$24,012.2 million) and (3) TmarPart, AG Telecom and LF Tel on a stand-alone basis had aggregate outstanding indebtedness in the amount of R$4,571.1 million. Although, under the terms of the Business Combination, the outstanding indebtedness of TmarPart, AG Telecom and LF Tel is expected to be repaid prior to the completion of the Business Combination, Oi and PT Portugal SGPS, S.A., or PT Portugal, will be subject to certain financial covenants that will limit their ability to incur additional debt. The level of TmarPart's consolidated indebtedness after the completion of the Business Combination and the requirements and limitations imposed by these debt instruments could adversely affect TmarPart's financial condition or results of operations. The indebtedness of TmarPart and its consolidated subsidiaries, including Oi, could, among other things:

- require TmarPart and its consolidated subsidiaries, including Oi, to use a substantial portion of their cash flow from operations to pay their obligations, thereby reducing the availability of their cash flow to fund working capital, operations, capital expenditures, dividend payments, strategic acquisitions, expansion of their operations and other business activities;

- increase their vulnerability to general adverse economic and industry conditions;

- limit, along with financial and other restrictive covenants in the debt instruments of TmarPart and its consolidated subsidiaries, including Oi, their ability to borrow additional funds or dispose of assets; and

- place TmarPart and its consolidated subsidiaries, including Oi, at a competitive disadvantage compared to their competitors that have less debt.

TmarPart and its consolidated subsidiaries may also need to refinance all or a portion of this debt on or before maturity, and they may not be able to do this on commercially reasonable terms or at all.

Furthermore, some of these debt instruments include financial covenants that will require Oi to maintain certain specified financial ratios. Additionally, the instruments governing a substantial portion of these debt instruments contain cross-default or cross-acceleration clauses and the occurrence of an event of default under one of these instruments could trigger an event of default under other indebtedness or enable the creditors under other indebtedness to accelerate that indebtedness.

If TmarPart or its subsidiaries are unable to incur additional debt after the completion of the Business Combination, TmarPart may be unable to invest in its businesses and make necessary or advisable capital expenditures, which could reduce future net operating revenue and adversely affect TmarPart profitability. In addition, cash required to service the indebtedness of TmarPart after the completion of the Business Combination will reduce the amount available to TmarPart to make capital expenditures.

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If the growth in net operating revenue of the constituent companies in the Business Combination slows or declines in a significant manner, for any reason, TmarPart may not be able to continue servicing its debt. If TmarPart is unable to meet these debt service obligations or comply with these debt covenants, it could be forced to renegotiate or refinance this indebtedness, seek additional equity capital or sell assets. In this circumstance, TmarPart may be unable to obtain financing or sell assets on satisfactory terms, or at all.

The recapitalization of TmarPart will increase its net indebtedness after the completion of the Business Combination as compared to the sum of the net indebtedness of Portugal Telecom and Oi

As part of the Business Combination, we are expected to purchase convertible debentures of (1) PASA and Venus RJ Participações, S.A., or Venus, both subsidiaries of Andrade Gutierrez (PASA and Venus jointly referred to as the "AGSA Holding Companies") and (2) EDSP75 and Sayed RJ Participações, S.A., or Sayed, both subsidiaries of Jereissati Telecom (EDSP75 and Sayed jointly referred to as the "Jereissati Telecom Holding Companies") for R$4,788 million, the proceeds of which will ultimately be used to repay substantially all of the indebtedness of AG Telecom, LF Tel and TmarPart (excluding indebtedness of TmarPart's consolidated subsidiaries). AG Telecom and LF Tel are shareholders of TmarPart and Oi and are parties to certain shareholders' agreements with us described in "*Item 4 Information on the Company Our Businesses Proposed Business Combination with Oi and TmarPart.*" As of December 31, 2013, AG Telecom had aggregate outstanding indebtedness in the amount of R$650 million, LF Tel had aggregate outstanding indebtedness in the amount of R$662 million, and TmarPart had aggregate outstanding indebtedness in the amount of R$3,259 million (excluding indebtedness of TmarPart's consolidated subsidiaries).

As of December 31, 2013, Oi had aggregate outstanding indebtedness in the amount of R$35,854 million and R$3,016.5 million of cash and cash equivalents, and we had aggregate outstanding indebtedness in the amount of €7,371.1 million and €2,573.1 million of cash and cash equivalents and short-term investments. Although Oi is expected to receive proceeds in the cash portion of the capital increase by Oi (such capital increase as described in "*Item 4 Information on the Company Our Businesses Proposed Business Combination with Oi and TmarPart*" (the "Capital Increase")) that should reduce Oi's net debt (which is defined as total indebtedness less cash and cash equivalents), the use of the proceeds of the convertible debentures to repay the indebtedness of AG Telecom, LF Tel and TmarPart is expected to increase TmarPart's net debt as compared to the sum of the net debt of Portugal Telecom and Oi if we were not to invest in the convertible debentures.

The capital increase of Oi may be completed without the merger of Portugal Telecom with and into TmarPart, and therefore the Business Combination, ever being completed

The Business Combination is expected to be accomplished through three primary transactions: the Capital Increase, the merger of shares, and the merger of Portugal Telecom with and into TmarPart. The pricing for the Capital Increase occurred on April 28, 2014, and the final settlement is expected to occur on May 5, 2014. The completion of the merger of Portugal Telecom with and into TmarPart depends on the satisfaction or waiver of a number of conditions including, but not limited to, the completion of the Capital Increase. Some of these conditions are beyond our control and may present significant challenges, including shareholder opposition. For example, the merger of Portugal Telecom with and into TmarPart requires the approval of the holders of common shares of both Portugal Telecom and TmarPart. If the shareholders of Portugal Telecom or TmarPart do not approve the merger, the Business Combination cannot be completed, even if other conditions to the merger and the Business Combination are satisfied or waived.

If the Capital Increase is completed but the merger and the Business Combination are not completed, we will have incurred substantial expenses without realizing the expected benefits of the

Business Combination, and the resulting shareholder structures of Oi and Portugal Telecom will be significantly different than prior to the Business Combination. Significantly, our operating assets as of the date of this annual report, except for interests in Oi, Contax Participações and Bratel B.V., and our liabilities at the time of transfer, would be held by Oi as from completion of the Capital Increase, and our only asset after the completion of the merger of shares would be a minority interest in TmarPart. In addition, in this event, pursuant to agreements executed by the parties to the Business Combination, we would be limited to exercising 7.5% of the voting rights of TmarPart after the merger of shares, regardless of the percentage interest in TmarPart that we hold. Our interest in TmarPart would also continue to be subject to the voting and transfer restrictions contained in the existing shareholders' agreements, as amended, relating to TmarPart.

For these reasons, even if our shareholders have approved the contribution of our operating assets, except for interests in Oi, Contax Participações and Bratel B.V., and our liabilities at the time of transfer in the context of the Capital Increase, there is no guarantee that the Business Combination will be completed. If the Capital Increase and the merger of shares occur but the merger of Portugal Telecom with and into TmarPart does not, then the ordinary shares or ADSs of Portugal Telecom that you hold would represent interests in a company whose only asset would be an interest in TmarPart that is subject to limited voting rights.

The merger of shares has not been approved by the boards of directors or shareholders of Oi or TmarPart

Under Brazilian law, prior to the submission of the merger of shares to the shareholders of Oi and TmarPart, the boards of directors of Oi and TmarPart must approve the merger of shares and the Protocol of Merger of Shares and Instrument of Justification (*Protocolo e Justificação de Incorporação de Ações*) between TmarPart and Oi, which is referred to as the Oi Merger Agreement.

Following the approval of the merger of shares and the Oi Merger Agreement by the boards of directors of Oi and TmarPart, the merger of shares and the Oi Merger Agreement will be submitted to an extraordinary general shareholders' meetings of Oi and TmarPart. Approval of the merger of shares will require (1) the affirmative vote of holders representing a majority of the number of issued and outstanding TmarPart common shares present or represented at a duly convened extraordinary general shareholders' meeting, and (2) the affirmative vote of holders representing a majority of the total number of issued Oi common shares.

Oi's board of directors is expected to approve the merger of shares and the Oi Merger Agreement at a meeting to be convened shortly after the completion of the Capital Increase and TmarPart's board of directors is expected to approve the merger of shares and the Oi Merger Agreement at a meeting to be convened on the same date. However, no assurances can be offered that either of these approvals will be obtained. In addition, we have been advised that holders of a sufficient number of shares of Oi and TmarPart intend to vote in favor of the merger of shares at the extraordinary general shareholders' meetings of Oi. However, we cannot assure you that these approvals will be obtained.

The merger has not been approved by the boards of directors or shareholders of TmarPart or Portugal Telecom

Under Brazilian and Portuguese law, prior to the submission of the merger to the shareholders of TmarPart and Portugal Telecom, the boards of directors of TmarPart and Portugal Telecom must approve the merger and the Protocol of Merger and Instrument of Justification (*Protocolo e Justificação de Incorporação*) between TmarPart and Portugal Telecom, which is referred to as the PT Merger Agreement.

Following the approval of the merger and the PT Merger Agreement by the boards of directors of TmarPart and Portugal Telecom, the merger and the PT Merger Agreement will be submitted to

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extraordinary general shareholders' meetings of TmarPart and Portugal Telecom. Approval of the merger will require (1) the affirmative vote of holders representing a majority of the number of issued and outstanding TmarPart common shares present or represented at a duly convened extraordinary general shareholders' meeting, and (2) the affirmative vote of holders representing two-thirds of the total number of outstanding Portugal Telecom ordinary shares and A shares at an extraordinary general shareholders' meeting duly convened on first call. The boards of directors of TmarPart and Portugal Telecom are expected to approve the merger and the PT Merger Agreement. However, we cannot assure you that these approvals will be obtained. In addition, we have been advised that holders of a sufficient number of shares of TmarPart intend to vote in favor of the merger at the extraordinary general shareholders' meeting of TmarPart. However, we cannot assure you that this approval will be obtained. Finally, we cannot assure you that our shareholders will approve the merger.

We and Oi will be subject to business uncertainties and contractual restrictions while the Business Combination is pending

Uncertainty about the effect of the Business Combination on employees, suppliers, partners, regulators and customers may have an adverse effect on TmarPart, Oi and Portugal Telecom. These uncertainties could cause suppliers, customers, business partners and others that deal with Oi or Portugal Telecom to defer purchases, the consummation of other transactions or other decisions concerning their respective businesses, or to seek to change existing business relationships with them. In addition, employee retention may be particularly challenging until the Business Combination is consummated, as employees may experience uncertainty about their future roles in TmarPart and its consolidated subsidiaries. If key employees depart because of issues relating to the uncertainty and difficulty of integration, TmarPart's business could be harmed. In addition, the merger plan restricts Oi and Portugal Telecom from undertaking major investments and taking other specified actions until the Business Combination occurs, unless otherwise agreed. These restrictions may prevent Oi and Portugal Telecom from pursuing attractive business opportunities that may arise prior to the completion of the Business Combination.

If we fail to obtain all required consents, approvals and waivers, third parties may terminate or alter existing contracts

Third parties hold pre-emption rights in certain of our licenses and assets and such rights may be exercisable in connection with the Business Combination. We are also a party to joint ventures, license agreements and other agreements and instruments, some of which contain change of control provisions that may be triggered by the Business Combination. In addition, other agreements entered by us may require the payment of fees in connection with a change of control transaction. If we are unable to obtain any necessary waiver or consent, the operation of change of control provisions or the exercise of rights may cause the loss of significant contractual rights and benefits, the termination of joint venture agreements and licensing agreements or may require the renegotiation of financing agreements and/or the payment of significant fees. We cannot assure investors that TmarPart will be able to negotiate new agreements on terms as favorable to it as those that we had, or at all.

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The minority shareholder of Africatel has asserted that the Business Combination triggers its right to force TmarPart to purchase its shares of Africatel under the Africatel shareholders' agreement. If TmarPart is required to purchase this interest in Africatel, it will divert resources that could have otherwise been deployed to reduce indebtedness or make investments under the combined company's business plan after the Business Combination. If any such purchase is funded through the incurrence of additional debt of TmarPart, there would be a material adverse effect on the consolidated leverage of the combined company following the Business Combination

We indirectly own 75% of the share capital of Africatel Holdings B.V., or Africatel, and Samba Luxco S.à.r.l., or Samba, an affiliate of Helios Investors LP, owns the remaining 25%. Africatel holds all of our interests in telecommunications companies in sub-Saharan Africa, including our interests in Unitel, S.A., or Unitel, in Angola, Cabo Verde Telecom, S.A. in Cape Verde, Mobile Telecommunications Limited in Namibia, and CST Companhia Santomense de Telecomunicações S.A.R.L. in São Tomé and Príncipe, among others. Portugal Telecom, PT Ventures and Samba are parties to a shareholders' agreement under which we have ownership and management control of Africatel, which we refer to as the Africatel shareholders' agreement.

In January 2014, we received a letter from Samba, asserting that the Business Combination triggers certain of its rights under the Africatel shareholders' agreement, without specifying those rights, and expressing its interest in achieving liquidity in the Business Combination. Initially in response to our request that Samba provide more details on the rights that it asserts, Samba has sent additional letters claiming that Samba has a put right under the Africatel shareholders' agreement at the fair market equity value of its Africatel shares because it believes the Business Combination would trigger a change of control under that agreement. In that regard, Samba has asserted a right to an independent valuation of Africatel but has indicated an openness to discussing the valuation process. We have advised Samba that we believe that even if a change of control were to be triggered, it would be triggered only if and when the Business Combination was completed. While reserving our rights and without agreeing that a change of control would be triggered, we continue our discussions with Samba and have indicated our openness to exploring alternatives for achieving liquidity with respect to Samba's investment in Africatel.

If TmarPart were to acquire the interest of Samba in Africatel after completion of the Business Combination, whether voluntarily or as a result of the exercise of any rights of Samba under the Africatel shareholders' agreement, its acquisition of this interest would reduce the resources that would be available to it to reduce its outstanding indebtedness or pursue other investment opportunities. If any such purchase is funded through the incurrence of additional debt of TmarPart, the consolidated leverage of the combined company could increase materially from the levels initially expected as a result of the Business Combination.

Other shareholders of Unitel may claim that, as a result of a failure to offer our indirect interest in Unitel to such shareholders prior to the acquisition of PT Portugal by Oi, these shareholders have the right to acquire PT Ventures' shares of Unitel at their net asset value

We have an indirect 18.75% economic interest in Unitel, an Angolan mobile telecommunications services provider, through our 75%-owned subsidiary Africatel. PT Ventures, a subsidiary of Africatel, holds a 25% interest in Unitel and is party to a shareholders' agreement with the other three shareholders of Unitel that is governed by Angolan law, which we refer to as the Unitel shareholders' agreement.

The Unitel shareholders' agreement provides a right of first refusal to the other shareholders if any shareholder desires to transfer any or all of its shares of Unitel, other than transfers to certain affiliated companies. The agreement also provides that a breach of a material obligation by any

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shareholder or the dissolution or liquidation of any shareholder permits the other shareholders to purchase that shareholder's stake in Unitel at its net asset value.

On March 25, 2014, Unitel issued a statement in which Unitel implied that its shareholders have a right of first refusal in the event of a sale of our indirect interest in Unitel. Subsequently, the other shareholders of Unitel delivered a notice to Portugal Telecom in which they claimed that the indirect acquisition of PT Ventures' interest in Unitel by Oi as part of the Business Combination triggers this right. We believe that the relevant provisions of the Unitel shareholders' agreement would apply only to a transfer of Unitel shares by PT Ventures itself, and we have not made an offer to sell our indirect interest in Unitel to the other shareholders in connection with the proposed contribution of PT Portugal to Oi as of the date of this annual report. If the other shareholders of Unitel were to claim in an appropriate forum that this failure to offer our interest in Unitel to those shareholders resulted in a breach of the Unitel shareholders' agreement and a binding decision to this effect were to be rendered in favor of those shareholders, we, or after completion of the Capital Increase, Oi, would be required to sell for its net asset value the interest in Unitel, which is different from the amount that we have recorded in our financial statements. Although we believe, based on the advice of our legal advisors, that any such claim by the other shareholders of Unitel would be without merit, any sale of PT Ventures' interest in Unitel at a price lower than the amount that we have recorded on our financial statements could have a material adverse impact on our financial condition and results of operations.

The performance and value of PT Portugal is significantly affected by the performance and value of Unitel, which, in turn, is subject to significant risks

In connection with the Capital Increase, we expect to contribute the shares of PT Portugal to Oi. At the time of the contribution, PT Portugal is expected to own (a) all of our operating assets, except interests held directly or indirectly in Oi, Contax Participações and our subsidiary Bratel B.V. (which is expected to hold cash and cash equivalents that may be used to subscribe for the debentures described under "*Item 4 Information on the Company Our Businesses Proposed Business Combination with Oi and TmarPart Steps of the Business Combination Recapitalization of TmarPart*"), and (b) all of our liabilities at the time of the transfer.

Although the valuation report prepared by Banco Santander (Brasil) S.A. in connection with the Capital Increase, or the PT Assets Valuation Report, indicated that the proportionally consolidated enterprise value of PT Portugal was R$27,339 million, the fair value that Oi will record in its financial statements relating to its acquisition of PT Portugal will be €1,750 million (R$5,709.9 million), reflecting the enterprise value of PT Portugal, based on the PT Assets Valuation Report, less the amount of our indebtedness and other obligations that Oi will assume in connection with the acquisition of PT Portugal. The book value of our investment in Unitel was €494.3 million as of December 31, 2013 and €392.2 million as of December 31, 2012, not including accounts receivable from Unitel of €238.2 million as of December 31, 2013 and €245.7 million as of December 31, 2012, principally consisting of declared and unpaid dividends. Our equity in the earnings of Unitel was €129.9 million during 2013, €187.7 million during 2012 and €155.7 million during 2011. As disclosed in Note 33 of our audited consolidated financial statements, the equity in the earnings of Unitel for 2013 was determined based on our estimate of Unitel's results for the year ended December 31, 2013 because, as of the date of the approval of our financial statements, we had only received the necessary financial information from Unitel for the nine-month period ended September 30, 2013. We understand that Oi expects to record the indirect investment in Unitel as equity in an associated company at its fair market value, as determined by the PT Assets Valuation Report, which is significantly greater than the book value at which we have recorded our indirect interest in Unitel. The amount at which Oi will record its indirect investment in Unitel in its financial statements will represent a majority of the purchase price for the shares of PT Portugal.

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The PT Assets Valuation Report dated February 21, 2014 was prepared based on information provided by us regarding the assets that will be owned by PT Portugal at the time of the contribution of the shares of PT Portugal to Oi, including projected results of operations of PT Portugal. The PT Assets Valuation Report prepared by Santander assumes that (1) the financial projections that were supplied to Santander were the best existing estimates of Portugal Telecom on the date thereof and were the best business judgments of Portugal Telecom's management regarding the expectations of PT Portugal's future performance, and (2) the estimates and projections that were supplied to Santander or that were discussed among Portugal Telecom, Oi, their respective representatives and Santander, particularly those that depend on future and uncertain events (including income, expenses, investments, operational profit or net profit projections), were based on the best business judgment of Portugal Telecom's management at that date. In the PT Assets Valuation Report, Santander further notes that it did not undertake the responsibility of conducting, and did not conduct, technical due diligence of the operations of PT Portugal. As a result, the impact of risks related to PT Portugal's businesses (including the businesses that have or will be contributed to it prior to the contribution of PT Portugal to Oi in the Capital increase), including those risks relating to Unitel described above, below and under " *Risks Relating to Unitel and Our Other International Investments*," may not be fully reflected in the PT Assets Valuation Report.

The amount at which Oi will record the indirect investment in Unitel in its financial statements represents a majority of the purchase price of PT Portugal. Any reduction in the value of this investment could have a material adverse effect on Oi's business, financial condition and results of operations

Although the PT Assets Valuation Report indicated that the proportionally consolidated enterprise value of PT Portugal was R$27,339 million, the fair value that Oi will record in its financial statements relating to its acquisition of PT Portugal will be €1,750 million (R$5,709.9 million), reflecting the enterprise value of PT Portugal, based on the PT Assets Valuation Report, less R$16,841 million relating to the indebtedness and other obligations of Portugal Telecom that Oi will assume in connection with the acquisition of PT Portugal, and R$4,788 million of cash and cash equivalents that Portugal Telecom will retain to satisfy its other existing obligations.

The amount at which Oi will record the indirect investment in Unitel in its financial statements will represent a majority of the value of the shares issued to Portugal Telecom in exchange for the shares of PT Portugal. We understand that Oi expects to record the indirect investment in Unitel as equity in an associated company. Under this method of accounting, Oi will initially record the indirect investment in Unitel at its acquisition price, as determined in accordance with the PT Assets Valuation Report and giving effect to the allocation of the excess of the purchase price over the book value of the acquired assets. Subsequently, the book value of the indirect investment will be adjusted to reflect Oi's share of the earnings of Unitel in future periods, the return of capital to Oi in the form of dividends or other distributions declared by Unitel and adjustments to reflect foreign exchange variations in the book value that Oi records because Unitel's functional currency is the U.S. dollar. Oi will test the book value of the indirect investment in Unitel for impairment when events or changes in circumstances indicate that the value of the indirect investment in Unitel might be impaired. Any impairment of the indirect investment in Unitel could have a material adverse effect on the business, financial condition and results of operations of the combined company following the completion of the Business Combination.

