OFFERING CIRCULAR Dated 1 June 2012



## Portugal Telecom International Finance B.V.

(a private company with limited liability incorporated under the laws of The Netherlands, and having its corporate seat in Amsterdam, The Netherlands)

### Portugal Telecom, SGPS, S.A.

(incorporated with limited liability under the laws of the Portuguese Republic)

### **€7,500,000,000** Euro Medium Term Note Programme

With the benefit of a Keep Well Agreement (where the Issuer is PTIF) given by PORTUGAL TELECOM, SGPS, S.A.

(incorporated with limited liability under the laws of the Portuguese Republic)

and with the benefit of a Keep Well Agreement (where the Issuer is PTIF) given by

#### PT COMUNICAÇÕES, S.A.

(incorporated with limited liability under the laws of the Portuguese Republic)

On 17 December 1998 Portugal Telecom International Finance B.V. ("PTIF") established a £2,000,000,000 Global Medium Term Note Programme (the "Original Programme") and issued an Offering Circular on that date describing the Original Programme. PTIF amended the Original Programme and the maximum nominal amount of outstanding Notes (as defined below) was increased to £7,500,000,000 pursuant to an Offering Circular dated 7 November 2006 and the Original Programme was further amended pursuant to Offering Circulars dated 17 December 2008 and 16 June 2011. This Offering Circular has been prepared in connection with the £7,500,000,000 Euro Medium Term Note Programme (the "Programme") and supersedes any previous Offering Circular and is valid for a period of one year from the date hereof.

Pursuant to the Programme (International Content of the Programme (International Content of the Programme (International Content of the Programme, PTIF and Portugal Telecom, SGPS, S.A. ("PT") (each an "Issuer" and together the "Issuers") may from time to time issue Notes (the "Notes") denominated in any currency agreed between the relevant Issuer and the relevant Dealer (as defined below). Any Notes issued under the Programme on or after the date of this Offering Circular are issued subject to the provisions described herein. This does not affect any Notes issued prior to 20 December 2000, which have the benefit of a deed of purchase of indebtedness given by PT.

PTIF has the benefit of a Keep Well Agreement between PT and PTIF and a Keep Well Agreement between PT Comunicações, S.A. ("PTC") and PTIF (together the "Keep Well Agreements" and each a "Keep Well Agreement") (PT and PTC are each a "Keep Well Provider" and together, the "Keep Well Providers") as more fully described in "Relationship of Portugal Telecom International Finance B.V. with Portugal Telecom, SGPS, S.A. and PT Comunicações, S.A.".

Notes may be issued by PTIF in bearer or registered form (respectively "Bearer Notes" and "Registered Notes") and in book-entry form by PT ("Book Entry Notes"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €7,500,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

Notes may be issued on a continuing basis to one or more of the Dealers specified under "Overview of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuers (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes or, in the case of a syndicated issue of Notes, the Lead Manager of such issue, as the case may be.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "Risk Factors".

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Applications have been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's regulated market. References in this Offering Circular to Notes being listed (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the "Markets in Financial Instruments Directive"). Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of Notes will be set out in a final terms supplement (the "Final Terms") which, with respect to Notes to be listed on the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the relevant Issuer and the relevant Dealer. Each Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

See "Form of the Notes" for a description of the manner in which Notes will be issued.

The relevant Issuer may agree with any Dealer and Citigroup Trustee Company Limited (the "Trustee") that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplement to the Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Each Issuer and the Programme have been rated BBB by Fitch Ratings Ltd., Ba2 by Moody's Investors Service España SA and BB+ by Standard & Poor's Credit Market Services France SAS. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

As at the date of this Offering Circular, each of the rating agencies Fitch Ratings Ltd., Moody's Investors Service España SA and Standard & Poor's Credit Market Services France SAS is established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation").

Any person (an "Investor") intending to acquire or acquiring any securities from any person (an "Offeror") should be aware that, in the context of an offer to the public as defined in section 102B of the Financial Services and Markets Act 2000 ("FSMA"), PT may be responsible to the Investor for the Offering Circular under section 90 of FSMA, only if PT has authorised that Offeror to make the offer to the Investor Each Investor should therefore enquire whether the Offeror is so authorised by PT. If the Offeror is not authorised by PT, the Investor should check with the Offeror whether anyone is responsible for the Offering Circular for the purposes of section 90 of FSMA in the context of the offer to the public, and, if so, who that person is. If the Investor is in any doubt about whether it can rely on the Offering Circular and/or who is responsible for its contents it should take legal advice.

The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under CRA Regulation will be disclosed in the applicable Final Terms.

Global Arranger **BofA Merrill Lynch** Domestic Arrangers

Banco BPI, S.A. Espírito Santo Investment

Dealers

Caixa Geral de Depósitos, S.A. Millennium investment banking

Banco Bilbao Vizcaya Argentaria, S.A. Barclays **BNP PARIBAS** Caixa Geral de Depósitos, S.A. Crédit Agricole CIB Espírito Santo Investment Bank HSBC Mizuho International plc

Banco BPI, S.A. **BB Securities BofA Merrill Lynch** Citigroup **Deutsche Bank Goldman Sachs International** Millennium Investment Banking **Morgan Stanley** 

**UBS Investment Bank** 

### http://www.oblible.com

This Offering Circular comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "Prospectus Directive") to the extent such amendments have been implemented in a relevant Member State of the European Economic Area. This Prospectus comprises a base prospectus with regard to each of (i) PT and each of its subsidiary undertakings (the "PT Prospectus") and (ii) with the exception of the information contained in the section entitled "Summary of the Programme", PTIF (the "PTIF Prospectus").

PTIF and each Keep Well Provider accepts responsibility for the information contained in the PTIF Prospectus. To the best of the knowledge and belief of PTIF and each Keep Well Provider (each having taken all reasonable care to ensure that such is the case) the information contained in the PTIF Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

PT accepts responsibility for the information contained in the PT Prospectus. To the best of the knowledge and belief of PT (having taken all reasonable care to ensure that such is the case) the information contained in the PT Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Offering Circular in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or the Managers as the case may be.

AN INVESTOR INTENDING TO ACQUIRE OR ACQUIRING ANY NOTES FROM AN OFFEROR WILL DO SO, AND OFFERS AND SALES OF THE NOTES TO AN INVESTOR BY AN OFFEROR WILL BE MADE, IN ACCORDANCE WITH ANY TERMS AND OTHER ARRANGEMENTS IN PLACE BETWEEN SUCH OFFEROR AND SUCH INVESTOR INCLUDING AS TO PRICE, ALLOCATIONS AND SETTLEMENT ARRANGEMENTS. THE ISSUER WILL NOT BE A PARTY TO ANY SUCH ARRANGEMENTS WITH INVESTORS (OTHER THAN THE DEALERS) IN CONNECTION WITH THE OFFER OR SALE OF THE NOTES AND, ACCORDINGLY, THIS OFFERING CIRCULAR AND ANY FINAL TERMS WILL NOT CONTAIN SUCH INFORMATION. THE INVESTOR MUST LOOK TO THE OFFEROR AT THE TIME OF SUCH OFFER FOR THE PROVISION OF SUCH INFORMATION. THE ISSUER HAS NO RESPONSIBILITY TO AN INVESTOR IN RESPECT OF SUCH INFORMATION

Copies of Final Terms will be available from the registered office of the relevant Issuer and the specified office set out below of each of the Paying Agents (as defined below).

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular. The content of any websites referred to herein are neither incorporated in nor form part of this Offering Circular.

None of the Dealers nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by either Issuer or PTC in connection with the Programme. None of the Dealers nor the Trustee accept any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by either Issuer or (if relevant) either keep well Provider in connection with the Programme.

No person is or has been authorised by either Issuer or (if relevant) either Keep Well Provider or the Trustee to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by either Issuer and/or (if relevant) either Keep Well Provider or any of the Dealers or the Trustee.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by either Issuer andlor (if relevant) either Keep Well

Provider or any of the Dealers or the Trustee that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the relevant Issuer and PTC. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of either Issuer and/or (if relevant) either Keep Well Provider or any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale, or delivery of any Notes shall in any circumstances imply that the information contained herein concerning either Issuer andlor (if relevant) either Keep Well Provider is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of either Issuer or PTC during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, inter alia, the most recently published interim financial statements (if any) of PT and, if applicable, PTIF and PTC (as and when published), as well as all published audited annual financial statements of PT and, if applicable, PTIF and PTC and, if published later, the most recently published documents incorporated by reference into this Offering Circular, when deciding whether or not to purchase any Notes.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. (see "Subscription and Sale" below).

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the regulations promulgated thereunder.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuers, PTC, the Dealers nor the Trustee represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, PTC, the Dealers or the Trustee which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom, Portugal, Spain and The Netherlands) and Japan (see "Subscription and Sale" below).

In making an investment decision, investors must rely on their own examination of the relevant Issuer, each Keep Well Provider (if relevant) and the terms of the Notes being offered, including the merits and risks involved.

None of the Dealers, the Issuers, PTC and the Trustee makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

All references in this document to **U.S. dollars**, **U.S.\$** and \$ refer to the currency of the United States of America, to **euro** and € refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the functioning of the European Union, as amended, references to **real**, **reais** or **R\$** refer to Brazilian Reais, to **Japanese Yen**, **Yen** and ¥ refer to the currency of Japan and to **Sterling** and £ refer to the currency of the United Kingdom.

#### FORWARD LOOKING STATEMENTS

Certain statements contained or incorporated by reference in this Offering Circular, including those statements contained under the captions "Portugal Telecom" and "General Information" are not statements of historical fact and are "forward looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such statements can be generally identified by the use of forward looking terms such as "believes", "estimates", "expects", "should", "may", "will", or "anticipates", the negatives of such terms, or comparable terms or by discussions of strategy that involve risks and uncertainties. In addition to the statements contained in this Offering Circular, PT (or directors or executive officers of PT authorised to speak on behalf of PT) from time to time may make forward looking statements, orally or in writing, regarding PT and its business, including in press releases, oral presentations, filings under the Securities Act, the Exchange Act, or securities laws of other countries, and filings with the Commission, the New York Stock Exchange or other stock exchanges.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although PT makes such statements based on assumptions that PT believes to be reasonable, there can be no assurance that actual results will not differ materially from PT's expectations. Many of the factors that will determine these results are beyond PT's ability to control or predict. PT does not intend to review or revise any particular forward-looking statements referenced in this Offering Circular 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 Offering Circular or in any of PT's filings with the Commission, among other things, could cause PT's results to differ from any results that might be projected, forecast or estimated by PT in any such forward-looking statements:

- material adverse changes in economic conditions in Portugal or Brazil;
- exchange rate fluctuations in the Brazilian Real and the U.S. dollar;
- risks and uncertainties related to national and supranational regulation;
- increased competition resulting from further liberalisation of the telecommunications sector in Portugal and Brazil;
- the development and marketing of new products and services and market acceptance of such products and services; and
- the adverse determination of disputes under litigation.

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General Information

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

#### SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Offering Circular in respect of issues by PT and any decision to invest in any Notes should be based on a consideration of this Offering Circular as a whole, including any documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area, no civil liability will attach to the Responsible Persons in any such Member State in respect of this Summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Offering Circular. Where a claim relating to information contained in this Offering Circular is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Offering Circular before the legal proceedings are initiated.

Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" shall have the same meanings in this summary.

Issuers: Portugal Telecom International Finance B.V. (for the purposes of Notes to

be issued pursuant to the PTIF Prospectus only, of which this summary

does not form part); and

Portugal Telecom, SGPS, S.A.

Keep Well Providers: Where the Issuer is PTIF, Portugal Telecom, SGPS, S.A. and PT

Comunicações, S.A.

Risk Factors: There are certain factors that may affect the relevant Issuer's ability to fulfil

its obligations and/or, where the Issuer is PTIF, each of the Keep Well Providers' ability to fulfil its obligations under the Keep Well Agreements. These are set out under "Risk Factors" below and include risks related to the specific nature of each Issuer, shareholder structure, ratings, market conditions, competition in the telecommunications industry, market development, European Commission's decisions, regulatory framework, PT's concession and licenses, exchange rates and interest rate fluctuations, investments in Brazil and other international investments. In addition, there are certain factors which are material for the purpose of assessing the Market Risks associated with the Notes issued under the Programme. These are set out under "Risk Factors" below and include the fact that certain risks related to the structure of a particular issue of Notes and certain

market risks.

Description: Euro Medium Term Note Programme

Global Arranger: Merrill Lynch International

Dealers: Banco Bilbao Vizcaya Argentaria, S.A.

Banco BPI, S.A.

Banco Comercial Português, S.A.

Banco Espírito Santo de Investimento, S.A.

Barclays Bank PLC BB Securities Limited

**BNP** Paribas

Caixa Geral de Depósitos, S.A. Citigroup Global Markets Limited

Crédit Agricole Corporate and Investment Bank

Deutsche Bank AG, London Branch

Goldman Sachs International

HSBC Bank plc

Merrill Lynch International Mizuho International plc

Morgan Stanley & Co. International plc

**UBS** Limited

and any other Dealers appointed in accordance with the Programme

Agreement.

Trustee: Citicorp Trustee Company Limited

Principal Paying Agent: Citibank, N.A., London office

Portuguese Paying Agent: Citibank International Plc, Sucursal em Portugal

Registrar: Citibank, N.A., New York office

Programme Size: Up to €7,500,000,000 (or its equivalent in other currencies calculated as

described under "General Description of the Programme" below) outstanding at any time. The Issuers and PTC may increase the amount of the Programme in accordance with the terms of the Programme

Agreement.

Distribution: Notes may be distributed by way of private or public placement and in each

case on a syndicated or non-syndicated basis.

Currencies: Subject to any applicable legal or regulatory restrictions, any currency

agreed between the relevant Issuer and the relevant Dealer.

Redenomination: Where (save for Sterling) the specified currency of an issue of Notes is a

currency of one of the member states of the European Union (save for the United Kingdom) which is not participating in the third stage of European Economic and Monetary Union, the relevant Issuer, with the prior written approval of the Trustee, may specify in the applicable Final Terms that such Notes will include provisions for the redenomination of the specified currency to euro in the event that such member state does so participate before maturity of those Notes. If so specified, the wording of the redenomination provisions will be set out in full in the applicable Final

Terms.

The Trustee may, without the consent of the Noteholders or Couponholders, on or after the date (if any) on which the United Kingdom becomes one of the countries participating in the third stage of European Economic and Monetary Union pursuant to the Treaty on European Union (the "Treaty") or otherwise participates in European Economic and Monetary Union in a manner having a similar effect to such third stage, agree to such modifications to the Terms and Conditions, the Notes, the Coupons and the Trust Deed in order to facilitate payment of interest in euro and redemption at the euro equivalent of the Sterling principal amount of the Notes and associated reconventioning, renominalisation and related matters as may be proposed by the Issuer (and confirmed by an independent financial institution approved by the Trustee to be in conformity with the then applicable market conventions).

Maturities: Such maturities as may be agreed between the relevant Issuer and the

relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer

or the relevant specified currency.

Issue Price: Notes may be issued on a fully-paid or a partly-paid basis and at an issue

price which is at par or at a discount to, or premium over, par.

Form of Notes: Where the Issuer is PTIF, the Notes will be issued in bearer or registered

form and, where the Issuer is PT, the Notes will be issued in book-entry form as described in "Form of the Notes" below. Registered Notes will not

be exchangeable for Bearer Notes or vice versa.

Terms of Notes: Notes may be issued on a fully-paid or a partly-paid basis and at an issue

price which is at par or at a discount to, or premium over, par.

Notes may be denominated in any agreed currency and with any agreed maturity, subject to any applicable legal or regulatory restrictions and any requirements of the relevant central bank (or equivalent body).

The terms of the Notes will be specified in the applicable Final Terms. The following types of Note may be issued: (i) Notes which bear interest at a fixed rate or a floating rate; (ii) Notes which do not bear interest; and (iii) Notes which bear interest, and/or the redemption amount of which is, calculated by reference to a specified factor such as movements in an index or a currency exchange rate, changes in share or commodity prices or changes in the credit of an underlying entity. In addition, Notes which have any combination of the foregoing features may also be issued.

Interest periods, rates of interest and the terms of and/or amounts payable on redemption may differ depending on the Notes being issued and such terms will be specified in the applicable Final Terms.

The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders. The terms of any such redemption, including notice periods, any relevant conditions to be satisfied and the relevant redemption dates and prices will be indicated in the applicable Final Terms.

The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

The Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €1,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 8. In the event that any such deduction is made, the relevant Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.

The Terms and Conditions of the Notes contain a negative pledge provision as further described in Condition 4.

The terms of the Notes will contain, amongst others, the following events of default:

- (a) default in payment of any principal or interest due in respect of the Notes, continuing for a specified period of time;
- (b) non-performance or non-observance by the relevant Issuer, or where PTIF is the Issuer, either Keep Well Provider, of any of their other obligations under the Terms and Conditions or the Trust Deed continuing for a specified period of time;

Taxation:

Negative Pledge:

Events of Default:

- (c) the Terms and Conditions of the Notes contain a cross default provision as further described in Condition 10; and
- (d) events relating to the insolvency or winding up of the relevant Issuer or, where PTIF is the Issuer, either Keep Well Provider.

Status of the Notes:

The Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the relevant Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding.

Use of Proceeds:

The net proceeds from each issue of Notes will be either (i) where PTIF is the Issuer, on-lent by PTIF to PT, or a company or companies within the PT Group, for PT's general corporate purposes including, without limitation, the financing and refinancing of acquisitions; or (ii) where PTIF is the Issuer, invested by PTIF in another company within the PT Group; or (iii) where PT is the Issuer, applied by PT for its general corporate purposes.

Rating:

The Programme is rated by Fitch Ratings Ltd., Moody's Investors Service España SA and by Standard & Poor's Credit Market Services France SAS. Notes issued pursuant to the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms.

Listing and admission to trading:

Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets agreed between the relevant Issuer and the relevant Dealer in relation to each Series.

Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets.

Governing Law:

The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law save that, with respect to Book Entry Notes only, the form (forma de representação) and transfer of the Notes, creation of security over the Notes and the Interbolsa (as defined in the Terms and Conditions of the Notes below) procedures for the exercise of rights under the Book Entry Notes are governed by, and shall be construed in accordance with, Portuguese law.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Notes in respect of the laws of the United States, the United Kingdom, Portugal, The Netherlands, Spain and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "Subscription and Sale" below.

#### Notes with a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent see "Subscription and Sale".

United States Selling Restrictions:

Regulation S, Category 2; TEFRA C or D applicable or not, as specified in the applicable Final Terms.

Contracts (Rights of Third Parties) Act 1999:

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

#### **OVERVIEW OF THE PROGRAMME**

The following Overview of the Programme does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this document and, in relation to the Terms and Conditions of any particular Tranche of Notes, the applicable Final Terms. The relevant Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event in the case of listed Notes only and if appropriate, a supplemental Offering Circular will be published. This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in the Overview of the Programme.

Issuers: Portugal Telecom International Finance B.V. and Portugal Telecom, SGPS,

S.A.

Keep Well Providers: Where the Issuer is PTIF, Portugal Telecom, SGPS, S.A. and PT

Comunicações, S.A.

Risk Factors: There are certain factors that may affect the relevant Issuer's ability to fulfil

its obligations and/or, where the Issuer is PTIF, each of the Keep Well Providers' ability to fulfil its obligations under the Keep Well Agreements. These are set out under "Risk Factors" below and include risks related to the specific nature of each Issuer, shareholder structure, ratings, market conditions, competition in the telecommunications industry, market development, European Commission's decisions, regulatory framework, PT's concession and licenses, exchange rates and interest rate fluctuations, investments in Brazil and other international investments. In addition, there are certain factors which are material for the purpose of assessing the Market Risks associated with the Notes issued under the Programme. These are set out under "Risk Factors" below and include the fact that certain risks related to the structure of a particular issue of Notes and certain

market risks.

Description: Euro Medium Term Note Programme

Global Arranger: Merrill Lynch International

Dealers: Banco Bilbao Vizcaya Argentaria, S.A.

Banco BPI, S.A.

Banco Comercial Português, S.A.

Banco Espírito Santo de Investimento, S.A.

Barclays Bank PLC BB Securities Limited

**BNP** Paribas

Caixa Geral de Depósitos, S.A. Citigroup Global Markets Limited

Crédit Agricole Corporate and Investment Bank

Deutsche Bank AG, London Branch

Goldman Sachs International

HSBC Bank plc

Merrill Lynch International Mizuho International plc

Morgan Stanley & Co. International plc

**UBS** Limited

and any other Dealers appointed in accordance with the Programme

Agreement.

Trustee: Citicorp Trustee Company Limited

Principal Paying Agent: Citibank, N.A., London office

Portuguese Paying Agent: Citibank International Plc, Sucursal em Portugal

Registrar: Citibank, N.A., New York office

Programme Size: Up to €7,500,000,000 (or its equivalent in other currencies calculated as

described under "General Description of the Programme" below) outstanding at any time. The Issuers and PTC may increase the amount of the Programme in accordance with the terms of the Programme

Agreement.

Distribution: Notes may be distributed by way of private or public placement and in each

case on a syndicated or non-syndicated basis.

Currencies: Subject to any applicable legal or regulatory restrictions, any currency

agreed between the relevant Issuer and the relevant Dealer.

Redenomination: Where (save for Sterling) the specified currency of an issue of Notes is a

currency of one of the member states of the European Union (save for the United Kingdom) which is not participating in the third stage of European Economic and Monetary Union, the relevant Issuer, with the prior written approval of the Trustee, may specify in the applicable Final Terms that such Notes will include provisions for the redenomination of the specified currency to euro in the event that such member state does so participate before maturity of those Notes. If so specified, the wording of the redenomination provisions will be set out in full in the applicable Final

Terms.

The Trustee may, without the consent of the Noteholders or Couponholders, on or after the date (if any) on which the United Kingdom becomes one of the countries participating in the third stage of European Economic and Monetary Union pursuant to the Treaty or otherwise participates in European Economic and Monetary Union in a manner having a similar effect to such third stage, agree to such modifications to the Terms and Conditions, the Notes, the Coupons and the Trust Deed in order to facilitate payment of interest in euro and redemption at the euro equivalent of the Sterling principal amount of the Notes and associated reconventioning, renominalisation and related matters as may be proposed by the Issuer (and confirmed by an independent financial institution approved by the Trustee to be in conformity with the

then applicable market conventions).

Maturities: Such maturities as may be agreed between the relevant Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be

allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the

relevant specified currency.

Issue Price: Notes may be issued on a fully-paid or a partly-paid basis and at an issue

price which is at par or at a discount to, or premium over, par.

Form of Notes: Where the Issuer is PTIF, the Notes will be issued in bearer or registered

form and, where the Issuer is PT, the Notes will be issued in book-entry form as described in "Form of the Notes" below. Registered Notes will not

be exchangeable for Bearer Notes or vice versa.

Fixed Rate Notes: Interest in respect of Fixed Rate Notes will be payable on such date or dates

as may be agreed between the Issuer and the relevant Dealer and on

redemption.

Interest on Fixed Rate Notes will, unless otherwise specified in the Final Terms, be calculated on an ICMA-Actual/Actual day count fraction.

Floating Rate Notes:

Floating Rate Notes will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant specified currency governed by an agreement incorporating the 2000 ISDA Definitions or if specified in the applicable Final Terms the 2006 ISDA Definitions (each as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.

Index Linked Notes:

Payments of principal in respect of Index Linked Redemption Amount Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the relevant

Issuer and the relevant Dealer may agree.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:

Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both, as indicated in the applicable Final Terms.

Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the relevant Issuer and the relevant Dealer, as indicated in the applicable Final Terms.

**Dual Currency Notes:** 

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the relevant Issuer and the relevant Dealer may agree, as indicated in the applicable Final Terms. Book Entry Notes may be Dual Currency Notes provided the corresponding information necessary for that purpose is made available by the relevant Issuer or by the Portuguese Paying Agent to Interbolsa, pursuant to the applicable Interbolsa procedures.

Zero Coupon Notes:

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Redemption:

The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving notice to the Noteholders or the relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the relevant Issuer and the relevant Dealer.

The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "Subscription and Sale – Notes with a maturity of less than one year" below.

Optional Redemption:

Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or at the option of the Holders to the extent (if at all) specified in the relevant Final Terms in the case of a Change of Control of the Issuer or otherwise.

Denomination of Notes:

Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer, as indicated in the applicable Final Terms, save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant specified currency, see "Subscription and Sale − Notes with a maturity of less than one year" below and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be €1,000 (or if the Notes are denominated in a currency other than euro, the equivalent amount on such currency).

Taxation:

All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 8. In the event that any such deduction is made, the relevant Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.

Negative Pledge:

The Terms and Conditions of the Notes contain a negative pledge provision as further described in Condition 4.

Cross Default:

The Terms and Conditions of the Notes contain a cross default provision as further described in Condition 10.

Status of the Notes:

The Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the relevant Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding.

Rating:

The Programme is rated by Fitch Ratings Ltd., Moody's Investors Service España SA and by Standard & Poor's Credit Market Services France SAS. Notes issued pursuant to the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms.

Listing and admission to trading:

Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. Notes may be listed or admitted to

trading, as the case may be, on such other or further stock exchanges or markets agreed between the relevant Issuer and the relevant Dealer in relation to each Series.

Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets.

Governing Law:

The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law save that, with respect to Book Entry Notes only, the form (forma de representaço) and transfer of the Notes, creation of security over the Notes and the Interbolsa (as defined in the Terms and Conditions of the Notes below) procedures for the exercise of rights under the Book Entry Notes are governed by, and shall be construed in accordance with, Portuguese law.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Notes in respect of the laws of the United States, the United Kingdom, Portugal, The Netherlands, Spain and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "Subscription and Sale" below.

#### Notes with a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent see "Subscription and Sale".

United States Selling Restrictions:

Regulation S, Category 2; TEFRA C or D applicable or not, as specified in the applicable Final Terms.

Contracts (Rights of Third Parties) Act 1999:

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

#### DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published and have been filed with the Financial Services Authority shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the auditors' report and audited annual financial statements of PTIF for the financial years ended 31 December 2010 and 31 December 2011:
- (b) the auditors' report and audited consolidated annual financial statements of PT for the financial years ended 31 December 2010 and 31 December 2011, and unaudited consolidated financial statements of PT for the three months ended 31 March 2012;
- (c) the auditors' report and audited annual financial statements of PTC for the financial years ended 31 December 2010 and 31 December 2011; and
- (d) the Terms and Conditions of the Notes contained in previous Offering Circulars dated 4 February 2002, pages 25 50 (inclusive), 29 April 2003, pages 25 50 (inclusive), 12 July 2004, pages 25 51 (inclusive), 7 November 2006, pages 44 70 (inclusive), 20 December 2007, pages 44 70 (inclusive), 17 December 2008, pages 53 79 (inclusive), 23 April 2010, pages 46-71 (inclusive) and 16 June 2011, pages 47-72 (inclusive) prepared by the Issuers in connection with the Programme.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Offering Circular.

The documents incorporated by reference in (b) and (c) above represent direct and accurate translations of their original forms.

Each Issuer and PTC will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Circular which is capable of affecting the assessment of any Notes, prepare in accordance with Article 16 of the Prospectus Directive a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of Notes. Statements contained in any such supplement or contained in any document incorporated by reference herein or therein shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Offering Circular or in a document which is incorporated by reference in this Offering Circular. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular can be obtained from the registered office of either Issuer and from the specified office of the Paying Agent for the time being in London.

#### **RISK FACTORS**

Each Issuer and (if relevant) each Keep Well Provider believes that the following factors may affect each of their ability to fulfil their respective obligations under the Notes andlor the value of the Notes. All of these factors are contingencies which may or may not occur and none of the Issuers and (if relevant) the Keep Well Providers are in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuers and PTC believe may be material for the purpose of assessing the market risks associated with Notes are also described below.

Each Issuer and (if relevant) each Keep Well Provider believes that the factors described below represent the principal risks inherent in investing in the Notes, but none of the Issuers nor (if relevant) the Keep Well Providers represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.

## Risks relating to the Issuers and (if relevant) the Keep Well Providers PTIF is a funding vehicle for the PT Group

PTIF is a funding vehicle for the Portugal Telecom group ("PT Group"). As such it raises finance in the international capital markets and finances the PT Group through the subscription of debt issued by entities belonging to the PT Group, namely Portugal Telecom, SGPS, S.A., TMN – Telecomunicações Móveis Nacionais, S.A., PT Comunicações, S.A. and PT Portugal, SGPS, S.A. In the event that such entities fail to meet their obligations under the debt issued, PTIF may not be able to meet its payment obligations under the Notes issued by it.

#### Risks that may affect PT's ability to fulfil its obligations as an Issuer or (if relevant) the ability of the Keep Well Providers to fulfil their obligations under the Keep Well Agreements

The current economic and financial crisis has affected, and will likely continue to affect, demand for PT's products and services, its revenues and its 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 PT's products and services and on PT's revenues and profitability. The year ended 31 December 2011, as well as 2012 until the date of this Offering Circular, were turbulent times in the global markets, dominated by the continuing eurozone debt crisis that began with the global financial crisis in 2007 and, by 2011, had developed into a severe sovereign debt crisis. During 2011, 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 Central Bank ("ECB") and the International Monetary Fund ("IMF") under strict conditions, while fear of contagion to other eurozone countries forced governments to reduce debt levels through austerity measures that, at least in the short term, were seen as the cause of slow growth for some countries and stagnation or recession in others.

On 6 April 2011, Portugal announced that it would seek an economic rescue package from the European Financial Stability Facility of the European Union. In the following months, Portugal formally requested an economic rescue package from the European Union and the International Monetary Fund and negotiated the terms of that package. As a condition to receiving the economic rescue package, the Portuguese government implemented severe budget-cutting measures that have delayed Portugal's emergence from a recession and weakened consumer demand.

Despite a number of high profile summits and meetings the EU was unable to agree and implement a strong coherent policy response to the crisis, prompting fear of default or the exit from the euro of one or more members. Under pressure during most of 2011, EU members showed an increasing willingness to agree a structured common approach, but they also demonstrated divergent opinions on the way forward and on the measures to be taken. This resulted in the three major rating agencies either downgrading, or putting on the watch list for possible downgrade, a number of

sovereign governments which intensified the pressure, even on the stronger eurozone countries. The ongoing sovereign debt crisis, slow economic growth, dearth of market financing for banks and private sector deleveraging severely affected the eurozone financial system, increasing the possibility of further economic stress in the region, including Portugal.

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, from A1 on 21 December 2010 to Ba2 on 5 July 2011; (2) by 3 notches at S&P from A- on 30 November 2011 to BBB- on 5 December 2011, and (3) by 6 notches at Fitch from A+ on 23 December 2010 to BB+ on 24 November 2011. In 2012, Portugal was further downgraded by 1 notch at Moody's, to Ba3 on 12 February 2012 and by 2 notches at S&P, to BB on 13 January 2012.

As one of Portugal's largest companies and one of its largest employers (and although a large portion of PT's business is conducted outside Portugal), PT's 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 PT's products and services, contributing to a decline in revenues in 2011 across most of the customer categories of PT's Portuguese telecommunications business.

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

## Financial market conditions may adversely affect PT's ability to obtain financing, significantly increase its cost of debt and negatively impact the fair value of its assets and liabilities.

Beginning in 2008, events in the global and European financial markets have increased the uncertainty and volatility of the financial markets, leading to a significant increase in execution and price risk in financing activities. Since the onset of the crisis, global financial markets and economic conditions have been severely disrupted and volatile 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 were exceedingly distressed. In 2010, 2011 and 2012 until the date of this Offering Circular, the financial markets grew increasingly concerned about the ability of certain European countries, particularly Greece, Ireland and Portugal, but also others such as Spain and Italy, to finance their deficits and service growing debt burdens amidst difficult economic conditions. This loss of confidence has led to rescue measures for Greece, Ireland and Portugal by the EU and the IMF. 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.

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 PT's assets and liabilities. If there is a negative impact on the fair values of PT's assets and liabilities, PT could be required to record impairment charges, and these difficulties are expected to continue.

Notwithstanding PT's international exposure and diversification, and the fact that PT believes it has liquidity to repay its debt through the end of 2013, the downgrades of Portugal's sovereign debt described in the preceding risk factor may have a significant effect on PT's costs of financing, particularly given its size and prominence within the Portuguese economy. The recent events in Portugal and the other factors described above could adversely affect PT's ability to obtain future financing to fund its operations and capital needs and adversely impact the pricing terms that PT is able to obtain in any new bank financing or issuance of debt securities and thereby negatively impact PT's liquidity.

## Any future rating downgrades may impair PT's ability to obtain financing and may significantly increase its cost of debt

The effects of the economic and financial crisis described above, or any adverse developments in PT's business, could lead to downgrades in its credit ratings. Any such downgrades are likely to adversely affect PT's ability to obtain future financing to fund its operations and capital needs. Any downgrade of PT's ratings could have even more significant effects on its ability to obtain financing and therefore on its liquidity. For example, certain of PT's loan agreements, totalling €129 million as of 31 December 2011, contain provisions that require PT to provide certain guarantees if its ratings decline below specified levels. Any failure to provide those guarantees could enable the lender to accelerate the loans.

## Any worsening of the current economic and financial crisis may affect PT's liquidity and impact the creditworthiness of PT

In order to mitigate liquidity risks, PT seeks to maintain a liquidity position and an average maturity of debt that allows it to repay its short-term debt and its contractual obligations. As of 31 December 2011, the amount of available cash from PT's Portuguese operations (excluding cash from its international operations), plus the undrawn amount of its underwritten commercial paper lines (cash immediately available upon two or three days' notice) and its committed standby facilities available to the Portuguese operations amounted to €5,095 million, a reduction from €6,297 million as of 31 December 2010. This reduction reflects primarily the investments made in the acquisition of the interests in Oi and Contax and dividends paid during the year, which more than offset the impact of the third and last installment payment received from Telefónica for its purchase of Vivo and certain new financings obtained in 2011. The average maturity of PT's net debt in Portugal as of 31 December 2011 was 5.9 years.

PT seeks to manage its capital structure to ensure that its businesses will be able to continue as a going concern and maximize the return to shareholders. PT's 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. PT periodically reviews its capital structure considering the risks associated with each of the above mentioned classes of the capital structure.

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

#### If PT's customers' financial conditions decline, it will be exposed to increased credit and commercial risks

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

## Unfunded post retirement benefit obligations may put PT at a disadvantage to its competitors and could adversely affect its financial performance.

PT has unfunded post retirement benefit obligations that may limit its future use and availability of capital and adversely affect its financial and operating results. Although in December 2010, PT transferred to the Portuguese government the post retirement benefits obligations relating to regulated pensions of Caixa Geral de Aposentações ("CGA") and Marconi, PT retained all other obligations, including (1) salaries to suspended and pre-retired employees amounting to €782.5 million as of 31 December 2011 which PT must pay monthly directly to the beneficiaries until their retirement age

and (2) €474.1 million in obligations related to pension supplements and healthcare as of 31 December 2011, which are backed by plan assets with a market value of €344.7 million, resulting in unfunded obligations of €129.4 million.

Any decrease in the market value of PT's plan assets relating to its pension supplements and healthcare obligations could increase its 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 PT's plan assets is volatile and poses a risk. In addition, PT's 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 PT's control. Any significant increase in PT's unfunded obligations could adversely affect its ability to raise capital, requiring PT to use cash flows that it would otherwise use for capital investments to implement its strategy or for other purposes, and adversely affects perceptions of its overall financial strength, which could negatively affect the price of its ordinary shares and ADSs.

#### PT must continue to attract and retain highly qualified employees to remain competitive

PT believes that its future success largely depends on its continued ability to hire, develop, motivate and retain qualified personnel needed to develop successful new products, support its existing product range and provide services to its customers. Competition for skilled personnel and highly qualified managers in the telecommunications industry remains intense. PT is continuously developing its corporate culture, remuneration, promotion and benefits policies as well as other measures aimed at empowering its employees and reducing employee turnover. However, it 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 PT's business.

#### Risks Relating to PT's Portuguese Operations

## Competition from other mobile telephony and fixed line operators has significantly reduced PT's revenues from its Portuguese operations and is likely to continue to adversely affect its 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, PT has experienced, and may continue to experience, erosion of market share of both access lines and of outgoing domestic and international traffic. The number of active mobile telephone cards in Portugal has overtaken the number of fixed lines. Mobile operators can bypass PT's international fixed line network by interconnecting directly with fixed line and mobile networks either in PT's domestic network or abroad. Competition is also forcing down the prices of PT's fixed line voice services for long distance and international calls. Lowering PT's international call prices has caused a decline in PT's revenues from international fixed line voice services. The decrease in fixed line voice traffic and lower tariffs resulting from competition has significantly affected its overall revenues, and PT expects these factors to continue to negatively affect its revenues. See "Portugal Telecom, SGPS, S.A.—PT's Businesses—Competition—Competition Facing PT's Portuguese Operations".

#### Increased competition in the Portuguese Pay-TV market may result in a decrease in PT's revenues.

In 2008, PT launched a nationwide Pay-TV service under the Meo brand, primarily using its fixed network (IPTV over ADSL2+ and fibre-to-the-home ("FTTH") and direct-to-home ("DTH") satellite technology). This service required PT to make significant investments in its network in order to increase the bandwidth and offer a better service quality than its competitors. The main competitors in the market are Zon, Cabovisão, Optimus and Vodafone. Notwithstanding gains in PT's revenues and its market share in Pay-TV services in recent years and the quality of its service, PT has experienced pressure from its competitors to reduce monthly subscription fees. In addition, PT's efforts to build scale to enable it to negotiate better programming costs with its content suppliers, especially certain premium content owned by one of PT's competitors, may not prove successful. PT's revenues from residential services and its financial position could be significantly affected if it is not successful in the Pay-TV business, which is becoming increasingly important as a retention tool of PT's fixed-line and broadband customers.

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

PT's competitors have been improving their commercial offers in broadband Internet, with most of them offering triple-play bundled packages (voice telephony, broadband Internet and pay-TV subscription). PT believes that with competition in Internet broadband access intensifying, and with the development of existing technologies such as broadband wireless access and mobile broadband through Universal Mobile Telecommunications Systems ("UMTS") and long-term evolution ("LTE"), as well as high speed broadband supported by the development of a fibre optic network, it may face additional pricing pressures on its services, which could result in a loss of revenues from both residential and enterprise customers.

## Increased competition in the Portuguese mobile markets may result in decreased tariffs and loss of market share

PT operates in the highly competitive Portuguese mobile telecommunications market. It believes that its existing mobile competitors, Vodafone and Optimus, will continue to market their services aggressively, and in most cases, those operators have similarly priced offers. After PT launched its low-cost brand "Uzo," for example, Vodafone and Optimus quickly responded with similar products of their own. Additionally, in 2010, PT launched a tribal plan as a reaction to similar plans launched by its competitors, and that plan provides for lower revenue per user than many of PT's other plans. PT believes that its ability to compete depends on its ability to differentiate its products based on services offered and quality, and PT may not be successful in doing so.

PT expects competition from VoIP-based operators to place increasing price pressure on voice tariffs and lead to reductions in mobile voice traffic. Competition from companies providing wireless local-area network services ("WLAN"), which can deliver wireless data services more cheaply than mobile data services, such as through UMTS or LTE technology, in concentrated areas, may also affect the market and pricing for third and fourth generation services.

#### The European Commission's review of roaming charges may lead to a reduction in domestic mobile revenues

The European Commission has determined that roaming prices in Europe should be reduced and has published new regulations that have been effective since 30 June 2007. These regulations set maximum roaming charges that may be charged in the wholesale market and the retail market.

In the wholesale market, a maximum roaming charge of  $\{0.26\ \text{per minute currently applies.}$  In the retail market, maximum roaming charges of  $\{0.19\ \text{per minute}\ \text{(for received calls)}\ \text{and}\ \{0.43\ \text{per minute}\ \text{(for outgoing calls)}\ \text{currently apply.}$ 

## PT's ability to remain competitive depends on its ability to implement new technology, and any failure to do so could adversely affect its business

Companies in the telecommunications industry must adapt to rapid and significant technological changes that are usually difficult to anticipate. The Pay-TV, broadband internet and mobile telecommunications industries in particular have experienced rapid and significant technological development and frequent improvements in capacity, quality and data-transmission speed. Technological changes may render PT's equipment, services and technology obsolete or inefficient, which may adversely affect its competitiveness or require PT to increase its capital expenditures in order to maintain its competitive position. For example, PT has made significant investments in recent years to develop its FTTH network for residential and enterprise customers, to connect its mobile network base stations and to develop its UMTS network for personal services customers. In 2011, PT also upgraded some of its mobile network equipment for LTE services. PT is investing significant amounts to construct a data center in Covilhã, Portugal to expand its ability to serve enterprise and other customers, and has launched LTE services in March 2012. PT may not achieve the expected benefits of these investments in technology before more advanced technology is adopted by the market. Even if PT adopts new technologies in a timely manner as they are developed, the cost of such technology may exceed the benefit to PT, and investors cannot be assured that PT will be able to maintain its level of competitiveness.

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

The Portuguese electronic communications sector is fully open to competition. However, many regulatory restrictions and obligations are still imposed on PT. In the previous round of market analysis, carried out in 2004-2006, Portugal Telecom was found by the Portuguese telecommunications regulator (Autoridade Nacional das Comunicações – "ANACOM") to have significant market power in all but one of the 16 markets analysed and consequently is 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 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 electronic communications operators and service providers it considers to have significant market power in those markets and determining the regulatory obligations that should be imposed on those operators and service providers.

ANACOM has re-analyzed certain of the markets defined under the European Relevant Market Recommendation and has found PT to have significant market power in some of those 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 terminal market. In certain cases, such as the wholesale broadband access market and the wholesale transit market, ANACOM has segmented the markets into "C" (competitive) and "NC" (non-competitive) segments and has found PT to have significant market power in the non-competitive segments. ANACOM has the power to impose remedies to increase competition in those markets. For example, ANACOM is proposing to introduce virtual access to fiber (an advanced bitstream offer) as a remedy in the wholesale (physical) network infrastructure access market in certain geographic areas. In addition, ANACOM has not completed its analysis of all the markets identified by the European Relevant Market Recommendation, and PT expects that it will provide further analysis in the near future.

Remedies imposed by ANACOM may require PT to provide services in certain markets or geographic regions or to make investments that PT would otherwise not choose to make. In addition, PT may incur expenses to adapt its operations to constantly changing regulatory requirements and to ensure regulatory compliance. The substantial resources PT must commit to fulfil its regulatory obligations could adversely affect its ability to compete. See "Portugal Telecom, SGPS, S.A.—PT's Businesses—Regulation—Portugal".

## Reduced interconnection rates have negatively affected PT's revenues for its Portuguese telecommunications business and will continue to do so in 2012

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 PT's mobile subsidiary, TMN-Telecomunicações Móveis Nacionais, S.A. ("TMN"), and, consequently, on its earnings.

In April 2011, ANACOM held a consultation on the definition of a bottom-up long-run incremental cost ("LRIC") model to regulate mobile termination rates. In October 2011, ANACOM issued a new draft decision based on that cost model and proposed a new glide path according to which mobile termination rates in Portugal would decrease in four steps, reaching €0.0125 per minute by November 2012. 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 PT's cash flows and revenues.

ANACOM's price controls on fixed-to-mobile interconnection may also negatively affect PT's revenues from fixed line residential services because PT is required to reflect the reduction in these interconnection charges in its retail prices for calls from its fixed line network. PT expects that the reduction in interconnection charges will continue to have an impact on its revenues from fixed line residential services.

In addition, the lower interconnection rates have reduced revenues for PT's wholesale business, which records revenue from incoming calls transiting through PT's network that terminate on the networks of mobile operators. The prices PT charges to international operators (and hence its revenues) also depends on the interconnection fees charged by mobile operators for international incoming calls terminating on their networks, and these fees have been decreasing. PT expects that lower interconnection rates will continue to have a negative impact on its wholesale revenues.

In addition, in August 2008, ANACOM published a "reasoning" regarding mobile rates for originating calls, aimed at driving mobile operators to reducing their prices by the end of September 2008 to a level equal or close to the level of mobile termination rates. In the second half of 2008, the three mobile operators reduced their rates for originating calls but not to the extent desired by ANACOM. In February 2010, ANACOM chose to take the matter to the Portuguese national competition authority (the "Autoridade da Concorrência" or "AdC"). In January 2012, AdC completed its analysis, finding origination rates to be excessive and stating that mobile operators must reduce their rates to the level of their costs by July 2012 or face the possibility of being sanctioned.

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

The European Commission has determined that roaming prices in Europe should be reduced and has published new regulations that have been in effect since 2007. These regulations set maximum roaming charges that may be charged in the wholesale market and the retail market. In 2008, the European Commission launched a consultation on roaming, proposing to carry over Regulation (EC) No. 717/2007, on roaming on mobile communications networks within the community (the "Roaming Regulation"), beyond 2010 and to extend it to data and Short Messaging Services ("SMS"), or text messaging. In 2009, Regulation (EC) No. 544/2009, amending the Roaming Regulation (the "New Roaming Regulation"), went into effect, limiting roaming charges. The New Roaming Regulation aimed to reduce roaming charges by up to 60 per cent. In the wholesale market, a maximum roaming charge of €0.18 per minute currently applies. In the retail market, maximum roaming charges of €0.11 per minute (for received calls) and €0.35 per minute (for outgoing calls) currently apply.

The New Roaming Regulation is due to expire on 30 June 2012 and to be replaced by a third version, known as "Roaming III." The European Commission has proposed revisions to certain of those standards, including (1) a cap on retail data tariffs, proposed for July 2012, (2) introduction of an obligation for mobile operators to provide network access in order to allow roaming services, proposed for July 2012; (3) the decoupling of roaming services from other services, while enabling a consumer to use the same number; and (4) the extension of transparency and bill shock measures to non-EU countries. The new Roaming Regulation is expected to be adopted by the European Council in June 2012.

The New Roaming Regulation has had, and PT expects Roaming III to have, an adverse effect on the revenues of its mobile business and on its results of operations.

## The Portuguese government could terminate or fail to renew PT's fixed line concession, its licenses and its authorisation for data and mobile services.

PT provides a significant number of services under a concession granted to it by the Portuguese government and under licences and authorisations granted to it by ANACOM. The concession runs until 2025, but the Portuguese government can revoke the concession if it considers the revocation to be in the public interest. It can also terminate PT's concession at any time if PT fails to comply with its obligations under the concession.

PT's concession and Portuguese law impose obligations on PT as a universal services provider. See "Portugal Telecom, SGPS, S.A.—PT's Businesses—Regulation—Portugal". ANACOM recently completed a public consultation on the process for selecting a universal services provider and issued a final decision in February 2012, dividing universal services by three functions (telephone service, pay telephones, and directory and inquiry services) and further in three geographic regions. On 12 April 2012, the government launched a public consultation on proposed legislation to establish a compensation fund for universal service providers. On 17 May 2012, following the consultation, the government approved a draft law to be discussed and approved by the Parliament after which the

Portuguese government is expected to launch during 2012 a tender for the designation of the universal service providers. The designation of the universal service providers and related renegotiation of PT's concession are explicit objectives set forth in the memorandum of understanding entered into by the Portuguese government, the IMF, the European Commission and the European Central Bank in the context of the financial support package provided to Portugal. PT's rights and obligations as a universal service provider could be materially affected by the tender process, pursuant to which PT could cease to be the universal service provider for certain services or in certain regions.

The Portuguese government can also terminate PT's mobile licenses under certain circumstances. Through TMN, PT holds renewable license to provide GSM and UMTS mobile telephone services throughout Portugal, valid until 2016 and 2022, respectively. In January 2012, TMN was allocated the right to use frequencies to provide, among other technologies, LTE mobile telephone services throughout Portugal, and in March 2012, ANACOM issued a renewable licence to TMN, valid until 2027, with respect to the use of these frequencies. This license also unifies the previous GSM and UMTS licenses issued to TMN. If the Portuguese government were to terminate PT's license, PT would not be able to conduct the activities authorized by the concession or the relevant licenses. This loss would eliminate an important source of PT's revenues.

#### Regulatory investigations and litigation may lead to fines or other penalties

PT is regularly involved in litigation, regulatory inquiries and investigations involving its operations. ANACOM, the European Commission and the Autoridade da Concorrência regularly make inquiries and conduct investigations concerning PT's compliance with applicable laws and regulations. Current inquiries by the Autoridade da Concorrência relate to alleged anti-competitive practices in PT's broadband internet, terrestrial television and public mobile telephone markets.

In addition, on 19 January 2011, the European Commission opened an investigation into an agreement between Telefónica and PT allegedly not to compete in the Iberian telecommunications markets. PT has developed various strategic partnerships with Telefónica in recent years. Although PT does not believe the existence of these partnerships has impeded its competition and ordinary activities with Telefónica, PT's relationship with Telefónica is now subject to investigation. The European Commission has stated that the initiation of proceedings does not imply that the Commission has conclusive proof of an infringement but that the Commission will deal with the case as a matter of priority. On 25 October 2011, PT was notified of a Statement of Objections sent by the European Commission to it and Telefonica on the matter. The Statement of Objections only covers alleged cooperation between the two companies after the Vivo transaction. In response to the Statement of Objections, PT contested the allegations of the European Commission. The sending of a Statement of Objections does not prejudge the final outcome of the investigation. PT cannot predict whether this investigation may lead to fines or other sanctions or whether it may have an adverse effect on its business.

If PT is 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 it or that may be brought against it in the future, PT may become subject to penalties, fines, damages or other sanctions. Any adverse outcome could have a material adverse effect on PT's operating results or cash flows.

#### Risks Related to PT's Brazilian Operations

## PT's strategy of enhancing its operations in Brazil through its strategic partnerships with Oi and Contax may not be successful, and PT does not have free access to cash flows from Oi and Contax

The successful implementation of PT's strategy for its mobile operations in Brazil depends on the development of its strategic partnership with Oi. On 28 March 2011, PT completed the acquisition of a 25.3 per cent. economic interest in the Oi Companies. For the year ended 31 December 2011, 47 per cent. of PT's revenues were generated in Brazil, and PT's strategic partnership with Oi represented the bulk of those revenues. As in any strategic partnership, it is possible that PT, the other controlling shareholders and Oi will not agree on its strategy, operations or other matters. Any inability of Oi and PT to operate Oi jointly could have a negative impact on Oi's operations, which could have a negative impact on PT's strategy in Brazil and could have a material adverse effect on

its results of operations. In addition, PT 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 PT's investment in Oi, PT acquired a 16.2% economic interest in Contax, which provides among other contact center services in Brazil. PT's economic interest in Contax increased to 19.5 per cent. in June 2011. Although the contribution of Contax to PT's consolidated revenues is not as significant as that of Oi, Contax remains an important part of PT's international telecommunications business. The types of risks described above that apply to PT's strategic partnership with Oi also apply to its strategic partnership with Contax.

In addition, because PT holds joint control of Oi and Contax, PT may not have free access to their cash flows. It will be necessary for PT and other controlling shareholders of Oi and Contax to agree to approve any distributions from those companies. See "Portugal Telecom, SGPS, S.A.—PT's Businesses — Other International Operations" and "Portugal Telecom, SGPS, S.A.—PT's Businesses — Brazilian Operations (Oi)".

#### PT is exposed to Brazilian exchange rate and interest rate fluctuations

PT is exposed to exchange rate fluctuation risks, mainly due to the significant level of PT's investments in Brazil. On 28 March 2011, PT completed the acquisition of an economic interest of 25.3 per cent in Oi, Brazil's largest telecommunications group. PT does not expect to hedge its economic exposure against exchange rate fluctuations. PT is required to make adjustments to its equity on its balance sheet in response to fluctuations in the value of foreign currencies in which PT has made investments. Devaluation of the Brazilian Real in the future could result in negative adjustments to PT's balance sheet, which could limit its ability to generate distributable reserves.

PT is also exposed to interest rate fluctuation risks. PT has entered into financial instruments to reduce the impact on its earnings of an increase in market interest rates, but these financial instruments may not prevent unexpected and material fluctuations of interest rates from having any material adverse effect on its earnings.

The Brazilian Central Bank's Monetary Policy Committee (*Comitê de Politica Monetária do Banco Central—COPOM*) establishes the basic interest rate target for the Brazilian financial system by referring to the level of economic growth of the Brazilian economy, the level of inflation and other economic indicators. As of 31 December 2007, 2008, 2009, 2010 and 2011, the basic interest rate was 11.3 per cent., 13.8 per cent., 8.8 per cent., 10.8 per cent. and 11 per cent., respectively. Increases in interest rates may have a material adverse effect on Oi by increasing its interest expense on floating rate debt and increasing its financing costs.

#### Macroeconomic factors in Brazil could reduce expected returns on PT's Brazilian investments

A material portion of PT's business, prospects, financial condition and results of operations is dependent on general economic conditions in Brazil. In particular, it depends on economic growth and its impact on demand for telecommunications and other related services. The major factors that could have a material adverse effect on PT's investments and results of operations in Brazil, include:

Adverse political and economic conditions.

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. The Brazilian government has utilised salary and price controls, currency devaluation, capital controls and limits on imports, among other things, as tools in its previous attempts to stabilise the Brazilian economy and control inflation. Changes in the Brazilian government's exchange control policy, or in general economic conditions in Brazil, could have a material adverse effect on the results of PT's operations in Brazil. Deterioration in economic and market conditions in other countries (mainly in other Latin American and emerging market countries) may adversely affect the Brazilian economy and its business.

Past political crises in Brazil have affected the confidence of investors and the public in general, as well as the development of the economy. Any future political crises could have an adverse impact on the Brazilian economy and on PT's business, financial condition and results of operations in Brazil.

Fluctuations in the Real and increases in interest rates.

The Brazilian currency has historically experienced frequent fluctuations relative to the Euro and other currencies. In 2007, 2009 and 2010, the Real appreciated against the Euro by 8.3 per cent., 29.2 per cent. and 13.2 per cent., respectively, and in 2008 and 2011, the Real depreciated against the Euro by 20.0 per cent. and 8.5 per cent., respectively. Any substantial negative reaction to the policies of the Brazilian government could have a negative impact, including devaluation. The devaluation of the Real could negatively affect the stability of the Brazilian economy and accordingly could negatively affect the profitability and results of PT's operations and its ability to distribute reserves. It would also increase costs associated with financing its operations in Brazil. In particular, a significant amount of Oi's financial liabilities are denominated in or indexed to foreign currencies, primarily U.S. dollars, Japanese yen and Euros. When the Real depreciates against foreign currencies, Oi incurs losses on its liabilities denominated in or indexed to foreign currencies, such as its U.S. dollardenominated long-term debt and foreign currency loans, and it incurs gains on its monetary assets denominated in or indexed to foreign currencies, as the liabilities and assets are translated into Real. 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 PT's payment obligations. A failure to meet certain of Oi's payment obligations could trigger a default under certain financial covenants in its 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 a portion of its foreign currency debt. However, 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, which could in turn lead to substantial foreign exchange losses.

In addition, a devaluation of the Real relative to the U.S. dollar may increase the costs of imported products and equipment. PT's operations in Brazil rely on imported equipment, and, as a result of such devaluation, such equipment would be more expensive to purchase.

In response to the global economic and financial crisis, the Brazilian government increased the SELIC basic interest rate to 13.75 per cent. as of 31 December 2008. In 2009 Brazilian Central Bank reduced the SELIC up to 8.75 per cent. as of 31 December 2009. Based on further economic developments, the Brazilian Central Bank increased the SELIC rate up to 10.75 per cent. as of 31 December 2010 and to 11.0 per cent. as of 31 December 2011. Most recently, the Brazilian Central Bank reduced the SELIC rate to 10.5 per cent. as of 18 January 2012 and to 9.0 per cent. as of 18 April 2012. However, Brazilian interest rates remain high, and any increase in interest rates could negatively affect PT's profitability and results of operations and would increase the costs associated with financing PT's operations in Brazil.

#### Inflation in Brazil.

Brazil has historically experienced high rates of inflation. Inflation, as well as governmental measures put in place to combat inflation, have had a material adverse effect on the Brazilian economy. Inflationary pressures persist, and actions taken in an effort to curb inflation, coupled with public speculation about possible future governmental actions, have in the past contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. According to the Broad Consumer Price Index (*Indice Nacional de Preços ao Consumidor Amplo* 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 4.5 per cent. in 2007, 5.9 per cent. in 2008, 4.3 per cent. in 2009, 5.9 per cent. in 2010 and 6.5 per cent. in 2011.

Since 2006, Oi's telephone rates have been indexed to the Telecommunications Service Index (Índice de Serviços de Telecomunicações or "IST"), which is a basket of national indexes that reflect the Brazilian telecommunications sector's operating costs. However, Brazilian monetary policy continues to use the IPCA as an inflation targeting system. The inflation target for 2012 is 4.5 per cent. In recent years, Brazil has failed to meet its inflation target. According to the Brazilian monetary authority, the official inflation target was only met in one calendar year over the past three

years. In 2009, the official target inflation rate of 4.50 per cent. was 4 per cent. higher than the actual inflation rate of 4.32 per cent. However, in 2010 and 2011, Brazil's actual inflation rate was 5.91 per cent. and 6.50 per cent., respectively, 31.3 per cent. and 44.4 per cent. higher than the 4.50 per cent. inflation target set for both calendar years. If inflation increases beyond the official 2012 target, basic interest rates may rise, causing direct effects on Oi's cost of debt and indirect effects on the demand for telecommunications goods and services. These effects are aggravated by the uncertainties historically observed in Brazil's economy.

If Brazil experiences substantial inflation in the future, Oi's costs may increase and its margins may decrease. Although ANATEL regulations provide for annual price increases for most of Oi's services, these increases are linked to inflation indices, as described above, 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 its 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.

#### Restrictions on the movement of capital out of Brazil

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 Reals. 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.

# 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 PT's investments in Oi and Contax and may restrict Oi 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 PT's 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.

# 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 telecommunication services face increasing competition from mobile services as the prices for mobile services decline and approach those of fixed-line services. Oi expects that the number of fixed lines in service in Brazil will continue to stagnate or decline, as certain customers eliminate their fixed-line services in favor of mobile services, and the use of existing fixed lines to decline as customers substitute calls on mobile phones in place of fixed-line calls as a result of promotional mobile rates. The rate at which the number of fixed lines in service in Brazil may decline depends on many factors beyond PT's control, such as economic, social, technological and other developments in Brazil. For the year ended 31 December 2011, Oi's traditional local fixed-line telecommunication services represented 34.5 per cent. of the gross operating revenue of the Oi

Companies. Because Oi derives a significant portion of its net operating revenue from its traditional local fixed-line telecommunication services, the reduction in the number of fixed-lines in service has negatively affected and is likely to continue to negatively affect Oi's net operating revenue and margins.

Oi also competes in the market for local fixed-line services with other fixed-line service providers, primarily with Empresa Brasileira de Telecomunicações – Embratel ("Embratel"), Embratel's cable television subsidiary Net Serviços de Comunicação S.A. ("NET") and GVT S.A. ("GVT"). In addition, Oi competes in each service region with smaller companies that have been authorized by the Brazilian National Telecommunications Agency (Agência Nacional de Telecomunicações, or "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 operating revenues and results of operations.

## 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 Vivo Participações S.A. ("Vivo"), Telecom Americas Group, which markets its services under the brand name "Claro," and TIM Participações S.A. ("TIM"). Vivo, TIM and Telecom Americas Group 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 mobile services 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.

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, which has adversely affected and could continue to adversely affect Oi's results of operations. Oi's inability to compete effectively with these bundles of products and services could result in a loss of market share and adversely affect its operating revenues and profitability.

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

In Brazil, unlike in the United States and many other countries, 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 principal competitor for long-distance services is TIM, which in 2010 began aggressively promoting its longdistance services with significant discounts. Generally, callers placing long-distance calls in Brazil from their fixed-line telephones tend to select the long-distance carrier affiliated with the provider of their fixed-line service. Similarly, callers placing long-distance calls in Brazil from their mobile telephones tend to select the long-distance carrier affiliated with the provider of their mobile or fixed-line service. However, 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, aggressive discounting by TIM during 2010 and 2011 has substantially reduced the market share of Oi in the long-distance market. 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 domestic long-distance market has had and could continue to have a material adverse effect on Oi's revenues and margins.

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

Competition in data transmission services 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 that 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. In addition, increased competition for data transmission customers may require Oi to increase its marketing expenses and capital expenditures and may lead to the loss of broadband customers, in each case leading to a decrease in Oi's profitability.

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

As of 31 December 2011, the Oi Companies had total consolidated debt of R\$29,714.4 million. Oi is subject to certain financial covenants that limit its ability to incur additional debt. Its existing level of indebtedness and the requirements and limitations imposed by its debt instruments could adversely affect its 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 it and some of its subsidiaries 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 Oi is unable to incur additional debt, it 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 its profitability. In addition, cash required to serve its existing indebtedness reduces the amount available to it to make capital expenditures.

If Oi's growth in net operating revenue slows or declines in a significant manner, for any reason, it may not be able to continue servicing its debt. If it is unable to meet its debt service obligations or comply with Oi's debt covenants, it could be forced to renegotiate or refinance its indebtedness, seek additional equity capital or sell assets. It may be unable to obtain financing or sell assets on satisfactory terms, or at all.

#### Regulation and regulatory changes may have a material adverse effect on Oi's results

Telecommunications service providers in Brazil are subject to extensive regulation. 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.

Among the items on ANATEL's regulatory agenda are the following:

 ANATEL has proposed a General Plan on Competition Targets (Plano Geral de Metas de Competição), which contemplates the creation of three entities to manage information about telecommunications networks, act as an intermediary in contracts between telecommunications providers and supervise the offering of wholesale and retail data traffic services. The proposed General Plan on Competition Targets also addresses a variety of other matters, including criteria for the evaluation of telecommunications providers to determine which providers have significant market power, regulations applicable to the wholesale markets for trunk lines, backhaul, access to internet backbone and interconnection services, and regulations related to partial unbundling and/or full unbundling of the local fixed-line networks of the public regime service providers. Oi expects these new regulations, as they may be modified as a result of ANATEL's further analysis, to be adopted in 2012.

• ANATEL has proposed new regulations under which it would modify the Factor X applicable to the determination of rate increases available to public concessionaires providing fixed-line services. Oi expects these new regulations, as they may be modified as a result of ANATEL's further analysis, to be adopted in 2012.

PT cannot predict when regulations regarding these matters will be adopted or whether these regulations 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 and financial position.

Certain legislative bills seeking to terminate monthly subscription fees charged by local fixed-line service providers have been submitted to the Brazilian Congress and remain pending. In March 2008, a special committee was formed in the Brazilian House of Representatives to discuss the various proposed bills on this issue. As of the date of this annual report, no action had been taken by the committee. During 2011, monthly subscription fees represented 23.4 per cent. of Oi's gross operating revenue. The enactment of legislation terminating the monthly subscription fees would have a material adverse effect on Oi's results of operations.

PT 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 Oi's bids for new concessions upon the expiration of its existing concessions may not be successful

Oi provides fixed-line telecommunications services in certain regions of Brazil pursuant to concession agreements with the Brazilian government. These concession agreements expire on 31 December 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. Any future amendments could impose requirements on Oi that could require it to undertake significant capital expenditures or could modify the rate-setting procedures applicable to it in a manner that would 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 expects the Brazilian government 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.

# 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 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 its concession regions. 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.

On an almost weekly basis, Oi receives inquiries from ANATEL requiring information from it on its compliance with the various service obligations imposed 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 that 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 31 December 2011, the Oi Companies had recorded provisions in the amount of R\$941 million in connection with fines sought to be imposed by ANATEL on a consolidated basis. Additional fines from ANATEL or fines in excess of the provisioned amount could adversely impact Oi's financial condition and results of operations.

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.

## Oi and Contax are subject to numerous legal and administrative proceedings, which could adversely affect their business, results of operations and financial condition

Oi and Contax are subject to numerous legal and administrative proceedings. It is difficult to quantify the potential impact of these legal and administrative proceedings. Both Oi and Contax classify the risk of loss from legal and administrative proceedings as "probable," "possible" or "remote." Each company makes provisions for probable losses but does not make provisions for possible and remote losses. As of 31 December 2011, Oi and Contax, together, had recorded provisions of R\$7,059.5 million for probable losses relating to various tax, labor and civil legal and administrative proceedings against them, including provisions of R\$4,164.5 million relating to civil proceedings, R\$1,979.9 million relating to labor proceedings and R\$915.1 million relating to tax proceedings. PT's proportionally consolidated portion of these probable liabilities amounted to €760.1 million.

In addition, as of 31 December 2011, Oi and Contax, together, had claims against them totalling R\$21,553.3 million for proceedings classified as "possible" and for which they had made no provisions, including R\$1,297.1 million relating to civil proceedings, R\$1,930.7 million relating to labor proceedings and R\$18,325.5 million relating to tax proceedings. PT's proportionally consolidated portion of these possible liabilities amounted to  $\{2,345.8 \}$  million.

Oi and Contax are not required to disclose or record provisions for proceedings in which their management judges the risk of loss to be remote. However, the amounts involved in certain of the proceedings in which Oi and Contax believe their risk of loss is remote could be substantial.

Consequently, the losses to Oi and Contax, and therefore to PT, could be significantly higher than the amounts for which they have recorded provisions. If Oi or Contax were to be subject to unfavorable decisions in any legal or administrative proceedings and the losses in those proceedings were to significantly exceed the amount for which it has provisioned or involve proceedings for which it has made no provision, its 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 or Contax would have an effect on their cash flow if they are required to pay those amounts. Unfavorable decisions in these legal proceedings may, therefore, reduce the liquidity of Oi or Contax and adversely affect their, and consequently PT's, business, financial condition and results of operations.

Oi is subject to delinquencies of its accounts receivables. If it is unable to limit payment delinquencies by its customers, or if delinquent payments by its customers increase, its 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 it. In 2011, Oi recorded provisions for doubtful accounts in the amount of R\$1,093.8 million, primarily due to subscribers' delinquencies. As of 31 December 2011, Oi's provision for doubtful accounts, as a percentage of its net operating revenues, was approximately 5 per cent.

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 successfully to 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 its provision for doubtful accounts and adversely affect its financial condition and results of operations.

#### Risks Related to PT's Other International Investments

## Adverse political, economic and legal conditions in the countries where PT has investments may hinder its ability to receive dividends from its international subsidiaries

The governments of many of the countries where PT has investments have historically exercised, and continue to exercise, significant influence over their respective economies and legal systems. Countries where PT has investments may enact legal or regulatory measures that restrict the ability of its subsidiaries to make dividend payments to PT. Similarly, adverse political or economic conditions in these countries may hinder PT's ability to receive dividends from its subsidiaries. PT receives significant amounts in dividends each year from its international investments, particularly in Africa, and a limitation on PT's ability to receive a material portion of those dividends could adversely affect its cash flows and liquidity.

In addition, PT's investments in those 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, PT's 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 PT and its partners to operate these assets may have a negative impact on PT's strategy and on PT's results of operations.

All these risks may have material adverse effects on PT's results of operations.

## PT may continue to engage in acquisitions and divestments, which may be disruptive and require it to incur significant expenses

From time to time, PT has made strategic acquisitions in order to obtain various benefits such as a desire to access to growing international markets and broaden its customer base. Future acquisitions could result in the incurrence of contingent liabilities and an increase in amortization expenses related to intangible assets recognised as a result of purchase price allocations, which could have a material adverse effect upon PT's business, financial condition and results of operations. Risks PT 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 PT has 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, PT also divests parts of its business to monetize investments, obtain funds to make other investments or optimize its operations. Any decision to dispose of or otherwise exit investments may result in the recording of special charges, particularly for any business that PT consolidates or proportionally consolidates, such as workforce reduction costs and industry and technology-related write-offs. PT 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 PT's business, financial condition and results of operations.

#### PT is a party to joint ventures and partnerships that may not be successful and may expose it to future costs

PT is partner in joint ventures and partnerships. Its partnering arrangements may fail to perform as expected for various reasons, including an incorrect assessment of its needs or the capabilities or financial stability of its strategic partners. PT's ability to work with these partners or develop new products and solutions may become constrained, which could harm its competitive position in the market. Additionally, its share of any losses from or commitments to contribute additional capital to such partnerships may adversely affect its results of operations or financial position.

#### Risks Relating to the Notes issued under the Programme

#### Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

#### Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "Relevant Factor"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

#### Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

#### Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

#### Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

#### Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

#### Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

#### Risks relating to Notes cleared through Interbolsa

#### Risks related to withholding tax

Under Portuguese law, income derived from the Book Entry Notes integrated in and held through Interbolsa, as management entity of the Portuguese Centralised System (sistema centralizado, the Central de Valores Mobiliários), held by non-resident investors (both individual and corporate) are eligible for the debt securities special tax exemption regime which was approved by Decree-Law no. 193/2005, of 7 November, as amended ("Decree-Law no. 193/2005") and in force as from 1 January 2006, may benefit from withholding tax exemption, provided that certain procedures and

certification requirements are complied with. Failure to comply with these procedures and certifications will result in the application of Portuguese domestic withholding tax.

Decree-Law no. 193/2005 does not apply to Notes other than Book Entry Notes.

See details of the Portuguese taxation regime in "Taxation – Portugal".

