



**CONSOLIDATED
ANNUAL REPORT
2013**



PORTUGAL TELECOM



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PORTUGAL TELECOM, SGPS, SA

Public Company

Share Capital: Euro 26,895,375

Registered in the Lisbon Commercial Registry
and Corporate no 503 215 058

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The terms “PT”, “Portugal Telecom Group”, “PT Group”, “Group” and “Company”
refer to Portugal Telecom and its subsidiaries or any of them as the context.

CONTENTS

CHAIRMAN AND CEO'S MESSAGE	08
01 MACROECONOMIC ENVIRONMENT	13
02 REGULATORY BACKGROUND	29
03 STRATEGIC PROFILE	41
04 RESEARCH AND DEVELOPMENT	53
05 FINANCIAL REVIEW	75
06 BUSINESS PERFORMANCE	85
07 EMPLOYEES	99
08 CAPITAL MARKETS	101
09 MAIN EVENTS	109
10 MAIN RISKS AND UNCERTAINTIES	113
11 OUTLOOK	121
12 STATEMENT BY THE PERSONS RESPONSIBLE	125
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129
14 CONSOLIDATED FINANCIAL STATEMENTS	133
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227
16 STATUTORY AUDITOR'S REPORT	231
17 INDEPENDENT AUDITORS' REPORT	235
18 GLOSSARY	239
19 BOARD OF DIRECTORS	243
20 KEY FIGURES	245
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249

IN BRIEF



TELECOMMUNICATIONS IN PORTUGAL

Revenues (Euro million)

Customer segment

Residential	721
Personal	655
Enterprise	791
Wholesale and other	393
Total	2,560



TELECOMMUNICATIONS IN BRAZIL (Oi)^(a)

Revenues (Brazilian Real million, 100%)

Customer segment

Residential	10,303
Personal	9,290
Enterprise	8,455
Other	375
Total	28,422

^(a) This stake is accounted through the equity method.



OTHER TELECOMMUNICATIONS BUSINESSES

Revenues (Euro million, 100%)

Unitel 25% ^(a)	Angola	Mobile	^(b)
MTC 34% ^(a)	Namibia	Mobile	167
CVT 40% ^(a)	Cape Verde	Wireline, mobile	70
Timor Telecom 44%	East Timor	Wireline, mobile	47
CST 51% ^(a)	São Tomé and Príncipe	Wireline, mobile	13

^(a) These stakes are held by Africatel, which is controlled 75% by PT. | ^(b) This stake is accounted through the equity method.



OTHER BUSINESSES

Systems and IT [PT Sistemas de Informação 100%];
 Innovation, research and development [PT Inovação 100%];
 Backoffice and shared services [PT PRO 100%];
 Call centres and telemarketing services [Contax in Brazil 44.4% and PT Contact 100%].



BRAZIL

OI

Wireline and
mobile

CONTAX

Contact
centre services

CAPE VERDE

CVT

Wireline, mobile,
internet and data

Directel

Cabo Verde
Directories

SÃO TOMÉ AND PRÍNCIPE

CST

Wireline,
mobile,
internet
and data

ANGOLA

Unitel

Mobile

Elta

Directories

Multitel

ISP and data

NAMIBIA

MTC

Mobile



PT IN THE WORLD

HUNGARY

HDT
VSAT operation

MOZAMBIQUE

LTM
Directories

KENYA

Kenya Postel
Directories
Directories

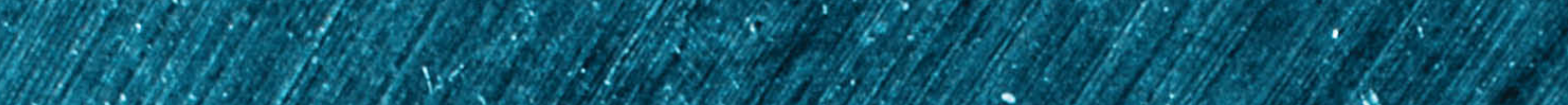
TIMOR

Timor Telecom
Wireline,
mobile,
internet
and data

CHAIRMAN AND CEO'S MESSAGE



PORTUGAL TELECOM



Henrique Granadeiro

“The new company, which will result from the combination between PT and Oi, will be our path to growth, technological leadership and to profitability”

Dear Shareholder,

2013 was characterised by the announcement of structural changes in Portugal Telecom related to the combination of businesses between PT and Oi. This transaction is the natural fulfilment of the industrial alliance signed in 2010 between the two companies and PT's path in the last years, namely with its knowledge and experience of the Brazilian market.

The merger with Oi, with the first step given by PT's General Meeting held March 27, 2014, will close a cycle started in 2006 and will open to PT a new future, keeping the integrity of its industrial project and the matrix of its development based on the ability to invest and innovate.

In 2007, Portugal Telecom surpassed an unsolicited tender offer, adding shareholder value. It was under my term of office that, in that year, shareholders refused an offer of Euro 10.5 per share, revised from its initial price of Euro 9.5, having benefited from a share buyback programme amounting to Euro 1.2 billion, PT Multimédia spin-off and dividends payment amounting to a total of

Euro 5.5 billion. Today, the comparable PT's share price would be Euro 11.5, an increase of circa 9% against the offered price.

Meanwhile, and through a strong investment in network, innovation and technology, PT was transformed in a way that allowed achieving leadership in main business areas. This investment came from a strategy defined by the Board of Directors in 2008 and implemented in the 2009-2011 triennium and in 2012, resulting in a unique FTTH network in the European backdrop, covering 1.6 million households, a 4G-LTE network that covers circa 93% of the population at the end of 2013, leading the development of 4G-LTE in Portugal, and a fibre backhaul reaching 94% of mobile base stations. Therefore, PT ends 2013 with a mobile market share of 46.8%, increasing by 2.3 percentage points in a one year period, and a triple-play market share of 47.2% in September 2013, an increase of 1.6 percentage points compared to the end of 2012.

Alongside with the business transformation in Portugal, PT has in its DNA a solid track record in Brazil, with initial investments in 2002 with the acquisition of Telesp Celular and the subsequent launch of the first mobile pre-paid in Latin America. Meanwhile, Portugal Telecom teamed up with Telefónica, aggregating all its financial assets and creating the largest telecommunications operator in the south hemisphere, leading to the launch of the brand Vivo. After 4 years of teamwork, including business transformation through corporate and operational integration into a single company, migration to GSM, Vivo's achievement of national coverage and investment in the massification of mobile broadband, Telefónica announced its intention to buy PT's stake in Vivo, for a total amount of Euro 5.7 billion, with the shareholders approving the sale for Euro 7.5 billion, crystallising the asset strategic value and proving our company's ability to create value through partnerships.

Notwithstanding the disposal of PT's stake in Vivo, the Board continued to believe in the huge growth potential in Brazil, with low telecommunication services penetration rates and improving economic indicators, and Oi has all the necessary features to capture these opportunities:

- Oi has over 74.5 million customers in Brazil;
- Approximately 12 million households with voice and/or broadband;
- 2G/3G and 4G-LTE coverage;
- More than 520 thousand WiFi hotspots;
- 330 thousand kilometres of optic fibre and presence in all Brazilian states and 5,477 municipalities a coverage 7 times greater than the coverage of the second operator as at April 2012.

Therefore, in 2010, PT initiated a strategic partnership with Oi through a total investment of R\$ 8.3 billion for a 25.32% stake in Telemar Norte Leste, which now represents 23.17% in Oi after the corporate simplification carried out by Oi.

In this context, and taking into consideration the consolidation movements in the sector around the world, particularly in Europe, PT and Oi decided to combine their businesses in order to create one of the largest and most diversified telecommunications operators in the world.

In fact, PT and Oi will be merging into a new company, which will have scale and will be diversified, not just in terms of geography, reaching 260 million inhabitants, but also in terms of the scope of services that will be offering, with lower execution and operational risks. The synergies announced amounted to Euro 5.5 billion and the new company will have over 100 million customers in 8 strategic markets with revenues at Euro 12.8 billion, an EBITDA of Euro 4.8 billion and CAPEX of Euro 2.8 billion, pro forma 2013 financial highlights. This new company will be a single listed entity on the Novo Mercado in São Paulo, New York Stock Exchange and New York Stock Exchange Euronext Lisboa, with one class of shares, to enjoy higher liquidity and a more diversified and international shareholder base, with higher standard of corporate governance.

Going now in detail through 2013, in this year Report and Accounts, PT decided for the early adoption of IFRS 11 Joint Arrangements, following which PT's joint control interest in Oi, Contax and controlling entities was accounted by the equity method and no longer by the proportional consolidation method. In 2013, consolidated operating revenues amounted to Euro 2,911 million and EBITDA Euro 1,162 million, with a margin of 39.9%. In 2013, and assuming the proportional consolidation of Oi and Contax, operating revenues would have amounted to Euro 5,988 million, decreasing by 9.3% compared to 2012, and EBITDA would have amounted to Euro 2,122 million, decreasing by 6.5% also compared to 2012. Against this backdrop, international assets would represent 56.5% and 52.1% of PT's consolidated revenues and EBITDA, respectively. Net income stood at Euro 331 million in 2013 against Euro 226 million in 2012, mainly explained by the gain recorded in connection with the sale of the investment in CTM, Macau.

In 2013, the Eurozone began to improve but at a slow pace, namely in terms of GDP growth. The Eurozone has been showing signs of recovery but several headwinds remain, including persistently weak demand as the public and private sectors continue to deleverage, high unemployment, particularly in the youth segment, depressed labour markets, persistent weak investment and lingering tight credit conditions, which are holding back investment that is necessary for a sustained economic recovery in growth and employment. In Portugal estimates were revised upwards for 2013-2014, confirming the consistent improvement in economic indicators observed throughout the year. The ongoing implementation of austerity measures led Portugal to be perceived as a country committed to the adjustment programme, reflected in the relative stabilisation of perceived country risk and in the opening of the debt markets for the non-financial corporations as well as for the banking sector.

Notwithstanding this context, PT continues to lead Portuguese telecommunications market, as referred to above, pursuing a truly convergent strategy. In January 2013, PT launched M₄O, the first quadruple-play service in Portugal, leveraging on the triple-play leadership achieved by MEO, improving further its competitive positioning. In one year, M₄O reached 1.7 million RGUs and continues gaining momentum in the Portuguese market. Following this rationale of convergence, in January 2014, MEO became the only PT brand for the consumer segment (Residential and Mobility). All services rendered by TMN are now provided under the MEO brand. In carrying out this transformation, PT took into consideration the consumption trends of its customers, as well as its strategy for the consumer area, including the residential and personal segments, which consists of the investment in fixed-mobile convergence and in convergence of services, namely voice, internet and TV. Additionally, in the enterprise sector, PT now addresses the market under the brand PT Empresas, which aggregates the services up to now provided by PT Negócios and PT Prime. This new convergence positioning incorporates Portugal Telecom's innovation and technology strategy that aims at improving the lives of its customers, through its unique ability of integrating different technologies and convergent services. Additionally, the unification of brands will allow Portugal Telecom to continue promoting efficiency and enhancing the profitability of its assets. PT has invested in the past in four key areas in order to prepare itself for convergence, namely in: (1) a state-of-the-art network with integrated management for fixed-mobile network; (2) storage and processing, with the inauguration of one of the most efficient data centres in the world in September 2013 in Covilhã and the creation of partnerships to deliver the best cloud solutions; (3) customer touch points, with the integration of fixed and mobile stores under a unique concept and a single CRM software with a 360° customer vision, and (4) multi-platform apps, to enhance customers experience.

As a result of the strong investment in new generation networks and IT in recent years, Portugal is at the forefront of the sector, which is being translated in the most sophisticated telecommunications services made available to Portuguese customers. PT's investment has been progressively building a competitive advantage and will support PT's integrated offers in the market. 2013 was also the year when PT developed its investment in cloud computing inaugurating a state-of-the-art Data Centre in Covilhã, allowing PT once again to innovate, anticipate future trends and diversify further the services offered. The Board believes that these investments in new generation technologies, both in FTTH and 4G-LTE, as well as in cloud, substantially improve the efficiency of data transmissions, thus allowing significant cost reduction and upgrade the quality of service we provide to our customers.

In 2013, under a new management team, considering a less buoyant macroeconomic environment and taking into consideration Oi's focus on financial discipline, since the second quarter of 2013, Oi adopted a more conservative business strategy, adjusting its credit policies and revisiting its sales processes to ensure profitable growth. This change is aimed at improving the quality of the customer base reducing bad debt levels while increasing customer loyalty.

During 2013, in the Residential segment, Oi continued to implement initiatives focused on cross selling, bundling and retention while offering the products that are most suited for each customer profile. Against this backdrop, the selling effort is now focused on redesigning customers fixed plans, upselling fixed-line customers with broadband and pay-TV and promoting fixed-mobile convergence. In the Personal Mobility segment, Oi is becoming more conservative in its sales approach and in handset subsidies, focusing more on the quality of the sales and reducing churn, reflecting a renewed focus on financial discipline and aim at achieving sustainable growth and monetising the post-paid base. In the Enterprise segment, Oi's strategy is focused on capturing synergies with PT and taking advantage of its cloud computing expertise to provide more complete services, seeking solutions that are both scalable and available, as well as to reduce costs.

In 2013, Oi has entered into several agreements to divest of non-strategic assets, in order to increase Oi's financial flexibility and add value to its shareholders. Additionally, in 2013, Oi approved a revised shareholder remuneration policy for the 2013-2016 period which establishes the payment of a total dividend of BRL 2 billion equivalent to an annual payment of 500 million Brazilian Reals. The 2013 fiscal year dividend was paid in October 2013.

PT remains as a geographically diversified operator reaching over 100 million customers. Regarding our African and Southern Asian operation, PT has maintained strong growth levels leveraged on the strong investment in future proof technologies allowing it to maintain its leading competitive position in each market.

PT is a reference in terms of sustainability, being included in the most important indexes and rankings in this area, namely in the Dow Jones Sustainability Index, where we are among the ten best companies worldwide, and in the FTSE 4Good. PT was the first Portuguese company to be included in both Dow Jones Sustainability World Index and FTSE 4Good.

With the 2013 dividend approval at the 2014 Annual General Meeting, PT will pay an amount of Euro 0.10 per share to its shareholders, following the approved change of its shareholder remuneration policy for fiscal years 2013 and 2014 announced in August 2013. This decision, coupled with the sale of PT's equity interest in CTM and the 2020 one billion Eurobond issued during the year lead to a reinforcement of the Company's balance sheet and to a stronger financial flexibility. With these initiatives, PT ended the year with its maturities and commitments fully funded until mid 2017.

The new company, which will result from the combination between PT and Oi, will be our path to growth, technological leadership and to profitability. In Brazil, we will continue to focus on operational execution, focusing on convergence and mobility. In Portugal, we will continue to guarantee market leadership, focusing on cash-flow generation. At last, in Africa, we will continue to pursue growth and profitability, ensuring the share of best practices.

In these challenging and dynamic periods, the results and excellence achieved would not have been possible without the trust and support of our shareholders as well as without the commitment and quality of the management and workforce, which constitute our greatest competitive advantage.



Henrique Granadeiro

Chairman of the Board and of Directors and Chief Executive Officer

01

MACROECONOMIC ENVIRONMENT

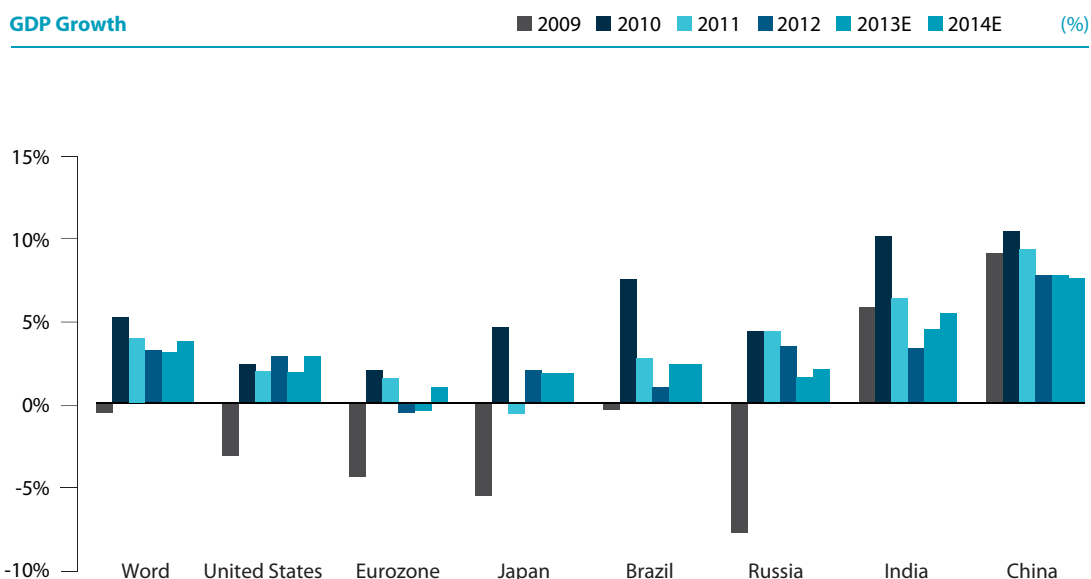


CHAIRMAN AND CEO'S MESSAGE	08		
01 MACROECONOMIC ENVIRONMENT		1. INTERNATIONAL ECONOMIC BACKGROUND	14
02 REGULATORY BACKGROUND	29	1.1 United States	17
03 STRATEGIC PROFILE	41	1.2. Economic and monetary union - Eurozone	18
04 RESEARCH AND DEVELOPMENT	53	2. ECONOMIC ACTIVITY IN PT'S MAIN GEOGRAPHIES	21
05 FINANCIAL REVIEW	75	2.1. Portugal	21
06 BUSINESS PERFORMANCE	85	2.2. Brazil	22
07 EMPLOYEES	99	2.3. Africa	24
08 CAPITAL MARKETS	101	2.3.1. Angola	24
09 MAIN EVENTS	109	2.3.2. Namibia	25
10 MAIN RISKS AND UNCERTAINTIES	113	2.3.3. Cape Verde	26
11 OUTLOOK	121	2.3.4. São Tomé and Príncipe	27
12 STATEMENT BY THE PERSONS RESPONSIBLE	125	2.4. Other geographies	28
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129	2.4.1. East Timor (Timor-Leste)	28
14 CONSOLIDATED FINANCIAL STATEMENTS	133		
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227		
16 STATUTORY AUDITOR'S REPORT	231		
17 INDEPENDENT AUDITORS' REPORT	235		
18 GLOSSARY	239		
19 BOARD OF DIRECTORS	243		
20 KEY FIGURES	245		
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249		

01 MACROECONOMIC ENVIRONMENT

1. INTERNATIONAL ECONOMIC BACKGROUND

The financial crisis began nearly five years ago and its effects continue to be visible in the financial markets and in the real economy. Global economic growth remains weak and there is still some degree of uncertainty. In 2013 the world's economy continued to slowdown as emerging market economies faced declining growth and tighter global financial conditions. Eurozone GDP declined for the second year due to the continued restrictive fiscal policies and deleveraging of the private sector in the main developed economies coupled with the unsolved sovereign debt crisis in the Eurozone. The United States observed several quarters of solid private demand although public sector demand has been pushing in the opposite direction. America's economy faster than expected growth in the third quarter raised concerns that the Federal Reserve (Fed) could start to phase out its quantitative easing programme, which indeed was announced in December 2013. The Chinese economy accelerated its pace from the second to the third quarter driven by stronger demand within China and overseas, which implies its efforts to stimulate the economy and domestic demand are delivering results. Nevertheless, there is an increased concern that its economy will grow slowly over the medium term than in the recent past as China is aiming for a more sustainable growth, instead of having an economy fuelled by credit. The core economies of Europe show some signs of recovery although southern periphery countries are still struggling. Increased exports and competitiveness are not strong enough to offset low internal demand. In both cases, there is lingering uncertainty about bank's balance sheets, with Europe scheduling new tests to assess their assets quality.

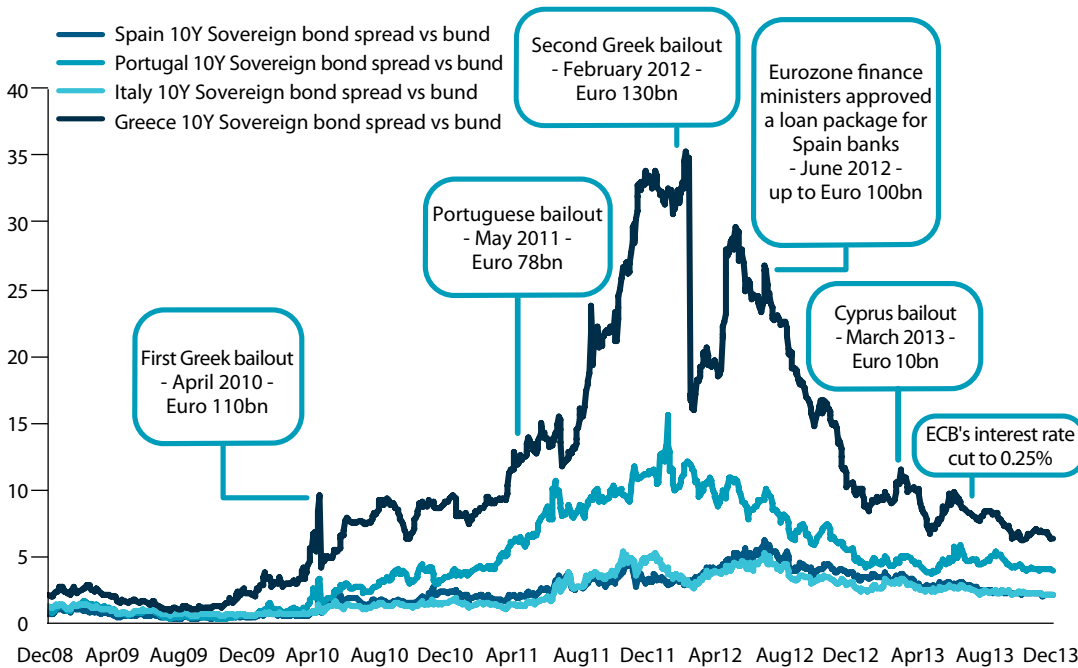


Source: World Economic Outlook, IMF, October 2013

Financial market conditions have improved over the past year, reflecting progress towards fiscal sustainability in the Eurozone. In 2H13, economic recovery was visible in the Eurozone with some economies coming out of the recession and Ireland’s exit of the bailout programme. This improvement occurred despite the Cyprus rescue package, elections in several economies, concerns about a potential banking crisis in Slovenia, and an extended period of very slow or negative growth. There were three main events in 2013 which unsettled confidence and market stability: (1) increased concerns about developments in some emerging market economies; (2) discussion in May regarding the tapering of asset purchases by the U.S. Federal Reserve, and (3) the U.S. potentially catastrophic crisis associated with its legislative ceiling on federal government debt. Europe’s policy setters and the ECB are trying to stimulate and support growth while advancing with the structural reforms and adjustments that need to be done. As a result, there were several initiatives put in place to stimulate Europe’s economy, such as: (1) the maintenance of ECB’s bond buying programme, which helped to secure financing needs of the banking sector, and the European Stability Mechanism (ESM), which is an important component of the comprehensive EU strategy designed to preserve financial stability within the Eurozone; (2) the decision by the ECB to cut its benchmark rate to 0.25%, an historical minimum, in an attempt to arrest a slump in inflation that has threatened to stop the Eurozone’s fragile economic recovery, and (3) the creation of a single supervisory mechanism for the oversight of banks and other credit institutions, thus establishing one of the main elements of Europe’s banking union.

Sovereign bond spread vs. bund | Selected economies

(basis points)



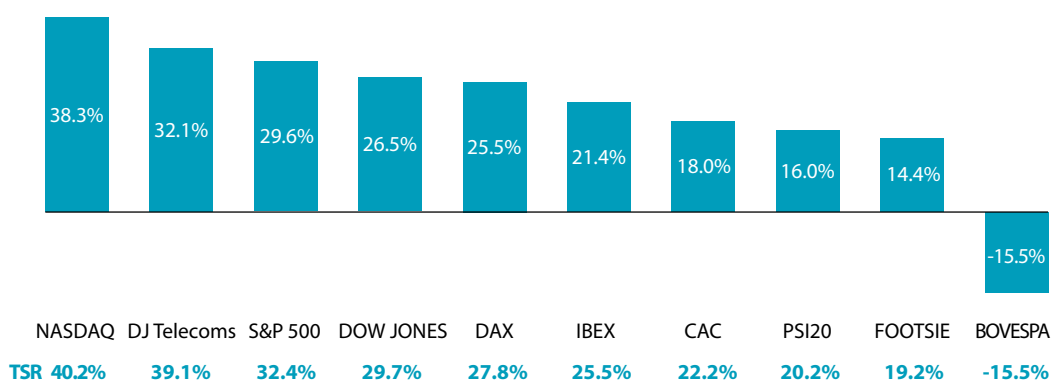
Source: Bloomberg

The Southern European indexes were pressured in 1H13 due to Cyprus bailout which damaged investor confidence in the region. Notwithstanding, the conditions in global financial markets eased significantly since July 2013, reflecting substantial progress to improve fiscal sustainability and mutual support mechanisms in the European Union, leading European equity indexes to show significant gains: FOOTSI: +14.4%, PSI20: +16.0%, CAC40: +18.0% and DAX: +25.5%. The US markets continued to show strong gains, as they benefited

01 MACROECONOMIC ENVIRONMENT

from a more expansionary monetary policy by the Federal Reserve: Dow Jones: 26.5%, SPX: +29.6%, and Nasdaq: +38.3%. The weaker economic growth in China and the deterioration of the Brazilian fiscal scenario, low economic growth and inflationary pressures kept investors away from those stock markets, resulting in declining equity markets: Shanghai Composite -6.75% and Bovespa -15.5%.

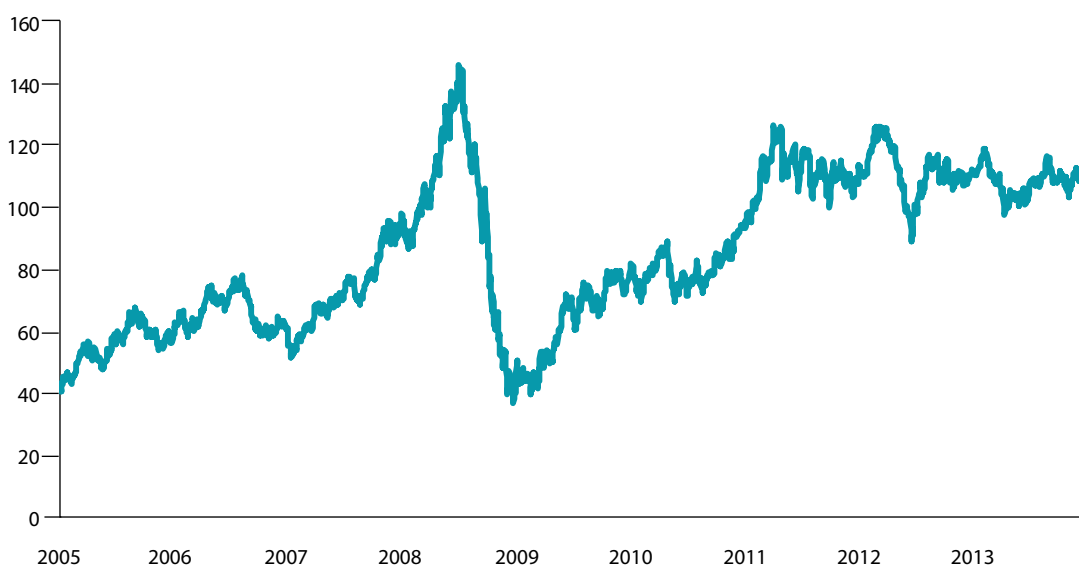
Performance of major stock market indexes in 2013



Source: Bloomberg

The Brent oil price per barrel stayed broadly flat throughout 2013, decreasing 0.3% when compared to the price observed at the end of 2012, to USD 110.8.

Brent Oil USD | Barrel



Source: Bloomberg

Commodities index

(basis points)



Source: Bloomberg

1.1 United States

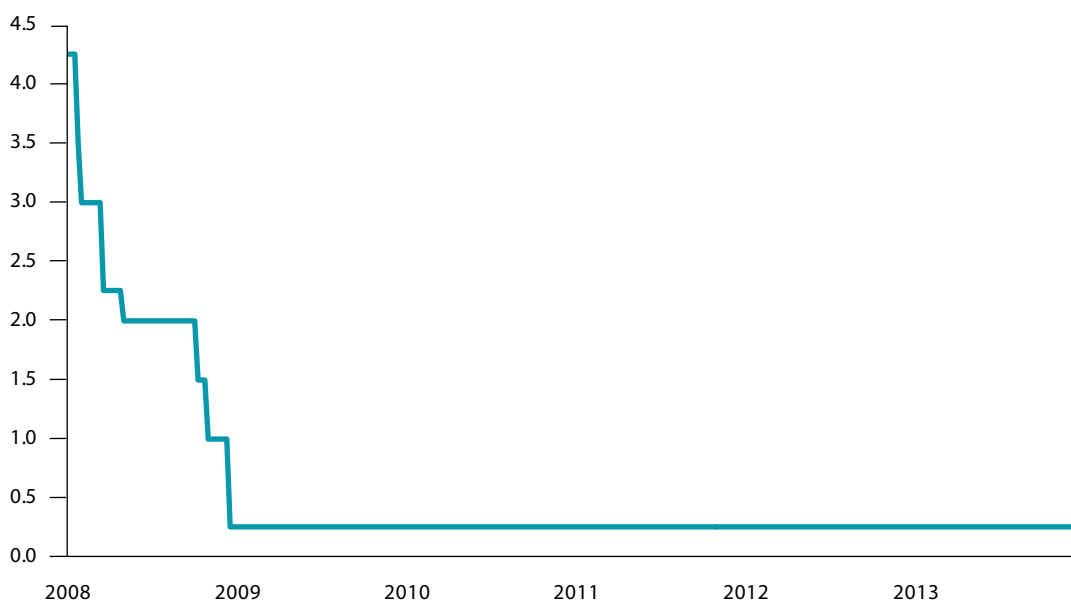
In 2013, the U.S. government has implemented a structural budget tightening worth more than 3% of GDP. The ongoing fiscal contraction and low consumer and business confidence have been creating strong headwinds. The U.S. economy is expected to grow 1.9%¹ in 2013, slowing down from the 2.8% registered in 2012, as a weaker-than-expected first half of the year was followed by the political crisis in Autumn that led to the government shutdown. This increased risk of a default weighed on the growth of the last quarter of the year. The U.S. Congress took an important step ending the partial shutdown of the federal government and lifting the debt ceiling, which enabled the government to continue its operations without disturbance for the next few months. The debt ceiling was lifted until February 2014 while much needed funding to keep the U.S. government running was authorised only through mid January 2014, fuelling continued uncertainty about government spending plans. In December, the Federal Reserve stated that the economy was healthy enough to begin cutting the steady flow of stimulus it had been supplying and announced it would be cutting its historic USD 85 billion a month programme by 2014, beginning with a cut of USD 10 billion per month in January.

¹ IMF estimates in October 2013 World Economic Outlook.

01 MACROECONOMIC ENVIRONMENT

FED

Rate (%)



Source: Bloomberg

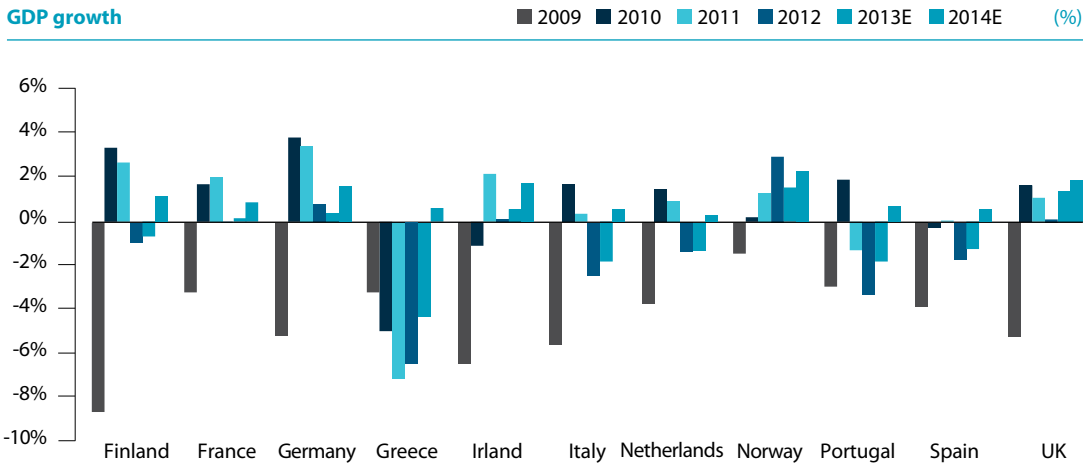
Although growth in the United States remains tepid amid strong fiscal consolidation, improved conditions bode well for a gradual acceleration in growth. U.S. exporters gained momentum in 2013 as they benefited from the appreciation of the Euro against the US Dollar throughout 2013. The labour market continued showing signs of improvement with the unemployment rate declining to an estimated 7.6%² in 2013. Annual inflation is expected to end the year below the 2% target set by the US monetary authority, at 1.4%.

1.2. Economic and monetary union – Eurozone

Following the double-dip recession lasting a year and a half, the Eurozone began to improve in 2013 but at a slow pace, barely perceptible. Unemployment remained very high, particularly in the youth segment, and social and political tensions are not helping the reform momentum in the Eurozone. The annual GDP is expected to decline 0.4%³ in 2013, a feeble recovery from the 0.6% decline registered in the previous year. The Eurozone may be showing signs of recovery since Mario Draghi made his “whatever-it-takes” pledge to save the Euro, in the Summer of 2012, but several headwinds remain, including persistently weak demand as the public and private sectors continue to deleverage, high unemployment, particularly in the youth segment, depressed labour markets, persistent weak investment and lingering tight credit conditions, which are holding back investment that is necessary for a sustained economic recovery in growth and employment. European countries responded to the continued sovereign debt crisis with: (1) bailouts, as Cyprus Euro

^{2,3}IMF estimates in October 2013 World Economic Outlook.

10 billion bailout deal included the closure of the island's second largest bank Laiki, a 47.5% haircut on deposits above Euro 100,000 at the main lender, the Bank of Cyprus, and tough austerity measures; (2) expansionary monetary policy, with the ECB cutting the benchmark interest rate to an historical minimum of 0.25%, and (3) continued austerity measures, which had a big impact on the European population and economy. The unemployment rate rose throughout 2013 and is expected to stay at 12.3%⁴, which makes it paramount for governments to make corrective efforts to keep the crisis from worsening. Moreover, inflation remains below the ECB's medium term objective, raising concerns about underlying deflationary trends.



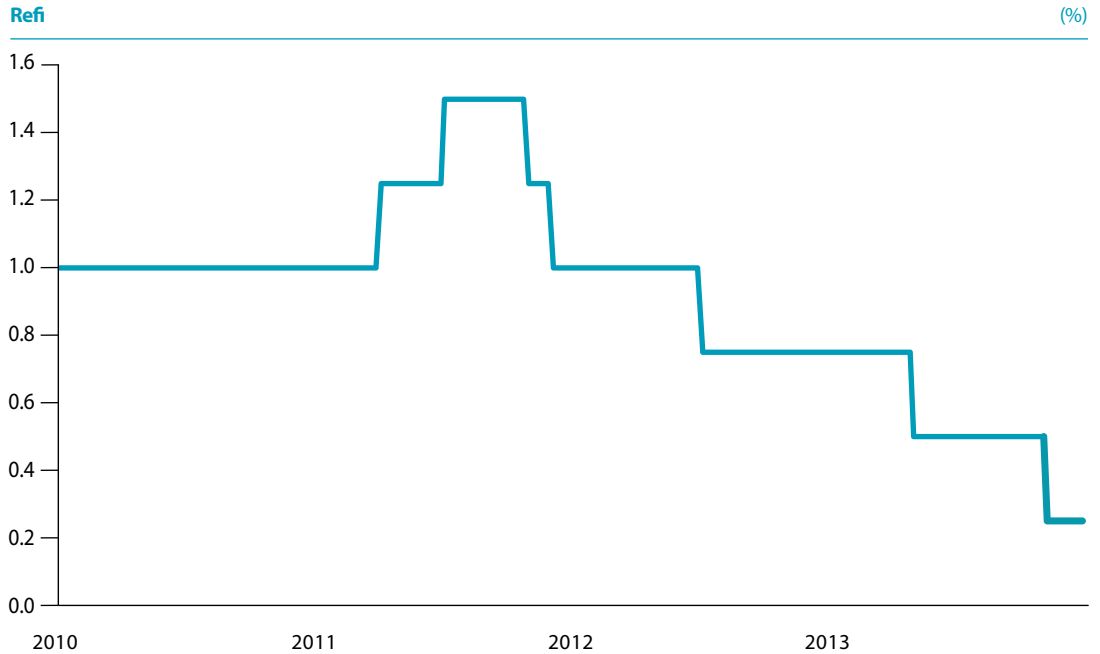
Source: World Economic Outlook, IMF, October 2013

Exports from Europe's leading economies were penalised by the strong Euro. While some members of the ECB's governing council opened the door to QE and a negative deposit rate to force down the Euro, a German-led bloc remained adamantly opposed to such steps and to the European monetary authority (ECB-European Central Bank) decision to decrease the reference interest rate to its historical minimum of 0.25%, in order to tackle the Eurozone deflationary risks and promote much needed growth. The deceleration in energy and food prices and, to a lesser extent, the impact on prices of the prolonged weakness in economic activity was reflected in the annual inflation rate, which is expected to stay at 1.5%⁵ in 2013. Furthermore, the appreciation of the Euro in effective terms has mitigated external inflationary pressures. According to the ECB, underlying price pressures in the Eurozone should remain low in the medium term.

^{4,5} IMF estimates in October 2013 World Economic Outlook.

01

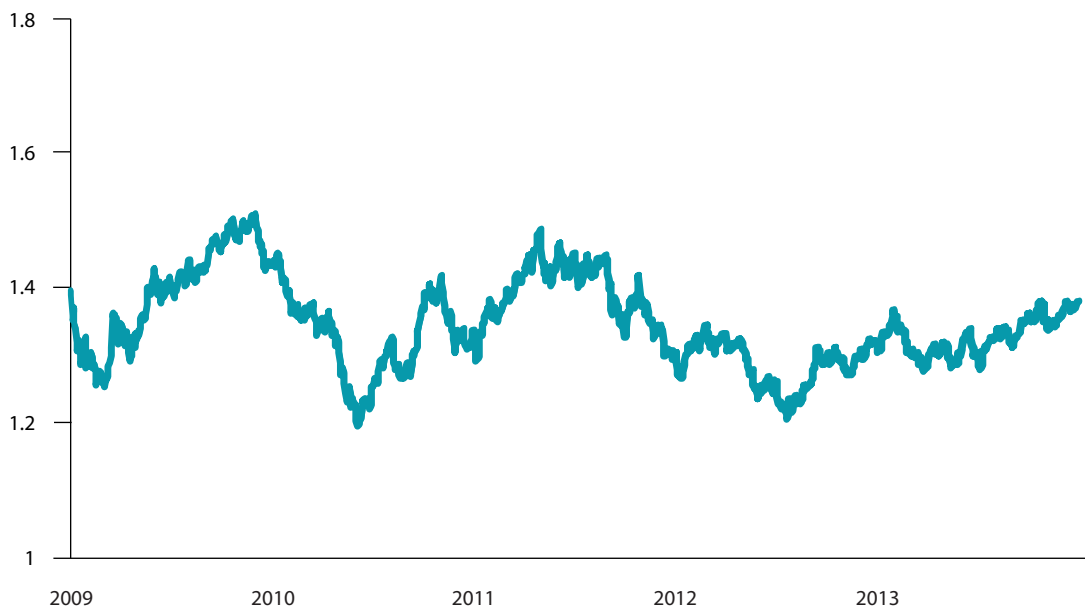
MACROECONOMIC ENVIRONMENT



Source: Bloomberg

In 2013 the Euro strengthened against the US Dollar, appreciating 4.5% against the US Dollar, to 1.3789 Euro/USD. For most of the year, currency trading revolved around the Federal Reserve's anticipated step-back in monetary easing, which grew more likely as U.S. economic data improved and at its December meeting, the Fed announced it would reduce its monthly asset purchases to USD 75 billion in January from USD 85 billion.

Euro | USD currency



Source: Bloomberg

2. ECONOMIC ACTIVITY IN PT'S MAIN GEOGRAPHIES

2.1. Portugal

Against the background of on-going fiscal consolidation, in 2013 the Portuguese economy tightened for its third year by 1.4%, above the 1.8% forecasted and improving from the 3.2% decline registered in 2012. Portugal estimates were revised upwards for 2013-2014 which confirms the consistent improvement in economic indicators. The ongoing implementation of austerity measures led Portugal to be perceived as a country committed to the adjustment programme, reflected in the relative stabilisation of perceived country risk. In March 2013, Portugal was able to negotiate with the Troika of international lenders, European Commission, European Central Bank and IMF, its deficit targets to avoid plunging deeper into recession and further unemployment. The Troika agreed to give Portugal one more year, until 2015, to carry out large spending cuts of Euro 4 billion and to meet its 3% deficit target, as the country was struggling to meet its projected deficit target of 2.5% in 2014. In 2013, Portugal was able to exchange two bonds maturing in 2014, with repayments of Euro 837 million in June 2014 and Euro 1.64 billion due in October 2014 and Euro 4.16 billion due in October 2015, for debt due in October 2017 and June 2018, which will reduce Portugal's debt burden in the next two years. In 2013, the EFSF extended Portugal and Ireland's average weighted maturity for all loans by up to seven years.

In 2013, Portugal returned to the long-term debt market for the first time since being bailed out in 2011, raising Euro 3 billion in 10-year bonds, with a yield of 5.7%. The resignation of two key ministers in Portugal's coalition government in July, which drove the country to the edge of an economic and political crisis and the rejection of Portugal's proposal for softer fiscal targets by the Euro Group in September, drove the Portuguese yields to reach its yearly maximum. As global conditions improved and domestic demand picked up, Portugal began to recover and in the 3Q13 registered the second consecutive quarter of growth, exiting the recession and leading to a stabilisation of the country's yields and spreads. Exports' performance is being the main driver of the present improvement of the Portuguese economy, achieving equilibrium of the coverage ratio of goods and services (exports/imports). 2013 has seen a slight improvement in financing conditions, which, however, remain tight. The declining banks' financing costs and their improved liquidity position resulted in a slight narrowing of spreads. In 2013, the average rate of the Portuguese Consumer Price Index (CPI) was 0.3%.

Portugal's government has been implementing the measures agreed as part of the Euro 78 billion financial support package signed with the European Union / European Commission (EU/EC), the European Central Bank (ECB), and the International Monetary Fund (IMF). This financial adjustment programme began to be implemented in May 2011, having already been the subject of ten⁷ favourable reviews by creditor officers. According to the IMF, the programme is broadly on track and further signs of recovery have emerged. Portugal's budget deficit was revised to 5.5% of GDP in 2013 (up from 4.5%), 4.0% of GDP in 2014 (up from 2.5%) and 2.5% of GDP in 2015 (up from 1.9%). The relaxation of the budget targets came mainly to partially accommodate lower fiscal revenues and higher social transfers, stemming from a deeper recession than initially envisaged. In spite of the challenges in meeting the deficit targets, the commitment for fiscal consolidation has been very clear. The privatisation programme has generated revenues of more than Euro 6.4 billion, already above the initial expectations of Euro 5 billion.

⁷The tenth quarterly review of Portugal's economic programme by the EC, ECB and IMF took place between 4 and 16 December.

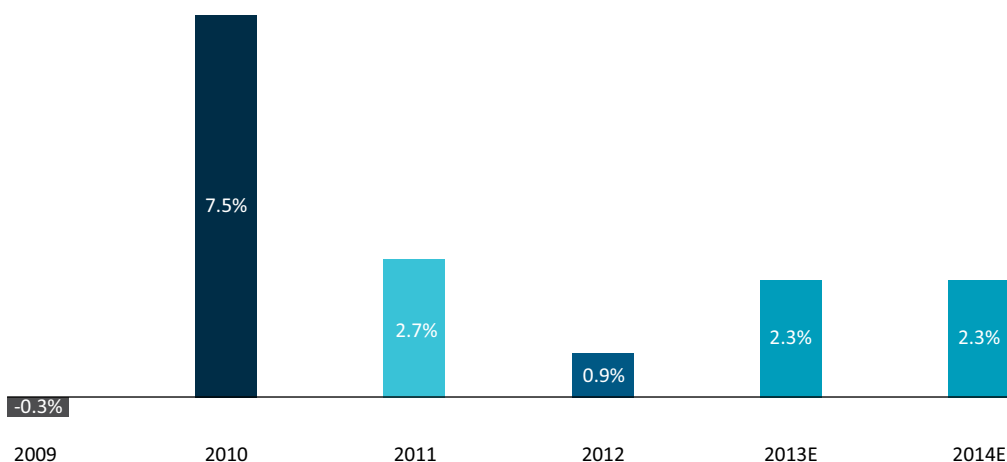
01 MACROECONOMIC ENVIRONMENT

2.2. Brazil

In 2013, the Brazilian economy is expected to grow by 2.3%⁸, with a solid consumer market as the country continues to work with near-full employment. Brazil continues to exhibit favourable conditions in the labour market, recording an annual unemployment rate of 4.6% in November 2013. The exchange rate continued to contribute positively to the performance of the economy, since the intervention of the Ministry of Finance and the Central Bank of Brazil (BCB) was responsible for the stabilisation registered against the US Dollar. Brazil's Central Bank announced a likely slowdown in the pace of currency intervention next year, in order to take advantage of an upbeat market reaction to U.S. policymakers' decision to cut back on monetary stimulus.

Brazil | GDP growth

(%)



Source: World Economic Outlook, IMF

Unemployment

(%)



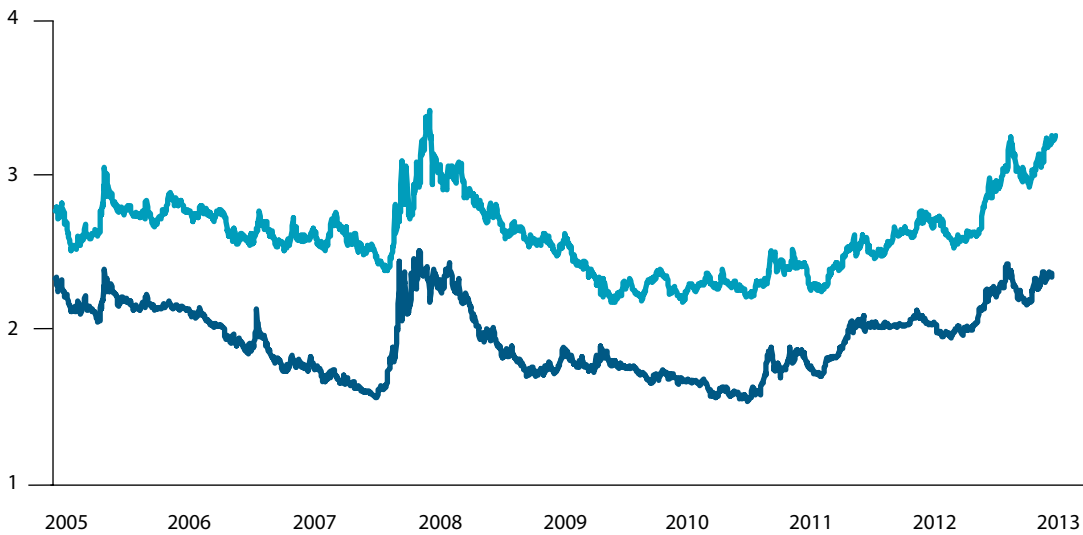
Source: Bloomberg

⁸ IMF estimates in October 2013 World Economic Outlook.

Inflationary pressures continued throughout 2013, with the official inflation rate closing at 5.9%, below the government’s target ceiling of 6.5% but higher than anticipated by the market. In October, Brazil’s federal government posted the widest primary budget deficit in almost five years, increasing the probability of seeing its credit rating downgraded. Brazil’s Central Bank raised its key interest rate, from 9.5% to 10%, extending the world’s biggest tightening cycle as a weaker currency and widening budget deficit spur inflation pressures.

EURO | BRL - USD | BRL

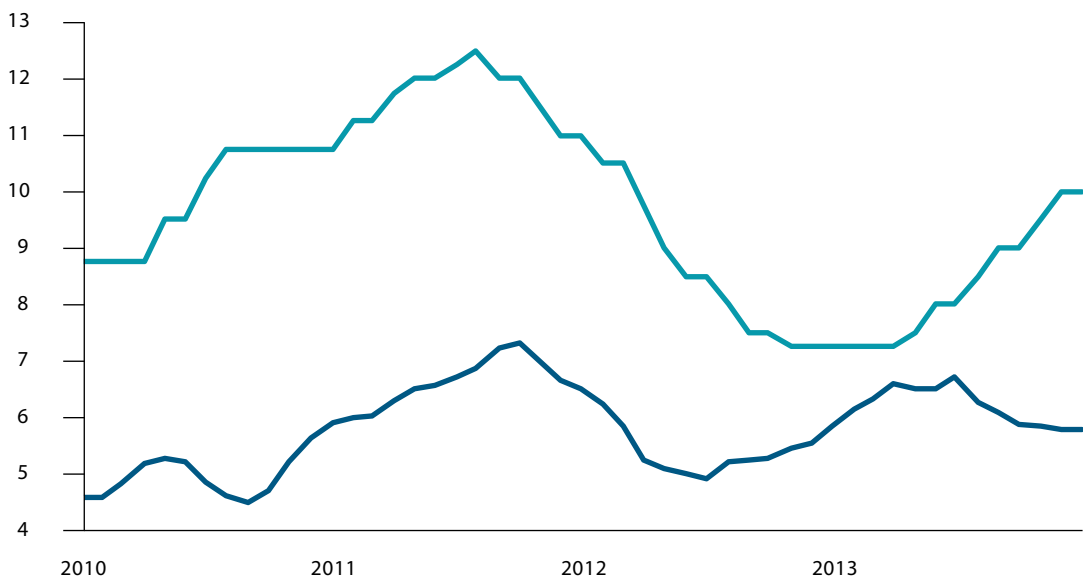
— EURO | BRL — USD | BRL



Source: Bloomberg

Selic | IPCA

— Selic — IPCA (%)



Source: Bloomberg

01 MACROECONOMIC ENVIRONMENT

2.3. Africa

African economies, which had rebounded quickly following the slowdown caused by the global recession, are now recording an ease in the growth momentum in those countries with strong links to global markets and also in those where political and social tensions have increased. Growth main drivers were oil production, mining, agriculture, services and domestic demand, which mitigated the adverse effects from global turbulences. Africa's average growth of gross domestic product is likely to amount to 4.8%⁹ in 2013, due to the return of oil production in Libya. Excluding this effect, Africa's gross domestic product should reach 4.5% in 2013.

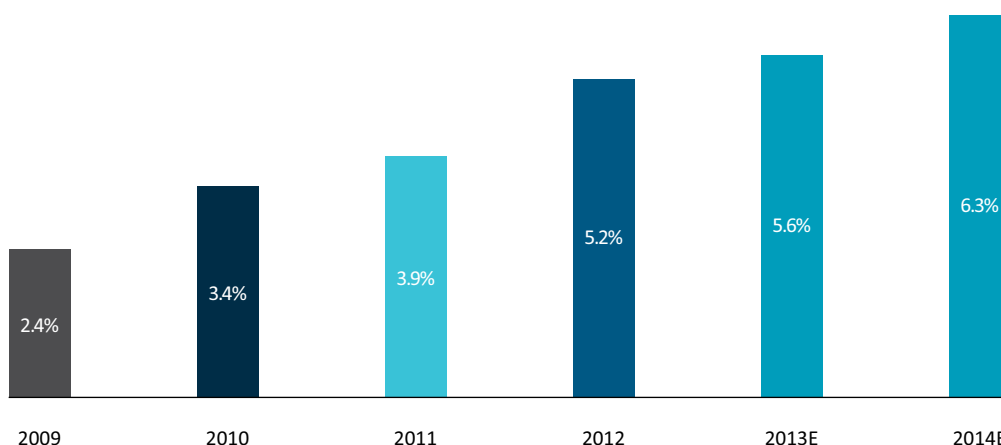
2.3.1. Angola

In 2013, Angola's economy rebounded strongly after experiencing slow growth due to the financial crisis and oil. Angola's growth, which is expected to reach 5.6%¹⁰ in 2013, will be driven by a combination of continued expansion in the oil and gas sector (with Angola consolidating its position as one of the largest oil producers in Africa), and a public expenditure programme designed to encourage economic diversification. Angolan authorities have indicated that monetary policy in 2013 would be conducted to accommodate the budget execution, which foresees a fiscal deficit of 3.4% of GDP and ensure price stability. Angola's monetary policy committee, inaugurated in October 2011, lowered the benchmark interest rate to 9.25% in 2013 in an effort to stimulate greater access to credit to the economy given that inflation has maintained a downward trajectory. Inflation is expected to reach 9.2%¹¹ in 2013 and continue to fall in 2014. The government created the Sovereign Wealth Fund (SWF) to help protect the economy from volatile oil prices and ensuring sustainability in the management of oil revenues.

The Stand-By Arrangement programme helped the country to regain macroeconomic stability, achieve an improved fiscal position, more comfortable level of international reserves, a stable exchange rate and lower inflation, although it continues to face massive developmental policy challenges, such as the reduction of the dependency on oil, diversification of the economy, and improvement of the living conditions of the population.

Angola | GDP growth

(%)

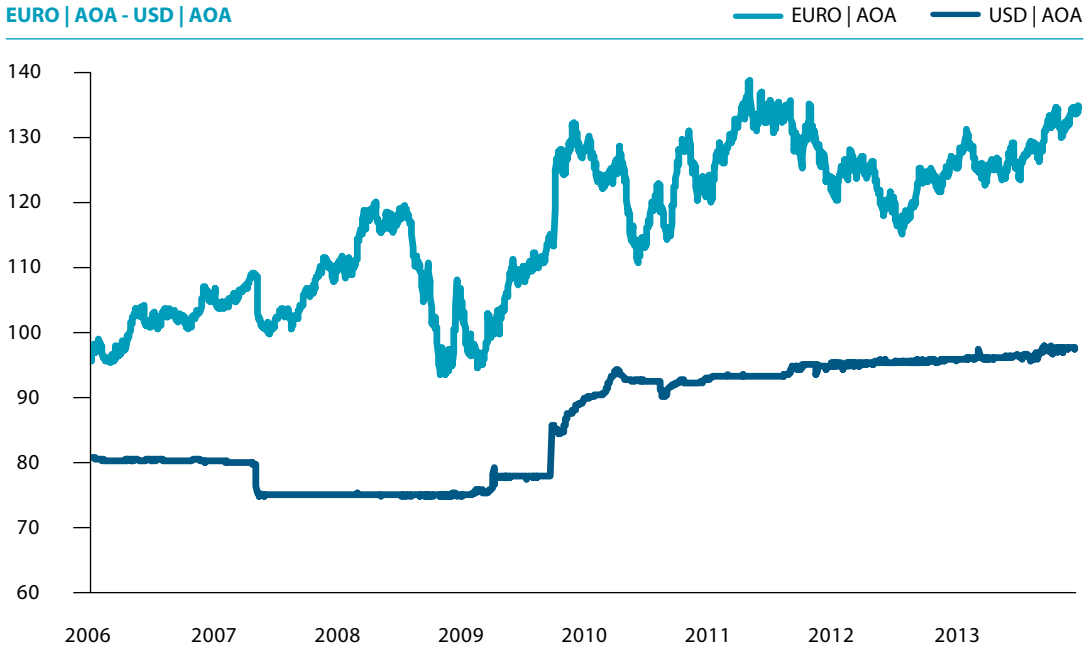


Source: World Economic Outlook, IMF

^{9,10,11} IMF estimates in October 2013 World Economic Outlook.

The Kwanza maintained a smooth depreciation trend of less than 2% against the US Dollar, with the exchange rate standing at USD 1: AOA 97.6 at the end of 2013.

EURO | AOA - USD | AOA



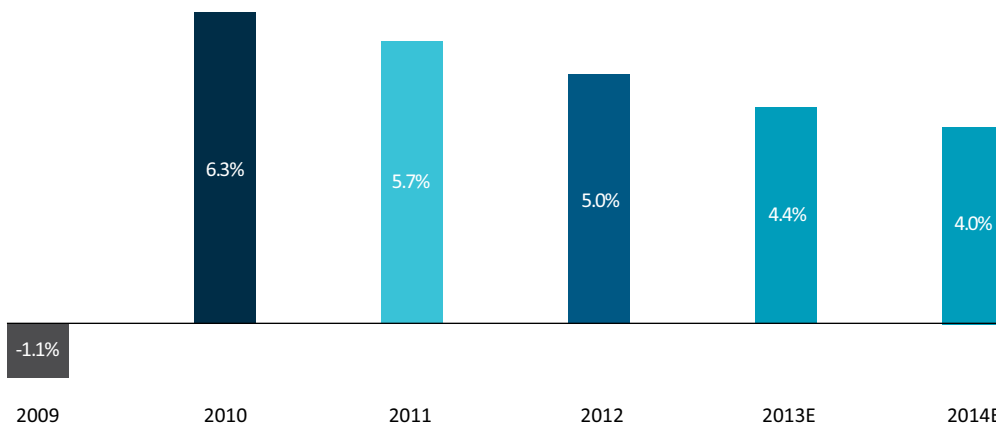
Source: Bloomberg

2.3.2. Namibia

Namibian economy is expected to moderate its growth in 2013 to 4.4%¹², reflecting weak global demand for exports and falling commodity prices coupled with the worst drought in 14 years, which more than offset the solid growth in the non-mineral sector. Namibia's inflation rate has been decreasing through 2013 and is expected to reach 6.4%¹³.

Namibia | GDP growth

(%)



Source: World Economic Outlook, IMF

^{12,13} IMF estimates in October 2013 World Economic Outlook.

01 MACROECONOMIC ENVIRONMENT

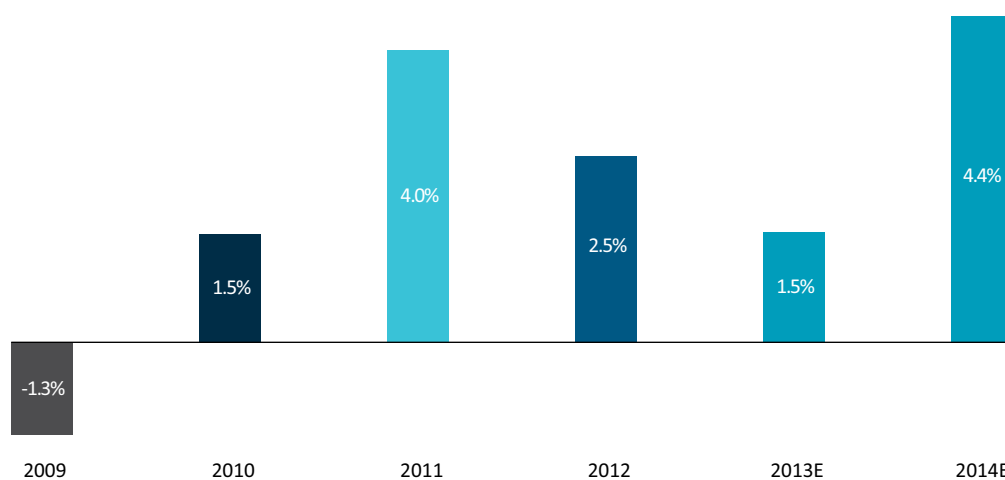
The IMF said the authorities took a step in the right direction with its increasing emphasis on efficiency and innovation, underpinned by greater private sector development.

2.3.3. Cape Verde

In 2013, Cape Verde's growth is expected to remain modest due to the difficult external environment notwithstanding new large public investments which are expected to provide support to domestic demand. The country's lack of non-renewable natural resources and poor conditions for agriculture keep it highly vulnerable to external shocks. GDP growth is estimated to have slowed to about 1.5%¹⁴ in 2013 (down from 2.5% in 2012), reflecting the negative external environment due to the adverse and yet to be resolved European economic and financial conditions. Consumer price inflation remained under control, falling to 2.2%¹⁵ in 2013 (end of period) as monetary policy remains tight.

Cape Verde | GDP growth

(%)



Source: World Economic Outlook, IMF

Monetary policy is constrained by the need to maintain the Cape Verde Escudo (CVE) currency peg to the Euro. Measures to reduce inflation and stabilise foreign-exchange reserves have been in place since 2011.

^{14,15} IMF estimates in October 2013 World Economic Outlook.

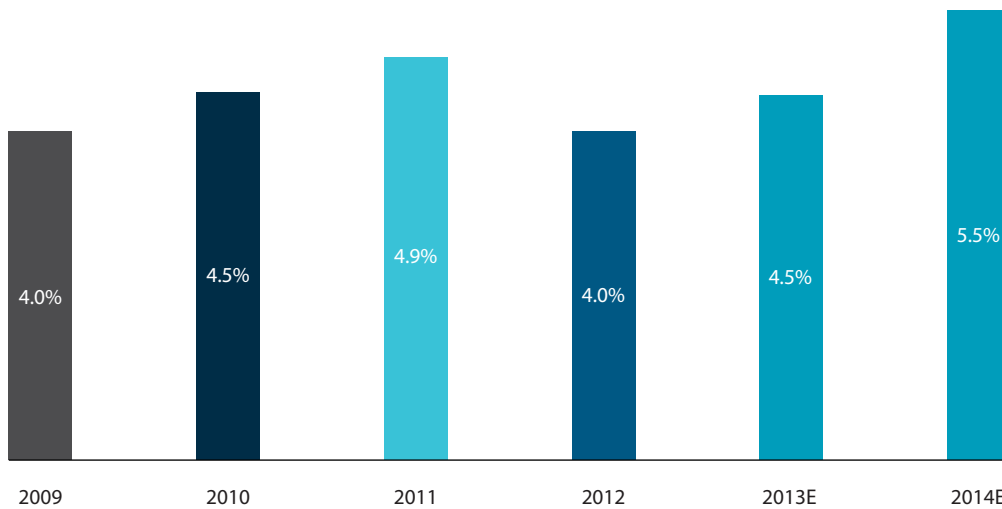
2.3.4. São Tomé and Príncipe

São Tomé and Príncipe’s economy is gradually recovering after a marked slowdown in 2009 that reflected a decline in foreign direct investment as a result of the global financial crisis. In 2013, GDP is estimated to have grown 4.5%¹⁶ as externally financed projects helped drive activities in construction, trade, tourism, and agriculture and exploratory drilling for oil continues, coupled with a positive performance in foreign direct investment. Inflation is expected to reach 8.6%¹⁷ in 2013.

The exchange rate is pegged against the Euro since January 2010.

São Tomé and Príncipe | GDP growth

(%)



Source: World Economic Outlook, FMI

^{16,17} IMF estimates in October 2013 World Economic Outlook.

01 MACROECONOMIC ENVIRONMENT

2.4. Other geographies

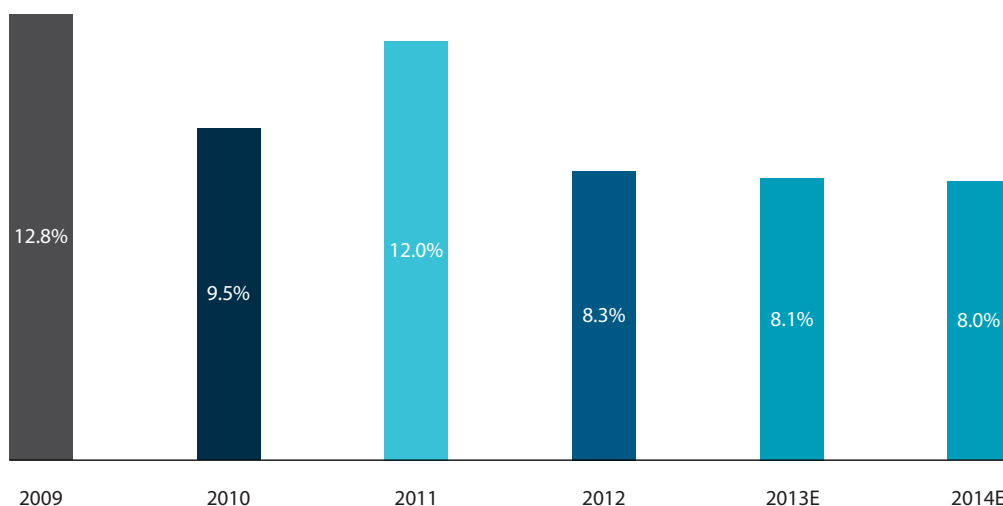
2.4.1. East Timor (Timor-Leste)

In 2013, growth is estimated to have remained strong at about 8.1%¹⁸ on the back of government spending. On the strength of its oil-wealth, the economy has achieved real growth of approximately 10% per year for the last several years, among the highest sustained growth rates in the world. Inflation in East Timor is expected to remain high, at 10.6%¹⁹, due to higher food costs and transport prices notwithstanding public expenditure running below budget and declining international food prices.

Spurring private sector development by creating a business-friendly environment remains a priority to deepen the economy and mitigate its heavy reliance on government spending funded by petroleum revenue.

East Timor | GDP growth

(%)



Source: World Economic Outlook, FMI

^{18,19} IMF estimates in October 2013 World Economic Outlook.

02

REGULATORY BACKGROUND



	CHAIRMAN AND CEO'S MESSAGE	08
01	MACROECONOMIC ENVIRONMENT	13
02	REGULATORY BACKGROUND	30
03	STRATEGIC PROFILE	41
04	RESEARCH AND DEVELOPMENT	53
05	FINANCIAL REVIEW	75
06	BUSINESS PERFORMANCE	85
07	EMPLOYEES	99
08	CAPITAL MARKETS	101
09	MAIN EVENTS	109
10	MAIN RISKS AND UNCERTAINTIES	113
11	OUTLOOK	121
12	STATEMENT BY THE PERSONS RESPONSIBLE	125
13	ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129
14	CONSOLIDATED FINANCIAL STATEMENTS	133
15	REPORT AND OPINION OF THE AUDIT COMMITTEE	227
16	STATUTORY AUDITOR'S REPORT	231
17	INDEPENDENT AUDITORS' REPORT	235
18	GLOSSARY	239
19	BOARD OF DIRECTORS	243
20	KEY FIGURES	245
21	ADDITIONAL INFORMATION TO SHAREHOLDERS	249

PORTUGAL

30

PORTUGAL

Digital Terrestrial Television. PT Comunicações, SA (PT Comunicações) has carried out its activity within the DTT context, having fulfilled all obligations imposed under the licence awarded by ANACOM and successfully concluded the process of channel update, in accordance with ANACOM's determination of 4 April 2011, wherein ANACOM approved the final decision regarding the switch of channel 67 (838-846MHz) consigned to PT Comunicações for the mainland, by channel 56 (750-758MHz), within the scope of provision of the digital terrestrial television service (DTT).

PT Comunicações is still expecting the publication of the criteria, by means of a governmental ordinance, for compensation of the costs it has incurred within the process of the aforementioned channel switch associated with MUX A.

On 24 March 2011, ANACOM issued a decision regarding the grant of subsidies for the purchase of DTT equipments by citizens with special needs, population groups with low income and institutions with a certain social relevance. PT Comunicações has granted subsidies in accordance with this decision, which, after two extensions, was in force until 26 April 2013.

On 31 March 2011, ANACOM approved the Information and Promotion Plan to be implemented by PT Comunicações within the scope of the DTT obligations. PT Comunicações has carried out the television campaigns it was bound to (ceased in November 2011), which was followed by the television campaign promoted by ANACOM, aired until the analogue switch-off.

On 7 April 2011, ANACOM decided on the definition of reimbursement procedures for the costs of installation and equipments incurred by populations covered by complementary means (DTH), envisaging to ensure equality of access to DTT by populations covered either by DTT and DTH. PT Comunicações is also complying with this decision, and shall continue to do so until the term of the Licence it was granted.

On 23 March 2012, ANACOM approved the adoption and implementation of an additional installation subsidy for digital television reception, aimed at beneficiaries of the subsidisation programme, namely families whose applicant is 65 years or older and that are in a situation of social isolation for conjunctural or structural reasons. This decision was also in force until 26 April 2013.

Directories services. On 18 April 2013, ANACOM approved its final decision on the rules for the use of 18xy numbers of the National Numbering Plan for directories services – other directories. On 15 May, Regulation 169/2013, containing said rules, was published. The rules were determined by the regulator given the need to reassess the conditions of use of directories numbers 18xy, specially pondering its social utility.

Thus, under the new regulation:

- 18xy numbers may be used to provide general directories services providing information in respect of national telephone services subscribers (names, addresses and telephone or fax, or relevant e-contacts);
- On a complementary level, undertakings may offer specific services using said numbering range, duly identified and characterised in the regulation – timetables information, information on shows, support to the choice of goods, services or itineraries, proximity information, diverse content of general public interest, booking services;
- The retail price for provision of the services is determined, which may be reviewed whenever market conditions so determine;

- Undertakings with rights of use of 18xy numbers are obligated to publish and divulge, by adequate means and including online, the services provided using said numbers, respective prices and other conditions.

In its decision of 18 April, ANACOM granted a period of 30 business days for undertakings providing said services to adapt their offers to the new rules.

Wholesale market for voice call termination on publicly available telephone networks provided at a fixed location. On 7 March 2013, ANACOM launched a public consultation regarding the draft decision on the wholesale market for voice call termination on individual public telephone networks provided at a fixed location, under which it proposed to set fixed termination rates (FTR) at Euro 0.001091, corresponding to the average FTR of the countries that had already defined their call termination rates at a fixed location based on the “pure” LRIC cost models recommended by EC.

On 12 July 2013, ANACOM notified the EC of a draft decision on the same lines as the draft decision that it submitted to a public consultation in March, but proposing therein an average termination rate of Euro 0.001114, which resulted from an update to the benchmark. In addition to defining prices, the draft decision also established the imposition to PT Comunicações of an obligation to submit, within 12 months, a proposal for access and IP interconnection.

However, on 14 August, ANACOM decided to withdraw its draft decision as a consequence of the serious doubts raised by the EC, particularly regarding the inexistence of a symmetric obligation of IP interconnection. Having taken into consideration the EC comments, on 27 August ANACOM imposed provisional and urgent measures that determined the maximum average prices to be applied by the operators designated as having significant market power:

- On 1 October 2013: Euro 0.1114 cents per minute (the prices to be applied by PT Comunicações in the three interconnection levels were calculated taking into account the weight of traffic in each level, so that, globally, this average price is reached);
- From 1 July 2014: price that will be set using the pure LRIC cost model.

Some operators interpreted this decision in different ways, recreating situations of tariff asymmetry, which led ANACOM, on 27 November, to adopt new and urgent provisional measures, with effect from 1 December, clarifying that if operators choose to define a simplified tariff with only one price level, said price cannot be higher than the average reference price, and that if they choose a structured tariff, with various levels of interconnection, they must provide a local interconnection price level, so that it is possible to deliver on that level the termination traffic to all customers of the operator.

On 29 November 2013, ANACOM launched a public consultation concerning the methodological definition regarding the development and implementation of a cost model for fixed termination, which occurred until 15 January 2014. This consultation will be followed by another consultation, to take place during the first quarter of 2014, about the practical implementation of the costing model. During the first quarter of 2014, it is also expected that ANACOM will launch a new consultation on the review of relevant market 3, this time including a (symmetric) obligation to ensure IP interconnection.

Public consultation on relevant markets 4 & 5. On 6 February 2012, ANACOM approved the draft decision concerning the definition of the markets of wholesale (physical) network infrastructure access (RM4/2007) and wholesale broadband access (RM5/2007), evaluation of significant market power (SMP) and the imposition, maintenance, modification or suppression of regulatory obligations.

02 REGULATORY BACKGROUND

In line with its 2009 decision, in this draft decision ANACOM proposes to maintain the national scope of RM4 and the geographic segmentation of RM5, which is divided in Non-Competitive Areas and Competitive Areas (the latter unregulated), PT maintaining its SMP in RM4 and RM5-NC.

Within the access obligations in the market of wholesale (physical) network infrastructure access, in addition to the obligation to grant unbundled access to copper loops and subloops and to ducts and poles at national level, ANACOM intends to impose a geographical differentiated obligation to grant virtual access to optical fibre (advanced bitstream): this obligation would not be imposed in 17 municipalities, which are considered to have conditions for other operators to invest in fibre.

According to the draft decision, PT would also be obligated to demonstrate to ANACOM that the difference between its retail prices and the prices of the wholesale offers made available to other operators does not result in a margin squeeze.

However, the process was not completed, as a result of the changes that have, in the meantime taken place in the domestic market (merger between Zon and Optimus and investments initiated by Vodafone and Altice, expanding their fibre networks) and of the EC recommendation regarding NGA non-discrimination and costing methodologies which was published in September 2013. A new ANACOM consultation on markets 4 and 5 is expected in the first quarter of 2014, already having into consideration the developments that took place in the market and with the regulatory framework.

Spectrum. Following the multiband auction for granting rights of use of frequencies in the 450 MHz, 800 MHz, 900 MHz, 1800 GHz, 2.1 GHz and 2.6 GHz bands, ANACOM approved, on 22 August 2013, a decision specifying the geographic component of the coverage obligations in the 800MHz frequency band. In this decision, ANACOM identified the parishes upon which fall the minimum mobile broadband coverage obligations of the three operators and which are part of the Licence granted.

Cost Accounting System (CAS). Following ANACOM's decisions issued on 18 and on 28 January 2013, regarding a set of determinations and recommendations concerning the improvement of PT Comunicações' CAS and the reformulation and resubmission of the results of the CAS for 2007, on 8 February and on 15 February PT Comunicações sent the reformulated results of the CAS for 2007 to ANACOM.

On 8 April, ANACOM transmitted to PT Comunicações that, following the conclusions of the external auditing process to the CAS for the fiscal years of 2008 and 2009, its Board of Administration had approved a set of determinations and recommendations concerning the improvement of PT Comunicações CAS for those years, and that the company should present the corresponding reformulated results. On 30 April and on 6 May PT Comunicações sent the required information to ANACOM.

On 15 May and on 19 July (following a meeting between ANACOM and PT Comunicações, which took place on 26 June), PT Comunicações addressed letters to the Regulator requesting the definition of the methodology for the calculation of the weighted average cost of capital (WACC) from the fiscal year of 2012, and presented some considerations concerning the methodology used by the Regulatory Authority for the years 2009-2011, and several suggestions in order to improve this methodology.

On 6 June 2013, ANACOM declared the conformity of PT Comunicações' CAS for the exercises of 2008 and 2009 with the applicable regulatory dispositions, and approved also determinations and recommendations concerning the improvement of the CAS.

On 1 August, ANACOM announced the launch of a public consultation aiming at the adoption of a new methodology for the calculation of PT Comunicações WACC, as of the fiscal year 2012. Comments to the draft decision were received until 3 September.

In its letter of 29 August, ANACOM informed PT Comunicações of the schedules for the auditing processes to the CAS and the Net Costs of the Universal Service (NCUS) for the years 2010 to 2012, as well as for the works concerning the revision of the CAS.

On 2, 16 and 30 September and on 1 October 2013, PT Comunicações submitted to ANACOM the successive submissions of the results of the CAS for the year 2012.

On 18 October 2013, ANACOM approved the final draft decision concerning the methodology for the calculation of PT Comunicações' WACC applicable from 2012. The approval of the final decision took place on 5 December.

Compensation for the negative operating margins of the mandatory services. By resolution of the Council of Ministers of 10 January 2013, the Portuguese Government determined that the maritime mobile service should cease to be provided as a service of public interest from 30 April 2013. After informing the subscribers of this service in due advance (minimum of 3 months), PT Comunicações proceeded to the termination of the service in the date set.

On 8 April, ANACOM notified PT Comunicações on the approval of the final decision concerning the reformulated results of the operational margins of fixed telex service, telegram service, broadcasting and distribution service of telecommunications and broadcasting signal and maritime mobile service for 2007, the corresponding notification was sent by ANACOM to the General Inspection of Finance.

On 7 June, ANACOM notified PT Comunicações that it had approved the final decisions concerning the reformulated results of the operational margins of telex service, telegram service, distribution of terrestrial television signal and maritime mobile service for 2008 and 2009; the corresponding notification was sent by ANACOM to the General Inspection of Finance.

Pursuant to the resolution of the Council of Ministers published on 18 October 2013, fixed telex service, fixed switched data transmission service and telegraph service (telegrams) will no longer have the nature of public services as of 31 January 2014, thus terminating PT Comunicações' legal obligation to assure their provision. The customers of the first two services were informed in due time (3 months in advance) of the corresponding discontinuation. PT Comunicações opted commercially to continue the provision of fixed telegraph service from 1 February 2014, according to the conditions set out in its commercial offer.

On 9 December, PT Comunicações submitted to ANACOM information on the operational margins of the telex, telegram and maritime mobile services, for 2012. The beginning of the auditing process to the information presented by PT Comunicações for 2010 and 2011 is still awaited.