See " *Risks Relating to Unitel and Our Other International Investments*" for additional risk factors relating to our investment in Unitel.

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The Memorandum of Understanding with respect to the Business Combination contains exclusivity provisions which prohibit Portugal Telecom, Oi and certain of their affiliates from soliciting or considering alternative proposals from any third party

The Memorandum of Understanding, dated October 1, 2013, with respect to the Business Combination, contains exclusivity provisions which prohibit Portugal Telecom, Oi and certain of their affiliates from soliciting or considering alternative proposals from any third party. As a result, these provisions may prevent Oi or Portugal Telecom from receiving or accepting an alternative proposal that could result in greater value to the shareholders of such entity.

If there is no liquidity and dispersion of the common shares of Oi on the date of the extraordinary general shareholders' meeting of Oi that approves or rejects the merger of shares, Oi's dissenting common shareholders may exercise withdrawal rights in connection with the Business Combination.

We understand that Brazilian corporation laws grant the right to withdraw from a company (for reimbursement of shares held) to dissenting shareholders, i.e., shareholders who do not agree with a general shareholders' meeting resolution that approves the merger of a company's shares into another company. For this purpose, dissenting shareholders include those that have voted against the resolution, shareholders that did not vote and those who were not present at the relevant meeting. In the case of Oi's shares, if withdrawal rights were granted, the reimbursement price would be based on Oi's net asset value per share.

Brazilian corporation laws also set forth that the right to withdraw does not apply to holders of a class or type of shares that has market liquidity and dispersion. Liquidity is evidenced when the type or class of shares, or the certificate that represents it, is part of a general index representing a portfolio of securities in Brazil or abroad, as defined by the CVM. Dispersion is evidenced when the majority shareholder, the controlling corporation or other corporations under their control hold less than half of the issued shares of the applicable type or class.

In a meeting on March 25, 2014, the CVM board decided that Oi's common shareholders will not be entitled to withdrawal rights if, on the date of the meeting that approves or rejects the merger of shares, there is dispersion and liquidity of Oi's common shares. Therefore, whether or not Oi's common shareholders have withdrawal rights may only be based on the liquidity and dispersion parameters existing on the day of the general meeting of Oi that approves or rejects the merger of shares.

If, on the date of the extraordinary general shareholders' meeting that approves or rejects the merger of shares, the common shares of Oi do not have liquidity and dispersion, Oi's common shareholders that dissented in that meeting may exercise the right of withdrawal, and Oi will be required to reimburse these shareholders under the terms defined by the Brazilian corporation laws.

In the event that Oi's dissenting common shareholders are ultimately found to have withdrawal rights, Oi may be required to make large cash payments in connection with the merger of shares, and such payments could materially decrease the cash balances available to the combined company after the merger of shares and limit its ability to borrow funds or fund capital expenditures, which may adversely affect the combined company and its shareholders following the merger of shares.

In order to expand Portugal Telecom's and Oi's businesses, TmarPart may take advantage of the consolidation of the telecommunications industry through the acquisition of other telecommunications companies, which could adversely affect their businesses, results of operations and financial conditions

Following the Business Combination, TmarPart may acquire other companies in the telecommunications industry as part of its growth and convergence strategy. A growth strategy that

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involves acquisitions may present certain risks to its businesses, results of operations and financial condition, such as:

- difficulties in capturing synergies in the integration process, causing the anticipated benefits of the acquisition to be more limited than originally expected;

- costs associated with any unforeseen antitrust restrictions;

- failure to identify contingencies during the due diligence process;

- uncertainty in relation to regulatory approval; and

- distractions from its core business to pursue these acquisitions and implement the integration of acquired businesses.

If acquisition transactions cause TmarPart to incur unforeseen costs due to the factors described above, TmarPart may have to dedicate more resources than originally planned and eventually be faced with substantial losses that would adversely affect its business, results of operations and financial condition.

Even if TmarPart identifies suitable acquisition targets, it may be unable to complete acquisitions or obtain necessary financing to do so on satisfactory terms. Paying for acquisitions could require TmarPart to incur or assume debt and/or contingent liabilities, amortize certain identifiable intangible assets and incur acquisition-related expenses. In addition, TmarPart may be unable to realize all or any of the anticipated benefits from acquisitions or expansion in other related businesses because of operational factors or difficulties in integrating the acquisitions or such other related businesses with the existing businesses, including disparate information technology systems, database systems and business processes.

There is uncertainty regarding the U.S. income tax consequences to U.S. holders of Portugal Telecom ordinary shares or ADSs resulting from the merger, and as neither we nor TmarPart has requested (and will not request) any ruling relating to these tax consequences, you could be subject to U.S. federal income tax on the exchange of your Portugal Telecom ordinary shares or ADSs for TmarPart common shares or ADSs pursuant to the merger if the intended U.S. federal income tax treatment of the merger were to be successfully challenged by the Internal Revenue Service

The U.S. federal income tax consequences of the merger are uncertain. Although there is no authority addressing facts identical to the merger and therefore the matter is not free from doubt, we believe that the merger will qualify as a tax-free transaction for U.S. federal income tax purposes, and we understand that TmarPart intends to treat it as such. If the merger so qualifies as a tax-free transaction, generally no gain or loss will be recognized by a U.S. holder of Portugal Telecom ordinary shares or ADSs for U.S. federal income tax purposes upon such holder's receipt solely of TmarPart common shares or ADSs pursuant to the merger. However, this conclusion is not free from doubt, and neither we nor TmarPart has requested (and will not request) any ruling from the Internal Revenue Service, or the IRS, as to the U.S. federal income tax consequences of the merger. If the merger does not qualify for tax-free exchange treatment, then the merger will be taxable to U.S. holders of Portugal Telecom ordinary shares and ADSs on the exchange of their Portugal Telecom ordinary shares or ADSs for TmarPart common shares or ADSs pursuant to the merger. The merger will be taxable to a U.S. holder if Portugal Telecom was a passive foreign investment company, or PFIC, for any taxable year during which such U.S. holder held Portugal Telecom ordinary shares or ADSs and such U.S. holder has not made a purging election with respect to its Portugal Telecom ordinary shares or ADSs.

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There is uncertainty regarding the Portuguese income tax consequences to U.S. holders of Portugal Telecom ordinary shares or ADSs resulting from the merger, and as we have not requested (and will not request) any ruling relating to these tax consequences, you could be subject to Portuguese income tax on the exchange of your Portugal Telecom ordinary shares or ADSs for TmarPart common shares or ADSs pursuant to the merger if the exemptions provided by the Portuguese domestic tax law or the Tax Treaty between Portugal and the United States do not apply

The Portuguese income tax consequences of the merger are uncertain. Although the Portuguese domestic tax law and the Convention Between the United States of America and the Portuguese Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, including the Protocol thereto, hereinafter referred to as the "Tax Treaty," provide for an exemption in relation to the possible gains arising from the exchange of Portugal Telecom ordinary shares or ADSs for TmarPart common shares or ADSs, we cannot assure you that such exemption will apply to your specific situation, as it depends on a case-by-case analysis.

Risks Relating to Our Portuguese Operations

Increased competition among providers of bundled telecommunications services may result in a decrease in our revenues

In 2008, we launched a nationwide Pay-TV service under the "*Meo"* brand, primarily using our fixed network (IPTV over ADSL2+ and FTTH and direct-to-home, or DTH satellite technology). This service required us to make significant investments in our network in order to increase the bandwidth and offer a better service quality than our competitors. In January 2013, we announced the rebranding of "*Meo"* and the launch of a quadruple-play service as "M_4O", offering Pay-TV, broadband internet, fixed telephone and mobile telephone services. This launch has required additional marketing expenditures and will entail ongoing investments in infrastructure to remain competitive with other market participants.

Notwithstanding gains in our revenues and market share from Pay-TV services in recent years and the quality of our service, we have experienced pressure from our competitors to reduce monthly subscription fees. In addition, our efforts to build scale to enable us to negotiate better programming costs with our content suppliers, especially certain premium content owned by one of our competitors, may not prove successful.

The competitive landscape has changed significantly in Portugal as a result of the merger in 2013 of ZON Multimédia Serviços de Telecomunicações e Multimédia, SGPS, S.A., or ZON, the largest cable operator, and Optimus SGPS, S.A., or Optimus, the third-largest mobile operator, to create ZON Optimus SGPS, S.A., or ZON Optimus, a new integrated telecommunications operator in Portugal. The merger was cleared by the Portuguese Competition Authority on August 26, 2013, and the company resulting from the merger, ZON Optimus, was formally incorporated the following day by means of registration with the Portuguese Commercial Registry Office. This transaction has further increased the focus on bundled offers and the evolution from triple-play to quadruple-play services as ZON Optimus has leveraged its position as an integrated telecommunications operator. Our other main competitors in Portugal are Cabovisão (that underwent a merger with ONITELECOM, also in 2013) and Vodafone.

Our revenues from residential services and our financial position could be significantly affected if we are not successful in competing to provide these bundled services, particularly as our Pay-TV services have become increasingly important as a retention tool of our fixed line and broadband internet customers.

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Competition from other mobile telephony and fixed line operators has reduced our revenues from our Portuguese operations and could continue to adversely affect our revenues

As a result of the trend toward the use of mobile services instead of fixed telephone services, combined with the increase in competition from other operators, we have experienced, and may continue to experience, erosion of market share of both access lines and of outgoing domestic and international traffic. Additionally, all mobile players have launched fixed telephony services based on their mobile networks, which are directly competing for the same customers. Mobile operators can bypass our international wireline network by interconnecting directly with fixed line and mobile networks either in our domestic network or abroad. Competition is also forcing down the prices of our fixed line voice services for long-distance and international calls, as operators have been offering unlimited voice communications for all national and several international fixed destinations. Lowering our international call prices has caused a decline in our revenues from international fixed line voice services. We expect competition from operators with services based on Voice over Internet Protocol, or VoIP, also to place increasing price pressure on voice tariffs. The decrease in fixed line voice traffic and lower tariffs resulting from competition has significantly affected our overall revenues, and we expect these factors to continue to negatively affect our revenues. See "*Item 4 Information on the Company Competition Competition Facing Our Portuguese Operations Residential Services*."

The broadband market in Portugal is highly competitive and may become more competitive in the future

We believe that competition in internet broadband access in Portugal is intensifying, and with the development of existing technologies such as broadband wireless access, mobile broadband through 3G and 4G technology, as well as high speed broadband supported by the deployment of a fiber optic network, we may face additional pricing pressure on our services, which could result in the loss of revenues from both residential and enterprise customers.

Increased competition in the Portuguese mobile markets may result in decreased revenues

We believe that our existing mobile competitors, Vodafone and ZON Optimus, will continue to market their services aggressively, resulting in similarly priced offers for all major mobile players in the market. These aggressive pricing strategies have boosted voice and data usage at the expense of eroding retail revenues. A clear example was the launch, in 2008, of the so-called "tribal plans." Although initially designed to provide special calling and texting advantages for "restricted" user groups, their widespread success soon resulted in a significant pressure on revenues. We believe that our success against competitors will depend on our ability to differentiate our products based on services offered, quality, simplicity and targeting of pricing plans, and we may not be successful in doing so. We also believe quadruple-play will play a major role in the mobile Portuguese market. Although we were the first operator to launch a quadruple-play offer, in January 2013, it will be increasingly difficult to sustain this competitive advantage.

See "*Item 4 Information on the Company Competition Competition Facing Our Portuguese Operations Personal Services*."

Burdensome regulation in an open market may put us at a disadvantage to our competitors and could adversely affect our Portuguese telecommunications business

The Portuguese electronic communications sector is fully open to competition. However, many regulatory restrictions and obligations are still imposed on us. In the previous round of market analysis, carried out from 2004 to 2006, we were found by ANACOM to have significant market power in all but one of the 19 markets analyzed and, consequently, were subject to regulatory restrictions and obligations. Not all of these obligations and restrictions have been imposed on other telecommunications operators and service providers. Pursuant to the European Relevant Markets

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Recommendation issued in 2007, which significantly reduced the number of markets subject to regulation, ANACOM is re-analyzing the retail and wholesale markets to identify which markets are still relevant for regulatory intervention and which electronic communications operators and service providers, if any, it considers to have significant market power in those markets. Additionally, ANACOM is determining the regulatory remedies that should be imposed on those operators and service providers. ANACOM has not indicated when it will conclude this round of market analysis, but it is expected to be concluded by the end of 2015.

ANACOM has re-analyzed some of the markets defined under the European Relevant Market Recommendation and issued findings that we had significant market power in certain markets, including the wholesale market for call termination on individual public telephone networks provided at a fixed location, the market for call termination on individual mobile networks, the market for the provision of wholesale (physical) network infrastructure access and the wholesale leased lines terminating segments market. In December 2013, ANACOM launched a public consultation on a draft decision regarding the reanalysis of the retail markets for fixed access and telephony services and of the wholesale market of call origination at a fixed location. ANACOM is proposing to withdraw the existing retail regulation on those markets while keeping the wholesale call origination market fully regulated.

In certain cases, such as the wholesale broadband access market and the wholesale leased lines trunk segments market, ANACOM has segmented the markets into "C" (competitive) and "NC" (non-competitive) segments and issued a finding that we had significant market power in the non-competitive segments. ANACOM has the power to impose remedies to increase competition in those markets. However, ANACOM has not completed the review of all the markets identified by the European Relevant Market Recommendation, and we expect that ANACOM will reduce the adverse impacts of the remedies imposed on us. However, additional reviews by ANACOM could include other markets, such as access to next generation networks or NGA (which represent a significant upgrade to broadband internet access). For example, on February 6, 2012, ANACOM approved a draft decision concerning the review markets for wholesale physical network infrastructure access at a fixed location, or Market 4, and markets for wholesale broadband access, or Market 5. Pursuant to this draft decision, ANACOM proposed to include high-speed broadband networks (e.g., FTTH networks) in order to require operators with Significant Market Power, or SMP, to provide access to these networks. In this connection, pursuant to the this draft decision, ANACOM intends to declare us as an SMP operator in the national wholesale market for access to network infrastructure at a fixed location and as the SMP operator in the broadband access wholesale market in non-competitive areas.

With respect to Market 4, in addition to the obligation of granting unbundled access to copper loops, subloops, ducts and poles at the national level, ANACOM intends to impose on us a geographically differentiated obligation to provide its wholesale customers with virtual access to optical fiber (advanced bitstream). The analysis review procedure was not concluded, mainly due to the changes that took place in the domestic market during 2013 (merger between ZON and Optimus and investments initiated by Vodafone and Altice, for expansion of their fiber networks) and the publication, in September 2013, of the EC's recommendation on NGA non-discrimination and costing methodologies. In light of these developments, a new ANACOM consultation on markets 4 and 5 is expected during the first half of 2014. Although the final decision is still pending, we believe ANACOM will complete its new review of Markets 4 and 5 in the second quarter of 2014, after the European Commission's approval, in September 2013, of a recommendation on the costing and non-discrimination with respect to next generation networks.

Remedies imposed by ANACOM may require us to provide services in certain markets or geographic regions or to make investments that we would otherwise not choose to make. In addition, we incurred and may still have to incur, expenses to adapt our operations to changing regulatory requirements and to ensure regulatory compliance. The resources we may be required to fulfill our

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regulatory obligations in Portugal could adversely affect our ability to compete. See "*Item 4 Information on the Company Regulation Portugal*" for more details on the regulatory requirements to which we are subject.

Reduced interconnection rates have negatively affected our revenues for our Portuguese telecommunications business and will continue to do so in 2014

In recent years, ANACOM has imposed price controls on interconnection rates for the termination of calls on mobile networks. These reductions have had a significant impact on interconnection revenues of our mobile subsidiary, MEO Serviços de Comunicações e Multimédia, S.A., or MEO (previously TMN Telecomunicações Móveis Nacionais, S.A., or TMN), and, consequently, on its earnings.

ANACOM has issued successive decisions that have reduced mobile termination rates over time. Most recently, in March 2012, ANACOM issued a final decision reducing mobile termination rates progressively to €0.0127 by December 2012. The reductions in mobile termination rates have had and will continue to have a negative effect on our cash flows and revenues.

The Portuguese Competition Authority also completed an analysis of mobile rates for originating calls to non-geographic numbers in January 2012, finding origination rates to be excessive, and issued a recommendation that mobile operators must reduce their rates to a level reflecting their costs or face the possibility of being sanctioned. In March, 14, 2014 the Portuguese Competition Authority requested MEO information regarding its mobile origination rates for calls to non-geographic numbers. MEO responded this request in April, 1, 2014 and there are no further developments since then.

With respect to the wholesale market for voice call termination on individual public telephone networks at a fixed location (Relevant Market 3), on March 7, 2013, ANACOM published a draft decision, proposing to set an average symmetrical fixed termination rate, or FTR, of €0.1091 from October 1, 2013 to July 1, 2014. This rate was calculated as the average FTR of the countries that had already notified the European Commission of their decisions with respect to their national markets based on pure Bottom Up Long-Run Average Incremental Cost, or BU-LRIC, cost models. In August 2013, after the European Commission expressed serious concerns in respect of ANACOM's draft decision, ANACOM decided to withdraw its decision and instead to impose interim and urgent measures. Under its revised measures, ANACOM determined that the maximum average prices to be adopted by operators identified as having significant market power in Relevant Market 3 should be €0.1114 per minute as of October 1, 2013 and that as of July 1, 2014, the price will be set using a pure LRIC cost model that is being developed. During the first half of 2014, we expect that ANACOM will launch a new consultation on the review of the relevant market, this time including a symmetric obligation to ensure IP interconnection.

ANACOM's interconnection price controls may also negatively affect our revenues from fixed line residential services because we are required to reflect the reduction in these interconnection charges in our retail prices for calls from our fixed line network in Portugal. We expect ANACOM to lift these price controls following the designation of ZON Optimus as the universal service obligation, or USO, provider for fixed lines. We expect that the reduction in interconnection charges will continue to have an impact on our revenues from fixed line residential services in Portugal.

In addition, the lower interconnection rates have slightly reduced revenues for our wholesale business, which records revenues from international incoming calls transiting through our network that terminate on the networks of mobile and other fixed operators. The prices we charge to international operators (and hence our revenues) also depend on the interconnection fees charged by mobile and fixed operators for international incoming calls terminating on their networks, and these fees have been decreasing. We expect that lower interconnection rates will continue to have a negative impact on our wholesale revenues.

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The European Commission's review of roaming charges may continue to lead to a reduction in revenues from personal services

The European Commission, or EC, regulates the roaming charges that may be charged in the wholesale market and the retail market in Europe. These regulations extend to data and Short Messaging Services, or SMS, or text messaging. On July 1, 2012, the previous roaming regulations were replaced by a new version, known as "Roaming III," which will expire on June 30, 2022. In addition to setting maximum voice roaming rates (subject to a glide path) that may be charged with respect to the wholesale and retail market, for voice, data and SMS services, Roaming III also features (1) extended transparency and consumer-protection measures ("bill-shock") that go beyond the EU territory, (2) the introduction of an obligation for mobile operators in the wholesale market to provide reasonable network access in order to allow roaming services and (3) the decoupling of roaming services from other services, while enabling a consumer to use the same number.

The Roaming III regulations have had, and are expected to continue to have an adverse effect on the revenues of our mobile business and on our results of operations. In addition, the EC's proposed "Connected Continent" legislation, which is described in the next risk factor, could lead to the elimination of roaming charges for calls within the EU, which would similarly have an adverse effect on us.

The European Commission's proposed "Connected Continent" legislation could adversely affect our business

The EC is finalizing its plans to pass a legislative package implementing a single telecommunications market the so-called "Connected Continent" legislation in order to stimulate the provision of cross-border European services. The draft legislation, in its initial wording, addresses matters such as a single European authorization and convergence of regulatory remedies, a standard EU wholesale broadband access product, the harmonization of spectrum authorization procedures, net neutrality and transparency, international mobile roaming and international calls, and consumer protection.

In its latest form, the legislative package approved by the European Parliament on April 3, 2014 provides, among other things, for (1) the cancellation of retail market roaming tariffs by December 15, 2015, which would result in operators no longer being able to differentiate between retail domestic and roaming communications within EU mobile networks, (2) clear rules for traffic management and the obligation of operators to assure a certain quality of service and (3) reinforced consumer rights.

The draft legislative package will now be discussed at the level of the European Council and could be subject to additional revisions. It is expected that final legislation will be formally adopted by the end of 2014.

If approved, this legislation is expected to have an adverse effect on our business due to anticipated price decreases, higher operational costs and increased competition.

The Portuguese government could terminate or fail to renew our fixed line license and licenses and our authorizations for data and mobile services of our Portuguese telecommunications business

We provide a significant number of services in Portugal under licenses and authorizations granted by ANACOM to our subsidiaries PT Comunicações and MEO. See "*Item 4 Information on the Company Regulation Portugal Our Concession and Existing Licenses and Authorizations*." The Portuguese government can also terminate MEO's mobile licenses under certain circumstances. Through MEO, we hold renewable license to provide Global System for Mobile Communications, or GSM, or 2G, and 3G mobile telephone services throughout Portugal, valid until 2016 and 2022, respectively. In January 2012, MEO was allocated the right to use frequencies to provide, among other technologies, 4G mobile telephone services throughout Portugal, and in March 2012, ANACOM issued a renewable license to MEO, valid until 2027, with respect to the use of these frequencies. This license also unifies the previous 2G and 3G licenses issued to MEO. If the Portuguese government were to terminate our licenses, we would not be able to conduct the activities authorized by those licenses. This loss would eliminate an important source of our revenues.