The relevant Issuer or, where the Issuer is PTIF, the Keep Well Providers will not gross up payments in respect of any such withholding tax in any of the cases indicated in Condition 8, including failure to deliver or incorrect completion of the certificate or declaration referred to above. Accordingly, holders of Book Entry Notes must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Book Entry Notes.

#### Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the relevant Issuer, in the circumstances described in Condition 15 and 18 of the conditions of the Notes.

#### EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the relevant Issuer, the Keep Well Providers (if applicable) nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuers are required to maintain a paying agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

#### Change of law

The conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

Notes where denominations involve integral multiples: definitive Notes

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination (as defined in the Final Terms) plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of

trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

# Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

# The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

# Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

#### Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

# Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or

certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority ("ESMA") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings will be disclosed in the Final Terms.

# GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuers may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the Terms and Conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the relevant Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Final Terms attached to, or endorsed on, such Notes, as more fully described under "Form of the Notes" below.

This Offering Circular and any supplement will only be valid for listing Notes during the period of 12 months from the date of this Offering Circular in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed €7,500,000,000 or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the euro equivalent of Notes denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the relevant Notes, described under "Form of the Notes" below) shall be determined, at the discretion of the relevant Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the relevant Issuer on the relevant day of calculation;
- (b) the euro equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Final Terms in relation to the relevant Notes, described under "Form of the Notes" below) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the euro equivalent of Zero Coupon Notes (as specified in the applicable Final Terms in relation to the relevant Notes, described under "Form of the Notes" below) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the relevant Issuer for the relevant issue.

# FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons ("Coupons") attached, or registered form, without Coupons attached. Bearer Notes and Registered Notes will be offered and sold outside the United States in offshore transactions to non-U.S. persons in reliance on Regulation S. Where the Issuer is PT, the Notes will be issued in book-entry form.

#### **Bearer Notes**

Each Tranche of Bearer Notes will initially be issued in the form of either a temporary bearer global note (a "Temporary Bearer Global Note") or a permanent bearer global note (a "Permanent Bearer Global Note" and, together with a Temporary Bearer Global Note, the "Bearer Global Notes") as indicated in the applicable Final Terms, which, in either case, will, if the Bearer Global Notes are intended to be issued in new global note ("NGN") form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the "Common SafeKeeper") for Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), and if the Bearer Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the "Common Depositary") for Euroclear and Clearstream, Luxembourg. Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note if the Temporary Bearer Global Note is not intended to be issued in NGN form only to the extent that certification to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the "Exchange Date") which, in respect of each Tranche in respect of which a Temporary Bearer Global Note is issued, is the later of (i) 40 days after the Temporary Bearer Global Note is issued and (ii) 40 days after the completion of the distribution of the relevant Tranche, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant lead manager (in the case of a syndicated issue), interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts payable on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Bearer Global Note if the Permanent Bearer Global Note is not intended to be issued in NGN form without any requirement for certification. The applicable Final Terms will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not, except as provided below, in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein. Unless otherwise specified in the applicable Final Terms such exchange will take place only upon the occurrence of an Exchange Event. For these purposes, "Exchange Event" means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, (ii) the Issuer has been

notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearing system satisfactory to the relevant Issuer, the Principal Paying Agent and the Trustee is available or (iii) the relevant Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of the jurisdiction referred to in Condition 8 which would not be suffered were the Notes represented by a Permanent Bearer Global Note to be in definitive form and a certificate to such effect signed by the relevant Issuer is delivered to the Trustee. The relevant Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or the Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the relevant Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 60 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes which have an original maturity of 1 year or more and on all receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that U.S. holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment on any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

# **Registered Notes**

Registered Notes may be offered and sold in reliance on Regulation S.

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold outside the United States in offshore transactions to non-"U.S. persons" within the meaning of Regulation S under the Securities Act, will initially be represented by a global note in registered form, without Receipts or Coupons (a "Regulation S Global Note") which will be deposited with a common depositary (the "Common Depositary") or common safekeeper, (the "Common Safekeeper") as the case may be, for, Euroclear and Clearstream, Luxembourg and registered in the name of a nominee of the Common Depository for Euroclear and Clearstream, Luxembourg or in the name of a nominee of the common safekeeper. Prior to expiry of the Distribution Compliance Period (as defined in Condition 2(h)) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2, and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

Persons holding beneficial interests in Regulation S Global Notes ("Registered Global Notes") will be entitled or required, as the case may be, under the limited circumstances described below, to receive physical delivery of definitive Notes in registered form.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6(d)) as the registered holder of the Registered Global Notes. None of the Issuers, the Keep Well Providers (where PTIF is the Issuer), any Paying Agent and the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered

Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6(d)) immediately preceding the due date for payment in the manner provided in Condition 6.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "Exchange Event" means that:

- (1) an Event of Default (as defined in Condition 10) has occurred and is continuing;
- (2) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no alternative clearing system satisfactory to the relevant Issuer, the Registrar and the Trustee is available; or
- (3) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form.

The relevant Issuer will promptly give notice to the Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) or the Trustee may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (3) above, the relevant Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

## **Transfer of Interests**

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interests in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions. See "Subscription and Sale".

# **Book Entry Notes**

The Book Entry Notes will be represented in dematerialised book-entry form (forma escritural) and can either be nominativas (in which case Interbolsa, at the request of the relevant Issuer, can ask the Affiliate Members of Interbolsa (as defined below) for information regarding the identity of the Holders and transmit such information to the relevant Issuer) or ao portador (in which case Interbolsa cannot inform the relevant Issuer of the identity of the Holders). Form and title to the Book Entry Notes will be evidenced by book entries in accordance with the provisions of the Portuguese Securities Code and the applicable Comissão do Mercado de Valores Mobiliários ("CMVM") and Interbolsa regulations. No physical document of title will be issued in respect of Book Entry Notes.

The Book Entry Notes of each Series will be registered in the relevant issue account opened by the relevant Issuer with Interbolsa and will be held in control accounts by each Affiliate Member of Interbolsa on behalf of the holders of the Book Entry Notes. Such control accounts reflect at all times the aggregate of Book Entry Notes held in the individual securities accounts opened by the holders of the Book Entry Notes with each of the Affiliate Members of Interbolsa. The expression "Affiliate Member of Interbolsa" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of its customers and includes any depositary banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding such accounts with Interbolsa on behalf of Euroclear and Clearstream, Luxembourg.

Each person shown in the records of an Affiliate Member of Interbolsa as having an interest in Book Entry Notes shall be treated as the holder of the Book Entry Notes recorded therein except as otherwise required by law.

Whilst the Book Entry Notes are held through Interbolsa, payment of principal and interest in respect of the Book Entry Notes (i) in euros will be (a) credited, according to the procedures and regulations of Interbolsa, by the Portuguese paying agent (the "Portuguese Paying Agent") acting on behalf of PT from the payment current account which the Portuguese Paying Agent has indicated to, and has been accepted by, Interbolsa to be used on the Portuguese Paying Agent's behalf for payments in respect of securities held through Interbolsa to the payment current accounts held according to the applicable procedures and regulations of Interbolsa by the Affiliate Members of Interbolsa whose control accounts with Interbolsa are credited with such Book Entry Notes and thereafter (b) credited by such Affiliate Members of Interbolsa from the payment current accounts to the accounts of the Holders or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of such Book Entry Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be; and (ii) in currencies other than euros will be (a) transferred, on the payment date and according to the procedures and regulations applicable by Interbolsa, from the account held by the Portuguese Paying Agent in the Foreign Currency Settlement System (Sistema de Liquidação em Moeda Estrangeira), managed by Caixa Geral de Depósitos, S.A., to the relevant accounts of the relevant Affiliate Members of Interbolsa, and thereafter (b) transferred by such Affiliate Members of Interbolsa from such relevant accounts to the accounts of the owners of those Book Entry Notes or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear Bank and Clearstream, Luxembourg of the beneficial owners of those Book Entry Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

Book Entry Notes held through Interbolsa may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes to hold such Book Entry Notes. No owner of Book Entry Notes will be able to transfer such Book Entry Notes, except in accordance with Portuguese law and the applicable procedures established by the CMVM and Interbolsa.

#### General

Pursuant to the Agency Agreement (as defined under "Terms and Conditions of the Notes"), the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until on or after the Exchange Date (in the case of Bearer Notes) or until at least the expiry of the Distribution Compliance Period (in the case of Registered Notes) applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Bearer Global Note or a Regulation S Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the relevant Issuer, each Keep Well Provider (where PTIF is the Issuer) and their agents and the Trustee as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Regulation S Global Note shall be treated by the relevant Issuer, each Keep Well Provider (where PTIF is the Issuer) and their agents and the Trustee as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Bearer Global Note or relevant Regulation S Global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly.

In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the relevant Issuer, the Principal Paying Agent or the Registrar (as the case may be) and the Trustee.

# FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Notes issued under the Programme with a denomination of less than EUR100,000 (or its equivalent in another currency) will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

[Date]

# Portugal Telecom, SGPS, S.A.

(incorporated with limited liability under the laws of the Portuguese Republic)

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] under the €7,500,000,000 Euro Medium Term Note Programme.

[The Offering Circular referred to below (as completed by these Final Terms) has been prepared on the basis that, except as provided in sub-paragraph (ii) below, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer of the Notes may only do so:

- (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer; or
- (ii) in those Public Offer Jurisdictions mentioned in Paragraph 35 of Part A below, provided such person is one of the persons mentioned in Paragraph 35 of Part A below and that such offer is made during the Offer Period specified for such purpose therein.

Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances.]

[The Offering Circular referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances.]

The expression "Prospectus Directive" means Directive 2003/71/EC

# PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 1 June 2012 [and the supplement to the Offering Circular dated [ ]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular [and the supplement to the Offering Circular]. The Offering Circular [is/are] available for viewing at [address] and [website] and copies may be obtained from [address].

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the Conditions) set forth in the Offering Circular dated [original date] which are incorporated by reference in the Offering Circular dated 1 June 2012 [and the supplement to the Offering Circular dated [in ]]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive") and must be read in conjunction with the Offering Circular dated 1 June 2012 [and the supplement to the Offering Circular dated [in ]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular dated 1 June 2012 [and the supplements to such Offering Circular dated [in ]. Copies of such Offering Circular [and the supplements to such Offering Circular] are available for viewing at [address] [and] [website] and copies may be obtained from [address].

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1.	Issuer:	[ ]
2.	(a) Series Number:	[ ]
	(b) Tranche Number:	[ ]
		(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3.	Specified currency or Currencies	[ ] (N.B. Book Entry Notes may only be denominated in Euro, U.S. dollars, Canadian dollars, sterling, Japanese Yen and Swiss francs, or in such other currency as can be settled through Interbolsa)
4.	Aggregate Nominal Amount	
	(a) Series:	[ ]
	(b) Tranche:	[ ]
5.	Issue Price of Tranche:	[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
6.	Specified Denominations:	[ ]

(N.B. if an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €1,000 minimum denomination is not required.) [in the case of Registered Notes, this means the minimum integral amount in which transfers can be made.]

(a) Calculation Amount:

[ ]

(If only one Specified Denomination, insert the Specified Denomination.

If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)

7. (a) Issue Date

[ ]

(b) Interest Commencement Date:

[specify/Issue Date/Not Applicable]

(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)

8. Maturity Date

[Fixed rate - specify date/Floating rate - Interest Payment Date falling in or nearest to [specify month]]

9. Interest Basis:

[[ ] per cent. Fixed Rate]

[[LIBOR/EURIBOR] +/- [ ] per cent.

Floating Rate]
[Zero Coupon]

[Index Linked Interest]

[Dual Currency Interest]

[specify other]

(further particulars specified below)

10. Redemption/Payment Basis:

[Redemption at par]

[Index Linked Redemption]

[Dual Currency Redemption]

[Partly Paid]

[Instalment]

[specify other]

(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Commission Regulation (EC) No. 809/2004 of 29 April, 2004 (the "Prospectus Directive Regulation") will apply.)

11.		nge of Interest Basis or Redemption ment Basis:	[Specify details of any provision for change of Notes into another Interest Basis or Redemptionl Payment Basis]
12.	Put/	Call Options	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	(a)	Status of the Notes:	[Senior/[Dated/Perpetual] Subordinated]
	(b)	Date [Board] approval for issuance of Notes obtained:	[ ]
			(N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Notes)
14.	Met	hod of distribution:	[Syndicated/Non-syndicated]
PRO	OVISI	ONS RELATING TO INTEREST (IF ANY	Y) PAYABLE
15.		ed Rate Note Provisions	[Applicable/Not Applicable]
			(If not applicable, delete the remaining sub- paragraphs of this paragraph)
	(a)	Rate[(s)] of Interest	[ ] per cent. per annum [payable [annually/semi-annually/quarterly/other (specify)] in arrear]
	(b)	Interest Payment Date(s)	[ ] in each year up to and including the Maturity Date]/[specify other]
			(N.B. This will need to be amended in the case of long or short coupons)
	(c)	Fixed Coupon Amount[(s)]: (Applicable to Notes in definitive form)	[ ] per Calculation Amount
	(d)	Broken Amount(s): (Applicable to Notes in definitive form)	[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]
	(e)	Day Count Fraction:	[Actual/Actual (ICMA) or 30/360 or [specify other]]
	(f)	[Determination Date(s):	[ ] in each year
			(Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon
			N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration
			N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))]
	(g)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/Give details]
16.	Floa	ating Rate Note Provisions	[Applicable/Not Applicable]
			(If not applicable, delete the remaining sub- paragraphs of this paragraph)
	(a)	Specified Period(s)/Specified Interest Payment Dates:	[ ]

(b)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention [specify other]]
(c)	Additional Business Centre(s):	[ ]
(d)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/specify other]
(e)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[ ]
(f)	Screen Rate Determination:	
	— Reference Rate:	[ ]
		(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)
	— Interest Determination Date(s):	[ ]
		(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET 2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
	— Relevant Screen Page:	[ ]
		(In the case of EURIBOR, if not Reuters EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
(g)	ISDA Determination:	
ν.Ο,	— Floating Rate Option:	[ ]
	— Designated Maturity:	
	— Reset Date:	
(h)	Margin(s):	[+/-] [ ] per cent. per annum
(i)	Minimum Rate of Interest:	per cent. per annum
(j)	Maximum Rate of Interest:	per cent. per annum
(k)	Day Count Fraction:	[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA)
		Other]
		(See Condition 5 for alternatives)
(1)	Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Terms and	[ ]

Conditions:

17.	Zero	Coupon Note Provisions:	[Applicable/Not Applicable]
			(If not applicable, delete the remaining sub- paragraphs of this paragraph)
	(a)	Accrual Yield:	[ ] per cent. per annum
	(b)	Reference Price:	[ ]
	(c)	Any other formula/basis of determining amount payable:	[ ]
	(d)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 7(e)(iii) and 7(j) apply/specify other]
			(Consider applicable Day Count Fraction if not U.S. dollar denominated)
18.	Inde	x Linked Interest Note Provisions:	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
			(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)
	(a)	Index/Formula:	[give or annex details]
	(b)	Calculation Agent:	[give name (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)]
	(c)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent):	[ ]
	(d)	Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[Need to include a description of market disruption or settlement disruption events and adjustment provisions]
	(e)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(f)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
	(g)	Additional Business Centre(s):	[ ]
	(h)	Minimum Rate of Interest:	[ ] per cent. per annum
	(i)	Maximum Rate of Interest:	[ ] per cent. per annum
	(j)	Day Count Fraction:	[ ]
19.	Dua	l Currency Note Provisions	[Applicable/Not Applicable]
			(If not applicable, delete the remaining sub- paragraphs of this paragraph)

1 b F X	00 per e deriv Prospec	the Final Redemption Amount is other than cert. of the nominal value of the Notes will vative securities for the purposes of the cetus Directive and the requirements of Annex the Prospectus Directive Regulation will	
	(a)	Rate of Exchange/method of calculating Rate of Exchange:	[give or annex details]
	(b)	Party, if any, responsible for calculating the principal and/or interest due (if not the Agent):	[ ]
	(c)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[ ] (need to include a description of market disruption or settlement disruption events and adjustment provisions)
	(d)	Person at whose option Specified Currency(ies) is/are payable:	[ ]
PRO	OVISI	ONS RELATING TO REDEMPTION	
20.	Issue	er Call:	[Applicable/Not Applicable]
			(If not applicable, delete the remaining sub- paragraphs of this paragraph)
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/specify other/see Appendix]
	(c)	If redeemable in part:	[ ]
		(i) Minimum Redemption Amount:	[ ]
		(ii) Maximum Redemption Amount:	[ ]
	(d)	Notice period (if other than as set out in the Terms and Conditions):	[ ]
			(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)
21.	Inve	stor Put:	[Applicable/Not Applicable]
			(If not applicable, delete the remaining sub- paragraphs of this paragraph)
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/specify other/see Appendix]
	(c)	Notice period (if other than as set out in the Terms and Conditions):	[ ]
			(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other

22. Final Redemption Amount:

notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)

[[ ] per Calculation Amount/specify other/see Appendix]

(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)

23. Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)):

[[ ] per Calculation Amount/specify other/see Appendix]

# GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 24. Form of Notes:
  - (a) Form:

[Book Entry Notes: *nominativas*/Book Entry Notes: *ao portador*]

[Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December 2005.\*]

(Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves.)

[Yes][No][N.B. Not applicable to Book Entry Notes]

25. Additional Financial Centre(s) or other special provisions relating to Payment Days:

(b) New Global Note:

[Not Applicable/give details]

(Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 16(c) and 18(g) relate)

[Yes/No. If yes, give details]

- 26. Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature):
- 27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:

28. Details relating to Instalment Notes:

(a) Instalment Amount(s):

(b) Instalment Date(s):

29. Redenomination applicable:

[Not Applicable/give details. N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]

[Not Applicable/give details]

[Not Applicable/give details]

Redenomination [not] applicable

[(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions

<sup>\*</sup> Include for Notes that are to be offered in Belgium.

necessary to deal with floating rate interest calculation (including alternative reference rates))][(if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms)]

30. Other final terms: [Not Applicable/give details]

[(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)]

(Consider including a term providing for tax certification if required to enable interest to be paid gross by issuers)

# DISTRIBUTION

31. (a) If syndicated, names and addresses of Managers and underwriting commitments:

[Not Applicable/give names, addresses and underwriting commitments]

(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)

(b) Date of [Subscription Agreement]:

(c) Stabilising Manager(s) (if any):

32. If non-syndicated, name and address of relevant Dealer:

- 33. Total commission and concession:
- 34. U.S. Selling Restrictions:
- 35. Non exempt Offer:

[Not Applicable/give names]

[Not Applicable/give name and address]

[ ] per cent. of the Aggregate Nominal Amount

[Reg. S Compliance Category/TEFRA D/TEFRA C/TEFRA not applicable]

(N.B. Book Entry Notes must be TEFRA C)

[Not Applicable] [An offer of the Notes may be made by the Managers [and [specify names of other financial intermediaries/placers making non-exempt offers, to the extent known OR consider a generic description of other parties involved in non-exempt offers (e.g. "other parties authorised by the Managers") or (if relevant) note that other parties may make non-exempt offers in the Public Offer Jurisdictions during the Offer Period, if not known]] (together with the Managers, the "Financial Intermediaries") other than pursuant to Article 3(2) of the Prospectus Directive in [specify relevant Member State(s) – which must be jurisdictions where the Offering Circular and any supplements have been passported (in addition to the jurisdiction where approved and published)] ("Public Offer Jurisdictions") during the period from [specify date] until [specify date or a formula such as "the Issue Date" or "the date which falls

[ ] Business Days thereafter"] ("Offer Period"). See further Paragraph 10 of Part B below.

(N.B. Consider any local regulatory requirements necessary to be fulfilled so as to be able to make a non-exempt offer in relevant jurisdictions. No such offer should be made in any relevant jurisdiction until those requirements have been met. Non-exempt offers may only be made into jurisdictions in which the base prospectus (and any supplement) has been notified/passported.)

36. Additional Selling Restrictions:

[Not Applicable/give details]

#### **PURPOSE OF FINAL TERMS**

These Final Terms comprise the final terms required for issue [and] [public offer in the Public Offer Jurisdictions] [and] [specify relevant regulated market and, if relevant, admission to an official list] pursuant to the €7,500,000,000 Euro Medium Term Note Programme of Portugal Telecom International Finance B.V. and Portugal Telecom, SGPS, S.A.

# RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[Relevant third party information, for example in compliance with Annex XII to the Prospectus Directive Regulation in relation to an index or its components] has been extracted from [specify source]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

By:

Duly authorised

# **PART B – OTHER INFORMATION**

# 1. LISTING AND ADMISSION TO TRADING

(i) Listing and Admission to trading:

[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on, [specify relevant regulated market and, if relevant, admission to an official list] with effect from [ ].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [specify relevant regulated market and, if relevant, admission to an official list] with effect from [ ].] [Not Applicable.]

(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)

# 2. RATINGS

Ratings:

[The Notes to be issued [[have been]/[are expected to be]] rated [insert details] by [insert the legal name of the relevant credit rating agency entity(ies)].]

[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

[[Insert the legal name of the relevant CRA entity] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). [As such [insert the legal name of the relevant CRA entity] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.]]

[[Insert the legal name of the relevant non-EU CRA entity] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009 (as amended)[. [Insert the legal name of the relevant non-EU CRA entity] is therefore not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation].]

[[Insert the legal name of the relevant non-EU CRA entity] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation"). The ratings have been endorsed by [insert the legal name of the relevant EU-registered CRA entity] in accordance with the CRA Regulation. [Insert the legal name of the relevant EU CRA entity] is established in the European Union and

registered under the CRA Regulation[. As such [insert the legal name of the relevant EU CRA entity] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation].] The European Securities Markets Authority has indicated that ratings issued in [Japan/Australia/the USA/Canada/Hong Kong/Singapore/Argentina/Mexico (delete as appropriate)] which have been endorsed by [insert the legal name of the relevant EU CRA entity that applied for registration] may be used in the EU by the relevant market participants.]

[[Insert the legal name of the relevant non-EU CRA entity] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation"), but it [is]/ [has applied to be] certified in accordance with the CRA Regulation[[ [EITHER:] and it is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation [[OR:] although notification of the corresponding certification decision has not yet been provided by the European Securities and Markets Authority and [insert the legal name of the relevant non-EU CRA entity] is not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation].]

# 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – Amend as appropriate if there are other interests]

[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)]

# 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i) Reasons for the offer	[ ] (See [''Use of Proceeds''] wording in Offering Circular – if reasons for offer different from making profit andlor hedging certain risks will need to include those reasons here.)]
[(ii)]Estimated net proceeds:	[ ] (If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)

[(iii)] Estimated total expenses:

[Expenses are required to be broken down into each principal intended "use" and presented in order of priority of such "uses".]

(N.B.: If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies (i) above is required where the reasons for the offer are different from making profit andlor hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)

5. YIELD (Fixed Rate Notes only)

Indication of yield:

[ ]

1

[Calculated as [include details of method of calculation in summary form] on the Issue Date.]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

**6. HISTORIC INTEREST RATES** (*Floating Rate Notes only*)

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

# 7. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (Index-Linked Notes only)

[If there is a derivative component in the interest or the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]

(N.B. The requirements below only apply if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained.]

[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]

[(When completing the above paragraphs, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)]

The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained] [does not intend to provide post-issuance information].

# 8. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (Dual Currency Notes only)

[If there is a derivative component in the interest or the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]

(N.B. The requirement below only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)

# 9. OPERATIONAL INFORMATION

/ * *	TOTAL	$\sim$ 1
(i	1 1212	Code:
11	1 1011	Couc.

- (ii) Common Code:
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s) and Interbolsa-Sociedade Gestora Sistemas de Liquidação & de Sistemas Centralizados de Valores Mobiliários, S.A., as operator of the Central de Valores Mobiliários:
- (iv) Delivery:
- (v) Names and addresses of additional Paying Agent(s) (if any):
- (vi) Intended to be held in a manner which would allow Eurosystem eligibility:

[	]
[	]

[Not Applicable/give name(s) and number(s)]

Delivery [against/free of] payment

[Yes] [No]

[Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper, [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is held under the NSS] [include this text for Registered Notes which are to be held under the NSS], or registered with Interbolsa-Sociedade Gestora de Sistemas de Liquidação & de Sistemas Centralizados de Valores Mobiliários, S.A. in its capacity as securities settlement system and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] [include this text if "yes" selected in which case Bearer Notes must be issued in NGN form]

# 10. TERMS AND CONDITIONS OF THE OFFER

Offer Price:

[Conditions to which the offer is subject:]

[Description of the application process]:

[Details of the minimum and/or maximum amount of application]:

[Issue Price/Not applicable/specify]

[Not applicable/give details]

[Not applicable/give details]

[Not applicable/give details]

[Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants]:

[Not applicable/give details]

[Details of the method and time limits for paying up and delivering the Notes:]

[Not applicable/give details]

[Manner in and date on which results of the offer are to be made public:]

[Not applicable/give details]

[Procedure for exercise of any right of preemption, negotiability of subscription rights and treatment of subscription rights not exercised:] [Not applicable/give details]

[Categories of potential investors to which the Notes are offered and whether tranche(s) have been reserved for certain countries:] [Not applicable/give details]

[Process for notification to applicants of the amount allotted and the indication whether dealing may begin before notification is made:]

[Not applicable/give details]

[Amount of any expenses and taxes specifically charged to the subscriber or purchaser:]

[Not applicable/give details]

[Name(s) and address(es), to the extent known to the Issuer, of the placers in the various countries where the offer takes place.]

[None/give details]

# FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Notes issued under the Programme with a denomination of at least EUR100,000 (or its equivalent in another currency) will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

[Date]

# [Portugal Telecom International Finance B.V.

(a private company with limited liability incorporated under the laws of The Netherlands and having its corporate seat in Amsterdam, The Netherlands)]

#### [Portugal Telecom, SGPS, S.A.

(incorporated with limited liability under the laws of the Portuguese Republic)]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] under the €7,500,000,000 Euro Medium Term Note Programme.

[with the benefit of a Keep Well Agreement given by Portugal Telecom SGPS, S.A.

(incorporated with limited liability under the laws of the Portuguese Republic)

and with the benefit of a Keep Well Agreement given by PT Comunicações, S.A.

(incorporated with limited liability under the laws of the Portuguese Republic)]

#### PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 1 June 2012 [and the supplement to the Offering Circular dated [ ]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular [and the supplement to the Offering Circular]. The Offering Circular [is/are] available for viewing at [address] and [website] and copies may be obtained from [address].

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the Conditions) set forth in the Offering Circular dated [original date] which are incorporated by reference in the Offering Circular dated 1 June 2012 and are attached hereto [and the supplement to the Offering Circular dated []]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive") and must be read in conjunction with the Offering Circular dated 16 June 2011 [and the supplement to the Offering Circular dated []] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular dated 1 June 2012 [and the supplements to such Offering Circular dated []. Copies of such Offering Circular [and the supplements to such Offering Circular] are available for viewing at [address] [and] [website] and copies may be obtained from [address].

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

	,	, ,
1.	Issuer:	[ ]
2.	(a) Series Number:	[ ]
	(b) Tranche Number:	[ ]
		(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3.	Specified currency or Currencies	[ ]
		(N.B. Book Entry Notes may only be denominated in Euro, U.S. dollars, Canadian dollars, sterling Japanese Yen and Swiss francs, or in such other currency as can be settled through Interbolsa)
4.	Aggregate Nominal Amount	
	(a) Series:	[ ]
	(b) Tranche:	[ ]
5.	Issue Price of Tranche:	[ ] per cent. of the Aggregate Nomina Amount [plus accrued interest from [insert date (if applicable)]
6.	(a) Specified Denominations:	[ ]
		(N.B. Following the entry into force of Directive 2010/73/EU ("the 2010 PD Amending Directive") on 31 December 2010 Notes to be admitted to

(N.B. Following the entry into force of Directive 2010/73/EU ("the 2010 PD Amending Directive") on 31 December 2010, Notes to be admitted to trading on a regulated market within the European Economic Area with a maturity date which will fall after the implementation date of the 2010 PD Amending Directive in the relevant European Economic Area Member State (which is due to be no later than 1 July 2012) must have a minimum denomination of EUR 100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities. Similarly, Notes issued after the implementation of the 2010 PD Amending Directive in a Member State must have a minimum denomination of EUR 100,000 (or equivalent) in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State.)

(Note — where multiple denominations above  $[ \in 50,000 ]$  or equivalent are being used the following sample wording should be followed:"  $[ \in 50,000 ]$  and integral multiples of  $[ \in 1,000 ]$  in excess thereof up to and including  $[ \in 99,000 ]$ . No Notes in definitive form will be issued with a denomination above  $[ \in 99,000 ]$ ."

[€100,000] or equivalent are being used the following sample wording should be followed: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].")

(Note – where multiple denominations above

(N.B. if an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €100,000 minimum denomination is not required.) [in the case of Registered Notes, this means the minimum integral amount in which transfers can be made.]

Γ

(If only one Specified Denomination, insert the Specified Denomination.

If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)

]

[specify/Issue Date/Not Applicable]

(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)

[Fixed rate - specify date|Floating rate — Interest Payment Date falling in or nearest to [specify month]]

[ ] per cent. Fixed Rate]

[[LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate]

[Zero Coupon]

[Index Linked Interest]

[Dual Currency Interest]

[specify other]

(further particulars specified below)

[Redemption at par]

[Index Linked Redemption]

[Dual Currency Redemption]

[Partly Paid]

[Instalment]

[specify other]

(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Commission Regulation (EC) No. 809/2004 of 29 April, 2004 (the "Prospectus Directive Regulation") will apply.)

- (b) Calculation Amount:
- 7. (a) Issue Date
  - (b) Interest Commencement Date;
- 8. Maturity Date
- 9. Interest Basis:

10. Redemption/Payment Basis:

11.		nge of Interest Basis or Redemption ment Basis:	[Specify details of any provision for change of Notes into another Interest Basis or Redemption/ Payment Basis]
12.	Put/	Call Options	[Investor Put – Change of Control] [Investor Put – Other] [Issuer Call] [(further particulars specified below)]
13.	(a)	Status of the Notes:	[Senior/[Dated/Perpetual] Subordinated]
	(b)	Date [Board] approval for issuance of Notes obtained:	[ ]
			(N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Notes)
14.	Met	hod of distribution:	[Syndicated/Non-syndicated]
PRO	OVISI	IONS RELATING TO INTEREST (IF AN	Y) PAYABLE
15.	Fixe	ed Rate Note Provisions	[Applicable/Not Applicable]
			(If not applicable, delete the remaining subparagraphs of this paragraph)
	(a)	Rate[(s)] of Interest	[ ] per cent. per annum [payable [annually/semi-annually/quarterly/other (specify)] in arrear]
	(b)	Interest Payment Date(s)	[ ] in each year up to and including the Maturity Date]/[specify other]
			(N.B. This will need to be amended in the case of long or short coupons)
	(c)	Fixed Coupon Amount[(s)]: (Applicable to Notes in definitive form)	[ ] per Calculation Amount
	(d)	Broken Amount(s): (Applicable to Notes in definitive form)	[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]
	(e)	Day Count Fraction:	[Actual/Actual (ICMA) or 30/360 or [specify other]]
	(f)	[Determination Date(s):	[ ] in each year
			(Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon
			N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration
			N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))]
	(g)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/Give details]
16.	Floa	ating Rate Note Provisions	[Applicable/Not Applicable]
			(If not applicable, delete the remaining sub- paragraphs of this paragraph)

(a)	Specified Period(s)/Specified Interest Payment Dates:	
(b)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention [specify other]]
(c)	Additional Business Centre(s):	
(d)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination. specify other]
(e)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[ ]
(f)	Screen Rate Determination:	
	— Reference Rate:	[ ]
		(Either LIBOR, EURIBOR or other, although additional information is required if other including fallback provisions in the Agency Agreement)
	— Interest Determination Date(s):	[ ]
		(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the
		TARGET 2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
	— Relevant Screen Page:	[ ]
		(In the case of EURIBOR, if not Reuters EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
(g)	ISDA Determination:	
	— Floating Rate Option:	[ ]
	— Designated Maturity:	[ ]
	— Reset Date:	[ ]
(h)	Margin(s):	[+/-] [ ] per cent. per annum
(i)	Minimum Rate of Interest:	[ ] per cent. per annum
(j)	Maximum Rate of Interest:	[ ] per cent. per annum
(k)	Day Count Fraction:	[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA) Other] (See Condition 5 for alternatives)
(1)	Fall back provisions, rounding provisions and any other terms relating	

to the method of calculating interest on Floating Rate Notes, if different from those set out in the Terms and Conditions:

17.	Zero	Coupon Note Provisions:	[Applicable/Not Applicable]
			(If not applicable, delete the remaining sub- paragraphs of this paragraph)
	(a)	Accrual Yield:	[ ] per cent. per annum
	(b)	Reference Price:	[ ]
	(c)	Any other formula/basis of determining amount payable:	[ ]
	(d)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 7(e)(iii) and 7(j) apply/specify other]
			(Consider applicable Day Count Fraction if not U.S. dollar denominated)
18.	Inde	x Linked Interest Note Provisions:	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph) (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)
	(a)	Index/Formula:	[give or annex details]
	(b)	Calculation Agent:	[give name (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)]
	(c)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent):	[ ]
	(d)	Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[Need to include a description of market disruption or settlement disruption events and adjustment provisions]
	(e)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(f)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
	(g)	Additional Business Centre(s):	[ ]
	(h)	Minimum Rate of Interest:	[ ] per cent. per annum
	(i)	Maximum Rate of Interest:	[ ] per cent. per annum
	(j)	Day Count Fraction:	[ ]

19.	Dua	1 Currency Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph) (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value of the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply)
	(a)	Rate of Exchange/method of calculating Rate of Exchange:	will apply) [give or annex details]
	(b)	Party, if any, responsible for calculating the principal and/or interest due (if not the Agent):	[ ]
	(c)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[ ] (need to include a description of market disruption or settlement disruption events and adjustment provisions)
	(d)	Person at whose option Specified Currency(ies) is/are payable:	[ ]
PRO	VISI	ONS RELATING TO REDEMPTION	
20.	Issuer Call:		[Applicable/Not Applicable]
			(If not applicable, delete the remaining sub- paragraphs of this paragraph)
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/specify other/see Appendix]
	(c)	If redeemable in part:	[ ]
		(i) Minimum Redemption Amount:	[ ]
		(ii) Maximum Redemption Amount:	[ ]
	(d)	Notice period (if other than as set out in the Terms and Conditions):	[ ]
			(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)
21.	Investor Put:		[Applicable/Not Applicable]
			(If not applicable, delete the remaining sub- paragraphs of this paragraph)
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount(s) and method, if any, of calculation of such	[[ ] per Calculation Amount/specify other/see Appendix]

amount(s):

(c) Notice period (if other than as set out [ ] in the Terms and Conditions):

(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)

22. Final Redemption Amount:

[[ ] per Calculation Amount/specify other/see Appendix]

(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)

23. Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)):

[[ ] per Calculation Amount/specify other/see Appendix]

# GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 24. Form of Notes:
  - (a) Form:

[Bearer Notes:

[Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Bearer Notes [on 60 days' notice given at any time/only upon an Exchange Event].]

[Temporary Bearer Global Note exchangeable for Definitive Bearer Notes on and after the Exchange Date.]

[Permanent Bearer Global Note exchangeable for Definitive Bearer Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time upon the request of the Issuer]]]

[Book Entry Notes: *nominativas*/Book Entry Notes: *ao portador*]

[Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December 2005.\*]

(Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves.)

N.B. The exchange upon noticelat any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph

<sup>\*</sup> Include for Notes that are to be offered in Belgium.

6(a) includes language substantially to the "[€100,000] and integral following effect: multiples of [€1,000] in excess thereof up to and including [€199,000]." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)

# [Registered Notes:

Regulation S Global Note ([currency][ nominal amount registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg]/[a common safekeeper for Euroclear and Clearstream. Luxembourg)]

[Yes][No] [N.B. Not applicable to Book Entry Notes]

[Not Applicable/give details]

(Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 16(c) and 18(g) relate)

[Yes/No. If yes, give details]

[Not Applicable/give details. N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues

- (b) New Global Note:
- 25. Additional Financial Centre(s) or other special provisions relating to Payment Days:
- Talons for future Coupons or Receipts to be 26. attached to Definitive Bearer Notes (and dates on which such Talons mature):
- 27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:
- 28. Details relating to Instalment Notes:
  - Instalment Amount(s):
  - (b) Instalment Date(s):
- 29. Redenomination applicable:

[Not Applicable/give details] [Not Applicable/give details]

Redenomination [not] applicable

[(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))][(if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms)]

[Not Applicable/give details]

[(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)]

(Consider including a term providing for tax certification if required to enable interest to be paid gross by issuers)

30. Other final terms:

#### DISTRIBUTION

31. (a) If syndicated, names of Managers: [Not Applicable/give names]

> (If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, include names of entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the

Managers.)

(b) Date of [Subscription Agreement]:

(The above is only relevant if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies).

Stabilising Manager(s) (if any): [Not Applicable/give names] 32. If non-syndicated, name of relevant Dealer: [Not Applicable/give name]

34. U.S. Selling Restrictions: [Reg. S Compliance Category/TEFRA D/TEFRA

C/TEFRA not applicable]

(N.B. Book Entry Notes must be TEFRA C)

35. Additional Selling Restrictions: [Not Applicable/give details]

# PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the London Stock Exchange's regulated market and the Official List of the UK Listing Authority of the Notes described herein pursuant to the €7,500,000,000 Euro Medium Term Note Programme of Portugal Telecom International Finance B.V. and Portugal Telecom, SGPS, S.A.

# RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[Relevant third party information, for example in compliance with Annex XII to the Prospectus Directive Regulation in relation to an index or its components] has been extracted from [specify source]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

By:

Duly authorised

# PART B - OTHER INFORMATION

1

#### 1. LISTING AND ADMISSION TO TRADING

(i) Listing and Admission to trading:

[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on, the London Stock Exchange's regulated market and listed on the Official List of the UK Listing Authority) with effect from [ ].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market listed on the Official List of the UK Listing Authority) with effect from [ ].] [Not Applicable.]

(ii) Estimate of total expenses related to admission to trading:

#### 2. RATINGS

Ratings:

[The Notes to be issued [[have been]/[are expected to be]] rated [insert details] by [insert the legal name of the relevant credit rating agency entity(ies)].]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

[[Insert the legal name of the relevant CRA entity] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). [As such [insert the legal name of the relevant CRA entity] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.]]

[[Insert the legal name of the relevant non-EU CRA entity] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009 (as amended)[. [Insert the legal name of the relevant non-EU CRA entity] is therefore not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation].]

[[Insert the legal name of the relevant non-EU CRA entity] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation"). The ratings have been endorsed by [insert the legal name of the relevant EU-registered CRA entity] in accordance with the CRA Regulation. [Insert the legal name of the relevant EU CRA entity] is established in the European Union and registered under the CRA Regulation[. As such [insert the legal name of the relevant EU CRA

entity] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation].] The European Securities Markets Authority has indicated that ratings issued in [Japan/Australia/the USA/Canada/Hong Kong/Singapore/Argentina/Mexico (delete as appropriate)] which have been endorsed by [insert the legal name of the relevant EU CRA entity that applied for registration] may be used in the EU by the relevant market participants.]

[[Insert the legal name of the relevant non-EU CRA entity] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation"), but it [is]/ [has applied to be] certified in accordance with the CRA Regulation[[ [EITHER:] and it is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation [[OR:] although notification of the corresponding certification decision has not yet been provided by the European Securities and Markets Authority and [insert the legal name of the relevant non-EU CRA entity] is not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation].]

#### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – Amend as appropriate if there are other interests]

[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)]

# 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

		[(N.B)]	:	Delete	и
[(iii)]	Estimated total expenses:	[	]		
[(ii)]	Estimated net proceeds:	[	]		
[(i)	Reasons for the offer	l	]		

[(N.B.: Delete unless the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, in which case (i) above is required where the reasons for the offer are different from making profit andlor hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)]

5.	YIE	LD (Fixed Rate Notes only)						
		cation of yield:	[ ]					
			The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of tuture yield.					
6.		RFORMANCE OF INDEX/FORMULA AND DERLYING (Index-Linked Notes only)	D OTHER INFORMATION CONCERNING THE					
	[Nee	[Need to include details of where past and future performance and volatility of the index!formula can be obtained.]						
	[Where the underlying is an index need to include the name of the index and a description is composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained.]							
		[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]						
	desc	[(When completing the above paragraphs, consideration should be given as to whether such matter, described constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)]						
	The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained] [does not intend to provide post-issuance information].							
		3. This paragraph 6 only applies if the Not Prospectus Directive Regulation applies.)	tes are derivative securities to which Annex XII o					
7.	[Ne	PERFORMANCE OF RATE[S] OF EXCHANGE (Dual Currency Notes only) [Need to include details of where past and future performance and volatility of the relevant rate can be obtained.]						
	desc	[(When completing this paragraph, consideration should be given as to whether such matter, described constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)]						
		(N.B. This paragraph 7. only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)						
8.	OPI	OPERATIONAL INFORMATION						
	(i)	ISIN Code:	[ ]					
	(ii)	Common Code:						
	(iii)	Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s) and Interbolsa-Sociedade Gestora Sistemas de Liquidação & de Sistemas Centralizados de Valores Mobiliários, S.A., as operator of the Central de Valores Mobiliários:	[Not Applicable/give name(s) and number(s)]					
	(iv)	Delivery:	Delivery [against/free of] payment					

(v) Names and addresses of additional [ ]

Paying Agent(s) (if any):

(vi) Intended to be held in a manner which would allow Eurosystem eligibility:

[Yes] [No]

[Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper, [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is held under the NSS] [include this text for Registered Notes which are to be held under the NSS], or registered with Interbolsa-Sociedade Gestora de Sistemas de Liquidação & de Sistemas Centralizados de Valores Mobiliários, S.A. in its capacity as securities settlement system and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] [include this text if "yes" selected in which case Bearer Notes must be issued in NGN form

#### TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions of the Notes (the "Terms and Conditions") which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant listing authority, stock exchange andlor quotation system (if any) and agreed by the Issuer and the relevant Dealers at the time of issue but, if not so permitted (where applicable) and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by an Issuer (the "Issuer") which will be, as specified in the Final Terms (as defined below), either Portugal Telecom International Finance B.V. ("PTIF") or Portugal Telecom, SGPS, S.A. ("PT") and (except in the case of Notes issued by PT in book-entry form ("Book Entry Notes")) constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time (the "Trust Deed")) dated 1 June 2012, between PTIF, PT, PT Comunicações, S.A. ("PTC") and Citicorp Trustee Company Limited (the "Trustee", which expression shall include any successor trustee). Book Entry Notes are integrated in the Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. ("Interbolsa") book-entry system and governed by these Terms and Conditions, certain provisions of the Trust Deed as provided therein and a deed poll given by PT in favour of the holders of Book Entry Notes dated 1 June 2012 (the "Interbolsa Instrument").

References herein to the "Notes" shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note (a "Global Note"), units of the lowest Specified Denomination in the specified currency;
- (ii) any Global Note;
- (iii) any definitive Notes in bearer form ("Definitive Bearer Notes") issued in exchange for a Global Note in bearer form;
- (iv) any definitive Notes in registered form ("Definitive Registered Notes") (whether or not issued in exchange for a Global Note in registered form); and
- (v) Book Entry Notes, which will be held through Interbolsa. Book Entry Notes will only be issued by PT, and will not be issued by PTIF.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the "Agency Agreement") dated 1 June 2012 and made between PTIF, PT, PTC, Citibank, N.A., London office, as issuing and principal paying agent and agent bank (in such capacity the "Principal Paying Agent", which expression shall include any successor principal paying agent), the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression shall include any additional or successor paying agents), Citibank, N.A., New York office as registrar (in such capacity, the "Registrar", which expression shall include any successor registrar) and as a transfer agent, the other transfer agents named therein (together with the Registrar, the "Transfer Agents", which expression shall include any additional or successor transfer agents) and the Trustee. In the case of Book Entry Notes, Citibank International plc, Sucursal em Portugal will be the paying agent in Portugal (the "Portuguese Paying Agent").

The Notes, the Receipts and the Coupons also have the benefit of a Keep Well Agreement dated 7 November 2006 between PT and PTIF and a Keep Well Agreement dated 7 November 2006 between PTC and PTIF (each such agreement as amended and/or supplemented and/or restated from time to time, a "Keep Well Agreement"). References herein to the "Keep Well Providers" shall mean PT and PTC and "Keep Well Provider" shall mean either of them.

Interest bearing Definitive Bearer Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons ("Coupons") and, if indicated in the applicable Final Terms, talons for further Coupons ("Talons") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in instalments have receipts ("Receipts") for the payment of the instalments of principal (other than the final instalment) attached on issue. Definitive Registered Notes, Book Entry Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Final Terms applicable to this Note is (or the relevant provisions thereof are) attached to or endorsed on this Note and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the "applicable Final Terms" are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Subject as provided in the Interbolsa Instrument, the Trustee acts for the benefit of the holders for the time being of the Notes (the "Noteholders", which expression shall, in relation to any Notes represented by a Global Note, be construed as provided below), the holders of the Receipts (the "Receiptholders") and the holders of the Coupons (the "Couponholders", which expression shall, unless the context otherwise requires, include the holders of the Talons), and in the case of Book Entry Notes, the persons shown in the individual securities accounts held with an Affiliate Member of Interbolsa (defined below) (the "Book Entry Noteholders", and together with the holders of Notes other than Book Entry Notes, the "Holders", which expression shall, in relation to any Notes represented by a Global Note, be construed as provided below) in accordance with the provisions of the Trust Deed. "Affiliate Member of Interbolsa" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depositary banks appointed by Euroclear S.A./N.V ("Euroclear Bank") and/or Clearstream Banking, société anonyme ("Clearstream, Luxembourg") for the purpose of holding such accounts with Interbolsa on behalf of Euroclear Bank and Clearstream, Luxembourg.

As used herein, "Tranche" means Notes which are identical in all respects (including as to listing) and "Series" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed, the Agency Agreement, the Interbolsa Instrument, the Keep Well Agreements and the applicable Final Terms are available for inspection during normal business hours at the registered office for the time being of the Trustee (being at the date hereof at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB) and at the specified office of each of the Principal Paying Agent, the Registrar and the other Paying Agents and Transfer Agents (all such Agents and the Registrar being together referred to as the "Agents") save that, the applicable Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a Prospectus is required to be published under the Prospectus Directive will only be available for inspection by a Noteholder holding one or more Notes of that Series and such Noteholder must produce evidence satisfactory to the Trustee or, as the case may be, the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement, the Interbolsa Instrument, the Keep Well Agreements (where the Issuer is PTIF) and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency

Words and expressions defined in the Trust Deed, the Interbolsa Instrument, or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the Trust Deed, the Trust

Deed shall prevail and, in the event of inconsistency between the Agency Agreement or the Trust Deed and the applicable Final Terms, the applicable Final Terms shall prevail.

In the Conditions, "euro" means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

#### 1. FORM, DENOMINATION AND TITLE

#### A. Notes other than Book Entry Notes

The Notes are in bearer form ("Bearer Notes") or in registered form ("Registered Notes") as specified in the applicable Final Terms and, in the case of definitive Notes, serially numbered, in the specified currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes or vice versa.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an Index Linked Redemption Amount Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending on the Redemption/Payment Basis shown in the applicable Final Terms.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable. References in these Terms and Conditions to Receipts, Coupons and Talons do not apply to Registered Notes.

#### B. Book Entry Notes

The Book Entry Notes are issued in dematerialised book-entry form (*forma escritural*) and can either be *nominativas* (in which case Interbolsa, at the request of the Issuer, can ask the Affiliate Members of Interbolsa for information regarding the identity of the Holders and transmit such information to the Issuer) or *ao portador* (in which case Interbolsa cannot inform the Issuer of the identity of the Holders).

The Book Entry Notes will be registered by Interbolsa as management entity of the Portuguese Centralised System of Registration of Securities (*Central de Valores Mobiliários*) ("CVM"). Each person shown in the individual securities accounts held with an Affiliate Member of Interbolsa as having an interest in the Notes shall be considered the holder of the principal amount of Notes recorded except as otherwise required by law. One or more certificates in relation to the Book Entry Notes (each a "Certificate") will be delivered by the relevant Affiliate Member of Interbolsa in respect of its holding of Notes upon the request by the relevant Book Entry Noteholder and in accordance with that Affiliate Member of Interbolsa's procedures and pursuant to article 78 of the Portuguese Securities Code (*Código dos Valores Mobiliários*).

Each Book Entry Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the Final Terms.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Dual Currency Interest Note, a Partly Paid Note or a combination of any of the foregoing, depending on the Redemption/Payment Basis shown in the applicable Final Terms

Book Entry Notes are denominated in the Specified Denomination or Denominations specified in the applicable Final Terms. Book Entry Note of one denomination may not be exchanged for Book Entry Note of any other denomination.

The Book Entry Note will be denominated in Euro or in such other currency as can be settled through Interbolsa, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

In these Terms and Conditions, "Book Entry Noteholder" and "Holder" for the purposes of Book Entry Note means the person in whose name a Book Entry Note is registered in the relevant individual securities accounts held with an Affiliate Member of Interbolsa.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement and the Trust Deed. The Issuer, the Keep Well Providers (where the Issuer is PTIF), the Agents and the Trustee will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next two succeeding paragraphs.

For so long as any of the Notes is represented by a Bearer Global Note or a Regulation S Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Keep Well Providers (where the Issuer is PTIF), the Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Regulation S Global Note shall be treated by the Issuer, the Keep Well Providers (where the Issuer is PTIF), the Trustee and the Agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Bearer Global Note or relevant Regulation S Global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly.

In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include references to any additional or alternative clearing system approved by the Issuer, the Principal Paying Agent or the Registrar (as the case may be) and the Trustee.

#### 2. TRANSFERS OF REGISTERED NOTES

#### (a) Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Definitive Registered Notes or for a beneficial interest in another Registered Global Note only in the Specified Denominations and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement and the Trust Deed.

#### (b) Transfers of Registered Notes

Subject as provided in paragraphs (e), (f) and (g) below, upon the terms and subject to the conditions set forth in the Agency Agreement and the Trust Deed, a Definitive Registered Note may be transferred in whole or in part (in the Specified Denominations). In order to effect any such transfer (i) the holder or holders must (a) surrender the Registered Note for registration of the

transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (b) complete and deposit such certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (a business day being for this purpose a day on which banks are open for business in the place where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, to the transferee at its specified office or, at the risk of the transferee, send by uninsured mail to such address as the transferee may request, a new Definitive Registered Note of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to such address as the transferor may request.

## (c) Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 7, the Issuer shall not be required:

- (i) to register the transfer of Definitive Registered Notes (or parts of Definitive Registered Notes) or to effect exchanges of interests in a Registered Global Note for Definitive Registered Notes during the period beginning on the thirty-fifth day before the date of the partial redemption and ending on the day on which notice is given specifying the serial numbers of Notes called (in whole or in part) for redemption (both inclusive); or
- (ii) to register the transfer of any Registered Note (or part of a Registered Note) called for partial redemption.

## (d) Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty (or any other documentary tax or duty), tax or other governmental charge that may be imposed in relation to the registration.

## (e) Exchanges and transfers of Definitive Registered Notes generally

Holders of Definitive Registered Notes may exchange such Notes for interests in a Registered Global Note of the same type at any time.

#### 3. STATUS OF THE NOTES

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* among themselves and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer from time to time outstanding.

#### 4. NEGATIVE PLEDGE

So long as any of the Notes remains outstanding (as defined in the Trust Deed) neither the Issuer nor the Keep Well Providers (where the Issuer is PTIF) will create or, save only by operation of law, have outstanding any mortgage, lien, pledge or other charge (each a "Security Interest") other than any Permitted Security (as defined below) upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital), to secure any Loan Stock of any Person or

to secure any obligation of any Person under any guarantee of or indemnity or purchase of indebtedness undertaking in respect of any Loan Stock of any other Person without at the same time or prior thereto at the option of the Issuer or the relevant Keep Well Provider (where the Issuer is PTIF), as applicable, either (i) securing the Notes equally and rateably therewith or (ii) providing such other security for or other arrangement in respect of the Notes as either (a) in any such case the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (b) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

For the purposes of these Terms and Conditions:

"Loan Stock" means indebtedness having an original maturity of more than one year which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other debt securities (not comprising, for the avoidance of doubt, preference shares or other equity securities) which, with the consent of the Issuer or either Keep Well Provider (where the Issuer is PTIF), are quoted, listed, ordinarily dealt in or traded on any stock exchange and/or quotation system or by any listing authority, over-the-counter or other established securities market other than any such indebtedness where the majority thereof is initially placed with investors domiciled in Portugal and who purchase such indebtedness in Portugal.

## "Permitted Security" means:

- (i) where the Issuer is PTIF, in the case of a consolidation or merger of either Keep Well Provider with or into another company (the "Combining Company"), any Security Interest over assets of such Keep Well Provider (if it is the surviving company) or the company (if other than such Keep Well Provider) surviving or formed by such consolidation or merger provided that: (i) such Security Interest was created by the Combining Company over assets owned by it, (ii) such Security Interest is existing at the time of such consolidation or merger, (iii) such Security Interest was not created in contemplation of such consolidation or merger and (iv) the amount secured by such Security Interest is not increased thereafter; and
- (ii) any Security Interest on or with respect to the assets (including but not limited to receivables) of the Issuer or either Keep Well Provider (where the Issuer is PTIF) which is created pursuant to any securitisation or like arrangement in accordance with normal market practice and whereby the indebtedness secured by such Security Interest or the indebtedness in respect of any guarantee or indemnity which is secured by such Security Interest is limited to the value of such assets.

"Person" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state, agency of a state or other entity, whether or not having separate legal personality.

## 5. INTEREST

## (a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date. Interest on Fixed Rate Notes which are Book Entry Notes will be calculated on the full outstanding nominal amount of the Fixed Rate Notes (or, if they are Partly Paid Notes, the full amount paid up) and will be paid to the Affiliate Members of Interbolsa for distribution by them to the accounts of entitled Book Entry Noteholders in accordance with Interbolsa's usual rules and operating procedures.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Terms and Conditions, "Fixed Interest Period" means the period from (and including) an Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are either Book Entry Notes or represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

In these Terms and Conditions:

"Day Count Fraction" means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

- (i) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:
  - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "Accrual Period") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
    - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360;

"Determination Period" means the period from (and including) a Determination Date to (but excluding) the next Determination Date; and

"sub-unit" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

- (b) Interest on Floating Rate Notes and Index Linked Interest Notes
  - (i) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrears on either:

- (A) the Specified Interest Payment Date(s) (each an "Interest Payment Date") in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each an "Interest Payment Date") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date). Interest on Floating Rate Notes or Index Linked Interest Notes which are Book Entry Notes will be calculated on the full outstanding nominal amount of the Floating Rate Notes or Index Linked Interest Notes (or, if they are Partly Paid Notes, the full amount paid up) and will be paid to the Affiliate Members of Interbolsa for distribution by them to the accounts of entitled Noteholders in accordance with Interbolsa's usual rules and operating procedures.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In this Condition, "Business Day" means a day which is both:

(I) a day on which commercial banks and foreign exchange markets settle payments in each Additional Business Centre specified in the applicable Final Terms; and

(II) either (1) in relation to any sum payable in a specified currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant specified currency (if other than London and any Additional Business Centre and which, if the specified currency is New Zealand dollars, shall be Auckland), or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET 2) System or any succession thereto (the "TARGET 2 System") is operating credit or transfer restrictions in respect of payments in euro.

## (ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

#### (A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions (as amended and updated as at the Issue Date of the first Tranche of Notes and as published by the International Swaps and Derivatives Association, Inc. (the "ISDA Definitions")) and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate ("LIBOR") or on the Euro-zone inter-bank offered rate ("EURIBOR"), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity" and "Reset Date" have the meanings given to those terms in the ISDA Definitions.

## (B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the nearest 0.00001, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page (as indicated in the applicable Final Terms) as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

#### (iii) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

## (iv) Determination of Rate of Interest and calculation of Interest Amounts

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the "Interest Amount") payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are either Book Entry Notes or represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount.

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant specified currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"Day Count Fraction" means, in respect of the calculation of an amount of interest for any Interest Period:

(A) if "Actual/Actual (ISDA)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that

portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

- (B) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (D) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (E) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

Day Count Fraction = 
$$\frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls:

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

" $M_2$ " is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

" $D_1$ " is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case  $D_1$  will be 30; and

" $D_2$ " is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and  $D_1$  is greater than 29, in which case  $D_2$  will be 30;

(F) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

Day Count Fraction = 
$$\frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls:

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

 ${}^{6}D_{1}$ " is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case  $D_{1}$  will be 30; and

 ${}^{\circ}D_2{}^{\circ}$  is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case  $D_2$  will be 30:

(G) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

Day Count Fraction = 
$$\frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls:

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

" $D_1$ " is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case  $D_1$  will be 30; and

" $D_2$ " is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and in which case  $D_2$  will be 30.

(v) Notification of Rate of Interest and Interest Amounts

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any listing authority, stock exchange and/or quotation system on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed, traded and/or quoted and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount or (ii) in all other cases, the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each listing authority, stock exchange and/or quotation system on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed, traded and/or quoted and to the Noteholders in accordance with Condition 14. If the Notes become immediately due and repayable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. For the purposes of this paragraph, the expression "London Business Day" means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business in London.

(vi) Determination or Calculation by Trustee

If for any reason at any relevant time the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with sub-paragraph (ii)(A) or (B) above or as otherwise specified in the applicable Final Terms, as the case may be, and in each case in accordance with paragraph

(iv) above, the Trustee shall, if practicable in the circumstances, determine the Rate of Interest and/or Interest Amount in accordance with the said sub-paragraphs. If the Trustee is not able to determine the Rate of Interest and/or Interest Amount in the manner described above the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition 5, but subject always to any Minimum or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as applicable.

## (vii) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(b), whether by the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Principal Paying Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, either Keep Well Provider (where the Issuer is PTIF), the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

#### (c) Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

## (d) Interest on Zero Coupon Notes

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest. When a Zero Coupon Note becomes repayable prior to its Maturity Date it will be redeemed at the Early Redemption Amount calculated in accordance with Condition 7(e)(iii). In the case of late payment the amount due and repayable shall be calculated in accordance with Condition 7(i).

#### (e) Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

## (f) Accrual of interest

Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, or, in the case of a Book Entry Note, presentation of the relevant Certificate in respect thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

#### 6. PAYMENTS

#### (a) Method of payment

Subject as provided below:

(i) payments in a specified currency other than euro will be made by credit or transfer to an account in the relevant specified currency maintained by the payee with, or, at the option of the payee, by a cheque in such specified currency drawn on, a bank in the principal financial centre of the country of such specified currency (which, if the specified currency is New Zealand dollars, shall be Auckland); and

(ii) payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8. References in these Terms and Conditions to "specified currency" shall include any successor currency under applicable law.

## (b) Presentation of Definitive Bearer Notes, Receipts and Coupons

Payments of principal in respect of Definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Definitive Bearer Notes, and payments of interest in respect of Definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of Definitive Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Definitive Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Bearer Note to which it appertains. Receipts presented without the Definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Definitive Bearer Note which comprises a Fixed Rate Note becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Definitive Bearer Note which comprises a Floating Rate Note, Dual Currency Note or Index Linked Note or Long Maturity Note becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "Long Maturity Note" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

Other than in respect of Book Entry Notes, if the due date for redemption of any Definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of such Note.

## (c) Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Notes and otherwise in the manner specified in such Bearer Global Note against presentation or surrender, as the case may be, of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Note by the Paying Agent to which it was presented and such record shall be prima facie evidence that the payment in question has been made.

## (d) Payments in respect of Registered Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of such Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of such Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "Register") (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the place where the specified office of the Registrar is located) before the relevant due date (a "Record Date"). Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Registered Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other specified currency), payment will instead be made by a cheque in the specified currency drawn on a Designated Bank (as defined below). For these purposes, "Designated Account" means the account maintained by a holder with a Designated Bank and identified as such in the Register and "Designated Bank" means (in the case of payment in a specified currency other than euro) a bank in the principal financial centre of the country of such specified currency (which, if the specified currency is New Zealand dollars, shall be Auckland) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by a cheque in the specified currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the place where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of such Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (also a "Record Date") at his address shown in the Register on such Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the place where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any such Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of such Notes.

None of the Issuer, the Keep Well Providers (where the Issuer is PTIF), the Trustee and the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

## (e) Payments in respect of Book Entry Notes

All payments on Book Entry Notes (including without limitation the payment of accrued interest and principal) will be made by the Issuer to the Portuguese Paying Agent and (i) if made in euro will be (a) credited, according to the procedures and regulations of Interbolsa, by the Portuguese Paying Agent to the payment current-accounts held in the payment system of the Bank of Portugal by the Affiliate Members of Interbolsa whose control accounts with Interbolsa are credited with such Notes and thereafter (b) credited by such Interbolsa Affiliate Members from the aforementioned payment current-accounts to the accounts of the Noteholders or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be; (ii) if made in currencies other than euro will be (a) transferred, on the payment date and according to the procedures and regulations applicable by Interbolsa, from the account held by the Portuguese Paying Agent in the Foreign Currency Settlement System (Sistema de Liquidação em Moeda Estrangeira), managed by Caixa Geral de Depósitos, S.A., to the relevant accounts of the relevant Affiliate Members of Interbolsa, and thereafter (b) transferred by such Affiliate Members of Interbolsa from such relevant accounts to the accounts of the Noteholders of those Notes or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

The Issuer must provide Interbolsa with a prior notice of all payments in relation to the Book Entry Notes and all necessary information for that purpose. In particular, such notice must contain:

- (a) the identity of the Portuguese Paying Agent responsible for the relevant payment; and
- (b) a statement of acceptance of such responsibility by the Portuguese Paying Agent.

Payments in respect of the Book Entry Notes will be made by transfer to the registered account of the holders maintained by or on behalf of them with a bank that processes payments in the relevant currency, details of which appear in the records of the relevant Affiliate Members of Interbolsa at the close of business on the Payment Day (as defined in Condition 6(g) below) before the due date for payment of principal and/or interest.

Interbolsa shall notify the Portuguese Paying Agent of the amounts to be settled, which Interbolsa calculates on the basis of the balances.

In the case of a partial payment, the amount held in the relevant current account of the Portuguese Paying Agent must be apportioned pro-rata between the accounts of the Affiliate Members of Interbolsa. After a payment has been processed, such process shall be confirmed to Interbolsa.

The holders of Book Entry Notes are reliant upon the procedures of Interbolsa to receive payment in respect of Book Entry Notes.

## (f) General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream,

Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the provisions of this Condition, if any amount of principal and/or interest in respect of the Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States

- (i) if:
  - (A) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on such Notes in the manner provided above when due:
  - (B) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
  - (C) such payment is then permitted under United States law, and/or
- (ii) at the option of the relevant holder if the payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

#### (g) Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to any further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 9) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments in:
  - (A) in the case of Notes in definitive form only, the relevant place of presentation;
  - (B) any Additional Financial Centre specified in the applicable Final Terms; and
  - (C) in the case of Book Entry Notes, in Lisbon; and
- (ii) either (1) in relation to any sum payable in a specified currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant specified currency (if other than the place of presentation and any Additional Financial Centre so specified and which if the specified currency is New Zealand dollars shall be Auckland) or (2) in relation to any sum payable in euro, a day on which the TARGET 2 System is operating credit and transfer instructions in respect of payments in euro.

#### (h) Interpretation of principal and interest

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7(e)(iii));

- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes; and
- (viii) in relation to Dual Currency Redemption Notes, the principal payable in any relevant specified currency.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

## 7. REDEMPTION AND PURCHASE

#### (a) Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant specified currency on the Maturity Date.

## (b) Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of the notice referred to above that on the occasion of the next payment due under the Notes:

- (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 and/or in any undertakings given in addition thereto or substitution therefor pursuant to the Trust Deed as a result of any change in, or amendment to, the laws or regulations of the relevant Tax Jurisdiction (as defined in Conditon 8) or any political subdivision of, or any authority in, or of, the relevant Tax Jurisdiction having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it including without limitation, where appropriate, effecting a substitution of the Issuer pursuant to Condition 18,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to do have occurred, and an opinion of independent legal advisers of recognised standing to whom the Trustee shall have no reasonable objection to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept the certificate and the opinion as sufficient evidence of satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice (or such other period of notice as may be specified in the applicable Final Terms) to the Noteholders in accordance with Condition 14: and
- (ii) not less than 10 days before the giving of the notice referred to in (i), notice to the Trustee and the Principal Paying Agent and, in the case of a redemption of Notes in registered form, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption in part must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Higher Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes (other than Book Entry Notes), the Notes to be redeemed ("Redeemed Notes") will be selected individually by lot, in the case of Redeemed Notes comprising Definitive Bearer Notes or Definitive Registered Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and/or Clearsteam, Luxembourg on either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Notes represented by a Global Note, not more than 35 days prior to the date fixed for redemption (such date of selection being hereinafter called the "Selection Date"). In the case of Redeemed Notes comprising Definitive Bearer Notes or Definitive Registered Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption (or such lesser period as may be specified in the applicable Final Terms). No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date. Partial redemption of Book Entry Notes shall be made in accordance with the applicable Interbolsa rules.

## (d) Redemption at the option of the Noteholders (Investor Put)

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice (or such other period of notice as may be specified in the applicable Final Terms) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, in whole (but not, in the case of a Definitive Bearer Note, in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Notes in registered form may be redeemed under this Condition 7(d) in any multiple of their lowest Specified Denomination.

If this Note is a Definitive Bearer Note or a Definitive Registered Note, to exercise the right to require redemption of this Note the holder of this Note must deliver this Note at the specified office of any Paying Agent (if this Note is a Definitive Bearer Note) or any Transfer Agent (if this Note is a Definitive Registered Note) at any time during the normal business hours of such Paying Agent or, as the case may be, such Transfer Agent falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, any Transfer Agent (a "Put Notice") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, if this Note is a Definitive Registered Note, the nominal amount thereof to be redeemed and, if less than the full nominal amount of this Note, if it is a Definitive Registered Note, so surrendered is to be redeemed, an address to which a new Definitive Registered Note in respect of the balance of this Definitive Registered Note is to be sent subject to and in accordance with the provisions of Condition 2(b).

If this Note is represented by a Global Note, to exercise the right to require redemption of this Note the holder of this Note must arrange for delivery (in accordance with the standard procedures of Euroclear and/or Clearstream, Luxembourg) at the specified office of any Paying Agent (in the

case of a Bearer Note) or, as the case may be, Transfer Agent (in the case of a Registered Note) of a Put Notice duly completed as referred to in the preceding paragraph.

## (e) Optional early redemption at the option of the Noteholders upon a change of control

If this Condition 7(e) is specified in the Final Terms as being applicable, then, if at any time while the Notes remain outstanding (i) a Change of Control occurs at any time and (ii) a Rating Downgrade occurs during the Change of Control Period as a result of that Change of Control (together, a "Put Event"), the holder of any Note will have the option (unless, prior to the giving of the Put Event Notice referred to below, the Issuer gives notice to redeem the Notes in accordance with Condition 7(b)) to require the Issuer to redeem such Note on the Mandatory Redemption Date at its principal amount together with interest accrued to, but excluding, the Mandatory Redemption Date.

Upon PT becoming aware that a Put Event has occurred, PT shall promptly notify the Issuer of such fact (if the Issuer is PTIF). The Issuer shall give notice to the Noteholders in accordance with Condition 14 (a "Put Event Notice") specifying the nature of the Put Event and the circumstances giving rise to it and the procedure for exercising the option set out in this Condition 7(e).

To exercise the option to require redemption of a Note under this Condition 7(e) the holder of that Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver such Note, on any business day in the city of the specified office of the relevant Paying Agent falling within the Put Period, at the specified office of any Paying Agent, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a "Put Option Notice") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 7(e). The Note should be delivered together with all Coupons appertaining thereto maturing after the Mandatory Redemption Date failing which an amount will be deducted from the payment to be made by the Issuer on redemption of the Notes corresponding to the aggregate amount payable in respect of such missing Coupons.

If this Note is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream, Luxembourg or Interbolsa, to exercise the right to require redemption or, as the case may be, purchase of a Note under this Condition 7(e) the holder of the Note must, within the Put Period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and/or Clearstream, Luxembourg and/or Interbolsa (which may include notice being given on his instruction by Euroclear and/or Clearstream, Luxembourg and/or Interbolsa or any common depositary for them to the Agent by electronic means) in a form acceptable to Euroclear and/or Clearstream, Luxembourg and/or Interbolsa from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.

The Paying Agent to which such Note and Put Option Notice are delivered will issue to the holder concerned a non transferable receipt (a "Put Option Receipt") in respect of the Note so delivered. The Issuer shall redeem the Notes in respect of which Put Option Receipts have been issued on the Mandatory Redemption Date, unless previously redeemed and purchased. Payment in respect of any Put Option Receipt will be made on the Mandatory Redemption Date by transfer to the bank account (if any) specified in the Put Option Notice and in every other case on or after the Mandatory Redemption Date, in each case against presentation and surrender or (as the case may be) endorsement of such Put Option Receipt at the specified office of any Paying Agent in accordance with the provisions of this Condition 7(e). No deposit of Notes will be required in respect of Book Entry Notes.

