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

Use these links to rapidly review the document
TABLE OF CONTENTS
INDEX TO FINANCIAL STATEMENTS

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

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

OR

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

OR

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

Commission file number 1-13758

PORTUGAL TELECOM, SGPS, S.A.

(Exact name of Registrant as specified in its charter)

The Portuguese Republic

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

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

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

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

*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TABLE OF CONTENTS

Table of Contents

CERTAIN DEFINED TERMS

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

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

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

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

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

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

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

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

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

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

Table of Contents

PRESENTATION OF FINANCIAL INFORMATION

Preparation of Financial Statements in IFRS

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

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

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

Presentation of Brazilian Operations

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

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

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

Table of Contents

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

Table of Contents

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

risks and uncertainties related to national and supranational regulation; and

the adverse determination of disputes under litigation.

PART I

ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

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

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

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

ITEM 3 KEY INFORMATION

Selected Consolidated Financial Data

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

Table of Contents

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

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

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

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

(2)
Based on 896,512,500 ordinary and A shares for all periods presented.

(3)
The weighted average number of shares for purposes of calculating basic earnings per share is computed based on the average ordinary and A shares issued and the average number of treasury shares.

Table of Contents

(4)
The weighted average number of shares for purposes of calculating diluted earnings per share is computed based on the average ordinary and A shares issued and the average number of treasury shares adjusted by the number of shares from the exchangeable bonds issued on August 28, 2007.

(5)
Cash dividends per ordinary share, A share and American Depositary Share, or ADS, for the years ended December 31, 2009, 2010, 2011 and 2012 were €0.575, €2.30, €0.65 and €0.325, respectively, before applicable withholding tax. Cash dividends per ordinary share, A share and ADS for the years ended December 31, 2009, 2010, 2011 and 2012 were US$0.71, US$3.18, US$0.82 and US$0.42, respectively, using the exchange rate in effect on the date on which each dividend was paid, before applicable withholding tax. The dividend amounts set forth above for each year are the amounts paid with respect to the results of operations for those fiscal years, even when the actual date of payment fell in a different year. See "*Item 8 Financial Information Distributions to Shareholders Dividend Information*." Cash dividends for the year ended December 31, 2012 corresponded to an ordinary dividend per share of €0.325 and was paid in May 2013. Cash dividends for the year ended December 31, 2011 corresponded to an ordinary dividend per share of €0.65, of which €0.215 was paid on January 4, 2012 as an advance over the profits relating to 2011, as approved by our Board of Directors on December 15, 2011, and the remaining €0.435 was paid in May 2012, as approved at our Annual Shareholders' Meeting held on April 27, 2012. Cash dividends for the year ended December 31, 2010 included (1) an extraordinary dividend per share of €1.65, of which €1.00 was paid in December 2010 and the remaining €0.65 was paid in 2011, as approved at our Annual Shareholders' Meeting held on May 6, 2011; and (2) an ordinary cash dividend of €0.65 per share also approved at the Annual Shareholders' Meeting.

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

(6)
Represents the net income of Vivo Participações S.A., or Vivo. We provided mobile telecommunications services in Brazil through Vivo until September 2010. We held our participation in Vivo through our 50% interest in Brasilcel N.V., a joint venture with Telefónica, S.A., or Telefónica. On July 28, 2010, we reached an agreement with Telefónica for them to buy from us our 50% interest in Brasilcel N.V. We closed the transaction on September 27, 2010.

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

Table of Contents

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

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

Table of Contents

Exchange Rates

Euro

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

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

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

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

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

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

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

Brazilian Real

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

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

Table of Contents

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

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

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

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

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

Risk Factors

General Risks Relating to Our Company

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

We may not be able to pay our announced dividends

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

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

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

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

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

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

Companies in the telecommunications industry must adapt to rapid and significant technological changes that are usually difficult to anticipate. The mobile telecommunications industry in particular has experienced rapid and significant technological development and frequent improvements in capacity, quality and data-transmission speed. Technological changes may render our equipment,

Table of Contents

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Risks Relating to Our Proposed Business Combination with Oi

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

Table of Contents

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

- difficulties in capturing synergies in the integration process, causing the anticipated benefits of the acquisition to be more limited than originally expected;
- costs associated with any unforeseen antitrust restrictions;
- failure to identify contingencies during the due diligence process;
- uncertainty in relation to regulatory approval; and
- distractions from its core business to pursue these acquisitions and implement the integration of acquired businesses.

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

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

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

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

Table of Contents

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

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

Risks Relating to Our Portuguese Operations

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

We provide a significant number of services in Portugal under licenses and authorizations granted by ANACOM to our subsidiaries PT Comunicações and MEO. See "*Item 4 Information on the Company Regulation Portugal Our Concession and Existing Licenses and Authorizations*." The Portuguese government can also terminate MEO's mobile licenses under certain circumstances. Through MEO, we hold renewable license to provide Global System for Mobile Communications, or GSM, or 2G, and 3G mobile telephone services throughout Portugal, valid until 2016 and 2022, respectively. In January 2012, MEO was allocated the right to use frequencies to provide, among other technologies, 4G mobile telephone services throughout Portugal, and in March 2012, ANACOM issued

Table of Contents

a renewable license to MEO, valid until 2027, with respect to the use of these frequencies. This license also unifies the previous 2G and 3G licenses issued to MEO. If the Portuguese government were to terminate our licenses, we would not be able to conduct the activities authorized by those licenses. This loss would eliminate an important source of our revenues.

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

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

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

Regulatory investigations and litigation may lead to fines or other penalties

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

Table of Contents

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

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

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

Risks Relating to Our Brazilian Operations

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

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

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

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

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

We are exposed to Brazilian exchange rate fluctuations

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

Table of Contents

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

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

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

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

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

Global economic instability and related instability in the international financial system have had, and may continue to have, a negative effect on economic growth in Brazil. Although the United States, Europe and China have shown recent signs of recovery, the recovery of the global economy, which depends on a number of factors, including a return of job growth and investments in the private sector as well as the timing of the exit from government credit easing policies by central banks globally, is not certain. Continued or worsening volatility in the global financial markets could reduce the availability of

Table of Contents

liquidity and credit to fund the continuation and expansion of industrial business operations worldwide. A prolonged slowdown in economic activity in Brazil could reduce demand for some of Oi's services, which would adversely affect its results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

If Brazil experiences substantial inflation in the future, Oi's costs may increase and its operating and net margins may decrease. Although ANATEL regulations provide for annual price increases for

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Competition in data transmission services in Brazil is not subject to significant regulatory restrictions, and, therefore, the market is open to a large number of competitors. Some competitors, such as cable operators, offer telephone and broadband services which do not require them to use Oi's fixed line network, thereby allowing them to reach Oi's customers without paying interconnection fees to Oi. Increasing competition in data transmission services may lead to rate reductions in this segment, adversely affecting the net operating revenue that Oi generates from this business. Additionally, increased competition for data transmission customers may require Oi to increase its marketing expenses and its capital expenditures and may lead to the loss of broadband customers, in each case leading to a decrease in Oi's profitability. See "*Item 4 Information on the Company Competition Competition Facing Oi in Brazil Data Transmission Services*."

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

Risks Relating to Unitel and Our Other International Investments

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

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

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

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

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

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

Unitel has provided to PT Ventures stand-alone income statement information of Unitel prepared under Angolan generally accepted accounting principles, or Angolan GAAP. We used the information received from Unitel to account for our investment in Unitel using the equity method in the preparation of our own audited consolidated financial statements prepared in accordance with IFRS,

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Risks Relating to Our ADSs and Ordinary Shares

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

Holders of our ADSs may instruct the depositary to vote the ordinary shares underlying the ADSs. For the depositary to follow the voting instructions, it must receive them on or before the date specified in our voting materials. The depositary must try, as far as practical, subject to Portuguese law and our articles of association, to vote the ordinary shares as instructed. In most cases, if the ADS holder does not give instructions to the depositary, it may vote the ordinary shares in favor of proposals supported by our Board of Directors, or, when practicable and permitted, give a discretionary proxy to a person designated by us. We cannot be certain that ADS holders will receive voting materials in time to ensure that they can instruct the depositary to vote the underlying ordinary shares. Also, the depositary is not responsible for failing to carry out voting instructions or for the manner of carrying

Table of Contents

out voting instructions. This means that ADS holders may not be able to exercise their right to vote and there may be nothing they can do if their ordinary shares or other deposited securities are not voted as requested.

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

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

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

- A minimum holding participation of 5% (held directly or indirectly) of Portugal Telecom's ordinary shares or ADSs exists;
- Such participation is held for a minimum consecutive period of 24 months; and
- The corporate investor is subject to and not exempt from Corporate Income Tax, or CIT, at a rate higher than 60% of the statutory Portuguese CIT rate (which would be 13.8% in 2014, based on a statutory Portuguese CIT rate of 23% applicable only to resident companies as from 2014).

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

ITEM 4 INFORMATION ON THE COMPANY

Overview

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

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

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

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

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

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

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

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

Table of Contents

Oi provides telecommunications services in Brazil, including:

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

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

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

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

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

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

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

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

Table of Contents

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

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

Corporate Information

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

Strategy

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

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

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

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

Portuguese Operations

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

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

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

Reinforce leadership in the market sectors in which we operate. Through the launch of our *Meo* Pay-TV service in 2008, we were able to turn our residential business around. By anchoring our strategy in a distinctive TV experience, we have grown our customer base and our customers' portfolio, focusing on multiple play offers. We have expanded TV and fixed broadband subscribers while mitigating the decline in revenues from fixed voice services. In 2013, we launched a quadruple-play service, M_4O. M_4O provides customers with simplicity, convenience and economy, allowing customers to integrate all telecommunications services under a single invoice, along with a single customer support and single touch-point network. As a consequence of the convergence leadership strategy, we have increased the weight of flat fees in our revenues, aiming to increase the stability of Average Revenue Per User, or ARPU.

International Operations

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

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

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

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

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

Focus on Innovation and Execution

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

Execution: next generation networks. We strengthened our investments in optical fiber (FTTH), expanding our residential segment services to more than 1.6 million households and 42 municipalities. This investment already benefits approximately 46% of the Portuguese population, representing approximately 74% of the country's GDP. The continuous investment in

Table of Contents

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

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

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

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

Table of Contents

Corporate Structure

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

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

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

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

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

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

Table of Contents

Recent Developments

Rebranding of Personal and Enterprise Services

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

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

Consent Solicitation

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

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

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

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

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

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

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

- in the case of the Exchangeable Bonds only, the amendment of the exchange right in order to provide that any holder exercising its exchange right will receive (a) from (and including) the date of the completion of the Capital Increase up to (but excluding) the date of the completion

Table of Contents

of the proposed Business Combination, a cash amount with reference to the ordinary shares of Portugal Telecom, and (b) from (and including) the date of completion of such proposed Business Combination, a cash amount with reference to the ordinary shares of TmarPart (each calculated in accordance with the modified terms and conditions of such Exchangeable Bonds) in place of receiving ordinary shares of Portugal Telecom; and

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

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

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

Amendments to Credit Facilities

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

Our Businesses

Portuguese Operations

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

Residential Customers

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

63

Table of Contents

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

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

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

As a result of these factors, residential ARPU increased 0.3% to €31.7 in 2013 from 2012, notwithstanding Portugal's slow economic recovery, which led to some pressure on those services more exposed to the economic environment, such as premium and thematic channels, video-on-demand and other value-added services. Operating revenues in the residential customer category increased by 1.3% in 2013 to €721 million. Primarily as a result of our *Meo* triple-play service and our *M_4O* quadruple-play service described below, the weight of non-voice services to residential customers was 66.0% in 2013 (a 2.5 percentage point increase compared to 2012), and the weight of flat revenues was 89.1% (a 1.8 percentage point increase compared to 2012).

Pay-TV Services

Our television strategy is based on a multiplatform concept that aims to provide similar content and user experiences across television, PCs and mobile phones. Launched in 2008, *Meo* is our TV brand across the various platforms, primarily at home (through IPTV and satellite), through mobile telephones (through *Meo Go! Mobile*) or through personal computers (through *Meo Go!*). *Meo* provides access to a comprehensive content offering, with more than 160 TV channels and thousands of

Table of Contents

video-on-demand titles. We offer tiered packages of channels, as well as on-demand availability that can be subscribed for, in real time, directly through the TV set. *Meo* also provides access to advanced features, such as digital recording and pause live-TV. The set-top boxes in the *Meo* service are all HD-compliant, using MPEG4. We were the first operator in Portugal to introduce HDTV and have the most extensive video-on-demand offer in the market. At the end of 2013, *Meo* had 1,315 thousand customers and a 41.5% market share, according to ANACOM.

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

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

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

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

In January 2013, *Meo* also launched *Gravações Automáticas*, a recording feature that allows customers to record programs and access those recordings up to seven days after the programs were

Table of Contents

broadcast. We have also developed new and innovative interactive solutions, such as *MEO Energy*, a service for monitoring home energy consumption, which includes rate recommendations based on one's actual consumption profile and suggestions on how to lower a consumer's energy bill.

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

Fixed Line Services

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

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

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

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

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

Components of Revenue

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

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

Table of Contents

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

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

Suppliers

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

Personal Customers

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

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

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

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

(2)

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

In 2013, total mobile customers, including voice and broadband customers, increased 5.1% compared to 2012. In 2013, total mobile customers registered 306 thousand net additions due to MEO's performance in the postpaid market, with 440 thousand net additions in 2013 more than offsetting the 133 thousand net decrease in the prepaid market. This increase was a result of the strong performance of M_4O, and a portion of the decrease in the prepaid market was due to migration to postpaid service after the launch of M_4O. Flat-fee tariff plans represented 31.1% of total mobile customers in 2013, an increase of 8.2 percentage points compared to 2012. We received approximately 180 thousand portability requests from customers of our competitors in 2013, which we believe were driven primarily by our M_4O offering.

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

Mobile Network

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

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

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

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

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

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

Table of Contents

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

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

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

Personal Services

Our products and services include:

- a variety of voice and data tariff plans, both prepaid and postpaid, designed to integrate unlimited voice and data plans targeted at high-value postpaid customers and, in the prepaid market, to discourage migration to low-value tariff plans by offering additional voice and data services;

- a portfolio of approximately 50 smartphones, including exclusive handsets, with the capability to use an array of value-added and convergent services (mobile TV, music on demand, navigation app, social network aggregator, cloud storage, etc.); and

- mobile broadband offers of up to 150Mbps speed, using 4G technology and offering free access to our national Wi-Fi network.

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

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

- speeds of up to 150Mbps,

- access to live TV channels through *Meo Go!*, a service that allows access to live TV channels on PCs, tablets and smartphones,

- a music streaming service through *Meo Music*, a multiplatform music streaming service, providing access to a catalog of millions of music tracks, which recently underwent a platform upgrade,

- *Multi-SIM*, for sharing of traffic among various devices, including PCs, through wireless dongles, tablets and smartphones and

- *Meo Drive*, a navigation app available in iOS and Android Marketplaces.

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

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

Table of Contents

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

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

Components of Revenue

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

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

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

Suppliers

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

Table of Contents

Marketing

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

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

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

Enterprise Customers

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

Table of Contents

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

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

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

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

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

Table of Contents

Services

Our enterprise services include:

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

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

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

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

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

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

Table of Contents

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

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

Networks

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

Partnerships and Suppliers

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

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

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

Data Centers and Systems Integration Services

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

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

Table of Contents

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

Components of Revenue

Our revenues from enterprise services include:

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

Wholesale and Other Services

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

Wholesale Services

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

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

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

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

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

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

Table of Contents

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

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

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

Telephone Directories

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

Digital Terrestrial Television Services

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

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

Table of Contents

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

Other Revenues

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

Brazilian Operations (Oi)

Announced Business Combination

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

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

Overview

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

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

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

Table of Contents

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

Region I consists of 16 Brazilian states located in the northeastern and part of the northern and southeastern regions. Region I covers an area of approximately 5.4 million square kilometers, which represents approximately 64% of the country's total land area and accounted for 40.3% of Brazil's GDP in 2011. The population of Region I was 105.3 million as of 2011, which represented 54.7% of the total population of Brazil as of that date. In 2011, per capita income in Region I was approximately R$15,869, varying from R$7,883 in the State of Piauí to R$28,969 in the State of Rio de Janeiro.