Currently, there is a proceeding with the arbitral court, convened by PT in 2012, which opposes PT to the Portuguese State (General Inspection of Finances) regarding the view expressed by the latter on the subject of negative operational margins of the mandatory services in 2006. According to the General Inspection of Finances, the negative margin should be compensated after deduction of the positive margins that some of the required services may eventually present.

Meanwhile, on 28 October 2013, an Agreement on the Revocation of the Concession Agreement was entered into by the Portuguese State and PT Comunicações.

Settlement and collection of regulatory fees. On 1 July, PT Comunicações and MEO (previously designated TMN) submitted to ANACOM the corresponding declarations of relevant profits for purposes of calculating the amount of the fees owed for the exercise of the activity of supplier of networks and electronic telecommunication services in the year 2013.

02 REGULATORY BACKGROUND

On 11 July, ANACOM approved the report concerning its administrative costs and the amount resulting from the collection of the fees owed by the suppliers of networks and electronic telecommunication services for 2012. It was also decided the reimbursement to the suppliers of networks and electronic telecommunication services of a total amount of Euro 334,316.04, concerning 2012, and Euro 22,426.21, pertaining a correction for year 2011. From this last correction resulted the setting of a contributory percentage of 0.5505% for 2011. For 2012, the contributory percentage was set at 0.5475%.

On 25 July, ANACOM determined a value of administrative costs, to be considered for purposes of the settlement of the fees owed for the exercise of the activity of networks and electronic telecommunication services supplier of Euro 24,478,856 in 2013.

On 1 October, responding to a request by ANACOM, PT Comunicações submitted to the Regulatory Authority the revised declarations of the relevant profits for years 2007 to 2009, following the adjustments resulting from the auditing process and calculation of the final NCUS values for those three years.

On 18 October, ANACOM approved the revision of the settlement of the fees owed for the exercise of the activity of publicly available networks and electronic communications services supplier for the years 2009 and 2010, following the correction of the value of PT Comunicações relevant revenues, according to the final values of the net costs of the universal service for the 2007 to 2009 exercises. The upwards revision of PT Comunicações relevant revenues resulted in an increase of the total amount of relevant revenues of the companies in "level 2", with an impact in the value of the contributory percentages for 2009 and 2010, which was set in 0.4827% and 0.4908%, respectively.

On 24 October, ANACOM decided to conduct the preliminary hearing of PT Comunicações concerning the conclusions of the auditing process to the relevant revenues for 2012. On 7 November, PT Comunicações sent its comments to the Regulatory Authority.

On 31 October 2013, ANACOM approved the revision of the settlement of fees owed for the activity of provider of publicly available networks and electronic communications services, for 2011 and 2012. This decision followed the correction of the amount of relevant revenues of PT Comunicações resulting from the final values of the net costs of universal service for the years in question, submitted to ANACOM by PT Comunicações on 16 October, in accordance with Article 9, nr. 1 of Ordinance No. 1473-B/2008 of 17 December, revised by Administrative Rule No. 296-A/2013, of 2 October.

On 21 November, ANACOM approved the values to be considered in the formula for calculating the fees due for the activity of provider of publicly available networks and electronic communications services, having settled the value of the contributory percentage in 0.4880% for 2013.

Universal Service Tariffs. On 1 October 2013, PT Comunicações altered the price of voice calls terminating in other fixed providers (PT-OPS), under its base tariff plan, levelling it to the price of calls within its own network (PT-PT). This change reflected the new fixed termination prices from 1 October 2013.

Net Cost of the Universal Service (NCUS). On 19 February, PT Comunicações submitted to ANACOM the revised versions of the model for the determination of the NCUS for 2007 to 2009, reflecting various changes and corrections following the respective auditing process.

On 11 April, the draft decision on the results of the audit to the NCUS of PT comunicações for the years 2007 to 2009 was approved. On 22 May, PT Comunicações sent its comments to the Regulatory Authority.

Following the ANACOM decision of 20 June, regarding the approval of the final decision on the 2007 to 2009 results of the audit to the NCUS, PT Comunicações resubmitted the corresponding revised figures on 28 June.

On 1 August, ANACOM approved the draft decision on the final results of the audit to NCUS resubmitted by PT Comunicações for the years 2007 to 2009. This draft decision was submitted to prior hearing of the interested parties and public consultation; PT Comunicações submitted its comments by letter of 19 August.

Also on 19 August, and following the deliberation by ANACOM of 20 June regarding the decision on the results of the audit to NCUS for the years 2007 to 2009, PT Comunicações sent to ANACOM new values for the NCUS in the years 2010 and 2011, according to the final methodology settled.

On 29 August, ANACOM informed PT Comunicações of the schedules for the auditing processes to the Cost Accounting System (CAS) and the NCUS for the years 2010 to 2012, and for the works concerning the revision of the CAS. On 9 September, PT Comunicações sent to the Regulatory Authority a letter with the contact persons to be involved in the auditing process and took the opportunity to make some comments and present a certain number of suggestions concerning these work streams.

On 19 September, ANACOM approved the final decision on NCUS for the years 2007 to 2009, having maintained the values presented on the draft decision.

According to Law 35/2012, which established the compensation fund for the universal service of electronic communications, for the financing of the NCUS, on 31 October PT Comunicações submitted to ANACOM the calculation of the NCUS for 2012, taking into account the deliberations of the Regulatory Authority concerning the methodology of calculation of the NCUS and the recommendations made in the audit of the NCUS 2007-2009.

Designation of the Universal Service Providers. On 14 February 2012, ANACOM made its final decision concerning the Public Consultation on the process of Designation of the Universal Service Provider(s) which took place at the end of 2011 and issued its recommendations to the Government.

In Ordinance 318/2012, of 12 October, the Ministries of Finance, Economy and Employment launched three tenders for the designation of the company(ies) to provide the Universal Service, in order to select one or more companies that the Portuguese State will hire for the provision (anywhere in the country, and to all users regardless of their geographical location) of:

- Connection to a public communications network at a fixed location and provision of publicly available telephone services through that connection (Tender 1);
- Publicly available telephones offer (Tender 2);
- Comprehensive directory and a directory inquiry service (Tender 3).

The granting period for each of the services was set at five years, in a framework of technological neutrality.

02

REGULATORY BACKGROUND

The deadline for the submission of applications to the tenders for the purpose of pre-qualification, ended on 28 November 2012. Between 27 December 2012 and 3 January 2013 took place the preliminary hearing to the stakeholders on the draft qualification report. The final report was published on 2 February 2013, with the following results:

- PT Comunicações, Optimus, Zon and Vodafone qualified for Tender 1 and for Tender 2;
- PT Comunicações, Vodafone and Plurimarketing qualified for Tender 3.

The deadline for submission of proposals to each of the tenders ended on 15 March, being that:

- PT Comunicações, Optimus and ZON submitted proposals for Tender 1;
- PT Comunicações submitted a proposal for Tender 2;
- No proposals were submitted for Tender 3.

On 18 April 2013, ANACOM published a preliminary report about the US Tenders, with the following results:

- ZON and Optimus won Tender 1;
- PT Comunicações won Tender 2.

On 18 October 2013, the Government confirmed these results and determined the designation of Optimus and ZON as the Universal Service Providers for the connection to a public communications network at a fixed location and the provision of publicly accessible telephony services, and PT Comunicações as the US Provider for the provision of public payphones.

On 20 July 2013, the Government decided to start a direct adjustment procedure for the provision of a comprehensive directory and a directory inquiry service for a period of 12 months, with the possibility of such period to be extended for another 6 months. PT Comunicações was the only company to submit a proposal under this procedure, whereby the Government awarded it the provision of these services, on 7 November 2013.

Law on the financing of the Universal Service. On 23 August, Law 35/2012 was published, creating the compensation fund of the Universal Service of Electronic Communications, foreseen in the Electronic Communications Law, and intended to finance the net costs associated to the provision of the Universal Service. Under this Law, ANACOM shall, in July 2014, identify which entities should contribute to the compensation of the NCUS from 2007 to 2009 and set the exact value of the corresponding extraordinary contribution.

Consumer. In December 2013, ANACOM launched, on its website, a tool that allows consumers to test the speed of their internet service. This tool is designated NET.Mede and ANACOM intends it to be the first phase towards the service verification and quality control of the fixed and mobile internet services actions sponsored by ANACOM.

Telecommunications Infrastructure in Buildings. ITED Manual 3rd Edition. On 21 November 2013, ANACOM has approved the draft 3rd edition of the ITED Manual - Requirements and Technical Specifications of Telecommunications Infrastructure in Buildings. According to ANACOM, the review of the ITED Manual stems from the need to respond to questions pertaining to the installation of inbuilding wiring, given the predominance of building redevelopment as opposed to new construction. It also addresses the need to solve problems, such as those related to cables on building façades, while simultaneously incorporating corresponding developments in European regulation and seeking to match expectations for a reduction in costs. The consultation was open for comments until January 6, 2014.

Cloud Computing. On 27 September 2012, the European Commission issued a communication on “Unleashing the Potential of Cloud Computing in Europe”, within the strategy pertaining to the implementation of the Digital Agenda. According to its communication, the EC aims at enabling and facilitating faster adoption of cloud computing throughout all sectors of the economy, which can cut ICT costs and boost productivity, growth and jobs.

In this communication, the EC puts forward a set of measures that, in its view, are key to promote cloud computing and ensure users rights. The EC stated that it would launch three cloud specific actions:

- Cutting through the Jungle of Standards;
- Safe and Fair Contract Terms and Conditions;
- Establishing a European Cloud Partnership to drive innovation and growth from the public sector.

On 12 December 2012, the DG Justice organised a workshop on “Cloud Computing Contracts” which purpose was mainly to explore stakeholders’ experiences and views on cloud computing contracts with the Commission. The Commission and stakeholders discussed future possible developments of the market, issues relating to cloud computing contracts, based on existing practice, economic impact of these issues in cloud computing contracts and the possible ways forward, in the European area.

In September 2013, an Expert Group was set up to address cloud computing issues. It is expected that said group will issue some guidance on fair and balanced contract terms, possible ways to increase trust of costumers and users and to introduce more legal certainty among providers, costumers and users, particularly in terms of security (of the service and information stored) and protection of privacy, and how to ensure balance in order not to impair provision of said services.

Regulation of Cinema Law. Following the publication on 6 September, 2012, of the Law nr. 55/2012 (Cinema Law), that establishes the State action principles in the promotion, development and protection of the art of cinema and cinematographic and audiovisual activities, which imposes obligations on television distributors and operators of Video On Demand Services, two regulations of the Cinema Law were published.

Thus:

1) Decree-Law No. 9/2013 , of 24 January, foresees:

- The obligation to reverse charge the annual fee for each subscription of television services by 1 July of the following year to which the data reported relates;
- The obligation to provide ICA (Cinema and Audiovisual Institut) with the reports that were sent to ICP-ANACOM regarding the number of television services subscribers.

2) Decree-Law No. 124/2013, of 30 August, foresees:

- The obligation to invest 1% of Video On Demand services revenues in film production and audiovisual ensured through an annual investment in national cinematographic works;
- The obligation to report to ICA until 30 June of each year, the Video On Demand services revenues earned in the previous year;
- The obligation to report to ICA until the 31 January of the following year to which the investment relates:
 - a. The title, type and gender of each creative national film work object of investment;
 - b. The identification of the independent producers and other author and neighbouring rights holders over such works;

- c. The amount and type of investment made in each work;
- d. The demonstration of the actual costs with the creation of an area devoted to national works and the loss of revenue by applying the conditions of remuneration of such rights holders foreseen in the Cinema Law (i.e. a 50% revenue share), subject to the demonstration that they are more disadvantaged in relation to the operator when compared with the agreed conditions with other content providers of the same type.

On 17 October 2013, PT was notified by ICA of the official settlement regarding the annual fee regarding the provision of pay-TV services. On 2 January, the Portuguese Government has made public the intention to propose the Parliament some changes regarding the Cinema Law, namely: (i) the reduction of the annual fee regarding tv subscriptions to Euro 1.75 (to be increased up to a maximum of Euro 2 from 2020 on), and (ii) the transfer of funds from ANACOM to ICA in an amount which will be between 75% and 100% of the total annual fee mentioned in (i). PT has paid the annual fee regarding 2013. The above mentioned amendments were approved by the Parliament on 14 February 2014.

Value added services based on text message. Two acts amending the applicable rules to the value added services based on text message were published.

Therefore:

1) Decree-Law No. 8/2013, of 18 January, foresees that VAS can be provided not only by entities registered in Portugal as well, without the need to be registered in Portugal, by entities legally established in a Member State of the European Union or of the European Economic Area, subject to the compliance with the provisions of Articles 5 to 9-A of the VAS rules (e.g.: informing the commencement of the provision of services; asking for numbering for the provision of services; concluding support agreement; obligation to double-check, etc.). This act also amends the financial penalties related with contraventions in the provision of VAS (minimum of Euro 5,000 and maximum Euro 200,000, when before there was a minimum of Euro 14,963.90 and a maximum of Euro 49,879.80).

2) Law No. 42/2013, of 3 July, foresees:

- That access to VAS shall no longer be blocked by default, except when dealing with services that require sending more than one message or sending messages periodically or continuously or services that have erotic or sexual content;
- That access to services involving sending more than one message or sending messages periodically or continuously shall not be blocked, provided the client has, before the entry into force of the Law, expressly and validly expressed, in written or in another durable mean, the willingness to access such services;
- That customers can request the blocking of the access to VAS which access is not blocked by default.

Roaming. Regulation (EU) No. 531/2012 of the European Parliament and of the Council, of 13 June 2012, on roaming on public mobile communications networks within the Union (Roaming III) entered into force on 1 July 2012.

Roaming III covers a period of 10 years, between 1 July 2012 and 30 June 2022, and is more comprehensive than the two previous versions of the Regulation.

Beside price caps (subject to a glide path) in retail voice and SMS communications, and in wholesale voice, SMS and data communications, this version of the Regulation also features:

- Extension of transparency and consumer protection measures (bill-shock) beyond the EU territory;
- Application of a price cap to retail data roaming communications, from 1 July 2012;

- At wholesale level, operators must attend all reasonable requests for access, and must publish a reference offer no later than 1 January 2013;
- Decoupling of roaming services, no later than 1 July 2014.

On 1 July 2013 the new price-caps, valid until July 2014, entered into force:

- For voice calls, at retail level: Euro 0.24/min for outgoing calls and Euro 0.07/min for incoming calls. At wholesale level: Euro 0.10/min for incoming calls;
- For outgoing SMS, Euro 0.08/min (retail) and Euro 0.02/min (wholesale);
- For data traffic: Euro 0.45/MB (retail) and Euro 0.15/MB (wholesale).

On 18 March 2013, BEREC published its guidelines on the interpretation and implementation of Roaming Regulation III, except with regard to Articles 3, 4 and 5 concerning the wholesale access and the separate sale of roaming services. Issues concerning wholesale access had already been object of specific guidelines, published on 27 September 2012, and the separate roaming services (single IMSI and LBO - Local break-out) sale was also object of specific guidance, published on 5 July 2013.

Public Consultation of the EC on the reduction of NGA roll-out costs. Between 27 April 2012 and 20 July 2012, a Public Consultation was held on the reduction of NGA roll-out costs, highlighting the need for more coordination, information and transparency between the different stakeholders.

According to the EC, 80% on the investment costs in NGA networks relate to the deployment of civil infrastructure, as is the case of trenching and laying of ducts, and up to 30% of these costs are due to inefficiencies. The EC is of the opinion that the NRAs and the Member-States may intervene at this level, making infrastructures sharing mandatory, including those of the utility companies.

The EC published the report on this public consultation on 22 November 2012. On 26 March 2013, the EC presented a draft Regulation with rules to reduce by 30% the cost of deploying high rate broadband networks.

On 28 November 2013, the ITRE Committee of the European Parliament proposed a number of amendments to the European Commission proposal, proposing that the measures to reduce the cost of broadband deployment should be addressed through an EU directive rather than a regulation, thus giving the Member-States more flexibility to adjust to specific local or national rules on this matter.

The negotiations between the Parliament and the Council will take place in early 2014 with the approval of the new directive being expected before the end of the current legislature (until May 2014).

EC Draft Recommendation on NGA non-discrimination and cost models. On 5 December 2012, the EC sent to the BEREC the Draft Recommendation on the obligation of non-discrimination and cost accounting models, relating to NGA.

In general terms, the Draft Recommendation embodies the idea conveyed by Commissioner Kroes on July 2012, according to which the orientation of prices to costs in NGA may be relaxed in certain circumstances, in return for tighter control of non-discrimination at the wholesale level.

BEREC issued its opinion on this Draft Recommendation in March 2013, and suggested that the section of wholesale costing methodologies should be rewritten. According to BEREC, the Recommendation should

02 REGULATORY BACKGROUND

not suggest a specific costing methodology but identify the fundamental principles to be respected. The EC did not take into account the opinion of BEREC in this matter and obtained, on 11 July 2013, the favourable opinion of COCOM (Communications Committee), enabling the final adoption of the Recommendation.

On 9 September 2013, the EC formally published the final recommendation on non-discrimination and NGA cost models, included in the presentation and proposal of the so called Digital Single Market package. The (non-binding) Recommendation aims at promoting investment and innovation in new network infrastructures, while ensuring effective competition. The Recommendation seeks (i) to ensure an effective level playing field through the application of stricter rules on non-discrimination, (ii) set predictable and stable prices for access to copper networks, (iii) and to increase regulatory certainty as to the circumstances that should lead to the non-imposition of regulated prices for wholesale access to next generation networks.

Connected Continent – European Commission’s proposal for a new Regulation on the “Digital Single Market”: The EC presented, in September 2013, a Regulation proposal on the Digital Single Market, with the goal to stimulate the provision of cross-border European services and promote sustainable competition in the internal market and the EU’s global competitiveness. The Draft Regulation focus on matters as a single European authorisation for the provision of electronic communications services, convergence of regulatory remedies, standard services at EU level, spectrum authorisation procedures harmonisation, net neutrality and transparency, international calls and mobile roaming, and consumer protection.

The EC intends this Regulation to be approved by the European Parliament (EP) in the Spring of 2014, although several dissonant positions have been expressed on several aspects of this proposal, namely by Committees of the EP. If approved, this Regulation (immediately enforceable in the Member-States, without the need for transposition), is expected to have an adverse effect on PT’s businesses, namely due to price decreases and higher operational costs.

03

STRATEGIC PROFILE



CHAIRMAN AND CEO'S MESSAGE	08	
01 MACROECONOMIC ENVIRONMENT	13	
02 REGULATORY BACKGROUND	29	
03 STRATEGIC PROFILE		
04 RESEARCH AND DEVELOPMENT	53	BUSINESS CONTEXT: CHANGING HABITS DRIVING CONNECTIVITY AND DIGITALISATION 42
05 FINANCIAL REVIEW	75	Global telecommunications sector 42
06 BUSINESS PERFORMANCE	85	Telecommunications sector in Portugal 44
07 EMPLOYEES	99	PT'S POSITIONING: AN INNOVATIVE OPERATOR PLACING TECHNOLOGY AT THE SERVICE OF CONSUMERS AND ENTERPRISES WORLD-WIDE 45
08 CAPITAL MARKETS	101	Portuguese operations 47
09 MAIN EVENTS	109	International operations 49
10 MAIN RISKS AND UNCERTAINTIES	113	Focus on innovation and execution 50
11 OUTLOOK	121	
12 STATEMENT BY THE PERSONS RESPONSIBLE	125	
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129	
14 CONSOLIDATED FINANCIAL STATEMENTS	133	
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227	
16 STATUTORY AUDITOR'S REPORT	231	
17 INDEPENDENT AUDITORS' REPORT	235	
18 GLOSSARY	239	
19 BOARD OF DIRECTORS	243	
20 KEY FIGURES	245	
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249	

03 STRATEGIC PROFILE

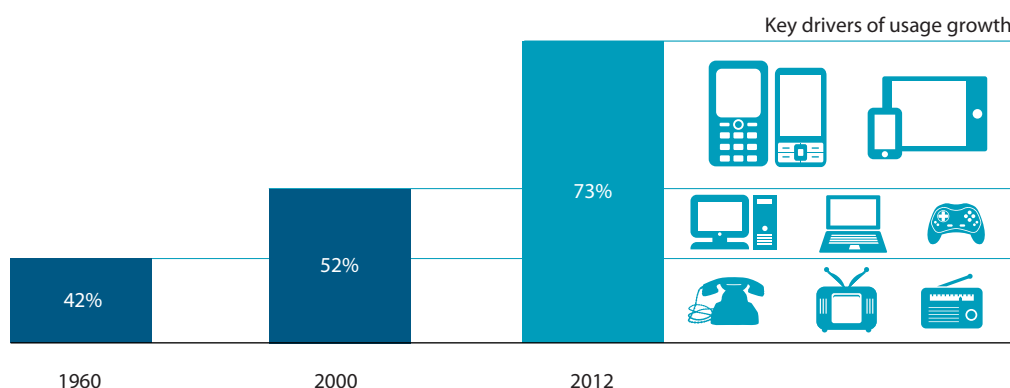
BUSINESS CONTEXT: CHANGING HABITS DRIVING CONNECTIVITY AND DIGITALISATION

Global telecommunications sector

Consumer habits are changing. The surge of innovative players in the telecommunications, media and technology market coupled with the proliferation of more powerful devices and faster networks are changing consumer habits in a self-reinforcing cycle. As devices support new features and networks respond faster, consumers use technology more, and the sector claims a larger share of consumer's time awake, thus also increasing the amount of data travelling on networks and being processed and stored in data centres. New generation networks are driving higher speeds at lower costs while the processing capacity of personal and professional devices has grown exponentially for the same price range. As a result, consumers are becoming multi-tasking and demanding virtual access to digital content everywhere on multiple devices, thus requiring both fast and reliable networks and larger virtual storage and processing capacity.

TMT share of consumers awake time, 1960 - 2012

Average American; percentage, 100% = 16 hours



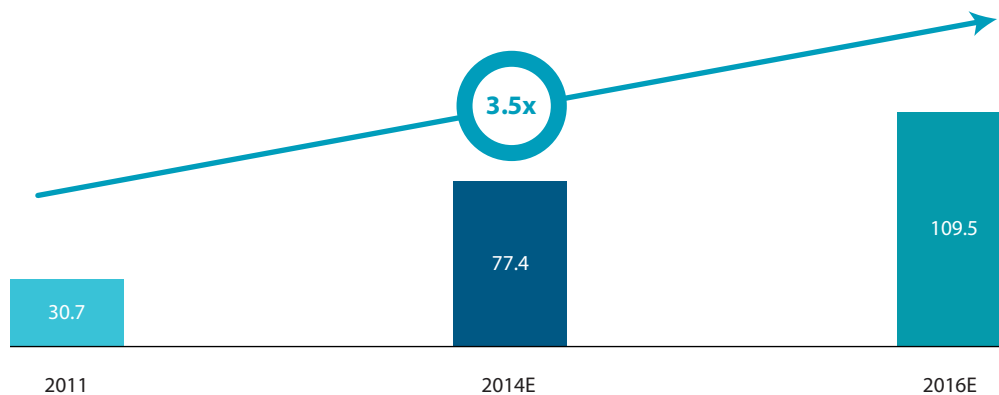
Source: US Bureau of Labor Statistics; eMarketer, Oct 2012; McKinsey

As consumers evolve, so do companies need to transform their business models to be able to address new customer needs. As consumers become more digital, ecommerce becomes increasingly more relevant and internet-enabled communication models gain audience, attention and market share, telecommunication operators need to deliver integrated and simple communication solutions and flexible, scalable and secure cloud services. But the changes required by the digital consumer go beyond the product offering. Social networks, for example have grown exponentially in the last couple of years and are now playing a central role not only in how people relate to each other, but also on how they relate to businesses. Companies are finding that social networks are a perfect channel to communicate with their customers as they can be an efficient channel to provide both sales and service to digital consumers.

Network investment is critical. The increasing digitalisation of consumers and companies is leading to a surge in usage of heavy data services. This surge is generating a ‘data tsunami’ that is flooding communication networks around the globe, particularly in mobile networks, driven by the exponential growth of mobile video consumption. The global operators hit hardest by these trends have undertaken important measures to adapt the capacity of their networks structurally. This new paradigm of network scarcity places a significant premium in network investment as operators strive to enhance quality of experience for increasingly demanding customers who seek for: coverage, speed, reliability and security. Moreover, as bandwidth will also play a pivotal role in accelerated adoption of innovative services such as cloud, continued investment in the network is critical to sustain service innovation and differentiation.

IP data traffic. World

Exabytes per month



Source: Cisco Visual Networking Index

Proliferation of new access technologies. The development of new access technologies and networks continues to be an overriding trend across the sector, with operators announcing plans, trials and investments in Next Generation Access Networks (NGAN) namely fibre-to-the-home (FTTH) networks in the fixed network and Long Term Evolution (4G-LTE) in the mobile network. Both technologies combine the better of two worlds by offering more speed, lower latencies and higher reliability while simultaneously improving efficiency of data transmission, thus enabling significant cost reduction for operators.

Challenging context in mature markets. As operators strive to cope with network investments, the sector is facing a significant increase in competition in mature markets, not only from other operators but also from new players. The sector has witnessed a significant shift in revenue allocation, driven specially by the expansion of mobile applications and internet-based services. Telecom operators are coping with these challenges by searching for new sources of revenues and many are investing in adjacent services such as cloud-based offers or m-payment solutions to enable quick, easy and secure electronic transactions designed to increase customer satisfaction and lifetime value.

In the wireline market, traditional telcos are threatened by both cable and mobile operators. CableCos are placing a significant bet on DOCSIS 3.0, a next-generation access technology that enables cable to compete with fibre solutions. On the other hand, 4G-LTE is being rolled-out at a global level, thus creating a high speed

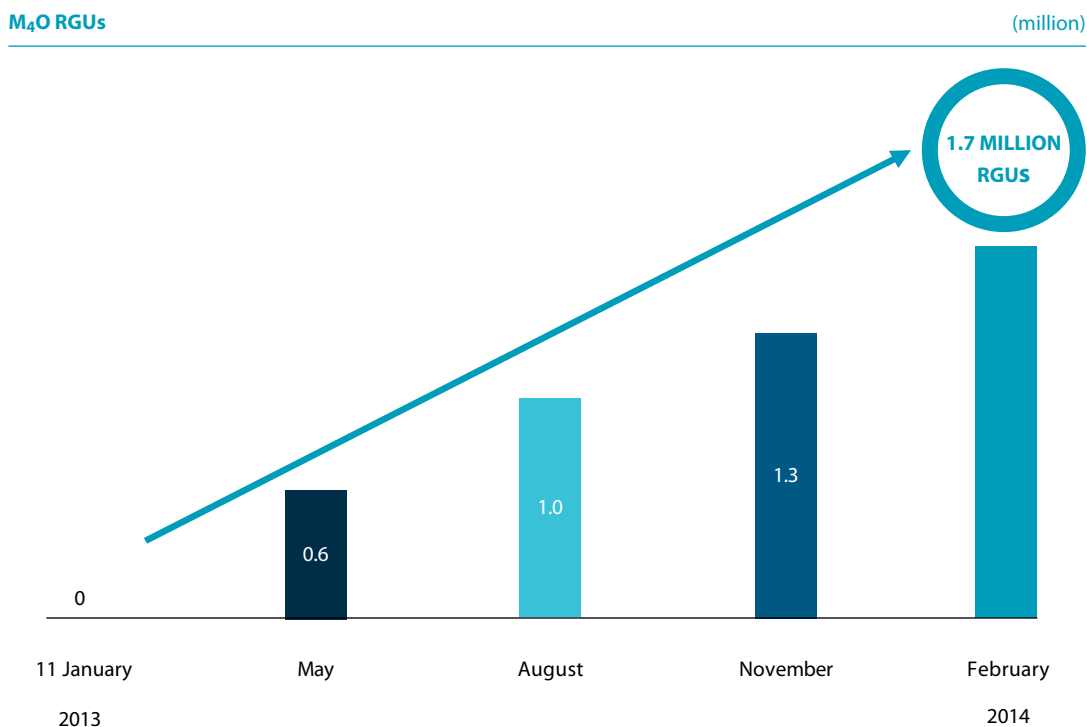
03 STRATEGIC PROFILE

and low latency platform for mobile operators to compete on the residential arena. On the mobile market increased competition is further fuelled by regulators pushing for aggressive decreases in mobile termination rates, thus creating opportunities for aggressive offerings by attacker operators, including low-cost all-net bundles that dilute incumbent operators' network externalities.

Emerging markets remain attractive as a growth engine. Emerging markets continue to appeal to telecommunication operators as they remain sources of scale and growth. Simultaneous growth in population and GDP per capita in emerging economies is driving the emergence of new consumers in the middle and upper classes. The new demand created has untapped potential in traditional telecom services, as the penetration of most services is yet to reach levels of mature markets.

Telecommunications sector in Portugal

Bundled offers paved the way to convergence. The Portuguese telecommunications market was already marked by a strong customer adherence to triple-play bundles, driven by the intrinsic value of pay-TV as an attractive entertainment alternative, with excellent quality of service (QoS) and with differentiated content enabled by set-top-boxes. The year of 2013 witnessed the introduction of quadruple-play offers in the market, allowing service providers to differentiate themselves and increase cross-selling beyond legacy offerings. Quadruple-play benefits businesses and consumers, allowing them to enjoy multiple services with a lower cost of ownership. As a result of its relentless and focused investment in pay-TV and bundled offers, PT has significantly improved its dynamics in voice and broadband, whilst being able to achieve triple-play leadership and reach 1.7 million quadruple-play RGUs in February 2014.

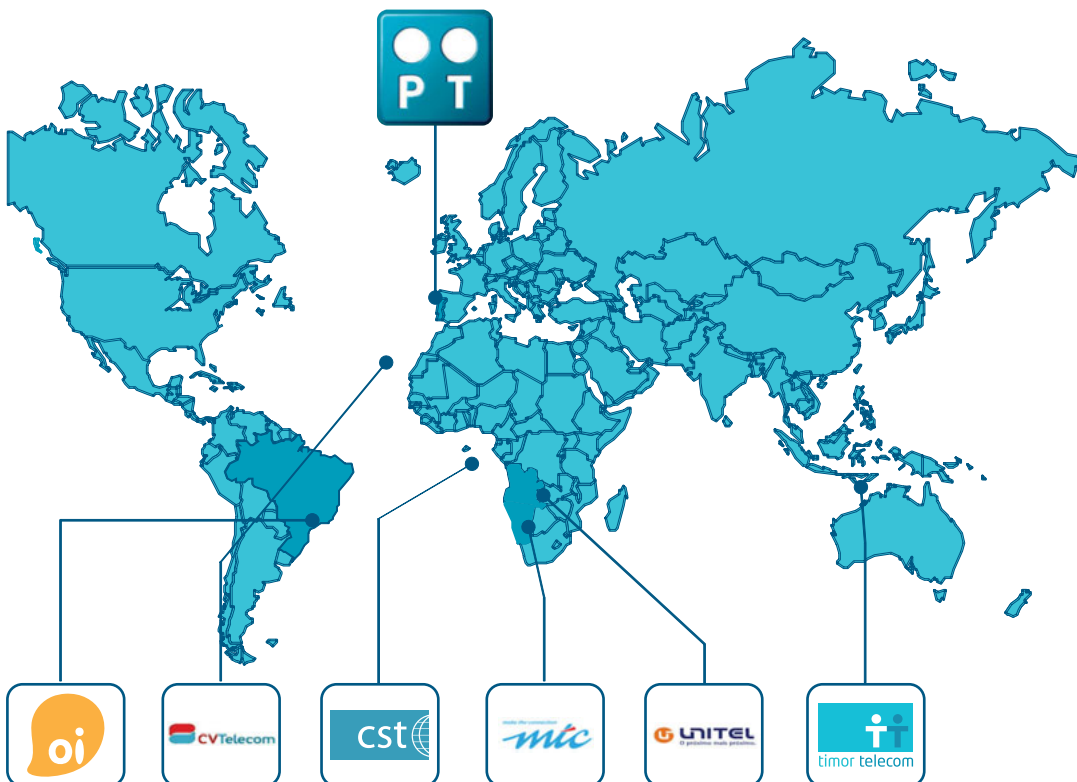


Competitive landscape. Convergence has taken its toll in the structure of the Portuguese telecommunications competitive landscape, with the entrance of a pure mobile player in the fixed market and with the announced consolidation of the largest cable operator with the third mobile operator, thus creating a new integrated telecom operator in Portugal. The new competitive landscape will further increase the focus on quadruple-play offers, but will also drive increased pricing pressure. The price-competition in quadruple-play has already started to heat-up as the new player entered the fixed market with an irrational quadruple-play offer penalising the already challenged sector's sources of revenue.

PT'S POSITIONING: AN INNOVATIVE OPERATOR PLACING TECHNOLOGY AT THE SERVICE OF CONSUMERS AND ENTERPRISES WORLD-WIDE

PT is an international operator focused in three main geographies, Portugal, Brazil and Africa. In addition, PT also has an investment in Asia, namely in East Timor. PT serves more than 100 million customers worldwide.

PT's geographic positioning



03 STRATEGIC PROFILE

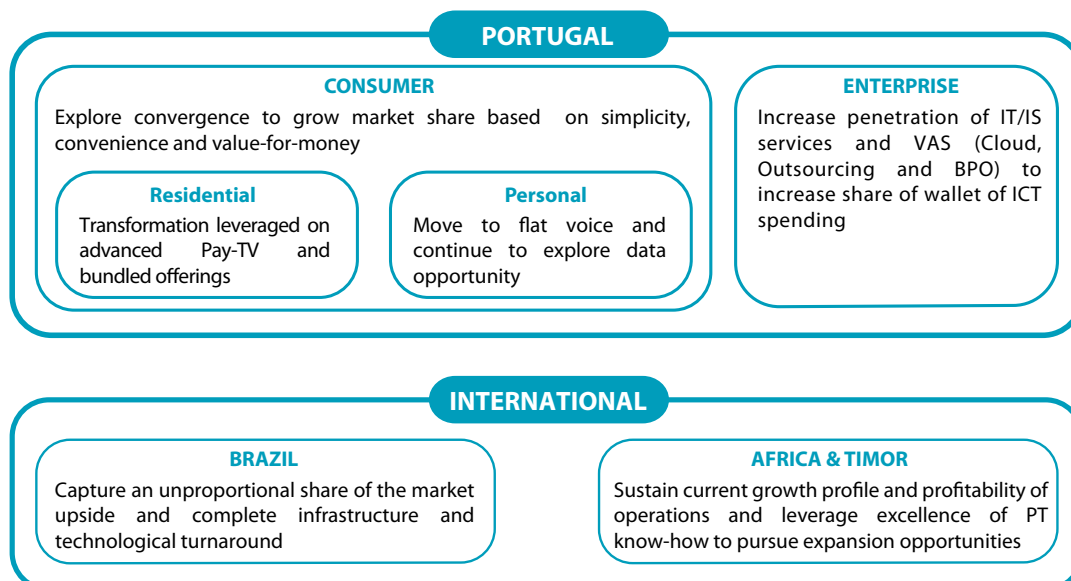
In Portugal, PT is a customer-centric company focused on innovation and execution to deliver on the needs of the digital consumer. PT is organised along customer segments, promoting cross functional and cross-platform collaboration to deliver the best customer experience. PT aims to create value sustainably across customer segments in Portugal by leveraging on its unique assets, namely: (1) a unique set of engineering skills; (2) the best convergent infrastructure encompassing next generation fixed and mobile networks and state-of-the art storage and processing capacity; (3) the largest customer franchise in Portugal, both in B2B and B2C; and (4) a broad ecosystem of strategic partnerships with leading global players, local innovative companies and research centres of excellence to maintain a technological edge and reach global relevance through innovation.

On the business-to-consumer market, PT's key priority will continue to be exploring the convergence opportunity, leveraging on distinctive fixed and mobile product offering to grow market share and cater to the needs of the Portuguese families: simplicity, convenience and value-for-money. On the business-to-business market, PT aims to leverage its leading position in telecommunication services to increase penetration of Cloud and IT/IS services, thus increasing the depth of our relationships with enterprise customers and share of wallet of ICT spending. In order to achieve these goals, PT has invested in innovation to be able to offer the best technological solutions to all customers.

At the international level, PT is focused on improving the operational performance of its assets and on the sharing of best practices across the various businesses. In Brazil, PT aims to support the successful completion of the infrastructure and technological turnaround at Oi, leveraging on its technological expertise and on the track-record of successful execution by its management team in Portugal in order to capture a disproportionate share of the market upside.

In Africa and Timor, PT expects to sustain the current growth profile and profitability of the operations and pursue opportunities to expand PT's professional management contracts. The expansion of international operations to multiple geographies is one of the most important catalysts of value creation in the telecommunications sector and PT has built a relevant portfolio of international operations.

Business priorities



Strategic objectives. PT remains committed to operational, financial and strategic discipline, aiming to sustain value creation and focusing on its core business and core regions, Portugal, Brazil and Africa. PT established five new medium-term objectives: (1) grow customers in scale; (2) increase exposure to international operations; (3) lead consumer market in convergence and enterprise market in ICT; (4) become a reference in technology, customer experience and operational effectiveness in the sector, and (5) be a reference in terms of sustainability.

Strategic alliance. In October 2013, it was announced the business combination between PT, Oi and Oi holding companies into a single listed incorporated entity. This merger is a natural fulfilment of the industrial alliance established in 2010 with Oi, and creates a leading telecom operator led by Zeinal Bava as CEO, which will benefit from enhanced scale and a leading position in Portugal and in Brazil. The combined company will aim to achieve significant economies of scale, maximise operational synergies and add value for its shareholders, customers and employees. Specifically, PT expects that this combination will accelerate the implementation of strategic initiatives already underway, where PT and Oi have been sharing expertise and know-how in areas such as product development, customer care, engineering, operations and IT. This transaction was already approved by the Brazilian competition authority but is still underway as several steps prior to the final merger are yet to happen, such as regulatory approvals and corporate actions. In due time the transaction will be submitted to PT shareholders for their approval.

Portuguese operations

Consumer: Explore convergence to grow market share based on simplicity, convenience and value-for-money. PT's core priority on the business-to-consumer segment is convergence, pursuing a strategic vision that goes back to the creation of PT Portugal, when PT started managing its fixed and mobile businesses in an integrated way. In fact, in recent years PT invested in four areas in order to gain a position as the natural leader of consumer convergence in Portugal, namely: (1) state-of-the-art network with integrated management of fixed and mobile platforms; (2) distinctive storage and processing capacity, leveraging on one of the most efficient data centres in Covilhã and a set of strategic partnerships to deliver the best cloud solutions and thus ensure a seamless experience across devices; (3) convergent customer touch points, with the integration of fixed and mobile stores under a unique concept and a single CRM software with a 360° customer vision, and (4) ecosystem of multi-platform apps, allowing customers to have access to TV on all devices and everywhere, through MEO GO!, unlimited music streaming, with MEO Music, and seamless access to personal contents on the cloud, with the offering of 16GB of free storage space in MEO Cloud.

The investment in technology and innovation has allowed PT to transform its offering with the launch of pay-TV in 2008 and triple and quadruple-play offers. In fact the transformation of a business with declining revenues into a sustainable growing business that has achieved triple-play leadership is a unique case in Europe. The year of 2013 marked the launch of PT's pioneer convergent offering in Portugal, M₄O, an innovative multi-SIM quadruple-play bundle with a value proposition of simplicity, convenience and value for money that won the Consumer Choice for best quadruple-play service in Portugal. PT was able to leverage past investments to deliver a unique convergent product in the Portuguese market, and customers adhered massively, with PT's quadruple-play bundle, M₄O, achieving 1.7 million RGUs in February 2014.

Residential: Reshaping TV experience. PT has been leveraging on the increased capacity of its new generation access networks to provide a differentiated and sophisticated TV experience across all devices

03

STRATEGIC PROFILE

anchored on exclusive and differentiated content, advanced functionalities and interactive customer experience, which is used by 65% of our TV customers. PT's strategy of bundled offers in the Residential segment is now complemented with a convergent, quadruple-play offer available on all platforms: fibre, ADSL and satellite. In 2013, Residential segment performance has been anchored on the success of PT's triple and quadruple-play offers, achieving 1.7 million quadruple-play RGUs in February 2014 on the back of its differentiated value proposition. PT will continue to invest in innovation to further develop the features of its bundles and thus continue to set apart its offer.

Personal: Driving growth through mobile data, innovative flat-fee offering and convergence. The Personal segment strategy is focused on promoting mobile data usage, improving customer experience with simple and easy to choose tiered pricing plans on voice and leveraging on convergence to grow in mobile market share. In order to promote data usage, PT has focused on fostering on two axis: (1) First, increase in Smartphone adoption through a broad portfolio of handsets, including own-branded devices with a significantly lower price point vs. branded alternatives, (2) Second, increase in perceived value from data usage with the development of innovative and value-added data applications. PT's simplification of tariff plans has reinforced post-paid value proposition, and promoted customer migration towards data and higher value voice plans. In 2013, PT's had a strong performance in post-paid, having reached 440 thousand net additions, reflecting the success of PT's M₄O offer, PT's quadruple-play offer, which continues to gain momentum and is leading to a migration of the mobile customer base from pre-paid to post-paid.

Enterprise: Increase penetration of cloud and IT/IS services. PT has a three tiered approach to the B2B market reflecting the different needs of each sub-segment, and delivering the best technological solutions encompassing core telecommunications products, cloud and IT/IS solutions and additional value-added services such as Business Process Outsourcing (BPO). PT's value proposition for the B2B market is based on attributes such as robustness, security, quality and proximity. Through investments in infrastructure and telecom-IT convergence, PT intends to develop and market advanced integrated solutions for the Enterprise segment aimed at promoting the penetration of IT/IS and BPO services, thus increasing customer share of wallet and loyalty. PT will also leverage on its new leading-edge data centre to underpin a differentiated cloud computing offering for enterprises of all dimensions, in close cooperation with its leading industry partners, in order to crystallise the benefits of consolidation, virtualisation and standardisation for customers.

Unique infrastructure. PT completed a cycle of heavy investment in infrastructure, both telecommunication infrastructure, but also in systems and processes to drive efficiency of operations, with the goal to improve service to customers in Portugal and worldwide. In 2013, PT inaugurated its Data Centre in Covilhã, one of the largest, most efficient, and most ecological data centres in the world, which will enable the growth of cloud solutions in Portugal, unlocking the business value in big data and drive efficiency. PT's Data Centre is a landmark investment, which to a great extent fulfils PT's technological transformation cycle, which began in 2008 with the nationwide launch of MEO. PT believes its structural competitive advantage is underpinned by its investments in technology, including: (1) a fibre transmission network that supports up to 100Gbps; (2) an award-winning FTTH access network reaching 1.6 million households; (3) a 4G-LTE network covering circa 93% of the Portuguese population, and (4) fibre mobile backhauling reaching 94% of mobile base stations.

Excellence in customer experience. In a context of major market transformations and economic uncertainty, understanding and addressing customer needs throughout their life cycle with a flawless execution is a crucial factor for success. This trust-based relationship makes it possible to successfully encourage customers to

adhere to increasingly complete products and service packages for longer periods, allowing PT to increase its share of wallet. PT is implementing an extensive transformation programme ensuring a fully integrated view of customer touch points which was underpinned by a common IT platform. We now have: (1) convergent stores, with circa 50% of cross sales in former fixed and mobile only stores, (2) a unique self-care portal that allows the customer to manage all its PT services with a unique log in, (3) integrated call centres and field force, allowing for a 30% reduction in call centre redo rate in 2 years and a 30% decrease in fibre installation time in 3 years, respectively, (4) and a 360° view of our customers across all segments with the new CRM system. A multi-year transformation and simplification programme on IT is also being implemented to enable business transformation and increase efficiency.

International operations

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

Brazil: data growth and convergence. Brazil remains a high-growth potential, where strong demographics create a latent demand that is unmatched by existing infrastructure. Through its investment in and partnership with Oi, PT will focus its efforts on leveraging its successful track-record in developing innovative and technologically advanced solutions for corporate customers, fixed-mobile convergent offers, mobile broadband, pay-TV and triple-play services to contribute significantly to further accelerate Oi's operational and financial performance improvements, considering its strong presence in the Brazilian market and the potential for future growth. PT aims to capture an un-proportional share of the market upside leveraging on the established footprint across the different segments, improved by new investments in infrastructure and an increased focus on commercial effectiveness.

Strategic alliance. As mentioned previously, PT announced the combination of its operations with Oi in order to form a new company with more than 100 million subscribers which will benefit from enhanced scale and a leading position in Portugal and in Brazil. The combined entity will focus on achieving operational excellence. A clear action plan has been prepared aiming at integrating areas yielding incremental efficiencies, including the appointment of teams to monetise synergies and address existing operational challenges. This ongoing operation should be finalised in the first half of 2014.

Africa and Asia: Improving efficiency. PT continues to focus on improving the efficiency of international operations through sharing of best practices amongst all its subsidiaries and through an increased proximity with PT's operations around the world to better follow-up key developments in each geography.

Focus on operational and commercial excellence of all assets, ensuring the sharing of best-practices. By reinforcing operational and commercial excellence in all operations and promoting the sharing of best-practices amongst all businesses, PT will be able to fully tap the potential of each operation, taking into account the market development status in all segments as well as its competitive positioning.

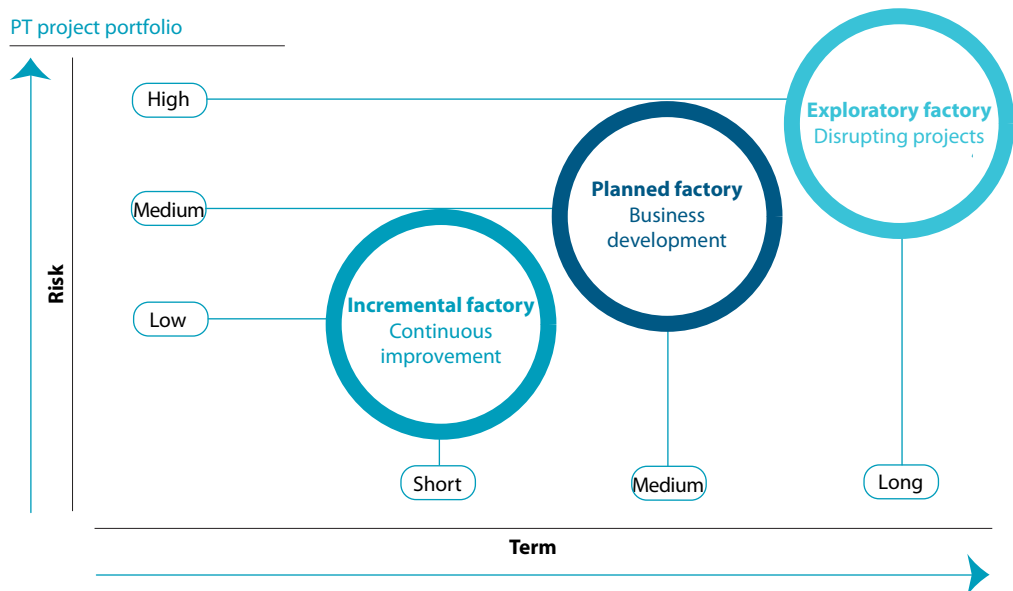
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STRATEGIC PROFILE

Focus on innovation and execution

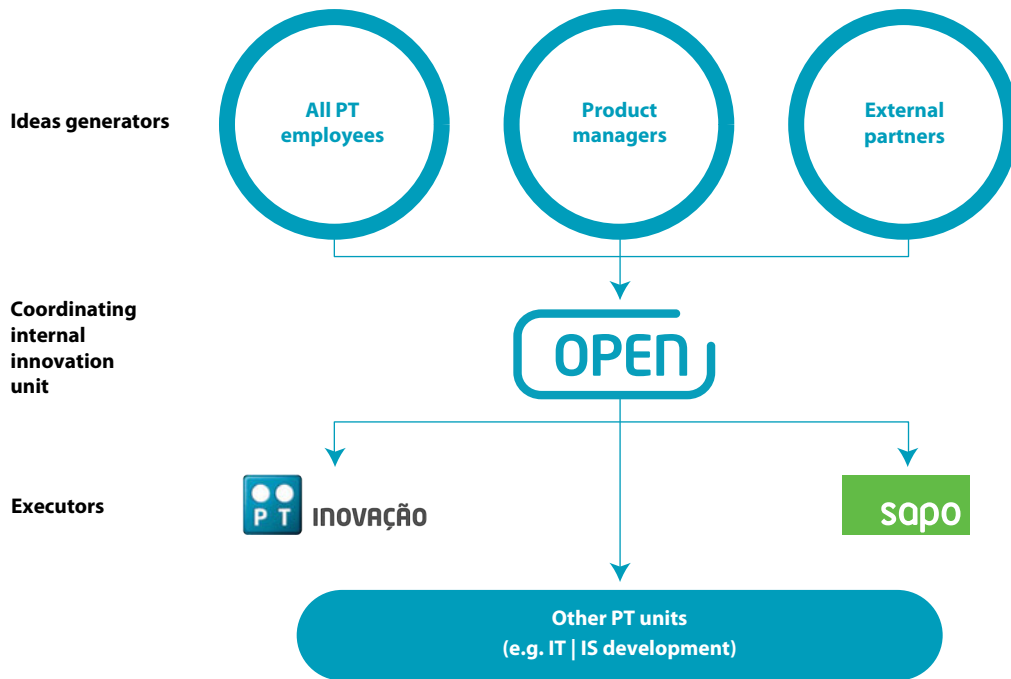
Innovation: structured approach. A clear focus on innovation has been at the heart of PT's investments and projects in recent years, aiming to anticipate future consumer and technology trends, thus enhancing the company's ability to deliver disruptive solutions to the marketplace. We developed a structured approach to promote innovation across the whole company and aiming to establish a balanced portfolio of projects. We are constantly reviewing allocation of capital, people and mindshare of the organisation across three time horizons and risk levels: (1) incremental innovation (business as usual, low-risk and short-term optimisations); (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).

Structured approach to innovation



Strong ecosystem of partnerships. To develop a winning go-to-market strategy and reduce investment risks, PT's innovation approach leverages on a network of partnerships with key institutions that are worldwide leaders and a reference in their respective fields, abroad and in Portugal. These partnerships, which combine several skills and knowledge, are categorised as follows: (1) technological partnerships for the development of new solutions and services and provide state-of-the-art technologies to its customers; (2) partnerships with universities and R&D institutions, aimed at sharing best practices and establishing joint collaboration in innovation and R&D to address business needs and close the gap between the industry and the knowledge centres, and (3) cooperation with start-ups, by providing a myriad of services to assist young entrepreneurs ideas into sustainable businesses.

Dedicated unit to ensure involvement of the entire organisation



Execution: next generation networks. PT is and will continue to be at the forefront of fibre rollout in Portugal and in Europe, having already covered 1.6 million homes passed with FTTH, covering 46% of the population and approximately 74% of GDP, thus placing Portugal as one of the European countries with better FTTH coverage of households (circa 40%), an initiative that was recognised by the FTTH Council Europe with the innovation award “Deployment and Operation of FTTH networks” in 2011. PT aims at leveraging 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 MEO’s (previously designated TMN) base stations with fibre in order to allow higher download and upload speeds for MEO’s (previously designated TMN) data customers, 93% of MEO (previously designated TMN), sites are already connected with fibre and 100% of 4G-LTE sites with IP/Ethernet technology), and simultaneously paving the way for LTE rollout. In effect 4G-LTE services were launched in March 2012 and by the end of 2012 PT covered 90% of the population with 4G-LTE network. Finally, PT also leverages the most comprehensive WiFi network in Portugal, that over 300 thousand hotspots around Portugal, enabling automatic traffic offload from mobile to fixed networks, which enhances customer mobility through a seamless subscriber authentication and handover between hotspots.

04

RESEARCH AND DEVELOPMENT



CHAIRMAN AND CEO'S MESSAGE	08		
01 MACROECONOMIC ENVIRONMENT	13		
02 REGULATORY BACKGROUND	29		
03 STRATEGIC PROFILE	41		
04 RESEARCH AND DEVELOPMENT			
05 FINANCIAL REVIEW	75		
06 BUSINESS PERFORMANCE	85		
07 EMPLOYEES	99		
08 CAPITAL MARKETS	101		
09 MAIN EVENTS	109		
10 MAIN RISKS AND UNCERTAINTIES	113		
11 OUTLOOK	121		
12 STATEMENT BY THE PERSONS RESPONSIBLE	125		
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129		
14 CONSOLIDATED FINANCIAL STATEMENTS	133		
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227		
16 STATUTORY AUDITOR'S REPORT	231		
17 INDEPENDENT AUDITORS' REPORT	235		
18 GLOSSARY	239		
19 BOARD OF DIRECTORS	243		
20 KEY FIGURES	245		
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249		
		A. INCREMENTAL INNOVATION	55
		1. Idea Marketplace	55
		2. OPEN Awards	56
		3. External challenges	56
		B. PLANNED INNOVATION	57
		1. Products and services	57
		2. Technological infrastructure	64
		3. Operational efficiency	66
		C. EXPLORATORY INNOVATION	66
		1. Exploratory innovation driven by internal units	67
		2. Research and development partnership ecosystem	68
		3. Intellectual Property	70
		4. Innovation in international operations	71

04 RESEARCH AND DEVELOPMENT

In 2013, PT was identified as the Portuguese leader in investment in innovation by the European Commission study “The 2013 EU Industrial R&D Investment Scoreboard”. During 2013, PT invested Euro 130 million in R&D, which represented 4.5% of the company’s revenues. The amount invested presents a slight decrease comparing to the one reported in 2012. This evolution is in line with the global strategy of consolidating previous year’s investments and develop all the potentialities of the new generation network infrastructures.

This continuous investment in innovation has proved to be essential for enhancing the leadership and competitiveness of the company in the various segments and markets it serves. In response to changing consumer habits, the company focused its offer towards convergence, mobility and virtualisation of content and services. Aware of its role in the society, which is reflected in PT’s strategy, these solutions were designed with sustainability in mind, focusing on efficiency and reduction of environmental footprints.

The innovative culture of PT is materialised in the OPEN Programme. This programme cuts across the entire organisation and is based on a methodology of innovation management that ensures diversified capital allocation, control and monitoring of results and participation of all employees and partners. In accordance with this model, innovation is organised into three time horizons: (1) Incremental Innovation - short term actions focused on continuous improvement, (2) Planned Innovation - development of technological and product roadmaps for the medium term, and (3) Exploratory Innovation – analysis of the main technological trends which influence the future of the ICT sector in the long term.

From the various initiatives undertaken in R&D and Innovation in different time horizons in 2013, the following should be highlighted:

Technology Infrastructure

- Inauguration of one of biggest Data Centre in the world, which is a reference in the area of sustainability, energy efficiency and security. This investment anticipates the need of reliability and safety in data processing and storage of people and companies, proven by the strong growth of cloud customers;

Consumer segment solutions

- M₄O was the first quadruple-play convergent offer in Portugal, having added successes throughout 2013, among which were the best brand, best service and best offer awards;
- Launch of automatic TV recordings (multiplatform), an application that changed the way the Portuguese watch television, greatly expanding the content available to MEO customers by providing On Demand content from the last 7 days in more than 80 channels.

B2B segment solutions

- Increased focus on the development of cloud solutions, which gained new strength and new possibilities with the technological infrastructure of the Data Centre in Covilhã;
- Growing Machine-to-Machine PT offering, that combines different services, functionalities and M2M solutions which enable fast and automatic communication between equipments, enhancing operational efficiency and control as well as organisational integration;

- Evolution of Medigraf, PT's telemedicine solution, that is available on a software-as-a-service model through internet connection and supported in the company's cloud solutions. This service allows the delivery of healthcare services, consultations and diagnosis, remotely. It also provides a way for healthcare providers to safely share medical images, integrating the different medical devices;
- Additionally, PT has reaffirmed its commitment to efficiency and operational excellence, developing throughout 2013 several projects and initiatives with significant impact on business processes, management of company resources and customer relations. In 2013, the following projects stand out: launch of the online corporate customer care channel (www.cliente.ptempresas.pt), a milestone in the corporate segment innovation that reinforces PT's commitment to quality service and simplicity of customer experience, as well as the evolutions on the CRM ONE (mobile) project, which extends the existing CRM ONE platform to the mobile business, creating in this way a new convergent single platform that aggregates all customer information across PT business segments. All segments are now supported by a single platform that ensures consistent, coherent and unique treatment of PT's customers.

A. INCREMENTAL INNOVATION

1. Idea Marketplace

In order to fully explore the innovative capacity of all employees, PT challenges them to contribute daily with ideas to improve the company's operations, its products and services, as well as the working methods, customer relationship management and sustainability.

This idea collection is achieved through the Idea Marketplace, an online platform accessible to all employees, where challenges selected by top management are launched. Submitted ideas are debated and analysed by all participants and the ones with higher evaluations are then explored by the responsible departments, in order to select those which are to be implemented. The authors of implemented ideas are rewarded and publicly recognised through internal corporate communication.

Since the launch of the Idea Marketplace, in 2009, more than 9,500 employees have accessed the platform and 8,456 ideas have been evaluated by the organisation.

In 2013 alone, 1,440 ideas were analysed in the Marketplace, yielding 34 implementation projects in the following areas (percentage of total projects implemented and final stage of implementation):

- Improved customer experience (15%);
- Products and services (12%);
- Organisation culture and behaviour (35%);
- Cost reduction (38%).

Besides the challenges presented to the organisation, in 2013, two additional challenges targeting specific teams were also launched through the Idea Marketplace:

- Employees from the Autonomous Region of Madeira, who had the opportunity to address the specific issue of "How to leverage M₄O offering in Madeira?", a challenge that intended to promote the new convergent offering for mobile and fixed technology launched in the beginning of 2013;
- Customer Operations and Infrastructure Department (DOI) staff could also participate in a specific challenge,

04 RESEARCH AND DEVELOPMENT

aimed at collecting ideas for improvements identified during the department's Interchange Programme, a project that promotes knowledge sharing between the different areas of this unit.

2. OPEN Awards

The OPEN awards initiative aims to select and recognise the company's projects which, due to their positive results and innovative nature, stood out throughout the year.

The nominated projects are presented to the whole organisation and votes are collected from all employees, as well as from the Executive Board. Winners are announced at the largest corporate event of the year and the excellence of the projects' implementation publicly acknowledged.

In 2013, the winning projects were:

- Operational Effectiveness and Efficiency category – PT Logistics Centre
This project aimed to centralise PT's logistical operations (both for fixed and mobile networks) in a single site, leveraging the logistics network efficiency, the ability and flexibility to respond to business demands and creating synergies and convergence;
- Customer experience category – MEO automatic recordings
In this project, a platform was created and the network adapted to allow MEO customers to access content automatically recorded from the previous 7 days. This service is available in multiplatform for 80 channels;
- Services and Products category – M₄O
M₄O is a convergent offering for fixed and mobile services. It was the first quadruple-play service in Portugal, offering a single service, customer support and invoice;
- Network and Systems category – CRM ONE Mobile
This project extended the existing CRM ONE platform to the mobile business, creating in this way a new convergent platform that aggregates all customer information across PT business segments;
- Sustainability category - Khan Academy
Khan Academy is a project from Fundação PT which translates mathematic contents from Khan Academy to the Portuguese language, allowing more students to access them and improve their academic performance.

3. External challenges

In order to promote innovation and entrepreneurship among university students, PT created the challenge Talento com Fibra. In 2013, the chosen theme for this challenge was Maritime Economy (Desafio Mar) and the main purpose was to collect ideas for new technologies, products and services likely to generate new businesses and companies operating in the Maritime Economy sector.

This challenge acknowledged Portugal's maritime calling, recognising the important role Innovation plays in the growth of this sector. Through a crowd wisdom platform, identical to the one used in PT's internal Idea Marketplace, the challenge was launched in partnership with the Secretariat of State of the Sea within the Ministry of Agriculture and Sea, Vieira de Almeida & Associados (major Portuguese law firm) and Pricewaterhousecoopers.

The challenge jury elected 4 ideas as winners, whose authors were then invited to join the PT start-up support programme, BlueStart:

- In the Entertainment, Sports, Tourism and Culture category: CrowdSurf App and Quadcopter Rescuer;
- In the New Uses and Marine Resources category: Isolation of microorganisms with biotechnological potential for pharmaceutical or other purposes;
- In the Fisheries, Aquaculture and Industry category: Oyster Maternity.

B. PLANNED INNOVATION

PT maintains an ongoing focus on launching innovative solutions oriented to the full satisfaction of the needs of its customers, which are planned, reviewed and updated in the innovation roadmap. This integrated and organised vision of medium-term innovation priorities results from the involvement of different technical, operational and business departments and the analysis of market trends and prioritisation of key projects to achieve PT's strategic objectives.

1. Products and services

a) Consumer segment solutions

PT puts the customer at the centre of its activities to ensure a unique experience, focusing on innovation and implementation excellence and managing the business through customer segments with functional collaboration between them. Regarding the consumer market, PT has defined as a main priority the development of convergent solutions, able to increase the market share of the company through simplicity, convenience and an attractive price/quality ratio.

First truly convergent offering in the Portuguese market: M₄O

On 11 January 2013, M₄O was launched, a disruptive service that permanently transformed the telecommunications paradigm in Portugal by deploying a bundled offering of television, internet connection, fixed and mobile voice communications. PT was the first operator in Portugal to launch a quadruple-play service. MEO made available the four services, both indoor and outdoor, in a single bill, with a single commercial and customer service contact.

Currently, through M₄O, PT offers all Portuguese, regardless of the connection technology used (FTTH - Fibre To The Home, ADSL or Satellite), immediate savings and greater predictability and certainty on cost control, together with an unparalleled user experience. The M₄O offering includes free communications to all networks in Portugal and 50 international destinations, two mobile cards with voice and unlimited SMS to all national mobile and fixed networks and 200MB of mobile internet per card, in addition to MEO television service and fixed internet.

Throughout the year 2013, M₄O greatly contributed to strengthening the brand positioning of MEO, asserting itself as the offer that best meets the needs of consumers in Portugal, as evidenced by the grand prize of marketing and innovation: "Consumer Choice - Product of the Year - Best Quadruple-play Service in Portugal." Thus, PT has extended its lead in triple and quadruple-play, reinforced differentiation from competitors by introducing innovative solutions on the market, and continued to exceed the expectations of the Portuguese consumers.

Transformation in the Television experience in Portugal

Five years after its launch, MEO was acknowledged as the best content service in the world, receiving the World Communication Award for Best Content Service, confirming its success worldwide. The MEO brand has been consistently reinforcing its leadership in the national market in 2013. This excellent performance is the result of a sustained strategy based on three cornerstones: exclusive content; advanced interactive apps and functionalities and multiplatform experience.

04 RESEARCH AND DEVELOPMENT

Exclusive Content

Throughout 2013, the exclusive content offering that distinguishes the TV consumption experience of MEO customers was enriched, namely through the strengthening of partnerships with television producers and multimedia content distributors and also through the internal specialised content development.

Exclusive channels were launched, such as “Correio da Manhã TV”, “Big Brother” and “Secret Story”. Also, exclusive content about popular TV shows, for example for “Factor X”, “Big Brother” and “iLovelt”, were made available by pressing the red button on the MEO television remote control.

Additionally, MEO increased the availability of exclusive paid soap operas and series from TVI as well as improved VoD content and marketing, for example with national premieres exclusively for MEO customers.

In 2013, children’s content was also developed, with the launch of Disney Movies On Demand, the first Disney interactive application in the world, and the new “learning” area in MEO Kids, with educational content from Khan Academy. The latter is the new educational paradigm of the 21st century and consists of virtual short and exciting explanations that were translated and adapted to Portuguese in a partnership between Fundação PT and Khan Academy.

Advanced interactive applications and functionalities

During 2013, MEO invested in the development of innovative applications and functionalities which differentiate the MEO service and enhance growth of non-linear TV consumption.

From these disruptive interactive applications and functionalities, the following stand out: multiplatform automatic recordings, an app that changed the way Portuguese watch TV since it makes available On Demand content from the last 7 days from more than 80 channels. Also a content discovery and search functionality was made available, which became critical given the increasing amount of offered content.

In addition, the development of the remote control’s red button capabilities was not limited to the exclusive content bonuses offering mentioned above. Unique interactive functionalities over the TV broadcast were launched, for example voting, alternative linear broadcast and the ability to interact in real time with the broadcast. The blue button’s applications were also reinforced with more radio stations available (MediaCapital and RTP), with the improvement of game performance, additional useful applications and several children’s apps, as the already mentioned Disney Movies On Demand.

During 2013, special attention was devoted to structural projects aimed at cost reduction and increasing operational efficiency. Several projects have been developed, including an app creation engine that allows developers to build apps in only one day. More than 25 interactive commercials were built with this technology.

Another strategic investment stream for the year was e-commerce. In this field, a “store” template was created to facilitate deployments throughout 2014. In addition to SAPO Voucher, two new stores were built (TelePizza and noMenu), which accumulated more than 100 thousand visits in less than three months.

The year was also dedicated to second screen testing, aiming at creating an additional offering to the MEO interactive experience (i.e. companion apps). The first companion app was deployed for Factor X broadcast and suitable for iOS and Android (both smartphone and tablet). This app offers additional content, alternative live broadcast and interactive functionalities. In partnership with the start-up Muzzley, PT also launched MEO Drawzz, a social network game that shows on the TV drawings made by a user in a smartphone or tablet so that other participants can guess the matching word.

Multiplatform experience – TV consumption from devices other than the TV set

In 2013, MEO improved its multiplatform content distribution strategy, having achieved relevant growth of MEO viewers on devices other than the TV set, leading to an increase in number of customers, number of screens, operating systems and functionalities.

MEO launched the first OTT (over-the-top) TV product by allowing anyone, in Portugal, to access MEO VoD in different devices, including connected TVs, PCs, tablets, smartphones and game consoles. To accomplish this, PT engaged in several strategic partnerships with Samsung and Sony. MEO also made new multi-device bundles available, for premium channels.

After being the world's first operator to deploy a Windows Phone 7 solution, PT made MEO available also for Windows Phone 8 affirming its presence in all major mobile operating systems.

In 2013 PT also launch the new MEO website which recorded more than 2.5 million visits. The new image and functionalities available on the MEO website reaffirmed and strengthened the brand amongst its customers and at the same time provided a unique experience for its visitors.

With MEO GO!, all customers are able to access the MEO experience on multiple screens (tablet, smartphone or computer), both indoors and outdoors, through a fixed or mobile internet connection. Currently, MEO GO! allows viewers to watch more than 70 live channels, rent and watch movies from MEO VideoClube (VoD), access channels EPG, search for programmes and schedule autosaves or alarms. In addition, this mobile application offers MEO customers exclusive and unique features, specifically the automatic recordings viewing on the PC, TV control through gestures, content sharing in social networks and Play-to-TV feature from mobile devices.

In 2013, MEO GO! was nominated best electronic commerce and digital marketing project by ACEPI (Associação do Comércio Eletrónico e da Publicidade Interativa) in the website/mobile app category. Abroad, MEO GO! was shortlisted in three of the most renowned international entertainment and telecommunication awards: CSI Awards/IBC - TOP 6 Best TV Everywhere/multi-screen video; Tabby Awards - TOP 3 Best Entertainment and World Communication Awards - Best Consumer Service.

Currently more than 600 thousand people watch television on the move with MEO GO! being the third most searched application for Android users in Portugal. The achieved results reflect the leadership of PT in cutting edge multiplatform solutions development.

04 RESEARCH AND DEVELOPMENT

MEO for all

Leveraging the investments made in data storage infrastructure, in 2012, PT launched a personal cloud service, CloudPT. Initially, CloudPT was available by invitation only and offered 16GB free storage. During 2013, following the company's cloud strategy, an upgrade of CloudPT was launched, giving place to MEO Cloud, available to all customers.

This way PT offers a storage and synchronisation service that is safe, simple and versatile. Besides the 16GB, MEO Cloud also provides new applications, including a new website, which reinforces PT's Cloud service strategy. MEO Cloud is available through registration in a website (<https://meocloud.pt>), in specific applications for PC (Windows, Mac and Linux) and also for mobile devices (iOS, Android and Windows Phone). PT believes that the uptake of cloud services by residential customers is a catalyst for the adoption of more complex cloud offerings and other cloud functionalities.

In 2013 MEO launched an innovative way of delivering WiFi in order to meet the customers' needs and keep to offer state-of-the-art technologies. The solution consists in the transformation of household internet connections into hotspots for the WiFi PT community. This way, MEO Fibre customers share their free resources with other users while maintaining service quality, security and privacy.

Mobile solutions

During 2013, PT continued to offer innovative and diverse mobile devices as a result both of internal developments and partnerships with major manufacturers. Throughout the year, the mass market smartphone adoption strategy was improved, for example by provisioning MEO branded Android smartphones (example: MEO Smart a17). On the other hand, PT also stood out with its high end smartphone and tablet offering with 4G mobile internet connections.

To increase mobile device uptake, namely smartphones, "Sou Smart" programme was strengthened in MEO stores. Also to this end, smartphone and data service expert's stations were expanded. These experts support customers setting up their mobile devices, clarify their doubts and help customers make the most of their latest generation devices.

PT also innovated by simplifying the tariffs offered, affirming its competitiveness and ability to adapt to its customers' needs. In the first quarter of 2013, MEO (previously designated TMN) launched an integrated unlimited offering, combining communications for all networks, internet and smartphones. This was done in a large scale repositioning campaign dedicated to the "Unlimited" offering.

PT monitors market's needs, customer profiles and behaviour evolution, namely for the youngest consumers. For the under-25 segment, PT improved its offering by including in the "Moche" tariff plan the internet data for the most popular communication apps (Skype, Viber, WhatsApp, BBM, Facetime, Facebook, Messenger and iMessage).

Other mobile solutions were also developed. The following stood out:

- **True-Kare:** expansion of the offering dedicated to the elderly by introducing a new mobile device which users can associate to a web portal. True-Kare is a service which consists of a T999 mobile device with large

keypad and a personal health portal which allows users to record online health data, medication and health appointments, customise the mobile phone settings, create alarms and locate the mobile phone through the internet;

- **MEO Wallet:** rebranding, expansion and enlargement of mobile payment service functionalities. This service is currently being tested in a large scale pilot involving all of PT's employees. During 2013, the pre-commercial launch of MEO Wallet for payments through PoS in shops took place. MEO Wallet is an electronic payment platform which allows customers to pay on the web, mobile and TV in a reliable, easy and secure way. Apart from payments, the user can also transfer money between wallets, transfer money to and from their bank account, monitor account movements and other functionalities. MEO Wallet also includes a virtual punch card solution, allowing users to accumulate and redeem merchant stamps in their mobile phone;
- **Mobile Parking:** this service consists in the payment of parking spaces through the mobile phone. Initially the service was implemented in Sintra Municipality, having been extended during 2013 to six new areas: Águeda, Bragança, Coimbra, Évora, Fátima and Vieira do Minho.

b) B2B market solutions

Most companies state the following factors as essential to their growth and competitiveness: increasing productivity, improving efficiency, improving customer satisfaction, cost reduction, security. To address these challenges, PT came up with a value proposition for the B2B market based on attributes such as robustness, security, quality and proximity, which are present in all portfolio solutions for this segment.

IT / IS services and solutions

During the year 2013 PT strengthened its strategic presence as the promoter of cloud solutions that enhance efficiency and productivity of their enterprise customers. These solutions have gained new strength and new possibilities with the deployment of the new technological infrastructure of the Data Centre in Covilhã.

Cloud solutions from PT are customised according to the needs of business customers, enabling a significant reduction of their total costs, since they are sold on a pay-as-you-grow model, thereby enhancing cost reductions.

PT's Cloud solutions ensure high business convenience and simplicity, since the controlled use and management of resources and services are performed in self-service mode through the internet or a private network, anytime and anywhere. It should also be highlighted the fact that cloud solutions are increasingly adapted and accessible to small and medium enterprises (SMEs). In fact, safety and functionality offered by PT's Cloud solutions result in a particularly appropriate offer to the reality of the SME segment.

As mentioned earlier, the growing investment in cloud solutions also materialised in expanding this portfolio through the launch of video surveillance-as-a-service, supported by processing and storage of imaging services in the cloud, as well as new software-as-a-service solutions (Sugar CRM, EmBlue, Groobix, LibreOffice, Opinator and Teambox). PT has launched its own unified communications offering with VoIP integration and collaboration offerings, SmartUC PT.

For all this, PT's Cloud solutions were distinguished during the year at national and international levels, with the award for the private servers offering and the award for Best Cloud Service Product at the EuroCloud

04 RESEARCH AND DEVELOPMENT

Europe Awards, respectively recognising the innovative approach of the PT IT / IS market.

In 2013, PT was once again granted with Cisco's Cloud and Managed Services Master Partner accreditation. This certification comprised all Managed Unified Communications, MPLS VPN, Metro Ethernet, IP Trunking and private server services. PT remains the only CISCO partner in Portugal granted with this accreditation. This certification strengthens Cisco's recognition of PT's investments, knowledge, innovation and leadership in developing state-of-the-art cloud computing services that promote other organisation's competitiveness and sustainability. This way, CISCO reaffirms the strong commitment of PT in promoting Portuguese organisation's technological innovations uptake as well as its ability to deploy solutions based in Cisco's best of breed technologies which provide the best experience to B2B segment customers.

Regarding customer relations, PT launched the business customer support website (www.cliente.ptempresas.pt), a landmark innovation in the Business segment, which reinforces the focus of PT in quality of service and simplification of user experience it provides to its customers. Knowledge gathered during the last years in the residential segment allows for smooth and successful transformations in the business segment. In partnership with Jornal de Negócios, PT created an online space for thematic "Q&A" devoted mainly to SMEs. Jornal de Negócios neutral and journalistic point of view combined with the technological know-how of PT created an excellent online channel used to communicate market trends and the most strategic and innovative offerings to the business segment.

Also in 2013, PT improved its customer relation centres offering for external clients. To accomplish this, remarkable efforts were made to optimise synergies between PT Contact and PT PRO companies. PT Contact redesigned its external clients approach, including in its portfolio the outsourcing solutions offering, from which BPO (Business Process Outsourcing), developed by PT PRO, stands out, specifically in the document management and e-learning BPO solutions.

Sectorial solutions

Health

During 2013, PT improved its presence in the health sector, having developed innovative solutions both for national and international stakeholders, as it is evident with the launching of the latest version of Medigraf. Medigraf is a new generation telemedicine platform available on a software-as-a-service model, through the internet and supported by PT Cloud Solutions. It allows for medical tele-care, for example appointments, exam sharing, viewing and handling and safe communication between medical staff. Medigraf can be used on any computer or tablet with internet connection.

In 2013 Medigraf was expanded and is currently being used by Portuguese doctors and patients from São Tomé and Príncipe, saving thousands of euros in emergency evacuations. Medigraf was a major subject of discussion in the international conference IEEE Healthcom 2013 which for the first time took place in Portugal

and gathered experts from around the globe to discuss ICT in the Health sector (e-Health Networking Applications and Services). Medigraf was also granted the "Broadband: Changing Lives Award", in recognition of the innovative use of technology applied to quality of life improvement.

Also this year, efforts were made to continue the development of SIG DC (Integrated System for Chronic Diseases Management). This IT solution ensures healthcare providers an integrated approach to the management of chronic illnesses, such as asthma, coronary artery disease and diabetes, by gathering information made available by other healthcare providers. Consequently, it helps to reduce risks, by continuously monitoring patients, in addition to reducing costs, since it uses a preventive medicine approach.

Throughout the year, PT developed a biometric data tele-monitoring solution for blood pressure, temperature, blood sugar and weight, called SmartHealth. This solution can be combined with SIG DC to form an integrated offering for chronic patients demanding permanent monitoring. It can be also joined with smart home management solutions, resulting in a family constant monitoring tool. Developments made included the ability to monitor results live on the TV via MEO.

PT also developed the Tele-R project, comprising a web platform to support cognitive rehabilitation based in serious games theories and including several rehabilitation, re-education and re-integration clusters. This project is funded under the national QREN programme and in 2013 several important milestones, as well as the first prototypes, were successfully achieved and completed.

Retail

During 2013, PT has also strengthened its presence in the Retail sector, through the development of customised solutions for the Business segment. In this context, it is noted the commercial launch of a pioneering Wi-Fi-to-end e-commerce solution. Through this e-commerce solution, PT provides, besides the technological platform, associated management, development and maintenance services. This platform is already in use by a major national shopping centre manager, thereby proving the success of this new offer, which through continuous innovation and sophistication, is expected to thrive in coming years.

On the other hand, indoor geo-tagging solutions were developed that demonstrate the commitment of PT to location-based services, thus aiming to launch robust offerings that give response to a market trend. Innovative solutions that allow indoor monitoring anonymously in real time and with high precision, times and routes of travel of persons were tested. Thus, this contextual advertising service provides companies a direct, fully featured and geo-located contact with the target audience. PT thus guarantees a relevant positioning in the mobile advertising business.

Also in 2013, alongside the internal developments that supported integration in MEO Wallet punch cards, the development of a comprehensive loyalty solution for all retailers has started. This solution is focused on providing support to the customer loyalty features, which are developed by collecting, processing and analysing information collected at the payment equipments in the selling points.

04 RESEARCH AND DEVELOPMENT

Education

In 2013, PT continued to strengthen its support in the area of education by focusing on developing solutions that increase the quality of the national education system, in particular, by improving communication between stakeholders (schools, students and parents). In this sense, PT continued the development of the SAPO Campus (<http://campus.sapo.pt>) platform, in partnership with the University of Aveiro.