The Issuer shall redeem each Note in respect of which a valid Put Option Receipt has been delivered on the Mandatory Redemption Date, unless previously redeemed and purchased.

For the purposes of this Condition:

A "Change of Control" shall be deemed to have occurred each time (whether or not approved by the Management Board or Supervisory Board of PT) that any person or any persons acting in concert, other than a holding company whose shareholders are or are to be substantially similar to the pre-existing shareholders of PT, directly or indirectly, gains Control of PT.

"Change of Control Period" means the period commencing on the Date of Announcement and ending on the 120th day following the Date of Announcement.

"Control" of an entity "A" means the acquisition of more than 50 per cent. of voting rights of A, whether directly or indirectly and whether obtained by ownership of share capital or the holding of voting rights.

"Date of Announcement" means the date of the public announcement that a Change of Control has occurred.

"Investment Grade Rating" means a rating of at least BBB- (or equivalent thereof) in the case of S&P or Fitch or a rating of at least Baa3 (or equivalent thereof) in the case of Moody's or the equivalent in the case of any other Rating Agency.

"Investment Grade Securities" means Rated Securities which have an Investment Grade Rating from each Rating Agency that assigns a rating to such Rated Securities.

"Mandatory Redemption Date" is the seventh day following the last day of the Put Period.

"Put Period" means the period from, and including, the date of a Put Event Notice to, but excluding, the 45th day following the date of the Put Event Notice or, if earlier, the eighth day immediately preceding the Maturity Date;

"Rated Securities" means, at any time:

- (a) the Notes; or
- (b) if, at, or at any time after, the beginning of the Change of Control Period, the Notes do not or cease to have a rating by any Rating Agency, such other comparable long-term debt of the Issuer selected by the Issuer from time to time (but with effect from the Date of Announcement) for the purpose of this definition which possesses a rating by any Rating Agency.

"Rating Agency" means Fitch Ratings Ltd. ("Fitch"), Standard and Poor's Credit Market Services France SAS. ("S&P") and Moody's Investors Service España SA Limited ("Moody's") or any of their respective successors or any other rating agency of equivalent international standing specified from time to time by the Issuer.

"Rating Downgrade" means either:

- (a) during the Change of Control Period:
  - (i) any rating assigned to the Rated Securities is withdrawn; or
  - (ii) (if the Rated Securities are Investment Grade Securities on the Date of Announcement) the Rated Securities cease to be Investment Grade Securities; or
  - (iii) (if the Rated Securities are not Investment Grade Securities on the Date of Announcement) any rating of the Rated Securities is either (i) lowered by any Rating Agency below an Investment Grade Rating or (ii) lowered one full rating notch by any Rating Agency (for example from BB+ to BB by S&P or Fitch and Ba1 to Ba2 by Moody's or such similar lower of equivalent rating),
    - provided that no Rating Downgrade shall occur unless the Rating Agency withdrawing or lowering the rating announces or confirms that the withdrawal or lowering was the result, in whole or in part, of the relevant Change of Control; or
- (b) on the Date of Announcement there are no Rated Securities and:
  - (i) the Issuer does not use all reasonable endeavours to obtain, within 45 days of the Date of Announcement, a rating for the Notes or such other comparable long-term debt of the Issuer selected by the Issuer from a Rating Agency; or
  - (ii) the Issuer does use such endeavours, but, at the expiry of the Change of Control Period, there are still no Investment Grade Securities and the Rating Agency announces or confirms in writing that its declining to assign an Investment Grade Rating was the result, in whole or in part, of the relevant Change of Control.

#### (f) Early Redemption Amounts

For the purpose of paragraph (b) above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a specified currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (iii) in the case of a Zero Coupon Note, at an amount (the "Amortised Face Amount") calculated in accordance with the following formula:

Early Redemption Amount = RP x  $(1 + AY)^y$ 

where:

"RP" means the Reference Price;

"AY" means the Accrual Yield; and

"y" is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

#### (g) Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused on presentation of the related Receipt, in which case such amount shall remain outstanding until the Relevant Date (as defined in Condition 8) relating to such Instalment Amount. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

#### (h) Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

#### (i) Purchases

The Issuer, either Keep Well Provider (where the Issuer is PTIF) or any other Subsidiary may at any time purchase Notes (provided that, in the case of Definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or, in the case of Notes purchased by the Issuer or either Keep Well Provider (where the Issuer is PTIF), at the option of such purchaser, surrendered to any Paying Agent and/or the Registrar for cancellation or, in the case of Book Entry Notes, cancelled by Interbolsa following receipt by Interbolsa of notice thereof by the Portuguese Paying Agent.

## (i) Cancellation

All Notes which are redeemed will forthwith be cancelled (together, in the case of Definitive Bearer Notes, with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption (or in accordance with Interbolsa regulations in the case of Book Entry Notes)). All Notes so cancelled and the Notes purchased and cancelled pursuant to paragraph (h) above (together, in the case of Definitive Bearer Notes, with all unmatured Receipts, Coupons and

Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and/or the Registrar and cannot be reissued or resold. All Book Entry Notes which are redeemed will forthwith be cancelled, by Interbolsa following receipt by Interbolsa of notice thereof by the Portuguese Paying Agent, and accordingly such Book Entry Notes may not be held, reissued or resold and such Book Entry Note, as well as Book Entry Notes which are purchased or otherwise acquired by or on behalf of PT or any of its subsidiaries, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 15 or the Agency Agreement, as amended by the Interbolsa Instrument.

## (k) Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) the fifth day after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 14.

#### 8. TAXATION

All payments of principal and interest in respect of the Notes, Receipts and Coupons will be made without withholding or deduction for or on account of any present or future taxes or duties, of whatever nature, imposed or levied by or on behalf of the relevant Tax Jurisdiction or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any payment in respect of any Note, Receipt or Coupon:

- (i) presented for payment by or on behalf of a Beneficial Owner who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with the relevant Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon;
- (ii) presented for payment, in the relevant Tax Jurisdiction;
- (iii) presented for payment in the case of Bearer Notes more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6);
- (iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (v) presented for payment by or on behalf of a Beneficial Owner who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union;

- (vi) presented for payment by or on behalf of a Beneficial Owner of Notes, Receipts or Coupons who would not be liable for or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority;
- (vii) presented for payment by or on behalf of a Beneficial Owner of Notes, Receipts or Coupons particularly in respect of whom the information (which may include certificates or statements) required in order to comply with the special tax regime approved by Decree-Law no. 193/2005 of 7 November, and any implementing legislation, is not received prior to the Relevant Date;
- (viii) in the case of Book Entry Notes, presented for payment by or on behalf of a Beneficial Owner of Notes, Receipts or Coupons resident for tax purposes in the Tax Jurisdiction, or a resident in a country, territory or region subject to clearly a more favourable tax regime included in the list approved by Order 150/2004, of 13 February 2004 (Portaria do Ministro das Finanças e da Administração Pública n. 150/2004) as amended from time to time, issued by the Portuguese Minister of Finance and Public Administration, with the exception of central banks and governmental agencies of those blacklisted jurisdictions, or a non-resident legal entity held, directly or indirectly, in more than 20 per cent. by Portuguese residents; or
- (ix) presented for payment by or on behalf of (i) a Portuguese resident legal entity subject to Portuguese corporation tax (with the exception of entities that benefit from an exemption of Portuguese withholding tax or from Portuguese income tax exemptions), or (ii) a non resident legal person with a permanent establishment in Portugal to which the income or gains obtained from the Notes, Receipts or Coupons are attributable.

#### As used herein:

- (i) "Tax Jurisdiction" means in the case of PT, the Portuguese Republic or any political subdivision or any authority thereof or therein having power to tax and, in the case of PTIF, The Netherlands or any political subdivision or any authority thereof or therein having power to tax or in either case any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax in which PT or, as the case may be, PTIF becomes tax resident;
- (ii) the "Relevant Date" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent, the Registrar or the Trustee, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14; and
- (iii) "Beneficial Owner" means the holder of the Notes who is the effective beneficiary of the income attributable thereto.

## 9. PRESCRIPTION

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment or, as the case may be, purchased within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefore.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment or purchase in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void pursuant to Condition 6(b).

## 10. EVENTS OF DEFAULT AND ENFORCEMENT

## (a) Events of Default

If any one or more of the following events (each an "Event of Default") shall occur, the Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary

Resolution of the Noteholders (subject in each case to being indemnified to its satisfaction) shall (but in the case of the happening of any of the events mentioned in sub-paragraph (ii), (iii), (iv), (vi), (vii) or (viii) below only if the Trustee shall have certified to the Issuer and, where the Issuer is PTIF, the Keep Well Providers that the occurrence of such event is, in its opinion, materially prejudicial to the interests of the Noteholders), by written notice to the Issuer and, where the Issuer is PTIF, the Keep Well Providers, declare the Notes to be, and forthwith upon such declaration the Notes shall become, immediately due and repayable at their Early Redemption Amount, together with accrued interest as provided in the Trust Deed:

- (i) if the Issuer fails to pay any amount of any principal or interest due in respect of the Notes or any of them and the failure continues for a period of seven days in the case of principal and 14 days in the case of interest; or
- (ii) if the Issuer or, where the Issuer is PTIF, either Keep Well Provider fails to perform or observe any of its other obligations under these Terms and Conditions or the Trust Deed or, where the Issuer is PT and in the case of Book Entry Notes, the Interbolsa Instrument and, the failure continues for the period of 30 days next following the service by the Trustee on the Issuer and, where the Issuer is PTIF, the relevant Keep Well Provider of notice requiring the same to be remedied; or
- (iii) if any Indebtedness for Borrowed Money of the Issuer, either Keep Well Provider (where the Issuer is PTIF) or any Relevant Subsidiary becomes due and repayable prematurely by reason of an event of default (however described) or the Issuer, either Keep Well Provider (where the Issuer is PTIF) or any Relevant Subsidiary fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment as extended by any applicable grace period as originally provided or if the Issuer, either Keep Well Provider (where the Issuer is PTIF) or any Relevant Subsidiary fails in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person, provided that no such event shall constitute an Event of Default unless the relative Indebtedness for Borrowed Money either alone or when aggregated with other Indebtedness for Borrowed Money relative to all (if any) other such events which shall have occurred shall amount to at least U.S.\$20,000,000 (or its equivalent in any other currency) and provided further that, for the purposes of this Condition 10(a)(iii), the Issuer, either Keep Well Provider (where the Issuer is PTIF) and any Relevant Subsidiary shall not be deemed to be in default with respect to such Indebtedness, guarantee or indemnity if it shall be contesting in good faith by appropriate means its liability to make payment thereunder and has been advised by independent legal advisers of recognised standing that it is reasonable for it to do so; or
- (iv) if a secured party enforces its security over the whole or a substantial part of the undertaking, assets and revenues of the Issuer or, where the Issuer is PTIF, either Keep Well Provider; or
- (v) save for the purposes of reorganisation on terms previously approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders, if any order is made by any competent court or an effective resolution passed for the winding up or dissolution of the Issuer or, where the Issuer is PTIF, any Keep Well Provider; or
- (vi) save for the purposes of reorganisation on terms approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders, if the Issuer or, where the Issuer is PTIF, either Keep Well Provider ceases to carry on the whole or substantially the whole of its business (except for the purpose of a transfer of the whole or substantially the whole of its business to a Subsidiary which shall, within one business day upon the happening of such transfer, enter into a keep well agreement, in a form previously approved in writing by the Trustee, on substantially the same terms as the relevant Keep Well Agreement and shall comply with such other conditions as the Trustee may require including, but not limited to, taking steps to ensure the validity and enforceability thereof, making appropriate consequential modifications to the provisions of these Terms and Conditions and the Trust Deed, becoming a party to the Trust Deed and agreeing to be bound by the provisions thereof as fully as if such Subsidiary had been named therein as a keep well provider in

place of either Keep Well Provider and giving the requisite notifications to Noteholders) or the Issuer or, where the Issuer is PTIF, either Keep Well Provider stops payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

- (vii) if proceedings are initiated against the Issuer or, where the Issuer is PTIF, either Keep Well Provider under any applicable liquidation, insolvency, bankruptcy, moratorium of payments, composition, reorganisation or other similar laws, or a receiver, administrator, manager or other similar official is appointed in relation to the whole or a substantial part of the undertaking, assets or revenues of the Issuer or, where the Issuer is PTIF, either Keep Well Provider, or an encumbrancer takes possession of the whole or a substantial part of the undertaking, assets or revenues of either of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking, assets or revenues of any of them unless, in any such case, discharged within 45 days or contested in good faith by appropriate means by the Issuer or, where the Issuer is PTIF, the relevant Keep Well Provider, and the Issuer or, where the Issuer is PTIF, the relevant Keep Well Provider has been advised by recognised independent legal advisers of good repute that it is reasonable to do so; or
- (viii) if the Issuer or, where the Issuer is PTIF, either Keep Well Provider initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, bankruptcy, moratorium of payments, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally; or
- (ix) if it is or will become unlawful for the Issuer or, where the Issuer is PTIF, either Keep Well Provider to perform or comply with any of its material obligations under or in respect of the Notes, the Trust Deed or, where the Issuer is PTIF, the relevant Keep Well Agreement; or
- (x) where the Issuer is PTIF, either Keep Well Agreement is terminated or any provision of either Keep Well Agreement is amended or waived in circumstances where such amendment or waiver would have, in the opinion of the Trustee, an adverse effect on the interests of the Noteholders or is not enforced in a timely manner by the Issuer or is breached by either Keep Well Provider provided that in the case of such non-enforcement or breach this has, in the opinion of the Trustee, an adverse effect on the interests of the Noteholders.

For the purposes of these Terms and Conditions:

"Indebtedness for Borrowed Money" means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit or (iii) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

"Relevant Subsidiary" means, at any particular time, a Subsidiary whose turnover represents at least ten per cent. of the consolidated turnover of PT and its Subsidiaries on a consolidated basis and for these purposes:

- (i) all calculations shall be made by reference to (A) the latest annual non-consolidated audited accounts of the relevant Subsidiary used for the purpose of the then latest audited consolidated annual accounts of PT and (B) the then latest consolidated audited annual accounts of PT; and
- (ii) on a Relevant Subsidiary transferring all or substantially all of its assets or business to another Subsidiary, the transferor shall cease to be a Relevant Subsidiary and any such transferee which is not already a Relevant Subsidiary shall thereupon be deemed to be a

Relevant Subsidiary until publication of the next annual audited accounts after which whether it is or is not a Relevant Subsidiary shall be determined in accordance with (i) above.

A report by a reputable firm of accountants, approved by the Trustee, that in their opinion a Subsidiary is not or was not at any particular time a Relevant Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

"Subsidiary" means any company in which PT holds, directly or indirectly through another Subsidiary, more than 50 per cent. of the share capital or voting rights.

#### (b) Enforcement

In the case of Notes other than Book Entry Notes, at any time after the Notes shall have become immediately due and repayable the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce repayment of the Notes together with accrued interest and against the Issuer and each Keep Well Provider to enforce the provisions of the Trust Deed and the Keep Well Agreements but it shall not be bound to take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding, and (ii) it shall have been indemnified to its satisfaction. No Noteholder, Receiptholder or Couponholder shall be entitled (A) to proceed directly against the Issuer unless the Trustee, having become bound so to do, fails so to do within a reasonable period and such failure shall be continuing, or (B) to take proceedings to enforce the provisions of the Keep Well Agreements. In the case of Book Entry Notes, the Trustee may at any time after the Book Entry Notes shall have become immediately due and repayable, at its discretion and without notice, take such proceedings and/or other action as it may think fit against or in relation to the Issuer to enforce the obligations of the Issuer in respect of the covenants granted to the Trustee by the Issuer under these Terms and Conditions or the Trust Deed, however the Trustee shall in no circumstances be bound to do so. No Noteholder, save for a Book Entry Noteholder, shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure is continuing, provided that in the case of Book Entry Notes, the Trustee may not but the holders thereof may at any time take such proceedings against the Issuer as they may think fit to enforce the provisions of the Book Entry Notes and/or the Interbolsa Instrument.

## 11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note (other than a Book Entry Note), Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Receipts and Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## 12. AGENTS

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled, with the prior written consent of the Trustee, to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (i) there will at all times be a Principal Paying Agent and a Registrar;
- (ii) so long as the Notes are listed on any Stock Exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent and (in the case of Registered Notes) a Transfer Agent with a specified office in such place as may be required by the rules and regulations of such Stock Exchange or other relevant authority;

- (iii) the Issuer undertakes that to the extent reasonably practicable and where it is not inconsistent with market practice at the relevant time to do so, there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law, implementing or complying with, or introduced in order to conform to, such Directive; and
- (iv) in respect of any issue of Book Entry Notes there will at all times be a Paying Agent in Portugal capable of making payment in respect of the Book Entry Notes as contemplated by these terms and conditions of the Notes, the Agency Agreement and applicable Portuguese law and regulation.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the second paragraph of Condition 6(e). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Agents act solely as agent of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

#### 13. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

## 14. NOTICES

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in the United Kingdom approved by the Trustee. It is expected that such publication will be made in the *Financial Times*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or other relevant authority) on which the Bearer Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed, traded and/or quoted by or on any listing authority, stock exchange and/or quotation system and the rules of that listing authority, stock exchange and/or quotation system so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of that listing authority, stock exchange and/or quotation system.

The Issuer shall comply with Portuguese law in respect of notices relating to Book Entry Notes.

If publication as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

Until such time as any Notes are issued in definitive form, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) or such mailing the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the

holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that listing authority, stock exchange and/or quotation system so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of that listing authority, stock exchange and/or quotation system. Any such notice delivered to Euroclear and/or Clearstream, Luxembourg shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was so delivered.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note comprising a Definitive Bearer Note or a Definitive Registered Note) with the relative Note or Notes, with any Paying Agent (in the case of Definitive Bearer Notes) or any Transfer Agent (in the case of Definitive Registered Notes) or the Portuguese Paying Agent (in the case of Book Entry Notes). Whilst any of the Notes is represented by a Global Note, such notice may be given by any holder of a Note (other than a Book Entry Note) to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose. Any holder of a Book Entry Note may give notice to the Portuguese Paying Agent and any Paying Agent through Interbolsa in such manner as the Portuguese Paying Agent, the Paying Agents and Interbolsa may approve for this purpose.

# 15. MEETINGS OF NOTEHOLDERS, MODIFICATION, AUTHORISATION, WAIVER AND DETERMINATION

The Trust Deed and, in relation to Book Entry Notes only, the Interbolsa Instrument contain provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification (including abrogation) of any of the provisions of these Terms and Conditions, the Notes, the Receipts, the Coupons or the Trust Deed. Such a meeting may be convened by the Issuer, either Keep Well Provider (where the Issuer is PTIF) or the Trustee and shall be convened by the Issuer at the request of Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons present holding or representing more than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of these Terms and Conditions, the Notes, the Receipts, the Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate or amount of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum for passing a requisite Extraordinary Resolution to sanction any such modification shall be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than onethird, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (i) any modification of any of the provisions of these Terms and Conditions, the Notes, the Receipts, the Coupons or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders; or
- (ii) any modification of any of the provisions of these Terms and Conditions, the Notes, the Receipts, the Coupons or the Trust Deed which, in the opinion of the Trustee, is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of applicable law.

If the specified currency is pounds sterling, the Trustee may, without the consent of the Noteholders or Couponholders, on or after the date (if any) on which the United Kingdom becomes

one of the countries participating in the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union and as amended by the Treaty of Amsterdam or otherwise participates in European economic monetary union in a manner having a similar effect to such third stage, agree to such modifications to the Terms and Conditions, the Notes, the Coupons and the Trust Deed in order to facilitate payment of interest in euro and redemption at the euro equivalent of the pounds sterling principal amount of this Note and associated reconventioning, renominalisation and related matters as may be proposed by the Issuer (and confirmed by an independent financial institution approved in writing by the Trustee to be in conformity with the then applicable market conventions).

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

The Trustee may also agree, without the consent of the Noteholders, Receiptholders or Couponholders, to the waiver or authorisation of any breach or proposed breach of any of these Terms and Conditions or any of the provisions of the Trust Deed or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders.

Any such modification, waiver, authorisation or determination shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, in relation to any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, either Keep Well Provider (where the Issuer is PTIF) or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders, Receiptholders or Couponholders except, in the case of the Issuer, to the extent provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

# 16. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH PT AND ITS SUBSIDIARY UNDERTAKINGS

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer, either Keep Well Provider (where the Issuer is PTIF) and any person or body corporate associated with the Issuer or, where the Issuer is PTIF, either Keep Well Provider and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, any such persons, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

#### 17. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes. The Trust Deed and, in relation to Book Entry Notes only, the Interbolsa Instrument contain provisions for convening a single meeting of the Noteholders and the holders of notes of other Series in certain circumstances where the Trustee so decides.

#### 18. SUBSTITUTION

The Trustee may agree, without the consent of the Noteholders, the Receiptholders or the Couponholders, to the substitution in place of the Issuer of either Keep Well Provider (where the Issuer is PTIF) or any other Subsidiary as principal debtor under the Trust Deed, the Notes, the Receipts and the Coupons. Such substitution shall be subject to the relevant provisions of the Trust Deed, such amendments thereof and such other conditions as the Trustee may require and, where the Issuer is PTIF, to each Keep Well Provider (other than a Keep Well Provider which is substituted as principal debtor) undertaking like obligations in respect of such substituted principal debtor to those set out in the relevant Keep Well Agreement or, if applicable, such other obligations in respect of the previous principal debtor which may be in force immediately prior to the substitution in place of such Keep Well Provider's obligations under the relevant Keep Well Agreement.

## 19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

#### 20. GOVERNING LAW AND SUBMISSION TO JURISDICTION

## (a) Governing law

The Trust Deed, the Keep Well Agreements, the Interbolsa Instrument, the Agency Agreement, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Keep Well Agreements, the Interbolsa Instrument, the Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law save that, with respect to Book Entry Notes only, the form (representação formal) and transfer of the Notes, creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Book Entry Notes are governed by, and shall be construed in accordance with, Portuguese law.

#### (b) Submission to jurisdiction

Each of the Issuer and, where the Issuer is PTIF, the Keep Well Providers agrees, for the exclusive benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with these Terms and Conditions, the Trust Deed, the Notes, the Receipts and the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons) and that accordingly any suit, action or proceedings (together referred to as "Proceedings") arising out of or in connection with these Terms and Conditions, the Trust Deed, the Notes, the Receipts and the Coupons may be brought in such courts.

Each of the Issuer and, where the Issuer is PTIF, the Keep Well Providers hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer or, where the Issuer is PTIF, either Keep Well Provider in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

## (c) Appointment of Process Agent

Each of the Issuer and the Keep Well Providers has appointed Clifford Chance Secretaries Limited at its registered office for the time being (being at the date hereof at 10 Upper Bank Street, London E14 5JJ) as its agent for service of process, and undertakes that, in the event of Clifford Chance Secretaries Limited ceasing so to act or ceasing to be registered in England, it will appoint such other person as the Trustee may approve (which approval shall not be unreasonably withheld) as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve process in any other manner permitted by law.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be either (i) where the Issuer is PTIF, on-lent by PTIF to PT, or a company or companies within the PT Group, for PT's general corporate purposes including, without limitation, the financing and refinancing of acquisitions; or (ii) where the Issuer is PTIF, invested by PTIF in another company within the PT Group, or (iii) where the Issuer is PT, for PT's general corporate purposes.

## RELATIONSHIP OF PORTUGAL TELECOM INTERNATIONAL FINANCE B.V. WITH PORTUGAL TELECOM SGPS, S.A. AND PT COMUNICAÇÕES, S.A.

PT and PTC have each entered into a keep well agreement dated 7 November 2006 with PTIF (each a "Keep Well Agreement" and together the "Keep Well Agreements") governed by English law. The following is the text of the Keep Well Agreements:

#### "KEEP WELL AGREEMENT

This Agreement is executed by way of deed poll and is made the 7th November, 2006 by:

- (1) PORTUGAL TELECOM, SGPS, S.A., a company incorporated under the laws of Portugal ("PT" or the "Parent"); and
- (2) PORTUGAL TELECOM INTERNATIONAL FINANCE B.V., a company incorporated under the laws of The Netherlands (the "Issuer").

## WHEREAS:

- (A) The Issuer is a direct wholly-owned subsidiary of the Parent;
- (B) Citicorp Trustee Company Limited (the "Trustee", which expression shall wherever the context so admits include any successor as trustee for holders of the Notes (as defined below)), the Issuer and PT have entered into a trust deed dated 17th December, 1998 relating to the Global Medium Term Note Programme of the Issuer as amended and/or supplemented and/or modified from time to time (the "Trust Deed");
- (C) The Issuer may issue Notes pursuant to its Global Medium Term Note Programme, as amended from time to time ("Notes", which expression as used herein shall include Notes whether in global or definitive form and any coupons, receipts or talons appertaining to such Notes) which will be constituted by the Trust Deed as supplemented or modified from time to time; and
- (D) The Issuer may also assume from time to time obligations under swap agreements which will be related to the Notes (any obligation of the Issuer in respect of each swap agreement entered into by the Issuer and any Note is referred to as a "Debt Obligation" and the obligations are together referred to as "Debt Obligations").

NOW, THEREFORE, the Parent and the Issuer hereby covenant and agree as follows:

- 1. The Parent shall, directly or indirectly, own all of the issued and outstanding share capital of the Issuer as long as any Debt Obligation is outstanding and shall not pledge, grant a security interest in, encumber or alienate any of such share capital.
- 2. The Parent shall, with effect on and from the date of this Agreement, cause the Issuer to maintain a Tangible Net Worth (as hereinafter defined), as determined in accordance with generally accepted accounting principles in The Netherlands applied on a consistent basis as shown on the Issuer's most recent audited balance sheet (commencing with the Issuer's audited balance sheet at 31st December, 2005), of at least one euro.
  - "Tangible Net Worth" shall mean the total assets of the Issuer less the sum of intangible assets and total liabilities of the Issuer. A certificate of the auditors of the Issuer as to the amount of Tangible Net Worth shall, in the absence of manifest error, be final and conclusive.
- 3. If the Issuer at any time shall have insufficient funds or other liquid assets to meet its payment obligations (including in respect of any Debt Obligations) or to repay borrowings then maturing or subsequently to mature, upon receipt of notice from the Issuer to such effect, the Parent shall make, or have made, available to the Issuer, before the due date of such payment obligations or borrowings, funds sufficient to enable the Issuer to meet such payment obligations or to repay such borrowings, as the case may be, in full as they fall due. The Issuer shall use the funds made available to it by the Parent hereunder solely for the fulfilment of its payment obligations and the repayment at maturity of its borrowings.

- 4. Any and all funds from time to time provided by the Parent to the Issuer pursuant to Clause 3 above shall be either (i) by way of subscription for and payment of share capital (other than redeemable share capital) of the Issuer, or (ii) by way of subordinated loan, that is to say, a loan which, and interest on which, is not permitted to be, and is not capable of being, repaid or paid unless all other debt of the Issuer has been fully satisfied and is subordinated on a winding-up of the Issuer to all of the unsecured and unpreferred creditors of the Issuer other than the Parent.
- 5. The Parent warrants and agrees that its payment obligations which may arise hereunder constitute unsecured and unsubordinated obligations of the Parent and rank *pari passu* with all other unsecured and unsubordinated obligations of the Parent other than those obligations which are preferred by law.
- 6. This Agreement is not, and nothing herein contained and nothing done by the Parent pursuant hereto shall be deemed to constitute, a guarantee, direct or indirect, by the Parent of any Debt Obligation or any other debt of the Issuer (or of any subsidiary of the Issuer) or of any instrument issued by the Issuer or of any subsidiary of the Issuer.
- 7. If the Issuer shall be in liquidation, administration or receivership or other analogous proceedings (including if the Issuer is declared bankrupt ("faillissement") or is granted a moratorium of payment ("surséance van betaling") or enters into winding-up proceedings ("ontbinding")) and the Parent shall be in default of its obligations hereunder, the Parent shall be liable to the Issuer by way of liquidated damages for such default in an amount equal to the sum that the Parent would have paid had it performed in full all of its obligations hereunder, and the Issuer and any liquidator, administrator or receiver of the Issuer or other analogous officer or official shall be entitled to claim accordingly.
- 8. This Agreement may be modified, amended or terminated only by the written agreement of the Parent and the Issuer, provided, however, that no such modification, amendment or termination shall be made which may have any adverse effect upon the holders of any Debt Obligation taken as a whole while any Debt Obligation is outstanding.

The Parent and the Issuer each hereby covenants as follows:

- (i) it will not consent, either orally or in writing, to any modification or amendment to this Agreement which may have any adverse effect upon the Noteholders (as defined below) or the holders of any other Debt Obligation taken as a whole and it will not terminate this Agreement while any Debt Obligation remains outstanding;
- (ii) it will give written notice to the Trustee on behalf of the Noteholders and to the holders of any other Debt Obligation at least 30 days prior to any proposed modification, amendment or termination of this Agreement;
- (iii) it will fully and promptly perform its obligations and exercise its rights under this Agreement and, in the case of the Issuer, (without limitation to the foregoing) exercise its right to enforce performance of the terms of this Agreement by the Parent; and
- (iv) it will consent to the giving of an order of specific performance or similar relief by any court of competent jurisdiction in the event that any action is brought in respect of this Agreement.
- 9. (i) This Agreement shall take effect as a deed poll for the benefit of the Trustee on behalf of the Noteholders and the benefit of the holder of any other Debt Obligation other than any Note. No other person, firm, company or association (unincorporated or incorporated) shall be entitled to any benefit under this Agreement whatsoever whether under the Contracts (Rights of Third Parties) Act 1999 or otherwise.
  - (ii) The Parent and the Issuer hereby acknowledge and covenant that obligations binding upon it contained herein are owed to, and shall be for the benefit of:
    - (a) the Trustee on behalf of the Noteholders;
    - (b) each holder of any Debt Obligation other than any Note.

- (iii) The Parent and the Issuer hereby further acknowledge and covenant that the Trustee shall be entitled on behalf of the Noteholders and the holder of any Debt Obligation other than any Note shall be entitled on behalf of itself to enforce the said obligations against the Parent and the Issuer, if and only insofar as at the time the proceedings for such enforcement are instituted, any Notes or the other relevant Debt Obligation, as the case may be, which have become due and payable remain unpaid in whole or in part.
- (iv) This Agreement shall be deposited with and held by the Trustee for so long as the Trust Deed is in force and, if thereafter, any other Debt Obligation remains outstanding it will be deposited with and held by a reputable financial institution on behalf of the holder(s) of such other Debt Obligation. The Parent hereby acknowledges the right of the holder of any Debt Obligation to obtain from the Parent a copy of this Agreement.
- (v) "Noteholder" has the same meaning in relation to each Note as specified in the Terms and Conditions of such Note.
- 10. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument.
- The Parent hereby irrevocably agrees that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and that accordingly any suit, action or proceedings (together "Proceedings") arising out of or in connection with this Agreement may be brought in such courts. The Parent hereby irrevocably waives any objection which it may have to the laying of the venue of any Proceedings in any such courts and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agree that a judgment in any Proceedings brought in the English courts shall be conclusive and binding upon the Parent and may be enforced in the courts of any other jurisdiction. Nothing contained herein shall limit any right to take Proceedings against the Parent in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not. The Parent hereby appoints Clifford Chance Secretaries Limited at its registered office for the time being (being at the date hereof at 10 Upper Bank Street, London E14 5JJ) as their agent for service of process and agree that, in the event of Clifford Chance Secretaries Limited ceasing so to act, they will appoint another person as their agent for service of process in England in respect of any Proceedings.
- 12. This Agreement shall be governed by, and construed in accordance with, the laws of England.
- 13. If the Issuer is represented by an attorney or attorneys in connection with the signing and/or execution and/or delivery of this Agreement or any agreement or document referred to herein or made pursuant hereto and the relevant power or powers of attorney is or are expressed to be governed by the laws of a particular jurisdiction, it is hereby expressly acknowledged and accepted by the other parties hereto that such laws shall govern the existence and extent of such attorney's or attorneys' authority and the effects of the exercise thereof."

#### "KEEP WELL AGREEMENT

This Agreement is executed by way of deed poll and is made the 7th November, 2006 by:

- (1) PT COMUNICAÇÕES, S.A., a company incorporated under the laws of Portugal ("PTC"); and
- (2) PORTUGAL TELECOM INTERNATIONAL FINANCE B.V., a company incorporated under the laws of The Netherlands (the "Issuer").

#### WHEREAS:

- (A) The Issuer is a direct wholly-owned subsidiary of Portugal Telecom, SGPS, S.A. ("PT" or the "Parent");
- (B) Citicorp Trustee Company Limited (the "Trustee", which expression shall wherever the context so admits include any successor as trustee for holders of the Notes (as defined below)), the Issuer and PT have entered into a trust deed dated 17th December, 1998 relating to the Global Medium Term Note Programme of the Issuer as amended and/or supplemented and/or modified from time to time (the "Trust Deed");
- (C) The Issuer may issue Notes pursuant to its Global Medium Term Note Programme, as amended from time to time ("Notes", which expression as used herein shall include Notes whether in global or definitive form and any coupons, receipts or talons appertaining to such Notes) which will be constituted by the Trust Deed as supplemented or modified from time to time; and
- (D) The Issuer may also assume from time to time obligations under swap agreements which will be related to the Notes (any obligation of the Issuer in respect of each swap agreement entered into by the Issuer and any Note is referred to as a "Debt Obligation" and the obligations are together referred to as "Debt Obligations").

NOW, THEREFORE, PTC and the Issuer hereby covenant and agree as follows:

- 1. PTC shall, with effect on and from the date of this Agreement, cause the Issuer to maintain a Tangible Net Worth (as hereinafter defined), as determined in accordance with generally accepted accounting principles in The Netherlands applied on a consistent basis as shown on the Issuer's most recent audited balance sheet (commencing with the Issuer's audited balance sheet at 31st December, 2005), of at least one euro.
  - "Tangible Net Worth" shall mean the total assets of the Issuer less the sum of intangible assets and total liabilities of the Issuer. A certificate of the auditors of the Issuer as to the amount of Tangible Net Worth shall, in the absence of manifest error, be final and conclusive.
- 2. If the Issuer at any time shall have insufficient funds or other liquid assets to meet its payment obligations (including in respect of any Debt Obligations) or to repay borrowings then maturing or subsequently to mature, upon receipt of notice from the Issuer to such effect, PTC shall make, or have made, available to the Issuer, before the due date of such payment obligations or borrowings, funds sufficient to enable the Issuer to meet such payment obligations or to repay such borrowings, as the case may be, in full as they fall due. The Issuer shall use the funds made available to it by PTC hereunder solely for the fulfilment of its payment obligations and the repayment at maturity of its borrowings.
- 3. Any and all funds from time to time provided by PTC to the Issuer pursuant to Clause 2 above shall be either (i) by way of subscription for and payment of share capital (other than redeemable share capital) of the Issuer, or (ii) by way of subordinated loan, that is to say, a loan which, and interest on which, is not permitted to be, and is not capable of being, repaid or paid unless all other debt of the Issuer has been fully satisfied and is subordinated on a winding-up of the Issuer to all of the unsecured and unpreferred creditors of the Issuer other than PTC.
- 4. PTC warrants and agrees that its payment obligations which may arise hereunder constitute unsecured and unsubordinated obligations of PTC, and rank *pari passu* with all other unsecured and unsubordinated obligations of PTC other than those obligations which are preferred by law.

- 5. This Agreement is not, and nothing herein contained and nothing done by PTC pursuant hereto shall be deemed to constitute, a guarantee, direct or indirect, by PTC of any Debt Obligation or any other debt of the Issuer (or of any subsidiary of the Issuer) or of any instrument issued by the Issuer or of any subsidiary of the Issuer.
- 6. If the Issuer shall be in liquidation, administration or receivership or other analogous proceedings (including if the Issuer is declared bankrupt ("faillissement") or is granted a moratorium of payment ("surséance van betaling") or enters into winding-up proceedings ("ontbinding")) and PTC shall be in default of its obligations hereunder, PTC shall be liable to the Issuer by way of liquidated damages for such default in an amount equal to the sum that PTC would have paid had it performed in full all of its obligations hereunder, and the Issuer and any liquidator, administrator or receiver of the Issuer or other analogous officer or official shall be entitled to claim accordingly.
- 7. This Agreement may be modified, amended or terminated only by the written agreement of PTC and the Issuer, provided, however, that no such modification, amendment or termination shall be made which may have any adverse effect upon the holders of any Debt Obligation taken as a whole while any Debt Obligation is outstanding.

PTC and the Issuer each hereby covenants as follows:

- (i) it will not consent, either orally or in writing, to any modification or amendment to this Agreement which may have any adverse effect upon the Noteholders (as defined below) or the holders of any other Debt Obligation taken as a whole and it will not terminate this Agreement while any Debt Obligation remains outstanding;
- (ii) it will give written notice to the Trustee on behalf of the Noteholders and to the holders of any other Debt Obligation at least 30 days prior to any proposed modification, amendment or termination of this Agreement;
- (iii) it will fully and promptly perform its obligations and exercise its rights under this Agreement and, in the case of the Issuer, (without limitation to the foregoing) exercise its right to enforce performance of the terms of this Agreement by PTC; and
- (iv) it will consent to the giving of an order of specific performance or similar relief by any court of competent jurisdiction in the event that any action is brought in respect of this Agreement.
- 8. (i) This Agreement shall take effect as a deed poll for the benefit of the Trustee on behalf of the Noteholders and the benefit of the holder of any other Debt Obligation other than any Note. No other person, firm, company or association (unincorporated or incorporated) shall be entitled to any benefit under this Agreement whatsoever whether under the Contracts (Rights of Third Parties) Act 1999 or otherwise.
  - (ii) PTC and the Issuer hereby acknowledge and covenant that obligations binding upon it contained herein are owed to, and shall be for the benefit of:
    - (a) the Trustee on behalf of the Noteholders;
    - (b) each holder of any Debt Obligation other than any Note.
  - (iii) PTC and the Issuer hereby further acknowledge and covenant that the Trustee shall be entitled on behalf of the Noteholders and the holder of any Debt Obligation other than any Note shall be entitled on behalf of itself to enforce the said obligations against PTC and the Issuer, if and only insofar as at the time the proceedings for such enforcement are instituted, any Notes or the other relevant Debt Obligation, as the case may be, which have become due and payable remain unpaid in whole or in part.
  - (iv) This Agreement shall be deposited with and held by the Trustee for so long as the Trust Deed is in force and, if thereafter, any other Debt Obligation remains outstanding it will be deposited with and held by a reputable financial institution on behalf of the holder(s) of such other Debt Obligation. PTC hereby acknowledges the right of the holder of any Debt Obligation to obtain from PTC a copy of this Agreement.

- (v) "Noteholder" has the same meaning in relation to each Note as specified in the Terms and Conditions of such Note.
- 9. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument.
- PTC hereby irrevocably agrees that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and that accordingly any suit, action or proceedings (together "Proceedings") arising out of or in connection with this Agreement may be brought in such courts. PTC hereby irrevocably waives any objection which it may have to the laying of the venue of any Proceedings in any such courts and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agree that a judgment in any Proceedings brought in the English courts shall be conclusive and binding upon PTC and may be enforced in the courts of any other jurisdiction. Nothing contained herein shall limit any right to take Proceedings against PTC in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not. PTC hereby appoints Clifford Chance Secretaries Limited at its registered office for the time being (being at the date hereof at 10 Upper Bank Street, London E14 5JJ) as their agent for service of process and agree that, in the event of Clifford Chance Secretaries Limited ceasing so to act, they will appoint another person as their agent for service of process in England in respect of any Proceedings.
- 11. This Agreement shall be governed by, and construed in accordance with, the laws of England.
- 12. If the issuer is represented by an attorney or attorneys in connection with the signing and/or execution and/or delivery of this Agreement or any agreement or document referred to herein or made pursuant hereto and the relevant power or powers of attorney is or are expressed to be governed by the laws of a particular jurisdiction, it is hereby expressly acknowledged and accepted by the other parties hereto that such laws shall govern the existence and extent of such attorney's or attorneys' authority and the effects of the exercise thereof."

## PORTUGAL TELECOM, SGPS, S.A.

#### Overview

PT provides telecommunications services in Portugal, in Brazil through its strategic partnerships with Oi and Contax, and in certain countries in sub-Saharan Africa and Asia. PT's businesses are analysed and discussed based on two reportable segments: Telecommunications in Portugal and Telecommunications in Brazil-Oi. Within these segments, PT reports revenues in the following customer categories for its telecommunication services in Portugal and Brazil: residential customers, personal customers, enterprise customers and other revenues. In addition to its operating reportable segments, PT has other businesses that do not rise to a threshold that would require disclosure as a reportable segment. Revenues from its Portuguese and international operations accounted for 48 per cent. and 52 per cent. of its consolidated revenues in 2011, respectively, primarily reflecting 47 per cent. and 39 per cent. of PT's consolidated revenues related to the above-mentioned Portuguese and Brazilian (Oi) telecommunications businesses, respectively, as well as 6 per cent. of PT's consolidated revenues from the proportional consolidation of Contax and 4 per cent. of its consolidated revenues from its Africatel businesses.

The principal markets in which PT competes are Portugal and Brazil. In addition, PT has significant interests in telecommunications companies in Angola, Cape Verde, Namibia and São Tomé and Principe in Africa and in Macau and East Timor in Asia.

Portugal. In Portugal, PT provides 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. PT provides these services through its subsidiaries, in particular PT Comunicações, S.A. ("PT Comunicações").
- *Personal services*, which are mobile telecommunications services, such as voice, data and Internet-related multi-media services provided to personal (*i.e.*, individual) customers through PT's subsidiary TMN—Telecomunicações Móveis Nacionais, S.A. ("TMN").
- Enterprise services, including Corporate and SME/SoHo services, which provide corporates 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. After the completion of the corporate reorganization of Oi that occurred on 9 April 2012, PT holds a 23.25 per cent. economic interest in Oi S.A., one of the largest telecommunications companies in Brazil, and is party to a series of shareholder agreements with other shareholders of Oi that allow PT to jointly control Oi. PT completed its investment in Oi on 28 March 2011, and held a 25.3 per cent. economic interest in Oi throughout 2011. PT proportionally consolidated the results of operations of Oi in its results of operations from 1 April 2011. Since 1 April 2011, PT proportionally consolidated 25.6 per cent. of TmarPart, the parent company of Oi S.A., in its consolidated financial statements, reflecting its ownership interest in TmarPart. TmarPart, in turn, fully consolidates Oi S.A.

Oi provides telecommunications services in Brazil, including:

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

- Enterprise services, which include fixed-line telecommunications services, mobile telecommunications services, advanced voice services, such as 0800 (toll free) services, customized infrastructure and storage capacity and access to advanced data centers, in each case to corporate and medium and small businesses.
- Other services, which include subscription television services, including cable and DTH television services, ISP services, operation of the 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 consists of 16 Brazilian states located in the northeastern and part of the northern and southeastern regions), Region II (which consists of 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 PT's investment in Oi, it acquired a 16.2 per cent. economic interest in CTX Participações S.A. ("CTX"), the parent company of Contax Participações S.A. ("Contax Participações") and Contax S.A. ("Contax"), which provides contact center services in Brazil. Even before PT's investment in Contax, PT provided call center services in Brazil through its subsidiary Dedic, S.A. ("Dedic"), and Dedic's subsidiary GPTI – Tecnologias de Informação, S.A. ("GPTI") provided IT/IS services in Brazil. On 1 July 2011, PT integrated Dedic and GPTI into Contax, and PT's economic interest in Contax increased to 19.5 per cent. PT has proportionally consolidated the results of operations of Contax in its results of operations since 1 April 2011, and Contax's results of operations have included the results of operations of Dedic and GPTI since 1 July 2011.

The following table provides a breakdown of PT's operating revenues by reportable segment for the years ended 31 December 2009, 2010 and 2011:

_	Year ended 31 December		
	2009	2010	2011
	(Euro millions)		
Telecommunications in Portugal Services rendered Sales Other revenues	3,059.3 178.9 34.9	2,933.6 149.4 41.4	2,740.0 116.3 35.8
_	3,273.1	3,124.5	2,892.0
Telecommunications in Brazil-Oi			
Services rendered	_	_	2,297.5
Sales	_	_	12.0
Other revenues	<u> </u>		102.6
_			2,412.1
Other operations	873.9	1,088.3	1,441.1
Eliminations in consolidation	(413.6)	(470.5)	(598.4)
Total consolidated operating revenues	3,733.4	3,742.3	6,146.8

## **Corporate Information**

Portugal Telecom's legal and commercial name is Portugal Telecom, SGPS, S.A. and it is 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. Its principal offices are located at Avenida Fontes Pereira de Melo, 40, 1069-300 Lisboa, Portugal. Its telephone number is +351 21 500 1701, and its facsimile

number is +351 21 500 0800. Its home page is located at www.telecom.pt. The information on PT's website is not part of this report. The website address is included as an indicative textual reference only.

# Strategy

PT is an international operator focused on three main geographies: Portugal, Brazil and sub-Saharan Africa. PT remains committed to discipline in its strategy, cost, operations and financial performance, and it aims to focus its resources on its core businesses and core regions. PT's strategy continues to be guided by five key medium-term objectives:

- growing its customer base to 100 million customers;
- increasing its exposure to international businesses up to two-thirds of its revenues;
- reinforcing leadership in all market sectors;
- achieving performance in the top quartile of European companies in shareholder return and operating and financial results; and
- being a reference company in sustainability efforts.

PT's success in achieving these goals is subject to a number of uncertainties, including the factors described in "Risk Factors."

Some of PT's specific strategies to achieve these goals in its core regions include the following:

### Portuguese Operations

- Reap the benefits of the functional merger of PT's mobile business (TMN) and wireline business (PT Comunicações), with a stronger focus on customer segments. PT recently implemented a functional merger of its mobile and wireline businesses, and its new organizational structure is based on two principles:
  - Stronger customer focus: PT abandoned a company structure organized around fixed and mobile platforms in favor of a structure centred on the specific needs of each segment, implementing a new organization around five customer categories: Residential, Personal, SMEs/SoHos, Corporate and Wholesale. PT reports SME/SoHo and Corporate businesses together as Enterprise services.
  - Superior operational efficiency: PT eliminated several decision processes and layers and reduced the number of officers, enabling a leaner and more agile company to effectively compete in an increasingly challenging environment.

Effectively execute projects for next generation networks and improvements in distribution and customer care. PT seeks to act at the forefront of fibre rollout in Portugal and in Europe, having already reached 1.6 million homes passed with Fiber-to-the-Home ("FTTH") available and under construction, making Portugal the most penetrated country in Europe with 46 per cent. of households covered (an initiative that was recognised by the FTTH Council Europe with the innovation award for Deployment and Operation of FTTH Networks). PT aims to leverage its FTTH investment not only to provide advanced and high-speed data and video services to its corporate and residential customers but also to cover TMN's base stations with fibre to allow higher download and upload speeds for TMN's data customers and to pave the way for the rollout of Long Term Evolution ("LTE") services. PT launched LTE services in March 2012 with a network covering 20 per cent. of the population in Portugal, this was increased coverage to 80 per cent. of the population by April 2012 and aims to increase coverage to 90 per cent. by the end of 2012. In addition, PT operates the most comprehensive Wi-Fi network in Portugal, with around 1,600 hot spots, and it intends to use that network to enable traffic offloads from mobile to fixed networks. Finally, PT is implementing a program to rejuvenate its field force to improve its quality and responsiveness against a backdrop of increasingly complex television and IT services.

- Residential services: provide an outstanding and sophisticated multi-screen Pay-TV experience. PT believes the growing connectivity available on next generation access networks will continue to be an overriding trend among residential customers, enabling the simultaneous connection of multiple devices through wireless and wireline networks inside the customer home (TVs, games consoles, PCs, laptops, tablets and smartphones). PT believes multi-screen TV is a key lever for differentiating its services, and its nationwide Pay-TV service under the Meo brand ("Meo") is converging towards a seamless offering on the TV, PC and smartphone. PT also expects cloud-based services to become an increasingly popular reality, allowing easy access to software and technology and higher security in the storage of key information. PT is following these trends, having recently launched several new applications and services, including (1) Meo Go, a live-TV service available on Wi-Fi and 3G/4G mobile networks, (2) Meo Kanal, an application aiming at bringing social media features to the TV set and (3) Meo Games, an on-demand gaming service. PT seeks partnerships with content and technology suppliers in order to enhance its service and obtain a competitive advantage.
- Personal services: use mobile data and convergence of services as key growth levers. PT seeks to capitalize on the increased penetration of smartphones, laptops and other mobile data devices, coupled with the explosive growth and proliferation of data services and apps. PT offers TV (Meo Mobile), music (Music Box) and access to social networks through aggregator and convergent services that leverage its Sapo brand and know-how. PT also uses partnerships with key suppliers, using its brand or third-party brands, to maintain distinctive and attractive offerings of smartphones, tablets and laptops. In addition, PT remains focused on designing new tariff plans, like the "e," a new prepaid plan, and the "Unlimited" post-paid plan, which are simpler and customizable and aimed at catalyzing the upselling of Internet services and seeking to lock in high value customers, shifting away from competition on pricing.
- Enterprise services: provide new services for businesses by leveraging PT's transport and access networks. Through investments in infrastructure and telecom-IT convergence, PT intends to develop and market advanced integrated solutions for the corporate and SME segments aimed at increasing its penetration of IT/IS and BPO services in Portugal. PT will also seek to leverage the new data center it is constructing in Covilhã, Portugal and its cloud computing offering, in partnership with Cisco and Microsoft, to supply new and distinctive services to the market.
- Reinforce leadership in the market sectors where PT operates. Through its Meo Pay-TV service, PT is turning around its residential business, leveraging its position as a major integrated operator and aiming to offer broad and convergent products and services. In a converging world where individuals increasingly need to contact, communicate and consume seamless data services through all types of devices everywhere—at their workplaces, at home or on the move-PT believes its skills and ability to offer integrated services are a competitive advantage in Portugal.
- Emphasize customer service. In the context of major market transformations and economic uncertainty, understanding customer needs and addressing these needs by ensuring world-class execution is a crucial priority. PT seeks to develop trust-based relationships with its customers that will encourage them to adopt increasingly complete products and service packages for longer periods, allowing PT to increase its revenues.

# International Operations

- Maximize the strategic value of its international assets and reinforce its focus on Brazil and sub-Saharan Africa. The Brazilian market remains a priority to PT as a driver for growth. Africa will continue to be an important source of growth as well, where PT seeks to reinforce partnerships and explore value-creating investment opportunities.
- Brazil: focus on data growth and convergence of services. In Brazil, through PT's investment in and partnership with Oi, PT will focus its efforts on leveraging its experience in developing new and technologically advanced solutions for corporate customers, fixed-

- mobile convergent offers, mobile broadband, Pay-TV and triple-play services to contribute to further improve Oi's operational and financial performance. PT seeks to build upon Oi's strong presence in the Brazilian market and its potential for future growth.
- Africa and Asia: pursue consolidation of practices among its investments and consider opportunistic M&A transactions. PT continues to focus on improving the efficiency of its international operations through sharing best practices among all its investments and through increased proximity achieved by maintaining frequent contact with top management of those investments in person or by video-conference to better monitor key developments in each region.
- Focus on operational and commercial excellence of all assets and promote the sharing of best practices. By reinforcing operational and commercial excellence in all its operations and promoting the sharing of best practices among all its businesses, PT seeks to tap the full potential of each business, taking into account the development of each market and the competitive position of its investments.

#### Focus on Innovation and Execution

• Continue to implement its structured approach to imnovation and related partnerships. PT pursues a structured approach to innovation aimed at establishing a balanced portfolio of projects focused on two key variables: risk level and maturity. Three main categories are defined under this approach: (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). PT also seeks to leverage a network of partnerships with key institutions: (1) technological partnerships for the development of new solutions and services (e.g., agreements with Cisco, Corning, Samsung, LG, Huawei and ZTE), (2) partnerships, aimed at sharing best practices and establishing joint collaboration in innovation and research and development ("R&D") (e.g., a protocol PT signed with Singtel), (3) protocols with universities to foster joint R&D and knowledge-building efforts (e.g., PT's partnership with Carnegie Mellon University and several Portuguese universities) and (4) R&D partnerships aimed at developing new technological solutions (e.g., agreements with INESC Inovação and Instituto de Telecomunicações).

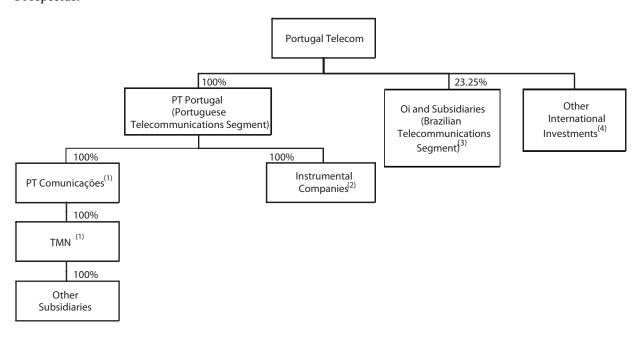
# **Object and Purpose**

In accordance with its Memorandum and Articles of Association, PT's object and purpose, described in Article 3, is that of a holding company. PT manages ownership interests in operating companies and may, without restriction, acquire or hold quotas or shares in any company, as defined under Portuguese law, hold participations in complementary groups of companies or in European economic interest groups of companies and form or participate in any temporary or permanent association with public or private entities.

# **Corporate Structure**

PT's market is characterised by increasing competition and rapid technological change. Its business unit subsidiaries are held directly and indirectly by PT in its role as holding company. PT has integrated certain functions across the company, in particular information systems (PT Sistemas de Informação), research and development capabilities (PT Inovação), back office activities (PT Pro), central purchasing capabilities (PT Compras) and call centre operations (PT Contact).

The diagram below presents PT's different businesses as of the date of filing of this Base Prospectus.



<sup>(1)</sup> PTC, TMN and their subsidiaries provide residential, personal and enterprise services as part of PT's Portuguese telecommunications business.

<sup>(2)</sup> Various companies providing services to PT 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).

<sup>(3)</sup> Oi S.A. and its subsidiaries provide telecommunications services in Brazil. PT proportionally consolidates the results of operations of Oi S.A.

<sup>(4)</sup> Includes PT's investment in Contax, its investments in global telecommunications operators in the Cape Verde, São Tomé and Principe and Macau, mobile operators in Namibia and Angola, and other investments.

### **Recent Developments**

### Oi Corporate Reorganization

On 27 February 2012, the shareholders of TNL, Telemar, Coari and Brasil Telecom approved a corporate reorganization to simplify their corporate structure. As part of the corporate reorganization, both TNL and Coari merged with and into Brasil Telecom, and Telemar became a wholly-owned subsidiary of Brasil Telecom. Brasil Telecom was renamed Oi S.A.

As described in more detail under "—Brazilian Operations (Oi)—Strategic Partnership with Oi," PT had previously entered into a strategic partnership with Oi, which was completed in March 2011, and held a 25.3 per cent. economic interest in Oi's business through investments in the parent company of TNL, Telemar Participações S.A. ("TmarPart"), TNL and Telemar. Following the corporate reorganization mentioned above, PT holds a 23.25 per cent. economic interest in Oi S.A., including a direct interest of 15.54 per cent.

For more details on the corporate reorganization, see "Portugal Telecom, SGPS, S.A.—PT's Businesses-Brazilian Operations (Oi)—Reorganization of the Oi Companies" below.

#### Rating

On 21 January 2012, S&P announced its review of PT's credit rating, downgrading its long-term rating from BBB- to BB+, with negative outlook, and its short-term rating from A-3 to B.

On 13 April 2012, Moody's announced its review of the credit ratings of PT and of its wholly owned subsidiary PTIF, through which PT has incurred certain of its indebtedness, downgrading the long-term ratings from Ba1 to Ba2, with negative outlook.

#### PT's Businesses

# **Portuguese Operations**

As of third quarter of 2011, PT reported its Portuguese operations as a new operating segment. Previously, PT separately reported a wireline segment and a mobile (TMN) segment. As part of its new reporting format, PT also reported revenues 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. Profits and losses related to services provided to residential customers were previously reported under the wireline segment.
- 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. Profits and losses related to services provided to personal customers were previously recorded under the mobile (TMN) segment.
- Enterprise services, including Corporate and SME/SoHo services, which provide PT's 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 ("SMEs"), providing vertical data and business solutions that are similar to PT's corporate services and (2) small office/home office ("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, previously reported under the wireline segment.

The following table sets forth the operating revenues of each of PT's major customer categories with its Telecommunications in Portugal segment for the years ended 31 December 2010 and 2011:

Year Ended 31 December	
2010	2011
(EUR M	illions)
647.0	682.3
865.0	768.4
1,079.6	982.1
532.8	459.2
3,124.5	2,892.0
	2010 (EUR M 647.0 865.0 1,079.6 532.8

Since PT changed the manner in which it reported its revenues in 2011, and due to constraints it faced in reformating information for prior fiscal years, PT does not have available the exact breakdown set forth above for the fiscal year ended 31 December 2009.

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 PT's Portuguese telecommunications segment:

As of 31 December

	As of 31 December		
	2009	2010	2011
Fixed retail accesses (thousands):			
PSTN/ISDN <sup>(1)</sup>	2,746	2,695	2,648
Broadband customers	862	1,001	1,105
Pay-TV customers	581	830	1,042
Total fixed retail accesses	4,189	4,527	4,795
Mobile customers (thousands):			
Postpaid	2,235	2,291	2,378
Prepaid	5,018	5,129	5,066
Total mobile customers	7,252	7,419	7,444
Net additions (thousands):			
Fixed retail accesses:			
PSTN/ISDN	(96)	(51)	(48)
Broadband customers	152	139	104
Pay-TV customers	269	249	212
Total fixed retail accesses	325	337	268
Mobile customers:			
Postpaid	297	56	87
Prepaid	22	111	(63)
Total mobile customers	319	167	24
Other data:			_
Data as percentage of mobile service revenues	23.1	24.6	27.7

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

#### Residential Customers

PT's residential customer category provides fixed line telephone and broadband services, Pay-TV (IPTV over ADSL and fibre 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 31 December		
	2009	2010	2011
Fixed retail accesses (thousands):			
PSTN/ISDN	1,662	1,673	1,674
Broadband customers	679	809	911
Pay-TV customers	540	775	972
Total fixed retail accesses	2,880	3,257	3,557
Net additions (thousands):			
PSTN/ISDN	(14)	11	1
Broadband customers	148	130	102
Pay-TV customers	252	235	198
Total net additions	387	376	300
Other data:			
Unique customers	n.a <sup>(1)</sup>	1,862	1,881
Retail RGU per PSTN/ISDN line	n.a.	1.75	1.89
ARPU (EUR)	n.a.	29.2	30.8
Retail traffic (millions of minutes)	2,840	2,850	2,848
Non-voice revenues as percentage of revenues	42.0	51.3	58.5

<sup>(1) &</sup>quot;n.a." means that this breakdown was not reported separately for the year ended 31 December 2009.

In 2011, residential retail net additions reached 300 thousand as a result of the growth of PT's *Meo* Pay-TV service, which accounted for 198 thousand net additions, bringing the total Pay-TV residential customers to 972 thousand, an increase of 25.5 per cent. from 2010. Fixed broadband net additions in 2011 were 102 thousand, with the residential broadband customer base growing by 12.6 per cent. from previous year to 911 thousand. Residential PSTN/ISDN lines experienced a slight growth from 2010 of 0.1 per cent. to 1,674 thousand lines. Residential revenue generating units per access were 1.89, up 8.0 per cent. from 2010. Residential ARPU was up by 5.4 per cent. to €30.8.

### Pay-TV Services

In 2008, PT announced the launch of its nationwide Pay-TV offer, which includes DTH (satellite) and IPTV offers over ADSL and fibre. PT's television strategy is based on a multiplatform concept that aims to provide similar content and user experiences across television, PCs and mobile phones. *Meo* is PT's TV brand across the various platforms, namely at home (through IPTV and satellite), through mobile telephones (through *Meo Mobile*) or through personal computers (through *Meo Go*). *Meo* provides access to a comprehensive content offering, with more than 150 TV channels and thousands of video-on-demand titles. PT offers tiered packages of channels, as well as on-demand availability that can be subscribed for directly through the TV set in real time. *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. PT was the first operator in Portugal to introduce HDTV and has the most extensive video-on-demand offer in the market.

*Meo* surpassed the one million customer mark in November 2011, three-and-a-half years after the service was launched on a nationwide basis in April 2008. *Meo* currently has 1,042 thousand customers and a 35 per cent. market share, according to ANACOM.

PT markets *Meo* as a Pay-TV service offering a seamless multiscreen experience with live TV channels, video on demand, games and music on demand available on multiple devices. PT offers HD and 3D channels, thousands of video on demand titles and interactivity with respect to anchor programmes (*e.g.*, *Ídolos*, *Secret Story*, *Biggest Loser*). *Meo* also offers customised interactive applications accessed through the remote control and covering areas such as (1) News, including a personalized newscast application, developed in partnership with RTP, the state-owned free-to-air channel, (2) Sports, including a football application, a surf application and specific sports channel applications, (3) Music, including MusicBox, a multiscreen music streaming service, a radio streaming application and a karaoke application, (4) Kids, including a comprehensive children's portal where children can access channels, video on demand content, music clips, karaoke, games and tailored educational content, (5) Convenience, including applications for weather, traffic, pharmacies and other needs and (6) Personal content, including an online photo storage application.

During 2011, PT continued to introduce new Pay-TV content and products. Taking advantage of the popularity of the second season of *Secret Story*, a reality show on the Portuguese free-to-air channel TVI, *Meo* launched an exclusive *Secret Story* channel in late September 2011, providing 24-hour live feed of 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. After its launch, the channel achieved over 10 per cent. audience share.

With the free-to-air channel RTP, *Meo* launched an interactive application that allows customers to create their own news playlists by selecting and aggregating categorised news clips from a catalog automatically collected and categorized by *Meo* and RTP throughout the day. *Meo* also launched a radio application that brings together 25 radio stations on the TV screen.

In the fourth quarter of 2011, *Meo* launched "*Meo Go*", an "over the top," or "OTT," service that allows content mobility among the home screen and multiple devices outside the home. *Meo Go* made 60 live TV channels and its video on demand service available on smartphones, tablets and personal computers from all major operating systems (iOS, Android and Windows Phone7).

In February 2012, *Meo* launched "*Meo Kanal*," an application that allows customers to produce, edit and share multimedia content on television with other *Meo* customers. The contents can be accessed through the *Meo* remote control. *Meo Kanal* allows customers to create free private areas, requiring an access PIN that is shared only among family members, friends or any other desired group, or free public areas, accessible to the whole *Meo* community. *Meo Kanal* finally brings the social network experience to TV. This innovative application has already surpassed the 10,000-area mark.

### Fixed Line Services

PT had approximately 3.557 million fixed retail acesses in service as of 31 December 2011, excluding external supplementary lines, direct extensions and active multiple numbers. Within retail accesses, PT reports:

- traffic-generating lines held by subscribing customers;
- carrier pre-selection lines, which are lines of competitors for which those customers have elected to use PT's services;
- fixed broadband retail lines; and
- Internet protocol television ("IPTV") customers using PT's Meo Pay-TV services.

All of PT's local switches in Portugal have been digital since 1999. Digital technology is used on all long distance and trunk connections. This level of digitalization of its fixed line network permits PT to market and provide network-based value-added services, such as call waiting, call forwarding and voice mail, resulting in increased line usage. PT covers 1.6 million homes in Portugal with its Fiber-to-the-Home ("FTTH") network. Its network, which is developed in urban areas, is a strategic investment to improve its competitiveness among residential customers, where it can offer distinctive Pay-TV and bundled offers.

Over the last decade, total traffic on PT's 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 ("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. PT has responded to this trend by encouraging the use of its fixed line network for bundled services, including triple-play packages that include fixed telephone services, broadband internet access and Pay-TV services. PT's *Meo* Pay-TV service has been the major source of growth within PT's residential services since its introduction in 2008.

PT is required to provide carrier selection to its customers for all kinds of traffic. See "Portugal Telecom SGPS, S.A.—PT's Businesses—Regulation-Portugal—Number Portability and Carrier Selection." Carrier selection has been an additional factor that has contributed to the reduction in traffic on PT's network.

# Components of Revenue

PT's revenues from residential customers are derived from the following components:

- Service revenues, which are the revenues PT generates 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
  - *Traffic*, including charges for the use of PT's 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 PT's fixed line network and Pay-TV services in 2011, PT obtained telephones and equipment for its voice, broadband and Pay-TV services from several suppliers, including Alcatel, Ericsson and Novabase, and it obtained television content, including premium channels, from several national and international suppliers.

### Personal Customers

PT provides telecommunications and data mobility services for a variety of personal devices, including traditional cell phones, smartphones, tablets and laptops through its mobile business. It conducts its mobile business in Portugal through its wholly owned subsidiary TMN. TMN 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	`31	December
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_			
	2009	2010	2011
Mobile customers (thousands):			
Postpaid	959	1,021	1,064
Prepaid	4,847	4,942	4,868
Total mobile customers	5,806	5,963	5,932
Mobile broadband customers (included in total)	766	893	942
Net additions (thousands):			
Postpaid	271	62	42
Prepaid	47	96	(73)
Total mobile customers	318	157	(31)
Mobile broadband customers (included in total)	318	127	49
Other data:			
MOU <sup>(1)</sup> (minutes)	75	84	89
ARPU (Euro)	n.a. <sup>(2)</sup>	11.0	9.7
Customer	n.a.	9.6	8.7
Interconnection	n.a.	1.4	1.0
SARC <sup>(3)</sup> (Euro)	n.a.	29.0	27.8
Data as percentage of service revenues	n.a.	29.1	30.9

<sup>(1)</sup> Minutes of Usage ("MOU") is monthly average of outgoing traffic in minutes per average number of users in the period.

The number of mobile customers, including voice and broadband customers, remained stable in 2011 with a slight decline of 0.5 per cent. from previous year. In fourth quarter of 2011, customer net additions reached 60 thousand, showing improved performance both in postpaid customers (10 thousand net additions), building on the commercial success of the "Unlimited" tariff plans and on the continued growth of mobile broadband customers and prepaid customers, supported by the solid performance of the "e nunca mais acaba" tariff plans.

Following improvements throughout the year through September 2011, personal revenue trends ceased to improve in the fourth quarter of 2011 and were affected by economic conditions, including the reductions in the net wages and salaries of civil servants and retirees, which also resulted in lower consumer confidence. Customer revenues in 2011 declined 8.2 per cent. to 617.7 million from the previous year, due in part to reduced revenues from mobile broadband services. Service revenues in the personal customer segment declined by 10.9 per cent. in 2011 as a result of the decline in interconnection revenues by 29.9 per cent. to 67.7 million, reflecting the regulated declines in mobile termination rates.

<sup>(2) &</sup>quot;n.a." means that this breakdown was not reported separately for the year ended 31 December 2009.

<sup>(3)</sup> Subscriber Acquisition and Retention Cost ("SARC") equals (70 per cent. of marketing and publicity costs + commissions + subsidies) / (gross additions + upgrades).

Mobile voice traffic in terms of minutes grew by 6.5 per cent. to 6,289 billion minutes in 2011, compared to 5,903 billion minutes in 2010. Average monthly usage per subscriber increased by 5.7 per cent. to 89 minutes in 2011, compared to 84 minutes in 2010, primarily because of new commercial offers aimed at providing seamless, integrated voice services.

#### Mobile Network

PT provides mobile telephone services using the GSM and UMTS technologies. Within its GSM offering, PT provides services in the 900 MHz and 1800 MHz band spectrums. GSM and UMTS are European and worldwide standards using digital technology.

In 2011, ANACOM held a multiband auction for the provision of electronic communications services based on LTE (Long Term Evolution) technology whose bidding phase concluded on 30 November 2011. TMN bid for and acquired the rights of use for the 800 MHz, 1800 MHz and 2.6 GHz frequencies with a duration of 15 years:

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

In March 2012, ANACOM formally allocated to TMN the above-mentioned rights. In addition, the license unifies the previous GSM and UMTS licenses issued by ANACOM. The license imposes certain requirements on TMN, including the following:

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

PT paid spectrum fees in 2011, 2010 and 2009 of €17 million, €21 million and €24 million, respectively, for the use of its 900 MHZ and 1800 MHZ GSM network and its UMTS network. These spectrum fees are recorded as an operating expense in PT's financial statements.

In recent years, PT has made significant investments in its second and third generation networks. As a result of its investments, PT has a technologically advanced high capacity network that provides extensive coverage across Portugal. As of 31 December 2011, PT's digital network had 4,909 GSM base stations, including 203 base stations added during 2011, and 3,778 UMTS B nodes, including 100 B nodes added during 2011. As of 31 December 2011, these GSM base stations covered more than 95 per cent. of Portugal and 98 per cent. of the Portuguese population, and the UMTS B nodes covered approximately 68 per cent. of Portugal and 93 per cent. of the Portuguese population, including every municipality with over 5,000 inhabitants.