Our obligations as a universal service provider in Portugal could adversely affect our results of operations and profitability

For the past several years, we have had obligations as a universal service provider under a concession for public telecommunications service that will cease to be effective in the first half of 2014. On October 12, 2012, following ANACOM's decision on the designation of a universal service provider, the Portuguese Ministries of Finance, Economy and Employment launched a public tender to designate the universal service providers, which included a compensation fund for universal service providers and a related renegotiation of our concession. Before the deadline on March 15, 2013, PT Comunicações submitted bids for Tender 1 and Tender 2. On April 18, 2013, ANACOM published a preliminary report regarding the bids for Tenders 1 and 2, as there was no bidder in Tender 3. According to this report, PT Comunicações did not present the lowest bid for Tender 1 and, consequently, will not continue to be the universal service provider of access to a public electronic communications network at a fixed location. However, PT Comunicações did submit the lowest bid for Tender 2 and will continue to be the universal service provider of publicly available telephone (payphones). On October 18, 2013 the Portuguese government confirmed these results and determined the designation of Optimus and ZON as the universal service providers for the connection to a public electronic communications network at a fixed location and the provision of publicly available telephone services, and of PT Comunicações as the universal service provider for publicly available telephone (payphones). In addition, on July 29, 2013, the Portuguese government decided to initiate a direct award procedure in respect of the provision of comprehensive directory and directory inquiry services for a period of 12 months, with the possibility of such period being extended for an additional six months. PT Comunicações was the only company that presented a proposal and was awarded the contract to provide directories and directory inquiry services.

As the universal service provider for payphones, directories and directory inquiry services, PT Comunicações is required to make available those services in accordance with Portuguese regulations whether or not they are profitable to us. In addition, we will be required to contribute to the compensation fund for universal services providers according to our share of the revenues of the national telecommunications sector. These obligations could adversely affect the expenses and our profitability.

Regulatory investigations and litigation may lead to fines or other penalties

We are regularly involved in litigation, regulatory inquiries and investigations involving our operations. ANACOM, the EC and the Portuguese Competition Authority regularly make inquiries and conduct investigations concerning our compliance with applicable laws and regulations. Current inquiries by the Portuguese Competition Authority relate to alleged anti-competitive practices in the terrestrial television and mobile services markets. Following a complaint by the third mobile operator in July 2013, we were informed by the Portuguese Competition Authority that it had decided to initiate an administrative proceeding against us regarding allegedly discriminatory on-net/off-net prices in the retail mobile communications market and allegedly excessive SMS termination prices. If, after the administrative proceeding, the Portuguese Competition Authority decides that there is a reasonable likelihood that sanctions will be imposed, a more formal proceeding will follow. After the conclusion of any such proceeding, the Portuguese Competition Authority could decide to impose a fine of up to 10% of our revenues during the year immediately preceding the final decision. Although Portugal

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Telecom has not historically been assessed fines of the magnitude permitted by the law, any fine that the Portuguese Competition Authority decides to impose could be material.

In January 2011, the EC opened an investigation into an agreement between Telefónica and Portugal Telecom allegedly not to compete in the Iberian telecommunications markets. We have developed various strategic partnerships with Telefónica in recent years. Our relationship with Telefónica was investigated. In January 2013, the EC adopted a decision finding that we and Telefónica had infringed Article 101 of the Treaty on the Functioning of the European Union with reference to our July 28, 2010 agreement with Telefónica concerning the acquisition by Telefónica of Portugal Telecom's stake in Brazilian operator Vivo. In accordance with this decision, we were fined an amount of €12.29 million. On April 9, 2013, we brought an action for annulment before the Court of Justice of the European Union and will continue to vigorously defend the matter. The matter is now waiting to be tried before the EU Court of Justice.

These inquiries and investigations are described in greater detail in "*Item 8 Financial Information Legal Proceedings*." If we are found to be in violation of applicable laws and regulations in these or other regulatory inquiries, investigations, or litigation proceedings that are currently pending against us or that may be brought against us in the future, we may become subject to penalties, fines, damages or other sanctions. Any adverse outcome could have a material adverse effect on our operating results or cash flows.

Risks Relating to Our Brazilian Operations

Our strategy of enhancing our operations in Brazil through our strategic partnerships with Oi and Contax may not be successful, and we do not have free access to cash flows from Oi and Contax

The successful implementation of our strategy for our mobile operations in Brazil depends on the development of our strategic partnership with Oi and the completion of the Business Combination. On March 28, 2011, we completed the acquisition of a 25.3% economic interest in the Oi Group, and our economic interest is currently 23.2%. As in any strategic partnership, it is possible that we, the other controlling shareholders and Oi will not agree on its strategy, operations or other matters. Any inability of our company and the other controlling shareholders of Oi to operate Oi jointly could have a negative impact on Oi's operations, which could have a negative impact on our strategy in Brazil. In addition, we cannot be sure that Oi will be able to take advantage of its position in the Brazilian market to increase the scope and scale of its operations or that any anticipated benefits of the strategic partnership will be realized.

In addition, concurrently with our investment in Oi, we acquired a 16.2% economic interest in Contax, which provides among other contact center services in Brazil. Our economic interest in Contax increased to 19.5% in June 2011 and to 21.1% in April 2013. The types of risks described above that apply to our strategic partnership with Oi also apply to our strategic partnership with Contax.

In addition, because Oi and Contax are joint ventures, and we do not independently control them, we may not have free access to their cash flows. It will be necessary for us and other controlling shareholders of Oi and Contax to agree to approve any distributions from those companies.

See "*Item 4 Information on the Company Our Businesses Proposed Business Combination with Oi and TmarPart*" and "*Item 4 Information on the Company Our Businesses Other International Operations Contax.*"

We are exposed to Brazilian exchange rate fluctuations

We are exposed to exchange rate fluctuation risks, mainly due to our significant investments in Brazil. We do not expect to hedge our economic exposure against exchange rate fluctuations. We are required to make adjustments to our equity on our statement of financial position in response to fluctuations in the value of foreign currencies in which we have made investments. Devaluation of the Real in the future could result in negative adjustments to our financial position, which could limit our ability to generate distributable reserves.

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The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement, as well as Brazilian political and economic conditions, could adversely impact Oi's business, results of operations and financial condition

All of the operations and customers of Oi are located in Brazil, except for minor operations and the customers of these operations outside of Brazil. Accordingly, Oi's financial condition and results of operations have been and will continue to be substantially dependent on Brazil's economy. The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government's actions to control inflation and implement macroeconomic policies have often involved increases in interest rates, wage and price controls, currency devaluations, blocking access to bank accounts, imposing capital controls and limits on imports, among other things. Oi does not have any control over, and is unable to predict, which measures or policies the Brazilian government may adopt in the future. Oi's business, results of operations and financial condition may be adversely affected by changes in policies or regulations, or by other factors such as:

- political instability;
- devaluations and other currency fluctuations;
- inflation;
- price instability;
- interest rates;
- liquidity of domestic capital and lending markets;
- energy shortages;
- exchange controls;
- changes to the regulatory framework governing Oi's industry;
- monetary policy;
- tax policy; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether possible changes in policies or rules affecting these or other factors may contribute to economic uncertainties in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian issuers. The President of Brazil has considerable power to determine governmental policies and actions that relate to the Brazilian economy and, consequently, affect the operations and financial performance of businesses such as Oi. Although we and Oi do not believe that Ms. Rousseff will significantly alter current governmental policies, we cannot assure you that the policies that may be implemented by the Brazilian federal or state governments will not adversely affect Oi's business, results of operations and financial condition.

Instability in the international financial system may adversely affect economic growth in Brazil or limit Oi's access to the financial markets and, therefore, negatively impact Oi's business and financial condition

Global economic instability and related instability in the international financial system have had, and may continue to have, a negative effect on economic growth in Brazil. Although the United States, Europe and China have shown recent signs of recovery, the recovery of the global economy, which depends on a number of factors, including a return of job growth and investments in the private sector as well as the timing of the exit from government credit easing policies by central banks globally, is not certain. Continued or worsening volatility in the global financial markets could reduce the availability of liquidity and credit to fund the continuation and expansion of industrial business operations worldwide. A prolonged slowdown in economic activity in Brazil could reduce demand for some of Oi's services, which would adversely affect its results of operations.

As a result of instability in the international financial system, Oi's ability to access the capital markets or the commercial bank lending markets may be severely restricted at a time when Oi would like, or need, to access such markets, which could have an impact on Oi's flexibility to react to changing economic and business conditions. The instability in the international financial system or a prolonged slowdown in economic activity in Brazil could have an impact on the lenders under the existing credit facilities of Oi, on Oi's Brazilian customers or on the ability of Oi's suppliers to meet scheduled deliveries in Brazil, causing them to fail to meet their obligations to Oi. If the instability in the international financial system continues, it could have an adverse effect on the demand for Oi's services in Brazil and its ability to fund its planned growth in Brazil.

Depreciation of the Real may lead to substantial losses on Oi's liabilities denominated in or indexed to foreign currencies

During the four decades prior to 1999, the Brazilian Central Bank periodically devalued the Brazilian currency. Throughout this period, the Brazilian government implemented various economic plans and used various exchange rate policies, including sudden devaluations (such as daily and monthly adjustments), exchange controls, dual exchange rate markets and a floating exchange rate system. Since 1999, exchange rates have been set by the market. The exchange rate between the Real and the U.S. dollar has varied significantly in recent years. For example, the Real/U.S. dollar exchange rate increased from R$1.9554 per U.S. dollar on December 31, 2000 to R$3.5333 on December 31, 2002. In 2008, primarily as a result of the international financial crisis, the Real depreciated by 31.9% against the U.S. dollar and prompted foreign investors to remove billions of Reais from the BM&FBOVESPA. The Real appreciated against the U.S. dollar by 25.5% during 2009 and by 4.3% during 2010. Since that period, the Real has depreciated by 12.6% against the U.S. dollar during 2011, by 8.9% during 2012 and by 14.6% during 2013. In addition, the Real appreciated against the Euro by 22.6% during 2009 and by 10.4% during 2010. The Real depreciated by 9.3% against the Euro during 2011, by 10.7% during 2012 and by 17.0% during 2013.

A significant amount of Oi's financial liabilities are denominated in or indexed to foreign currencies, primarily U.S. dollars and Euros. As of December 31, 2013, R$14,948 million of the consolidated financial indebtedness of Oi was denominated in a foreign currency. When the Real depreciates against foreign currencies, Oi incurs losses on its liabilities denominated in or indexed to foreign currencies, such as Oi's U.S. dollar-denominated long-term debt and foreign currency loans, and Oi incurs gains on its monetary assets denominated in or indexed to foreign currencies, as the liabilities and assets are translated into Reais. If significant depreciation of the Real were to occur when the value of such liabilities significantly exceeds the value of such assets, including any financial instruments entered into for hedging purposes, Oi could incur significant losses, even if the value of those assets and liabilities has not changed in their original currency. In addition, a significant depreciation in the Real could adversely affect Oi's ability to meet certain of its payment obligations. A failure to meet certain of Oi's payment obligations could trigger a default under certain financial covenants in Oi's debt instruments, which could have a material adverse effect on Oi's business and results of operations. Additionally, Oi currently has currency swaps and non-deliverable forwards in place for most of its foreign currency debt. If the cost of currency swap instruments increases substantially, Oi may be unable to maintain its hedge positions, resulting in an increased foreign currency exposure that could in turn lead to substantial foreign exchange losses.

A portion of Oi's capital expenditures in Brazil requires it to acquire assets at prices denominated in or linked to foreign currencies, some of which are financed by liabilities denominated in foreign currencies, principally the U.S. dollar. Oi generally does not hedge against risks related to movements of the Real against foreign currencies. To the extent that the value of the Real decreases relative to the U.S. dollar, it becomes more costly for Oi to purchase these assets, which could adversely affect Oi's business and financial performance.

Depreciation of the Real relative to the U.S. dollar could create additional inflationary pressures in Brazil by increasing the price of imported products and requiring recessionary government policies, including tighter monetary policy. On the other hand, appreciation of the Real against the U.S. dollar may lead to a deterioration of the country's current account and balance of payments, as well as to a dampening of export-driven growth.

Fluctuations in interest rates could increase the cost of servicing Oi's debt and negatively affect its overall financial performance

Oi's financial expenses are affected by changes in the interest rates that apply to Oi's floating rate debt. As of December 31, 2013, Oi had, among other debt obligations, R$10,295 million of loans and financings and debentures that were subject to the Interbank Certificate of Deposit (*Certificado de Depósito Interbancário*), or CDI, rate, an interbank rate, R$5,144 million of loans and financings and debentures that were subject to the Long-Term Interest Rate (*Taxa de Juros de Longo Prazo*), or TJLP, a long-term interest rate, R$3,843 million of loans and financings that were subject to the London Interbank Offered Rate, or LIBOR, and R$3,728 million of loans and financings that were subject to the IPCA.

The TJLP includes an inflation factor and is determined quarterly by the National Monetary Council (*Conselho Monetário Nacional*). In particular, the TJLP and the CDI rate have fluctuated significantly in the past in response to the expansion or contraction of the Brazilian economy, inflation, Brazilian government policies and other factors. For example, the CDI increased from 10.64% per annum as of December 31, 2010 to 10.87% per annum as of December 31, 2011, decreased to 6.90% per annum as of December 31, 2012 and increased to 9.77% per annum as of December 31, 2013. A significant increase in any of these interest rates, particularly the CDI rate, could adversely affect Oi's financial expenses and negatively affect its overall financial performance.

If Brazil experiences substantial inflation in the future, Oi's margins and its ability to access foreign financial markets may be reduced. Government measures to curb inflation may have adverse effects on the Brazilian economy, the Brazilian securities market and Oi's business and results of operations

Brazil has, in the past, experienced extremely high rates of inflation, with annual rates of inflation reaching as high as 2,708% in 1993 and 1,093% in 1994. Inflation and some of the Brazilian government's measures taken in an attempt to curb inflation have had significant negative effects on the Brazilian economy.

Since the introduction of the Real in 1994, Brazil's inflation rate has been substantially lower than in previous periods. However, actions taken in an effort to control inflation, coupled with speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. More recently, Brazil's rates of inflation, as measured by the General Market Price Index Internal Availability (*Índice Geral de Preços Disponibilidade Interna*), or IGP-DI, published by Fundação Getúlio Vargas, or FGV, were (1.4)% in 2009, 11.3% in 2010, 5.0% in 2011, 8.1% in 2012 and 4.8% in 2013. According to the Broad Consumer Price Index (*Índice Nacional de Preços ao Consumidor Ampliado*), or IPCA, published by the Brazilian Institute for Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, the Brazilian consumer price inflation rates were 4.3% in 2009, 5.9% in 2010, 6.5% in 2011, 5.8% in 2012 and 5.9% in 2013.

If Brazil experiences substantial inflation in the future, Oi's costs may increase and its operating and net margins may decrease. Although ANATEL regulations provide for annual price increases for most of Oi's services in Brazil, such increases are linked to inflation indices, discounted by increases in Oi's productivity. During periods of rapid increases in inflation, the price increases for Oi's services may not be sufficient to cover Oi's additional costs and Oi may be adversely affected by the lag in time between the incurrence of increased costs and the receipt of revenues resulting from the annual price increases. Inflationary pressures may also curtail Oi's ability to access foreign financial markets and may lead to further government intervention in the economy, including the introduction of government policies that may adversely affect the overall performance of the Brazilian economy.

The market value of securities issued by Brazilian companies is influenced by the perception of risk in Brazil and other emerging market countries, which may have a negative effect on the value of our investments in Oi and Contax and may restrict Oi's and Contax's access to international capital markets

Economic and market conditions in other emerging market countries, especially those in Latin America, may influence the market for securities issued by Brazilian companies. Investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Adverse economic conditions in other emerging market countries have at times resulted in significant outflows of funds from Brazil. Crises in other emerging countries or the economic policies of other countries, in particular the United States, may adversely affect investors' demand for securities issued by Brazilian companies, including Oi and Contax. Any of these factors could adversely affect the market price of the common or preferred shares of Oi and Contax and thereby reduce the value of our investment in those companies. Any of these factors could also impede the ability of Oi or Contax to access the international capital markets and finance their operations in the future on terms acceptable to it or at all.

Restrictions on the movement of capital out of Brazil may impair Oi's ability to service certain debt obligations

Brazilian law provides that whenever there exists, or there is a serious risk of, a material imbalance in Brazil's balance of payments, the Brazilian government may impose restrictions for a limited period of time on the remittance to foreign investors of the proceeds of their investments in Brazil as well as on the conversion of the Real into foreign currencies. The Brazilian government imposed such a restriction on remittances for approximately six months in 1989 and early 1990. The Brazilian government may in the future restrict companies from paying amounts denominated in foreign currency or require that any such payment be made in Reais. Many factors could affect the likelihood of the Brazilian government imposing such exchange control restrictions, including the extent of Brazil's foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the size of Brazil's debt service burden relative to the economy as a whole, and political constraints to which Brazil may be subject. There can be no certainty that the Brazilian government will not take such measures in the future.

A more restrictive policy could increase the cost of servicing, and thereby reduce Oi's ability to pay its foreign currency-denominated debt obligations and other liabilities. As of December 31, 2013, Oi's foreign currency-denominated debt was R$14,948 and represented 41.1% of its indebtedness. If Oi fails to make payments under any of these obligations, it will be in default under those obligations, which could reduce its liquidity.

Oi's fixed line telecommunications services face increased competition from mobile services providers, other fixed line service providers and cable television service providers, which may adversely affect its revenues and margins

Oi's fixed line telecommunications services in Region I (which consists of 16 Brazil states located in the northeastern and part of the northern and southeastern regions) and Region II (which consists of the Federal District and nine Brazilian states located in the western, central and southern regions) face increasing competition from mobile services as the prices for mobile services decline and approach those of fixed line services. Based on information available from ANATEL, from December 31, 2010 to April 30, 2013 (the latest date for which such information is available from ANATEL), the number of fixed lines in service in Brazil increased from 42.0 million to 44.5 million. The number of fixed lines in service in Region I and Region II is expected to experience slow growth, as certain customers eliminate their fixed line services in favor of mobile services, and the use of existing fixed lines for making voice calls is expected to decline as customers substitute calls on mobile phones in place of fixed line calls as a result of promotional mobile rates (such as free calls within a mobile provider's network). The rate at which the number of fixed lines in service in Brazil may decline depends on many factors beyond Oi's control, such as economic, social, technological and other developments in Brazil. In addition, new fixed lines that Oi installs are expected to be less profitable than existing ones because new fixed line customers generally have lower average incomes than Oi's existing customers, subscribe to Oi's lower cost service plans and generate fewer chargeable minutes of usage. For the year ended December 31, 2013, Oi's traditional local fixed line telecommunications services represented 29.4% of Oi's net operating revenue. Because Oi derives a significant portion of its net operating revenue from its traditional local fixed line telecommunications services, the reduction in the number of Oi's fixed lines in service has negatively affected and is likely to continue to negatively affect its net operating revenue and margins.

Oi also competes in the Brazilian market for local fixed line services with other fixed line service providers, primarily with Empresa Brasileira de Telecomunicações Embratel, or Embratel, and GVT S.A., or GVT. In addition to direct competition for corporate customers, Embratel competes with Oi for residential customers in Regions I and II with services that it provides using the cable infrastructure of its subsidiary, Net Serviços de Comunicação S.A., or Net. Net is a cable television company that is Oi's main competitor in the broadband services market. Embratel is a subsidiary of América Móvil, S.A.B. de C.V., or América Móvil, one of the leading telecommunications services providers in Latin America. Under an agreement entered into between Embratel and Net in November 2005, Net offers integrated voice, broadband and pay television services to the Brazilian residential market through a single network infrastructure. In addition, Oi competes in each of these service regions with smaller companies that have been authorized by ANATEL to provide local fixed line services. Embratel, GVT and Net are each controlled by multinational companies that may have more significant financial and marketing resources, and greater abilities to access capital on a timely basis and on more favorable terms, than Oi.

Oi's loss of a significant number of fixed line customers would adversely affect its net operating revenue and may adversely affect its results of operations. For a detailed description of Oi's competition in the local fixed line services market, see "*Item 4 Information on the Company Competition Competition Facing Oi in Brazil Local Fixed Line Services.*"

Oi's mobile services face strong competition from other mobile services providers, which may adversely affect its revenues

The mobile services market in Brazil is extremely competitive. Oi faces competition from large competitors such as TIM Participações S.A., or TIM, a subsidiary of Telecom Italia S.p.A., Telefônica Brasil S.A., or Telefônica Brasil, a subsidiary of Telefónica S.A., which markets its mobile services under the brand name "Vivo," and Claro S.A., or Claro, a subsidiary of América Móvil. As of November 30, 2013, based on information regarding the total number of subscribers as of that date available from ANATEL, Oi had a market share of 18.6% of the total number of subscribers in Brazil, ranking behind Telefônica Brasil with 28.7%, TIM with 27.0% and Claro with 25.2%, and Oi captured 10.7% of all net additions of mobile subscribers in Brazil (calculated based on the number of mobile subscribers at the end of a period less the number of mobile subscribers at the beginning of that period) during the year ended December 31, 2013. Telefônica Brasil, TIM and Claro are each controlled by multinational companies that may have more significant financial and marketing resources, and greater abilities to access capital on a timely basis and on more favorable terms, than Oi.