This platform offers schools a simple and safe means to access and share learning content among the community. Last year, platform features have been strengthened and vastly improved and integration with MEO Cloud has also been ensured. SAPO Campus currently has over 4,000 registered users in 100 spaces created, of which 50 are teaching institutions at all grade levels, from kindergarten to higher education schools.

Machine-to-Machine

M2M PT was launched at the Technology and Innovation Conference in 2012 and offers Machine-to-Machine (M2M) solutions and functionalities that allow for fast and automated communication between different devices, thus enhancing operational efficiency, organisation control and integration. In 2013, PT strengthened its M2M PT offering, deploying vertical solutions, tailored for the customer's needs. M2M PT services can be presented in three groups:

- **Connectivity:** allows real time provisioning, management, monitoring and setting of fixed and mobile communications between devices;
- **Monitoring:** continuous and remote active data interaction (example: services consumption, using status or working hours). This information is uploaded to a web portal in real time and is transformed into reports, graphics and alarms. These reports can be customised and are easy to interpret. For example: it is possible to analyse water, gas or electricity remote metering readings with high precision and low costs (no need to periodically go to the premises where the meters are to extract the real information);
- **Location:** ensures real time asset geo-tagging and interaction with customer management services, adapted to each business's needs. The assets can be vehicles, machines or containers, for example.

M2M PT offering was reinforced both by winning new customers and by expanding the existing functionalities and offering. In 2013 many pilots were deployed to test new vertical solutions, for example water metering, currently being tested in Ponta Delgada Municipality. Also during the year, the Managed Connectivity service was commercially deployed, allowing PT to reposition its offer as the national reference for M2M connected solutions.

This offering gathers PT's unique skills of communications integration, information systems and electronic equipment, resulting not only in a broader offer suitable for all activities sectors, but also tailor made solutions for specific customer demands.

In April 2013, SmartM2M PT website received an award from Meios & Publicidade (Portuguese marketing and communications magazine), in recognition for the quality of communication in interactive digital media.

2. Technological Infrastructure

All services developed and deployed by PT are supported by a state-of-the-art infrastructure that enhances access quality to these services and consequently a richer and unique user experience. To continue offering innovative products and services, during 2013, PT strengthened investments in its technological infrastructure.

a) Network infrastructure

For wireline infrastructure, PT strengthened investments in optical fibre (FTTH), expanding its Residential segment services.

For wireless infrastructure, 4G-LTE roll-out continued to be a strategic effort for PT as part of the investment in state-of-the-art infrastructure. At the end of 2013, PT's coverage reached circa 93% of national territory population, with MEO's (previously designated TMN) 4G network being a reference in quality. In order to strengthen mobile data capabilities and improve network quality, PT ensured that as much as 94% of the company's base stations were connected by fibre optics. In addition, MEO (previously designated TMN) successfully tested innovative LTE Advanced technology, achieving 300 Mbps (peak). Currently, PT takes an active role in 5G wireless technology international studies and discussions. The 3G network was also enhanced by the widespread introduction of HD voice (high definition voice), that allowed for significant improvements in user experience.

Important advances were accomplished concerning the convergence and optimisation of wireline and wireless infrastructures, namely:

- Unified management of all networks, evolving to all-IP;
- Integrated and cross-cutting service platforms;
- Customer's seamless unified access to services using wireline, wireless or WiFi;
- Expansion of 100 Gbps connections to the main network nodes – PT was a pioneer operator in deploying this technology;
- Completion of the IPv6 protocol adaptation process across the whole transportation network;
- Partnership and MoU agreements with leading manufacturers for solution validation and network virtualisation based on Networks Function Virtualisation (NFV) and Software Defined Network (SDN) technologies.

b) Data Centre

PT has the largest national network of data centres in size, geographical scope and quality, factors that give permanent response to the needs of redundancy, security, availability and reliability of national and international companies.

Since the 23 September 2013, with the inauguration of the Data Centre in Covilhã, the network consists of 7 Data Centres located in Lisbon, Porto, Azores, Madeira and Covilhã, an infrastructure with unmatched resiliency and robustness.

PT has taken an important step towards achieving its strategic objectives with the opening of the Data Centre in Covilhã, one of the largest, most efficient and sustainable in the world. After five years of cultural, technological and business model transformation, the inauguration of the Data Centre is one of the most important events for the company in 2013. However, this is mainly a point of departure rather than an arrival, as it constitutes the base infrastructure for offering cutting edge solutions that best serve the needs of individuals and businesses, nationally and internationally. In fact, the data centre also marks a milestone in the transformation of PT into a global operator.

PT aspires that the success of this investment will result in increased customer confidence, but also represents a boost for Portuguese technology and growth of cloud solutions in Portugal. In this sense, PT made a partnership with the University of Beira Interior and is committed to attract start-ups and technology companies into the region, in order to build an ecosystem of technological development which implements the Data Centre project as an industry aggregator.

04 RESEARCH AND DEVELOPMENT

The Covilhã Data Centre occupies a total area of 75,500 m² and increases the total IT room space from 14,000 m² to 26,000 m², the number of servers from 6000 to 56,000, capacity storage from 3 Pbytes to 33. The new data centre is connected to the backbone network of PT (100 Gbps), enabling the export of data storage capacity and technological services abroad. This project represents a strong contribution from PT to the economic development of Portugal and will continue to allow the creation of hundreds of jobs directly and indirectly. From the point of view of sustainability and energy efficiency, the Data Centre has savings of 144 tons of CO₂ and 40% in energy consumption, while including the use of environmentally responsible cooling (free cooling) systems for 99% of the year and the use of solar energy.

Against a backdrop of exponential growth of data usage, PT now has all the technological means to respond to what customers want: coverage, speed, reliability and security.

3. Operational efficiency

PT has reaffirmed its commitment to efficiency and operational excellence, developing during 2013 several projects and initiatives with significant impact on business processes, management of company resources and customer relations. Examples of this commitment are:

- **CRM ONE (mobile):** This project extended the existing CRM ONE platform to the mobile business, creating in this way a new convergent platform that aggregates all customer information across the several PT business segments. All segments are now supported by a single platform that ensures consistent, coherent and unique treatment of PT's customers;
- **Logistics Centre:** This project aimed to centralise PT's logistics operations (both for fixed and mobile networks) in a single site, leveraging the logistics network efficiency, the ability and flexibility to respond to business demands and creating synergies and convergence;
- **SIGO (Integrated Operations Management) - PTP integration:** the integration of SIGO in the PT Group companies in national territory enabled the joint management of the operation of fixed and mobile networks by unifying and optimising processes and resources. SIGO is a product that incorporates components for managing breakdowns, preventive maintenance, evolutionary maintenance and suppliers;
- **LoBo Connect:** creation of a direct line of contact between PT stores and back office services to improve face to face problem resolution;
- **Time Compression:** reducing delivery times for sales proposals to business customers;
- **Clever Use:** rational use of buildings to significantly reduce operating costs (e.g., cleaning, electricity, water, maintenance, human surveillance).

C. EXPLORATORY INNOVATION

To ensure sustainable leadership in the long term, PT is part of an innovation ecosystem, composed of internal teams devoted to exploratory innovation and also by a myriad of partners, from suppliers to universities and

research organisations that assist in the development of innovative and state-of-the-art solutions.

1. Exploratory Innovation driven by internal units

At PT, there are two core units dedicated to exploratory innovation: PT Inovação and SAPO. PT Inovação is mainly devoted to the technological infrastructure optimisation, OSS/BSS platform and services, and applications development technologies. SAPO focuses on software development and integration for multiplatform applications.

The telecom industry is mostly capital intensive. Also, most of the long term exploratory projects are high risk. For this reasons, PT finances many of the exploratory projects with both national and international financing programmes. In 2013, PT continued to successfully participate in innovation funding programmes, namely QREN, a national programme, CIP and FP7, both sponsored by the European Commission. The projects funded came from a variety of cutting edge areas.

a) PT Inovação

During 2013, PT Inovação structured its exploratory innovation activities around a set of strategic themes, namely: Identity Management and Privacy, 4G and Green Wireless, Cloud Services, Cloud Networking, internet of Things, Personalisation and Context Awareness, Interaction and Augmented Reality, Monitoring and Intelligent Connectivity and Evolved Optical Framework.

PT Inovação's exploratory innovation is largely based on a risk sharing model with external entities – Open Innovation, namely with national scientific research organisations, international R&D programmes and national innovation support programmes.

R&D activities with international cooperation

In 2013, PT Inovação R&D activities with international cooperation were developed along two major work lines:

- 1) Projects supported by the European Commission through its framework programmes (FP7 and CIP);
- 2) EUREKA programme cooperation.

Participation in FP7's ICT projects accounts for the majority of PT Inovação's efforts in research and development, with a total of 19 projects ongoing. These projects cover two major themes, according to the FP7 ICT work programme:

- Future Networks;
- internet for Cloud Services and Security.

b) SAPO

SAPO has taken an increasingly important role in the development of innovative solutions, leveraging original product and service supply to the market and bringing this paradigm across the organisation. In recent years, SAPO R&D activities have been focusing on new multi-device and multiplatform solutions, online communities, content creation and sharing and online advertising platforms.

04

RESEARCH AND DEVELOPMENT

SAPO has been gradually engaging in a growing number of R&D projects, in cooperation with international organisations. In European Commission funded FP7 and CIP innovation programmes, SAPO lead PT's participation in several projects, from which the following stand out:

- **Vconnect** - consists in the development of a sophisticated video conference solution for social networks with applicability in SAPO Campus. This project is being carried out in partnership with British Telecom, Fraunhofer Institute IIS and Eurescom;
- **AppsForEurope** - this project aims at the creation of tools which allow the transformation of Apps based on open data into viable businesses, through talent hunting in programming contests across Europe and the incubation of innovative concepts. Main external partners in this consortium are: Europeana, Open Knowledge Foundation and WAAG Society. Within PT group, this project engages SAPO Codebits programming contest, Codebits Labs and the BlueStart programme;
- **LeanBigData** - this project intends to develop ultra-scalable, ultra-efficient and integrated big data analytics architecture. This project relies on the participation of INESC – ID, and engages the main SAPO business components, namely SAPO Broker, SAPO AdServer and Analytics.

2. Research and development partnership ecosystem

PT's exploratory innovation ecosystem is built on a partnership network, composed of national and internationally renowned companies, universities and R&D institutions. By participating in this ecosystem, PT grants access to state-of-the-art technology and solutions.

Partnerships combine the various competencies and knowledge needed for innovating. For this purpose, PT established several types of partnerships:

- a) Partnerships with technological suppliers;
- b) Partnerships with universities and R&D institutions;
- c) Cooperation with start-ups.

a) Partnerships with technological suppliers

In order to provide state-of-the-art technologies to its customers, PT establishes several national and international partnerships with market leading companies.

In 2013, PT and Cisco developed a combined innovative solution for SmartCities (Smart+Connected) which is being implemented in different markets, from Europe to Africa and Latin America. Among these solutions are: Smart Work Centres, Smart+Connected City WiFi e Connected Transportation, Sports and Entertainment.

Together with Huawei, PT optimised its LTE network and reached for the first time 300Mbps.

Microsoft is a PT partner for several years and in 2013 the two companies developed a joint cloud solution – Microsoft Cloud OS, a data centre integrated solution which allows companies operating Windows Services and System Centre Technology to expand their data centre into PT Cloud Solutions. This offering enables companies to increase their productivity and competitiveness by easily adding virtual servers, hosting capacity, disaster recovery solutions and other data centre resources.

b) Partnerships with universities and R&D institutions

PT's R&D investment is largely based on strategic relationships with national and international universities and research institutes, with whom it develops projects in several fields. These projects aim to address business

needs and close the gap between the industry and the knowledge centres, leveraging in this way product, service and process innovation.

Nationally, PT invests in exploratory technological projects in cooperation with the Universities of Aveiro, Porto, Coimbra, Minho, Beira Interior, Trás-os-Montes e Alto Douro. In 2013, PT's successful partnership with Universidade de Aveiro was awarded with COTEC's "Casos Exemplares de Cooperação Universidade-Empresa" prize.

Besides partnerships with universities, PT also engages in projects with renowned research institutes. PT Inovação is a funding associate of Instituto de Telecomunicações (IT) and part of the managing team for Pólo Tecnológico de Aveiro, where a permanent research group is dedicated to developing technologies within PT's scope of interests, such as network optimisation, cloud services, and web and social media.

Regular joint activities also take place with Instituto Pedro Nunes, in Coimbra, INESC-Porto and INESC-Coimbra, covering several fields of knowledge, namely network infrastructure (optic and radio), cloud, context awareness services and applications, Multimedia IP future environment support and high-speed network optimisation and security algorithms.

As part of the cooperation with universities and research institutes, PT extended the SAPO Labs concept to content and internet services by integrating a consortium composed of British Universities from York, Sussex and London and funded under the EPSRC (Engineering Physical Sciences Research Council, United Kingdom) that aims at setting a PhD programme in the field of artificial intelligence for gaming. Within this context, several bilateral agreements with the consortium universities were made, to include short-term internships for students and the creation of a set of technological synergies which will allow PT to lead intelligent games and solutions.

In addition to technological projects, PT concluded an additional protocol with IADE-U - Institute of Arts and Design Company with the goal of creating an open channel for the development of projects for the continuous improvement of PT's offering and exploration of new solutions.

c) Cooperation with Start-ups

In 2013 PT launched a new start-up support programme: BlueStart (<http://bluestart.pt/>). The objective of this project is to assist young entrepreneurs in converting their ideas into sustainable businesses by providing a multi-skilled mentoring team, free tools, reductions in PT Negócios services rates and international communication and dissemination services provided by a broad network of contacts, roadshows and PT events.

Start-ups that intend to test a prototype, a product or service, a business model or just want to expand their business can apply for the BlueStart programme. The selected projects are aligned with PT's innovation strategy, thereby encouraging networking and accelerating the innovation efforts.

The programme comprises three steps:

1. Fresh Start;
2. Fast Growing;
3. High Flying.

04 RESEARCH AND DEVELOPMENT

The Fresh Start phase targets early beginners and includes a Start-up Kit, which includes: MEO Cloud accounts, virtual public servers, web collaboration and presence tools (domain name, e-mail boxes, sharepoint), data base hosting, access to PT's exclusive APIs and web services, testing equipment (IOS and Android), as well as favourable rates in PT's telecommunication services. To the participating projects, PT also offers fully-equipped premises for co-working, technical support provided by a mentor, who is appointed to follow and monitor the projects and contribute with its expertise, ideas, know-how and contacts. This phase also grants the start-ups' presence in workshops and other national and international events.

During the first year, PT supported ten projects in this phase, the majority of them derived from Codebits Lab.

Intended for Start-ups that already placed their product and service in the market, the Fast Growing phase comprises not only the previous phase benefits but also operational support in the form of legal and accounting advice/consultancy, mentoring, by appointment of an expert and also access to a set of pilots, for concept, technical and commercial approach assessment.

During 2013, PT supported nine start-ups in this stage.

Another nine Start-ups entered the High Flying phase, devoted to Start-ups wishing to integrate their products and services in PT's commercial offering with the aim of expanding to the global market. For this stage, PT provides the Start-ups dissemination both nationally and abroad through its own and its partners' communication channels. The High Flying Start-ups can benefit from all previous phases advantages and also from support in building bridges with top operational and financial partners.

Beside these events, PT was also present in several innovation contests as jury, namely for: ArriscaC, organised by the University of Coimbra and Desafio Mar, in partnership with the Portuguese Government.

3. Intellectual Property

For the year 2013, PT was granted the following patents:

- National Invention Patent Request No. 105.235, issued on behalf of PT INOVAÇÃO, SA, NATIONAL CENTRE FOR SCIENTIFIC RESEARCH "DEMOKRITOS" and UNIVERSITY OF AEGEAN for the invention: "Managing Link Layer Resources for Media Independent handover"
Grant date: 15/05/2013
- National Invention Patent Request No. 105.765, issued on behalf of PT INOVAÇÃO, SA and UNIVERSIDADE DE AVEIRO, for the invention: "Método de Equalização Não-Linear do Canal Ótico no Domínio da Frequência"
Grant date: 02/09/2013
- National Invention Patent Request No. 105.392, issued on behalf of PT INOVAÇÃO, SA and UNIVERSIDADE DE TRÁS-OS-MONTES E ALTO DOURO for the invention: "Sistema de informação para atendimento ao público"

And the following patent requests were made:

- International Patent Request No. PCT/PT2013/000007, made on behalf of PT INOVAÇÃO, SA, for the invention: "Method and apparatus for allowing channels to be changed".
Request date: 08/02/2013
- Patent Request for Japan No. 2013-523120 – this request corresponds to the national Japanese phase of the International Patent Request no. PCT/PT2011/000026, made on behalf of PT INOVAÇÃO, SA, NATIONAL CENTRE FOR SCIENTIFIC RESEARCH "DEMOKRITOS" and UNIVERSITY OF AEGEAN, for the invention: "Managing link layer resources for media independent handover".
Request date: 04/02/2013
- Patent Request for North-America No. 13/814143 – this request corresponds to the national USA request of the International Patent Request no. PCT/PT2011/000026, on behalf of PT INOVAÇÃO, SA, NATIONAL CENTRE FOR SCIENTIFIC RESEARCH "DEMOKRITOS" and UNIVERSITY OF AEGEAN, for the invention: "Managing link layer resources for media independent handover".
Request date: 11/06/2013

4. Innovation in international operations

PT Inovação is the major disseminator of PT's innovation culture, having technological centres in many African countries and also in Brazil, ensuring in this way the transfer of innovative solutions both inside and outside PT Group.

From all the international operations, the following innovative activities stand out:

- **Oi (Brazil):** Oi has similar innovation practices to PT (e.g. replication of OPEN innovation programme in Oi through the INOVA project). Therefore, there have been numerous interactions between the two companies.
- **Unitel (Angola):** proceeding with its strategy of expanding next generation networks (fibre) to the whole Angolan territory, UNITEL kept its project of network growth and improvement in all provinces. SAPO portal success was strengthened, having reached as much as 5 million views in 2013, corresponding to more than 700% growth since its launch 5 year ago. Adding to this accomplishment, SAPO Angola was awarded with the Angolan Superbrand Award. Regarding innovative telecommunication tariffs, UNITEL launched Plano Boss that allows for users to transfer their balance to other users, responding in this way to new market demands.
- **MTC (Namibia):** 2013 witnessed another technological breakthrough for MTC's network: the optical fibre roll-out throughout Namibia, in partnership with the national electricity provider. The radio network swap continued at an accelerated pace and the 4G network was expanded to eight new cities, reaching approximately 40% of the population and reinforcing MTC's leadership in this offering. To support this growth, a new Data Centre was built with state-of-the art technology and MTC's information systems were improved (MTC XXI Project). To ensure service resilience, MTC developed a new business continuity and disaster recovery project that replicates the main mobile components for voice and data services. Always focusing on customer support excellence, MTC opened its first Customer Support Centre, a store dedicated to customer support – data service usage recommendations, repairs, among other services. Concerning new rates and tariffs, MTC had to adjust to its network evolution and launch a pre-paid 4G-LTE tariff, new data bundles and Smartshare, a data plan which allows traffic to be shared between users. In order to facilitate mobile phone top-ups and bill payments, MTC introduced telecommunications vending machines.
- **CVT (Cape Verde):** having mature operations, CVT supports and fosters local business, having launched in 2013 the Caixa de Negócios (PinWin) enterprise solution, a service offering which combines CV Multimedia telecommunications services with a management software platform (PingWin). The "Caixa de Negócios"

04 RESEARCH AND DEVELOPMENT

enables profitability analysis, invoicing, charging, stock control and purchasing and supplier management.

- Focusing on customer service, the ACM – Active Campaign Manager was launched, a mobile campaign dynamic management tool that differentiates deal offerings according to each customer's consumption profile.

The offering for personal users was also expanded, with new eight stores, the launch of the first national unlimited internet traffic rate ("Zap Net Sem Limites"), the first tribal tariff, targeting younger users (Tarifário "POWA SWAG Total"), the first international communication minutes plan for mobile users, intended for communication with the large emigrant community and the first national unlimited off peak voice communications for fixed line. The television offering was reinforced with the release of new channels – provisioning of key sports content with "A'Bola TV", "Benfica TV" and "Sport TV África", combined with an information service of major football match results from the Portuguese, Spanish and English leagues. It was also launched Zap Yes, the new television bundle with price entry point for the low-end segment. A service dedicated to infants was also launched allowing for parents to buy a mobile phone specifically designed for children (Q9 Kids) and subscribe the corresponding Grilo Kids service that allows for children to talk to their parents at an especially low rate. To foster access to data traffic, CVT launched "DiBorla Domingão", a opt in service that allows for unlimited on net service on Sundays, for 100 ECV (€0.90).

Customer care was improved by changing the sourcing models and reinforcing the call centre service, having achieved significant improvements in the service quality.

Concerning management best practices, several innovative initiatives took place to improve corporate efficiency. To this end, new central collections model was implemented and a revenue assurance department was created, to control credit and revenue, respectively. Aiming reducing churn, a client retention and winback model was also deployed.

Following the latest industry trends, CVT started planning its services and product convergence, by creating a task force to accompany this process.

In 2013, to support the community, CVT launched the first music festival cycle with CV Móvel Branding (CV Móvel ao Vivo and Festival de Verão CV Móvel).

- **CST (São Tomé and Príncipe):** in 2013 CST launched the fibre optic fibre offering in São Tomé and Príncipe. At the same time, the 3G network continued to be expanded, contributing to the improved internet speed connection in the whole territory. The network upgrading project kept its environmental and sustainable approach and the supply of alternative energy sources (solar and wind) to remote BTS was continued. Regarding the commercial offerings, mobile broadband was launched for the first time in São Tomé and Príncipe, along with ATM mobile top-up.

In the area of social responsibility, CST agreed with São Tomé and Príncipe's government to promote and foster access to new ICT by installing ADSL in the countries' schools with a 75% discount, and by delivering recycled computers to the least privileged schools. This agreement also foresees the Liga CST Escolas Programme, a financial support and consultancy programme for sports promotion in schools and also Connect In, a digital inclusion programme that includes the set up of several tele-centres devoted to the promotion of ICT among young people.

With the support of Instituto Marquês de Valle Flôr, CST committed to building the country's digital generation and to promoting education and public health services through ICT.

- **TT (East Timor):** Timor poses a great geographic challenge to the installation of efficient telecommunications networks. PT embraced this challenge and in 2013 started the building of the fibre optic metropolitan network of Dili, continued the expansion of 3G network in all territory (increase in the number of BTS by 43%) and the backbone network upgrade.

Timor Telecom's distribution network was fully restructured through the engagement of small agents and the expansion to more remote locations. This network of small agents allowed for hundreds of people to have a new income source, critical to them and their families and also took TT services to a greater number of customers. To support this distribution network, a total of 18 stores were built and refurbished, making TT present in all Timorese districts, the most widespread distribution network in the country.

There was also innovation in customer services, with the expansion of the internet access community centres and the reorganisation of the company's call centre in accordance with the best international guidelines and standards for the sector. Timor Telecom's call centre was installed with IVR and call recording, staff were given expert training, were organised according to the different services, and global and individual goals were established. In as little as 6 months, the service rate grew from 38% to 90% and customer satisfaction reached unprecedented high levels. Comprised of more than 100 employees, Timor Telecom's call centre is the cornerstone of customer service.

To innovate its offering, Timor Telecom also launched the online customer services portal and electronic billing.

Regarding new tariffs, Timor Telecom launched the electronic top-up service ("Pulsa Lais"), available in the whole territory. Targeting young people, the first tribal rate was introduced ("Diak"), having special features devoted to social networks. Also the first tariff by the second ("Viva") was made available to customers.

For the corporate customers, Timor Telecom launched the corporate VPN, with low rates for communications within the company's network.

The Value-added service offering was also improved, with successes in 2013 including the introduction of Telebola (a mobile phone football quiz), the news service and the sports results service, both via SMS. Among young people, the Facebook service via SMS was an enormous success.

Timor Telecom's commitment to the country is also reflected in the sponsorship of the national football team.

05

FINANCIAL REVIEW



CHAIRMAN AND CEO'S MESSAGE	08		
01 MACROECONOMIC ENVIRONMENT	13		
02 REGULATORY BACKGROUND	29		
03 STRATEGIC PROFILE	41		
04 RESEARCH AND DEVELOPMENT	53		
05 FINANCIAL REVIEW			
06 BUSINESS PERFORMANCE	85		
07 EMPLOYEES	99		
08 CAPITAL MARKETS	101		
09 MAIN EVENTS	109		
10 MAIN RISKS AND UNCERTAINTIES	113		
11 OUTLOOK	121		
12 STATEMENT BY THE PERSONS RESPONSIBLE	125		
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129		
14 CONSOLIDATED FINANCIAL STATEMENTS	133		
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227		
16 STATUTORY AUDITOR'S REPORT	231		
17 INDEPENDENT AUDITORS' REPORT	235		
18 GLOSSARY	239		
19 BOARD OF DIRECTORS	243		
20 KEY FIGURES	245		
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249		
		CONSOLIDATED INCOME STATEMENT	76
		Consolidated operating revenues	76
		Consolidated operating costs	77
		EBITDA	78
		Net income	79
		CAPEX	80
		Cash-flow	81
		Consolidated net debt	81
		Post retirement benefit obligations	82
		Equity	83
		Consolidated statement of financial position	84

CONSOLIDATED INCOME STATEMENT

Consolidated income statement ⁽¹⁾

(Euro million)

	2013	2012	y.o.y
Operating revenues	2,911.2	3,079.0	(5.4%)
Portugal ⁽²⁾	2,559.6	2,700.5	(5.2%)
Residential	721.1	711.7	1.3%
Personal	655.2	688.1	(4.8%)
Enterprise	790.8	896.0	(11.7%)
Wholesale, other and eliminations	392.5	404.7	(3.0%)
Other and eliminations	351.6	378.5	(7.1%)
Operating costs ⁽³⁾	1,748.8	1,788.9	(2.2%)
Wages and salaries	399.3	413.6	(3.5%)
Direct costs	458.8	457.4	0.3%
Commercial costs	310.0	318.6	(2.7%)
Other operating costs	580.7	599.3	(3.1%)
EBITDA ⁽⁴⁾	1,162.4	1,290.1	(9.9%)
Post retirement benefits	40.5	57.5	(29.7%)
Depreciation and amortisation	726.3	765.3	(5.1%)
Income from operations ⁽⁵⁾	395.6	467.3	(15.3%)
Other expenses (income)	50.3	(24.5)	n.m.
Curtaiment costs, net	127.1	2.4	n.m.
Net losses (gains) on disposal of fixed assets	(3.4)	(3.5)	(3.2%)
Net other costs (gains)	(73.4)	(23.4)	213.6%
Income before financ. & inc. taxes	345.4	491.8	(29.8%)
Financial expenses (income)	(104.6)	56.1	n.m.
Net interest expenses (income)	257.4	213.0	20.8%
Equity in earnings of affiliates and joint ventures, net	(440.6)	(207.3)	112.6%
Net other financial losses (gains)	78.6	50.3	56.1%
Income before income taxes	450.0	435.7	3.3%
Provision for income taxes	(62.0)	(125.6)	(50.6%)
Income before non-controlling interests	388.0	310.1	25.1%
Losses (income) attributable to non-controlling interests	(57.0)	(84.3)	(32.4%)
Consolidated net income	331.0	225.8	46.6%

⁽¹⁾ 2012 figures were restated in order to reflect the impacts of the adoption of the IFRS 11 Joint Arrangements and of the revised version of IAS 19 Employee Benefits, as explained in more detail in the Note 4 of the Financial Statements of the Annual Report. | ⁽²⁾ Businesses in Portugal include wireline and MEO (previously named TMN). | ⁽³⁾ Operating costs = wages and salaries + direct costs + commercial costs + other operating costs. ⁽⁴⁾ EBITDA = income from operations + post retirement benefits + depreciation and amortisation. | ⁽⁵⁾ Income from operations = income before financials and income taxes + curtaiment costs + losses (gains) on disposal of fixed assets + net other costs (gains).

PT's consolidated financial statements are prepared in accordance with IFRS as adopted by the European Union, under which the adoption of IFRS 11 Joint Arrangements is mandatory only as from 1 January 2014, although early adoption is allowed. Under IFRS 11, the proportional consolidation of joint controlled entities is no longer possible and equity method of accounting is required. PT decided for the early adoption of IFRS 11, once the adoption of this standard is mandatory for NYSE reporting. Following the early adoption of IFRS 11, PT's joint control interest in Oi, Contax and controlling entities was accounted by the equity method and prior year information was restated accordingly. In addition, in 2013 the new IAS 19 Post Retirement Benefits (more detail in the Note 4 of the Financial Statements of the Annual Report) became effective.

Consolidated operating revenues

In 2013, consolidated operating revenues decreased by Euro 168 million to Euro 2,911 million (-5.4% y.o.y). This performance is explained by revenue decline in the Portuguese telecommunications businesses (Euro 141 million) and a lower contribution from other international operations, namely MTC, due to negative currency effect, and Timor Telecom.

In 2013, revenues from Portuguese telecommunications businesses decreased by 5.2% y.o.y to Euro 2,560 million, while service revenues decreased by 5.9% y.o.y, having robustly improved the quarterly trend when comparing the 4Q13 (-3.8% y.o.y) to 3Q13 (-5.8% y.o.y), 2Q13 (-7.0% y.o.y) and 1Q13 (-6.7% y.o.y). Revenue performance continued to be impacted by the pricing and competitive dynamics and by the macroeconomic environment. Against this backdrop, in 2013 PT posted continued growth in the Residential segment and presented improved trends in the Personal segment. Private consumption in Portugal decreased by 2.2% in 3Q13, while PT's consumer segment, which includes Residential and Personal segments, posted flat revenues in 4Q13, outperforming the market. This performance proves the success of PT's offering, namely M₄O, which is gaining momentum in the market, having reached more than 1.7 million RGUs in February 2014. The Enterprise segment is penalised by competitive dynamics that are impacting pricing environment, namely in mobile services, notwithstanding a remarkable improved performance from SMEs and SOHOs in 4Q13, underpinned by the fixed line business. Revenues from Wholesale, other and eliminations in 2013 decreased by 3.0% y.o.y to Euro 393 million, reflecting lower accesses and capacity revenues and a Euro 10 million decline in the directories business (-27.9% y.o.y) reflecting secular trends.

Other revenues, including intra-group eliminations, decreased by Euro 27 million (-7.1% y.o.y) to Euro 352 million in 2013, reflecting mainly negative currency effects (Euro 40 million). Adjusting for this effect, other revenues would have increase by Euro 13 million, primarily explained by a higher contribution from MTC, mainly due to higher retail voice revenues and a significant increase in data services, partially offset by a lower contribution from Timor Telecom (Euro 8 million) following the entrance of new competitors in the market.

Assuming the proportional consolidation of Oi and Contax, total operating revenues would have amounted to Euro 5,988 million in 2013, decreasing by 9.3% y.o.y, with Oi representing Euro 2,660 million. In this context, the contribution from international assets to consolidated operating revenues would have stood at 56.5% in 2013, with Brazil accounting for 51.3%, as compared to 58.4% and 53.3% in 2012, respectively, a decrease that is explained by following the impact of the depreciation of the Brazilian Real against the Euro.

Consolidated operating costs (excluding post retirement benefit costs and depreciation and amortisation)

Consolidated operating costs excluding depreciation and amortisation costs and post retirement benefits decreased by Euro 40 million (-2.2% y.o.y) to Euro 1,749 million in 2013, as compared to Euro 1,789 million in 2012, primarily reflecting a lower contribution from Africatel businesses (Euro 11 million) and from Portuguese telecommunications business (Euro 31 million), with the latter being explained by lower wages and salaries, reflecting focus on cost control and a decrease in overtime remunerations, lower third party costs and maintenance and repairs, reflecting PT's cost cutting efforts, and also lower costs of goods sold, effects that more than offset an increase in direct costs reflecting mainly higher programming costs on the back of sustained customer growth and investment in the differentiation of the MEO content offering and higher marketing expenses, reflecting the increased push of commercial activities due to the rollout of M₄O.

Wages and salaries, decreased by Euro 14 million (-3.5% y.o.y) to Euro 399 million in 2013, as compared to Euro 414 million in 2012, primarily reflecting a lower contribution from Portuguese telecommunications business (Euro 9 million), mainly due to lower variable and overtime compensation, higher efficiency levels in certain internal processes and lower personnel costs as a result of a restructuring plan implemented in the second

05 FINANCIAL REVIEW

quarter of 2013. Wages and salaries accounted for 13.7% of consolidated operating revenues in 2013.

Direct costs, increased by Euro 1 million (+0.3% y.o.y) to Euro 459 million in 2013, as compared to Euro 457 million in 2012, primarily due to a higher contribution from the Portuguese telecommunications business, mainly reflects an increase in programming costs, driven by customer growth and investment in content for our MEO offering, and higher costs associated with the provision of IT/IS solutions and outsourcing services as a result of the increased weight of these services as part of our revenues. These effects more than offset lower mobile traffic costs, explained by a reduction in services rendered and also the impact of the regulatory mobile termination rate cuts, and lower costs associated with our directories business. Direct costs accounted for 15.8% of consolidated operating revenues in 2013.

Commercial costs, which include costs of products sold, commissions and marketing and publicity, decreased by 2.7% y.o.y (Euro 9 million) in 2013 to Euro 310 million, as compared to Euro 319 million in 2012, primarily reflecting a reduction in Portuguese support companies as a result of PT's cost cutting efforts and strong focus on cost efficiency. The higher contribution of Portuguese telecommunications businesses is primarily explained by higher marketing and publicity expenses, reflecting the increased push of commercial activities due to the rollout of M₄O, partially offset by lower costs of goods sold, reflecting lower subsidies and lower average cost of handsets. Commercial costs accounted for 10.6% of consolidated operating revenues in 2013.

Other operating costs, which mainly include support services, supplies and external services, indirect taxes and provisions, decreased by Euro 19 million (-3.1% y.o.y) to Euro 581 million in 2013, as compared to Euro 599 million in 2012, primarily reflecting a lower contribution from Portuguese telecommunications business, primarily as a result of lower maintenance and repair expenses and other third party services, which benefited from the roll-out of our FTTH network and an extensive field force transformation programme, and lower other expenses.

EBITDA

In 2013, consolidated EBITDA decreased by Euro 128 million (-9.9% y.o.y) to Euro 1,162 million, as compared to Euro 1,290 million in 2012, mainly due to: (1) the EBITDA decline in the Portuguese telecommunications businesses (Euro 110 million, -9.1% y.o.y), primarily due to lower revenues (Euro 141 million) as explained above, and (2) the 20.1% y.o.y (Euro 18 million) decrease in EBITDA from other businesses, reflecting the depreciation of the Namibian Dollar and other negative currency effects (Euro 19 million). On a constant currency basis, EBITDA from other businesses would have remained broadly flat at Euro 89 million, as the higher contribution from MTC was offset by a lower contribution from Timor Telecom and CVT. Additionally, excluding the impact of foreign currency movements against the Euro, consolidated EBITDA would have declined by 8.4% y.o.y in 2013.

EBITDA by business segment ^{(1) (2)}

(Euro million)

	2013	2012	y.o.y
Portugal	1,091.0	1,200.7	(9.1%)
Other	71.3	89.3	(20.1%)
EBITDA	1,162.4	1,290.1	(9.9%)
EBITDA margin (%) ⁽³⁾	39.9	41.9	(2.0pp)

⁽¹⁾ 2012 figures were restated in order to reflect the impacts of the adoption of the IFRS 11 Joint Arrangements and of the revised version of IAS 19 Employee Benefits, as explained in more detail in the Note 4 of the Financial Statements of the Annual Report. | ⁽²⁾ EBITDA = income from operations + post retirement benefits + depreciation and amortisation. | ⁽³⁾ EBITDA margin = EBITDA / operating revenues.

In 2013, EBITDA from the Portuguese telecommunications businesses amounted to Euro 1,091 million (-9.1% y.o.y), equivalent to a 42.6% margin, having improved strongly the quarterly trend when comparing the 4Q13 (-5.8% y.o.y) to 3Q13 (-9.1% y.o.y), 2Q13 (-9.7% y.o.y) and 1Q13 (-11.7% y.o.y). The EBITDA performance is the result of the decline in service revenues (Euro 149 million), which have high operating leverage, and also of lower margin in new services provided by the Enterprise segment. In effect, in a context where service revenues minus direct costs declined by Euro 150 million, EBITDA declined only by Euro 110 million, reflecting a continuous focus on cost cutting and efficiency gains. EBITDA performance in Portugal was also penalised by a continuous decline in the directories business.

Assuming the proportional consolidation of Oi and Contax, EBITDA would have amounted to Euro 2,122 million in 2013, decreasing by 6.5% y.o.y, with Oi representing Euro 896 million. In this context, international assets would have represented 52.1% of PT's consolidated EBITDA in 2013, with the Brazilian businesses accounting for 45.1% of EBITDA in the period, as compared to 50.4% and 43.0% in 2012, respectively.

Net income

Post retirement benefits costs decreased from Euro 58 million in 2012 to Euro 40 million in 2013, reflecting the reduction in the discount rates undertaken at the end of 2012, leading to a lower net interest cost in 2013.

Depreciation and amortisation costs amounted to Euro 726 million in 2013, compared to Euro 765 million in 2012, a reduction that reflects lower depreciation and amortisation costs in the Portuguese telecommunications businesses (Euro 34 million), explained by the decline in CAPEX occurred in the last years against the backdrop of the investments in future proof technologies and network undertaken in previous years, namely in FTTH and 4G-LTE coverage.

Curtailement costs amounted to Euro 127 million in 2013 reflecting mainly a redundancy programme of approximately 400 employees implemented in 2Q13.

Net gains on disposals of fixed assets remained stable at Euro 3 million in 2013 compared to 2012.

Net other gains amounted to Euro 73 million in 2013, compared to Euro 23 million in 2012. In 2013, this caption includes: (1) a gain resulting from the settlement of contractual obligations related to the acquisition of the investment in Oi in 2011, by a lower amount than the liability initially recognised; (2) a gain related to the wireline Concession Agreement, and (3) certain provisions and adjustments recognised in order to adjust the carrying value of certain assets to the corresponding recoverable amounts. In 2012, this caption included a gain related to the net compensation for prior years costs supported by PT with the Universal Service obligation under the Concession Agreement, net of provisions and adjustments, recognised in order to adjust the carrying value of certain assets to the corresponding recoverable amounts.

Net interest expenses increased to Euro 257 million in 2013 as compared to Euro 213 million in 2012, reflecting primarily an increase in the average cost of net debt (Euro 40 million), from 4.4% in 2012 to 5.3% in 2013, mainly as a result of a lower return on cash applications and, to a lesser extent, an increase in the cost of gross debt from 4.5% in 2012 to 4.8% in 2013.

Equity in earnings of affiliates and Joint Ventures, which includes PT's share in the earnings of associated companies and also Joint Ventures that are now accounted for by the equity method following the

05 FINANCIAL REVIEW

adoption of IFRS 11, amounted to Euro 441 million in 2013, including a Euro 310 million gain related to the disposal of the investment in CTM. Adjusting for this impact and PT's share in the earnings of CTM in 2012 (Euro 26 million), equity in earnings of affiliates and Joint Ventures would have amounted to Euro 130 million in 2013, a decrease from Euro 181 million in 2012, mainly reflecting: (1) lower earnings from Oi, as higher depreciation and amortisation costs and interest expenses more than offset the gain recorded in connection with the disposal of its cable submarine operation, and (2) a lower contribution from African equity assets due to changes in corporate tax and currency effects in 2013, as operationally equity investments continue to perform positively.

Net other financial losses, which include net foreign currency losses, net losses on financial assets and net other financial expenses, increased from Euro 50 million in 2012 to Euro 79 million in 2013, reflecting primarily: (1) higher foreign currency losses (Euro 20 million), mainly due to the impact of the depreciation of the US Dollar against the Euro, and (2) higher net other financial expenses mainly related to certain banking services.

Income taxes decreased to Euro 62 million in 2013, as compared to Euro 126 million in 2012, due to lower taxable earnings across all businesses, reflecting higher curtailment charges and interest expenses, that more than offset the negative impact of Euro 32 million resulting from the change in the statutory tax rate in Portugal, from 25% to 23% as from 2014, as a result of which certain deferred tax assets were re-measured based on the new tax rate.

Income attributable to non-controlling interests amounted to Euro 57 million in 2013 and Euro 84 million in 2012. The reduction of Euro 27 million reflects a lower income attributable to non-controlling interests of: (1) the African businesses (Euro 21 million), mainly due to corporate tax and currency effects, and (2) Timor Telecom (Euro 5 million).

Net income amounted to Euro 331 million in 2013 compared to Euro 226 million in 2012. This increase is explained primarily by: (1) the gain recorded in connection with the sale of the investment in CTM; (2) lower depreciation and amortisation expenses at Portuguese operations, and (3) higher non-recurrent gains. These effects were partially offset by: (1) lower EBITDA from Portuguese telecommunications businesses; (2) the curtailment costs reflecting a redundancy programme of approximately 400 employees; (3) higher interest expenses at Portuguese operations, reflecting an increase in the cost of debt and a lower return on cash applications, and (4) a reduction in PT's share in the earnings of equity assets and joint ventures.

CAPEX

CAPEX amounted to Euro 589 million in 2013, equivalent to 20.2% of revenues, as compared to Euro 661 million in 2012. This decrease is explained by a lower contribution from Portuguese telecommunications businesses (Euro 66 million), which stood at Euro 490 million in 2012, reflecting: (1) lower customer related CAPEX, explained by lower unitary equipment costs and lower churn across the pay-TV and broadband services, and (2) lower infrastructure and technology related CAPEX, as a result of the strong investments made in the past years, both on FTTH and 4G-LTE networks. CAPEX in the Portuguese telecommunications businesses is expected to be more demand driven, given the recent investments in the modernisation of the networks and in technology, and in 2014 should be below Euro 400 million. CAPEX from other businesses decreased by 6.3% y.o.y to Euro 99 million in 2013, reflecting mainly the impact of the depreciation of the Namibian Dollar against the Euro (Euro 8 million).

CAPEX by business segment ⁽¹⁾

(Euro million)

	2013	2012	y.o.y
Portugal	490.0	555.5	(11.8%)
Other	99.1	105.7	(6.3%)
Total CAPEX	589.0	661.2	(10.9%)
CAPEX as % of revenues	20.2	21.5	(1.2pp)

⁽¹⁾ 2012 figures were restated in order to reflect the impacts of the adoption of the IFRS 11 Joint Arrangements and of the revised version of IAS 19 Employee Benefits, as explained in more detail in the Note 4 of the Financial Statements of the Annual Report.

Cash-flow

In 2013, operating cash-flow stood at Euro 508 million as compared to Euro 577 million in 2012. This decline in operating cash-flow (Euro 69 million) is explained by a lower EBITDA minus CAPEX (Euro 56 million), mainly related to Portuguese telecommunications businesses, and a higher investment in working capital (Euro 16 million).

In 2013, consolidated free cash-flow amounted to Euro 376 million, while in 2012 stood at Euro 251 million, reflecting primarily the proceeds from the sale of CTM, amounting to Euro 336 million. This was partially offset by: (1) a lower operating cash-flow (Euro 69 million), as referred to above, and (2) lower dividends received from affiliated companies (Euro 150 million), mainly related to the dividends received from Unitel in 2012 (Euro 50 million) and lower dividends received from Oi in 2013 (Euro 98 million), reflecting the Brazilian Real 3 billion dividends paid by Oi in 2012 (Brazilian Real 2 million relating to the year 2011 and Brazilian Real 1 billion as an advance over 2012 profits) as compared to Brazilian Real 1.5 billion paid in 2013 (the remaining Brazilian Real 1 billion relating to the year 2012 and Brazilian Real 0.5 billion as an advance over 2013 profits).

Free cash-flow ⁽¹⁾

(Euro million)

	2013	2012	y.o.y
EBITDA minus CAPEX	573.3	628.9	(8.8%)
Non-cash items	25.8	23.3	11.0%
Change in working capital	(91.1)	(75.1)	21.3%
Operating cash-flow	508.1	577.0	(11.9%)
Interests	(230.3)	(236.6)	(2.7%)
Net reimbursements (contributions) to pension funds ⁽²⁾	(20.6)	(26.7)	(22.6%)
Paym. to pre-retired, suspended employees and other	(158.6)	(160.5)	(1.2%)
Income taxes	(60.9)	(54.9)	10.9%
Dividends received	114.7	265.1	(56.7%)
Disposal of CTM	335.7	0.0	n.m.
Other cash movements	(112.5)	(112.8)	(0.2%)
Free cash-flow	375.5	250.6	49.8%

⁽¹⁾ 2012 figures were restated in order to reflect the impacts of the adoption of the IFRS 11 Joint Arrangements and of the revised version of IAS 19 Employee Benefits, as explained in more detail in the Note 4 of the Financial Statements of the Annual Report. | ⁽²⁾ In 2013 and 2012, this caption includes payments related to the transferred regulated pension plans to the Portuguese State amounting to Euro 21.8 million and Euro 25.5 million, respectively.

Consolidated net debt

Consolidated net debt adjusted for unused tax credits related to payments made to the Portuguese State in connection with the pensions transaction amounted to Euro 4,619 million as at 31 December 2013, stable when compared to Euro 4,620 million as at 30 September 2013. Total consolidated net debt amounted to

05 FINANCIAL REVIEW

Euro 4,798 million as at 31 December 2013, as compared to Euro 4,760 million as at 31 December 2012, an increase of Euro 38 million reflecting primarily the dividends paid by PT to its shareholders (Euro 285 million) and by PT's subsidiaries to non-controlling interests (Euro 32 million) and also a negative effect resulting from the depreciation of certain foreign currencies against the Euro (Euro 75 million), namely the impact of the depreciation of the Brazilian Real against the Euro on cash and cash equivalents at the Brazilian holding companies that held the investments directly in Oi and Contax. These effects were partially offset by the positive free cash-flow generated in the period (Euro 376 million).

Change in net debt⁽¹⁾

(Euro million)

	2013	2012
Net debt (initial balance)	4,760.3	4,294.0
Less: free cash-flow	375.5	250.6
Translation effect on foreign currency debt	75.0	0.0
Dividends paid by PT	284.7	569.3
Other ⁽²⁾	53.6	147.7
Net debt (final balance)	4,798.1	4,760.3
Less: Tax effect on unfunded post retirement benefits obligations ⁽³⁾	178.9	194.5
Adjusted net debt (final balance)	4,619.1	4,565.8
Change in net debt	37.7	466.4
Change in net debt (%)	0.8%	10.9%

⁽¹⁾ 2012 figures were restated in order to reflect the impacts of the adoption of the IFRS 11 Joint Arrangements and of the revised version of IAS 19 Employee Benefits, as explained in more detail in the Note 4 of the Financial Statements of the Annual Report. | ⁽²⁾ This caption includes a payment made in 1Q12 in connection with the 4G-LTE license acquired in Portugal, the dividends paid by PT's subsidiaries to non-controlling interests. | ⁽³⁾ This caption corresponds to the unused tax credits on the amounts paid to the Portuguese State in December 2011 and 2012 under the transfer of unfunded pension obligations. Following the business combination between PT and Oi, the maintenance of tax losses carry forward computed under the tax consolidation regime (RETGS) is subject to approval under the terms of the applicable legislation.

As at 31 December 2013, total consolidated gross debt amounted to Euro 7,371 million, of which 79.8% was medium and long-term, reflecting the 2020 one billion Eurobond issued in 2Q13, and 81.6% was set at fixed rates. The amount of cash available plus the undrawn amount of PT's committed commercial paper lines and facilities totalled Euro 3,257 million at the end of December 2013, which includes Euro 683 million of undrawn committed commercial paper lines and facilities.

PT's average cost of net debt stood at 5.3% in 2013, compared to 4.4% in 2012, reflecting a lower return on cash applications and also a higher cost of gross debt, which stood at 4.8% in 2013 and 4.5% in 2012. The increase in the cost of gross debt is explained primarily by the bonds issued in July and October 2012 bearing interest at annual rates of 6.25% and 5.875%, respectively. The maturity of PT's net debt was 5.5 years as at 31 December 2013, benefiting from the 1 billion 7-year Eurobond issued in May 2013 and the repayment in April 2013 of the 1 billion Eurobond issued in 2009.

Post retirement benefit obligations

As at 31 December 2013, the projected post retirement benefit obligations (PBO) related to pension complements and healthcare amounted to Euro 494 million and the market value of assets under management amounted to Euro 386 million, compared to Euro 503 million and Euro 399 million as at 31 December 2012, respectively. In addition, PT had liabilities in the form of salaries due to suspended and pre-retired employees amounting to Euro 852 million as at 31 December 2013 and Euro 730 million as at 31 December 2012, which are not subject to any legal funding requirement. These monthly salaries are paid directly by PT to the beneficiaries until retirement age. As a result, total gross unfunded obligations from Portuguese businesses amounted to Euro 959 million and after-tax unfunded obligations amounted to Euro 739 million. PT's post

retirement benefits plans for pensions and healthcare in Portugal are closed to new participants.

Post retirement benefit obligations⁽¹⁾ (Euro million)

	31 December 2013	31 December 2012
Pensions obligations	117.2	127.3
Healthcare obligations	376.5	375.4
PBO of pension and healthcare obligations	493.7	502.7
Market value of funds	(386.3)	(399.4)
Unfunded pensions and healthcare obligations	107.4	103.3
Salaries to suspended and pre-retired employees	851.7	730.4
Gross unfunded obligations from Portuguese businesses	959.0	833.7
After-tax unfunded obligations from Portuguese businesses	738.5	625.3

⁽¹⁾ 2012 figures were restated in order to reflect the impacts of the adoption of the IFRS 11 Joint Arrangements and of the revised version of IAS 19 Employee Benefits, as explained in more detail in the Note 4 of the Financial Statements of the Annual Report.

Change in gross unfunded obligations⁽¹⁾ (Euro million)

	2013	2012
Gross unfunded obligations (initial balance)	833.7	911.9
Post retirement benefits costs (PRB) ⁽²⁾	18.7	35.2
Curtailment cost	127.1	2.4
Net reimbursements (contributions) to pension funds	(1.3)	(1.2)
Salary payments to pre-retired, suspended employees and other	(158.6)	(160.5)
Net actuarial (gains) losses	139.5	45.9
Gross unfunded obligations (final balance)	959.0	833.7

⁽¹⁾ 2012 figures were restated in order to reflect the impacts of the adoption of the IFRS 11 Joint Arrangements and of the revised version of IAS 19 Employee Benefits, as explained in more detail in the Note 4 of the Financial Statements of the Annual Report. | ⁽²⁾ In 2013 and 2012, this caption excludes the service cost associated with active employees who were entitled to pension benefits related to the regulated pension plans transferred to the Portuguese State amounting to Euro 21.8 million and Euro 22.3 million, respectively.

Total gross unfunded obligations increased by Euro 125 million to Euro 959 million as at 31 December 2013, reflecting primarily curtailment charges (Euro 127 million), post retirement benefit costs (Euro 19 million) and net actuarial losses recorded in the period (Euro 139 million), mainly as a result of an one year increase of the legal retirement age, which more than offset payments of salaries to suspended and pre-retired employees, amounting to Euro 159 million in 2013.

Equity

As at 31 December 2013, shareholders' equity excluding non-controlling interests amounted to Euro 1,641 million, representing a decrease of Euro 663 million in 2013, when compared to Euro 2,305 million as at 31 December 2012. This decrease is primarily explained by: (1) negative foreign currency translation adjustments generated in the period (Euro 601 million), which mainly relate to the impact of the depreciation of the Brazilian Real against the Euro; (2) dividends paid to PT's shareholders in May 2013 (Euro 278 million), and (3) net actuarial losses recorded in the period (Euro 118 million, net of taxes). These effects more than offset the net income generated in the period amounting to Euro 331 million.

05 FINANCIAL REVIEW

Change in shareholders' equity (excluding non-controlling interests)⁽¹⁾

(Euro million)

	2013
Equity before non-controlling interests (initial balance)	2,304.6
Net income	331.0
Net currency translation adjustments	(601.1)
Dividends paid by PT	(277.9)
Net actuarial gains (losses), net of taxes	(118.0)
Other	2.8
Equity before non-controlling interests (final balance)	1,641.3
Change in equity before non-controlling interests	(663.3)
Change in equity before non-controlling interests (%)	(28.8%)

⁽¹⁾ 2012 figures were restated in order to reflect the impacts of the adoption of the revised version of IAS 19 Employee Benefits, as explained in more detail in the Note 4 of the Financial Statements of the Annual Report.

Consolidated statement of financial position

Total assets decreased to Euro 12.0 billion as at 31 December 2013 compared to Euro 12.8 billion as at 31 December 2012, reflecting the impact of the depreciation of the Brazilian Real against the Euro on PT's investment in Oi and Contax (Euro 0.5 billion) and the dividends paid in 2Q13 to PT's shareholders (Euro 0.28 billion). Total liabilities stood at Euro 10.2 billion as at 31 December 2013 compared to Euro 10.3 billion as at 31 December 2012.

Consolidated statement of financial position⁽¹⁾

(Euro million)

	31 December 2013	31 December 2012
Cash and equivalents	2,573.1	2,614.8
Accounts receivable, net	1,170.7	1,196.7
Inventories, net	85.9	104.9
Financial investments	2,941.8	3,399.6
Intangible assets, net	1,098.3	1,183.2
Tangible assets, net	3,438.5	3,578.9
Accrued post retirement asset	1.8	1.6
Other assets	80.2	126.6
Deferred tax assets and pre-paid expenses	630.1	622.8
Total assets	12,020.4	12,829.1
Accounts payable	587.7	682.0
Gross debt	7,371.1	7,375.1
Accrued post retirement liability	960.9	835.4
Other liabilities	742.7	861.8
Deferred tax liabilities and deferred income	491.1	537.5
Total liabilities	10,153.6	10,291.8
Equity before non-controlling interests	1,641.3	2,304.6
Non-controlling interests	225.5	232.7
Total shareholders' equity	1,866.8	2,537.3
Total liabilities and shareholders' equity	12,020.4	12,829.1

⁽¹⁾ 2012 figures were restated in order to reflect the impacts of the adoption of the IFRS 11 Joint Arrangements and of the revised version of IAS 19 Employee Benefits, as explained in more detail in the Note 4 of the Financial Statements of the Annual Report.

06

BUSINESS PERFORMANCE



CHAIRMAN AND CEO'S MESSAGE	08		
01 MACROECONOMIC ENVIRONMENT	13		
02 REGULATORY BACKGROUND	29		
03 STRATEGIC PROFILE	41		
04 RESEARCH AND DEVELOPMENT	53		
05 FINANCIAL REVIEW	75		
06 BUSINESS PERFORMANCE			
07 EMPLOYEES	99		
08 CAPITAL MARKETS	101		
09 MAIN EVENTS	109		
10 MAIN RISKS AND UNCERTAINTIES	113		
11 OUTLOOK	121		
12 STATEMENT BY THE PERSONS RESPONSIBLE	125		
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129		
14 CONSOLIDATED FINANCIAL STATEMENTS	133		
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227		
16 STATUTORY AUDITOR'S REPORT	231		
17 INDEPENDENT AUDITORS' REPORT	235		
18 GLOSSARY	239		
19 BOARD OF DIRECTORS	243		
20 KEY FIGURES	245		
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249		
		PORTUGUESE TELECOMMUNICATIONS BUSINESSES	86
		Residential	87
		Personal	89
		Enterprise	90
		Consolidated financial performance in Portugal	91
		INTERNATIONAL BUSINESSES	94
		Oi	94

PORTUGUESE TELECOMMUNICATIONS BUSINESSES

On 27 January 2014, MEO became the only PT brand for the consumer segment (Residential and Mobility). All services rendered by TMN are now provided under the MEO brand. In carrying through this transformation, PT took into consideration the consumption trends of its customers, as well as its strategy for the consumer area, including the Residential and Personal segments, which consists of the investment in fixed-mobile convergence and in convergence of services, namely voice, internet and TV. Also following a rationale of convergence in the enterprise sector, PT now addresses the market under the brand PT Empresas, which aggregates the services hitherto provided by PT Negócios and PT Prime. This new convergence positioning incorporates Portugal Telecom's innovation and technology strategy that aims at improving the lives of its customers, through its unique ability of integrating different technologies, terminals and convergent services. Additionally, the unification of brands will allow Portugal Telecom to continue promoting efficiency and enhancing the profitability of its assets.

PT invested in four key areas in order to prepare itself for convergence, namely: (1) state-of-the-art network with integrated management for fixed-mobile network; (2) storage and processing, with the inauguration of one of the most efficient data centres in the world and the creation of partnerships to deliver the best cloud solutions; (3) customer touch points, with the integration of fixed and mobile stores under a unique concept and a single CRM software with a 360° customer vision, and (4) multi-platform apps, to enhance customers experience.

Operating data | Portugal

	2013	2012	y.o.y
Fixed retail accesses ('000)	5,158	5,052	2.1%
PSTN/ISDN	2,549	2,604	(2.1%)
Broadband customers	1,294	1,225	5.6%
Pay-TV customers	1,315	1,223	7.5%
Mobile Customers ('000)	7,896	7,598	3.9%
Post-paid	2,925	2,469	18.5%
Pre-paid	4,971	5,129	(3.1%)
Net additions ('000)			
Fixed retail accesses	105	257	(59.1%)
PSTN/ISDN	(55)	(43)	(27.6%)
Broadband customers	69	119	(42.1%)
Pay-TV customers	91	181	(49.6%)
Mobile Customers	298	154	93.3%
Post-paid	456	91	n.m.
Pre-paid	(158)	63	n.m.
Data as % of mobile service revenues (%)	36.5	32.6	3.9pp

In 2013, the Portuguese telecommunications businesses continued to show stable customer growth, with the fixed retail customers growing by 2.1% y.o.y to 5,158 thousand (net additions reached 105 thousand in 2013), and mobile customers up by 3.9% y.o.y to 7,896 thousand (298 thousand net additions in 2013 mainly driven by post-paid, reflecting 456 thousand post-paid net additions), on the back of the success of PT's offering, namely M₄O, which has gaining momentum during the year, having reached 1.7 million RGUs in February 2014.

Growth of fixed retail customers was underpinned by a solid performance of MEO with pay-TV customers up by 7.5% y.o.y to 1,315 thousand (net additions of 91 thousand in 2013), confirming the continued success and the attractiveness of MEO in the Portuguese market, even against a backdrop of difficult economic environment and already high penetration of pay-TV. PT's triple-play customers (voice, broadband and pay-TV) accounted for 119 thousand net additions in 2013 reaching 952 thousand customers (up by 14.3% y.o.y).

In 2013, mobile customers benefited from the performance of post-paid customers, which grew by 18.5% y.o.y to 2,925 thousand (456 thousand net additions in 2013), benefiting from the launch of the convergent offer M₄O, which continue to leading to a pre-paid to post-paid migration in mobile customer base, and from the growth of the “Unlimited” tariff plans (+11.8% y.o.y in 2013). The “Moche” tariff plans also continued to show solid growth trends (+18.0% y.o.y in 2013 to 1,926 thousand).

Residential

In 2013, residential retail accesses or retail revenue generating units (RGUs) increased by 1.3% y.o.y, reaching 3,892 thousand, with pay-TV and broadband accesses already accounting for 57.2% of total residential retail accesses as at 31 December 2013. In 2013, retail net additions reached 51 thousand, as a result of: (1) growth of the pay-TV service, which accounted for 44 thousand net additions, and (2) 34 thousand net adds of fixed residential broadband, reflecting the continued growth in triple-play and quadruple-play bundles. MEO reached 1,179 thousand pay-TV customers (+3.8% y.o.y), while fixed residential broadband reached 1,049 thousand customers. Unique customers in the residential segment reached 1,842 thousand while triple-play customers stood at 839 thousand (+9.1% y.o.y) and already represented 45.6% of PT's residential customers, extending its leadership in this market. The continued and sustainable growth of triple and quadruple-play bundles have led to a stable ARPU of Euro 31.7 and to an increase of RGU's per unique customer from 2.04 in 2012 to 2.11 in 2013, despite a lower contribution from other value added services.

As of 11 January 2013, in line with its strategy for the Residential and Personal segment which focuses on the fixed-mobile and services convergence as referred to above, PT presented its first quadruple-play offer: M₄O, which is a truly fixed-mobile convergent service, including pay-TV, broadband and fixed and mobile voice. M₄O offers 120 channels, up to 100 Mbps broadband speed (24 Mbps of broadband speed over ADSL 2+), unlimited calls and two to four mobile SIM cards including unlimited voice and SMS to all national wireline and wireless networks, on the back of PT's 3G and 4G-LTE networks. In July, M₄O was also made available through Satellite, which allowed PT to expand this convergent offer throughout the entire country. M₄O Satellite offers the same package, with the only difference being the channel offering. PT also launched a new package named M₃O that allows the customer to choose the same features as M₄O, but without the internet access for a monthly fee that is Euro 15 lower.

Operating data | Residential Segment

	2013	2012	y.o.y
Fixed retail accesses ('000)	3,892	3,841	1.3%
PSTN/ISDN	1,665	1,692	(1.6%)
Broadband customers	1,049	1,015	3.3%
Pay-TV customers	1,179	1,135	3.8%
Unique customers	1,842	1,881	(2.1%)
Net additions ('000)			
Fixed retail accesses	51	284	(82.2%)
PSTN/ISDN	(27)	18	(252.2%)
Broadband customers	34	104	(67.4%)
Pay-TV customers	44	162	(73.1%)
ARPU (Euro)	31.7	31.6	0.3%
Non-voice revenues as % of revenues (%)	66.0	63.4	2.5pp

M₄O enables a unique customer experience reflected in the: (1) billing, through a single invoice and value for the entire family, allowing total cost control; (2) self-care, with an integrated online portal for all products and services; (3) CRM, allowing for an integrated customer view, and (4) sales, giving PT's customers an integrated

06 BUSINESS PERFORMANCE

experience online and at the stores. The M₄O offer allows all families to have access to more services and of superior quality for a monthly fee of Euro 79.99, including two mobile SIM cards allowing unlimited voice and SMS to all fixed and mobile networks and 200MB of internet access. Up to two additional SIM cards can be included for monthly fee of Euro 7.5 per each SIM card. In April 2013, PT launched two new internet packages, with traffic allowances of 200MB (IT Light) for Euro 2.99 per month and 5GB (IT Ultra) for Euro 19.99 per month. At the same time, PT repositioned the existing IT packages offering additional savings of up to 55%: IT Super offers 500MB of traffic for Euro 4.99 per month and IT Super Plus offers 1GB of traffic for Euro 7.99 per month.

During 2013, PT continued to consolidate MEO's leadership in terms of innovation, content differentiation and customer experience. In what concerns MEO GO!, the MEO service over the top application that allows access to 60+ channels, Video On Demand and recordings on smartphones, tablets and PC through WiFi and mobile networks, it is worth highlighting the launch of the new MEO GO! Apps for Android tablets and iPad, for Windows 8 and the redesign of MEO GO! website. MEO continued to innovate and to add new content to its grid through: (1) the launch of CM TV, "Correio da Manhã TV", in partnership with Cofina, the owner of several newspapers and magazines in Portugal, including the most widely read tabloid in Portugal, "Correio da Manhã"; (2) the launch of the KBS World HD channel, and (3) several promotions on existing content, namely the campaign offering two free monthly fees on Globo Premium. New content was also made available in the MEO Kids. Additionally, PT continued to focus on the intensification of the partnerships with content providers, focusing on two-way collaborations to improve content quality, and on the renegotiation of existing content deals aiming at adapting further the content cost structure to the macro environment, thus generating savings in content costs. In April 2013, MEO launched together with TVI, a leading free-to-air portuguese channel, an interactive channel entirely dedicated to the programme "Big Brother VIP" enabling access to the Big Brother house for 24 hours a day and to be able to follow all that happens between competitors of the most watched reality show of the world. The "Big Brother VIP" channel stood at fourth place in the April audience ranking. During 3Q13, MEO also launched two new interactive red button applications over linear channels, featuring an application over the most successful TV programmes in Portugal: (1) "X Factor", developed in partnership with SIC, and (2) "I love it", a youth TV series, developed in partnership with TVI. Also in 3Q13, leveraging on the fourth edition of "Secret Story", the notorious reality show on TVI, MEO launched an exclusive Secret Story channel in late September 2013, following the success of the previous ones, airing live 24h 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 and delivered exclusive content.

MEO marketing campaigns continue to enjoy the highest notoriety in the Portuguese pay-TV market. In 3Q13, MEO aired a new campaign, "Mundo MEO", to strengthen its market position as an innovative brand. This campaign describes MEO's key differentiating features: (1) MEO Kanal; (2) MEO Karaoke; (3) PVR-experience; (4) interactive apps, and (5) MEO Music.

Revenues in the Residential segment reached Euro 721 million in 2013, up by 1.3% y.o.y. Service revenues have slowdown due to: (1) increased competitive aggressiveness, namely in terms of pricing; (2) already high pay-TV penetration, and (3) shifting of market share gains coming from pay-TV market expansion in price sensitive segment, notwithstanding positive net adds. This performance was achieved on the back of the continued strong performance of MEO triple-play offer and M₄O, resulting in an increase in RGUs per unique customer. As a result of the higher penetration of triple and quadruple-play offers, the weight of non-voice services in Residential service revenues stood at 66.0% (+2.5pp y.o.y) in 2013 and the weight of flat revenues stood at 89.1% (+1.8pp y.o.y).

Personal

In 2013, mobile Personal customers, including voice and broadband customers, continued to show a strong performance having increased by 5.1% y.o.y to 6,330 thousand. In 2013, mobile Personal customers registered 306 thousand net additions underpinned by the solid performance in post-paid (440 thousand net additions in 2013). This performance is anchored on the strong commercial success of M₄O, which is supporting the transformation of the Portuguese mobile market by introducing convergence which allows additional differentiation of commercial offers, while at the same time is shifting the focus from pre-paid to post-paid. In fact, according to Anacom, PT has gained market share in 3Q13 for the fourth consecutive quarter (+2.4pp), unlike the competition. The results obtained show a solid and continued growth in fixed and mobile RGUs. As at February 2014, M₄O total RGUs amounted to 1.7 million. M₄O offer is proving to attract new customers as 58% subscribe two SIM cards, 22% three SIM cards and 29% four SIM cards. Net disconnections of pre-paid customers stood at 133 thousand in 2013, notwithstanding the successful commercial performance of the “Moche” tariff plans, following the new positioning implemented in 2012.

Operating data | Personal Segment

	2013	2012	y.o.y
Mobile Customers ('000)	6,330	6,024	5.1%
Post-paid	1,533	1,093	40.2%
Pre-paid	4,797	4,931	(2.7%)
Net additions ('000)	306	92	233.2%
Post-paid	440	30	n.m.
Pre-paid	(133)	62	n.m.
MOU (minutes)	98	93	5.4%
ARPU (Euro)	7.6	8.7	(12.5%)
Customer	7.1	8.0	(10.9%)
Interconnection	0.5	0.7	(30.5%)
SARC (Euro)	24.6	27.9	(11.6%)
Data as % of service revenues (%)	35.8	33.2	2.6pp

PT's strategy for the Personal customer segment is anchored on mobile data offers based on high quality network offering, best in class coverage and high capacity to meet customers demand for increasingly higher bandwidth and provide the best quality of service in the market. PT has the best 4G-LTE network coverage reaching 93% of the population and allowing speeds of up to 150 Mbps. PT is testing LTE-Advanced and has already achieved speeds of 300Mbps, preparing the evolution of its 4G-LTE offer. MEO's (previously named TMN) commercial offers include: (1) voice and data tariff plans designed to integrate seamlessly unlimited voice and data plans, targeted at the high value post-paid segments and, in the pre-paid segment, to prevent migration to the low value tariff plans by offering additional voice and data services; (2) distinctive smartphone offering leveraging on a comprehensive portfolio of circa 30 smartphones, including exclusive handsets, and on innovative value added and convergent services to use on-the-go (mobile TV – MEO GO!; music On Demand– MEO Music; navigation app – MEO Drive, and MEO Cloud, which offers 16Gb of cloud storage space for free), and (3) mobile broadband competitive offers of up to 150Mbps speed, on 4G-LTE, and offering free access to PT's leading national WiFi network. PT's WiFi offer includes automatic subscriber authentication based on SIM Card (EAP-SIM), over-the-air or standard terminal configuration and automatic 3G and 4G-LTE offload to WiFi whenever the device is within WiFi coverage. As such, WiFi clearly complements 3G and 4G-LTE for data coverage, thus increasing customer mobility and satisfaction and ultimately its loyalty.

06 BUSINESS PERFORMANCE

In January 2013, MEO's (previously named TMN) multi-SIM 4G-LTE service, that allows customers to share the internet plafond among the smartphone, tablet and PC, was elected product of the year in the mobile tariff plans category. This award is the result of an independent survey carried out amongst consumers in the sector of fast moving consumer goods. In March 2013, following the launch of M₄O, MEO (previously named TMN) repositioned its "Unlimited" tariff plans and launched a commercial campaign aimed at reinforcing the competitiveness of its post-paid tariff plans targeted at heavy mobile consumers that want to use their smartphones without limitations on voice and data services. The new "Unlimited" tariff plans offer unlimited voice and SMS for all national networks, up to 5GB of internet, unlimited access to PT's WiFi network, 16GB of storage in MEO Cloud and free access to "MEO Music", PT's music streaming service. The range of the "Unlimited" tariff plans addresses different profiles of internet usage: from the "Unlimited S" that sells at Euro 15.9 per month and offers 200MB per month up to the "Unlimited XL" that sells at Euro 69.9 per month and offers 5GB per month. MEO (previously named TMN) also continued to strengthen its smartphone portfolio, aiming at diversifying operating systems and providing the widest range of handsets to meet customer demand.

In 2013, customer revenues in the Personal segment declined by 6.6% y.o.y to Euro 524 million, showing an improvement throughout the quarters: 4Q13 (-4.5%), 3Q13 (-5.6% y.o.y), 2Q13 (-7.4% y.o.y), 1Q13 (-8.6% y.o.y) and 4Q12 (-9.1% y.o.y), despite the challenging competitive dynamics. This sequential improvement was achieved on the back of: (1) flat fee customer growth and increased weight of flat fee customer revenues (38.5%, +8.2pp y.o.y), underpinned by M₄O and "Unlimited" tariff plans performance, and (2) increased data revenues explained by increased Smartphone penetration as PT delivers a comprehensive Smartphone portfolio, and "internetnotelemovel" revenues. The decline in customer revenues reflected lower and volatile recharges as a result of difficult economic conditions, price competition and migration to lower tariff plans. Interconnection revenues declined by 27.1% y.o.y to Euro 35 million in 2013, contributing to a total decline of service revenues of 8.2% y.o.y (-4.5% y.o.y in 4Q13, -6.7% y.o.y in 3Q13, -10.0% y.o.y in 2Q13, -11.4% y.o.y and in 1Q13). In effect, MTRs which declined throughout 2012, from Euro 3.50 cents to Euro 1.27 cents as from 31 December 2012, averaged out and contributed to an improvement of interconnection revenues throughout 2013 (-0.8% y.o.y in 4Q13, -20.6% y.o.y in 3Q13 and -37.9% y.o.y in 2Q13). ARPU of the personal segment declined 12.5% y.o.y to Euro 7.6, improving in 4Q13 (-10.7% y.o.y) when compared to 3Q13 (-12.5% y.o.y). Customer ARPU stood at Euro 7.1 (-10.9% y.o.y). The weight of non-voice revenues in service revenues stood at 35.8% in 2013 (+2.6pp y.o.y), reflecting the solid performance of data packages "internetnotelemovel".

Enterprise

The Enterprise customer segment (B2B segment) includes mobile and fixed, voice and data and convergent and integrated IT offers provided to large corporate and to small and medium size businesses. In this customer segment, PT aims at growing its revenue base beyond connectivity and legacy services by seizing the ICT opportunity, including cloud, outsourcing and BPO, on the back of cutting-edge solutions for companies and future-proof data centre and FTTH and 4G-LTE investments to meet demand for high bandwidth services and virtualisation.

In 2Q13, PT has repositioned the M₄O offer, available to the small and medium offices, in terms of pricing and adding more TV channels available. This includes the repositioning of IT portfolio, extending the existing tariff plans and creating new ones, in order to have a more comprehensive offer. In 3Q13, PT launched the M₃O Fibre, ADSL and Satellite offer, available to the small and medium size businesses, with pay-TV, fixed voice and

mobile for the customers that do not want fixed broadband. For the M₄O customers, PT has launched a new unlimited option with special conditions for the third and fourth SIM cards, coupled with the existing ones for the first and second SIM cards.

During 2013, the competitive pressure deteriorated leading to an even more significant price decline, more visible in mobile voice. Notwithstanding this competitive backdrop and adverse economic conditions, fixed revenues from small and medium size businesses increased by the second consecutive quarter in 4Q13, partially offsetting its mobile revenues decline, as PT continued to gain operational momentum in this business segment, maintaining a leading position in all services: voice (fixed and mobile), broadband (fixed and mobile) and TV. In what concerns the corporate segment, PT has developed several key initiatives in 4Q13 to continue the business transformation in place, such as the reinforcement of its IT / IS / Cloud strategy, with initial partnerships and contracts established with key customers and offer simplification and streamlining of sales processes of VoIP solutions / Unified Communications. PT will also leverage on its new leading-edge Data Centre to underpin a differentiated cloud computing offering for companies, in close cooperation with its leading industry partners, in order to crystallise the benefits of consolidation, virtualisation and standardisation for customers.

Operating data | Enterprise Segment

	2013	2012	y.o.y
Fixed retail accesses ('000)	1,077	1,019	5.8%
PSTN/ISDN	701	725	(3.3%)
Broadband customers	242	207	16.9%
Pay-TV customers	134	86	54.9%
Retail RGU per access	1.54	1.41	9.3%
Mobile Customers ('000)	1,516	1,514	0.2%
Net additions ('000)			
Fixed retail accesses	59	(68)	186.0%
PSTN/ISDN	(24)	(101)	76.6%
Broadband customers	35	15	137.6%
Pay-TV customers	47	18	158.7%
Mobile Customers	2	69	(96.6%)
ARPU (Euro)	21.3	23.8	(10.7%)
Non-voice revenues as % of revenues (%)	54.4	50.3	4.1pp

Operating revenues of the Enterprise customer segment declined by 11.7% y.o.y to Euro 791 million in 2013, impacted by: (1) the public administration strong cost cut initiatives and significant reduction in investments in new projects throughout 2013; (2) the large corporate cost reduction initiatives, more visible in certain sectors, such as banking and financial services and pharmacies, and (3) intense price competition across the various segments, mainly in mobile. It is worth highlighting that revenues from small and medium size businesses improved the trend in 4Q13 when comparing to previous quarters, with fixed revenues increasing for the second consecutive quarter and partially compensating mobile revenues decline. Notwithstanding the economic environment, PT maintained a solid leadership, both in large corporate and in small and medium size businesses, anchored on its distinctive products and services to both market segments as referred to above, leveraged in its state-of-the-art Data Centre. In 2013, non-voice services represented 54.4% of Enterprise retail revenues, up by 4.1pp y.o.y.

Consolidated financial performance in Portugal

In 2013, revenues from Portuguese telecommunications businesses declined by Euro 141 million (-5.2% y.o.y) to Euro 2,560 million, reflecting mainly the revenue decline at the Enterprise customer segment (Euro 105 million, -11.7% y.o.y), as this segment is still being penalised by pricing pressure and economic

06 BUSINESS PERFORMANCE

backdrop, and also the Personal segment (Euro 33 million, -4.8%y.o.y). Revenues in the Residential segment increased by 1.3% y.o.y in 2013 to Euro 721 million, continuing to show growth on the back of positive net adds due to PT's differentiated offer, notwithstanding already high pay-TV penetration, increased competition, namely in terms of pricing, and the shifting of market share gains coming from pay-TV market expansion in price sensitive segment. Personal revenues decreased by 4.8% y.o.y to Euro 655 million in 2013, improving the quarterly trend throughout the year, underpinned by sales and by a continued improved trend in service revenues, that declined by 8.2% y.o.y to Euro 559 million. Wholesale, other and eliminations revenues decreased to Euro 393 million (-3.0% y.o.y), including a Euro 9.7 million decline in the directories business (-27.9% y.o.y) reflecting secular trends and against a backdrop of increased popularity of alternative online reference tools.