Region II consists of the Federal District and nine Brazilian states located in the western, central and southern regions. Region II covers an area of approximately 2.9 million square kilometers, which represents approximately 33.5% of the country's total land area and accounted for approximately 27.1% of Brazil's GDP in 2011. The population of Region II was 45.5 million as of 2011, which represented 23.7% of the total population of Brazil as of that date. In 2011, per capita income in Region II was approximately R$22,668, varying from R$11,782 in the State of Acre to R$63,020 in the Federal District.

Region III consists of the State of São Paulo. Region III covers an area of approximately 248,000 square kilometers, which represents approximately 2.9% of the country's total land area and accounted for approximately 32.6% of Brazil's GDP in 2011. The population of Region III was 41.6 million as of 2011, which represented 21.6% of the total population of Brazil as of that date. In 2011, per capita income in Region III was approximately R$32,449.

Oi's services include:

- *Residential services*, which include:
  - local fixed line services primarily in Region I and Region II, including installation, monthly subscription, metered services, collect calls and supplemental local services;
  - domestic and international long-distance services primarily from Region I and Region II, placed through fixed line and mobile telephones using Oi's long-distance carrier selection codes, which are represented by the numbers 31 and 14;
  - data transmission services, comprised of ADSL services and other data transmission services;
  - bundled services, which combine fixed line services, fixed line broadband services and mobile services; and
  - public telephone services.
- *Personal services*, which include:
  - prepaid and postpaid mobile telecommunications services throughout Brazil (Region I, Region II and Region III) utilizing 2G and 3G technology, including voice and data transmission services;
  - value-added services which include voicemail, caller ID, directory assistance and other services; and
  - usage of Oi's network to complete calls initiated by customers of other telecommunications services providers to Oi's mobile network (mobile interconnection services).

Enterprise services, which include:

- fixed line telecommunications services, primarily in Region I and Region II of Brazil;

Table of Contents

mobile telecommunications services throughout Brazil (Region I, Region II and Region III) utilizing 2G and 3G technology, including voice and data transmission services;

advanced voice services, such as 0800 (toll free) services;

information technology and infrastructure services to corporate customers, including cloud-based data storage services;

interconnection and traffic transportation services to other telecommunications providers; and

leasing dedicated digital and analog lines to other telecommunications services providers and ISPs, provided to corporate and small and medium enterprises.

Other services, which include:

Pay-TV services, including cable and DTH television services;

ISP services;

operation of an iG internet portal (which Oi agreed to sell in 2012); and

a mobile phone payment system and call center.

Before the corporate reorganization of Oi described below, the Oi companies included TmarPart, its subsidiaries Tele Norte Leste Participações S.A., or TNL, which merged with and into Oi as part of the corporate reorganization; Telemar; Coari Participações S.A. or Coari, which merged with and into Oi as part of the corporate reorganization; and Oi. Following the corporate reorganization of Oi, the term "Oi Group" refers to TmarPart, Oi and Telemar. We provide additional background on the structure of our investment in Oi below under " *Strategic Partnership with Oi*."

The following table sets forth the net operating revenues of the Oi Group for the years ended December 31, 2011, 2012 and 2013. For periods prior to the Corporate Reorganization of the Oi Group described below under " *Strategic Partnership with Oi Reorganization of the Oi Group*," the net operating revenues below correspond to the net operating revenues of TNL, which fully consolidated the net operating revenues of Brasil Telecom prior to the Corporate Reorganization. In the Corporate Reorganization, TNL merged into Brasil Telecom, and Brasil Telecom was renamed Oi. The net operating revenues in the table below reflect 100% of the consolidated net operating revenues of TNL or Oi, as applicable.

Oi Group (100%)	Year Ended December 31, 2011	2012	2013
		(Reais Millions)	
Residential services	10,501	9,974	10,303
Personal services:			
Service revenues:			
Billing services (voice and data/value-added)	5,757	6,276	6,609
Network usage (interconnection)	2,398	2,337	2,147
Sales of handsets, SIM cards and other revenues	36	489	535

	8,191	9,102	9,290
Enterprise services	8,470	8,510	8,455
Other services	746	556	375
Total consolidated net operating revenues	27,907	28,142	28,422

Table of Contents

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

The following table sets forth information regarding the revenue generating units, ARPU and certain other information for Oi for the periods presented:

	2012	2013
Residential services:		
RGU (thousands)(1):		
Fixed lines	12,610	12,091
Fixed broadband	4,975	5,336
Pay-TV	604	909
Total RGU	18,189	18,336
ARPU (R$ in three months ended December 31)	65.8	70.7
Personal services:		
RGU (thousands):		
Postpaid	6,085	6,662
Prepaid	39,483	40,676
Total RGU	45,568	47,337
ARPU (R$ in three months ended December 31)	22.2	20.5
Enterprise services:		
RGU (thousands):		
Fixed lines	5,371	5,222
Broadband	581	623
Mobile	2,830	2,698
Total RGU	8,782	8,542
Other:	726	657
Total RGU (thousands)	73,265	74,873

(1) RGUs are individual subscribers of Oi's services.

(2) ARPU is the monthly average service revenues per average number of users in the period.

Residential Services

Oi's primary services to the residential market are fixed line voice services, data transmission services from fixed line devices, Pay-TV services. Oi offers these services on an à la carte basis and as bundles, including bundles with other services that include mobile voice services and mobile data communications services.

Fixed Line Voice Services

As of December 31, 2013, Oi had approximately 9.3 million local fixed line customers in Region I and approximately 5.4 million local fixed line customers in Region II. Local fixed line services include installation, monthly subscription, metered services, collect calls and supplemental local services. Metered services include local calls that originate and terminate within a single local area and calls between separate local areas within specified metropolitan regions which, under ANATEL regulations, are charged as local calls. ANATEL has divided Region I into 2,920 local areas and Region II into 1,772 local areas.

Table of Contents

Under Oi's concession agreements, it is required to offer two local fixed line plans to users: the Basic Plan per Minute (*Plano Básico de Minutos*) and the Mandatory Alternative Service Plan (*Plano Alternativo de Serviços de Oferta Obrigatória*), each of which includes installation charges, monthly subscription charges, and charges for local minutes. As of December 31, 2013, 17. 4% of Oi's fixed line customers subscribed to the Basic Plan per Minute or the Mandatory Alternative Service Plan.

Calls within Brazil that are not classified as local calls are classified as domestic long-distance calls. Oi provides domestic long-distance services for calls originating from fixed line devices in Region I and Region II through its network facilities in São Paulo, Rio de Janeiro and Belo Horizonte and through interconnection agreements with other telecommunications providers, both fixed line and mobile, that permit it to interconnect directly with their networks. Oi provides international long-distance services originating from fixed line devices in Region I and Region II through agreements to interconnect its network with those of the main telecommunications services providers worldwide.

In addition to the Basic Plan per Minute and the Mandatory Alternative Service Plan, Oi offers a variety of alternative fixed line plans that are designed to meet its customers' usage profiles. As of December 31, 2013, 82.6% of Oi's fixed line customers subscribed to alternative plans, including its bundled plans.

Oi offers a variety of voice only plans, including:

- Oi's unlimited plans, such as its "*Oi Fixo Ilimitado*" plan, which permits a subscriber to make unlimited local calls from a fixed line device to fixed line customers of any carrier and local calls to Oi's mobile customers at the rates established for calls to fixed lines. Subscribers to *Oi Fixo Ilimitado* plan have the option of upgrading this plan for an additional monthly fee to permit unlimited long-distance calls to fixed line customers of any carrier using Oi's carrier selection codes.

- Oi's controlled plans, such as its "*Oi Fixo a Vontade*" plan, which permits a subscriber to make unlimited local calls from a fixed line device to fixed line customers of any carrier and purchase a minutes for long-distance calls and calls to mobile devices.

- Oi's "*Orelhão Gratis*" plan, which it introduced in Rio de Janeiro State in November 2012 and which, in addition to the features of *Oi Fixo Ilimitado*, permits a subscriber to make unlimited local calls from a public telephone to Oi's fixed line customers.

Oi also owns and operates public telephones throughout Region I and Region II. As of December 31, 2013, Oi had approximately 655,400 public telephones in service, all of which are operated by prepaid cards.

Oi continually monitors market trends and the usage profile of its customer to assist to design new plans and promotions in order to retain its existing customers and attract new customers to its fixed line voice services.

Broadband Services

Oi provides high-speed internet access services using ADSL technology, which it refers to as broadband services, to residential customers in the primary cities in Region I and Region II under the brand name "*Oi Velox*." As of December 31, 2013, Oi offered broadband services in 2,800 municipalities in Region I and 1,800 municipalities in Region II. As of December 31, 2013, Oi had 5.3 million residential ADSL customers in Regions I and II.

Oi offers ADSL services through ADSL modems installed using its customers' conventional lines, which permit customers to use the telephone line simultaneously with the internet. Customers pay a fixed monthly subscription fee, irrespective of their actual connection time to the internet.

Table of Contents

Oi offers broadband subscriptions to customers that do not subscribe to its bundled services plans, at speeds ranging from 300 kilobytes per second, or kbps, to 15 Mbps. To attract customers to this service, Oi offers new subscribers complementary anti-virus software and backup services. Oi offers a free wireless router with subscriptions at speeds of 5 Mbps or more. Oi offers bundles of voice and broadband services to its fixed line subscribers at rates that are lower than the combined rate for separate comparable voice and broadband subscriptions. Oi is engaged in capital expenditure programs to upgrade its broadband speeds that it is able to offer and periodically offers promotions designed to encourage its existing broadband customers to migrate to plans offering higher speeds and to attract new customers to its broadband services.

Pay-TV Services

Oi offers Pay-TV services under its "*Oi TV*" brand. Oi delivers Pay-TV services throughout Region I and Region II using its DTH satellite network and in Belo Horizonte, Poços de Caldas, Uberlândia and Barbacena in the State of Minas Gerais using a hybrid network of fiber optic and bidirectional coaxial cable. In December 2012 and January 2013, Oi began to deliver *Oi TV* through its fiber optic network using an Internet Protocol TV, or IP TV, in Rio de Janeiro and Belo Horizonte, respectively. Oi plans to gradually expand its IP TV service to other cities. Oi is engaged in capital expenditure programs to expand its FTTH, network to permit it to offer IP TV to a broader range of potential subscribers. As of December 31, 2013, Oi had approximately 806,020 subscribers to its DTH Pay-TV services in Regions I and II and approximately 22,828 subscribers to its cable network in the State of Minas Gerais and approximately 1,719 subscribers to its IP TV Pay-TV services.

Oi offers two subscription packages for its "*Oi TV*" services, one through IP TV, which includes more than 150 channels of content, including 45 high definition channels, and the other through its DTH satellite network, which includes more than 100 channels of content, including 35 high definition channels. Oi's *Oi TV Mais HD* package was launched in July 2012 and includes 132 channels, including 18 high-definition, or HD, channels. Oi's *Oi TV Mega HD* package was launched in May 2012 and includes 155 channels, of which 25 are HD channels. Subscribers to each of these packages have the option to customize the package through the purchase of additional channels featuring films offered by HBO/MAX and Telecine. Although these packages are available for à la carte purchase, Oi promotes these packages and approximately 65% of its subscribers for these packages purchase these packages as part of a bundle with its *Oi Velox* service or as part of its *Oi Conta Total* plan.

Bundled Services

In addition to its combined internet and voice services, Oi offers its *Oi Conta Total* plan and its *Oi Conta Total Smartphone* plans, which provide fixed line voice services, fixed line devices broadband services and mobile voice services. Subscribers to these plans have the option to subscribe to Oi's *Oi TV* service.

Oi's *Oi Conta Total* plan permits subscribers to make unlimited local calls to any of its fixed line or mobile customers and includes an allowance of minutes selected by the customer for use to make long-distance calls and local calls to customers of other service providers. Subscribers also elect the speed of their fixed line broadband service, which is available under this plan at speeds ranging from 2 Mbps to 15 Mbps. Subscribers to this plan are entitled to access Oi's Wi-Fi hotspots and subscribers who elect speeds of 5 Mbps or greater are provided with a complimentary wireless router. Subscribers can elect add-on features for this plan, including mobile data plans, unlimited text messages to subscribers of any provider and unlimited long-distance calls to Oi's fixed line or mobile customers.

Table of Contents

Oi also offers its "*Oi Conta Total Smartphone*" plan which has the same structure as its *Oi Conta Total* plan, with the addition of its *Oi Smartphone* data plan and unlimited text messages. Oi provides a smartphone, mini-modem or tablet at a subsidized price and access to its network of Wi-Fi hotspots to its *Oi Conta Total Smartphone* subscribers.

Subscribers to Oi's IP TV service may subscribe to its *Oi TV Mais HD* package, together with a broadband subscription at 100 Mbps, or its *Oi TV Mega HD* package, together with a broadband subscription at 200 Mbps. Subscriptions to Oi's IP TV packages are only available in areas where it has implemented its FTTH network.

In March 2012, Oi also launched a bundled plan combining fixed line voice service with prepaid mobile service under the brand "*Fixo Ilimitado + Pré Ilimitado*." This plan is available in most Brazilian states and, in addition to the features of the *Oi Fixo Ilimitado* plan, permits a subscriber to make unlimited local calls to Oi's fixed line and mobile customers from a mobile device.

Personal Services

Oi's personal services are comprised of postpaid and prepaid mobile voice services and postpaid and prepaid mobile data communications services. As of December 31, 2013, Oi had an aggregate of approximately 50.2 million subscribers for its mobile services, including subscribers to its bundled plans. As of December 31, 2013, 83.3% of Oi's mobile voice customers subscribed to prepaid plans and 16.7% subscribed to postpaid plans.

Postpaid Voice Services

Postpaid customers pay a monthly subscription fee and are billed on a monthly basis for services provided during the previous month. Postpaid plans include voice mail, caller ID, conference calling, call forwarding, calls on hold and special services.

Oi's "*Oi Conta*" plans permit a subscriber to make unlimited local calls to its fixed line and mobile subscribers and includes an allowance of minutes selected by the customer for use to make calls to customers of other service providers. In addition, customers can choose one of three add-ons: text messages to customers of other providers, long distance calls to Oi's fixed-line and mobile subscribers, and rollover minutes. Customers can share the plan with users of as many as five separate mobile devices by paying a monthly fee per line. Subscribers can buy unlimited add-on features for this plan, including mobile data plans, unlimited text messages to subscribers of any provider and unlimited long-distance calls to Oi's fixed line or mobile customers.

Oi also offers its "*Oi Smartphone*" plan which (1) permits a subscriber to make unlimited local calls to its fixed line and mobile subscribers and includes an allowance of minutes selected by the customer for use to make calls to customers of other service providers, and (2) permits unlimited access to its 3G network, its network of Wi-Fi hotspots and unlimited text messaging. Oi offers smartphones at subsidized prices to new subscribers to its *Oi Smartphone* plan. Oi's customers can also include as many as five separate mobile devices in the plan by paying a monthly fee per line. Subscribers can buy add-on features for this plan, including unlimited long-distance calls to Oi's fixed line or mobile customers.