Oi's ability to generate revenues from its Brazilian mobile services business depends on its ability to increase and retain its customer base. Each additional customer subscribing to Oi's service entails costs, including sales commissions and marketing costs. Recovering these costs depends on Oi's ability to retain such customers. Therefore, high rates of customer churn could have a material adverse effect on the profitability of Oi's mobile service business. During the year ended December 31, 2013, Oi's average customer churn rate in the mobile services segment, representing the number of subscribers whose service was disconnected during each month, whether voluntarily or involuntarily, divided by the number of subscribers at the beginning of such month, was 4.2% per month.

Oi has experienced increased pressure to reduce its rates in response to pricing competition. This pricing competition often takes the form of special promotional packages, which may include, among other things, mobile handset subsidies, traffic usage promotions and incentives for calls made within a mobile services provider's own network. Competing with the service plans and promotions offered by competitors may cause an increase in Oi's marketing expenses and customer-acquisition costs from time to time, which has adversely affected its results of operations during some periods in the past and could continue to adversely affect Oi's results of operations in the future. Oi's inability to compete effectively with these packages could result in its loss of market share and adversely affect its net operating revenues and profitability. For a detailed description of Oi's competition in the mobile services market, see "*Item 4 Information on the Company Competition Competition Facing Oi in Brazil Mobile Services.*"

Oi's long-distance services face significant competition, which may adversely affect its revenues

In Brazil, unlike in the United States and elsewhere, a caller chooses its preferred long-distance carrier for each long-distance call, whether originated from a fixed line telephone or a mobile handset, by dialing such carrier's long-distance carrier selection code (*Código de Seleção de Prestadora*). The long-distance services market in Brazil is highly competitive. Oi's main competitors for long-distance services are TIM and Embratel, which are currently offering long-distance services throughout Brazil at rates that are charged on a per call, rather than per minute, basis. Oi also competes with Telefônica Brasil, which is the incumbent fixed line service provider in Region III. Increased competition from long-distance service providers has resulted in pressure on Oi's long-distance rates and adversely affected its revenue from these services. In addition, the proliferation of new types of service plans, such as "same network" subscription plans that offer unlimited long distance calls and data combination plans, are impacting the long-distance services market in Brazil. Competition in the long-distance market may require Oi to increase its marketing expenses and/or provide services at lower rates than those it currently expects to charge for such services. Competition in the long-distance market has had and could continue to have a material adverse effect on Oi's revenues and margins. See "*Item 4 Information on the Company Competition Competition Facing Oi in Brazil Long-Distance Services*."

Data transmission services in Brazil are not subject to significant regulatory restrictions and, as a result, Oi faces an increasing amount of competition in this business

Competition in data transmission services in Brazil is not subject to significant regulatory restrictions, and, therefore, the market is open to a large number of competitors. Some competitors, such as cable operators, offer telephone and broadband services which do not require them to use Oi's fixed line network, thereby allowing them to reach Oi's customers without paying interconnection fees to Oi. Increasing competition in data transmission services may lead to rate reductions in this segment, adversely affecting the net operating revenue that Oi generates from this business. Additionally, increased competition for data transmission customers may require Oi to increase its marketing

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expenses and its capital expenditures and may lead to the loss of broadband customers, in each case leading to a decrease in Oi's profitability. See "*Item 4 Information on the Company Competition Competition Facing Oi in Brazil Data Transmission Services*."

The Brazilian telecommunications industry is highly regulated. Changes in laws and regulations may adversely impact Oi's business

The Brazilian telecommunications industry is highly regulated by ANATEL. ANATEL regulates, among other things, rates, quality of service and universal service goals, as well as competition among telecommunications service providers. Changes in laws and regulations, grants of new concessions, authorizations or licenses or the imposition of additional universal service obligations, among other factors, may adversely affect Oi's business, financial condition and results of operations.

For example, ANATEL has proposed new regulations under which it would modify the productivity discount factor, or Factor X, applicable to the determination of rate increases available to public concessionaires providing fixed line services. These regulations were submitted for public consultation in July 2011, and the public consultation period ended on September 1, 2011. These new regulations, as they may be modified as a result of ANATEL's further analysis, are expected to be adopted in 2014. We cannot predict when these regulations will be adopted or whether they will be adopted as proposed. Some of these regulations, if adopted, may have adverse effects on Oi's revenues, costs and expenses, results of operations or financial position.

We cannot predict whether ANATEL, the Brazilian Ministry of Communications (*Ministério das Comunicações*) or the Brazilian government will adopt other telecommunications sector policies in the future or the consequences of such policies on Oi's business and the business of its competitors.

Oi's local fixed line and domestic long-distance concession agreements are subject to periodic modifications by ANATEL and expire on December 31, 2025, and Oi's bids for new concessions upon the expiration of its existing concessions may not be successful

Oi provides fixed line telecommunications services in Regions I and II of Brazil pursuant to concession agreements with the Brazilian government. These concession agreements expire on December 31, 2025, and may be amended by the parties every five years prior to the expiration date. In connection with each five year amendment, ANATEL has the right, following public consultations, to impose new terms and conditions in response to changes in technology, competition in the marketplace and domestic and international economic conditions.

Oi's obligations under the concession agreements may be subject to revision in connection with each future amendment. We cannot assure you that any future amendments will not impose requirements on Oi that will require it to undertake significant capital expenditures or will not modify the rate-setting procedures applicable to it in a manner that will significantly reduce the operating revenues that Oi generates from its fixed line businesses. If the amendments to Oi's concession agreements have these effects, its business, financial condition and results of operations could be materially adversely affected.

Oi's concession agreements will expire on December 31, 2025. The Brazilian government is expected to offer new concessions in competitive auctions prior to the expiration of the existing concession agreements. Oi may participate in such auctions, but its existing fixed line and domestic long-distance concession agreements will not entitle Oi to preferential treatment in these auctions. If Oi does not secure concessions for its existing service areas in any future auctions, or if such concessions are on less favorable terms than current concessions, Oi's business, financial condition and results of operations would be materially adversely affected.

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Oi's local fixed line and domestic long-distance concession agreements, as well as its authorizations to provide personal mobile services, contain certain obligations, and its failure to comply with these obligations may result in various fines and penalties being imposed on Oi by ANATEL

Oi's local fixed line and domestic long-distance concession agreements contain terms reflecting the General Plan on Universal Service (*Plano Geral de Metas de Universalização*), the General Plan on Quality Goals (*Plano Geral de Metas de Qualidade*) and other regulations adopted by ANATEL, the terms of which could affect Oi's financial condition and results of operations. Oi's local fixed line concession agreements also require it to meet certain network expansion, quality of service and modernization obligations in each of the states in Regions I and II of Brazil. In the event of noncompliance with ANATEL targets in any one of these states, ANATEL can establish a deadline for achieving the targeted level of such service, impose penalties and, in extreme situations, terminate the applicable concession agreement for noncompliance with its quality and universal service obligations. See "*Item 4 Information on the Company Regulation Brazil Regulation of Fixed Line Services.*"

On an almost weekly basis, Oi receives inquiries from ANATEL requiring information from it on its compliance with the various service obligations imposed on it by its concession agreements. If Oi is unable to respond satisfactorily to those inquiries or comply with its service obligations under its concession agreements, ANATEL may commence administrative proceedings in connection with such noncompliance. Oi has received numerous notices of the commencement of administrative proceedings from ANATEL, mostly due to its inability to achieve certain targets established in the General Plan on Quality Goals and the General Plan on Universal Service, among others. As of December 31, 2013, Oi had recorded provisions in the amount of R$1,045 million in connection with fines sought to be imposed by ANATEL. Additional fines from ANATEL or fines in excess of the provisioned amount could adversely impact Oi's financial condition and results of operations. See "*Item 8 Financial Information Legal Proceedings Oi Legal Proceedings Civil Claims Administrative Proceedings.*"

In addition, Oi's authorizations to provide personal mobile services contain certain obligations requiring it to meet network scope and quality of service targets. If Oi fails to meet these obligations, it may be fined by ANATEL until it is in full compliance with its obligations and, in extreme circumstances, Oi's authorizations could be revoked by ANATEL. For example, on July 23, 2012, ANATEL temporarily suspended Oi's ability to accept new customers for its mobile services in the States of Amazonas, Amapá, Mato Grosso do Sul, Roraima and Rio Grande do Sul due to ANATEL's perception of Oi's failure to meet capital investment and quality of service commitments in those states. This suspension lasted for approximately two weeks until Oi was able to propose new quality of service goals to ANATEL. See "*Item 4 Information on the Company Regulation Brazil Regulation of Mobile Services Obligations of Personal Mobile Services Providers.*"

Oi is subject to numerous legal and administrative proceedings, which could adversely affect Oi's business, results of operations and financial condition

Oi is subject to numerous legal and administrative proceedings. It is difficult to quantify the potential impact of these legal and administrative proceedings. Oi classifies its risk of loss from legal and administrative proceedings as "probable," "possible" or "remote." Oi makes provisions for probable losses but does not make provisions for possible and remote losses.

As of December 31, 2013, Oi had provisioned R$5,616.3 million (€1,725.0 million) for probable losses relating to various tax, labor and civil legal and administrative proceedings against it. In addition, as of December 31, 2013, Oi had claims against it totaling R$19,911.1 million for proceedings classified as "possible" and for which it had made no provisions, including claims of R$17,995.9 million (€5,527.4 million) in tax proceedings, claims of R$877.3 million (€269.4 million) in labor proceedings and claims of R$1,037.9 million (€318.8 million) in civil proceedings.

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Oi is not required to disclose or record provisions for proceedings in which Oi's management judges the risk of loss to be remote. However, the amounts involved in certain of the proceedings in which we believe their risk of loss is remote could be substantial. Consequently, Oi's losses could be significantly higher than the amounts for which Oi has recorded provisions.

If Oi is subject to unfavorable decisions in any legal or administrative proceedings and the losses in those proceedings significantly exceed the amount for which it has provisioned or involve proceedings for which it has made no provision, Oi's results of operations and financial condition may be materially adversely affected. Even for the amounts recorded as provisions for probable losses, a judgment against Oi would have an effect on Oi's cash flow if Oi is required to pay those amounts. Unfavorable decisions in these legal proceedings may, therefore, reduce Oi's liquidity and adversely affect its business, financial condition and results of operations. See "*Item 8 Financial Information Legal Proceedings Oi Legal Proceedings*."

Oi may be unable to implement its plans to expand and enhance Oi's existing networks in Brazil in a timely manner or without unanticipated costs, which could hinder or prevent the successful implementation of Oi's business plan and result in revenues and net income being less than expected

Oi's ability to achieve its strategic objectives depends in large part on the successful, timely and cost-effective implementation of its plans to expand and enhance Oi's networks in Brazil. Factors that could affect this implementation include:

- Oi's ability to generate cash flow or to obtain future financing necessary to implement its projects;
- delays in the delivery of telecommunications equipment by Oi's vendors;
- the failure of the telecommunications equipment supplied by Oi's vendors to comply with the expected capabilities; and
- delays resulting from the failure of third-party suppliers or contractors to meet their obligations in a timely and cost-effective manner.

Although we believe that Oi's cost estimates and implementation schedule are reasonable, we cannot assure you that the actual costs or time required to complete the implementation of these projects will not substantially exceed Oi's current estimates. Any significant cost overrun or delay could hinder or prevent the successful implementation of Oi's business plan and result in revenues and net income being less than expected.

Oi relies on strategic suppliers of equipment, materials and services necessary for its operations and expansion in Brazil. If these suppliers fail to provide equipment, materials or services to Oi on a timely basis, Oi could experience disruptions, which could have an adverse effect on Oi's revenues and results of operations

Oi relies on few strategic suppliers of equipment, materials and services, including Nokia Solutions and Networks do Brasil Telecomunicações Ltda., or Nokia Solutions and Networks, Alcatel-Lucent Brasil S.A., or Alcatel-Lucent, Telemont Engenharia de Telecomunicações S.A., or Telemont, A.R.M. Engenharia Ltda., or A.R.M. Engenharia, and Huawei do Brasil Telecomunicações Ltda., or Huawei, to provide it with equipment, materials and services that it needs in order to expand and to operate its business in Brazil. There are a limited number of suppliers with the capability of providing the mobile network equipment and fixed-line network platforms that Oi's operations and expansion plans require or the services that Oi requires to maintain its extensive and geographically widespread networks. In addition, because the supply of mobile network equipment and fixed-line network platforms requires detailed supply planning and this equipment is technologically complex, it would be difficult for Oi to replace the suppliers of this equipment. Suppliers of cables that Oi needs to extend and maintain its networks may suffer capacity constraints or difficulties in obtaining the raw materials required to manufacture these cables. As a result, Oi is exposed to risks associated with these suppliers, including restrictions of production capacity for equipment and materials, availability of equipment and materials, delays in delivery of equipment, materials or services, and price increases. If these suppliers or vendors fail to provide equipment, materials or service to Oi on a timely basis or otherwise in compliance with the terms of Oi's contracts with these suppliers, Oi could experience disruptions or declines in the quality of Oi's services, which could have an adverse effect on Oi's revenues and results of operations, and Oi might be unable to satisfy the requirements contained in its concession and authorization agreements.

Oi is subject to potential liabilities relating to third-party service providers, which could have a material adverse effect on Oi's business, financial condition and results of operations

Oi is subject to potential liabilities relating to third-party service providers. Such potential liabilities may involve claims by employees of third-party service providers directly against Oi as if it were the direct employer of such employees, as well as claims against Oi for secondary liability for, among other things, occupational hazards, wage parity or overtime pay, in the event that such third-party service providers fail to meet their obligations to their employees. Oi has not recorded any provisions for such claims, and significant judgments against Oi could have a material adverse effect on Oi's business, financial condition and results of operations.

Oi has a substantial amount of existing debt, which could restrict its financing and operating flexibility and have other adverse consequences

As of December 31, 2013, Oi had total indebtedness of R$35,854 million. Oi is subject to certain financial covenants that limit its ability to incur additional debt. Oi's existing level of indebtedness and the requirements and limitations imposed by its debt instruments could adversely affect Oi's financial condition or results of operations. In particular, the terms of some of these debt instruments restrict Oi's ability, and the ability of its subsidiaries, to:

- incur additional debt;
- grant liens;
- pledge assets;
- sell or dispose of assets; and
- make certain acquisitions, mergers and consolidations.

Furthermore, some of Oi's debt instruments include financial covenants that require Oi to maintain certain specified financial ratios. Additionally, the instruments governing a substantial portion of Oi's indebtedness contain cross-default or cross-acceleration clauses and the occurrence of an event of default under one of these instruments could trigger an event of default under other indebtedness or enable the creditors under other indebtedness to accelerate that indebtedness.

If Oi is unable to incur additional debt, Oi may be unable to invest in its business and make necessary or advisable capital expenditures, which could reduce future net operating revenue and adversely affect Oi's profitability. In addition, cash required to serve Oi's existing indebtedness reduces the amount available to Oi to make capital expenditures.

If Oi's growth in net operating revenue slows or declines in a significant manner, for any reason, Oi may not be able to continue servicing its debt. If Oi is unable to meet its debt service obligations or comply with its debt covenants, Oi could be forced to renegotiate or refinance its indebtedness, seek

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additional equity capital or sell assets. Oi may be unable to obtain financing or sell assets on satisfactory terms, or at all.

Oi's operations will continue to depend on the ability to maintain, upgrade and operate efficiently its accounting, billing, customer service, information technology and management information systems and to rely on the systems of other carriers under co-billing agreements

Sophisticated information and processing systems are vital to Oi's growth and its ability to monitor costs, render monthly invoices for services, process customer orders, provide customer service and achieve operating efficiencies. We cannot assure you that, after the Business Combination, TmarPart will be able to continue to operate successfully and upgrade its accounting, information and processing systems or that these systems will continue to perform as expected. Oi has entered into co-billing agreements with each long-distance telecommunications service provider that is interconnected to its networks to include in its invoices the long-distance services rendered by these providers, and these providers have agreed to include charges owed to Oi in their invoices. Any failure in Oi's accounting, information and processing, or any problems with the execution of invoicing and collection services by other carriers with whom Oi has co-billing agreements, could impair Oi's ability to collect payments from customers and respond satisfactorily to customer needs, which could adversely affect Oi's businesses, financial condition and results of operations.

Improper use of Oi's network could adversely affect its costs and results of operations

Oi may incur costs associated with the unauthorized and fraudulent use of its networks, including administrative and capital costs associated with detecting, monitoring and reducing the incidence of fraud. Fraud also affects interconnection costs and payments to other carriers for non-billable fraudulent roaming. Improper use of Oi's network could also increase its selling expenses if Oi needs to increase the provision for doubtful accounts to reflect amounts Oi does not believe that it can collect for improperly made calls. Any increase in the improper use of Oi's network in the future could materially adversely affect Oi's costs and results of operations.

Oi is subject to delinquencies of its accounts receivables. If Oi is unable to limit payment delinquencies by Oi's customers, or if delinquent payments by Oi's customers increase, Oi's financial condition and results of operations could be adversely affected

Oi's business significantly depends on its customers' ability to pay their bills and comply with their obligations to Oi. During 2013, Oi recorded provisions for doubtful accounts in the amount of R$850 million, or 3.0% of its net operating revenue, primarily due to subscribers' delinquencies. As of December 31, 2013, Oi's provision for doubtful accounts was R$654 million.

ANATEL regulations prevent Oi from implementing certain policies that could have the effect of reducing delinquency, such as service restrictions or limitations on the types of services provided based on a subscriber's credit record. If Oi is unable to successfully implement policies to limit subscriber delinquencies or otherwise select its customers based on their credit records, persistent subscriber delinquencies and bad debt will continue to adversely affect Oi's operating and financial results.

In addition, if the Brazilian economy declines due to, among other factors, a reduction in the level of economic activity, depreciation of the Real, an increase in inflation or an increase in domestic interest rates, a greater portion of Oi's customers may not be able to pay their bills on a timely basis, which would increase Oi's provision for doubtful accounts and adversely affect Oi's financial condition and results of operations.

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Oi's commitment to meet the obligations of its employees' pension plans, managed by Fundação Sistel de Seguridade Social and Fundação Atlântico de Seguridade Social may be higher than what is currently anticipated, and therefore, Oi may be required to make additional contributions of resources to these pension plans or to record liabilities or expenses that are higher than currently recorded

As sponsors of certain private employee pension plans, which are managed by Fundação Sistel de Seguridade Social, or Sistel, and Fundação Atlântico de Seguridade Social, or FASS, Oi's subsidiaries cover the actuarial deficits of these pension benefit plans, which provide guaranteed benefits to Oi's retirees and guaranteed future benefits to Oi's current employees at the time of their retirement. As of December 31, 2013, Oi's pension benefit plans had an aggregate deficit of R$643.6 million. Oi's commitment to meet these deficit obligations may be higher that what is currently anticipated, and Oi may be required to make additional contributions or record liabilities or expenses that are higher than currently recorded, which may adversely affect Oi's financial results.

Risks Relating to Unitel and Our Other International Investments

We are a party to joint ventures and partnerships that may not be successful and may expose us to future costs

We are partners in joint ventures and partnerships. Our partnering arrangements may fail to perform as expected for various reasons, including an incorrect assessment of our needs or the capabilities or financial stability of our strategic partners. Our share of any losses from or commitments to contribute additional capital to such partnerships may also adversely affect our results of operations or financial position.

Our ability to work with these partners or develop new products and solutions may become constrained, which could harm our competitive position in the markets served by these joint ventures and partnerships. We may have disputes with our partners in our joint ventures, and we may have difficulty agreeing with our partners on actions that we believe would be beneficial to those joint ventures in partnerships. In addition, our joint ventures and partnerships in African and Asian countries are typically governed by the laws of those countries, and our partners are often established participants in those markets and may have greater influence in those economies than we do. To the extent we experience difficulties with our joint venture partners, we may encounter difficulties in protecting our investments in those countries.

Any of these factors could cause our joint ventures and partnerships not to be profitable and could cause us to lose all or part of the value of our investments in those ventures.

The amounts recorded in our financial statements relating to our equity investment in Unitel are based on an estimate of Unitel's earnings for 2013

Under the Unitel shareholders' agreement, to which our subsidiary PT Ventures is a party, Unitel is not required to deliver audited financial statements to its shareholders prior to April 30 of each year. In preparing our audited consolidated financial statements as of and for the year ended December 31, 2013, we have recorded our share of the earnings of Unitel during 2013 of €129.9 million based on financial information of Unitel for the nine-month period ended September 30, 2013 and an estimate of our share in Unitel's net income for the fourth quarter of 2013. In our audited consolidated financial statements, we have also used this estimate of Unitel's 2013 net income to arrive at a €494.3 million book value of our investment in Unitel.