Financial information | Portuguese telecommunications businesses⁽¹⁾ (Euro million)

	2013	2012	y.o.y
Operating revenues	2,559.6	2,700.5	(5.2%)
Residential	721.1	711.7	1.3%
Service revenues	711.3	700.1	1.6%
Sales and other revenues	9.9	11.5	(14.3%)
Personal	655.2	688.1	(4.8%)
Service revenues	559.4	609.3	(8.2%)
Customer revenues	524.5	561.4	(6.6%)
Interconnection revenues	34.9	47.9	(27.1%)
Sales and other	95.8	78.8	21.5%
Enterprise	790.8	896.0	(11.7%)
Wholesale, other and eliminations	392.5	404.7	(3.0%)
Operating costs	1,468.6	1,499.8	(2.1%)
Wages and salaries	232.7	241.8	(3.7%)
Direct costs	458.5	457.1	0.3%
Commercial costs	294.3	292.2	0.7%
Other operating costs	483.0	508.7	(5.1%)
EBITDA⁽²⁾	1,091.0	1,200.7	(9.1%)
Post retirement benefits	40.3	57.4	(29.8%)
Depreciation and amortisation	647.0	681.2	(5.0%)
Income from operations⁽³⁾	403.8	462.2	(12.6%)
EBITDA margin ⁽⁴⁾	42.6%	44.5%	(1.8pp)
CAPEX	490.0	555.5	(11.8%)
CAPEX as % of revenues	19.1%	20.6%	(1.4pp)
EBITDA minus CAPEX	601.1	645.3	(6.9%)

⁽¹⁾ 2012 figures were restated in order to reflect the impacts of the adoption of the IFRS 11 Joint Arrangements and of the revised version of IAS 19 Employee Benefits, as explained in more detail in the Note 4 of the Financial Statements of the Annual Report. | ⁽²⁾ EBITDA = income from operations + post retirement benefits + depreciation and amortisation. | ⁽³⁾ Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs. | ⁽⁴⁾ EBITDA margin = EBITDA / operating revenues.

In 2013, revenues in Portugal were also penalised by adverse regulation movements (Euro 49 million), including lower MTRs and FTRs (Euro 30 million) and roaming (Euro 7 million). In October 2013, domestic interconnection revenue per minute for calls terminated on PT's fixed network decreased around 72%, from Euro 0.40 cents to Euro 0.11 cents, contributing to a negative impact in revenues (Euro 2.3 million). Excluding regulation effects, total revenues in the Portuguese telecommunications businesses would have decreased by 3.4% y.o.y in 2013.

Albeit revenue performance continued to be impacted by competitive dynamics and by an aggressive pricing environment, it can be observed improved trends in the Personal segment and a slowdown in service revenues of the Residential segment. Private consumption in Portugal decreased by 2.2% in 3Q13, while PT's

consumer segment revenues, which include Residential and Personal segments, remained flat y.o.y in 4Q13 (-1.7% y.o.y in 2013). This performance was achieved on the back of strong commercial dynamics across all sales channels.

In 2013, operating costs excluding D&A and PRBs declined by 2.1% y.o.y (Euro 31 million) to Euro 1,469 million. Wages and salaries decreased by 3.7% y.o.y to Euro 233 million explained by higher efficiency levels in certain internal processes and lower costs related to the restructuring plan implemented in 2Q13. Direct costs remained broadly flat y.o.y to Euro 458 million in 2013, reflecting mainly: (1) lower costs associated with data roaming, and (2) lower costs associated with the directories business, compensated by higher programming costs (+4.4% y.o.y in 2013) on the back of sustained customer growth and investment in the differentiation of the MEO content offering. Despite this investment, programming costs per customer declined by 5.4% y.o.y. Commercial costs increased by 0.7% y.o.y to Euro 294 million in 2013, reflecting the increased push of commercial activities due to the rollout of M₄O, notwithstanding lower cost of goods sold (-1.5% y.o.y), due to lower subsidies and lower average cost of handsets. This performance of commercial costs was achieved despite the increased push of commercial activities due to the launch and rollout of the new converged offer M₄O, which already account for 1.7 million RGUs in February 2014. Other operating expenses decreased by 5.1% y.o.y in 2013 to Euro 483 million, primarily explained by a relentless focus on cost cutting and profitability and also an increase in maintenance productivity due to the implementation of new generation access networks (FTTH). Structural costs benefit from the FTTH and 4G-LTE networks as they dramatically improve efficiency of data transmission and the extensive operational transformation programme continued to be visible with improved quality of service and lower cost structure.

In 2013, EBITDA in Portuguese telecommunications businesses stood at Euro 1,091 million (-9.1% y.o.y) with a margin of 42.6% (-1.8pp y.o.y). EBITDA performance reflected primarily the decline in service revenues (Euro 149 million), which have a higher operating leverage. In effect, service revenues less direct costs declined by Euro 150 million, while EBITDA declined by Euro 110 million as a result of lower operating expenses that stem from context measures but also from the fact that new technologies are more cost efficient.

CAPEX from Portuguese telecommunications businesses decreased by 11.8% y.o.y to Euro 490 million in 2013 and stood at 19.1% of revenues (-1.4pp y.o.y) notwithstanding the investments made during 2013 in the rollout of the Data Centre in Covilhã, inaugurated on 23 September 2013. This performance is explained by a lower infrastructure and technology related CAPEX, as a result of the strong investments made in the past years, both on FTTH and 4G-LTE networks. In 2013, the investment in the Portuguese telecommunications businesses was primarily directed to: (1) technology and infrastructure CAPEX (Euro 199 million, -25.1% y.o.y); (2) customer CAPEX, which amounted to Euro 159 million (-12.0% y.o.y), and (3) investments in IT/IS projects, which represented 23% of total CAPEX in 2013. These past investments have translated into PT's clear leadership in FTTH and 4G-LTE coverage in Portugal, where PT already covers 1.6 million households with FTTH and circa 93% of the population with 4G-LTE allowing speeds of up to 150 Mbps. PT is testing LTE-Advanced and has already achieved speeds of 300Mbps, preparing the evolution of its 4G-LTE offer. EBITDA minus CAPEX in 2013 was down by 6.9% y.o.y to Euro 601 million.

CAPEX in the Portuguese telecommunications businesses, which is expected to be more demand driven given the recent investments in the modernisation of the networks and in technology, should be below Euro 400 million in 2014.

INTERNATIONAL BUSINESSES

Oi

In 2013, Oi's revenue generating units (RGUs) stood at 74,466 thousand, up by 0.2% y.o.y, including: (1) 17,837 thousand residential RGUs (-2.7% y.o.y); (2) 47,727 thousand personal mobile customers, which grew by 3.1% y.o.y, and (3) 8,246 thousand Corporate and SMEs RGUs, down by 8.1% y.o.y. Against a less buoyant macroeconomic environment and taking into consideration the Company's focus on financial discipline, since 2Q13 Oi has adopted a more conservative business strategy, adjusting its credit policies and revisiting its sales processes to ensure profitable growth. This change is aimed at improving the quality of the customer base reducing bad debt levels while increasing customer loyalty.

In 2013, Oi continued to focus on customer quality, including bad debt reduction and disconnections, through a more conservative commercial strategy, in order to increase profitability in the Residential segment. Fixed broadband and pay-TV accesses continued to show a steady growth, having increased by 3.1% y.o.y to 5,258 thousand and by 9.5% y.o.y to 829 thousand customers, respectively, while fixed lines decreased by 5.8% y.o.y to 11,750 thousand, reflecting Oi's purpose of improving the quality of its customer base. This performance continues to confirm the turnaround of the historical wireline trends, as the level of disconnections remained under control in the period. During 2013, Oi continued to implement initiatives focused on cross selling, bundling and retention while offering the products that are most suited for each customer profile. Against this backdrop, the selling effort is now focused on redesigning customers' fixed plans, upselling fixed-line customers with broadband and pay-TV and promoting fixed-mobile convergence. This nationwide strategy is complemented by a local and regional focus, with differentiated campaigns and promotions aimed at improving Oi's competitiveness in local markets and taking advantage of local growth opportunities. In addition, Oi increased its ability to retain customers, through investments in the expansion of the capillarity and capacity of its broadband network and upgrading customer speeds. As a result of these efforts, the average broadband speed in Oi's residential customer base stood at 3.8 Mbps in 4Q13, which compares to 3.2 Mbps in 4Q12 (+18.8% y.o.y), reflecting that 39% (+8pp y.o.y) of Oi's broadband customers have speeds above 5 Mbps and approximately 18% already have speeds above 10Mbps.

In 2013, Oi's pay-TV customer base reached 829 thousand customers (+9.5% y.o.y). The slower sequential growth throughout the year reflects mainly a more conservative business strategy, as referred to above, aligned with Oi's commitment to quality sales across all customer segments and the decision to relaunch Oi TV in 2014, after the implementation of a new platform over the SES-6 satellite contracted in 2013, which impacted customer growth in 4Q13. The initiatives adopted for the segment include a more restrictive credit policy, lower commercial offers and a customer base clean-up. Oi's pay-TV customer base now represents 7.0% of fixed lines (+1.0pp y.o.y), reflecting the continued rollout of an important loyalty and upselling lever in the Residential segment. In effect, Oi's pay-TV offer has entry-level packages with HD channels at competitive prices, thus improving the penetration potential in Oi's fixed customer base. In addition, the offer includes interactive services, among other features, which are acting increasingly more as ARPU enhancers. The SES-6 satellite, leased by Oi to increase its DTH capacity, enabling DTH growth over the medium and long term, will improve signal quality and coverage, allowing it to strengthen its channel line-up and include new pay-per-view and interactive services.

As at 31 December 2013, Oi had 6,911 million customers subscribing to more than one service, equivalent to 58% of the residential customer base (+4.7pp y.o.y).

Operating data | Oi

	2013	2012	y.o.y
Residential RGUs ('000)	17,837	18,337	(2.7%)
Fixed lines	11,750	12,478	(5.8%)
Fixed broadband	5,258	5,102	3.1%
Pay-TV	829	757	9.5%
Personal Mobility RGUs ('000)	47,727	46,305	3.1%
Pre-paid customers	41,019	39,832	3.0%
Post-paid customers + Oi controle	6,708	6,472	3.6%
Corporate / SMEs RGUs ('000)	8,246	8,971	(8.1%)
Fixed lines	5,105	5,422	(5.8%)
Broadband	630	594	6.1%
Mobile	2,511	2,955	(15.0%)
Other ('000)	655	727	(9.9%)
RGUs ('000)	74,466	74,339	0.2%

In 2013, Oi's Residential revenues increased by 3.3% y.o.y to Brazilian Real 10,303 million, showing a solid improvement during the period due to the positive contribution from triple and quadruple-play offers, which compensated the traditional pressure in fixed voice. Upselling also contributed to revenue increase, both in terms of broadband, underpinned by network improvements, as well as pay-TV, offering more complete packages and extra premier channels. This performance, coupled with a significant reduction in fixed line churn, is explained by Oi's successful strategy of offering convergent services and initiatives to increase profitability and customer loyalty.

In the Personal Mobility segment, Oi's mobile customers stood at 47,727 (+3.1% y.o.y) with net additions of 1,422 thousand in 2013 and 6,708 thousand post-paid customers (+3.6% y.o.y), that represented 14.1% of the Personal Mobility customer base at the end of 2013 (14.0% in 2012). The post-paid customer base remained stable in 4Q13 compared to 3Q13 as Oi is becoming more restrictive in its sales approach and in handset subsidies, focusing more on the quality of the sales and reducing churn. These initiatives reflect a less buoyant macro environment and a renewed focus on financial discipline and aim at achieving sustainable growth and monetising the post-paid base.

In 2013, pre-paid customers reached 41,019 thousand (+3.0% y.o.y). Taking into consideration Oi's focus on financial discipline and cash-flow, the pre-paid segment is strategically important due to its intrinsic characteristics, such as: (1) scale; (2) very low relative customer acquisition costs; (3) neither invoice nor collection costs; (4) no bad debt issues, and (5) favourable impact on working capital. Against this backdrop, and in line with Oi continued focus in promoting voice and data usage, gross recharges reached a record level in December, outperforming the 3% increase in the pre-paid customer base. In 4Q13, the average recharge increased by 5.6% y.o.y, the highest level since 2010. Oi successfully implemented an active campaign management platform, which was launched as a pilot in 2Q13 and is enabling customised campaigns to pre-paid and Oi Controle customers by allowing real-time one-to-one messages to encourage customers to recharge and purchase add-on services based on their profile and context, thus making the offers more relevant. Oi is also strengthening its retail presence and expanding the network of SIM card distribution and recharge sales points, thus providing additional convenience to its customers.

06 BUSINESS PERFORMANCE

In 2013, Oi's Personal Mobility revenues stood at Brazilian Real 9,290 million, having increased by 2.1% y.o.y, against a backdrop of lower MTRs. Oi's Service (customer) revenues increased by 5.3% y.o.y to Brazilian Real 6,609 million, reflecting the strong performance in data and value added services, explained by the initiatives taken to increase the penetration of data usage in the customer base and the continuous expansion of 3G coverage and on the back of improved pre-paid offers, leading to a continued growth of the average recharge volume.

Oi's Corporate / SMEs customers stood at 8,246 thousand in 2013 (-8.1% y.o.y), reflecting the continuous focus on sales quality and customer base clean-up. The reduction of the customer base was mainly consequence of Oi's strategy to focus on profitability, including the more rational use of handset subsidies, as well as the reassessment of the sales process in seeking a higher quality customer addition mix. As such, in 2013, revenues from the Corporate / SMEs segment decreased by 0.6% y.o.y to Brazilian Real 8,455 million.

Oi's strategy is focus on capturing synergies with PT and take advantage of its cloud computing expertise to provide more complete services, seeking solutions that are both scalable and available, as well as to reduce costs. In 3Q13, Oi launched the second phase of its cloud computing services targeted at the corporate and SME segment to reinforce the offering of innovative technologies to Oi's customers under a lease model. The new solutions will operate on Oi and PT's international data centre network, including the Covilhã facility, one of the biggest and most efficient in the world.

Oi's mobile customers stood at 50,238 thousand (+2.0% y.o.y), with net additions of 979 thousand in 2013. In 2013, Oi focused on profitable growth with initiatives for the pre-paid and Oi control segments, such as the continuation of a strict base clean-up policy and targeted direct marketing initiatives, and for the post-paid segment with a commitment to higher quality of sales.

Pro-forma consolidated revenues⁽¹⁾ | Oi

(Brazilian Real million, 100%)

	2013	2012	Δ13/12
Residential	10,303	9,974	3.3%
Personal Mobility	9,290	9,102	2.1%
Services	6,609	6,276	5.3%
Network Usage	2,147	2,337	(8.1%)
Sales of handsets, SIM cards and others	535	489	9.4%
Corporate / SMEs	8,455	8,510	(0.6%)
Other services	375	556	(32.6%)
Pro-forma consolidated net revenues	28,422	28,142	1.0%

⁽¹⁾The pro-forma data amount refers to the former TNL as if the takeovers had occurred on 1 January 2012. Following the early adoption of IFRS 11 in PT's Consolidate Financial Statments, the interested in Oi was accounting by the equity method. Non the less PT's management continue to analyse this business segment.

In 2013, Oi's pro-forma consolidated net revenues, as reported by Oi, increased by 1.0% y.o.y to Brazilian Real 28,422 million, underpinned by growth of Residential and Personal Mobility segments. This growth was achieved against a backdrop of: (1) lower MTRs; (2) a decrease on traffic in the Corporate / SMEs segment, and (3) the focus on profitability and protection of Oi's financial position.

EBITDA, as reported by Oi, stood at Brazilian Real 9,583 million, with a margin of 33.7%. This performance was impacted by a non-recurrent operating revenue amounting to circa Brazilian Real 1.5 billion in 4Q13, related to the sale of GlobeNet. Excluding this non-recurrent impact, EBITDA in 4Q13 would have sequentially improved

by 1.7% q.o.q, reflecting the early results from Oi's focus on financial discipline and operational efficiency. EBITDA performance reflects mainly: (1) a 42.9% improvement in provisions for bad debt in 2013 compared to 2012 underpinned by the favourable impacts of the initiatives to improve the quality of sales, the collection process and more strict credit requirements, and (2) lower interconnection costs, which in 2013 reached Brazilian Real 3,966 million (-10.1% y.o.y), reflecting MTR reductions and the settlement of agreements with other operators. Additionally, in 4Q13 Oi booked a gain associated with the reversal of labour contingencies amounting to Brazilian Real 115 million, of which Brazilian Real 74 million were deemed to be related to prior years. This gain was offset by one-offs including provisions related to write-offs of fixed assets.

Pro-forma income statement⁽¹⁾ | Oi

(Brazilian Real million, 100%)

	2013	2012	y.o.y
Pro-forma consolidated net revenues	28,422	28,142	1.0%
Pro-forma operating costs	18,839	19,269	(2.2%)
Interconnection	3,966	4,414	(10.1%)
Personnel	2,453	2,016	21.7%
Materials	221	156	41.7%
Cost of goods sold	515	542	(5.0%)
Third-party services	8,394	8,236	1.9%
Marketing	539	475	13.5%
Rent and insurance	2,067	1,813	14.0%
Provision for bad debt	850	595	42.9%
Other operating expenses (revenue), net	(165)	1,021	(116.2%)
Pro-forma EBITDA	9,583	8,873	8.0%
EBITDA margin	33.7%	31.5%	2. 2pp

⁽¹⁾ The pro-forma data amount refers to the former TNL as if the takeovers had occurred on 1 January 2012. Following the early adoption of IFRS 11 in PT's Consolidate Financial Statments, the interested in Oi was accounting by the equity method. Non the less PT's management continues to analyse this business segment.

Capital expenditures stood at Brazilian Real 6,250 million in 2013 (-4.8% y.o.y) reflecting primarily past investments in mobile and broadband networks as well as best allocation of investments. As a result, EBITDA minus CAPEX in 2013 reached Brazilian Real 3,333 million, having increased by 44.3% y.o.y. Net debt stood at Brazilian Real 30,416 million at the end of 2013 (21.3% y.o.y).

07



EMPLOYEES

	CHAIRMAN AND CEO'S MESSAGE	08
01	MACROECONOMIC ENVIRONMENT	13
02	REGULATORY BACKGROUND	29
03	STRATEGIC PROFILE	41
04	RESEARCH AND DEVELOPMENT	53
05	FINANCIAL REVIEW	75
06	BUSINESS PERFORMANCE	85
07	EMPLOYEES	
08	CAPITAL MARKETS	101
09	MAIN EVENTS	109
10	MAIN RISKS AND UNCERTAINTIES	113
11	OUTLOOK	121
12	STATEMENT BY THE PERSONS RESPONSIBLE	125
13	ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129
14	CONSOLIDATED FINANCIAL STATEMENTS	133
15	REPORT AND OPINION OF THE AUDIT COMMITTEE	227
16	STATUTORY AUDITOR'S REPORT	231
17	INDEPENDENT AUDITORS' REPORT	235
18	GLOSSARY	239
19	BOARD OF DIRECTORS	243
20	KEY FIGURES	245
21	ADDITIONAL INFORMATION TO SHAREHOLDERS	249

07 EMPLOYEES

Employees data

Number of employees	2013	2012	y.o.y	y.o.y%
Portugal	11,073	11,359	(286)	-2.5%
Telecommunications	7,526	7,637	(111)	-1.5%
Other businesses	3,547	3,722	(175)	-4.7%
International businesses	1,656	1,567	89	5.7%
Group employees	12,729	12,857	(128)	-1.0%
Annual average cost per employee (Euro)				
Portugal	32,251	33,648		(4.2%)
Telecommunications	30,394	31,913		(4.8%)
International businesses	22,593	23,954		(5.7%)
Group	31,045	33,262		(6.7%)

As at 31 December 2013, PT's employees decreased by 1.0% y.o.y to 12,729, of which 87% were in the Portuguese businesses.

In the Portuguese businesses, the total number of employees decreased by 2.5% y.o.y to 11,073, as a result of the redundancy programme of approximately 400 employees implemented in 2Q13, notwithstanding the retention of young talents (Trainees) and operational and commercial teams.

With the objective of rejuvenating its workforce, PT has a structured recruitment process for young talents – Trainees - the best students from the best Portuguese universities – and operational and commercial teams.

In 2013, 80 students were integrated in the Trainees programme and 100 in the operational and technical teams. This is a two year programme that involves about 50 departments of the company and has a very close monitoring by the management team.

Focusing on resident talents, PT implemented the second edition of the Talent Management programme, maintaining the two assessment perspectives:

- Developing future leaders;
- Retaining specific know-how.

This second edition includes more than 500 high potential employees, across the different career layers. The development actions are going to be defined and implemented during 2014.

Regarding the development of leadership competencies, during 2013 PT continued to sponsor the executive training programme for second and third line directors, following the previous experience. This initiative involved 60 employees with key responsibilities within the group and the main objective was to strengthen the team's culture on topics such as leadership, innovation and change.

In 2013, the annual average cost per employee in PT's Group and in the Portuguese businesses decreased by 6.7% y.o.y and 4.2% y.o.y respectively, mainly due to lower variable and overtime compensation, higher efficiency levels in certain internal processes and lower personnel costs as a result of a restructuring plan implemented in the second quarter of 2013.

08

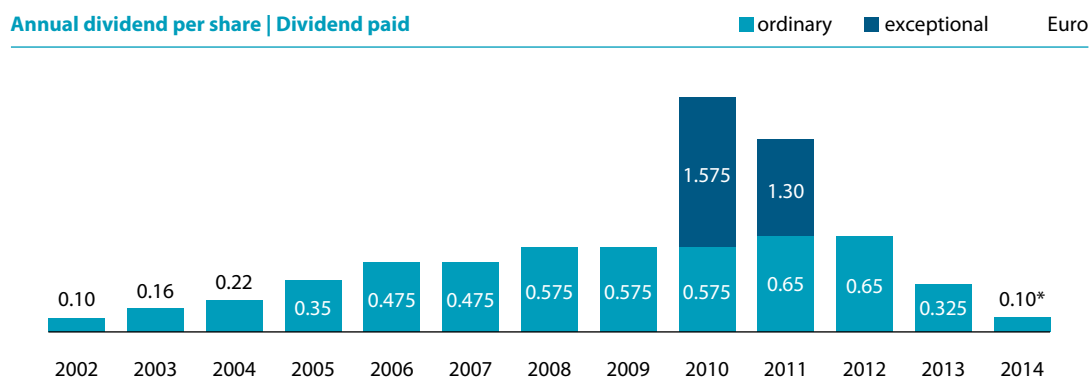
CAPITAL MARKETS



CHAIRMAN AND CEO'S MESSAGE	08		
01 MACROECONOMIC ENVIRONMENT	13		
02 REGULATORY BACKGROUND	29		
03 STRATEGIC PROFILE	41		
04 RESEARCH AND DEVELOPMENT	53		
05 FINANCIAL REVIEW	75		
06 BUSINESS PERFORMANCE	85		
07 EMPLOYEES	99		
08 CAPITAL MARKETS			
09 MAIN EVENTS	109		
10 MAIN RISKS AND UNCERTAINTIES	113		
11 OUTLOOK	121		
12 STATEMENT BY THE PERSONS RESPONSIBLE	125		
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129		
14 CONSOLIDATED FINANCIAL STATEMENTS	133		
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227		
16 STATUTORY AUDITOR'S REPORT	231		
17 INDEPENDENT AUDITORS' REPORT	235		
18 GLOSSARY	239		
19 BOARD OF DIRECTORS	243		
20 KEY FIGURES	245		
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249		
		SHAREHOLDER REMUNERATION	102
		SHAREHOLDER STRUCTURE	103
		SHARE PERFORMANCE	103
		BOND PERFORMANCE	106
		Rating	106
		Bonds	106
		INVESTOR RELATIONS ACTIVITIES	107

SHAREHOLDER REMUNERATION

In 2013, PT returned Euro 285 million to shareholders, related to 2012 fiscal year, corresponding to a dividend of Euro 0.325 per share, paid to the Shareholders on 17 May 2013 (ex-dividend date: 14 May 2013; record date: 16 May 2013).



* Subject to shareholder's approval at the AGM

On 14 August 2013, PT announced a new shareholder remuneration policy for fiscal years 2013 and 2014, which will be exclusively comprised of a cash dividend of Euro 0.10 per share to be paid annually. The Board of Directors remains confident on the cash-flow generation of the Company. Simultaneously, in light of current macroeconomic environment, of the financial market conditions and of the need to continue to invest in the development of its businesses, the Board of Directors has decided to reinforce the prudence of its financial strategy.

As at 31 December 2013 and as at the date of this report, PT had for accounting purposes 41,409,495 own shares, including: (1) 20,640,000 own shares held through equity swaps at PT SGPS, SA, and (2) 20,769,495 own shares held through the 23.2% stake in PT's 89,651,205 shares acquired by Oi. As at 31 December 2013, PT's total number of shares outstanding was 855,103,005. Total shares issued stood at 896,512,500.

SHAREHOLDER STRUCTURE

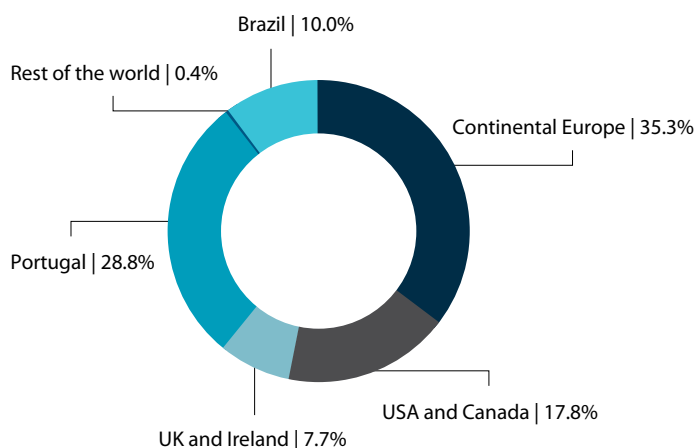
At the end of 2013, the holdings of the qualified shareholders represented circa 53% of PT's share capital, as follows:

Qualified holdings

Date of report	Institutions	No. of shares	% of capital	% of voting rights
10 Jul 12	RS Holding, SGPS, SA	90,111,159	10.05%	10.05%
31 Dec 13	Espírito Santo Group	90,056,485	10.05%	10.05%
31 Mar 12	Telemar Norte Leste, SA	89,651,205	10.00%	10.00%
06 Feb 12	Norges Bank	44,442,888	4.96%	4.96%
12 Jan 12	UBS AG ⁽¹⁾	42,024,498	4.69%	4.69%
31 Dec 10	Visabeira Group	23,642,885	2.64%	2.64%
07 Dec 09	BlackRock Inc.	21,025,118	2.35%	2.35%
03 Feb 10	Controlinveste Comunicações	20,419,325	2.28%	2.28%
12 Jun 13	Pictet Asset Management	18,246,357	2.04%	2.04%
26 Oct 12	Ontario Teachers' Pension Plan Board	18,000,000	2.01%	2.01%
21 May 13	Bestinver	17,981,057	2.01%	2.01%

⁽¹⁾ On 10 February 2014, PT further informed that on 30 January 2014, UBS AG's qualified holding corresponded to a total of 45,958,433 PT shares, representing 5.13% of PT's share capital and voting rights. On the same day, PT additionally informed that on 31 January 2014 UBS held a qualified holding corresponding to a total of 43,648,928 PT shares, representing 4.87% of PT's share capital and corresponding voting rights.

PT has a diversified shareholder base, with approximately two thirds of its share capital being held by foreign shareholders, mainly in Continental Europe and North America (USA and Canada), which represents 35.3% and 17.8%, respectively, of the total shareholder base. The Portuguese market represents 28.8% of PT's outstanding capital.



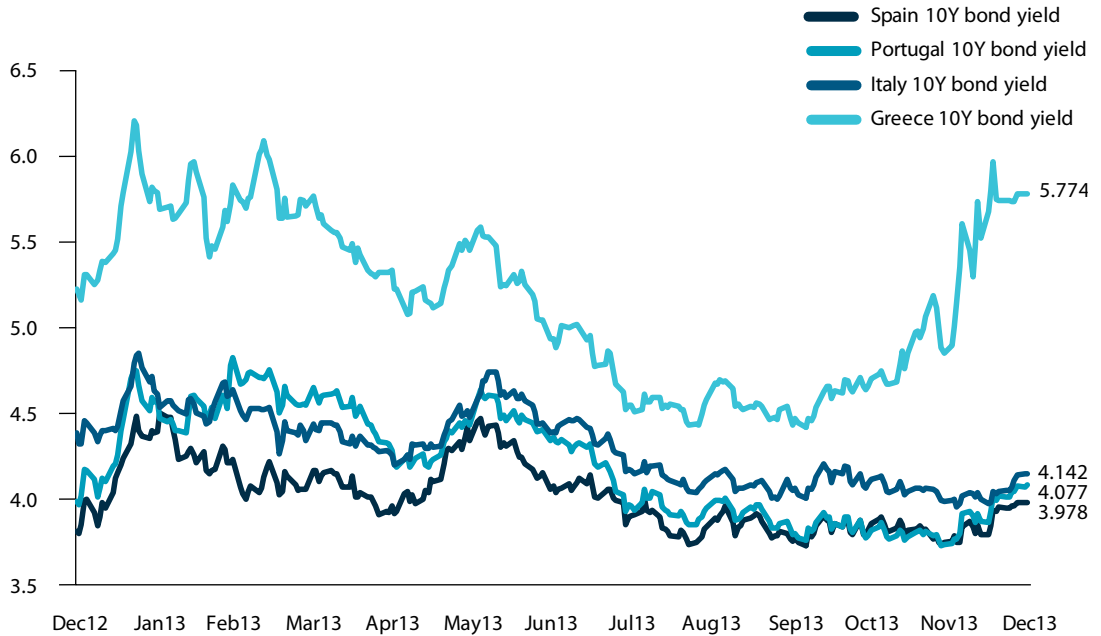
SHARE PERFORMANCE

In 2013, the financial crisis continues to be visible in the performance of the financial markets. Global economic growth remains weak and there is still some degree of uncertainty. The world's economy continued to slowdown as emerging market economies faced declining growth and tighter global financial conditions. The core economies of Europe show some signs of recovery although southern periphery countries are still struggling.

08

CAPITAL MARKETS

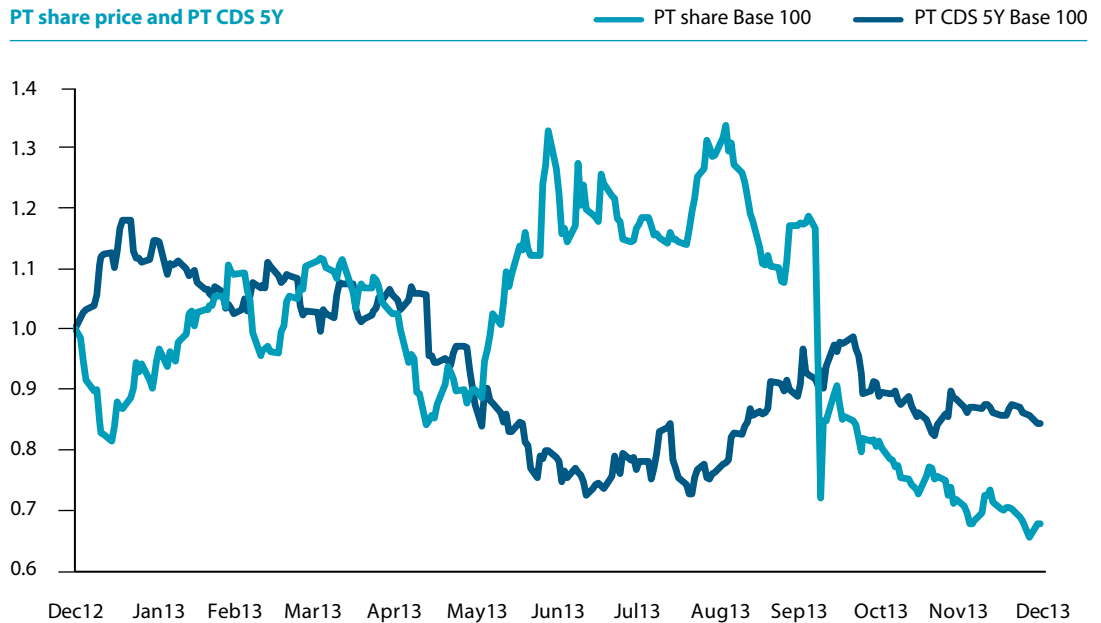
Sovereign bond yields | Selected economies



Source: Bloomberg

The 1H13 was characterised by high market volatility, pressuring PT's shares and CDS. In 2H13, financial market conditions improved and economic recovery was visible in the Eurozone, with some economies coming out of the recession, which was also reflected in PT performance.

PT share price and PT CDS 5Y

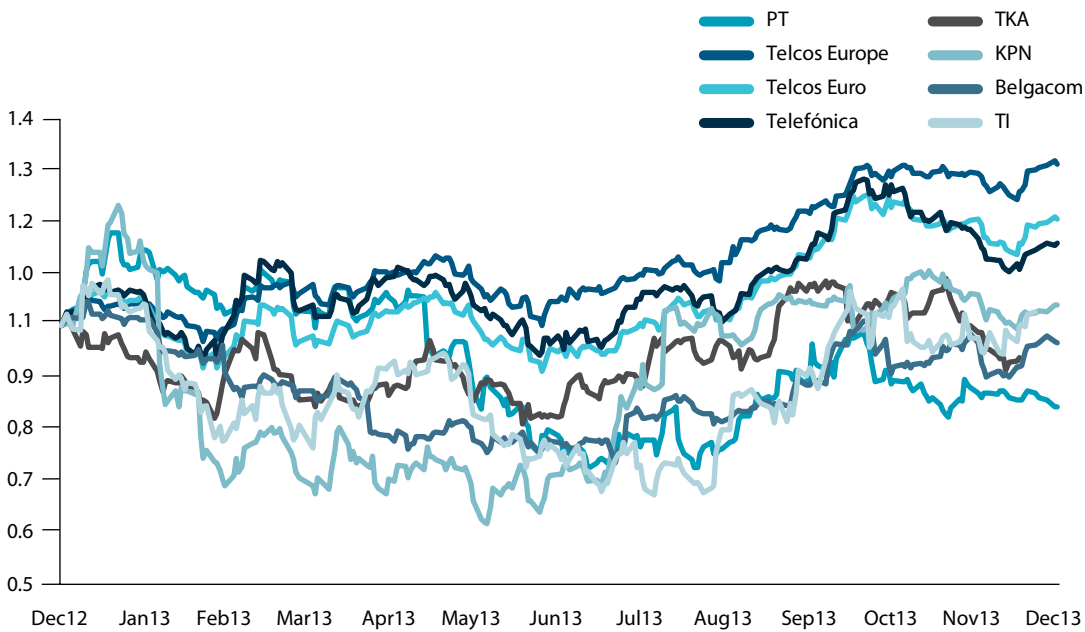


Source: Bloomberg

In 2013, PT shares fluctuated between a minimum of Euro 2.573 and a maximum of Euro 4.462, closing the year at Euro 3.16. Around 1,414 million PT shares were traded in 2013, equivalent to a daily average of 5.5 million shares.

In 2013, PT ADRs close the year at US Dollar 4.32, with an average of approximately 370 thousand traded daily on the New York Stock Exchange. The number of ADRs outstanding at the end of 2013 was 33.6 million.

Performance in 2013

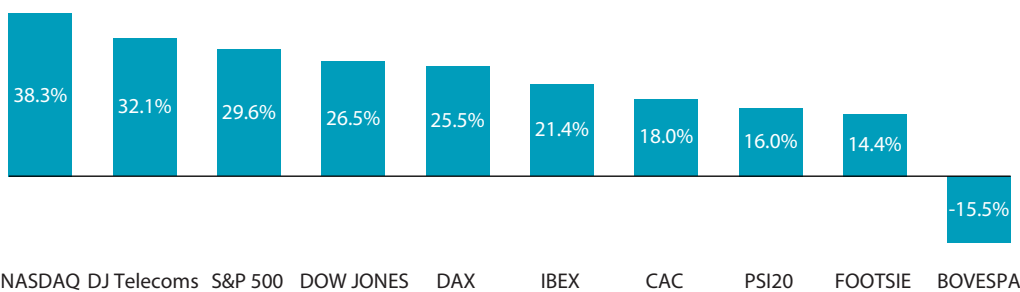


Source: Bloomberg

In 2013, among the major financial markets, the NASDAQ registered the best performance (+38.3%), followed by the DJ Telecoms (+32.1%) and S&P 500 (+29.6%). The PSI-20 index registered an increase of 16%, one of the lowest performances in Europe, reflecting the financial crisis and economy weakness in Portugal.

Performance of major stock market indexes in 2013

(%)



Source: Bloomberg

BOND PERFORMANCE

In 2013, PT maintained a solid liquidity position, given its significant level of cash, its debt profile (with an average maturity of approximately 5.5 years as of the year-end) and the additional flexibility provided by its committed stand-by lines and underwritten commercial paper lines.

Rating

On 15 August 2013, Fitch downgraded PT's long-term rating from BBB to BBB-, with a negative outlook. On 11 February 2013, Standard & Poor's (S&P) announced the downgrade of PT's long-term rating from BB+ to BB, with a negative outlook. In 2013, Moody's has confirmed the long-term rating on PT at Ba2, with negative outlook.

In the beginning of October 2013, just after the announcement of the intended business combination between Portugal Telecom and Oi, with all the new group's creditors ranking pari passu:

- On 4 October 2013, S&P has placed PT's rating on CreditWatch Developing, mentioning the intention to upgrade PT's rating upon the completion of the announced merger;
- On 3 October 2013, Moody's has placed on review for upgrade PT's rating, taking into account that the combination would benefit PT in terms of synergies, stronger international diversification and greater financial strength and would mitigate PT's exposure to domestic Portuguese sovereign and macroeconomic risks;
- On 3 October 2013, Fitch has confirmed PT's rating and outlook which, under this agency's criteria, are the same of Oi's;
- On 10 February 2014, just after the announcement on 7 February 2013 by PT of a consent solicitation on its bonds, S&P and Moody's reiterated their understanding mentioned above.

Bonds

On 30 April 2013 and 7 August 2013, Portugal Telecom International Finance BV has repaid the Euro 1,000 million notes issued in April 2009 and the Euro 50 million notes issued in August 2008, respectively.

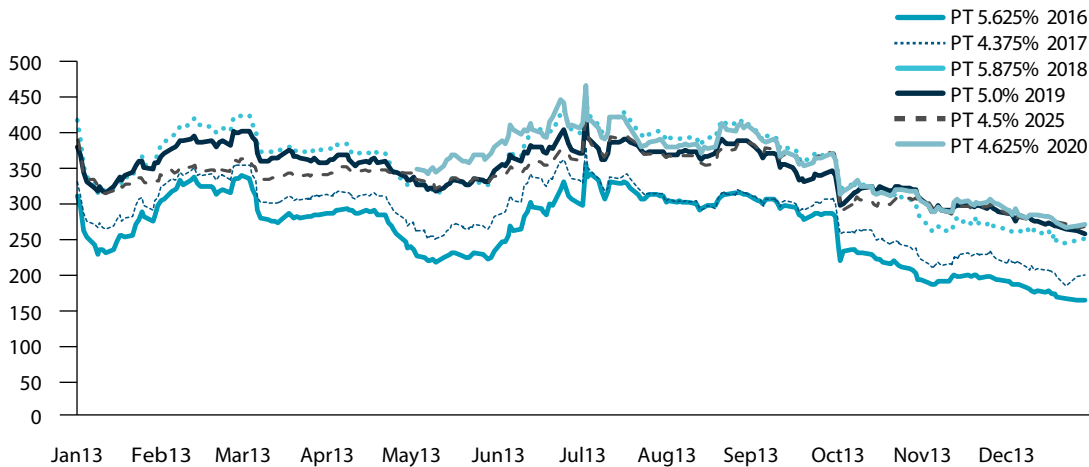
On 10 May 2013, PT, through its wholly-owned subsidiary Portugal Telecom International Finance BV, issued a Euro 1.000 million Eurobond, with a maturity of 7 years and a coupon rate of 4.625%.

In 2013, the performance of PT's bonds was essentially influenced by the following two aspects:

- i) The market perception on Portuguese sovereign's creditworthiness and Eurozone financial and political situation, which affected the perceived credit risk of corporates, especially the ones exposed to countries under financial stress;
- ii) The market reaction to the announcement on 2 October of the proposed merger between PT and Oi on one hand, and the rating agencies' comments that have followed, on the other hand, which had a positive impact on PT's perceived credit risk.

PT Eurobonds spreads performance

(basis points)



Source: Bloomberg

Until 2 October 2013, PT's credit spreads have fluctuated but showing no obvious trend, essentially influenced by the market's perception on Portuguese sovereign risk. After the announcement of the proposed merger between PT and Oi, PT's credit spreads started to decline clearly, having ended 2013 at, or approximately at, the year's lows.

As the value of the conversion option embedded in PT's exchangeable bonds has been close to zero during 2013 and the bonds are close to maturity (on 28 August 2014), its price was relatively stable during the year, ranging between 101% and 103%.

On 7 February 2014, PT announced a consent solicitation, regarding the solicitation of consents from the holders of its Euro 400 million 6.25 per cent. Notes due 2016 issued under its Euro Medium Term Note programme and the Euro 750 million 4.125 per cent. Exchangeable Bonds due 2014 issued by Portugal Telecom International Finance B.V., as part of the business combination between PT and Oi.

INVESTOR RELATIONS ACTIVITIES

PT has a policy of providing its shareholders and other members of the international financial community with clear, transparent, regular and two-way communications.

During 2013, the Company participated in several investor events, including investor roadshows, analyst and investor presentations, one-on-one meetings and conference calls, as well as investor conferences in Europe and in the US.

PT participated in twelve investor conferences and roadshows, including events focused on CSR investing. Additionally, PT held over 250 meetings and conference calls with analysts and investors.

09

MAIN EVENTS



CHAIRMAN AND CEO'S MESSAGE	08		
01 MACROECONOMIC ENVIRONMENT	13		
02 REGULATORY BACKGROUND	29		
03 STRATEGIC PROFILE	41		
04 RESEARCH AND DEVELOPMENT	53		
05 FINANCIAL REVIEW	75		
06 BUSINESS PERFORMANCE	85		
07 EMPLOYEES	99		
08 CAPITAL MARKETS	101		
09 MAIN EVENTS			
10 MAIN RISKS AND UNCERTAINTIES	113		
11 OUTLOOK	121		
12 STATEMENT BY THE PERSONS RESPONSIBLE	125		
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129		
14 CONSOLIDATED FINANCIAL STATEMENTS	133		
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227		
16 STATUTORY AUDITOR'S REPORT	231		
17 INDEPENDENT AUDITORS' REPORT	235		
18 GLOSSARY	239		
19 BOARD OF DIRECTORS	243		
20 KEY FIGURES	245		
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249		
		EVENTS OF 2013	110
		Shareholder remuneration	110
		Corporate bodies	110
		Debt	110
		MEO	110
		Data Centre	110
		CTM	111
		Oi Group	111
		European Commission	111
		SUBSEQUENT EVENTS	112
		MEO	112
		Debt	112

EVENTS OF 2013

Shareholder remuneration

19 April 13 | PT's shareholders approved at the Annual General Meeting held on 19 April 2013 the application of the 2012 net income of Euro 230,495,402.78 and of reserves in the amount of Euro 60,871,159.72 contained in results carried forward, as follows:

- Payment to the shareholders of the overall amount of Euro 291,366,562.50, corresponding to Euro 0.325 per share in respect of the total number of issued shares. The above mentioned amount of Euro 0.325 per share was paid to the shareholders on 17 May 2013 (ex-dividend date: 14 May 2013; record date: 16 May 2013).

14 August 13 | PT announced that its Board of Directors approved, on 13 August 2013, the modification of its shareholder remuneration policy for fiscal years 2013 and 2014, which will be exclusively comprised of a cash dividend of Euro 0.10 per share to be paid annually.

Corporate bodies

4 June 13 | Zeinal Bava was appointed Chief Executive Officer at Oi and Henrique Granadeiro began to accumulate the offices of Chairman of the Board and Chief Executive Officer of PT.

25 October 13 | PT announced that João Nuno de Oliveira Jorge Palma and José Pedro Cabral dos Santos have resigned to the respective offices as Non-Executive member of PT's Board of Directors.

Debt

11 February 13 | S&P announced its review of the credit rating attributed to PT, downgrading the long-term rating from BB+ to BB, with negative outlook, and maintaining the short-term rating at B.

30 April 13 | PT announced that it has successfully completed the issuance of a Euro 1,000 million Eurobond with a maturity of 7 years, through its wholly-owned subsidiary PT International Finance BV. The coupon of this issue was 4.625%.

16 August 13 | Fitch announced its review of the credit rating attributed to PT and the ratings of PT International Finance B.V., downgrading the long-term rating from BBB to BBB-. The outlook remained negative.

MEO

11 January 13 | PT presented the new MEO, which includes a rebranding and the launch of the first quadruple-play offer, a truly fixed-mobile convergent service, including TV, internet, fixed telephone, and mobile telephone: M₄O.

Data Centre

23 September 13 | PT announced the inauguration of its Data Centre in Covilhã. PT's Data Centre is one of the largest, most efficient, and most ecological data centres in the world. PT's Data Centre, which occupies a total

area of 75,500 sqm, is modular, composed of four blocks, and has capacity of up to 12,000 sqm of white space.

CTM

13 January 13 | PT announced that it has entered into a definitive agreement for the sale of its minority equity stake held in Companhia de Telecomunicações de Macau, S.A.R.L. (CTM), representing 28% of CTM's share capital, to Citic Telecom International Holdings Limited (CITIC Telecom). This agreement provides that PT will receive total proceeds of US Dollar 411.6 million, subject to certain adjustments.

21 June 13 | PT announced the conclusion of the sale of its minority stake in Companhia de Telecomunicações de Macau, S.A.R.L. (CTM) representing 28% of CTM's share capital, to CITIC Telecom. At completion, PT received total proceeds of US Dollar 443.0 million including the consideration of US Dollar 411.6 million as announced on 13 January 2013, plus an additional US Dollar 31.4 million representing the proportionate share of the net cash in CTM attributable to PT and certain working capital adjustments.

Oi

27 January 13 | PT informed that as part of their strategic relationship and co-operation agreement announced in July 2010, PT, Oi SA and Oi SA's controlling shareholders regularly review proposals which may enhance operational performance and governance to extract additional synergies especially in the areas of engineering, network, technology, innovation and services. Contrary to press speculation, at that date there were no plans which could contemplate PT buying control or making an offer for Oi SA

2 October 13 | PT, Oi SA (Oi), AG Telecom Participações SA, LFTel SA and their respective affiliates announced the signing of a memorandum of understanding (MOU) setting out the basis for a proposed merger of PT, Oi and the Oi Holding Companies into a single incorporated listed entity. The merger is a natural fulfilment of the industrial alliance established in 2010 creating a leading telecoms operator led by Zeinal Bava as CEO.

European Commission

23 January 13 | It came to PT's knowledge that the European Commission adopted a decision condemning the company, together with Telefónica, SA (Telefónica) for infringement of article 101 of the TFEU, with reference to an alleged non-compete commitment with impact in the Iberian market included in the agreement of 28 July 2010 concerning the acquisition by Telefónica of PT's stake in Brazilian operator Vivo. PT was fined Euro 12,290,000.

The abovementioned decision ends an investigation that began in January 2011 in which the European Commission had the opportunity to analyse the relationship between both companies since 1996, not having apparently found other reasons worthy of criticism.

PT has not yet been formally notified of the decision of the European Commission. Nevertheless, PT believes that the publicly announced fine is unjustified and inappropriate to any possible unworthiness of its conduct.

09

MAIN EVENTS

PT will consider bringing an action for annulment before the Court of Justice of the European Union once it has the opportunity to examine the full content of the decision and its grounds.

SUBSEQUENT EVENTS

MEO

27 January 14 | PT announced that all services rendered by TMN are now provided under the MEO brand, with TMN having changed its designation to Meo – Serviços de Comunicações e Multimédia, SA. In carrying through this transformation, PT takes into consideration the consumption trends of its customers, as well as its strategy for the consumer area, including the Residential and Personal segments, which consists of the investment in fixed-mobile convergence and in convergence of services, namely voice, internet and TV. The success of this convergence strategy with the MEO brand - it reached more than 1.5 million services in only one year – enables the evolution of TMN's brand to MEO in a context of simplicity and customer focus.

Also following a rationale of convergence in the enterprise sector, PT will address the market under the brand PT Empresas, which aggregates the services hitherto provided by PT Negócios and PT Prime.

Debt

7 February 14 | PT announced that it has made available a consent solicitation memorandum regarding the solicitation of consents from the holders of its Euro 400 million 6.25 per cent. Notes due 2016 issued under its Euro Medium Term Note programme and the Euro 750 million 4.125 per cent. Exchangeable Bonds due 2014 issued by Portugal Telecom International Finance B.V.. The consent solicitation is being made in connection with the transaction between PT and Oi that was announced on 2 October 2013.

10

MAIN RISKS AND UNCERTAINTIES



CHAIRMAN AND CEO'S MESSAGE	08
01 MACROECONOMIC ENVIRONMENT	13
02 REGULATORY BACKGROUND	29
03 STRATEGIC PROFILE	41
04 RESEARCH AND DEVELOPMENT	53
05 FINANCIAL REVIEW	75
06 BUSINESS PERFORMANCE	85
07 EMPLOYEES	99
08 CAPITAL MARKETS	101
09 MAIN EVENTS	109
10 MAIN RISKS AND UNCERTAINTIES	
11 OUTLOOK	121
12 STATEMENT BY THE PERSONS RESPONSIBLE	125
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129
14 CONSOLIDATED FINANCIAL STATEMENTS	133
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227
16 STATUTORY AUDITOR'S REPORT	231
17 INDEPENDENT AUDITORS' REPORT	235
18 GLOSSARY	239
19 BOARD OF DIRECTORS	243
20 KEY FIGURES	245
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249

10

MAIN RISKS AND UNCERTAINTIES

PT has defined, as a priority commitment, the implementation of a process to evaluate and manage the risks that might affect its operations and the execution of the business plan and the achievement of the strategic goals defined by the Board of Directors. Such mechanisms are based on an enterprise wide risk management model, which seeks to ensure, inter alia, the implementation of Corporate Governance practices and transparency in the disclosure of information to the market and shareholders.

As a structured approach, risk management is integrated in the Company's strategic planning and operational management procedures, and relies on the commitment of all employees to adopt risk management as an integral part of their duties, notably by identifying, reporting and implementing risk mitigation measures and behaviours.

Risk Management is sponsored by the Executive Committee in conjunction with the management teams from the various businesses, at national and international level, in such a way as to identify, evaluate and manage uncertainties and threats that might affect the pursuance of the plan and of strategic goals. It should also be mentioned that the whole process is monitored by the Audit Committee, an independent supervisory body composed by Non-Executive board members.

As a result of the process that manages risks that might adversely affect PT's business, the following risks should be highlighted:

Relevant risks

Strategic risks	Regulation	<p>PT is subject to the risk of regulatory changes or actions from national, European Union or international regulatory entities that may create growing competitive pressure and affect its capacity to conduct its business in an effective manner.</p> <p>The Regulation Department is in charge of the management of regulatory risk and must be up to date on new regulations applicable to the sector with an impact on PT. The risk management strategy and response is coordinated between the Regulation Department and the different operational areas.</p> <p>Within the monitoring of the various risks and opportunities related to regulation, we highlight the following matters: (i) Next Generation Networks; (ii) Network Security, resilience; and Data Privacy (iii) Retail offers and pricing; (iv) Wholesale reference offers; (v) Universal Service; (vi) Radio-electric spectrum; (vii) Relevant Broadband Markets; (viii) Roaming regulation; (ix) Digital Dividend; (x) Cloud computing; and (xi) Cinema Law.</p> <p>Additional detail regarding regulation that might impact the company is included in the Regulatory Background chapter of the annual report.</p>
	Competition	<p>There is a possibility of a decline in PT's revenues due to an increase in competition by other operators or new players in the market, notably through (i) development of new products and services; (ii) aggressive marketing and sales policies; (iii) improvements in product or service quality; (iv) increase in productivity and cost reduction; (v) operator mergers and consolidations; and (vi) re-configuration of the value chain from the customer's standpoint.</p>
	Domestic operations	<p>On the Portuguese market, PT will continue to be a customer-oriented company focused on innovation and execution, managing its business along customer segments aiming at:</p> <p>1) Residential: PT has been leveraging on the increased capacity of its new generation access network to provide a differentiated and sophisticated TV experience anchored on premium content and a multi-screen strategy with seamless access to content on PCs, TVs and smartphones. MEO, offers a differentiated customer experience through (1) a non-linear experience</p>

Relevant risks

Strategic risks	<p>Competition with Video On Demand, pause and restart-TV, (2) a complete ecosystem for TV apps (Facebook, games, music, Kids and Sapó); (3) interactive features providing additional depth over key channels and contents; and (4) user generated content with MEO Kanal, a channel creating service that generated the first network effect on TV. The differentiation of MEO is not limited to fibre customers, as PT has also invested in a premium satellite service, with the current DTH service offering eight HD channels, digital recording, Video On Demand and interactive apps. Residential segment performance has been anchored on the success of our MEO offering that has achieved market share leadership on the back of its differentiated value proposition.</p> <p>On 11 January 2013, in line with its strategy for the Residential and Personal segment which focuses on the fixed-mobile and services convergence, PT presented the new MEO, with a rebranding and the launch of PT's first quadruple-play offer: M₄O, which is a truly fixed-mobile convergent service. The M₄O offer was extended to satellite customers in July 2013, making the service available nationwide.</p> <p>MEO's M₄O enables a unique customer experience reflected in the: (1) billing, through a single invoice and value for the entire family, allowing total cost control; (2) self-care, with an integrated online portal for all products and services; (3) CRM, allowing for an integrated customer view; and (4) sales, giving PT's customers an integrated experience online and at the stores.</p> <p>2) Personal: PT's strategy for the Personal customer segment is anchored on: (a) M₄O, which is underpinning the transformation of the Portuguese mobile market by introducing convergence, which allows additional differentiation of commercial offers, while at the same time is shifting the focus from pre-paid to post-paid; (b) mobile data offers based on high quality network offering, best in class coverage and high capacity to meet customers demand for increasingly higher bandwidth and provide the best quality of service in the market. PT has the best 4G-LTE network coverage reaching 93% of the population and allowing speeds of up to 150 Mbps. PT is testing LTE-Advanced and has already achieved speeds of 300Mbps, preparing the evolution of its 4G-LTE offer.</p> <p>Commercial offers include: (1) voice and data tariff plans designed to integrate seamlessly unlimited voice and data plans, targeted at the high value post-paid segments and, in the pre-paid segment, to prevent migration to the low value tariff plans by offering additional voice and data services; (2) distinctive Smartphone offering leveraging on a comprehensive portfolio of circa 30 smartphones, including exclusive handsets, and on innovative value added and convergent services to use on-the-go (mobile TV – MEO GO!; music On Demand– MEO Box; navigation app – MEO Drive, and MEO Cloud, which offers 16Gb of cloud storage space for free), and (3) mobile broadband competitive offers of up to 150Mbps speed, on 4G-LTE, and offering free access to PT's leading national WiFi network.</p> <p>As at January 2014, PT has changed the organisational model that supports its domestic business and operations, which resulted in the merger of the Residential and Personal segment into a single one – Consumer Segment. This organisational restructuring will reinforce the effectiveness and effectiveness of its business processes.</p> <p>3) Corporate and small/medium business: In this customer segment, PT aims at growing its revenue base beyond connectivity and legacy services by seizing the ICT opportunity, including cloud, outsourcing and BPO, on the back of cutting-edge solutions for companies and future-proof data centre investments to meet demand for high bandwidth services and virtualisation.</p> <p>PT has repositioned the M₄O offer, available to the small and medium offices, in terms of pricing and adding more TV channels available. This includes the repositioning of IT portfolio, extending the existing tariff plans and creating new ones, in order to have a more comprehensive offer.</p>
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10

MAIN RISKS AND UNCERTAINTIES

Relevant risks

Strategic risks	Competition	<p>In 3Q13, PT launched the M₃O Fibre, ADSL and Satellite offer, available to the small and medium size businesses, with pay-TV, fixed voice and mobile for the customers that do not want fixed broadband.</p> <p>In what concerns the corporate segment, PT has simplified its commercial offer of Managed Services, discontinuing certain services and standardising its offer across all areas, WAN, LAN/WAN and voice.</p> <p>International operations</p> <p>At the international level PT will remain focused on the operational performance of its assets and on the sharing of best practices across the various businesses. By reinforcing operational and commercial excellence in all operations and promoting the sharing of best-practices amongst all businesses, PT will be able to fully tap the potential of each operation, taking into account the market development status in all segments as well as its competitive positioning.</p>
	Technological innovation	<p>With a background of quick technological changes of the business sector in which PT operates, the company is subjected to the risk of failing to leverage technological advances and developments in its business model, in order to obtain or maintain competitive advantages.</p> <p>Innovation continued to be a top priority for PT, given its key role in ensuring sustained growth, particularly in a difficult economic context which forces higher competitiveness in product offering and simultaneously demands a higher efficiency in its development and go-to-market processes.</p> <p>Therefore, a clear focus on innovation has been at the heart of PT's investments and projects in recent years, aiming to anticipate future consumer and technology trends, thus enhancing the company's ability to deliver disruptive solutions to the marketplace. PT developed a structured approach to promote the culture of innovation across the whole company and aiming to establish a balanced portfolio of projects. We are constantly reviewing allocation of capital, people and mindshare of the organisation across 3 time horizons and risk levels: (1) incremental innovation (business as usual, low-risk and short-term optimisations); (2) planned innovation (business development, medium-term and medium-risk developments); and (3) exploratory innovation (structural projects, which are long-term and high-risk by nature). To develop a winning go-to-market strategy and reduce investment risks we work with a broad network of partners in leading edge companies, abroad and in Portugal. Additional detail regarding Technological Innovation that might impact the company is included in the Research and Development chapter of the Annual Report.</p>
	Economic environment	<p>The international financial crisis may extend the recession at Portuguese and world economy level and delay economic recovery, which might have an impact on the level of product and service demand, and as a result on the level of the operational and financial performance of PT. In this sense, management continuously monitors impacts on the operational and financial performance of PT.</p> <p>The management team acts proactively in identifying threats and opportunities at the level of the industry, sector and geographies where it is present, in order to diversify the asset portfolio and ensure the growth and profitability of the business.</p>
Financial risks	Exchange rates	<p>Foreign currency exchange rate risks mainly relate to Portugal Telecom's investments in Brazil, Angola and other foreign operations, and to debt denominated in currencies different from the functional currency of the country where the borrowing company operates. Exchange rate fluctuations of those currencies against the Euro affect the translation of the results attributable to PT, and therefore impact PT's results and asset position. Additionally PT is also exposed to exchange rate risks as regards debt in a currency other than Euro.</p>

Relevant risks

Financial risks	Exchange rates	<p>The risks related to the Company's investments in foreign currencies primarily relate to its investments in Oi and Contax. The risks related to debt denominated in currencies different from the Group companies' functional currencies were basically related to foreign currency debt contracted by Oi and its subsidiaries. The Company does not have a hedging policy regarding the value of these Investments; however the Executive Committee analyses the execution of cash-flow hedging of the dividends and other capital income.</p> <p>Additional detail regarding Exchange Rate risks and its exposure that might impact the company is included in the Notes of the Financial Statements of the Annual Report.</p>
	Interest rates	<p>Interest rate risk basically impact the Group's financial expenses and income on the floating interest rate debt and cash applications. Portugal Telecom is exposed to this risk primarily in the Eurozone and in Brazil. The Group's pro-forma consolidated debt is subject to floating interest rates based on the following rates: (1) Euribor, applicable for certain loans obtained in the Eurozone; (2) TJLP, a long-term interest rate set by the National Monetary Council in Brazil; (3) IPCA, a Consumer Price Index published by the Brazilian Institute for Geography and Statistics; (4) CDI, an interbank rate for Brazilian Real-denominated debt; and (5) Libor, an interbank rate for US Dollar-denominated debt. With the purpose of reducing the impact of these risks, the Group entered into interest rate swaps, swapping floating rate into fixed rate debt.</p> <p>The Oi debt is consolidated under the equity method in the Portugal Telecom financial statements.</p> <p>Interest rate risks also result from the exposure to changes in the fair value of Portugal Telecom's long term fixed-rate debt due to changes in market interest rates.</p> <p>Additional detail regarding Interest Rate risks that might impact the company is included in the Notes of the Financial Statements of the Annual Report.</p>
<p>The purpose of the financial instruments entered into by Portugal Telecom is to reduce the risk of exposure to changes in interest and exchange rates.</p> <p>The contracting of these derivatives is made after careful analysis of associated risks and rewards, taking into consideration information obtained from different institutions. These transactions are subject to authorisation from Portugal Telecom's Executive Committee. The fair value of these derivatives is determined on a regular basis, based on market information, in order to assess the economic and financial implications of different scenarios. The Executive Committee monitors regularly these financial risks.</p> <p>Regarding Oi's financial instruments, which represent the major part of the Group's total financial instruments, the Executive Committee of Oi annually agrees with the Board of Directors to follow a specific risk guideline, which is equivalent to the worst expected impact on financial income (expenses) of the net income of the Oi Group, with a 95% level of confidence. To ensure a proper risk management in accordance with the risk guideline, Oi may enter into hedging instruments, including derivative transactions such as swaps, currency forwards and options. Oi and its subsidiaries do not use derivative instruments for other purposes.</p> <p>The exchange and interest rate financial instruments contracted by Oi are consolidated under the equity method in the Portugal Telecom financial statements.</p> <p>Additional detail regarding financial instruments is included in the Notes of the Financial Statements of the Annual Report.</p>		
	Credit	<p>Credit risks relate mainly to the risk that a third party fails on its contractual obligations, resulting in a financial loss to the Group. PT is subject to credit risks in its operating and treasury activities. Credit risks in operations basically relate to outstanding receivables from services rendered to our customers.</p> <p>The Group does not have any significant credit risk exposure to any single customer, since trade receivables consist of a large number of customers, spread across several businesses and geographical areas. These risks are</p>

10 MAIN RISKS AND UNCERTAINTIES

Relevant risks

<p>Financial risks</p>	<p>Credit</p>	<p>monitored on a business-to-business basis, and Portugal Telecom's management of these risks aims to: (a) limit the credit granted to customers, considering the profile and the aging of receivables from each customer; (b) monitor the evolution of the level of credit granted; (c) perform an impairment analysis of its receivables on a regular basis; and (d) assess the market risk where the customer is Located.</p> <p>Risks related to treasury activities result mainly from the cash deposits on investments made by the Group. In order to dilute these risks, Portugal Telecom's policy is to invest its cash for short time periods, entering in agreements with reputable financial institutions and diversifying counterparties.</p> <p>As of December 31, 2013 Portugal Telecom had an account receivable from Unitel related to dividends from fiscal years 2012 and 2011, having received the last payment of dividends in November 2012. For certain dividend payments Unitel is awaiting the authorisation from the Central Bank of Angola and for other amounts due the authorisation was received but Portugal Telecom has not yet received them.</p> <p>Additional detail regarding credit risks that might impact the company is included in the Notes of the Financial Statements of the Annual Report.</p>
	<p>Liquidity</p>	<p>These risks may occur if funding sources, such as available funds, operational cash-flows and funds obtained through disinvestment, credit lines and cash-flows fail to meet existing needs, such as disbursements for operational activities and funding for investment, shareholder remuneration and debt reimbursement.</p> <p>In order to mitigate these risks, PT seeks to keep a liquidity position and an average debt maturity permitting it to repay its short-term debt and settle its contractual obligation at the same time. Additionally, PT's capital structure is managed in such way as to ensure that its capacity to pursue its various businesses and maximise shareholder return. PT reviews its capital structure from time to time, taking into consideration the risks associated to each capital class.</p> <p>Additional detail regarding liquidity risks that might impact the company is included in the Notes of the Financial Statements of the Annual Report.</p>
<p>Operational risks</p>	<p>Infrastructure capacity</p>	<p>The capacity and availability of network infrastructures are essential features for PT to ensure continued critical operations within high quality parameters, aimed not only at customer satisfaction but also in compliance with regulatory requirements.</p> <p>In this way, PT has strongly emphasised the management process of this risk, not only at infrastructure availability and resilience level but also in the increase of infrastructure capacity, in such a way as to support new product and service offers to its customers. Additionally, PT's ownership of a network infrastructure located in the public domain increases PT's exposure to the occurrence of breakdowns and incidents. Within this scope, follow-up and risk mitigation actions are carried out as follows:</p> <ul style="list-style-type: none"> • Securing the telecommunications core network; • Preparation of risk maps for the various technological platforms, identifying dependencies and single failure points; • Definition and implementation of disaster recovery plans; • Implementation of systems and procedures aimed at ensuring determined QoS (Quality of Service) and QoE (Quality of End user Experience) levels; • Investment in new generation networks and preventive maintenance actions; • Investment in information systems to support the activity of technical teams; • Investment in a new state-of-the-art Data Centre in order to ensure the resilience and capacity of the infrastructure.

Relevant risks

Operational risks	Infrastructure capacity	<p>Increased resilience of the core services of PT, through the work of the Business Continuity should also be highlighted, in particular the companies ability to respond to incidents and disaster in the following areas:</p> <ul style="list-style-type: none"> • Prevention: planning and preparation in order to reduce the impact of incidents in the critical processes that support the business; • Emergency Response and Recovery: business continuity and disaster recovery plans that reduce the time of recovery of critical processes in case of catastrophic events.
	Strategic partnerships	<p>The growth strategy at national and international level is based on a combination of alliances and partnerships that enhance the Company's competitive capacity. The Executive Committee of PT and its subsidiary companies have played a central role in the management of this risk, by leveraging existing opportunities.</p> <p>Such alliances are not restricted to a single field, as they include as partners: (i) technology suppliers; (ii) infrastructure and maintenance providers; (iii) R&D experts; (iv) terminal equipments and handhelds suppliers; and (v) content suppliers, among others.</p>
	Environmental	<p>Pursuing an appropriate environmental policy has been a concern to PT, in order to reduce the Company's exposure to environmental damages that might consist in: (i) liability towards third parties for any material damage caused; (ii) liability towards governments or third parties for the cost of waste removal, added by possible compensations.</p> <p>This way, PT has reinforced its environmental management principles and actions, thus ensuring the certification of associated systems according to ISO 14001 standard. Environmental management policies and systems cover the following areas of intervention: (i) Resource consumption; (ii) Waste production and routing; (iii) Atmospheric emissions; (iv) Noise and electromagnetic fields; (v) A supplier's sustainability programme; (vi) Awareness and training campaigns. Furthermore, it should be stressed that the management models are subjected to periodic audits, both internal and external, and a continuous assessment of any impacts and improvements to be implemented is also carried out.</p>
	Talent retention	<p>PT's capacity to obtain and retain talent is a fundamental vector for the pursuance of the Company's strategic goals, particularly within the competitive context where PT operates, both at national and international level. In this way, the Company has paid special attention to the management of this risk, at the charge of the Human Resources Office, which acts:</p> <ul style="list-style-type: none"> • In the recruitment of new employees having the profile and knowledge necessary to ensure the key skills required for the present and future development of PT; • In the identification of key-elements of PT, and then implement retention strategies as appropriate for the segments defined for its management. <p>Additional detail regarding mitigating actions for addressing the talent retention risks is included in the Notes of the Financial Statements of the Annual Report.</p>

In the context of the merger PT and Oi, during 2014, the risks factors will be reviewed and reassess after its conclusion and in line with the transation outcome.

For additional information on internal controls and risk management please refer to the Corporate Governance Report included in this Annual Report.

11



OUTLOOK

CHAIRMAN AND CEO'S MESSAGE	08
01 MACROECONOMIC ENVIRONMENT	13
02 REGULATORY BACKGROUND	29
03 STRATEGIC PROFILE	41
04 RESEARCH AND DEVELOPMENT	53
05 FINANCIAL REVIEW	75
06 BUSINESS PERFORMANCE	85
07 EMPLOYEES	99
08 CAPITAL MARKETS	101
09 MAIN EVENTS	109
10 MAIN RISKS AND UNCERTAINTIES	113
11 OUTLOOK	
12 STATEMENT BY THE PERSONS RESPONSIBLE	125
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129
14 CONSOLIDATED FINANCIAL STATEMENTS	133
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227
16 STATUTORY AUDITOR'S REPORT	231
17 INDEPENDENT AUDITORS' REPORT	235
18 GLOSSARY	239
19 BOARD OF DIRECTORS	243
20 KEY FIGURES	245
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249

11

OUTLOOK

PT will continue to be a growth-oriented company, aiming at exploring the full potential of its portfolio of assets, by taking advantage of existing and future opportunities in the telecommunications, multimedia, cloud and IT services. PT aims to continue to leverage convergence opportunities, following the launch of its quadruple-play offer in January 2013, by bundling traditional voice and data services with new and sophisticated multimedia and IT services, leveraging on PT's investment in advanced networks, namely FTTH and 4G-LTE, and in cloud solutions. In 2013, PT and Oi announced the merger of their operations. This merger is the natural fulfilment of the industrial alliance established in 2010 between PT and Oi and will consolidate the position of both companies as the leading operator for Portuguese-speaking countries with leadership positions in all markets where it operates. The combined company will aim to achieve significant economies of scale, maximise operational synergies and add value for its shareholders, customers and employees.

Following the restructuring of its Portuguese businesses along customer segments, PT will continue to focus its efforts on the development of fixed-mobile, IT-telecoms, cloud and multimedia convergent products and services and integrated offers aimed at acquiring new customers, improving customer loyalty and, ultimately, increasing market share and share of wallet. In the consumer segment, PT will maintain the focus on boosting its quadruple-play offering, already with traction in the market, concluding the transformation of PT's residential service offering from a fixed telephone legacy to a convergent customer base and, on the Personal segment, shifting the focus from pre-paid to post-paid on the Portuguese mobile market. Convergent offers are more competitive and more resilient to adverse economic conditions due to its distinctive and differentiated features customised to meet customer needs. Additionally, in the Personal segment, PT will continue to contribute to increase the penetration of smartphones, to develop new services and tariff plans and to differentiate further its mobile offering, benefiting from its deployment of 4G-LTE and leading the roll-out of advanced mobile networks in the Portuguese market.

In the enterprises segment, PT will continue to provide advanced one-stop-shop IT/IS solutions focusing on BPO and on the marketing of machine-to-machine solutions, on the back of cutting-edge solutions for companies, leveraging on the new PT's Data Centre in Covilhã to meet demand for high bandwidth services and virtualisation. These offers leverage on PT's investment in networks, including FTTH and 4G-LTE, and cloud computing solutions, which allow the offering of cloud-based services in partnership with software and hardware vendors.

Additionally, PT will continue to invest in innovation, research and development aiming at enhancing its services with new, distinctive and customised features, functionalities and content tailored to meet customer needs. PT will continue to leverage on close partnerships with its suppliers in order to reduce time-to-market and further differentiate its value proposition to its customers. PT will continue to invest to develop further new and more effective access and core networks and platforms, in fixed-line as well as in mobile, aimed at offering increased bandwidth to its customers, and in cloud services aimed at taking further advantage of these networks. Furthermore, PT will continue to rationalise its cost structure through productivity increases and business process reengineering.

PT will continue to aim to offer its shareholders a lower risk profile and an improved growth profile. Following the merger of PT and Oi's operations mentioned above, the combined company will operate in strategic markets and benefit from compelling growth prospects in Brazil, such as Brazil's favourable demographics, economic growth perspectives and penetration upside potential of telecom services, and mature operations in Portugal geared for economic recovery. The combined company will enhance the implementation of strategic initiatives already underway, where PT and Oi have been sharing expertise and know-how in areas such as product development, customer care, engineering, operations and IT. Additionally, PT also intends to explore its portfolio in African markets by taking full advantage of its expertise and partnerships. PT will continue to promote the sharing of best practices amongst all of its assets, aiming at ensuring a sustainable

competitive position in all markets and getting benefits of scale in terms of access to technology and innovation.

PT will continue to operate in a highly competitive and regulated environment that will pose continued risks and threats to its existing businesses, placing the profitability of its assets under pressure, including aggressive offers by its main competitors as well as declining roaming prices. PT will also continue to operate in a context of a European economic weakness, although improving at a slow pace, particularly in Portugal, that will continue to be under the adjustment programme negotiated with the Troika of international lenders until the middle of 2014.

PT will continue to contribute to the development of the information society, to promote the info-inclusion of the citizens in all countries where it operates. PT also aims to be a reference in terms of sustainability and will continue to invest in the development of a sustainable business model, embracing policies and developing practices aimed at fully respecting the society and the environment.

12

STATEMENT BY THE PERSONS RESPONSIBLE



CHAIRMAN AND CEO'S MESSAGE	08
01 MACROECONOMIC ENVIRONMENT	13
02 REGULATORY BACKGROUND	29
03 STRATEGIC PROFILE	41
04 RESEARCH AND DEVELOPMENT	53
05 FINANCIAL REVIEW	75
06 BUSINESS PERFORMANCE	85
07 EMPLOYEES	99
08 CAPITAL MARKETS	101
09 MAIN EVENTS	109
10 MAIN RISKS AND UNCERTAINTIES	113
11 OUTLOOK	121
12 STATEMENT BY THE PERSONS RESPONSIBLE	
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129
14 CONSOLIDATED FINANCIAL STATEMENTS	133
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227
16 STATUTORY AUDITOR'S REPORT	231
17 INDEPENDENT AUDITORS' REPORT	235
18 GLOSSARY	239
19 BOARD OF DIRECTORS	243
20 KEY FIGURES	245
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249

12 STATEMENT BY THE PERSONS RESPONSIBLE

For the purposes of subparagraph 1, c) of article 245 of the Portuguese Securities Code, the members of the Board of Directors of Portugal Telecom, SGPS, SA identified hereunder declare, in the capacity and within their functions as described therein, that, to the best of their knowledge and grounded on the information to which they had access within such Board of Directors and/or Executive Committee, as applicable, while in office:

- The management report, the financial statements, the auditor's opinion and the other financial statements and documents required by law or regulation concerning the financial year ended 31 December 2013 were prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of Portugal Telecom, SGPS, SA and the undertakings included in the consolidation taken as a whole;
- The management report concerning such financial year includes a fair review of the development of the business and the performance and position of Portugal Telecom, SGPS, SA and the undertakings included in the consolidation taken as a whole, including an accurate description of the principal risks and uncertainties that they face.

Lisbon, 18 February 2014

Henrique Granadeiro

Chairman of the Board and of Directors and Chief Executive Officer

Alfredo José Silva de Oliveira Baptista

Executive Director

Amílcar Carlos Ferreira de Morais Pires

Non-Executive Director

Carlos Alves Duarte

Executive Director

Fernando Magalhães Portella

Non-Executive Director

Francisco Teixeira Pereira Soares

Non-Executive Director

Gerald Stephen McGowan

Non-Executive Director

João Manuel de Mello Franco

Non-Executive Director

Joaquim Aníbal Brito Freixial de Goes

Non-Executive Director

José Guilherme Xavier de Basto

Non-Executive Director

Luís Pacheco de Melo

Executive Director

Manuel Rosa da Silva

Executive Director

Maria Helena Nazaré

Non-Executive Director

Mário João de Matos Gomes

Non-Executive Director

Milton Almicar Silva Vargas

Non-Executive Director

Nuno Rocha dos Santos de Almeida e Vasconcellos

Non-Executive Director

Otávio Marques de Azevedo

Non-Executive Director

Paulo José Lopes Varela

Non-Executive Director

Pedro Humberto Monteiro Durão Leitão

Executive Director

Rafael Luís Mora Funes

Non-Executive Director

Shakhaf Wine

Executive Director

13

ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS



CHAIRMAN AND CEO'S MESSAGE	08
01 MACROECONOMIC ENVIRONMENT	13
02 REGULATORY BACKGROUND	29
03 STRATEGIC PROFILE	41
04 RESEARCH AND DEVELOPMENT	53
05 FINANCIAL REVIEW	75
06 BUSINESS PERFORMANCE	85
07 EMPLOYEES	99
08 CAPITAL MARKETS	101
09 MAIN EVENTS	109
10 MAIN RISKS AND UNCERTAINTIES	113
11 OUTLOOK	121
12 STATEMENT BY THE PERSONS RESPONSIBLE	125
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	
14 CONSOLIDATED FINANCIAL STATEMENTS	133
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227
16 STATUTORY AUDITOR'S REPORT	231
17 INDEPENDENT AUDITORS' REPORT	235
18 GLOSSARY	239
19 BOARD OF DIRECTORS	243
20 KEY FIGURES	245
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249

13

ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS

According to its charter, PT Board has restated the commitment to provide its Non-Executive members with effective powers to monitor, evaluate and supervise the executive management of the Company.

During 2013, PT's Non-Executive Directors were allowed to carry out their duties effectively and without constraints of any kind. In this context, the following activities are highlighted:

- In addition to the performance of their powers not delegated to the Executive Committee, PT's Non-Executive Directors carried out their duties of supervising the activity of the executive management, under and for the purposes of Article 407, no. 8 of the Portuguese Companies Code and the charter of the Board of Directors. In fact, under those rules, the delegation of powers to the Executive Committee does not preclude the legal duty of general monitoring by the Non-Executive Directors;
- Pursuant to the charter of the Board of Directors, PT's Non-Executive Directors further carried out their supervising duties within the Governance Committee and the Evaluation Committee, whose activities in 2013 are described in section 21 to the Part I of the Company's Corporate Governance Report.
- The effective performance of their functions by PT's Non-Executive Directors was also enhanced by (i) the significant number of independent members within the Board and (ii) the role undertaken by the Senior Independent Director appointed by the Board, Mr. João de Mello Franco, due to the concentration of the Chairman and CEO roles by Mr. Henrique Granadeiro.

In fact, PT's Board includes 7 independent directors corresponding to half of the Non-Executive directors and one third of the Board members, with a relevant presence in the internal Board Committees and an active and assiduous participation in the Board meetings.