Oi also offers hybrid plans under the brand name "*Oi Controle*" for customers who wish to combine the cost savings of Oi's post-paid plans with the self-imposed limits of Oi's pre-paid plans. *Oi Controle* subscribers are permitted to make unlimited local and long-distance calls to Oi's mobile and fixed-line subscribers and purchase credits that can be used for text messaging, internet access and calls to customers of other providers. Credits can be bought through point of sale machines in retail stores, ATMs or mobile applications such as "*Minha Oi*" and "*Recarga Oi*."

Table of Contents

Prepaid Voice Services

Prepaid customers activate their cellular numbers through the purchase and installation of a SIM card in their mobile handsets. Oi's prepaid customers are able to add credits to their accounts through point-of-sale machines, ATMs, Apple and Android applications installed on their mobile devices such as *Minha Oi* and *Recarga Oi* using a credit card, Oi's toll-free number or the purchase of prepaid cards at a variety of prices. These credits are valid for a fixed period of time following activation and can be extended when additional credits are purchased.

Oi regularly launches various packages and promotions designed to incentivize the purchase and use of credits by its prepaid customers. In September 2013, Oi launched the "*Oi Galera*" plan, a voice, data, SMS text messaging, music and Wi-Fi internet plan aimed at young consumers whose values, perceptions and consumption patterns are linked to online connectivity and data sharing. To promote the plan and attract new customers, Oi conducted several field campaigns where it distributed or sold SIM cards and encouraged customers who enrolled in the plan to use a Facebook application to invite their friends to join. The "*Oi Galera*" plan is being offered for R$0.99 per day of use. During the launch phase of this plan, "*Oi Galera*" SIM cards are not available for sale in stores.

In October 2013, Oi launched a new pre-paid promotion called "*Tudo Por Dia*." This promotion is part of Oi's strategy of simplification and service convergence. *Tudo Por Dia* subscribers pay R$0.10 for the first call of the day and are allotted a certain number of minutes that vary according to region for local and long-distance calls to Oi's mobile and fixed-line customers. This promotion also offers subscribers 530 text messages and 5 MB of data for R$0.50 per day for each service. A subscription to this promotion has minimum recharge requirements and a monthly promotion maintenance fee.

Oi's customers may also exchange the credits that they purchase for additional services, such as:

- "*Bônus Extra*," which permits Oi's customers to purchase additional minutes for use for local or long-distance calls to its fixed line or mobile subscribers at discounted rates;

- "*Pacote de Dados*," which permits Oi's customers to purchase a specified data allowance for use on their handsets; and

- "*Pacote de SMS*," which permits Oi's customers to purchase the ability to send a specified number of text messages.

Mobile Internet Services

Oi offers postpaid and prepaid mobile data communication services to customers that seek to access the internet through its 3G network, using mobile devices, including smartphones or tablets and laptop computers with the aid of a mini-modem. As with its postpaid voice plans, Oi's postpaid mobile internet customers pay a monthly subscription fee and are billed on a monthly basis for services provided during the previous month. Oi also offers internet access for a daily fee to customers who do not subscribe to a monthly plan.

Oi offers a variety of postpaid plans that provide data allowances from 100 MB to 5 GB for smartphones and from 300 MB to 10 GB for tablets and laptop computers and provide data transmission at speeds of 1 Mbps (3G networks) or 5 Mbps (4G networks). In addition to data traffic, Oi's postpaid mobile internet plans for use with mobile devices include allowances for text messages. Oi's postpaid mobile internet plans for smartphones are available to its *Oi Conta* customers. Oi's postpaid mobile internet plans for tablets and laptop computers are sold on a stand-alone basis or through voice and data bundles, such as "*Oi Conectado*" and "*Oi Smartphone*." Oi may also offer mini-modems and tablets at subsidized prices to new subscribers to its postpaid mobile data communication services based on the size of the data package purchased. Subscribers to Oi's access to its postpaid mobile internet plans for tablets and laptop computers also receive free access to its

Table of Contents

network of Wi-Fi hotspots. In addition to these postpaid plans, subscribers can purchase anti-virus software and backup data storage services.

Oi offers two prepaid mobile internet services: through mobile devices and through the purchase and installation of a SIM card in a mini-modem or tablet. Oi's prepaid customers are able to add credits to their accounts through the purchase of prepaid credits at prices that vary based on the data allowance purchased (from 5 MB to 500 MB) and duration (daily, weekly and monthly).

Mobile Long-Distance

Each mobile subscriber in Brazil is registered in a geographic area (identified by the corresponding area codes, such as 11 (São Paulo) and 21 (Rio de Janeiro)), which Oi refers to as the subscriber's home registration area. A call originated by a mobile subscriber registered in one home registration area to a mobile subscriber registered in another home registration area is classified as a mobile long-distance call.

Oi provides mobile long-distance services originating from Region I and Region II through network facilities and through interconnection agreements with Telefônica Brasil in Region III and each of the other principal mobile services providers operating in Brazil that permit it to interconnect directly with their local fixed line and mobile networks. Oi provides international long-distance services originating or terminating on its customer's mobile handsets through agreements to interconnect its network with those of the main telecommunications services providers worldwide.

Value-Added Services

Oi provides value-added services include voice, text and data applications, including voicemail, caller ID, and other services, such as personalization (video downloads, games, ring tones and wallpaper), text messaging subscription services (horoscopes, soccer teams and dating matching services), chat, mobile television, location-based services and applications (mobile banking, mobile search, email and instant messaging).

Merger of TNL PCS into Oi Mobile

On February 1, 2014, TNL PCS S.A. merged into Oi Mobile. As a result of this merger, OiMobile became Oi's sole mobile telephony, mobile data and Pay-TV provider, operating nationwide in Brazil.

Sale of Communications Towers

On March 31, 2014, Oi sold all of its equity interests in a subsidiary that owns 2,007 mobile telecommunications towers to SBA Torres Brasil, Ltda. for R$1,525 million. Oi has entered into long-term lease agreements with SBA Torres Brasil, Ltda. that permits it to continue to use space on these communications towers for its mobile services business.

Enterprise Services

In the enterprise services market, Oi serves Small and Medium Enterprises, or SMEs, and large enterprises, or corporate customers. Oi markets a variety of services to SMEs, including its core fixed line and mobile services, and its higher-value added services, such as broadband services, voice, text and data applications, advanced voice services and commercial data transmission services. Oi also markets these services to corporate customers, combining these service offerings with information technology services.

Table of Contents

Services for SMEs

Oi offers SMEs services similar to those offered to its residential and personal customers, including fixed line and mobile voice services, and fixed line and mobile broadband serves. Oi has also recently launched FTTH plans for SMEs. In addition, Oi offers SMEs:

- digital trunk services, which optimize and increase the speed of the customer's telephone system;
- advanced voice services, primarily 0800 (toll free) services, as well as voice portals where customers can participate in real-time chats and other interactive voice services;
- dedicated Line Services (*Serviços de Linhas Dedicadas*, or SLD), under which Oi leases dedicated digital and analog lines to customers for use in private networks; and
- value-added services, such as help desk support that provides assistance for technical support issues, web services with hosting, e-mail tools and website builder and security applications.

Oi offers a variety of mobile plans to SMEs, including its "*Oi Equipe Flat"* plan for groups of employees, its "*Oi Empresa Especial"* plan for individual users in an SME and its "*Oi Controle"* plan which, similar to its residential fixed line plan, is designed to permit an SME to control mobile minutes usage. In general, Oi's sales team works with an SME customer to determine their telecommunications needs and negotiates a package of services and pricing structure that is tailored to the needs of that SME. Oi also offers multi-product packages including fixed-line, broadband and mobile service bundles designed for the SME segment.

Services for Corporate Customers

Oi offers corporate customers all of the services offered to its SME customers. In addition, Oi provides a variety of customized, high-speed data transmission services through various technologies and means of access to corporate customers. Oi's data transmission services include interconnection between local area networks at data transmission speeds of 34 Mbps, 155 Mbps and 10 Gbps, videoconferencing, video/image transmission and multimedia applications. Oi's principal commercial data transmission services are:

- SLD, under which Oi leases dedicated lines to corporate customers for use in private networks that link different corporate websites;
- IP services which consist of dedicated private lines which Oi provides to most of the leading ISPs in Brazil, as well as Virtual Private Network, or VPN, services that enable its customers to operate private intranet and extranet networks; and
- frame relay services that Oi provides to its corporate customers to allow them to transmit data using protocols based on direct use of its transmission lines, enabling the creation of VPNs.

In 2012, Oi broadened the scope of services it offers to its corporate clients to include information technology infrastructure services, seeking to offer its customers end-to-end solutions through which Oi is able to provide and manage their connectivity and information technology needs. In February 2012, Oi launched "*Oi Smartcloud*," a suite of data processing and data storage services that it performs through its six cyber data centers located in Brasília, São Paulo, Curitiba, Porto Alegre and Fortaleza. In addition, through these data centers, Oi provides hosting, collocation and IT outsourcing services, permitting its customers to outsource their IT structures to Oi or to use these centers to provide backup for their IT systems.

During the third quarter of 2013, Oi partnered with us to offer four major new service groups through "*Oi SmartCloud*." These new service groups are:

- collaborative solutions, a hosting and sharing platform that provides employees with access to company documents;

business applications, an in-memory computing platform for large amounts of data;

mobility, a one-stop solution for mobile device management; and

security, a centralized, anti-spam filtering solution for corporate email.

The new solutions will operate through Oi's six cyber data centers and our recently-opened data center in Covilhã, Portugal, which is one of the largest data centers in the world.

In addition, in the second quarter of 2012, Oi launched its "*Oi Gestão*" service through which it offers corporate clients managed services for their mobile devices. This service is focused on providing logistics and security solutions relating to mobile devices.

In order to provide complete solutions to its corporate clients, Oi has entered into service agreements for the joint supply of international data services with a number of important international data services providers. These commercial relationships with international data services providers are part of Oi's strategy of offering telecommunications services packages to its customers.

Services for Other Telecommunications Providers

Oi offers specialized services to other telecommunications providers, consisting primarily of interconnection to its networks, network usage charges for the use of portions of its long-distance network, and traffic transportation through its physical infrastructure.

Network Usage (Interconnection) Charges

All telecommunications service providers in Brazil are required, if technically feasible, to make their networks available for interconnection on a non-discriminatory basis whenever a request is made by another telecommunications services provider. Interconnection permits a call originated on the network of a requesting local fixed line, mobile or long-distance service provider's network to be terminated on the local fixed line or mobile services network of the other provider.

Oi is authorized to charge for the use of its local fixed line network on a per-minute basis for (1) all calls terminated on Oi's local fixed line networks in Region I and Region II that originate on the networks of other local fixed line, mobile and long-distance service providers, and (2) all long-distance calls originated on Oi's local fixed line networks in Region I and Region II that are carried by other long-distance service providers.

Conversely, other local fixed line service providers charge Oi interconnection fees (1) to terminate calls on their local fixed line networks that are originated on Oi's local fixed line, mobile or long-distance networks, and (2) for long-distance calls originated on their local fixed line networks that are carried by Oi's long-distance network.

In addition, Oi charges network usage fees to long-distance service providers and operators of trunking services that connect switching stations to Oi's local fixed line networks.

Oi is authorized to charge for the use of its long-distance network on a per-minute basis for all calls that travel through a portion of its long-distance networks for which the caller has not selected Oi as the long-distance provider. Conversely, other long-distance service providers charge Oi interconnection fees on a per-minute basis for all calls that travel through a portion of their long-distance networks for which the caller has selected Oi as the long-distance provider.

Oi is authorized to charge for the use of its mobile network on a per-minute basis for all calls terminated on its mobile network that originate on the networks of other local fixed line, mobile and long-distance service providers. Conversely, other mobile services providers charge Oi interconnection fees to terminate calls on their mobile networks that are originated on Oi's local fixed line, mobile or long-distance networks.

Table of Contents

Transportation

Oi provides Industrial Exploitation of Dedicated Lines (*Exploração Industrial de Linha Dedicada*, or EILD) services under which it leases trunk lines to other telecommunications services providers, primarily mobile services providers, which use these trunk lines to link their radio base stations to their switching centers.

Long-distance and mobile services providers may avoid paying long-distance network usage charges to Oi by establishing an interconnection to Oi's local fixed line networks. In order to retain these customers, Oi offers a long-distance usage service, called national transportation, under which it provides discounts to its long-distance network usage fees based on the volume of traffic and geographic distribution of calls generated by a long-distance or mobile services provider.

Oi also offers international telecommunications services providers the option to terminate their Brazilian inbound traffic through its network, as an alternative to Embratel and TIM. Oi charges international telecommunications services providers a per-minute rate, based on whether a call terminates on a fixed line or mobile telephone and the location of the local area in which the call terminates.

Marketing

In 2013, Oi incurred R$556.5 million in marketing expenses, primarily to:

- strengthen the *Oi* brand, reinforcing the image of the convergence of the integrated company;
- promote its bundled plans, such as *Oi Internet Total*, *Oi Fixo + Oi Velox + Oi TV* and *Fixo Ilimitado + Pré Ilimitado* as part of its effort to expand and strengthen Oi's customer base;
- expand its *Oi TV* customer base with offers through Oi's other services;
- promote its prepaid mobile services through a promotional campaign that awards prizes to new and existing customers who recharge their Oi SIM cards;
- promote its postpaid mobile plans, primarily those that include unlimited calls and 3G data services at higher speeds, through specific marketing campaigns and mobile device subsidies for customers who subscribe to Oi's postpaid plans, as part of its effort to increase Oi's market share in mobile services; and
- expand its broadband and 3G internet customer base, focusing on geographic regions covered by the National Broadband Plan.

Throughout 2013, Oi focused its marketing efforts on three types of customers: (1) retail customers, including mobile telephone and residential fixed line customers, (2) SMEs and (3) corporate customers.

Oi advertises through a diverse array of media outlets as part of its strategy to reach all types and classes of customers and potential customers. Oi uses television, radio, billboards, exterior signage, telemarketing, direct mail and internet advertising to market its fixed line, mobile, long-distance, broadband and Pay-TV services. Oi uses its branded fixed assets in advertising campaigns, such as the "*Orelhão Mágico*" Christmas campaign, in which children are able to "place calls to Santa Claus" from Oi's telephone booths. Oi also sponsors sporting events and individual athletes, as well as cultural events, such as fashion shows and popular music concerts. Oi is the official telecom provider and a sponsor of the 2014 World Cup in Brazil. The goal of Oi's marketing initiatives is to increase brand awareness of the company as a convergent provider capable of meeting all of the telecommunications needs of its customers and expand the use of Oi's distribution channels to increase net operating revenue.

Table of Contents

Distribution Channels

During the last months of 2011, Oi revised its distribution model and now distributes its services through channels focused on three separate sectors of the telecommunications services market: (1) residential customers, including customers of its mobile services to whom Oi sells bundled plans, (2) personal customers that purchase its mobile services independently of Oi's bundled plans, and (3) enterprise customers.

Residential Customers

Oi's distribution channels for residential customers are focused on sales of fixed line services, including voice, *Oi Velox* and *Oi TV*, and postpaid mobile services. As part of the restructuring of Oi's distribution channels, it has begun to provide more extensive training to its employees and the employees of third-party sales agents and has revised its commission structures to incentivize sales of plans and services that generate higher average revenue per user. As of December 31, 2013, the principal distribution channels that Oi used for sales to residential customers were:

- Oi's own network of stores, which it began opening in 2011. As of December 31, 2013, Oi had opened 189 *Oi* branded stores and expects to open additional *Oi* branded stores during 2014.

- approximately 500 *Oi* franchised service stores and kiosks located in the largest shopping malls and other high density areas throughout Brazil.

- approximately 350 stores located throughout Oi's service area that primarily sell telecommunications products and services and have entered into exclusivity agreements with Oi.