Unitel has provided to PT Ventures stand-alone income statement information of Unitel prepared under Angolan generally accepted accounting principles, or Angolan GAAP. We used the information received from Unitel to account for our investment in Unitel using the equity method in the preparation of our own audited consolidated financial statements prepared in accordance with IFRS, adjusting for differences between Angolan GAAP and IFRS. The stand-alone income statement information of Unitel prepared under Angolan GAAP reported Unitel's net income for the year ended December 31, 2013 as US$226.1 million. We also received additional management information indicating that Unitel's income statement for the fourth quarter of 2013 was impacted by certain non-recurring transactions. Although we have not received any contracts supporting these transactions, according to information received from Unitel, we believe that the impact of these transactions will be eliminated under IFRS as follows: (1) a loss of US$314.6 million on an assignment of accounts receivable to a third-party at an amount below face value and with an option to Unitel to reacquire these accounts receivable at any time for the price paid to Unitel by the assignee, which would not be recorded under IFRS since the criteria for asset derecognition were not met; and (2) losses of approximately US$158.6 million recorded by Unitel relating to the transfer of non-performing loans and certain communications towers to one of its subsidiaries. Unitel does not eliminate gains and losses in transactions with its subsidiaries in its stand-alone income statement information. Under IFRS, we eliminate these transactions and the related losses when applying the equity method of accounting to our indirect investment in Unitel.

Based on the information received from Unitel and our analysis of the transactions described above, we do not believe that our equity in Unitel's net income differs materially from our estimate of our equity in Unitel's 2013 net income reported in our audited consolidated financial statements for the year ended December 31, 2013. However, if we were to receive different information regarding these transactions that is inconsistent with our analysis, our equity in Unitel's net income could differ from our estimate.

We cannot assure you as to when PT Ventures will realize the amounts receivable recorded with respect to the declared and unpaid dividends owed to PT Ventures by Unitel or when it will be able to obtain dividends that may be declared with respect to 2013 or succeeding fiscal years

Since November 2012, PT Ventures has not received any payments for outstanding amounts owed to it by Unitel with respect to dividends declared by Unitel for prior fiscal years. Unitel declared dividends in an aggregate amount of US$190.0 million (€137.8 million) with respect to its 2012 fiscal year, US$190.0 million (€150.6 million) with respect to its 2011 fiscal year and US$157.5 million (€117.9 million) with respect to its 2010 fiscal year. As of the date of this annual report, PT Ventures has not received €93.8 million of the dividends declared by Unitel with respect to Unitel's 2010 fiscal year, and has not received any of the dividends declared by Unitel with respect to Unitel's 2011 and 2012 fiscal years.

As of December 31, 2013, 2012 and 2011, PT Ventures had €205.8 million, €215.1 million and €121.7 million, respectively, of amounts receivable from Unitel with respect to declared and unpaid dividends. As of December 31, 2013, these amounts receivable did not include the dividends declared with respect to Unitel's 2012 fiscal year described above, which were recorded as part of the book value of our indirect investment in Unitel. PT Ventures received cash payments from Unitel related to declared dividends of €49.9 million during 2012 and €125.9 million during 2011. PT Ventures has demanded an explanation from Unitel on several occasions regarding its failure to pay to PT Ventures its portion of declared dividends. As of the date of this annual report, PT Ventures has not yet received any of the dividends that were outstanding as of December 31, 2013.

On March 25, 2014, Unitel issued a statement claiming that PT Ventures is not listed on the shareholders' register of Unitel and that the board of directors of Unitel notified us about the existence of an irregularity, which resulted in Unitel being unable to distribute dividends to us until resolution of this irregularity. Unitel stated that there would be no payment of dividends until the resolution of these matters, and we cannot assure you as to the timing of the payment of these dividends even if these matters are resolved. PT Ventures (formerly known as Portugal Telecom Internacional SGPS, S.A.) has been the only entity through which we have owned shares of Unitel since the date of our original investment in Unitel in December 2000, our stake in Unitel is registered on Unitel's books as held by PT Ventures and PT Ventures had received dividend payments in the ordinary course, although with irregular timing, since the change of its name in December 2002.

Although we continue to believe that we will receive these dividends, we cannot assure you as to the timing of the payment of these dividends to PT Ventures. Our inability to receive these dividends in a timely manner could have a material adverse impact on our financial position and our results of operations.

The other shareholders of Unitel have indicated to PT Ventures that they believe that our sale of a minority interest in Africatel did not comply with the Unitel shareholders' agreement

The Unitel shareholders' agreement provides a right of first refusal to the other shareholders if any shareholder desires to transfer any or all of its shares of Unitel, other than transfers to certain affiliated companies. The agreement also provides that if any shareholder is proven to be in breach of a material obligation under the Unitel shareholders' agreement, the other shareholders will have a right to purchase that shareholder's stake in Unitel at its net asset value. Disputes under the Unitel shareholders' agreement are required to be decided by arbitration in Paris under the Rules of the International Chamber of Commerce.

The other shareholders of Unitel have asserted to PT Ventures that they believe that our sale of a minority interest in Africatel during 2007 was in breach of the Unitel shareholders' agreement. PT Ventures disputes this interpretation of the relevant provisions of the Unitel shareholders' agreement, and we believe that the relevant provisions of the Unitel shareholders' agreement apply only to a transfer of Unitel shares by PT Ventures itself.

As of the date of this annual report, no legal or arbitral proceedings have been initiated with respect to our sale of a minority interest in Africatel. If the other shareholders of Unitel were to claim this right in an appropriate forum and a binding decision to this effect were to be rendered in favor of those shareholders, we could be required to sell the interest in Unitel at a price different from the amount that we have recorded in our audited consolidated financial statements with respect to our indirect investment in Unitel. Although we believe, based on the advice of our legal advisors, that any such claim by the other shareholders of Unitel would be without merit, any sale of PT Ventures' interest in Unitel at a price lower than the amount that we have recorded on our financial statements could have a material adverse impact on our financial condition and results of operations.

The other shareholders of Unitel have prevented PT Ventures from exercising its governance rights to nominate the managing director and a majority of the board of directors of Unitel

Under the Unitel shareholders' agreement, PT Ventures is entitled to nominate three of the five members of Unitel's board of directors, including the managing director of Unitel. Under the Unitel shareholders' agreement, the appointment of the managing director of Unitel is subject to the approval of the holders of 75% of Unitel's shares. However, the other shareholders of Unitel have failed to vote to elect the directors nominated by PT Ventures at Unitel's shareholders meetings, and as a result, PT Ventures' representation on Unitel's board of directors has been reduced to a single director since June 2006, and the managing director of Unitel has not been a nominee of PT Ventures since June 2006.

Unitel has granted loans to a related party and entered into a management contract with a third-party without the approval of PT Ventures

Under the Unitel shareholders' agreement, Unitel is not permitted to enter into any contracts with its shareholders or any of their affiliates unless approved by a resolution of its board of directors adopted by at least four members of its board of directors. As a result of the inability of PT Ventures

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to appoint its additional two members of the Unitel board of directors, PT Ventures is unable to exercise its implied veto right over related party transactions.

Between May and October 6, 2012, Unitel made disbursements to Unitel International Holdings B.V. of €178.9 million (R$577 million) and US$35.0 million (R$82 million) under a "Facility Agreement" entered into between Unitel and Unitel International Holdings B.V., an entity that competes with us in Cabo Verde and in São Tomé and Principe, or Unitel Holdings. Unitel Holdings is controlled by Mrs. Isabel dos Santos, an indirect shareholder of Unitel, and according to information made public by ZON Optimus, one of the indirect controlling shareholders of ZOPT, SGPS, S.A. (which holds a majority of the voting and total share capital of ZON Optimus), one of our principal competitors in Portugal. PT Ventures' representative on the Unitel board of directors voted against these transactions executed by Unitel, and PT Ventures abstained when the consolidated financial statements of Unitel that included these transactions were approved by the Unitel shareholders. We have been informed that Unitel has made additional loans to related parties during 2013.

The failure by Unitel International Holdings B.V. to make timely payment under this Facility Agreement could have a material adverse effect on the financial condition and results of operations of Unitel and the value of our indirect investment in Unitel.

In addition, we have been informed that Unitel has recorded a management fee of US$155.7 million payable to a third-party in its stand-alone income statement prepared under Angolan GAAP. For purposes of our audited consolidated financial statements prepared in accordance with IFRS, we concluded that there is no difference from Angolan GAAP with respect to this transaction.

We cannot assure you that we will be able to successfully appoint additional members to the Unitel board of directors and therefore prevent Unitel from taking actions that would require the approval of the members of the Unitel board of directors nominated by PT Ventures, including approving related party transactions with the other shareholders that we believe are detrimental to the financial condition and results of operations of Unitel. The use of the resources of Unitel in this manner could have a material adverse impact on Unitel, as well as the value of our investment in Unitel and our financial position and results of operations.

Unitel's concession to operate in Angola has expired and has not yet been renewed

Unitel's concession to provide mobile telecommunications services in Angola expired in April 2012. We cannot provide you with any assurances regarding the terms under which the Angolan National Institute of Telecommunications (*Instituto Angolano das Comunicações*), or INACOM, would grant a renewal of this concession, if at all. Although Unitel has continued to operate in the ordinary course of its business, a failure of Unitel to obtain a renewal of this concession could have a material adverse effect on the ability of Unitel to continue to provide mobile telecommunications services in Angola, which could have a material adverse effect on our financial position and results of operations.

Adverse political, economic and legal conditions in the African and Asian countries where we have investments may hinder our ability to receive dividends from our international subsidiaries

The governments of many of the African and Asian countries where we have investments have historically exercised, and continue to exercise, significant influence over their respective economies and legal systems. Countries where we have investments may enact legal or regulatory measures that restrict the ability of our subsidiaries to make dividend payments to us. Similarly, adverse political or economic conditions in these countries may hinder our ability to receive dividends from our subsidiaries. We receive dividends from our international investments, and a limitation on our ability to receive a material portion of those dividends could adversely affect our cash flows and liquidity.

In addition, our investments in these regions are exposed to political and economic risks that include, but are not limited to, exchange rate and interest rate fluctuations, inflation and restrictive economic policies and regulatory risks that include, but are not limited to, the process for the renewal of licenses and the evolution of regulated retail and wholesale tariffs. In addition, our ventures in international markets face risks associated with increasing competition, including due to the possible entrance of new competitors and the rapid development of new technologies.

The development of partnerships in these markets raises risks related to the ability of the partners to jointly operate the assets. Any inability of us and our partners to operate these assets may have a negative impact on our strategy and on our results of operations.

All these risks may have material adverse effects on our results of operations.

We may continue to engage in acquisitions and divestments, which may be disruptive and require us to incur significant expenses

From time to time, we have made strategic acquisitions in order to obtain various benefits such as a desire to access to growing international markets and broaden our customer base. Future acquisitions could result in the incurrence of contingent liabilities and an increase in amortization expenses related to intangible assets, which could have a material adverse effect upon our business, financial condition and results of operations. Risks we could face with respect to acquisitions include:

- difficulties in the integration of the operations, technologies, products and personnel of the acquired company;
- risks of entering markets in which we have no or limited prior experience;
- potential loss of employees;
- diversion of management's attention away from other business concerns; and
- expenses of any undisclosed or potential legal liabilities of the acquired company.

From time to time, we also divest parts of our business to monetize investments, obtain funds to make other investments or optimize our operations. Any decision to dispose of or otherwise exit investments may result in the recording of special charges, particularly for any business that we consolidate, such as workforce reduction costs and industry and technology-related write-offs. We may not be successful in consummating future acquisitions or divestments on favorable terms or at all. The risks associated with such acquisitions and divestments could have a material adverse effect upon our business, financial condition and results of operations.

Risks Relating to Our ADSs and Ordinary Shares

An ADS holder may face disadvantages compared to an ordinary shareholder when attempting to exercise voting rights

Holders of our ADSs may instruct the depositary to vote the ordinary shares underlying the ADSs. For the depositary to follow the voting instructions, it must receive them on or before the date specified in our voting materials. The depositary must try, as far as practical, subject to Portuguese law and our articles of association, to vote the ordinary shares as instructed. In most cases, if the ADS holder does not give instructions to the depositary, it may vote the ordinary shares in favor of proposals supported by our Board of Directors, or, when practicable and permitted, give a discretionary proxy to a person designated by us. We cannot be certain that ADS holders will receive voting materials in time to ensure that they can instruct the depositary to vote the underlying ordinary shares. Also, the depositary is not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that ADS holders may not be able to exercise their right to vote and there may be nothing they can do if their ordinary shares or other deposited securities are not voted as requested.

If you are a U.S. tax resident, you will not be eligible for the withholding tax exemption on dividends under the Portuguese domestic law or the reduced rates of withholding tax on dividends under the Tax Treaty between Portugal and the United States unless you fill out a form required by the Portuguese tax authorities and get it certified by the U.S. Internal Revenue Service

Under Portuguese law, dividends are subject to withholding tax at a rate of 25% for corporate investors and at a rate of 28% for individual investors. Dividends placed in bank omnibus accounts (except where the identity of the effective beneficiary is disclosed) are subject to withholding tax at a rate of 35%.

However, dividends paid to corporate investors may benefit from a withholding tax exemption under Portuguese domestic law provided the following requirements are met:

- A minimum holding participation of 5% (held directly or indirectly) of Portugal Telecom's ordinary shares or ADSs exists;

- Such participation is held for a minimum consecutive period of 24 months; and

- The corporate investor is subject to and not exempt from Corporate Income Tax, or CIT, at a rate higher than 60% of the statutory Portuguese CIT rate (which would be 13.8% in 2014, based on a statutory Portuguese CIT rate of 23% applicable only to resident companies as from 2014).

In order to benefit from this withholding tax exemption, you must provide Deutsche Bank AG, Amsterdam, Netherlands branch, the custodian for Deutsche Bank Trust Company Americas, the ADS depositary, if you are a holder of ADSs, or your financial intermediary, if you are a holder of ordinary shares, prior to the date the dividends are made available, a document duly certified by the U.S. Internal Revenue Service, confirming that you are tax resident in the U.S. and that the corporate investor is subject to and not exempt from CIT, at a rate higher than 60% of the statutory Portuguese CIT rate (which would be 13.8% in 2014, based on a statutory Portuguese CIT rate of 23% applicable only to resident companies as from 2014).The remaining requirement (namely of minimum participation and holding period) should be proved by the beneficiary to the custodian for the depositary.

If the requirements to benefit from the withholding tax exemption under the Portuguese law are not met but you are a U.S. tax resident entitled to the benefits provided by the Tax Treaty, you may still be eligible for the reduced rates of Portuguese withholding tax on dividends under such treaty, provided you fill out a form required by the Portuguese tax authorities.

Under the Tax Treaty, the withholding tax rate on dividends distributed to U.S. tax residents may be reduced, as a general rule, to 15% (5% if the U.S. corporate beneficial owner owns directly at least 25% of the share capital of the company paying the dividends for an uninterrupted period of 2 years prior to the payment of the dividend). In order to apply the reduced treaty rate, confirmation that each shareholder is eligible for the benefits of the Tax Treaty is required. A specific form (Form 21-RFI of the Tax and Customs Authority (*AT Autoridade Tributária e Aduaneira*) of the Portuguese Ministry of Finance), duly certified by the U.S. Internal Revenue Service, must be received by Deutsche Bank AG, Amsterdam, Netherlands branch, the custodian for Deutsche Bank Trust Company Americas, the ADS depositary, if you are a holder of ADSs, or your financial intermediary, if you are a holder of Portugal Telecom ordinary shares, prior to the date the dividends are made available to shareholders. If you are a holder of ADSs and need to obtain information about where to send your Form 21-RFI, please

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contact the depositary at the address set forth in "*Item 12 Description of Securities Other Than Equity Securities*."

Alternatively, a non-certified Form 21-RFI may be completed and accompanied by a document issued by the U.S. Internal Revenue Service certifying that the investor is resident for tax purposes and subject to tax in the United States. Both the Form 21-RFI and the document issued by the U.S. Internal Revenue Service must be received by Deutsche Bank AG, Amsterdam, Netherlands branch, the custodian for Deutsche Bank Trust Company Americas, the ADS depositary, if you are a holder of ADSs, or your financial intermediary, if you are a holder of Portugal Telecom ordinary shares, prior to the date the dividends are made available.

If these documents are not available as of the relevant date, Portuguese withholding tax will be levied at the rate of 25% (in the case of corporate investors holding less than 25% of the company paying the dividends) or 28% (in the case of individual investors). If you are able to submit the documents to the custodian for the depositary, if you are a holder of ADSs, or to your financial intermediary, if you are a holder of ordinary shares, no later than the 20th day of the month following the payment of the dividend, we believe that the custodian or the financial intermediary, as the case may be, should release the excess Portuguese withholding tax to you (i.e., 10% in the case of corporate investors holding less than 25% of the company paying the dividends or 13% in the case of individual investors). However, we cannot guarantee that the custodian or the financial intermediary will do so.

In addition, the excess Portuguese withholding tax may be subsequently reimbursed by the Portuguese tax authorities pursuant to specific claims of individual shareholders on Form 22-RFI of the Tax and Customs Authority of the Portuguese Ministry of Finance, duly certified by the U.S. Internal Revenue Service.

Alternatively, the reimbursement of the excess withholding tax may be claimed under a non-certified Form 22-RFI accompanied by a document issued by the U.S. Internal Revenue Service certifying that the ADS or ordinary shares holder is resident for tax purposes and subject to tax in the United States, and presented to the Portuguese tax authorities within two years following the last day of the year in which the dividends were made available. See "*Item 10 Additional Information Taxation Dividends*."

If necessary, the Form 22-RFI should also be accompanied by other documents which may be required to ascertain the right to the reimbursement.

If you are a U.S.-based pension fund or regulated investment company holding ADSs or ordinary shares, you should be aware that, under a technical note issued by the Portuguese tax authorities (which resulted from a mutual agreement procedure requested by U.S. competent authority), in order to benefit from the Tax Treaty provisions, you should be able to prove that:

- the pension fund or regulated investment company is liable to tax in the U.S. This is to be undertaken by providing a Portuguese treaty form duly certified (Form 21-RFI or Form 22-RFI) and U.S. Internal Revenue Service (IRS) Form 6166.

- the pension fund or regulated investment company is entitled under the limitations of benefit provisions contained in Article 17 of the Tax Treaty. This is to be undertaken through a self-declaration, which may be substituted by declaration issued by the U.S. tax authorities.

If you are a U.S.-based pension fund or regulated investment company holding ADSs or ordinary shares, you should be aware that, under the same technical note issued by the Portuguese tax authorities, the self-declaration for limitation on benefits purposes does not eliminate the possibility of the Portuguese tax authorities to make use when necessary of the exchange of information mechanisms provided under the Tax Treaty.

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You should know that receiving certification of a Form 21-RFI or Form 22-RFI from the U.S. Internal Revenue Service can be a lengthy process. You should therefore contact your tax advisor promptly after learning of any proposed or paid dividend. In addition, although Portuguese law states that the excess withholding tax should be reimbursed within one year from the date the claim was submitted, we cannot guarantee if or when you will receive any reimbursement of the excess Portuguese withholding tax even if you fill out Form 21-RFI or Form 22-RFI and are eligible to receive reimbursement as described above. You should contact your tax advisor if you wish to fill out Form 21-RFI or Form 22-RFI to claim eligibility for the benefits of the Tax Treaty.

ITEM 4 INFORMATION ON THE COMPANY

Overview

We provide telecommunications services in Portugal, in Brazil through our strategic partnerships with Oi and Contax, and in certain countries in sub-Saharan Africa and Asia. We operate in two reportable segments: (1) Telecommunications in Portugal, which is included in our consolidated operating results, and (2) Telecommunications in Brazil-Oi, which we record for accounting purposes as an equity investment under the line item "Equity in the earnings of joint ventures" in our consolidated income statement following the adoption of IFRS 11, *Joint Arrangements*, as from January 1, 2013 in accordance with IFRS as issued by the IASB.

In addition to our reportable segments, we have other businesses that do not rise to a threshold that would require disclosure as a reportable segment. Revenues from our Telecommunications in Portugal segment accounted for 88% of our consolidated revenues in 2013, and revenues from our Africatel businesses accounted for 9% of our consolidated revenues.

Portugal. In Portugal, we provide services in the following customer categories:

- *Residential services*, which include integrated networks inside the customer's home, enabling the simultaneous connection of multiple devices, including fixed line telephone, TV (including Internet Protocol Television and direct-to-home satellite Pay-TV services), game consoles, PCs, laptops, tablets and smartphones. We provide these services mainly through our subsidiary PT Comunicações.

- *Personal services*, which are mobile telecommunications services, such as voice, data and internet-related multimedia services provided to personal (*i.e.*, individual) customers through our subsidiary MEO.

- *Enterprise services, including Corporate and SME/SoHo services*, which provide our corporate and medium and small business customers with integrated data and business solutions, as well as IT/IS and business process outsourcing (BPO) services.

- *Wholesale and other services*, which primarily include wholesale telecommunications services, public pay telephones, the production and distribution of telephone directories and other services in Portugal.

Brazil. We hold a 23.2% economic interest in Oi, one of the largest telecommunications companies in Brazil, and we are parties to a series of shareholder agreements with other shareholders of Oi that allow us to jointly control Oi. We completed our investment in Oi on March 28, 2011 through the acquisition of a 25.6% of TmarPart, the parent company of Oi, and the acquisition of a subsidiary of TmarPart that merged into Oi as part of the 2012 corporate reorganization. We record our interest in Oi for accounting purposes as an equity investment for periods since April 1, 2011. As described below under " *Brazilian Operations (Oi)*," on October 2, 2013, we announced a proposed Business Combination with Oi.

Oi provides telecommunications services in Brazil, including:

Residential services, which include, among others, local fixed line services and domestic and international long-distance services, primarily in Region I and Region II of Brazil, data transmission services and usage of Oi's network to complete calls initiated by customers of other telecommunications services providers to Oi's fixed line network (fixed line interconnection services).