Additionally, said concentration of the Chairman / CEO roles has not prejudiced in any way the effective performance of their functions by the Non-Executive Directors, being particularly adequate to the current stage of PT's life, for the following reasons:

- Such concentration of roles in one person is fully in line with the efficient and rigorous performance of functions by Board members in the current period of negotiation and implementation of the envisaged combination of businesses by Portugal Telecom and Oi;
- The actual governance model maintains the segregation of powers between the Board and the Executive Committee, in particular through the role of the Non-Executive Director appointed by the Board as Senior Independent Director, to conduct the following functions under the Board charter:
 - Monitoring and consulting the Executive Committee on the performance of the its delegated powers;
 - Contributing to the effective performance of their functions and powers by the Non-Executive Directors and by the specialised committees of the Board, as well as ensuring the mechanisms required for the latter to receive in due time the information they deem adequate to an informed and independent decision taking;
 - Chairing the Evaluation Committee;
 - Coordinating ad hoc meetings amongst Non-Executive Directors.

- In 2013, PT Board kept in place various practices and mechanisms aiming at facilitating the informed and independent decision making by Non-Executive Directors, including inter alia the following:
 - The Executive Committee providing detailed presentations during the meetings of the Board of Directors, regarding relevant issues concerning the activity developed, granting the Non-Executive any additional information requested and promoting a productive debate regarding the activity of the Company (particularly in what regards to strategic decisions);
 - The Non-Executive Directors gathering, jointly or separately, the information necessary or convenient to the exercise of their duties, allowing for an adequate and timely answer to be given;
 - Without prejudice to cases of acknowledged urgency, the meetings of the Board of Directors are convened with a minimum prior notice of five days and the agenda and supporting documentation of the meeting is made available at least three days in advance;
 - The Non-Executive Directors frequently attending the meetings of the Board of Directors, which were held in a significant number (15 meetings during 2013), as well as informal meetings and presentations with Non-Executive Directors intended to clarify and debate specific issues concerning the financial information and the business of the Company.

In addition to these activities, it is important to note that, having the Company opted for the Anglo-Saxon corporate governance model, its supervisory body is an Audit Committee comprised exclusively of Non-Executive Directors which, in the performance of their legal and regulatory duties, as well as those laid down in the articles of association, as described in the Company's Corporate Governance Report, presents the result of its activities in autonomous reports and opinions, including the report of supervisory activity and the opinions on the individual and consolidated annual reports, to be issued each year.

14

CONSOLIDATED FINANCIAL STATEMENTS



CHAIRMAN AND CEO'S MESSAGE	08		
01 MACROECONOMIC ENVIRONMENT	13		
02 REGULATORY BACKGROUND	29		
03 STRATEGIC PROFILE	41		
04 RESEARCH AND DEVELOPMENT	53		
05 FINANCIAL REVIEW	75		
06 BUSINESS PERFORMANCE	85		
07 EMPLOYEES	99		
08 CAPITAL MARKETS	101		
09 MAIN EVENTS	109		
10 MAIN RISKS AND UNCERTAINTIES	113		
11 OUTLOOK	121		
12 STATEMENT BY THE PERSONS RESPONSIBLE	125		
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129		
14 CONSOLIDATED FINANCIAL STATEMENTS			
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227		
16 STATUTORY AUDITOR'S REPORT	231		
17 INDEPENDENT AUDITORS' REPORT	235		
18 GLOSSARY	239		
19 BOARD OF DIRECTORS	243		
20 KEY FIGURES	245		
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249		
		INCOME	134
		COMPREHENSIVE INCOME	135
		FINANCIAL POSITION	136
		CHANGES IN EQUITY	137
		CASH-FLOWS	138
		NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	139
		EXHIBITS	224

14 CONSOLIDATED FINANCIAL STATEMENTS

Portugal Telecom, SGPS, SA

CONSOLIDATED INCOME STATEMENT

Years ended 31 December 2013 and 2012

(Euro)

	Notes	2013	2012 Restated (Note 4)
REVENUES			
Services rendered	6	2,736,475,000	2,897,903,518
Sales	6	131,116,168	140,535,973
Other revenues	6	43,591,728	40,520,473
	6	2,911,182,896	3,078,959,964
COSTS, LOSSES AND (INCOME)			
Wages and salaries	8	399,282,587	413,625,772
Direct costs	9	458,795,641	457,394,347
Costs of products sold	10	134,801,746	138,098,682
Marketing and publicity		68,487,812	72,162,740
Supplies, external services and other expenses	11	619,296,236	640,593,782
Indirect taxes	13	42,304,690	43,762,487
Provisions and adjustments	42	25,828,265	23,267,253
Depreciation and amortisation	36 and 37	726,275,626	765,258,046
Post retirement benefits costs	14	40,462,686	57,540,318
Curtailement costs	14	127,052,643	2,366,806
Gains on disposal of fixed assets, net	37	(3,356,327)	(3,467,847)
Net other gains	15	(73,441,554)	(23,419,701)
		2,565,790,051	2,587,182,685
Income before financial results and taxes		345,392,845	491,777,279
FINANCIAL LOSSES AND (GAINS)			
Net interest expenses	16	257,423,261	213,014,581
Net foreign currency exchange losses	17	21,919,104	1,841,496
Net losses on financial assets and other investments	18	2,014,467	3,921,932
Equity in losses of joint ventures	30	2,185,679	3,011,998
Equity in earnings of associated companies, net	33	(442,783,587)	(210,273,584)
Net other financial expenses	19	54,635,427	44,565,085
		(104,605,649)	56,081,508
Income before taxes		449,998,494	435,695,771
Income taxes	20	62,021,888	125,608,091
NET INCOME		387,976,606	310,087,680
Attributable to non-controlling interests	21	56,995,651	84,283,899
Attributable to equity holders of the parent	23	330,980,955	225,803,781
Earnings per share			
Basic	23	0.39	0.26
Diluted	23	0.39	0.26

The accompanying notes form an integral part of these financial statements.

Portugal Telecom, SGPS, SA

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Years ended 31 December 2013 and 2012

(Euro)

	Notes	2013	2012 Restated (Note4)
Income recognised in the income statement		387,976,606	310,087,680
Income (expenses) recognised directly in shareholders' equity			
Items that may be reclassified subsequently to the income statement			
Foreign currency translation adjustments			
Translation of foreign investments (i)		(630,656,625)	(385,130,195)
Transfers to income statement (ii)		3,129,234	-
Hedge accounting of financial instruments			
Change in fair value	45	2,539,935	102,225
Transfers to income statement	45	-	4,038,000
Tax effect	20	507,925	(1,035,056)
Share in other comprehensive income of joint ventures (iii)		(9,908,933)	13,661,159
Items that will not be reclassified to the income statement			
Post retirement benefits			
Net actuarial losses	14	(139,474,542)	(45,933,886)
Tax effect (iv)	20	21,431,258	11,492,585
Share in other comprehensive income of joint ventures (iii)		4,884,395	(6,317,483)
Other expenses recognised directly in shareholders' equity, net		(26,348,144)	(32,571,125)
Total income (expenses) recognised directly in shareholders' equity		(773,895,497)	(441,693,776)
Reserves recognised directly in shareholders' equity			
Change in the deferred tax liability related to the revaluation of assets (v)	20	12,879,404	-
Total earnings (losses) and reserves recognised directly in shareholders' equity		(761,016,093)	(441,693,776)
Total comprehensive income (loss)		(373,039,487)	(131,606,096)
Attributable to non-controlling interests		25,599,439	70,614,464
Attributable to equity holders of the parent		(398,638,926)	(202,220,560)

(i) Losses recorded in the years ended 31 December 2013 and 2012 relate mainly to the impact of the depreciation of the Brazilian Real against the Euro on Portugal Telecom's investments in Oi and Contax. | (ii) In 2013, this caption corresponds to the cumulative amount of foreign currency translation adjustments relating to the investment in CTM that was reclassified to income statement (Note 32.a) upon the completion of the disposal of this investment in June 2013. | (iii) Share in other comprehensive income of joint ventures include primarily foreign currency translation adjustments related to Contax's foreign operations, hedge effects from Oi's financial instruments and net actuarial gains (losses) from Oi's defined benefit pension plans. | (iv) This caption corresponds to the tax effect on net actuarial gains (losses) recorded in each year and in 2013 also includes the impact of the remeasurement of related deferred tax assets resulting from the change in the applicable tax rate, which amounted to Euro 21 million. | (v) In 2013, this caption corresponds to the impact resulting from a reduction on the applicable tax rate on the deferred tax liabilities related to revaluation reserves.

The accompanying notes form an integral part of these financial statements.

14 CONSOLIDATED FINANCIAL STATEMENTS

Portugal Telecom, SGPS, SA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013 and 2012 and 1 January 2012

(Euro)

	Notes	2013	31 Dec 2012 restated (Note 4)	1 Jan 2012 restated (Note 4)
ASSETS				
Current Assets				
Cash and cash equivalents		1,658,950,514	1,988,797,138	3,642,079,676
Short-term investments	24	914,128,757	625,997,788	462,806,301
Accounts receivable - trade	25	762,936,473	796,790,630	888,800,306
Accounts receivable - other	26	406,451,496	397,056,981	226,727,272
Inventories	27	85,872,948	104,925,533	115,347,376
Taxes receivable	28	70,932,459	71,629,843	87,205,987
Pre-paid expenses	29	65,244,104	62,414,088	39,467,694
Other current assets	31	3,985,415	2,926,270	40,707,903
Non-current assets held for sale	32	4,653,741	51,940,968	-
Total current assets		3,973,155,907	4,102,479,239	5,503,142,515
Non-Current Assets				
Accounts receivable - trade		204,316	380,879	1,225,001
Accounts receivable - other	26	1,080,306	2,432,547	4,290,984
Taxes receivable	28	24,739	59,313	326,239
Investments in joint ventures	30	2,408,246,860	2,980,060,567	3,509,603,960
Investments in associated companies	33	511,316,161	406,817,985	532,530,147
Other investments	34	22,243,652	12,720,059	15,324,110
Goodwill	35	380,616,265	425,675,169	352,990,011
Intangible assets	36	717,703,676	757,526,560	800,718,667
Tangible assets	37	3,438,479,384	3,578,871,446	3,656,108,668
Post retirement benefits	14	1,834,000	1,632,840	1,688,553
Deferred taxes	20	564,894,918	560,400,812	590,489,107
Other non-current assets	31	594,998	-	95,849,636
Total non-current assets		8,047,239,275	8,726,578,177	9,561,145,083
Total assets		12,020,395,182	12,829,057,416	15,064,287,598
LIABILITIES				
Current Liabilities				
Short-term debt	38	1,491,976,460	1,395,699,063	2,690,899,319
Accounts payable	39	568,270,540	659,908,233	882,095,341
Accrued expenses	40	534,656,119	489,532,644	561,381,969
Deferred income	41	246,784,244	266,570,421	236,031,949
Taxes payable	28	80,107,942	81,917,507	74,240,148
Provisions	42	88,789,844	97,209,264	91,664,743
Other current liabilities	43	13,980,981	3,926,327	228,480,987
Total current liabilities		3,024,566,130	2,994,763,459	4,764,794,456
Non-Current Liabilities				
Medium and long-term debt	38	5,879,161,433	5,979,435,957	5,707,953,809
Accounts payable	39	19,470,144	22,085,671	28,052,659
Taxes payable		-	-	3,598,785
Provisions	42	2,271,075	2,996,530	9,853,141
Post retirement benefits	14	960,880,069	835,367,127	913,620,691
Deferred taxes	20	243,824,693	270,391,146	276,706,861
Other non-current liabilities	43	23,406,523	186,760,584	296,834,408
Total non-current liabilities		7,129,013,937	7,297,037,015	7,236,620,354
Total liabilities		10,153,580,067	10,291,800,474	12,001,414,810
SHAREHOLDERS' EQUITY				
Share capital	44	26,895,375	26,895,375	26,895,375
Treasury shares	44	(337,520,916)	(337,520,916)	(326,382,864)
Legal reserve	44	6,773,139	6,773,139	6,773,139
Reserve for treasury shares	44	6,970,320	6,970,320	6,970,320
Revaluation reserve	44	516,587,428	524,724,045	556,543,594
Other reserves and accumulated earnings	44	1,421,614,031	2,076,740,633	2,569,843,252
Equity excluding non-controlling interests		1,641,319,377	2,304,582,596	2,840,642,816
Non-controlling interests	21	225,495,738	232,674,346	222,229,972
Total equity		1,866,815,115	2,537,256,942	3,062,872,788
Total liabilities and shareholders' equity		12,020,395,182	12,829,057,416	15,064,287,598

The accompanying notes form an integral part of these financial statements.

Portugal Telecom, SGPS, SA

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Years ended 31 December 2013 and 2012

(Euro)

	Share capital	Treasury shares	Legal reserve	Reserve for treasury shares	Revaluation reserve	Other reserves and accumulated earnings	Equity excluding non-controlling interests	Non-controlling interests	Total equity
Balance as at 1 January 2012 (restated)	26,895,375	(326,382,864)	6,773,139	6,970,320	556,543,594	2,569,843,252	2,840,642,816	222,229,972	3,062,872,788
Dividends (Notes 22 and 44.5)	-	-	-	-	-	(371,937,439)	(371,937,439)	(47,345,090)	(419,282,529)
Acquisitions, disposals and share capital increases/decreases	-	-	-	-	-	-	-	(12,825,000)	(12,825,000)
Corporate restructuring at Oi (Notes 1 and 44)	-	12,060,381	-	-	-	49,235,831	61,296,212	-	61,296,212
Portugal Telecom's shares held by Oi (Note 44.2)	-	(23,198,433)	-	-	-	-	(23,198,433)	-	(23,198,433)
Realisation of revaluation reserve (Note 44.5)	-	-	-	-	(31,819,549)	31,819,549	-	-	-
Income (expenses) recognised directly in equity	-	-	-	-	-	(428,024,341)	(428,024,341)	(13,669,435)	(441,693,776)
Income recognised in the income statement	-	-	-	-	-	225,803,781	225,803,781	84,283,899	310,087,680
Balance as at 31 December 2012 (restated)	26,895,375	(337,520,916)	6,773,139	6,970,320	524,724,045	2,076,740,633	2,304,582,596	232,674,346	2,537,256,942
Dividends (Notes 22 and 44.5)	-	-	-	-	-	(277,884,293)	(277,884,293)	(31,985,263)	(309,869,556)
Acquisitions, disposals and share capital increases/decreases	-	-	-	-	-	-	-	(792,784)	(792,784)
Corporate restructuring at Contax (Note 1)	-	-	-	-	-	13,260,000	13,260,000	-	13,260,000
Realisation of revaluation reserve (Note 44.5)	-	-	-	-	(21,016,021)	21,016,021	-	-	-
Remeasurement of the deferred tax liability related to the revaluation reserve of assets (Note 20)	-	-	-	-	12,879,404	-	12,879,404	-	12,879,404
Income (expenses) recognised directly in equity	-	-	-	-	-	(742,499,285)	(742,499,285)	(31,396,212)	(773,895,497)
Income recognised in the income statement	-	-	-	-	-	330,980,955	330,980,955	56,995,651	387,976,606
Balance as at 31 December 2013	26,895,375	(337,520,916)	6,773,139	6,970,320	516,587,428	1,421,614,031	1,641,319,377	225,495,738	1,866,815,115

The accompanying notes form an integral part of these financial statements.

14 CONSOLIDATED FINANCIAL STATEMENTS

Portugal Telecom, SGPS, SA

CONSOLIDATED STATEMENT OF CASH-FLOWS

Years ended 31 December 2013 and 2012

(Euro)

	Notes	2013	2012 Restated (Note 4)
OPERATING ACTIVITIES			
Collections from clients		3,317,859,907	3,781,524,619
Payments to suppliers		(1,547,741,993)	(1,792,929,476)
Payments to employees		(448,235,543)	(444,284,849)
Payments relating to income taxes		(61,007,316)	(54,997,207)
Payments relating to post retirement benefits, net	14	(181,646,357)	(187,184,528)
Payments relating to indirect taxes and other	47.a	(225,555,115)	(240,298,575)
Cash-flows from operating activities (1)		853,673,583	1,061,829,984
INVESTING ACTIVITIES			
Cash receipts resulting from:			
Short-term financial applications	47.b	39,451,083	385,487,978
Financial investments	47.c	336,548,455	2,555,061
Tangible and intangible assets		8,136,535	7,102,778
Interest and related income	47.d	143,376,851	150,709,606
Dividends	47.e	115,956,229	265,217,545
Other investing activities		156,025	5,185,392
		643,625,178	816,258,360
Payments resulting from:			
Short-term financial applications	47.b	(356,112,504)	(546,672,629)
Financial investments		(10,660,527)	(1,640,383)
Tangible and intangible assets		(624,451,539)	(841,286,639)
Other investing activities		(16,520,760)	(1,658,574)
		(1,007,745,330)	(1,391,258,225)
Cash-flows from investing activities (2)		(364,120,152)	(574,999,865)
FINANCING ACTIVITIES			
Cash receipts resulting from:			
Loans obtained		1,458,330,206	4,706,666,429
Subsidies	47.f	1,671,740	4,478,027
Other financing activities		27,922	-
		1,460,029,868	4,711,144,456
Payments resulting from:			
Loans repaid	47.f	(1,498,930,243)	(5,755,368,526)
Interest and related expenses	47.d	(409,619,877)	(451,477,856)
Dividends	47.g	(316,148,213)	(604,124,170)
Other financing activities		-	(13,070,493)
		(2,224,698,333)	(6,824,041,045)
Cash-flows from financing activities (3)		(764,668,465)	(2,112,896,589)
Cash and cash equivalents at the beginning of the period		1,988,797,138	3,642,079,676
Change in cash and cash equivalents (4)=(1)+(2)+(3)		(275,115,034)	(1,626,066,470)
Effect of exchange differences		(54,731,590)	(27,216,068)
Cash and cash equivalents at the end of the period	47.h	1,658,950,514	1,988,797,138

The accompanying notes form an integral part of these financial statements.

Portugal Telecom, SGPS, SA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2013

(Amounts expressed in Euro, except where otherwise stated)

1. INTRODUCTION

a) Parent company

Portugal Telecom, SGPS, SA (Portugal Telecom) and its subsidiaries (Group, Portugal Telecom Group, or the Company) are engaged in rendering a comprehensive range of telecommunications and multimedia services in Portugal, Brazil and other countries in Africa and Asia.

Portugal Telecom was incorporated on 23 June 1994, under Decree-Law 122/94, as a result of the merger, effective 1 January 1994, of Telecom Portugal, SA, Telefones de Lisboa e Porto (TLP), SA (TLP) and Teledifusora de Portugal, SA (TDP). As a result of the privatisation process occurred between 1 June 1995 and 4 December 2000, Portugal Telecom's share capital is mainly owned by private shareholders. On 12 December 2000, Portugal Telecom, SA changed its name to Portugal Telecom, SGPS, SA, and became the holding company of the Group.

The shares and ADR's of Portugal Telecom are traded on the Euronext Stock Exchange and on the New York Stock Exchange, respectively.

b) Corporate purpose

Portugal

In Portugal, fixed line services are rendered by PT Comunicações, SA (PT Comunicações) under the provisions of the Concession Contract entered into with the Portuguese State on 20 March 1995, in accordance with Decree-Law 40/95, for an initial period of thirty years, subject to renewal for subsequent periods of fifteen years. On 11 December 2002, according to the terms of the Modifying Agreement to the Concession Contract, PT Comunicações acquired the property of the Basic Network of Telecommunications and Telex (Basic Network). PT Comunicações also renders pay-TV services, through IPTV, FTTH and DTH platforms, internet Service Provider (ISP) services to residential and small and medium size companies, as well as data transmission services and is also an ISP for large clients.

Mobile services in Portugal are rendered by Meo - Serviços de Comunicações e Multimédia, SA (MEO, SA, formerly TMN - Telecomunicações Móveis Nacionais, SA), under a GSM license granted by the Portuguese State in 1992 for an initial period of 15 years, which was renewed in 2007 until 16 March 2022, and a UMTS license obtained on 19 December 2000 for an initial period of 15 years, renewable for an additional period of another 15 years. In December 2011, Meo, SA acquired a fourth generation mobile license (4G license), under which it provides services as from 2012 through the Long Term Evolution (LTE) technology, which represents an evolution from the GSM technology that allows for higher levels of bandwidth and speed. This license has an initial period of 15 years, renewable for an additional period of another 15 years.

In January 2013, Portugal Telecom launched the first quadruple-play offer, through the brand name M₄O, representing a fixed-mobile convergent service, including television, internet, and fixed and mobile telephone services

14 CONSOLIDATED FINANCIAL STATEMENTS

Brazil

In Brazil, since March 2011, Portugal Telecom renders telecommunication services through Oi, SA and subsidiaries (the Oi Group) and renders corporate and call centre services through Contax, SA (Contax) and its subsidiaries.

Oi Group is the leading provider of telecommunication services in the Brazilian market and the largest fixed telecommunications operator in South America in terms of the number of active clients. These services are provided through the following subsidiaries:

- Oi, SA (formerly Brasil Telecom) renders fixed telecommunication services in Region II of Brazil;
- Telemar Norte Leste (100% owned by Oi, SA) renders fixed telecommunication services in Region I of Brazil; TNL PCS, SA (100% owned by Telemar Norte Leste) renders mobile telecommunication services in Regions I and III of Brazil;
- 14 Brasil Telecom Celular, SA (100% owned by Oi, SA) renders mobile telecommunication services in Region II of Brazil;
- Several other holding and support companies render network services, data traffic services, financial services, services related to payment and credit systems and call centre and telemarketing services.

In March 2011, Portugal Telecom acquired a direct and indirect 25.3% interest in Telemar Norte Leste (Telemar) for a total cash consideration of Brazilian Real 8,256 million, equivalent to Euro 3,647 million, through: (1) the subscription of share capital increases undertaken, on 28 March 2011, by Telemar Participações, SA (Telemar Participações), the current controlling shareholder of the Oi Group, Tele Norte Leste Participações, SA (TNL), the controlling shareholders of the Oi group at that time, and Telemar; and (2) the acquisition of 35% direct interest in AG Telecom Participações, SA (AG) and in LF Tel, SA (LF), the two main shareholders of Telemar Participações. This foregoing transaction was completed following the Memorandum of Understanding entered into, on 28 July 2010, by Portugal Telecom, AG and LF, which sets the principles for the development of a strategic partnership between Portugal Telecom and Oi Group.

The purpose of the strategic partnership between Portugal Telecom and 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 customers, maximizing synergies and reducing costs, and seeking to offer constant high quality services to our corporate and individual customers, while creating and adding value for our shareholders.

The strategic partnership envisaged the acquisition by Oi of up to 10% of the outstanding shares of Portugal Telecom. Up to 31 December 2012, Oi acquired 89,651,205 shares of Portugal Telecom, representing 10.0% of the share capital. The Portugal Telecom's shares held by Oi was classified as treasury shares in the accompanying Consolidated Statement of Financial Position and amounted to Euro 159 million as at 31 December 2013 and 2012 (Note 44.2).

The terms of the shareholders' agreements entered into by Portugal Telecom, AG and LF contain mechanisms designed to produce unanimous voting by these parties in meetings of the board of directors of Telemar Participações on strategic financial and operating decisions relating to the activity of the Oi Group. Therefore, in accordance with the provisions of IFRS 11 "Joint Arrangements" (IFRS 11), the Company concluded that it contractually shares the control of Telemar Participações and that therefore this company is a joint venture. As a result, following the early adoption of IFRS 11 (Note 4), which requires joint ventures to be accounted for by the equity method, Portugal Telecom applied this equity method of accounting to recognise in the consolidated financial statements its investment in Telemar Participações, and accordingly also applied this method to recognise its investments held directly in the Oi Group and in AG and LF. The transition provisions of IFRS 11 require retrospective application of this standard, which resulted in the restatement of Portugal Telecom's financial statements for the year 2012, as explained in Note 4.

Contax is one of the leading corporate services company and the leader in contact centre services in Brazil. On 28 March 2011, Portugal Telecom concluded the acquisition of a direct 16.2% interest in CTX Participações SA (CTX) for a consideration of Brazilian Real 181 million, equivalent to Euro 80 million. As a result of this acquisition, Portugal Telecom acquired a direct (16.2%) and indirect interest (25.8% via AG and LF) of 42.0% in CTX and an indirect 14.1% interest in Contax, which is controlled by CTX. Considering the corporate governance rights attributed to Portugal Telecom under the shareholders agreements entered into by the Company, CTX is a joint venture under the provisions of IFRS 11.

The final step of the acquisition of Contax consisted of the acquisition of Dedic/GPTI (Portugal Telecom's Business Process Outsourcing provider) by Contax, which was completed on 1 July 2011, as the Board of Directors and the Shareholders' Meetings of Dedic, CTX and Contax approved the transactions required for the completion of this operation. As a result of these acquisitions, 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, and Dedic/GPTI became a wholly owned subsidiary of Contax and, as such, was no longer fully consolidated but instead accounted for by the equity method as from 1 July 2011, together with Contax.

Following the early adoption of IFRS 11 (Note 4), Portugal Telecom applied the equity method of accounting for the recognition of its investments in CTX and in Contax, an operating company controlled by CTX. As mentioned previously, IFRS 11 require retrospective application, which resulted in the restatement of Portugal Telecom's financial statements for the year 2012 (Note 4).

In April 2011, moving ahead with its internationalisation strategy, Contax completed the acquisition of 100% of Allus Global BPO Center (Allus) for an amount of Brazilian Real 245 million. Consequently, the results of Contax, which are accounted for the equity method in Portugal Telecom's Income Statement as from 1 April 2011, include the results of Allus as from 1 May 2011. Allus is one of the largest contact centre service providers in Latin America, with operations in Argentina, Colombia and Peru and has commercial activities in the United States and Spain. With this acquisition, Contax took an important step towards becoming one of the most complete global BPO (Business Process Outsourcing) providers, dedicated to support its clients throughout their entire customer relationship chain.

On 27 February 2012, the general meetings of TNL, Telemar, Coari Participações (Coari) and Brasil Telecom SA (Brasil Telecom) approved a corporate reorganisation of the Oi Group (the Corporate Reorganisation), following which the previous corporate structure composed of TNL and Telemar, Coari as holding companies and Brasil Telecom was integrated in Brasil Telecom, which was renamed Oi SA and remained the only listed company of the group in Brazilian and US capital markets. This Corporate Reorganisation consisted of:

- The share exchange of newly issued shares of Coari for currently outstanding shares issued by Telemar, resulting in Telemar becoming a wholly-owned subsidiary of Coari;
- The merger of Coari into Brasil Telecom, with Coari ceasing to exist and Telemar becoming a wholly-owned subsidiary of Brasil Telecom;
- The merger of TNL into Brasil Telecom, with TNL ceasing to exist;
- The distribution of redeemable shares of Brasil Telecom exclusively to shareholders of Brasil Telecom prior to the merger, with cash redemption of such shares to be made immediately after their issuance for an amount of Brazilian Real 1,502 million, which was reflected in the computation of the exchange ratios considered in the mergers mentioned above. Taking into consideration the commitment underlying these transactions, Brasil Telecom recognised in 2011 this amount payable to its shareholders, including Brazilian Real 740 million payable to its former controlling shareholder Coari Participações (49.3%), which was wholly owned by Telemar, and Brazilian Real 762 million payable to the former non-controlling interests.

On 9 April 2012, in connection with the Corporate Reorganisation explained above, Oi SA paid a total consideration of Brazilian Real 2,000 million related to the exercise of withdrawal rights by shareholders that required it. Also on 9 April 2012, in relation to the above mentioned distribution of redeemable shares of Brasil Telecom, Oi, paid to its former non-controlling shareholders prior to the mergers a total amount of Brazilian Real 762 million.

Following the completion of the Corporate Reorganisation, Portugal Telecom's economic interest in Oi was held through: (1) a 17.70% interest held by Telemar Participações, which remained the controlling shareholder of the Oi Group, with 56.43% of the voting rights of Oi; (2) a 15.54% interest held by Portugal Telecom, through its wholly-owned subsidiary Bratel Brasil; and (3) 4.54% interests held by AG and by LF. Accordingly, the new economic interest held by Portugal Telecom in the Oi Group, which currently includes 100% of Telemar and Brasil Telecom and prior to the reorganisation included 100% of Telemar and 49.3% of Brasil Telecom, decreased from the 25.31% direct and indirect interest previously held in Telemar to a 23.25% direct and indirect interest in Oi, following the completion of the Corporate Reorganisation. As a result of this transaction, there was no change in

14 CONSOLIDATED FINANCIAL STATEMENTS

Portugal Telecom's interest in Telemar Participações (25.62%), which therefore remained a joint venture, accounted for by the equity method, as referred to above.

In connection with the Corporate Reorganisation mentioned above, Portugal Telecom recorded a gain directly in shareholders' equity (before non-controlling interests) amounting to Euro 61 million, which reflects (1) a gain of Euro 252 million corresponding to the reduction of the carrying value of non-controlling interests, primarily explained by a higher difference between the fair value and the carrying value of Telemar, as compared to that same difference applicable to Brasil Telecom, and (2) a loss of Euro 191 million corresponding to the amount of Brazilian Real 2.0 billion paid by Oi regarding the exercise of withdrawal rights (Euro 211 million), net of the corresponding effect on non-controlling interests (Euro 19 million). This net gain of Euro 61,296,212 includes an amount of Euro 12,060,381 recognised under the caption "Treasury shares" (Note 44.2) and an amount of Euro 49,235,831 recognised under the caption "Other reserves and accumulated earnings" (Note 44.5). Since this restructuring did not involve the acquisition or loss of control of any of the companies involved in the restructuring process, as Telemar Participações remained the controlling shareholder and Portugal Telecom maintained its joint control 25.62% interest over the Oi Group, this transaction was accounted for as an equity transaction, with the reduction of non-controlling interests at Oi being recorded as a gain directly in equity.

On 2 April 2013, Contax concluded a corporate reorganisation in connection with its migration to Level 2 Corporate Governance of the São Paulo Stock Exchange. Level 2 is a listing segment for the trading of shares issued by companies that voluntarily adopt specified corporate governance practices and commit to additional information disclosure beyond the minimum levels required by Brazilian law. Under this corporate reorganisation, CTX shareholders, including Portugal Telecom, received a premium in shares of 25% of common shares held at the transaction's date, and Contax absorbed CTX's total indebtedness. Portugal Telecom increased its economic interest in Contax from 19.5% to 21.1% as a result of this reorganisation. As this restructuring resulted only in an exchange of interests between controlling and non-controlling shareholders in Contax's consolidated financial statements, and as this transaction did not change Portugal Telecom's interest in CTX Participações (44.4%), the gain resulting from this transaction amounting to Euro 13,260,000, was recognised directly in shareholders' equity.

On 1 October 2013, Portugal Telecom, Oi , AG, LF, Bratel Brasil, Pasa Participações SA (Pasa), EDSP 75 Participações SA (EDSP75) (which together with Telemar Participações are defined as Oi Holding Companies), Banco Espírito Santo (BES) and Nivalis Holding B.V. (Ongoing) signed a memorandum of understanding setting out the basis for a proposed merger of PT, Oi and the Oi Holding Companies into a single Brazilian incorporated listed entity (CorpCo). The merger is a natural fulfilment of the industrial alliance established in 2010 creating a leading telecoms operator. In accordance with the referred memorandum of understanding, this corporate restructuring will consist of the following steps:

- Oi proposes to undertake a cash capital increase of a minimum of Brazilian Real 7.0 billion (Euro 2.3 billion), and with a target of Brazilian Real 8.0 billion (Euro 2.7 billion) to improve the balance sheet flexibility of CorpCo; the shareholders of Telemar Participações and an investment vehicle managed by Banco BTG Pactual SA (BTG Pactual) will subscribe approximately Brazilian Real 2.0 billion (Euro 0.7 billion) of the cash capital increase;
- Subject to the above mentioned cash capital increase, Portugal Telecom will subscribe a capital increase in kind of approximately Brazilian Real 6.1 billion (Euro 2.0 billion) fully subscribed with the contribution of all the shares directly or indirectly held by Portugal Telecom in companies that hold (i) all of its operating assets, excluding those directly or indirectly held in Oi and Contax, and (ii) the respective liabilities as of the date of contribution; these net assets will be subject to a valuation by an independent appraiser, whose report shall be submitted to Oi's Shareholders Extraordinary Meeting;
- Portugal Telecom will subscribe Brazilian Real 4.8 billion of debentures convertible into shares of AG and LF, the proceeds of which AG and LF shall use to repay its indebtedness and to subscribe convertible debentures to be issued by Telemar Participações, which in turn will also use those proceeds to repay its own indebtedness;
- Exchange of Portugal Telecom's interests in CTX and Contax for shares of AG and LF, which at that time will have only shares of Oi and Telemar Participações;

- Mergers of Bratel Brasil (Portugal Telecom's subsidiary that holds the investment in Oi), AG and LF into Telemar Participações;
- Incorporation of Oi shares into Telemar Participações, so that Oi becomes a fully owned subsidiary of Telemar Participações;
- Merger of Portugal Telecom into Telemar Participações, with Telemar Participações to be the surviving company; at the time of the merger, Portugal Telecom is expected to have no material assets or liabilities other than the investment in Oi.

Africa

In Africa, the Group renders fixed, mobile and other telecommunications related services essentially through Africatel Holding BV (Africatel). The Group provides services in Angola, mainly through its associated company Unitel, and in Namibia, Mozambique, Cape Verde and São Tomé, among other countries, primarily through its subsidiaries Mobile Telecommunications Limited (MTC), LTM – Listas Telefónicas de Moçambique (LTM), Cabo Verde Telecom (CVT) and CST – Companhia Santomense de Telecomunicações, SARL (CST).

Asia

In Asia, the Group renders fixed, mobile and other telecommunications related services essentially through Timor Telecom, SA.

On 20 June 2013, following the preliminary agreement reached in January 2013, Portugal Telecom concluded the sale of its 28% stake in Companhia de Telecomunicações de Macau, S.A.R.L. (CTM), to CITIC Telecom International Holdings Limited (CITIC Telecom), for a total amount of USD 443.0 million, equivalent to approximately Euro 335.7 million (Note 32.a). CITIC Telecom and Portugal Telecom also entered into a strategic alliance agreement for capitalizing on their respective expertise in certain areas of collaboration in the telecom sector and in the identification of ICT investment opportunities in order to create value for their respective shareholders. Pursuant to this strategic alliance agreement, CITIC Telecom will select Portugal Telecom as the CITIC Telecom Group's strategic ICT service provider.

2. BASIS OF PRESENTATION

The consolidated financial statements for the year ended 31 December 2013 were approved by the Board of Directors and authorised for issue on 18 February 2014.

The consolidated financial statements are presented in euros, which is the functional currency of Portugal Telecom and of a significant part of the Group's operations. Financial statements of foreign subsidiaries are translated to euros according to the accounting principles described in Note 3.q.

The consolidated financial statements of Portugal Telecom have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and include all interpretations of the International Financial Reporting Interpretation Committee (IFRIC) as at 31 December 2013, approved by the EU. No differences have been identified between IFRS as adopted by the EU and applied by Portugal Telecom as at 31 December 2013 and IFRS as adopted by the International Accounting Standards Board and in force as at the same date.

The consolidated financial statements have been prepared assuming the continuity of operations.

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and of revenues and expenses during the reported periods (Note 3).

a) Consolidation principles

Controlled entities (Exhibit I)

Portugal Telecom has fully consolidated the financial statements of all controlled entities. Control is achieved whenever the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In any case, where the Group does not have the majority of the voting rights but in substance controls the entity, the financial statements of the entity are fully consolidated.

The interest of any third party in the equity and net income of fully consolidated companies is presented separately in the Consolidated Statement of Financial Position and in the Consolidated Income Statement, under the caption "Non-controlling interests" (Note 21).

Assets, liabilities and contingent liabilities of an acquired subsidiary are measured at fair value at the acquisition date. Any excess of the acquisition cost over the fair value of identifiable net assets is recognised as goodwill. If the acquisition cost is lower than the fair value of identifiable net assets acquired, the difference is recognised as a gain in the net income for the period. Non-controlling interests are presented proportionally to the fair value of identifiable net assets.

The results of subsidiaries acquired or sold during the period are included in the Consolidated Income Statement as from the effective date of the acquisition or up to the effective date of disposal.

All intra-group transactions and balances are eliminated in the consolidation process. Gains obtained in intra-group transactions are also eliminated in the consolidation process.

When necessary, adjustments are made to the financial statements of subsidiaries to adjust their accounting policies in line with those adopted by the Group.

Interests in joint ventures

Financial investments are classified as joint ventures if the respective shareholders and other agreements clearly demonstrate the existence of joint control. As required by IFRS 11, interests in joint ventures are accounted for by the equity method.

Assets, liabilities and contingent liabilities of a joint venture resulting from the acquisition of investments in other companies are measured at fair value at the acquisition date. Any excess of the acquisition cost over the fair value of identifiable net assets is included in the carrying amount of the investment.

Where necessary, adjustments are made to the financial statements of joint ventures to adjust their accounting policies in line with those adopted by the Group.

Investments in associated companies (Exhibit II)

An associated is an entity over which the Group has significant influence. Significant influence is the power to participate in the decision process regarding financial and operating policies of the entity but not to control or jointly control those policies.

Financial investments in associated companies are accounted for under the equity method adjusted, when applicable, to comply with Portugal Telecom's accounting policies. Under this method, investments in associated companies are carried at cost in the Consolidated Statement of Financial Position, adjusted periodically for the Group's share in the results of the associated company,

recorded under the caption "Equity in earnings of associated companies, net" (Note 33), and for the Group's share in other changes in shareholders' equity of those same associated companies, recorded as gains or losses directly in the Consolidated Statement of Comprehensive Income. In addition, these financial investments are adjusted for any impairment losses that may occur.

Losses in associated companies in excess of the cost of acquisition are not recognised, except where the Group has assumed any commitment to cover those losses.

Dividends attributed by associated companies are recorded as a reduction to the carrying value of financial investments when they are declared.

Goodwill

Goodwill represents the excess of the acquisition cost over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition, in accordance with IFRS 3 "Business Combinations" (IFRS 3). Considering the exception of IFRS 1 "First-Time Adoption of IFRS", the Group used the provisions of IFRS 3 only for acquisitions occurred after 1 January 2004. Goodwill related to acquisitions made up to 1 January 2004 was recorded at the carrying amount of those acquisitions as of that date, and is subject to annual impairment tests thereafter.

Goodwill related to foreign investments is carried at the reporting currency of the investment, being translated to euros at the exchange rate prevailing at the statement of financial position date. Exchange gains or losses are recognised in the Consolidated Statement of Comprehensive Income under the caption "Foreign currency translation adjustments".

Goodwill related to subsidiaries is recognised under the caption "Goodwill" (Note 35) and is not amortised, but tested, at least on an annual basis, for impairment losses, which are recognised in net income in the period they occur, and cannot be reversed in a subsequent period. Goodwill related to joint venture and associated companies are classified together with the related financial investments under the captions "Investments in joint venture" (Note 30) and "Investments in associated companies" (Note 33), respectively. These investments are also tested for impairment losses.

On disposal of a subsidiary, joint venture or associate, the goodwill allocated to that investment is included in the determination of the gain or loss on disposal.

b) Changes in the consolidated Group

Except for the disposal of the equity investment in CTM completed in June 2013 (Note 32.a), there were no other relevant changes in the Group during the years ended 31 December 2013 and 2012.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Significant accounting policies

a) Current classification

Assets to be realised within one year from the date of the Consolidated Statement of Financial Position are classified as current. Liabilities are also classified as current when they are due to be settled, or there is no unconditional right to defer its settlement, for a period of at least twelve months after the date of the Consolidated Statement of Financial Position.

b) Inventories

Inventories are stated at average acquisition cost. Adjustments to the carrying value of inventories are recognised based on technological obsolescence or slow moving.

c) Tangible assets

Portugal Telecom uses the revaluation model to measure real estate properties and ducts infra-structure, since it believes this method better reflects the economic value of those asset classes, given the nature of the assets revalued, which are not subject to technological obsolescence. The increase in tangible assets resulting from the revaluation reserves, which are non-distributable reserves, is being amortised in accordance with the criteria used to amortise the revalued assets. Portugal Telecom has adopted the policy to revise the revalued amount every 3 years, or when indicators of material devaluation occur.

The remaining tangible assets are stated at acquisition cost, net of accumulated depreciation, investment subsidies and accumulated impairment losses, if any. Acquisition cost includes: (1) the amount paid to acquire the asset; (2) direct expenses related to the acquisition process; and (3) the estimated cost of dismantling or removal of the assets (Notes 3.g and 43). Under the exception of IFRS 1, revaluation of tangible assets made prior to 1 January 2004, in accordance with Portuguese legislation applying monetary indices, was not adjusted and was included as the deemed cost of the asset for IFRS purposes.

Tangible assets are depreciated on a straight-line basis from the month they are available for use, during its expected useful life. The amortisation period of tangible assets is monitored annually and adjusted whenever necessary to reflect its economic useful life. The amount of the asset to be depreciated is reduced by any residual estimated value. The depreciation rates used correspond to the following estimated average economic useful lives:

	Years
Buildings and other constructions	3 - 50
Basic equipment:	
Network installations and equipment	7 - 40
Ducts infrastructure	40
Telephones, switchboards and other	3 - 10
Submarine cables	15 - 20
Satellite stations	5 - 7
Other telecommunications equipment	4 - 10
Other basic equipment	4 - 20
Transportation equipment	4 - 8
Tools and dies	4 - 8
Administrative equipment	3 - 10
Other tangible fixed assets	4 - 8

Estimated losses resulting from the replacement of equipments before the end of their economic useful lives are recognised as a deduction to the corresponding asset's carrying value, against results of the period, as well as any impairment of these assets. The cost of recurring maintenance and repairs is charged to net income as incurred. Costs associated with significant renewals and betterments are capitalised if any future economic benefits are expected and those benefits can be reliably measured.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the assets, and is recognised in the Consolidated Income Statement under the caption "Gains on disposals of fixed assets, net" when occurred.

d) Intangible assets

Intangible assets are stated at acquisition cost, net of accumulated amortisation and accumulated impairment losses, if any. Intangible assets are recognised only if any future economic benefits are expected and those benefits as well as the cost of the asset can be reliably measured.

Intangible assets include mainly the acquisition of the Basic Network held by PT Comunicações, telecommunications licenses held by MEO, SA, and software licenses.

Intangible assets are amortised on a straight-line basis from the month they are available for use, during the estimated economic useful lives or contractual periods if lower (including additional renewal periods if applicable), as follows:

Property of the Basic Network held by PT Comunicações	Period of the concession (until 2025)
Telecommunications licenses and concessions:	
- UMTS license owned by MEO, SA	Period of the license plus one renewal period (until 2030)
- LTE license owned by MEO, SA	Period of the license plus one renewal period (until 2041)
Satellite capacity rights	Period of the contract (until 2015)
Software licenses	3 - 6
Other intangible assets	3 - 8

The renewal period of the licenses depends basically on the companies meeting certain pre-defined goals or obligations set out in the agreements under which those licenses were initially obtained.

14 CONSOLIDATED FINANCIAL STATEMENTS

e) Real estate investments

Real estate investments, which are included under the caption “Other investments” (Note 34), consist primarily of buildings and land held to earn rentals and/or capital appreciation, and not for use in the normal course of business (exploration, service rendering or sale).

These investments are stated at their acquisition cost plus transaction costs and reduced by accumulated depreciation (straight-line basis) and accumulated impairment losses, if any. Expenditures incurred (maintenance, repairs, insurance and real estate taxes) and any income obtained are recognised in the Consolidated Income Statement of the period.

Real estate investments are depreciated on a straight-line basis, during their expected useful lives (Note 3.c).

f) Impairment of tangible and intangible assets

The Group performs impairment tests for its tangible and intangible assets if any event or change results in an indication of impairment. In case of any such indication, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less cost to sell and the value in use. In assessing fair value less cost to sell, the amount that could be received from an independent entity is considered, reduced by direct costs related to the sale. In assessing the value in use, the estimated future cash-flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the specific risk to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, an impairment loss is recognised immediately in the Consolidated Income Statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in net income.

Tangible assets recognised according to the revaluation model are subject to periodic remeasurement. Any impairment loss of these assets is recorded as a reduction to the revaluation reserve initially recognised under shareholders' equity. Impairment losses in excess of the initial revaluation reserve are recognised in the Consolidated Income Statement.

g) Provisions, liabilities and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where any of the above mentioned criteria does not exist, or is not accomplished, the Group discloses the event as a contingent liability, unless the cash outflow is remote.

Provisions for restructuring are only recognised if a detailed and formal plan exists and if the plan is communicated to the related parties.

Provisions are updated on the date of the Consolidated Statement of Financial Position, considering the best estimate of the Group's management.

Obligations for dismantling and removal costs are recognised from the month the assets are in use and if a reliable estimate of the obligation is possible (Notes 3.c and 43). The amount of the obligation is discounted, being the corresponding effect of time value recognised in net income, under the caption "Net interest expense".

h) Pension supplement benefits

Under several defined benefit plans, PT Comunicações and PT Sistemas de Informação, SA (PT SI) are responsible to pay pension supplements to a group of employees. In order to finance these obligations, various funds were incorporated by PT Comunicações (Note 14.1.1).

The amount of the Group's liabilities with the defined benefit plans described above is estimated based on actuarial valuations, using the "Projected Unit Credit Method". The Group recognises actuarial gains and losses directly in the Consolidated Statement of Comprehensive Income, namely those resulting from changes in actuarial assumptions and from differences between actual data and actuarial assumptions.

Plan amendments related to reduction of the benefits granted to employees are recognised immediately in earnings when they occur as prior years' service gains or losses, under the caption "Post retirement benefits". Gains arising from the settlement of any plan are recognised when incurred under the caption "Curtailement costs".

Liabilities recognised in the Consolidated Statement of Financial Position represents the difference between the Projected Benefit Obligation (PBO) and the fair value of plan assets.

For the plans that report an actuarial surplus, assets are recorded when there is an express authorisation for offsetting them against future employer contributions, or if a reimbursement of the excess finance is expressly authorised or permitted.

Contributions made under defined contribution pension plans are recognised in net income when incurred. Under these plans, in the event the fund lacks sufficient assets to pay all employees the benefits related to the services provided in the current and prior years, the sponsor does not have the legal or constructive obligation of making additional contributions.

i) Post retirement healthcare benefits

Under a defined benefit plan, PT Comunicações and PT SI are responsible to pay, after the retirement date, healthcare expenses to a group of employees and its relatives. This healthcare plan is managed by Portugal Telecom – Associação de Cuidados de Saúde (PT-ACS). In 2004, the Group established PT Prestações – Mandatária de Aquisições e Gestão de Bens, SA (PT Prestações) to manage an autonomous fund to finance these obligations (Note 14.1.2).

The amount of the Group's liabilities with respect to these benefits after retirement date is estimated based on actuarial valuations, using the "Projected Unit Credit Method". The Group recognises actuarial gains and losses in the Consolidated Statement of Comprehensive Income, namely those resulting from changes in actuarial assumptions and from differences between actual data and actuarial assumptions.

Plan amendments related to reduction of the benefits granted to employees are recognised immediately in earning when they occur as prior years' service gains or losses, under the caption "Post retirement benefits". Gains arising from the settlement of any plan are recognised when incurred under the caption "Curtailement costs".

14 CONSOLIDATED FINANCIAL STATEMENTS

Accrued post retirement healthcare liabilities stated in the Consolidated Statement of Financial Position correspond to the present value of obligations from defined benefit plans, reduced by the fair value of fund assets.

For the plans that report an actuarial surplus, assets are recorded when there is an express authorisation for offsetting them against future employer contributions, or if a reimbursement of the excess finance is expressly authorised or permitted.

j) Pre-retired and suspended employees

In connection with the programmes related to employees that are under a suspended contract agreement or that have been pre-retired, the Group recognises a liability in the Consolidated Statement of Financial Position equivalent to the present value of salaries payable up to the retirement age. The correspondent cost is recorded in the Consolidated Income Statement under the caption "Curtailement costs" (Note 14.1.3).

k) Grants and subsidies

Grants and subsidies from the Portuguese Government and from the European Union are recognised at fair value when the receivable is probable and the Company can comply with all requirements of the subsidy's programme.

Grants and subsidies for training and other operating activities are recognised in net income when the related expenses are recognised. Grants and subsidies to acquire assets are deducted from the carrying amount of the related assets (Note 3.c).

l) Financial assets and liabilities

Financial assets and liabilities are recognised in the Group's Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

i) Receivables (Notes 25 and 26)

Trade receivables, loans granted and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as receivables or loans granted.

Trade receivables do not have any implicit interest and are presented at nominal value, net of allowances for estimated non-recoverable amounts, which are mainly computed based on (a) the aging of the receivables; and (b) the credit profile of specific customers.

ii) Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Group are recognised based on their proceeds, net of any issuance costs.

Exchangeable bonds issued by Portugal Telecom are recognised as compound instruments, comprising the following elements: (i) the present value of the debt, estimated using the prevailing market interest rate for similar non-convertible debt and recorded under debt liabilities; and (ii) the fair value of the embedded option for the holder to convert the bond into equity, recorded directly in shareholders' equity. As of the Consolidated Statement of Financial Position date, the debt component is recognised at amortised cost.

iii) Bank loans (Note 38)

Bank loans are recognised as a liability based on the related proceeds, net of any transaction cost. Interest and other financial costs, which are computed based on the effective interest rate and include the recognition of upfront fees, are recognised when incurred.

iv) Accounts payable (Note 39)

Trade payables are recognised at nominal value, which is substantially similar to their fair value.

v) Derivative financial instruments and hedge accounting (Note 45)

The activities of the Group are primarily exposed to financial risks related to changes in foreign currency exchange rates and changes in interest rates. The Group's policy is to contract derivative financial instruments to hedge those risks, subject to detailed analysis of related economics and Executive Committee approval.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

The provisions and requirements of IAS 39 must be met in order to qualify for hedge accounting. Currently, for accounting purposes, Portugal Telecom classifies certain derivative financial instruments as fair value and cash-flow hedges.

Changes in the fair value of derivative financial instruments classified as fair value hedges are recognised in net income of the period, together with the changes in the value of the covered assets or liabilities related with the hedged risk.

The effective portion of the changes in fair value of derivative financial instruments classified as cash-flow hedges is recognised directly in shareholders' equity, and the ineffective portion is recognised as financial results. When changes in the value of the covered asset or liability are recognised in net income, the corresponding amount of the derivative financial instrument previously recognised under "Hedge accounting" directly in shareholders' equity is transferred to net income.

Changes in fair value of derivative financial instruments that, in accordance with internal policies, were contracted to economically hedge an asset or liability but do not comply with the provisions and requirements of IAS 39 to be accounted for as hedges, are classified as "derivatives held for trading" and recognised in net income.

vi) Treasury shares (Note 44)

Treasury shares are recognised as a deduction to shareholders' equity, under the caption "Treasury shares", at acquisition cost, and gains or losses obtained in the disposal of those shares are recorded under "Accumulated earnings".

Equity swaps on own shares that include an option exercisable by Portugal Telecom for physical settlement are recognised as a financial liability and a corresponding reduction of equity, and are accounted for as an acquisition of treasury shares on the inception date of the contract.

Portugal Telecom's shares acquired by any of its affiliated companies are recognised at acquisition cost as treasury shares based on the Company's interest in the entity that acquired those shares.

vii) Cash and cash equivalents and short term investments (Note 24)

Cash and cash equivalents comprise cash on hand and demand bank deposits, due within three months or less from the date of acquisition, which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents also includes deposits from customers and other entities that have not yet been cleared. In the Consolidated Statement of Cash-flows, cash and cash equivalents also include overdrafts recognised under the caption "Short-term debt", when applicable.

14 CONSOLIDATED FINANCIAL STATEMENTS

Short-term investments comprise investments for the purpose of generating investment returns, and they are therefore not classified as cash equivalents.

viii) Qualified Technological Equipment transactions

In previous years, the Company entered into certain Qualified Technological Equipment transactions (QTE), whereby certain telecommunications equipments were sold to certain entities. Simultaneously, those foreign entities entered into leasing contracts with respect to the equipment with special purpose entities, which entered into conditional sale agreements to resell the related equipment to the Company. The Company maintained the legal possession of these equipments.

These transactions correspond to a sale and lease-back transaction, and the equipment continued to be recorded on the Company's Consolidated Statement of Financial Position. The Company obtained the majority of the economic benefits of these entities and therefore was exposed to the risks resulting from the activities of these special purpose entities. Accordingly, those entities were fully consolidated in the Company's financial statements. Consolidated current and non-current assets include an amount equivalent to the proceeds of the sale of the equipment, and current and non-current liabilities include the future payments under the lease contract.

m) Own work capitalised

Certain internal costs (materials, work force and transportation) incurred to build or produce tangible assets are capitalised only if:

- The tangible assets are identifiable;
- The tangible assets will generate future economic benefits which can be reliably estimated;
- Development expenses can be reliably measured.

The amounts capitalized are deducted from the corresponding operating costs incurred and no internally generated margin is recognised. When any of the above mentioned criteria is not met, the expense is recognised in net income.

Expenses incurred during investigation are recognised in net income when incurred.

n) Leasings (the company as a lessee)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases (Note 12). The classification of leases depends on the substance of the transaction and not on the form of the contract.

Assets acquired under finance leases and the corresponding liability to the lessor are accounted for using the finance method, in accordance with the lease payment plan (Note 38). Interest included in the rents and the depreciation of the assets are recognised in net income in the period they occur.

Under operating leases, rents are recognised on a straight-line basis during the period of the lease (Note 12).

o) Taxation

Income tax expense is recognised in accordance with IAS 12 Income Taxes (IAS 12) and represents the sum of the tax currently payable and deferred tax.

Portugal Telecom has adopted the tax consolidation regime in Portugal (currently known as the special regime for the taxation

of groups of companies). The provision for income taxes is determined on the basis of the estimated taxable income for all the companies in which Portugal Telecom holds at least 90% of the share capital and that are domiciled in Portugal and subject to Corporate Income Tax (IRC). The remaining Group companies not covered by the tax consolidation regime of Portugal Telecom are taxed individually based on their respective taxable income, at the applicable tax rates.

The current tax payable is based on taxable income for the period, and deferred taxes are based on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is reasonably likely that taxable income will be available against which deductible temporary differences can be used, or when there are deferred tax liabilities the reversal of which is expected in the same period in which the deferred tax assets reverse. The carrying amount of deferred tax assets is reviewed at the date of the Consolidated Statement of Financial Position and is reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow for all or part of the asset to be recovered.

Deferred tax is charged to net income, except when it relates to items charged or credited directly to shareholders' equity, in which case the deferred tax is also recognised directly in shareholders' equity. Accordingly, the impact of changes in tax rate is also charged to net income, except when it relates to items charged or credited directly to shareholders' equity, in which case that impact is also recognised directly in shareholders' equity.

p) Revenue recognition

Revenues from fixed line telecommunications are recognised at their gross amounts when services are rendered. Billings for these services are made on a monthly basis throughout the month. Unbilled revenues or revenues not billed by other operators but accrued or incurred as of the date of the financial statements are recorded based on estimates. Differences between accrued amounts and the actual unbilled revenues, which ordinarily are not significant, are recognised in the following period.

Revenues from international telecommunications services are divided with the operators of the transit countries and the operators of the country in which calls are terminated based on traffic records of the country of origin and rates established in agreements with the various telecommunications operators. The operator of the country of origin of the traffic is responsible for crediting the operator of the destination country and, if applicable, the operators of the transit countries.

Revenues from rentals of terminal equipment are recognised as an operating lease in the period to which they apply, under operating revenues.

Revenues from internet Service Providers (ISP) services result essentially from monthly subscription fees. These revenues are recognised when the service is rendered.

Revenues from pay-TV and mobile telephony services result essentially from and are recognised as follows:

Nature of the revenue	Caption	Moment of recognition
Monthly subscription fees for the use of the service	Services rendered	When the service is rendered
Rental of equipment	Services rendered	The period of rental
Use of the network	Services rendered	In the month the service is rendered
Interconnection fees	Services rendered	In the month the service is rendered
Roaming	Services rendered	In the month the service is rendered
Pre-paid cards	Services rendered	When the service is rendered
Wireless broadband	Services rendered	When the service is rendered
Terminal equipment and accessories	Sales	When the sale occurs
Penalties imposed to customers	Other revenues	When received

14 CONSOLIDATED FINANCIAL STATEMENTS

Revenues from bundling services or products are allocated to each of its components based on its fair value and are recognised separately in accordance with the methodology adopted to each component.

The Group operates loyalty programmes for some of its customers, under which, based on certain levels of mobile traffic, these customers receive loyalty points that can be exchanged for equipments, accessories and discounts on subsequent purchases of telecommunications services. Portugal Telecom splits the consideration received in the initial transaction between the revenue related to traffic and the loyalty points earned by the customer, recognising a deferred income measured at fair value for the award credits, taking into consideration the expected points to be redeemed. Deferred income is then recognised as revenue when award credits are redeemed or expire.

q) Foreign currency transactions and balances

Transactions denominated in foreign currencies are translated to euros at the exchange rates prevailing at the time the transactions are made. At the date of the Consolidated Statement of Financial Position, assets and liabilities denominated in foreign currencies are adjusted to reflect the exchange rates prevailing at such date. The resulting gains or losses on foreign exchange transactions are recognised in net income. Exchange differences on non-monetary items, including goodwill, and on monetary items representing an extension of the related investment and where settlement is not expected in the foreseeable future, are recognised directly in shareholders' equity under the caption "Cumulative foreign currency translation adjustments", and included in the Consolidated Statement of Comprehensive Income.

The financial statements of subsidiaries operating in other countries are translated to euros, using the following exchange rates:

- Assets and liabilities at exchange rates prevailing at the date of the Consolidated Statement of Financial Position;
- Profit and loss items at average exchange rates for the reported period;
- Cash-flow items at average exchange rates for the reported period, where these rates approximate the effective exchange rates (and in the remaining cases, at the rate effective on the day the transaction occurred);
- Share capital, reserves and retained earnings at historical exchange rates.

The effect of translation differences is recognised in shareholders' equity under the caption "Cumulative foreign currency translation adjustments" and is included in the Consolidated Statement of Comprehensive Income. In accordance with IAS 21, when a reduction of Portugal Telecom's investment in a foreign entity occurs, through the sale or reimbursement of share capital, the accumulated effect of translation differences is transferred to the Consolidated Income Statement, considering the proportion of the reduction occurred.

The Group adopted the exception under IFRS 1 relating to cumulative translation adjustments as of 1 January 2004 and transferred this amount from "Foreign currency translation adjustments" to "Accumulated earnings". As from 1 January 2004, the Group has been recognising all translation adjustments directly in shareholders' equity and therefore these amounts are transferred to net income only if and when the related investments are disposed off or there is a repayment of the investment made.

r) Borrowing costs

Borrowing costs related to loans are recognised in net income when incurred. The Group does not capitalise any borrowing costs related to loans to finance the acquisition, construction or production of any asset, where the construction period of its tangible and intangible assets is relatively short.

s) Consolidated Statement of Cash-flows

The Consolidated Statement of Cash-flows is prepared under IAS 7, using the direct method. The Group classifies as "Cash and cash equivalents" all highly liquid investments, with original maturity of up to three months and an insignificant risk of change in fair value.

The “Cash and cash equivalents” item presented in the Consolidated Statement of Cash-flows also includes overdrafts, classified in the Consolidated Statement of Financial Position under “Short-term debt”.

Cash-flows are classified in the Consolidated Statement of Cash-flows according to three main categories, depending on their nature: (1) operating activities; (2) investing activities; and (3) financing activities. Cash-flows from operating activities include primarily collections from clients, payments to suppliers, payments to employees, payments relating to post retirement benefits and net payments relating to income taxes and indirect taxes. Cash-flows from investing activities include primarily acquisitions and disposals of financial investments, dividends received from associated companies and purchase and sale of property, plant and equipment. Cash-flows from financing activities include primarily borrowings and repayments of debt, payments relating to interest and related expenses, acquisition of treasury shares and payments of dividends to shareholders.

t) Subsequent events (Note 50)

Events occurring after the date of the Consolidated Statement of Financial Position that could influence the value of any asset or liability as of that date are considered when preparing the financial statements for the period. Those events are disclosed in the notes to the financial statements, if material.

Critical judgments and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances on which the estimate was based, or as a result of new information or more experience. The main accounting judgments and estimates reflected in the consolidated financial statements are as follows:

a) Post retirement benefits – The present value of post retirement obligations is computed based on actuarial methodologies, which use certain actuarial assumptions. Any changes in those assumptions will impact the carrying amount of post retirement obligations. The key assumptions for post retirement obligations are disclosed in Note 14. The Company has the policy to review key assumptions on a periodic basis, if the corresponding changes have a material impact on the financial statements.

b) Goodwill impairment analysis – Portugal Telecom tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The use of this method requires the estimate of future cash-flows expected to arise from the continuing operation of the cash generating unit, the choice of a growth rate to extrapolate cash-flow projections and the estimate of a suitable discount rate for each cash generating unit. The key assumptions used in these goodwill impairment analysis are disclosed in Note 35.

c) Valuation and useful life of intangible and tangible assets – Portugal Telecom has made assumptions in relation to the potential future cash-flows resulting from separable intangible assets acquired as part of business combinations, which include expected future revenues, discount rates and useful life of such assets. Portugal Telecom has also made assumptions regarding the useful life of tangible assets (Note 3.c).

d) Recognition of provisions and adjustments – Portugal Telecom is party to various legal claims for which, based on the opinion of its legal advisors, a judgment was made to determine whether a provision should be recorded for these contingencies (Note 49). Adjustments for accounts receivable are computed based primarily on the aging of the receivables, the risk profile of the customer and its financial condition. These estimates related to adjustments for accounts receivable differ from business to business.

14 CONSOLIDATED FINANCIAL STATEMENTS

e) Assessment of the fair value of financial instruments – Portugal Telecom chooses an appropriate valuation technique for financial instruments not quoted in an active market based on its best knowledge of the market and the assets. In this process, Portugal Telecom applies the valuation techniques commonly used by market practitioners and uses assumptions based on market rates. The financial instruments for which no quoted price is available in an active market are disclosed in Note 45.3.

f) Assessment of the fair value of revalued assets – Portugal Telecom uses the revaluation model to measure the carrying value of certain tangible asset classes. In order to determine the revalued amount of those assets, Portugal Telecom uses the replacement cost method for the ducts infra-structure and the market value for real estate assets, which require the use of certain assumptions related to the construction cost and the use of specific indicators for the real estate market, respectively, as explained in more detail in Note 37.

g) Deferred taxes – The Group recognises and settles income taxes based on the results of operations determined in accordance with the local corporate legislation, taking into consideration the provisions of the tax law, which are different from the amounts calculated for IFRS purposes. In accordance with IAS 12, the Company recognises deferred tax assets and liabilities based on the differences between the carrying amounts and the taxable bases of the assets and liabilities. The Company regularly assesses the recoverability of deferred tax assets and recognises an allowance for impairment losses when it is probable that these assets may not be realised, based on the history of taxable income, the projection of future taxable income, and the time estimated for the reversal of existing temporary differences. These calculations require the use of estimates and assumptions. The use of different estimates and assumptions could result in the recognition of an allowance for impairment losses for the entire or a significant portion of the deferred tax assets.

Estimates used are based on the best information available during the preparation of the consolidated financial statements, although future events, neither controlled nor foreseeable by the Company, could occur and have an impact on those estimates. In accordance with IAS 8, changes to the estimates used by management that occur after the date of the consolidated financial statements are recognised in net income, using a prospective methodology.

4. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

During the year ended 31 December 2013, the Company has adopted the following new and revised IFRS's issued by the International Accounting Standards Board (IASB) and approved by the EU, of which only IFRS 11 "Joint Ventures" and IAS 19 "Employee Benefits" had an impact on Portugal Telecom's financial statements:

- Amendments to IFRS 7 "Disclosures – Offsetting Financial Instruments", which require additional disclosures in relation to the offsetting of financial assets and liabilities;
- IFRS 10 "Consolidated Financial Statements" issued in May 2011, which establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control. IFRS 10 replaces the consolidation requirements in SIC 12 "Consolidation – Special Purpose Entities" and IAS 27 "Consolidated and Separate Financial Statements";
- IFRS 11 "Joint Arrangements" issued in May 2011, which classifies joint arrangements as either joint operations (combining the existing concepts of jointly controlled assets and jointly controlled operations) or joint ventures (equivalent to the existing concept of a jointly controlled entity) and requires the use of the equity method of accounting for interests in joint ventures, thereby eliminating the proportional consolidation method. This standard supersedes IAS 31 "Interest in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Ventures". Upon the adoption of this standard, Portugal Telecom no longer proportionally consolidates its investments in joint ventures, namely Oi and Contax. The impacts of the adoption of this standard are detailed below in this note;
- IFRS 12 "Disclosure of Interests in Other Entities" issued in May 2011, which is applicable to entities that have an interest in

subsidiaries, joint arrangements, associates or unconsolidated structured entities, establishes disclosure objectives and specifies minimum disclosures that an entity must provide to meet those objectives. In accordance with this standard, an entity should disclose information that helps users of its financial statements to evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements;

- Amendments to IAS 27 “Consolidated and Separate Financial Statements” and to IAS 28 “Investments in Associates” issued in May 2011, the changes of which relate to the above mentioned new standards issued in May 2011;
- IFRS 13 “Fair Value Measurement” issued in May 2011, which establishes a single source of guidance for fair value measurement under IFRS and disclosures. Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”;
- Amendments to IAS 1 “Presentation of Financial Statements” issued in June 2011, which require additional disclosures to be made in the statement of comprehensive income such that items of other comprehensive income are grouped into two categories: (1) items that will not be reclassified subsequently to profit or loss; and (2) items that will be reclassified subsequently to profit or loss when specific conditions are met;
- Amendments to IAS 19 “Employee Benefits” issued in June 2011, which include primarily: (1) the elimination of an option to defer the recognition of actuarial gains and losses, known as the “corridor method”, which had no impact on the Company’s financial statements as its policy was already in line with the mandatory approach included in this revised standard; (2) the change in the calculation of the expected return on assets, based on the discount rates used for benefit obligations instead of the long-term rate of return previously determined, the impact of which in the Company’s financial statements resulted in a lower expected return on plan assets (now presented on a net basis as net interest cost) and, consequently, higher post retirement benefit costs, as the Company’s discount rates are lower than the former 6% expected return on assets; (3) mandatory immediate recognition of unvested prior year service gains or losses, as a result of which, upon the adoption of this revised standard, Portugal Telecom recognised the prior year service gains that had previously deferred in accordance with the previous version of IAS 19, as from 1 January 2012; (4) streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income, thereby separating those changes from changes that many perceive to be the result of an entity’s day-to-day operations; and (5) enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to when participating in those plans. The impacts of the adoption of this standard are detailed below in this note.

The following standards, revised standards or interpretations were issued by the IASB but either the relevant mandatory adoption date set by the EU occurs only in subsequent years or were not yet adopted by the EU:

- Amendments to IAS 32 “Financial Instruments: Presentation” issued in December 2011, which establish disclosure requirements regarding the offsetting of financial assets and financial liabilities. This standard is effective for annual periods beginning on or after 1 January 2014 and Portugal Telecom expects no material impact on its financial statements as a result of its adoption;
- IFRS 9 “Financial Instruments Measurement” issued in November 2009, which introduces new requirements for the classification and measurement of financial assets. Subsequently, in October 2010, IFRS 9 was amended to include the requirements for the classification and measurement of financial liabilities and for derecognition. Portugal Telecom is still assessing the impacts of the adoption of this standard which is effective for annual periods beginning on or after 1 January 2015;
- Amendments to IAS 36 “Impairment of Assets” issued in May 2013, which clarify that the required disclosures of information on the recoverable amount of impaired assets are applicable only for situations where that recoverable amount is based on fair value less costs of disposal. This standard is effective for annual periods beginning on or after 1 January 2014 and Portugal Telecom expects no material impact on its financial statements as a result of its adoption;

14 CONSOLIDATED FINANCIAL STATEMENTS

- IFRIC 21 “Levies” was issued in May 2013 and provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and those where the timing and amount of the levy is certain;
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” issued in June 2013, which provide some relief from the requirement to cease hedge accounting when a derivative is required to be reformulated to a central counterparty or entity acting in a similar capacity, under similar circumstances. This standard is effective for annual periods beginning on or after 1 January 2014 and Portugal Telecom expects no material impact on its financial statements as a result of its adoption.

Portugal Telecom early adopted the “package of five” standards issued by the IASB in May 2011 (IFRS 10, IFRS 11, IFRS 12 and revised versions of IAS 27 and IAS 28), although its application in the EU was only mandatory as from 1 January 2014. The Company reports consolidated financial statements also to the New York Stock Exchange, where the adoption of these standards is mandatory as from 1 January 2013. Thus, in order to avoid the existence of two sets of financial statements and to ensure the comparability and transparency of information in both stock exchanges where Portugal Telecom is listed, the Company decided to early adopt the standards mentioned above, namely IFRS 11 that had a material impact on its consolidated financial statements. The impacts of the adoption of IFRS 11 consisted of recognising the investments in joint ventures by the equity method of accounting, including primarily Oi, Contax and its controlling shareholders, which prior to the adoption of this standard were proportionally consolidated as allowed by IAS 31. Summarised financial information related to the investments in joint ventures is disclosed in Note 30.

As a result of the adoption of the amendments to IAS 19 and the adoption of IFRS 11, the tables below present the adjustments made to the previously reported Consolidated Statements of Financial Position as at 31 December and 1 January 2012 and Consolidated Income Statements and Consolidated Statement of Cash-flows for the year ended 31 December 2012.

Consolidated statement of financial position as at 31 December 2010

(Euro)

	Statement prior to restatement	Adjustments IAS 19	Adjustments IFRS 11	Restated statement
Assets				
Cash and cash equivalents	2,507,099,156	-	(518,302,018)	1,988,797,138
Short-term investments	880,194,809	-	(254,197,021)	625,997,788
Accounts receivable	2,012,119,483	-	(815,458,446)	1,196,661,037
Taxes receivable	476,146,140	-	(404,456,984)	71,689,156
Investments in joint ventures	-	-	2,980,060,568	2,980,060,568
Investments in group companies	408,274,726	-	(1,456,742)	406,817,984
Goodwill	1,449,387,000	-	(1,023,711,831)	425,675,169
Intangible assets	3,640,126,087	-	(2,882,599,527)	757,526,560
Tangible assets	6,018,873,354	-	(2,440,001,908)	3,578,871,446
Deferred taxes	1,184,140,639	(3,738,674)	(620,001,153)	560,400,812
Judicial deposits	1,150,273,677	-	(1,150,273,677)	-
Other assets	369,107,946	-	(132,548,188)	236,559,758
Total assets	20,095,743,017	(3,738,674)	(7,262,946,927)	12,829,057,416
Liabilities				
Gross debt	11,098,505,875	-	(3,723,370,855)	7,375,135,020
Accounts payable	1,263,243,056	-	(581,249,152)	681,993,904
Accrued expenses	792,816,394	-	(303,283,750)	489,532,644
Deferred income	337,279,573	-	(70,709,152)	266,570,421
Taxes payable	758,263,890	-	(676,346,383)	81,917,507
Provisions	781,899,784	-	(681,693,990)	100,205,794
Post retirement benefits	932,835,606	(14,954,706)	(82,513,773)	835,367,127
Deferred taxes	922,009,795	-	(651,618,649)	270,391,146
Other liabilities	354,844,730	-	(164,157,819)	190,686,911
Total liabilities	17,241,698,703	(14,954,706)	(6,934,943,523)	10,291,800,474
Equity excluding non-controlling interests	2,293,366,564	11,216,032	-	2,304,582,596
Non-controlling interests	560,677,750	-	(328,003,404)	232,674,346
Total shareholders' equity	2,854,044,314	11,216,032	(328,003,404)	2,537,256,942
Total liabilities and shareholders' equity	20,095,743,017	(3,738,674)	(7,262,946,927)	12,829,057,416

Consolidated statement of financial position as at 1 January 2012

(Euro)

	Statement prior to restatement	Adjustments IAS 19	Adjustments IFRS 11	Restated statement
Assets				
Cash and cash equivalents	4,930,012,396	-	(1,287,932,720)	3,642,079,676
Short-term investments	738,112,198	-	(275,305,897)	462,806,301
Accounts receivable	1,936,291,149	-	(815,247,586)	1,121,043,563
Taxes receivable	430,907,392	-	(343,375,166)	87,532,226
Investments in joint ventures	-	-	3,509,603,960	3,509,603,960
Investments in group companies	533,444,415	-	(914,268)	532,530,147
Goodwill	1,503,189,189	-	(1,150,199,178)	352,990,011
Intangible assets	4,126,609,728	-	(3,325,891,061)	800,718,667
Tangible assets	6,228,622,568	-	(2,572,513,900)	3,656,108,668
Deferred taxes	1,247,784,040	(4,191,011)	(653,103,922)	590,489,107
Judicial deposits	1,084,083,163	-	(1,084,083,163)	-
Other assets	417,335,203	-	(108,949,931)	308,385,272
Total assets	23,176,391,441	(4,191,011)	(8,107,912,832)	15,064,287,598
Liabilities				
Gross debt	12,280,958,636	-	(3,882,105,508)	8,398,853,128
Accounts payable	1,446,195,757	-	(536,047,757)	910,148,000
Accrued expenses	922,779,134	-	(361,397,165)	561,381,969
Deferred income	299,352,137	-	(63,320,188)	236,031,949
Taxes payable	726,151,702	-	(648,312,769)	77,838,933
Provisions	941,008,144	-	(839,490,260)	101,517,884
Post retirement benefits	1,004,065,628	(16,764,043)	(73,680,894)	913,620,691
Deferred taxes	1,052,457,228	-	(775,750,367)	276,706,861
Other liabilities	761,250,318	-	(235,934,923)	525,315,395
Total liabilities	19,434,218,684	(16,764,043)	(7,416,039,831)	12,001,414,810
Equity excluding non-controlling interests	2,828,069,784	12,573,032	-	2,840,642,816
Non-controlling interests	914,102,973	-	(691,873,001)	222,229,972
Total shareholders' equity	3,742,172,757	12,573,032	(691,873,001)	3,062,872,788
Total liabilities and shareholders' equity	23,176,391,441	(4,191,011)	(8,107,912,832)	15,064,287,598

Consolidated income statement for the year ended 31 December 2012

(Euro)

	Statement prior to restatement	Adjustments IAS 19	Adjustment IFRS 11	Restated statement
Total revenues	6,598,804,838	-	(3,519,844,874)	3,078,959,964
Costs, losses and (income)				
Wages and salaries	1,102,367,005	-	(688,741,233)	413,625,772
Direct costs	1,092,366,255	-	(634,971,908)	457,394,347
Costs of products sold	183,068,741	-	(44,970,059)	138,098,682
Marketing and publicity	124,445,803	-	(52,283,063)	72,162,740
Supplies, external services and other expenses	1,475,205,400	-	(834,611,618)	640,593,782
Indirect taxes	247,031,379	-	(203,268,892)	43,762,487
Provisions and adjustments	105,578,423	-	(82,311,170)	23,267,253
Depreciation and amortisation	1,390,645,957	-	(625,387,911)	765,258,046
Post retirement benefits costs	58,309,755	5,669,380	(6,438,817)	57,540,318
Curtailment costs	2,077,178	289,628	-	2,366,806
Other operating expenses, net	(41,443,071)	-	14,555,523	(26,887,548)
Income before financial results and taxes	859,152,013	(5,959,008)	(361,415,726)	491,777,279
Net interest expenses	498,835,624	-	(285,821,043)	213,014,581
Equity in the earnings of joint ventures	-	-	3,011,998	3,011,998
Equity in earnings of associated companies, net	(209,674,551)	-	(599,033)	(210,273,584)
Net other financial expenses	96,768,761	-	(46,440,248)	50,328,513
Income taxes	147,604,824	(1,489,753)	(20,506,980)	125,608,091
Net income	325,617,355	(4,469,255)	(11,060,420)	310,087,680
Attributable to non-controlling interests	95,344,319	-	(11,060,420)	84,283,899
Attributable to equity holders of the parent	230,273,036	(4,469,255)	-	225,803,781
Earnings per share attributable to the equity holders of the parent				
Basic	0.27	(0.01)	-	0.26
Diluted	0.27	(0.01)	-	0.26

14 CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Cash-flows for the year ended 31 December 2012

(Euro)

	Statement prior to recast	Adoption of IFRS 11	Recast statement
OPERATING ACTIVITIES			
Collections from clients	8,346,301,510	(4,564,776,891)	3,781,524,619
Payments to suppliers	(3,579,536,743)	1,786,607,267	(1,792,929,476)
Payments to employees	(1,111,039,110)	666,754,261	(444,284,849)
Payments relating to income taxes	(155,766,302)	100,769,095	(54,997,207)
Payments relating to post retirement benefits, net	(197,666,333)	10,481,805	(187,184,528)
Payments relating to indirect taxes and other	(1,728,169,403)	1,487,870,828	(240,298,575)
Cash-flows from operating activities (1)	1,574,123,619	(512,293,635)	1,061,829,984
INVESTING ACTIVITIES			
Short-term financial applications	(140,048,426)	(21,136,225)	(161,184,651)
Interest and related income	217,115,072	(66,405,466)	150,709,606
Dividends	76,279,817	188,937,728	265,217,545
Financial investments	(2,621,633)	3,536,311	914,678
Tangible and intangible assets	(1,421,602,503)	587,418,642	(834,183,861)
Other investing activities	3,562,053	(35,235)	3,526,818
Cash-flows from investing activities (2)	(1,267,315,620)	692,315,755	(574,999,865)
FINANCING ACTIVITIES			
Loans obtained	5,478,403,138	(771,736,709)	4,706,666,429
Loans repaid	(6,391,633,542)	664,469,844	(5,727,163,698)
Interest and related expenses	(752,171,827)	272,489,143	(479,682,684)
Dividends	(642,871,535)	38,747,365	(604,124,170)
Acquisition of treasury shares	(23,198,433)	23,198,433	-
Other financing activities	(315,231,922)	306,639,456	(8,592,466)
Cash-flows from financing activities (3)	(2,646,704,121)	533,807,532	(2,112,896,589)
Cash and cash equivalents at the beginning of the period	4,930,012,396	(1,287,932,720)	3,642,079,676
Change in cash and cash equivalents (4)=(1)+(2)+(3)	(2,339,896,122)	713,829,652	(1,626,066,470)
Effect of exchange differences	(83,017,118)	55,801,050	(27,216,068)
Cash and cash equivalents at the end of the period	2,507,099,156	(518,302,018)	1,988,797,138

5. EXCHANGE RATES USED TO TRANSLATE FOREIGN CURRENCY FINANCIAL STATEMENTS

As at 31 December 2013 and 2012, assets and liabilities denominated in foreign currencies were translated to euros using the following exchange rates to the Euro:

Currency	2013	2012
Argentine Peso	8.9890	6.4879
Australian Dollar	1.5423	1.2712
Botswana Pula	12.0603	10.2717
Brazilian Real	3.2576	2.7036
British Pound	0.8337	0.8161
Canadian Dollar	1.4671	1.3137
Cape Verde Escudo	110.2650	110.2650
Cfa Franc	655.9570	655.9570
Chinese Yuan Renmimbi	8.3491	8.2207
Danish Krone	7.4593	7.4610
Hong Kong Dollar	10.6933	10.2260
Hungarian Forint	297.0400	292.3000
Japanese Yen	144.7200	113.6100
Kenyan Shilling	119.0163	113.6003
Macao Pataca	11.0141	10.5328
Moroccan Dirham	11.2621	11.1526
Mozambique Metical	41.2400	39.2400
Namibian Dollar	14.5660	11.1727
Norwegian Krone	8.3630	7.3483
São Tomé Dobra	24,500.0	24,500.0
South African Rand	14.5660	11.1727
Swedish Krone	8.8591	8.5820
Swiss Franc	1.2276	1.2072
Ugandan Shilling	3,479.5	3,549.2
Us Dollar	1.3791	1.3194

During the years ended 31 December 2013 and 2012, income statements of subsidiaries, associated companies and joint ventures expressed in foreign currencies were translated to euros using the following average exchange rates to the Euro:

Currency	2013	2012
Argentine Peso	7.3126	5.8869
Botswana Pula	11.1669	9.8156
Brazilian Real	2.8685	2.5084
Cape Verde Escudo	110.2650	110.2650
Cfa Franc	655.9570	655.9570
Chinese Yuan Renmimbi	8.1646	8.1052
Hungarian Forint	296.8700	289.2500
Kenyan Shilling	114.5432	109.3349
Macao Pataca	10.6094	10.2645
Moroccan Dirham	11.1687	11.1061
Mozambique Metical	39.6300	36.3700
Namibian Dollar	12.8330	10.5511
São Tomé Dobra	24,500.0	24,500.0
Swiss Franc	1.2311	1.2053
Ugandan Shilling	3,442.8	3,250.3
Us Dollar	1.3281	1.2848

6. REVENUES

The contribution of reportable segments to consolidated revenues in the years ended 31 December 2013 and 2012 is as follows:

	(Euro)	
	2013	2012
Telecommunications in Portugal (Note 7.a)(i)	2,538,313,930	2,676,916,113
Services rendered (Note 3.p)	2,385,650,244	2,532,665,557
Sales	113,208,254	107,428,368
Other revenues	39,455,432	36,822,188
Other businesses (ii)	372,868,966	402,043,851
Services rendered	350,824,756	365,237,961
Sales	17,907,914	33,107,605
Other revenues	4,136,296	3,698,285
	2,911,182,896	3,078,959,964

(i) For information on this operating segment performance, including explanations for changes in operating revenues, see Note 7.a. | (ii) In 2013, the lower contribution from other businesses to consolidated revenues reflects mainly negative currency effects (Euro 40 million). On a constant basis, other revenues would have increased by Euro 11 million primarily explained by a higher contribution from MTC, mainly due to higher retail voice revenues and a significant increase in data/internet services, partially offset by a lower contribution from Timor following the entrance of new competitors.