- Oi's telemarketing sales channel, which is operated by its call center and other third-party agents and consists of approximately 1,100 sales representatives that answer more than 1.0 million calls per month. This channel provides Oi with the ability to proactively reach new customers, thereby increasing its client base and revenues, and also receives calls prompted by Oi's offers made in numerous types of media.

- Oi's "teleagents" channel, which consists of approximately 600 local sales agents that operate in specific regions and complement Oi's telemarketers.

- door-to-door sales calls made by Oi's sales force of approximately 500 salespeople and by exclusive agents with approximately 3,400 salespeople trained to sell its services throughout Brazil in places where customers generally are not reachable by telemarketing.

- Oi's e-commerce sites through which customers may purchase a variety of its services.

Personal Customers

Oi's distribution channels for personal customers are focused on sales of mobile services to postpaid customers and prepaid customers, including mobile broadband customers. As part of the restructuring of Oi's distribution channels, its distribution channels for Oi's postpaid personal services have converged with its distribution channels for residential services. As of December 31, 2013, the principal distribution channels that Oi used for sales of its prepaid personal services were:

- approximately 9,100 stores that are part of large national chains that sell its SIM cards and prepaid mobile cards.

approximately 40 multi-brand distributors that distribute its SIM cards and prepaid mobile cards to approximately 184,000 pharmacies, supermarkets, newsstands and similar outlets.

its website, through which Oi's prepaid customers may recharge their SIM cards.

Table of Contents

Enterprise Customers

Oi has established separate distribution channels to serve SMEs and large corporate customers. Oi markets a variety of services to SMEs, including its core fixed line and mobile services, and its higher-value added services, such as broadband services, voice, text and data applications, advanced voice services and commercial data transmission services. As part of the restructuring of its distribution channels, in 2012 Oi opened nine regional offices from which approximately 250 employees supervise its marketing efforts to SMEs and its third-party sales force serving this sector. Oi has also begun to provide more extensive training to its employees and the employees of third-party sales agents. As of December 30, 2013, the principal distribution channels that Oi used to market its services to SMEs were:

- approximately 200 exclusive Oi agents with approximately 3,000 door-to-door sales consultants that are dedicated to understanding and addressing the communications needs of its existing and prospective SME customers.

- Oi's telemarketing sales channel, which consists of 14 agents that use approximately 600 sales representatives that are specifically trained to discuss the business needs of prospective SME customers to make sales calls, as well as representatives in Oi's call center and representatives at call centers under contract with Oi to receive calls from existing and prospective SME customers to sell services to new customers and promote higher-value and additional services to existing customers. In addition, Oi's telemarketing channel utilizes approximately 480 customer retention representatives.

Oi markets its entire range of services to enterprise customers through its own direct sales force, which meets with current and prospective corporate customers to discuss the business needs of these enterprises and design solutions intended to address their communications needs. As part of the restructuring of its distribution channels, in 2012 Oi redesigned its client service model to increase its focus on post-sale service, regularly discussing service needs and improvements with its customers through calls and meetings with such customers. As of December 31, 2013, Oi's corporate sales team, including post-sale service personnel, was composed of approximately 1,000 employees operating in six regional offices.

Rates

Oi's rates for local fixed line services, domestic long-distance services, mobile services, interconnection, EILD and SLD services are subject to regulation by ANATEL, subject to certain exceptions relating to the rates it charges under alternative fixed line and mobile plans that Oi is authorized to offer to its customers. Many of the services Oi provides charge on a per-minute basis. For these services, Oi charges for calls based on the period of use. The charge unit is a tenth of a minute (six seconds), and rounding is permitted to the next succeeding tenth of a minute. There is a minimum charge period of 30 seconds for every call. For local fixed line to fixed line calls during off-peak hours, charges apply on a per-call basis, regardless the duration of the call.

Local Fixed Line Rates

Local Rates

Oi's revenues from local fixed line services consist mainly of monthly subscription charges, charges for local calls and charges for the activation of lines for new subscribers or subscribers that have changed addresses. Monthly subscription charges are based on the plan to which the customer subscribes and whether the customer is a residential, commercial or trunk-line customer. Under its concession agreements, Oi is required to offer two local fixed line plans to users: (1) the Basic Plan per Minute and (2) the Mandatory Alternative Service Plan. Each of these plans includes installation charges, monthly subscription charges, and charges for local minutes. As of December 31, 2013, 17.4%

Table of Contents

of Oi's local fixed line customers subscribed to the Basic Plan per Minute or the Mandatory Alternative Service Plan. The monthly subscription fees under the Basic Plan per Minute and the Mandatory Alternative Service Plan vary in accordance with the subscribers' profiles, as defined in the applicable ANATEL regulations.

In addition to the Basic Plan per Minute and the Mandatory Alternative Service Plan, Oi is permitted to offer non-discriminatory alternative plans to the basic service plans. The rates for applicable services under these plans (e.g., monthly subscription rates and charges for local and long-distance calls) must be submitted for ANATEL prior approval.

Local Fixed Line to Mobile Rates

When one of Oi's fixed line customers makes a call to an Oi mobile subscriber or another mobile services provider that terminates in the mobile registration area in which the call was originated, Oi charges its fixed line customer per-minute charges for the duration of the call based on rates designated by ANATEL as VC-1 rates. In turn, Oi pays the mobile services provider a per-minute charge based on rates designated by ANATEL as VU-M rates for the use of its mobile network in completing the call. VC-1 rates vary depending on the time of the day and day of the week, and are applied on a per-minute basis. On an annual basis, ANATEL may increase or decrease the maximum VC-1 rates that Oi is permitted to charge.

Domestic Long-Distance Rates

Fixed Line to Fixed Line

If a caller selects one of Oi's carrier selection codes for a long-distance call that originates and terminates on fixed line telephones, Oi receives the revenues from the call and must pay interconnection fees to the service providers that operate the networks on which the call originates and terminates. Rates for these long-distance calls are based on the physical distance separating callers (categorized by four distance ranges), time of the day and day of the week, and are applied on a per-minute basis for the duration of the call. Rates on these calls are applied on a per-minute basis. On an annual basis, ANATEL increases or decreases the maximum domestic fixed line to fixed line long-distance rates that Oi is permitted to charge.

Mobile Long Distance

Rates for long-distance calls that originate or terminate on mobile telephones are based on whether the call is an intrasectorial long-distance call, which is charged at rates designated by ANATEL as VC-2 rates, or an intersectorial long-distance call, which is charged at rates designated by ANATEL as VC-3 rates. If the caller selects one of Oi's carrier selection codes, Oi receives the revenues from the call and must pay interconnection fees to the service providers that operate the networks on which the call originates and terminates. The applicable VC-2 and VC-3 rates vary depending on the time of the day and day of the week, and are applied on a per-minute basis. On an annual basis, ANATEL may increase or decrease the maximum VC-2 and VC-3 rates Oi is authorized to charge.

Mobile Rates

Mobile telecommunications services in Brazil, unlike in the United States, are offered on a "calling-party-pays" basis under which a mobile subscriber pays only for calls that he or she originates (in addition to roaming charges paid on calls made or received outside the subscriber's home registration area). A mobile subscriber receiving a collect call is also required to pay mobile usage charges.

Oi's revenues from mobile services consist mainly of charges for local and long-distance calls paid by its prepaid and postpaid mobile subscribers and monthly subscription charges paid by Oi's postpaid plan subscribers. Monthly subscription charges are based on a postpaid subscriber's service plan. If one of Oi's mobile subscribers places or receives a call from a location outside of his or her home registration area, Oi is permitted to charge that customer the applicable roaming rate.

Under ANATEL regulations, the former TNL PCS S.A. (which has been merged into Oi Mobile) and Oi Mobile were each required to submit a basic postpaid and prepaid service plan to ANATEL for approval. As of December 31, 2013, fewer than 1% of Oi's mobile customers subscribed to its basic postpaid or prepaid plans.

In addition to the basic service plans, Oi is permitted to offer non-discriminatory alternative plans to the basic service plans. The rates for applicable services under these plans (e.g., monthly subscription rates, charges for local and long-distance calls and roaming charges) must be submitted for ANATEL for prior approval. In general, ANATEL does not raise objections to the terms of these plans. As of December 31, 2013, substantially all of Oi's postpaid and prepaid customers subscribed to these alternative plans.

Network Usage (Interconnection) Rates

Fixed Line Networks

Oi's revenues from the use of its local fixed line networks consist primarily of payments on a per-minute basis, which are charged at rates designated by ANATEL as TU-RL rates, from:

- long-distance service providers to complete calls terminating on its local fixed line networks;
- long-distance service providers for the transfer to their networks of calls originating on Oi's local fixed line networks;
- mobile services providers to complete calls terminating on Oi's local fixed line networks; and
- other fixed line service providers for local fixed line calls that originate on their local fixed line networks and terminate on Oi's local fixed line networks.

TU-RL rates vary depending on the time of the day and day of the week, and are applied on a per-minute basis. Charges for the use of Oi's local fixed line networks to terminate local calls originating on the network of another local fixed line service provider are only billed and due when usage of one of Oi's networks exceeds 55% of the total traffic registered between that network and the network of the other telecommunications services provider. Since January 1, 2007, the TU-RL rates of Oi and Telemar have been equal to 40% of the rate included in their respective Basic Plan per Minute for a local fixed line call, which is adjusted on an annual basis by ANATEL.

In May 2012, ANATEL adopted revisions to the regulations relating to TU-RL rates that became effective in August 2012. Under the revised regulations (1) between August of 2012 and December of 2013, fixed-line service providers will be able to charge other fixed-line service providers for local fixed-line calls originating on their local fixed-line networks and terminating on the other provider's local fixed-line networks only if the outgoing traffic in a given direction of transmission is higher than 75% of the total traffic between such providers, and (2) beginning in January 2014, fixed-line service providers will no longer be able to charge other fixed-line service providers for local fixed-line calls originating on their local fixed-line networks and terminating on the other provider's local fixed-line networks.

Mobile Networks

Oi's revenues from the use of its mobile networks consist primarily of payments on a per-minute basis from (1) local fixed line, long-distance and mobile services providers to complete calls terminating on Oi's mobile networks, and (2) long-distance service providers for the transfer to their networks of calls originating on Oi's mobile networks.

Table of Contents

The terms and conditions of interconnection to Oi's mobile networks, including the rates charged to terminate calls on these mobile networks, which are designated by ANATEL as VU-M rates, commercial conditions and technical issues, are freely negotiated between Oi and other mobile and fixed line telecommunications services providers, subject to compliance with regulations established by ANATEL relating to traffic capacity and interconnection infrastructure that must be made available to requesting providers, among other things. Oi must offer the same VU-M rates to all requesting service providers on a non-discriminatory basis. Oi applies VU-M charges on a per-minute basis.

If Oi is not able to establish interconnection rates for use of its mobile networks with other mobile and fixed line telecommunications services providers, ANATEL is empowered to arbitrate, at its discretion, the interconnection rates that Oi may charge.

Data Transmission Rates

Broadband services, IP services and frame relay services are deemed to be value-added services under ANATEL regulations, and therefore, the rates and prices for these services are not subject to regulation and are market-driven. Oi offers broadband services subscriptions at prices that vary depending on the download speeds available under the purchased subscription.

DTH and IP TV Services Rates

DTH and IP TV services are deemed to be value-added services under ANATEL regulations, and therefore, the rates and prices for these services are not subject to regulation and are market-driven. Oi offers DTH subscriptions at prices that vary depending on the content of the subscription package. Oi offers basic subscription packages for its *Oi TV* services, as well as a variety of premium packages which allow subscribers to tailor the content that they receive to their individual tastes.

Billing and Collection

Residential Services

Oi sends each of its fixed line customers a monthly bill covering all the services provided during the prior monthly period. Customers are grouped in billing cycles based on the date their bills are issued. Each bill separately itemizes local calls, long-distance calls, calls terminating on a mobile network, toll-free services and other services such as call waiting, voicemail and call forwarding. Oi has agreements with several banks for the receipt and processing of payments from its customers. A variety of businesses, such as lottery houses, drugstores and grocery stores, accept payments from Oi's customers as agents for these banks.

Oi is required to include in its monthly bills charges incurred by Oi's customers for long-distance services provided by other long-distance service providers upon the request of these providers. Oi has billing agreements with each long-distance telecommunications services provider that interconnects with its networks under which Oi bills its customers for any long-distance calls originated on Oi's network that are carried by another long-distance service provider and transfer the balance to the relevant provider after deducting any access fees due for the use of Oi's network. On average, payments are due 15 days after the billing date. Oi charges late-payment interest at a rate of 1% per month plus a one-time late charge of 2% of the amount outstanding. As of December 31, 2013, 10.3% of all accounts receivable due from Oi's fixed line customers were outstanding for more than 30 days and 5.0% were outstanding for more than 90 days.

ANATEL regulations permit Oi to restrict outgoing calls made by a fixed line customer when the customer's account is more than 31 days past due, restrict incoming calls received by a fixed line customer when the customer's account is more than 61 days past due, and disconnect a fixed line customer when the customer's account is more than 91 days past due, provided in each case that 15 days' prior notice has been given to that customer prior to the imposition of each restriction. The

Table of Contents

disconnection process thus comprises several stages, including customer notification regarding the referral of their delinquency to credit bureaus, before the fixed line customer may be ultimately disconnected due to non-payment. Notices range from voice messages to active calls for negotiation with the customer. Oi's collection system enables it to access delinquent subscribers' accounts according to their payment profile. This profile takes into consideration, among other things, the length of subscription, the outstanding balance of the account and the longest payment delays.

Personal Services

Oi bills its mobile postpaid customers on a monthly basis and itemizes charges in the same manner as it bills its fixed line customers. See " *Residential Services*." In addition, the monthly bills also provide details regarding minutes used and roaming charges. On average, payments are due 15 days after the billing date. Oi charges late-payment interest at a rate of 1% per month plus a one-time late charge of 2% of the amount outstanding. As of December 31, 2013, 9.4% of all accounts receivable due from Oi's mobile customers were outstanding for more than 30 days and 4.9% were outstanding for more than 90 days.

ANATEL regulations permit Oi to partially suspend services to a mobile customer when the customer's account is more than 15 days past due, restrict all incoming calls received and outgoing calls made by a mobile customer when the customer's account is more than 45 days past due, and cancel services to a mobile customer when the customer's account is more than 90 days past due, provided in each case that 15 days' prior notice has been given to that customer prior to the imposition of each restriction. The cancellation process thus comprises several stages, including customer notification regarding the referral of their delinquency to credit bureaus, before services to the mobile customer may be ultimately cancelled due to non-payment. Notices range from text messages to active calls for negotiation with the customer. Oi's collection system enables it to access delinquent subscribers' accounts according to their payment profile. This profile takes into consideration, among other things, the length of subscription, the outstanding balance of the account and the longest payment delays. Oi has also implemented an information tool to assist with account management that is designed to warn subscribers of high outstanding amounts due and unpaid.

Oi's Network and Facilities

Oi's networks are comprised of physical and logical infrastructures through which it provides fully integrated services, whether fixed line or mobile, voice, data or image, thereby optimizing available resources. Oi monitors its networks remotely from its centralized national network operations center in Rio de Janeiro. Network operating and configuration platforms, located at the network operations center, perform failure monitoring, database and configuration management, security management and performance analysis for each network.

Access Networks

Oi's access networks connect its customers to Oi's signal aggregation and transportation networks. Oi has a large number of network access points, including twisted copper pair wires to residences and commercial buildings, fiber optic lines to residences and commercial buildings, wireless transmission equipment and Wi-Fi hotspots. Oi's fixed line networks are fully digitalized.