Personal services, which include, among others, mobile telecommunications services throughout Brazil (Region I, Region II and Region III) utilizing 2G and 3G technology, including voice and data transmission services, and usage of Oi's network to complete calls initiated by customers of other telecommunications services providers to Oi's mobile network (mobile interconnection services).

Enterprise services, which include, among others, fixed line telecommunications services, mobile telecommunications services, advanced voice services, such as 0800 (toll free) services, customized infrastructure and storage capacity and interconnection and traffic transportation services to other telecommunications providers, in most cases to corporate and small and medium enterprises.

Other services, which include Pay-TV services, including cable and DTH television services, ISP services, operation of an iG internet portal (which Oi agreed to sell in 2012) and a mobile phone payment system and call center.

The Brazilian regions described above consist of Region I (which is composed of 16 Brazilian states located in the northeastern and part of the northern and southeastern regions), Region II (which includes the Federal District and nine Brazilian states located in the western, central and southern regions) and Region III (consisting of the State of São Paulo).

Other International Assets. Concurrently with our investment in Oi, we acquired a 16.2% direct economic interest in CTX, the controlling shareholder of Contax Participações and Contax. As a result of this acquisition, we obtained an initial economic interest of 14.1% in Contax Participações, through the direct interest described above and through the indirect interests described in " *Proposed Business Combination with Oi and TmarPart Strategic Partnership with Oi Background and History*" below. Even before our investment in Contax, we provided call center services in Brazil through our then-subsidiary Dedic and Dedic's subsidiary GPTI provided IT/IS services in Brazil. On June 30, 2011, we merged Dedic and GPTI into Contax, and our economic interest in Contax increased to 19.5%. On April 2, 2013, in connection with a corporate reorganization of Contax, we increased our economic interest in Contax to 21.1%. We record our interest in Contax for accounting purposes as an equity investment for periods since April 1, 2011, and Contax's results of operations have included the results of operations of Dedic and GPTI since July 1, 2011.

In connection with our proposed Business Combination with Oi, we expect that we will cease to hold an interest in Contax, as described below under " *Brazilian Operations (Oi)*."

In addition, we have significant interests in telecommunications companies in Angola, Cape Verde, Namibia and São Tomé and Principe in Africa and in East Timor in Asia. Throughout 2012, we held a significant interest in Companhia de Telecomunicações de Macau, S.A.R.L., or CTM, a telecommunications company in Macau, but in January 2013 we announced the sale of our interest in CTM. We completed the sale in June 2013.

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The following table provides a breakdown of our operating revenues by reportable segment for the years ended December 31, 2011, 2012 and 2013:

	Year ended December 31,		
	2011	2012	2013
	(Euro millions)		
Telecommunications in Portugal			
Services rendered	2,740.0	2,545.9	2,396.9
Sales	116.3	109.1	115.0
Other revenues	35.8	45.5	47.7
	2,892.0	2,700.5	2,559.6
Other operations	972.4	838.1	781.5
Eliminations in consolidation	(484.7)	(459.6)	(429.9)
Total consolidated operating revenues	3,379.7	3,079.0	2,911.2

Corporate Information

Our legal and commercial name is Portugal Telecom, SGPS, S.A. We are a limited liability holding company, organized as a *Sociedade Gestora de Participações Sociais* under the laws of the Portuguese Republic. The company was originally incorporated as Portugal Telecom, S.A., a *sociedade anónima* in June 1994. Our principal offices are located at Avenida Fontes Pereira de Melo, 40, 1069-300 Lisboa, Portugal. Our telephone number is +351 21 500 1701, and our facsimile number is +351 21 500 0800.

Strategy

We are an international operator focused on three main geographies: Portugal, Brazil and sub-Saharan Africa. We remain committed to discipline in our strategy, cost, operations and financial performance, and we aim to focus our resources on our core businesses and core regions. Our strategy is guided by five key medium-term objectives:

- grow the scale of our customer base;
- increase our exposure to international operations;
- lead the consumer market in convergence of services and the business/enterprise market in information and communication technologies, or ICT;
- be a top-tier reference company in technology, customer experience and operational effectiveness; and
- be a reference company in sustainability efforts.

Our success in achieving these goals is subject to a number of uncertainties, including the factors described in "*Item 3 Key Information Risk Factors*."

Some of our specific strategies to achieve these goals in our core regions include the following:

Portuguese Operations

Residential services: reshaping TV experience. We have been leveraging the increased capacity of our new generation access networks to provide a TV experience anchored in premium content and an over-the-top, or OTT, strategy with seamless access to multi-screen devices besides the TV, such as PCs, tablets and smartphones. *Meo*, our multiplay service, offers (1) a non-linear experience with video on demand with several recording modes (pause, forward and rewind), a restart-TV function and automatic recording capability, allowing customers to access the last seven days of the linear broadcast and set recordings for the next seven days, (2) a complete ecosystem for TV Apps (Facebook, Twitter, Games, Music, Kids and Sapo), (3) interactive features providing additional depth over key channels and blockbuster content and (4) user-generated content with *Meo Kanal*, an application that allows customers to produce, edit and share multimedia user-generated content on television with other *Meo* customers, creating the first video network effect on TV. *Meo* is not limited to fiber and Asymmetric Digital Subscriber Lines, or ADSL, customers, as we have also invested in a premium satellite service, with a current DTH service offering of up to fifteen HD channels, digital recording, video on demand, games and interactive apps. *Meo* has also developed a TV service, the *Meo* Go service, which combines linear TV, video on demand and access to previously broadcasted content on a multi-screen strategy, either as an extension of screens inside home or as an extension of the TV service outside home.

Personal services: seeking growth through mobile data and convergence. Our Personal services strategy for 2013 was focused on three main objectives: (1) the commercial launch of convergent offers, (2) promoting an increase in mobile data usage and value-added-services through a strong push for smartphone adoption (which represented approximately 50% of handset sales), (3) reinforcing the postpaid/prepaid value proposition through simple and customizable bundled offers, such as the new tariff plans "e" and "Unlimited," stimulating use on all networks and promoting the upselling of internet services, seeking to lock in high value customers and shifting away from price competition. As a result, we achieved meaningful results, such as (1) an increase in new additions to the postpaid subscriber base following the launch of M_4O (commercial convergent offer) and a migration of customers from prepaid to postpaid services, (2) a gain in mobile market share and (3) a decrease in trends toward revenue dilution. In addition, MEO is leveraging partnerships and key suppliers to provide customers with a broad range of smartphones, including branded models designed according to Portuguese consumer preferences. We are also leveraging our internal skills, including the well-known *Sapo* brand, to develop apps that can generate new revenue streams while enhancing the value of mobile data.

Enterprise services: increase penetration of IT/IS services, including, cloud outsourcing and BPO. Through investments in infrastructure and telecom-IT convergence, we intend to develop and market advanced integrated solutions for the corporate and SME markets aimed at increasing our penetration of IT/IS and BPO services in Portugal. In order to achieve this, we have developed and implemented a three-tiered approach to our enterprise services: (1) *Residential*+ customers, with an offering based on the convergence of voice and broadband services, (2) *Connected*+ customers, served mainly with multi-employee connectivity services, including mobility solutions for traveling employees, and simple software solutions and (3) *Integrated*+ customers, served with a full range of telecommunications and technological services, such as unified communications, outsourcing of ICT services, application integration, machine-to-machine and specific IT/IS solutions, BPO and IT consultancy. We will also seek to leverage our new data center in Covilhã, Portugal to pursue a hybrid approach using our and our customers' data centers for cloud computing and IT services.

Reinforce leadership in the market sectors in which we operate. Through the launch of our *Meo* Pay-TV service in 2008, we were able to turn our residential business around. By anchoring our strategy in a distinctive TV experience, we have grown our customer base and our customers' portfolio, focusing on multiple play offers. We have expanded TV and fixed broadband subscribers while mitigating the decline in revenues from fixed voice services. In 2013, we launched a quadruple-play service, M_4O. M_4O provides customers with simplicity, convenience and economy, allowing customers to integrate all telecommunications services under a single

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invoice, along with a single customer support and single touch-point network. As a consequence of the convergence leadership strategy, we have increased the weight of flat fees in our revenues, aiming to increase the stability of Average Revenue Per User, or ARPU.

International Operations

Maximize the strategic value of our international assets, reinforcing our focus on Brazil and sub-Saharan Africa. Given our scale, growth prospects and starting position, the Brazilian market remains a key priority. Africa will continue to be a source of growth, where we will continue to explore value-creating investment opportunities through partnerships.

Brazil: data growth and convergence. In Brazil, through our investment in and partnership with Oi, we will focus our efforts on leveraging our experience in developing innovative and technologically advanced solutions for corporate customers, fixed-mobile convergent offers, mobile broadband, Pay-TV and triple-play services to further improve Oi's operational and financial performance, considering its strong presence in the Brazilian market and potential for future growth. We aim to capture additional share of the market upside by leveraging Oi's established footprint across service categories.

Strategic alliance. As described above, we have announced the combination of our operations with Oi in order to form a new Brazil-based company with more than 100 million subscribers that we believe will benefit from enhanced scale and a leading position in Portugal and Brazil. The combined entity will focus on achieving operational excellence. An action plan has been prepared aiming at integrating areas yielding incremental efficiencies, including the appointment of teams to monitor synergies and address existing operational challenges.

Africa and Asia: Improving efficiency. We continue to focus on improving the efficiency of our international operations through sharing of best practices among all our subsidiaries and through increased proximity with our operations around the world to better follow-up on key developments in each region.

Focus on operational and commercial excellence of all assets and share best practices. By reinforcing operational and commercial excellence in all our operations and promoting the sharing of best practices among all our businesses, we seek to tap the potential of each business, taking into account the development of each market.

Focus on Innovation and Execution

Innovation: structured approach and partnerships. With the goal of anticipating future consumer and technological trends, innovation has been a primary focus of our investments and projects in recent years, enhancing our ability to anticipate solutions to evolving consumer needs. We pursue a structured approach to promote a culture of innovation across the whole company with the aim of establishing a balanced portfolio of projects. We regularly review allocation of capital, human resources and a cooperative sharing of ideas with the organization across three time horizons and risk levels: (1) incremental innovation (ordinary course of business, low-risk and short-term optimizations), (2) planned innovation (business development, medium-term and medium-risk developments) and (3) exploratory innovation (structural projects, which are long-term and high-risk by nature). To develop a successful go-to-market strategy and reduce investment risk, we work with a broad network of partners, both in Portugal and abroad.

Execution: next generation networks. We strengthened our investments in optical fiber (FTTH), expanding our residential segment services to more than 1.6 million households and 42 municipalities. This investment already benefits approximately 46% of the Portuguese population, representing approximately 74% of the country's GDP. The continuous investment in this infrastructure allowed us to expand our network to new customer segments. Currently, more than 40% of schools and companies in Portugal have access to FTTH. The interconnection of all Azores Islands with fiber optic technology was completed in 2013 with a new submarine cable linking the Flores and Corvo islands. In addition, the roll-out of 4G technology continued to be a strategic effort for us as part of our investment in advanced infrastructure. At the end of 2013, our coverage reached 94% of the Portuguese population. In order to strengthen mobile data capabilities and improve network quality, we ensured that as much as 95% of MEO's base stations were connected by fiber optics. In addition, MEO successfully tested advanced Long-Term Evolution, or LTE, technology, achieving 300 Mbps at its peak. Currently, we take an active role in international studies and discussions of 5G wireless technology. Our 3G network was also enhanced through the widespread introduction of HD voice (high definition voice), which allowed improvements in user experience.

Excel in customer service. We have been implementing a transformation program to ensure an integrated view of customer touch points, underpinned by a common IT platform. We now have convergent stores, a self-care portal that allows customers to manage all their services through one log-in, and a 360° view of our customers with our customer relationship management, or CRM, system. Field forces and call centers have an integrated management, and their processes have been reviewed for leaner operations. A multi-year transformation program in IT is also being implemented to enable business transformation and to increase efficiency.

Cloud Services. To support our services and to respond to the increasing demand of e-business integrators, we have opened Data Centers in Lisbon and Oporto as well as in Funchal and Ponta Delgada, in the Madeira and Azores islands, respectively. These facilities allow us to provide services, such as co-location, sophisticated web hosting, ISP services, data storage, disaster recovery and ASP services.

Focus on Partnerships. Our approach to innovation includes a network of partnerships with key institutions, both in Portugal and abroad. We pursue (1) technological partnerships for the development of new solutions and services and to provide advanced technologies to our customers, (2) partnerships with universities and research and development, or R&D, institutions, aimed at sharing best practices and establishing joint collaboration in innovation and R&D to address business needs and close the gap between the industry and knowledge centers and (3) cooperation with start-ups by providing an array of services to assist young entrepreneurs develop their ideas into sustainable businesses.

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Corporate Structure

The diagram below presents our different businesses as of the date of filing of this annual report.

(1) PT Comunicações, MEO and their subsidiaries provide residential, personal and enterprise services as part of our Portuguese telecommunications business.

(2) Various companies providing services to Portugal Telecom group companies, including PT Sistemas de Informação (information systems), PT Inovação (research and development), PT Pro (shared services), PT Compras (central purchasing) and PT Contact (call centers).

(3) Oi and its subsidiaries provide telecommunications services in Brazil. Investment in Oi is accounted for by the equity method.

(4) Includes our investment in Contax, our investments in global telecommunications operators in the Cape Verde, São Tomé and Principe, mobile operators in Namibia and Angola, and other investments.

For additional information on our significant subsidiaries, see Exhibit 8.1, which is incorporated herein by reference.

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Recent Developments

Rebranding of Personal and Enterprise Services

On January 27, 2014, we announced that all services rendered by TMN would be provided under the *Meo* brand and that TMN had changed its corporate name to MEO Serviços de Comunicações e Multimédia, S.A. This change is part of our convergence strategy and builds on our 2013 launch of M_4O, the first quadruple-play service available in Portugal.

In addition, given the convergence in the enterprise sector, we will do business in this market under the brand *PT Empresas*, which aggregates the services previously provided by PT Negócios and PT Prime.

Consent Solicitation

In connection with our proposed Business Combination with Oi, on February 7, 2014, we undertook consent solicitations to holders of our €400 million 6.25% Notes due 2016, or the Portugal Telecom Retail Notes; our €750 million 4.125% Exchangeable Bonds due 2014, or the Exchangeable Bonds; and certain notes issued by our wholly owned subsidiary, PT International Finance B.V., or PTIF, under our Euro Medium-Term Note Programme, or the PTIF Notes, to consider and approve certain proposals and other amendments to the trust deeds and terms and conditions of such notes and bonds.

The consent solicitation period expired on February 26, 2014, and the holders of the Exchangeable Bonds and the PTIF Notes approved the proposals at meetings held on March 3, 2014. With respect to the Portugal Telecom Retail Notes, no quorum was established for a meeting on March 3, 2014, and the consent solicitation period was extended and the meeting adjourned and rescheduled for March 18, 2014. At the March 18, 2014 meeting, the holders of the Portugal Telecom Retail Notes also approved the proposals.

On March 19, 2014, (1) Portugal Telecom, Oi and the trustee under Portugal Telecom's Euro Medium-Term Note Programme entered into a supplemental deed relating to the Portugal Telecom Retail Notes, (2) PTIF, Portugal Telecom, PT Comunicações, S.A., or PT Comunicações, Oi and the trustee under the principal trust deed governing the Exchangeable Bonds amended and restated that principal trust deed and (3) PTIF, Portugal Telecom, PT Comunicações, Oi and the trustee under our Euro Medium Term Note Programme amended and restated the principal trust deed governing the PTIF Notes. The amendments included the following:

- except for the Portugal Telecom Retail Notes, the release and discharge of Portugal Telecom, as keep well provider, from all of its obligations under the applicable keep well agreement and the release and discharge of PT Comunicações as keep well provider, from all of its obligations under its keep well agreement;

- in the case of the Portugal Telecom Retail Notes, the substitution, in place of Portugal Telecom, of PT Portugal as issuer and principal obligor;

- the addition of an unconditional and irrevocable guarantee from Oi;

- the waiver of any and all of the events of default and potential events of default (as such terms are defined in the trust deeds of such notes and bonds) that may be triggered by the Capital Increase and/or the Business Combination or any transaction executed as part of, or pursuant to, the Capital Increase and/or the Business Combination;

- in the case of the Exchangeable Bonds only, the amendment of the exchange right in order to provide that any holder exercising its exchange right will receive (a) from (and including) the date of the completion of the Capital Increase up to (but excluding) the date of the completion of the proposed Business Combination, a cash amount with reference to the ordinary shares of Portugal Telecom, and (b) from (and including) the date of completion of such proposed Business Combination, a cash amount with reference to the ordinary shares of TmarPart (each calculated in accordance with the modified terms and conditions of such Exchangeable Bonds) in place of receiving ordinary shares of Portugal Telecom; and

make certain other modifications to the terms and conditions as set forth in the relevant amended deeds and related agreements.

The waivers described in the fourth bullet above became effective for each series upon approval of the holders of the notes or bonds of that series at the applicable meeting, and the amendments will become effective upon completion of the Capital Increase.

On February 19, 2014, the Board of Directors of Oi approved the granting of an unconditional and irrevocable guarantee for the benefit of holders of debt instruments of Portugal Telecom, which will become effective upon the completion of the Capital Increase.

Amendments to Credit Facilities

We, PT Comunicações, PTIF and Oi have entered and expect to enter into amendments and waivers to certain credit facilities in connection with the Business Combination. Pursuant to those amendment agreements, the agreed modifications will become effective upon completion of the Capital Increase. The waivers will become effective upon their signature.

Portugal Telecom, PT Comunicações, PTIF and Oi entered into agreements:

on March 25, 2014 under which the Term Loan Agreement, dated June 29, 2010, among Portugal Telecom, PT Comunicações and PTIF, as borrowers, KfW IPEX-Bank GMBH, as agent, and the lenders from time to time party thereto, or the Term Loan; and

on April 3, 2014 under which the Term and Revolving Credit Facilities Agreement, dated March 23, 2011, among Portugal Telecom, PT Comunicações and PTIF, as borrowers, Banc of America Securities Limited, as agent, and the lenders from time to time party thereto, or the Revolving Credit Facility,

were amended to (1) the substitute, in place of Portugal Telecom, PT Portugal as borrower in respect of each of the Revolving Credit Facility and the Term Loan and modify certain definitions, covenants and events of default in each of the Revolving Credit Facility and the Term Loan to provide that such provisions apply to PT Portugal instead of Portugal Telecom, (2) add an unconditional and irrevocable guarantee of each of the Revolving Credit Facility and the Term Loan from Oi, (3) waive any and all of the defaults and events of default under each of the Revolving Credit Facility and the Term Loan that may be triggered by the Capital Increase and/or the Business Combination or any transaction executed as part of, or pursuant to, the Capital Increase and/or the Business Combination and (4) modify the maintenance covenants and the definitions related thereto in each of the Revolving Credit Facility and the Term Loan to conform such provisions to the corresponding terms of certain existing credit facilities under which Oi is a borrower and to provide that such calculations are made based on the financial statements of TmarPart. Under these agreements, the substitution of the borrower, the guarantee of Oi and the modifications to the maintenance covenants and the definitions related thereto will become effective upon the completion of the Capital Increase.

Portugal Telecom, PT Comunicações, PTIF and Oi have engaged in negotiations with the lenders and agents under each of:

the Export Credit Facility Agreement, dated May 3, 2011, among Portugal Telecom, PT Comunicações and PTIF, as borrowers, Bank of China Limited, London Branch, as agent, and the lenders from time to time party thereto, or the Export Credit Facility; and the Tranche B Export Credit Facility Agreement, dated May 18, 2013, among Portugal Telecom, PT Comunicações and PTIF, as borrowers, Bank of China Limited, London Branch, as agent, and the lenders from time to time party thereto, or the Tranche B Export Credit Facility,

and, as a result of such negotiations, Portugal Telecom, PT Comunicações, PTIF and Oi expect to enter into agreements under which such facilities will be amended to (1) substitute, in place of Portugal Telecom, PT Portugal as borrower in respect of each of the Export Credit Facility and the Tranche B Export Credit Facility and modify certain definitions, covenants and events of default in each of the Export Credit Facility and the Tranche B Export Credit Facility to provide that such provisions apply to PT Portugal instead of Portugal Telecom, (2) add an unconditional and irrevocable guarantee of each of the Export Credit Facility and the Tranche B Export Credit Facility from Oi and (3) modify the maintenance covenants and the definitions related thereto in each of the Export Credit Facility and the Tranche B Export Credit Facility to conform such provisions to the corresponding terms of certain existing credit facilities under which Oi is a borrower and to provide that such calculations are made based on the financial statements of TmarPart.

On March 20, 2014, the agent under each of the Export Credit Facility and the Tranche B Export Credit Facility entered into a waiver letter pursuant to which the agent waived any and all of the defaults and events of default under each of the Export Credit Facility and the Tranche B Export Credit Facility that may be triggered by the Capital Increase and/or the Business Combination or any transaction executed as part of, or pursuant to, the Capital Increase and/or the Business Combination, which waiver will remain binding until June 30, 2014.

Proposed Business Combination with Oi and TmarPart Capital Increase and Other Steps

On February 20, 2014 we announced that definitive documents were signed that govern the steps necessary to implement the transaction that will culminate in the Business Combination.