In addition, through roaming agreements, PT's 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 a visited network. As of the end of 2011, PT had entered into GSM roaming agreements with a total of 618 operators (in 229 countries) and 275 UMTS roaming agreements (in 122 countries).

# Personal Services

PT's products and services include:

- a variety of voice and data tariff plans, both prepaid and postpaid;
- a portfolio of approximately 30 smartphones, including exclusive handsets, with the capability to use an array of value-added and convergent services (mobile TV, music on demand, social network aggregator, etc); and

• mobile broadband offers of up to 100Mbps speed, using 4G technology and offering free access to PT's leading national Wi-Fi network.

PT was the first operator in the world to offer prepaid services, and its prepaid and discount products remain popular. As of 31 December 2011, approximately 82.1 per cent. of PT's subscribers were using prepaid products.

PT continuously invests in new services, and the services PT has launched in recent years include (1) "Music Box", an integrated service for mobile phones, PCs and television that provides access to a catalog of millions of music tracks, (2) PT's application store, offering sports, news, entertainment, games, books and utility applications, which builds upon the presence of its online portal Sapo and partnerships with third parties, (3) "Meo Mobile", which makes available 50 TV channels, in areas such as information, sports, entertainment, children and other, on the mobile phone, (4) "Pond", an aggregation service that enables access to multiple personal accounts and aggregation of social network accounts and (5) PT's "internetnotelemóvel" service, which offers internet access on smartphones and access to its mobile portal.

In 2011, PT accomplished significant progress in a new commercial offer characterized by the launch of the "e nunca mais acaba" and of the "unlimited" tariff plans, which were targeted at upselling mobile Internet, leveraging the increased popularity of smartphones and promoting the use of voice and value-added services. In particular, the "e nunca mais acaba" tariff plan showed solid growth in 2011, reaching 755 thousand customers by the end of the year. PT also introduced changes in roaming tariff structures. In August 2011, it launched two new daily tariff plans for "internetnotelemóvel" aimed at increasing the number of customers that use mobile internet while roaming. In addition, PT launched convergent offers aimed at reducing churn. These offers include "Pontos TMN a dobrar," which doubles the benefits (air miles) attributed to those customers who are simultaneously customers of TMN and *Meo*. Finally, PT launched a new offering in March 2012 targeted at the children segment and positioned upon the concept of security and cost control, thus addressing the main concerns of parents in choosing the first mobile phone for their children.

In March 2012, PT unveiled its 4G strategy by launching a mobile broadband offer that allows speeds of up to 100Mbps, includes access to live TV channels (through *Meo Mobile*), access to a music streaming service (*MusicBox*) and the ability to share traffic among various devices, including PC, wireless dongles, tablets and smartphones. In the end of April 2012, PT's 4G service was already available to approximately 80 per cent. of the Portuguese population. This coverage is expected to increase to 90 per cent. by the end of 2012. PT markets its 4G mobile broadband services through the TMN 4G and *Meo* 4G brands, aiming to leverage the various attributes and strengths of each brand. The offers will have a speed from 50Mbps to 100Mbps and monthly retail prices starting at €49.99 and including the MusicBox service. TMN 4G or Meo 4G customers that are also *Meo* customers will have free access to 50 live TV channels through the Meo Go service.

Also in March 2012, as part of a strategic focus on innovation, PT announced a new mobile payment service under the brand "TMN Wallet" which allows customers to pay for small purchases through any of the following means: (1) SMS messages, (2) USSD, (3) NFC – Near Field Communication and (4) QR code. This service is available for all types of mobile phones, including smartphones, and is currently undergoing a trial period.

### Components of Revenue

PT's revenues from personal services are derived from the following components:

- Service revenues, which are the revenues PT generates 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 PT receives directly from its customers and consist primarily of traffic charges, though PT also derives a small amount of revenue from subscription charges; and
  - Interconnection revenues, which are the revenues PT receives from other telecommunications providers when their customers make calls or otherwise connect to PT's network from fixed lines or mobile devices.

• Sales and other revenues, which are revenues from the sale of mobile phones and related equipment.

PT believes 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 PT's 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. These reductions have had, and are expected to continue to have, a significant impact on PT's interconnection revenues and consequently its cash flows and earnings.

In May 2010, ANACOM imposed a glide path that reduced mobile termination rates by €0.005 per quarter, reaching €0.035 in August 2011. In April 2011, based on an EC Recommendation on fixed and mobile termination rates of May 2009, which required national regulatory authorities to develop bottom-up pure long-run incremental cost ("LRIC") models to regulate mobile termination rates, ANACOM held a consultation on the definition of such a cost model to regulate mobile termination rates. In March 2012, ANACOM issued a final decision on a new glide path, according to which mobile termination rates will decrease in four steps to (1) €0.0277 as of 30 April 2012, (2) €0.0227 as of 30 June 2012, (3) €0.0177 as of 30 September 2012 and (4) €0.0127 as of 31 December 2012.

## Suppliers

PT does not manufacture handsets, but it has agreements with a number of manufacturers to sell handsets in Portugal, including Nokia, Samsung, ZTE, Huawei, Apple, Sony Ericsson, LG and RIM. In addition, Nokia Siemens Networks Portugal and Huawei Technology Portugal were material suppliers of mobile network equipment and services in 2011.

### Marketing

PT markets its personal services primarily using its *TMN* brand and the trademarks and servicemarks of its individual products and services. It markets personal services through more than 3,190 points of sale, including its sales force, retail shops, supermarket chains and independent dealers.

Over the last few years, PT has sought to expand its subscriber base for personal services through increased advertising and the use of its own distribution network. In recent years, PT has focused on encouraging the use of mobile services by young people through SMS incentive packages.

PT also has a low-cost brand, *Uzo*, that targets low-cost subscribers and uses its GSM network. *Uzo* offers a very simple service to its customers with no obligatory recharges and one tariff for voice calls and SMSs to all networks. *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 TMN's call centers) and independent news stands and shops located throughout Portugal.

# **Enterprise Customers**

PT provides enterprise services to corporate, small and medium enterprise ("SME") and small office/home office ("SoHo") customers that need diversified telecommunications solutions and integration with IT services. PT has developed a full range of telecommunications services for businesses, and it integrates these services to provide its customers with service packages. By combining its communications capabilities with its software-based integrated systems and applications, PT offers integrated voice, data and image solutions, virtual private networks, convergence solutions, consultancy and outsourcing. PT believes it is the primary service provider in Portugal capable of offering customers a full range of integrated and customized services.

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.	31	December
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	<b>,</b>		
	2009	2010	2011
Fixed retail accesses (thousands):			
PSTN/ISDN	918	873	826
Broadband customers	182	190	193
Pay-TV customers	40	54	68
Total fixed retail accesses	1,140	1,117	1,087
Mobile customers (thousands)	1,374	1,390	1,445
Net additions (thousands):			
Fixed retail accesses:			
PSTN/ISDN	(80)	(45)	(46)
Broadband customers	4	8	2
Pay-TV customers	16	14	14
Total fixed retail accesses	(60)	(23)	(30)
Mobile customers	36	16	56
Other data:			
Retail RGU per access	1.24	1.28	1.32
ARPU (EUR)	n.a. <sup>(1)</sup>	28.7	25.8
Non-voice revenues as percentage of revenues	n.a.	43.5	46.4

<sup>(1) &</sup>quot;n.a." means that this breakdown was not reported separately for the year ended 31 December 2009.

# Services

PT's enterprise services include:

- Network services, which include fixed voice services, fixed and mobile convergence services, broadband data, Ethernet services, digital leased lines and VSAT services, business high band fibre-based Internet, VPN accesses and applications, and global services for multinational customers.
- IT services, which include data center services (housing and hosting), storage, application servers, cloud-based solutions, namely private virtual servers systems administration, desktop management services, 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, business videocommunications and telepresence 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.

In addition to the service offerings described above, PT provides its customers with sector-specific solutions, especially in the health, education and public sectors, and PT provides machine-to-machine tailor-made solutions. PT is maintaining its focus on the developing convergent offers for SMEs for specific sectors, such as "Office Box Cafés e Restaurantes" (for coffee shops and restaurants) and "Office Box Médicos e Clínicas" (for physicians and medical practices).

The provision of services to PT's 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 PT aims to build upon partnerships with key suppliers to enable business process transformation and cost reductions to its corporate customers, with a special focus on "system on a chip," or SOC, based security solutions, (3) capture mobile data growth through LTE-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.

PT also provides reporting services targeted to special customers to control service level agreements and the overall performance of the network. In addition, it provides outsourced corporate network services for its customers. In the SME/SoHo customer segment, PT aims to integrate its service offerings, including bundling fixed and mobile and voice and data offers with access to subsidized equipment (PCs, PBX, smartphones and tablets), while at the same time making available vertical solutions for specific sectors, such as its "Office Box Cafés e Restaurantes" product (for coffee shops and restaurants) and PT's "Office Box Médicos e Clínicas" product (for physicians and medical practices). In the SME segment, PT's main strategic priority during 2011 was to increase its commercial proactivity, focusing on the growth of core products.

During 2011, PT also continued to invest significantly in its cloud computing offering both for corporates and SMEs, making available structured offers, branded *SmartcloudPT*, that include infrastructure as a service (IaaS), platform as a service (PaaS) and software as a service (SaaS).

### Networks

PT provides services over the largest IP/MPLS backbone in Portugal. PT has points of presence in all major cities throughout Portugal, and it links its network to its customers' premises through switches and access points that it owns. 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. PT also provides high speed Internet access through ADSL and Ethernet.

# Partnerships and Suppliers

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

PT offers services in partnership with leading operators and service providers such as Telefónica, British Telecom and Orange. PT uses systems and networks in partnership with Siemens, Alcatel, Cisco Systems, Motorola, Nortel Networks, Critical Software and Matra/EADS Telecom.

PT has pursued its partnerships with Cisco and other leading companies in the industry with a view towards developing, implementing and continuously launching new services in cloud computing, which include virtual services, security, application and unified communications, intended to help companies adopt more efficient business models by reducing costs related to information technology.

In December 2010, PT signed a collaboration agreement with SingTel, the Singapore telecommunications company. This agreement provides for: (1) sharing best practices and benchmarks in operational and commercial areas related to fibre and IPTV, (2) cooperation in research and development, including the joint creation of multiplatform applications and solutions, (3) development of innovative applications for fixed and mobile high speed networks, (4) leveraging economies of scale through joint procurement and (5) promotion of internship programs allowing the employees of both companies to share best practices and experiences.

## Data Centers and Systems Integration Services

To support its services and to respond to the increasing demand of e-business integrators, PT has 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 PT to provide services, such as colocation, sophisticated web hosting, ISP services, data storage, disaster recovery and ASP services.

In February 2011, PT announced the construction of a new Data Center in Covilhã, Portugal, which will be a 75,000-square meter facility with installation capacity for over 50,000 servers. The Data Center has been designed to be a world reference in energy efficiency with a projected annual average power usage effectiveness (PUE) below 1.25. The Data Center will be supported by a redundant fibre network to connect it to major global communications networks and is expected to focus on providing large processing and data storage capacity to customers inside and outside Portugal based on cloud computing services under the brand *Smart CloudPT*. PT expects that the Data Center will become operational in 2012.

## Components of Revenue

PT's 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.

Profits and losses related to services provided to Enterprise customers were previously recorded under both the wireline and mobile segments.

#### Wholesale and Other Services

In addition to the services PT provides in its primary customer categories of residential services, personal services and enterprise services, PT provides wholesale services and generates a small amount of revenue from other activities, such as the production and distribution of telephone directories. PT reports revenues from these services and products, together with eliminations in consolidation for transactions among its residential, personal and enterprise customers, as "Wholesale, other and eliminations" in its financial statements. Generally, these other services were previously recorded under PT's wireline segment.

### Wholesale Services

Wholesale services provided €466.5 million, €491.3 million and €495.4 million to PT's wireline operating revenues in 2011, 2010 and 2009, respectively. PT's wholesale services consist of:

- domestic and international interconnection telephone services (including capacity-based domestic interconnection) that PT provides to other telecommunications service providers in Portugal;
- provision of carrier pre-selection and number portability;
- leasing of domestic and international lines to other telecommunications service providers and Portuguese cable television 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 PT provides to ISPs;
- international carrier services (transport, transit and/or termination) for international switched traffic; and

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

Interconnection Traffic. Interconnection traffic comprised about 41 per cent. of PT's wholesale business in terms of revenues in 2011. 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 PT's network. Providing interconnection services means allowing third parties to connect their networks to PT's network, and vice versa. PT has interconnection rates namely for call termination, call origination, transits and international interconnection.

Interconnection Prices. Domestic interconnection revenue per minute for calls terminated on PT's network declined by 8 per cent. in nominal terms in 2011 compared to 2010 and by 6 per cent. in 2010 compared to 2009. International interconnection revenue per minute for wholesale operators' outgoing traffic decreased by 20 per cent. in nominal terms in 2011 compared to 2010 and by 13 per cent. in 2010 compared with 2009. In accordance with EU and Portuguese regulations, PT's national interconnection prices are cost-oriented (with costs audited by ANACOM) plus a margin.

Leased Lines. PT leases lines to other telecommunications providers for fixed, mobile and data communications services, including its 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. PT offers both national terminating segments and trunk segments at the wholesale level. PT also leases international circuits to national and international operators to allow them to complete their circuits (often circuits that pass through Portugal linking other countries), and sells segments of international circuits to international operators. The three current mobile telephone operators in Portugal, which include PT's subsidiary TMN, Vodafone Portugal and Optimus, are among PT's wireline business's largest leased line customers.

# Telephone Directories

PT subcontracts to Páginas Amarelas (an affiliated company 25 per cent. owned by PT) for the publication and distribution of telephone directories throughout Portugal in return for an annual payment of approximately 78 per cent. of its gross revenues from the sale of advertising space. PT's revenues from its directories business amounted to €45.9 million, €66.2 million and €80.1 million in 2011, 2010 and 2009, respectively.

## DTT 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 ("DTT") signals. Following a public tender launched by ANACOM in 2008, PT's subsidiary PTC was granted the frequency usage rights for DTT associated with the transport of the signal of 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 PT of its final decision to grant PT a license to act as a TV distribution operator.

PT launched DTT (using DVB-T, or terrestrial signals) in 2009, initially covering 29 municipalities and over 40 per cent. of the population. By the end of 2011 PT achieved 100 per cent. population coverage (approximately. 90 per cent. using DVB-T and 10 per cent. using DVB-H (satellite)).

The switch-off of the analog television network in Portugal occurred on 26 April 2012.

DTT only encompasses broadcasting of free-to-air television programs, while PT's *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

PT also records revenue from providing public pay telephone services, advertising on www.sapo.pt, PT's internet portal, contractual penalties imposed on customers and rentals of equipment and other infrastructure.

# **Brazilian Operations (Oi)**

#### Overview

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

Oi is one of the largest integrated telecommunications service provider in Brazil, based on information available from ANATEL regarding the total number of Brasil Telecom's and TNL's fixed lines in service and mobile subscribers as of 31 December 2011, and the only telecommunications services provider offering "quadruple play" services in Brazil. Oi is the largest telecommunications provider in both Region I and Region II in Brazil, based on information available from ANATEL and other publicly available information regarding Oi's and TNL's revenues and customers as of and for the year ended 31 December 2011. Oi has also been offering mobile telecommunication services in Region III since October 2008. Oi's services include:

- Residential services, which include:
  - local fixed-line services, primarily in Regions I and II, but also in Region III, including installation, monthly subscription, metered services, collect calls and supplemental local services;
  - domestic long-distance services and international long-distance services primarily from Regions I and II, placed through fixed-line and mobile telephones using Oi's long-distance carrier selection codes, which are represented by the numbers 31 and 14;
  - data transmission services, comprised of (1) ADSL services, (2) the lease of dedicated digital and analog lines to other telecommunication services providers and ISPs, (3) IP solutions and (4) other data transmission services;
  - usage of Oi's network (1) to complete calls initiated by customers of other telecommunication services providers to Oi's fixed-line network (fixed-line interconnection services) or (2) by service providers that do not have the necessary network:
  - traffic transportation services; and
  - public telephone services.
- Personal services, which include:
  - mobile telecommunications services throughout Brazil (Regions I, II and III) utilizing 2G and 3G technology, including voice and data transmission services;
  - value-added services which include voicemail, caller ID, directory assistance and other services; and
  - usage of Oi's network to complete calls initiated by customers of other telecommunication services providers to Oi's mobile network (mobile interconnection services).
- Enterprise services, which include:
  - fixed-line telecommunications services, primarily in Regions I and II of Brazil;
  - mobile telecommunications services throughout Brazil (Regions I, II and III) utilizing 2G and 3G technology, including voice and data transmission services;
  - advanced voice services, such as 0800 (toll free) services; and
  - customized infrastructure and storage capacity and access to advanced data centers,

in each case to corporate and medium and small businesses.

- Other services, which include:
  - subscription television services, including cable and DTH television services;
  - ISP services;

- the operation of the iG internet portal (which Oi agreed to sell in 2012); and
- its mobile phone payment system and its call center.

## According to IBGE:

- Region I (which consists of 16 Brazilian states located in the northeastern and part of the northern and southeastern regions) had a population of approximately 101.4 million as of 1 August 2010, representing 54.6 per cent. of the total Brazilian population, and represented approximately 39.1 per cent. of Brazil's total gross domestic product, or GDP, for 2009 (the most recent period for which such information is currently available).
- Region II (which consists of the Federal District and nine Brazilian states located in the western, central and southern regions) had a population of approximately 44.4 million as of 1 August 2010, representing 23.9 per cent. of the total Brazilian population, and represented approximately 27.4 per cent. of Brazil's total GDP for 2009.
- Region III (comprising the state of São Paulo) had a population of approximately 39.9 million as of 1 August 2010, representing 21.5 per cent. of the total Brazilian population, and represented approximately 33.5 per cent. of Brazil's total GDP for 2009.

PT uses the term "Oi" to refer, collectively, to Telemar Participações S.A. ("TmarPart"), and its subsidiary Oi S.A. (formerly known as Brasil Telecom S.A.), a Brazilian company whose shares are traded on the São Paulo Stock Exchange (BM&FBOVESPA S.A.—*Bolsa de Valores, Mercadorias e Futuros*) ("BM&FBOVESPA") and whose ADSs are listed on the New York Stock Exchange. Before the corporate reorganization of Oi described below, the Oi companies (the "Oi Companies") included TmarPart, its subsidiaries Tele Norte Leste Participações S.A. ("TNL"), which merged with and into Oi S.A as part of the corporate reorganization; Telemar Norte Leste S.A. ("Telemar"); Coari Participações S.A. ("Coari"), which merged with and into Oi S.A. as part of the corporate reorganization; and Oi S.A. Following the corporate reorganization of Oi, the term "Oi Companies" refers to TmarPart, Oi S.A. and Telemar.

The following table sets forth the net operating revenues of the Oi Companies for the years ended 31 December 2010 and 2011. The net operating revenues below correspond to the net operating revenues of TNL, which fully consolidated the net operating revenues of Brasil Telecom for the periods shown. Since 31 December 2011, TNL has merged into Brasil Telecom, and Brasil Telecom has been renamed Oi S.A. The net operating revenues in the table below reflect 100 per cent. of the net operating revenues of TNL rather than the portion PT proportionally consolidates into its results of operations.

	Year Ended 31 December	
	2010	2011
Oi Companies (100 per cent.)	(Reais Mi	llions)
Residential services	11,949	10,501
Personal services:		
Service revenues:		
Voice	4,958	5,137
Network usage (interconnection)	2,305	2,398
Data/value-added	654	620
Sales of handsets, SIM cards and other revenues	104	36
Total	8,021	8,190
Enterprise services	8,620	8,470
Other services	890	746
Total consolidated net operating revenues	29,479	27,907

The following table sets forth information regarding the revenue generating units, ARPU and certain other information for Oi for the periods presented:

	2010	2011
Residential services:		
RGU (thousands) <sup>(1)</sup>	18,277	17,796
ARPU (R\$ in three months ended 31 December)	67.5	64.8
Personal services:		
RGU (thousands):		
Postpaid	3,248	3,127
Prepaid	32,605	37,978
Other	1,905	2,158
Total	37,757	43,264
Monthly churn (percentage, three months ended 31 December)	2.8	3.0
ARPU (R\$ in three months ended 31 December)	23.5	22.3
Enterprise services:		
RGU (thousands)	7,094	7,848
Other data:		
Public telepones (thousands)	827	771
Total RGU (thousands)	63,956	69,680

<sup>(1)</sup> Revenue generating units ("RGUs") are individual subscribers of Oi's services.

# Residential Services

Oi's traditional fixed-line telecommunications business in Regions I and II includes local and long-distance services, network usage services (interconnection) and public telephones, in accordance with the concessions and authorizations granted to it by ANATEL. Oi is one of the largest fixed-line telecommunications companies in South America in terms of total number of lines in service as of 31 December 2011. Oi is the principal fixed-line telecommunication service provider in Region I and Region II, based on its 12.0 million and 6.8 million fixed lines in service in Region I and Region II, respectively, as of 31 December 2011, with market shares of 72.7 per cent. and 66.4 per cent., respectively, of the total fixed lines in service in these regions as of 31 December 2011, based on information available from ANATEL.

### Local Fixed-Line Services

As of 31 December 2011, Oi had approximately 12.0 million local fixed-line customers in Region I and approximately 6.8 million local fixed-line customers in Region II. Although Oi continues to assess its strategic plans with regard to providing such services in Region III, Oi does not currently plan to offer local fixed-line services to residential customers in Region III due to the size of the investment that would be required. Local fixed-line services include installation, monthly subscription, metered services, collect calls and supplemental local services. Metered services include local calls that originate and terminate within a single local area.

Under Oi's concession agreements, it is required to offer two local fixed-line plans to users: the Basic Plan per Minute (*Plano Básico de Minutos*) and the Mandatory Alternative Service Plan (*Plano Alternativo de Serviços de Oferta Obrigatória*), each of which includes installation charges, monthly subscription charges, and charges for local minutes. As of 31 December 2011, 19.8 per cent. of the aggregate number of fixed-line customers of Oi subscribed to the Basic Plan per Minute or the Mandatory Alternative Service Plan. In addition to the Basic Plan per Minute and the Mandatory Alternative Service Plan, Oi offers a variety of alternative fixed-line plans that are designed to meet its customers' usage profiles. As of 31 December 2011, 80.2 per cent. of the aggregate number of fixed-line customers of Oi subscribed to alternative plans.

<sup>(2)</sup> The average revenue per user ("ARPU") is the monthly average service revenues per average number of users in the period.

## Long-Distance Services

For each long-distance call, whether originated from a fixed-line telephone or a mobile handset, a caller chooses its preferred long-distance carrier by dialing such carrier's long-distance carrier selection code. The caller pays the long-distance service provider for the call and the long-distance service provider pays interconnection fees to the service providers on whose fixed-line or mobile networks the call originated and terminated. Oi's domestic and international long-distance services consist primarily of calls originated in Region I and Region II, and its customer base consists of residential and business subscribers.

Oi provides domestic long-distance services for calls originating from Region I and Region II through its network facilities in São Paulo, Rio de Janeiro and Belo Horizonte and through interconnection agreements, mainly with Telecomunicações de São Paulo S.A. ("Telesp") in Region III, that permit it to interconnect directly with their local fixed-line networks. Oi provides international long-distance services originating from Region I and Region II through agreements to interconnect its network with those of the main telecommunication service providers worldwide.

Oi also provides mobile long-distance services originating from Region I and Region II through network facilities and through interconnection agreements with Telesp in Region III and each of the other principal mobile services providers operating in Brazil that permit it to interconnect directly with their local fixed-line and mobile networks. Oi provides international long-distance services originating or terminating on its customers' mobile telephones through agreements to interconnect its network with those of the main telecommunication service providers worldwide. Oi also uses its submarine fibre optic network to transport international mobile long-distance calls.

#### Data Transmission Services

Oi offers a variety of high-speed data transmission services in Regions I and II, including services offered by its subsidiaries BrT Serviços de Internet S.A. and Brasil Telecom Comunicação Multimídia Itda. Oi also operates a fibre optic cable system that connects the United States, Bermuda, Brazil, Venezuela and Colombia through its subsidiaries Brasil Telecom Cabos Submarinos Ltda., Brasil Telecom Subsea Cable System (Bermuda) Ltd., Brasil Telecom of America Inc. and Brasil Telecom de Venezuela S.A. Oi's broadband services, primarily utilizing ADSL technology, are marketed under the brand name "Oi Velox." As of 31 December 2011, Oi offered broadband services in 2,833 municipalities in Region I and 1,848 municipalities in Region II. As of 31 December 2011, Oi had 4.9 million ADSL subscribers in Regions I and II, representing 26.1 per cent. of its fixed lines in service at that date. Additionally, Oi provides voice and data services to corporate clients throughout Brazil.

Oi's network supports ADSL2+, VDSL2, or very-high-bitrate digital subscriber line, and FTTx technologies. ADSL2+ is a data communications technology that allows data transmission at speeds of up to 24 Mbps downstream and 1 Mbps upstream, which is much faster than data transmission through conventional ADSL. ADSL2+ permits Oi to offer a wider range of services than ADSL, including IP TV. VDSL2 is a DSL technology providing faster data transmission, up to 100 Mbps (downstream and upstream), permitting Oi to support high bandwidth applications such as HDTV, Voice over Internet Protocol, or VoIP, and broadband internet access, over a single connection. As of 31 December 2011, approximately 85 per cent. of Oi's fixed-line network had been updated to support ADSL2+ or VDSL2. FTTx, or Fiber to the x, is a term for broadband network architecture that uses optical fibre to replace all or part of the usual metal local loop used for last mile telecommunications.

# Network Usage Services (Interconnection Services)

All telecommunication services providers in Brazil are required, if technically feasible, to make their networks available for interconnection on a non-discriminatory basis whenever a request is made by another telecommunication services provider. Interconnection permits a call originated on the network of a requesting local fixed-line, mobile or long-distance service provider's network to be terminated on the local fixed-line or mobile services network of the other provider.

Oi is authorized to charge for the use of its local fixed-line network on a per-minute basis for (1) all calls terminated on its local fixed-line networks in Regions I and II that originate on the

networks of other local fixed-line, mobile and long-distance service providers, and (2) all long-distance calls originated on Oi's local fixed-line networks in Regions I and II that are carried by other long-distance service providers. Conversely, other local fixed-line service providers charge Oi interconnection fees (1) to terminate calls on their local fixed-line networks that are originated on Oi's local fixed-line, mobile or long-distance networks, and (2) for long-distance calls originated on their local fixed-line networks that are carried by Oi's long-distance network. In addition, Oi charges network usage fees to long-distance service providers and operators of trunking services that connect switching stations to its local fixed-line networks.

Oi is authorized to charge for the use of its long-distance network on a per-minute basis for all calls that travel through a portion of its long-distance networks for which the caller has not selected Oi as the long-distance provider. Conversely, other long-distance service providers charge Oi interconnection fees on a per-minute basis for all calls that travel through a portion of their long-distance networks for which the caller has selected Oi as the long-distance provider.

#### Other Services

Long-distance and mobile services providers may avoid paying long-distance network usage charges to Oi by establishing an interconnection to its local fixed-line networks. In order to retain these customers of its long-distance services, Oi offers a long-distance usage service, called national transportation, under which Oi provides discounts to its long-distance network usage fees based on the volume of traffic and geographic distribution of calls generated by a long-distance or mobile services provider. Oi also offers international telecommunications service providers the option to terminate their Brazilian inbound traffic through its network, as an alternative to Embratel and Intelig Telecomunicações Ltda. ("Intelig"). Oi charges international telecommunication service providers a per-minute rate, based on whether a call terminates on a fixed-line or mobile telephone and the location of the local area in which the call terminates.

Oi owns and operates public telephones throughout Region I and Region II. As of 31 December 2011, Oi had approximately 771,300 public telephones in service, all of which are operated by prepaid cards.

#### Personal Services

Oi offers mobile telecommunication services throughout Brazil. Based on its 28.3 million, 8.6 million and 8.6 million mobile subscribers in Regions I, II and III, respectively, as of 31 December 2011, PT believes that Oi is one of the principal mobile telecommunications service providers in each service region. Based on information available from ANATEL, as of 31 December 2011 Oi's market share was 23.2 per cent. in Region I, 14.2 per cent. in Region II and 14.5 per cent. in Region III, respectively, of the total number of mobile subscribers in these regions. As of 31 December 2011, 83.0 per cent. of the customers of Oi subscribed to prepaid plans and 17.0 per cent. subscribed to postpaid plans.

Prepaid customers activate their cellular numbers through the purchase and installation of a SIM card in their mobile telephones. Oi's prepaid customers are able to add credits to their accounts through the purchase of prepaid cards at prices that vary based on the number of minutes available, or through the purchase of additional credits over the phone that can be charged to the customer's credit card or included on their bill for fixed-line services. These credits are valid for a fixed period of time following activation.

Postpaid customers pay a monthly subscription fee and are billed on a monthly basis for services provided during the previous month. Postpaid plans include mailbox, caller ID, conference call capability, call forwarding, calls on hold and special services for customers with advanced mobile handset models.

The services PT offers its mobile telecommunications customers include a number of value-added services, including voicemail, caller ID and other services, such as personalization (video downloads, games and ring tones), SMS subscription services (e.g., horoscopes and football team information), chat services, mobile television, location-based services and applications (mobile banking, mobile search, email and instant messaging).

Oi has roaming agreements with Companhia de Telecomunicações do Brasil Central ("CTBC") and Sercomtel S.A. Telecomunicações ("Sercomtel"), providing its customers with automatic access to roaming services when traveling in areas of Brazil outside its coverage area where mobile telecommunication services are available on the GSM standard. Oi generates revenues from roaming when one of its mobile subscribers receives a call while at a location outside the sector that includes their home registration area. In addition, Oi generates revenues when a subscriber of another mobile services provider places a call from a location that is outside the coverage area of its mobile services provider and the call is originated on Oi's mobile networks. Conversely, when one of Oi's mobile subscribers places a call from outside of Brazil, Oi pays the applicable roaming rate to the mobile services provider on whose network the call originated.

# **Enterprise Services**

Oi provides fixed-line and mobile voice and data transmission services of the types described above to corporate customers and small and medium businesses.

In addition, Oi provides a variety of customized, high-speed data transmission services through various technologies and means of access to other telecommunication services providers, ISPs and corporate customers. Its data transmission services include interconnection between local area networks at data transmission speeds of 34 Mbps, 155 Mbps and 1 Gbps, videoconferencing, video/image transmission and multimedia applications. Oi's principal commercial data transmission services are:

- Industrial Exploitation of Dedicated Lines (*Exploração Industrial de Linha Dedicada*) ("EILD"), under which Oi leases trunk lines to other telecommunication services providers, primarily mobile services providers, which use these trunk lines to link their radio base stations to their switching centers;
- Dedicated Line Services (Serviços de Linhas Dedicadas) ("SLD"), under which Oi leases dedicated lines to other telecommunications services providers, ISPs and corporate customers for use in private networks that link different corporate websites;
- IP services which consist of dedicated private lines and dial-up internet access which Oi provides to most of the leading ISPs in Brazil, as well as Virtual Private Network ("VPN") services that enable Oi's customers to operate private intranet and extranet networks: and
- frame relay services which Oi provides to its corporate customers to allow them to transmit data using protocols based on direct use of Oi's transmission lines, enabling the creation of VPNs.

Oi provides these data transmission services using its service network platforms in Regions I and II and its nationwide fibre optic cable network and microwave links.

Oi also provides advanced voice services to its corporate customers, mainly 0800 (toll free) services, as well as voice portals where customers can participate in real-time chats and other interactive voice services.

# Other Services

In September 2008, ANATEL authorized TNL to provide subscription television services throughout Brazil, using DTH satellite technology. In 2009, TNL commenced offering DTH subscription television services to the low-income residential market in the states of Rio de Janeiro, Minas Gerais, Rio Grande do Sul, Paraná and Santa Catarina. In 2010, TNL expanded this service to the Distrito Federal and the states of Bahia, Sergipe, Pernambuco, Ceará, Paraíba, Rio Grande do Norte, Alagoas, Espírito Santo and Goiás. In 2011, TNL expanded this service to the remaining states of Regions I and II.

Oi provides subscription television services and broadband internet access to the residential, commercial and corporate market segments in the cities of Belo Horizonte, Poços de Caldas, Uberlândia and Barbacena in the State of Minas Gerais. Oi uses a hybrid network of fibre optic and bidirectional coaxial cable ("HFC") network, which allows it to offer a broad range of interactive services, such as distance learning, telephony and telemedicine, among others.

Oi operates an internet portal under the brand name "iG" that was one of the largest internet portals in Brazil in terms of the number of unique visitors in 2011, based on information available from Ibope/NetRatings. Oi agreed to sell this portal in 2012.

### Oi's Network and Facilities

Oi's networks are comprised of physical and logical infrastructures through which it provides fully-integrated services, whether fixed-line or mobile, voice, data or image, thereby optimizing available resources. Oi's networks are monitored remotely from its centralized national network operations center in Rio de Janeiro. Network operating and configuration platforms, located at the network operations center, perform failure monitoring, database and configuration management, security management and performance analysis for the each network.

#### Fixed-Line Network

Oi's fixed-line networks include (1) networks of access lines connecting customers to digital exchanges, Digital Subscriber Line Access Multiplexer ("DSLAM") or next generation network ("NGN") Multi-service Access Nodes ("MSANs"), (2) digital exchanges, NGN controllers, NGN trunk gateways and MSANs, (3) trunk lines connecting digital exchanges, and (4) long-distance transmission equipment. As of 31 December 2011, Oi's access network, served approximately 17.8 million fixed-line subscribers and approximately 2.9 million ADSL subscribers in Region I, and approximately 10.6 million fixed-line subscribers and approximately 2.1 million ADSL subscribers in Region II. As of 31 December 2011, Oi provided ADSL services in approximately 4,653 municipalities.

In 2011, Oi provided fixed-line services at 1,118 new localities, 788 of which were provided with group access (public telephone services) and 331 of which were provided with individual access (residential telephone service), and Oi visited approximately 3,912 localities to confirm data on its record of localities. As of 31 December 2011, Oi and TNL's other subsidiaries offered fixed-line services either with individual or group access in approximately 34,661 localities.

The following table sets forth selected information about Oi's fixed-line networks as of the dates and for the periods indicated.

	As of 31 December	
	2011	2010
Region I:		
Installed access lines (in millions)	17.8	18.0
Access lines in service (in millions)	10.6	12.8
Public telephones in service (in thousands)	504.3	560.8
Broadband access lines in service (in millions)	2.9	2.4
Region II:		
Installed access lines (in millions)	10.4	10.4
Access lines in service (in millions)	6.8	7.2
Public telephones in service (in thousands)	265.0	266.1
Broadband access lines in service (in millions)	2.1	1.9

Oi's fixed-line networks are fully digitalized, and Oi has been introducing NGN technology in selected areas. Oi's long-distance network consists of fibre optic cable networks supporting high capacity Dense Wavelength Division Multiplex systems that can operate with up to 80 channels at 10 and 40 Gbps and microwave links that Oi uses to complement the optical network in Region I and Region II. Oi has a nationwide long-distance backbone, consisting of an optical fibre network that connects the Federal District and the state capitals in Region I and Region II, other than Macapá (located in the State of Amapá) and is complimented by its satellite system. Most of the large urban areas of Regions I and II are also connected by Oi's fibre optic cable networks. Oi's transmission infrastructure connects these digital switches to four international gateway switches: two in Rio de Janeiro, one in Curitiba and one in Brasília. Additionally, Oi's network supports advanced services, including pre-paid and toll-free services, and permits local number portability.

#### Satellite Network

Oi has deployed an expanded range of satellite-based services to comply with its public service obligations to the rural and remote areas of Brazil, including the Amazon rainforest region. These satellite services include internet access and access to corporate data applications. As of 31 December 2011, Oi's satellite network covered approximately 4,500 localities in 24 states and the Federal District and provided voice and data services to approximately 6.8 million customers.

In 2000, Brasil Telecom and TNL began the implementation of the land-based segment of their respective satellite networks in order to extend transmission to remote areas in the states of Acre, Paraná, Rondônia, Rio Grande do Sul, Santa Catarina, Pará, Amazonas, Amapá and Roraima, as well as to other areas with limited access to telecommunication services due to geographical conditions, such as Mato Grosso, Mato Grosso do Sul, Goiás and Tocantins. The satellite network comprises satellite earth stations located in less-populated rural areas, as well as hub stations in the cities of Brasília, Manaus, Boa Vista, Macapá, Belém, Santarém, Marabá, Rio de Janeiro, Curitiba, Porto Alegre, Florianópolis, Cuiabá, Porto Velho and Goiânia. These satellite networks use digital technology and began operating in August 2000. The fibre optic and satellite backbones are interconnected in Brasília, Belém, Fortaleza, Rio de Janeiro, Curitiba, Porto Alegre, Florianópolis, Cuiabá, Porto Velho and Goiânia. The integration of the land-based segment of Oi's satellite network allows it to service its subscribers in any location in Regions I and II.

Hispamar Satellite S.A. ("Hispamar"), a Spanish-Brazilian consortium created in November 1999 by Hispasat (the leading satellite telecommunications provider in the Iberian Peninsula), and TNL operate the Amazonas 1 satellite, which was manufactured by Astrium (EADS Space Company). In December 2002, TNL entered into an agreement with Hispasat that granted and transferred to Hispamar the rights to exploit geostationary orbital position 61 degrees west, and TNL acquired a minority equity interest in Hispamar. The Amazonas 1 satellite was launched into geostationary orbit over the Americas and started to operate in November 2004. The Amazonas 1 satellite provides both C and Ku band transponders and on-board switching. The Amazonas 1 satellite is owned by a subsidiary of Hispasat, and Hispamar has been granted the right to operate and lease all of the transponder space on this satellite.

In 2009, the Amazonas 2 satellite was launched and this satellite commenced commercial operations in early 2010. The Amazonas 2 satellite was manufactured by Astrium and launched into geostationary orbit of 61 degrees West. This satellite provides both C and Ku band transponders and on-board switching, with an expected lifetime of 15 years. The Amazonas 2 satellite is owned by a subsidiary of Hispasat and Hispamar has been granted the right to operate and lease all of the transponder space on this satellite.

# Oi leases transponders from:

- Hispamar with 754 MHz of capacity in the C band on the Amazonas 1 satellite and 540 MHz of capacity in the C band on the Amazonas 2 satellite to provide voice and data services through 653 remote switches covering 390 municipalities;
- Hispamar with 98.3 Mhz of capacity in the Ku band on the Amazonas 1 satellite and 576 Mhz of capacity in the Ku band on the Amazonas 2 satellite to provide voice and data services to approximately 3,028 localities;
- Intelsat Satellite with 205.8 MHz of capacity in the C band on the IA-8 satellite to provide voice and data services between five existing gateway switches;
- Intelsat Satellite with 122 MHz of capacity in the C band on the IS-805 satellite and 648 MHz of capacity in the C band on the IS 10-02 satellite to transport voice and data signals from Manaus to Rio de Janeiro; and
- Intelsat Satellite with 103 MHz of capacity in the C band on the IS-905 satellite to transport voice and data signals from Macapá to Rio de Janeiro and Boa Vista to Rio de Janeiro.

#### Mobile Network

Oi's mobile networks operate on frequencies of 900 MHz/1800 MHz for GSM and 2100 MHz for UMTS. Oi offers mobile data applications based on General Packet Radio Service ("GPRS")/ Enhanced Data Rates for Global Evolution ("EDGE") technology for its GSM network and on high speed packet access, or HSPA, technology for its UMTS network. Oi offers voice applications using its GSM and UMTS networks.

As of 31 December 2011, the 2G mobile networks of Oi and TNL's other subsidiaries, consisting of 12,688 active radio base stations, covered 1,468 municipalities in Region I, or 88.0 per cent. of the urban population in Region II, 1,287 municipalities in Region II, or 96.0 per cent. of the urban population in Region II, and 544 municipalities in Region III, or 99.0 per cent. of the urban population in Region III. Oi has GPRS coverage in 100 per cent. of the localities covered and EDGE coverage in all state capitals.

As of 31 December 2011, the 3G mobile networks of Oi and TNL's other subsidiaries, consisting of 5.833 active radio base stations, covered 92 municipalities in Region I, or 47.0 per cent. of the urban population in Region I, 85 municipalities in Region II, or 53.0 per cent. of the urban population in Region II, and 95 municipalities in Region III, or 71.0 per cent. of the urban population in Region III. Oi has 3G coverage in all state capitals.

Oi's mobile networks are fully integrated with its fixed-line data networks. Oi's mobile networks are directly interconnected to the national and international long-distance networks of all long-distance service providers operating in Regions I, II and III and all mobile services providers in Regions I, II and III.

### Data Transmission Network

Oi uses ADSL, ADSL2+ and VDSL2 as a broadband access technology using its existing fixed-line networks which are capable of speeds of up to 100 Mbps (download) and 1 Mbps (upload). Oi has implemented an address control and name resolution system for its IP networks with the objective of optimizing resources and improving the availability of internet access services.

Oi has deployed a Metro Ethernet network, which is a network that covers a metropolitan area to connect its subscribers to the internet, in several major metropolitan areas. Oi is currently expanding its Metro Ethernet network to other cities due to new customer demand. Oi has also deployed optical fibre networks based on gigabit passive optical network ("GPON") technology together with VDSL2 to provide fibre to the building and GPON providing fibre to the home. As a result of the implementation of this technology Oi is now able to provide broadband with speeds up to 100 Mbps to residential customers and up to 1 Gbps to commercial customers.

Oi's dial-up IP platform supports dial-up access from the fixed-line networks. Oi operate an internet backbone network and a fully IP-routed network, which provides a backbone for all internet dedicated and dial-up services and VPN offerings. Oi's internet backbone connects to the public internet via international links that Oi maintains abroad. With these international links, Oi does not need to rely on other companies to connect its outbound internet traffic with the internet backbones of international ISPs.

## DTH Network

Oi provides its DTH services through a satellite uplink located in Lurin, Peru, which receives, encodes and transmits the television signals to satellite transponders. Oi leases these facilities and license the related technology from Telefónica. Oi leases transponders for the delivery of the television signals to its subscribers from Telefónica. Oi has leased 216 Mhz of capacity in the Ku band on the Amazonas 1 satellite and 36 Mhz of capacity in the Ku band on the Amazonas 2 satellite to provide DTH services. Oi's customers lease satellite dishes and set-top boxes from Oi as part of their subscriptions to its "Oi TV" services.

# Television Cable Network

Oi provides subscription analog and digital television services and broadband internet access to the residential and commercial market segments in the cities of Belo Horizonte, Poços de Caldas, Uberlândia and Barbacena using a HFC network. The analog television signal is distributed from integrated headend equipment owned by Cemig Telecom that is located in these cities. The digital television signal is distributed to the HFC network in Belo Horizonte from Oi's integrated headend equipment located in Alvorada in the city of Rio de Janeiro.

#### Call Centers

In 2007, Brasil Telecom consolidated its call center structure by merging 30 pre-existing sites into five sites (Goiânia, Campo Grande, Florianópolis, Brasília and Curitiba). Oi has improved its customer relationship management system, which integrates its systems and provides a database of information for each customer in order to provide better service and identify sales opportunities during each contact Oi has with its customers.

In 2009, Telemar, a subsidiary of Oi S.A. (then Brasil Telecom), restructured its call center arrangements with Contax, relocating several of its call centers and reducing the number of call centers from 12 to nine. As part of this revision, Telemar invested in automated platforms that permit its prepaid customers to add prepaid minutes to their subscriptions through an automated process.

### Developments in 2011

### Residential Services

In the fourth quarter of 2011, Oi achieved its best performance since the second quarter of 2010. This improvement was due mainly to the restructuring of fixed tariff plans in the second half of 2011. These plans provide incentives for the use of fixed line by expanding its benefits, including (1) free minutes for local fixed calls, (2) free minutes for national long distance fixed calls using Oi's long distance codes, (3) free minutes for local calls to Oi Mobile and (4) digital calling services.

Oi continues to seek to provide attractive commercial conditions for existing and new customers to subscribe to *Oi Velox*, Oi's broadband internet brand, aiming to strengthen customer loyalty and increase penetration of its services in its customer base. Oi continued to invest in the quality of its fixed broadband service, which offers speeds of up to 20Mbps for prices starting at R\$39.90 per month. Oi also increased the broadband speeds it provides to customers and, in 2011, the average fixed broadband speed stood at 2.5Mbps in fourth quarter, compared to 2.33Mbps at the end of the third quarter, 2.13Mbps at the end of the second quarter and 1.91Mbps at the end of the first quarter. In addition, by the end of 2011, 24 per cent. of the *Oi Velox* customer base had services with speeds of more than 5Mbps, of which 47 per cent. had speeds higher than 10Mbps. Moreover, at the end of 2011 Oi launched a new convergent offer with competitive prices, *Oi Conta Total*, which included mobile broadband and *Velox 3G*.

In November 2011, Oi launched *Oi Internet Total*, a broadband service, which allows internet access with more mobility, at home with *Oi Velox* or outside with 3G or Wi-Fi networks. In September 2011, Oi initiated a partnership with the Brazilian government for the implementation of the Brazilian national broadband plan (*Plano Nacional de Banda Larga*), aiming at increasing the penetration of broadband in Brazil.

During 2011, Oi expanded coverage, reaching 450 cities by the end of the year. Oi aims to cover 4,800 cities by 2014. During 2011, Oi also focused on strengthening Oi TV by launching new offers and implementing operational improvements. In October 2011, Oi launched 21 new offers aimed at increasing the penetration of TV plans with premium movie channels, including Telecine and HBO. In the fourth quarter of 2011, Oi launched a new service in Rio de Janeiro, including the GloboSat and TV Globo channels. The TV Globo channel was also included in 189 municipalities in five different states. During the fourth quarter of 2011, Oi TV expanded its offer to an additional 19 cities, covering 24 states by the end of 2011. In the residential customer category, Oi had approximately 13.1 million unique residential customers as of 31 December 2011.

#### Personal Services

In 2011, Oi's personal customer segment had approximately 43,264 thousand mobile customers, representing an increase of 14.6 per cent. from previous year, with net additions of 5.5 million. In 2011, Oi had approximately 45.5 million mobile customers, representing an increase of 15.8 per cent. from previous year, with net additions of 6.2 million. Gross additions in 2011 were 24.7 million, while

the fourth quarter of 2011 had additions of 6.5 million. The increase in the period is primarily explained by the decision to adopt more restrictive criteria for recording active customers in the customer base, particularly in the prepaid segment, aiming at minimizing regulatory fees and improving Oi's profitability.

During the fourth quarter of 2011, in the postpaid segment, Oi has launched several initiatives aimed at increasing customer growth, such as (1) an offer simplification process, (2) restructuring of distribution channels and (3) price repositioning. As a result, 42 per cent. of net additions in 2011 were achieved in the fourth quarter of 2011. Further, during the fourth quarter of 2011, as a complement to the new offers launched during the third quarter of 2011, Oi Dados and Oi Velox 3G, Oi launched a new offer that allows free access to Oi's Wi-Fi network and to Vex, the largest Brazilian Wi-Fi network acquired by Oi, as well as a free trial of two months of Oi Radio.

During 2011, in the prepaid segment, Oi continued to market the new offers launched at the end of 2010 that allow daily bonuses dependent on the amount of the recharges and that may be used for on-net and off-net SMS, local calls to fixed lines and Oi Mobile and long distance calls using Oi's long distance codes to Oi fixed and mobile customers. In the fourth quarter of 2011, as a complement to these new offers, Oi launched SMS packages allowing customers to send on-net and off-net messages with a discount of up to 88 per cent. To increase mobile internet access in the handset in the prepaid segment, Oi launched 3 new data packages (1) a daily offer, with 5MB at R\$0.50, (2) a weekly offer, with 20MB, at R\$2.99 and (3) a monthly offer, with 50MB at R\$9.99.

During 2011, Oi launched several initiatives to improve operational performance and increase customer loyalty. Specifically, in December 2011, Oi opened 60 new corporate owned stores, aiming to strengthen its distribution channels, Oi also created new regional commercial structures to improve its commercial flexibility and effectiveness and initiated smartphone subsidization for postpaid mobile customers.

During 2011, Oi has been increasing its minimum recharge in certain regions, aiming at improving profitability, while at the same time offering improved bonuses to maintain the attractiveness of commercial offers. As a result of these initiatives and stronger commercial competitiveness, Oi's personal segment base grew by 14.6 per cent. as compared to previous year. In 2011 Oi had approximately 38 million prepaid customers, representing 87.8 per cent. of Oi's personal segment base, while postpaid customers were approximately 3.1 million. Oi Controle customers also grew by 13.3 per cent. to over 2.1 million.

# Enterprise Services

Anticipating growth opportunities among corporate customers, Oi established a new business area focused on enterprises. In February 2012, Oi launched *Smart Cloud Oi*, becoming the first operator in Brazil to launch a cloud computing offer for corporate customers. This new service offers customised infrastructure and storage capacity and access to advanced data centers. It also makes available end-to-end solutions, including data networks, ensuring high performance and data security. In 2011, Oi had approximately 7.8 million enterprise customers, an increase of 10.6 per cent. from previous year.

### Developments in 2012

On 6 February 2012, the board of directors of Brasil Telecom approved the issuance of non-convertible debentures in the amount of R\$2,000 million. In February 2012, Brasil Telecom issued US\$1,500 million senior notes due February 2022 that bear interest at a 5.75 per cent. per annum.

## Strategic Partnership with Oi

## Background and History

On 28 July 2010, PT reached an agreement with Telefónica to sell its 50 per cent. interest in Brasilcel N.V., a joint venture that held PT's interest in Vivo, to Telefónica. The sale was concluded on 27 September 2010. PT reflects Vivo in its statements of income and cash flows for periods prior to 27 September 2010 as a discontinued operation. As of 31 December 2010 and 2011, none of the assets or liabilities of Vivo are reflected on PT's balance sheet.

On 28 July 2010, PT also entered into a letter of intent with AG Telecom Participações S.A. ("AG Telecom") and LF Tel S.A. ("LF Tel"), companies that are part of the controlling group of Brasil Telecom, to establish the main terms that would serve as a framework for the negotiation of PT's strategic partnership with Oi.

On 25 January 2011, PT and its subsidiary Bratel Brasil S.A. ("Bratel") entered into agreements with TmarPart, AG Telecom, Luxemburgo Participações S.A. (a subsidiary of AG Telecom, that has since merged with and into AG Telecom and is referred to, together with AG Telecom, as "AG"), LF Tel, BNDES Participações S.A. ("BNDESPar"), Fundação Atlântico de Seguridade Social ("FASS"), Caixa de Previdência dos Funcionários do Banco do Brasil—PREVI ("PREVI"), Fundação Petrobrás de Seguridade Social—PETROS, ("PETROS") and Fundação dos Economiários Federais—FUNCEF ("FUNCEF") to implement the strategic partnership with the Oi Group.

### On 28 March 2011:

- Bratel acquired from BNDESPar, PREVI, PETROS and FUNCEF an aggregate of 261,631,051 common shares issued by TmarPart, representing 9.6 per cent. of TmarPart's total outstanding common shares;
- Bratel acquired from Andrade Gutierrez Telecomunicações Ltda. and La Fonte Telecom S.A. a 35 per cent. interest in each of Pasa Participações S.A. and EDSP75 Participações S.A., respectively, holding companies that own 100 per cent. of the share capital of AG Telecom and LF Tel;
- TmarPart increased its share capital through the issuance of 186,664,449 common shares, in which transaction (1) Bratel subscribed for an aggregate of 91,225,537 common shares issued by TmarPart, representing 3.1 per cent. of TmarPart's total outstanding common shares, (2) AG Telecom and its subsidiary Luxemburgo subscribed for an aggregate of 36,784,491 common shares issued by TmarPart, representing 1.3 per cent. of TmarPart's total outstanding common shares, (3) LF Tel subscribed for an aggregate of 36,784,491 common shares issued by TmarPart, representing 1.3 per cent. of TmarPart's total outstanding common shares, and (4) FASS acquired an aggregate of 21,869,930 common shares issued by TmarPart, representing 0.7 per cent. of TmarPart's total outstanding common shares;
- TNL increased its share capital through the issuance of 56,417,086 common shares at an issue price of R\$38.5462 per share and of 28,409,175 preferred shares at an issue price of R\$28.2634 per share. The aggregate proceeds received by TNL from this capital increase amounted to R\$2,978 million. In this capital increase, TmarPart and its wholly-owned subsidiary Valverde Participações S.A. subscribed for 35,309,502 common shares issued by TNL, and Bratel acquired an aggregate of 20,752,270 common shares and 28,298,549 preferred shares issued by TNL. Following this capital increase, TmarPart owned, and owns as of the date hereof, 22.4 per cent. of TNL's total share capital, including 50.5 per cent. of its voting share capital, and Bratel owned, and owns as of the date hereof, an aggregate 10.5 per cent. of TNL's total share capital, or 11.3 per cent. of its voting share capital; and
- Telemar increased its share capital through the issuance of 46,969,121 common shares at an issue price of R\$63.7038 per share and 58,696,856 class A preferred shares at an issue price of R\$50.7010 per share. The aggregate proceeds received by Telemar from such capital increase amounted to R\$5,969 million, of which R\$4,624 million represented the purchase price for the shares issued by Telemar subscribed for by TNL. In this capital increase, TNL acquired 46,743,149 common shares issued by Telemar, and Bratel acquired an aggregate of 32,475,534 class A preferred shares issued by Telemar. Following this capital increase, TNL owned, and owns as of the date hereof, 70.4 per cent. of Telemar's total share capital, including 98.0 per cent. of its voting share capital, and Bratel owned, and owns as of the date hereof, an aggregate of 9.4 per cent. of Telemar's total share capital.

Following the consummation of the transactions described above, PT held a 25.3 per cent. economic interest in Telemar on a consolidated basis. PT held this interest through (1) an indirect 35

per cent. interest in AG Telecom, (2) an indirect 35 per cent. interest in LF Tel, (3) a 12.1 per cent. direct interest in TmarPart, (4) a 10.5 per cent. direct interest in TNL and (5) a 9.4 per cent. direct interest in Telemar. Given PT's economic interest and its rights to participate in the management of Oi as described below, since 1 April 2011, PT has proportionally consolidated 25.6 per cent. of TmarPart in its consolidated financial statements, which, in turn, fully consolidates TNL and Telemar.

### Reorganization of the Oi Companies

On 24 May 2011, TmarPart publicly announced a proposed corporate reorganization (the "Corporate Reorganization") of the Oi Companies. The Corporate Reorganization was effectively completed on 27 February 2012 and consisted of the following steps:

- a split-off and share exchange under Brazilian law in which (1) Telemar transferred the shares of Coari that Telemar owned to Coari, (2) Coari assumed a portion of the liabilities of Telemar, (3) the common and preferred shares of Telemar (other than the shares of holders who exercise their withdrawal rights with respect to such shares) would be exchanged for newly issued common and preferred shares of Coari upon the termination of the period for exercise of withdrawal rights, and (4) Coari retained the Telemar shares exchanged for Coari shares, and as a result, Telemar became a wholly-owned subsidiary of Coari;
- the merger of Coari into Brasil Telecom, resulting in Coari ceasing to exist and Telemar becoming a wholly-owned subsidiary of Brasil Telecom; and
- the merger of TNL into Brasil Telecom, resulting in TNL ceasing to exist.

In connection with the Corporate Reorganization, the following events took place:

- On 24 February 2012, TmarPart exchanged all of the class A preferred shares of Telemar that it owned for common shares of TNL held by Jereissati Telecom S.A. ("Jereissati Telecom"), Andrade Gutierrez S.A. ("Andrade Gutierrez"), the parent of AG Telecom, and Bratel Brasil, each a shareholder of TmarPart, in order to ensure that upon the completion of the Corporate Reorganization, TmarPart retained the voting control of Brasil Telecom in order to comply with the legal and regulatory obligations of TmarPart to ANATEL;
- Bratel exchanged preferred shares of Telemar for common shares of TNL (under the same terms and conditions of the TmarPart exchange described above) held by Jereissati Telecom, Andrade Gutierrez, AG and LF, which they received as a result of exchanging their preferred shares of TNL for preferred shares and common shares of Oi according to the exchange ratios; and
- Brasil Telecom issued and distributed redeemable shares of Brasil Telecom to holders of Brasil Telecom shares prior to the mergers of Coari and TNL into Brasil Telecom and redeemed those shares for cash immediately following their issuance. In addition, Brasil Telecom was renamed Oi S.A.

The Corporate Reorganization was undertaken to:

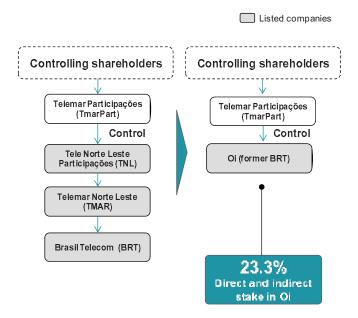
- simplify the corporate structure of the Oi Companies, which was extremely complex and included three publicly-held companies with seven different classes of publicly-traded shares, and simplify the corporate governance of the Oi Companies by consolidating the shareholder bases of the Oi Companies in one public company with two classes of shares that will be traded in Brazil and abroad;
- reduce operational, administrative and financial costs following the consolidation of the general management of the Oi Companies, the simplification of their capital structure, and the improvement of their ability to attract investments and access the capital markets;
- align the interests of the shareholders of the Oi Companies;
- enhance the liquidity of the shares of Oi S.A. (formerly Brasil Telecom); and

• eliminate the costs of separate listings of the shares of TNL, Telemar and Oi S.A., as well as those costs arising from separately complying with the public disclosure requirements applicable to TNL, Telemar and Brasil Telecom.

Following the Corporate Reorganization, PT holds a 23.25% economic interest in Oi S.A., including a direct interest of 15.54%.

#### Corporate Structure

Set forth below is a simplified corporate chart of Oi before and after the Corporate Reorganization:



The purpose of PT's strategic partnership with Oi is to develop a global telecommunications platform that will allow for cooperation in diverse areas, with a view to, among other things, sharing best practices, achieving economies of scale, implementing research and development initiatives, developing new technologies, expanding internationally, particularly in Latin America and Africa, diversifying the services provided to PT's customers, maximizing synergies and reducing costs, and seeking to offer constant high quality services to PT's corporate and individual customers, while creating and adding value for PT's shareholders.

In connection with this strategic partnership, it was contemplated that the Oi Companies would use part of the proceeds received from share capital increases to acquire up to 10 per cent. of the outstanding ordinary shares of PT. As of 23 January 2012, the Oi Companies beneficially owned 64,557,566 ordinary shares of PT, representing 7.2 per cent. of PT's outstanding ordinary shares.

## Corporate Governance

In connection with the formation of PT's strategic partnership with Oi, PT entered into various shareholders' agreements with Oi's current shareholders in order to regulate corporate governance practices within Oi, establish the rules, procedures and quorums for the approval of certain matters by Oi's board of directors, board of executive officers and within Oi's shareholder structure, rights of first offer or first refusal in the sale of Oi's shares by its shareholders, tag-along rights and other provisions, and these rights allow PT to play an active role in Oi's corporate governance. For example, the shareholders' agreements contemplate, among other things, (1) a lock-up period of five years with respect to AG Telecom, LF Tel and TmarPart, a right of first refusal over a non-control sale of AG Telecom and LF Tel and over any sale of TmarPart, and a right of first offer and tagalong rights in case of a control sale of AG Telecom and LF Tel and (2) the need for PT's approval on certain corporate governance matters, including: (i) amendments to bylaws, (ii) mergers and

acquisitions and shareholders agreements, (iii) dissolution, (iv) capital increases or reductions, (v) issuances of debt securities above a specified ratio and (vi) the annual budget and investments.

In connection with the strategic partnership with Oi, on 28 April 2011, at TNL's annual general shareholders meeting, Zeinal Bava, the Chief Executive Officer of PT, and Shakhaf Wine, an executive board member of PT, both nominated by PT, were elected as members of the board of directors of TNL, as PT had announced on 6 April 2011. In addition, Mr. Bava was appointed a member of the board of directors of TmarPart, and Mr. Wine was appointed an alternate member of the board of directors of TmarPart.

As the Corporate Reorganization of Oi has been completed, Zeinal Bava was appointed to the board of directors of Oi S.A. and Luís Pacheco de Melo was appointed Mr. Bava's alternate member of the board of directors of Oi S.A., at the annual shareholders' meeting of Oi S.A. that occurred on 18 April 2012. At the same meeting, Shakhaf Wine was also appointed to the board of directors of Oi S.A. and Abílio Martins was appointed Mr. Wine's alternate member of the board of directors of Oi S.A.

In addition, on 6 April 2011, Otávio Marques de Azevedo, then the Chairman of TmarPart, and Pedro Jereissati, Chief Executive Officer of TmarPart, were appointed to PT's board of directors and their appointment was ratified at PTs general meeting of shareholders held on 6 May 2011.

PT's shareholder agreements in connection with its strategic partnership with Oi are described in more detail below.

#### Overview of TmarPart Shareholders' Agreements

On 25 April 2008, TmarPart's shareholders entered into two shareholders' agreements. The shareholders' agreement among AG Telecom, LF Tel, Asseca Participações S.A. ("Asseca"), BNDESPar, Fiago and FASS as parties, having TmarPart, PREVI, PETROS, FUNCEF and Andrade Gutierrez Investimentos em Telecomunicações S.A. as intervening parties, is referred as the "Global Shareholders' Agreement". The shareholders' agreement among AG Telecom, LF Tel, Asseca and FASS as parties, having TmarPart and Andrade Gutierrez Investimentos em Telecomunicações S.A. as intervening parties, is referred as the "Control Group Shareholders' Agreement".

On 20 June 2008, Asseca assigned the TmarPart shares it held to LF Tel and Andrade Gutierrez Investimentos em Telecomunicações S.A., which merged with and into AG Telecom (later Luxemburgo Participações S.A.). As a result, Asseca ceased to be a TmarPart shareholder and to have any rights under the Global Shareholders' Agreement or the Control Group Shareholders' Agreement.

In July 2009, Fiago assigned TmarPart shares it held to PREVI, PETROS, FUNCEF and FASS. As a result of such transaction, Fiago ceased to be a TmarPart shareholder and to have any rights under the Global Shareholders' Agreement.

On 25 January 2011, TmarPart's shareholders amended the Global Shareholders' Agreement and the Control Group Shareholders' Agreement, both effective as of 28 March 2011, to reflect PT's acquisition, through Bratel, of voting shares of TmarPart and to modify certain clauses of the Global Shareholders' Agreement and the Control Group Shareholders' Agreement. AG, BNDESPar, PREVI, FASS, FUNCEF, PETROS, LF Tel and Bratel are parties to the amendment to the Global Shareholders' Agreement, while TmarPart and PT executed the amendment as intervening parties. AG Telecom, Luxemburgo, LF Tel and FASS are parties to the amendment to the Control Group Shareholders' Agreement, while TmarPart executed such an amendment as intervening party.

## Global Shareholders' Agreement

The initial term of the Global Shareholders' Agreement expires on the later of 25 April 2048 or the expiration date of the last to expire of the concessions or authorizations held by TmarPart or its subsidiaries (including any renewals thereto). The term of the Global Shareholders' Agreement may be extended for successive periods of 10 years with the consent of each of the parties thereto.

The parties to the Global Shareholders' Agreement have agreed to the following provisions with respect to elections of members of the boards of directors and executive officers, and the voting of their shares of TmarPart, TNL, Telemar, Brasil Telecom and each of TmarPart's, TNL's or Telemar's

material subsidiaries (i.e., subsidiaries having annual net operating revenues equal to or in excess of R\$100 million):

- AG, LF Tel, and FASS will together have the right to designate a majority of the members of the board of directors of TmarPart and of each of the material subsidiaries;
- each increment of 7 per cent. of the voting share capital of TmarPart held by each party to the Global Shareholders' Agreement will entitle that party to designate one member of the board of directors of TmarPart and each of the material subsidiaries and his or her alternate:
- so long as PT holds at least 7 per cent. of the voting share capital of TmarPart, PT will be entitled to designate one member and the respective alternate of the board of directors of TmarPart, such appointees to be designated from the directors and executive officers of PT;
- PREVI, PETROS, FUNCEF and BNDESPar are entitled to aggregate their shares to determine their eligibility to exercise the rights described above;
- Bratel, PREVI, PETROS, FUNCEF and BNDESPar each have the right to designate one member of the board of directors of any other subsidiary, provided that AG, LF Tel and FASS have designated members of such board of directors;
- AG, LF Tel, BNDESPar, FASS, PREVI, PETROS, FUNCEF and PT, through Bratel, will together select the chief executive officers of each of the material subsidiaries pursuant to the rules outlined in the Global Shareholders' Agreement;
- the chief executive officer of TNL will select the members of TNL's board of executive officers:
- the chief executive officer of TNL, together with the chief executive officer of each of the other material subsidiaries, will select the other members of the board of executive officers of such material subsidiary;
- BNDESPar, PREVI, PETROS and FUNCEF, jointly, have the right to designate one member to the fiscal council of each of the material subsidiaries;
- AG, Luxemburgo, LF Tel, BNDESPar, FASS, PREVI, FUNCEF, PETROS and PT, through Bratel, will hold pre-meetings prior to shareholders' and board of directors meetings of the material subsidiaries and will vote PT's TmarPart shares and instruct PT's representatives on the boards of directors of the material subsidiaries to vote in accordance with the decisions made at pre-meetings; and
- that approval of certain matters be subject to the supermajority vote of the shareholders (for instance, among other things, approval of changes to the bylaws of TmarPart or to the bylaws of any of its material subsidiaries, approval of donation policies, approval of investments of any kind not specifically foreseen in the budgets in excess of R\$50 million and certain other matters are subject to a 75 per cent. majority; approval of, and amendments to, the annual budget of TmarPart and its material subsidiaries, capital reduction or increases, the issue of securities, proposals to pay or distribute dividends or interest on shareholders' equity in amounts below 25 per cent. of the net income, selection of auditors and certain other matters are subject to a 77 per cent. majority; sale or creation of any liens on the shares issued by the material subsidiaries, or the issue of convertible securities, the adoption of any procedure that would cause TmarPart to lose control of the material subsidiaries, any merger or spin-off transaction involving TmarPart or any of its material subsidiaries and certain other matters are subject to a 87.4 per cent. majority).

Under the Global Shareholders' Agreement, each of the shareholders party to it has agreed:

• not to enter into other shareholders' agreements with respect to its TmarPart shares, other than (1) the Global Shareholders' Agreement, (2) the Control Group Shareholders' Agreement and (3) the shareholders' agreement entered into among Bratel, Andrade Gutierrez Telecomunicações Ltda. and La Fonte Telecom S.A.;

- not to amend the Global Shareholders' Agreement, the Control Group Shareholders' Agreement or the shareholders' agreement entered into among Bratel, Andrade Gutierrez Telecomunicações Ltda. and La Fonte Telecom S.A. without the consent of all parties to the Global Shareholders' Agreement;
- to grant a right of first refusal and tag-along rights to the other parties to the Global Shareholders' Agreement with respect to any sale of its TmarPart shares, except that (i) FASS must grant the right of first refusal for its TmarPart shares to AG and LF Tel, (ii) any sale of TmarPart shares among PREVI, PETROS and FUNCEP is not subject to the right of first refusal and (iii) PREVI, PETROS and FUNCEF must grant the right of first refusal for their TmarPart shares to BNDESPar;
- that the other parties to the Global Shareholders' Agreement have the right to sell, and Bratel has the obligation to buy, up to all of the other parties' shares of TmarPart in the event that Bratel acquires control of TmarPart;
- to offer its TmarPart shares to the other parties to the Global Shareholders' Agreement in the event of a transfer of control of such shareholder, including, without limitation, in the event that Bratel acquires control of AG or LF Tel;
- that the other shareholders have the right to purchase all of Bratel's TmarPart shares in the event of a change of control of PT; and
- Oi will use part of the proceeds received from PT's investment in Oi to acquire up to 10 per cent. of the outstanding shares of PT. Based on the most recent information available to PT, Oi has purchased 64,557,566 shares of PT, representing 7.2 per cent. of PT's outstanding shares through broker transactions.

### Control Group Shareholders' Agreement

The initial term of the Control Group Shareholders' Agreement expires on 25 April 2048 and may be extended for successive periods of 10 years with the consent of each of the parties thereto.

Under the Control Group Shareholders' Agreement, each of the parties has agreed:

- to hold pre-meetings between themselves prior to the pre-meetings to be held pursuant to the Global Shareholders' Agreement and to vote their TmarPart shares in accordance with the decisions made at such pre-meetings;
- that any TmarPart shares sold by a party to the Control Group Shareholders' Agreement to any other party to the agreement will remain subject to the agreement; and
- that if a party to the Control Group Shareholders' Agreement sells all or part of its TmarPart shares to another party or to a third party, the purchaser(s) and the selling party, as the case may be, will be considered one voting bloc for the purposes of the Control Group Shareholders' Agreement (even if the purchaser(s) is/are already a party to the agreement) and that such voting bloc will hold pre-meetings prior to the meetings of the parties to the Control Group Shareholders' Agreement.