Voice and data signals that originate through fixed line access points are routed through Multi-service Access Nodes, or MSANs, to Oi's aggregation networks, or are rerouted to Oi's aggregation networks through Digital Subscriber Line Access Multiplexer, or DSLAM, equipment which split the voice signal from the digital signal which is transmitted using ADSL or VDSL technology. Oi is engaged in a long-term program to update its MSAN equipment to DSLAM equipment as demand for data services increases. As of December 31, 2013, approximately 32.0% of Oi's fixed line network had

Table of Contents

been updated to support ADSL2+ or VDSL2, and Oi provided ADSL or VDSL2 services in 4,703 municipalities.

ADSL technology allows high-speed transmission of voice and data signals on a single copper wire pair for access to the network. Since voice transmission through telephone lines uses only one of many available frequency bands, the remaining frequency bands are available for data transmission. Oi's network supports ADSL2+ and VDSL2, or very-high-bitrate digital subscriber line, technologies. ADSL2+ is a data communications technology that allows data transmission at speeds of up to 24 Mbps downstream and 1 Mbps upstream, which is much faster than data transmission through conventional ADSL. ADSL2+ permits Oi to offer a wider range of services than ADSL, including IP TV. VDSL2 is a DSL technology providing faster data transmission, up to 100 Mbps (downstream and upstream), permitting it to support high bandwidth applications such as HDTV, VoIP and broadband internet access over a single connection.

Oi is engaged in a long-term program to upgrade portions of its fixed line access networks with optical fiber networks based on gigabit passive optical network, or GPON, technology to support VDSL2 service and facilitate Oi's offering of its *Oi TV* service. The implementation of this technology permits Oi to provide broadband with speeds up to 100 Mbps to residential customers and up to 1 Gbps to commercial customers.

For its non-residential customers, Oi has a fully integrated and managed network providing access for networks based on internet protocol, or IP, and Asynchronous Transfer Mode, or ATMode, protocol over legacy copper wire through which it is able to provide:

- symmetric and transparent access to Frame Relay services at speeds from 64 kbps to 1.5 Mbps;

- symmetrical access with PPP (Point to Point) for the internet connection services at speeds from 64 kbps to 1.5 Mbps; and

- symmetrical access with PPP (Point to Point) to provide connection services for VPNs through Multiprotocol Label Switching, or MPLS, protocol at speeds from 64 kbps to 1.5 Mbps.

The following table sets forth selected information about Oi's fixed line networks as of the dates indicated.

	As of December 31,		
	2013	**2012**	**2011**
Region I:			
Installed access lines (in millions)	17.7	17.7	17.8
Access lines in service (in millions)	11.2	11.3	10.6
Public telephones in service (in thousands)	451.6	489.6	504.3
Broadband access lines in service (in millions)	3.7	3.5	2.9
Region II:			
Installed access lines (in millions)	10.6	10.6	10.4
Access lines in service (in millions)	6.5	6.5	6.8
Public telephones in service (in thousands)	204.0	237.9	265.0
Broadband access lines in service (in millions)	2.4	2.3	2.1

Mobile devices access Oi's GSM (Global System for Mobile Communications), or 2G, mobile networks on frequencies of 900 MHz/1800 MHz, 3G, mobile networks on frequencies of 2100 MHz and 4G mobile networks on frequencies of 2500 MHz. Oi's 2G access points uses General Packet Radio Service, or GPRS, which allows speeds in the range of 115 Kbps and Enhanced Data Rates for Global Evolution, or EDGE, which allows speeds in the range of 230 Kbps, to send and receive data signals. Oi's 3G access points uses high speed packet access, or HSPA, which allows speeds in the range of 14.2 Mbps, to send and receive data signals. Oi's 4G access points use 10+10 MHz and 2x2 Multiple Input Multiple Output, which allows speeds in the range of 75 Mbps, to send and receive data signals.

Table of Contents

Voice and data signals sent and received through Oi's 2G and 3G access points are routed to its aggregation networks. Oi's mobile networks have a unique data core and are fully integrated with its fixed line data networks.

As of December 31, 2013, Oi's 2G mobile access networks, consisting of 13,624 active radio base stations, covered 1,504 municipalities in Region I, or 88.2% of the urban population in Region I, 1,288 municipalities in Region II, or 96.1% of the urban population in Region II, and 553 municipalities in Region III, or 99.5% of the urban population in Region III. Oi has GPRS coverage in 100% of the localities covered and EDGE coverage in all state capitals.

As of December 31, 2013, Oi's 3G mobile access networks, consisting of 8,305 active radio base stations, covered 411 municipalities in Region I, or 70.8% of the urban population in Region I, 291 municipalities in Region II, or 76.2% of the urban population in Region II, and 189 municipalities in Region III, or 87.0% of the urban population in Region III. Oi has HSPA coverage in all state capitals.

In the fourth quarter of 2012, Oi began deploying its 2.1 GHz mobile access networks to support 4G service in cities scheduled to host the 2014 World Cup. As of December 31, 2013 Oi's 4G access networks covered 24 municipalities, including the 12 cities hosting the 2014 World Cup, and it is expected that they will cover 45 cities by the end of the second quarter of 2014.

In addition to these mobile access networks, Oi also operates Wi-Fi hotspots in public areas such as coffee shops, airports and shopping centers. Since 2012, Oi has provided outdoor urban wireless networks, including in the neighborhoods of Copacabana and Ipanema in the city of Rio de Janeiro. As of December 31, 2013, Oi's Wi-Fi network consisted of approximately 523,000 hotspots. Oi has also begun to offer broadband access compatible with approximately 521,000 access points provided by Fon Wireless Ltd., or Fon, which allows Oi's customers to access Fon lines worldwide.

As described above under "*Brazilian Operations (Oi) Personal Services*," on March 31, 2014, Oi sold all of its equity interests in a subsidiary that owns 2,007 mobile telecommunications towers to SBA Torres Brasil, Ltda.

Aggregation Networks

Voice and data signals sent through Oi's access network are routed through its aggregation networks to digital switches that connect voice calls and route digital signals to their destinations. Portions of Oi's aggregation network use conventional copper trunk lines to connect its access network to its switches and transportation networks. Oi uses ATMode protocol to permit high speed transmission of these signals. Other portions of Oi's aggregation network use fiber optic cable to connect its access network to its switches and transportation networks using Synchronous Digital Hierarchy, or SDH, protocol. In large metropolitan areas where the density of access point results in increased demand, Oi has deployed Metro Ethernet networks. Oi is currently deploying Metro Ethernet networks in additional cities to serve rising customer demand. Oi's Metro Ethernet networks are fully-integrated management systems and provide:

- ethernet data services from 4 Mbps up to 1 Gbps for point-to-point and multipoint dedicated access;
- ethernet access services from 4 Mbps up to 1 Gbps for IP access and MPLS/VPN access;
- aggregation network services for ADSL2+ and VDSL2 platforms; and
- aggregation network services for GPON platforms; and
- DWDM systems for services above 1 Gbps to prevent overbooking of Oi's Metro Ethernet network.

Table of Contents

Historically, Oi has used ATMode protocol to transport digital signals through its access network from non-residential customers that require dedicated bandwidth to its switching stations. Oi's ATMode networks have a fully-integrated management system and provide:

- frame relay data services (a data transmission service using fast protocols based on direct use of transmission lines) from 64 Kbps up to 2 Mbps;
- ATMode data services supporting access rates from 2 Mbps to 622 Mbps; and
- aggregation network services for ADSL2+ platforms.

In response to changing customer needs, Oi is converting elements of its network that use ATMode and SDH protocols, that permit it to offer dedicated bandwidth to its customers, to MPLS protocol, which supports IP and permits the creation of VPNs through Oi's Metro Ethernet networks.

Oi has begun to use MPLS-TP capable devices that have been designed to interface with its existing Metro Ethernet network to increase the bandwidth of its networks to support its 4G network data traffic and replace its legacy SDH networks.

Transportation Networks

Oi's long-distance transportation network consists of optical fiber cable networks supporting high capacity Dense Wavelength Division Multiplex, or DWDM, systems that can operate with up to 80 channels at 10 and 40 Gbps. Oi is currently in the process of quadrupling the capacity of its backbone as a result of the deployment of 40 Gbps optical technology. In 2013, Oi implemented DWDM links of 100 Gbps between Rio de Janeiro, São Paulo, Belo Horizonte and Salvador. Oi's optical cable network is complemented by microwave links that it uses in Region I and Region II. Oi has a nationwide long-distance backbone, consisting of an optical fiber network that connects the Federal District and the state capitals in Region I and Region II, other than Macapá (located in the State of Amapá), and is complemented by Oi's satellite system. The optical fiber network is expected to reach Macapá in the first half of 2014. Most of the large urban areas of Region I and Region II are also connected by Oi's fiber optic cable networks. Oi's transmission infrastructure connects these digital switches to four international gateway switches: two in Rio de Janeiro, one in Curitiba and one in Brasília.

Oi employs automatic traffic protection to improve the reliability of its network and increase its traffic capacity. The network is fully supervised and operated by management systems that allow rapid response to customer service requests and reduce the recovery time in case of failures.

Oi operates an internet backbone network and a fully IP-routed network, which provides a backbone for all internet dedicated services and VPN offerings. Oi's internet backbone connects to the public internet via international links that it maintains abroad.

Oi has implemented an address control and name resolution system for its IP networks with the objective of optimizing resources and improving the availability of internet access services.

Oi's transportation network is directly interconnected to the national and international long-distance networks of all long-distance service providers and all mobile services providers operating in Region I, Region II and Region III.

Satellite Network

Oi has deployed an expanded range of satellite based services to comply with its public service obligations to the rural and remote areas of Brazil, including the Amazon rainforest region. These satellite services include internet access and access to corporate data applications. As of December 31, 2013, Oi's satellite network covered approximately 5,165 localities in 24 states and the Federal District and provided voice and data services to approximately 6.8 million customers.

Table of Contents

In 2000, Oi began the implementation of the land-based segment of its respective satellite networks in order to extend transmission to remote areas in the states of Acre, Paraná, Rondônia, Rio Grande do Sul, Santa Catarina, Pará, Amazonas, Amapá and Roraima, as well as to other areas with limited access to telecommunications services due to geographical conditions, such as Mato Grosso, Mato Grosso do Sul, Goiás and Tocantins. The satellite network comprises satellite earth stations located in less-populated rural areas, as well as hub stations in the cities of Brasília, Manaus, Boa Vista, Macapá, Belém, Santarém, Marabá, Rio de Janeiro, Curitiba, Porto Alegre, Florianópolis, Cuiabá, Porto Velho and Goiânia. These satellite networks use digital technology and began operating in August 2000. The fiber optic and satellite backbones are interconnected in Brasília, Belém, Fortaleza, Rio de Janeiro, Curitiba, Porto Alegre, Florianópolis, Cuiabá, Porto Velho and Goiânia. The integration of the land-based segment of Oi's satellite network allows it to service its subscribers in any location in Region I and Region II.

Hispamar Satellite S.A., or Hispamar, a Spanish-Brazilian consortium created in November 1999 by Hispasat (the leading satellite telecommunications provider in the Iberian Peninsula), and Oi operate the Amazonas 1 satellite, which was manufactured by Astrium (EADS Space Company). In December 2002, Oi entered into an agreement with Hispasat that granted and transferred to Hispamar the rights to exploit geostationary orbital position 61 degrees west, and Oi acquired a minority equity interest in Hispamar. The Amazonas 1 satellite was launched into geostationary orbit over the Americas and started to operate in November 2004. The Amazonas 1 satellite provides both C and KU band transponders and on-board switching. The Amazonas 1 satellite is owned by a subsidiary of Hispasat, and Hispamar has been granted the right to operate and lease all of the transponder space on this satellite.

In 2009, the Amazonas 2 satellite was launched and this satellite commenced commercial operations in early 2010. The Amazonas 2 satellite was manufactured by Astrium and launched into geostationary orbit of 61 degrees West. This satellite provides both C and KU band transponders and on-board switching, with an expected useful life of 15 years. The Amazonas 2 satellite is owned by a subsidiary of Hispasat and Hispamar has been granted the right to operate and lease all of the transponder's space segment on this satellite.

In 2013, the Amazonas 3 satellite was launched to replace all traffic from Amazonas 1 satellite, which had reached the end of its useful life.

Oi leases transponders from:

- Hispamar with 754 MHz of capacity, in the C band, on the Amazonas 3 satellite and 540 MHz of capacity in the C band on the Amazonas 2 satellite to provide voice and data services through 653 remote switches covering 390 municipalities;
- Hispamar with 98.3 MHz of capacity, in the KU band, on the Amazonas 3 satellite and 576 MHz of capacity in the KU band on the Amazonas 2 satellite to provide voice and data services to approximately 3,028 localities;
- Intelsat Satellite with 122 MHz of capacity, in the C band, on the IS-805 satellite and 648 MHz of capacity in the C band on the IS 10-02 satellite to transport voice and data signals from Manaus to Rio de Janeiro;
- SES New Skies with 108 MHz of capacity, in the KU band, on the SES-4 satellite to provide voice and data services;
- Intelsat Satellite with 103 MHz of capacity, in the C band, on the IS-905 satellite to transport voice and data signals from Macapá to Rio de Janeiro and Boa Vista to Rio de Janeiro; and
- SES New Skies with 1.5 GHz of capacity, in the KU-band, on the SES-6 satellite to provide Oi's own head-end DTH services within Brazil.

Table of Contents

In 2005, Oi's predecessor Brasil Telecom and Telemar started to operate gateways satellite platforms operating in the KU band that are comprised of a satellite transport solution with Digital Video Broadcast-Return Channel Satellite, or DVB-RCS, technology, and a next generation network, or NGN, control solution.

DTH Network

Oi provides its DTH services through a satellite uplink located in Lurin, Peru, which receives, encodes and transmits television signals to satellite transponders. Oi leases these facilities and licenses the related technology from Telefónica. Oi leases transponders for the delivery of television signals to its subscribers from Telefónica. Oi has leased 216 MHz of capacity in the KU band on the Amazonas 1 satellite and 36 MHz of capacity in the KU band on the Amazonas 2 satellite to provide DTH services. Oi's customers lease satellite dishes and set-top boxes from Oi as part of their subscriptions to its *Oi TV* services.

HFC Network

Oi provides subscription analog and digital television services and broadband internet access to the residential and commercial markets in the cities of Belo Horizonte, Poços de Caldas, Uberlândia and Barbacena using an HFC network. The analog television signal is distributed from integrated headend equipment owned by Cemig Telecom that is located in these cities. The digital television signal is distributed to the HFC network in Belo Horizonte from Oi's integrated headend equipment located in Alvorada in the city of Rio de Janeiro.

Network Maintenance

Oi's external plant and equipment maintenance, installation and network servicing are performed by some well-known third-party service providers. Oi employs its own team for the maintenance of Oi's internal plant and equipment.

In January 2012, Oi entered into a services agreement with Telemont for installation, operation, and corrective and preventive maintenance in connection with Oi's external plant and associated equipment, public telephones, and fiber optic and data communication networks (including broadband access services) in the State of Rio de Janeiro. In October 2012, Oi entered into a substantially similar services agreement with Telemont with respect to the States of Minas Gerais, Espírito Santo, Mato Grosso, Mato Grosso do Sul, Tocantins, Acre, Rondônia and Goiás and the Federal District. The total estimated payments during the five-year terms of these contracts are expected to be R$6.6 billion.

Also, in January 2012, Oi entered into a services agreement with Serede Serviços de Rede S/A for installation, operation, and corrective and preventive maintenance in connection with Oi's external plant and associated equipment, public telephones and fiber optic in the State of Rio de Janeiro. The total estimated payments under this contract are R$1.4 billion during the five-year term of this contract.