Revenue is recognised in accordance with principles referred to in Note 3.p). Services rendered include mainly revenue derived from (1) fixed line and international telecommunications services, including billed and interconnection revenues; (2) Pay-TV services, including monthly subscription fees and rental of equipment; (3) mobile telecommunications services, including usage of network, interconnection fees, roaming, pre-paid cards and wireless broadband; and (4) advertising in directories. Sales correspond mainly to the disposals of terminal equipment, including fixed telephones, modems, TV boxes and terminal mobile equipment. Other revenues include mainly Portal's advertising revenues, benefits from contractual penalties imposed to customers, rental of equipments and other own infra-structures and revenues resulting from consultancy projects.

Revenues in 2013 and 2012 by geographic area are as follows:

	(Euro)	
	2013	2012
Portugal	2,600,729,547	2,740,511,943
Other	310,453,349	338,448,021
	2,911,182,896	3,078,959,964

7. SEGMENT REPORTING

The operating segments as at 31 December 2013 and 2012, based on the manner the Board of Directors reviews and assesses the performance of the Group's businesses to make decisions about resources to be allocated, are as follows: (i) Telecommunications in Portugal; and (ii) Telecommunications in Brazil - Oi. There is no difference between operating and reportable segments.

The operating segment named "Telecommunications in Portugal" includes wireline and mobile.

The operating segment named "Telecommunications in Brazil - Oi" includes Oi, SA, and its subsidiaries. Portugal Telecom discloses Oi as an operating segment since the Company's management currently reviews and assesses its performance periodically, notwithstanding Oi being a joint venture in accordance with IFRS 11 and thus accounted for by the equity method.

In addition to the above mentioned reportable segments, the Group has other businesses that do not comply individually or in aggregate with any of the quantitative thresholds that would require a disclosure as a reportable segment. These businesses relate primarily to the following Group companies: (1) Contax, which renders BPO and contact centre services and is accounted

for by the equity method following the adoption of IFRS 11; (2) MTC, CVT and Timor Telecom, which render wireline and mobile telecommunications services; and (3) certain Portuguese support companies, namely PT - Sistemas de Informação, Portugal Telecom Inovação, PT Pro-Serviços Administrativos e de Gestão Partilhados and PT Contact – Telemarketing e Serviços de Informação.

a) Telecommunications in Portugal

Financial information of this reportable segment for the years ended 31 December 2013 and 2012 is as follows:

	2013	2012
(Euro)		
REVENUES (i)		
Services rendered - external customers (Note 6)	2,385,650,244	2,532,665,557
Services rendered - inter-segment	11,259,807	13,237,131
Sales - external customers (Note 6)	113,208,254	107,428,368
Sales - inter-segment	1,827,121	1,687,799
Other revenues - external customers (Note 6)	39,455,432	36,822,188
Other revenues - inter-segment	8,208,406	8,662,046
	2,559,609,264	2,700,503,089
COSTS, EXPENSES, LOSSES AND (INCOME)		
Wages and salaries (Note 8)	232,725,936	241,778,227
Direct costs (Note 9)	458,496,422	457,091,120
Commercial costs (ii)	294,349,511	292,158,529
Supplies, external services and other expenses (Note 11) (iii)	483,000,838	508,734,534
Depreciation and amortisation (iv)	646,979,100	681,159,324
Post retirement benefits, net (v)	40,295,822	57,409,291
Work force reduction and settlement costs (vi)	116,922,120	1,160,449
Net gains on disposals of fixed assets	(3,500,398)	(3,525,138)
Other costs (gains), net (vii)	19,043,739	(23,494,632)
	2,288,313,090	2,212,471,704
Income before financial results and taxes	271,296,174	488,031,385

(i) The composition of total revenues by customer segment for the years ended 31 December 2013 and 2012 is as follows:

	2013	2012
(Euro million)		
Residential	721	712
Personal	655	688
Enterprise	791	896
Wholesale, other and eliminations	393	405
	2,560	2,701

The reduction in total revenues is primarily explained by: (1) lower revenues driven by the Enterprise customer segment (Euro 105 million), impacted by the public administration strong cost cut initiatives and significant reduction in investments in new projects throughout 2013, the large corporate cost reduction initiatives, more visible in certain sectors, such as banking and financial services and pharmacies, and intense price competition across the various segments, mainly in mobile; (2) revenue decline in the Personal customer segment (Euro 33 million), as a result of lower customer revenues (Euro 37 million) reflecting lower and volatile recharges as a result of difficult economic conditions, price competition and migration to lower tariff plans, and lower interconnection revenues (Euro 13 million), following the negative impact of the decline in Mobile Termination Rates (MTRs), partially offset by higher sales (Euro 18 million); and (3) a reduction in revenues from wholesale and other businesses (Euro 12 million), as a result of lower accesses and traffic revenues and lower revenues from the directories business (Euro 10 million) against a backdrop of increased popularity of alternative online tools. These effects were partially offset by an increase in revenues from the Residential customer segment (Euro 9 million), mainly related to pay-TV and broadband revenues, which are underpinned by the solid performance of MEO's triple play offers and M4O which translated into an increase of the customer base and higher non-voice services, and notwithstanding increased competitive aggressiveness and already high pay-TV penetration. | (ii) This caption includes costs of products sold, commissions and marketing and publicity expenses. The increase in 2013 is primarily explained by the increased push of commercial activities due to the launch of the new converged offer M4O partially offset by lower costs of goods sold reflecting a decrease in the average cost of handsets as a result of favourable contracts signed with key suppliers despite an increase in sales. | (iii) This caption includes supplies and external services, including maintenance and repair expenses, support services and other third party costs, provisions, indirect taxes and other expenses. The decrease occurred in 2013 reflects mainly a relentless focus on cost cutting and profitability and also an increase in maintenance productivity of maintenance activities due to the implementation of new generation access networks (FTTH). | (iv) The decrease in depreciation and amortisation costs reflects primarily the decline in capital expenditures occurred in 2013 and 2012 against the backdrop of the investments in future proof technologies and networks undertaken in previous years, namely in FTTH and 4G-LTE coverage. | (v) The lower post retirement benefits costs in 2013 reflect primarily the decline in discount rates undertaken by the end of 2012 that resulted in a decrease of net interest cost. | (vi) Work force reduction and settlement costs in 2013 reflect mainly a redundancy programme of approximately 400 employees implemented in the second quarter of 2013. | (vii) Other costs in 2013 (Note 15) reflect primarily provisions and adjustments recognised in order to adjust the carrying value of certain assets to the corresponding recoverable amounts, partially offset by a gain related to the wireline Concession Agreement. Other gains in 2012 include an estimated net compensation receivable from the Portuguese State for prior years costs supported by PT Comunicações with the universal service obligation under the Concession Agreement.

14 CONSOLIDATED FINANCIAL STATEMENTS

Capital expenditures in tangible and intangible assets for this reportable segment decreased to Euro 490 million in 2013 from Euro 555 million in 2012, reflecting the investments in future proof technologies and networks undertaken in previous years, which are translated into Portugal Telecom's clear leadership in FTTH and 4G-LTE coverage in Portugal, and notwithstanding the investments made in 2013 in the rollout of Portugal Telecom's Data Centre in Covilhã, inaugurated in September 2013. In 2013, the investment in the Portuguese telecommunications businesses was primarily directed to: (1) investments in IT/IS projects, which represented 23% of total capital expenditures; (2) customer capital expenditure, which represented 32% of total capital expenditures, and (3) technology and infrastructure capital expenditure, which represented 41% of total capital expenditures. The investments in IT/IS projects were focused on the IT transformation programme aimed at converge, standardise, integrate and simplify business processes and IT, thus enabling a truly convergent customer experience.

As at 31 December 2013 and 2012, the total staff in this segment was 7,526 and 7,637 employees, respectively.

b) Telecommunications in Brazil - Oi

Financial information of this reportable segment for the years ended 31 December 2013 and 2012, considering the 25.6% joint control interest held by Portugal Telecom, is as follows:

	2013	2012
(Euro)		
REVENUES		
Services rendered	2,494,168,925	2,817,121,891
Sales	44,232,742	56,920,290
Other revenues	121,620,691	168,045,007
	2,660,022,358	3,042,087,188
COSTS, EXPENSES, LOSSES AND (INCOME)		
Wages and salaries	211,399,942	248,684,844
Direct costs	550,752,289	630,173,022
Commercial costs	205,337,603	240,284,522
Supplies, external services and other expenses	796,653,949	1,013,972,714
Depreciation and amortisation	552,142,256	578,210,753
Post retirement benefits, net	6,787,699	6,438,817
Net gains on disposals of fixed assets	(12,763,798)	(29,877,164)
Other costs, net	13,224,031	11,364,037
	2,323,533,971	2,699,251,545
Income before financial results and taxes	336,488,387	342,835,643

The reduction in Oi's revenues (Euro 382 million) is primarily explained by the impact of the depreciation of the Brazilian Real against the Euro, amounting to Euro 382 million. Adjusting for the impact of the Brazilian Real against the Euro, revenues would have remained broadly stable, as the reductions in sales and other operating revenues were offset by an increase in services rendered, reflecting a positive contribution from broadband and pay-TV services that more than compensated the traditional pressure in fixed voice.

Adjusting for the impact of the depreciation of the Brazilian Real against the Euro (Euro 48 million), Oi's income before financial results and taxes would have increased in 2013 by Euro 42 million, reflecting primarily higher net service revenues (Euro 35 million), as explained above, and a gain recorded in connection with the disposal of Oi's submarine cable operation. These effects more than offset lower sales and other operating revenues, higher depreciation and amortisation expenses (Euro 53 million), reflecting increased capital expenditures incurred in 2013 and 2012 as compared to previous years, including the acquisition of the 4G license in June 2012, and higher third party expenses, including mainly maintenance and repairs and rentals.

Capital expenditures in tangible and intangible assets for this reportable segment amounted to Euro 558 million in 2013 and Euro 630 million in 2012. Adjusting for the impact of the depreciation of the Brazilian Real against the Euro (Euro 82 million), Oi's

capital expenditures would have decreased by Euro 4 million to Euro 651 million and was directed mainly towards investments in 3G coverage and capacity in the initial roll-out of 4G-LTE network and in the capacity and capillarity of the wireline and broadband networks. In addition to the above mentioned capital expenditures, Oi made a non-recurring investment in June 2012 in the acquisition of 4G licenses for a total amount of Euro 41 million.

As at 31 December 2013 and 2012, the total staff in this segment was 10,911 and 9,412 employees, respectively (considering the 25.6% joint control interest).

c) Reconciliation of revenues and net income and information by geographic area

In 2013 and 2012, the reconciliation between revenues of consolidated reportable segments and consolidated revenues is as follows:

	2013	2012
Revenues relating to Telecommunications in Portugal	2,559,609,264	2,700,503,089
Revenues relating to other businesses (i)	781,517,032	838,090,731
Elimination of intragroup revenues	(429,943,400)	(459,633,856)
Total consolidated revenues	2,911,182,896	3,078,959,964

(i) As mentioned above, other businesses include primarily MTC, CVT, Timor Telecom and certain Portuguese support companies, the performance of which is monitored by the management on a standalone basis. In 2013, the decrease in revenues relating to other businesses is primarily explained by negative currency effects (Euro 40 million). Excluding the impact of the devaluation of foreign currencies against the Euro, the reduction in this caption is primarily explained by lower contributions from Timor Telecom, following the entrance of new competitors in the market, and from certain Portuguese support companies, partially offset by a higher contribution from MTC, mainly due to higher retail voice revenues and a significant increase in data/internet services.

In the years ended 31 December 2013 and 2012, the reconciliation between net income before financial results and taxes of consolidated reportable segments and Group's consolidated net income is as follows:

	2013	2012
Income before financial results and taxes relating to operating segments:		
Telecommunications in Portugal	271,296,174	488,031,385
Income before financial results and taxes relating to other businesses (i)	74,096,671	3,745,894
Consolidated income before financial results and taxes	345,392,845	491,777,279
Financial gains (losses):		
Net interest expenses (Note 16)	(257,423,261)	(213,014,581)
Net foreign currency exchange losses (Note 17)	(21,919,104)	(1,841,496)
Net losses on financial assets and other investments (Note 18)	(2,014,467)	(3,921,932)
Equity in losses of joint ventures (Note 30)	(2,185,679)	(3,011,998)
Equity in earnings of associated companies, net (Note 33)	442,783,587	210,273,584
Net other financial expenses (Note 19)	(54,635,427)	(44,565,085)
Income taxes (Note 20)	(62,021,888)	(125,608,091)
Net income (before non-controlling interests)	387,976,606	310,087,680

(i) The increase in this caption reflects primarily a gain recorded in the second quarter of 2013 resulting from the settlement of contractual obligations that had been assumed upon the acquisition of the investment in Oi, as explained in Note 15.

Total assets, liabilities and tangible and intangible assets by geographic area as at 31 December 2013 and 2012 and capital expenditures for tangible and intangible assets in the years ended 31 December 2013 and 2012 are as follows:

	2013				
	Total assets	Total liabilities	Tangible assets (Note 37)	Intangible assets (Note 36)	Capital expenditures for tangible and intangible assets (ii)
Portugal	8,150,000,317	9,915,843,042	3,281,785,719	610,809,883	520,677,402
Brazil (i)	2,669,674,994	811,202	188,130	-	-
Other	1,200,719,871	236,925,823	156,505,535	106,893,793	68,360,212
	12,020,395,182	10,153,580,067	3,438,479,384	717,703,676	589,037,614

14 CONSOLIDATED FINANCIAL STATEMENTS

(Euro)

2013

	Total assets	Total liabilities	Tangible assets (Note 37)	Intangible assets (Note 36)	Capital expenditures for tangible and intangible assets (ii)
Portugal	8,373,264,796	9,881,378,570	3,409,125,065	641,287,521	571,960,811
Brazil (i)	3,218,436,786	148,067,576	287,757	-	-
Other	1,237,355,834	262,354,328	1,69,458,624	116,239,039	89,239,535
	12,829,057,416	10,291,800,474	3,578,871,446	757,526,560	661,200,346

(i) The decrease in assets is basically explained by the impact of the depreciation of the Real against the Euro on Portugal Telecom's investments in Brazilian joint ventures, namely Oi and Contax. | (ii) Total capital expenditures in 2013 and 2012 include capital expenditures for tangible assets, amounting to Euro 499 million and Euro 575 million (Note 37), respectively, and capital expenditures for intangible assets amounting to Euro 91 million and Euro 87 million (Note 36), respectively.

8. WAGES AND SALARIES

The composition of this caption in the years ended 31 December 2013 and 2012 is as follows:

(Euro)

	2013	2012
Salaries	323,547,219	332,493,271
Social security	58,612,016	62,970,790
Healthcare benefits related to active employees	5,033,942	4,545,741
Training	1,742,539	2,563,648
Other	10,346,871	11,052,322
	399,282,587	413,625,772

In 2013, the decrease in this caption reflects primarily a lower contribution from the Portuguese telecommunications business (Euro 9 million - Note 7.a), reflecting lower variable and overtime remunerations, higher efficiency levels in certain internal processes and lower personnel costs as a result of the restructuring plan implemented in the second quarter of 2013.

9. DIRECT COSTS

The composition of this caption in the years ended 31 December 2013 and 2012 is as follows:

(Euro)

	2013	2012
Telecommunications costs (i)	255,461,368	255,493,833
Programming costs (ii)	128,739,648	123,391,025
Leasings of sites (i)	22,919,371	22,845,446
Directories (iii)	20,978,946	26,769,455
Other (iv)	30,696,308	28,894,588
	458,795,641	457,394,347

(i) In 2013 and 2012, these captions include costs related to operating leases totalling Euro 42,417,863 and Euro 44,391,849, respectively (Note 12). | (ii) This caption relates basically to the programming costs incurred by the pay-TV operation in Portugal, reflecting the continued growth of these services and notwithstanding the decline in costs per customer, as pay-TV is reaching critical mass. | (iii) The reduction in this caption is directly related to the decline of the directories business. | (iv) This caption includes primarily mobile contents.

In 2013, the change in direct costs reflects primarily the increase at the Portuguese telecommunications business (Euro 1 million – Note 7.a), as a result of an increase in programming costs, on the back of sustained customer growth and investment in the differentiation of the MEO content offering, and higher costs associated with the provision of IT/IS solutions and outsourcing services, as a result of an increased weight of these services in revenues, effects that more than offset lower costs associated with the directories business and lower mobile traffic costs, explained by the impact of the regulatory MTR cuts and the decrease in services rendered.

10. COSTS OF PRODUCTS SOLD

The composition of this caption in the years ended 31 December 2013 and 2012 is as follows:

	(Euro)	
	2013	2012
Costs of products sold	133,324,046	144,074,646
Increases in adjustments for inventories (Note 42)	4,034,299	4,550,611
Reductions in adjustments for inventories (Note 42)	(2,556,599)	(10,526,575)
	134,801,746	138,098,682

The decrease of Euro 3 million in this caption reflects primarily a lower contribution of the Portuguese telecommunications business (Euro 2 million), reflecting a lower average cost of handsets and higher costs related to the disposal of set-top boxes in the first half of 2012, following the switch-off from analogical to TDT.

11. SUPPLIES, EXTERNAL SERVICES AND OTHER EXPENSES

The composition of this caption in the years ended 31 December 2013 and 2012 is as follows:

	(Euro)	
	2013	2012
Specialised work	120,387,822	127,521,287
Support services	134,705,372	144,988,927
Commissions	106,689,544	108,310,828
Maintenance and repairs	101,259,913	88,678,609
Electricity	52,701,402	52,064,445
Operating leases (Note 12)	30,767,772	28,662,262
Other	72,784,411	90,367,424
	619,296,236	640,593,782

The decrease of Euro 21 million in this caption is primarily explained by the decrease occurred in the Portuguese telecommunications business (Euro 26 million - Note 7.a), reflecting the benefits from Portugal Telecom's FTTH and 4G-LTE networks and the extensive operational transformation programme, which continue to be visible through improved quality of service and lower cost structure, and notwithstanding the increased maintenance expenses in the first quarter of 2013 due to adverse weather conditions in that period.

12. OPERATING LEASES

In the years ended 31 December 2013 and 2012, operating lease costs were recognised under the following captions:

	(Euro)	
	2013	2012
Direct costs (Note 9)	42,417,863	44,391,849
Supplies, external services and other expenses (Note 11) (i)	30,767,772	28,662,262
	73,185,635	73,054,111

(i) This caption relates mainly to rentals of property and leases of transportation equipment.

14 CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2013, the Company's obligations under non-cancellable operating lease contracts mature as follows:

	2012
2014	43,374,322
2015	22,867,004
2016	18,364,066
2017	16,757,883
2018	14,685,078
2019 and following years	38,618,394
	154,666,747

13. INDIRECT TAXES

The composition of this caption in the years ended 31 December 2013 and 2012 is as follows:

	(Euro)	
	2013	2012
Spectrum fees (i)	26,710,790	28,879,072
Other	15,593,900	14,883,415
	42,304,690	43,762,487

(i) This caption includes primarily spectrum fees from Portugal Telecom's mobile operation in Portugal.

14. POST RETIREMENT BENEFITS

14.1. Defined benefits plans

As referred to in Note 3, PT Comunicações and PT SI sponsor defined benefits plans under which these companies grant pension supplements to retired and active employees, healthcare services to retired employees and eligible relatives and salaries to suspend and pre-retired employees until retirement age.

The actuarial valuations of Portugal Telecom's defined benefits plans related to Portuguese operations as at 31 December 2013, 2012 and 2011 were computed based on the projected unit credit method and considered the following main financial and demographic actuarial assumptions:

	2013	2012	2011
Financial assumptions			
Discount rate:			
Pension supplements	3.00%	3.00%	4.75%
Salaries to suspended and pre-retired	2.00%	2.00%	3.75%
Healthcare	4.00%	4.00%	4.75%
Salary growth rate for responsibilities with:			
Pension supplements and healthcare	1.75%	1.75%	1.75%
Salaries to suspended and pre-retired (i)	0% - 1.75%	0% - 1.75%	0% - 1.75%
Pension growth rate	GDP linked	GDP linked	GDP linked
Social Security sustainability factor	Applicable	Applicable	Not applicable
Inflation rate	2.00%	2.00%	2.00%
Healthcare cost trend growth rate	3.00%	3.00%	3.00%
Demographic assumptions			
Mortality tables for active beneficiaries:			
Males	PA (90)m adjusted	PA (90)m adjusted	AM (92)
Females	PA (90)f adjusted	PA (90)f adjusted	AF (92)
Mortality tables for non-active beneficiaries:			
Males	PA (90)m adjusted	PA (90)m adjusted	PA (90)m adjusted
Females	PA (90)f adjusted	PA (90)f adjusted	PA (90)f adjusted
Retirement age (ii)	65-66	65	65
Disability table (Swiss Reinsurance Company)	25%	25%	25%
Active employees with spouses under the plan	35%	35%	35%
Turnover of employees	Nil	Nil	Nil

(i) For salaries payable between 2013 and 2017, the salary growth rate ranges from 0% to 1% depending on the amount of the salary. As from 2018, the salary growth rate is 1.75% for all situations. | (ii) In 2013, the Portuguese retirement age changed from 65 to 66 years old, applicable for the majority of Portugal Telecom's beneficiaries under post retirement benefit plans, although the retirement at 65 years old is still applicable for certain other employees.

The discount rate was computed based on long-term yield rates of Eurozone high-rating corporate bonds as of the date of the Consolidated Statement of Financial Position for durations comparable to the liabilities for pension supplements, salaries and healthcare benefits (between 4 and 15 years).

After the adoption of the amendment of IAS 19, the rate of return on long-term fund assets is the same as the discount rate used.

Salary growth rate was established in accordance with Group policy for wages and salaries and pension growth rate and the sustainability factor was established in line with Portuguese Government information.

Demographic assumptions considered by Portugal Telecom are based on mortality tables generally accepted for actuarial valuation purposes, with these tables being periodically adjusted to reflect the mortality experience occurred in the closed universe of the plan participants.

In the years ended 31 December 2013 and 2012, the total impact of changes in actuarial assumptions was a net loss of Euro 101,411,000 and Euro 136,624,616 (Note 14.5), respectively, and was recognised directly in the Consolidated Statement of Comprehensive Income.

The impact of an increase by 25 bp on the average discount rate actuarial assumption would be a decrease of the responsibilities for post retirement benefits by approximately Euro 23 million as at 31 December 2013, while the impact of an increase (decrease) in the healthcare cost trend rate by 1% would be an increase (decrease) of the responsibilities for post retirement benefits by approximately Euro 69 million (Euro 56 million) as at 31 December 2013.

The impact of an increase (decrease) by 1% in the discount rate actuarial assumption would be a increase (decrease) of post retirement benefit costs in the year 2013 by approximately Euro 8 million, corresponding to the increase (decrease) in net interest cost.

14 CONSOLIDATED FINANCIAL STATEMENTS

14.1.1. Supplement benefits

As referred to in Note 3.h, PT Comunicações is responsible for the payment of pension supplements to retired and active employees. These liabilities, which were estimated based on actuarial valuations, are as follows:

- Retirees and employees of Companhia Portuguesa Rádio Marconi, SA (Marconi, a company merged into PT Comunicações in 2002) hired prior to 1 February 1998 are entitled to a supplemental pension benefit (Marconi Complementary Fund). In addition, PT Comunicações contributes to the fund "Fundo de Melhoria Marconi" with 1.55% of salaries paid to these employees, which is responsible to pay the additional pension supplement;
- Retirees and employees of TLP and TDP hired prior to 23 June 1994 are entitled to receive a pension supplement from PT Comunicações, which complements the pension paid by the Portuguese social security system;
- On retirement, PT Comunicações pays a lump sum gratuity of a fixed amount which depends on the length of service completed by the employee and its salary.

Employees hired by PT Comunicações or any of its predecessor companies after the dates indicated above are not entitled to these benefits, as they are covered by the general Portuguese Government social security system.

PT SI employees who were transferred from PT Comunicações and Marconi and were covered by any of the pension plans described above maintain the right to such benefits.

As at 31 December 2013 and 2012, plans from PT Comunicações and PT SI covered 19,841 and 19,879 beneficiaries, respectively, of which approximately 64% and 63% were non-active, respectively.

Based on the actuarial reports, the defined benefit obligations and the fair value of the pension funds as at 31 December 2013 and 2012 were as follows:

	(Euro)	
	2013	2012
Projected benefits obligations	117,220,407	127,330,646
Pension funds assets at fair value	(94,660,571)	(99,529,441)
Unfunded pension obligations (Note 14.2)	22,559,836	27,801,205

During the years ended 31 December 2013 and 2012, the movement in the projected benefits obligations related to pensions supplements was as follows:

	(Euro)	
	2013	2012
Opening balance of the projected benefits obligations	127,330,646	121,564,812
Payments of benefits and contributions		
Benefits paid by the Company (Note 14.3)	(812,662)	(983,643)
Benefits paid by the funds	(9,008,399)	(9,392,359)
Post retirement benefits		
Service cost	584,471	459,098
Interest cost	3,484,351	5,364,577
Prior year service gain	(2,168,000)	-
Work force reduction costs	787,000	83,981
Net actuarial losses (gains)	(2,977,000)	10,029,807
Transfers between plans (Note 14.1.3)	-	204,373
Closing balance of the projected benefits obligations	117,220,407	127,330,646

As at 31 December 2013 and 2012, the fair value of the portfolio of pension funds was as follows:

	2013		2012	
	Amount	%	Amount	%
Equities (i)	19,300,270	20.4%	19,922,371	20.0%
Bonds (i)	57,294,887	60.5%	60,201,161	60.5%
Property	2,314,224	2.4%	2,545,908	2.6%
Cash, treasury bills, short-term stocks and other assets (ii)	15,751,190	16.6%	16,860,001	16.9%
	94,660,571	100.0%	99,529,441	100.0%

(i) The fair value of equity investments and bonds is quoted on active markets. | (ii) This caption includes term deposits amounting to Euro 5 million and Euro 6 million as at 31 December 2013 and 2012, respectively.

Portugal Telecom is exposed to risks related to the changes in the fair value of the assets associated to Portugal Telecom's post retirement defined pension supplement plans. The main purpose of the established investment policy is capital preservation through five main principles: (1) diversification; (2) stable strategic asset allocation and disciplined rebalancing; (3) lower exposure to currency fluctuations; (4) specialised instruments for each class of assets; and (5) cost control.

During the years ended 31 December 2013 and 2012, the movement in the plan assets was as follows:

	2013	2012
Opening balance of the plan assets	99,529,441	98,480,548
Actual return on assets	3,660,130	9,341,252
Payments of benefits	(9,008,399)	(9,392,359)
Contributions made by the Company (Note 14.3)	479,399	1,100,000
Closing balance of the plan assets	94,660,571	99,529,441

A summary of the components of the net periodic pension cost recorded in the years ended 31 December 2013 and 2012 is presented below:

	2013	2012
Service cost	584,471	459,098
Net interest cost	631,351	904,485
Gains recognised in the period	(2,168,000)	-
Current pension cost (Note 14.4)	(952,178)	1,363,583
Work force reduction costs	787,000	83,981
Curtailement cost (Note 14.4)	787,000	83,981
Total pension cost	(165,178)	1,447,564

Actuarial gains and losses, which result from changes in actuarial assumptions and from differences between those actuarial assumptions and actual data, are recognised directly in Shareholders' Equity, and presented in the Consolidated Statement of Comprehensive Income. During the years ended 31 December 2013 and 2012, the movement in accumulated net actuarial losses was as follows:

	2013	2012
Opening balance	125,874,744	120,726,097
Change in actuarial assumptions (Note 14.5)	(1,059,000)	17,533,583
Differences between actual data and actuarial assumptions (Note 14.5):		
Pension benefits obligations related (i)	(1,918,000)	(7,503,776)
Assets related	(807,130)	(4,881,160)
Closing balance	122,090,614	125,874,744

(i) Differences between actual data and actuarial assumptions related to the PBO results mainly from updated information regarding beneficiaries.

14 CONSOLIDATED FINANCIAL STATEMENTS

14.1.2. Healthcare benefits

As referred to in Note 3.i, PT Comunicações sponsored the payment of post retirement healthcare benefits to certain suspended employees, pre-retired employees and retired employees and their eligible relatives. Healthcare services are rendered by PT-ACS, which was incorporated with the only purpose of managing the Company's Healthcare Plans.

These plans, sponsored by PT Comunicações, include all employees hired by PT Comunicações until 31 December 2000 and by Marconi until 1 February 1998. Certain employees of PT SI who were transferred from PT Comunicações are also covered by this healthcare plan.

As at 31 December 2013 and 2012, healthcare plans from PT Comunicações and PT SI covered 23,503 and 24,011 beneficiaries related to employees and former employees, of which approximately 77% and 76% were non-active, respectively. In addition, as at 31 December 2013 and 2012, these plans also covered 10,268 and 10,853 beneficiaries related to relatives of employees and former employees.

The financing of the Healthcare Plan comprises defined contributions made by participants to PT-ACS and the remainder by PT Comunicações, which incorporated an autonomous fund in 2004 for this purpose.

Based on the actuarial reports, the defined benefit obligations and the fair value of the healthcare plan assets as at 31 December 2013 and 2012 are as follows:

	(Euro)	
	2013	2012
Projected benefits obligations	376,483,029	375,360,964
Plan assets at fair value	(291,667,071)	(299,865,329)
Unfunded obligations (Note 14.2)	84,815,958	75,495,635

During the years ended 31 December 2013 and 2012, the movement in the projected benefits obligations was as follows:

	(Euro)	
	2013	2012
Opening balance of the projected benefits obligations	375,360,964	352,564,459
Benefits paid by the Company (Note 14.3)	(18,864,011)	(19,000,416)
Post retirement benefits costs		
Service cost	3,640,669	3,051,844
Interest cost	14,706,407	16,358,642
Work force reduction costs	1,336,000	(167,331)
Net actuarial losses	303,000	22,553,766
Closing balance of the projected benefits obligations	376,483,029	375,360,964

As at 31 December 2013 and 2012, the fair value of the portfolio of the Company's autonomous fund to cover post retirement healthcare benefits obligations was as follows:

	(Euro)			
	2013		2012	
	Amount	%	Amount	%
Equities (i)	87,389,300	30.0%	75,277,597	25.1%
Bonds (ii)	57,595,149	19.7%	88,178,641	29.4%
Cash, treasury bills, short-term stocks and other assets (iii)	146,682,622	50.3%	136,409,091	45.5%
	291,667,071	100.0%	299,865,329	100.0%

(i) As at 31 December 2013 and 2012, this caption corresponds to investments in shares of Banco Espírito Santo (Note 48), the fair value of which is quoted on an active market. | (ii) As at 31 December 2013 and 2012, this caption includes mainly investments in bonds of Portugal Telecom (Note 48), the fair value of which is quoted on an active market. | (iii) As at 31 December 2013 and 2012, this caption includes investments in the private equity funds "Ongoing International Capital Markets" and "Ongoing International Private Equity" totalling Euro 95 million and Euro 104 million, respectively, which are managed by Global investment Opportunities SICAV (Note 48). In addition, this caption also includes term deposits amounting to Euro 14 million and Euro 11 million as at 31 December 2013 and 2012, respectively, and receivables from customers of PT Group companies totalling Euro 15 million as at 31 December 2013, following an agreement entered into with those companies for the transfer of those receivables to the fund assets.

During the years ended 31 December 2013 and 2012, the movement in the plan assets was as follows:

	(Euro)	
	2013	2012
Opening balance of the plan assets	299,865,329	246,214,842
Actual return on assets	13,840,743	74,473,916
Refunds (Note 14.3) (i)	(22,039,001)	(20,823,429)
Closing balance of the plan assets	291,667,071	299,865,329

(i) This caption corresponds to refunds of expenses paid on account by PT Comunicações.

A summary of the components of the net periodic post retirement healthcare cost (gain) in 2013 and 2012 is presented below:

	(Euro)	
	2013	2012
Service cost	3,640,669	3,051,844
Net interest cost	2,711,407	5,049,982
Current cost (gain) (Note 14.4)	6,352,076	8,101,826
Work force reduction programme (gains) costs	1,336,000	(167,331)
Curtailement (gains) cost (Note 14.4)	1,336,000	(167,331)
Healthcare cost (gain)	7,688,076	7,934,495

Actuarial gains and losses, which result from changes in actuarial assumptions and from differences between those actuarial assumptions and actual data, are recognised directly in the Consolidated Statement of Comprehensive Income. During the years ended 31 December 2013 and 2012, the movement in accumulated net actuarial losses was as follows:

	(Euro)	
	2013	2012
Opening balance	247,873,029	288,484,519
Change in actuarial assumptions (Note 14.5)	(1,116,000)	37,479,958
Differences between actual data and actuarial assumptions (Note 14.5):		
Healthcare benefits obligations related	1,419,000	(14,926,192)
Assets related	(1,845,743)	(63,165,256)
Closing balance	246,330,286	247,873,029

14.1.3. Salaries

As mentioned in Note 3.j, Portugal Telecom is also responsible for the payment of salaries to suspended and pre-retired employees until the retirement age, which result from agreements between both parties. As at 31 December 2013 and 2012, there were 5,330 and 5,453 suspended and pre-retired employees, respectively.

These liabilities are not subject to any legal funding requirement and therefore the monthly payment of salaries is made directly by PT Comunicações.

During the years ended 31 December 2013 and 2012, the movement in the projected benefits obligations was as follows:

	(Euro)	
	2013	2012
Opening balance of the projected benefits obligations	730,437,447	782,498,256
Benefits paid by the Company (Note 14.3)	(157,741,098)	(159,517,770)
Interest cost (Note 14.4)	13,279,281	25,737,595
Work force reduction costs (Note 14.4)	120,893,230	527,010
Net actuarial (gains) losses	144,801,415	81,396,729
Transfers between plans (Note 14.1.1)	-	(204,373)
Closing balance of the projected benefits obligations (Note 14.2)	851,670,275	730,437,447

14 CONSOLIDATED FINANCIAL STATEMENTS

Actuarial gains and losses, which result from changes in actuarial assumptions and from differences between those actuarial assumptions and actual data, are recognised directly in the Consolidated Statement of Comprehensive Income. During the years ended 31 December 2013 and 2012, the movement in accumulated net actuarial losses was as follows:

	(Euro)	
	2013	2012
Opening balance	164,894,205	83,497,476
Change in actuarial assumptions (Note 14.5)	103,586,000	81,611,075
Differences between actual data and actuarial assumptions (Note 14.5)	41,215,415	(214,346)
Closing balance	309,695,620	164,894,205

14.2. Responsibilities for post retirement benefits

The movements occurred in the responsibilities for post retirement benefits during the years ended 31 December 2013 and 2012 were as follows:

	(Euro)			
	Pension supplements (Note 14.1.1)	Healthcare benefits (Note 14.1.2)	Salaries to pre-retired and suspended employees (Note 14.1.3)	Total
Balance as at 31 December 2011	23,084,264	106,349,617	782,498,256	911,932,137
Transfers between plans	204,373	-	(204,373)	-
Net periodic pension cost (gain) (Note 14.4)	1,363,583	8,101,826	25,737,595	35,203,004
Work force reduction costs (Note 14.4)	83,981	(167,331)	527,010	443,660
Payments, contributions and refunds (Note 14.3)	(2,083,643)	1,823,013	(159,517,770)	(159,778,400)
Net actuarial losses (gains) (Note 14.5)	5,148,647	(40,611,490)	81,396,729	45,933,886
Balance as at 31 December 2012	27,801,205	75,495,635	730,437,447	833,734,287
Net periodic pension cost (gain) (Note 14.4)	(952,178)	6,352,076	13,279,281	18,679,179
Work force reduction costs (Note 14.4)	787,000	1,336,000	120,893,230	123,016,230
Payments, contributions and refunds (Note 14.3)	(1,292,061)	3,174,990	(157,741,098)	(155,858,169)
Net actuarial losses (gains) (Note 14.5)	(3,784,130)	(1,542,743)	144,801,415	139,474,542
Balance as at 31 December 2013	22,559,836	84,815,958	851,670,275	959,046,069

Certain post retirement benefit plans have a surplus position and therefore were presented in the Consolidated Statement of Financial Position separately from those plans with a deficit position. As at 31 December 2013 and 2012, net post retirement obligations were recognised in the Consolidated Statement of Financial Position as follows:

	(Euro)	
	2013	2012
Plans with a deficit position:		
Pension supplements	24,393,836	29,434,045
Healthcare	84,815,958	75,495,635
Salaries to pre-retired and suspended employees	851,670,275	730,437,447
	960,880,069	835,367,127
Plans with a surplus position:		
Pensions	(1,834,000)	(1,632,840)
	(1,834,000)	(1,632,840)
	959,046,069	833,734,287

14.3. Cash-flows relating to post retirement benefits plans

During the years ended 31 December 2013 and 2012, the payments and contributions regarding post retirement benefits were as follows:

	(Euro)	
	2013	2012
Pensions supplements		
Contributions to the funds (Note 14.1.1)	479,399	1,100,000
Payments of premiums to pre-retired and suspended employees (Note 14.1.1)	812,662	983,643
Sub total (Note 14.2)	1,292,061	2,083,643
Healthcare		
Refunds (Note 14.1.2)	(22,039,001)	(20,823,429)
Payments of healthcare expenses (Note 14.1.2)	18,864,011	19,000,416
Sub total (Note 14.2)	(3,174,990)	(1,823,013)
Other payments		
Payments of salaries to pre-retired and suspended employees (Notes 14.1.3)	157,741,098	159,517,770
Termination payments (Note 14.4)	4,036,413	1,923,146
Service cost related to liabilities transferred to the Portuguese State (i)	21,751,775	25,482,982
Sub total	183,529,286	186,923,898
	181,646,357	187,184,528

(i) This caption corresponds to a fixed contribution paid by Portugal Telecom to the Portuguese Social Security System relating to the annual service of active and suspended employees that were entitled to pension benefits under the Company's post retirement benefits plans that were transferred to the Portuguese State in December 2010.

14.4. Post retirement benefit costs

In 2013 and 2012, post retirement benefit costs and work force reduction programme costs were as follows:

	(Euro)	
	2013	2012
Post retirement benefits		
Pension supplements (Notes 14.1.1 and 14.2)	(952,178)	1,363,583
Healthcare benefits (Notes 14.1.2 and 14.2)	6,352,076	8,101,826
Salaries (Notes 14.1.3 and 14.2)	13,279,281	25,737,595
Service cost related to liabilities transferred to the Portuguese state (i)	21,783,507	22,337,314
	40,462,686	57,540,318
Work force reduction costs		
Pensions supplements (Notes 14.1.1 and 14.2)	787,000	83,981
Healthcare (Notes 14.1.2 and 14.2)	1,336,000	(167,331)
Salaries (Notes 14.1.3 and 14.2)	120,893,230	527,010
Termination payments (Note 14.3)	4,036,413	1,923,146
	127,052,643	2,366,806

(i) This caption corresponds to a fixed contribution paid by Portugal Telecom to the Portuguese Social Security System relating to the annual service of active and suspended employees entitled to pension benefits under the Company's post retirement benefit plans transferred to the Portuguese State in December 2010.

14 CONSOLIDATED FINANCIAL STATEMENTS

14.5. Net actuarial losses (gains)

In the years ended 31 December 2013 and 2012, net actuarial losses (gains) recorded in the Consolidated Statement of Comprehensive Income were as follows:

	(Euro)	
	2013	2012
Changes in actuarial assumptions		
Pension supplements (Note 14.1.1)	(1,059,000)	17,533,583
Healthcare benefits (Note 14.1.2)	(1,116,000)	37,479,958
Salaries (Note 14.1.3)	103,586,000	81,611,075
Sub-total	101,411,000	136,624,616
Differences between actual data and actuarial assumptions		
Pension supplements (Note 14.1.1)	(2,725,130)	(12,384,936)
Healthcare benefits (Note 14.1.2)	(426,743)	(78,091,448)
Salaries (Note 14.1.3)	41,215,415	(214,346)
Sub-total	38,063,542	(90,690,730)
Total (Notes 14.2 and 44.5)	139,474,542	45,933,886

Net actuarial losses (gains) related to changes in actuarial assumptions resulted from the changes in the financial and demographic actuarial assumptions detailed in Note 14.1, as follows:

- Net actuarial losses recognised in 2013 amounting to Euro 101 million correspond to the impact of the change in the Portuguese retirement age from 65 to 66 years old;
- Net actuarial losses recognised in 2012 amounting to Euro 137 million include primarily the impacts of (1) the suspension of the early retirement regime (loss of Euro 39 million), either permanently for employees under the CGA regime or during the financial assistance programme to Portugal for the remaining employees; (2) the reduction in the discount rates for responsibilities with pension supplements, healthcare benefits and salaries payable to suspended and pre-retired employees (loss of Euro 102 million), as detailed in Note 14.1; and (3) the change in the mortality tables for active beneficiaries.

The detail of net actuarial gains and losses resulting from differences between actual data and actuarial assumptions is as follows:

- Net actuarial losses recognised in 2013 amounting to Euro 38 million include (1) a gain of Euro 3 million related to the difference between actual return on plan assets (+4.5%) and expected return on plan assets calculated based on discount rates used to compute PBO, and (2) a loss of Euro 41 million related to the difference between actual data and actuarial assumptions related to projected benefits obligations, namely those assumptions related to the salary, pension and healthcare cost trend growth rates;
- Net actuarial gains recognised in 2012 amounting to Euro 91 million include (1) a gain of Euro 68 million related to the difference between actual return on plan assets (+25.2%) and expected return on plan assets calculated based on discount rates used to compute PBO, and (2) a gain of Euro 23 million related to the difference between actual data and actuarial assumptions related to projected benefits obligations, namely those assumptions related to the salary, pension and healthcare cost trend growth rates.

14.6. Other disclosures

The tables below include the present value of projected benefits obligations, the fair value of the plan assets, the surplus or deficit in the plans and the net actuarial gains and losses for all the plans mentioned above as at 31 December 2013, 2012, 2011, 2010 and 2009 and for the years then ended:

	(Euro)				
	2013	2012	2011	2010	2009
Projected benefits obligations (i)	1,345,373,711	1,233,129,057	1,256,627,527	1,396,705,310	3,836,915,409
Plan assets at fair value (i)	(386,327,642)	(399,394,770)	(344,695,390)	(448,145,688)	(2,369,524,484)
Responsibilities for post retirement benefits, net	959,046,069	833,734,287	911,932,137	948,559,622	1,467,390,925

(i) The decrease in the year ended 31 December 2010 relates mainly to a transfer of certain defined benefit pension plans to the Portuguese State.

(Euro)

	2013	2012	2011	2010	2009
Changes in actuarial assumptions	101,411,000	136,624,616	(19,426,453)	441,787,345	(1,660,464)
Differences between actual data and actuarial assumptions:					
Projected benefits obligations related	40,716,415	(22,644,314)	(6,997,663)	(67,472,319)	15,523,139
Plan assets related	(2,652,873)	(68,046,416)	92,782,990	72,411,885	(184,120,001)
Total net actuarial losses (gains)	139,474,542	45,933,886	66,358,874	446,726,911	(170,257,326)

15. OTHER COSTS (GAINS), NET

Net other gains amounted to Euro 73 million and Euro 23 million in the years ended 31 December 2013 and 2012, respectively. In 2013, this caption includes (1) a gain resulting from the settlement of contractual obligations related to the acquisition of the investment in Oi in 2011, by a lower amount than the liability initially recognised; (2) a gain related to the wireline Concession Agreement; and (3) provisions and adjustments recognised in order to adjust the carrying value of certain assets to the corresponding recoverable amounts, including an impairment loss on recorded over the goodwill related to the directories business (Note 35). In 2012, this caption includes a gain related to the net compensation for prior years costs supported by Portugal Telecom with the universal service obligation under the Concession Agreement, partially offset by provisions and adjustments recognised in order to adjust the carrying value of certain assets to the corresponding recoverable amounts.

16. NET INTEREST EXPENSES

The composition of this caption in the years ended 31 December 2013 and 2012 is as follows:

(Euro)

	2013	2012
Interest expense		
Related to loans obtained and financial instruments	345,682,897	344,266,779
Other	5,689,870	4,120,654
Interest income		
Related to cash, short-term investments and financial instruments	(90,197,912)	(126,521,456)
Other	(3,751,594)	(8,851,396)
	257,423,261	213,014,581

The increase in net interest expenses reflects primarily an increase in the average cost of net debt from Portuguese operations, from 4.2% in the year ended 31 December 2012 to 5.3% in the year ended 31 December 2013, mainly due to a lower return on cash applications and also as a result of an increase in the average cost of gross debt, explained by the bonds issued in the end of 2012.

17. NET FOREIGN CURRENCY EXCHANGE LOSSES

Net foreign currency exchange losses amounted to Euro 22 million in 2013, as compared to Euro 2 million in 2012, reflecting mainly the impact of the significant depreciation of the US Dollar against the Euro in 2013 on net assets denominated in US dollars.

18. NET LOSSES (GAINS) ON FINANCIAL ASSETS AND OTHER INVESTMENTS

The composition of this caption in the years ended 31 December 2013 and 2012 is as follows:

	(Euro)	
	2013	2012
Derivative financial instruments (Note 45)	1,294,128	3,838,959
Real estate investments	473,729	309,915
Other, net	246,610	(226,942)
	2,014,467	3,921,932

19. NET OTHER FINANCIAL EXPENSES

The composition of this caption in the years ended 31 December 2013 and 2012 is as follows:

	(Euro)	
	2013	2012
Bank commissions and expenses	44,255,667	39,652,204
Other	10,379,760	4,912,881
	54,635,427	44,565,085

20. INCOME TAXES

In 2013, companies located in mainland Portugal are subject to Corporate Income Tax at a base rate of 25%, increased (1) up to a maximum of 1.5% of taxable income through a municipal tax, and (2) by a state surcharge levied at the rate of 3.0% on taxable income between Euro 1.5 million and Euro 7.5 million (Euro 10.0 million in 2012) and at the rate of 5.0% on taxable income in excess of Euro 7.5 million (Euro 10.0 million in 2012), resulting in a maximum aggregate tax rate of approximately 31.5% for taxable income higher than Euro 7.5 million (Euro 10.0 million in 2012).

As from 2014, companies located in mainland Portugal are subject to Corporate Income Tax at a base rate of 23%, increased (1) up to a maximum of 1.5% of taxable income through a municipal tax, and (2) by a state surcharge levied at the rates of 3.0% on taxable income between Euro 1.5 million and Euro 7.5 million, 5.0% on taxable income between Euro 7.5 million and Euro 35.0 million and 7.0% on taxable income in excess of Euro 35.0 million, resulting in a maximum aggregate tax rate of approximately 31.5% for taxable income higher than Euro 35.0 million.

Portugal Telecom adopted the tax consolidation regime for groups of companies, which apply to all companies located in Portugal in which it holds at least 90% of the capital stock and that comply with Article 69 of the Portuguese Corporate Income Tax Law. As from 2014, this 90% threshold was decreased to 75%.

In accordance with Portuguese tax legislation, income tax returns are subject to review and adjustment by the tax authorities during a period of four calendar years (five years for social security, and ten years for the contributions made with respect to the years before 2001), except when there are tax losses, tax benefits were granted, or when tax inspections, claims or appeals are in progress, in which case the time periods are extended or suspended. In Brazil, income tax returns are subject to review and adjustment by the tax authorities during a period of five calendar years. The Board of Directors of Portugal Telecom, based on information from its tax advisors, believes that any adjustments which may result from such reviews, as well as other tax contingencies, will not have a material impact on the consolidated financial statements as at 31 December 2013, considering the provisions recorded by the Company (Note 42).

20.1. Deferred taxes

During the years ended 31 December 2013 and 2012, the movements in deferred tax assets and liabilities were as follows:

(Euro)								
	Balance 31 Dec 2012	Increases and reductions		Change in tax rate (ii)			Transfers and other movements	Balance 31 Dec 2013
		Net income	Other reserves and accumulated earnings (i)	Net income	Other reserves and accumulated earnings (i)	Foreign currency translation adjustments (iii)		
Deferred tax assets								
Post-retirement benefits	282,575,908	(4,329,497)	34,979,436	(11,356,545)	(13,548,178)	-	(98,763)	288,222,361
Tax losses carryforward (iv)	194,508,970	32,527,726	-	(18,123,336)	-	-	-	208,913,360
Provisions and adjustments	69,034,645	(11,867,267)	-	(1,803,423)	-	22,326	465,786	55,852,067
Financial instruments	2,267,475	(793,571)	(634,984)	(66,779)	-	-	(4,188)	767,953
Other	12,013,814	(488,250)	-	(725,126)	-	2,506	336,233	11,139,177
	560,400,812	15,049,141	34,344,452	(32,075,209)	(13,548,178)	24,832	699,068	564,894,918
Deferred tax liabilities								
Revaluation of fixed assets	171,526,102	(10,526,934)	-	-	(12,879,404)	-	(6,616)	148,113,148
Gains on disposals of investments	1,053,237	(520,215)	-	(42,642)	-	-	1	490,381
Financial instruments	14,286,361	-	-	-	(1,142,909)	-	-	13,143,452
Other (v)	83,525,446	357,042	-	(418,379)	-	(7,580,323)	6,193,926	82,077,712
	270,391,146	(10,690,107)	-	(461,021)	(14,022,313)	(7,580,323)	6,187,311	243,824,693
		25,739,248	34,344,452	(31,614,188)	474,135	7,605,155	(5,488,243)	

(i) Increases and reductions in deferred tax assets and liabilities recorded through other reserves and accumulated earnings reflect primarily the tax effects on net actuarial losses recognised in the period, amounting to Euro 21,431,258 (Note 44.5), and on revaluations reserves, amounting to Euro 12,879,404 (Note 44.5) and on losses recorded under cash-flow hedges, amounting to Euro 507,925. | (ii) This caption corresponds mainly to the impact of the decrease in the statutory tax rate applicable in Portugal for the year 2014, as mentioned above. | (iii) Foreign currency translation adjustments relate mainly to the impact of the depreciation of the Namibian Dollar against the Euro. | (iv) This caption includes mainly tax losses carryforward from Portugal Telecom that were generated in 2011, 2012 and 2013 and have a maturity of four years for the tax losses generated in 2011 and five years for the tax losses generated in 2012 and 2013. These tax losses can only be used up to a limit of 75% of taxable profits for each period. In the event that the proposed business combination between Portugal Telecom and Oi (Note 1) is completed, these tax losses will be available only upon the approval from the tax authorities, as under the proposed business combination Portugal Telecom would cease to exist. | (v) Other deferred tax liabilities as at 31 December 2013 include primarily the tax effect on unpaid dividends from associated companies, amounting to Euro 62 million.

(Euro)							
	Balance 31 Dec 2011	Increases and reductions		Foreign currency translation adjustments	Transfers and other movements	Balance 31 Dec 2012	
		Net income	Other reserves and accumulated earnings (i)				
Deferred tax assets							
Post retirement benefits	405,686,262	(134,972,134)	11,492,585	-	369,195	282,575,908	
Tax losses carryforward (ii)	115,703,314	78,341,666	-	-	463,990	194,508,970	
Provisions and adjustments	55,945,658	9,272,808	-	-	3,816,179	69,034,645	
Financial instruments	4,188,083	(881,363)	(1,035,056)	-	(4,189)	2,267,475	
Other	8,965,790	3,496,144	-	(36,682)	(411,438)	12,013,814	
	590,489,107	(44,742,879)	10,457,529	(36,682)	4,233,737	560,400,812	
Deferred tax liabilities							
Revaluation of fixed assets	182,463,945	(10,937,589)	-	-	(254)	171,526,102	
Gains on disposals of investments	1,341,723	(288,485)	-	-	(1)	1,053,237	
Financial instruments	14,286,361	-	-	-	-	14,286,361	
Other (iii)	78,614,832	12,543,899	(2,420,197)	(625,840)	(4,587,248)	83,525,446	
	276,706,861	1,317,825	(2,420,197)	(625,840)	(4,587,503)	270,391,146	
		(46,060,704)	12,877,726	589,158	8,821,240		

(i) Increases and reductions in deferred tax assets and liabilities recorded through other reserves and accumulated earnings reflect primarily the tax effects on net actuarial losses recognised in the period, amounting to Euro 11,492,585 (Note 44.5), and on losses recorded under cash-flow hedges, amounting to Euro 1,035,056. | (ii) This caption includes mainly tax losses carryforward from Portugal Telecom that were generated in 2011 and 2012 that have a maturity of four and five years, respectively, and can only be used up to a limit of 75% of taxable profits for each period. | (iii) Other deferred tax liabilities as at 31 December 2012 include primarily the tax effect on unpaid dividends from associated companies, amounting to Euro 59 million.

As mentioned in Note 3.o), deferred tax assets are recognised to the extent that it is reasonably likely that taxable income will be available against which deductible temporary differences can be used, or when there are deferred tax liabilities the reversal of which is expected in the same period in which the deferred tax assets reverse. Portugal Telecom believes that deferred tax assets recorded in the Consolidated Statement of Financial Position are recoverable either through its future taxable income, based on the Group's

14 CONSOLIDATED FINANCIAL STATEMENTS

budget for the year 2014 and projections of results for the subsequent years adjusted for differences between the accounting and taxable earnings and for certain financial operations to be undertaken in the future, or through the reversal of deferred tax liabilities.

20.2. Reconciliation of income tax

The reconciliation between the nominal and the effective income tax expense for the years ended 31 December 2013 and 2012 is as follows:

	2013	2012
Income before taxes	449,998,494	435,695,771
Statutory tax rate	31.5%	31.5%
	141,749,526	137,244,168
Difference in tax rates (i)	2,680,801	(30,322,650)
Permanent differences (ii)	(104,311,738)	21,883,208
Provisions for income tax contingencies (Note 42)	10,140,248	15,618,146
Adjustments to the income taxes of previous years	(19,851,137)	(18,814,781)
Change in tax rate (iii)	31,614,188	-
	62,021,888	125,608,091
Income tax		
Income tax-current	56,146,948	79,547,387
Deferred taxes	5,874,940	46,060,704
	62,021,888	125,608,091

(i) This caption corresponds to the impact of the difference between the statutory tax rate applicable in Portugal and other tax rates applicable to Group companies, namely foreign operations. The change in this caption reflects primarily lower earnings from Portugal Telecom's equity investment in Unitel, the earnings of which are taxable in Portugal at a lower rate than the statutory tax rate, and higher taxable losses from PT Comunicações, which are taxable at the 25% base rate, lower than the maximum statutory tax rate of 31.5%. | (ii) The change in this caption reflects primarily the impact of higher non-taxable gains recorded in 2013, including mainly the gain recorded upon the disposal of the investment in CTM (Note 32.a) and the gain resulting from the settlement of contractual obligations assumed under the acquisition of Oi (Note 15). | (iii) This caption corresponds to the impact of the change in the Portuguese statutory tax rate described above, applicable as from 2014, as a result of which deferred tax assets and liabilities were remeasured accordingly.

21. NON-CONTROLLING INTERESTS

During the years ended 31 December 2013 and 2012, the movements in non-controlling interests were as follows:

	Balance 31 Dec 2012	Acquisitions (disposals) and share capital increases (reductions)	Net income	Dividends	Currency translation adjustments (i)	Other movements	Balance 31 Dec 2013
Africatel	103,877,972	-	26,048,702	(6,250,000)	(12,307,788)	(1,813,093)	109,555,793
MTC	63,270,388	-	22,283,773	(20,261,551)	(16,341,029)	-	48,951,581
Cabo Verde Telecom	36,373,081	-	3,708,162	(3,326,459)	-	-	36,754,784
Timor Telecom	11,202,237	(792,784)	2,691,725	-	(584,476)	18,693	12,535,395
CST	8,392,468	-	9,486	-	-	-	8,401,954
TPT	3,328,307	-	786,583	(154,000)	-	(165,048)	3,795,842
LTM	2,181,095	-	1,340,361	(1,334,025)	(134,165)	(1)	2,053,265
Kenya Postel Directories	1,260,836	-	(290,961)	(382,718)	(38,246)	82,328	631,239
Previsão	393,901	-	53,807	-	-	1,187	448,895
Other	2,394,061	-	364,013	(276,510)	(114,574)	-	2,366,990
	232,674,346	(792,784)	56,995,651	(31,985,263)	(29,520,278)	(1,875,934)	225,495,738

(i) Foreign currency translation adjustments are primarily explained by the impact of the depreciation of the Namibian Dollar and US Dollar against the Euro in 2013.

(Euro)

	Balance 31 Dec 2011	Acquisitions (disposals) and share capital increases (reductions)	Net income	Dividends	Currency translation adjustments (i)	Other movements	Balance 31 Dec 2012
Africatel (ii)	83,863,847	(12,825,000)	41,562,967	-	(4,186,066)	(4,537,776)	103,877,972
MTC	66,642,692	-	22,628,517	(21,642,369)	(4,583,105)	224,653	63,270,388
Cabo Verde Telecom	41,278,588	-	7,373,541	(12,279,048)	-	-	36,373,081
Timor Telecom	12,491,211	-	7,761,368	(9,018,652)	(32,093)	403	11,202,237
CST	8,119,457	-	273,011	-	-	-	8,392,468
TPT	3,540,645	-	2,232,930	(2,305,487)	-	(139,781)	3,328,307
LTM	2,318,736	-	1,485,510	(1,343,415)	(279,736)	-	2,181,095
Kenya Postel Directories	1,373,998	-	353,478	(418,689)	(47,951)	-	1,260,836
Previsão	497,015	-	(103,160)	-	-	46	393,901
Other	2,103,783	-	715,737	(337,430)	(56,852)	(31,177)	2,394,061
	222,229,972	(12,825,000)	84,283,899	(47,345,090)	(9,185,803)	(4,483,632)	232,674,346

(i) Foreign currency translation adjustments are primarily explained by the impact of the depreciation of the Namibian Dollar against the Euro in 2012. | (ii) The movement under the caption "Acquisitions (disposals) and share capital increases (reductions)" relates to the share of non-controlling interests in a share capital reduction undertaken by this company.

22. DIVIDENDS

During the years ended 31 December 2013 and 2012, dividends paid by Portugal Telecom amounted to Euro 284,658,563 and Euro 569,317,125, respectively (Note 47.g). The amount paid in 2012 includes Euro 188,312,588 paid in January, corresponding to an advance on account of 2011 profits approved by the Board of Directors on 15 December 2011, and Euro 381,004,538 paid in May.

On 27 April 2012, the Annual Shareholders' Meeting of Portugal Telecom approved the proposal of the Board of Directors to distribute a dividend of 65 cents per share, of which 21.5 cents per share were paid on 4 January 2012 as an advance over 2011 profits, as mentioned above, and the remaining 43.5 cents per share were paid on 25 May 2012, amounting to Euro 381,004,538 in relation to 875,872,500 shares, which includes an amount of Euro 9,067,098 paid to Telemar Norte Leste in relation to a portion of Portugal Telecom's 89,651,205 shares held by this entity corresponding to Company's effective interest in Oi, resulting in a net impact on shareholders' equity amounting to Euro 371,937,439.

On 19 April 2013, the Annual Shareholders' Meeting of Portugal Telecom approved the proposal of the Board of Directors to distribute a dividend of 32.5 cents per share, which was paid on 17 May 2013, amounting to Euro 284,658,563 million in relation to 875,872,500 shares, which includes an amount of Euro 6,774,270 paid to Telemar Norte Leste in relation to a portion of the Portugal Telecom's 89,651,250 shares held by this entity corresponding to Company's effective interest in Oi, resulting in a net impact on shareholders' equity amounting to Euro 277,884,293.

Cash amounts mentioned above correspond to the unitary dividend paid to the 896,512,500 Portugal Telecom's shares adjusted by 20,640,000 shares held through equity swaps.

14 CONSOLIDATED FINANCIAL STATEMENTS

23. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2013 and 2012 were computed as follows:

		2013	2012
			(Euro)
Net income attributable to equity holders of the parent	(1)	330,980,955	225,803,781
Financial costs related to exchangeable bonds (net of tax)	(2)	30,807,282	30,442,820
Net income considered in the computation of the diluted earnings per share	(3)	361,788,237	256,246,601
Weighted average common shares outstanding in the period (i)	(4)	855,053,670	856,659,594
Effect of the exchangeable bonds (ii)		84,175,084	82,472,694
	(5)	939,228,754	939,132,288
Earnings per share attributable to equity holders of the parent			
Basic	(1)/(4)	0.39	0.26
Diluted	(3)/(5)	0.39	0.26

(i) Weighted average shares outstanding were computed considering the 896,512,500 issued shares adjusted for (1) 20,640,000 treasury shares held through equity swap contracts, applicable for all periods presented, and (2) Portugal Telecom's stake in its own shares that were acquired by Telemar Norte Leste in 2011 and 2012, under the strategic partnership between Portugal Telecom and Oi (Note 1). (ii) Dilutive effects correspond to the impact of the exchangeable bonds issued on August 2007.

24. SHORT-TERM INVESTMENTS

This caption consists of short-term financial applications which have terms and conditions previously agreed with financial institutions. As at 31 December 2013 and 2012, the composition of this caption is as follows:

	2013	2012
		(Euro)
Debt securities (i)	750,000,000	510,000,000
Debentures (ii)	161,820,445	113,628,357
Other short-term investments	2,308,312	2,369,431
	914,128,757	625,997,788

(i) This caption includes primarily debt securities issued by PT Finance and Portugal Telecom that had an average maturity of approximately 2 months and were settled in 2014 at nominal value plus accrued interest. (ii) The debentures as at 31 December 2013, amounting to approximately Euro 162 million, were issued by Banco Santander Brasil, SA and Dibens Leasing, SA and were subscribed by Brazilian subsidiaries of Portugal Telecom Group. The maturity of these notes is approximately one year.

25. ACCOUNTS RECEIVABLE - TRADE

As at 31 December 2013 and 2012, this caption consists of:

	2013	2012
		(Euro)
Accounts receivable - trade:		
Accounts receivable from customers	878,013,992	910,670,634
Unbilled revenues (i)	122,248,587	155,313,652
Sub-total	1,000,262,579	1,065,984,286
Adjustments for doubtful accounts receivable - trade (Note 42)	(237,326,106)	(269,193,656)
	762,936,473	796,790,630

(i) As at 31 December 2013, this caption includes revenues not yet billed to Fundação das Comunicações Móveis totalling Euro 56 million, which relate mainly to 2010 and previous years. The remaining amounts included under this caption correspond primarily to revenues recorded in the current year, which are billed in the subsequent year.

26. ACCOUNTS RECEIVABLE - OTHER

As at 31 December 2013 and 2012, this caption consists of:

	(Euro)	
	2013	2012
Current accounts receivable - other		
Receivables from related parties (i)	234,818,369	264,563,890
Advances to suppliers	17,525,855	14,345,227
Accrued interest income	7,278,309	21,222,354
Other (ii)	158,062,517	108,304,309
Sub-total	417,685,050	408,435,780
Adjustments for other current accounts receivable (Note 42)	(11,233,554)	(11,378,799)
	406,451,496	397,056,981
Non-current accounts receivable - other		
Other non-current accounts receivable	1,080,306	2,432,547
	1,080,306	2,432,547

(i) This caption includes primarily dividends receivable from Portugal Telecom's associated company Unitel (Note 48.a). | (ii) The increase in this caption reflects primarily the recognition in 2013 of a receivable related to the wireline Concession Agreement, as explained in Note 15.

27. INVENTORIES

As at 31 December 2013 and 2012, this caption consists of:

	(Euro)	
	2013	2012
Merchandise (i)	82,657,026	93,568,313
Raw materials and consumables	31,308,018	33,614,530
Work in progress	1,751,563	6,507,792
Sub-total	115,716,607	133,690,635
Adjustments for obsolete and slow-moving inventories (Note 42)	(29,843,659)	(28,765,102)
	85,872,948	104,925,533

(i) As at 31 December 2013 and 2012, this caption includes mainly mobile terminal equipments and fixed telephones, modems (internet access through ADSL), and set-top boxes from the telecommunications business in Portugal.

28. TAXES RECEIVABLE AND PAYABLE

As at 31 December 2013 and 2012, this caption consists of:

	(Euro)			
	2013		2012	
	Receivable	Payable	Receivable	Payable
Current taxes				
Value-added tax	14,869,413	41,104,614	10,100,914	33,196,210
Income taxes	51,905,644	2,165,427	46,151,079	2,178,460
Personnel income tax withholdings	-	9,330,374	-	14,814,413
Social Security Contributions	-	10,828,681	-	9,886,565
Other	296,235	2,611,168	-	497,321
	67,071,292	66,040,264	56,251,993	60,572,969
Taxes in foreign countries	3,861,167	14,067,678	15,377,850	21,344,538
	70,932,459	80,107,942	71,629,843	81,917,507
Non-current taxes				
Taxes in foreign countries	24,739	-	59,313	-

29. PRE-PAID EXPENSES

As at 31 December 2013 and 2012, this caption consists of:

	2013	2012
Interest paid in advance	29,563,928	29,248,675
Marketing and publicity expenses paid in advance	6,370,358	8,281,403
Direct costs	5,841,850	7,121,253
Rentals	6,035,233	5,794,149
Maintenance and repairs	3,290,448	3,932,889
Telephone directories	2,918,237	3,079,345
Other	11,224,050	4,956,374
	65,244,104	62,414,088

30. INVESTMENTS IN JOINT VENTURES

On 28 March 2011, as referred to in Note 1, Portugal Telecom concluded the acquisition process of its investments in Oi and Contax and the agreements with the controlling shareholders of these companies, for a total cash consideration of Brazilian Real 8,437 million (Euro 3,728 million). The investment in Telemar was realised through the acquisition of a direct stake in this company and indirectly through the acquisition of stakes in the share capital of its controlling shareholders, while the investment in Contax was realised indirectly through the acquisition of a stake in the share capital of CTX.

Oi Group is the leading provider of telecommunication services in the Brazilian market, providing these services through Oi, SA and its subsidiaries, and Contax is one of the leading corporate services company and the leader in contact centre services in Brazil.

The terms of the shareholders' agreements entered into by Portugal Telecom, AG and LF in relation to the investments in Oi and Contax contain provisions to produce unanimous voting by these parties in meetings of the board of directors of Telemar Participações and CTX Participações on strategic financial and operating decisions relating to the activity of the Oi and Contax groups, respectively. Therefore, in accordance with the provisions of IFRS 11, the Company concluded that it contractually shares the control of Telemar Participações and CTX Participações, and accordingly, these companies together with its subsidiaries are classified as joint ventures, and consequently, accounted for by the equity method.

30.1. Detail of Portugal Telecom's investments in joint ventures

The detail of Portugal Telecom's total investment in Oi, Contax and its controlling shareholders, is as follows:

	(Euro)	
	2013	2012
Oi	2,013,310,333	2,488,085,654
Financial Investment (i)	1,254,256,430	1,573,492,521
Goodwill (ii)	759,053,903	914,593,133
Contax	54,251,514	60,077,175
Financial Investment	18,246,588	16,694,409
Goodwill (ii)	36,004,926	43,382,766
Telemar Participações (iii)	77,907,584	90,953,229
LF (iv)	120,551,271	157,499,710
AG (iv)	124,513,850	161,542,615
CTX	16,181,157	20,708,350
Other	1,531,151	1,193,834
	2,408,246,860	2,980,060,567

(i) As at 31 December 2013 and 2012, this financial investment reflects the Company's 15.4% and 15.6% direct interest in Oi's net assets amounting to Euro 8,162 million and Euro 10,118 million, respectively, the detail of which is presented below, including some related explanatory notes. The reduction in the carrying value of this investment during the year 2013 reflects primarily the impact of the depreciation of the Brazilian Real against the Euro, amounting to approximately Euro 256 million, and the dividends received from Oi in March and October 2013, totalling Euro 86 million (Note 47.e), effects that were partially offset by the Company's share in Oi's earnings, amounting to Euro 23 million, the detail of which is presented below, and also by Portugal Telecom's share in Oi's other comprehensive income related to net actuarial gains on defined benefit pension plans and hedging effects on financial instruments. | (ii) The change in these captions reflects the impact of the depreciation of the Brazilian Real against the Euro (Euro 163 million). | (iii) As at 31 December 2013, Portugal Telecom held a 12.1% direct interest in Telemar Participações. The investment in Telemar Participações reflected its net assets composed by (1) this company's investment in Oi through a 18.8% direct interest, and (2) its outstanding gross debt totalling Euro 942 million (Euro 1,249 million as at 31 December 2012). | (iv) As at 31 December 2013, Portugal Telecom held a 35% direct interest in both AG and LF. The investments in these companies reflected their net assets composed by (1) their investments in Telemar Participações through a 19.4% direct interest each and in Oi through a 4.25% direct interest each, and (2) their outstanding gross debt, amounting to Euro 196 million for AG and Euro 199 million for LF (Euro 249 million and Euro 247 million as at 31 December 2012, respectively).

Oi's net assets presented below are adjusted to reflect the effects of the purchase price allocation performed by Portugal Telecom in connection with the acquisition of this investment as well as other adjustments to conform to the Group accounting policies. The detail of Oi's net assets as at 31 December 2013 and 2012 is as follows:

	(Euro)	
	2013	2012
Cash and cash equivalents	762,768,814	1,632,283,721
Short-term investments	163,210,160	921,209,009
Current accounts receivable	3,050,513,483	2,880,155,049
Current taxes receivable	713,511,917	1,249,247,062
Current judicial deposits (i)	404,055,634	765,022,630
Goodwill	22,692,638	29,241,257
Tangible assets (ii)	8,011,567,784	9,175,484,852
Intangible assets (iii)	8,284,614,390	10,585,042,493
Post retirement benefits	18,479,119	38,184,979
Deferred taxes (iv)	1,867,025,458	2,290,228,031
Non-current judicial deposits (i)	3,392,355,244	3,596,216,632
Other	755,899,047	838,655,543
Total assets	27,446,693,688	34,000,971,258
Short-term debt (v)	1,075,578,550	822,083,171
Current accounts payable	847,752,589	1,647,774,733
Current accrued expenses	1,014,419,828	996,864,374
Current taxes payable	841,981,404	1,337,164,767
Current provisions (vi)	375,591,309	662,889,579
Medium and long-term debt (v)	9,062,011,675	11,035,628,461
Non-current taxes payable (vii)	849,402,537	1,192,461,097
Non-current provisions (vi)	1,348,916,630	1,877,087,797
Post retirement benefits	197,557,853	322,084,150
Deferred taxes (iv)	1,984,575,960	2,584,935,660
Other (viii)	1,687,211,722	1,403,529,996
Total liabilities	19,285,000,057	23,882,503,785
Total (a)	8,161,693,631	10,118,467,473

(a) As at 31 December 2013 e 2012, Portugal Telecom held a 15.4% and 15.6% direct interest in Oi's shareholders' equity of Euro 8,162 million and Euro 10,118 million, respectively, which corresponds to an investment of Euro 1,254 million and Euro 1,573 million, respectively.

14 CONSOLIDATED FINANCIAL STATEMENTS

Information on the main captions of the statement of financial position of Oi is provided below.

i) Judicial deposits

Oi has several legal proceedings, including civil, labour and tax contingencies, for which, in accordance with Brazilian law, companies are required, in certain situations, to make judicial deposits or to present financial guarantees with the applicable judicial entities. These judicial deposits are made in connection with legal actions for which risk of loss was deemed either probable, possible or remote, based on the decision of judicial authorities, and generally bear interest or are adjusted for inflation. As at 31 December 2013 and 2012, the composition of total current and non-current judicial deposits is as follows:

	(Euro million)	
	2013	2012
Judicial deposits		
Civil	2,565	2,952
Tax	699	784
Labor	532	625
	3,796	4,361
Current	404	765
Non-current	3,392	3,596

ii) Tangible assets

As at 31 December 2013 and 2012, the composition of tangible assets of Oi is as follows:

	(Euro)	
	2013	2012
Basic equipment	7,094,394,959	7,997,507,842
Buildings and other constructions	640,679,943	872,165,581
Administrative equipment	118,397,789	142,871,286
Land	61,074,369	74,442,172
Other tangible assets	97,020,724	88,497,971
	8,011,567,784	9,175,484,852

Basic equipment relate mainly to infrastructure and transmission equipment.

iii) Intangible assets

As at 31 December 2013 and 2012, the composition of intangible assets of Oi is as follows:

	(Euro)	
	2013	2012
Industrial Property and other rights	8,127,075,567	10,336,877,971
Other intangible assets	157,538,823	248,164,522
	8,284,614,390	10,585,042,493

The caption "Industrial Property and other rights" includes primarily:

- Euro 7,392 million and Euro 9,471 million as at 31 December 2013 and 2012, respectively, related to regulatory licenses held by Oi Group, including both mobile licenses and fixed line concessions, which were adjusted to fair value as at 31 March 2011, following the purchase price allocation performed by Portugal Telecom under the acquisition of the investment in Oi. Fixed concessions are held by Telemar Norte Leste and Oi, SA and are amortised through the concession periods (until 2025), while mobile licenses are held by TNL PCS and Brasil Telecom Celular and amortised through the period of the licenses plus one renewal period (until 2038);
- Euro 148 million and Euro 320 million as at 31 December 2013 and 2012, respectively, corresponding to the fair value,

net of accumulated depreciation, of Oi's customer bases, which were recognised at fair value as at 31 March 2011 following the purchase price allocation performed by Portugal Telecom under the acquisition of the investment in Oi; these amounts are amortised, on a linear basis, based on the estimated average period of customer retention;

- Euro 413 million and Euro 490 million as at 31 December 2013 and 2012, respectively, related to software licenses.

iv) Deferred taxes

As at 31 December 2013 and 2012, the composition of deferred tax assets and liabilities of Oi is as follows:

	(Euro)	
	2013	2012
Deferred tax assets		
Provisions and adjustments	844,402,014	1,193,050,021
Tax losses carryforward	800,360,378	815,943,927
Other	222,263,066	281,234,083
	1,867,025,458	2,290,228,031
Deferred tax liabilities	1,984,575,960	2,584,935,660

Tax losses carried forward in Brazil have no maturity but can only be used up to a limit of 30% of taxable profits for each period.