## PASA Participações S.A. and EDSP75 Participações S.A. Shareholders' Agreements

PT currently holds a 25.3 per cent. economic interest in Telemar on a consolidated basis. Part of the structure PT used in order to obtain such an interest in Oi was to acquire an indirect 35 per cent. interest in AG Telecom and in LF Tel, through a direct investment in PASA Participações S.A. and EDSP75 Participações S.A., respectively. PT has a 35 per cent. direct economic interest in PASA Participações S.A., and the remaining 65 per cent. economic interest in the company is held by Andrade Gutierrez Telecomunicações Ltda. Likewise, PT has a 35 per cent. direct economic interest in EDSP75 Participações S.A., and the remaining 65 per cent. economic interest in the company is held by La Fonte Telecom S.A. AG Telecom is wholly owned by PASA Participações S.A., and LF Tel is wholly owned by EDSP75 Participações S.A.

In connection with PT's investments in PASA Participações S.A. and EDSP75 Participações S.A., on 25 January 2011, PT entered into two shareholders' agreements, one with Andrade Gutierrez Telecomunicações Ltda. (in relation to PASA Participações S.A.) and another with La Fonte Telecom

S.A. (in relation to EDSP75 Participações S.A.). The initial terms of these shareholders' agreements expire on 25 April 2048 but may be extended for successive periods of 10 years with the consent of each of the parties.

These shareholders' agreements serve the purpose of regulating corporate governance within PASA Participações S.A. and EDSP75 Participações S.A. and streamlining decision-making process between PT, Andrade Gutierrez Telecomunicações Ltda. and La Fonte Telecom S.A. in connection with PT's investments in Oi. For instance, under these shareholders' agreements:

- pre-meetings are to be held between the shareholders to decide in advance the matters to be analyzed during pre-meetings to be held under the Global Shareholders' Agreement and the Control Group Shareholders' Agreement; and
- approval of certain matters are subject to a supermajority vote of the shareholders (e.g, approval of, and amendments to, the annual budget of PASA Participações S.A., EDSP75 Participações S.A., AG and LF Tel are subject to an 83 per cent. majority; the entering by PASA Participações S.A., EDSP75 Participações S.A., AG or LF Tel of any loan agreements in excess of R\$50 million, or the entering of any agreement imposing a pecuniary obligation on PASA Participações S.A., EDSP75 Participações S.A., AG or LF Tel in excess of R\$50 million, or the granting of any guarantees by PASA Participações S.A., EDSP75 Participações S.A., AG or LF Tel in excess of R\$50 million, are subject to a 90 per cent. majority; and any amendments to the Global Shareholders' Agreement or the issuance of preferred shares by PASA Participações S.A., EDSP75 Participações S.A., AG or LF Tel, the approval of any decision subject to supermajority vote under the Global Shareholders' Agreement (defined as a "material decision" under the PASA Participações S.A. and EDSP75 Participações S.A. shareholders' agreements), among other matters, are subject to the unanimous vote of the shareholders).

In addition, as long as PT holds at least 17 per cent. of the voting and total share capital of each of PASA Participações S.A. and EDSP75 Participações S.A., PT has the right to appoint one member to the board of executive officers of each of these companies. On the other hand, reduction in PT's interest in PASA Participações S.A. or EDSP75 Participações S.A. may change some of PT's rights under these agreements and in connection with the Global Shareholders' Agreement. For example, should PT's interest in PASA Participações S.A. or EDSP75 Participações S.A. be reduced to less than 20.5 per cent. of the voting share capital of either of these companies, approval of certain "material decisions," as defined in the preceding paragraph, subject to a 75 per cent. majority vote under the Global Shareholders' Agreement (for instance, approval of changes to the bylaws of TmarPart) would no longer require PT's consent.

These shareholders' agreements also contemplate:

- rights of first offer to the shareholders with respect to the transfer of the shares issued by PASA Participações S.A. and EDSP75 Participações S.A.;
- tag-along rights for PT's benefit in case of the sale of PASA Participações S.A. and EDSP75 Participações S.A. shares by Andrade Gutierrez Telecomunicações Ltda. or La Fonte Telecom S.A., as the case may be;
- a general restriction on the sale of the shares issued by PASA Participações S.A. and EDSP75 Participações S.A. by Andrade Gutierrez Telecomunicações Ltda. or La Fonte Telecom S.A, as the case may be, to PT's competitors; and
- a general right to PREVI, PETROS, FUNCEF and BNDESPAR, while they remain shareholders of TmarPart, or to any third parties which may acquire the shares held by these companies in TmarPart, to substitute Andrade Gutierrez Telecomunicações Ltda. or La Fonte Telecom S.A. in the exercise of their preemptive rights under the PASA Participações S.A. and EDSP75 Participações S.A. shareholders' agreements in case PT decides to sell its shares in PASA Participações S.A. and/or EDSP75 Participações S.A.

BNDESPar, PREVI, PETROS and FUNCEF Shareholders' Agreement

On 25 January 2011, PREVI, PETROS, FUNCEF, BNDESPAR, Andrade Gutierrez Telecomunicações Ltda. and La Fonte Telecom S.A. entered into a voting bloc shareholders'

agreement. The purpose of this shareholders' agreement is to regulate the exercise of voting rights with respect to, and general governance in connection with, PASA Participações S.A. and/or EDSP75 Participações S.A. in case of the sale of PT's interest in PASA Participações S.A. and/or EDSP75 Participações S.A. and the acquisition of such interest by any of PREVI, PETROS, FUNCEF or BNDESPAR, in which circumstance the purchaser, or purchasers, of PT's interest in PASA Participações S.A. and/or EDSP75 Participações S.A. will be deemed to be a single bloc and will succeed PT in all PT's rights and obligations. PT is not party to this shareholders' agreement, and no obligation or right is imposed or conferred upon it.

#### **Other International Operations**

Concurrently with PT's investment in Oi, PT acquired an interest in Contax, which provides contact center services, IT services and BPO services in Brazil and other Latin American countries. In addition, PT has significant interests in telecommunications companies in Angola, Cape Verde, Namibia and São Tomé and Principe in Africa and in Macau and East Timor in Asia.

PT's subsidiary Portugal Telecom Investimentos Internacionais-Consultoria Internacional, S.A. manages all of PT's international businesses other than PT's investments in Oi and Contax.

### Other Brazilian Operations

Brazilian Contact Center Operations

Concurrently with PT's investment in Oi, PT acquired a 16.2 per cent. economic interest in CTX Participações S.A. ("CTX"), the parent company of Contax Participações S.A. ("Contax Participações") and Contax S.A. ("Contax"). Even before PT's investment in Contax, PT provided call center services in Brazil through its subsidiary Dedic, S.A. ("Dedic"), and Dedic's subsidiary GPTI − Tecnologias de Informação, S.A. ("GPTI") provided IT/IS services in Brazil. On 1 July 2011, PT integrated Dedic and GPTI into Contax, and PT's economic interest in Contax increased to 19.5 per cent. PT has proportionally consolidated the results of operations of Contax in PT's results of operations since 1 April 2011, and Contax's results of operations have included the results of operations of Dedic and GPTI since 1 July 2011. The impact of the proportional consolidation of Contax from 1 April 2011 (including Dedic and GPTI from 1 July 2011) was €358.8 million (R\$834.8 million).

Dedic and GPTI had consolidated revenues of R\$311.5 million (€133.9 million) from 1 January 2011 through 30 June 2011, the period before they integrated in Contax. Dedic's revenues were R\$479.4 million in 2010 (€205.6 million) and R\$402.3 million in 2009 (€145.2 million), and GPTI's operating revenues were R\$133 million in 2010 (€56.9 million).

## Strategic Partnership with Contax

AG and LF Tel, two of the significant shareholders of TmarPart, are also the controlling shareholders of Contax Participações. In connection with the Oi transaction, PT agreed to merge Dedic and GPTI with Contax in return for common and preferred shares of Contax. In this transaction, PT acquired a 16.2 per cent. interest of CTX, the parent company of Contax Participações and Contax, for consideration of R\$116 million. Following the exchange of PT's interest in Dedic and GPTI for an additional economic interest in Contax, PT raised its interest in CTX to 19.9 per cent. through the contribution of a portion of the Contax preferred shares PT had through this exchange. Also in connection with this transaction, PT received net cash of approximately R\$162 million from the reimbursement by Contax of shareholder loans PT had granted to Dedic prior to this transaction.

Following the integration of Dedic and GPTI with Contax, PT holds a 19.5 per cent. economic interest in Contax through a 19.9 per cent. direct interest in CTX, which holds 34.2 per cent. of Contax, and a 4.3 per cent. direct economic interest in Contax. PT's direct economic interest in Contax consists of 7.0 per cent. of Contax's outstanding common and preferred shares, which PT is free to sell at any time.

In connection with this transaction, on 25 January 2011, PT entered into a shareholders' agreement with the other CTX shareholders, that is, AG Telecom, Luxemburgo, LF Tel and FASS through its subsidiary Portugal Telecom Brasil S.A., effective as of 28 March 2011 (the "Contax"

Shareholders' Agreement''). AG Telecom, Luxemburgo, LF Tel, FASS and Portugal Telecom Brasil S.A. are parties to the Contax Shareholders' Agreement, while CTX, PT, Andrade Gutierrez Telecomunicações Ltda., PASA Participações S.A., La Fonte Telecom S.A. and EDSP75 Participações S.A. are intervening parties in the Contax Shareholders' Agreement.

Under the Contax Shareholders' Agreement, PT has similar rights to those contained in the Global Shareholders' Agreement and the other shareholders' agreements described above under "—Brazilian Operations (Oi)—Strategic Partnership with Oi," and, accordingly:

- pre-meetings are to be held among the shareholders to decide in advance the matters to be voted during any shareholders' or board of directors' meetings and the decisions taken during such pre-meetings shall be binding upon the shareholders and their representatives;
   and
- approval of certain matters are subject to a supermajority vote of the shareholders (for instance, approval of amendments to CTX's bylaws, of the execution of any agreements with Telemar and certain other matters are subject to a 66.67 per cent. majority; approval of CTX's annual budget and the investment plans of CTX and its subsidiaries, among other matters, are subject to a 70 per cent. majority; approval of the sale of the shares issued by CTX's subsidiaries and of any merger, spin-off, or initial public offering involving CTX, among other matters, are subject to an 84 per cent. majority).

In addition, (i) as long as PT holds at least 10 per cent. of CTX's voting share capital, PT has the right to appoint two members to the board of directors of both CTX and Contax Participações; (ii) as long as PT holds at least 5 per cent. of CTX's voting share capital, PT has the right to appoint one member to the board of directors of both CTX and Contax Participações; (iii) as long as PT holds at least 11 per cent. of CTX's voting share capital, PT has the right to appoint one member to the board of executive officers of CTX. Also, under the Contax Shareholders' Agreement, PT has the right to veto one among three of the nominees appointed by AG Telecom, Luxemburgo, LF Tel and FASS to the position of chief executive officer of Contax.

The Contax Shareholders' Agreement also contemplates preemptive rights to the shareholders with respect to the transfer of CTX's shares and tag-along rights in case of the sale of CTX's shares by its shareholders. More importantly, however, (i) the corporate control in any of CTX's shareholders may not be transferred without such shareholder first offering its CTX's shares to the other CTX shareholders in accordance with the procedures contained in the Contax Shareholders' Agreement concerning the rights of first offer; and (ii) should PT cease to be a TmarPart shareholder, PT's interest in CTX may be redeemed or exchanged in accordance with the procedures established in the Contax Shareholders' Agreement.

The Contax Shareholders' Agreement was executed on 25 January 2011, and its first term expires on 25 April 2048. The term of the Contax Shareholders' Agreement may be extended for successive periods of 10 years with the consent of each of the parties thereto.

#### Disposition of UOL Investment

On 29 December 2010, PT reached an agreement for the sale of its 28.78 per cent. interest in Universo Online S.A., Brazil's largest internet provider by revenue, to a Brazilian businessman, for R\$356 million. UOL's total operating revenues were R\$816.7 million in 2010 (€350.5 million), R\$726.4 million in 2009 (€262.2 million) and R\$577.2 million in 2008 (€216.2 million). This transaction was completed in January 2011.

#### Assets in Africa and Asia

The table below provides the highlights of PT's main assets in Africa and Asia as of 31 December 2011.

	Revenue in			
	PT Direct	Local		Revenue in
	Interest	Currency	Margin	EUR
	(per cent.)	(millions) <sup>(1)</sup>	per cent.)	$(millions)^{(1)}$
Unitel, Angola <sup>(2) (4)</sup>	25.00	1,784	56.3	1,282
MTC, Namibia <sup>(3)</sup> (4)	34.00	1,608	50.0	159
Cabo Verde Telecom, Cape Verde <sup>(3)</sup> (4)	40.00	9,224	47.1	84
CST, S. Tome & Principe <sup>(3)</sup> (4)	51.00	292,561	24.1	12
CTM, Macau <sup>(2)</sup>	28.00	3,979	33.0	356
Timor Telecom, East Timor <sup>(3)</sup>	41.12	66	55.7	48

<sup>(1)</sup> Figures account for 100 per cent. of the company. PT has management contracts with CVT, CST and Timor Telecom.

#### Africa

PT has several investments in Africa, including investments in Angola, Cape Verde Islands and Namibia. In 2007, PT established a strategic partnership with Helios Investors LP ("Helios"), a private equity firm operating in sub-Saharan Africa. Under the terms of the agreement, Helios acquired a 22 per cent. interest in Africatel, the holding company formed to hold all of PT'sr interests in sub-Saharan Africa and whose main assets are Unitel, Cabo Verde Telecom, MTC and CST. In 2008, Helios increased its interest in Africatel to 25 per cent. PT's interest in the individual companies described below reflects the percentage of capital of those companies owned by Africatel.

Unitel, Angola. In 2000, PT acquired 25 per cent. of the share capital of Unitel, a GSM mobile operator in Angola. Unitel's other shareholders are Sonangol, which holds 25 per cent., and other local partners, which hold the remaining 50 per cent. Unitel began operations in Luanda in 2001. As of 31 December 2011, Unitel had 7.454 million subscribers, of which 98.7 per cent. were prepaid cards.

Unitel's total gross operating revenues were US\$1,784.0 million in 2011 (€1,281.6 million), US\$1,502.0 million in 2010 (€1,132.8 million) and US\$1,562.0 million in 2009 (€1,119.9 million).

In 2011, Unitel launched several campaigns aimed at promoting voice services and increasing penetration on mobile broadband, as well as several initiatives targeted at strenghthening its distribution channels and increasing the quality of its network.

Cabo Verde Telecom, Cape Verde. Africatel owns 40per cent. of the share capital of Cabo Verde Telecom. Cabo Verde Telecom provides fixed, mobile and data services in the Cabo Verde Islands.

As of 31 December 2011, Cabo Verde Telecom had 74.5 thousand fixed lines in service, which represents approximately 15.2 fixed main lines per 100 inhabitants. Cabo Verde Telecom had 309.6 thousand active mobile telephone cards as of 31 December 2011, of which 98.8 per cent. were prepaid customers.

Cabo Verde Telecom's total gross operating revenues were €83.7 million in 2011, €84.0 million in 2010 and €76.9 million in 2009.

In 2011, Cabo Verde Telecom launched (1) new commercial offers for the corporate segment under the new brand *CVT Negócios*, (2) several campaigns to stimulate data usage and (3) new TV channels to further strengthen IPTV market momentum. Broadband and IPTV customers increased significantly, representing 27.5 per cent. and 11.4 per cent. of the wireline customer base, respectively.

MTC, Namibia. In 2006, PT acquired 34 per cent. of the capital of MTC, the Namibian mobile operator. In connection with this transaction, PT entered into an agreement with the other

<sup>(2)</sup> Equity consolidation method.

<sup>(3)</sup> Full consolidation method.

<sup>(4)</sup> These interests are held by Africatel, which is 75 per cent. controlled by PT.

shareholders of MTC that allows PT to set and control the financial and operating policies of this company. As of 31 December 2011, MTC had 1.95 million customers, of which 94.2 per cent. were customers under prepaid plans. MTC's revenues were 1,608.3 million Namibian dollars (€159.3 million) in 2011, 1,444.0 million Namibian dollars (€148.9 million) in 2010 and 1,443.8 million Namibian dollars (€123.7 million) in 2009.

In 2011, MTC focused its marketing efforts and commercial activity on enhancing its smartphone offer, launching campaigns aimed at promoting usage, and boosting growth of broadband customers, under the brand Netman, with download speeds of up to 7.2 Mbps.

CST, São Tomé and Principe. Africatel owns 51.0 per cent. of the share capital of CST-Companhia Santomense de Telecomunicações, S.A.R.L. ("CST"), which provides fixed, mobile and data services in São Tomé and Principe. As of 31 December 2011, CST had 115.0 thousand mobile customers. CST's revenues were €11.9 million in 2011, €12.7 million in 2010 and €11.9 million in 2009. Excluding accounting reclassifications recognized during 2011, CST's revenues would have been €13.6 million in 2011.

Asia

PT has investments in Asia in CTM and in Timor Telecom.

CTM, Macau. PT has a 28 per cent. interest in Companhia de Telecomunicações de Macau ("CTM"), a provider of fixed and mobile telephone services in Macau. Macau, situated near Hong Kong on the coast of Guangzhou Province, China, was a territory administered by the Portuguese government until December 1999, when it was transferred to the People's Republic of China. The other shareholders of CTM are Cable & Wireless plc and CITIC 1616.

As of 31 December 2011, CTM had 175.6 thousand fixed main lines in service. This figure represents approximately 31.2 fixed main lines per 100 inhabitants. CTM's mobile telephone services had 635.2 thousand customers as of 31 December 2011.

CTM's total gross operating revenues were 3,978.9 million Patacas (€356.5 million) in 2011, 2,760.2 million Patacas (€260.1 million) in 2010 and 2,439.2 million Patacas (€219.2 million) in 2009. Revenue growth was driven by an increase in equipment sales and telecom services to corporate customers. Mobile service revenues increased by 9.5 per cent. in 2011, as comparted to 2010, impacted by growth in data revenues, which accounted for 21.0 per cent. of mobile service revenues. In 2011, CTM launched several marketing campaigns aimed at increasing penetration of smartphones and wireless broadband.

Timor Telecom, East Timor. PT has a 41.12 per cent. interest in Timor Telecom, S.A. ("Timor Telecom"), a telecommunications provider for fixed and mobile services in East Timor. As of 31 December 2011, Timor Telecom had a total mobile customer base of 602.5 thousand and 3.0 thousand fixed lines. Timor Telecom's revenues were US\$66.4 million in 2011 (€47.7 million), US\$57.2 million in 2010 (€43.2 million) and US\$48.6 million in 2009 (€34.9 million). Data revenues accounted for 17.9 per cent. of mobile service revenues. In 2011, Timor Telecom launched several voice and data stimulation campaigns and strengthened its distribution network.

#### Shared Services Companies

PT SI. PT SI is the group unit responsible for data centers, information systems and information technology activities of PT's business units in Portugal. PT SI provides integrated information systems and information technology services to PT's business units in Portugal, as well as to PT's existing and new customers. PT holds 100 per cent. of the share capital of PT SI.

PT Inovação. PT Inovação is PT's unit responsible for research and development activities. PT's research and development programs focus on intelligent networks, network management systems, advanced services and systems and network integration and have led to the introduction of innovative products and services. PT Inovação's activities have been a driving force behind the development of new products and services, telecommunications infrastructure and information systems.

PT Contact. PT Contact is the group unit responsible for call center operations in Portugal. PT Contact takes advantage of economies of scale and process alignments to reduce costs in PT's call center operations.

PT Pro. PT Pro aggregates PT's back-office activities in Portugal. PT Pro takes advantage of economies of scale and process alignments throughout PT's group to reduce costs in back-office activities. The creation of PT Pro has also allowed for a reduction of the execution risk of PT's financial reporting function through standardization of processes and implementation of best practices.

PT Compras. PT Compras optimizes PT's purchasing function on an integrated basis, taking advantage of scale and specialization.

#### **Share Capital**

PT's fully subscribed and paid-in share capital as at 31 December 2011 amounted to Euro 26,895,375, represented by 896,512,500 shares with a nominal value of three cents of Euro each, with the following distribution:

- 896,512,000 Ordinary Shares; and
- 500 Class A Shares.

At the PT's General Meeting of Shareholders held on 26 July 2011, it was approved an amendment to the company's bylaws that eliminated the special rights granted to the 500 Class A shares (the so-called "golden share"). Consequently, after this approval, these shares do not have any special right and therefore ordinary shares and A shares each carry the same voting rights.

Under the articles of association, the voting rights exercised by a single shareholder are limited to a maximum of 10% of PT's share capital. As a result, no single shareholder can exercise voting rights, in his own name or on behalf of other shareholders, representing more than 10% of the company's share capital. The articles of association also provide that no shareholder performing, directly or indirectly, an activity which competes with any of PT's activities may hold or control ordinary shares representing in the aggregate more than 10% of PT's share capital, without shareholder authorization.

Ordinary shares and class A shares each carry the same right to dividends. The holder of record of ordinary shares or class A shares on the date of payment of any dividend is entitled to receive that dividend. PT must pay dividends of at least 40% of PT's annual distributable net income to shareholders, subject to the ability of a two-thirds majority of the votes cast at a shareholders' meeting to decide to reduce the dividend or not to pay a dividend. Each dividend must be approved by a majority of the votes cast at a shareholders' meeting.

Upon the issuance of additional ordinary shares by PT for cash, all holders of ordinary shares and class A shares have a right to subscribe proportionately for such shares. Upon the issuance of additional class A shares by PT, holders of class A shares have a right to subscribe proportionately for those shares, and to the extent that all such shares are not sold, holders of ordinary shares may subscribe proportionately for the remainder of the shares. The pre-emptive rights of shareholders to subscribe for shares are freely transferable.

The ordinary shares and class A shares have *pro rata* rights to share in PT's assets upon its liquidation.

## Developments relating to PT's share capital

As detailed above in "Share Capital", PT's General Meeting of Shareholders held on 26 July 2011 approved an amendment to the company's bylaws that eliminated the special rights granted to 500 Class A shares (the so-called "golden share"). Consequently, after this approval, these shares do not have any special right and therefore ordinary shares and class A shares each carry the same voting rights.

#### **Properties**

PT's principal properties consist of buildings and telecommunications installations. These include various sizes of exchanges, transmission equipment, cable networks, base stations for mobile networks, equipment for radio communications and a network of ducts. They are located throughout Portugal and internationally.

Following the transfer to the Portuguese Government of certain pension funds PT acquired several buildings previously owned by those funds. PT and its subsidiaries own several office buildings in Portugal. PT's main proprietary office space is located at the following addresses:

- Av. Fontes Pereira de Melo, 38/40, Lisboa, Portugal (61,534 square meters);
- R. José Ferreira Pinto Basto, Aveiro, Portugal (36,030 square meters);
- R. Tenente Valadim, 431/453, Porto, Portugal (21,400 square meters);
- R. Afonso Costa, 4, Lisboa, Portugal (13,266 square meters);
- R. General Humberto Delgado, 342/368, Coimbra, Portugal (13,321 square meters);
- Largo do Carmo, Faro, Portugal (11,452 square meters);
- R. Andrade Corvo, 10/14, Lisboa, Portugal (10,300 square meters);
- R. Postiguinho Valadares, 12, Castelo Branco, Portugal (9,464 square meters);
- Av. Carvalho Araújo, 629, Vila Real, Portugal (9,030 square meters);
- Av. Infante D. Henrique/Praça Vasco da Gama, Ponta Delgada, Açores, Portugal (7.738 square meters);
- Av. Doutor João Martins Azevedo, 21, Torres Novas, Portugal (7,112 square meters);
- Av. de Zarco, Funchal, Portugal (7,025 square meters);
- Praceta Nuno Rodrigues dos Santos, 9, Lisboa, Portugal (5,735 square meters);
- Rua 9 de Julho, Beja, Portugal (5,331 square meters);
- R. do Casal Velho, Santo Tirso, Portugal (4.809 square meters);
- R. Menino Jesus, nº 1, Évora, Portygal (4.772 square meters).
- R. D. Estefânia 78/82, Lisboa, Portugal (4,441 square meters);
- R. Maria Veleda, 1, Lisboa, Portugal (4,333 square meters);
- Av. Fontes Pereira de Melo 32, Lisboa, Portugal (3.293 square meters); and
- Rua Passos Manuel, 2, Lisboa, Portugal (1,395 square meters).

PT is not aware of any material environmental issues that may affect its use of these properties.

PT has registered its important trademarks, such as "Portugal Telecom," "PT Comunicações," "Telepac," "Sapo," "Meo," "TMN" and their related logos, in Portugal. PT has also applied for a European Community trademark for "Portugal Telecom" and its logo. PT does not own any registered patents or copyrights which are material to its business as a whole.

### Investments

PT's capex increased by 53.3% to Euro 1,224 million in 2011, as compared to Euro 798 million in 2010, mainly due to the impact of the proportional consolidation of Oi and Contax as from 1 April 2011 (Euro 474 million).

Capex from Portuguese telecommunication businesses decreased by 1.6% y.o.y to Euro 647 million in 2011 and was directed towards investments in future proof technologies, namely FTTH, including the coverage of mobile base stations with fibre, and 4G/LTE. As a result of its investments in technology, PT has strengthened further the value proposition to its corporate, SME/SOHO and residential customers by extending FTTH coverage to approximately 1,600 thousand households (available and under construction). Capex performance reflected a decline in capex from residential segment due to a decrease in customer-related capex as a result of a lower number of set-top-boxes per fibre TV customer as compared to ADSL, lower unitary cost of set-top-boxes, optical network terminators and home gateways, and improved refurbishment rates of set-top boxes. This decrease in customer-related capex was offset by the investments in the swap of TMN's 2G equipments to LTE (4G) enabled equipment, increased investments in capacity of existing 3G and 3.5G networks, namely in urban areas, and initial deployment of the 4G network. Additionally, PT has been strengthening its mobile data capabilities and its network quality by leveraging the existing FTTH deployment to boost its mobile network quality and lead the 4G roll-out in the Portuguese market. PT is also investing in the

construction of a state of the art 75.5 thousand sqm data centre, which will enable PT to enhance its value proposition to all customer segments whilst providing increased flexibility and maximising efficiency. Portuguese telecommunication businesses capex is expected to decrease by Euro 100 million in 2012.

On 28 March 2011, PT concluded its strategic investments in Telemar Norte Leste, S.A. ("Oi") and Contax, S.A. ("Contax") for a total consideration of R\$8,437 million (Euro 3,728 million). These strategic investments were made in connection with the agreements entered into with the controlling shareholders of Telemar Participações, S.A., which controls Oi, and CTX Participações, S.A., which controls Contax. Under these agreements, PT shares the control of these companies and plays a key role in the strategic financial and operational policies and, consequently, the acquired investments are treated for accounting purposes as jointly controlled entities. Additionally, the process of exchange of PT's interest in Dedic/GPTI for an additional stake in Contax was completed on 1 July 2011.

PT made the strategic investment in Oi and Contax through its wholly owned holding companies Bratel Brasil and PT Brasil, respectively, having acquired economic interests of 25.3% in Oi and 14.1% in Contax.

In 2011, Oís capex proportionally consolidated as from 1 April 2011 reached Euro 444 million, equivalent to R\$1,034 million. The investments in the wireline network were aimed at: (1) improving network quality and expanding coverage; (2) increasing speed of broadband services, and (3) providing data packages to corporate customers. In the wireless network, focus was placed on coverage expansion, encompassing all regions, and capacity of data traffic (3G) in strategic locations. On 2012 Oís capex is expected to stand at approximately R\$6 billion, of which PT consolidates 25.62% (equivalent to circa R\$1.5 billion).

On 1 July 2011, the Board of Directors and the Shareholders' Meetings of Dedic, Contax and CTX approved the following operations: (1) the exchange of Portugal Telecom's investment in Dedic/GPTI for a 7.6% stake in Contax; (2) the exchange of a 1.3% Portugal Telecom's stake in Contax for an additional 3.7% stake in CTX; and (3) the disposal by Portugal Telecom to CTX of a 2.0% stake in Contax for a total amount of R\$49.7 million. As a result of the operations mentioned above, Portugal Telecom's direct and indirect stakes in CTX and Contax were increased from 42.0% to 44.4% and from 14.1% to 19.5%, respectively.

Following the approval of Oi's corporate simplification by the general meetings of the companies constituting the Oi group held on 27 February 2012, the previous corporate structure composed by Tele Norte Leste Participações, Telemar Norte Leste and Brasil Telecom was integrated in Brasil Telecom, which was renamed Oi S.A., and has only two share classes (common shares, ON, and preferred shares, PN). PT now holds the following direct shares in Oi SA: (1) 36 million shares of OIBR3 (ON shares), representing 7.1% of total ON shares outstanding, and (2) 219 million shares of OIBR4 (PN shares), representing 19.4% of total PN shares outstanding. As a result, PT holds 255 million ON and PN shares in Oi SA, which equate to a direct 15.5% stake in Oi. Total direct and indirect stake in Oi is 23.3%. This takes into consideration not only the direct stake but also the indirect stake built through AG, LF and Telemar Participações (TPAR). PT continues to consolidate 25.62% of Oi, which is the stake that PT owns in TPAR (via AG/LF and directly in TPAR).

In 2011, other international capex decreased to Euro 133 million, compared to Euro 141 million in 2010. This performance is primarily explained by lower capex at Dedic/GPTI, MTC in Namibia, and CVT in Cape Verde. These effects more than offset the impact of the proportional consolidation of Contax as from 1 April 2011 (Euro 30 million), including Dedic/GPTI as from 1 July 2011, and higher capex at Timor Telecom. During 2012 other international capex is expected to be broadly stable when compared with 2011.

## Competition

PT faces substantial and increasing competition. The Portuguese telecommunications' sector has been fully open to competition since 1 January 2000. The competitive conditions of each of PT's business segments are described below.

### **Competition Facing PT's Portuguese Operations**

PT faces heavy competition from various telecommunications operators. PT's primary competitors in Portugal include ZON (with financial institutions as the main shareholders, as well as Kento Holding Limited with a qualified participation of 10 per cent. and Jadeium, B.V. with 5.02 per cent., both attributable to Ms. Isabel José dos Santos; and Telefónica with 5.0 per cent.), Sonaecom (which is 53.2 per cent. owned by Sonae, SGPS, S.A. and 20 per cent. owned by France Telecom), Vodafone Portugal (a Vodafone Group subsidiary), Oni Telecom—InfoComunicações, S.A. (60.9 per cent. owned by Riverside Europe Telecom LLC fund and 34.6 per cent. owned by Gestmin SGPS), Cabovisão (previously 100 per cent. owned by Cogeco Cable, the fourth Canadian cable operator, which sold it to Altice, a European private equity group, in early 2012), AR Telecom and Colt.

ZON began operations in November 2007, after the failure of Sonaecom's attempt to take over PT and PT's subsequent spin-off of PT Multimedia. ZON is the leader of the Pay-TV business in Portugal. Due to increasing competition in its core business, ZON has been aggressive in acquiring competitors and businesses, such as AR Telecom in November 2011, and expanding into other business segments, such as fixed voice and internet.

The competitive environment has been becoming more challenging for several reasons, such as the expansion of mobile operators that entered the fixed market and, conversely, the entry of fixed operators into the mobile business. Operators that were previously more focused on one service have also diversified their operations through the launch of bundled offers with a strong focus on 3P (triple play) commercial configurations. This strategy has been followed by several players, namely *Meo* (PT's own brand), ZON, Cabovisão, Vodafone and Sonaecom. Among these players, both PT and ZON have a strong 3P customer base (PT with 602 thousand customers in 2011, an increase of 32.9 per cent. from 2010 and ZON with 709 thousand customers, an increase of 10.3 per cent. from 2010). Of PT's fixed-line customers, 36.9 per cent. have triple play services, and 60.1 per cent. of ZON's cable TV customers have triple play services, according to ZON's press release. PT competes in terms of content and price through the launch of bundle offers combining several services.

#### Residential Customers

PT faces increasingly strong competition from fixed line operators as well as from mobile players, including PT's own mobile service provider, TMN. Currently, all mobile network operators have commercial offers that are a direct alternative to PT's fixed line telephone services, competing for the same customers. Residential services supported by mobile networks are offered by all mobile operators. In addition, these have also launched low-cost brands that are designed to reach the lowerend segment of the mobile market and have also had an effect on fixed line retail service.

More recently, operators have been offering unlimited voice communications to all national and up to 50 international fixed destinations, whenever the fixed voice service is purchased as part of a fixed service bundle. This competitive movement aimed to respond to the eroding revenues from international telephone service due to falling international call prices, extensive usage of lease lines by large users through which they connect to networks outside Portugal and aggressive competition from calling cards, rerouting of calls by other international operators and VoIP, which increasingly enables communications at lower prices than traditional public switched telephone networks. These factors continue to put significant pressure on PT to reduce international fixed line telephone prices.

In the fixed voice market, Portugal currently has a penetration of 42.5 per 100 inhabitants (42.1 per cent. in 2010). According to ANACOM, PT holds an estimated 58.7 per cent. market share of access lines (60.4 per cent. in 2010). The fixed voice market in Portugal is mainly a direct access market, which resulted from operators being more focused on direct access commercial offers and placing strong emphasis on customer migration from pre-selection configurations. Measures such as call-by-call selection (introduced in January 2000), carrier pre-selection (introduced in October 2000) and number portability (introduced in 1 July 2001) did not have a significant impact on that dynamic. According to ANACOM, as of 31 December 2011, there were approximately 122 thousand lines in pre-selection, the lowest figures since 2001.

Using the same source and PT's own estimates, PT had an estimated 56.7 per cent. market share of total outgoing traffic in 2011, a decrease of 1.6 per cent. compared to 2010. This trend

affected all categories of traffic, except for international traffic, where PT had a 56.6 per cent. market share in 2011, an increase of 1.7 per cent. compared to 2010.

By the end of 2011, fixed broadband Internet surpassed 2 million customers in Portugal, with a market penetration at 21.1 per 100 inhabitants, up from 20 per 100 inhabitants in 2010, and still showing a significant upside potential. According to ANACOM, PT is the top provider of these services, with 49.4 per cent. market share, an increase of 2.6 per cent. from 2010.

The Pay-TV market has a total of 2.976 million customers, according to ANACOM data, representing a 51.7 per cent. penetration on households. ZON is the current market leader with a 53.9 per cent. market share, representing a 4 per cent. decrease from 2010. PT's brand, *Meo*, has been steadily gaining market share, reaching 35 per cent. in 2011, representing a 5.1 per cent. increase from 2010. Cabovisão has struggled to maintain its market share, with 8.6 per cent. in 2011, a 0.8 per cent. decrease from 2010, while the remaining players have not been able to rise above their residual positions.

The competitive dynamics in the Pay-TV market led operators to present it as a high-value, mass-market service offer from the start. More recently, Pay-TV service players began implementing price-skimming strategies by launching new low-end offers, thus catering to all segments of the market. ZON first launched a 15-channel Pay-TV offer in mid-2011, which was soon followed by *Meo*'s own offer. Later in the year, in light of the pending migration to digital terrestrial television (DTT) and the switch-off of analog television signals in Portugal, ZON introduced a new pricing plan that includes only the four current free-to-air channels in Portugal.

To prevent higher value customers from downselling to lower-end offers, these are being offered extra high-quality content at no additional cost, such as interactive television, video on demand and multi-screen, multi-device television ("Meo go" and "ZON Online"). Meo has recently pioneered "Meo Kanal," an application allowing customers to create their own custom-made private or public areas that they can view and share with other Pay-TV subscribers.

PT has committed to an ambitious FTTH roll-out strategy in the past few years, reaching approximately one million homes by the end of 2011. ZON and Cabovisão have leveraged on their coaxial cable networks to upgrade to the DOCSIS 3.0 standard. Sonaecom and Vodafone have based their offers mainly on IPTV, relying on lines leased from PT and their own FTTH network, which is being rolled out. The two joined forces to share their fibre-based networks, which they expect to reach approximately 400 thousand homes, mainly in Greater Lisbon and Greater Oporto regions.

Following the completion of their network deployment plans, operators are now using their next-generation networks to focus on customer retention and acquisition through internet speed upgrades. Currently, the main operators are offering speeds of up to 400Mbps.

## Personal Customers

By the end of 2011, there were approximately 158 active mobile cards per 100 inhabitants in Portugal, making it one of the European countries with the highest adoption rate of mobile services. This performance derives from an extremely dynamic market, where operators are devoted to providing an extended product portfolio in order to address an extensive range of communication needs of its customers.

In the mobile market, TMN (PT's mobile operation) competes with Vodafone Portugal and Optimus, the two other mobile network operators licensed to provide mobile telephone services in Portugal. In 2007, CTT, the Portuguese postal company, launched "Phone-ix," an MVNO (Mobile Virtual Network Operator) supported by TMN's network. In 2008, ZON launched an equivalent structure under the brand "ZON Mobile," a mobile virtual operation hosted by Vodafone Portugal's network.

Due to their shareholder structures, Vodafone Portugal and Sonaecom (Optimus) have access to substantial resources, cost synergies (e.g., network and equipment costs) and best practices (e.g., product development processes) to compete aggressively against TMN in the Portuguese mobile telephone market. In addition, by strengthening their position in the mobile business, these assets enable them to compete more directly and aggressively in the fixed-line services.

According to figures from ANACOM, as of the end of 2011, TMN had a 43.9 per cent. market share in terms of active mobile in the Portuguese market. Market share leadership is and will continue to be TMN's priority, as the main mobile competitors, Vodafone Portugal and Optimus, will continue to market their services aggressively.

In 2008, the Portuguese mobile market experienced an important development, the launch of aggressive on-net differentiated pricing plans, known as "tribal plans," led by Optimus (with "Tag") and followed by TMN ("Moche") and Vodafone Portugal ("Extreme" and "Extravaganza"). In addition to the tribal plans, some post-paid, on-net oriented bundles of "voice+internet" were launched by the three major mobile operators, namely TMN ("tmn unlimited"), Optimus ("Smart") and Vodafone ("Best"). The focus was on net-oriented flat rate plans and bundles of "voice+internet," where operators explore the concept of unlimited on-net voice calls, leading to an increase of minutes of usage and an erosion of average revenue per minute.

In early 2011 TMN pioneered an expansion of its pricing plan portfolio with the launch of "e - e nunca mais acaba", a pre-paid flat-fee on-net pricing plan that expands the tribal plan concept to all TMN customers. TMN's move was followed by Vodafone ("Vita 0") and Optimus ("Zero").

With respect to mobile broadband service, according to ANACOM data, there were 1.134 million customers using dongles/modems by the end of 2011. This achievement is largely explained by the e-initiative programs launched by operators under the "information society" commitments they undertook in connection with the award of UMTS licenses.

Mobile revenues have been under pressure not only from the competitive dynamics but also due to the regulatory framework. Mobile termination rates declined approximately 68.2 per cent. (from 11 eurocents to 3.5 eurocents) between December 2007 and December 2011, and further reductions will occur in 2012, with rates reaching 1.27 euro cents in December 2012. Roaming revenues have also been a subject of regulation as caps for retail voice were introduced in 2007 and are expected to be extended to retail data during 2012.

Mobile operators have been undertaking aggressive marketing efforts, which often have a subscription fee that allows cheaper access to telecommunications during a certain period. Aggressive pricing structures and campaigns have also contributed to stimulate usage at the expense of eroding retail revenues.

A large spectrum auction took place in Portugal in November 2011, with TMN, Vodafone and Optimus as the only bidders. TMN, Vodafone and Optimus secured spectrum in 800 MHz, 1.8 GHz and 2.6 GHz for €113 million each, with Vodafone taking up extra spectrum in the 900 MHz (€30 million) and 2.6 GHz TDD (€3 million). The new spectrum will be used to launch innovative 4G LTE networks, allowing for mobile speeds of up to 150 Mbps.

All mobile operators have launched 4G LTE commercial offers in early 2012, both in the form of smartphones and dongles, and they have been marketing them aggressively. Operators have also been focusing on extending LTE network coverage as quickly as possible, with TMN reaching 80 per cent. of the population by April 2012.

## **Enterprise Customers**

PT faces significant competition from several operators in the enterprise services market, namely ZON, Vodafone Portugal, Sonaecom, Oni Telecom, AR Telecom and Colt. These companies compete with PT in providing data communications, voice services and internet services to business customers. Customers tend to have large volumes of traffic and complex virtual private network services with data, voice and video integration.

PT's competitors may use satellite-based networks, public network operators' infrastructure, leased lines and their own infrastructure to provide telecommunications services to customers. These are all alternatives to PT's leased lines offer. As a result of competition, PT has reduced its prices for leased lines and is focusing on value-added solutions based on Internet Protocol Virtual Private Networks ("IP VPN").

PT's strong investment in its FTTH network, as well as its commitment to the investment in a top-European level Data Center, allows it to take advantage of the cloud services business opportunity. Cloud services are considered to be an attractive growth point in the telecommunications

industry, and PT intends to position itself ahead of the competition to provide such services, which will be an additional source of revenue as well as a retention and loyalty tool in its data and corporate customer category.

### Other Services

PT also faces competition in its wholesale services. Fixed and mobile operators, other than TMN, are establishing direct international interconnections with mobile or wireline operators outside Portugal, enabling them to offer international telephone services without using PT's network. This is decreasing wholesale revenues generated from connecting mobile operators in Portugal to operators abroad.

The interconnection business faces more direct competition now that operators are focusing on installing and operating their own public wireline telephone networks, pushing for direct access offers.

Some international operators are now providing wholesale services in Portugal, including international telephone services, network interconnection, data services, and broadband access to Portuguese ISPs.

### Competition Facing Oi in Brazil

Following Telefónica's acquisition of Vivo from PT, Vivo is the largest competitor of Oi, PT's Brazilian telecommunications business. Vivo is controlled by Téléfonica, a large Spanish telecommunications company with significant resources. The other principal competitors of Oi are Claro, which is controlled by a consortium led by Telecom Américas Ltd. ("Telecom Americas") (controlled by América Móvil, S.A.B. de C.V., a large Mexican telecommunications company ("América Móvil")), TIM, which is controlled by Telecom Italia S.p.A. ("Telecom Italia"), a large Italian telecommunications company, and GVT, which is controlled by Vivendi S.A.

Oi faces intense competition in all the areas in which it operates from other mobile service and fixed-line operators. Many of these competitors are part of large, national or multinational groups and have access to financing, new technologies and other benefits that are derived from being a part of such a group. Fixed-line operators generally charge much lower tariffs than mobile service providers.

### Residential Services

### Local Fixed-Line Services

In the local fixed-line telecommunications services market in Brazil, competition has historically been focused on corporate customers. However, recently the competitors have begun to compete in the consumer market with bundles or services targeted to the needs of lower income customers. In addition, competition from other telecommunication services has been increasing, particularly from mobile telecommunication services, which has led to traffic migration from fixed-line traffic to mobile traffic and the substitution of mobile services in place of fixed-line services, encouraged by offers of aggressively priced packages from some mobile telecommunication service providers. Finally, the decrease in interconnection rates has discouraged the construction of new fixed-line networks and has led to decreases in market prices for telecommunication services by enabling telecommunication service providers that use the local fixed-line networks of incumbent fixed-line providers to offer lower prices to their customers.

Oi is the leading provider of local fixed-line services in Region I of Brazil with 12.0 million fixed lines in service and an estimated market share of 72.7 per cent. of the total fixed lines in service in this region as of 31 December 2011, based on information available from ANATEL. Oi's principal competitors in Region I for fixed-line services are (1) Embratel (an affiliate of Telecom Americas), which had an estimated market share of 17.4 per cent. of the total fixed lines in service in this region as of 31 December 2011, and (2) GVT (an affiliate of Vivendi S.A.), which had an estimated market share of 5.0 per cent. of the total fixed lines in service in this region as of 31 December 2011, in each case, based on information available from ANATEL. During 2011, GVT increased its competitive activities in Region I, expanding its fibre optic network in high-income residential areas and increasing its services to low- and medium-size businesses.

Oi is the leading provider of local fixed-line services in Region II with 6.8 million fixed lines in service and an estimated market share of 66.4 per cent. of the total fixed lines in service in this region as of 31 December 2011, based on information available from ANATEL. Oi's principal competitors in Region II for fixed-line services are (1) GVT, which had an estimated market share of 18.5 per cent. of the total fixed lines in service in this region as of December 31, 2011, and (2) Embratel, which has an estimated market share of 11.0 per cent. of the total fixed lines in service in this region as of 31 December 2011, in each case, based on information available from ANATEL.

Embratel provides local fixed-line services to residential customers through the cable network owned by its subsidiary NET in the portions of Regions I and II where NET provides cable television service. As a result, NET is able to offer cable television, broadband and telephone services as a bundle at a very competitive price. NET has engaged in efforts to promote Embratel's fixed-line service by offering free local fixed-line service to its customers for a period of one year. Oi expects competition from Embratel to increase as the cable network of NET expands through internal growth and as a result of acquisitions.

Oi also expects competition from Embratel and GVT to increase in certain large cities, such as Rio de Janeiro, Belo Horizonte and Salvador, where they continue to expand their respective local fixed-line network. GVT has also begun to expand in some medium-sized cities with population in the range of 350,000 to 1,000,000.

TIM and Vivo have entered the local fixed-line services market by offering fixed-line wireless services, which, unlike traditional mobile services, only permit a subscriber to place and receive calls when in proximity to a single specified radio base station. These services allow TIM and Vivo to offer fixed-line service without installing a network of fixed lines directly to the homes or businesses of their fixed-line customers. As of 31 December 2011, TIM has a market share of 1.2 per cent. in the Brazilian local fixed-line services market.

Oi expects to continue to face competition from mobile services providers, which represent the main source of competition in the local fixed-line service market. As of 31 December 2011, there were 122 million mobile subscribers (including Oi's mobile customers) in Region I, a 18.0 per cent. increase over 31 December 2010, there were 61 million mobile subscribers (including Oi's mobile customers) in Region II, a 14.0 per cent. increase over 31 December 2010, and there were 60 million mobile subscribers (including Oi's mobile customers) in Region III, a 16.0 per cent. increase over 31 December 2010, based on information available from ANATEL. The increase in the number of mobile users, in addition to reduced mobile services rates, is expected to continue to adversely affect the number of fixed-line subscribers and the volume of local fixed-line traffic. In addition, because mobile providers offer promotions and service plans that permit subscribers to make calls within the mobile provider's network at rates that are less than those charged for calls from a fixed-line telephone to a mobile telephone, Oi believes that it may be vulnerable to traffic migration as customers with both fixed-line and mobile telephones use their mobile devices to make calls to other mobile subscribers.

PT believes that major technological innovations, such as instant messaging services and VoIP, may impact local fixed-line traffic in the future. In Brazil, those services have been increasing in popularity, which could put further pressure on the local fixed-line telecommunications market.

### Long-Distance Services

The long-distance services market in Brazil is highly competitive. For the year ended 31 December 2011, based on information available from ANATEL, of the total number of long-distance minutes originated in Region I, Oi had a market share of 9.1 per cent., ranking behind TIM with 57.4 per cent. and Embratel with 29.8 per cent., of the total number of long-distance minutes originated in Region II, Oi had a market share of 17.4 per cent., ranking behind TIM with 48.0 per cent. and Embratel with 26.1 per cent., and of the total number of long-distance minutes originated in Region III, Oi had a market share of 10.1 per cent., ranking behind TIM with 34.5 per cent., Embratel with 29.0 per cent. and Telesp (a subsidiary of Telefónica) with 20.3 per cent.

Oi's principal competitor for long-distance services is TIM, which in 2010 began aggressively promoting its long-distance services with significant discounts. Historically, Oi's principal competitor for long-distance services has been Embratel. As a result of Oi's commencement of mobile services in

Region III, Oi has also begun to compete with Telesp, which is the incumbent fixed-line service provider in Region III.

Generally, callers placing fixed-line long-distance calls in Brazil tend to select the long-distance carrier affiliated with the provider of their fixed-line service. Similarly, callers placing mobile long-distance calls in Brazil tend to select the long-distance carrier affiliated with the provider of their mobile or fixed-line service. However, increased competition from long-distance service providers has resulted in pressure on the long-distance rates and adversely affected Oi's revenue from these services.

In addition, the offering of plans by other mobile services providers that include free minutes for calls to other subscribers of those mobile services providers may adversely impact Oi's revenues from mobile long-distance calls if Oi's mobile customers migrate to its competitors to remain within the network of the people to whom they plan to place long-distance calls. However, as a result of the increased use of SIM card-only strategies by other mobile service providers, there is a trend among Brazilian pre-paid customers to purchase SIM cards from multiple mobile service providers to maximize the number of calls that they can make which are covered by these promotional offers.

New technologies that serve as an alternative to traditional long-distance telephone calls, such as VoIP, may start to capture part of Brazil's long-distance traffic. However, in contrast to what has occurred in other countries, such as the United States, Oi does not expect intense competition from VoIP providers in the near term due to the low level of broadband penetration in Brazil due to the population's relatively low per capita income and the expected adverse effect of the success of this technology on the long-distance call margins of Embratel, which is an affiliate of NET, the main service provider with the ability to offer alternatives through VoIP.

#### Data Transmission Services

Cable television providers that offer broadband services, particularly NET, represent Oi's principal competition in the broadband market in Brazil. Oi faces competition from these providers that offer integrated packages, consisting of subscription television, broadband and voice telephone services to cable television subscribers who, in general, have more purchasing power than other consumers.

Oi's principal competitors in the commercial data transmission services market are Embratel, GVT and Intelig. Because the commercial data transmission services market is significantly less regulated than the fixed-line, long-distance and mobile services markets and, therefore, presents fewer barriers to entry, this market is subject to competition from a large number of competitors, including fixed-line telecommunication service providers and specialized services companies competing in this high-growth market and focused on large- and medium-sized business customers. Along with growth in traffic volume and increasing demand for broadband capacity, Oi expects significant price reductions in data transmission services as competitors expand their networks. Oi also anticipates a shift in competition towards value-added services provided over IP platforms.

# DTH Services

In Brazil, the high quality programming of television broadcasters has resulted in aggregate ratings for these broadcasters of approximately 90 per cent. of viewers and has limited the perceived value of subscription television. As a result, the subscription television market in Brazil has a low penetration compared to developed countries and even to other Latin American countries such as Argentina, Chile and Mexico. Penetration rates for subscription television have grown from 8.0 per cent. of Brazilian households in 2005 to 21.2 per cent. in 2011. According to information available from ANATEL, the Brazilian subscription television market grew by more than 30.7 per cent. in 2011.

The primary providers of subscription television services in Regions I and II in Brazil are Embratel, which provides DTH service under the "Claro TV" brand, SKY, which provides DTH services, and NET, which provides subscription television services using coaxial cable. Oi commenced offering DTH subscription television services to the low-income residential market in the states of Rio de Janeiro, Minas Gerais, Rio Grande do Sul, Paraná and Santa Catarina. In 2010, Oi expanded this service to the Federal District and the states of Bahia, Sergipe, Pernambuco, Ceará, Paraíba, Rio

Grande do Norte, Alagoas, Espírito Santo and Goiás. In 2011, Oi expanded this service to the remaining states of Regions I and II.

### Personal Services

The mobile telecommunications services market in Brazil is characterized by intense competition among providers of mobile telecommunications services. Oi competes primarily with the following mobile services providers, each of which provides services throughout Brazil:

- Vivo, which is controlled by Telefónica and which markets its services under the brand name "Vivo";
- TIM, which is a subsidiary of Telecom Italia and markets its services under the brand name "TIM"; and
- Telecom Americas Group, which markets its services under the brand name "Claro."

In December 2010, Nextel Brazil acquired licenses to provide 3G services throughout Brazil. Nextel has announced that it expects to launch commercial services on its 3G network in certain markets between June and December 2012. Oi expects that Nextel's entrance in the market will increase competition for mobile services.

As of 31 December 2011, based on information available from ANATEL, Oi had a market share of 23.2 per cent. of the total number of subscribers in Region I, ranking behind Vivo with 27.2 per cent. and TIM with 26.7 per cent., and ahead of Claro with 22.5 per cent., and Oi captured 19.9 per cent. of all net additions of mobile subscribers in Region I (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 2011.

As of 31 December 2011, based on information available from ANATEL, Oi had a market share of 14.2 per cent. of the total number of subscribers in Region II, ranking behind Vivo with 30.8 per cent., Claro with 28.6 per cent. and TIM with 26.3 per cent., and Oi captured 9.0 per cent. of all net additions of mobile subscribers in Region II during 2011.

As of 31 December 2011, Oi had a market share of 14.5 per cent. of the total number of subscribers in Region III, ranking behind Vivo with 33.0 per cent., Claro with 26.1 per cent. and TIM with 26.3 per cent. Based on information available from ANATEL, Oi captured 16.4 per cent. of all net additions of mobile subscribers in Region III during 2011.

Competitive efforts in the Brazilian mobile telecommunication services market generally take the form of handset subsidies in the post-paid market and traffic subsidies in both the pre-paid and post-paid market. The aggressiveness of promotions is generally driven by the desire of the provider offering the promotion to increase market share; however, these promotions generally are for a short duration as the pricing terms offered are not sustainable over the long term.

## Regulation

### Portugal

In the competitive Portuguese telecommunications market, the regulatory measures which most affect PT's operations, revenues and costs relate to:

- restrictions on the products PT offers and the prices PT charges for residential fixed line voice services;
- restrictions on its broadband retail products through the application of retail-minus rules in those areas considered non-competitive;
- obligations to allow PT's competitors to interconnect with and use PT's fixed line network;
- certain fixed line services that PT is obliged to provide to the public under its "universal service obligation";
- measures that are intended to make it easier for PT's customers to migrate to its competitors' services, including carrier pre-selection, number portability, unbundling of the local loop, and wholesale line rental;
- the terms of PT's concession and its licenses; and

• price controls on PT's wholesale reference offers, such as local loop unbundling, wholesale line rental, interconnection offers, ADSL bitstream offers (in those areas considered non-competitive), access to ducts, leased lines trunks and local segments.

#### EU Regulatory Framework and Relevant Markets

In February 2002, the European Union agreed upon a new regulatory framework for electronic communications networks and services, consisting of five directives governing procedures, authorizations, access, universal service and data protection; one decision on the availability and use of radio spectrum; and a recommendation on relevant product and service markets within the electronic communications sector subject to "ex ante" regulation in accordance with Directive 2002/21/EC of the European Parliament and Council on a common regulatory framework for electronic communications networks and services. Four of the five directives that make up the new EU framework were adopted into law in Portugal on 10 February 2004 as part of Law 5/2004, the Basic Law of Electronic Communications ("Law 5/2004"). The fifth directive was adopted into law on 18 August 2004.

In 2006, the European Commission began a review of the new EU framework, for electronic communications services and networks. The new regulatory package was approved on 25 November 2009 and published in the Official Journal of the European Union of 18 December 2009 (OJ—L 377, 18.12.2009). The new EU Framework was transposed into national law by Law No. 51/2011 of 13 September 2011.

The implementation of the new EU framework is changing the current regulatory framework applicable to PT. The new EU directives and recommendations, which adopt competition law principles such as market dominance for the designation of significant market power and the definitions of relevant product and geographic markets which may be subject to "ex ante" regulation, constitute in significant changes and refinements to the regulatory framework. The new framework focuses on issues such as reinforcing consumer rights, encouraging competitive conditions among operators to increase consumer choice, promoting investment in new communications infrastructure (such as by freeing spectrum for the provision of broadband services) and ensuring network security and integrity.

Under the new regulatory regime, regulatory obligations can be imposed on operators having significant market power in any one of the relevant retail and wholesale markets identified by the European Commission. On 17 December 2007, the European Commission issued its European Relevant Markets Recommendation, which defines one retail market and six wholesale markets. Since PT is active in all of these markets, any new regulatory measures could affect PT's businesses and operations.

Prior to the release of the new European Relevant Markets Recommendation, ANACOM had analyzed 16 of 18 retail and wholesale markets (as defined under a prior European Commission Recommendation). ANACOM found PT to have significant market power in all the markets it analyzed except for one in which it did not find any operator to have significant market power (wholesale transit services). These markets include the following: (1) retail markets-access to the public telephone network at a fixed location (residential and business), publicly available local and/or national telephone services provided at a fixed location (residential and business), publicly available international telephone services provided at a fixed location (residential and business), and leased lines; and (2) wholesale markets—call origination on the fixed telephone network provided at a fixed location, call termination on individual public telephone networks provided at a fixed location and wholesale unbundled access to local metallic loops, wholesale leased lines (trunk segments and terminating segments) and wholesale broadband access. In addition, ANACOM added a nineteenth market, covering telephone services at a fixed location using non-geographic numbers, such as toll-free numbers, and has declared the PT group to have significant market power in this area. Now, under the new European Commission Recommendation on Relevant Markets, ANACOM will be required to re-analyze the retail and wholesale markets and identify which electronic communications operators and service providers it considers to have significant market power in such markets in Portugal and notify the European Commission with respect to its findings. ANACOM has conducted a market analysis to determine the regulatory obligations that should be imposed on operators with significant market power in the provision of wholesale (physical) network infrastructure access and wholesale broadband access.

Wholesale Markets 4 and 5 (for the provision of wholesale (physical) network infrastructure access and wholesale broadband access) were analyzed by ANACOM in 2008 and early 2009. ANACOM decided to segment the broadband market geographically between "C" (competitive) areas and "NC" (non competitive) areas. ANACOM also removed the regulation that was imposed on PT regarding wholesale broadband access in "C" areas, namely the retail-minus rule. Additionally, PT's obligation to provide a bitstream reference offer (*Rede ADSL PT*) expired after a transitional period of one year from the date of the final decision in January 2009. However, PT has decided to maintain the bitstream reference offer (*Rede ADSL PT*). In February 2012, ANACOM issued a consultation on the review of relevant Markets 4 and 5 to integrate the changes due to the development of Next Generation Networks. ANACOM is proposing to introduce virtual access to fibre (an advanced bitstream offer) as a remedy in Market 4 but with geographic differences: virtual access to fibre is not to be imposed in 17 municipalities where fibre networks have already been, or are likely to be, replicated by alternative operators.

In addition to PT, all other fixed line operators in Portugal were determined to have significant market power in the call termination on individual public telephone networks provided at a fixed location wholesale market. Likewise, all mobile network operators were found to have significant market power in the call termination on individual mobile networks. In 2010, ANACOM conducted a market analysis of the wholesale leased lines terminal and transit segments, on minimum sets of retail leased lines and on mobile termination rates. ANACOM eliminated the minimum set of retail leased lines and the retail-minus rules with respect to this set of leased lines. ANACOM found PT to have significant market power in the wholesale leased lines terminal market and segmented the transit segments between "C" (competitive) routes and "NC" (non competitive) routes. In these wholesale markets, ANACOM included Ethernet connections and imposed the retail-minus rule over Ethernet solutions. In the "C" routes, PT has no significant market power. PT expects that in the near future, ANACOM will provide further analysis of the other relevant markets.

## Regulatory Institutions

ANACOM. The Autoridade Nacional das Comunicações ("ANACOM") created in January 2001 (formerly Instituto das Comunicações de Portugal) ("ICP"), is the Portuguese telecommunications regulator. It advises the Portuguese government on telecommunications policy and legislation and monitors compliance with concessions, licenses and permits granted to telecommunications providers in Portugal.

ANACOM is accountable to the Ministry of Public Works, Transport and Communications. The Ministry of Public Works, Transport and Communications retains basic responsibility for telecommunications policy in Portugal. Together with the Ministry of Finance, it has ultimate responsibility for monitoring PT's compliance with its concession. It also has certain supervisory powers with respect to PT's activities. The Portuguese government delegated a significant number of those powers and functions to ANACOM in PT's concession agreement.

Over the past several years, the Portuguese government has substantially increased the autonomy of ANACOM and has allowed it to become a more effective and independent regulatory body. ANACOM acts on complaints against PT by PT's competitors, customers and other interested parties. It can impose fines on PT if PT does not meet its obligations under its concession, including PT's obligations to supply public switched wireline telephone services, leased lines and other services to PT's competitors on a timely basis. ANACOM has, from time to time, addressed complaints against PT by PT's competitors. However, such complaints have been resolved in a manner that has not had a material adverse effect on PT's businesses or operations. ANACOM's decisions are subject to possible reconsideration and can be submitted for judicial review.

European Commission. Most of the EU competition rules have the force of law in all EU member states and therefore apply to PT in Portugal. The current priority of the European Commission is to ensure that EU member states fully and correctly implement EU requirements in national law. The European Commission routinely monitors the status of EU member states in implementing EU directives.

The Directorate-General for Competition of the European Commission is responsible for considering, on its own initiative as well as in response to complaints by interested parties, potential claims that PT's business activities or Portuguese government regulations are inconsistent with the key provisions of the Treaty of Lisbon, also known as the TFEU Treaty, relating to competition in the EU. Article 101 of the treaty prohibits agreements or coordinated action between competitors that may affect trade between EU member states and have as their objective or effect the prevention, restriction or distortion of competition within the EU. Article 102 of the treaty prohibits any abuse of a market-dominating position within the EU, or a substantial part of the EU, that may affect trade between EU member states. The Directorate-General for Competition enforces these rules in cooperation with the national competition authorities. In addition, national courts have jurisdiction over violations of EU competition law.

Autoridade da Concorrência. PT's activities are also overseen by Autoridade da Concorrência (formerly "Direcção Geral do Comércio e da Concorrência") ("DGCC"), which is responsible for enforcement of Portuguese competition law. It is also responsible for considering complaints relating to PT's business practices or other business arrangements. PT and its subsidiaries are permitted under Portuguese law to appeal any adverse decision of the Autoridade da Concorrência to the courts. Such an appeal suspends the decision of the Autoridade da Concorrência pending a decision by the courts.

ERC. The Entidade Reguladora para a Comunicação Social ("ERC") is the independent regulatory authority for the Portuguese media. ERC's primary responsibilities are the regulation and supervision of all entities that undertake media activities in Portugal. ERC is a legal entity endowed with administrative and financial autonomy.

ERC oversees compliance with respect to fundamental rights such as freedom of the press, right to information, independence from political and economic power and freedom of speech. It is also responsible for monitoring compliance by all companies operating in the media sector, with standards for media and broadcast content, as well as for promoting the proper and effective functioning of the market where such companies operate.

ERC's decisions may affect, among others, news agencies, periodicals, radio or television operators, and radio and television broadcasters. PTC and TMN are usually considered television broadcasters, and as such PT must pay ERC supervisory and regulatory fees, which are calculated based on the amount of work ERC does related to PTC and TMN, the technical complexity of matters, the geographic range of networks used by the broadcasters, and the impact of the activity developed by each broadcaster.

## Regulatory Proceedings

PT is regularly involved in regulatory inquiries and investigations involving its operations. In addition, ANACOM, the European Commission, the Autoridade da Concorrência and ERC regularly make inquiries and conduct investigations concerning PT's compliance with applicable laws and regulations. Current inquires and investigations include several investigations by the Autoridade da Concorrência relating to alleged anti-competitive practices in the broadband internet, public wireline telephone, terrestrial television and public mobile telephone markets, as well as an investigation of the European Commission into alleged cooperation with Telefónica.

### Pricing of Fixed Line Telephone Services

ANACOM has established a pricing regime for fixed line telephone services in accordance with the terms of the new EU regulatory framework. This pricing regime creates the following regulatory obligations for the retail market for telephone services at a fixed location:

- The price cap applying a basket composed of residential access and domestic calls is the Portuguese Consumer Price Index ("CPI") minus 2.75 per cent.
- The fixed component of fixed-to-mobile calls (residential and non-residential) are required to be cost-oriented, and price controls are in place in the form of a cap of €0.063 on the amount retained by the fixed operator with respect to fixed-mobile calls.
- The tariffs for domestic payphone calls are required to correspond to a maximum of three times the tariff for a residential phone call.

Also, since January 2007, PT has been required to grant a 50 per cent. discount on PT's
monthly fee for retired people, a price accessibility obligation that was included under PT's
universal service obligations.

In addition, general regulatory obligations of transparency, non-discrimination, cost orientation, cost accounting and account separation apply to access to the fixed line network and to the telephone services at a fixed location.

#### Prices for Leased Lines

In July 2010, following ANACOM's final decision on the leased line markets, the retail leased line market was deregulated, which meant that PT's prices in this market ceased to be subject to a 26 per cent. retail-minus rule. However, for the wholesale leased line markets, in which PT was declared as the operator with significant market power, ANACOM decided to make Ethernet circuits subject to a retail-minus rule that is still to be defined by ANACOM.

On 17 November 2011, ANACOM approved its earlier proposal on a leased lines reference offer (oferta de referência de circuitos alugados, or "ORCA") and an Ethernet Accesses Reference Offer (oferta de referência de circuitos Ethernet, or "ORCE"). Under this decision, ANACOM seeks, among other things, to cause PT's subsidiary PTC to decrease the price of all components included in its pricing list (including CAM lines) for 2 Mbps, 34 Mbps and 155 Mbps lines by 35 per cent., 40 per cent. and 45 per cent., respectively. A public consultation period ended in December 2011 and on 4 May 2012 ANACOM approved a final decision draft. A decision is now expected for June 2012.

### Universal Service Obligations

Law 5/2004 and PT's concession impose universal service obligations on PT in Portugal. These obligations include providing connections to the public telephone network at a fixed location. They also include providing access to public switched fixed line telephone services, including enabling users to make and receive local, national and international telephone calls, facsimile communications and data communications. They also include providing public pay telephones, publishing directories and making available at least one telephone directory enquiry service covering all public voice telephone subscribers' numbers.

According to Law 5/2004, if ANACOM determines that the provision of universal service obligations has become an excessive burden, it may compensate PT accordingly. Since 2004, it has been the responsibility of ANACOM to calculate the costs of providing the universal service.

In 2008, ANACOM issued a decision in which it refused to accept PT's calculations related to the costs of universal service for 2001, 2002 and 2003. ANACOM proposed to define a methodology to calculate the net costs of universal service ("NCUS") and to provide definitional clarity on the concept of "excessive burden." During 2009, with assistance from its consultants, PTC developed a methodology to calculate the NCUS for 2008, and several meetings occurred between PTC and ANACOM regarding the results obtained and the methodological choices that were made. ANACOM was expected to launch a consultation on these issues during the first half of 2010, but both consultations (on excessive burden and on the methodology to calculate the NCUS) were launched in February 2011 and continued until March 2011. In the consultations, ANACOM proposed to acknowledge the existence of an excessive burden in the universal service provision from 2007 forward and to calculate the NCUS using historical cost accounting data. In June 2011, ANACOM approved the decisions on the definition of excessive burden and on the methodology for the calculation of the NCUS. PTC submitted a request to ANACOM defending the need to correct the methodology, and a final decision on this matter was adopted in August consistent with the request of PTC. In December 2011, PTC submitted to ANACOM the calculation of the NCUS for the period between 2007 and 2010. Until 13 June 2012 a public consultation is ongoing, in order to select an entity that will be responsible for auditing the NCUS presented by PTC for the period 2007-2009.

From November through December 2011, ANACOM held a public consultation on the process for selecting a universal service provider. ANACOM issued a final decision in February 2012, dividing universal services by three functions (telephone service, pay telephones, and directory and inquiry services) and further in three geographic regions. On 12 April 2012, the government launched a public consultation on proposed legislation to establish a compensation fund for universal service providers.

On 17 May 2012, following the consultation, the government approved a draft law to be discussed and approved by the Parliament after which the Portuguese government is expected to launch during 2012 a tender for the designation of the universal service providers. The designation of the universal service providers and related renegotiation of PT's concession are explicit objectives set forth in the memorandum of understanding entered into by the Portuguese government, the IMF, the European Commission and the European Central Bank in the context of the support package provided to Portugal.

### Interconnection

The Interconnection Framework. The EU Access and Interconnection Directive requires that interconnection services be made available in a non-discriminatory manner. The EU Access and Interconnection Directive encourages commercial negotiations among operators but requires national regulatory authorities to establish mechanisms for effective dispute resolution. According to the EU Access and Interconnection Directive, all telecommunications companies with significant market power in the call origination or termination markets must:

- make interconnection access to their networks available to other network operators;
- not discriminate between interconnection customers;
- provide to those requesting interconnection the information and technical specifications necessary for them to interconnect their networks;
- offer interconnection prices that are transparent and cost-oriented and do not discriminate between interconnection customers; and
- maintain a separate accounting system for interconnection activities.

Law 5/2004 implemented the EU Access and Interconnection Directive in Portugal and established the general conditions for access and interconnection among telecommunications operators in competitive markets. It guarantees the rights of new entrants to obtain interconnection from telecommunications operators with significant market power.

Pursuant to Law 5/2004, ANACOM is entitled to review and modify PT's proposed interconnection rates and arrangements in PT's reference interconnection offer. ANACOM has established in Portugal an overall interconnection framework based on cost and consistent with the EU legal framework for both wireline and mobile services.

Wireline Interconnection. As a result of the enactment of Law 5/2004, ANACOM adopted a measure in 2004 on call origination on fixed telephone networks provided at a fixed location, call termination on individual public telephone networks provided at a fixed location and on significant market power designation in these fixed locations, declaring the Portugal Telecom group to have significant market power in these markets. As a result, PT is subject to price controls in these markets based on its costs and other factors and must publish a reference offer that includes these prices and quality of service standards.