In October 2012, Oi entered into a services agreement with A.R.M. Engenharia for installation, operation, and corrective and preventive maintenance in connection with Oi's external plant and associated equipment, public telephones, and fiber optic and data communication networks (including broadband access services) in the States of Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe, Bahia, Amazonas, Roraima, Pará, Amapá, Paraná, Santa Catarina and Rio Grande do Sul. The total estimated payments under this contract are R$6.3 billion during the five-year term of this contract

From May 2013 to June 2013, Oi internalized its installation, operations, and corrective and preventive maintenance services in connection with its fixed-line telecommunications services, mobile telecommunications services, data transmission services (including broadband access services), satellite

Table of Contents

services, buildings, access ways and towers. These services had previously been provided by Nokia Solutions and Alcatel-Lucent.

Proposed Business Combination with Oi and TmarPart

In this section we describe the proposed Business Combination between our company, Oi and TmarPart, including the reasons for the Business Combination, a description of each of the steps to be taken in the context of such Business Combination and the conditions to which each of the steps of the Business Combination are subject, and structural diagrams of TmarPart and Oi, before and after the Business Combination. We also include a summary of the background and history of our strategic partnership with Oi.

Background

On October 1, 2013, we entered into a Memorandum of Understanding with Oi, the Oi Holding Companies, Avistar and Nivalis, with respect to a proposed Business Combination of the businesses of Portugal Telecom, Oi and the Oi Holding Companies into TmarPart. We and Oi announced the Business Combination on October 2, 2013. Pursuant to the Business Combination, among other things, Oi is expected to become the owner of the interests in the companies that hold all of (i) our operating assets except interests held directly or indirectly in Oi, Contax Participações and Bratel B.V. and (ii) our liabilities at the time of contribution and a wholly owned subsidiary of TmarPart, and we are expected to merge with and into TmarPart with TmarPart as the surviving company.

On February 20, 2014, we announced the execution of definitive documents that govern the steps necessary to implement the Business Combination. See "*Agreements Relating to the Business Combination*" below for more information about those agreements.

Reasons for the Business Combination

We believe that the Business Combination will:

- permit the formation of a single large multinational telecommunications company based in Brazil with more than 100 million customers in seven countries with a total population of approximately 260 million people;
- maintain the continuity of operations under the trademarks of Oi and Portugal Telecom in their respective regions of operation, subject to unified control and management by TmarPart;
- further consolidate the operations of Oi and Portugal Telecom, with the goal of achieving significant economies of scale, maximizing operational synergies, reducing operational risks, optimizing efficient investments and adopting best operational practices;
- strengthen the capital structure of TmarPart, facilitating its access to capital and financial resources:
- consolidate the shareholder bases of TmarPart, Oi and Portugal Telecom as holders of a single class of common shares or ADSs traded on the *Novo Mercado* segment of the BM&FBOVESPA, the New York Stock Exchange, or the NYSE, and the NYSE Euronext Lisbon;
- diffuse TmarPart's shareholder base, as a result of which no shareholder or group of shareholders will hold a majority interest in TmarPart's capital;
- result in the adoption by TmarPart of the corporate governance practices of the *Novo Mercado* segment of the BM&FBOVESPA; and

promote greater liquidity of the TmarPart common shares than currently is available to holders of Oi and Portugal Telecom shareholders.

Table of Contents

Steps of the Business Combination

The Capital Increase, the Merger of Shares and the Merger

The Business Combination is expected to be accomplished through a series of transactions that are expected to result in Oi's owning the assets comprising Portugal Telecom's operations, other than Portugal Telecom's interests in Oi, Contax Participações and Bratel B.V., Oi's entering into a Brazilian merger of shares with TmarPart and becoming a wholly owned subsidiary of TmarPart, and Portugal Telecom's merging with and into TmarPart, in each case subject to conditions. As a result of the Business Combination, the shareholders of Oi and Portugal Telecom are expected to become shareholders of TmarPart. The three primary transactions are:

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

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

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

TmarPart's common shares are expected to be listed on the *Novo Mercado* segment of BM&FBOVESPA and the NYSE Euronext Lisbon, and TmarPart's ADSs are expected to be listed on the NYSE Euronext New York Stock Exchange.

Transfer of Assets and Liabilities to PT Portugal in Preparation for the Capital Increase

Prior to the consummation of the Capital Increase, Portugal Telecom is undertaking a series of transactions with the purpose of (1) transferring to PT Portugal all of its operating assets, other than the interests it holds directly or indirectly in TmarPart and Oi, and all of its liabilities at the time of the transfer and (2) transferring to Portugal Telecom the direct and indirect interests held through Bratel B.V. in TmarPart, Oi, PASA and EDSP75. In addition, we expect to exchange our interests in CTX and Contax Participações for additional interests in PASA and EDSP. See " *Agreements Relating to the Business Combination Share Exchange Agreements*" below for more information about these transactions.

In connection with the Capital Increase, Banco Santander (Brasil), S.A. was engaged to prepare a valuation report, or the PT Assets Valuation Report, in order to determine the value of the shares of PT Portugal (and consequently of the assets and liabilities to be transferred to PT Portugal), or the PT Assets. According to the PT Assets Valuation Report, the PT Assets were valued at an amount between €1,623.3 million (R$5,296.4 million) and €1,794.1 million (R$5,853.9 million). For purposes of the subscription in the Capital Increase, the Board of Directors of Oi determined a value for the PT Assets of €1,750 million (R$5,709.9 million), based on the Euro-Real exchange rate on February 20, 2014, the day before the first publication of the notice for the extraordinary general meeting of the shareholders of Oi, in accordance with the subscription agreement signed by Portugal Telecom and Oi.

Table of Contents

The PT Assets Valuation Report was approved by the shareholders of Oi at an extraordinary general meeting held on March 27, 2014.

Implementation of the Capital Increase

On April 28, 2014, the pricing of the Capital Increase occurred. Oi is expected to issue a total of 2,142,279,524 common shares at a price of R$2.17 per common share and 4,284,559,049 preferred shares at a price of R$2.00 per preferred share, for total gross proceeds of approximately R$13,127.9 million. Of this amount, the PT Assets will represent R$5,709.9 million (€1,750 million), with the Real amount determined using the Euro-Real exchange rate described above, and Portugal Telecom is expected to receive 1,045,803,934 common shares and 1,720,252,731 preferred shares of Oi for the contribution of the PT Assets. The remainder of the Capital Increase is an offering for cash expected to yield gross proceeds to Oi of R$7,508.0 million and net proceeds to Oi of approximately R$7,377.9 million, without giving effect to the underwriters' option to purchase additional shares described below. The number of shares that Portugal Telecom will receive for its contribution of the PT Assets is based on the per share price determined in the bookbuilding process for the cash portion of the offering.

As a result, immediately following the settlement of the Capital Increase, Portugal Telecom is expected to own, directly and indirectly, 37.4% of Oi's issued and outstanding share capital (including 40.7% of Oi's voting share capital), excluding Portugal Telecom's interest in the shares of Oi owned through TmarPart, AG Telecom and LF Tel. On a fully diluted basis, pro forma for the completion of the other steps of the Business Combination, including the merger of shares and the merger, the shareholders of Portugal Telecom are expected to own, directly and indirectly, a minimum stake of 37.3% of TmarPart's issued and outstanding share capital.

Caravelas, an investment vehicle managed by Banco BTG Pactual S.A., has subscribed for 171,362,482 common shares and 359,171,518 preferred shares issued by Oi for an amount equal to R$1.09 billion (equivalent to the difference between R$2.0 billion and the amount of subscription orders placed in the offering by TmarPart's current shareholders, excluding Bratel Brasil). Caravela's subscription for Oi's shares is subject to certain conditions precedent.

The number of shares issued in the cash portion of the Capital Increase could increase if the underwriters exercise their option to purchase up to 287,554,298 additional common shares and/or up to 575,108,597 additional preferred shares during the period of 30 days from and including April 29, 2014, provided that Oi will not issue a number of shares under this option that yields gross proceeds in excess of R$742.0 million.

For a description of the subscription agreement executed by Portugal Telecom and Oi, see *" Agreements Relating to the Business Combination Agreement by Portugal Telecom to Subscribe for Shares of Oi."*

Consent Solicitation

In connection with our proposed Business Combination with Oi, on February 7, 2014, we undertook consent solicitations to holders of our €400 million 6.25% Notes due 2016; our €750 million 4.125% Exchangeable Bonds due 2014; and certain notes issued by our wholly owned subsidiary, PT International Finance B.V., or PTIF, under our Euro Medium-Term Note Programme to consider and approve certain proposals and other amendments to the trust deeds and terms and conditions of such notes and bonds. See "*Item 4 Information on the Company Recent Developments Consent Solicitation*."

Recapitalization of TmarPart

In connection with the Business Combination, on February 19, 2014, PTB2 S.A., or PTB2, and Bratel Brasil, both subsidiaries of Portugal Telecom, entered into subscription agreements to purchase convertible debentures to be issued by the AGSA Holding Companies and the Jereissati Telecom Holding Companies for an aggregate amount of R$4,788 million. Each of the AGSA Holding Companies and the Jereissati Telecom Holding Companies are expected to use the proceeds of these debentures to subscribe for convertible debentures of their subsidiaries, including AG Telecom and LF Tel, which will use the proceeds of their debentures to repay all of their outstanding indebtedness and subscribe for convertible debentures of TmarPart, which is expected to use the proceeds of its debentures to repay all of its outstanding indebtedness (excluding indebtedness of its consolidated subsidiaries). Under the subscription agreements for these debentures, settlement of the issuance and sale of these debentures is expected to occur on the date of the settlement of the Capital Increase. For more information about the debenture transactions through which this repayment of indebtedness is expected to occur, see " *Agreements Relating to the Business Combination Reorganization of TmarPart*" and " *Agreements Relating to the Business Combination Debenture Subscription Agreements and Private Deeds*" below.

AG Telecom and LF Tel are shareholders of TmarPart and Oi and are parties to certain shareholders' agreements with us. See "*Item 4 Information on the Company Our Businesses Proposed Business Combination with Oi and TmarPart Strategic Partnership with Oi.*"

As of December 31, 2013, AG Telecom had aggregate outstanding indebtedness in the amount of R$650 million, LF Tel had aggregate outstanding indebtedness in the amount of R$662 million, and TmarPart had aggregate outstanding indebtedness in the amount of R$3,259 million aggregate principal of outstanding debt. See "*Item 3 Key Information Risk Factors Risks Relating to Our Proposed Business Combination with Oi The recapitalization of TmarPart will increase its net indebtedness after the completion of the Business Combination as compared to the sum of the net indebtedness of Portugal Telecom and Oi*."

Corporate Reorganization of TmarPart

On the date of the shareholders' meetings of TmarPart, AG Telecom, LF Tel, the AGSA Holding Companies, the Jereissati Telecom Holding Companies, Bratel Brasil and PTB2 that will consider the steps of the corporate reorganization of TmarPart described below and the merger of shares, the convertible debentures issued by TmarPart, AG Telecom, LF Tel, Andrade Gutierrez and Jereissati Telecom are expected to be converted into shares of the issuers of these debentures.

Immediately after the conversion of these debentures, TmarPart, AG Telecom, LF Tel, the AGSA Holding Companies, the Jereissati Telecom Holding Companies, Bratel Brasil and PTB2 are expected to carry out corporate reorganizations to simplify their organizational structure. We refer to these transactions as the "TmarPart Reorganization."

We expect that the TmarPart Reorganization will consist of the following transactions:

- the merger of AG Telecom with and into PASA, the merger of LF Tel with and into EDSP75, and mergers of PASA and EDSP75 with and into Bratel Brasil;
- a partial split-off of shares from TmarPart, with the split-off shares, representing 99.9% of Bratel Brasil's shares of TmarPart, to merge into Bratel Brasil;
- a partial split-off of shares from Bratel Brasil and the merger of the split-off shares, representing the remainder of Bratel Brasil shares of TmarPart, into Marnaz Participações S.A., a wholly-owned subsidiary of Portugal Telecom, or Marnaz;
- the merger of Bratel Brasil with and into Oi; and
- the mergers of Marnaz, Venus, Sayed and PTB2 with and into TmarPart.

Table of Contents

Corporate Governance Matters of TmarPart

Prior to the merger of shares of Oi by TmarPart, and conditioned upon the merger of shares, a general meeting of shareholders of TmarPart will be held to consider amendments to its Bylaws to conform to the rules of the *Novo Mercado* segment of the BM&FBOVESPA, to approve a new name for TmarPart and to elect new members of the Board of Directors, Executive Board and the Fiscal Council of this company.

Zeinal Bava, Chief Executive Officer of Portugal Telecom from 2008 to 2013 and the current Chief Executive Officer of Oi and PT Portugal, will head TmarPart and its subsidiaries as its Chief Executive Officer.

Merger of Shares

In the merger of Oi's shares, each common share issued by Oi will be replaced by one new common share issued by TmarPart, and each preferred share issued by Oi will be replaced by 0.9211 new common share issued by TmarPart. The exchange ratios were established based on the market quotations of Oi's shares during the 30-day period prior to the announcement of the Business Combination, assuming that TmarPart will not have relevant assets or liabilities (or that it will have sufficient cash and cash equivalents to fully repay its liabilities), and the capital of TmarPart will reflect the number of shares issued by Oi and held directly or indirectly by TmarPart immediately prior to the merger of Oi's shares.

Consideration to be Received in the Merger

Based on the value assigned to the PT Assets above, it is expected that in exchange for each Portugal Telecom share held, shareholders will receive a number of shares of TmarPart corresponding to the amount in Reais equivalent to €1.9979 (applying the Euro/Real conversion rate on February 20, 2014, the day preceding the date of first publication of the notice of the extraordinary general shareholders' meeting of Oi), issued at the same price per share as in the Capital Increase, to which will be added 0.6330 shares of TmarPart.

In addition, on August 14, 2013, we announced a shareholder remuneration policy for 2013 consisting of a dividend of €0.10 per share, subject to the necessary shareholder approvals during our 2014 Annual Shareholders' Meeting and other factors considered relevant by the Board of Directors at the time. On April 30, 2014, our Annual Shareholders' Meeting approved the dividend payment for the fiscal year 2013, corresponding to an aggregate amount of €89.7 million, or €0.10 per ordinary share.

The payment of this dividend is not expected to be conditioned upon the completion of the Business Combination.

Voting Cap in the Event the Merger Does Not Occur

If the Capital Increase is completed but the merger and the Business Combination are not completed because the conditions to the merger are not satisfied, then Portugal Telecom's operating assets, except for interests in Oi, Contax Participações and Bratel B.V., and its liabilities at the time of transfer, would be held by Oi, and Portugal Telecom's only asset after the completion of the merger of shares would be a minority interest in TmarPart. In addition, in this event, pursuant to agreements executed by the parties to the Business Combination, Portugal Telecom would be limited to exercising 7.5% of the voting rights of TmarPart after the merger of shares, regardless of the percentage interest in TmarPart that Portugal Telecom holds. Portugal Telecom's interest in TmarPart would also continue to be subject to the voting and transfer restrictions contained in the existing shareholders' agreements, as amended, relating to TmarPart.

Table of Contents

Conditions to the Business Combination

The steps of the Business Combination described above are subject to certain conditions described below.

The Capital Increase

As described above, we have subscribed for common shares and preferred shares of Oi in the Capital Increase in exchange for the transfer by Portugal Telecom to Oi of all of the shares of PT Portugal, which will hold the assets and liabilities described above under " *Steps of the Business Combination."*

Our subscription to the Capital Increase of Oi was subject to a number of conditions, including, without limitation, the following:

- the approval of the PT Assets Valuation Report by the common shareholders of Oi, which was obtained on March 27, 2014;
- the minimum total amount to be subscribed in cash by investors must be at least equivalent to R$7.0 billion, which condition was satisfied on April 28, 2014;
- certain current shareholders of TmarPart, and BTG Pactual S.A., directly or through an investment vehicle managed and administered through Banco BTG Pactual S.A., must participate in the offering by placing subscription orders in the aggregate amount of R$2.0 billion, which occurred on April 28, 2014;
- the authorization, or a decision of non-opposition by, ANATEL, which was obtained on March 27, 2014;
- the approval of the Portuguese Competition Authority, which was obtained on March 19, 2014; and
- the receipt of prior approvals of creditors and third parties, as well as the consent and waiver of our creditors for the execution of the Business Combination, which have been obtained as described under "*Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Indebtedness Amendments to Debt Instruments in Connection with the Business Combination*."