On March 27, 2014, the shareholders of Portugal Telecom approved the participation of Portugal Telecom in the Capital Increase through the contribution of its operating assets and related liabilities, with the exception of the shares of Oi, Contax Participações S.A. and Bratel B.V. On March 27, 2014, the PT Assets Valuation Report relating to the Capital Increase was approved by the shareholders of Oi.

On April 28, 2014, the pricing of the Capital Increase occurred, and the final settlement is expected to occur on May 5, 2014. For more information about the final terms of the Capital Increase, including the common shares and preferred shares of Oi to be issued to Portugal Telecom, see "*Item 4 Information on the Company Our Businesses Proposed Business Combination with Oi and TmarPart Steps of the Business Combination Implementation of the Capital Increase.*"

Immediately after giving effect to the transfer to Oi of all of the shares of PT Portugal in exchange for the common and preferred shares of Oi to be issued to Portugal Telecom in the Capital Increase, which is expected to occur on May 5, 2014, our assets are expected to consist solely of (1) our interests in Oi, Contax Participações and our subsidiary Bratel B.V. and (2) cash and cash equivalents held by us and Bratel B.V. (including cash and cash equivalents that may be used to subscribe for the debentures described under "*Item 4 Information on the Company Our Businesses Proposed Business Combination with Oi and TmarPart Steps of the Business Combination Recapitalization of TmarPart*").

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Our Businesses

Portuguese Operations

We report our Portuguese operations as an operating segment, and break down the revenues reported in that segment by customer category as follows:

- *Residential services*, which include integrated networks inside the customer's home enabling the simultaneous connection of multiple devices, including fixed line telephones, TVs (including Internet Protocol Television and direct-to-home satellite Pay-TV services), game consoles, PCs, laptops, tablets and smartphones.

- *Personal services*, which are mobile telecommunications services, including voice, data and internet-related multi-media services across several access devices, such as mobile phones, smartphones and tablets, as well as wireless datacards and dongles (devices that attach to the USB port of a laptop/computer to provide mobile broadband service) for internet access.

- *Enterprise services, including Corporate and SME/SoHo services*, which provide our corporate and medium and small business customers with data and business solutions, as well as IT/IS and business process outsourcing (BPO) services, previously reported under the wireline and mobile segments:

  - *Corporate services,* which targets large companies and provides data, internet, video and voice communications, services, fixed-mobile convergence solutions and selected information technology services, network managing and outsourcing; and

  - *SME/SoHo services*, which targets (1) small and medium enterprises, or SMEs, providing vertical data and business solutions that are similar to our corporate services and (2) small office/home office, or SoHo, customers and provides cost-effective data and business solutions for those working in small businesses or at home.

- *Wholesale and other services*, which primarily include wholesale telecommunications services, public pay telephones, the production and distribution of telephone directories and other services in Portugal.

The following table sets forth the operating revenues of each of our major customer categories with our Telecommunications in Portugal segment for the years ended December 31, 2011, 2012 and 2013:

	Year Ended December 31,		
	2011	**2012**	**2013**
	(EUR Millions)		
Residential services	682.3	711.7	721.1
Personal services	768.4	688.1	655.2
Enterprise services	982.1	896.0	790.8
Wholesale, other and eliminations	459.2	404.7	392.5
Total consolidated operating revenues	2,892.0	2,700.5	2,559.6

For information about the effects of seasonality on our business, see "*Item 5 Operating and Financial Review and Prospects Overview Business Drivers and Measures Seasonality*."

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The following table sets forth the total number of retail lines (or accesses), net retail additions and other information as of the dates indicated for our Portuguese telecommunications segment:

	As of December 31,		
	2011	**2012**	**2013**
Fixed retail accesses (thousands):			
PSTN/ISDN(1)	2,648	2,604	2,549
Broadband customers	1,105	1,225	1,294
Pay-TV customers	1,042	1,223	1,315
Total fixed retail accesses	4,795	5,052	5,158
Mobile customers (thousands):			
Postpaid	2,378	2,469	2,925
Prepaid	5,066	5,129	4,971
Total mobile customers	7,444	7,598	7,896
Net additions (thousands):			
Fixed retail accesses:			
PSTN/ISDN	(48)	(43)	(55)
Broadband customers	104	119	69
Pay-TV customers	212	181	91
Total fixed retail accesses	268	257	105
Mobile customers:			
Postpaid	87	91	456
Prepaid	(63)	63	(158)
Total mobile customers	24	154	298
Other data:			
Data as percentage of mobile service revenues	27.7	32.6	36.5

(1) The public switched telephone network, or PSTN, is the traditional telephone system that runs through copper lines. The integrated digital services network, or ISDN, is the digital telecommunications network that allows simultaneous voice and data transmission over an access line.

Residential Customers

Our residential customer category provides fixed line telephone and broadband services, Pay-TV services (IPTV over ADSL and fiber and DTH satellite TV) services and internet access services to

residential customers. The table below sets forth the total number of retail lines (or accesses), net additions and other information as of the dates indicated.

	As of December 31,		
	2011	2012	2013
Fixed retail accesses (thousands):			
PSTN/ISDN	1,674	1,692	1,665
Broadband customers	911	1,015	1,049
Pay-TV customers	972	1,135	1,179
Total fixed retail accesses	3,557	3,841	3,892
Net additions (thousands):			
PSTN/ISDN	1	18	(27)
Broadband customers	102	104	34
Pay-TV customers	198	162	44
Total net additions	300	284	51
Other data:			
Unique customers	1,881	1,881	1,842
Retail RGU per PSTN/ISDN line	2.12	2.27	2.34
ARPU (EUR)	30.8	31.6	31.7
Retail traffic (millions of minutes)	2,848	2,935	2,748
Non-voice revenues as percentage of revenues	58.5	63.4	66.0

In 2013, residential retail accesses or retail revenue generating units, or RGUs, increased 1.3% compared to 2012, reaching 3,892 thousand, with Pay-TV and broadband accesses already accounting for 57.2% of total residential retail accesses as of December 31, 2013. Retail net additions reached 51 thousand, primarily as a result of growth of our *Meo* Pay-TV service, which accounted for 44 thousand net additions, bringing the total Pay-TV residential customers to 1,179 thousand, an increase of 3.8% from 2012. The fixed residential broadband customer base grew 3.3% from the previous year to 1,049 thousand customers with 34 thousand net additions due to continued growth in triple-play customers. Pay-TV and fixed broadband customers grew in spite of the continuing backdrop of a difficult economic environment and the already high penetration of Pay-TV. Residential fixed voice customers using PSTN/ISDN lines accounted for 27 thousand net losses, decreasing 1.6% to 1,665 thousand customers since 2012, continuing long-term trends among these customers as customers switch to mobile and/or bundled offers.

As a result of these factors, residential ARPU increased 0.3% to €31.7 in 2013 from 2012, notwithstanding Portugal's slow economic recovery, which led to some pressure on those services more exposed to the economic environment, such as premium and thematic channels, video-on-demand and other value-added services. Operating revenues in the residential customer category increased by 1.3% in 2013 to €721 million. Primarily as a result of our *Meo* triple-play service and our *M$_4$O* quadruple-play service described below, the weight of non-voice services to residential customers was 66.0% in 2013 (a 2.5 percentage point increase compared to 2012), and the weight of flat revenues was 89.1% (a 1.8 percentage point increase compared to 2012).

Pay-TV Services

Our television strategy is based on a multiplatform concept that aims to provide similar content and user experiences across television, PCs and mobile phones. Launched in 2008, *Meo* is our TV brand across the various platforms, primarily at home (through IPTV and satellite), through mobile telephones (through *Meo Go! Mobile*) or through personal computers (through *Meo Go!*). *Meo* provides access to a comprehensive content offering, with more than 160 TV channels and thousands of video-on-demand titles. We offer tiered packages of channels, as well as on-demand availability that can be subscribed for, in real time, directly through the TV set. *Meo* also provides access to advanced features, such as digital recording and pause live-TV. The set-top boxes in the *Meo* service are all HD-compliant, using MPEG4. We were the first operator in Portugal to introduce HDTV and have the most extensive video-on-demand offer in the market. At the end of 2013, *Meo* had 1,315 thousand customers and a 41.5% market share, according to ANACOM.

In January 2013, we announced the launch of a quadruple-play offer of converged fixed-mobile services by *Meo*, which includes TV, internet, fixed telephone and mobile telephone services under the brand M_4O. We designed this product after careful study of recent trends in the Portuguese market, which revealed rising consumer preference for quadruple-play services all reflected on the same invoice, a desire to include the entire family in a single plan, and the importance of high-quality connectivity to the internet. M_4O offers 120 TV channels, 100 Mbps broadband speed, unlimited calls and two to four mobile SIM cards, including free of charge calls and text messages to all wireline and wireless networks, using our 3G and 4G networks. The launch of M_4O enabled us to reach a household penetration of 1.7 million RGUs and to promote customer migration from prepaid to postpaid by approximately 190 thousand.

Meo continues to innovate and, in the first quarter of 2013, added a new exclusive channel, *Correio da Manhã TV*, in partnership with Cofina, the owner of several newspapers and magazines in Portugal, including *Correio da Manhã*. These channels are available on several screens, including PCs, smartphones and tablets, through the *Meo GO!* service. *Meo*'s content offering also includes thousands of video-on-demand titles and includes interactivity based on anchor programs (e.g., *Idols*, *Secret Story*, *Biggest Loser*). With respect to content, we continue to focus on the intensification of partnerships with content providers, on two-way collaborations to improve content quality, and on the renegotiation of existing content deals aimed at further adapting the content cost structure to the current environment and thereby generating savings in content costs.

Meo also offers advanced interactive applications accessed through the remote control and covering multiple categories, such as (1) News, including a personalized newscast app, developed in partnership with RTP, the state-owned free-to-air channel, and the *Sapo Kiosk* application featuring the daily covers of all local and several international newspapers and magazines, (2) Sports, including a soccer app, a surf app and specific sports channel applications, such as the *BenficaTV* app and the *SportTV* app, (3) Music, including *MusicBox*, a multiscreen music streaming service, *Meo Radios*, a radio streaming app, and *Meo Karaoke*, an application that offers *Meo* customers the ability to subscribe and sing from a wide catalog of local and international hits, (4) Kids, including a comprehensive children's portal where kids can access video-on-demand content, music clips, karaoke, games and tailored educational content, (5) Convenience, including apps for weather, traffic and pharmacies and (6) Personal content, including an online photo storage app. In 2012, *Meo* launched eight new apps of this type, including *Sapo Voucher*, the first interactive TV app allowing financial transactions and interactions with TV advertisements.

In line with our strategy for content differentiation through interactivity that *Meo* has been pursuing since its launch, we initiated two new "red button" interactive applications in the third quarter of 2013, linked to two popular TV programs in Portugal: (1) "X Factor," developed in partnership with SIC, and (2) "I love it", a youth TV series, developed in partnership with TVI. Leveraging the fourth edition of "Secret Story," a reality show on TVI, *Meo* launched an exclusive Secret Story channel in late September 2013, airing live 24 hours a day from the Secret Story house, with an interactive application that allowed customers to select the camera from which they wanted to follow contestants in the show and delivered exclusive content.

In January 2013, *Meo* also launched *Gravações Automáticas*, a recording feature that allows customers to record programs and access those recordings up to seven days after the programs were broadcast. We have also developed new and innovative interactive solutions, such as *MEO Energy*, a service for monitoring home energy consumption, which includes rate recommendations based on one's actual consumption profile and suggestions on how to lower a consumer's energy bill.

Meo marketing campaigns continue to draw attention in the Portuguese Pay-TV market. In the third quarter of 2013, *Meo* aired a new campaign, *Mundo Meo*, to strengthen its market position as an innovative brand. This campaign describes *Meo*'s key differentiating features: (1) *Meo Kanal*, an application that allows users to produce, edit and share multimedia user content on television with other *Meo* customers; (2) *Meo* Karaoke; (3) PVR-experience; (4) interactive apps, and (5) *Meo Music* (formerly *Music Box*), a music streaming service. Following our continuous investment in the *Meo* brand, in September 2013, *Meo* was awarded by *Meios e Publicidade*, an independent Portuguese specialized magazine, as the brand of the year.

Fixed Line Services

We had approximately 3,892 thousand fixed retail accesses in service as of December 31, 2013, excluding external supplementary lines, direct extensions and active multiple numbers. Within retail accesses, we report:

- traffic-generating lines held by subscribing customers;
- carrier pre-selection lines, which are lines of competitors for which those customers have elected to use our services;
- fixed broadband retail lines; and
- Internet Protocol Television, or IPTV, FTTH and DTH customers using our *Meo* Pay-TV services.

We cover 1.6 million homes in Portugal with our FTTH network. Our network, which is developed in urban areas, is a strategic investment to improve our competitiveness among residential customers, where we can offer distinctive Pay-TV and bundled offers.

Over the last decade, total traffic on our fixed line network has decreased, primarily because consumers have increasingly used mobile services instead of fixed line services and because of the migration of dial-up internet users to Asymmetric Digital Subscriber Lines, or ADSL. In fact, the number of active mobile cards (the mobile equivalent of main lines) exceeds the number of fixed line main lines in Portugal. We have responded to this trend by encouraging the use of our fixed line network for bundled services, including triple-play packages that include fixed telephone services, broadband internet access and Pay-TV services.

We are required to provide carrier selection to our customers for all kinds of traffic. See "*Regulation Portugal Areas of Recent Regulation and Updates Number Portability and Carrier Selection*." Carrier selection has been an additional factor that has contributed to the reduction in traffic on our network.

Components of Revenue

Our revenues from residential customers are derived from the following components:

- *Service revenues*, which are the revenues we generate from providing fixed telephone services, broadband internet access and Pay-TV services. These revenues generally consist of:
  - *Fixed charges*, including network access charges based on a monthly line rental and an initial installation fee, as well as, in most cases, a monthly fee from pricing packages, which can include broadband and Pay-TV services; and

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Traffic, including charges for the use of our fixed line network based on rates dependent on the amount and type of usage.

Sales and other revenues, which are revenues from the sale of telephone, broadband and Pay-TV equipment and other revenues, such as sales commissions.

Suppliers

For our fixed line network and Pay-TV services in 2013, we obtained telephones and equipment for our voice, broadband and Pay-TV services from several suppliers, including Novabase, Alcatel-Lucent and Motorola, and we obtain television content, including premium channels, from several national and international suppliers.

Personal Customers

We provide telecommunications and mobile data services for a variety of personal devices, including traditional cell phones, smartphones, tablets and laptops through our mobile business. We conduct our mobile business in Portugal through our wholly owned subsidiary MEO. MEO is the leading provider of mobile voice, data and internet services in Portugal in terms of the number of active mobile cards connected to its network, as well as by revenues and margins, based on information from the other operators' releases.

The following table sets forth the total number of mobile customers, net additions and other information as of the dates indicated.

	As of December 31,		
	2011	2012	2013
Mobile customers (thousands):			
Postpaid	1,064	1,093	1,533
Prepaid	4,868	4,931	4,797
Total mobile customers	5,932	6,024	6,330
Mobile broadband customers (included in total)	942	947	870
Net additions (thousands):			
Postpaid	42	30	440
Prepaid	(73)	62	(133)
Total mobile customers	(31)	92	306
Mobile broadband customers (included in total)	49	5	(77)
Other data:			
MOU(1) (minutes)	89	93	98
ARPU (Euro)	9.7	8.7	7.6
Customer	8.7	8.0	7.1
Interconnection	1.0	0.7	0.5
SARC(2) (Euro)	27.8	27.9	24.6
Data as percentage of service revenues	30.9	33.2	35.8

(1) Minutes of Usage, or MOU, represents the monthly average of outgoing traffic in minutes divided by the average number of users in the period.

(2)

Subscriber Acquisition and Retention Cost, or SARC, equals the sum of 70% of marketing and publicity costs *plus* commissions *plus* subsidies, divided by gross additions *plus* upgrades.

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In 2013, total mobile customers, including voice and broadband customers, increased 5.1% compared to 2012. In 2013, total mobile customers registered 306 thousand net additions due to MEO's performance in the postpaid market, with 440 thousand net additions in 2013 more than offsetting the 133 thousand net decrease in the prepaid market. This increase was a result of the strong performance of *M$_4$O*, and a portion of the decrease in the prepaid market was due to migration to postpaid service after the launch of *M$_4$O*. Flat-fee tariff plans represented 31.1% of total mobile customers in 2013, an increase of 8.2 percentage points compared to 2012. We received approximately 180 thousand portability requests from customers of our competitors in 2013, which we believe were driven primarily by our *M$_4$O* offering.

In 2013, although the number of mobile customers increased, customer revenues in the personal market decreased 6.6% to €524 million from 2012. The decline in customer revenues reflected lower and volatile recharges as a result of difficult economic conditions, price competition and migration to lower tariff plans. Aggressive pricing measures both in voice and wireless broadband continued to place pressure on retail tariffs and customer ARPUs. Customer revenues also reflected lower revenues derived from mobile broadband services against a backdrop of the high popularity of fixed broadband. Interconnection revenues decreased 27.1% to €35 million, contributing to a total service revenues decline of 8.2% in 2013. Mobile termination rates remained low at €1.27 as of December 31, 2013. In 2013, ARPUs in the personal market decreased 12.5% to €7.57 and customer ARPUs decreased 10.9% to €7.10, as compared to 2012. Non-voice revenues in service revenues increased to 35.8% in 2013, reflecting the solid performance of *internetnotelemóvel*.

Mobile Network

We provide mobile telephone services using the GSM, UMTS, and LTE technologies (2G, 3G and 4G, respectively). Within our GSM offering, we provide services in the 900 MHz and 1800 MHz band spectrums. GSM, UMTS and LTE are European and worldwide standards using digital technology.

In March 2012, ANACOM formally allocated to MEO rights to the following spectrum for 15 years following a multiband auction for the provision of electronic communications services based on LTE technology:

- 2 × 10 MHz in the 800 MHz band for a final price of €90.0 million;
- 2 × 14 MHz in the 1800 MHz band for a final price of €11.0 million; and
- 2 × 20 MHz in the 2.6 GHz band for a final price of €12.0 million.

MEO chose to pay these amounts in installments, as set forth in the auction regulation, which provided for an initial payment of two-thirds of the price, with the last third being distributed along a five-year period, covered by a bank guarantee valid for five years. This guarantee is released partially, on an annual basis, according to the payments made by MEO.

These rights are reflected in a license that includes and supersedes the previous GSM and UMTS licenses issued by ANACOM. The license imposes certain requirements on MEO, including the following:

- Mobile network obligations for 800 MHz: MEO must enter into agreements with Mobile Virtual Network Operators and national roaming agreements with operators with rights of use on frequencies greater than 1 GHz.
- Coverage obligations for 800 MHz: For each lot of 2 × 5 MHz in the 800 MHz band, MEO must cover a maximum of 80 municipal areas out of 480 municipal areas without adequate broadband coverage.

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A summary of the material provisions of the license is filed as Exhibit 4.4 to this annual report. For more information about our licenses, see " *Regulation Portugal Our Concession and Existing Licenses and Authorizations MEO's Mobile Service License.*"

We paid spectrum fees in 2013, 2012 and 2011 of €14 million, €15 million and €17 million, respectively, for the use of our 900 MHz and 1800 MHz GSM network and our UMTS network. These spectrum fees are recorded as an operating expense in our consolidated financial statements.

In addition, through roaming agreements, our subscribers can make and receive mobile calls throughout Europe and in many other countries around the world. Roaming agreements between operators allow their subscribers to make and receive voice calls automatically, send and receive data, or access other services when traveling outside the geographical coverage area of the home network, by using the networks of other operators abroad. As of the end of 2013, we had entered into GSM roaming agreements with a total of 631 operators (in 231 countries) and 312 UMTS roaming agreements (in 139 countries).

Personal Services

Our products and services include:

- a variety of voice and data tariff plans, both prepaid and postpaid, designed to integrate unlimited voice and data plans targeted at high-value postpaid customers and, in the prepaid market, to discourage migration to low-value tariff plans by offering additional voice and data services;
- a portfolio of approximately 50 smartphones, including exclusive handsets, with the capability to use an array of value-added and convergent services (mobile TV, music on demand, navigation app, social network aggregator, cloud storage, etc.); and
- mobile broadband offers of up to 150Mbps speed, using 4G technology and offering free access to our national Wi-Fi network.

We were the first operator in the world to offer prepaid services, and our prepaid and discount products remain popular. As of December 31, 2013, approximately 75.8% of our subscribers were using prepaid products.

We launched a 4G offering was launched in 2012, and we continuously invest in new services. Our 4G offering currently allows:

- speeds of up to 150Mbps,
- access to live TV channels through *Meo Go!*, a service that allows access to live TV channels on PCs, tablets and smartphones,
- a music streaming service through *Meo Music*, a multiplatform music streaming service, providing access to a catalog of millions of music tracks, which recently underwent a platform upgrade,
- *Multi-SIM*, for sharing of traffic among various devices, including PCs, through wireless dongles, tablets and smartphones and
- *Meo Drive*, a navigation app available in iOS and Android Marketplaces.

At launch in March 2012, our 4G service was available to 20% of the Portuguese population and was expanded to 93% of the population by the end of 2013. We market our 4G mobile broadband services through MEO's 4G and *Meo 4G* brands. These offerings range in speed from 50Mbps to 150Mbps, with monthly retail prices starting €34.99 (with discounts for early subscribers under a month loyalty program) and include

Meo Music for free. MEO 4G or *Meo 4G* customers that are also *Meo* customers have free access to more than 60 live TV channels through the *Meo Go* service.