Mobile Interconnection. In 2005, all mobile operators were declared to have significant market power in call termination in mobile networks market. ANACOM has imposed price controls on interconnection rates for the termination of calls on mobile networks. These reductions have had, and are expected to continue to have, a significant impact on TMN's interconnection revenues and consequently its earnings.

In May 2010, ANACOM imposed a new glide path that reduced mobile termination rates by €0.005 per quarter, reaching €0.035 in August 2011. In April 2011, based on an EC Recommendation on fixed and mobile termination rates of May 2009, which required national regulatory authorities to develop bottom-up pure long-run incremental cost ("LRIC") models to regulate mobile termination rates, ANACOM held a consultation on the definition of such a cost model to regulate mobile termination rates. In October 2011, ANACOM issued a new draft decision based on that cost model and proposed a new glide path, according to which mobile termination rates would decrease in four steps, reaching €0.0125 per minute in November 2012. 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 PT's cash flows and revenues.

Internet Access. As a result of past ANACOM decisions, PT offers two access regimes to ISPs: (1) the Reference Offer for Internet Access, which includes two alternative pricing methods, namely a monthly flat rate and a per minute origination charge, and under which the connection of the ISP's infrastructure to PT's fixed line network is based on DSS1 signaling, and (2) the Reference Interconnection Offer, which includes a pricing method based on call origination, and under which the connection of the ISP's infrastructure to PT's fixed line network is based on Signaling System No. 7 (SS7) protocols. The ISPs determine which regime will apply to their arrangements to connect with PT's fixed line network.

## Pricing for Mobile Origination Rates

In addition, in August 2008, ANACOM published a "reasoning" regarding mobile rates for originating calls, aimed at driving mobile operators to reducing their prices by the end of September 2008 to a level equal or close to the level of mobile termination rates. In the second half of 2008, the three mobile operators reduced their rates for originating calls but not to the extent desired by ANACOM. In February 2010, ANACOM chose to take the matter to the Portuguese national competition authority (the *Autoridade da Concorrência*, or "AdC"). In January 2012, the Autoridade da Concorrência completed its analysis, finding origination rates to be excessive and stating that mobile operators must reduce their rates to the level of their costs by July 2012 or face the possibility of being sanctioned.

#### Next Generation Access Networks

In 2008, the European Commission launched a consultation on a draft recommendation on the regulated access to NGAs, seeking to define general regulatory principles and determine regulatory solutions for fibre-to-the-home ("FTTH") and fibre-to-the-node ("FTTN"), including access to ducts, the unbundling of fibre and bitstream solutions. In 2009, the European Commission launched a second consultation on a draft recommendation on the regulated access to NGAs. In 2010, the European Commission approved the recommendation on the regulated access to NGAs, maintaining the primary regulatory principles. On 19 January 2011, the European Commission determined that state aid for implementation of next generation access networks was compatible with the EU Treaty.

In 2008, ICP-ANACOM launched a public consultation on the regulation of Next Generation Access Networks ("NGA"), which addressed several issues, namely market and technological issues, the impact of NGAs on existing networks, the development models, public policy considerations and regulatory models. In a decision announced in 2009, ANACOM defined a segmented approach: in areas designated "C" (competitive) areas, the main obligation is access to ducts, and in areas designated "NC" (non-competitive) areas, the obligations are access to ducts, access to fibre and advanced bitstream, subject to conditions. In February 2012, ANACOM issued a consultation on the review of relevant Markets 4 and 5 to integrate the changes due to the development of Next Generation Networks. ANACOM is proposing to introduce virtual access to fibre (an advanced bitstream offer) as a remedy in Market 4 but with geographic differences: virtual access to fibre is not to be imposed in 17 municipalities where fibre networks have already been, or are likely to be, replicated by alternative operators.

With respect to the roll-out of fibre optic networks, Decree-Law No. 123/2009 of May 2009, as amended by Decree-Law No. 258/2009 of September 2009, establishes a legal framework for the construction of and access to infrastructure suitable for the accommodation of electronic communications networks and the construction of infrastructure for telecommunications in housing developments, urban settlements and concentrations of buildings. As for rights of way-especially access to the public domain, expropriation and the constitution of public easements—the law reinforces the rights already given to electronic communications undertakings under Law No. 5/2004 by introducing a new level of harmonization and transparency in procedures. In particular, Decree-Law No. 123/2009 sets forth several obligations in order to allow electronic communications operators to enjoy better conditions necessary for the installation and development of electronic communications networks.

Decree-Law No. 123/2009 also foresees the implementation of a Centralized Information System ("SIC") to be managed and operated by ANACOM and whose main objective is to make available information on infrastructure appropriate for the installation of electronic communications networks based on information provided by the Portuguese government, autonomous regions, municipalities, publicly held companies or concessionaires, other entities owning or using infrastructure in the public domain, autonomous regions or municipalities and electronic communications undertakings. In November 2010, ANACOM issued a final decision regarding the registration of objects in the SIC and the terms and formats for providing information for the SIC. Other elements, such as the terms upon which objects will be geographically defined through the combination of their administrative location and geo-referencing, are also set forth.

Since PTC already has a reference offer under which it is required to provide a substantial amount of information to operators that wish to use its ducts and associated infrastructure, PT is paying close attention to the implementation of the SIC, since it does not wish for the SIC to compound PTC's obligation to provide information regarding its ducts and associated infrastructure.

Decree-Law No. 123/2009 also contained a rule regarding installing wiring in existing buildings, in which it was set forth that the first operator entering an existing building to adapt its telecommunications infrastructure to fibre optics is obligated to adapt the infrastructure to allow sharing with other electronic communications companies that wish to provide electronic communications services based on fibre. This rule ceased to be in effect on 1 January 2010 with the entering into force of the second edition of the technical rules and norms for infrastructure of telecommunications in buildings ("ITED 2<sup>nd</sup> Edition"). Under the ITED 2<sup>nd</sup> Edition, the first electronic communications undertaking entering a building with fibre remains obligated to install fibre optic wiring in order to allow sharing with other operators. However, ITED 2<sup>nd</sup> Edition only sets forth the technical rules that apply to installing wiring and does not solve other problems, such as those related to cost sharing, relationships of operators with the buildings' owners or management and technical harmonization needed within the sharing of the infrastructure.

## Number Portability and Carrier Selection

Number portability allows a subscriber at a specific location to change service providers without having to change telephone numbers. Under ANACOM regulations, PT is required to allow number portability for both fixed line and mobile services. From October through December 2011, ANACOM undertook a public consultation on amending existing number portability regulations to, among other things, ensure fixed and mobile number portability within one working day and to make other changes favourable to subscribers. The final regulation was adopted in March 2012 and will enter into force on 13 September 2012.

ANACOM has required call-by-call carrier selection to be offered by PT for long distance and international calls since 2000. PT has been offering it for local and regional calls since 2001 and for fixed-to-mobile calls since 2000. Call-by-call carrier selection enables customers to select the carrier of their calls by dialing a code connecting them to the selected carrier.

Law 5/2004 requires that all fixed line network operators with significant market power must offer carrier pre-selection. Carrier pre-selection allows customers to select the carrier that will be their default carrier. This removes the need for customers to dial any code to connect to their selected carrier when making calls. Full carrier pre-selection has been available throughout Portugal since 2000.

## Unbundling of the Local Loop

In 2000, the European Commission approved a regulation requiring fixed line network operators to make the local loops between their customers and the local switches on their networks available to competitors. Such a requirement also appears in Law 5/2004. This allows such competitors to connect their networks to the copper "local loop" and use it to provide their services directly to those customers without having to invest in the local loop or to rely upon the network operator's relationship with the customers. According to the regulation and Law 5/2004, PT is required to maintain a reference offer for unbundled access to PT's local loops and related facilities and to meet reasonable requests for unbundled access to PT's local loops and related facilities under transparent,

fair and non-discriminatory conditions. Prices charged must be cost-oriented. The conditions under which the local loop unbundling services are provided are set forth in a published reference offer for unbundled access to PT's local loops in accordance with terms established by ANACOM. This reference offer covers all of PT's main distribution framework buildings where technical and space conditions allow co-location. Co-location means providing space and technical facilities to competitors to the extent necessary to reasonably accommodate and connect the relevant equipment of the competitor.

### Internet and Related Services

Various regulatory developments may affect PT's Internet business. A Data Protection Directive was adopted by the European Commission in 2006, imposing data-retention obligations on operators. A law implementing this directive was published in 2008 and requires Internet service providers and other electronic communications providers to preserve data for a specified period of time and imposes other obligations in this field.

### Roaming

The European Commission has determined that roaming prices in Europe should be reduced and has published new regulations that have been in effect since 2007. These regulations set maximum roaming charges that may be charged in the wholesale market and the retail market. In 2008, the European Commission launched a consultation on roaming, proposing to carry over Regulation (EC) No. 717/2007, on roaming on mobile communications networks within the European Union (the "Roaming Regulation"), beyond 2010 and to extend it to data and Short Messaging Services ("SMS"), or text messaging. In 2009, Regulation (EC) No. 544/2009, amending the Roaming Regulation (the "New Roaming Regulation"), went into effect, limiting roaming charges. The New Roaming Regulation aimed to reduce roaming charges by up to 60 per cent. The European Commission also requested clarification from operators with respect to price differences between data services while roaming compared to prices in the domestic market.

Under the New Roaming Regulation, voice roaming rates in the retail market continue to be subject to a glide path (prices excluding VAT): from 1 July 2010, maximum rates of  $\{0.39$  per minute for outgoing and  $\{0.15$  per minute for incoming roaming calls; and from 1 July 2011, maximum rates of  $\{0.35$  per minute for outgoing and  $\{0.11$  per minute for incoming roaming calls. In the wholesale market, maximum rates were set at  $\{0.22$  and  $\{0.18\}$  as of 1 July 2010 and 1 July 2011, respectively. For SMS services, caps of  $\{0.11\}$  in the retail and of  $\{0.04\}$  in the wholesale came into force on 1 July 2009. For data services, maximum wholesale rates of  $\{0.80\}$  and  $\{0.50\}$  applied from 1 July 2010 and 1 July 2011, respectively.

The New Roaming Regulation is due to expire on 30 June 2012 and to be replaced by a third version, known as "Roaming III." The European Commission has proposed revisions to certain of those standards, including (1) a cap on retail data tariffs, proposed for July 2012; (2) introduction of an obligation for mobile operators to provide network access in order to allow roaming services, proposed for July 2012; (3) the decoupling of roaming services from other services, while enabling a consumer to use the same number; and (4) the extension of transparency and bill shock measures to non-EU countries. The new Roaming Regulation is expected to be adopted by the European Council in June 2012.

### Other Requirements

The regulatory framework requires PTC to submit periodic reports on quality of service and comply with specified indicators. Penalties may occur if PT does not achieve such indicators. PT must also provide white page directories and certain other facilities to certain specified categories of subscribers free of charge.

## Licensing Framework

The EU Authorization Directive (Directive 2002/20/EC of 7 March 2002) prohibits any limitation on the number of new entrants in telecommunications markets, except as required to ensure an efficient use of radio frequencies.

Pursuant to this directive, which is part of the EU electronic communications framework, Law 5/2004 has established an authorization regime whereby an operator must have a general authorization for the provision of electronic communications networks or services. A license can be required for the use of radio frequencies or numbering resources. ANACOM is responsible for issuing regulations to implement this authorization regime. The objective of this new authorization regime is to introduce more flexibility into the licensing framework.

### Summary of PT's Concession and Existing Licenses and Authorizations

PT's concession is for the provision of universal service and for the operation of the terrestrial broadcasting network in Portugal, and it permits PT to provide public switched fixed line telephone, packet switched data in X.25 mode, leased lines and telex and telegraphy services in Portugal. PT also operates a digital terrestrial television platform and provides mobile telephone services, data communications services and television distribution services under the licenses granted and authorizations issued to PT's subsidiaries by the relevant authorities (the Portuguese government and ANACOM). The subsidiaries holding the licenses and authorizations are subject to separate financial reporting and other requirements.

PT's Fixed Line Concession. The Portuguese government granted PT a concession on 20 March 1995. The concession had an initial term of 30 years, expiring in 2025. As part of a reorganization of PT's business, PT transferred the concession to its subsidiary, PTC, in 2000. The concession granted PT the right to install, manage and operate the infrastructure that forms part of the basic telecommunications network and the terrestrial broadcasting network for a fee of up to 1 per cent. of PT's operating revenues from the services provided under the concession, after certain deductions. Some of PT's assets that are part of the basic telecommunications network (as defined in Portuguese legislation) were treated as being within the "public domain" under the terms of the concession. During the term of the concession, PT was permitted to receive economic benefits from the use of public domain assets as if PT owned them completely. However, such public domain assets would have reverted to the Portuguese government without compensation when the concession expired.

In December 2002, PT agreed to prepay the future rental payments due under the concession in exchange for full ownership of the basic telecommunications network and to ensure that there will be no reversion of the assets related to the provision of concession services to the government in 2025. PT acquired full ownership of the basic telecommunications network for €365 million, which included the 2002 concession fee of €16.6 million. As a result of this acquisition, the terms of the concession have been modified so that PTC is no longer obligated to pay a concession fee to the Portuguese government, and ownership of the network and assets related to the concession will not revert back to the Portuguese government in 2025. In 2003, Decree Law 31/2003 was enacted, establishing the basic regulatory principles supporting the terms of PT's modified Concession. Later that year, PT entered into an agreement formally modifying the terms of its concession with the Portuguese government.

The Portuguese government retains the ability to suspend or terminate PT's rights under the concession. In cases of serious non-fulfillment by PT of PT's obligations under the concession, the Portuguese government may, on a provisional basis, take over the development and operation of services authorized under the concession. The concession may also be terminated in cases of "severe, continual or unremedied" failure to perform PT's obligations. PT believes that PT has the resources to fulfill all its obligations under the concession.

In addition, the Portuguese government may revoke the concession upon at least one year's notice if it deems such action to be justified in the public interest. If this occurs, PT would be entitled to compensation equaling PT's annual average net profits for the five years prior to notification of revocation multiplied by the number of years remaining before the concession expires.

PT's modified concession provides that PT is exempt from all taxes, fees and charges with respect to the usage of public rights-of-way for PT's telecommunications infrastructure. However, Law 5/2004 establishes a new rights-of-way regime in Portugal whereby each municipality may establish a fee, up to a maximum of 0.25 per cent. of each wireline services bill, to be paid by the customers of those wireline operators whose network infrastructures are located in each such municipality. This regime was implemented in 2005. The new regime replaces Law 91/97, which granted PT an

exemption from municipal taxes and rights-of-way and other fees with respect to access to and installation and use of PT's telecommunications network in connection with PT's obligations under the concession. PT's exemption from municipal taxes prior to the enactment of Law 91/97 is still being challenged in court.

PT's concession imposes universal service obligations on PT.

The Ministry of Finance is responsible for monitoring financial issues with respect to the concession. The Ministry of Economy is responsible for all other issues under the concession. ANACOM is authorized to monitor and assess penalties up to a maximum of €5 million if PT fails to fulfill its obligations under the concession or other obligations imposed by law or stemming out of ANACOM's determinations. Disputes concerning the application and interpretation of the concession are dealt with by arbitration.

PT's Fixed Line and Data Licenses. PT also holds the following licenses:

- a non-exclusive license to provide fixed line telephone services;
- a non-exclusive license to be a "Public Telecommunications Networks" operator; and
- all the licenses formerly held by Telepac, including a data communications license.

PT's data communications license authorizes PT to provide X.25/X.32 synchronous services and X.28 asynchronous services and other switched and non-switched data communications services, including frame relay and virtual private networks for data communications. The license also authorizes PT to provide value-added services such as electronic data interchange and videotext services. In addition, the license authorizes PT to construct certain network infrastructure in connection with licensed services. With respect to packet switched data, the data communications license is valid for 30 years, unless PT's wireline concession is terminated earlier. Licenses have also been granted to other providers of data communications and internet access services, including companies associated with major international telecommunications providers. However, under Law 5/2004, and in accordance with the EU licensing regime, companies are not required to have a license to provide data communications services and internet access. Instead, it is sufficient to register their intended services with ANACOM under its service registration scheme.

Since 1997, PT has also held a license to provide data communications services using satellite infrastructure and a license to offer voice services to corporate networks and other closed groups of users.

Digital Terrestrial Television Services. Following a public tender launched by ANACOM in 2008, PTC was granted the frequency usage rights for Digital Terrestrial Television ("DTT"), associated with the transport of the signal of free-to-air television channels (the RTP, SIC and TVI broadcast channels), the so-called "Multiplex A" or "Mux A." In 2009, the ERC notified PT of its final decision to grant PT a license to act as a TV distribution operator. On 22 December 2010, ANACOM approved the draft decision regarding the change of the operating channels Mux A of the DTT, assigned to PTC.

In preparation for the migration to Digital Terrestrial Television in Portugal, three pilot programs were carried out in 2011 in Alenquer, Nazaré and Santarém, Portugal. The switch-off of the analog television network in Portugal occurred on 26 April 2012.

TMN's Mobile Service License. Mobile telephone service licenses are valid for 15 years and are issued by ANACOM under Law No. 5/2004. These licenses authorize the use of radio spectrum and the installation of public communications networks capable of delivering voice and data services. Charges for the provision of mobile telephone services are not subject to regulation.

Through TMN, PT holds a renewable license to provide traditional and GSM digital mobile telephone services throughout Portugal. The authorization for the use of GSM radio spectrum was renewed in March 2007 and is now valid until 16 March 2022. Two other operators hold licenses to provide GSM digital mobile telephone services on substantially the same terms as those applicable to TMN. Vodafone Portugal was awarded its license in 1991. Optimus was awarded a license in 1997 and began operations in September 1998.

PT is required to comply with a number of mobile telephone service criteria. These include satisfying minimum quality standards regarding blocked call rates, network effectiveness and servicing time, and providing certain services. PT is also required to provide ANACOM with information about its mobile telephone operations, including the number of customers, number and average duration of calls on a quarterly basis. PT is also required to provide annual information to ANACOM about the development of infrastructure.

ANACOM began issuing UMTS licenses in January 2001. UMTS services are the European version of the globally accepted technical standards for "third-generation" mobile communications. UMTS constitutes a significant advance over the "second-generation" digital GSM mobile services. The "first-generation" services were traditional analog mobile services. The broadband capacity of the frequency spectrum allocated under the UMTS licenses enables operators to supply video and Internet content to mobile telephones at higher transmission speeds. The licenses cover all of Portugal and are valid for 15 years. The license fee was €100 million per license. TMN and the other two main mobile operators in Portugal were each awarded one of these licenses at the beginning of 2001, and TMN's license expires in January 2016.

In April 2004, TMN launched UMTS in Portugal with an emphasis on new services, such as video telephony and high-speed data. Since then, TMN has pursued a strategy of gradual improvements to network coverage, using existing GSM sites where possible in order to minimize the need to install costly new sites.

In addition, in 2000, TMN and the other mobile operators assumed commitments to make contributions to the information society during the period through the maturity of the license in 2016. In 2007, pursuant to an agreement between TMN and the Portuguese government, and based on contributions already made, the outstanding commitments were valued at €355 million. Under the agreement, €260 million of this amount was to be spent on "E Initiatives," an initiative led by the Portuguese government to offer laptops and discounted broadband services to school teachers and students. The remaining €95 million was to be spent on subsidies for equipment, service discounts and network investments. PT's expenses relating to the €233 million liability recorded in 2007 have been fully reflected in the financial statements, and the only liabilities on PT's balance sheet relating to PT's commitments under the terms of TMN's license are liabilities incurred in the ordinary course of PT's business.

In July 2010, ANACOM decided, within the context of the 900/1800 MHz spectrum refarming process, to unify into a single authorization the conditions applicable to the rights of use of frequencies allocated to TMN for the provision of the land mobile service, in accordance with GSM 900/1800 and UMTS technologies. The authorization is valid until 16 March 2022.

In 2011, ANACOM launched an auction for the allocation of rights of use of frequencies in the 450, 800, 900, 1800 MHz and 2.1 and 2.6 GHz bands. Following that auction, on 9 March 2012, ANACOM issued the final renewable license to TMN, in accordance with the principles of neutrality, in terms of technology and services, allowing the provision of electronic communications services based, among others, on LTE (Long Term Evolution) technology. This license is valid until March 2027, and it also unifies the previous GSM and UMTS licenses issued by ANACOM. Licenses were also issued to Optimus and Vodafone.

### Brazil

#### **Overview**

Oi's business, including the nature of the services it provides and the rates it charges, is subject to comprehensive regulation under the Brazilian General Telecommunications Law (*Lei Geral das Telecomunicações*) and a comprehensive regulatory framework for the provision of telecommunication services promulgated by ANATEL. Oi provides fixed-line, domestic and international long-distance and mobile telecommunication services under concessions, authorizations and licenses that were granted by ANATEL and allow it to provide specified services in designated geographic areas, as well as set forth certain obligations with which it must comply.

ANATEL is a regulatory agency that was established in July 1997 pursuant to the General Telecommunications Law and the Regulamento da Agência Nacional de Telecomunicações. ANATEL

oversees Oi's activities and enforces the General Telecommunications Law and the regulations promulgated thereunder. ANATEL is administratively independent and is financially autonomous. ANATEL is required to report on its activities to the Brazilian Ministry of Communications. ANATEL has authority to propose and to issue regulations that are legally binding on telecommunication service providers. ANATEL also has the authority to grant concessions and licenses for all telecommunication services, other than broadcasting services. Any regulation or action proposed by ANATEL is subject to a period of public comment, which may include public hearings, and ANATEL's decisions may be challenged administratively before the agency itself or through the Brazilian judicial system.

#### Concessions and Authorizations

Under the General Telecommunications Law and ANATEL regulations, the right to provide telecommunication services is granted either through a concession under the public regime or an authorization under the private regime. A concession is granted for a fixed period of time following a public auction and is generally renewable only once. An authorization is granted for an indeterminate period of time and public auctions are held for some authorizations. These concessions and authorizations allow service providers to provide specific services in designated geographic areas, set forth certain obligations with which the service providers must comply and require equal treatment of customers by the service providers.

The four principal providers of fixed-line telecommunication services in Brazil (Telemar, Oi, Telesp and Embratel) provide these services under the public regime. In addition, CTBC and Sercomtel, which are secondary local fixed-line telecommunication service providers, operate under the public regime. All of the other providers of fixed-line telecommunication services and all providers of personal mobile services and data transmission services in Brazil operate under the private regime.

Providers of public regime services, such as Oi, are subject to more obligations and restrictions than providers of private regime services. Under Brazilian law, providers of public regime services are subject to certain requirements with respect to services such as quality of service, continuity and universality of service, network expansion and network modernization. Additionally, the rates that public regime service providers may charge customers are subject to ANATEL supervision.

## Regulation of Fixed-Line Services

Public Regime Concessions

Each of the public regime service providers operates under concession agreements that expire in December 2025. Under these new concession agreements, each of the public regime service providers is required to comply with the provisions of (1) the General Plan on Universal Service that was adopted by ANATEL in June 2003, (2) the General Plan on Quality Goals that was adopted by ANATEL in June 2003, and (3) the General Plan on Competition Targets which, as of the date of the Base Prospectus, has not yet been adopted by ANATEL. The General Plan on Competition Targets was submitted for public consultation in July 2011 and the public consultation period ended on 23 October 2011. Oi expects these new regulations, as they may be modified as a result of ANATEL's further analysis, to be adopted in 2012.

The concession agreements provide that ANATEL may modify their terms in 2015 and 2020 and may revoke them prior to expiration under some specific circumstances provided for by law and the concession agreements. The modification right permits ANATEL to impose new terms and conditions in response to changes in technology, competition in the marketplace and domestic and international economic conditions. ANATEL is obligated to engage in public consultation in connection with each of these potential modifications.

ANATEL may also terminate the concessions upon the occurrence of certain events, such as an extraordinary situation jeopardizing the public interest, a provider's material failure to comply with its universalization targets or insurance requirements. In the event a concession is terminated, ANATEL is authorized to administer the provider's properties and its employees in order to continue rendering services.

#### Rate Regulation

Public regime service providers must offer a basic service plan comprised of the following basic services: (1) installation, (2) monthly subscription and (3) switched local minutes. Modifications of the rates charged for these basic services are determined by reference to a local rate basket that represents the weighted average of the rates for monthly subscriptions and switched local minutes. Rates for long-distance services originated and terminated on fixed lines vary in accordance with specified criteria. Modifications of the rates charged for these long-distance services are determined by reference to a long-distance rate basket that represents the weighted average of the rates for long-distance calls. The rates for international long-distance services charged by long-distance service providers other than Embratel, including Oi, all of whom provide these services under authorizations rather than concessions, are not subject to ANATEL regulation.

The concession agreements establish a price-cap mechanism for annual rate adjustments for basic service plans and domestic long-distance rates based on formulas set forth in each provider's concession agreement. The formula provides for two adjustments to the price cap based on the local rate basket, the long-distance rate basket and the use of a price index. The price cap is first revised upward to reflect increases in inflation, as measured by an index, then ANATEL applies a productivity discount factor, or Factor X, which reduces the impact of the rate readjustment provided by the index.

ANATEL has proposed new regulations under which it would modify the 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 1 September 2011. Oi expects these new regulations, as they may be modified as a result of ANATEL's further analysis, to be adopted in 2012.

### Unbundling of Local Fixed-Line Networks

On May 2004, ANATEL issued an order establishing rules for partial unbundling of the local fixed-line networks of the public regime service providers ("line sharing") and requiring the eventual full unbundling of local fixed-line networks, which will entail these providers making their entire networks available to other telecommunication service providers.

As of the date of the Base Prospectus, ANATEL has not yet adopted final unbundling rules or rates for full unbundling, although ANATEL has proposed a General Plan on Competition Targets, which addresses a variety of matters, including regulations related to partial unbundling and/or full unbundling of the local fixed-line networks of the public regime service providers. The General Plan on Competition Targets was submitted for public consultation in July 2011 and the public consultation period ended on 23 October 2011. Oi expects these new regulations, as they may be modified as a result of ANATEL's further analysis, to be adopted in 2012. Oi expects that the rates that it would receive from other telecommunication services providers accessing its fixed-line networks under these regulations, if adopted, will be lower than the rates Oi currently charges its customers for providing fixed-line and broadband internet services.

### Service Restrictions

Pursuant to regulations in effect as of the date of the Base Prospectus, public regime providers are subject to certain restrictions on alliances, joint ventures and mergers and acquisitions with other public regime providers, including:

- a prohibition on holding more than 20 per cent. of the voting shares of more than one other provider of public regime services; and
- a restriction on mergers between regional fixed-line service providers.

In December 2010, ANATEL adopted new regulations eliminating the limitation on the number of authorizations to provide subscription television services. In September 2011, the Brazilian congress passed Law No. 12,485, which was signed into law by the President of Brazil in September 2011. Law No. 12,485 creates a new legal framework for subscription television services in Brazil, replacing and unifying the previously existing regulatory provisions that governed various forms of subscription

television services, such as cable television, Multichannel Multipoint Distribution Service ("MMDS") and DTH. The principal provisions of Law No. 12,485:

- allow fixed-line telephone concessionaires, such as Oi, who previously were allowed to provide subscription television services using only MMDS and DTH technologies, to enter the cable television market in Brazil:
- remove existing restrictions on foreign capital investments in cable television providers;
- establish minimum quotas for domestic content programming on every television channel;
- limit the total and voting capital held by broadcast concessionaires and authorized providers, and in television programmers and producers, with headquarters in Brazil to 30 per cent.; and
- prohibit telecommunications service providers with collective interests from acquiring rights to disseminate images of events of national interest and from hiring domestic artistic talent

The framework established by Law No. 12,485 is expected to increase the availability and lower the price of subscription television services in Brazil through increased competition among providers and is expected to improve the quality, speed and availability of broadband internet services as a result of the expected proliferation of fibre optic cables used to transmit cable television.

In March 2012, ANATEL adopted new regulations under which the authorizations to provide various existing subscription television services have been consolidated into authorizations to provide a newly-defined service called Conditional Access Service. Under these regulations, authorizations to provide Conditional Access Service will apply to private telecommunications services, the receipt of which are conditioned on payment by subscribers, for the distribution of audiovisual contents in the form of packages, individual channels and channels with required programming, by means of any communications technology, processes, electronic means or protocols. An authorization granted by ANATEL to provide Conditional Access Service will be valid for the entire Brazilian territory, but the provider must indicate in its application for an authorization the localities that it will service.

#### Regulation of Mobile Services

In September 2000, ANATEL adopted regulations that established operating rules for providers under the personal mobile service (Serviço Móvel Pessoal) regime. The regulations permitted ANATEL to grant authorizations to provide mobile telecommunication services under the personal mobile service regime. For purposes of the personal mobile service regulations, Brazil is divided into three service regions covering the same geographic areas as the concessions for fixed-line telecommunication services.

## Auction of Personal Mobile Services Spectrum

Prior to the establishment of the personal mobile services regime, ANATEL had granted licenses to mobile services providers to operate in each region of Brazil using Bands A and B. In 2001 and 2002, ANATEL successfully auctioned authorizations and licenses to operators in Band D and Band E in each region. TNL was granted its initial authorization to provide personal mobile services in Region I and a license to operate in Band D in March 2001. Brasil Telecom's subsidiary Brasil Telecom Celular S.A. ("Brasil Telecom Mobile") was granted its initial authorization to provide personal mobile services in Region II and a license to operate in Band E in December 2002.

ANATEL conducted additional auctions of radio frequency licenses in 2004 and 2006. In April 2004, Brasil Telecom Mobile acquired an additional license to operate in Region II.

In December 2007, ANATEL auctioned the remaining spectrum of Bands A, B, C, D and E to existing service providers as extension blocks and auctioned additional spectrum in Band M (1.8 GHz) and Band L (1.9 GHz). In these auctions, TNL acquired (1) an authorization to provide personal mobile services in the State of São Paulo and licenses to operate using Band M throughout the State of São Paulo and Band E outside of the city of São Paulo, and (2) licenses to use additional spectrum in 12 states in Region I.

## Auction of 3G Spectrum

In preparation for auctions of spectrum in Bands F, G, I and J (2.1 GHz), the use of which allows personal mobile services providers to offer 3G services to their customers, ANATEL issued regulations that divide the Brazilian territory into nine regions for purposes of operations using these frequency bands. In December 2007, ANATEL auctioned radio frequency licenses to operate on each of these frequency bands in each of the nine regions and the related licenses to use these frequency bands. In this auction, Brasil Telecom acquired the radio frequency licenses necessary to offer 3G services in two of the nine regions delineated by ANATEL for 3G services (corresponding to Region II under the personal mobile services regime) and TNL acquired radio frequency licenses necessary to offer 3G services in six of the nine regions delineated by ANATEL for 3G services (corresponding to Regions I and III under the personal mobile services regime, other than an area that consists of 23 municipalities in the interior of the State of São Paulo that includes the city of Franca and surrounding areas).

### Authorizations to Use 450MHz Band and 2.5 GHz Band

Under Executive Decree 7,512, dated 30 June 2011, ANATEL is required to grant authorizations to telecommunications providers to use radio spectrum in the 450 Mhz band radio spectrum and the 2.5 GHz radio spectrum in the second quarter of 2012. Among other obligations, licensees of radio frequencies in the 450 Mhz band radio spectrum must agree to provide individual and collective voice and data services in rural and remote areas, in accordance with the provisions of Executive Decree 7,512 and the General Plan on Universal Service. The rules of the auctions for radio frequency spectrum in the 450 Mhz band and 2.5 GHz band and the terms of the related authorizations were submitted for public consultation and the public consultation period ended on 5 March 2012. ANATEL is expected to announce the terms of the auctions for radio frequency spectrum in the 450 Mhz band and 2.5 GHz band soon. Oi intends to evaluate its participation in these auctions following the announcement of the terms of these auctions.

### Personal Mobile Services Rate Regulation

Rates for personal mobile services are regulated by ANATEL. Personal mobile services providers are required to offer a basic service plan that consists of a monthly subscription, local calls and roaming. Basic service plans were approved by ANATEL for each of the personal mobile services providers following the grant of personal mobile services authorizations to each of these providers.

Personal mobile services providers are permitted to offer non-discriminatory alternative plans to the basic service plan. The rates charged under these plans (e.g., monthly subscription rates, charges for local calls and roaming charges) are subject to ANATEL approval prior to the time that these plans are first offered to mobile customers. Following the approval of these plans, the rates under these plans may be increased up to an annual adjustment that is approved by ANATEL and is no more than the rate of inflation, as measured by the IST.

Although subscribers of a plan cannot be forced to migrate to new plans, existing plans may be discontinued as long as all subscribers receive a notice to that effect and are allowed to migrate to new plans within six months of such notice. Discounts from the rates set in basic service plans and alternative service plans may be granted to customers without ANATEL approval.

## Interconnection Regulations

Under the General Telecommunications Law, all telecommunication service providers are required, if technically feasible, to make their networks available for interconnection on a non-discriminatory basis whenever a request is made by another telecommunication service provider. Interconnection permits a call originated on the network of a requesting fixed-line or personal mobile services provider's network to be terminated on the fixed-line or personal mobile services network of the other provider. ANATEL initially adopted General Rules on Interconnection (Regulamento Geral de Interconexão) in 1998, which were amended and restated in July 2005.

## Interconnection Regulations Applicable to Fixed-Line Providers

Interconnection fees are charged at a flat rate per minute of use of a fixed-line provider's network. Interconnection rates charged by a fixed-line provider to terminate a call on its local

network (the "TU-RL rate") or intercity network (the "TU-RIU rate") are subject to a price cap established by ANATEL. The price cap for interconnection rates varies from service provider to service provider based on the underlying cost characteristics of such service provider's network and whether such service provider has significant market power.

Fixed-line service providers must offer the same TU-RL and TU-RIU rates to all requesting providers on a nondiscriminatory basis. The price caps on interconnection rates are adjusted annually by ANATEL at the same time that rates for local and long-distance rates are adjusted. Fixed-line service providers are only required to pay interconnection fees to another fixed-line service provider for traffic in the same local area in the event that the ratio of the outbound traffic generated by that provider (measured in minutes) to the inbound traffic terminated by that provider (measured in minutes) exceeds 55 per cent. or was less than 45 per cent. This system is designated the "bill-and-keep" system.

In 2007, ANATEL announced that, beginning in 2008, the method used to determine the TU-RL rates would be based on a long-run incremental cost ("LRIC") methodology. However, later in 2007, ANATEL published an official letter delaying this change until the end of 2010. In 2010, ANATEL commenced the bidding process to engage an international consultant to assist with the development of the LRIC methodology. However, ANATEL has not established a definitive timetable for the completion of the project. Therefore, Oi cannot predict when this new methodology will be proposed.

In 2006, the TU-RIU rates that fixed-line service providers could charge each other to use a portion of their long-distance networks to complete long-distance calls were reduced to 30 per cent. of the applicable domestic fixed line-to-fixed line long-distance rates for calls of more than 300 km.

Interconnection Regulations Applicable to Personal Mobile Services Providers

Interconnection fees are charged at a flat rate per minute of use of a personal mobile services provider's network. The terms and conditions of interconnection agreements of all personal mobile services providers, including the rates charged by the operator of the network to terminate a call on its mobile network (the "VU-M rate"), commercial conditions and technical issues, are freely negotiated between mobile and fixed-line telecommunication service providers, subject to compliance with regulations established by ANATEL relating to traffic capacity and interconnection infrastructure that must be made available to requesting providers, among other things.

If the providers cannot agree upon the terms and conditions of interconnection agreements, ANATEL may determine terms and conditions by arbitration. Since no agreement with fixed-line service providers could be reached regarding VU-M rates when Oi began offering personal mobile services, ANATEL set the initial VU-M rates. Personal mobile services providers also negotiate annual rate increases for their VU-M charges with the fixed-line telecommunications providers. If the providers cannot agree upon the terms and conditions of annual rate increases, ANATEL may determine the annual rate increases by arbitration. Personal mobile services providers must offer the same VU-M rate to all requesting providers on a nondiscriminatory basis. Interconnection agreements must be approved by ANATEL before they become effective, and they may be rejected if they are contrary to the principles of free competition and the applicable regulations.

In November 2011, ANATEL adopted new regulations under which ANATEL was authorized to reduce the then-current VC-1, VC-2 and VC-3 rates by as much as 18 per cent. in 2011, 12 per cent. in 2012 and 10 per cent. in 2013, after giving effect to an inflation adjustment based on the IST measured from June 2009. In February 2012, ANATEL reduced Oi's VC-1, VC-2 and VC-3 rates by approximately 10 per cent., although Oi is appealing the calculation of this rate reduction. These regulations also provided procedures under which ANATEL adopted a maximum VU-M rate that is applicable in the event that providers cannot agree upon the VU-M applicable in their interconnection agreements.

### "Full Billing" System

In July 2006, ANATEL adopted new regulations under which personal mobile services providers recognize interconnection revenues (and costs) for traffic in the same registration area on a gross

basis based on the total traffic between personal mobile services providers' networks. This system is designated the "full billing" system.

Regulation of Interconnection Rates Charged by Providers with Significant Market Power

In 2005, ANATEL issued regulations defining a series of cost-based methods, including the fully allocated cost methodology, for determining interconnection fees charged by telecommunications service providers belonging to economic groups with significant market power based on their fixed-line or personal mobile services interconnection networks. All incumbent fixed-line service providers and all personal mobile services providers are deemed by ANATEL to belong to economic groups with significant market power in their respective service areas until ANATEL finalizes its evaluation of each provider under published criteria to determine significant market power.

In July 2006, ANATEL issued regulations regarding the fees that may be charged for the use of mobile networks by personal mobile services providers with significant market power in the mobile interconnection market. The date on which these regulations will become effective has not yet been established by ANATEL. Under these regulations, ANATEL will determine, based on a fully allocated cost model, a reference value for VU-M rates of providers that are deemed to hold significant market power, which is determined based on specified factors. This reference value will be reassessed every three years.

ANATEL has proposed a General Plan on Competition Targets, which addresses a variety of matters, including criteria for the evaluation of telecommunications providers to determine which providers have significant market power. The General Plan on Competition Targets was submitted for public consultation in July 2011 and the public consultation period ended on 23 October 2011. Oi expects these new regulations, as they may be modified as a result of ANATEL's further analysis, to be adopted in 2012.

# Regulation of Data Transmission and Internet Services

Under Brazilian regulations, ISPs are deemed to be suppliers of value-added services and not telecommunication service providers. Telecommunication service providers are permitted to render value-added services through their own networks. In addition, ANATEL regulations require all telecommunications service providers and cable television operators to grant network access to any party interested in providing value-added services, including internet access, on a non-discriminatory basis, unless not technically feasible.

ANATEL has adopted regulations applicable to fixed-line service providers with significant market power. Under these regulations, these providers are required to make the forms of agreements that they use for EILD and SLD services publicly available, including the applicable rates, and are only permitted to offer these services under these forms of agreement. Following publication of these forms of agreement, the rates under these agreements may be increased on an annual basis by no more than the rate of inflation, as measured by the IST. ANATEL also publishes reference rates for these services.

### Multimedia Communications Service Quality Management Regulations

In June 2011, the President of Brazil issued Executive Decree No. 7,512/11, which mandated ANATEL to take the necessary regulatory measures to establish quality standards for broadband internet services. In compliance with such decree, on 31 October 2011, ANATEL published a resolution approving the Multimedia Communications Service Quality Management Regulations (Regulamentação de Gestão da Qualidade do Serviço de Comunicação Multimídia, or the "Regulations"), which identify network quality indicators and establish performance goals for multimedia communications service providers, including broadband internet service providers, with more than 50,000 subscribers. Such providers will be required to collect representative data using dedicated equipment installed at the site of each network connection and be subject to periodic measurements to ensure their compliance with the Regulations, including:

- individual upload and download speeds of at least 20 per cent., 30 per cent. and 40 per cent. of contracted speeds per measurement for at least 95 per cent. of all measurements, during the first year, second year and thereafter, respectively, following implementation of the Regulations;
- average upload and download speeds of at least 60 per cent., 70 per cent. and 80 per cent. of contracted speeds for all measurements during the first year, second year and thereafter, respectively, following implementation of the Regulations; and
- individual round-trip latencies for fixed-line connections of up to 80 milliseconds per measurement for at least 95 per cent. of the measurements.

To increase transparency, customers must be provided with specialized software at no cost to measure their own network quality, although such customer-generated measurements will not be included in official calculations. In addition to ensuring network quality standards, service providers must hire specialized companies to measure customer service and customer satisfaction indicators, including complaint resolution, customer service personnel competence, customer perceptions relating to billing and quality of technical support staff. Service providers must comply with the abovementioned quality standards beginning on the thirteenth month following implementation of the Regulations. Failure to meet such standards will subject non-compliant service providers to sanctions.

#### National Broadband Plan

On 30 June 2011, Oi entered into a Term of Commitment (*Termo de Compromisso*) with ANATEL and the Ministry of Communications to formalize its voluntary commitment to adhere to the terms of the National Broadband Plan, created in May 2010 by Executive Decree No. 7,175/10 with the goal to make broadband access available at low cost, regardless of technology, throughout Brazil. Pursuant to the Term of Commitment, Oi is required to offer (1) broadband services with minimum upload and download capabilities to retail customers in certain sectors of Region I and II for a maximum price of R\$35 per month (or R\$29.90 in ICMS-exempt states), plus fees, and (2) access to its broadband infrastructure to certain wholesale customers, including small businesses and municipalities, in certain sectors of Region I and II for a maximum price of R\$1,253 per 2 Mbps per month and a one-time installation fee, while observing all quality standards under ANATEL regulations. Both retail and wholesale services are subject to certain network capacity limits and need only be provided at the demand of the customer. The services provided under the Term of Commitment may be implemented gradually, beginning in November 2011, although Oi is obligated to make services available to 100 per cent. of eligible retail and wholesale customers by 31 December 2014 and 30 June 2013, respectively. The Term of Commitment will expire on 31 December 2016.

# **Corporate Governance**

PT complies with the corporate governance provisions included in the Portuguese Companies Code and in the Portuguese Securities Code. PT has also implemented the recommendations contained in the Corporate Governance Code approved by the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários, the "CMVM") (the "Recommendations"), with the exception of the three following recommendations:

(1) CMVM recommendation on the proportionality between voting rights and shareholding (Recommendation no. I.3.3): Companies shall ensure proportionality between voting rights and shareholding, preferably through a bylaw provision making one vote correspond to each share. Proportionality shall not be complied with, *inter alia*, by companies: (i) having shares that do not grant voting rights; (ii) establishing that voting rights in excess of a given number shall not be counted if issued by a single shareholder or by shareholder related to such shareholder.

According to this recommendation, companies shall ensure proportionality between voting rights and shareholding, preferably through a bylaw provision making one vote correspond to each share.

PT considers that, since the principle according to which each share corresponds to one vote is not universally accepted and can generate inefficiencies in the organization and operation of the General Meeting of Shareholders, it is justifiable to keep the bylaw provision stating that only a minimum number of 500 shares may cast one or more votes (as set out in article 13.5 of PT's Bylaws).

In fact, such principle is not established in other jurisdictions or reference markets, and the European Union has stopped, since the end of 2007, to carry out any efforts regarding its adoption (either by means of a directive or through mere recommendation).

Additionally, a bylaw provision for a minimum number of shares to exercise one vote is intended to make the General Meeting of Shareholders function efficiently, and allow actual participation by shareholders reaching such threshold. This provision is not intended to create a defensive measure or a control enhancing mechanism.

Also in accordance with this recommendation, companies whose bylaws establish that voting rights above a certain number should not be counted, if cast by a single shareholder or by shareholders related to such shareholder, fail to comply with the said proportionality between voting rights and shareholding.

PT does not adopt this latter part of the CMVM Recommendation no. I.3.3 because its Bylaws contain a limitation to the counting of votes, whereby votes cast by a single shareholder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, that exceed 10% of the whole capital shall not be counted (article 13.10).

Essentially, these bylaw limitations represent a measure of expansion of shareholder democracy and contribute to the dissemination of share capital and greater transparency in PT's governance.

It is further stressed that the proportionality between ownership and control of the shares held in listed companies has been widely discussed in the European Union, and several studies were produced and concluded that it is impossible to establish a clear causal connection between deviations from proportionality and the financial performance or corporate governance of a listed company.

(2) CMVM recommendation on defensive measures against takeovers and limitations to the exercise of voting rights (Recommendation no. I.6.1): Measures adopted to prevent the success of takeover bids shall respect the interests of the company and of its shareholders. Corporate bylaws that provide, in observance of this principle, for a limitation to the number of votes that may be held or exercised by a single shareholder, individually or in agreement with other shareholders, shall also establish that, at least every five years, an amendment to or the maintenance of such bylaw provision shall be subject to a resolution at the general shareholder meeting – with no requirements for an aggravated quorum as compared to the legal one – and that upon such resolution all votes cast shall be counted without the operation of such limitation.

In spite of the existence, as a result of PT's privatisation procedure, of class A shares in PT's share capital, it is PT's understanding that its Bylaws do not contain any defensive clauses contrary to the interests of the company and its shareholders, since class A shares no longer grant special rights to the Portuguese State as the holder of such shares by virtue of the bylaw amendments as approved at the General Meeting of Shareholders held on 26 July 2011.

Additionally and as mentioned above, PT's Bylaws stipulate a limitation on the counting of votes, whereby the votes cast by a single shareholder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, that exceed 10% of the total capital, shall not be counted. The Bylaws do not establish that this bylaw provision must be subject, every five years, to evaluation by the General Meeting of Shareholders in order to resolve on its maintenance or not. Therefore, PT does not adopt CMVM Recommendation no. I.6.1.

In truth, this provision, which intrinsically reflects – and historically appeared in several European countries – a measure of expansion of shareholder democracy (by reducing the voting power of major shareholders and correspondingly expanding the voting power of minorities) is also normally understood to possibly interfere with the success of takeover bids. However, notwithstanding the possible effect of reduction in the number of takeovers (as higher levels of shareholder participation are required to obtain control), such measure is also deemed as an incentive to the existence of more attractive conditions within the context of takeover bids, since only higher levels of acceptance by the addressees of such takeover bids allow the attainment of control thresholds.

Furthermore, within the context of the takeover bid to which PT was subject during the 2006 financial year, the abovementioned provision of the Bylaws (see reference to article 13 of the Bylaws above) was particularly visible. In fact, under the terms and conditions of the said takeover bid to acquire the shares representing PTs share capital, which preliminary announcement was published on 6 February 2006 by the companies Sonaecom, SGPS, SA and Sonaecom, BV, the removal of the said voting restriction was a condition to which the takeover bid was subject.

However, at the General Meeting of Shareholders called for 2 March 2007 to vote for the said removal, even though exclusively within the context of the abovementioned takeover bid, the proposal was rejected by a majority of votes cast and without the opposition of the class A shares.

Therefore, the situation remained unchanged, based on the conviction that limitations as provided for under the Bylaws contribute to share capital dissemination and a greater transparency in PT's governance.

In this way, it is PT's understanding that the measures adopted (or which effect may be) to prevent the success of takeover bids respect the interests of the company and of its shareholders, and they correspond to their will, as expressed at the abovementioned General Meeting of Shareholders of 2 March 2007.

(3) CMVM recommendation on the inclusion of officers' remuneration policy in the content of the statement on remuneration policy mentioned in Law no. 28/2009 of 19 June 2009 (Recommendation no. II.1.5.3): The statement on remuneration policy as referred to in article 2 of Law no. 28/2009 shall further cover officers in the meaning of article 248B-3 of the Securities Code whose remuneration contains an important variable component. The statement shall be detailed and the policy presented shall take into account, *inter alia*, the long-term performance of the company, compliance with the rules applicable to the company's business and restraint in risk taking.

This recommendation extends the scope of the statement on the remuneration policy of management and supervisory body members provided for under Law no. 28/2009 of 19 June 2009 so as to include information on the officers' remuneration policy, which, according to CMVM's understanding, implies the submission of this policy to the General Meeting of Shareholders under an item on the agenda specifically related to the said remuneration policy statement.

PT's understanding has been that such information on the remuneration of the company's officers, other than the members of the corporate bodies, should be included in a document prepared by the management body and submitted to the Annual General Meeting of Shareholders, together with the statutory financial statements, under the item on the agenda related to the approval of the annual accounts.

In fact, the company's officers that are not members of the corporate bodies are considered as the company's employees, and the definition of their remuneration policy is within the power of neither the General Meeting of Shareholders nor the Compensation Committee, being rather a matter related to the company's management.

This allocation of powers is not specific to PT's governance model. In fact, the remuneration of officers is, in any governance model, a matter related to human resource management, which is clearly a matter within the powers of the management body.

For all the reasons above, PT considers that the Recommendation in question is not consistent with the legal rules in force, according to which: (i) matters of management are primarily within the powers of the management body; and (ii) only the definition of the remuneration of the corporate bodies is primarily within the powers of the general meeting of shareholders, who may appoint a compensation committee for such purpose, which will then be under the obligation of exercising the so-called "say on pay" enshrined in Law no. 28/2009 of 19 June 2009.

Such understanding does not impair the Board of Directors' duty to report to the company's General Meeting of Shareholders on officer remuneration policy, as it must do in respect of any other matter within its powers, and so, in PT's opinion, the proper venue for complying with such duty is the report and accounts submitted each year to the General Meeting of Shareholders.

# Management

# **Management Structure**

The Board of Directors of PT is responsible for its management and affairs. PT's officers are either in charge of its various business and administrative departments and report directly to the Executive Committee or are in charge of its subsidiaries.

According to PT's articles of association, the Board of Directors may be composed of 15 to 25 directors, including the Chairman.

The directors are elected by a majority of the votes cast at an annual shareholders meeting. A minority of the shareholders representing, in the aggregate, at least 10% of PT's share capital, has the right to elect a director to substitute for the director elected by the fewest number of votes provided that they voted against the winning proposal in the election of the Board of Directors. The term of office of the directors is three calendar years, with the year of election or appointment considered a full calendar year. There is no restriction on the re-election of directors.

A quorum for a meeting of the Board of Directors is a simple majority of directors. All directors have equal voting rights, and all resolutions of the Board of Directors are adopted by a majority of the votes cast. The Chairman has the deciding vote in the event of a tie.

The articles of association provide for an Executive Committee of the Board to which the Board of Directors can delegate the day-to-day management of PT's affairs and the monitoring of PT's daily operations. However, the Board of Directors remains responsible for PT's overall management and operations. The Executive Committee may be composed of five or seven directors selected by a majority of the Board of Directors. The vote of a majority of the members of the Executive Committee is necessary for the taking of an action by the Executive Committee. All members have equal voting rights, and the Chief Executive Officer has the deciding vote in the event of a tie.

The articles of association also provide for an Audit Committee composed of three non-executive members of the Board of Directors. The responsibilities of the Audit Committee are described below under "—Board Practices."

### **Board of Directors and the Executive Committee**

As of April 30, 2012, PT's Board of Directors consisted of 24 directors, and the Executive Committee was composed of seven directors. The names and offices of members of the Board of Directors as of April 30, 2012, their principal past affiliations and certain other information are set forth below.

The following directors are members of the Executive Committee:

Zeinal Abedin Mahomed Bava. First elected 2000. Age 46. Chief Executive Officer of PT since March 28, 2008; Elected for the first time in 2000; Former term of office ended on December 31, 2011 and was reelected in April 2012. Appointed Chief Executive Officer of PT in March 2008; Chairman of the Board of Directors of PT Portugal, SGPS S.A.; Chairman of the Board of Directors of PTC; Chairman of the Board of Directors of TMN-Telecomunicações Móveis Nacionais, S.A.; Chairman of the Board of Directors of Portugal Telecom Inovação, S.A.; Chairman of the Board of Directors of PT Móveis-Serviços de Telecomunicações, SGPS S.A.; Chairman of the Board of

Directors of Portugal Telecom-Investimentos Internacionais, Consultoria Internacional, S.A.; Chairman of the Board of Directors of PT Participações, S.A.; Chairman of the Board of Directors of Portugal Telecom Data Center, S.A.; Chairman of the Board of Directors of Fundação Portugal Telecom; Member of the Board of Directors of Telemar Participações, S.A.; Member of the Board of Directors of Contax Participações, S.A.; Member of the Board of Directors of CTX Participações, S.A.; Member of the Council of Founders of Fundação Casa da Música; Member of the Board of Directors of Fundação Luso Brasileira; Member of the Board of Directors and member of the Council of Founders of of Fundação Portugal África; Member of the General Council of COTEC Portugal-Associação Empresarial para a Inovação; Member of the General Council of Universidade Técnica de Lisboa; Member of the General Council of Fundação Portuguesa das Comunicações; Chairman of the Board of Directors of PT Prime—Soluções Empresariais de Telecomunicações e Sistemas, S.A. from September 2007 to December 2011; Chairman of the Board of Directors of PT Ventures, SGPS S.A. from November 2008 to July 2010; Chairman of the Board of Directors of PT Centro Corporativo, S.A. from March 2006 to April 2009; Chairman of the Board of Directors of PT Sistemas de Informação, S.A. from September 2007 to April 2009; Member of the Board of Directors of Fundação Luso-Brasileira from June 2009 to September 2009; Chairman of the Board of Directors of PT PRO, Serviços Administrativos e de Gestão Partilhados, S.A. from February 2003 to June 2008; Chairman of the Board of Directors of Previsão—Sociedade Gestora de Fundos de Pensões, S.A. from March 2003 to October 2007; Member of the Board of Directors of Brasilcel, NV from December 2002 to October 2007; Chief Executive Officer of PT Multimédia—Serviços de Telecomunicações e Multimédia, SGPS, S.A. from May 2003 to September 2007; Chairman of the Board of Directors of TV Cabo Portugal, S.A. from March 2004 to September 2007; Chairman of the Board of Directors of PT Conteúdos—Actividade de Televisão e de Produção de Conteúdos, S.A. until September 2007; Vice-Chairman of the Board of Directors of PT Multimédia - Serviços de Telecomunicações e Multimédia, SGPS, S.A. from November 2002 to September 2007; Chairman of the Board of Directors of Lusomundo Cinemas, S.A. until September 2007; Chairman of the Board of Directors of Lusomundo Audiovisuais, S.A. until September 2007; Chairman of the Board of Directors of PT Televisão por Cabo, SGPS, S.A. until September 2007; Chief Executive Officer of TMN—Telecomunicações Móveis Nacionais, S.A. from December 2005 to May 2006; Member of the Board of Directors of Portugal Telecom Investimentos Internacionais, S.A. from April 2004 to April 2006; Chairman of the Board of Directors of PT Prestações—Mandatária de Aquisições de Gestão de Bens, S.A. from March 2004 to 2006; Member of the Board of Directors of PT Rede Fixa, SGPS S.A. from March 2006 to June 2009; Member of the Board of Directors of PT Sistemas de Informação, S.A. from May 2004 to April 2006; Member of the Board of Directors of PT Corporate—Soluções Empresariais de Telecomunicações e Sistemas, S.A. from June 2003 to April 2006; Executive Vice-Chairman of the Board of Directors of PTC from January 2004 to December 2005; Member of the Board of Directors of Páginas Amarelas, S.A. from January 2004 to May 2005; Member of the Board of Directors of PT Compras—Serviços de Consultoria e Negociação, S.A. from May 2003 to 2005; Member of the Board of Directors of CRT Celular Participações, S.A. from 2003 to 2005; Member of the Board of Directors of Tele Sudeste Participações, S.A. from 2003 to 2005; Member of the Board of Directors of Tele Leste Participações, S.A. from 2003 to 2005; Member of the Board of Directors of Tele Centro Oeste Celular Participações, S.A. from 2003 to 2005; Member of the Board of Directors of Portugal Telecom Brasil, S.A. from July 2002 to March 2004; Member of the Board of Directors of BEST-Banco Electrónico de Serviço Total, S.A. from May 2001 to October 2004; Member of the Board of Directors of Telesp Celular Participações, S.A. from April 2001 to December 2003; Vice-Chairman of the Board of Directors of PT Ventures, SGPS, S.A. from 2000 to 2002; Merrill Lynch—Executive Director and Relationship Manager for Portugal Telecom, from 1998 to 1999; Deutsche Morgan Grenfell-Executive Director and Relationship Manager for Portugal Telecom from 1996 to 1998; Warburg Dillon Read—Executive Director from 1989 to 1996.

Alfredo José Silva de Oliveira Baptista. First elected April 2011. Age 60. Former term of office ended on December 31, 2011 and was reelected in April 2012. Chairman of the Board of Directors of PT - Sistemas de Informação, S.A.; Executive Member of the Board of Directors of PT Portugal, SGPS, S.A.; Executive Member of the Board of Directors of PTC; Executive Member of the Board of Directors of TMN—Telecomunicações Móveis Nacionais, S.A.; Member of the Board of Directors of Portugal Telecom Data Center, S.A.; Director of PT Prime—Soluções Empresariais de

Telecomunicações e Sistemas, S.A. from 2006 to 2011; Chief Executive Officer of PT Prime, S.A. from 2000 to 2002; Vice-Chairman of PT Prime, S.A. from 1999 to 2000; General Manager of Negócios Empresariais from 1996 to 1999; Director of PT International from 1996 to 1997; Director of PT from 1994 to 1996.

Luis Miguel da Fonseca Pacheco de Melo. First elected 2006. Age 45. Former term of office ended on December 31, 2011 and was reelected in April 2012. Chief Financial Officer and Executive Director of PT since April 2006; Chairman of the Board of Directors of PT Centro Corporativo, S.A.; Chairman of the Board of Directors of PT PRO, Serviços Administrativos e de Gestão Partilhados, S.A.; Chairman of the Board of Directors of Portugal Telecom Imobiliária, S.A.; Chairman of the Board of Directors of PT Prestações—Mandatária de Aquisições de Gestão de Bens, S.A.; Chairman of the Board of Directors of Previsão—Sociedade Gestora de Fundos de Pensões, S.A.; Chairman of the Board of Directors of PT Compras—Serviços de Consultoria e Negociação, S.A; Chairman of the Boards of Directors of Portugal Telecom—Associação de Cuidados de Saúde; Vice-Chairman of the Board of Directors of PT Móveis-Serviços de Telecomunicações, SGPS S.A; Vice-Chairman of the Board of Directors of Portugal Telecom Investimentos Internacionais, Consultoria Internacional, S.A.; Vice-Chairman of the Board of Directors of PT Participações, S.A.; Chairman of the Board of Directors of PT Ventures, SGPS S.A.; Member of the Board of Directors of Portugal Telecom Data Center, S.A.; Alternate Member of the Board of Directors of Tele Norte Leste Participações S.A.; Director of Africatel Holdings B.V.; Member of the Board of Directors of Unitel, SARL; Non-Executive Director of BEST-Banco Electrónico de Serviço Total, S.A. until 2007; Non-Executive Director of PT PRO, Serviços Administrativos e de Gestão Partilhados, S.A. from February 2003 to May 2008; Chairman of the Board of Directors of PT PRO, Serviços Administrativos e de Gestão Partilhados, S.A. from May 2008 to March 2009; Member of the Board of Directors of PT Compras—Serviços de Consultoria e Negociação, S.A., from April 2008 to March 2009; Member of the Board of Directors of Previsão-Sociedade Gestora de Fundos de Pensões, S.A. from May 2006 to October 2007; Chairman of the Board of Directors of Previsão—Sociedade Gestora de Fundos de Pensões, S.A. from October 2007 to May 2009; Chairman of the Board of Directors of PT Contact-Telemarketing e Serviços de Informação, S.A. from July 2008 to March 2009; Chairman of the Board of Directors of PT-ACS-Associação de Cuidados de Saúde from May 2007 to April 2009; Member of the Board of Directors of PT Centro Corporativo, S.A. from November 2006 to April 2009; Member of the Board of Directors of PT Rede Fixa, SGPS, S.A. from November 2007 to June 2009; Member of the Board of Directors of Telemig Celular Participações, S.A. from August 2008 to November 2009; Member of the Board of Telemig Celular, S.A. from August 2008 to July 2010; Member of the Board of Directors of Vivo Participações, S.A. from July 2006 to July 2010; Member of the Board of Directors of UOL, S.A. until January 2011; Executive Director of PT Multimédia—Serviços de Telecomunicações e Multimedia, SGPS, S.A. from June 2002 to April 2006; Director of Cabo TV Madeirense, S.A. from April 2004 to September 2006; Chairman of the Board of Directors of Cabo TV Acoreana, S.A. from December 2004 to October 2007; Director of TV Cabo Portugal, S.A. from 2002 to 2006; Director of Lusomundo Audiovisuais, S.A. from 2002 to 2006; Director of Lusomundo Cinemas, S.A. from 2002 to 2006; Director of Lusomundo—Sociedade de Investimentos Imobiliários, SGPS S.A. from March 2006 to March 2007; Director of Lusomundo Imobiliária 2, S.A.from March 2006 to March 2007; Director of PT Conteúdos S.A. from 2002 to 2006; Director of PT Televisão por Cabo, SGPS S.A. from 2002 to 2006; Director of Sport TV from June 2002 to November 2005; Director of Lusomundo España, SL from February 2003 to April 2006; Central Manager and invited member of the Executive Committee of BES Investimento from 1998 to 2002; Associate and Director of UBS Warburg from 1994 to 1998.

Carlos António Alves Duarte. First elected March 2009. Age 51. Former term of office ended on December 31, 2011 and was reelected in April 2012. Member of the Board of Directors of PT Portugal, SGPS S.A.; Member of the Board of Directors of PTC; Member of the Board of Directors of TMN—Telecomunicações Móveis Nacionais, S.A.; Member of the Board of Directors of Portugal Telecom Data Center, S.A.; Vice-Chairman of the Board of Directors of CaixaNet S.A.; Chairman of the Board of the General Meeting of Inesc; Executive Director of PT Prime—Soluções Empresariais de Telecomunicações e Sistemas, S.A. from 2008 to 2011; Chairman of the Board of Directors of PT Sistemas de Informação, S.A. from May 2006 to April 2011; Director and Chief Executive Officer of PT Corporate—Soluções Empresariais de Telecomunicações e Sistemas, S.A. from July 2003 to March

2008; Executive Director of PT Prime—Soluções Empresariais de Telecomunicações e Sistemas, S.A. from May 2003 to February 2009; Director of BEST—Banco Electrónico de Serviço Total, S.A. from January 2006 to October 2007; Chief Executive Officer of Oni Telecom from June 2000 to March 2003; Chief Executive Officer of Oni Açores from June 2000 to March 2003; Executive Chairman of EDS Ibéria and General Manager of EDS Portugal from November 1996 to May 2000; Among other duties, he was General Manager of IBM from December 1986 to October 1996; Chairman of the Board of Directors of Rigorsoft from 1995 to November 1996; Executive Director of Compensa, S.A. from 1995 to November 1996.

Pedro Humberto Monteiro Durão Leitão. First elected April 2011. Age 41. Former term of office ended on December 31, 2011 and was reelected in April 2012. Executive Member of the Board of Directors of PTC; Executive Member of the Board of Directors of PT Portugal, S.A. from 2007 until the present; Member of the Board of Directors of TMN—Telecomunicações Móveis Nacionais, S.A.; Member of the Board of Directors of PT Sales, S.A.; Member of the Board of Directors of Tele Norte Leste Participações, S.A.; Member of the Board of Directors of PT Prime—Soluções Empresariais de Telecomunicações e Sistemas, S.A. from September 2007 to December 2011; Director of PT Multimédia, SGPS S.A. from 2004 to 2007; Director of TV Cabo Portugal, S.A. from 2004 to 2007; Director of PT Conteúdos, SGPS S.A. from 2004 to 2007; Director of PTM.com, SGPS S.A. from 2002 to 2004; Managing Director of Telepac, S.A. from 2002 to 2004; Managing Director of Saber e Lazer, S.A. from 2002 to 2004.

Manuel Rosa da Silva. First elected March 2009. Age 44. Former term of office ended on December 31, 2011 and was reelected in April 2012. Member of the Executive Committee of PT; Member of the Board of Directors of PT Portugal, SGPS S.A.;Member of Board of Directors of PTC; Member of the Board of Directors of TMN—Telecomunicações Móveis Nacionais, S.A.; Member of the Board of Directors of PT Prime—Soluções Empresariais de Telecomunicações e Sistemas, S.A. from April 2007 to December 2011; Director of PT Prime Tradecom—Soluções Empresariais de Comércio Electrónico, S.A. from July 2009 to January 2011; Director of PT Multimédia—Serviços de Telecomunicação e Multimédia, SGPS S.A. from April 2006 to October 2007; Director of PTC from 2004 to 2006; Group Director of Corporate Finance at PT from 2002 to 2003; Group Director of Investor Relations of PT from 2002 to 2003; CFO of PTM.com, Serviços de Acesso à Internet, SGPS S.A. from 2000 to 2002; Vice-Chairman of Merill Lynch London; Director of mergers and acquisitions at Morgan Grenfell London; Investment Banking Associate at SG Warburg London; Consultant at KPMG Consulting London, where he worked with the European Telecommunications team in several projects in Europe, United States of America, Eastern Europe and Latin America.

Shakhaf Wine. First elected March 2009. Age 42. Former term of office ended on December 31, 2011 and was reelected in April 2012. Member of the Executive Committee of PT; Chairman and Chief Executive Officer of Portugal Telecom Brasil S.A.; Chairman of the Board of Directors of PT Multimédia.com Brasil Ltda.; Member of the Board of Directors of Tele Norte Leste Participações, S.A.; Member of the Board of Directors of Contax Participações, S.A.; Vice-Chairman of the Board of Brasilcel N.V., until September 2010; Chairman of the Control Committee of Brasilcel N.V., until September 2010; Vice-Chairman of the Board of Directors of Vivo Participações S.A., until September 2010; Member of the Board of Directors of Universo Online S.A. up to January 2011; Chairman of the Board of Directors of Mobitel, S.A. up to June 2011; Member of the Board of Directors of PT Investimentos Internacionais—Consultoria Internacional, S.A. from May 2006 to March 2009; Member of the Board of Directors of PT Participações, SGPS S.A. from March 2008 to March 2009; Member of the Board of Directors of PT Móveis—Serviços de Telecomunicações, SGPS S.A. from May 2006 to March 2009; Member of the Board of Directors of PT Ventures, SGPS S.A. from May 2006 to March 2009; Member of the Board of Directors of Tele Centro Oeste Celular Participações, S.A. from March 2004 to October 2006; Member of the Board of Directors of Tele Sudeste Celular Participações, S.A. from March 2004 to February 2006; Member of the Board of Directors of Tele Leste Participações S.A. from July 2005 to February 2006; Member of the Board of Directors of Celular CRT Participações S.A. from March 2004 to February 2006; Member of the Board of Directors of Bancol.net S.A. from April 2003 to July 2004; Member of the Board of Directors of PT Multimédia.com Participações Ltda. from April 2005 to November 2007; Manager of Investment Banking and responsible for the European corporate clients in the global telecommunications group of Merrill Lynch International between 1998 and 2003; Senior Associate Director in the department of Latin America and Telecommunications Groups of Deutsche Morgan Grenfell between 1993 and 1998; Interbank exchange trader and dealer of the Banco Central do Brasil at Banco Icatu between 1991 and 1993.

The following directors are not members of the Executive Committee:

Henrique Manuel Fusco Granadeiro. First elected 2003. Age 68. Former term of office ended on December 31, 2011 and was reelected in April 2012. Chairman of the Board of Directors of PT since April 2006; Chief Executive Officer of PT from April 2006 to March 2008; Chairman of General Council of Fundação Portugal Telecom; Chairman of General Council of Universidade de Lisboa; Member of the Strategic Council of Banco Finantia; Member of the Board of Trustees of Fundação Luso-Brasileira; Member of the Advisory Council of Banco ING; Member of the General Council of COTEC Portugal-Associação Empresarial para a Inovação until October 2009; Non-executive Director of Fundação Eugénio de Almeida; Member of the Council of Founders of Fundação Casa da Música until February 2009; Member of the Board of Directors of Fundação Portugal África until November 2009; Vice Chairman of the Board of Directors of ELO-Associação Portuguesa para o Desenvolvimento Económico e a Cooperação until November 2009; Chairman of the Board of Directors of Africatel Holdings B.V. from 2007 to 2008; Chairman of the Board of Directors of PT Rede Fixa, SGPS S.A. from 2006 to 2009; Chairman of the Board of Directors of PT Centro Corporativo, S.A. from 2006 to 2008; Chairman of the Board of Directors of PT Portugal, SGPS S.A. from 2006 to 2007; Chairman of the Board of Directors of Fundação Portugal Telecom from 2006 to 2008; Non-executive Member of the Board of Directors of OPCA—Obras Públicas e Cimento Armado, S.A. from 2005 to 2007; Member of the Board of Directors of Espírito Santo Resources from 2005 to 2007; Chairman of the Board of Directors of PT Multimédia-Serviços de Telecomunicações e Multimédia, SGPS S.A. from 2006 to 2007; Executive Member of the Board of Directors of PT Multimédia—Serviços de Telecomunicações e Multimédia, SGPS S.A. from 2002 to 2006; Non-executive Member of the Board of Directors of PT Multimédia-Serviços de Telecomunicações e Multimédia, SGPS S.A. in 2001; Chief Executive Officer of Lusomundo Media, SGPS, S.A. from 2002 to 2004; Chief Executive Officer of Diário de Notícias from 2002 to 2004; Chief Executive Officer of Jornal do Fundão from 2002 to 2004; Chief Executive Officer of Jornal de Noticias from 2002 to 2004; Chief Executive Officer of TSF from 2002 to 2004; Chief Executive Officer of Açoreano Oriental from 2002 to 2004; Chief Executive Officer of DN da Madeira from 2002 to 2004; Chairman of the Board of Directors of Aleluia-Cerâmica Comércio e Indústria S.A. from 2000 to 2004; Member of the Board of Directors of Aleluia-Cerâmica Comércio e Indústria S.A. from 2004 to 2007; Member of the Board of Directors of Parfil, SGPS S.A. from 2001 to 2004; Chairman of the Board of Directors of Margrimar-Mármores e Granitos, S.A. from 1999 to 2005; Chairman of the Board of Directors of Marmetal-Mármores e Materiais de Construção, S.A. from 1999 to 2005; Member of the Board of Directors of Controljornal, SGPS S.A. from 1990 to 2001; Member of the Board of Directors of Sojornal-Sociedade Jornalistica e Editorial S.A from 1990 to 2001; Member of the Board of Directors of Marcepor-Mármores e Cerâmicas de Portugal, S.A. in 1990; President of Fundação Eugénio de Almeida from 1989 to 1992; President of IFADAP-Instituto Financeiro de Apoio ao Desenvolvimento da Agricultura e Pescas from 1987 to 1990; Managing Director of Fundação Eugénio de Almeida from 1981 to 1987; Member of the Board of Directors of M.N. Tiago, Construções S.A. during 1981; Member of the Board of Directors of Standard Eléctrica during 1981; Portuguese Ambassador to the O.E.C.D. from 1979 to 1981; Head of the Civil House of the President of the Republic of Portugal from 1976 to 1979.