Oi's obligation to issue shares to us in the Capital Increase is also subject to certain of the conditions set forth above and certain other conditions. In addition, the sale by Oi of common and preferred shares for cash to investors in the Capital Increase is subject to customary conditions applicable to an offering of shares in a capital markets transaction.

For more information about the subscription agreement executed by Portugal Telecom and Oi, see " *Agreements Relating to the Business Combination Agreement by Portugal Telecom to Subscribe for Shares of Oi*."

The Merger of Shares

The boards of directors of each of TmarPart and Oi will have to approve a merger of shares in which, subject to the approvals of the holders of voting shares of TmarPart and Oi, all of the outstanding Oi shares not owned by TmarPart will be exchanged for TmarPart common shares and Oi will become a wholly-owned subsidiary of TmarPart.

The merger of shares must be approved at separate extraordinary general meetings of the shareholders of Oi and TmarPart. There are no conditions to the completion of the merger of shares other than:

- the approval of the merger of shares by (a) the affirmative vote of holders representing a majority of the number of issued and outstanding TmarPart common shares present or

105

Table of Contents

represented at a duly convened extraordinary general shareholders' meeting, and (b) the affirmative vote of holders representing a majority of the total number of issued Oi common shares;

- the approval of the merger of shares by ANATEL, which was obtained on March 27, 2014; and

- that the relevant registration statement has been declared effective by the SEC.

The Merger

The merger will be subject to the approval of our board of directors and TmarPart's board of directors in which, subject to the approvals of our shareholders and TmarPart's shareholders, we will merge with and into TmarPart, with TmarPart as the surviving company. As a result of the merger, we will cease to exist.

The merger must be approved at separate extraordinary general meetings of our shareholders and TmarPart's shareholders. There are no conditions to the completion of the merger other than:

- the approval of the merger by (1) the affirmative vote of holders representing a majority of the number of issued and outstanding TmarPart common shares present or represented at a duly convened extraordinary general shareholders' meeting, and (2) the affirmative vote of holders representing two-thirds of the total number of outstanding Portugal Telecom ordinary shares and "A" shares present or represented at a duly convened extraordinary general shareholders' meeting with a quorum of one-third on first call;

- the approval of the merger of shares by the shareholders of TmarPart and Oi entitled to vote with respect to the merger of shares;

- the approval of the merger of shares and the merger by ANATEL, which was obtained on March 27, 2014;

- the approval of the merger by the Portuguese Competition Authority, which was obtained on March 19, 2014; and

- that the relevant registration statement has been declared effective by the SEC.

Agreements Relating to the Business Combination

On February 19, 2014, the parties to the Business Combination executed a number of agreements to implement the Business Combination. Certain provisions of those agreements are described below. Copies of the agreements described in this subsection are filed as Exhibits 4.14 through 4.33 to this annual report.

Share Exchange Agreements

On February 19, 2014, Bratel Brasil executed separate share exchange agreements with Andrade Gutierrez and Jereissati Telecom, with respect to PASA and EDSP75, respectively, and, as intervening parties, Jereissati Telecom and Andrade Gutierrez, respectively, and PASA, AG Telecom, EDSP75, LF Tel and FASS, in order to undertake partial spin-offs of the shares of CTX (and, indirectly, Contax) held by them, to be held by newly formed entities, or CTX Holdcos.

Subject to the satisfaction of certain conditions precedent, including the completion of the spin-offs of the shares of CTX to be held by the CTX Holdcos and the completion of the Capital Increase (including the contribution of the PT Assets), Bratel Brasil, and Andrade Gutierrez and Jereissati Telecom, agreed to exchange all shares of the CTX Holdcos' stock capital held by Bratel Brasil, as well as 50% (fifty percent) of the shares of CTX and Contax stock capital held by Bratel Brasil, for common shares of PASA and EDSP75 held by Andrade Gutierrez and Jereissati Telecom, respectively.

If all conditions precedent are not satisfied by October 1, 2014, the parties are not obligated to proceed with the exchange of shares described above and will have the right to rescind the share exchange agreements.

Table of Contents

Reorganization of TmarPart

In connection with, and following, the spin-off of the shares of CTX (and, indirectly, Contax) and the completion of the share exchanges, the parties to the Business Combination will undertake a number of steps to implement the TmarPart Reorganization.

The TmarPart Reorganization is conditioned upon (1) the effective completion of the Capital Increase, (2) the settlement of the AG Telecom, LF Tel and TmarPart indebtedness, (3) the merger of shares and (4) the merger.

Amendments to Shareholders' Agreements

As part of the TmarPart Reorganization described above, the Global Shareholders' Agreement (described in " *Strategic Partnership with Oi Global Shareholders' Agreement*," below), the Control Group Shareholders' Agreement (described in " *Strategic Partnership with Oi Control Group Shareholders' Agreement*," below), the PASA Shareholders' Agreement and the EDSP75 Shareholders' Agreement (both described in " *Strategic Partnership with Oi PASA Participações S.A. and EDSP75 Participações S.A. Shareholders' Agreements*," below) were amended on February 19, 2014 by the shareholders parties thereto to provide that the parties agree to exercise their voting rights to approve each step of the Business Combination, including the steps described under " *Reorganization of TmarPart*" above.

The amendments to the shareholders' agreements further provide that, if the Capital Increase occurs and any of the subsequent steps of the Business Combination, including the merger of shares and the TmarPart Reorganization, does not occur by December 31, 2014, the shareholders will use their best efforts to implement the TmarPart Reorganization and the reorganization of Oi to achieve the same goals intended with the Business Combination, although without the obligation to implement the TmarPart Reorganization, the merger of shares and the merger.

In case the Business Combination is not completed by December 31, 2014, (1) any of the shareholders parties to the PASA Shareholders' Agreement and the EDSP75 Shareholders' Agreement may send a notification of non-occurrence of the TmarPart Reorganization and require the adoption of the necessary measures in order for Bratel Brasil, PTB2, Andrade Gutierrez and Jereissati Telecom to receive shares of capital stock of Oi held by AG Telecom and LF Tel, in proportion to their respective direct and indirect capital interest in those entities, and (2) the required quorums provided in the Global Shareholders' Agreement will be adjusted considering the percentage interests held by BNDES Participações S.A. BNDESPAR, or BNDESPAR, Caixa de Previdência dos Funcionários do Banco do Brasil PREVI, or PREVI, Fundação Petrobras de Seguridade Social PETROS, or PETROS, and Fundação dos Economiários Federais FUNCEF, or FUNCEF, on December 31, 2014, in order to ensure that the voting rights of such shareholders are equal to those on February 19, 2014, and provided they have not reduced their respective capital interests before December 31, 2014 through the sale of shares to third parties that are not original signatories of the Global Shareholders' Agreement or their related parties. An amendment to the Global Shareholders' Agreement would be executed on December 31, 2014 in order to reflect such adjustments.

Agreements to Terminate the Shareholders' Agreements

On February 19, 2014, together with the amendments described above, the parties to each of the shareholders' agreements described above entered into agreements to terminate each such shareholders' agreement, subject to the satisfaction of the following conditions precedent in connection with the several steps of the Business Combination: (1) the incorporation of PASA into Bratel Brasil, for the PASA Shareholders' Agreement, (2) the incorporation of EDSP75 into Bratel Brasil, for the EDSP75 Shareholders' Agreement, and (3) the effective completion of the merger of shares and the merger, for the Global Shareholders' Agreement and the Control Group Shareholders' Agreement.

Table of Contents

Temporary Voting Agreement of the Shareholders of Oi and TmarPart

On February 19, 2014, Portugal Telecom executed a temporary voting agreement with Caravelas Fundo de Investimento em Ações, or Caravelas (an investment vehicle managed by an affiliate of Banco BTG Pactual S.A.), Bratel Brasil, TmarPart, Andrade Gutierrez, Jereissati Telecom and, as intervening party, Oi, for the purpose of approving, among other things, the merger of shares and the merger.

The parties thereto agreed to (1) vote in favor of the merger of shares and (2) vote in favor of the merger.

The temporary voting agreement will remain in effect until the earlier of the merger and December 31, 2014.

Attached to the Temporary Voting Agreement of the Shareholders of Oi and TmarPart described above are the forms of the related (i) Protocol and Justification for the merger of Bratel Brasil into Oi, which sets forth the terms of the merger of Bratel Brasil with and into Oi (including that the shareholders of Bratel Brasil, which at that time will include Portugal Telecom, Venus (a subsidiary of Andrade Gutierrez) and Sayed (a subsidiary of Jereissati Telecom), will receive the common shares and preferred shares of Oi held by Bratel Brasil), as a step in the TmarPart Reorganization, and (ii) Protocol and Justification for the merger of shares of Oi into TmarPart, which sets forth the terms of the merger of shares of Oi with TmarPart (including that each common share of Oi will be exchanged for a common share of TmarPart and each 1.0857 preferred shares of Oi will be exchanged for a common share of TmarPart).

Agreement by Portugal Telecom to Subscribe for Shares of Oi

On February 19, 2014, Portugal Telecom executed an agreement, or the PT Subscription Agreement, to subscribe for shares of capital stock of Oi, in connection with the Capital Increase, by contributing the PT Assets. The pricing of the Capital Increase occurred on April 28, 2014, and the final settlement is expected to occur on May 5, 2014. For more information on the final terms of the Capital Increase, see " *Steps of the Business Combination Implementation of the Capital Increase*."

Subject to the satisfaction of certain conditions, Portugal Telecom agreed to subscribe for shares of Oi issued in connection with the Capital Increase, pursuant to subscription orders to be submitted by Portugal Telecom, through the contribution to Oi of the shares of PT Portugal to Oi. The parties agreed that the price per share would be equivalent to the price per share in the cash portion of the Capital Increase. The economic value of PT Portugal, and consequently of the PT Assets, was determined by the PT Assets Valuation Report prepared by Banco Santander (Brasil) S.A. The PT Assets Valuation Report was approved at the extraordinary general shareholders' meeting of Oi held on March 27, 2014. After the shares of PT Portugal have been transferred by Portugal Telecom to Oi, Oi has agreed to succeed to the rights and obligations of Portugal Telecom under certain contracts, so long as those contracts have been indicated in the documents for the global offering component of the Capital Increase.

Among the conditions for Portugal Telecom to close are: (1) a successful global offering in Brazil and in the international markets of at least R$7.0 billion by Oi, which condition was satisfied on April 28, 2014 (2) the submission of subscription orders in the global offering by Caravelas and by shareholders of TmarPart in the aggregate amount of R$2.0 billion, which occurred on April 28, 2014 and (3) the settlement of the Capital Increase on or prior to May 15, 2014. The settlement deadline indicated in the PT Subscription Agreement was initially May 2, 2014, but on April 28, 2014, Portugal Telecom granted Oi a waiver in connection with the PT Subscription Agreement under which the time period for settlement of the Capital Increase was extended until May 15, 2014.

If the conditions are not met or waived by October 1, 2014, either party may, in its sole discretion, terminate the PT Subscription Agreement. If the PT Subscription Agreement is terminated for any

Table of Contents

reason other than due to a breach of contract by Portugal Telecom, Oi agrees to reimburse Portugal Telecom in an amount up to US$10.0 million for documented costs of Portugal Telecom's obtaining third-party approvals in its liability management process.

The PT Subscription Agreement provided that the Capital Increase could also be terminated (1) by Portugal Telecom, if, after the bookbuilding process, Portugal Telecom was expected to hold an interest of less than 36.6% of the total and voting capital of TmarPart, assuming the consummation of the merger of shares or (2) by Oi if, after the bookbuilding process, Portugal Telecom was expected to hold an interest of more than 39.6% of the total and voting capital of TmarPart, assuming the consummation of the merger of shares. Because Portugal Telecom is expected to hold an interest in TmarPart's share capital within this range, this termination right did not apply.

Agreement to Assign Priority Subscription Rights

On February 19, 2014, Portugal Telecom executed a private undertaking with respect to the assignment of priority subscription rights for the capital stock of Oi, among TmarPart, Valverde Participações S.A., or Valverde, AG Telecom and LF Tel. Under the agreement, TmarPart, Valverde, AG Telecom and LF Tel assigned and transferred to Portugal Telecom their priority rights to subscribe for 1,082,046,983 common shares and 537,298,524 preferred shares of Oi.

The agreement was intended to provide the priority subscription rights to Portugal Telecom necessary for Portugal Telecom to subscribe for shares of Oi in the Capital Increase pursuant to the agreement described above. The agreement to assign priority subscription rights stated that it would remain in effect until the agreement by Portugal Telecom to subscribe for shares of Oi is in effect or until definitive agreements are executed in order transfer the priority rights.

In addition to the rights assigned to Portugal Telecom under this agreement, Bratel Brasil assigned its priority rights to subscribe to 135,439,355 common shares and 734,823,484 preferred shares of Oi to Portugal Telecom.

Debenture Subscription Agreements and Private Deeds

On February 19, 2014, Bratel Brasil executed separate debenture subscription agreements of PASA and EDSP75, with the issuer companies and Venus and Sayed, respectively, or collectively, the Bratel Debentures Subscription Agreements. On the same date, PTB2, a subsidiary of Bratel Brasil, also executed separate debenture subscription agreements of Venus and Sayed respectively, or collectively, the PTB2 Debentures Subscription Agreements. On the same date, AG Telecom and LF Tel executed separate debenture subscription agreements with PASA and EDSP75, respectively, or, collectively, the PASA/EDSP75 Debentures Subscription Agreements, and signed a debenture subscription agreement with TmarPart, the TmarPart Debentures Subscription Agreement.

The Bratel Debentures Subscription Agreements. On February 19, 2014, Bratel Brasil agreed, subject to conditions, (1) together with Venus, to subscribe for one Series A debenture in an aggregate principal amount equal to R$938.5 million, convertible into 388,081,549 common shares, and one Series B debenture in an aggregate principal amount equal to R$1,455.5 million, convertible into 388,081,549 common shares and 213,739,263 preferred shares issued by PASA, and (2) together with Sayed, to subscribe for one Series A debenture in an aggregate principal amount equal to R$938.5 million, convertible into 762,969,285 common shares, and one Series B debenture in an aggregate principal amount equal to R$1,455.5 million, convertible into 762,969,285 common shares and 420,211,919 preferred shares issued by EDSP75. The debentures will be issued on the date of the General Shareholders' Meeting of PASA and EDSP75, respectively, that approves the issuance of the debentures and are expected to be paid for on the date of the settlement of the Capital Increase. The proceeds will be used by PASA and EDSP75 to subscribe for the debentures described in " *The PASA/EDSP75 Debentures Subscription Agreements*" below. The debentures will be mandatorily converted into common shares and preferred shares of PASA and EDSP75 on the date of the settlement of the Capital Increase.

Table of Contents

The primary condition precedent to the settlement of the debentures is the settlement of the Capital Increase, under the terms of the agreement by Portugal Telecom to subscribe for shares of Oi described above. If the conditions precedent are not satisfied by October 1, 2014, PASA and EDSP75 will, respectively, redeem and cancel their debentures, and Bratel Brasil, together with Venus and Sayed, will be, respectively, released from their obligations under the Bratel Debentures Subscription Agreements.