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In January 2013, following the launch of the M_4O quadruple-play offering, MEO repositioned its voice and data tariff plans. In the postpaid category, unlimited plans now have four different price points, or sizes: (1) the *unlimited S*, for €15.9 per month, offers 600 MB of mobile internet (*internetnotelemóvel*), unlimited Wi-Fi access plus 100 minutes or SMS on all other networks; (2) the *unlimited M*, for €29.90 per month, offers 1GB of mobile internet, unlimited Wi-Fi access plus unlimited voice and SMS, and 120 minutes or SMS on all other networks; (3) the *unlimited L*, for €39.90 per month, offers 1GB of mobile internet and unlimited Wi-Fi plus unlimited voice and SMS on all other networks; and (4) the *unlimited XL*, for €69.90 per month, offers 5GB of mobile internet and unlimited Wi-Fi access plus all net unlimited voice and SMS. All of these plans include the *Meo Music*, which is otherwise priced at €4.99 or €6.99 per month, depending on whether it is an existing MEO customer.

In the prepaid market, MEO extended the all-day version of the "*e nunca mais acaba*" tariff plan to include unlimited all-day voice and SMS for MEO and fixed networks, while being able to apply, monthly, the equivalent of €20.00 toward voice minutes and SMS on other mobile networks. This tariff plan also includes unlimited in-network video calls and can be configured with a 500 MB mobile internet option for €25.00 per month. MEO also extended the *Moche* offering, for customers younger than 25 years of age, to include 1GB of mobile internet in the case of the monthly fee, and if the customer recharges the card with at least €11.00. The *Moche* tariff plans also include SMS options with respect to other networks. These changes in MEO's tariff structure were in response to price movements in the market and were aimed at maintaining MEO's competitive position in the market.

Components of Revenue

Our revenues from personal services are derived from the following components:

- *Service revenues*, which are the revenues we generate from providing mobile voice telecommunications services, mobile broadband access and other mobile services. These service revenues can be further broken down into:
  - *Customer revenues*, which are revenues we receive directly from our customers and consist primarily of traffic charges, subscription and usage charges; and
  - *Interconnection revenues*, which are the revenues we receive from other telecommunications providers when their customers make calls or otherwise connect to our network from fixed lines or mobile devices.
- *Sales and other revenues*, which are revenues from the sale of mobile phones and related equipment.

We believe that mobile services in Portugal are priced lower than the European average and are among the lowest in Europe. Fixed-to-mobile and mobile-to-mobile interconnection charges are regulated by ANACOM and have a significant impact on our business. Since 2005, when ANACOM declared all mobile operators to have significant market power in call termination in mobile networks market, ANACOM has accordingly imposed price controls on interconnection rates for the termination of calls on mobile networks. Interconnection rates have been reduced steadily since then. ANACOM has issued successive decisions that have reduced mobile termination rates over time. Most recently, in March 2012, ANACOM issued a final decision reducing mobile termination rates progressively to €0.0127 by December 2012. These reductions have had, and are expected to continue to have, a significant impact on our interconnection revenues and consequently our cash flows and earnings.

Suppliers

We do not manufacture handsets, but we have agreements with a number of manufacturers to sell handsets in Portugal, including Nokia, Samsung, ZTE, Huawei, Apple, Sony, LG and RIM.

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Marketing

In 2012, we divided the marketing strategy for our personal segment into two key brands. We expect to use *Meo*, the primary and pre-existing brand, a leader in mobile telecommunications in Portugal, to serve the broader market and focuses on the growth of our postpaid base through dedicated tariff plans and attractive pricing policies in smartphones. We developed *Moche*, our new youth brand, to encourage a broad-based use of mobile internet. *Moche* employs a different business model and is supported by a new brand positioning and values and is tailored to the target youth demographic. We market personal services through more than 3,179 points of sale, including our sales force, retail shops, supermarket chains and independent dealers.

On January 27, 2014, we announced that all services rendered by TMN would be provided under the *Meo* brand and that TMN had changed its corporate name to MEO Serviços de Comunicações e Multimédia, S.A. This change is part of our convergence strategy and builds on our 2013 launch of M_4O.

We also have a low-cost brand, Uzo that targets low-cost subscribers and uses our GSM network. Uzo focuses primarily on selling SIM cards and low-cost mobile phones to its customers. Uzo's products and services are offered through the internet, Uzo's call centers (which are separate from MEO's call centers) and independent news stands and shops located throughout Portugal.

Enterprise Customers

We provide enterprise services to corporate, SMEs and SoHo customers that need diversified telecommunications solutions and integration with IT services. We have developed a full range of telecommunications services for businesses, and we integrate these services to provide our customers with service packages. By combining our communications capabilities with our software-based integrated systems and applications, we offer integrated voice, data and image solutions, virtual private networks, convergence solutions, consultancy and outsourcing. We aim to grow our revenue base beyond connectivity and legacy services by seeking ICT opportunities, including cloud, outsourcing and BPO, using our platform of advanced solutions for companies and data center investments to meet demand for high bandwidth services and virtualization. We believe we are the primary service provider in Portugal capable of offering customers a full range of integrated and customized services.

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The table below sets forth the total number of retail lines (or accesses), net retail additions and other information as of the dates indicated.

	As of December 31,		
	2011	**2012**	**2013**
Fixed retail accesses (thousands):			
PSTN/ISDN	826	725	701
Broadband customers	193	207	242
Pay-TV customers	68	86	134
Total fixed retail accesses	1,087	1,019	1.077
Mobile customers (thousands)	1,445	1,514	1.516
Net additions (thousands):			
Fixed retail accesses:			
PSTN/ISDN	(46)	(101)	(24)
Broadband customers	2	15	35
Pay-TV customers	14	18	47
Total fixed retail accesses	(30)	(68)	59
Mobile customers	56	69	2
Other data:			
Retail RGU per access	1.32	1.41	1.54
ARPU (EUR)	25.8	23.8	21.3
Non-voice revenues as percentage of revenues	46.4	50.3	54.4

In 2013, operating revenues in the enterprise category decreased by 11.7% to €791 million compared to 2012. The revenue performance in the enterprise category has continued to be affected by current economic conditions, including (1) the government agencies' strong cost-cutting initiatives and significant reductions in investments in new projects, (2) cost-reduction initiatives by large corporations, particularly in banking, other financial services and pharmaceuticals and (3) competitive dynamics that are affecting the pricing environment, especially in mobile services. Notwithstanding this economic backdrop, we remained a leader among both large corporations and SMEs, anchored by our distinctive products and services in both markets. In 2013, non-voice services represented 54.4% of enterprise retail revenues, which increased by 4.1 percentage points as compared to 2012.

In 2013, fixed retail customers of the enterprise category numbered 1,077 thousand, representing an increase of 59 thousand as compared to 2012. This performance included 24 thousand net fixed line disconnections, which resulted from (1) the migration of large corporations from classic PSTN/ISDN services to VoIP services, which require fewer lines per customer, (2) the level of insolvencies in the SME market and (3) fixed-to-mobile migration. Broadband and Pay-TV net additions increased as a result of upselling additional services to SMEs.

In 2013, competitive pressure led to an even more significant price declines than in the past, which were most visible in mobile voice. Notwithstanding the competitive backdrop and adverse economic conditions, fixed revenues from small and medium size businesses increased for the second consecutive quarter in the fourth quarter of 2013, partially offsetting the decline in our mobile revenues. We have developed several key initiatives in the fourth quarter of 2013, such as the reinforcement of our IT/IS/Cloud strategy, with initial partnerships and contracts established with key customers and the simplification of our offer and streamlining of sales processes for VoIP solutions and unified communications. We will also seek to leverage our new Data Center described below to support a differentiated cloud computing offering for companies in close cooperation with industry partners.

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Services

Our enterprise services include:

- *Network and voice services*, which include fixed voice services, fixed and mobile convergence services, broadband data, Ethernet services, digital leased lines and VSAT services, business high band fiber-based internet, VPN accesses and applications, and global services for multinational customers.

- *IT services*, which include data center services (such as housing and hosting), cloud-based solutions (primarily public and private virtual servers, remote backup and storage, hosted e-mail and web hosting), security managed services based on a Security Operations Center, business continuity services and disaster recovery, IT infrastructure outsourcing and IT and security consultancy.

- *Business solutions and applications*, which include unified communications, IP Centrex and voice servers, digital signage Corporate TV, messaging and interaction solutions, business video communications and telepresence solutions, machine-to-machine managed connectivity and vertical end-to-end solutions, business process outsourcing (BPO), vertical solutions for special business market customer categories (health care, the public sector), special bundling services for small and medium-size enterprises, using the "Office Box" brand name, and outsourcing.

We provide these services to our enterprise customers using a three-tiered approach: (1) *Residential+* customers, with an offering based on the convergence of voice and broadband services, (2) *Connected+* customers, served mainly with multi-employee connectivity services, including mobility solutions for traveling employees, and simple software solutions and (3) *Integrated+* customers, served with a full range of telecommunications and technological services, such as unified communications, outsourcing of ICT services, application integration, machine-to-machine and specific IT/IS solutions, BPO and IT consultancy.

The provision of services to our corporate customers is guided by the following strategic objectives: (1) maximize value from traditional telecommunications services by upselling additional services, including fixed-mobile convergence on FTTH, VPN, LAN management and video services, (2) IT transformation accelerated by cloud computing, where we aim to build upon partnerships with key suppliers to enable business process transformation and cost reductions to our corporate customers, with a special focus on "system on a chip," or SOC, based security solutions, (3) capture mobile data growth through 4G-based solutions and new machine-to-machine projects, (4) use specialization to achieve gains from scale, including by focusing on outsourcing and BPO to improve productivity and (5) introduce a business consulting approach in order to extend the services provided to corporations to video, multiscreen and other convergent services.

As part of our enterprise services, we provide a broad offer of integrated and vertical solutions. We continue to market our *Office-box* product for SMEs, which allows integrated solutions with one bill and on a pay-per-employee basis bundling voice and data communication needs: (1) connectivity: mobile and fixed voice and broadband, (2) devices: PCs, phones and mobile phones, routers and switches and (3) mobility: cloud solutions including customized domains, e-mail accounts, hosting sites and optional software. We provide vertical solutions through our *Office-box* product which includes tailored software systems for health clinics, restaurants, hotels, including access to an online marketing and booking system and a full suite of hotel-management software. For large corporations, we provide (1) integrated solutions, bundling customized connectivity and IT needs coupled with dedicated account managers, and (2) a unified communications integrated offering without requiring capital expenditures on a pay-per-employee basis, including a flat voice rate, customer equipment and a full set of collaboration functionalities. Our secure cloud offering provides a broad portfolio of services, including (1) web services, such as webhosting, instant website, database hosting and e-mail relay, (2) security

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services, comprising e-mail security, remote backup, video surveillance and clean pipes, and (3) IT resources, including remote desktop, public and private servers, SAP HANA and virtual drives. We have developed this end-to-end offering with strategic partnerships that enable us to leverage our technological skills and integration capacity in key markets in Portugal, Brazil and Africa.

The IT and business process outsourcing for corporate customers leverages PT SI, a wholly-owned subsidiary of PT Portugal, which provides an integrated ICT service and IT/IS outsourcing capabilities, and PT Pro, Serviços Administrativos e de Gestão Partilhados, S.A., or PT PRO, a wholly owned subsidiary of PT Portugal, which allows the provision of BPO and shared services. See " *Shared Services Companies*."

Networks

We provide services over the largest IP/MPLS backbone in Portugal. We have points of presence in all major cities throughout Portugal, and we link our network to our customers' premises through switches and access points that we own. This broadband data transmission network provides high capacity, flexibility and security and can progressively incorporate current voice and data infrastructures at lower costs than alternative networks. We also provide high speed internet access through ADSL and Ethernet.

Partnerships and Suppliers

We have a strong and competitive position in the development of information technology solutions where communications are an integral part of the services provided. To reinforce our position as a leader in this area, we are pursuing a partnership strategy with the primary information technology suppliers in the market, particularly software and hardware providers.

We offer services in partnership with leading operators and service providers such as Telefónica, British Telecom and Orange. We use systems and networks in partnership with Nokia Solutions and Networks Portugal, Alcatel-Lucent, Ericsson, Huawei, Cisco Systems, Nortel Networks, Critical Software, Microsoft and SAP, among others.

In 2012, we pursued partnerships with Microsoft and SAP, and in 2013 with Ericsson towards developing, implementing and continuously launching new services in our cloud computing offer, *SmartCloudPT*, which is intended to help companies adopt more efficient business models by reducing costs related to information technology.

Data Centers and Systems Integration Services

On September, 23, 2013, we opened a new data center in Covilhã, Portugal. Our data center network now consists of seven data centers located in Lisbon, Oporto, the Azores, Madeira and Covilhã. The opening of the data center in Covilhã, a large, efficient and sustainable facility, is the culmination of five years of transforming our cultural, technological and business model. The center provides the base infrastructure for offering solutions that will serve the needs of national and international individuals and businesses, and we believe it marks a milestone in our transformation into a global operator. Against the backdrop of exponential growth in global data usage, we believe the Covilhã data center provides us with the technological means to respond to what customers want: coverage, speed, reliability and security.

The opening of the data center in Covilhã also represents a boost for Portuguese technology and growth of cloud solutions in Portugal. We entered into a partnership with the University of Beira Interior, and we are committed to attracting start-ups and technology companies into the region in order to build an ecosystem of technological development that will turn our data center initiatives into an engine for business growth.

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The Covilhã data center occupies a total area of 75,500 square meters and increases the total IT room space from 14,000 square meters to 26,000 square meters, the number of servers from 6,000 to 56,000, capacity storage from 3 Pbytes to 33 Pbytes. This data center is connected to our backbone network (100 Gbps), enabling the export of data storage capacity and technological services abroad. From a sustainability and energy efficiency point of view, the data center saves 144 thousand tons of CO_2 and 40% in energy consumption, while using environmentally responsible cooling (free cooling) systems for 99% of the year and solar energy.

Components of Revenue

Our revenues from enterprise services include:

- traffic charges for voice and data services;
- outsourcing or management services and fees for business process outsourcing (BPO); and
- consultancy fees.

Wholesale and Other Services

In addition to the services we provide in our primary customer categories of residential services, personal services and enterprise services, we provide wholesale services and generate a small amount of revenue from other activities, such as the production and distribution of telephone directories. We report revenues from these services and products, together with eliminations in consolidation for transactions among our residential, personal and enterprise customers, as "Wholesale, other and eliminations" in our consolidated financial statements.

Wholesale Services

Wholesale services provided €453.0 million, €472.7 million and €466.5 million to our wireline operating revenues in 2013, 2012 and 2011, respectively. Our wholesale services consist of:

- domestic and international interconnection telephone services that we provide to other telecommunications operators in Portugal;
- provision of carrier pre-selection and number portability;
- leasing of domestic and international lines to other telecommunications services providers and operators;
- provision of ADSL (including "naked" DSL) on a wholesale basis to other ISPs;
- provision of unbundled access (including shared access) to metallic loops and sub-loops to provide broadband and voice services to other telecommunications operators in Portugal;
- provision of wholesale line rental to other telecommunications service providers in Portugal;
- provision of co-location services and access to ducts, poles and associated facilities to other telecommunications operators in Portugal;

transmission of television and radio signals for major broadcast television companies in Portugal;

narrowband internet access origination services, which we provide to ISPs;

international carrier services (transport, transit and/or termination) for international switched traffic; and

other services provided to telecommunications services providers and operators, such as IP international connectivity.

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Interconnection Traffic. Interconnection traffic comprised about 40% of our wholesale business in terms of revenues in 2013. The service providers who purchase interconnection services include fixed and mobile network operators, voice and data communications service providers, ISPs, value-added service providers and service providers whose international calls are terminated on or carried by our network. Providing interconnection services means allowing third parties to connect their networks to our network, and vice versa. We have interconnection rates primarily for call termination, call origination, transits and international interconnection.

Interconnection Prices. Domestic interconnection revenue per minute for calls terminated on our network decreased around 72% as of October 2013, from €0,0040 to €0,0011. International interconnection revenue per minute for wholesale operators' outgoing traffic decreased by 18% in nominal terms in 2013 compared to 2012 and decreased by 8% in 2012 compared with 2011. In accordance with EU and Portuguese regulations, our national interconnection prices are cost-oriented, applying a pure Bottom Up Long-Run Average Incremental Cost, or BU-LRIC, cost model for call termination.

Leased Lines. We lease lines to other telecommunications providers for fixed, mobile and data communications services, including our own subsidiaries and competitors. Leased line services involve making a permanent point-to-point connection with dedicated and transparent capacity between two geographically separate points. We offer both national terminating segments and trunk segments at the wholesale level. We also lease international circuits to national and international operators to allow them to complete their circuits (often circuits that pass through Portugal linking other countries), and we sell segments of international circuits to international operators. The three current mobile telephone operators in Portugal, which include our subsidiary MEO, Vodafone Portugal and ZON Optimus, are among our wireline business's largest leased line customers.

Telephone Directories

We subcontract to Páginas Amarelas for the publication and distribution of telephone directories throughout Portugal in return for an annual payment of approximately 78% of its gross revenues from the sale of advertising space. Our revenues from our directories business amounted to €25.2 million, €34.7 million and €45.9 million in 2013, 2012 and 2011, respectively. We completed the disposal of our 25% interest in Páginas Amarelas to a third party in January 2014.

Digital Terrestrial Television Services

In 2008, pursuant to the European Commission's proposal to cease analog transmissions in all member states by 2012, ANACOM launched a public tender to grant the rights of use of frequencies allocated to the transmission of digital terrestrial television, or DTT, signals. Following a public tender launched by ANACOM in 2008, our subsidiary PT Comunicações was granted the frequency usage rights for DTT associated with the transmission of the signal for free-to-air television programs (the RTP, SIC and TVI broadcast channels), the so-called "Multiplex A" or "Mux A." In 2009, the Portuguese media regulatory authority (*Entidade Reguladora para a Comunicação Social*, or ERC) notified us of its final decision to grant us a license to act as a TV distribution operator. Although ANACOM has revoked the rights of use of the frequencies which are necessary to use this license, the license remains valid.

We launched DTT (using DVB-T, or terrestrial signals) in 2009, initially covering 29 municipalities and over 40% of the population. By the end of 2011 we achieved 100% coverage of the Portuguese population (approximately 90% using DVB-T and 10% using DVB-H (satellite)). The switch-off of the analog television network in Portugal occurred on April 26, 2012.

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DTT only encompasses broadcasting of free-to-air television programs, while our *Meo* offer comprises both free-to-air television programs, as well as Pay-TV channels, being provided over FTTH, ADSL and DTH technologies.

Other Revenues

We also record revenue from providing public pay telephone services, advertising on www.sapo.pt, our internet portal, contractual penalties imposed on customers and rentals of equipment and other infrastructure.

Brazilian Operations (Oi)

Announced Business Combination

In 2011, we entered into a strategic partnership with Oi, Brazil's largest telecommunications group, and we hold a significant interest in Oi. Under the governance arrangements of Oi reflected in a series of shareholder agreements described below, we have a significant role in determining, among other things, the operational strategy of Oi.

On October 1, 2013, we entered into a Memorandum of Understanding with Oi, AG Telecom, LF Tel, PASA, EDSP75, Bratel Brasil and, together with AG Telecom, LF Tel, PASA, EDSP75 and TmarPart, the Oi Holding Companies, Avistar, SGPS, S.A., or Avistar, a shareholder of Portugal Telecom and an affiliate of Banco Espírito Santo, S.A., or BES, and Nivalis Holding B.V., a shareholder of Portugal Telecom and an affiliate of RS Holding, SGPS, S.A., or Nivalis, with respect to the proposed Business Combination of the businesses of Portugal Telecom, Oi and the Oi Holding Companies into TmarPart. We and Oi announced the Business Combination on October 2, 2013. Pursuant to the Business Combination, among other things, Oi is expected to become the owner of the interests in the companies that hold all of (i) our operating assets except interests held directly or indirectly in Oi, Contax Participações and Bratel B.V. and (ii) our liabilities at the time of contribution and a wholly owned subsidiary of TmarPart, and we are expected to merge with and into TmarPart with TmarPart as the surviving company. See "*Item 4 Information on the Company Our Businesses Proposed Business Combination with Oi and TmarPart.*"

Overview

Oi is one of the principal integrated telecommunications services providers in Brazil, based on information available from ANATEL regarding the total number of Oi's fixed lines in service and mobile subscribers as of December 31, 2013, and one of the principal telecommunications services providers offering "quadruple-play" services in Brazil. Oi offers a range of integrated telecommunications services including fixed line and mobile telecommunications services, network usage (interconnection), data transmission services (including broadband access services), Pay TV (including as part of double-play, triple-play and quadruple-play packages), internet services and other services for residential customers, small, medium and large companies, and governmental agencies.

Oi's concessions and authorizations from the Brazilian government allow it to provide:

- fixed line telecommunications services in Region I and Region II;
- long-distance telecommunications services throughout Brazil;
- mobile telecommunications services in Region I, Region II and Region III;
- data transmission services throughout Brazil; and
- direct-to-home (DTH) satellite television services throughout Brazil.

In addition, Oi has authorizations to provide fixed line local telecommunications services in Region III.