Otávio Marques de Azevedo. First elected April 2011. Age 60. Former term of office ended on December 31, 2011 and was reelected in April 2012. Chairman of Andrade Gutierrez Telecomunicações Ltda. and Executive Chairman of Andrade Gutierrez S.A., the controlling holding company of the Andrade Gutierrez Group; Chairman of the Board of Directors of Telemar Participações S.A., the controlling holding company of Oi; ; Chairman of the Board of Directors of CTX Participações S.A., the parent of Contax Participações S.A.; Member of the Strategic Council of the Federação das Indústrias do Estado de Minas Gerais (FIEMG); Member of the Board of the Associação Comercial do Rio de Janeiro (ACRJ); Member of the Superior Council of Infrastructure

of the Federação das Indústrias do Estado de São Paulo (FIESP); formerly the first Chairman of the Board of Directors of Telemar, Chairman of Telemig and Executive Vice Chairman of Telebrás.

José Guilherme Xavier de Basto. First elected 2007. Age 73. Former term of office ended on December 31, 2011 and was reelected in April 2012. Member of the Board of Directors and of the Audit Committee of PT; Member of the Center of Studies at the Chamber of Chartered Accountants; Member of the Financial Matters Committee of Millennium BCP, S.A. since April 2009; Tax Consultant; Retired lecturer at the Faculty of Economics of Coimbra University.

João Manuel de Mello Franco. First elected 1997. Age 65. Former term of office ended on December 31, 2011 and was reelected in April 2012. Member of the Board of Directors and Chairman of the Audit Committee of PT; Member of the Corporate Governance Committee since 2005, and Chairman of that same Committee between 2006 and 2009; Member of the Evaluation Committee since 2008 and Member of the Remuneration Committee between 2003 and 2008; Since 2008, Non-Executive Director of EDP Renováveis, S.A., of which he is Chairman of the Audit Committee since that same year and Member of the Related Parties Transactions Committee since that same year; Chairman of the Supervisory Board of Sporting Clube de Portugal and of Sporting SAD since 2011; Vice-Chairman of the Board of Directors of José de Mello Imobiliária from 2001 to 2004; Chairman of the Board of Directors of Soponata—Sociedade Portuguesa de Navios Tanques, S.A. from 1997 to 2001; Chief Executive Officer and Vice-Chairman of the Board of Directors of Companhia Portuguesa Rádio Marconi from 1994 to 1995; Chairman of the Board of Directors of TMN—Telecomunicações Móveis Nacionais, S.A. from 1991 to 1994; Chairman of the Board of Directors of TLP—Telefones de Lisboa e Porto, S.A. from 1989 to 1994.

Joaquim Anibal Brito Freixial de Goes. First elected 2000. Age 45. Former term of office ended on December 31, 2011 and was reelected in April 2012. Member of the Board of Directors of PT; Director of Banco Espírito Santo, S.A.; Director of E.S. Ventures, SCR, S.A.; Director of BES - Companhia de Seguros, S.A.; Director of Glintt, Global Intelligent Technologies, SGPS S.A.; Member of the Board of Directors of PT Multimédia - Serviços de Telecomunicações e Multimédia, SGPS, S.A. from August 2002 to September 2007; Director of ESDATA, Espírito Santo Data, SGPS S.A. from 2002 to September 2007; Director of Companhia de Seguros Tranquilidade-Vida, S.A. from 2002 to 2006; Chairman of the Board of Directors of E.S. Interaction, Sistemas de Informação Interactivos, S.A. from 2000 to 2006; Member of the Board of Directors of BEST—Banco Electrónico de Serviço Total, S.A. from May 2001 to July 2007; Manager of the Strategic Marketing Department of Banco Espírito Santo, S.A. from 1995 to 1999; Manager of the Strategic Planning and Studies Department of CIMPOR—Cimentos de Portugal, S.A. from 1994 to 1995; Senior Consultant at Roland Berger & Partner, Munich, from 1991 to 1993; Consultant at Roland Berger & Partner, Portugal, from 1989 to 1991.

Mário João de Matos Gomes. First elected March 2009. Age 64. Former term of office ended on December 31, 2011 and was reelected in April 2012. Member of the Board of Directors and Audit Committee of PT; Chairman of the Supervisory Board of Previsão—Sociedade Gestora de Fundos de Pensões, S.A.; Founding Partner and Director of the Portuguese Statutory Auditing Firm Ascenção, Gomes, Cruz & Associado-SROC; Vice-Chairman of the Registrations Board (Comissão de Inscrição) of the Portuguese Statutory Auditing Institute (OROC); from 1985 to 2001, Adjunctive Professor at ISEG-Technical University of Lisbon; from 1971 to 1983, staff member of Arthur Andersen & Co., with managing responsibilities in the audit and tax departments in Lisbon; from 1983 to 1987, management consultant to the Board of an industrial company for issues relating to the improvement of management reporting and control systems. Mr. Gomes was also a member of the Professional Training Working Party (Comissão de Estágio) and of the Education Working Party (Comissão de Formação Profissional), as well as Chairman of the Insurance Working Party (Comissão Técnica das Entidades Seguradoras) of the OROC, with a relevant role in the preparation of the Portuguese Audit Statement (DRA) 830.

Pedro Jereissati. First elected April 2011. Age 33. Former term of office ended on December 31, 2011 and was reelected in April 2012. Chief Executive Officer of Telemar Participações S.A., the controlling shareholder of Oi; Executive Vice President of the Jereissati Group; Member of the Board of Directors of the Jereissati Group, Tele Norte Leste Participações S.A., Contax Participações S.A.

and Iguatemi Empresa de Shopping Centers S.A. ("Iguatemi"); Chief Financial Officer of Iguatemi from 2005 to 2008; nominated as a Member of the Brazilian Council for Economic and Social Development by Brazilian President Luis Inácio Lula da Silva in 2003.

Gerald Stephen McGowan. First elected 2003. Age 65. Former term of office ended on December 31, 2011 and was reelected in April 2012. Member of the Board of Directors of PT; Member of the Board of Directors of Virgina Center for Innovative Technology from 2004 to 2007; United States Ambassador to Portugal from 1998 to 2001; Member of the Board of Directors of "Overseas Private Investment Corporation" (OPIC) from 1996 to 1997; Member of the Board of Directors of Virginia Port Authority from 2002 to 2003; Member of the Board of Directors of Cellular Telecommunications Industry Association from 1992 to 1994.

Rafael Luís Mora Funes. First elected 2007. Age 46. Former term of office ended on December 31, 2011 and was reelected in April 2012. Member of the Board of Directors of PT; Vice Chairman of the Board of Directors / COO of Ongoing Strategy Investments, SGPS S.A.; Vice Chairman of the Board of Directors of Grupo Económica, SGPS S.A.; Member of the Supervisory Board of INDEG—ISCTE Business School; Managing Partner of Heidrick & Struggles Portugal; Member of the Sustainability and Governance Committee of Millennium BCP Group until 2007.

Maria Helena Nazaré. First elected 2009. Age 62. Former term of office ended on December 31, 2011 and was reelected in April 2012. Member of the Board of Directors of PT; Principal of the University of Aveiro (Portugal) since 2002 to 2010; President of the Advisory Council of Fundação Galp Energia; President of Sociedade Portuguesa de Física; Vice-Chairman of European University Association (EUA) since March 2009; Chairman of the Steering Committee of the Institutional Evaluation Programme at the European University of Association until 2009; Chairman of the Internationalization Working Group of the EUA; Member of the Insitutional Evaluation Group of the EUA since 2004; Member of the Research Working Group of the EUA, since 2004; Chair of the Committee of the Portuguese Rector's Conference for Research and Knowledge- transfer; Member of the European Commission Expert Group for the European Research Area; Chairman of the João Jacinto de Magalhães Foundation; Member of the Executive Council of Fundação das Universidades Portuguesas (Portuguese Universities Foundation); Member of the Steering Committee of the Institutional Evaluation (EUA) since 2005; Dean of the Health School of the University of Aveiro from 2000 to 2002; Member of the Board of the Aveiro Maritime Harbour (1999-2000); President of Columbus Association: Network of European and Latin-American Universities; Head of the research Lab in "Física de Semicondutores em Camadas, Optoelectróncia e Sistemas Desordenados" (1996-1999); Vice Rector of the University of Aveiro (1991-1998); Head of the Research Institute of the University of Aveiro (1995-1998); Chair of the Executive Council of the Joao Jacinto de Magalhães Foundation (1993-1998); Member of the Steering Committee of the International Conference of Defects in Semiconductors (1997); Vice President of the Scientific Council of the University of Aveiro (1990-1991); Head of the Departament of Physics of the University of Aveiro (1978-1980; 1986-1988).

Amílear Carlos Ferreira de Morais Pires. First elected 2006. Age 50. Former term of office ended on December 31, 2011 and was reelected in April 2012. Member of the Board of Directors of PT; Member of the Board of Directors of Banco Espírito Santo, S.A.; Member of the Board of Directors of BES-Vida, Companhia de Seguros, S.A.; Member of the Board of Directors of Banco Espírito Santo de Investimento, S.A.; Chairman of the Board of Directors of Bank Espírito Santo (International) Limited; Chairman of the Board of Directors of BIC-International Bank, Ltd (BIBL); Member of the Board of Directors of ESAF—Espírito Santo Activos Financeiros, SGPS, S.A.; Member of the Board of Directors of Espírito Santo PLC (Dublin); Member of the Board of Directors of Banco Espírito Santo Oriente, S.A.; Member of the Board of BES Finance Limited; Member of the Board of Directors of ES Tech Ventures, Sociedade de Participações Sociais, S.A.; Member of the Board of Directors of Espirito Santo-Empresa de Prestação de Serviços, ACE; Chairman of the Board of Directors of AVISTAR, SGPS, S.A.; Member of the Board of Directors of BES Africa SGPS, S.A. Non Executive Director of Execution Noble Limited; Non Executive Director of Execution Nobel & Company Limited; Non Executive Director of Execution Noble Research Limited; Engaged to Banco Espírito Santo, Finance Department, in 1986; Appointed Sub-Manager and Head of the Financial Markets and Securities Department in 1989; Member of the Board of Directors of Soginpar, Sociedade de Gestão de Fundos de Investimento Mobiliário, S.A.

from July 1991 to February 1992; Assistant Manager of the Financial Markets and Securities Department and Member of the Board of Directors of ESER, Soc<sup>a</sup> until 1995; Coordinating Manager of the Finance, Markets and Studies Departments and person responsible for the management of the treasury department of BES; Adviser of the Board of Directors of Banco Espírito Santo, S.A., in July 2000; General Manager of Banco Espírito Santo, S.A. in March 2003; Director of Banco Espírito Santo, S.A. since March 2004.

Francisco Teixeira Pereira Soares. First elected 2006. Age 62. Former term of office ended on December 31, 2011 and was reelected in April 2012. Member of the Board of Directors of PT; Chairman of the Environment Committee of CEEP—European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interes—("Centro Europeu de Empresas com Participação Pública e de Interesse Económico Geral, Brussels"); Consultant of Parpública, S.A. Member of the Board of Directors of Gadsa—Arquivo e Depósito, S.A. from October 2006 to October 2008; Economic Consultant at the Civil House of the President of the Republic of Portugal, from 2001 to 2006; Chairman of Member of the Board of Director and Chief Executive Officer of I.P.E.—Tecnologias de Informação, SGPS S.A.from 2000 to 2001; Executive Member of the Board of Director of I.P.E.—Investimentos e Participações Empresariais, S.A. from 1996 to 2000; Chairman of the Board of Directors of I.P.E. Capital, Socierdade de Capital de Risco, S.A. from 1996 to 2000; Director of Ambelis—Agência para a Modernização Económica de Lisboa, S.A. from 1994 to 1996.

Paulo José Lopes Varela. First elected March 2009. Age 43. Former term of office ended on December 31, 2011 and was reelected in April 2012. Member of the Board of Directors of PT; Chief Executive Officer of Visabeira Global, SGPS, S.A. since 2007; Chairman of the Board of Directors of Visabeira Global, SGPS S.A.; Chairman of the Board of Directors of Vista Alegre Atlantis, S.A.; Started his Professional career at Grupo Visabeira, in 1992, lived many years in Mozambique and Angola; Chairman of the Board of Directors of Visabeira Moçambique and Visabeira Angola. His responsibility was the institutional representation, the general coordination in all the Visabeira's affiliates, within the country, as well as to represent the associated Grupo Visabeira in the administrative boards of its affiliates and also planning and strategical definition of the group businesses, including its integrated financial management; Since November 2009 he was appointed Chairman of the Board of Directors of Vista Alegre Atlantis, S.A.

Milton Almicar Silva Vargas. First elected March 2009. Age 55. Former term of office ended on December 31, 2011 and was reelected in April 2012. Member of the Board of Directors of PT; Member of the Board of Directors of Cielo S.A. since July 2009; Effective Member of the Board of Directors of CPM Braxis S.A. since July 2009; Effective Member of the Board of Directors of Fleury S.A., since July 2009; Member of the Board of Directors of Monteiro Aranha S.A., since December 2009. In Banco Bradesco, S.A.: Department Director from December 1997 to March 2000, Managing Director from March 2000 to March 2002 and Executive Vice-President from March 2002 to June 2009.

Nuno Rocha dos Santos de Almeida e Vasconcellos. First elected 2006. Age 47. Former term of office ended on December 31, 2011 and was reelected in April 2012. Member of the Board of Directors of PT; Chairman of the Board of Directors of Rocha dos Santos Holding, SGPS S.A.; Chairman of the Board of Directors of Ongoing Strategy Investments, SGPS S.A.; Chairman of the Board of Directors of Ongoing TMT; Chairman of the Board of Directors of Ongoing Telecom; ; Chairman of the Board of Directors of Ongoing Media; Chairman of the Board of Directors of Económica SGPS; Chairman of the Board of Directors of Rocksun, S.A.; Chairman of the Board of Directors of Insight Strategic Investments, SGPS S.A.; Non-Executive Member of the Board of Directors of Heidrick & Struggles; Member of the General Council of ISCTE; Director of the Automóvel Clube de Portugal. From 1995 to 2006, Managing Partner in Portugal for consulting field of Heidrick & Struggles; Member of the Remuneration Committee of a banking entity until 2007; Director of Andersen Consulting (currently Accenture) from 1987 to 1995.

João Nuno de Oliveira Jorge Palma. First elected 2012. Age 46. Member of the Board of Directors of Portugal Telecom, SGPS S.A.; Member of the Board of Directors of Caixa Geral de Depósitos, S.A., and Executive Director, since January 2012; Chairman of Sogrupo SCS – Compras e Serviços Partilhados, ACE, since March 2012; Chairman of Sogrupo GI – Gestão de Imóveis, since March 2012; Member of the Board of Directors of Banco Comercial e de Investimentos, S.A. –

Moçambique, since February 2012; Investor Relations of Caixa Geral de Depósitos, SA, since January 2012; Executive Board Director - CFO, of REN - Redes Energéticas Nacionais, SGPS (REN - Rede Eléctrica Nacional, S.A., REN - Gasodutos, S.A., REN Atlântico Terminal GNL, S.A., REN - Armazenagem, S.A., EOONDAS, Energia das Ondas, S.A., REN Trading), since March 2010 to December 2011; Executive Board Director - CFO, of Banco Caixa Geral, Spain, CGD Group, since February 2008 to March 2010; Advisor to the Board of Directors of Caixa Geral de Depósitos, S.A., since December 2007 to February 2008; Executive Board Director - CFO, of SSI -SOGRUPO SISTEMAS DE INFORMAÇÃO and CAIXANET, S.A., CGD Group, since June 2004 to December 2005; Executive Board Director - CFO, of HCB - HIDROELÉCTRICA DE CAHORA BASSA, since August 2003 to November 2007; Vice Chairman of the Board of Directors of PARAREDE, SGPS, since April 2002 to August 2003, and Member of the Board of Directors, since April 2000 to April 2002; Director Controller Coordinator, responsible for the Budget and Control Department, of Banco Pinto & Sotto Mayor, Banco Totta & Açores, Crédito Predial Português and Banco Chemical Finance (Mundial-Confiança Group), since April 1998 to February 2000; Director Controller, responsible for the Budget and Control Department, of Banco Pinto & Sotto Mayor (Mundial-Confiança Group), since November 1997 to April 1998; Deputy Director, responsible for the Planning and Analysis Department of Banco Pinto & Sotto Mayor (Mundial-Confiança Group), since February 1996 to November 1997; Regional Director of SCA - SANCHEZ COMPUTER ASSOCIATES, since September 1995 to February 1996; Senior Executive of SCA - SANCHEZ COMPUTER ASSOCIATES, since Novembro 1994 to September 1995; Deputy Controller, of Planning / Control and Marketing Department, since January 1993 to November 1994, and Deputy Director, since January 1992 to December 1992, of HIASI - HISPANO AMERICANO SOCIEDADE DE INVESTIMENTO, BHI - BANCO HISPANO DE INVESTIMENTO, BCHP -BANCO CENTRAL HISPANO PORTUGAL - BCH Group, BCHP BANCO CENTRAL HISPANO PORTUGAL - BCP Group; Financial Analyst, member of the Research Team of BCI VALORES - Sociedade Financeira de Corretagem, since September 1991 to March 1991. Research Assistent, collaborator of Centro de Estudos e Gestão Empresarial (CEGE) of Universidade Nova de Lisboa, Faculdade de Economia - Departamento de Gestão (MBA), since December 1988 to March 1991.

José Pedro Cabral dos Santos. First elected 2012. Age 52. Member of the Board of Directors of Portugal Telecom, SGPS S.A.; Central Director of Corporate Banking of Caixa Geral de Depósitos, S.A., since March 2002; Non Executive Member of the Board of Caixa Banco de Investimentos, S.A., since March 2008; Non Executive Member of the Board of Lusofactor, Sociedade de Factoring, S.A., since March 2003 to May 2005; Director of Corporate Banking, responsible for the Northern and Central regions of Portugal of Caixa Geral de Depósitos, since January 1998 to February 2002; Central Director of Banco Borges & Irmão, Banco de Fomento e Exterior and Banco BPI, since June 1994 to December 1997; Senior Executive of Finindústria – Sociedade de Investimentos e de Financiamento Industrial, Director of Finibanco and Non Executive Member of the Board of FINICRÉDITO SFAC, since March 1989 to May 1994; Intern Analyst having graduated to Senior Executive of União de Bancos Portugueses, since May 1984 to February 1989; Assistant Lecturer at Faculdade de Economia da Universidade do Porto, since October 1983 to September 1988.

### **Executive Officers**

In addition to its Executive Committee, PT has certain other officers who are in charge of its various businesses and administrative departments and report directly to the Executive Committee or who are in charge of PT's subsidiaries. The names, offices, relevant past affiliations and certain other information for PT's key executive officers are set forth below:

Guy Patrick Guimarães de Goyri Pacheco. Head of the Planning and Control Department of PT. Appointed 2011; Age 34; Member of the Board of Directors of PT PRO, S.A. since 2011; Head of the Continuous Improvement and Transformation of PT's Domestic Operations from 2009 to 2011; Head of the Business Processes and Continuous Improvement of PTC from 2007 to 2009; Head of the Business Processes and Continuous Improvement of PT Multimedia from 2006 to 2007; Manager of the Commercial Planning and Control Department of PT Multimedia from 2005 to 2006; Internal Consultant at the Business Development Department of PTC from 2004 to 2005; Internal Consultant at the Corporate Finance Department of PT from 2003 to 2004; Advisor to the Chief Financial

Officer of PT Multimedia from 2002 to 2003; Analyst at the Planning and Control Department of PT Multimedia from 2001 to 2002; Analyst at Arthur Andersen in 2000.

Luís Manuel da Costa de Sousa de Macedo. General Secretary and Company Secretary of PT since 2002. Age 63. Member of the Board of Directors of PT Centro Corporativo, S.A. since 2006; Member of the Board of Directors of Fundação Portugal Telecom since 2003; Member of the Board of Directors of Fundação Luso Brasileira since 2011; Member of the Board of Directors of Portugal Telecom Investimentos Internacionais Consultoria Internacional, S.A. from 2004 to 2006; Member of the Board of Directors of PT Ventures, SGPS, S.A. (ex-Portugal Telecom International, SGPS, S.A.) from 2000 to 2006; Member of the Board of Directors of CST-Companhia Santomense de Telecomunicações, SARL from 1999 to 2009; Manager of Image and Communication Department of Portugal Telecom group from 1999 to 2003; Member of the Board of Directors of Banco Espírito Santo do Oriente from 1996 to 2005; Member of the Board of Directors of AMSCO-African Management Services Company from 1996 to 2006; Member of Management and Executive Board of Portuguese—Angolan Chamber of Commerce and Industry from 1996 to 2005, and since then, Chairman of the General Meeting; Chairman of the Board of Directors of ELO (Associação Portuguesa para o Desenvolvimento Económico e a Cooperação) from 1996 to 2004; Assistant Senior Manager of the Board of Directors of Marconi and responsible for the Company's Communication Office from 1995 to 1999; Secretary of State of Portuguese Communities from 1992 to 1995; Chief of Staff of Minister of the "Quality of Life" from 1981 to 1982; Management Consultant, Manager of Human Resources from 1982 to 1988, General Secretary and Manager of Central International Corporate Department of Marconi from 1988 to 1992; Legal Advisor of CIP-Confederation of Portuguese Industry and several other companies and employers associations from 1974 to 1982.

Bruno Miguel Saraiva Pinheiro dos Santos da Costa Saldanha. Age 36. Member of the Board of Directors of PT PRO, S.A. since 2011; Member of the Board of Directors of Previsão since 2011; Member of the Board of Directors of PT Centro Corporativo since 2009; Member of the Board of Directors of PT Finance BV since 2009; Chief Accounting Officer of PT and Manager of Financial Reporting and Consolidation since 2009; Member of the Board of Directors of Janela Digital since 2008; Member of the Board of Directors of PT Prestações since 2011 and between 2006 and 2008; Deputy Manager for the Financial Reporting and Consolidation Team from 2002 to 2009; Audit and Risk Management of Arthur Andersen from 1998 to 2002.

José Carlos Alfaia Mimoso. Manager of the Corporate Taxation of PT. Appointed 2008. Age 59. Chief Accounting Officer and Manager of the Financial Reporting of TMN—Telecomunicações Móveis Nacionais, S.A. from 2006 to 2008 and from 1994 to 2001; Chief Accounting Officer and Manager of the Financial Reporting of PT Multimedia from 2002 to 2006; Board Member of TV Cabo Portugal from 2001 to 2002; Manager of the Financial Reporting, Audit Department and Planning and Control in Associated Companies of Centralcer—Central de Cervejas from 1984 to 1990 and from 1992 to 1994.

Nuno Maria Macedo Alves Mimoso. Secretary-General Deputy and Company Secretary Suplent of PT. Appointed 2002. Age 53. Company Secretary and Secretary of General Shareholders' Meetings of PT Centro Corporativo, S.A. reelected in April 2009; Secretary of General Meeting of PT Centro Corporativo, S.A. reelected in April 2009; Company Secretary and of PT Compras—Serviços de Consultoria e Negociação, S.A. reelected in March 2009; President of Ethics Committee, since January 10, 2007; Company Secretary of PT Imobiliária, S.A. reelected in March 2009 to January 2011; Secretary of General Meeting of Previsão—Sociedade Gestora de Fundos de Pensões, S.A. reelected in May 2009; Chairman of General Meeting of PT Ventures, S.A. since April 2007; Chairman of General Meeting of PT Móveis, S.A. reelected in April 2009; Secretary of General Meeting of APOR reelected in April 2009; Chairman of General Meeting of PT Prestações, S.A. reelected in May 2009.

Carlos Manuel Mendes Fidalgo Moreira da Cruz. Manager of the Financial Department of PT. Appointed 2001. Age 45. Managing Director of PTIF since 2002; Executive Board Member of Portugal Telecom Investimentos Internacionais—Consultoria Internacional since 2006; Member of the Board of Directors of MTC—Mobile Telecommunications Limited since 2007; Member of the Board of Directors of CTM—Companhia de Telecomunicações de Macau since 2007; Member of the

Management Board of Africatel Holding, BV since 2008; Member of the Board of Directors of Previsão-Sociedade Gestora de Fundo de Pensões, SA since 2007.

Nuno Bernardo Ramires Leiria Fialho Prego. Chief of Staff to the CEO and Manager of the Human Resources Department of PT. Appointed 2008. Executive Board Member of PT Investimentos Internacionais since April 2011. Age 39. Manager of the Investor Relations Department of Portugal Telecom from 2004 to 2008. Head of Equity Research and Telecoms Analyst at BCP Investimento from 2001 to 2004; Portfolio Manager at BPI Fundos from 1999 to 2000; Deputy Director of the Research Department at Banco Finantia from 1996 to 1999.

Nuno Manuel Teiga Luis Vieira. Manager of the Investor Relations Department of PT. Appointed 2008. Age 40. Telecoms, Media and Technology Analyst at Millennium Investment Banking from 2000 to 2008; Account and Marketing Manager at Ericsson Telecomunicacoes from 1997 to 1999; Pre-marketing and Head of Customer Support of International Telecom Services at Comnexo, Redes de Comunicacao from 1995 to 1997.

Fernando Flores. Head of the Regulatory Department of PT Portugal, SGPS, S.A. Appointed 2011. Age 61. Head of the Technical Area of the Regulatory Department from 1996 to 2011. Expert of the European Organisation for Testing and Certification from 1993 to 1996. Expert of the European Commission - DG Information Society (ex- DGXIII) and DG Enterprise and Industry (ex-DGIII) from 1990 to 1993. Manager of areas related to network planning and traffic engineering of General Directorate of Telecommunications at the Portuguese PTT and Telecom Portugal. National Expert of ITU/UNDP in network planning and traffic engineering during 1988-1989. Monitor and Assistant of Mathematics at the Instituto Superior Técnico from 1971 to 1977.

Rita de Sampaio Nunes. Manager of the Competition Department of PT. Appointed 2004. Age 48. Board Member of TPT—Telecomunicações Públicas de Timor, S.A., since May 2008; Chief Legal Officer of Portugal Telecom Investimentos Internacionais-Consultoria Internacional since April 2008; Head of European Community Affairs of ANACOM from 2003 to 2004; Member of the Regulatory Department of PT from 2000 to 2003; Member of the Regulatory Department of PT from 1998 to 1999; Seconded National Expert in the European Commission-DG Enterprise and DG Information Society from 1995 to 1998; Internal Legal Adviser of the Board of Directors of CN-Comunicações Nacionais, SGPS, S.A. from 1993 to 1995.

Ana João de Castro Dias Vieira Figueiredo. Manager of the Internal Audit and Risk Management Department of PT. Appointed 2008. Age 37. Senior Manager of the Internal Audit Department of PT from 2004 to 2007; Manager of Business Risk Services Practice of Ernst & Young from 2001 to 2003.

Abilio Cesário Lopes Martins. Manager of the Corporate Communications Department of PT Appointed 2002. Age 40. Board Member of PTC, TMN—Telecomunicações Móveis Nacionais, S.A. and PT Prime-Soluções Empresariais de Telecomunicações e Sistemas, S.A. since 2007. Board Member of Portugal Telecom Brasil, S.A. since 2000. Board Member of PT.COM—Comunicações Interactivas, S.A. from 2006 to 2008. Chairman of the Board of Directors of PT Contact, Telemarketing and Services of Information, S.A. since 2009; Manager of Integrated Communication of PTC from 2004 to 2008; Media Relations Advisor for Portugal Telecom's Chief Executive Officer from 2000 to 2002; Communication and Media Relations Consultant from 1998 to 2000.

In addition, the names, principal past affiliations and certain other information for the Chief Executive Officers of PT's major subsidiaries, PTC, TMN, PT Compras, PT Inovação S.A., PT Sistemas de Informação S.A. and PT PRO, S.A. are set forth below:

Alcino José Rito Lavrador. Chief Executive Officer of PT Inovação, S.A. Appointed 2008. Age 50. Software engineer at CET from 1985 to 1988; Member of the SS7/ISDN Protocols National Specification Experts Group from 1989 to 1992; Chief of Signalling department at CET, implementing signaling protocols for digital switches and Intelligent Networks, from 1992 to 1997; Chief of Intelligent Networks Services Development department at CET from 1998 to 2001; Director for Systems Integration at PT Inovação from 2002 to 2003; Executive Director at PT Inovação Brazil in São Paulo, Brazil, from 2003 to 2006; Member of PT Inovação's Executive Board from July 2006 to February 2008.

Miguel Nuno Piedade Moreira. Chief Executive Officer of PT Sistemas de Informação, S.A. Appointed 2009. Age 51. Executive Director of PT PRO S.A. from 2003 to 2009. Team Leader for Shared Services Initiative at PT from 2002 to 2003; Senior Manager at PricewaterhouseCoopers Lisbon from 2000 to 2002; Senior Manager at PricewaterhouseCoopers Madrid from 1997 to 2000; Manager at Coopers & Lybrand Lisbon from 1992 to 1997; Consultant at Andersen Consulting Lisbon from 1988 to 1992; Industrial Engineer at General Motors from 1983 to 1988.

Gonçalo Pinto Coelho. Chief Executive Officer of PT PRO, S.A. Appointed 2009. Chief Executive Officer of PT Imobiliária, S.A. Appointed 2011. Age 41. Chief Financial Officer of PT PRO, S.A. from 2004 to 2009; Chief Financial Officer of PT Contact, S.A. from 2008 to 2009; Board Member of PT Imobiliária, S.A. from 2006 to 2009; Executive Board Member of Pro Share S.A. from 2007 to 2008; Chief Financial Officer of PT Compras, S.A. from 2003 to 2004; Senior Manager at Deloitte Lisbon from 2002 to 2003; Manager and Senior Manager at Arthur Andersen Lisbon from 1999 to 2002; Manager at Arthur Andersen Chicago, U.S. from 1998 to 1999; Auditor at Arthur Andersen Lisbon from 1994 to 1998. Degree in Business Management (Instituto Superior de Economia e Gestão—Universidade Técnica de Lisboa).

The business address of each member of the Board of Directors, the Executive Committee and Executive Officers of PT is Avenida Fontes Pereira de Melo, 40, 1069-300, Lisbon.

There are no potential conflicts of interests between the duties to PT of the members of the Board of Directors, the Executive Committee and the Executive Officers and their private interest or duties.

### **Compensation**

Board of Directors, Including Executive Committee

During the years ended December 31, 2011 and 2010, fixed remuneration of board members (including members of PT's Executive Committee) amounted to  $\epsilon$ 5.32 million and  $\epsilon$ 6.68 million, respectively.

Under the terms of the remuneration policy established by the Remunerations Committee, executive board members are entitled to receive: (i) annual variable remuneration ("AVR") related to the performance achieved in the year and payable in the following year, except for the amount in excess of 50% of the total variable remuneration attributed in the year, which payment is deferred for a period of 3 years; and (ii) variable remuneration related to medium-term performance ("VRMT"), which payment is deferred for a period of three years. In 2011, the annual variable remuneration of 2010 paid to the five executive board members amounted to €2.34 million, and in 2010, the annual variable remuneration of 2009 paid to the seven executive board members amounted to €3.52 million. In 2011 and 2010, there were no payments related to VRMT, and, under the terms of the approved remuneration policy of executive board members, the deferred payment of AVR and VRMT amounted to €4.28 million as of December 31, 2011, which is conditioned upon the positive performance of PT under the terms of the remuneration policy in place. On an annual basis, PT recognises an accrual for variable remunerations.

Following the recommendation of some shareholders at the 2011 annual general meeting and based on a proposal of the Evaluation Committee, the Remuneration Committee approved extraordinary variable remuneration payable to the Chairman and five Executive Committee members for their performance relating to the Vivo transaction and the acquisition of the strategic investment in Oi and Contax. Under the terms of the remuneration policy of board members, the Chairman and five Executive Committee members were paid 50% of the above mentioned extraordinary variable remuneration amounting to €2.55 million in 2011, and the payment of the remaining 50% was deferred for a period of three years, which is conditioned upon the positive performance of PT under the terms of the remuneration policy in effect. Following the Vivo transaction and based on the Board of Directors' recommendation, in December 2010, the Executive Committee approved the payment to the majority of PT's employees of extraordinary variable remuneration totalling €14 million.

In addition, in connection with the strategic partnership entered into with Oi and Contax, six of the members of PT's Board of Directors perform executive duties in these companies (entities jointly controlled by PT), and these board members received total fixed remuneration of €1.21 million in 2011, which was established by the applicable corporate bodies in accordance with local legislation.

Since the approval of Law No. 28/2009 of June 19, 2009, PT is required to report the remuneration earned by individual members of the Board of Directors, including members of the Executive Committee. The tables below set forth the fixed and variable remuneration received by these individuals for the period from January 1, 2011 through May 6, 2011 and from the period from May 6, 2011 (the date of the Annual Meeting of Shareholders for 2011) through December 31, 2011.

	Amounts Paid in 2011		11
	Fixed	Variable FY 2011	Total
	(FIID)		
Chairman of the Board of Directors	(EUR)		
Henrique Granadeiro	617.8		617.8
Executive Committee	017.0		017.0
Zeinal Bava	695.0	660.9	1,355.9
Luis Pacheco de Melo	486.5	420.6	907.1
Alfredo Baptista <sup>(a)</sup>	358.3	420.0	358.3
Carlos Alves Duarte	486.5	420.6	907.1
Pedro Leitão <sup>(a)</sup>	358.3	420.0	358.3
Manuel Rosa da Silva	486.5	420.6	907.1
Shakhaf Wine <sup>(b)</sup>	486.5	420.6	907.1
Shakhai Wille			
	3,357.8	2,343.2	5,701.0
Non-Executive Board Members  Audit Committee			
João de Mello Franco	271.4	_	271.4
José Xavier de Basto	126.6	_	126.6
Mário João de Matos Gomes	183.7		183.7
	581.7		581.7
Other Non-Executive Board Members			
Otávio Marques de Azevedo <sup>(c)</sup>	32.4	_	32.4
Francisco Bandeira <sup>(d)</sup>	_	_	_
Joaquim Goes	85.3	_	85.3
Pedro Jereissati <sup>(c)</sup>	32.4	_	32.4
Gerald S. McGowan	44.1	_	44.1
Rafael Mora Funes	85.3	_	85.3
Maria Helena Nazaré	44.1	_	44.1
Amilcar de Morais Pires	44.1	_	44.1
Francisco Soares	132.2	_	132.2
Paulo Varela	85.3	_	85.3
Milton Vargas	44.1	_	44.1
Nuno de Almeida e Vasconcellos	132.2	_	132.2
Jorge Humberto Correia Tomé <sup>(d) (e)</sup>	_	_	_
	1,379.2		1,379.2
Total	5,318.7	2,343.2	7,661.9

- (a) Executive directors Alfredo Baptista and Pedro Leitão were appointed on April 6, 2011.
- (b) Reflects the Euro equivalent of remuneration paid through PT Brasil, one of PT's subsidiaries in Brazil, in local currency.
- (c) Directors Otávio Marques de Azevedo and Pedro Jereissati were appointed as directors on April 6, 2011.
- (d) Non-executive directors that renounced their remuneration due to incompatibility with other professional duties.
- (e) Non-executive director José Humberto Correia Tomé resigned his position as a member of the Board of Directors of Portugal Telecom on February 29, 2012.

The annual variable paid in 2011 set forth above refers to the performance of the executive directors during the financial year ended on December 31, 2010. Members of PT's board who are non-executive directors were paid a monthly fixed amount taking into account the overall remuneration policy, as well as the committee such director serves.

The remuneration of executive directors takes into account the short and medium term performance of PT, as well as such performance when compared to other companies of a similar dimension and business. The remuneration of Executive Directors is composed of a fixed portion and a variable portion as described below.

Components of Executive Committee Remuneration

### Fixed Remuneration

The value of the fixed remuneration of executive Directors was determined on the basis of a benchmark study. In this study, companies integrating the PSI20, IBEX35, CAC40, DJ Eurostoxx 50 were considered, as well as European telecommunications companies comparable to PT SGPS. In addition, the determination of the fixed component of the remuneration of executive Directors for the current term of office has taken into account the acceptance of the Chief Executive Officer's initiative to reduce his own fixed remuneration by 10%, as compared to the one established for the previous term of office. Such reductions are applicable to all the members of the Executive Committee.

### Variable Remuneration

The variable remuneration of Executive Directors, which depends on the pursuing of the determined goals, is composed of: (i) an annual variable remuneration ("AVR") that, in the event of a 100% pre-determined goal achievement, may amount to 90% of the fixed remuneration, and (ii) a variable remuneration associated to the medium-term performance (VRMT) that, in the event of a 100% pre-determined goal achievement, may reach 70% of the fixed remuneration.

The determination of the AVR to be granted as a result of the performance in the 2009, 2010 and 2011 financial years is determined on the basis of a percentage of the annual fixed remuneration, calculated through the weighted average of the level of achievement of any of the following indicators (with each one of such indicators being considered achieved only if at least 85% of the goals established for such indicator are reached), and if the company maintains the investment grade qualification at the end of each year (except if the loss of such qualification is a consequence of a strategic decision of the Board of Directors):

Total shareholder return ("TSR") ratio of PT as compared with the sector DJ Stoxx Telecom Europe (1st quartile), where the TSR is understood as the sum of the share price variation and the value of the dividend per share;

Dividend per share delta to be adjusted if the Board of Directors amends the dividends policy;

Earning per share ("EPS") growth delta as compared to the budget;

Revenues growth delta vis-à-vis a group of comparable companies, including KPN, Swisscom, TeliaSonera, Belgacom, Telenor, Telecom Austria and OTE;

EBITDA growth delta vis-à-vis the same group of comparable companies; and

EBITDA growth delta minus CAPEX as compared to the budget.

In each year of the current term of office, the AVR should correspond to an amount of up to 50% of the total variable remuneration allocated for the relevant financial year, and it is determined and paid in cash by the Company following the annual General Shareholder Meeting of approval of the accounts for the financial year to which such remuneration relates.

After determining the AVR in accordance with this methodology, the Remuneration Committee may increase or reduce the variable remuneration of the Chief Executive Officer and of the other executive Directors, upon a proposal, respectively, of the Evaluation Committee of the Board of Directors and of the Chief Executive Officer. In any case and depending on the level of achievement of the pre-established goals, the AVR will not exceed the fixed remuneration in more than 110%, and should it exceed 50% of the total variable remuneration allocated in the year in question, the payment of the amount allocated in excess will be deferred for a period of 3 years.

The payment of the AVR amounts thus deferred will be made under the conditions provided for the payment of the variable remuneration associated to the medium-term performance (MTVR) deferred amounts as established below.

MTVR is allocated on an annual basis (following the annual General Shareholder Meeting of approval of the accounts for the financial year to which such remuneration relates) as a function of the weighed average of the level of achievement of the following quantitative and qualitative indicators:

Evolution of total shareholder return ("TSR") compared with the sector DJ Stoxx Telecom Europe (1 st quartile);

Dividend per share delta to be adjusted if the Board of Directors amends the dividends policy;

Earning per share ("EPS") growth delta as compared to the goal established in the Strategic Plan;

EBITDA growth delta compared with the values prescribed in the Strategic Plan;

Evolution of PT's Sustainability Index according to the DJSI methodology; and

Fulfillment of national and international strategic goals.

The MTVR allocated each year further depends on the pursuing of the goals determined for the various indicators, with each indicator reaching at least 85% of the goals determined for such indicator.

After the determination of the MTVR in accordance with this methodology, the Remuneration Committee may increase or reduce the variable remuneration of the Chief Executive Officer and of the other executive directors, upon proposal of the Evaluation Committee of the Board of Directors and of the Chief Executive Officer, respectively. In any case and depending on the level of achievement of the pre-established goals, the MTVR will not exceed the fixed remuneration in more than 88%.

The payment of the AVR amounts in excess of 50% of the total variable remuneration allocated in the relevant year and of the MTVR amounts allocated will be deferred for a period of 3 years, and it is further subject to the condition of the Company's positive performance during the deferment period not being proven to be affected as a direct result of the conduct of the Director concerned.

In the event the office of the executive Director is terminated, for any reason whatsoever, the payment of the AVR or MTVR amounts granted and deferred will be made at the time of termination of the management relationship.

In addition to the remuneration described above, Executive Committee members and key employees are also entitled to fringe benefits that are primarily utilised in their daily functions, pursuant to an internal policy for the Portugal Telecom Group. As of December 31, 2011, there were no members of PT's Board of Directors entitled to post-retirement benefits under the plans of PTC.

The Chairman of PT's Board of Directors and certain members of PT's Executive Committee are parties to contracts that entitle them to receive the equivalent of between one and two years' salary (and, in some cases, variable remuneration) if they are not reelected to those offices, the most recent of which was signed in April 2006. In return, those parties agree not to compete with the Company for a specified period following the time they cease to hold office with the Company. In addition, if the Company terminates any such person without cause, the person has the right to receive the salary (and, in some cases, variable remuneration) that he would have received if he had completed his three-year term.

### Remuneration Committee

PT has a Remuneration Committee consisting of three members whose functions include: (1) to establish the remuneration for members of PT's corporate bodies and (2) to follow up and evaluate the performance of PT's directors with reference to PT's business goals. As of December 31, 2011, the members of the Remuneration Committee are Álvaro João Duarte Pinto Correia (Chairman of the Remuneration Committee), Francisco Adelino Gusmão Esteves de Carvalho and Francisco José Queiroz de Barros Lacerda. The Remuneration Committee approves the model to be used to calculate variable remuneration for each fiscal year and approves the value of the variable remuneration to be paid to the Chairman of the Board of Directors and the members of the Board of Directors who are executive officers.

The Remuneration Committee determines the remuneration of the members of the Executive Committee based on objective criteria approved by the Remuneration Committee and on the evaluation of the performance of executive directors carried out by the Evaluation Committee within the framework of its specific powers, upon hearing the Chief Executive Officer.

The executive directors are evaluated within the scope of the performance evaluation of the Board of Directors itself. Furthermore, pursuant to Portuguese law, the Annual Meeting of Shareholders makes an annual general appraisal of the management (and supervision) of PT.

The criteria established by the Remuneration Committee for evaluation of the performance of executive directors as a function of the goals defined by the Evaluation Committee are described in greater detail in the Corporate Governance Report for 2011 that we are required to prepare under Portuguese law and that will be publicly available on PT's website at <a href="https://www.telecom.pt">www.telecom.pt</a>. Copies of the Corporate Governance Report are also available without charge upon request to PT's Investor Relations office.

The relative significance of the variable and fixed components of director remuneration, as well as an indication of the maximum limits for each component, are described in the remuneration policy set forth in PT's Corporate Governance Report.

Executive management member remuneration components take into account PT's performance, in the short and medium-term, as well as the benchmarking of performance compared to other companies of a similar size and business.

# Key Employees

In addition to PT's directors, PT has certain key employees that include (1) the officers described above which are in charge of PT various businesses and administrative departments and report directly to the Executive Committee, (2) the Chief Executive Officers of PT's major subsidiaries described above, and (3) other directors of PT's major subsidiaries which are not described above. In 2011, fixed remuneration of key employees of the Portugal Telecom group management amounted to  $\xi$ 5.6 million, and variable remuneration amounted to  $\xi$ 3.6 million, compared to fixed remuneration of  $\xi$ 6.9 million and variable remuneration of  $\xi$ 3.4 million in 2010.

The fixed and variable remuneration of the Portugal Telecom Group officers is determined for each Group operating company by a remuneration committee of two officers of PT and a human resources manager.

Four of PT's key employees also participate in the PTC pension plan. For these key employees, amounts were accrued in respect of post-retirement benefits. The total amount accrued to provide benefits under the plan for these key employees as of December 31, 2011 was €0.5 million.

As of December 31, 2011, there was no share-based payment program.

### **Board Practices**

PT is required by its articles of association and Portuguese law to maintain an Audit Committee consisting of three non-executive board members. In addition to the authority established in Portuguese laws, the Audit Committee has specific authority granted by PT's articles of association, notably to:

- approve and disclose an annual report on their supervisory activity, expressly mentioning any constraints faced;
- approve an annual action plan contemplating, among others, the measures required for compliance with its duties in the following year;
- inform and discuss with the Board of Directors and the Executive Committee, within their respective powers and duties, any situations identified in the exercise of their powers and duties;
- discuss and issue its prior opinion within the scale of its powers and whenever it deems it
  necessary to the Executive Committee and the external auditors on any reports,
  documentation or information to be disclosed or to be filed with the competent authorities;
- adopt procedures to ensure compliance with the legal and regulatory provisions that are applicable to PT;
- evaluate the accuracy and supervise the quality and integrity of PT's financial statements and generally supervise the quality and integrity of the financial information contained in its financial statements:
- analyze and give its opinion on accounting and auditing matters, as well as the impact on PT's financial statements of changes to accounting rules applicable to PT and its policies;
- establish and monitor the procedures relating to the preparation and auditing of PT's financial statements by the statutory auditor and the external auditors, as well as supervise and review internal procedures on accounting and auditing practices;
- propose the appointment of the Statutory Auditor to the General Meeting of Shareholders;
- supervise the independence of the Statutory Auditor, particularly with respect to the rendering of additional services;
- order the appointment, hiring, confirmation or termination of duties and determine the remuneration of PT's external auditors, in addition to being exclusively responsible for their supervision and evaluation of their qualifications and independence, and approve the audit and/or other services to be rendered by such external auditors or by persons associated to them. The external auditors must report and be subject to the direct and exclusive supervision of the audit committee, which each year shall obtain from and review with the external auditors an external audit report;
- settle any differences between the Executive Committee and PT's external auditors with respect to financial information to be included in the financial statements to be reported to competent authorities, or with respect to the audit report process;
- evaluate the quality, integrity and efficiency of PT's risk management system, internal control system and internal audit system, including an annual review of their adequacy and efficiency, and generally supervise PT's internal audit and internal control systems;
- receive reports of irregularities, claims and complaints submitted by shareholders, employees or others, and implement procedures designed to receive, register and process them when related to accounting and auditing matters, and create internal control procedures on such matters;
- verify whether the company's governance report disclosed each year includes all legally required data, as well as to express its agreement or disagreement as to the annual management report and accounts for the financial year; and
- inform, discuss and analyse with the Board of Directors and the Executive Committee and advise, whenever it deems necessary, on situations resulting from the exercise of its powers.

As of December 31, 2011, João Manuel de Mello Franco, José Guilherme Xavier de Basto and Mário João de Matos Gomes were the members of PT's Audit Committee responsible for the oversight of its management.

The Statutory Auditor, who, pursuant to Decree-Law 76-A/2006 dated 29 March 2006, is not a member of the Audit Committee, is responsible for examining PT's accounts. As of December 31, 2011, P. Matos Silva, Garcia Jr., P. Caiado & Associados SROC, Lda., represented by Pedro João Reis de Matos Silva, was PT's effective Statutory Auditor. As permitted by law, no Alternate Statutory Auditor was appointed at PT's last general shareholders' meeting.

The members of PT's Audit Committee and the Statutory Auditor (and it's representative) were re-elected at the Annual General Meeting of Shareholders held on 27 April 2012, for the 2012-2014 term of office.

The Audit Committee schedules its meetings at least once every two months of each financial year at the time and place determined by its Chairman, and additional meetings may be convened by the Chairman or at request of the majority of its members. The Audit Committee may not meet without the attendance of the majority of its members, provided that the Chairman may, in cases of recognised urgency or justified impossibility, permit a meeting without the attendance of a majority if a majority is assured by vote by correspondence or by proxy (provided, however, that each member does not act on behalf of more than one Audit Committee member). The resolutions of the Audit Committee are adopted by the majority of votes cast and its Chairman has a deciding vote.

In its annual budget, PT provides the financial resources required for the Audit Committee to pay the remuneration of the independent auditor and of any advisors of the Audit Committee and to cover the expenses required for the Audit Committee to perform its powers and duties.

## FINANCIAL STATEMENTS OF PORTUGAL TELECOM, SGPS, S.A.

The following financial information has been derived from PT's audited consolidated financial statements as of 31 December 2011 prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS") and from the unaudited consolidated financial statements of PT as of 31 March 2012, which are prepared in accordance with IFRS.

The information set forth below is qualified by reference to, and should be read in conjunction with PT's consolidated financial statements and the notes thereto.

As mentioned in PT's unaudited consolidated financial statements of 31 March 2012, the statement of financial position as of 31 December 2011 was restated in order to reflect changes made to the preliminary purchase price allocation of the investments in Oi and Contax initially recorded in 2011.

Given the sale on 27 September 2010 of PT's interest in Vivo to Telefónica, the selected consolidated statement of income for Vivo is presented under the caption "Discontinued Operations" for all periods through the completion of the sale, and the selected consolidated statement of financial position as of 31 December 2010 and thereafter no longer include the assets and liabilities related to Vivo, following the completion of the sale on 27 September 2010.

Following the completion of the acquisition of the investments in Oi and Contax on 28 March 2011, PT proportionally consolidated the earnings and cash flows from these business as from 1 April 2011, and PT's consolidated statements of financial position as of 31 December 2011 and 31 March 2012 include the proportional consolidation of the assets and liabilities of those businesses.

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2010, 31 DECEMBER 2011 AND 31 MARCH 2012

(Amounts stated in thousands of Euros - EUR)

	Year Ended 3.	1 December	Three Months Ended 31 March
	2010 EUR	2011 EUR	2012 EUR
		(restated)	
Current assets	8,855,403.3	8,433,036.0	6,832,612.4
Non-current assets	6,314,528.8	14,743,355.4	14,643,789.1
Investments in group companies	361,517.6	533,444.4	542,313.7
Other investments	17,680.6	22,884.6	22,892.0
Intangible assets, net	1,111,692.6	5,629,798.9	5,543,564.7
Fixed assets, net	3,874,613.4	6,228,622.6	6,181,514.3
Post retirement benefits	1,928.0	13,620.9	14,029.4
Deferred taxes	653,075.2	1,247,784.0	1,258,139.8
Judicial deposits	0.0	854,761.9	892,563.7
Other non-current assets	294,021.4	212,438.0	188,771.5
Total Assets	15,169,932.2	23,176,391.4	21,476,401.4
Current liabilities	2,683,679.2	6,841,525.7	5,109,487.0
Non-current liabilities	7,877,107.9	12,592,693.0	12,836,533.0
Medium and long-term debt	6,254,380.3	8,989,400.3	9,314,743.4
Taxes payable	3,805.3	314,374.8	323,256.6
Provisions	40,947.2	628,849.1	614,967.2
Post retirement benefits	968,792.6	1,004,065.6	983,664.6
Deferred taxes	311,597.3	1,052,457.2	1,031,454.0
Other non-current liabilities	297,585.1	603,545.9	568,447.1
Total liabilities	10,560,787.0	19,434,218.7	17,946,020.0
Net assets	4,609,145.1	3,742,172.8	3,530,381.4
Shareholders' equity before non-controlling interest	4,392,448.6	2,828,069.8	2,905,397.6
Non-controlling interests	216,696.6	914,103.0	624,983.8
Shareholders' equity	4,609,145.1	3,742,172.8	3,530,381.4
Total liabilities and shareholders' equity	15,169,932.2	23,176,391.4	21,476,401.4

# CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2010 AND 31 DECEMBER 2011 AND FOR THE THREE MONTHS ENDED 31 MARCH 2011 AND 31 MARCH 2012 (Amounts stated in thousands of Euros – EUR)

	Year Ended 31 December,		Three Months Ended 31 March	
	2010 EUR	2011 EUR	2011 EUR	2012 EUR
REVENUES		·		
Services rendered	3,516,024.0	5,859,286.9	836,773.5	1,634,433.0
Sales	165,615.9	141,455.4	23,824.1	34,657.0
Other revenues	60,614.0	146,102.4	10,520.5	46,595.2
	3,742,253.8	6,146,844.7	871,118.1	1,715,685.3
COSTS, EXPENSES, LOSSES AND				
INCOME				
Wages and salaries	637,115.6	1,020,475.5	156,770.8	293,252.4
Direct costs	547,559.1	1,012,274.5	124,858.8	295,736.4
Costs of products sold	179,893.9	169,875.1	23,418.7	37,310.8
Marketing and publicity Supplies, external services and other	81,096.9	131,118.8	16,634.4	28,613.6
expenses	724,519.7	1,281,382.7	174,921.2	383,280.6
Provisions and adjustments	34,951.9	156,264.1	5,311.3	42,505.4
Indirect taxes	45,418.2	187,460.8	11,766.5	63,284.3
Depreciation and amortisation	758,567.8	1,325,584.6	196,360.0	346,728.3
Post retirement benefits costs	38,209.8	58,527.0	12,046.0	14,785.0
Curtailment and settlement costs	145,513.3	36,429.9	4,403.2	852.0
Gains on disposals of fixed assets, net	(5,542.8)	(9,191.0)	(86.2)	865.9
Other costs, net	141,194.0	32,632.6	2,814.6	9,396.9
	3,328,497.4	5,402,834.6	729,219.4	1,516,611.6
Income before financial results and taxes	413,756.4	744,010.1	141,898.7	199,073.7
Net interest expense	185,044.9	297,114.7	(17,317.5)	107,622.3
Net foreign currency exchange losses  Net gains on financial assets and other	6,814.2	18,146.0	15,704.6	3,435.4
investments	(1,860.3)	(577.7)	972.9	4,218.9
net	(141,709.1)	(209,183.9)	(80,180.6)	(46,244.3)
Net other financial expenses	33,300.5	107,402.5	25,229.5	27,584.5
	81,590.3	212,901.6	(55,591.0)	96,616.7
Income before taxes	332,166.1	531,108.6	197,489.7	102,457.0
Minus: Income taxes	77,525.8	108,196.8	47,968.1	21,578.0
Net income from continuing operations DISCONTINUED OPERATIONS	254,640.3	422,911.7	149,521.6	80,878.9
Net income from discontinued operations  NET INCOME	5,565,426.5 <b>5,820,066.8</b>	422,911.7	149,521.6	80,878.9
Attributable to non-controlling interests	147,871.8	83,782.5	19,792.6	24,414.7
Attributable to equity holders of the parent	5,672,195.0	339,129.2	129,729.0	56,464.3

# CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2010 AND 31 DECEMBER 2011 AND FOR THE THREE MONTHS ENDED 31 MARCH 2011 AND 31 MARCH 2012 (Amounts stated in thousands of Euros – EUR)

	Year Ended 31 December,		Three Months Ended 31 March	
	2010 EUR	2011 EUR	2011 EUR	2012 EUR
OPERATING ACTIVITIES			·	
Collections from clients	4,217,884.2	6,872,212.3	1,052,978.2	1,980,050.5
Payment to suppliers	(2,142,344.8)	(3,071,030.5)	(375,715.3)	(1,010,883.9)
Payments to Employees	(657,641.8)	(1,052,530.7)	(147,757.5)	(292,394.0)
Payments relating to income taxes	(63,765.5)	(164,560.3)	(41,804.8)	(29,486.6)
Payments relating to post retirement benefits, net	(235,179.1) (215,112.8)	(198,224.0) (610,714.2)	(36,114.9) (78,116.9)	(62,326.0) (250,697.8)
1 ayments relating to muncer taxes and other	(213,112.8)	(010,714.2)	(78,110.5)	(230,037.8)
Cash flows from operating activities from continuing operations	903,840.3 603,033.4	1,775,152.5	373,468.8	334,262.3
Cash flows from operating activities	1,506,873.6	1,775,152.5	373,468.8	334,262.3
INVESTING ACTIVITIES				
Cash receipts resulting from:				
Short-term financial applications	6,602.9	97,492.6	325,018.8	667.6
Financial investments	4,443.4	170,819.8	155,586.9	23.4
Tangible and intangible assets	34,181.6	10,761.4	309.5	529.9
Interest and related income	85,588.7	339,561.9	136,690.8	70,487.0
Dividends Other investing activities	54,102.7 510.0	147,209.1 40,530.4	96,752.1 1,443.0	24,503.3 965.3
Other investing activities	310.0	40,330.4	1,445.0	903.3
	185,429.3	806,375.4	715,801.2	97,176.5
Payments resulting from:				
Short-term financial applications	(326,770.8)	(301,661.5)	(420,035.2)	(5,048.8)
Financial investments	(3,654.4)	(2,265,668.0)	(2,223,762.7)	(53.1)
Tangible and intangible assets	(1,154,806.2)	(1,217,277.8)	(175,178.8)	(478,599.9)
Other investing activities	(1,413.7) (1,486,645.2)	(30,996.5) (3,815,603.8)	(14,586.4) (2,833,563.2)	(34.2) (483,736.0)
	(1,400,043.2)	(3,013,003.0)	(2,033,303.2)	(403,730.0)
Cash flows from investing activities related to continuing operations	(1,301,215.9) 5,373,608.5	(3,009,228.4) 2,000,000.0	(2,117,762.0)	(386,559.5)
Cash flows from investing activities	4,072,392.6	(1,009,228.4)	(2,117,762.0)	(386,559.5)
FINANCING ACTIVITIES				
Cash receipts resulting from:				
Loans obtained	21,541,252.6	7,333,257.8	1,351,481.3	1,177,949.2
Subsidiaries	1,774.0	1,062.1	9.0	551.2
Other financing activities	245.5	897.3	117.0	45.2
	21,543,272.2	7,335,217.3	1,351,607.3	1,178,545.6
Payments resulting from:				
Loans repaid	(21,341,949.8)	(5,878,028.3)	(374,961.4)	(2,306,897.2)
Interest and related expenses	(312,643.9)	(647,706.5)	(144,955.4)	(191,828.3)
Dividends	(1,451,951.9)	(1,206,055.5)	(1,104.3)	(192,586.1)
Acquisition of treasury shares  Other financing activities	(7,904.0)	(86,819.8) (56,906.2)	(16.4)	(31,576.0)
Other intaneing activities	(7,704.0)	(50,700.2)	(10.4)	(31,370.0)
	(23,114,449.6)	(7,875,516.3)	(521,037.5)	(2,722,887.6)
Cash flows from financing activities related to continuing operations	(1,571,177.4) (357,879.1)	(540,299.0)	830,569.8	(1,544,342.1)
Cash flows from financing activities <sup>(3)</sup>	(1,929,056.5)	(540,299.0)	830,569.8	(1,544,342.1)
Cash and cash equivalents at the beginning of the period	1,449,516.5	4,764,732.7	4,764,732.7	4,930,012.4
Change in cash and cash equivalents $(4)=(1)+(2)+(3)$	3,650,209.8	225,625.1	(913,723.4)	(1,596,639.2)
Effect of exchange differences	47,474.6 (382,468.2)	(60,345.4)	(7,470.2)	(16,754.2)
·		4 020 012 4	2 942 520 2	2.216.610.0
Cash and cash equivalents at the end of the period	4,764,732.7	4,930,012.4	3,843,539.2	3,316,619.0

## PORTUGAL TELECOM INTERNATIONAL FINANCE B.V.

Portugal Telecom International Finance B.V. ("PTIF") is a direct wholly-owned subsidiary of PT. PTIF was incorporated on 26 November 1998 under the laws of The Netherlands as a private company with limited liability (besloten vennootschap met beperkte aansprakelijkheid) having its corporate seat in Amsterdam, The Netherlands and is registered with the Amsterdam Commercial Register under No. 34108060. PTIF has its registered office at Herikerbergweg 238, 1101 CM Amsterdam Zuidoost, The Netherlands (Telephone: + 31205 755600). PTIF's principal activity is to act as a finance company for the Portugal Telecom group. PTIF has no subsidiaries.

### Management

The Directors of PTIF, all of which are Managing Directors, at the date of this Offering Circular are:

Name	Business Address	Outside Activities
Carlos Manuel Mendes Fidalgo Moreira da Cruz	Av. Fontes Pereira de Melo, 40 Lisbon, Portugal	Executive Board Member of Portugal Telecom Investimentos Internacionais — Consultoria Internacional, S.A. since May 2006; Manager of the Financial Department of Portugal Telecom, SGPS, S.A. since 2001; Managing Director of Portugal Telecom International Finance BV since 2002; Member of the Portuguese Privatisation Commission from 1999 until 2001; Advisor to the Secretary of State for Treasury and Finance from 1996 until 1998; Lecturer of Financial Strategy from 1996 until 2001 at IEP/EGP MBA Program; Assistant Lecturer of Corporate Finance and Macroeconomics at Oporto University from 1987 until 1996; Assistant Lecturer of Firm Valuation from 1994 to 1997 at IESF; Analyst in the Mergers and Acquisitions Department of BPI from 1990 until 1994; Author of Obrigações: Mercado, Avaliação e Risco de Taxa de Juro published by Instituto do Mercado de Capitais/ Euronext Lisbon (1995-1999).
Bruno Miguel Saraiva Pinheiro da Costa Saldanha	Av. Fontes Pereira de Melo, 40 Lisbon, Portugal	Managing director A of Portugal Telecom International Finance B.V. since May 28, 2009. See "Portugal Telecom – Management".
Petrus Joseph Gerardus de Reus	Herikerbergweg 238, 1101 CM Amsterdam Zuidoost The Netherland	Managing director B of Portugal Telecom International Finance B.V. since May 28, 2009. Attorney-in-fact of TMF Management B.V. since June 2, 2006. Supervisor accounting department at TMF Group since 2003. Managing director Fiduciaire de l'Alliance TMF Sarl from 2000 to 2003. Manager accounting at TMF Nederland from 1995 to 2000. Audit manager international business practice at Coopers & Lybrand from 1989 to 1995. Audit supervisor international business practice at Treuhand Vereinigung AG, Germany from 1987 to 1989. Audit senior and assistant international business practice at Coopers & Lybrand from 1984 to 1987.
Ilaria de Lucia	Herikerbergweg 238, 1101 CM Amsterdam Zuidoost The Netherlands	Managing director B of Portugal Telecom International Finance B.V. since May 28, 2009. Director Client Services of TMF Netherlands B.V. since November 2011. Attorney-in-fact of TMF Management B.V. since July 11, 2008. Supervisor legal department at TMF Group from 2007. Account Manager Legal at TMF Nederland BV from 2002 to 2007. Account Receivables Manager at Jolly Hotel Carlton from 2001 to 2002.

Name	Business Address	Outside Activities
		Internet Editor at LookSmart from July 2000 to December 2000. Export Area Manager on behalf of Grandi Sapori Italia S.p.a. and Italian Institute for foreign trade from September 1999 to July 2000.
TMF Management B.V.	Herikerbergweg 238, 1101 CM Amsterdam Zuidoost The Netherlands	Managing director B and attorney-in-fact of Portugal Telecom International Finance B.V. since August 12, 2006. See below list of signatories of TMF Management B.V.

# Signatories TMF Management B.V.

Name	Outside Activities
Jacob Cornelis Willem van Burg	Managing Director of TMF Management B.V. since November 4, 2011
Franciscus Willem Josephine Johannes Welman	Managing Director of TMF Management B.V. since December 13, 2011
Robert Willem de Koning	Managing Director of TMF Management B.V. since June 2, 2006. Managing Director of Netherlands Management Company B.V. (group company TMF group) since June 2, 2006.
Sandra Reintje Lombert	Attorney-in-fact of TMF Management B.V. since August 14, 1992. Managing Director of Netherlands Management Company B.V. (group company TMF group) since December 19, 2001.
Johannes Fredericus Verhaert	Attorney-in-fact of TMF Management B.V. since January 1, 1991. Account manager legal at TMF Group.
Johannes Jacobus Schellingerhout	Attorney-in-fact with title director of TMF Management B.V. since April 18, 1998. Managing Director of BFT Nederland B.V. (group company TMF group) since September 26, 2005.
Danny Timmers	Attorney-in-fact of TMF Management B.V. since April 7, 2000. Supervisor accounting department at TMF Group.
Alexander Sylvester Verheijen	Attorney-in-fact of TMF Management B.V. since April 7, 2000.
Theresia Francisca Cornelia Wijnen	Attorney-in-fact of TMF Management B.V. since February 9, 2005. Managing Director TMF Structured Finance Services B.V. since February 26, 2002.
Rémi Hermanus Hyacinthus Maria Smits	Attorney-in-fact with title director of TMF Management B.V. since June 2, 2006. Supervisor legal department at TMF Group.
Petrus Joseph Gerardus de Reus	Attorney-in-fact of TMF Management B.V. since June 2, 2006. Supervisor accounting department at TMF Group.
Robertus Hendrikus Lukas de Groot	Attorney-in-fact of TMF Management B.V. since June 2, 2006. Supervisor accounting department at TMF Group.
Saskia Antonia Johanna Engel	Attorney-in-fact of TMF Management B.V. since June 2, 2006. Attorney-in-fact of Netherlands Management Company B.V. (group company TMF group) since August 1, 1989.
Myrthe Marie Louise Görtzen	Attorney-in-fact of TMF Management B.V. since June 2, 2006. Supervisor legal department at TMF Group.
Arthur Weglau	Attorney-in-fact of TMF Management B.V. since August 30, 2007. Working for the Structured Finance department.
Steffen Engelbertus Johannes Ruigrok	Attorney-in-fact of TMF Management B.V. since August 30, 2007. Working for the Structured Finance department.
Hubertus Petrus Cornelis Mourits	Attorney-in-fact of TMF Management B.V. since August 30, 2007. Managing Director TMF Structured Finance Services B.V. since October 19, 2007.
Ilaria De Lucia	Attorney-in-fact of TMF Management B.V. since July

Name	Outside Activities
	11, 2008. Supervisor legal department at TMF Group.
Benjamin de Koe	Attorney-in-fact of TMF Management B.V. since October 16, 2008. Supervisor accounting department at TMF Group.
Lucas Jules Marie Duijsens	Attorney-in-fact of TMF Management B.V. since August 25, 2009. Supervisor legal department at TMF Group.
Dennis Beets	Attorney-in-fact of TMF Management B.V. since January 29, 2010. Supervisor legal department at TMF Group.
Paulus Cornelis Gerhardus van Duween	Attorney-in-fact of TMF Management B.V. since January 29, 2010. Supervisor legal department at TMF Group.
Adrianus Simon Jacobus Maria Baijens	Attorney-in-fact of TMF Management B.V. since January 29, 2010. Supervisor accounting department at TMF Group.
Stefanie Joanne van der Duijs	Attorney-in-fact of TMF Management B.V. since January 29, 2010. Account manager legal at TMF Group.
Paul Zwagerman	Attorney-in-fact of TMF Management B.V. since January 29, 2010. Account Manager legal at TMF Group.
Roland van de Paverd	Attorney-in-fact of TMF Management B.V. since January 29, 2010. Account Manager accounting at TMF Group.
Casper Jacobus Horstmanshof	Attorney-in-fact of TMF Management B.V. since January 29, 2010. Supervisor accounting department at TMF Group.
Robbert Hendrik van der Werff	Attorney-in-fact of TMF Management B.V. since February 23, 2010. Account Manager legal at TMF Group.
Ronald Platen	Attorney-in-fact of TMF Management B.V. since February 23, 2010. Account Manager accounting at TMF Group.
Elena Maria Quarles van Ufford-Gonzalez-Sicilia de Ascanio	Attorney-in-fact of TMF Management B.V. since September 30, 2010. Account Manager legal at TMF Group.
Nicoolas Jacobus Petrus Tetteroo	Attorney-in-fact of TMF Management B.V. since September 30, 2010. Account Manager accounting at TMF Group.
Sebastiaan Jacobus Charles Adrianus Pijnenburg	Attorney-in-fact of TMF Management B.V. since September 30, 2010. Supervisor legal department at TMF Group.
Michiel Merjin Bernardus	Attorney-in-fact TMF Management B.V. since November 23, 2011
Willem Paul Ruoff	Attorney-in-fact TMF Management B.V. since November 23, 2011
Wolbert Hinrik Kamphuis	Attorney-in-fact TMF Management B.V. since November 23, 2011
Timo Johannes van Rijn	Attorney-in-fact TMF Management B.V. since November 23, 2011
Felicia Mihaela Frãtilã	Attorney-in-fact TMF Management B.V. since December 13, 2011

Name	Outside Activities			
Cornelius Henricus Johannes Clemens, de Raaff	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Dik-Jan Jetses	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Robert Michiel Forterie	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Robert Jan van Hedel	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Its de Bree	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Paul Jozef Schimitz	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Sandra Johanna Cornelia Maria Rios Vital	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Iwan Petrus Leonardus van Munster	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Dirk Slob	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Johannes Petrus Franciscus Godefridus Sebastiaan Kevenaar	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Jozef Cornelis Petrus van Uffelen	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Jogchum Hedde Beetsma	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Moses Tjhin	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Daniël Willem Gustaaf, Kwantes	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Everardus Theodorus Veerman	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Nicole Mireille Kruijer	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Hendrikus Zuidema	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Susan Jane Bennion	Attorney-in-fact TMF December 2, 2011	Management	B.V.	since
Yoram Yehuda	Attorney-in-fact TMF M 16, 2012	anagement B.V.	since Ja	anuary

The business address of each of the TMF Management B.V.'s signatories is Herikerbergweg 238, 1101 CM Amsterdam Zuidoost, The Netherlands.