Deferred tax liabilities as at 31 December 2013 and 2012 include primarily the tax effects on (1) fair value adjustments recorded by Oi under purchase price allocations related to business combinations occurred in previous years (Euro 645 million and Euro 883 million, respectively) and (2) the fair value adjustments recorded in connection with the purchase price allocation performed by Portugal Telecom regarding the acquisition of the investment in Oi completed in March 2011 (Euro 1,339 million and Euro 1,675 million, respectively).

v) Gross debt

As at 31 December 2013 and 2012, the composition of gross debt of Oi is as follows:

	(Euro)	
	2013	2012
Bonds	6,260,353,736	6,659,529,100
Bank loans	4,056,511,412	4,975,487,312
Derivative financial instruments	(462,465,535)	(152,198,797)
Other financings	283,190,612	374,894,017
	10,137,590,225	11,857,711,632

14 CONSOLIDATED FINANCIAL STATEMENTS

The following table provides detailed information about the bonds outstanding as at 31 December 2013:

Issuer	Debt	Local currency (i)	Euro	Issue date	Expected maturity (ii)	Interest rate
Oi	Debentures	1,500,000,000	460,461,690	Mar-13	2019	
Oi	Debentures (iii)	2,000,000,000	613,948,919	Mar-12	Between 2017 and 2020	IPCA+6.20% and CDI+0.94%
Oi	Senior Notes (iv)	3,513,900,000	1,078,677,554	Feb-12	2022	5.75%
Oi	Debentures	2,350,000,000	721,389,980	Dec-11	Between 2016 and 2018	CDI+1.15%
Oi	Senior Notes	1,100,000,000	337,671,906	Sep-11	2016	9.75%
Oi	Debentures	1,000,000,000	306,974,460	Aug-11	2017	CDI+1%
Oi	Senior Notes (v)	2,419,875,000	742,839,821	Dec-10	2017	5.13%
Telemar	Senior Notes (iv)	4,186,284,765	1,285,082,504	Sep-10	2020	5.50%
Telemar	Debentures	2,000,000,000	613,948,919	Nov-09	2014	CDI+1.2%
Telemar	Bond	332,785,071	102,156,517	Apr-09	2019	9.50%
Other bond loans and transaction costs			(2,798,534)			
			6,260,353,736			

(i) Amounts are stated in Brazilian Real and correspond to 100% of the amount issued. | (ii) Loans are repayable on final maturity except where otherwise indicated. | (iii) These debentures were issued in two series, the first of which amounted to real 400 million and bears interest at the rate of CDI plus 0.94% and the second amounted to Brazilian Real 1,600 million and bears interest at the rate of IPCA plus 6.20%. | (iv) These notes were issued in U.S. Dollars. | (v) These notes were issued in euros.

Bank loans obtained by Oi outstanding as at 31 December 2013 include primarily:

- Financing agreements entered into by the Oi Group with BNDES in December 2012 for the purpose of financing the investments between 2012 and 2014, totalling Brazilian Real 5,417 million. As at 31 December 2013, several companies of the Oi Group drawn a total amount of Brazilian Real 2,860 million (Euro 878 million) under these financing agreements;
- Financing agreements entered into with BNDES in December 2009 by several companies of the Oi Group for the purpose of financing the investments between 2009 and 2011, totalling Brazilian Real 4,403 million. In 2009, 2010 and 2011, there were disbursements of Brazilian Real 1,500 million, Brazilian Real 1,093 million and Brazilian Real 1,068 million, respectively. Interest and principal are paid on a monthly basis until final maturity in December 2018. The outstanding amount due as at 31 December 2013 was Brazilian Real 1,915 million (Euro 588 million);
- A loan of Brazilian Real 4,300 million obtained in May 2008 by Telemar with Banco do Brasil for the purpose of acquiring an equity interest in Brasil Telecom (now Oi, SA), with interest being payable semi-annually, from May 2015 to May 2018. Following the repayment of two instalments in May 2010 and May 2011, amounting to Brazilian Real 614 million each, the remaining amount due is repayable in four annual instalments beginning on May 2015. The outstanding amount due as at 31 December 2013 was Brazilian Real 3,071 million (Euro 943 million).

Derivative financial instruments correspond basically to exchange and interest rate financial derivatives which are recorded at fair value and were contracted primarily with the purpose of eliminating the risk of exchange and interests rate fluctuations in debt instruments.

Other financings include primarily certificates of real estate receivables (CR's) indirectly issued by the Oi Group and purchased by Brazilian financial institutions. In August 2010, Oi, SA and Telemar transferred several real estate properties to its wholly-owned subsidiaries Copart 4 Participações SA (Copart 4) and Copart 5 Participações SA (Copart 5), respectively. Telemar and Oi entered into lease contracts with terms of up to 12 years for the continued use of all of the properties transferred to the entities mentioned above. Copart 4 and Copart 5 assigned the receivables representing all payments under these leases to Brazilian Securities Companhia de Securitização, which issued Real Estate Receivables Certificates (Certificados de Recebíveis Imobiliários or CRIs), backed by these receivables. These CRIs were purchased by Brazilian financial institutions and Oi received the net proceeds from the assignment of lease receivables in the total aggregate amount of Brazilian Real 1,585 million. The aggregate net effective interest rate on this transaction is 102% of the CDI rate. As at 31 December 2013, the aggregate liability under these leases was Brazilian Real 923 million (Euro 283 million).

vi) Provisions

As at 31 December 2013 and 2012, the nature and detail of the main legal proceedings and tax contingencies against companies of the Oi Group, for which the risk of loss was deemed probable and therefore are fully provided for, are as follows:

(million)

		31 Dec 2013		31 Dec 2012	
		Euro	Brazilian Real	Euro	Brazilian Real
Civil	(i)				
Corporate Law	(a)	633.2	2,062.7	863.3	2,334.0
ANATEL estimates and fines	(b)	320.9	1,045.5	365.2	987.3
Other		222.7	725.5	363.4	982.4
Sub-total		1,177.0	3,833.7	1,592.0	4,303.7
Labor	(ii)				
Overtime	(a)	145.8	474.9	234.9	635.0
Salary differences and related effects	(b)	17.5	57.0	30.9	83.5
Hazardous work conditions	(c)	39.5	128.8	63.9	172.9
Indemnities	(d)	46.2	150.6	79.4	214.7
Stability and integration	(e)	37.1	120.9	66.8	180.7
Additional post retirement benefits	(f)	23.0	75.0	36.3	98.1
Lawyers and expert fees	(g)	9.5	31.0	15.6	42.1
Contractual rescissions	(h)	7.7	24.9	14.6	39.6
Other	(i)	24.3	79.2	111.5	301.4
Sub-total		351.0	1,142.3	654.0	1,768.0
Tax	(iii)				
ICMS (Value Added Tax)	(a)	111.0	361.5	165.7	448.1
FUNTEL	(b)	45.2	147.4	52.8	142.6
Other		40.4	131.5	75.4	203.8
Sub-total		197.0	640.4	294.0	794.5
Total		1,725.0	5,616.3	2,540.0	6,866.3

i) Civil contingencies

a) Corporate Law

As successor to CRT, which was acquired in July 2000, Oi is subject to various civil claims filed against that entity, namely several claims 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, being the number of shares to be issued to each subscriber 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 began to file suits 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 SA (Telems), Telecomunicações de Goiás SA (Telegoiás) and Telecomunicações do Mato Grosso SA (Telemat), operating companies acquired by Brasil Telecom Holding in the privatisation of Telebrás and which were subsequently merged into Brasil Telecom, Oi, SA (former Brasil Telecom) is subject to various civil claims in connection with telephone programmes (Community Telephone Programs) established in the States of Mato Grosso do Sul, Goiás and Mato Grosso.

Brasil Telecom, based on the decisions of the court of justice issued in 2009, considers the risk of loss regarding these proceedings as probable. Currently, the provisions for these lawsuits are based on (i) several legal interpretations; (ii) the number of ongoing lawsuits by matter discussed; and (iii) the average amount of historical losses, broken down by matter (including all procedural costs).

At the end of 2010, the website of the Superior Court of Justice (STJ) disclosed news that this court had set compensation criteria to be adopted by Oi, SA to the benefit of the shareholders of the former CRT for those cases in which new shares, possibly due, could not be issued because of the sentence issued. According to this court news, which do not correspond to a final decision, the potential compensation (conversion of the obligation into cash) must be based on: (i) the definition of the number of shares that each claimant would be entitled to, measuring the capital invested at the book value per share as reported in the company's monthly trial balance on the date it was paid-in; (ii) the number of shares determined shall be multiplied by its quotation on the

14 CONSOLIDATED FINANCIAL STATEMENTS

stock exchange at the closing of the trading day the final and unappealable decision is issued, when the claimant becomes entitled to sell or dispose of the shares; and (iii) the result obtained must be adjusted for inflation from the trading day of the date of the final and unappealable decision, plus legal interest since notification. In the case of succession, the benchmark amount will be the stock market price of the successor company.

Based on current information, the management believes that its estimate would not be materially affected as at 31 December 2013, if the methodology mentioned above had been already approved. Meanwhile, it is possible that changes occur in the event that the items mentioned above change significantly, mainly in relation to the stock price of Oi's shares.

As at 31 December 2013, Oi recorded provisions in the amount of Brazilian Real 2,063 million for those claims in respect of which it deemed the risk of loss as probable, as compared to Brazilian Real 2,334 million as at 31 December 2012.

b) ANATEL estimates and fines

Oi received various notifications from ANATEL, mainly for not meeting certain goals or obligations set out in the General Plan on Universal Service or in 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 at 31 December 2013, Oi recorded provisions in the amount of Brazilian Real 1,046 million for those claims in respect of which it deemed the risk of loss as probable, as compared to Brazilian Real 987 million as at 31 December 2012.

ii) Labour contingencies

Oi is a party to a large number of labour claims arising out of the ordinary course of its businesses, including claims for:

- a) **Overtime** – Lawsuits claiming the payment of overtime, for time allegedly worked after regular working hours.
- b) **Salary differences and related effects** – Claims from employees who allegedly received a lower compensation than co-workers holding a similar position, associated with other requirements provided for by the applicable law.
- c) **Hazardous work conditions** – Reflect, substantially, the expected unfavourable outcome in lawsuits on the mandatory payment of hazardous duty premium to employees working under conditions classified as hazardous, mainly next to high-voltage installations.
- d) **Indemnities** – Refer to reimbursement of or compensation claims for damages suffered while employed by the company, for several reasons, such as: occupational accidents, temporary tenure, pain and suffering, reimbursement of payroll deductions, day-care allowance, and productivity bonuses according to collective bargaining agreements.
- e) **Stability and integration** – Claim due to alleged non-compliance with an employee's special condition which prohibited termination of the employment contract without cause.
- f) **Additional post retirement benefits** - Claims related to differences allegedly due under the pension benefits of former employees, proportionally to other claimed amounts granted by courts and not initially considered in the calculation of the pension benefit.
- g) **Lawyers and expert fees** – Instalments payable to the plaintiffs' lawyers and appointed court experts, when expert evidence is necessary during the fact-finding stage.
- h) **Contractual rescissions** – Amounts due to claimants arising from the termination of employment contract, such as vacation pay (proportional/vested), thirteenth salary FGTS fine, and the increase in this pay proportionally to other amounts claimed that allegedly should be included in the calculation of severance pay.

i) Other labour contingencies - Include primarily 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 labour fines arising from delays or non-payment of certain amounts provided for by the employment contract.

In the second quarter of 2013, Oi reviewed the methodology used to calculate the provisions for losses in labour lawsuits including statistical techniques obtained as a result of higher experience accumulated over the years regarding this matter. This change resulted in a reversal of provisions for labour contingencies by approximately Brazilian Real 315 million in 2013.

As at 31 December 2013, the total estimated contingencies in connection with labour claims against Oi in respect of which the risk of loss was deemed probable totalled Brazilian Real 1,142 million, as compared to Brazilian Real 1,768 million as at 31 December 2012.

iii) Tax contingencies

a) ICMS (Value Added Tax)

Under the regulations governing the 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), or ISS; and (2) whether some of the assets it has purchased relate to the telecommunications services provided, and, therefore, qualify for an ICMS tax credit. A small part of the assessments that are considered to have a probable risk of loss relate to: (1) whether certain revenues are subject to ICMS tax or ISS tax; (2) offset and usage of tax credits on the purchase of goods and other materials, including those necessary to maintain the network; and (3) assessments related to non-compliance with certain ancillary (non-monetary) obligations.

As at 31 December 2013, Oi recorded provisions in the amount of Brazilian Real 362 million for those assessments in respect of which it deemed the risk of loss as probable, as compared to Brazilian Real 448 million as at 31 December 2012.

b) FUNTTEL

FUNTTEL (Fundo para o Desenvolvimento Tecnológico das Telecomunicações) 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, for which Oi has questioned its legality, Oi recorded provisions for additional contributions to these funds. As at 31 December 2013, Oi recorded provisions in the amount of Brazilian Real 147 million for assessments of the FUNTTEL, as compared to Brazilian Real 143 million as at 31 December 2012.

As at 31 December 2013 and 2012, the nature of the legal proceedings and tax contingencies against Oi for which the risk of loss was deemed possible is as follows:

	31 Dec 2013		31 Dec 2012	
	Euro	Brazilian Real	Euro	Brazilian Real
Civil	318.6	1,037.9	282.5	763.7
Labour	269.3	877.3	319.2	863.0
Tax	5,524.3	17,995.9	6,373.3	17,230.9
Total	6,112.2	19,911.1	6,975.0	18,857.6

14 CONSOLIDATED FINANCIAL STATEMENTS

i) Civil contingencies

Refer to lawsuits for which no court decision has been issued, and are mainly related, but not limited to, challenging of network expansion plans, compensation for pain and suffering and material damages, collection lawsuits, bidding processes, among other. The total amount included in the table above regarding civil contingencies is based exclusively on the amounts claimed by the plaintiffs, which are typically higher than the actual claim case.

ii) Labour contingencies

Refer to several lawsuits claiming, but not limited to, the payment of salary differences, overtime, hazardous duty premium, and joint liability, the nature of which is described in detail above.

iii) Tax contingencies

As at 31 December 2013, the estimated contingencies in connection with tax proceedings against Oi in respect of which the risk of loss was deemed possible amounted to Brazilian Real 17,996 million, as compared to Brazilian Real 17,231 million as at 31 December 2012. The Brazilian corporate tax system is complex, and Oi is 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:

a) Value Added Tax (ICMS) - Tax assessments amounting approximately to Brazilian Real 5,866 million and Brazilian Real 5,755 million as at 31 December 2013 and 2012, respectively, 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) utilisation of ICMS credits on the purchase of goods and other inputs necessary for network maintenance.

b) City taxes - Tax assessments related to taxes levied by City authorities, including mainly the taxes levied on equipment leases, wakeup call services and other communication services. The total amounts involved are approximately Brazilian Real 2,078 million and Brazilian Real 1,787 million as at 31 December 2013 and 2012, respectively, which are not accrued because the legal counsel in charge considers the likelihood of an unfavourable outcome as possible since these activities do not qualify under the ISS service list or are already subject to ICMS. Also, in the last quarter of 2001, the STF (Superior Tribunal Federal) decided, thus strengthening the defence arguments, that ISS should not be levied on the lease of equipment, where a substantial portion of the assessed tax refers to this type of revenue.

c) INSS - Lawsuits amounting approximately to Brazilian Real 1,002 million and Brazilian Real 957 million as at 31 December 2013 and 2012, respectively, which relate mainly to joint liability, applicable percentage of Occupational Accident Insurance (SAT), and amounts subject to social security contribution.

d) Federal taxes - Federal tax assessments, mainly related to alleged undue offset and self-assessments of taxes due, and disallowing previous calculations, amounting to approximately Brazilian Real 9,050 million and Brazilian Real 8,761 million as at 31 December 2013 and 2012, respectively.

vii) Non-current taxes payable

Non-current taxes payable mainly relate to federal tax programmes in place in Brazil, under which companies enrolled a substantial portion of their tax debt to the National Treasury and the National Social Security Institute (INSS) past due up to 30 November 2008.

viii) Other liabilities

This caption includes primarily dividends payable, non-current accounts payable, namely related to licenses payable to Anatel, and deferred income.

30.2. Detail of Portugal Telecom's share in the earnings of joint ventures

The detail of Portugal Telecom's share in the earnings (losses) of joint ventures in the year ended 31 December 2013 and 2012 is as follows:

	(Euro)	
	2013	2012
Oi (i)	23,437,155	34,393,098
Telemar Participações (ii)	(9,832,620)	(11,345,921)
LF (ii)	(10,415,106)	(12,123,736)
AG (ii)	(9,988,842)	(14,842,982)
Contax	1,433,348	166,504
CTX	862,288	(545,314)
Other	2,318,098	1,286,353
	(2,185,679)	(3,011,998)

(i) In 2013 and 2012, as explained above, this caption corresponds to Portugal Telecom's 15.4% and 15.6% direct share in Oi's earnings amounting of Euro 149 million and Euro 225 million, respectively, the detail of which is presented in detail below, including some related explanatory notes. | (ii) Portugal Telecom's share in net losses from these entities reflect primarily interest expenses recorded by these holding companies in connection with their outstanding debt.

The table below provides detailed information about the earnings of Oi in the years ended 31 December 2013 and 2012, which reflect the effects of the purchase price allocation performed by Portugal Telecom in connection with the acquisition of this investment as well as other adjustments to conform to the Group accounting policies:

	(Euro million)	
	2013	2012
REVENUES	10,383.1	11,874.5
COSTS, EXPENSES AND LOSSES		
Wages and salaries	825.2	970.7
Direct costs	2,149.8	2,459.8
Costs of products sold	147.3	171.5
Marketing and publicity	185.7	192.7
Supplies, external services and other expenses	2,621.4	3,460.7
Indirect taxes	696.8	777.1
Provisions and adjustments	260.0	293.9
Depreciation and amortisation	2,155.2	2,257.0
Post retirement benefits	26.5	25.1
Other costs, net	1.8	(72.3)
Income before financial results and taxes	1,313.4	1,338.2
Net interest expenses	1,006.0	850.7
Net other financial expenses	164.3	208.7
Income before taxes	143.1	278.9
Income taxes	(8.9)	44.4
Net income (before non-controlling interests)	152.0	234.5
Income attributable to non-controlling interests	3.0	9.6
Net income (after non-controlling interests)	149.0	224.9

The decreases across the major captions of the income statement presented above reflect primarily the impact of the depreciation of the Brazilian Real against the Euro, which at the level of net income after non-controlling interests amounted to Euro 28 million. Adjusting for this effect, the earnings of Oi would have decreased by Euro 48 million, reflecting primarily the following effects on a constant currency basis:

- Higher interest expenses, reflecting the dividends paid by Oi in April and August 2012 and the amounts paid to non-controlling shareholders in April 2012 under the completion of its corporate simplification;
- Higher depreciation and amortisation expenses, reflecting increased capital expenditures incurred in 2012 as compared to previous years, including the acquisition of the 4G license in June 2012;
- Gains recorded in 2012 in connection with the disposal of real estate properties and mobile towers undertaken in the end of 2012;

14 CONSOLIDATED FINANCIAL STATEMENTS

- An increase in supplies and external services, including higher maintenance expenses due to the increase in the customer base and focus on higher quality, and higher rental expenses reflecting the lease agreements entered into following the disposal of real estate properties and mobile towers undertaken in the end of 2012;
- Lower sales and other operating revenues.

These effects were partially offset by:

- Higher services rendered, reflecting a positive contribution from broadband and pay-TV services that more than compensated the traditional pressure in fixed voice;
- A capital gain recorded by Oi in December 2013 in connection with the disposal of its submarine cable operation for a total amount of Brazilian Real 1,779 million.

31. OTHER CURRENT AND NON-CURRENT ASSETS

As at 31 December 2013, this caption includes mainly judicial deposits in PT Brasil, made in connection with legal actions for which risk of loss was deemed either probable, possible or remote, based on the decision of judicial authorities, and generally bear interest or are adjusted for inflation.

As explained in Note 3.I.viii, in previous years Portugal Telecom entered into cross-border lease transactions (QTE transactions). Pursuant to these transactions, Portugal Telecom recognised in the Consolidated Statement of Financial Position accounts receivable and accounts payable by the same amount relating to the sale of the equipments and the financial lease, respectively. During the year ended 31 December 2012, the Company agreed with the other parties to these arrangements the early termination of the remaining QTE transactions that were still outstanding as at 31 December 2011, which explains the reduction in the related receivables and payables included under the captions of other current and non-current assets and liabilities.

32. NON-CURRENT ASSETS HELD FOR SALE

The composition of non-current assets held for sale as at 31 December 2013 and 2012 is as follows:

	(Euro)	
	2013	2012
Equity investment in CTM	-	47,318,899
Equity investment in Sportinveste Multimedia	4,653,741	4,622,069
	4,653,741	51,940,968

These assets are recorded at their carrying amounts which are lower than their fair values less costs to sell.

a) CTM

On 13 January 2013, Portugal Telecom entered into a definitive agreement for the sale to CITIC Telecom of its 28% equity stake held in CTM and as such this investment was classified as a non-current asset held for sale as at 31 December 2012. Upon the closing of this transaction on 20 June 2013, Portugal Telecom received a total amount of Euro 335.7 million (Notes 1 and 47.c) and recognised a gain of Euro 310.3 million (Note 33), which includes: (1) a gain of Euro 313.4 million corresponding to the difference between the proceeds obtained from this transaction and the carrying value of this investment as at 31 December 2012 net of dividends received during the first quarter of 2013, amounting to Euro 25.2 million (Note 47.e), and a loss of Euro 3.1 million corresponding to the cumulative amount of negative foreign currency translation adjustments relating to this investment that were reclassified to profit and loss upon the completion of the sale.

b) Sportinveste

On 20 December 2012, Portugal Telecom reached an agreement on a number of transactions that will allow Portugal Telecom to have a 25% stake in a joint-venture that will combine Sport TV Portugal SA (Sport TV), Sportinveste Multimédia SGPS, SA (Sportinveste Multimédia) and P.P. TV - Publicidade de Portugal e Televisão, SA (PPTV). Portugal Telecom will contribute its current 50% stake in Sportinveste Multimédia and invest, through a rights issue in Sport TV, a net amount of up to Euro 21 million. Following these transactions, Portugal Telecom will own 25% of Sport TV, which will incorporate PPTV and Sportinveste Multimédia. As a result of this agreement, Portugal Telecom's investment in Sportinveste Multimédia was classified as a non-current asset held for sale as at 31 December 2012, the carrying value of which amounted to Euro 5 million as of that date.

Sport TV produces one of the most complete and broad sports content offering worldwide and PPTV promotes television rights. Sportinveste Multimédia is currently equally owned by Portugal Telecom and Sportinveste SGPS and its core business is the production and development of sports contents through any multimedia platform. This transaction will result in a joint-venture that will allow a higher operational efficiency in management of sports contents in the various distribution platforms, including pay-TV, mobile networks and internet. This will benefit all operators in the market as well as their customers. Taking into consideration that sports contents are core to its strategy in the various market segments, Portugal Telecom will continue to distribute other sports contents thus striving to retain a diversified and competitive offer to its customers.

These corporate transactions are subject to the approval of the competent authorities, particularly the Competition Authority - Autoridade da Concorrência, and the accomplishment of certain contractual conditions by the companies involved, including the conclusion of Sport TV's refinancing following the transaction.

33. INVESTMENTS IN ASSOCIATED COMPANIES

As at 31 December 2013 and 2012, this caption consists of:

	2013	2012
Investments in associated companies	503,805,209	399,651,805
Loans granted to associated companies and other companies	5,424,200	4,928,125
Investments in other companies	2,086,752	2,238,055
	511,316,161	406,817,985

As at 31 December 2013 and 2012, the caption "Investments in associated companies" consists of:

	2013	2012
Unitel (i)	494,307,516	392,204,435
Hungaro Digital KFT	2,301,984	2,310,913
INESC - Instituto de Engenharia de Sistemas e Computadores (ii)	2,992,787	2,992,788
Other companies	7,195,710	5,136,457
	506,797,997	402,644,593
Adjustments for investments in associated companies (Note 42)	(2,992,788)	(2,992,788)
	503,805,209	399,651,805

(i) The total investment in Unitel includes (a) the financial investment in this company under the equity method of accounting, reflecting the 25% direct interest held by PT Ventures in this associated company, amounting Euro 467,809,011 and Euro 365,705,931 as at 31 December 2013 and 2012, respectively, and (b) the difference between the purchase price and the fair value of net assets acquired recorded upon the acquisition of this company, amounting to Euro 26,498,505 as at 31 December 2013 and 2012. Portugal Telecom assesses the recoverable amount of the total investment in this company at least on an annual basis. The increase in the carrying value of this investment is explained by Portugal Telecom's share in the earnings of Unitel (Euro 130 million), partially offset by the impact of the depreciation of the US Dollar against the Euro in 2013 (Euro 21 million). | (ii) As at 31 December 2013 and 2012, this investment is fully provided for.

14 CONSOLIDATED FINANCIAL STATEMENTS

The purpose of loans granted to associated and other companies is basically to finance their operations and develop new businesses. As at 31 December 2013 and 2012, the detail of these loans, which do not have a defined maturity date, is as follows:

	(Euro)	
	2013	2012
INESC	888,882	2,838,821
SIRESP	1,260,909	1,513,090
Other	3,274,409	3,164,954
	5,424,200	7,516,865
Adjustments for loans granted to associated and other companies (Note 42)	-	(2,588,740)
	5,424,200	4,928,125

As at 31 December 2013 and 2012, the caption "Investment in other companies" consists of:

	(Euro)	
	2013	2012
Janela Digital	2,048,674	2,048,674
Other companies	2,638,300	2,855,222
Sub-total	4,686,974	4,903,896
Adjustments for investments in other companies (Note 42)	(2,600,222)	(2,665,841)
	2,086,752	2,238,055

In the years ended 31 December 2013 and 2012, the detail of the profit and loss caption "Equity in earnings of associated companies, net" is as follows:

	(Euro)	
	2013	2012
CTM (i)	310,302,875	26,441,001
Unitel	129,883,370	187,681,720
Sportinveste Multimédia	31,672	(2,327,625)
Páginas Amarelas	(388,320)	(4,081,405)
Other	2,953,990	2,559,893
	442,783,587	210,273,584

(i) In 2013, this caption corresponds to the gain recorded in connection with the completion of the disposal of the investment in CTM (Note 32.a).

The table below provides summarised financial data of the main associated companies for the nine months period ended 30 September 2013, which corresponds to the most recent information obtained from Unitel, and for the year ended 31 December 2012.

(Euro million)						
2013						
	Direct percentage of ownership	Total assets	Total liabilities	Shareholders' equity	Operating revenues	Net income
Unitel	25.00%	3,092	1,221	1,871	1,202	356

(Euro million)						
2012						
	Direct percentage of ownership	Total assets	Total liabilities	Shareholders' equity	Operating revenues	Net income
Unitel	25.00%	2,351	888	1,463	1,590	751
CTM	28.00%	269	100	169	480	94

For purposes of these consolidated financial statements, Portugal Telecom adjusted the 2013 nine months figures obtained from Unitel in order to conform with the Company's accounting policies and to include an estimate of Portugal Telecom's share in the earnings of this associated company for the fourth quarter of 2013, which is included under the caption "Equity in earnings of associated companies, net".

34. OTHER INVESTMENTS

As at 31 December 2013 and 2012, this caption consists of:

	(Euro)	
	2013	2012
Real estate investments, net of accumulated amortisation	13,858,289	9,446,105
Other financial investments	9,360,350	3,695,463
	23,218,639	13,141,568
Adjustments for real estate investments (Note 42)	(871,238)	(232,759)
Adjustments for other investments (Note 42)	(103,749)	(188,750)
	22,243,652	12,720,059

Real estate investments relate to land and buildings owned by PT Comunicações that are not used in its operating activities. These assets are recorded at acquisition cost net of accumulated amortisation and impairment losses, if any. PT Comunicações periodically performs impairment analysis of these assets.

Portugal Telecom received rents from lease contracts in 2013 and 2012 amounting to Euro 7,928 and Euro 43,798, respectively. During the years ended 31 December 2013 and 2012, amortisation costs amounted to Euro 481,657 and Euro 353,713, respectively. Rents received net of amortisation costs are included under the caption "Net gains on financial assets and other investments".

35. GOODWILL

During the years ended 31 December 2013 and 2012, movements in goodwill were as follows:

	(Euro)	
	2013	2012
Initial balance	425,675,169	352,990,011
Foreign currency translation adjustments (i)	(13,595,904)	(3,999,456)
Impairment losses (ii)	(31,463,000)	-
Transfers and other movements (iii)	-	76,684,614
Final balance	380,616,265	425,675,169

(i) Foreign currency translation adjustments in 2013 and 2012 relate mainly to the impact of the depreciation of the Namibian Dollar against the Euro. | (ii) This caption relates to an impairment loss recorded in 2013 over the directories business as a result of the decline trend in this business as new online alternatives come up. This impairment loss was recorded under the caption "Net other gains/losses". | (iii) This caption corresponds to the value of the software license agreement entered into in 2012 for the telephone and advertising directories' business, following the restructuring of the investment in Páginas Amarelas. As at 31 December 2011, this amount was included under the caption "Investments in group companies".

The detail of total consolidated goodwill by cash generating unit as at 31 December 2013 and 2012 is as follows:

	(Euro)	
	2013	2012
Portugal		
Wireline telecommunications in Portugal (i)	316,246,568	347,709,568
Information systems - PT Sistemas de Informação	8,956,960	8,956,960
	325,203,528	356,666,528
Other businesses		
Mobile telecommunications in Namibia - MTC (ii)	48,254,464	61,850,368
Wireline and mobile telecommunications in Cabo Verde - Cabo Verde Telecom	7,124,252	7,124,252
Other international operations	34,021	34,021
	55,412,737	69,008,641
	380,616,265	425,675,169

(i) The reduction in this caption reflects the impairment loss recorded over the goodwill related to the directories business, as mentioned above. | (ii) The change in this caption relates primarily to the impact of the depreciation of the Namibian Dollar against the Euro during the year ended 31 December 2013.

14 CONSOLIDATED FINANCIAL STATEMENTS

For the goodwill related to the wireline cash generating unit in Portugal, which resulted from the acquisition of several companies, some of which were subsequently merged, the Company monitors goodwill at this level, which is a lower level than the operating segment to which it belongs.

For the goodwill related to other cash generating units, Portugal Telecom also concluded that the Company's share in net assets of those investments represents the lowest level of assets that generates cash inflows, since they are totally independent from other investments.

Total consolidated goodwill recorded at Portugal Telecom is not deductible for taxable purposes.

For purposes of impairment analysis, goodwill was allocated to cash generating units. The recoverable amount was computed based on a value in use through a discounted cash-flow methodology, using a detailed forecast of cash-flows for a 4 year period, which was prepared internally. The discount rates applied to the cash-flow projections, which were determined taking into consideration the risks associated to each business, and the growth rates used to extrapolate cash-flow projections beyond the period covered by the forecasts (terminal value) were as follows:

Assumptions	Wireline telecommunications in Portugal	Other businesses
Growth rates	1.0% - 1.5%	0.0% to 3.0% - 1.0% to 4.0%
Discount rates	7.7% - 8.7%	7.1% to 10.4% - 8.1% to 12.4%

The recoverable amount of each cash generating unit was determined for the minimum and maximum values included in the table above and the Company's management has concluded that as at 31 December 2013 the carrying value of financial investments, including goodwill, did not exceed its recoverable amount.

36. INTANGIBLE ASSETS

During the years ended 31 December 2013 and 2012, movements in intangible assets were as follows:

	Balance 31 Dec 2012	Increases	Foreign currency translation adjustments	Transfers and other movements	Balance 31 Dec 2013
(Euro)					
Cost					
Industrial property and other rights	1,572,026,984	69,581,617	(13,098,756)	(16,566,840)	1,611,943,005
Other intangible assets	56,613,756	787,467	(12,319)	5,252,309	62,641,213
In-progress intangible assets	13,074,324	20,144,011	(174,186)	(14,589,102)	18,455,047
	1,641,715,064	90,513,095	(13,285,261)	(25,903,633)	1,693,039,265
Accumulated depreciation					
Industrial property and other rights	850,603,724	111,429,803	(7,482,786)	(21,739,418)	932,811,323
Other intangible assets	33,584,780	9,632,016	(9,065)	(683,465)	42,524,266
	884,188,504	121,061,819	(7,491,851)	(22,422,883)	975,335,589
	757,526,560	(30,548,724)	(5,793,410)	(3,480,750)	717,703,676

	Balance 31 Dec 2011	Increases	Foreign currency translation adjustments	Transfers and other movements	Balance 31 Dec 2012
(Euro)					
Cost					
Industrial property and other rights	1,506,431,263	65,582,354	(3,652,824)	3,666,191	1,572,026,984
Other intangible assets	45,368,214	4,981,526	(19,360)	6,283,376	56,613,756
In-progress intangible assets	29,430,896	16,122,366	(180,309)	(32,298,629)	13,074,324
	1,581,230,373	86,686,246	(3,852,493)	(22,349,062)	1,641,715,064
Accumulated depreciation					
Industrial property and other rights	756,230,978	114,096,551	(2,055,708)	(17,668,097)	850,603,724
Other intangible assets	24,280,728	9,335,559	(12,946)	(18,561)	33,584,780
	780,511,706	123,432,110	(2,068,654)	(17,686,658)	884,188,504
	800,718,667	(36,745,864)	(1,783,839)	(4,662,404)	757,526,560

36.1. Increases

The detail of increases in intangible assets is as follows:

	(Euro)	
	2013	2012
Cost		
Capital expenditures (Note 7.c)	90,513,095	86,686,246
	90,513,095	86,686,246
Accumulated depreciation	121,061,819	123,432,110
	(30,548,724)	(36,745,864)

36.2. Other information regarding intangible assets

The net carrying value of the caption "Industrial property and other rights" includes mainly the following items:

- Euro 343 million and Euro 360 million as at 31 December 2013 and 2012, respectively, related to 3G and 4G licenses obtained by Meo, SA in 2000 and 2011, respectively, corresponding to a gross amount of Euro 500 million net of accumulated depreciation of Euro 157 million. The gross amount includes primarily:
 - i) Euro 133 million related to the acquisition of the UMTS license in 2000;
 - ii) Euro 242 million capitalised in 2007, following the commitment assumed in 2000 by MEO, SA and the other mobile operators of making contributions to the information society during the period through the maturity of the license, and Euro 11.5 million capitalised in 2009 related to additional commitments under the terms of the UMTS license. Since in the year 2000 it was not possible to reliably estimate how the commitment would be fulfilled, Portugal Telecom did not recognise this commitment as a cost of the license and as a liability;
 - iii) Euro 106 million related to the 4G license acquired by Meo, SA in 2011.
- Euro 170 million and Euro 185 million as at 31 December 2013 and 2012, respectively, related to the acquisition of the Basic Network from the Portuguese State, regarding the gross amount capitalised in 2002 amounting to Euro 339 million;
- Euro 41 million and Euro 40 million as at 31 December 2013 and 2012, respectively, related to software licenses;
- Euro 24 million and Euro 29 million as at 31 December 2013 and 2012, respectively, related to the cost incurred with loyalty contracts with post-paid customers of mobile businesses, which are being amortised over the period of the related rental contracts, corresponding to a two year period;
- Euro 22 million and Euro 23 million as at 31 December 2013 and 2012, respectively, related to the commitments assumed by PT Comunicações under the TDT license;
- Euro 9 million and Euro 16 million as at 31 December 2013 and 2012, respectively, related to contracts signed by PT Comunicações in 2007 and 2009 for the acquisition of satellite capacity until 2015, which were recorded as capital leases.

37. TANGIBLE ASSETS

During the years ended 31 December 2013 and 2012, movements in tangible assets were as follows:

	Balance 31 Dec 2012	Increases	Foreign currency translation adjustments	Transfers and other movements	Balance 31 Dec 2013
(Euro)					
Cost					
Land	182,553,761	9,477	-	(821,427)	181,741,811
Buildings and other constructions	889,744,739	36,983,567	(1,574,632)	15,897,619	941,051,293
Basic equipment	9,991,801,705	322,491,959	(42,551,808)	(180,265,683)	10,091,476,173
Transportation equipment	79,799,744	11,613,494	(224,800)	(13,673,370)	77,515,068
Tools and dies	21,100,458	227,899	(17,407)	110,335	21,421,285
Administrative equipment	1,210,244,009	34,956,101	(529,846)	7,668,894	1,252,339,158
Other tangible assets	49,760,464	378,451	(15,942)	14,416,183	64,539,156
In-progress tangible assets	210,342,109	91,863,571	(162,789)	(147,107,701)	154,935,190
Advances to suppliers of tangible assets	562,661	-	-	-	562,661
	12,635,909,650	498,524,519	(45,077,224)	(303,775,150)	12,785,581,795
Accumulated depreciation					
Land	9,732,669	-	-	70,915	9,803,584
Buildings and other constructions	347,753,039	49,397,911	(535,409)	(11,507,487)	385,108,054
Basic equipment	7,483,041,833	464,313,088	(21,414,843)	(243,511,066)	7,682,429,012
Transportation equipment	55,011,052	8,583,060	(135,439)	(11,522,437)	51,936,236
Tools and dies	20,458,621	346,245	(11,321)	(3,269)	20,790,276
Administrative equipment	1,095,952,447	80,742,562	(366,202)	(25,674,609)	1,150,654,198
Other tangible assets	45,088,543	1,830,941	(11,936)	(526,497)	46,381,051
	9,057,038,204	605,213,807	(22,475,150)	(292,674,450)	9,347,102,411
	3,578,871,446	(106,689,288)	(22,602,074)	(11,100,700)	3,438,479,384

	Balance 31 Dec 2011	Changes in the consolidation perimeter	Increases	Foreign currency translation adjustments	Transfers and other movements	Balance 31 Dec 2012
(Euro)						
Cost						
Land	181,997,214	-	-	-	556,547	182,553,761
Buildings and other constructions	866,864,904	604,699	11,678,062	(517,257)	11,114,331	889,744,739
Basic equipment	9,729,239,864	2,997,334	382,990,043	(12,011,721)	(111,413,815)	9,991,801,705
Transportation equipment	74,757,966	71,479	13,609,180	(178,389)	(8,460,492)	79,799,744
Tools and dies	20,796,136	-	314,968	(6,925)	(3,721)	21,100,458
Administrative equipment	1,147,407,572	-	32,091,714	(245,997)	30,990,720	1,210,244,009
Other tangible assets	48,260,377	214,812	1,227,566	(7,335)	65,044	49,760,464
In-progress tangible assets	207,124,440	-	132,602,567	(187,746)	(129,197,152)	210,342,109
Advances to suppliers of tangible assets	511,125	-	-	-	51,536	562,661
	12,276,959,598	3,888,324	574,514,100	(13,155,370)	(206,297,002)	12,635,909,650
Accumulated depreciation						
Land	9,819,238	-	-	-	(86,569)	9,732,669
Buildings and other constructions	301,402,834	503,007	50,292,449	(193,758)	(4,251,493)	347,753,039
Basic equipment	7,183,864,927	1,140,013	489,452,072	(6,052,390)	(185,362,789)	7,483,041,833
Transportation equipment	50,670,048	71,479	10,999,024	(96,027)	(6,633,472)	55,011,052
Tools and dies	20,059,354	-	407,176	(4,202)	(3,707)	20,458,621
Administrative equipment	1,011,098,155	-	89,704,501	(178,371)	(4,671,838)	1,095,952,447
Other tangible assets	43,936,374	208,553	970,714	(4,249)	(22,849)	45,088,543
	8,620,850,930	1,923,052	641,825,936	(6,528,997)	(201,032,717)	9,057,038,204
	3,656,108,668	1,965,272	(67,311,836)	(6,626,373)	(5,264,285)	3,578,871,446

37.1. Increases

The detail of increases in tangible assets is as follows:

	(Euro)	
	2013	2012
Cost		
Capital expenditures (Note 7.c)	498,524,519	574,514,100
	498,524,519	574,514,100
Accumulated depreciation	605,213,807	641,825,936
	(106,689,288)	(67,311,836)

37.2. Foreign currency translation adjustments

Foreign currency translation adjustments in 2013 and 2012 relate mainly to the impact of the depreciation of the Namibian Dollar against the Euro.

37.3. Revaluations

Portugal Telecom uses the revaluation model to measure real estate properties and the ducts infra-structure (Note 3). The revaluations of the real estate properties and ducts infra-structure were effective for the first time as at 30 June 2008 and 30 September 2008, and resulted in a revaluation of the assets by Euro 208,268,320 and Euro 866,764,702, respectively, totalling an amount of Euro 1,075,033,022 that was recognised in the Consolidated Statement of Comprehensive Income.

The determination of the fair value of real estate properties was made by an independent appraiser based primarily on: (i) observable prices in an active market of recent market transactions; (ii) profitability method for commercial and administrative real estate; and (iii) the cost of acquiring or producing a similar real estate with the same purpose for technical buildings. Under the first methodology, the main assumptions used in 2008 were the discount rate (average of 8%) and the monthly rent per square meter (average Euro 6).

The determination of the fair value of the ducts infra-structure was made internally based on the replacement cost approach. This valuation process was based primarily on: (i) current and observable prices of materials and construction work related to the installation of the ducts underground; (ii) the nature of the soil and road surface where ducts are installed, which has an impact on the construction cost; (iii) internal costs directly attributable to the construction of the ducts infra-structure network; (iv) a depreciation factor, in order to ensure that the replacement cost is consistent with the remaining useful life of the assets revalued; and (v) a technological factor, which reflects the technological changes occurred, namely related to the kinds of ducts which no longer exist and were replaced by other ones. Generally, the prices of materials and construction work together with other qualitative assumptions referred to above resulted in a valuation of the ducts infra-structure in 2008 which reflects an average cost per meter of duct between Euro 58 and Euro 119, depending on where the infra-structure is located.

In accordance with the Group's accounting policy to revalue these assets at least every three years, Portugal Telecom performed another revaluation of the real estate assets and ducts infra-structure in 2011, through the same methodology described above. These revaluations were effective as at 31 December 2011 and resulted in a net reduction of tangible assets amounting to Euro 131,418,994, of which Euro 126,167,561 was recognised directly in the Consolidated Statement of Comprehensive Income under the caption "Revaluation reserve" and Euro 5,251,433 was recognised in the Consolidated Income Statement under the caption "Depreciation and amortisation". The split of these impacts between real estate and ducts infra-structure is as follows:

- A reduction in the carrying value of the ducts infra-structure amounting to Euro 189,372,570, recognised in other comprehensive income in order to reduce the existing revaluation reserves regarding these assets, which is primarily explained by a decrease

14 CONSOLIDATED FINANCIAL STATEMENTS

in the construction cost and also by technological improvements, leading to a reduction in the average cost per meter of duct to between Euro 42 and Euro 70, depending on where the infra-structure is located;

- A net increase in the carrying value of real estate assets amounting to Euro 57,953,576, including a gain of Euro 63,205,008 recorded in other comprehensive income and a loss of Euro 5,251,432 recognised in the Consolidated Income Statement. The increase in the carrying value of real estate assets recognised as a result of this revaluation reflects mainly the depreciation and amortisation expenses recorded over the last three years, as the average monthly rent per square meter for the real estate assets that were revalued in both 2008 and 2011 remained broadly stable at 6 euros, although the overall average monthly rent per square meter increased to 7 euros, as a result of real estate assets acquired between those years.

The amortisation of the surplus resulting from the revaluation of real estate properties and ducts infra-structure amounted to approximately Euro 8 million and Euro 32 million in 2013, respectively, and to Euro 10 million and Euro 32 million in 2012, respectively. If these assets had been carried under the cost model, the carrying amounts of the real estate properties and the ducts infra-structure would have been reduced by approximately Euro 178 million and Euro 466 million, respectively, corresponding to Euro 137 million and Euro 373 million net of tax effect, respectively.

37.4. Other situations regarding tangible assets

In addition, the following situations regarding tangible assets should be mentioned:

- Basic equipment includes primarily network installations and equipment, including the ducts infra-structure, switching equipment, telephones and switchboards and submarine cables;
- In-progress tangible assets correspond primarily to telecommunications network equipments and are recorded during the installation period of those equipments, which normally lasts for 2 to 3 months, thus explaining the significant amounts recorded under this caption, although with reduced maturities;
- Portugal Telecom recognised own work capitalised in tangible assets amounting to Euro 110 million and Euro 102 million in the years ended 31 December 2013 and 2012, respectively;
- PT Comunicações, under the terms of the Modification Agreement of the Concession, owns tangible assets related to the Concession amounting to Euro 1,710 million and Euro 1,765 million as at 31 December 2013 and 2012, respectively;
- PT Comunicações owns tangible assets located outside Portugal, including participations in submarine cable consortiums, which amounted to Euro 12 million and Euro 15 million as at 31 December 2013 and 2012, respectively;
- PT Comunicações owns tangible assets that are installed in properties of third parties or on public property, amounting to Euro 8 million as at 31 December 2013 and 2012, respectively, and owns tangible assets that are not yet registered under its name, amounting to Euro 7 million and Euro 8 million as at 31 December 2013 and 2012.

38. DEBT

As at 31 December 2013 and 2012, this caption consists of:

(Euro)

	2013		2012	
	Short-term	Long-term	Short-term	Long-term
Exchangeable bonds	743,011,847	-	-	732,944,410
Bonds	-	4,731,260,092	983,636,935	3,732,399,950
Bank loans				
External loans	103,868,391	949,281,957	113,959,174	1,381,440,338
Domestic loans	5,111,006	175,039,738	2,753,092	108,765,906
Liability related to equity swaps on treasury shares	73,210,079	-	73,210,079	-
Commercial paper	542,000,000	-	175,750,000	-
Leasings	24,729,526	23,579,646	24,011,206	23,885,353
Other financings	45,611	-	22,378,577	-
	1,491,976,460	5,879,161,433	1,395,699,063	5,979,435,957

During the year ended 31 December 2013, gross debt decreased by Euro 4 million reflecting several effects that offset each other, including primarily the following:

- The repayment of the Euro 1 billion Eurobond issued in April 2009, the outstanding consolidated liability of which amounted to Euro 934 million at maturity;
- The decrease in the outstanding amount due under Portugal Telecom's standby credit facilities entered into in previous years (Euro 350 million);
- The repayment of the Euro 50 million floating rate notes issued in August 2008;
- The repayment of several loans obtained from the European Investment Bank;
- The increase in the amounts due under Portugal Telecom's commercial paper programmes (Euro 366 million);
- A Euro 1 billion Eurobond issued on 10 May 2013, which matures in 2020 and bears interest at a fixed rate of 4.625%;
- A Euro 70 million loan obtained in May 2013 and maturing in 2017.

38.1. Exchangeable bonds

On 28 August 2007, PT Finance issued exchangeable bonds totalling Euro 750,000,000, exchangeable into fully paid ordinary shares of Portugal Telecom, as follows:

- Exchange price of Euro 13.9859 per ordinary share of Portugal Telecom, which was adjusted to Euro 11.60 on 30 October 2007, following the spin-off of PT Multimedia, and to Euro 11.06 on 28 December 2010, Euro 9.4 on 31 May 2011 and Euro 8.91 on 22 May 2012, following the dividends paid in December 2010, June 2011 and May 2012, respectively, according to the terms and conditions of these bonds;
- Nominal value of each bond: Euro 50,000;
- Maturity: 28 August 2014 unless previously redeemed, acquired, cancelled or converted;
- Fixed interest rate: 4.125% per annum, paid semi-annually.

The exchangeable bonds represent a compound instrument and, accordingly, the market value of the equity component as of the date the bonds were issued amounted to Euro 57,145,442 and was recorded in shareholders' equity under the caption "Other reserves and accumulated earnings", while the financial liability component was initially computed based on a market interest rate of 5.51% and is recorded by the amortised cost.

As at 31 December 2013, the fair value of the exchangeable bonds, determined based on market information, amounted to Euro 764 million.

38.2. Bonds

The following table provides detailed information about the bonds outstanding as at 31 December 2012:

Issuer (i)	Debt	Euro	Issue date	Expected maturity (ii)	Interest rate
PT Finance	Eurobond	1,000,000,000	May 13	2020	4.625%
PT Finance	Eurobond	750,000,000	Oct 12	2018	5.875%
Portugal Telecom	Retail bond	400,000,000	Jul 12	2016	6.25%
PT Finance	Eurobond	600,000,000	Feb 11	2016	5.625%
PT Finance	Eurobond	750,000,000	Nov 09	2019	5.00%
PT Finance	Fixed rate notes	250,000,000	Jul 09	2017	5.242%
PT Finance	Eurobond	500,000,000	Jun 05	2025	4.50%
PT Finance	Eurobond	500,000,000	Mar 05	2017	4.375%
PT Finance	Transaction costs (iii)	(18,739,908)			
		4,731,260,092			

(i) All PT Finance and Portugal Telecom issuances were made under the Euro Medium Term Note Programme (EMTN). | (ii) Loans are repayable on final maturity except where otherwise indicated. | (iii) This caption corresponds to expenses incurred at the date these bonds were issued, which relate to (i) roundings in defining the coupon rate; and (ii) pre-paid commissions. These expenses are recognised in earnings through the life of the bonds.

14 CONSOLIDATED FINANCIAL STATEMENTS

During the year ended 31 December 2013, PT Finance repaid the Euro 1,000 million Eurobond issued in April 2009, the outstanding consolidated liability of which amounted to Euro 934 million at maturity, and the Euro 50 million floating rate notes issued in August 2008.

As at 31 December 2013, the maximum possible nominal amount of outstanding notes issued under the EMTN Programme established by PT Finance and Portugal Telecom amounted to Euro 7,500,000,000, of which Euro 4,750,000,000 were outstanding as at 31 December 2013, as detailed above.

The fair value of these bonds was determined based on market information and amounted to Euro 4,964 million as at 31 December 2013.

38.3. Bank loans

As at 31 December 2013 and 2012, bank loans are denominated in the following currencies:

	2013		2012	
	Currency of the notional	Euro	Currency of the notional	Euro
Euros	1,225,167,822	1,225,167,822	1,591,284,722	1,591,284,722
Other currencies		8,133,270		15,633,788
		1,233,301,092		1,606,918,510

As at 31 December 2013, Portugal Telecom had a committed standby credit facility amounting to Euro 800 million, maturing in June 2016. Portugal Telecom also entered into an export credit facility, comprising two committed tranches amounting to Euro 80 million, agreed in 2011, and Euro 100 million, agreed in January 2013.

As at 31 December 2013, external bank loans due include primarily the following financings:

- An amount of Euro 400 million used under the above mentioned committed standby facilities and an amount of Euro 69 million used under the export credit facility;
- Loans obtained by Portugal Telecom from the European Investment Bank (EIB) totalling Euro 527 million, maturing up to 2021, including primarily (1) two loans obtained in 2010 of Euro 100 million each for the purpose of investing in Portugal Telecom's next generation network, which have an average maturity of approximately 4.2 years, (2) a loan obtained in 2011 amounting to Euro 140 million for the purpose of investing in research and development, which matures in 2019, and (3) a loan secured in 2012 amounting to Euro 100 million in order to finance the investment in next generation network, which also matures in 2019;
- A loan obtained by PT Finance in 2010, the outstanding amount of which was Euro 30 million as at 31 December 2013, maturing between 2014 and 2015.

As at 31 December 2013, domestic bank loans due include primarily the following financings:

- 2 loans obtained in 2012, totalling Euro 100 million and maturing in 2016;
- A loan obtained in 2013, amounting to Euro 70 million and maturing in 2017.

As at 31 December 2013 and 2012, bank loans of Portugal Telecom and its group companies bear interest at annual interest rates, equivalent to loans denominated in euros, which vary between:

	2013	2012
Maximum rate	8.75%	4.81%
Minimum rate	0.84%	1.17%

38.4. Liability related to equity swaps on treasury shares

This caption relates to an equity swap contract entered into by Portugal Telecom over 20,640,000 treasury shares, which was recognised as an effective acquisition of treasury shares, thus implying the recognition of a corresponding financial liability for the respective acquisition cost in the amount of Euro 178,071,827 (Note 44.2). In December 2011 and 2012, Portugal Telecom settled the amounts of Euro 84,304,306 and Euro 20,557,440, respectively, following which the outstanding amount due as at 31 December 2012 and 2013 was Euro 73,210,079.

38.5. Commercial paper

Portugal Telecom entered into several commercial paper programmes, under which it has issued a total amount of Euro 542 million as at 31 December 2013, maturing between January and May 2014. Under these programmes, the Company had available an underwritten amount of Euro 283 million as at 31 December 2013.

38.6. Leasings

Financial lease obligations recorded as at 31 December 2013 relate mainly to satellite capacity and transportation equipment acquired under finance lease contracts. Satellite capacity acquired under finance lease contracts is currently being used by PT Comunicações for the direct-to-home offer of its television service. Transportation equipment under finance lease contracts, under which there are generally purchase options at the end of their term, was acquired by several Group companies and is currently being used in their normal course of business.

As at 31 December 2013, the carrying amount of assets acquired under finance leases is as follows:

	(Euro)		
	Gross amount	Accumulated depreciation	Gross amount
Industrial Property and other rights	64,351,403	46,039,175	18,312,228
Transportation equipment	37,708,289	15,909,331	21,798,958
Other	3,028,132	1,609,928	1,418,204
	105,087,824	63,558,434	41,529,390

As at 31 December 2013, the detail of future minimum lease payments related to finance lease contracts is as follows:

	(Euro)		
	Present value	Finance costs	Total
2014	24,729,526	1,337,594	26,067,120
2015	8,089,872	773,024	8,862,896
2016	3,712,498	606,467	4,318,965
2017	3,366,659	474,332	3,840,991
2018 and following years	8,410,617	377,555	8,788,172
	48,309,172	3,568,972	51,878,144

38.7. Medium and long-term debt

As at 31 December 2013, medium and long-term debt matures as follows:

(Euro)

2015	59,760,818
2016	1,541,130,250
2017	855,213,540
2018	866,190,989
2019 and following years	2,556,865,836
	5,879,161,433

38.8. Covenants

As at 31 December 2013, the Company had several covenants related to its indebtedness as follows:

Change in control

The exchangeable bonds, the credit facilities under which the Company had borrowed a total amount of 670 million as at 31 December 2013 and the loans obtained from EIB totalling Euro 527 million as at 31 December 2013 establish penalties in the case of any change of control of Portugal Telecom. According to the terms and conditions of these debt instruments, a change of control would occur if any person or group of persons acting in concert acquires or controls more than 50 per cent of the voting rights, whether obtained by ownership of share capital, holding of voting rights or pursuant to the terms of a shareholders' agreement. In certain cases, gaining the power to appoint or remove all, or the majority, of the directors of the company or to give directions with respect to the operating and financial policies of the company with which the directors or equivalent officers of the company are obliged to comply are also considered a change of control.

The Euro 750 million Eurobonds issued in 2009, the Euro 600 million Eurobond issued in 2011, the Euro 750 million Eurobond issued in 2012 and the Euro 1,000 million Eurobond issued in 2013 establish penalties in the case of any change of control of Portugal Telecom, as described above, only if simultaneously a rating downgrade to sub-investment grade occurs (in case the securities are investment grade securities) or a rating downgrade occurs (in case the securities are sub-investment grade securities) during the Change of Control Period, as defined under the terms and conditions of these notes.

Credit rating

Certain loan agreements with the EIB, totalling Euro 36 million as at 31 December 2013, the repayment of which is scheduled to 2014, stated that Portugal Telecom could be asked to present a guarantee acceptable by the EIB if, at any time, the long-term credit rating assigned by the rating agencies to Portugal Telecom is reduced from the rating assigned by the time the clause was included (BBB- by S&P, Baa2 by Moody's and BBB by Fitch).

In 2011, Portugal Telecom and the EIB have agreed to increase the spread of those loans, with no other consequence, as a result of the revision of Portugal Telecom's credit rating.

On 23 December 2011, Moody's announced the downgrade of Portugal Telecom's long-term rating from Baa3 to Ba1. On 16 February 2012, S&P announced its review of the credit rating attributed to Portugal Telecom, downgrading the long-term rating from BBB- to BB+, and the short-term rating from A-3 to B. Following these developments, Portugal Telecom has agreed with the EIB to open a cash deposit amounting to a portion of the amount due under the loan agreements that include the credit rating covenant, pledged in favour of the EIB. The amount deposited in this account, which amounted to Euro 28 million as at 31 December 2013, will be reduced as loans are repaid. Portugal Telecom and the EIB have also agreed that further upgrades or downgrades of the credit rating assigned to the Company will lead to, respectively, decreases or increases in the amount deposited, with no other consequence.

Control/disposal of subsidiaries

Certain credit facilities under which the Company had borrowed a total amount of 640 million as at 31 December 2013 state that Portugal Telecom must, directly or indirectly, maintain majority ownership and control of each material subsidiary. Material subsidiaries are those companies which total assets are equal or exceed 10% of total consolidated assets or which total revenues are also equal or exceed 10% of total consolidated revenues.

Disposals of assets

The EIB loans totalling Euro 527 million as at 31 December 2013 include certain restrictions regarding the disposal of assets by Portugal Telecom.

Financial ratios

Certain credit facilities under which the Company had borrowed a total amount of 670 million as at 31 December 2013 require that the ratio Consolidated Net Debt/EBITDA should not exceed certain values.

Negative pledge

The Euro Medium Term Notes, the exchangeable bonds, the credit facilities, the loans obtained from the EIB and the commercial paper programmes are subject to negative pledge clauses, which restrict the pledge of security interests in the assets of companies included in the consolidation.

The penalties applicable in the event of non compliance with any of these covenants are generally the early payment of the loans obtained or the termination of available credit facilities. As at 31 December 2013, the Company had fully complied with the covenants mentioned above.

On 2 October 2013, Portugal Telecom entered into a memorandum of understanding with Oi and certain of Portugal Telecom's and Oi's shareholders with respect to the business combination between Portugal Telecom and Oi (Note 1). In connection with the proposed business combination, Portugal Telecom expects to amend certain of its outstanding debt instruments, including Portugal Telecom's Euro 400 million notes due 2016 issued under its Euro medium term note programme and the Euro 750 million exchangeable bonds due 2014 issued by Portugal Telecom International Finance BV. The proposed amendments include, among other things:

- Except for the Portugal Telecom Retail Notes, the release and discharge of Portugal Telecom, as keep well provider, from all of its obligations under the applicable keep well agreement and the release and discharge of PT Comunicações, as keep well provider, from all of its obligations under its keep well agreement;
- In the case of the Portugal Telecom Retail Notes, the substitution, in place of Portugal Telecom, of PT Portugal SGPS SA as issuer and principal obligor;
- The addition of an unconditional and irrevocable guarantee from Oi;
- The waiver of any and all of the events of default and potential events of default (as such terms are defined in the trust deeds of such notes and bonds) that may be triggered by the proposed share capital increase by Oi and/or the proposed business combination between Portugal Telecom and Oi or any transaction executed as part of, or pursuant to, such capital increase and/or business combination;
- In the case of the exchangeable bonds only, the amendment of the exchange right in order to provide that any holder exercising its exchange right will receive (a) from (and including) the date of the completion of the proposed share capital increase by Oi up to (but excluding) the date of the completion of the proposed business combination between Portugal Telecom and Oi, a cash amount with reference to the ordinary shares of Portugal Telecom, and (b) from (and including) the date of completion of such proposed business combination, a cash amount with reference to the ordinary shares of Telemar Participações (each calculated in accordance with the modified terms and conditions of such exchangeable bonds) in place of receiving ordinary shares of Portugal Telecom.

14 CONSOLIDATED FINANCIAL STATEMENTS

39. ACCOUNTS PAYABLE

As at 31 December 2013 and 2012, this caption consists of:

	(Euro)	
	2013	2012
Current accounts payable		
Accounts payable-trade	414,127,644	455,629,066
Fixed asset suppliers	122,303,529	146,159,870
Licenses and concessions (i)	6,000,000	5,615,600
Accounts payable to employees	1,586,417	1,750,949
Other	24,252,950	50,752,748
	568,270,540	659,908,233
Non-current accounts payable		
Licenses and concessions (i)	14,840,169	19,082,848
Other	4,629,975	3,002,823
	19,470,144	22,085,671

(i) This caption reflects accounts payable by MEO, SA to the Portuguese telecommunications regulator regarding the 4G license acquired in December 2011 (Note 36).

40. ACCRUED EXPENSES

As at 31 December 2013 and 2012 this caption consists of:

	(Euro)	
	2013	2012
Interest and other financial expenses	199,176,963	162,981,325
Supplies and external services	174,770,992	169,016,345
Vacation pay and bonuses	100,461,322	106,568,969
Discounts to clients	33,250,083	26,323,426
Other	26,996,759	24,642,579
	534,656,119	489,532,644

41. DEFERRED INCOME

As at 31 December 2013 and 2012 this caption consists of:

	(Euro)	
	2013	2012
Advance billing:		
Traffic	56,241,191	58,195,332
Other advance billing	32,385,833	48,997,067
Contractual penalties imposed to customers (Note 3.p)	74,997,684	53,688,249
Customer retention programmes (Note 3.p) (i)	7,906,459	12,077,899
Other	75,253,077	93,611,874
	246,784,244	266,570,421

(i) This caption relates to deferred revenues in connection with loyalty programmes of mobile operations, which are recognised as revenue when award credits are redeemed.

42. PROVISIONS AND ADJUSTMENTS

During the years ended 31 December 2013 and 2012, movements in provisions and adjustments were as follows:

(Euro)

	Balance 31 Dec 2012	Increases	Decreases	Foreign currency translation adjustments	Other movements	Balance 31 Dec 2013
Adjustments						
For doubtful accounts receivable (Notes 25 and 26)	280,572,455	47,248,852	(7,742,623)	(837,049)	(70,681,975)	248,559,660
For inventories (Note 27)	28,765,102	4,285,113	(2,667,634)	(221,294)	(317,628)	29,843,659
For financial investments (Notes 33 and 34)	8,668,878	766,359	(193,499)	-	(2,673,741)	6,567,997
	318,006,435	52,300,324	(10,603,756)	(1,058,343)	(73,673,344)	284,971,316
Provisions for risks and costs						
Litigation (Note 49)	21,335,514	187,611	(3,638,297)	10,457	184,820	18,080,105
Taxes (Note 49)	69,408,265	28,332,948	(19,842,884)	-	(15,942,455)	61,955,874
Other	9,462,015	3,987,570	(1,022,825)	(283,589)	(1,118,231)	11,024,940
	100,205,794	32,508,129	(24,504,006)	(273,132)	(16,875,866)	91,060,919
	418,212,229	84,808,453	(35,107,762)	(1,331,475)	(90,549,210)	376,032,235

(Euro)

	Balance 31 Dec 2011	Changes in the consolidation perimeter	Increases	Decreases	Foreign currency translation adjustments	Other movements	Balance 31 Dec 2012
Adjustments							
For doubtful accounts receivable (Notes 25 and 26)	312,214,214	-	41,092,688	(4,464,643)	(517,966)	(67,751,838)	280,572,455
For inventories (Note 27)	38,790,309	-	4,581,921	(11,748,026)	(70,366)	(2,788,736)	28,765,102
For financial investments (Notes 33 and 34)	34,305,422	-	2,656,811	(121,854)	(29,874)	(28,141,627)	8,668,878
	385,309,945	-	48,331,420	(16,334,523)	(618,206)	(98,682,201)	318,006,435
Provisions for risks and costs							
Litigation (Note 49)	22,264,566	-	510,712	(1,169,755)	(31,873)	(238,136)	21,335,514
Taxes (Note 49)	61,477,959	-	31,343,137	(18,375,872)	-	(5,036,959)	69,408,265
Other	17,775,360	366,765	1,751,598	(346,014)	(229,263)	(9,856,431)	9,462,015
	101,517,885	366,765	33,605,447	(19,891,641)	(261,136)	(15,131,526)	100,205,794
	486,827,830	366,765	81,936,867	(36,226,164)	(879,342)	(113,813,727)	418,212,229

As at 31 December 2013 and 2012, the caption "Provisions for risks and costs" was classified in the Consolidated Statement of Financial Position in accordance with the expected settlement date, as follows:

(Euro)

	2013	2012
Current provisions		
Litigation	18,056,832	21,312,242
Taxes	61,941,364	69,408,265
Other	8,791,648	6,488,757
	88,789,844	97,209,264
Non-current provisions		
Litigation	23,273	23,272
Taxes	14,510	-
Other	2,233,292	2,973,258
	2,271,075	2,996,530
	91,060,919	100,205,794

14 CONSOLIDATED FINANCIAL STATEMENTS

42.1. Increases and reductions

Increases in provisions and adjustments in the years ended 31 December 2013 and 2012 were recognised in the Consolidated Income Statement as follows:

	2013	2012
Provisions and adjustments	40,182,753	34,584,083
Income taxes (Note 20)	28,236,426	30,564,149
Costs of products sold (Note 10)	4,034,299	4,550,611
Other (i)	12,354,975	12,238,024
	84,808,453	81,936,867

(i) This caption includes primarily Euro 5 million and Euro 9 million in 2013 and 2012, respectively, related to adjustments to certain receivables recorded under the caption "Other costs (gains), net", as mentioned in Note 15.

Decreases in provisions and adjustments in the years ended 31 December 2013 and 2012 were recognised in the Consolidated Income Statement as follows:

	2013	2012
Provisions and adjustments	11,867,996	10,499,197
Income taxes (Note 20)	18,096,178	14,946,003
Costs of products sold (Note 10)	2,556,599	10,526,575
Other	2,586,989	254,389
	35,107,762	36,226,164

In the years ended 31 December 2013 and 2012, the profit and loss caption "Provisions and adjustments" consists of:

	2013	2012
Increases in provisions and adjustments for doubtful receivables and other	40,182,753	34,584,083
Decreases in provisions and adjustments for doubtful receivables and other	(11,867,996)	(10,499,197)
Direct write-off of accounts receivable	1,503,027	2,346,006
Collections from accounts receivable which were previously written-off	(3,989,519)	(3,163,639)
	25,828,265	23,267,253

42.2. Other movements

In the years ended 31 December 2013 and 2012, other movements of provisions and adjustments include primarily the write-off of trade receivables that were previously fully adjusted for. In the year ended 31 December 2012, other movements of provisions and adjustments also includes the transfer of the adjustments for the financial investment in Sportinveste, amounting to Euro 26 million, which as at 31 December 2012 are included under the caption "Non-current assets held for sale" (Note 32).

43. OTHER CURRENT AND NON-CURRENT LIABILITIES

As at 31 December 2013 and 2012, these captions consist of:

	2013	2012
Other current liabilities		
Dividends payable to non-controlling shareholders	13,980,981	3,926,327
	13,980,981	3,926,327
Other non-current liabilities		
Assets retirement obligation (Note 3.g)	18,366,291	32,705,960
Other (i)	5,040,232	154,054,624
	23,406,523	186,760,584

(i) The reduction in this caption is primarily explained by the settlement of contractual obligations related to the acquisition of the investment in Oi in 2011, by a lower amount than the liability initially recognised, which resulted in the recognition of a gain included under the caption "Net other gains" (Note 15).

44. SHAREHOLDERS' EQUITY

44.1. Share capital

As at 31 December 2013, Portugal Telecom's fully subscribed and paid-in share capital 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;
- 500 Class A Shares.

Portugal Telecom'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 the 500 Class A shares (the so-called "golden share"). Consequently, after this approval, these shares do not have any special rights.

44.2. Treasury shares

As at 31 December 2013 and 2012, this caption consists of:

	(Euro)
Equity swap contracts (Note 38.4)	178,071,827
Shares held by Oi	159,449,089
	337,520,916

The equity swap contracts were entered into by Portugal Telecom over 20,640,000 treasury shares and were recognised as an effective acquisition of treasury shares, thus implying the recognition of a corresponding financial liability for the respective acquisition cost.

Under the strategic partnership between Portugal Telecom and Oi, under which it was envisaged the acquisition by Oi of up to 10% of the outstanding shares of Portugal Telecom, Oi acquired 89,651,205 shares of Portugal Telecom up to 31 December 2012, representing 10.0% of the share capital. Portugal Telecom's share in this investment was classified as treasury shares in its Consolidated Statement of Financial Position and amounted to Euro 159,449,089 as at 31 December 2013 and 2012, reflecting: (1) 64,557,566 shares of Portugal Telecom acquired during the year 2011, equivalent to an amount of Euro 148,311,037 corresponding to Portugal Telecom's share in those shares; (2) 25,093,639 shares of Portugal Telecom acquired during the second quarter of 2012, equivalent to an amount of Euro 23,198,433 corresponding to Portugal Telecom's share in those shares; and (3) a reduction of Euro 12,060,381 in the Company's interest in the shares acquired by Oi corresponding to the effect of the corporate restructuring of the Oi Group concluded in March 2012, as a result of which the Company's interest in Oi was reduced.

44.3. Legal reserve

Portuguese law provides that at least 5% of each year's profits must be appropriated to a legal reserve until this reserve equals the minimum requirement of 20% of share capital. This reserve is not available for distribution to shareholders but may be capitalised or used to absorb losses, once all other reserves and retained earnings have been exhausted. As at 31 December 2013, the legal reserve is already fully incorporated, corresponding to more than 20% of share capital.

44.4. Reserve for treasury shares

The reserve for treasury shares relates to the recognition of a non-distributable reserve equivalent to the nominal value of the shares cancelled or to the acquisition cost of treasury shares held by the Company. This reserve has the same legal regime as the

14 CONSOLIDATED FINANCIAL STATEMENTS

legal reserve. As at 31 December 2013 and 2012, this reserve relates to shares cancelled on 20 December 2007, 24 March 2008 and 10 December 2008.

44.5. Revaluation reserve and other reserves and accumulated earnings

During the years ended 31 December 2013 and 2012, movements in these captions were as follows:

(Euro)

	Balance 31 Dec 2012	Comprehensive income	Dividends (Note 22)	Other movements	Balance 31 Dec 2013
Income and expenses recognised directly in equity					
Actuarial losses					
Net actuarial losses (Note 14)	(538,641,978)	(139,474,542)	-	-	(678,116,520)
Tax effect (Note 20)	134,683,142	21,431,258	-	-	156,114,400
Non-controlling interests	-	-	-	-	-
Cumulative foreign currency translation adjustments ("CTAs") (i)	(561,421,818)	(598,007,113)	-	-	(1,159,428,931)
Hedge accounting of financial instruments	(1,574,321)	3,047,860	-	-	1,473,540
Other	(79,326,749)	(29,496,748)	-	-	(108,823,497)
	(1,046,281,723)	(742,499,285)	-	-	(1,788,781,008)
Reserves recognised directly in equity					
Revaluation of tangible assets (ii)	685,541,216	-	-	44,956,340	730,497,556
Tax effect	(160,817,171)	12,879,404	-	(23,940,319)	(171,878,086)
	524,724,045	12,879,404	-	21,016,021	558,619,470
Total income, expenses and reserves recognised directly in equity	(521,557,678)	(729,619,881)	-	21,016,021	(1,230,161,538)
Retained earnings and other reserves	2,897,218,575	-	(52,080,512)	(7,756,021)	2,837,382,042
Net income attributable to equity holders of the parent	225,803,781	330,980,955	(225,803,781)	-	330,980,955
	2,601,464,678	(398,638,926)	(277,884,293)	13,260,000	1,938,201,459

(i) This caption includes the translation adjustments of assets and liabilities denominated in foreign currencies as from 1 January 2004 up to the date of the Consolidated Statement of Financial Position (Note 3.q). As at 31 December 2013, this caption corresponds mainly to the impact of the depreciation of the Brazilian Real against the Euro, on Portugal Telecom's investments in Oi and Contax. | (ii) Revaluation reserves can only be used in future share capital increases, to adjust the carrying amount of revalued assets that at a certain date exceed its fair value, or to absorb accumulated losses.

(Euro)

	Balance 31 Dec 11	Comprehensive income	Dividends (Note 22)	Oi's corporate restructuring (Note 1)	Other movements	Balance 31 Dec 12
Income and expenses recognised directly in equity						
Actuarial losses						
Net actuarial losses (Note 14)	(492,708,092)	(45,933,886)	-	-	-	(538,641,978)
Tax effect (Note 20)	123,190,557	11,492,585	-	-	-	134,683,142
Cumulative foreign currency translation adjustments ("CTAs") (i)	(185,477,426)	(375,944,392)	-	-	-	(561,421,818)
Hedge accounting of financial instruments	(4,679,490)	3,105,169	-	-	-	(1,574,321)
Other	(58,582,932)	(20,743,817)	-	-	-	(79,326,749)
	(618,257,382)	(428,024,341)	-	-	-	(1,046,281,723)
Reserves recognised directly in equity						
Revaluation of tangible assets (ii)	727,967,282	-	-	-	(42,426,066)	685,541,216
Tax effect	(171,423,688)	-	-	-	10,606,517	(160,817,171)
	556,543,594	-	-	-	(31,819,549)	524,724,045
Total income, expenses and reserves recognised directly in equity	(61,713,788)	(428,024,341)	-	-	(31,819,549)	(521,557,678)
Retained earnings and other reserves	3,039,006,091	-	-	49,235,831	(191,023,347)	2,897,218,575
Net income attributable to equity holders of the parent	333,894,411	225,803,781	(371,937,439)	-	38,043,028	225,803,781
Anticipated dividends	(184,799,868)	-	-	-	184,799,868	-
	3,126,386,846	(202,220,560)	(371,937,439)	49,235,831	-	2,601,464,678

(i) This caption includes the translation adjustments of assets and liabilities denominated in foreign currencies as from 1 January 2004 up to the date of the Consolidated Statement of Financial Position (Note 3.q). As at 31 December 2012, this caption corresponds mainly to the impact of the depreciation of the Brazilian Real against the Euro, on Portugal Telecom's investments in Oi and Contax. | (ii) Revaluation reserves can only be used in future share capital increases, to adjust the carrying amount of revalued assets that at a certain date exceed its fair value, or to absorb accumulated losses.

45. FINANCIAL INSTRUMENTS

45.1. Financial risks

Portugal Telecom is primarily exposed to (i) market risks related to changes in foreign currency exchange rates and interest rates; (ii) credit risks; and (iii) liquidity risks. The main objective of Portugal Telecom's financial risk management is to reduce these risks to an acceptable level. The purpose of the financial instruments entered into by Portugal Telecom is to reduce the risk of exposure to changes in interest and exchange rates.

The contracting of these derivatives is made after careful analysis of associated risks and rewards, taking into consideration information obtained from different institutions. These transactions are subject to authorisation from Portugal Telecom's Executive Committee. The fair value of these derivatives is determined on a regular basis, based on market information, in order to assess the economic and financial implications of different scenarios. The Executive Committee monitors regularly these financial risks.

45.1.1. Foreign currency exchange rate risk

Foreign currency exchange rate risks relate mainly to Portugal Telecom's investments in Brazil, in Angola and in other foreign operations, and to debt denominated in currencies different from the functional currency of the country where the borrowing company operates.

The risks related to the Company's investments in foreign currencies relate primarily to its investments in Oi and Contax. As at 31 December 2013 and 2012, the net exposure (assets minus liabilities, net of non-controlling interests) to Brazil amounted to Brazilian Real 9,013 million (Euro 2,767 million) and Brazilian Real 8,625 million (Euro 3,190 million), respectively. Portugal Telecom does not have in place any financial instrument to hedge the exchange risk on investments in foreign companies.

The effects of hypothetical changes of relevant risk variables on income statement and shareholders' equity of Portugal Telecom are as follows:

- The impact of the appreciation (devaluation) of the Brazilian Real against the Euro by 0.1, from 3.26 to 3.16 (3.36), would be an increase (decrease) in Portugal Telecom's net assets as at 31 December 2013 by approximately Euro 88 million (Euro 82 million), which corresponds to currency translation adjustments on Brazilian investments;
- The impact of the appreciation (devaluation) of the US Dollar against the Euro by 0.1, from 1.38 to 1.28 (1.48), would be an increase (decrease) in Portugal Telecom's net assets as at 31 December 2013 by approximately Euro 54 million (Euro 47 million), which corresponds to currency translation adjustments on investments in foreign companies denominated in US Dollars, including primarily Unitel;
- Most of non-derivative financial assets and liabilities are denominated in the functional currency of each company, either directly or indirectly through the use of derivatives. Therefore, changes in exchange rates would have no material effects on the income statement and shareholders' equity of the companies where those assets and liabilities are recorded.