There are no potential conflicts of interest between the directors of PTIF or the TMF Management B.V.'s signatories listed above in respect of PTIF and their private interests or duties.

# PT COMUNICAÇÕES, S.A.

PT Comunicações, S.A. ("PTC") is a direct wholly-owned subsidiary of PT Portugal, SGPS, S.A., which is a direct wholly-owned subsidiary of Portugal Telecom. PTC was incorporated as a Sociedade Anónima under the laws of the Portuguese Republic. PTC has its registered office at Rua Andrade Corvo, no. 6, Lisbon (telephone: +351215001000) and is registered in the Lisbon Company Register, under the sole registration and tax number 504.615.947. PTC's principal activity is to hold and operate Portugal Telecom's wireline network. Its business is described above under "Portugal Telecom, SGPS, S.A. – Portuguese Operations". Its business is subject to regulation as described above under "Portugal Telecom SGPS, S.A. – Regulation – Portugal".

## Management

The following sets out the names, functions and outside activities of the board of directors of PTC:

## Board of directors

Name	Function	Outside Activities
Zeinal Bava Manuel Francisco Rosa da Silva	Chairman Board Member	See "Portugal Telecom, SGPS, S.A. – Management" See "Portugal Telecom, SGPS, S.A. – Management"
Pedro Humberto Monteiro Durão Leitão	Board Member for Residential Business	See "Portugal Telecom SGPS, S.A. – Management"
Francisco José Meira Silva Nunes	Chief Financial Officer and Board Member of Human Resources and Legal Affairs	Board Member of Portugal Telecom Data Center, S.A. since October 2011; Board Member of PT Sales since June 2009; Board Member of PT Comunicações, S.A., Yunit Serviços, S.A., PT SI and PT ACS since 2007; Board Member of PT Prime, S.A. since 2007 until December 2011; Board Member of PT Imobiliária from 2007 to 2009; Board Member of PT Portugal and TMN since 2008; Member of the Board of Directors of Previsão – Sociedade Gestora de Fundos de Pensões, S.A. since 2004; Board Member of PT Prestações since 2004; Member Chief Accounting Officer and Manager of the Financial Reporting and Consolidation Department of Portugal Telecom, Appointed 2003; Member of the Board of Directors of PT Compras – Serviços de Consultoria e Negociação, S.A. since 2003; Manager of DCSI from 2007 to 2008; Board Member of PT Multimédia from April 2006 to September 2007; Member of the Board of Directors of PT PRO, S.A. from 2003 to 2008; Partner of Audit and Business Advisory Services of Andersen from 1999 to 2002; Manager of Audit and Business Advisory Services of Andersen from 1999.
Alfredo José Silva de Oliveira Baptista	Board Member for Infrastructures and Wholesale	See "Portugal Telecom, SGPS, S.A. – Management"
Carlos Antonio Alves Duarte	Board Member for Corporate Business	See "Portugal Telecom, SGPS, S.A Management"
Abílio Cesário Lopes Martins	Board Member	Member of the Board of PT Portugal and TMN since 2008. Executive Member of the Board of PT Comunicações and responsible for customer care and portal SAPO, since 2007. Board Member of PT Prime, S.A. since 2007 until December 2011; Member of the Board of Portugal Telecom Brasil, since 2000. Member of the Board of PT.Com, responsible for internet and

Name	Function	Outside Activities
		portal SAPO, from 2006 until 2008. Corporate Communication Director, PT SGPS, since 2002. Integrated Communication Director, PT Comunicações, from 2004 until 2008. Portugal Telecom President's communication and media assessor and adviser, from 2000 until 2002. Communication and Media Relations Consultant, from 1998 until 2000.
Rui Alexandre Ramos Gonçalves Pereira	Board Member	Board Member of PT Portugal and PT Comunicações since 2008; Board Member of PT Contact since 2008 until March 2009; Board Member of PT Prime, S.A. since 2008 until December 2011; Board Member of TMN since 2006; Partner at Europraxis from 2003 until 2006; Partner at Diamond DiamondCluster from 2002 until 2003; Principal at DiamondCluster from 2000 until 2002; Project Manager at Mckinsey from 1998 until 2000; Consultant at McKinsey from 1996 until 1998
Luís Filipe Saraiva Castel- Branco de Avelar	Board Member for Marketing and Service Development;	Board Member of PT Portugal since November 2007. Board Member of PT Comunicações since March 2008; Board Member of PT Prime, S.A. since 2008 until December 2011; Board Member of TMN since 2006, responsible for Marketing and Service Development; Marketing and Innovation Vice-President of Vivo, Brazil, from August 2001 to December 2005; Personal advisor to the President of Telesp Celular, São Paulo, Brazil from October 1998 to August 2001 for Strategy, Marketing and Commercial matters; Director of Portugal Telecom Brazil from March 1998 to October 1998; Director of Strategic Marketing of Portugal Telecom from June 1997 to March 1998; Member of Portugal Telecom's International affairs office from September 1995 to June 1997; Director of Strategy and Regulation of the Holding Comunicações Nacionais from March 1994 to September 1995; Technical Expert to the General Dept XIII of the European Commission from October 1991 to March 1994; responsible for development of new services, commercial strategy and large account director of Telefones de Lisboa e Porto, from January 1982 to October 1991.
José Carlos de Oliveira Baldino	Board Member for Television Business	Board Member of PT Portugal and PT Comunicações, Fundação PT since 2008; Board Member of PT Prime, S.A. since 2008 until December 2011; Board Member of PT WiFi since 2007 until 2008; Board Member of TMN since 2004; Board Member of PT.Com from 2000 until 2004; CEO of SAPO from 1998 until 2000; Board Member of Texto Editores SA from 1990 until 1998; Attorney at Law from 1988 until 1990;
David José Ferreira Lopes	Board Member for Network Operations	Board Member of PT Portugal, PT Comunicações and since 2008, Board Member of PT Prime, S.A. since 2008 until December 2011; Board Member of TMN since 2004; Board Member of PT WiFi since 2006 until 2008; Board Member of PT Prime from February 2004 to June 2004; Board Member of PTC since 2003 until 2004; Chairman of TT and Board Member of TPT since 2003 until 2004; General Director of Networks of PTC and PT Prime since 2002 until 2003; General Manager of Infonet Portugal since 2003 until 2004; Director of

Name Function Outside Activities

Engineering of Telesp Celular-São Paulo-Brazil since 2000 until 2002; Manager of Network Quality Department of Telesp Celular-São Paulo-Brazil since 1999 until 2000; Director of Network of PT since 1994 until 1999; Member of "Conselho Fiscal" of TV Cabo Portugal in 1994; Director of Network of TP since 1993 until 1994; Director of Network of DGT/CTT since 1989 until 1992; Sub-Director of Digital Network of DGT/CTT in 1989; Head of Transmission Systems Department of DGT/CTT since 1987 until 1989; Engineer of Transmission Systems of DGT/CTT since 1984 until 1987; Engineer of Switching Systems of DGT/CTT since 1979 until 1984.

The business address of each member of the board of directors of PTC is Rua Andrade Corvo, no 6, Lisbon.

There are no potential conflicts of interest between the duties to PTC of the persons listed above and their private interest or duties.

### **BOOK-ENTRY CLEARANCE SYSTEMS**

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg or Interbolsa (together, the "Clearing Systems") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that each Issuer believes to be reliable, but none of each Issuer, PTC nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of each Issuer, PTC nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

## **Book-entry System**

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

### Interbolsa

Interbolsa holds securities through a centralised system (sistema centralizado) composed of interconnected securities accounts, through which such securities (and inherent rights) are held and transferred, and which allows Interbolsa to control at all times the amount of securities so held and transferred. Issuers of securities, financial intermediaries, the Bank of Portugal and Interbolsa, as the controlling entity, all participate in such centralised system.

The centralised securities system of Interbolsa provides for all procedures required for the exercise of ownership rights inherent to the Book Entry Notes held through Interbolsa.

In relation to each issue of securities, Interbolsa's centralised system comprises, *inter alia* (i) the issue account, opened by the relevant Issuer in the centralised system and which reflects the full amount of issued securities; and (ii) the control accounts opened by each of the financial intermediaries which participate in Interbolsa's centralised system, and which reflect the securities held by such participant on behalf of its customers in accordance with its individual securities accounts.

Book Entry Notes held through Interbolsa will be attributed an International Securities Identification Number ("ISIN") code through the codification system of Interbolsa. These Book Entry Notes will be accepted and registered with *Central de Valores Mobiliários* ("CVM"), the centralised securities system managed and operated by Interbolsa and settled by Interbolsa's settlement system.

# Transfer of Book Entry Notes held through Interbolsa

Book Entry Notes held through Interbolsa may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes to hold such Book Entry Notes. No owner of Book Entry Notes will be able to transfer such Book Entry Notes, except in accordance with Portuguese law and the applicable procedures established by the CMVM and Interbolsa.

# Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note will be effected in accordance with the customary rules and operating procedures of Euroclear and Clearstream, Luxembourg, as the case may be.

Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuers, PTC, the Agents or any Dealer will be responsible for any performance by Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liabilty for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

#### **TAXATION**

#### Portugal

The following is a summary of the Portuguese tax laws in relation to certain current relevant aspects, as of the date of this Prospectus, of Portuguese taxation on payments made under the Notes. The statements relate only to the position of persons who are absolute beneficial owners of the Notes and considered as residents in Portugal or as non-residents with a permanent establishment to whom income is attributable. It is not exhaustive and holders who are in doubt as to their tax position should consult their professional advisers. The summary below assumes that such Notes would be treated by the Portuguese tax authorities as corporate bonds ("obrigações") as defined under Portuguese law, but no assurance can be given that such position would be taken or maintained by such authorities.

The references to "investment income", "interest" and "capital gains" in the paragraphs below mean "investment income", "interest" and "capital gains" as treated in Portuguese tax law. The statements below do not take any account of any different definitions of "investment income", "interest" or "capital gains" which may prevail under any other law or which may be created by the Conditions or any related documentation.

### 1. Notes issued by PTIF

# Resident Individuals or Individuals with Permanent Establishment in Portugal

Interest or other investment income made available to Portuguese resident individuals is subject to Personal Income Tax (PIT). Payments of interest or other investment income made to resident individuals by a Portuguese paying agent (which may be either a Portuguese resident entity or a Portuguese permanent establishment of a foreign entity) are subject to final withholding tax at a 25 per cent. rate.

Foreign sourced interests or other investment income made available to Portuguese resident individuals without a Portuguese paying agent (i.e. not subject to withholding tax) may be taxed at the special flat rate of 25 per cent.

Upon election by the taxpayer, interest income may be aggregated with all other items of income and subject to tax at progressive rates up to 46.5 per cent. Resident individuals with a yearly income higher than €153,300 are also subject to an additional surtax of 2.5 per cent. (upon option of aggregation). Any withholding tax levied on such interests is considered a payment in account of the tax finally due and payable.

The final withholding tax rate is increased to 30 per cent. when interests are paid or made available to accounts opened in the name of one or more account holders on behalf of undisclosed third parties, unless the beneficial owner of such income is identified, in which case the general rules described above apply.

The positive balance of capital gains and losses on the sale of Notes (and other securities and financial assets) assessed at year end is taxed at a special rate of 25 per cent., except when the taxpayer elects to aggregate such income and be taxed at progressive rates up to 46.5 per cent. Resident individuals with a yearly income higher than €153,300 are also subject to an additional surtax of 2.5 per cent. (upon option of aggregation). A PIT exemption applies to the positive balance of capital gains and losses of an annual value lower than €500.

The computation of the annual balance of gains and losses for PIT purposes does not include losses arising from transactions entered into with counterparts resident in a country, territory or region subject to a favorable tax regime, listed in Ministerial Order 150/2004 of 13 February (as amended by Ministerial Order 292/2011 of 8 November 2011).

Gratuitous acquisitions of notes issued by a foreign entity by resident individuals are not subject to stamp tax.

There is no wealth or estate tax in Portugal.

### Resident Companies or Non-Resident Companies with a Permanent Establishment in Portugal

Interest and other investment income as well as capital gains income derived from the holding or transfer of the Notes by resident corporate taxpayers and Portuguese permanent establishments of non-resident corporate taxpayers to which the income or gains is attributable is included in their taxable profit and subject to Corporate Income Tax (CIT). Portuguese CIT is generally levied at a 25 per cent. rate, to which may be added a municipal surtax ("derrama municipal") up to 1.5 per cent. levied on taxable profits, as well as a state surtax ("derrama estadual") of 3 per cent. on taxable profits exceeding €1,500,000 and a state surtax of 5 per cent. on taxable profits exceeding €10,000,000.

The positive accretion, not reflected in the fiscal year result, derived from the gratuitous acquisition of Notes by a Portuguese resident company or a Portuguese permanent establishment of a non-resident entity is included in the company's taxable base, even in case of exempt entities, and taxed in accordance with general CIT rules.

## Non-Resident individuals or companies without a Permanent Establishment in Portugal

Interest, other investment income or principal payments on the Notes made by PTIF to a non-resident individual or corporate entity without a Portuguese permanent establishment to which such income is attributable is not subject to Portuguese income taxes.

Capital gains income derived by a non-resident individual or corporate entity without a Portuguese permanent establishment to which such income is attributable is not subject to Portuguese income taxes.

# 2. Notes issued by PT not integrated in a centralized control system recognised by the Portuguese Securities Code ("Código dos Valores Mobiliários")

#### Resident Individuals or Individuals with Permanent Establishment in Portugal

Interest or other investment income made available to Portuguese resident individuals is subject to PIT via final withholding tax at a 25 per cent. rate. In the case of zero coupon Notes, the difference between the redemption value and the subscription cost is qualified as investment income and is also subject to PIT.

Upon election by the taxpayer, interest income may be aggregated with all other items of income and subject to tax at progressive rates up to 46.5 per cent. Resident individuals with a yearly income higher than €153,300 are also subject to an additional surtax of 2.5 per cent. (upon option of aggregation). Withholding tax levied on such interests is considered a payment in account of the tax finally due and payable.

The withholding tax rate is increased to 30 per cent. when interests are paid or made available to accounts opened in the name of one or more account holders on behalf of undisclosed third parties, unless the beneficial owner of such income is identified, in which case the general rules described above apply.

The positive balance of capital gains and losses on the sale of Notes (and other securities and financial assets) assessed at year end is taxed at a special rate of 25 per cent., except when the taxpayer elects to aggregate such income and be taxed at progressive rates up to 46.5 per cent. Resident individuals with a yearly income higher than €153,300 are also subject to an additional surtax of 2.5 per cent. (upon option of aggregation). A PIT exemption applies to the positive balance of capital gains and losses of an annual value lower than €500.

The computation of the annual balance of gains and losses for PIT purposes does not include losses arising from transactions entered into with counterparts resident in a country, territory or region subject to a favorable tax regime, listed in Ministerial Order 150/2004 of 13 February (as amended by Ministerial Order 292/2011 of 8 November 2011).

Gratuitous acquisitions of notes (*inter vivos* or *mortis causa*) by resident individuals are subject to stamp tax at a 10 per cent. rate. Gratuitous transfers to spouse, cohabitants, descendants or ascendants are exempt from stamp tax.

### Resident Companies or Non-Resident Companies with a Permanent Establishment in Portugal

Interest and other investment income as well as capital gains income derived from the holding or transfer of the Notes by resident corporate taxpayers and Portuguese permanent establishments of non-resident corporate taxpayers to which the income or gains is attributable is included in their taxable profit and subject to Corporate Income Tax (CIT). Portuguese CIT is generally levied at a 25 per cent. rate, to which may be added a municipal surtax ("derrama municipal") up to 1.5 per cent. levied on taxable profits, as well as a state surtax ("derrama estadual") of 3 per cent. on taxable profits exceeding €1,500,000 and a state surtax of 5 per cent. on taxable profits exceeding €10,000,000.

Capital gains income derived from the sale of Notes by an investment fund created and operating under Portuguese legislation is not subject to tax, exception made to capital gains derived by mixed or closed-ended investment funds of private subscription to which the general rules established in the PIT code for resident individuals apply.

The positive accretion, not reflected in the fiscal year result, derived from the gratuitous acquisition of Notes by Portuguese resident companies or a Portuguese permanent establishment of a non-resident entity is included in the company's taxable base, even in case of exempt entities, and taxed in accordance with general CIT rules.

#### Non-Resident individuals or companies without a Permanent Establishment in Portugal

Interests or other types of investment income made available to non-resident investors (either corporate or individual) are subject to PIT via withholding tax at a 25 per cent. rate, which may be reduced if a Double Tax Treaty (DTT) is in force between Portugal and the country of residence of the beneficial owner, provided all the formal requirements applicable under Portuguese law are fulfilled.

Non-resident taxpayers who wish to benefit from the reduced DTT rates should comply with the formal requirements set out in Portuguese law, namely providing the paying agent, until the date of remittance of withholding tax to the tax authorities, a specific form (Form 21-RFI) of the Tax and Customs Authority certified by the tax authorities of the residence country.

In case Form 21-RFI is not provided to the paying agent before the date of remittance of withholding tax to the tax authorities, the paying agent is obliged to withhold tax at standard rates. In this case, a refund of tax withheld in excess may be requested to the Portuguese tax authorities through the submission of a specific form (Form 22-RFI) within the two years following the year when the income was obtained.

Both forms are available for viewing and downloading at <a href="http://info.portaldasfinancas.gov.pt/pt/apoio\_contribuinte/modelos\_formularios/convencoes\_dupla\_trib\_internacional/">http://info.portaldasfinancas.gov.pt/pt/apoio\_contribuinte/modelos\_formularios/convencoes\_dupla\_trib\_internacional/</a>.

Interest income paid to EU resident associated companies benefit from a reduced 5 per cent. withholding tax rate until 30 June 2013 and from no withholding tax as from this date onwards. For these purposes, the recipient must qualify as an associated company under Directive 2003/49/EC (as transposed to Portuguese tax law). The associated company must also be the beneficial owner of the interest, which will be the case if it receives the interest for its own account and not as an intermediary, either as a representative, a trustee or authorised signatory, for some other person.

EU based associated companies wishing to benefit from the reduced withholding tax rate shall provide the paying agent, until the date of remittance of withholding tax to the tax authorities, Form 01-DJR certified by the tax authorities of the residence country.

In case Form 01-DJR is not provided to the paying agent before the date of remittance of withholding tax to the tax authorities, the paying agent is obliged to withhold tax at standard rates. In this case, a refund of tax withheld in excess may be requested to the Portuguese tax authorities through the submission of Form 02-DJR within the two years following the year when the income was obtained. Both forms are available for viewing and downloading at <a href="http://">http://</a> info.portaldasfinancas.gov.pt/pt/apoio\_contribuinte/modelos\_formularios/directiva\_juros\_royalties/.

The withholding tax rate is increased to 30 per cent. when interests are paid or made available to residents in a country, territory or region subject to a favorable tax regime, listed in Ministerial Order 150/2004 of 13 February (as amended by Ministerial Order 292/2011 of 8 November 2011) as well as to payments made to accounts opened in the name of one or more account holders on behalf of undisclosed third parties, unless the beneficial owner of such income is identified, in which case the general rules apply.

A domestic capital gains exemption applies to Portuguese sourced capital gains derived from the sale of Notes by non-resident individuals and/or companies provided such companies are not: (a) held, in more than 25 per cent. by Portuguese resident companies; or (b) resident in a country, territory or region subject to a favourable tax regime, listed in Ministerial Order 150/2004 of 13 February (as amended by Ministerial Order 292/2011 of 8 November 2011).

Most of the DTTs entered into by Portugal generally limit its ability to tax capital gains derived by residents of the other contracting state. Nonetheless, the applicability of treaty provisions must be assessed on a case-by-case basis.

Gratuitous acquisitions of Notes (inter vivos or mortis causa) by non-resident individuals is neither subject to PIT nor stamp tax. The positive accretion, resulting from the gratuitous acquisition of Notes by a non-resident company is subject to CIT in accordance with the general rules.

# 3. Notes issued by PT integrated in a centralized control system recognised by the Portuguese Securities Code

The regime described in point 2. provides the general tax regime applicable on investment income and capital gains derived on Notes issued by a Portuguese entity and to gratuitous acquisitions of such Notes. Investors not qualifying for the beneficial regime of Decree-Law 193/2005 (described below) should therefore refer to point 2 of the taxation section.

Pursuant to Decree-Law 193/2005, of 7 November 2005 ("Decree-Law 193/2005" which approved the Special Tax Regime for Debt Securities) as amended from time to time, Portuguese sourced interests and capital gains derived by non-resident beneficial owners from the disposal of debt securities issued by Portuguese resident entities (such as the Notes), are exempt from Portuguese PIT and CIT, provided such debt securities are integrated in a centralized system recognised under the Portuguese Securities Code ("Código de Valores Mobiliários") and complementary legislation (such as the Central de Valores Mobiliários, managed by Interbolsa), and:

- i. the beneficial owners have no residence, head office, effective management or permanent establishment in the Portuguese territory to which the income is attributable; and
- ii. the beneficial owners are not held, directly or indirectly, in more than 20 per cent. by Portuguese resident entities; and
- iii. the beneficial owners are not domiciled in a country, territory or region subject to a clearly more favorable tax regime included in the list approved by the Ministerial Order 150/2004 of 13 February (as amended by Ministerial Order 292/2011 of 8 November 2011), exception made to central banks or governmental agencies of such territories.

The special regime approved by Decree-Law 193/2005 sets out the rules and procedures to be followed as regards the proof of non residence by the beneficial owners of the Notes to which it applies. Under such rules, the direct register entity (i.e. the entity affiliated to the centralized system where the securities are integrated), as the entity holding the relevant account with the relevant centralized system in which the Notes are integrated, will be under obligation to obtain and maintain proof, in the form described below, that the beneficial owner is a non-resident entity that is entitled to the exemption. As a general rule, proof of non residence status should be provided to, and received by, the direct registration entities prior to any interest payment or the redemption date (for zero coupon Notes), and prior to the date of transfer of Notes, as the case may be.

The following is a general description of the rules and procedures on the proof required for the exemption to apply at source, as they stand on the date of this Prospectus.

## (a) Domestically Cleared Notes

The beneficial owner of the Notes must provide proof of non residence in Portuguese territory on the terms set forth below.

- i. If the beneficial owner of the Notes is a central bank, an international organization or a public law institution integrated in the Public Administration (either central, regional, peripheral, indirect or autonomous), a declaration of tax residence issued by the beneficial owner of the Notes itself, duly signed and authenticated or proof pursuant to paragraphs (ii) or (iv) below.
- ii. If the beneficial owner of the Notes is a credit institution, a financial company, a pension fund or an insurance company domiciled in any OECD country or in a country with which Portugal has entered into a DTT and is subject to a special supervision regime or administrative registration, certification shall be made by means of the following: (A) its tax identification; or (B) a certificate issued by the entity responsible for such supervision or registration confirming the legal existence of the beneficial owner of the Notes and its domicile; or (C) proof of non residence status pursuant to paragraph (iv) below.
- iii. If the beneficial owner of the Notes is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or any country with which Portugal has entered into a DTT, certification shall be provided by means of one of the following documents: (A) a declaration issued by the entity which is responsible for its registration or supervision or by the tax authorities, confirming its legal existence, the law of incorporation and domicile; or (B) proof of non residence status pursuant to paragraph (iv) below.
- iv. In any other case, confirmation must be made by way of (A) a certificate of residence or equivalent document issued by the relevant tax authorities; or (B) a document issued by the relevant Portuguese consulate certifying residence abroad; or (C) a document specifically issued by an official entity of the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country certifying the residence; for these purposes, an identification document such as a passport or an identity card or document by means of which it is only indirectly possible to assume the relevant tax residence (such as a work or permanent residency status permit) is not acceptable.

Certain rules apply as regards the authenticity and validity of the documents mentioned in paragraph (iv) above, in particular that the beneficial owner of the Notes must provide an original or a certified copy of the residence certificate or equivalent document. This document must be issued up to three months after the date on which the withholding tax would have been applied and will be valid for a three-year period starting on the date such document is produced. The beneficial owner of the Notes must immediately inform the register entity of any change in respect of the requirement conditions that may preclude the application of the exemption.

In case the Notes are held by central banks or governmental agencies, proof of non residence in Portuguese territory is provided once, its periodical renewal not being necessary.

### (b) Internationally Cleared Notes

If the Notes are held through a centralized system recognised under the Portuguese Securities Code and complementary legislation, and registered in an account with an international clearing system recognised by the Minister of Finance (such as Euroclear or Clearstream, Luxembourg), and the management entity of such international clearing system undertakes not to provide registration services to (i) residents for tax purposes in

Portugal which do not benefit from either an exemption from Portuguese tax or a Portuguese withholding tax exemption, and (ii) non-resident entities for tax purposes which do not benefit from the above Portuguese income tax exemption, special rules apply under which proof of the requirements to benefit from the exemption will be made through documents provided by the participants to the direct register entity through the international clearing system managing entity. These documents must take into account the total accounts under their management regarding each beneficial owner of Notes that are tax exempt or benefit from an exemption from Portuguese withholding tax.

The relevant procedures are as follows:

- i. Filing a certificate, on a yearly basis, with the name of each beneficial owner, address, tax payer number (if applicable), specification of the securities held and the legal basis for the exemption from taxation or from Portuguese withholding tax.
- ii. Alternatively, filing a yearly declaration that states that the beneficial owners are exempt or not subject to withholding tax. This declaration is complemented by a disclosure list, on each coupon payment date, stating the beneficial owners names, addresses, taxpayer numbers (if applicable), quantity held, and the legal basis for the exemption from taxation or from Portuguese withholding tax.

The certificates are available for viewing and downloading at:

# http://info.portaldasfinancas.gov.pt/pt/apoio\_contribuinte/modelos\_formularios/regime\_especial\_tribut\_divida/

In addition, the international clearing system managing entity shall inform the direct register entity of the income paid to each participant for each security payment.

Lack of compliance with the above mentioned rules and procedures implies that no exemption applies under Decree-law 193/2005.

If the conditions for the exemption to apply are met, but, due to inaccurate or insufficient information, tax is withheld, a special refund procedure is available under the special regime approved by Decree-law 193/2005. The refund claim is to be submitted to the direct or indirect register entity of the Notes within 90 days from the date when tax was withheld. A special form for claiming tax withheld in excess within the 90 day deadline is available for viewing and downloading at

http://info.portaldasfinancas.gov.pt/pt/apoio\_contribuinte/modelos\_formularios/regime\_especial\_tribut\_divida/http://info.portaldasfinancas.gov.pt/NR/rdonlyres/AA576CC6-0245-45AA-9822-982F1225738F/0/Modelo 19-RFI.pdf

Other refund requests (i.e. presented after the 90 day deadline or in other circumstances) shall be requested to the Portuguese tax authorities through the submission of Form 22-RFI within the two years following the year when the income was obtained. Both forms are available for viewing and downloading at <a href="http://info.portaldasfinancas.gov.pt/pt/">http://info.portaldasfinancas.gov.pt/pt/</a> apoio\_contribuinte/modelos\_formularios/convencoes\_dupla\_trib\_internacional/

#### **EU Savings Directive**

Portugal has implemented EC Council Directive 2003/48/EC, of 3 June 2003, on taxation of savings income into the Portuguese law through Decree-Law 62/2005, of 11 March 2005 (as amended) The forms currently applicable to comply with the reporting obligations arising from the implementation of the EU Savings Directive are available for viewing and downloading at

http://info.portaldasfinancas.gov.pt/pt/apoio\_contribuinte/modelos\_formularios/directivas\_poupanca\_obrigacoes/

#### **Tax Considerations in The Netherlands**

The following summary of certain Dutch taxation matters is based on the laws and practice in force as of the date of this Offering Circular and is subject to any changes in law and the

interpretation and application thereof, which changes could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of a Note, Coupon, Talon or Receipt, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules.

For the purpose of this summary it is assumed that no holder of a Note has or will have a substantial interest, or – in the case of a holder of a Note, Coupon, Talon or Receipt being an entity – a deemed substantial interest, in the Issuer and that no connected person (*verbonden persoon*) to the holder of a Note, Coupon, Talon or Receipt has or will have a substantial interest in the Issuer.

Generally speaking, an individual has a substantial interest in a company if (a) such individual, either alone or together with his partner, directly or indirectly has, or is deemed to have or (b) certain relatives of such individual or his partner directly or indirectly have or are deemed to have (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of such company, or (ii) the ownership of, or certain rights over, profit participating certificates (winstbewijzen) that relate to 5 per cent or more of either the annual profit or the liquidation proceeds of such company.

Generally speaking, a non-resident entity has a substantial interest in a company if such entity, directly or indirectly has (I) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of the Issuer, or (II) the ownership of, or certain rights over, profit participating certificates (winstbewijzen) that relate to 5 per cent or more of either the annual profit or the liquidation proceeds of such company. An entity holding a Note, Coupon, Talon or Receipt has a deemed substantial interest in a company if such entity has disposed of or is deemed to have disposed of all or part of a substantial interest on a non-recognition basis.

For the purpose of this summary, the term "entity" means a corporation as well as any other person that is taxable as a corporation for Dutch corporate tax purposes.

Where this summary refers to a holder of a Note, Coupon, Talon or Receipt, an individual holding a Note, Coupon, Talon or Receipt or an entity holding a Note, Coupon, Talon or Receipt, such reference is restricted to an individual or entity holding legal title to as well as an economic interest in such Note, Coupon, Talon or Receipt.

Where this summary refers to "The Netherlands" or "Dutch", it refers only to the European part of the Kingdom of the Netherlands.

Investors should consult their professional advisers on the tax consequences of their acquiring, holding and disposing of a Note, Coupon, Talon or Receipt.

#### 1. WITHHOLDING TAX

All payments made by the Issuer of interest and principal under a Note, Coupon, Talon or Receipt can be made free of withholding or deduction of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein, unless the Notes qualify as debt that effectively functions as equity for purposes of article 10, paragraph 1, sub d of the Corporate Tax Act (Wet op de vennootschapsbelasting 1969).

#### 2. TAXES ON INCOME AND CAPITAL GAINS

#### Residents

Resident entities

An entity holding a Note, Coupon, Talon or Receipt which is, or is deemed to be, resident in The Netherlands for corporate tax purposes and which is not tax exempt, will generally be subject to corporate tax in respect of income or a capital gain derived from a Note, Coupon, Talon or Receipt at the prevailing statutory rates.

#### Resident Individuals

An individual holding a Note, Coupon, Talon or Receipt who is, is deemed to be, or has elected to be treated as, resident in The Netherlands for income tax purposes will be subject to income tax in respect of income or a capital gain derived from a Note, Coupon, Talon or Receipt at rates up to 52 per cent if:

- (i) the income or capital gain is attributable to an enterprise from which the holder derives profits (other than by way of securities as a shareholder); or
- (ii) the income or capital gain qualifies as income from miscellaneous activities (belastbaar resultaat uit overige werkzaamheden) as defined in the Income Tax Act (Wet inkomstenbelasting 2001), including, without limitation, activities that exceed normal, active asset management (normaal, actief vermogensbeheer).

If neither condition (i) nor (ii) applies, an individual holding a Note, Coupon, Talon or Receipt will be subject to income tax on the basis of a deemed return, regardless of any actual income or capital gain derived from a Note, Coupon, Talon or Receipt. The deemed return amounts to 4 per cent. of the value of the individual's net assets as at the beginning of the relevant financial year (including the Note, Coupon, Talon or Receipt). Subject to application of certain allowances, the deemed return will be taxed at a rate of 30 per cent.

#### Non-residents

A holder of a Note, Coupon, Talon or Receipt which is not, is not deemed to be, and – in case the holder is an individual – has not elected to be treated as, resident in The Netherlands for the relevant tax purposes will not be subject to taxation on income or a capital gain derived from a Note, Coupon, Talon or Receipt unless:

- (i) the income or capital gain is attributable to an enterprise or part thereof which is either effectively managed in The Netherlands or carried on through a permanent establishment (vaste inrichting) or a permanent representative (vaste vertegenwoordiger) in The Netherlands and the holder of a Note, Coupon, Talon or Receipt derives profits from such enterprise (other than by way of securities); or
- (ii) the holder is an individual and the income or capital gain qualifies as income from miscellaneous activities (belastbaar resultaat uit overige werkzaamheden) in The Netherlands as defined in the Income Tax Act (Wet inkomstenbelasting 2001), including, without limitation, activities that exceed normal, active asset management (normaal, actief vermogensbeheer).

# 3. GIFT AND INHERITANCE TAXES

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of a Note, Coupon, Talon or Receipt by way of gift by, or on the death of, a holder of a Note, Coupon, Talon or Receipt unless:

- (i) the holder of a Note, Coupon, Talon or Receipt is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or
- (ii) the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in The Netherlands for the purpose of the relevant provisions.

# 4. VALUE ADDED TAX

The issuance or transfer of a Note, Coupon, Talon or Receipt, and payments of interest and principal under a Note, Coupon, Talon or Receipt, will not be subject to value added tax in The Netherlands.

#### 5. OTHER TAXES AND DUTIES

The subscription, issue, placement, allotment, delivery or transfer of a Note, Coupon, Talon or Receipt will not be subject to registration tax, stamp duty or any other similar tax or duty payable in The Netherlands.

#### 6. RESIDENCE

A holder of a Note, Coupon, Talon or Receipt will not be, or deemed to be, resident in The Netherlands for tax purposes and, subject to the exceptions set out above, will not otherwise be subject to Dutch taxation, by reason only of acquiring, holding or disposing of a Note, Coupon, Talon or Receipt or the execution, performance, delivery and/or enforcement of a Note, Coupon, Talon or Receipt.

# EU COUNCIL DIRECTIVE ON TAXATION OF SAVINGS INCOME

In accordance with EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another EU member state (and certain non-EU countries and associated territories specified in said directive) details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in such other state.

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

#### SUBSCRIPTION AND SALE

The Dealers have in a programme agreement (the "Programme Agreement") dated 1 June 2012 agreed with the Issuers and PTC a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "Form of the Notes" and "Terms and Conditions of the Notes". In the Programme Agreement, PTIF, PT and PTC have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

#### **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period, a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the relevant Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

## Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

(a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "Non-exempt Offer"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member

State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer:

- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive:
- (c) at any time to fewer than 100 or, if the relevant Member State has implemented the Relevant Provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

# United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the relevant Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer or, where the Issuer is PTIF, the Keep Well Providers; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

# Portugal

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes may not be and will not be offered to the public in Portugal under circumstances which are deemed to be a public offer under

the Portuguese Securities Code (Código dos Valores Mobiliários) enacted by Decree-Law no. 486/99 of 13 November 1999 (as amended and restated from time to time) unless the requirements and provisions applicable to the public offering in Portugal are met and registration, filing, approval or recognition procedure with the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários or "CMVM") is made. In addition, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that (i) it has not directly or indirectly taken any action or offered, advertised, marketed, invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Notes in circumstances which could qualify as a public offer (oferta pública) of securities pursuant to the Portuguese Securities Code, notably in circumstances which could qualify as a public offer addressed to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be; (ii) it has not distributed, made available or caused to be distributed and will not distribute, make available or cause to be distributed the Prospectus or any other offering material relating to the Notes to the public in Portugal; other than in compliance with all applicable provisions of the Portuguese Securities Code, the Prospectus Regulation implementing the Prospectus Directive and any applicable CMVM Regulations and all relevant Portuguese securities laws and regulations, in any such case that may be applicable to it in respect of any offer or sale of Notes by it in Portugal or to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be, including compliance with the rules and regulations that require the publication of a prospectus, when applicable, and that such placement shall only be authorised and performed to the extent that there is full compliance with such laws and regulations.

#### The Netherlands

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme Agreement will be required to represent and agree that Zero Coupon Notes (as defined below) in definitive form may only be transferred and accepted, directly or indirectly, within, from or into The Netherlands through the mediation of either the relevant Issuer or a member firm of Euronext Amsterdam N.V., admitted in a function on one or more markets or systems held or operated by Euronext Amsterdam N.V., in accordance with the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) of 21 May 1985 (as amended) and its implementing regulations.

No such mediation is required: (a) in respect of the transfer and acceptance of rights representing an interest in a Global Note; (b) in respect of the transfer and acceptance of Zero Coupon Notes in definitive form between individuals who do not act in the conduct of a business or profession; (c) in respect of the initial issue of Zero Coupon Notes in definitive form to the first holders thereof; or (d) in respect of the transfer and acceptance of such Zero Coupon Notes within, from or into The Netherlands if all Zero Coupon Notes (either in definitive form or as rights representing an interest in a Zero Coupon Note in global form) of any particular Series or Tranche are issued outside The Netherlands and are not distributed into The Netherlands in the course of initial distribution or immediately thereafter.

In the event that the Savings Certificates Act applies, certain identification requirements in relation to the issue and transfer of, and payments on, Zero Coupon Notes have to be complied with.

As used herein "Zero Coupon Notes" are Notes that are in bearer form and that constitute a claim for a fixed sum against the Issuer and on which interest does not become due during their tenor or on which no interest is due whatsoever.

In addition, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Final Terms in relation thereto to the public in The Netherlands in reliance on Article 3(2) of the Prospectus Directive unless:

- (a) such offer is made exclusively to legal entities which are qualified investors (as defined in the Prospectus Directive and which includes authorised discretionary asset managers acting for the account of retail investors under a discretionary investment management contract) in The Netherlands; or
- (b) standard exemption logo and wording are disclosed as required by article 5:20(5) of the Dutch Financial Supervision Act (*Wet op het financial toezicht*, the "DFSMA"); or
- (c) such offer is otherwise made in circumstances in which article 5:20(5) of the DFSMA is not applicable,

provided that no such offer of Notes shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expressions (i) an "offer of Notes to the public" in relation to any Notes in The Netherlands; and (ii) "Prospectus Directive", have the meaning given to them above in the paragraph headed with "Public Offer Selling Restriction Under the Prospectus Directive".

#### Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "FIEA") and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### Spain

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes may not be and will not be offered to the public in Spain under circumstances which are deemed to be a public offer under the Spanish Securities Market Act 28/1988 (Lev 28/1988 del Mercado de Valores) and its complementary regulations, in particular, Spanish Royal Decree 1310/2005 of 4 November (as amended and restated from time to time) unless the requirements and provisions applicable to the public offering in Spain are met and registration, filing, approval or recognition procedure with the Spanish Securities Market Commission (Comisión Nacional del Mercado de Valores or "CNMV") is made. In addition, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that (i) it has not directly or indirectly taken any action or offered, advertised, marketed, invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Notes in circumstances which could qualify as a public offer (oferta pública) of securities pursuant to the Spanish Securities Market Act 28/1988, notably in circumstances which could qualify as a public offer addressed to individuals or entities resident in Spain or having permanent establishment located in Spanish territory, as the case may be; (ii) it has not distributed, made available or caused to be distributed and will not distribute, make available or cause to be distributed the Prospectus or any other offering material relating to the Notes to the public in Spain; other than in compliance with all applicable provisions of the Spanish Securities Market Act 28/1988, the Prospectus Regulation implementing the Prospectus Directive, in particular, Spanish Royal Decree 1310/2005 of 4 November, and any applicable CNMV Regulations and all relevant Spanish securities laws and regulations, in any such case that may be applicable to it in respect of any offer or sale of Notes by it in Spain or to individuals or entities resident in Spain or having permanent establishment located in Spanish territory, as the case may be, including compliance with the rules and regulations that require the publication of a prospectus, when

applicable, and that such placement shall only be authorised and performed to the extent that there is full compliance with such laws and regulations.

#### General

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of PTIF, PT, PTC and any of the other Dealers shall have any responsibility therefor.

None of PTIF, PT, PTC and any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the relevant Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

#### **GENERAL INFORMATION**

#### **Authorisation**

The establishment of the Programme and the issue of Notes were duly authorised by a written resolution of the Board of Managing Directors of PTIF dated 15 December 1998 and the Executive Committee of PT dated 8 October 1998. The increase in the amount of the Programme to €4,000,000,000 was duly authorised by a written resolution of the Board of Managing Directors of PTIF dated 30 November 2000, the Executive Committee of PT dated 10 November 2000 and the Executive Committee of PTC dated 15 November 2000. The increase in the amount of the Programme to €5,000,000,000 was duly authorised by a written resolution of the Board of Managing Directors of PTIF dated 25 January 2002, the Executive Committee of PT dated 17 January 2002 and the Executive Committee of PTC dated 11 January 2002. The increase in the amount of the Programme to €7,500,000,000 and the entering into of the Keep Well Agreements were duly authorised by a written resolution of the Board of Managing Directors of PTIF dated 3 November 2006, the Executive Committee of PT dated 26 October 2006 and the Executive Committee of PTC dated 31 October 2006. The update of the Programme on 20 December 2007 was duly authorised by a written resolution of the Board of Managing Directors of PTIF dated 13 December 2007, the Executive Committee of PT dated 7 December 2007 and the Board of Directors of PTC dated 3 December 2007. The update of the Programme on 17 December 2008 was duly authorised by a written resolution of the Board of Managing Directors of PTIF dated 15 December 2008, the Executive Committee of PT dated 11 December 2008 and the Board of Directors of PTC dated 10 December 2008. The update of the Programme on 31 March 2010 was duly authorised by a written resolution of the Board of Managing Directors of PTIF dated 29 March 2010, the Executive Committee of PT dated 25 March 2010 and the Board of Directors of PTC dated 24 March 2010. The update of the Programme on 16 June 2011 was duly authorised by a Written Resolution of the Board of Managing Directors of PTIF dated 9 May 2011, the Executive Committee of PT dated 5 May 2011 and the Board of Directors of PTC dated 27 April 2011. The update of the Programme on 1 June 2012 was duly authorised by a Written Resolution of the Board of Managing Directors of PTIF dated 25 May 2012, the Executive Committee of PT dated 10 May 2012 and the Board of Directors of PTC dated 16 May 2012.

# **Listing of Notes**

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange's regulated market will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Programme in respect of the Notes is expected to be granted on or before 8 June 2012.

Notes may be issued pursuant to the Programme which will not be admitted to the Official List or trading by the UK Listing Authority or the London Stock Exchange or any other stock exchange (or other relevant authority) or which will be admitted to listing or trading by such stock exchange (or other relevant authority) as the relevant Issuer and the relevant Dealer(s) may agree.

#### **Documents Available**

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered offices of PTIF and PT and from the specified office of the Paying Agent for the time being in London:

- (i) the constitutional documents of PTIF and the constitutional documents (with an accurate and direct English translation thereof) of PT and PTC;
- (ii) the consolidated audited financial statements of PT in respect of the financial years ended 31st December, 2010 and 2011 (with an accurate and direct English translation thereof);

- (iii) the most recently published audited annual and semi-annual financial statements (if any) of PTIF, PT and PTC and the most recently published unaudited consolidated interim financial statements (if any) of PTIF, PT and PTC (in each case with an accurate and direct English translation thereof);
- (iv) the Programme Agreement, the Agency Agreement, the Trust Deed (which contains the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons), the Interbolsa Instrument and the Keep Well Agreements;
- (v) a copy of this Offering Circular;
- (vi) any future offering circulars, prospectuses, information memoranda, supplements and Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (vii) in the case of each issue of Notes which have been admitted to trading on the London Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

PT currently prepares audited consolidated and non-consolidated accounts on an annual and semi-annual basis and unaudited consolidated accounts on a quarterly basis. PTIF prepares annual audited accounts. PTC prepares annual audited accounts.

## **Clearing Systems**

The Notes (other than Book Entry Notes) have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. The Book Entry Notes will be cleared through the clearing system operated by Interbolsa. The appropriate identification reference for a Tranche of Book Entry Notes will be specified in the applicable Final Terms. Book Entry Notes shall only be denominated in euros or in such other currency as accepted for registration and settlement purposes by Interbolsa. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

## Significant or Material Change

Save as specified on page 23 of this Offering Circular under "Risk Factors – Risks Relating to PT's Portuguese Operations – Reduced interconnection rates have negatively affected PT's revenues for its Portuguese telecommunications business and will continue to do so in 2012" and on page 121 of this Offering Circular under "Recent Developments", there has been no significant change in the financial or trading position of each of PT and PT Group since 31 March 2012 and of PTC, PTC and its subsidiaries ("PTC Group") and of PTIF since 31 December 2011, and there has been no material adverse change in the financial position or prospects of PT, PT Group, PTC, PTC Group and of the Issuer since 31 December 2011.

#### Litigation

Save as disclosed in the paragraphs from "Claims for Municipal Taxes and Fees in PT's Portuguese Telecommunications Business" on page 235 to "Judicial Deposits" on page 241, there are no, nor have there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which each of PTIF, PT and PTC is aware) during a period covering at least the previous 12 months which may have, or have had in the past, significant effects on PTIF, PT, PT Group, PTC and PTC Group's financial positions or profitability:

## Claims for Municipal Taxes and Fees in PT's Portuguese Telecommunications Business

Pursuant to a statute enacted on 1 August 1997, as an operator of a basic telecommunications network, PT is exempt from municipal taxes and rights-of-way and other fees with respect to PT's network in connection with PT's obligations under its concession. The Portuguese government has advised PT in the past that this statute confirmed the tax exemption under PT's concession. The Portuguese government has advised PT it will continue to take the necessary actions in order for PT to maintain the economic benefits contemplated by PT's concession. However, PT cannot be sure that the Portuguese courts will accept that this statute resolves claims for municipal assessments and taxes for the period prior to its enactment.

Law 5/2004 of 10 February 2004 established a new rights-of-way regime in Portugal whereby each municipality may establish a fee, up to a maximum of 0.25% of each wireline services bill, to be paid by the customers of those wireline operators whose network infrastructures are located in each such municipality. This regime was implemented in 2005 but some municipalities interpret Law 5/2004 as having no effect on their authority to establish other taxes but rather interpret Law 5/2004 as affecting only federal and regional taxing authorities. In 2009, Decree-Law 123/2009, of 21 May 2009, clarified that no other tax should be applicable by municipalities in addition to the regime established by Law 5/2004 of 10 February 2004. This interpretation was confirmed by the Supreme Administrative Court of Portugal in several cases. Some municipalities, however, continue to hold the position that the Law 5/2004 does not expressly revoke other taxes that the municipalities wish to establish, because Law 5/2004 is not applicable to the public municipality domain. Currently, there are legal actions filed by some municipalities against PT Comunicações regarding this matter.

#### Regulatory Proceedings in PT's Portuguese Telecommunications Business

PT is regularly involved in regulatory inquiries and investigations involving its operations. In addition, ANACOM, the European Commission and Autoridade da Concorrência regularly make inquiries and conduct investigations concerning PT's compliance with applicable laws and regulations.

# Autoridade da Concorrência

Current inquires and investigations by Autoridade da Concorrência include, among others, the following:

- PT Comunicações regarding alleged anti-competitive practices in the broadband internet market (this complaint was formerly against Telepac, which merged with a PT affiliate that later merged into PT Comunicações and TV Cabo, which we spun off as part of PT Multimedia in 2007). Specifically, the Autoridade da Concorrência alleged that PT's "Rede ADSL PT" wholesale offer of broadband services between 22 May 2002 and 30 June 2003 did not allow the remaining competitors to generate a sufficient profit margin. In September 2009, PT announced that it had been notified by Autoridade da Concorrência that it had concluded its investigation and had decided to impose a fine of €45.0 million on PT. PT strongly disagreed with this ruling and appealed the decision to the Commercial Court of Lisbon (Tribunal de Comércio) later that month. PT believed, among other things, that the wholesale offer was permitted under the competition law then in force (DL 371/ 2003) and was supervised by ANACOM. In addition, PT has argued that the wholesale offer was maintained in place for 14 days after the new competition law was approved (Lei 18/2003) only to permit ANACOM to determine the terms of the new offer and that the fine imposed exceeds the maximum €1 million fine allowed under the prior competition law. In 2011, PT was notified of a decision of the Commercial Court of Lisbon that terminated this proceeding for prescription purposes, as from 30 June 2011. PT had not recorded any provision for this matter based on the opinion of its internal and external legal counsel.
- PT Comunicações for alleged anti-competitive practices in the public wireline telephone market and for granting discriminatory discounts on leased lines. In 2007, Autoridade da Concorrência accused PT Comunicações of alleged abuse of dominant position for granting discriminatory discounts on leased lines. In September 2008, PT Comunicações was notified by Autoridade da Concorrência of its decision imposing a fine of €2.1 million for PT

Comunicações' alleged abuse of its dominant position in the lease line segment. PT Comunicações considers these allegations unfounded and appealed the fine to the Commercial Court of Lisbon later that month. On 29 February 2012, the Commercial Court of Lisbon cleared PT Comunicações of the fine imposed by Autoridade da Concorrência in September 2008. PT had not recorded any provision for this matter based on the opinion of PT's internal and external legal counsel.

PT believes that the Portugal Telecom group has consistently followed a policy of compliance with all relevant laws. PT continually reviews its commercial offers in order to reduce the risk of competition law infringement. PT believes that most of the complaints that have resulted in such investigations should be dismissed due to the nature of the alleged abuses. However, if PT is found to be in violation of applicable laws and regulations in these or other regulatory inquiries and investigations, PT could become subject to penalties, fines, damages or other sanctions.

## **European Commission**

On 19 January 2011, the European Commission opened an investigation into an agreement between Telefónica and Portugal Telecom allegedly not to compete in the Iberian telecommunications markets. Portugal Telecom has developed various strategic partnerships with Telefónica in recent years. Although PT does not believe the existence of these partnerships has impeded competition and ordinary activities of PT and Telefónica, PT's relationship with Telefónica is now subject to investigation. The European Commission has stated that the initiation of proceedings does not imply that the Commission has conclusive proof of an infringement but that the Commission will deal with the case as a matter of priority. On 25 October 2011, PT was notified of a Statement of Objections sent by the European Commission to PT and Telefónica on the matter. The Statement of Objections only covers alleged cooperation between the two companies after the Vivo transaction. In response to the Statement of Objections, PT contested the allegations of the European Commission. The sending of a Statement of Objections does not prejudge the final outcome of the investigation.

On a separate matter, PT understands that the Directorate General for Information Society of the European Commission requested information in the past from the Portuguese government regarding the designation of the universal service provider in Portugal (currently, PT Comunicações) and regarding the Portuguese government's intention to launch a transparent procedure to appoint the universal service provider. PT understands that in January 2009, the European Commission referred the case to the European Court of Justice. On 7 October 2010, the European Court of Justice ruled that by failing to correctly transpose into national law the provisions of European Union law governing the designation of universal service providers, the Portuguese Republic failed to fulfill its obligations under Articles 3(2) and 8(2) of Directive 2002/22/EC of the European Parliament and of the Council of 7 March 2002 on universal service and users' rights relating to electronic communications networks and services (Universal Service Directive). ANACOM has now held a public consultation on the process for selecting a universal service provider, as described in "Portugal Telecom, SGPS, S.A.-PT's Businesses—Regulation—Portugal—Universal Service Obligations." The Portuguese government is expected to launch a tender in 2012 for the designation of the universal service providers.

In April 2006, the European Commission sent to the Portuguese government a formal request to abandon the special rights the Portuguese government holds as the sole owner of PT's class A shares. The European Commission viewed the special powers granted to the Portuguese government through the sole ownership of PT's class A shares act as a disincentive for investment by other EU member states in a manner that violated European Community Treaty rules. The Portuguese authorities initially took the position that these special rights were justified in order to protect relevant public interests. In 2008, the European Commission referred the case to the European Court of Justice, and in 2009, the Advocate General in charge for the case issued an opinion stating that the Portuguese Government's ownership of PT's class A shares did not comply with the European rules on the free movement of capital. At an Extraordinary Shareholders' Meeting held on 30 June 2010, the Portuguese Government used its class A shares to reject an offer by Telefónica S.A. to purchase PT's interest in Brasilcel N.V., the joint venture that held PT's interest in Vivo, even though 73.9% of the ordinary shareholders present at the meeting voted in favor of Telefónica's offer. On 8 July 2010, the European Court of Justice ruled that the Portuguese Government's ownership of PT's class A shares

was illegal under European law. Following the European Court of Justice decision, on 26 July 2011, PT's General Meeting of Shareholders approved the amendment of the Company's Bylaws and eliminated the special rights granted to the 500 class A shares of stock held by the Portuguese Government.

#### Other Legal Proceedings in PT's Portuguese Telecommunications Business

In March 2004, TVTEL Grande Porto—Comunicações, S.A. ("TVTEL"), a telecommunications company based in Oporto, filed a claim against PT Comunicações in the Lisbon Judicial Court. TVTEL alleged that PT Comunicações, since 2001, has unlawfully restricted and/or refused access to the telecommunication ducts of PT Comunicações in Oporto, thereby undermining and delaying the installation and development of TVTEL's telecommunications network. TVTEL alleges that PT Comunicações intended to favor both itself and TV Cabo. TVTEL is claiming an amount of approximately €15 million from Portugal Telecom for damages and losses allegedly caused and yet to be sustained by that company as a result of the delay in the installation of its telecommunications network in Oporto. In addition, TVTEL has demanded that PT Comunicações be required to give full access to its ducts in Oporto. PT Comunicações submitted its defense to these claims in June 2004, stating that (1) TVTEL did not have a general right to install its network in PT Comunicações's ducts, (2) all of TVTEL's requests were lawfully and timely responded to by PT Comunicações according to its general infrastructure management policy and (3) TVTEL's claims for damages and losses were not factually sustainable. The trial was concluded in 2011, and PT is awaiting a judicial decision.

In March 2011, Optimus – Comunicações S.A. ("Optimus") filed a claim against PT in the Judicial Court of Lisbon for the payment of approximately €11 million, and in October 2011, Onitelecom – Infocomunicações, S.A ("Oni") also filed a claim against PT in the same court for the payment of approximately €1.5 million, both related to the proceeding of Autoridade da Concorrência that terminated in 2011 for prescription purposes, in relation to which Autoridade da Concorrência had imposed a fine to Portugal Telecom of approximately €45 million, as described above. Optimus and Oni supported their position by arguing that they suffered losses and damages as a result of PT's conduct. PT countered all the arguments presented by Optimus and Oni and, based on the opinion of PT's internal and external legal counsel, have not recorded any provision for this matter.

# **Total Provisions for Legal Proceedings**

PT is a party to a number of pending legal proceedings the outcomes of which, individually or in the aggregate, are not expected to have a material impact on PT's consolidated financial position. As of 31 December 2011, PT's provisions to cover probable losses in civil, labor and other legal proceedings (other than tax contingencies) totaled €680.5 million, including €455.2 million relating to civil claims and €220.9 relating to labor claims. In addition, as of 31 December 2011, PT had recorded provisions for probable losses relating to tax contingencies of €163.4million. These amounts included €441.8 million relating to civil claims, €216.4 million relating to labor claims and €101.9 million relating to tax claims, respectively, that reflect the proportional consolidation of Oi and Contax.

In addition, PT estimates that its potential liability in civil, labor and other legal proceedings (other than tax contingencies) in which a loss is considered possible (but not probable) in accordance with International Accounting Standard No. 37 was €489.0 million as of 31 December 2011, including €213.3 million relating to civil claims and €257.1 million relating to labor claims. In addition, PT estimates that its potential liability for tax contingencies in which a loss is considered possible (but not probable) was €1,969.0 million as of the same date. These amounts included €140.2 million relating to civil claims, €256.6 million relating to labor claims and €1,949.0 million relating to tax claims, respectively, that reflect the proportional consolidation of Oi and Contax.

### Oi Legal Proceedings

## Proceedings Accounted for as Involving Probable Losses

#### Civil Proceedings

As of 31 December 2011, Oi and Contax had recorded provisions in the amount of R\$4,165.5 million for civil proceedings in respect of which they deemed the risk of loss to be probable, including the corporate law proceedings and ANATEL estimates and fines described below.

Corporate Law Proceedings. As a successor to CRT, which was acquired in July 2000, Oi is subject to various civil claims. The claims, filed in 1998 and 1999, allege (1) errors in the sale of CRT's share capital, (2) the illegality of the bidding procedure, (3) errors in the calculation of the number of shares offered, (4) procedural nonconformities in the shareholders' meeting that approved the sale of shares of CRT and (5) errors in the valuation of the shares of CRT. Oi is also a defendant in several claims filed against CRT filed by users of telephone lines in the State of Rio Grande do Sul. CRT entered into financial interest agreements with its fixed-line subscribers. Under these financial interest agreements, customers had the right to subscribe to a number of CRT shares, with the number of shares to be issued to each subscriber to be determined based on a formula that divided the cost of the fixed-line subscription by the book value of CRT's shares. Beginning in June 1997, certain of CRT's fixed-line subscribers filed lawsuits in which they claimed that the calculation used by CRT to arrive at the number of shares to be issued pursuant to the financial interest agreements was incorrect and resulted in the claimants receiving too few shares.

In addition, as successor to Telecomunicações do Mato Grosso do Sul S.A. ("Telems"), Telecomunicações de Goiás S.A. ("Telegoiás") and Telecomunicações do Mato Grosso S.A. ("Telemat"), operating companies acquired by Brasil Telecom Holding in the privatization of Telebrás and which were subsequently merged into Oi, Oi is subject to various civil claims in connection with community telephone programs established in the States of Mato Grosso do Sul, Goiás and Mato Grosso.

Based on the decisions of the Brazilian Court of Justice issued in 2009, Oi considers the risk of loss regarding these proceedings to be probable. Currently, the provisions for these lawsuits are based on (1) applicable legal interpretations, (2) the number of ongoing lawsuits and (3) the average amount of historical losses, broken down by matter (including all procedural costs).

As of 31 December 2011, Oi recorded provisions in the amount of R\$2,350.1 million for those claims in respect of which it deemed the risk of loss as probable.

ANATEL Estimates and Fines. Almost every week, Oi receives notifications from ANATEL requesting information about its compliance with the various services obligations imposed on it by virtue of its concession agreements. When Oi is not able to comply with these requests or with its concession obligations, ANATEL may initiate administrative proceedings to impose sanctions on it. Oi has received various notifications, mainly for not meeting certain goals or obligations set out in the General Plan on Universal Service or the General Plan on Quality Goals, such as responding to complaints relating to billing errors, requests for service repairs on a timely basis and requests from locations with collective or individual access. As of 31 December 2011, Oi recorded provisions in the amount of R\$941.0 million for those claims in respect of which it deemed the risk of loss as probable.

#### Labor Proceedings

Oi is a party to a large number of labor claims arising out of the ordinary course of its businesses, including claims for:

- Overtime Lawsuits claiming the payment of overtime, for time allegedly worked after regular working hours.
- Salary differences and related effects Primarily representing amounts arising from salary equalization/reclassification differences claimed by employees who allegedly received lower compensation than coworkers holding similar positions.

- Hazardous work conditions Primarily reflecting the expected unfavorable outcome of lawsuits on the mandatory payment of hazardous duty premium to employees working under conditions classified as hazardous, mainly next to high-voltage installations.
- Indemnities Reflecting reimbursement of or compensation claims for damages suffered while employed by Oi for reasons such as occupational accidents, temporary tenure, pain and suffering, reimbursement of payroll deductions, daycare allowance, and productivity bonuses according to collective bargaining agreements.
- Stability and integration Relating to alleged non-compliance with an employee's special condition which prohibited termination of the employment contract without cause.
- Additional post retirement benefits Relating to differences allegedly due in pension benefits of former employees.
- Lawyers and expert fees Installments paid to the plaintiffs' lawyers and appointed court experts, when expert evidence is necessary during the fact-finding stage.
- Contractual rescissions Amounts due to claimants arising from the termination of
  employment contracts, such as vacation pay (proportional/vested), thirteenth salary fines
  and the increase in pay proportionate to other amounts claimed that allegedly should be
  included in the calculation of severance pay.
- Other labor contingencies Primarily including joint liability allegations by employees of third-party service providers, lawsuits related to differences owed on the deposits in the claimant's severance pay fund (FGTS) and labor fines arising from delays or non-payment of certain amounts provided for by the employment contract.

As of 31 December 2011, the total estimated contingencies in connection with labor claims against Oi and Contax in respect of which the risk of loss was deemed probable totaled R\$1,980 million.

#### Tax Contingencies

As of 31 December 2011, Oi and Contax had recorded provisions in the amount of R\$915.1 million for tax proceedings in respect of which they deemed the risk of loss to be probable, including the proceedings described below.

- ICMS (Value Added Tax). Under the regulations governing ICMS, in effect in all Brazilian states, telecommunications companies must pay ICMS on every transaction involving the sale of telecommunication services they provide. Oi may record ICMS credits for each of its purchases of operational assets. The ICMS regulations allow Oi to apply the credits it has recorded for the purchase of operational assets to reduce the ICMS amounts it must pay when it sells its services. Oi has received various tax assessments challenging the amount of tax credits that it recorded to offset the ICMS amounts it owed. Most of the tax assessments are based on two main issues: (1) whether ICMS is due on those services subject to the Local Service Tax (Imposto Sobre Serviços de Qualquer Natureza "ISS") and (2) whether some of the assets it has purchased relate to the telecommunication services provided, and, therefore, eligible for an ICMS tax credit. As of 31 December 2011, Oi recorded provisions in the amount of R\$605 million for those assessments in respect of which it deemed the risk of loss as probable.
- FUNTTEL. The Fundo para o Desenvolvimento Tecnológico das Telecomunicações ("FUNTTEL") is a fund that was established to finance telecommunications technology research, for which Oi is required to make contributions. Due to a change by ANATEL in the basis for calculation of its contributions to the FUNTTEL, whose legality Oi has questioned, Oi recorded provisions for additional contributions to these funds. As of 31 December 2011, Oi recorded provisions in the amount of R\$121 million for assessments of the FUNTTEL.

# Proceedings Accounted for as Involving Possible Losses

#### Civil Proceedings

Oi's civil proceedings that it has classified as involving possible losses consist of lawsuits for which no court decision has been issued and are primarily related to issues such as challenges to network expansion plans, compensation for pain and suffering and material damages, collection lawsuits and auction processes, among other matters. The total amount of civil proceedings that Oi and Contax have classified as involving possible losses was R\$1,297.1 million as of 31 December 2011. This total amount is based exclusively on the amounts claimed by the plaintiffs, which are typically higher than amounts actually recovered.

These civil proceedings also include certain ongoing litigation with committed subscribers and assignees of committed subscribers of fixed telephone services in Region I of Brazil who allege non-compliance with certain financial participation agreements prior to the privatization of fixed telephone services. These lawsuits involve approximately 50,000 agreements, and Oi has not recorded any provision because its legal counsel assesses the risk of loss as possible. As the lawsuits related to these agreements have not yet gone to trial, it is not practicable to measure possible disbursements in such lawsuits.

In addition, in September 2004, the Federal Public Prosecution Office and the Rio de Janeiro State Public Prosecution Office filed a civil suit against TNL, Telemar, TNL PCS and the Brazilian federal government requesting the annulment of the transfer of the TNL PCS share control to Telemar and the payment of compensation for pain and suffering and material damages allegedly inflicted upon non-controlling shareholders and the financial market. The sale of control of TNL PCS to Telemar is also challenged by two non-controlling shareholders and by the CVM in an administrative proceeding filed to determine whether there were any irregularities in the transaction. Oi originally deemed the risk of loss of those two claims to be possible. These three claims were judged unfounded by the lower court, and, accordingly, Oi's legal counsel reassessed the possibility of loss from possible to remote.

In July 2009, a class civil action was filed against Telemar by the Brazilian federal government, the Federal Public Prosecution Office, the Federal District and Territories Public Prosecution Office, customer protection bodies and several State Consumer Protection Agencies seeking compensation for alleged collective pain and suffering caused by non-compliance of the rules to establish general customer service standards. Telemar filed its defense arguments on 16 September 2009 and awaits the lower court decision.

Telemar and its subsidiaries are subject to administrative proceedings and preliminary investigations conducted by the Brazilian antitrust authorities with respect to alleged violations of the Brazilian antitrust law. These investigations may result in penalties, including fines. To date, no fines or penalties have been levied against Telemar and its subsidiaries. Oi has deemed the risk of loss to be possible that it will be fined in one or more of such proceedings and has not recorded any provisions for those claims.

## Labor Proceedings

Oi is subject to various labor lawsuits for which it has deemed the risk of loss to be possible. The total amount of labor proceedings that Oi and Contax have classified as involving possible losses was R\$1,930.7 million as of 31 December 2011. These lawsuits include claims similar to those described under "—*Proceedings Accounted for as Involving Probable Losses—Labor Proceedings*" above.

# Tax Contingencies

As of 31 December 2011, the estimated contingencies in connection with tax proceedings against Oi and Contax in respect of which the risk of loss was deemed possible amounted to R\$18,276 million. The Brazilian corporate tax system is complex, and Oi and Contax are currently involved in tax proceedings regarding certain taxes that the companies believe are unconstitutional and have filed claims to avoid the related payment. These tax contingencies relate primarily to the following:

- ICMS (Value-Added Tax) -- Tax assessments amounting to R\$5,646 million, which relate mainly to (1) ICMS levied on certain revenue from services already subject to ISS or which are not part of the ICMS tax base and (2) utilization of ICMS credits on the purchase of goods and other inputs necessary for network maintenance.
- City Taxes Tax assessments related to taxes levied by municipal authorities, including taxes levied on equipment leases, wakeup call services and other communication services. The total amount involved is R\$2,487 million, and the companies have not recorded provisions because their legal counsel consider the likelihood of an unfavorable outcome possible, rather than probable, as these activities do not qualify under the ISS service list or are already subject to ICMS.
- INSS (Brazilian Social Security) Pursuant to Brazilian social security legislation, companies must pay contributions to the National Social Security Institute (Instituto Nacional do Seguro Social) ("INSS") based on their payroll. In the case of outsourced services, the contracting parties must, in certain circumstances, withhold the social contribution due from the third-party service providers and pay the retained amounts to the INSS. In other cases, the parties are jointly and severally liable for contributions to the INSS. Assessments have been filed against Oi primarily relating to claims regarding joint and several liability and claims regarding the percentage to be used to calculate workers' compensation benefits and other amounts subject to social security tax. Lawsuits amounting to R\$1,590 million, mainly related to joint liability, the applicable percentage of Occupational Accident Insurance (SAT) and amounts subject to social security contributions.
- Other Federal Taxes Federal tax assessments, mainly related to alleged undue offsets and self-assessments of taxes due, or disallowing previous calculations, amounting to R\$6,085 million.

#### Judicial Deposits

Under Brazilian law, courts may require parties to make judicial deposits or to present financial guarantees in connection with legal actions for which risk of loss is deemed probable, possible or remote. As of 31 December 2011, Portugal Telecom's proportionally consolidated portion of the judicial deposits recorded by Oi and Contax amounted to €1,084.1 million, which we record as an asset on PT's consolidated balance sheet. For more information about these judicial deposits, see Note 31, to PT's audited consolidated financial statements.

# Auditors

The auditors of PT and PTC are Deloitte & Associados, SROC S.A., who have audited PT consolidated accounts and PTC accounts in accordance with Auditing Standards issued by the Portuguese Institute of Statutory Auditors as adopted in the European Union, for the financial years ended 31 December 2010 and 2011 and have issued unqualified audit reports on those accounts.

The auditors of PTIF are Deloitte Accountants B.V., who have audited the accounts of PTIF, in accordance with Dutch law, including the Dutch Standards on Auditing for the financial years ended 31 December 2010 and 2011, and have issued unqualified audit reports on those accounts.

The auditors of PT, PTC and PTIF have no material interests in PT, PTC and PTIF.

#### Post-issuance information

The Issuers do not intend to provide any post-issuance information in relation to any issuer of Notes.

# Dealers transacting with the Issuers and PTC

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuers, PTC and their affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of any of the Issuers or the Issuers' affiliates. Certain of the Dealers or their affiliates that have a lending relationship with either Issuer routinely hedge their credit exposure to such Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of Notes. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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