45.1.2. Interest rate risk

Interest rate risk basically impacts the Group's financial expenses and income on the floating interest rate debt and cash applications. As at 31 December 2013 and 2012, Portugal Telecom is exposed to this risk primarily in the Eurozone, as its debts are subject to floating interest rates based on the Euribor rate.

Interest rate risks also result from the exposure to changes in the fair value of Portugal Telecom's long term fixed-rate debt due to changes in market interest rates.

45.1.3. Credit risk

Credit risk relates mainly to the risk that a third party fails on its contractual obligations, resulting in a financial loss to the Group. Portugal Telecom is subject to credit risks in its operating and treasury activities.

Credit risks in operations relate basically to outstanding receivables from services rendered to our customers (Notes 25 and 26).

The Group does not have any significant credit risk exposure to any single customer, since trade receivables consist of a large number of customers, spread across several businesses and geographical areas. These risks are monitored on a business-to-business basis, and Portugal Telecom's management of these risks aims to: (a) limit the credit granted to customers, considering the profile and the aging of receivables from each customer; (b) monitor the evolution of the level of credit granted; (c) perform an impairment analysis of its receivables on a regular basis; and (d) assess the market risk where the customer is located. Accordingly, the criteria used to compute adjustments for doubtful accounts receivable is based on these factors. The movement of these adjustments for the years ended 31 December 2013 and 2012 is disclosed in Note 42. As at 31 December 2013, the Group's consolidated trade receivables not adjusted for totalled Euro 641 million (Note 25), including Euro 409 million due with maturities up to ninety days, Euro 45 million due with maturities between ninety and one hundred and eighty days, Euro 41 million due with maturities between one hundred and eighty days and one year and Euro 146 million due with maturities over one year, with this latter amount including Euro 139 million for which the Group has either deferred the related revenues or has accounts payable to the same entities and regarding the same matter, which offset the related credit risk. As at 31 December 2013, the Group believes that there was no further credit adjustment required in excess of the adjustments for accounts receivable included in Note 42.

Risks related to treasury activities result mainly from the cash deposits on investments made by the Group. In order to dilute these risks, Portugal Telecom's policy is to invest its cash for short time periods, entering in agreements with reputable financial institutions and diversifying counterparties.

45.1.4. Liquidity risk

This risk may occur if the sources of funding, including cash balance, operating cash inflows, divestments, credit lines and cash-flows obtained from financing operations, do not match the Group's financing needs, such as operating and financing outflows, investments, shareholder remuneration and debt repayments. Based on the cash-flows generated by operations and on the available cash plus undrawn committed standby facilities and underwritten commercial paper agreements, as detailed below, Portugal Telecom concluded that the Group is able to meet its estimated obligations, based on the available information up to date regarding several factors exogenous to its businesses.

In order to mitigate liquidity risks, the Group seeks to maintain a liquidity position and an average maturity of debt that allows it to repay its short-term debt and, at the same time, pay all its contractual obligations, as mentioned below. As at 31 December 2013, the amount of available cash, plus the undrawn amount of Portugal Telecom's underwritten commercial paper lines (cash immediately available upon a 2 or 3-day notice) and Portugal Telecom's committed standby facilities amounted to Euro 3,257 million, as compared to Euro 3,016 million as at 31 December 2012. The average maturity of Portugal Telecom's net debt as at 31 December 2013 and 2012 was 5.5 and 5.6 years, respectively.

The capital structure of Portugal Telecom is managed in order to ensure that its businesses will be able to continue as a going concern and maximise the return to shareholders. The capital structure of the Group includes debt (Note 38), cash and cash equivalents (Note 47.h), short-term investments (Note 24) and equity attributable to equity holders of the parent (Note 44), comprising issued capital, treasury shares, reserves and accumulated earnings. The Group reviews periodically its capital structure considering the risks associated with each of the above mentioned classes of the capital structure.

As at 31 December 2013, the gearing ratio, determined as the proportion of net debt (debt minus cash and cash equivalents and short-term investments) to net debt plus equity was 72.0%, as compared to 65.2% as at 31 December 2012. The equity plus long-term debt to total assets ratio was 64.4% and 66.4% as at 31 December 2013 and 2012, respectively.

The following table presents Portugal Telecom's maturity of expected contractual obligations and commercial commitments as at 31 December 2013, on a consolidated basis:

(Euro million)

	Total	Less than one year	One to three years	Three to five years	More than five years
Indebtedness	7,389.9	1,495.1	1,614.0	1,726.9	2,553.9
Interest on indebtedness (i)	1,550.9	323.5	564.1	363.3	300.0
Post retirement benefits payments (ii)	1,034.8	155.2	268.5	216.6	394.5
Licenses and concessions (iii)	20.8	6.0	10.4	4.4	-
Unconditional financial commitments (iv)	76.9	76.9	-	-	-
Operating leases (Note 12)	154.7	43.4	41.2	31.4	38.6
Total contractual obligations	10,228.1	2,100.2	2,498.3	2,342.6	3,287.0

(i) Portugal Telecom's expected obligations related to interest on indebtedness are based on the Company's indebtedness at 31 December 2013 assuming that repayments will be made on scheduled dates and considering assumptions regarding interest rates on Portugal Telecom's floating rate debt. Therefore actual interest obligations could vary significantly from these amounts depending on future refinancing activities and market interest rates. These obligations relate exclusively to interest expenses on gross debt and as such do not include any interest income on cash and cash equivalents and short-term investments. | (ii) This caption includes primarily amounts corresponding to the undiscounted payments to be made by PT Comunicações related to salaries due to pre-retired and suspended employees and to expected contributions to the funds. For the unfunded portion and for calculation purposes, Portugal Telecom has assumed a linear contribution over the coming years. The total amount regarding Portuguese operations differs from the net accrued post retirement liability recognised in the Consolidated Statement of Financial Position primarily because the latter amount relates to the discounted unfunded obligations. | (iii) This caption corresponds to payments due to Anacom as at 31 December 2013 for radio frequency licenses (Note 39). | (iv) Unconditional purchase obligations relate basically to contractual agreements with suppliers for the acquisition of tangible fixed assets (Euro 47 million) and stocks (Euro 30 million), including all amounts related to the acquisition of network assets, telecommunications equipment and terminal equipments.

45.2. Derivative financial instruments

Hedging derivative financial instruments

Portugal Telecom analyses its financial instruments regularly in order to identify those that comply with the criteria established by IAS 39 to be classified as hedging instruments. As at 31 December 2013, there were no outstanding derivative financial instruments and, as at 31 December 2012, the following financial instruments were classified as cash-flow hedges:

(Euro million)

Company	Transaction	Maturity (years)	Notional amount	Fair value	Economic goal
Cash-flow hedge					
Portugal Telecom	Euro Interest Rate Swaps (i)	1.0 - 2.0	71.4	(2.3)	Eliminate the risk of interest rate fluctuations in debt instruments

(i) Portugal Telecom entered into interest rate swaps to hedge payments of its floating rate debt.

Derivative financial instruments classified as held for trading

As at 31 December 2013, there were no outstanding derivative financial instruments and, as at 31 December 2012, the Company had the following financial instruments which, according to IAS 39, are classified as held for trading derivatives:

(Euro million)

Company	Transaction	Maturity (years)	Notional amount	Fair value	Economic goal
Cash-flow hedge					
Portugal Telecom	EUR interest rate swaps	0.4	4.5	(0.1)	Previous fair value hedges

Effects of derivative financial instruments in the consolidated financial statements

The above mentioned derivative financial instruments outstanding as at 31 December 2012, the fair value of which totalled Euro 2.4 million, were recorded under the caption "Other liabilities". During the year ended 31 December 2013, these derivatives were settled, resulting in a loss of Euro 1.3 million recorded under the caption "Net losses on financial assets and other investments" (Note 18). In addition, Portugal Telecom recorded a loss in 2012 in connection with these instruments amounting to Euro 3.8 million (Note 18), and recorded the following items directly in the Consolidated Statement of Comprehensive Income:

- Unrealised gains of Euro 2.5 million in 2013 and Euro 0.1 million in 2012 corresponding to the changes in fair value of cross currency and interest rate swaps classified as cash-flow hedges;
- Gains of Euro 4.0 million in 2012 corresponding to unrealised losses transferred from other comprehensive income to net income upon its realisation.

14 CONSOLIDATED FINANCIAL STATEMENTS

45.3. Other disclosures on financial instruments

As at 31 December 2013 and 2012, the carrying amounts of each of the following categories of financial assets and liabilities, as defined in IAS 39, were recognised as follows (amounts in millions of euros):

(Euro million)

Caption	Fair value hierarchy (i)	Carrying value	Fair value	2013	2012
				Carrying value	Fair value
Financial assets carried at amortised cost:					
Cash and cash equivalents (Note 47.h)		1,659.0	1,659.0	1,988.8	1,988.8
Short-term investments (Note 24)		914.1	914.1	626.0	626.0
Accounts receivable - trade (ii)		763.1	763.1	797.2	797.2
Accounts receivable - other (Note 26) (ii)		407.5	407.5	399.5	399.5
Investments in group companies - loans granted (Note 33)		5.4	5.4	4.9	4.9
		3,749.2	3,749.2	3,816.4	3,816.4
Financial liabilities carried at amortised cost:					
Debt - exchangeable bonds (Note 38) (iii)	Level 1	743.0	763.4	732.9	766.0
Debt - bonds (Note 38) (iii)	Level 1	4,731.3	4,964.2	4,716.0	4,809.9
Debt - bank loans (Note 38) (iv)	Level 2	1,233.3	1,238.7	1,606.9	1,560.2
Debt - equity swaps on treasury shares (Note 38) (v)	Level 2	73.2	(8.3)	73.2	(4.1)
Debt - other loans (Note 38) (vi)		542.0	542.0	198.1	198.1
Accounts payable (ii)		587.7	587.7	682.0	682.0
Accrued expenses (ii)		534.7	534.7	489.5	489.5
Other current liabilities		14.0	14.0	3.9	3.9
Other non-current liabilities		5.0	5.0	151.7	151.7
		8,464.2	8,641.4	8,654.4	8,657.3
Financial liabilities recorded according to IAS 17					
Debt - finance leases (Note 38)		48.3	48.3	47.9	47.9
		48.3	48.3	47.9	47.9
Derivative financial instruments (Note 45.2)					
Other non-current assets (liabilities)		-	-	(2.4)	(2.4)
		-	-	(2.4)	(2.4)

(i) IFRS 7 Financial Instruments: Disclosures require that the fair value of financial assets and liabilities must be based on the assumptions that market participants would consider in pricing an asset or a liability, and establishes a hierarchy that prioritises the information used to build such assumptions, named fair value measurement hierarchy. This hierarchy attaches more importance to available market inputs (observable data) and less weight to inputs based on data without transparency (unobservable data), ranging from Level 1 to Level 3, respectively. In 2013, there were not significant transfers between the levels of the fair value hierarchy. | (ii) Accounts receivable, accounts payable and accrued expenses have generally short-term maturities and therefore their fair values is considered to be similar to the respective carrying amounts. There is however some non-current receivables and payables that are recorded at present value and for which there is no active market, as a result of which the fair values were deemed similar to the carrying amounts. (iii) Fair value of convertible bonds and non-convertible bonds was obtained based on quoted prices in active markets. | (iv) Fair value of bank loans was determined based on a discounted cash-flow methodology using inputs that are observable in the market. | (v) The fair value of the financial instrument associated with the liability related to equity swap on treasury shares was determined based on the difference between the exercise price of these equity swaps and Portugal Telecom's stock price as of that date, including the interest effect. | (vi) Other loans include mainly amounts due under commercial paper programmes, the maturity of which is lower than 3 months. For these reasons, the fair value of these instruments was assumed to be similar to the corresponding carrying values.

46. GUARANTEES

As at 31 December 2013 and 2012, the Company has presented guarantees and comfort letters to third parties, as follows:

(Euro)

	2013	2012
Bank and other guarantees presented by Portuguese companies to courts and tax authorities (i)	329,492,097	323,524,881
Bank guarantees presented by Portugal Telecom to EIB (ii)	491,428,571	515,000,000
Bank and other guarantees presented to other entities by:		
MEO, SA (iii)	26,023,980	32,397,785
PT Comunicações (iv)	21,153,349	20,432,878
Other companies	21,331,535	11,554,299
Total	889,429,532	902,909,843

(i) Bank and other guarantees presented by Portuguese Group companies to courts and tax authorities include primarily Euro 317 million related to the tax assessments received by Portugal Telecom regarding the years 2005 to 2009, as explained in Note 49. In accordance with Portuguese tax legislation, the Company has presented these guarantees and submitted a claim or an appeal to the tax authorities in order to be able to hold open discussions with the tax authorities and avoid the payment of a given tax assessment. In Portugal, these two conditions are required and must be complied with before the process can continue, regardless of the amount of the tax assessment or the likelihood of success of the appeal or the claim. | (ii) These bank guarantees were presented by Portugal Telecom to the European Investment Bank in connection with loans obtained from this bank (Note 38.3). | (iii) Bank guarantees given on behalf of MEO, SA include primarily a bank guarantee presented to Anacom amounting to Euro 24 million related to the total instalments due under the acquisition of the LTE license completed in December 2011. | (iv) Bank guarantees given on behalf of PT Comunicações were presented essentially to the following entities: (1) Municipal Authorities, which relate mainly to the payment of taxes and other fees in connection with Portugal Telecom's use of public rights-of-way; and (2) Anacom, which relate mainly to an open contest for granting the right of use national frequencies for the television service.

47. CONSOLIDATED STATEMENT OF CASH-FLOWS

a) Payments relating to indirect taxes and other

This caption includes primarily payments related to the expenses recorded in the caption "Indirect taxes" (Note 13) of the Consolidated Income Statement, and also payments and collections of Value Added Tax in Portugal.

b) Short-term financial applications

These captions include basically cash payments from new short-term financial applications entered into and cash receipts from the short-term applications matured. Net cash payments amounted to Euro 316,661,421 in 2013 and Euro 161,184,651 in 2012.

c) Cash receipts resulting from the disposal of financial investments

In 2013, this caption includes basically the proceeds obtained from the disposal of the investment in CTM, amounting to Euro 335.7 million (Note 32).

d) Cash receipts (payments) resulting from interest and related income (expenses)

Cash payments resulting from interest and related expenses net of cash receipts resulting from interest and related income amounted to Euro 266,243,026 and Euro 300,768,250 in the years ended 31 December 2013 and 2012, respectively.

e) Dividends received

During the years ended 31 December 2013 and 2012, cash dividends received were as follows:

	(Euro)	
	2013	2012
Oi (Note 30)	86,439,663	185,120,347
CTM (Note 32.a)	25,228,274	24,503,286
Contax	1,945,021	3,817,381
Unitel	-	49,859,012
Other	2,341,258	1,917,519
	115,956,229	265,217,545

f) Loans obtained and repaid

These captions relate basically to commercial paper and other bank loans which are regularly renewed.

During the year ended 31 December 2013, cash payments resulting from loans repaid, net of cash receipts from loans obtained, amounted to Euro 40,600,037 and, as explained in Note 38, reflect primarily the repayment of the 2009 Eurobond (Euro 934 million), the decrease in the outstanding amount due under Portugal Telecom's standby credit facilities (Euro 350 million), the repayment of the Euro 50 million floating rate notes issued in August 2008, and the repayment of several loans obtained from the European Investment Bank. These effects were partially offset by a Euro 1,000 million Eurobond issued on 10 May 2013 and the increase in

14 CONSOLIDATED FINANCIAL STATEMENTS

the amounts due under Portugal Telecom's commercial paper programmes (Euro 366 million).

During the year ended 31 December 2012, cash payments resulting from loans repaid, net of cash receipts from loans obtained, amounted to Euro 1,048,702,097 and, as explained in Note 38, reflect primarily the repayment of the Euro 1,300 million Eurobond issued by PT Finance in March 2005, the payment of the last instalment due to the Portuguese State in connection with the transfer of unfunded pension liabilities (Euro 454 million) and the reduction of Euro 378 million in the amounts due under commercial paper programmes. These effects were partially offset by the Euro 400 million and Euro 750 million bonds issued by Portugal Telecom and PT Finance in July and October 2012, respectively.

g) Dividends paid

The detail of dividends paid during the years ended 31 December 2013 and 2012 is as follows:

	(Euro)	
	2013	2012
Portugal Telecom (Note 22)	284,658,563	569,317,125
MTC	19,749,084	10,759,068
Cabo Verde Telecom	-	12,532,352
Other	11,740,566	11,515,625
	316,148,213	604,124,170

h) Cash and cash equivalents

As at 31 December 2013 and 2012, the composition of this caption is as follows:

	(Euro)	
	2013	2012
Cash	10,526,405	33,316,183
Demand deposits	94,713,210	110,336,145
Time deposits	1,455,485,775	1,750,335,469
Other bank deposits	98,225,124	94,809,341
	1,658,950,514	1,988,797,138

48. RELATED PARTIES

a) Associated companies and joint ventures

Balances as at 31 December 2013 and 2012 and transactions occurred during the years then ended between Portugal Telecom and associated companies and joint ventures are as follows:

(Euro)						
Company	Accounts receivable		Accounts payable		Loans granted	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Joint ventures	4,685,059	799,583	24,796	-	-	-
Other international companies:						
Unitel (i)	238,241,859	245,675,718	2,638,599	5,809,113	-	-
Multitel	6,265,431	7,517,277	229,884	323,322	915,058	936,627
CTM	-	154,198	-	15,743	-	-
Other	646,420	-	-	-	-	-
Domestic companies:						
Páginas Amarelas	173,050	4,383,690	1,325,856	6,517,948	-	-
PT-ACS	3,372,065	2,417,335	3,103,827	2,386,234	-	-
Fundação PT	341,983	569,949	-	11	-	-
Sportinveste Multimédia	56,864	103,641	226,993	643,387	32,282,861	32,282,861
Siresp	28,024	38,179	5,860	-	1,260,909	1,513,090
Other	410,491	230,808	1,129,313	502,404	2,392,443	2,478,408
	254,221,246	261,890,378	8,685,128	16,198,162	36,851,271	37,210,986

i) Accounts receivable from Unitel as at 31 December 2013 and 2012 relate primarily to dividends receivable amounting to Euro 206 million and Euro 215 million, respectively (Note 26).

(Euro)						
Company	Costs		Revenues		Interest charged	
	2013	2012	2013	2012	2013	2012
Joint ventures	174,684	723,621	10,226,830	1,986,285	-	-
Other international companies:						
Unitel	6,656,346	6,204,614	13,793,167	12,126,525	-	-
Multitel	454,120	289,008	1,745,267	2,308,074	-	-
CTM	74,739	64,517	88,654	292,401	-	-
Other	223	-	-	1,943	-	-
Domestic companies:						
Páginas Amarelas (i)	21,179,202	26,880,377	2,754,786	2,210,809	-	1,560
PT-ACS	6,495,377	7,110,178	2,826,715	1,767,278	-	-
Sportinveste Multimédia	908,541	897,931	172,728	167,605	32,820	52,216
Siresp	-	-	15,397,196	14,274,932	58,095	107,634
Other	724,985	735,207	4,354,399	4,188,132	124,809	62,679
	36,668,217	42,905,453	51,359,742	39,323,984	215,724	224,089

(i) The reduction in costs with Páginas Amarelas relates primarily to the decline in the directories business, as mentioned in Note 7.

The terms and contractual conditions in agreements entered into between Portugal Telecom and associated companies are similar to those applicable to other independent entities in similar transactions. Activities developed in connection with those agreements include mainly:

- Expenses incurred by PT Comunicações related to services rendered by Páginas Amarelas in connection with the agreement entered into by both entities, under which Páginas Amarelas is responsible for the production, publishing and distribution of PT Comunicações telephone directories, as well as for selling advertising space in the directories;
- Loans granted to Sportinveste Multimédia under the shareholders agreement of this company, in order to finance its activity;
- Roaming agreements entered into with Unitel.

b) Shareholders

Some of the major shareholders of Portugal Telecom are financial institutions and, in the ordinary course of business, Portugal Telecom entered into various transactions with those entities, including bank deposits, short-term investments and financings entered into by the Company with those financial institutions, as well as telecommunications services rendered by the Company to those entities. In addition, Visabeira (a service provider of Portugal Telecom's wireline business) and Controlinveste (a media

14 CONSOLIDATED FINANCIAL STATEMENTS

content provider) are also major shareholders of Portugal Telecom. Transactions occurred during the year 2013 and balances as at 31 December 2013 between Portugal Telecom and its major shareholders, excluding the outstanding balances related to bank deposits, short-term investments and financings, are as follows (including VAT):

(Euro)

	2013			2012
Company	Revenues and gains (i)	Costs and losses (i)	Accounts receivable	Accounts payable
BES	68,014,622	28,105,495	1,428,622	
Visabeira	11,290,365	79,668,692	34,768,339	20,322,411
Controlinveste	2,469,041	47,360,248	463,937	8,545,056
Ongoing	507,475	2,930,813	268,962	389,724
BlackRock	1,051	5,031,948	-	5,000,156
UBS	39	45,000	-	-
	82,282,592	163,142,196	36,929,860	34,257,347

(i) Revenues and gains include sales and services rendered by Portugal Telecom and interest received on bank deposits, while costs and losses include supplies and external services provided to Portugal Telecom and interest paid on financing agreements and equity swaps.

The terms and contractual conditions in agreements entered into by Portugal Telecom and shareholders are similar to those applicable to other independent entities in similar transactions; under these agreements, the financial institutions listed above rendered financial consultancy and insurance services to the Group.

Pension and healthcare funds, which were incorporated to cover the Company's post retirement benefit plans (Note 14.1), are managed in accordance with an investment guideline approved by the Board of Directors of Portugal Telecom. The portfolio of assets held by these funds includes shares, bonds and other investments from our shareholders. As at 31 December 2013, the total exposure of these investments to or managed by BES, Rocha dos Santos Holding and Portugal Telecom was Euro 89 million, Euro 95 million and Euro 58 million, respectively, as compared to Euro 77 million, Euro 104 million and Euro 66 million as at 31 December 2012, respectively.

c) Other

During the years ended 31 December 2013 and 2012, fixed remunerations of board members, which were established by the Remunerations Committee, amounted to Euro 5.52 million and Euro 5.73 million, respectively.

Under the terms of the remunerations policy established by the Remunerations Committee, executive board members are entitled to receive an annual variable remuneration related to the performance achieved, of which 50% is payable in the following year and the remaining 50% is payable 3 years after if certain performance measures are achieved. Portugal Telecom recognises an accrual for variable remunerations on an annual basis.

In the year ended 31 December 2013, the annual variable remuneration of 2012 paid to the seven executive board members amounted to Euro 2.2 million, as compared to the annual variable remuneration of 2011 paid to the seven executive board members in the year ended 31 December 2012, amounting to Euro 2.44 million. In addition, in the year ended 31 December 2012 and in accordance with a deliberation of the Remunerations Committee, Portugal Telecom paid an amount of Euro 1.94 million to the executive board members regarding the VRMT of 2009, which payment had been deferred in that year. At the end of the 3 years term of office of the Chairman of the Board of Directors, the Evaluation Committee, taking into account his performance evaluation, in the exercise of his duties, proposed to the Compensation Committee the granting of a bonus, of which Euro 0.65 million were paid in 2012 and an equal amount was deferred for a three years period. The payments of variable remuneration that were deferred as at 31 December 2013 amounted to Euro 10.12 million.

Additionally, in connection with the strategic partnership entered into with Oi and Contax, five of Portugal Telecom's board members (six in 2012) perform executive duties in these companies (entities jointly controlled by Portugal Telecom), having received in the years ended 31 December 2013 and 2012 a total fixed compensation of Brazilian Real 1.02 million (Euro 0.4 million) and Brazilian Real 2.39 million (Euro 0.95 million), respectively, which was established by the competent corporate bodies in accordance with local legislation.

In addition to the above mentioned remunerations, executive board members are entitled to fringe benefits primarily utilised in their daily functions, in connection with a policy defined for the Group.

During the years ended 31 December 2013 and 2012, key employees of Portugal Telecom's management, as defined under the Securities Code, received fixed remunerations amounting to Euro 4.4 million and Euro 5.2 million, respectively. The variable remunerations paid to key employees in the years ended 31 December 2013 and 2012 amounted to Euro 2.2 and Euro 2.5 million, respectively.

As at 31 December 2013, there was no share based payment program or termination benefit in place and Portugal Telecom did not have any outstanding balances with board members or key employees.

As at 31 December 2013, there was one board member and five key employees of Portugal Telecom entitled to post retirement benefits under the plans of PT Comunicações, with the corresponding liabilities amounting to Euro 2 thousand and Euro 12 thousand as at 31 December 2013, respectively.

In the year ended 31 December 2013, fees from Portugal Telecom's statutory auditor amounted to Euro 0.24 million and correspond to audit fees related to the following companies: Portugal Telecom, PT Investimentos Internacionais, PT Ventures, PT Participações, Timor Telecom and PT Imobiliária.

For additional information regarding the remunerations of board members and key employees, please read the Corporate Governance Report included in the Annual Report.

49. LITIGATION

As at 31 December 2013 and 2012, there were several claims, legal actions and tax contingencies against certain subsidiaries of the Group for which the risk of loss is considered probable in accordance with the definitions of IAS 37 "Provisions, Contingent Assets and Contingent Liabilities". Based on the opinion of its internal and external legal counsels, the Group recorded provisions (Note 42) for those claims, legal actions and tax contingencies to cover its probable future cash outflows, as follows:

	2013	2012
Civil claims	11,618,137	13,405,502
Labour claims	2,893,200	3,439,245
Other	3,568,768	4,490,767
Sub-total	18,080,105	21,335,514
Tax	61,955,874	69,408,265
Total	80,035,979	90,743,779

As at 31 December 2013 and 2012, there were several claims, legal actions and tax contingencies against certain subsidiaries of the Group for which the risk of future cash outflows was considered possible, based on the information provided by its legal counsels, and that therefore are not provided for. The nature of these contingencies is as follows:

	2013	2012
Civil claims	71,078,646	88,182,668
Labour claims	982,904	478,806
Other	16,496,924	25,201,237
Sub-total	88,558,474	113,862,711
Tax	4,285,758	31,898,581
Total	92,844,232	145,761,292

14 CONSOLIDATED FINANCIAL STATEMENTS

The following litigation processes relate to the main claims, legal actions and tax contingencies against Portuguese subsidiaries of the Group, some of which the Company considers, based on the opinion of its internal and external legal counsels and in accordance with the definitions of IAS 37, that related losses are remote, which therefore are not included in the amounts disclosed above but are described below due to its materiality.

a) Claims for municipal taxes and fees

Pursuant to a statute enacted on 1 August 1997, as an operator of a basic telecommunications network, Portugal Telecom was exempt from municipal taxes and rights-of-way and other fees with respect to its network in connection with its obligations under the Concession. The Portuguese Government has advised Portugal Telecom in the past that this statute confirmed the tax exemption under our Concession and that it will continue to take the necessary actions in order for PT Comunicações to maintain the economic benefits contemplated by the Concession.

Law 5/2004, dated 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 which network infra-structures are located in each such municipality. This regime was implemented in 2005 but does not affect the lawsuit described above, based on the former statute. Meanwhile, Decree-Law 123/2009, dated 21 May 2009, clarified that no other tax should be levied by the municipalities in addition to the tax established by Law 5/2004. This interpretation was confirmed by the Supreme Administrative Court of Portugal in several legal actions.

Some municipalities however, continue to perceive 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 with some municipalities regarding this matter.

b) Regulatory proceedings

Portugal Telecom Group companies are regularly subject to regulatory inquiries and investigations involving their operations. In addition, ANACOM (the telecoms regulator), the European Commission, and the Autoridade da Concorrência (the Portuguese competition authority) regularly make inquiries and conduct investigations concerning compliance with applicable laws and regulations. Current inquiries and investigations include several investigations by Autoridade da Concorrência related to PT Comunicações and MEO, SA for alleged anti-competitive practices in the Digital Terrestrial Television and public mobile telephone markets, respectively. Portugal Telecom considers that Group companies have consistently followed a policy of compliance with all relevant laws. The Group continually reviews commercial offers in order to reduce the risk of competition law infringement. However, if group companies are found to be in violation of applicable laws and regulations in these or other regulatory inquiries and investigations, they could become subject to penalties, fines, damages or other sanctions. It is however permitted under Portuguese law to appeal any adverse decision to the Courts.

In April 2007, Autoridade da Concorrência accused PT Comunicações of alleged abuse of dominant position for granting discriminatory discounts on leased lines. In response to this accusation, PT Comunicações contested the alleged by Autoridade da Concorrência. However, on 1 September 2008, Autoridade da Concorrência imposed a fine of Euro 2.1 million on PT Comunicações. On 29 September 2008, PT Comunicações appealed to the Commerce Court of Lisbon and, on 29 February 2012, the Commerce Court of Lisbon cleared PT Comunicações on the fine imposed by Autoridade da Concorrência. Portugal Telecom, based on the opinion of its internal and external legal counsels, had not recorded any provision for this matter.

On 19 January 2011, the European Commission opened an investigation into an agreement between Telefónica and Portugal Telecom allegedly not to compete on the Iberian telecommunications markets. In October 2011, Portugal Telecom was notified of a Statement of Objections sent by the European Commission to Portugal Telecom and Telefónica on this matter, which only covered the alleged cooperation between the two companies after the Vivo transaction. In response to the Statement of Objections,

Portugal Telecom contested the alleged by the European Commission. In January 2013, the European Commission adopted a decision condemning the Company, together with Telefónica, SA, for infringement of article 101 of the TFEU, with reference to the alleged non-compete commitment with impact in the Iberian market included in the agreement of 28 July 2010 concerning the acquisition by Telefónica of Portugal Telecom's stake in Brazilian operator Vivo. Under this decision, Portugal Telecom was fined by an amount of Euro 12,290,000. The Company believes that the fine is unjustified and inappropriate to any eventual unworthiness of its conduct and accordingly brought an action for annulment before the Court of Justice of the European Union and did not record any provision for this matter.

c) Other legal proceedings

In March 2004, TV TEL Grande Porto - Comunicações, SA (TV TEL), a telecommunications company based in Porto, filed a claim against PT Comunicações in the Lisbon Judicial Court. TV TEL alleged that, since 2001, PT Comunicações has unlawfully restricted and/or refused access to its telecommunication ducts in Porto, thereby undermining and delaying the installation and development of TV TEL's telecommunications network. TV TEL alleges that PT Comunicações intended to favour both itself and CATVP—TV Cabo Portugal, S.A, subsidiary of PT-Multimédia and at the time a direct competitor of TV TEL. TV TEL is claiming an amount of approximately Euro 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 Porto. In addition, TV TEL has demanded that PT Comunicações be required to give full access to its ducts in Porto. PT Comunicações submitted its defence to these claims in June 2004, stating that (1) TV TEL did not have a general right to install its network in PT Comunicações's ducts, (2) all of TV TEL's requests were lawfully and timely responded to by PT Comunicações according to its general infra-structure management policy, and (3) TV TEL's claims for damages and losses were not factually sustainable. On February 2013, the court decided a compensation related to increased costs of financing incurred and a value regarding loss of clients to be liquidated by TV TEL. Both parties have appealed.

In March 2011, Optimus - Comunicações SA (Optimus) filed a claim against Portugal Telecom in the Judicial Court of Lisbon for the payment of approximately Euro 11 million and, in October 2011, Onitelem - Infocomunicações, S.A (Oni) filed a claim against Portugal Telecom in the same court for the payment of approximately Euro 1.5 million, both related to a proceeding of the Autoridade da Concorrência that terminated in 2011 for prescription reasons, in relation to which Autoridade da Concorrência had imposed a fine to Portugal Telecom of approximately Euro 45 million. Optimus and Oni sustained their position by arguing that they suffered losses and damages as a result of Portugal Telecom's conduct. In the Optimus action, the Company is waiting for the schedule of the trial, while regarding the Oni legal action, Portugal Telecom was acquitted due to prescription reasons.

d) Tax contingencies

There are some tax claims against certain Portuguese subsidiaries of the Group which relate primarily to the deductibility of certain financial costs incurred between 2004 and 2010 (Euro 233 million) and of a capital loss occurred in 2006 following the liquidation of a subsidiary (Euro 65 million). Portugal Telecom already received tax assessments regarding these matters for all the years mentioned above and presented bank guarantees to the tax authorities for the years 2005 to 2009 totalling Euro 317 million (Note 46). As at 31 December 2013, Portugal Telecom strongly disagrees with these assessments and based on the opinion of its tax advisors, considers that there are solid arguments to oppose the position of the tax authorities, and therefore, did not consider the losses related to these tax contingencies as either probable or possible.

50. SUBSEQUENT EVENTS

There were no events after 31 December 2013 with relevant impact in these consolidated financial statements.

14 CONSOLIDATED FINANCIAL STATEMENTS

EXHIBITS

I. Subsidiaries

Subsidiaries located in Portugal

(percentage of ownership)

Company	Notes	Head office	Activity	Direct	Dec 13 Effective	Dec 12 Effective
Portugal Telecom (Empresa-mãe)	Note 1	Lisbon	Holding company.			
Directel - Listas Telefónicas Internacionais, Lda. (Directel)		Lisbon	Publication of telephone directories and operation of related data bases.	Africatel (100%)	75.00%	75.00%
Infonet Portugal – Serviços de Valor Acrescentado, Lda		Lisbon	Commercialisation of value added products and services in the area of information and communication by computer through access to the Infonet world network.	PT Comunicações (90%)	90.00%	90.00%
Openideia - Tecnologias de Telecomunicações e Sistemas de Informação, SA		Aveiro	Provision of IT systems and services.	PT Inovação (100%)	100.00%	100.00%
Portugal Telecom Data Center, SA		Covilhã	Provision of services and product supply in the area of information systems and technologies, including data processing, hosting and related aspects.	PT Portugal (100%)	100.00%	100.00%
PT Pay, SA	(a)	Lisbon	Providing payment services.	PT Comunicações (100%)	100.00%	-
Portugal Telecom Inovação, SA (PT Inovação)		Aveiro	Innovation, research, development and integration of telecommunications services and engineering solutions and training services in telecommunications.	PT Portugal (100%)	100.00%	100.00%
Postal Network – Prestação de Serviços de Gestão de Infra-estrutura de comunicações ACE		Lisbon	Providing postal network services.	PT Comunicações (51%)	51.00%	51.00%
Previsão – Sociedade Gestora de Fundos de Pensões, SA		Lisbon	Pension fund management.	PT Portugal (82,05%)	82.05%	82.05%
PT Centro Corporativo, SA		Lisbon	Providing consultant service to Group companies.	Portugal Telecom (100%)	100.00%	100.00%
PT Compras – Serviços de Consultoria e Negociação, SA		Lisbon	Providing consultant and negotiation services related with the buying process.	-	-	100.00%
PT Comunicações, SA		Lisbon	Establishment, management and operation of telecommunications infrastructures and provision of public telecommunication services and telebroadcasting services.	PT Portugal (100%)	100.00%	100.00%
PT Contact - Telemarketing e Serviços de Informação, SA (PT Contact)		Lisbon	Production, promotion and sale of information systems, including information products and services and related technical assistance.	PT Portugal (100%)	100.00%	100.00%
PT Imobiliária, SA		Lisbon	Administration of real estate assets, real estate investment consultancy, management of property developments, purchase and sale of real estate.	PT Imobiliária (100%)	100.00%	100.00%
PT Investimentos Internacionais, SA (PT II)		Lisbon	Business advisory board service installment, consultation, administration and business management. Elaboration of projects and economic studies and manage investments.	Portugal Telecom (100%)	100.00%	100.00%
PT Móveis, SGPS, SA (PT Móveis)		Lisbon	Management of investments in the mobile business.	MEO, SA (100%)	100.00%	100.00%
PT Participações, SGPS, SA		Lisbon	Management of investments.	Portugal Telecom (100%)	100.00%	100.00%
PT Portugal, SGPS, SA		Lisbon	Management of investments.	Portugal Telecom (100%)	100.00%	100.00%
PT Prestações-Mandatária de Aquisições e Gestão de Bens, SA (PT Prestações)		Lisbon	Acquisition and management of assets.	PT Comunicações (100%)	100.00%	100.00%
PT Pro, Serviços Administrativos e de Gestão Partilhados, SA		Lisbon	Shared services center.	PT Portugal (100%)	100.00%	100.00%
PT Sales - Serviços de Telecomunicações e Sistemas de Informação, SA (PT Sales)		Lisbon	Provision of telecommunications services and IT systems and services.	PT Portugal (100%)	100.00%	100.00%
PT Ventures, SGPS, SA		Madeira	Management of investments in international markets.	Africatel (100%)	75.00%	75.00%
PT-Sistemas de Informação, SA (PT SI)		Oeiras	Provision of IT systems and services.	*PT Portugal (99.8%); PT Comunicações (0.1%);	100.00%	100.00%
Meo – Serviços de Comunicações e Multimédia, SA		Lisbon	Provision of mobile telecommunications services and the establishment, management and operation of telecommunications networks.	PT Comunicações (100%)	100.00%	100.00%
TPT - Telecomunicações Publicas de Timor, SA (TPT)		Lisbon	Purchase, sale and services rendering of telecommunications products and information technologies in Timor	PT Participações (76.14%)	76.14%	76.14%
Use.it® - Virott e Associados, Lda.	(b)	Lisbon	Provision of research, design, programming, information and support systems.	PT SGPS (52.50%)	52.50%	52.50%
PT BlueClip	(c)	Lisbon	Providing consultant service to Group companies.	PT Comunicações (100%)	100.00%	100.00%

(a) This company was incorporated in 2013. | (b) This company is currently not developing any activity.

Subsidiaries located in Brazil

(percentage of ownership)

Company	Notes	Head office	Activity	Direct	Dec 13 Effective	Dec 12 Effective
Bratel Brasil, SA		São Paulo	Management of investments.	Bratel BV (98,77%); PT Brasil (1,23%)	100.00%	100.00%
Istres Holding S.A	(a)	São Paulo	Management of investments.	PT Inovação Brasil (90%); PT Brasil (10%)	100.00%	100.00%
Portugal Telecom Brasil, SA		São Paulo	Management of investments.	PT SGPS (100%)	100.00%	100.00%
Portugal Telecom Inovação Brasil, Lda		São Paulo	Development of information technologies and telecommunications services.	PT Inovação (100%)	100.00%	100.00%
PT Multimédia.com Brasil, Ltda. (PTM.com Brasil)	(a)	São Paulo	Management of investments.	PT Brasil (100%)	100.00%	100.00%

(a) These companies are currently not developing any activity.

Subsidiaries located in Africa

(percentage of ownership)

Company	Notes	Head office	Activity	Direct	Dec 13 Effective	Dec 12 Effective
Cabo Verde Móvel, SA	(a)	Praia	Mobile telecommunications services in Cape Verde.	Cabo Verde Telecom (100%)	30.00%	30.00%
Cabo Verde Multimédia, SA	(a)	Praia	Multimedia telecommunications services in Cape Verde.	Cabo Verde Telecom (100%)	30.00%	30.00%
Cabo Verde Telecom, SARL	(a)	Praia	Provides telecommunications services.	PT Ventures (40%)	30.00%	30.00%
Cellco - Ste Cellulaire du Congo SARL	(b)	Congo	Telecommunications services in Congo	PT II (61%)	61.00%	61.00%
Contact Cabo Verde – Telemarketing e Serviços de Informação, SA		Praia	Call and contact centre services.	PT Contact (100%)	100.00%	100.00%
CST – Companhia Santomense de Telecomunicações, S.A.R.L.		São Tomé	Fixed and mobile telecommunication services in São Tomé and Príncipe.	Africatel (51%)	38.25%	38.25%
Directel Cabo Verde – Serviços de Comunicação, Lda.		Praia	Publication of telephone directories and operation of related databases in Cape Verde	Directel (60%); Cabo Verde Telecom (40%)	57.00%	57.00%
Directel Uganda – Telephone Directories, Limited	(b)	Uganda	Publication of telephone directories.	Directel (100%)	75.00%	75.00%
Elta - Empresa de Listas Telefónicas de Angola, Lda		Luanda	Publication of telephone directories.	Directel (55%)	41.25%	41.25%
Openideia Marrocos, SA		Casablanca	Provision of IT systems and services.	PT Inovação (100%)	100.00%	100.00%
Openideia Angola, SA		Luanda	Provision of telecommunications services and IT systems and services.	PT Inovação (100%)	100.00%	100.00%
Kenya Postel Directories, Ltd.		Nairobi	Production, editing and distribution of telephone directories and other publications.	Directel (60%)	45.00%	45.00%
LTM - Listas Telefónicas de Moçambique, Lda.		Maputo	Management, editing, operation and commercialisation of listings of subscribers and classified telecommunications directories.	Directel (50%)	37.50%	37.50%
Mobile Telecommunications Limited	(c)	Namibia	Mobile cellular services operator	Africatel BV (34%)	25.50%	25.50%
TMM - Telecomunicações Móveis de Moçambique, SA	(b)	Maputo	Mobile cellular services operator	PT Participações (98%)	98.00%	98.00%
STP Cabo, SARL		São Tomé and Príncipe	Submarine cable manager	CST (74,5%)	28.50%	28.50%

(a) Portugal Telecom has the majority of board members of Cabo Verde Telecom and therefore is able to control its financial and operating policies. | (b) These companies are currently not developing any activity. (c) Under the shareholders agreement entered into with the remaining shareholders of MTC, Portugal Telecom has the power to set and control financial and operating policies of this company.

Other subsidiaries

(percentage of ownership)

Company	Notes	Head office	Activity	Direct	Dec 13 Effective	Dec 12 Effective
Carrigans Finance S.A.R.L.	(a)	Luxembourg	Management of investments.	PT Móveis (100%)	100.00%	100.00%
Bratel BV		Amsterdam	Management of investments.	PT Móveis (100%)	100.00%	100.00%
Africatel GmbH	(b)	Germany	Management of investments.	PT Participações (100%)	100.00%	0.00%
Africatel Holdings, BV		Amsterdam	Management of investments.	Africatel GmbH (75%)	75.00%	75.00%
CVTEL, BV		Amsterdam	Management of investments.	PT Móveis (100%)	100.00%	100.00%
Direct Media Ásia, Ltd.	(a)	Hong Kong	Publication of B2B and other related telephone directories either in paper or electronic support.	Directel (100%)	-	75.00%
Portugal Telecom Europa, S.P.R.L. (PT Europa)	(a)	Brussels	Technical and commercial management consultancy in the communication area with respect to the European market and community matters.	Portugal Telecom (98.67%)	98.67%	98.67%
Portugal Telecom Internacional Finance B.V		Amsterdam	Obtaining financing for the group in international markets.	Portugal Telecom (100%)	100.00%	100.00%
Timor Telecom, SA		Timor	Provider of telecommunications services in Timor.	TPT (54.01%); PT Participações (3.05%)	44.17%	41.12%

(a) These companies are currently not developing any activity. | (b) This company was incorporated in 2013 and owns 75% of Africatel Holdings BV.

14 CONSOLIDATED FINANCIAL STATEMENTS

II. Associated companies

Associated companies located in Portugal

(percentage of ownership)

Company	Notes	Head office	Activity	Direct	Dec 13 Effective	Dec 12 Effective
Janela Digital - Informativo e Telecomunicações, Lda		Caldas da Rainha	Development of IT solutions to the real state market.	PT Comunicações (50%)	50.00%	50.00%
Broadnet Portugal		Lisbon	Provision of services to access the internet.	Portugal Telecom (21.27%)	21.27%	21.27%
Caixanet - Telemática e Comunicações, SA		Lisbon	Provision of e.banking services.	PT Comunicações (10%); PT SI (5%)	15.00%	15.00%
Capital Criativo - SCR, SA		Loures	Management of investments.	PT Comunicações (20%)	20.00%	20.00%
Entigere - Entidade Gestora Rede Multiserviços, Lda.		Lisbon	Networks management.	PT Participações (25%)	25.00%	25.00%
INESC - Instituto de Engenharia de Sistemas e Computadores, SA (INESC)		Lisbon	Scientific research and technological consultancy.	Portugal Telecom (26.36%); PT Comunicações (9.53%)	35.89%	35.89%
INESC Inovação - Instituto de novas tecnologias		Lisbon	Scientific research and technological consultancy.	INESC (90%)	32.30%	32.30%
Multicert - Serviços de Certificação Electrónica, SA		Lisbon	Supply of electronic certification services.	PT Comunicações (20%)	20.00%	20.00%
Páginas Amarelas		Lisbon	Production, editing and distribution of telephone directories and publications.	Portugal Telecom (19.88%); PT Comunicações (0.13%)	20.00%	20.00%
PT P&F ACE		Lisbon	Consultancy services, advice and support to the implementation of printing & finishing processes.	PT Comunicações (49%)	49.00%	49.00%
Yunit Serviços, SA		Lisbon	Provision of development and consultancy services in the areas of electronic commerce, contents and information technology.	PT Comunicações (33.33%)	33.33%	33.33%
Siresp - Gestão de Rede Digitais de Segurança e Emergência, SA		Lisbon	Networks management.	PT Participações (30.55%)	30.55%	30.55%
Sportinvest Multimédia, SGPS, SA		Lisbon	Management of investments.	PT Comunicações (50%)	50.00%	50.00%
Tradedforum-Soluções de Comercio Electronico, A.C.E.		Lisbon	Provides solutions for e-commerce business-to-business on the domestic market and solutions for automate the purchase process.	Yunit Serviços (50%)	16.50%	16.50%
Vantec - Tecnologias de Vanguarda Sistemas de Informação, SA		Lisbon	Solutions and equipments for the audiovisual sector.	PT II (25%)	25.00%	25.00%

Other associated companies

(percentage of ownership)

Company	Notes	Head office	Activity	Direct	Dec 13 Effective	Dec 12 Effective
Multitel - Serviços de Telecomunicações, Lda.		Luanda	Provision of data communications services and digital information communication services, in Angola.	PT Ventures (40%)	30.00%	30.00%
Unitel, SARL.		Luanda	Provision of mobile telecommunications services in Angola.	PT Ventures (25%)	18.75%	18.75%
CTM - Companhia de Telecomunicações de Macau, SARL.	(a)	Macau	Provision of public telecommunications services, in Macao.	-	-	28.00%
Hungaro Digital KFT		Budapest	Provision of telecommunications services.	PT Participações (44.62%)	44.62%	44.62%

(a) On 13 January 2013, as mentioned in Notes 1 and 32, Portugal Telecom entered into a definitive agreement for the sale of the investment in this company for a total amount of USD Dollar 411.6 million. The conclusion of this transaction is still conditional upon the ratification of a set of precedent conditions.

15

REPORT AND OPINION OF THE AUDIT COMMITTEE



CHAIRMAN AND CEO'S MESSAGE	08
01 MACROECONOMIC ENVIRONMENT	13
02 REGULATORY BACKGROUND	29
03 STRATEGIC PROFILE	41
04 RESEARCH AND DEVELOPMENT	53
05 FINANCIAL REVIEW	75
06 BUSINESS PERFORMANCE	85
07 EMPLOYEES	99
08 CAPITAL MARKETS	101
09 MAIN EVENTS	109
10 MAIN RISKS AND UNCERTAINTIES	113
11 OUTLOOK	121
12 STATEMENT BY THE PERSONS RESPONSIBLE	125
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129
14 CONSOLIDATED FINANCIAL STATEMENTS	133
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	
16 STATUTORY AUDITOR'S REPORT	231
17 INDEPENDENT AUDITORS' REPORT	235
18 GLOSSARY	239
19 BOARD OF DIRECTORS	243
20 KEY FIGURES	245
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249

15 REPORT AND OPINION OF THE AUDIT COMMITTEE

REPORT AND OPINION OF THE AUDIT COMMITTEE ON THE CONSOLIDATED ANNUAL REPORT AND ACCOUNTS FOR THE FISCAL YEAR OF 2013

(Translation of the original version issued in the Portuguese Language)

Introduction

Under the terms and for the purposes of paragraph g) to Article 423F of the Portuguese Companies Act and of Article 28 of the Company's articles of incorporation, the Audit Committee of Portugal Telecom, SGPS, SA (The Company or PT SGPS) hereby presents its report and opinion on the Consolidated Annual Report and Accounts of the Portugal Telecom Group for the year ended December 31, 2013.

Supervisory activities

Within its responsibilities as the Company's supervisory body, in 2013, the Audit Committee has overseen the management and the evolution of the Company's businesses and its compliance with the applicable legal, regulatory and accounting rules and pursued various supervisory activities of the quality and integrity of the consolidated financial information preparation and disclosure processes of the Portugal Telecom Group. In this respect, we note the adoption of IFRS 11 Joint Arrangements in 2013, whereby investments in joint ventures (namely in Oi in Contax and in their controlling shareholders) are now recorded retrospectively by the equity method, instead of proportionally consolidated, as previously permitted by IAS 31.

Given its importance, the Audit Committee has been overseeing the development of the process of combination of the businesses of PT and Oi, as discussed in the Memorandum of Understanding announced to the market on 02/10/2013, involving the proposed merger of PT, Oi and the Oi Holding Companies into a single Brazilian incorporated listed entity.

In the course of 2013, the Audit Committee issued 2 Preapproval Opinions on Proposals of Related Party Transactions, as defined in Internal Ruling N.o 111 CA, dated February 23, 2011.

During the fiscal year 2013, the Audit Committee held periodic meetings with the officers responsible for the preparation of the Company's Consolidated Annual Report and Accounts and of the accounts of relevant subsidiaries, as well as with the Company's Independent Auditors and the Statutory Auditor, with which discussed the adequacy of the accounting principles and valuation criteria adopted in the closing of the accounts and of the criteria adopted in the preparation of the management report. In addition, the Audit Committee has reviewed the Statutory Auditor's Opinion and the Independent Auditors' Report, both referring to the aforementioned consolidated financial statements approved by the Board of Directors, which were issued without any qualifications.

The Audit Committee has also supervised the qualifications, independence and work of the Company's Independent Auditors and Statutory Auditor, as well as of the quality, integrity and effectiveness of the Company's internal control and risk management systems and of the Internal Audit Function of the PT Group, which is certified by IIA.

As far as the internal control system is concerned, we highlight that it was certified by the Company's Independent Auditors in 2013, by reference to the year of 2012, on the basis of the methodology defined by COSO (Committee of Sponsoring Organizations), in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act and, and that a similar review is still in course with reference to 31/12/2013.

As provided for in paragraph 5 of Article 420.º of the Portuguese Companies Code, the Audit Committee also verified that the Company's report on its corporate governance structure and practices includes the elements listed in Article 245.º-A of the Portuguese Securities Code that are applicable to the PT Group.

The aforementioned supervisory activities will be further detailed in the Audit Committee's activities report relating to the year of 2013, to be disclosed in the Company's website after the issue of its Opinion on the approval of the inclusion of the Company's consolidated annual accounts in the 2013 Form 20-F, to be filed with the U.S. SEC, with which the Audit Committee will complete its duties for fiscal 2013.

Statement of responsibility

For the purposes of subparagraph 1, c) of Article 245.º of the Portuguese Securities Code, the members of the Audit Committee of Portugal Telecom, SGPS, SA identified hereunder declare, in the capacity and within their functions as described therein, that, to the best of their knowledge and grounded on the information to which they had access within such Audit Committee, while in office:

- The information in the management report, the annual financial statements, the statutory audit opinion and the other financial documentation required by law or regulation concerning the financial year ended 31 December 2013 were prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of Portugal Telecom, SGPS, SA and of the undertakings included in the consolidation perimeter;
- The management report for such financial year includes a fair review of the development of the businesses, of the performance and of position of Portugal Telecom, SGPS, SA and of the undertakings included in the consolidation perimeter, including namely an accurate description of the main risks and uncertainties that those entities face.

Opinion on the consolidated report and accounts for the fiscal year of 2013

As a result of the above, it is the opinion of the Audit Committee that the Consolidated Annual Report and Accounts of the Portugal Telecom Group for the fiscal year ended December 31, 2013, which include the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash-flows and the related notes thereto, for the year then ended, comply with the applicable accounting principles and legal and statutory provisions, and should be approved by the General Shareholders Meeting of PT SGPS.

Lisbon, February 19, 2014

THE CHAIRMAN OF THE AUDIT COMMITTEE
(João Manuel de Mello Franco)

THE MEMBERS
(José Guilherme Xavier de Basto) | (Mário João de Matos Gomes)

16

STATUTORY AUDITOR'S REPORT



CHAIRMAN AND CEO'S MESSAGE	08
01 MACROECONOMIC ENVIRONMENT	13
02 REGULATORY BACKGROUND	29
03 STRATEGIC PROFILE	41
04 RESEARCH AND DEVELOPMENT	53
05 FINANCIAL REVIEW	75
06 BUSINESS PERFORMANCE	85
07 EMPLOYEES	99
08 CAPITAL MARKETS	101
09 MAIN EVENTS	109
10 MAIN RISKS AND UNCERTAINTIES	113
11 OUTLOOK	121
12 STATEMENT BY THE PERSONS RESPONSIBLE	125
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129
14 CONSOLIDATED FINANCIAL STATEMENTS	133
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227
16 STATUTORY AUDITOR'S REPORT	
17 INDEPENDENT AUDITORS' REPORT	235
18 GLOSSARY	239
19 BOARD OF DIRECTORS	243
20 KEY FIGURES	245
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249

16 STATUTORY AUDITOR'S REPORT

(Free translation from the original in Portuguese)

Introduction

1. We have examined the consolidated financial statements of Portugal Telecom, SGPS, SA (Company) for the fiscal year 2013, comprising the consolidated statement of financial position as of December 31, 2013 (which reflect total assets of 12.020.395.182 euros and a shareholders' equity of 1.866.815.115 euros, including a net income attributable to equity holders of the parent and recognised in the consolidated income statement of 330.980.955 euros and a total of non-controlling interests of 225.495.738 euros), and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash-flows for the year then ended, and the related notes to the consolidated financial statements. These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union.

Responsibilities

2. The Company's Board of Directors is responsible for the preparation of consolidated financial statements that present a true and fair view of the financial position of the companies included in the consolidation, of the consolidated results of their operations, of their consolidated comprehensive income, of their consolidated changes in equity and of their consolidated cash-flows, for the adoption of adequate accounting policies and criteria and for the maintenance of an appropriate system of internal control, as well as for the disclosure of any relevant facts that have influenced the operations, the financial position or the results of operations of the companies included in the consolidation perimeter.
3. It is our responsibility to report our independent professional opinion, based on our audit of such financial statements.

Scope

4. Our audit was performed in accordance with generally accepted Portuguese Statutory Auditing Standards, which require our audit to be planned and performed in order to provide reasonable assurance that the consolidated financial statements are free from material misstatements. Therefore, our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements, and assessment of the significant estimates, which were based on judgements and criteria defined by the Board of Directors, used in the preparation of the consolidated financial statements, the checking of the consolidation procedures, and that the financial statements of the companies included in the consolidation have been properly examined, assessment of the adequacy and consistency of the accounting policies adopted and related disclosures, in the circumstances, examination of the adequacy of the going concern basis of preparation of the consolidated financial statements, and evaluation of the overall adequacy of the presentation of the consolidated financial statements.
5. Our examination also included the checking that the financial information included in the Consolidated Report of the Board of Directors is in agreement with the consolidated financial statements, as well as of the matters mentioned in paragraphs 4. and 5. of article 451º of the Portuguese Companies Code.
6. We consider that the audit that we performed provides a reasonable basis for the expression of our opinion.

Opinion

7. In our opinion, the consolidated financial statements mentioned above give a true and fair view, in all material respects, of the consolidated financial position of Portugal Telecom, SGPS, SA and subsidiaries as of December 31, 2013, and of the consolidated results of their operations, of their consolidated comprehensive income, of their consolidated changes in equity and of their consolidated cash-flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, applied on a consistent basis with the previous year.

Emphasis of a matter

8. As mentioned in Note 4, the Company adopted IFRS II Joint Arrangements related to the method of accounting for jointly controlled entities, which is only mandatory as from January 1, 2014 under IAS/IFRS as endorsed by the European Union, and also the amendments to IAS 19 Employee Benefits related to the method of accounting for actuarial gains and losses. These changes have been applied retrospectively to the consolidated financial statements as of and for the year ended December 31, 2012 and included the disclosure of the January 1, 2012 consolidated statement of financial position.

Report on other legal matters

9. It is also our opinion that the financial information included in the Consolidated Report of the Board of Directors is in agreement with the consolidated financial statements and that the Company's Corporate Governance Report includes the disclosures required by article 245^o-A of the Portuguese Securities Market Code.

Lisbon, February 19, 2014

P. Matos Silva, Garcia Jr., P. Caiado & Associados
Sociedade de Revisores Oficiais de Contas, Lda.
represented by Pedro Matos Silva (ROC 491)

17

INDEPENDENT AUDITORS' REPORT



CHAIRMAN AND CEO'S MESSAGE	08
01 MACROECONOMIC ENVIRONMENT	13
02 REGULATORY BACKGROUND	29
03 STRATEGIC PROFILE	41
04 RESEARCH AND DEVELOPMENT	53
05 FINANCIAL REVIEW	75
06 BUSINESS PERFORMANCE	85
07 EMPLOYEES	99
08 CAPITAL MARKETS	101
09 MAIN EVENTS	109
10 MAIN RISKS AND UNCERTAINTIES	113
11 OUTLOOK	121
12 STATEMENT BY THE PERSONS RESPONSIBLE	125
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129
14 CONSOLIDATED FINANCIAL STATEMENTS	133
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227
16 STATUTORY AUDITOR'S REPORT	231
17 INDEPENDENT AUDITORS' REPORT	
18 GLOSSARY	239
19 BOARD OF DIRECTORS	243
20 KEY FIGURES	245
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249

17 INDEPENDENT AUDITORS' REPORT

(Translation of report originally issued in Portuguese)

Introduction

1. Pursuant to the article 245º of Portuguese Securities Market Code we hereby present our Auditors' Report on the consolidated financial information contained in the Board of Directors' Report and the accompanying consolidated financial statements of Portugal Telecom, SGPS, SA (The Company) for the year ended December 31, 2013, which comprise the consolidated statement of financial position as of December 31, 2013 that presents a total of 12,020,395,182 euros and shareholders' equity of 1,866,815,115 euros, including a net profit attributable to the shareholders of the Company of 330,980,955 euros, the consolidated Statements of income, of comprehensive income, of changes in shareholders' equity and of cash-flows for the year then ended and the corresponding notes.

Responsibilities

2. The Company's Board of Directors is responsible for: (i) the preparation of consolidated financial statements that present a true and fair view of the financial position of the group of companies included in the consolidation, the consolidated results and the comprehensive income of their operations, the changes in consolidated shareholders' equity and their consolidated cash-flows; (ii) the preparation of historical financial information in accordance with International Financial Reporting Standards (IAS/IFRS) as endorsed by the European Union, which is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code; (iii) the adoption of adequate accounting policies and criteria and the maintenance of appropriate system of internal control; and (iv) the disclosure of any significant facts that have influenced the operations of the group of companies included in the consolidation, its financial position or its results and comprehensive income.
3. Our responsibility is to perform an audit of the financial information contained in the accounting documents referred to above, including verifying that, in all material respects, the information is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code, and to issue a professional and independent report based on our audit.

Scope

4. Our audit was performed in accordance with the Auditing Standards (Normas Técnicas e as Diretrizes de Revisão/Auditoria) issued by the Portuguese Institute of Statutory Auditors (Ordem dos Revisores Oficiais de Contas), which require the audit to be planned and performed with the objective of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes verifying, on a sample basis, evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the significant estimates, based on judgments and criteria defined by the Board of Directors, used in their preparation. An audit also includes verifying the consolidation procedures and that the financial statements of the companies included in the consolidation have been appropriately audited, assessing the adequacy of the accounting policies used, their uniform application and their disclosure, taking into consideration the circumstances, verifying the applicability of the going concern concept, verifying the adequacy of the overall presentation of the consolidated financial statements and assessing if, in all material respects, the consolidated financial information is complete, true, timely, clear, objective and licit. Our audit also included verifying that the consolidated financial information included in the Board of Directors' Report is consistent with the consolidated financial statements as well as the provisions set out in paragraphs 4 and 5 of Article 451º of the Commercial Companies Code (Código das Sociedades Comerciais). We believe that our audit provides a reasonable basis for expressing our opinion.

Opinion

5. In our opinion, the consolidated financial statements referred to in paragraph I above, present fairly in all material respects, the consolidated financial position of Portugal Telecom, SGPS, SA as of December 31, 2013 and the consolidated results and comprehensive income of its operations, the changes on its consolidated shareholders' equity and its consolidated cash-flows for the year then ended, in conformity with International Financial Reporting Standards as endorsed by the European Union and the financial information contained therein is, under the terms of the definitions included in the auditing standards referred to in paragraph 4 above, complete, true, timely, clear, objective and licit.

Emphas is of a matter

6. As discussed in Note 4, the Company adopted IFRS II Joint Arrangements related to the method of accounting for jointly controlled entities, which is only mandatory as from January 1, 2014 under IAS/IFRS as endorsed by the European Union, and also the amendments to IAS 19 Employee Benefits related to the method of accounting for actuarial gains and losses. These changes have been applied retrospectively to the consolidated financial statements as of and for the year ended December 31, 2012, and included the disclosure of the January 1, 2012 consolidated statement of financial position.

Report on other legal requirements

7. It is also our opinion that the consolidated financial information included in the Board of Directors' report is consistent with the consolidated financial statements for the year and the report on the corporate governance practices includes the information required to the Company, under Article 245^o-A of the Portuguese Securities Market Code.

Lisbon, February 19, 2014

Deloitte & Associados, SROC SA
Represented by João Luís Falua Costa da Silva



GLOSSARY

	CHAIRMAN AND CEO'S MESSAGE	08
01	MACROECONOMIC ENVIRONMENT	13
02	REGULATORY BACKGROUND	29
03	STRATEGIC PROFILE	41
04	RESEARCH AND DEVELOPMENT	53
05	FINANCIAL REVIEW	75
06	BUSINESS PERFORMANCE	85
07	EMPLOYEES	99
08	CAPITAL MARKETS	101
09	MAIN EVENTS	109
10	MAIN RISKS AND UNCERTAINTIES	113
11	OUTLOOK	121
12	STATEMENT BY THE PERSONS RESPONSIBLE	125
13	ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129
14	CONSOLIDATED FINANCIAL STATEMENTS	133
15	REPORT AND OPINION OF THE AUDIT COMMITTEE	227
16	STATUTORY AUDITOR'S REPORT	231
17	INDEPENDENT AUDITORS' REPORT	235
18	GLOSSARY	
19	BOARD OF DIRECTORS	243
20	KEY FIGURES	245
21	ADDITIONAL INFORMATION TO SHAREHOLDERS	249

18 GLOSSARY

ARPU | Average Revenue per User. Monthly average recurrent service revenues per average number of users in the period; it includes interconnection and roaming out revenues.

CAPEX | Capital expenditure. Investments in tangible and intangible assets.

Cash-flow | The difference between cash inflows and cash outflows for a specific period.

Cloud services | Delivering virtual and centralised IT/IS resources, that differentiate from traditional IT approach due to the availability through a network on “as a service” and On Demand model, offering a pay as you use pricing to the customer. Cloud services usually include infrastructure (IaaS), software (SaaS) and platforms (PaaS), and are growing to other portfolio areas like communication (CaaS) and security.

Curtailment costs | Work force reduction programme costs.

Diluted earnings per share | Earnings per share computed using net income and excluding the costs associated with the convertible bonds divided by the diluted number of shares.

EBITDA | EBITDA = income from operations + PRBs + depreciation and amortisation.

EBITDA margin | EBITDA Margin = EBITDA / operating revenues.

EBITDA to net interest | EBITDA to net interest = EBITDA / net interest.

Enterprises | Customer segment that includes all SOHOs, SMEs and corporate customers that subscribe wireline and wireless products and services. All figures are gross of intercompany eliminations.

Free cash-flow | Free cash-flow = operating cash-flow +/- acquisitions/sales of financial investments +/- net interest paid – payments related with PRB – income taxes paid +/- dividends paid/received +/- other cash movements.

FTTH | Fibre-to-the-home. Next generation network that brings fibre to the customer premises.

GSM | Global System for Mobile. Internationally standardised digital radio network that allows both voice and data transmission.

HDTV | High Definition Television. Transmission of the television signal with a higher resolution than the traditional formats.

IAS/IFRS | International Accounting Standards/International Financial Reporting Standards. The new international accountancy standards adopted as of January 1, 2005.

Income from operations | Income from operations = income before financials and taxes + workforce reduction costs + losses (gains) on disposal of fixed assets + net other costs.

IP | internet Protocol. Standard that specifies the exact format of packets of data as they are transmitted through an internet network.

IPTV | internet Protocol Television. Digital television service available over a fixed telephony line, through a broadband connection.

ISDN | Integrated Services Digital Network. Digital telecommunications network that allows simultaneous voice and data transmission over an access line.

ISP | internet Service Provider. Company that provides access to the internet.

MMS | Multimedia Message Service. Technology allowing for data such as text, tunes, pictures, photos and brief video sequences to be transmitted via mobile phone.

MOU | Minutes of Usage. Monthly average of outgoing and incoming traffic in minutes per average number of users in the period. Segmented MoU does not include interconnection minutes.

Net Debt | Net debt = short-term debt + medium and long-term debt - cash and equivalents.

Net Debt to EBITDA | Net debt to EBITDA = Net debt / EBITDA.

NGAN | Next generation access network.

Non-voice revenues as % of revenues | Percentage of retail service revenues related to data, video or other non-voice services.

Operating cash-flow | Operating cash-flow = EBITDA - CAPEX +/- change in working capital +/- non-cash provisions.

Personal | Customer segment that includes all consumer customers that subscribe to wireless products and services on an individual basis. All figures are gross of intercompany eliminations.

PRB | Post Retirement Benefits Costs.

PSTN | Public Switched Telephone Network. Traditional telephone system that runs through copper lines.

Residential | Customer segment that includes all consumer customers that subscribe to wireline products and services at home on an individual basis. All figures are gross of intercompany eliminations.

Retail RGU per access | Retail accesses per PSTN/ISDN line.

SARC | Subscriber Acquisition and Retention Cost. $SARC = (70\% \text{ of marketing and publicity costs} + \text{commissions} + \text{subsidies}) / (\text{gross additions} + \text{upgrades})$.

SMS | Short Message Service. Short text messages service for mobile handsets, allowing customers to send and receive alphanumerical messages.

Tribal plans | Flat-fee pre-paid tariff plans offering unlimited traffic for customers using the same tariff plan.

Triple-play Offer | Integrated offer of voice, television and internet services.

VoD | Video On Demand. System that allows users to select and watch videos.

18 GLOSSARY

Wholesale, other and eliminations | Customer segment that includes all the wireline and wireless wholesale business for the other businesses (e.g. directories) and all intercompany eliminations that are related to the Portuguese telecommunications businesses.

3G | 3 Generation. Third generation is a generic term covering several technologies for mobile networks (UMTS, W-CDMA) that integrate mobile multimedia services and allows a higher data transmission rates than GSM technology.

4G | 4 Generation. Fourth generation is a generic term covering technologies for mobile access network (LTE/LTE Advanced) with high spectral efficiency, high peak data rates, short round trip time and frequency flexibility allowing enhanced broadband and multimedia services.

19

BOARD OF DIRECTORS



CHAIRMAN AND CEO'S MESSAGE	08
01 MACROECONOMIC ENVIRONMENT	13
02 REGULATORY BACKGROUND	29
03 STRATEGIC PROFILE	41
04 RESEARCH AND DEVELOPMENT	53
05 FINANCIAL REVIEW	75
06 BUSINESS PERFORMANCE	85
07 EMPLOYEES	99
08 CAPITAL MARKETS	101
09 MAIN EVENTS	109
10 MAIN RISKS AND UNCERTAINTIES	113
11 OUTLOOK	121
12 STATEMENT BY THE PERSONS RESPONSIBLE	125
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129
14 CONSOLIDATED FINANCIAL STATEMENTS	133
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227
16 STATUTORY AUDITOR'S REPORT	231
17 INDEPENDENT AUDITORS' REPORT	235
18 GLOSSARY	239
19 BOARD OF DIRECTORS	
20 KEY FIGURES	245
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	249

19 BOARD OF DIRECTORS

Chairman

Henrique Granadeiro

CEO

Henrique Granadeiro

Executive officers

Luís Pacheco de Melo

Alfredo José Silva de Oliveira Baptista

Carlos Alves Duarte

Manuel Rosa da Silva

Pedro Humberto Monteiro Durão Leitão

Shakhaf Wine

Non-Executive officers

Amílcar Carlos Ferreira de Morais Pires

Fernando Magalhães Portella

Francisco Teixeira Pereira Soares

Gerald Stephen McGowan

João Manuel de Mello Franco

Joaquim Aníbal Brito Freixial de Goes

José Guilherme Xavier de Basto

Maria Helena Nazaré

Mário João de Matos Gomes

Milton Almicar Silva Vargas

Nuno Rocha dos Santos de Almeida e Vasconcellos

Otávio Marques de Azevedo

Paulo José Lopes Varela

Rafael Luís Mora Funes

20



KEY FIGURES

	CHAIRMAN AND CEO'S MESSAGE	08
01	MACROECONOMIC ENVIRONMENT	13
02	REGULATORY BACKGROUND	29
03	STRATEGIC PROFILE	41
04	RESEARCH AND DEVELOPMENT	53
05	FINANCIAL REVIEW	75
06	BUSINESS PERFORMANCE	85
07	EMPLOYEES	99
08	CAPITAL MARKETS	101
09	MAIN EVENTS	109
10	MAIN RISKS AND UNCERTAINTIES	113
11	OUTLOOK	121
12	STATEMENT BY THE PERSONS RESPONSIBLE	125
13	ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129
14	CONSOLIDATED FINANCIAL STATEMENTS	133
15	REPORT AND OPINION OF THE AUDIT COMMITTEE	227
16	STATUTORY AUDITOR'S REPORT	231
17	INDEPENDENT AUDITORS' REPORT	235
18	GLOSSARY	239
19	BOARD OF DIRECTORS	243
20	KEY FIGURES	
21	ADDITIONAL INFORMATION TO SHAREHOLDERS	249

20 KEY FIGURES

Portuguese operating data

	2013	2012	y.o.y
Fixed retail accesses ('000)	5,158	5,052	2.1%
PSTN/ISDN	2,549	2,604	(2.1%)
Broadband customers	1,294	1,225	5.6%
Pay-TV customers	1,315	1,223	7.5%
Mobile Customers ('000)	7,896	7,598	3.9%
Post-paid	2,925	2,469	18.5%
Pre-paid	4,971	5,129	(3.1%)
Net additions ('000)			
Fixed retail accesses	105	257	(59.1%)
PSTN/ISDN	(55)	(43)	(27.6%)
Broadband customers	69	119	(42.1%)
Pay-TV customers	91	181	(49.6%)
Mobile Customers	298	154	93.3%
Post-paid	456	91	n.s.
Pre-paid	(158)	63	n.s.
Data as % of mobile service revenues (%)	36.5	32.6	3.9pp

Residential operating data

	2013	2012	y.o.y
Fixed retail accesses ('000)	3,892	3,841	1.3%
PSTN/ISDN	1,665	1,692	(1.6%)
Broadband customers	1,049	1,015	3.3%
Pay-TV customers	1,179	1,135	3.8%
Unique customers	1,842	1,881	(2.1%)
Net additions ('000)			
Fixed retail accesses	51	284	(82.2%)
PSTN/ISDN	(27)	18	(252.2%)
Broadband customers	34	104	(67.4%)
Pay-TV customers	44	162	(73.1%)
ARPU (Euro)	31.7	31.6	0.3%
Non-voice revenues as % of revenues (%)	66.0	63.4	2.5pp

Personal operating data

	2013	2012	y.o.y
Mobile Customers ('000)	6,330	6,024	5.1%
Post-paid	1,533	1,093	40.2%
Pre-paid	4,797	4,931	(2.7%)
Net additions ('000)	306	92	233.2%
Post-paid	440	30	n.m.
Pre-paid	(133)	62	n.m.
MOU (minutes)	98	93	5.4%
ARPU (Euro)	7.6	8.7	(12.5%)
Customer	7.1	8.0	(10.9%)
Interconnection	0.5	0.7	(30.5%)
SARC (Euro)	24.6	27.9	(11.6%)
Data as % of service revenues (%)	35.8	33.2	2.6pp

KEY FIGURES 20

Enterprise operating data

	2013	2012	y.o.y
Fixed retail accesses ('000)	1,077	1,019	5.8%
PSTN/ISDN	701	725	(3.3%)
Broadband customers	242	207	16.9%
Pay-TV customers	134	86	54.9%
Retail RGU per access	1.54	1.41	9.3%
Mobile Customers ('000)	1,516	1,514	0.2%
Net additions ('000)			
Fixed retail accesses	59	(68)	186.0%
PSTN/ISDN	(24)	(101)	76.6%
Broadband customers	35	15	137.6%
Pay-TV customers	47	18	158.7%
Mobile Customers	2	69	(96.6%)
ARPU (Euro)	21.3	23.8	(10.7%)
Non-voice revenues as % of revenues (%)	54.4	50.3	4.1pp

Oi operating data

	2013	2012	y.o.y
Residential RGUs ('000)	17,837	18,337	(2.7%)
Fixed lines	11,750	12,478	(5.8%)
Fixed broadband	5,258	5,102	3.1%
Pay-TV	829	757	9.5%
Personal Mobility RGUs ('000)	47,727	46,305	3.1%
Pre-paid customers	41,019	39,832	3.0%
Post-paid customers + Oi controle	6,708	6,472	3.6%
Corporate / SMEs RGUs ('000)	8,246	8,971	(8.1%)
Fixed lines	5,105	5,422	(5.8%)
Broadband	630	594	6.1%
Mobile	2,511	2,955	(15.0%)
Other ('000)	655	727	(9.9%)
RGUs ('000)	74,466	74,339	0.2%

ADDITIONAL INFORMATION TO SHAREHOLDERS



CHAIRMAN AND CEO'S MESSAGE	08
01 MACROECONOMIC ENVIRONMENT	13
02 REGULATORY BACKGROUND	29
03 STRATEGIC PROFILE	41
04 RESEARCH AND DEVELOPMENT	53
05 FINANCIAL REVIEW	75
06 BUSINESS PERFORMANCE	85
07 EMPLOYEES	99
08 CAPITAL MARKETS	101
09 MAIN EVENTS	109
10 MAIN RISKS AND UNCERTAINTIES	113
11 OUTLOOK	121
12 STATEMENT BY THE PERSONS RESPONSIBLE	125
13 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	129
14 CONSOLIDATED FINANCIAL STATEMENTS	133
15 REPORT AND OPINION OF THE AUDIT COMMITTEE	227
16 STATUTORY AUDITOR'S REPORT	231
17 INDEPENDENT AUDITORS' REPORT	235
18 GLOSSARY	239
19 BOARD OF DIRECTORS	243
20 KEY FIGURES	245
21 ADDITIONAL INFORMATION TO SHAREHOLDERS	

21

ADDITIONAL INFORMATION TO SHAREHOLDERS

LISTING

PT shares are listed on the Euronext Stock Exchange (symbol: PTC.LS) and the New York Stock Exchange, as ADRs-American Depository Receipts (symbol: PT). One ADR represents one ordinary share. The company's share capital, as at December 31, 2013, comprised 896,512,500 shares with a par value of 3 Euro cents each, with 896,512,000 shares listed on the Euronext and the New York Stock Exchange. At the end of 2013, there were 33,576,185 ADRs registered on the same date, representing 3.7% of PT's total share capital.

As at December 31, 2013, PT held for accounting purposes 41,409,495 own shares, including: (1) 20,640,000 own shares held through equity swaps at PT SGPS, SA, and (2) 20,769,495 own shares held through the 23.2% stake in PT's 89,651,205 shares acquired by Oi. As at December 31, 2013, PT's total number of shares outstanding was 855,103,005.

Stock market data

	2013	2012
As at 31 December		
Share capital (Euro)	26,895,375	26,895,375
Number of shares issued	896,512,500	896,512,500
Number of shares outstanding	855,103,005	855,028,595
Price (Euro)	3.160	3.749
Market capitalisation (Euro million)	2,833	3,361
Gross dividend per share (Euro)	0.100	0.325
Dividend yield	2.9%	8.6%
Net Income (Euro million)	331	226
Pay-out-ratio	25.8%	123.0%
Price / transactions		
High (Euro)	4.430	4.550
Low (Euro)	2.710	3.054
Average (Euro)	3.483	3.797
Volume (million of shares)	1,414	872
Traded Value (Euro million)	4,881	3,289
Performance		
Portugal Telecom	(15.7%)	(15.7%)
PSI-20	16.0%	2.9%
Stoxx Telecom Europe	32.1%	(10.7%)

CONTACTS

Investor relations

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Shareholders, investors, analysts and other interested parties should send their requests for information and clarifications (annual and half year reports, Form 20-F, press releases, etc).

Depository bank

Deutsche Bank Trust Company Americas
ADR Division
Floor 27
60 Wall Street
New York 10005-2836
Fax: +1(732)544-6346

Holders of ADRs may also request additional information directly from PT's depository bank for ADRs in New York.

Website

All publications and communications, in addition to information on the company's products, services and business are also available at www.telecom.pt

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