The PTB2 Debentures Subscription Agreements. On the same date of the Bratel Debentures Subscription Agreements, PTB2 agreed, subject to conditions, to subscribe for (1) one debenture in an aggregate principal amount equal to R$938.5 million, convertible into 208,599,126 common shares and 179,482,423 preferred shares issued by Venus, and (2) one debenture in an aggregate principal amount equal to R$938.5 million, convertible into 410,106,399 common shares and 352,862,887 preferred shares issued by Sayed. The debentures will be issued on the date of the General Shareholders' Meeting of Venus and Sayed, respectively, that approves the issuance of the debentures and are expected to be paid for on the date of the settlement of the Capital Increase. The proceeds will be used by Venus and Sayed to subscribe for the debentures described under " *The Bratel Debentures Subscription Agreements*" above. The debentures will be mandatorily converted into common shares and preferred shares of Venus and Sayed on the date of the settlement of the Capital Increase.

The PTB2 Debentures Subscription Agreements have similar conditions precedent to the settlement of the debentures, most importantly the settlement of the Capital Increase, under the terms of the agreement by Portugal Telecom to subscribe for shares of Oi described above. If the conditions precedent are not satisfied by October 1, 2014, Venus and Sayed will, respectively, redeem and cancel their debentures, and PTB2 will be released from its obligations under the PTB2 Debentures Subscription Agreements.

The PASA/EDSP75 Debentures Subscription Agreements. On February 19, 2014, PASA and EDSP75 agreed, subject to conditions, to subscribe for (1) one debenture in an aggregate principal amount equal to R$2,394.0 million, convertible into 691,446,091 common shares issued by AG Telecom, and (2) one debenture in an aggregate principal amount equal to R$2,394.0 million, convertible into 1,359,384,726 common shares issued by LF Tel. The debentures will be issued on the date of the General Shareholders' Meeting of AG Telecom and LF Tel, respectively, that approves the issuance of the debentures and are expected to be paid for on the date of the settlement of the Capital Increase. The proceeds will be used solely for the payment of all of the indebtedness of AG Telecom and LF Tel, respectively, and to subscribe for the debentures described under " *The TmarPart Debenture Subscription Agreements*" below. The debentures will be mandatorily converted into common shares and preferred shares of PASA and EDSP75 on the date of the settlement of the Capital Increase.

The PASA/EDSP75 Debentures Subscription Agreements are also conditioned upon the settlement of the Capital Increase, under the terms of the agreement by Portugal Telecom to subscribe for shares of Oi described above. If the conditions precedent are not satisfied by October 1, 2014, AG Telecom and LF Tel will, respectively, redeem and cancel their debentures, and PASA and EDSP75 will be, respectively, released from their obligations under the PASA/EDSP75 Debentures Subscription Agreements.

The TmarPart Debenture Subscription Agreements. Also on February 19, 2014, AG Telecom and LF Tel agreed, subject to conditions, to subscribe for debentures in an aggregate principal amount equal to R$3,428.0 million, convertible into 2,212,047,712 common shares issued by TmarPart. The debentures will be issued on the date of the General Shareholders' Meeting of TmarPart that approves the issuance of the debentures and are expected to be paid for on the date of the settlement of the Capital Increase. The debentures will be mandatorily converted into common shares of TmarPart on the date of the merger of shares of Oi by TmarPart. The proceeds will be used solely for the payment of all of the indebtedness of TmarPart, and the early redemption, in local currency, of all preferred shares issued by TmarPart.

The primary condition precedent to the settlement of the debentures is the settlement of the Capital Increase, under the terms of the agreement by Portugal Telecom to subscribe for shares of Oi described above. If the conditions precedent are not satisfied by October 1, 2014, TmarPart will redeem and cancel its debentures, and AG Telecom and LF Tel will be released from their obligations under the TmarPart Debentures Subscription Agreements.

The Private Deeds. Attached to each of the Debenture Subscription Agreements described above is the form of a related Private Deed that sets forth the necessary corporate authorizations, the legal requirements for the issuance of the debentures, the specific characteristics of the issuance (including number of the series, aggregate amount, unit principal amount, payment and use of proceeds) and the terms of the debentures (including issuance date, quantity to be issued, mandatory conversion into common shares, subscription and settlement processes, and settlement date). The Private Deed for each series of debentures is expected to be executed on the date of issuance of those debentures.

Structural Diagrams

The diagram below sets forth the simplified ownership structure of TmarPart and Oi before giving effect to the Business Combination:

(1) Jereissati Telecom S.A.

(2) Andrade Gutierrez S.A.

(3) Fundação Atlântico de Seguridade Social

(4)

BNDES Participações S.A.

(5) FUNCEF Fundação dos Economiários Federais

(6) PETROS Fundação Petrobrás de Seguridade Social

Table of Contents

(7)
PREVI Caixa de Previdência dos Funcionários do Banco do Brasil

Following the Business Combination, the composition of TmarPart's ownership structure is expected to be as follows:

---

(1)
Portugal Telecom International Finance B.V.

(2)
MEO Serviços de Comunicações e Multimédia, S.A.

Strategic Partnership with Oi

In this section we provide a background of the steps of the strategic partnership with Oi that preceded the announcement of the Business Combination.

Background and History

On July 28, 2010, we reached an agreement with Telefónica to sell our 50% interest in Brasilcel N.V., a joint venture that held our interest in Vivo, to Telefónica. The sale was concluded on September 27, 2010. We reflect Vivo in our statements of income and cash flows for periods prior to September 27, 2010 as a discontinued operation. As of December 31, 2013, none of the assets or liabilities of Vivo are reflected on our statement of financial position.

On July 28, 2010, we also entered into a letter of intent with AG Telecom and LF Tel, companies that are part of the controlling group of Brasil Telecom, to establish the main terms that would serve as a framework for the negotiation of our strategic partnership with Oi.

Table of Contents

On January 25, 2011, Portugal Telecom and our subsidiary Bratel Brasil entered into agreements with TmarPart, AG Telecom, Luxemburgo Participações S.A. (a subsidiary of AG Telecom, that has since merged with and into AG Telecom and is referred to, together with AG Telecom, as AG), Andrade Gutierrez Telecomunicações Ltda. and PASA, La Fonte Telecom S.A. (now known as Jereissati Telecom S.A., or Jereissati Telecom), LF Tel and EDSP75, BNDES Participações S.A., or BNDESPar, FASS, Caixa de Previdência dos Funcionários do Banco do Brasil, or PREVI, Fundação Petrobrás de Seguridade Social, or PETROS, and Fundação dos Economiários Federais, or FUNCEF, to implement the strategic partnership with the Oi Group.

On March 28, 2011:

- Bratel Brasil acquired from BNDESPar, PREVI, PETROS and FUNCEF an aggregate of 261,631,051 common shares issued by TmarPart, representing 9.6% of TmarPart's total outstanding common shares;

- Bratel Brasil acquired from Andrade Gutierrez Telecomunicações Ltda. and La Fonte Telecom S.A. a 35% interest in each of PASA Participações S.A. and EDSP75 Participações S.A., respectively, holding companies that own 100% of the share capital of AG Telecom and LF Tel;

- TmarPart increased its share capital through the issuance of 186,664,449 common shares, in which transaction (1) Bratel Brasil subscribed for an aggregate of 91,225,537 common shares issued by TmarPart, representing 3.1% of TmarPart's total outstanding common shares, (2) AG Telecom and its subsidiary Luxemburgo Participações S.A. subscribed for an aggregate of 36,784,491 common shares issued by TmarPart, representing 1.3% of TmarPart's total outstanding common shares, (3) LF Tel subscribed for an aggregate of 36,784,491 common shares issued by TmarPart, representing 1.3% of TmarPart's total outstanding common shares, and (4) FASS subscribed for an aggregate of 21,869,930 common shares issued by TmarPart, representing 0.7% of TmarPart's total outstanding common shares;

- TNL increased its share capital through the issuance of 56,417,086 common shares at an issue price of R$38.5462 per share and of 28,409,175 preferred shares at an issue price of R$28.2634 per share. The aggregate proceeds received by TNL from this capital increase amounted to R$2,978 million. In this capital increase, TmarPart and its wholly-owned subsidiary Valverde Participações S.A. subscribed for 56,061,772 common shares issued by TNL, and Bratel Brasil acquired from TmarPart an aggregate of 20,752,270 of those common shares and 28,298,549 preferred shares issued by TNL. Following this capital increase, TmarPart owned, and owns as of the date hereof, 22.2% of TNL's outstanding share capital, including 56.4% of its voting share capital, and Bratel Brasil owned, and owns as of the date hereof, an aggregate 10.5% of TNL's outstanding share capital, or 11.3% of its voting share capital; and

- Telemar increased its share capital through the issuance of 46,969,121 common shares at an issue price of R$63.7038 per share and 58,696,856 class A preferred shares at an issue price of R$50.7010 per share. The aggregate proceeds received by Telemar from such capital increase amounted to R$5,969 million, of which R$4,624 million represented the subscription price for the shares issued by Telemar subscribed for by TNL. In this capital increase, TNL subscribed for 46,743,149 common shares issued by Telemar and 32,475,534 class A preferred shares issued by Telemar, and Bratel Brasil acquired those 32,475,534 class A preferred shares from TNL. Following this capital increase, TNL owned, and owns as of the date hereof, 70.4% of Telemar's total share capital, including 98.0% of its voting share capital, and Bratel Brasil owned, and owns as of the date hereof, an aggregate of 9.4% of Telemar's total share capital.

Following the consummation of the transactions described above, we held a 25.3% economic interest in Telemar on a consolidated basis. We held this interest through (1) an indirect 35% interest

Table of Contents

in AG Telecom, (2) an indirect 35% interest in LF Tel, (3) a 12.1% direct interest in TmarPart, (4) a 10.5% direct interest in TNL and (5) a 9.4% direct interest in Telemar.

Prior to the Corporate Reorganization of the Oi Group, described below, Telemar owned 100% of the outstanding shares of Coari. TNL owned 98.0% of the common shares and 47.9% of the preferred shares of Telemar, representing 70.4% of the total share capital of Telemar. TmarPart owned 21.8% of the total share capital of TNL (22.2% of the outstanding share capital, without counting treasury shares), including 55.5% of the total common shares of TNL, and directly owned 3.8% of the total share capital of Telemar, including 6.9% of the total preferred shares of Telemar. Coari, in turn, owned 161,990,002, or 79.6%, of Brasil Telecom's Common Shares, 128,675,049, or 32.2%, of Brasil Telecom's preferred shares and 290,665,051, or 48.2%, of Brasil Telecom's total share capital.

Reorganization of the Oi Group

On May 24, 2011, TmarPart publicly announced a proposed corporate reorganization, or the Corporate Reorganization of the Oi Group. The Corporate Reorganization was effectively completed on February 27, 2012 and consisted of the following steps:

- a split-off and share exchange under Brazilian law in which (1) Telemar transferred the shares of Coari that Telemar owned to Coari, (2) Coari assumed a portion of the liabilities of Telemar, (3) the common and preferred shares of Telemar (other than the shares of holders who exercised their withdrawal rights with respect to such shares) would be exchanged for newly issued common and preferred shares of Coari upon the termination of the period for exercise of withdrawal rights, and (4) Coari retained the Telemar shares exchanged for Coari shares, and as a result, Telemar became a wholly owned subsidiary of Coari;

- the merger of Coari into Brasil Telecom, resulting in Coari ceasing to exist and Telemar becoming a wholly owned subsidiary of Brasil Telecom; and

- the merger of TNL into Brasil Telecom, resulting in TNL ceasing to exist.

In connection with the Corporate Reorganization, the following events took place:

- On February 24, 2012, TmarPart exchanged all of the class A preferred shares of Telemar that it owned for common shares of TNL held by Jereissati Telecom, Andrade Gutierrez, the parent of AG Telecom, and Bratel Brasil, each a shareholder of TmarPart, in order to ensure that upon the completion of the Corporate Reorganization, TmarPart retained the voting control of Brasil Telecom in order to comply with the legal and regulatory obligations of TmarPart to ANATEL;

- Bratel Brasil exchanged preferred shares of Telemar for common shares of TNL (under the same terms and conditions of the TmarPart exchange described above) held by Jereissati Telecom, Andrade Gutierrez, AG and LF, which they received as a result of exchanging their preferred shares of TNL for preferred shares and common shares of Oi according to the exchange ratios; and

- Brasil Telecom issued and distributed redeemable shares of Brasil Telecom to holders of Brasil Telecom shares prior to the mergers of Coari and TNL into Brasil Telecom and redeemed those shares for cash immediately following their issuance. In addition, Brasil Telecom was renamed Oi S.A.

As a result of these transactions, TmarPart became the direct controlling shareholder of Oi. The final settlement of the Corporate Reorganization occurred on April 9, 2012.

The Corporate Reorganization was undertaken to:

- simplify the corporate structure of the Oi Group, which was extremely complex and included three publicly-held companies with seven different classes of publicly-traded shares, and simplify

114

- the corporate governance of the Oi Group by consolidating the shareholder bases of the Oi Group in one public company with two classes of shares traded in Brazil and abroad;

- reduce operational, administrative and financial costs following the consolidation of the general management of the Oi Group, the simplification of their capital structure, and the improvement of their ability to attract investments and access the capital markets;

- align the interests of the shareholders of the Oi Group;

- enhance the liquidity of the shares of Oi (formerly Brasil Telecom); and

- eliminate the costs of separate listings of the shares of TNL, Telemar and Oi, as well as those costs arising from separately complying with the public disclosure requirements applicable to TNL, Telemar and Brasil Telecom.

On August 21, 2013, TmarPart issued 252,729,128 common shares to its shareholders in exchange for an aggregate amount of R$100 million in cash and preferred shares of Oi. In connection with this transaction, Bratel Brasil contributed 3,002,358 of Oi's preferred shares to TmarPart, AG Telecom contributed 4,814,918 of Oi's preferred shares to TmarPart, LF Tel contributed 4,814,918 of Oi's preferred shares to TmarPart, BNDESPar contributed 3,246,518 of Oi's preferred shares to TmarPart and PREVI contributed 2,411,205 of Oi's preferred shares to TmarPart. Currently, we hold a 23.2% economic interest in Oi, including a direct interest of 15.4%.

The purpose of our strategic partnership with Oi is to develop a global telecommunications platform that will allow for cooperation in diverse areas, with a view to, among other things, sharing best practices, achieving economies of scale, implementing research and development initiatives, developing new technologies, expanding internationally, particularly in Latin America and Africa, diversifying the services provided to our 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.

In connection with this strategic partnership, it was contemplated that the Oi Group would use part of the proceeds received from share capital increases to acquire up to 10% of the outstanding ordinary shares of Portugal Telecom. On April 28, 2011, TmarPart, TNL and Telemar announced that they had acquired 62,755,860 ordinary shares of Portugal Telecom, representing 7.0% of Portugal Telecom's outstanding ordinary shares. On May 29, 2012, TmarPart, TNL and Telemar announced that they held 89,651,205 ordinary shares, representing 10.0% of our outstanding ordinary shares, and they continued to hold those shares as of December 31, 2013.

Corporate Governance

In connection with the formation of our strategic partnership with Oi, we entered into various shareholders' agreements with Oi's current shareholders in order to regulate corporate governance practices within Oi, establish the rules, procedures and quorums for the approval of certain matters by Oi's board of directors, board of executive officers and within Oi's shareholder structure, rights of first offer or first refusal in the sale of Oi's shares by its shareholders, tag-along rights and other provisions, and these rights allow us to play an active role in Oi's corporate governance. For example, our shareholders' agreements contemplate, among other things, a lock-up period for Portugal Telecom, Andrade Gutierrez Telecomunicações Ltda. and Jereissati Telecom of five years with respect to their ownership interests in AG Telecom, PASA Participações S.A., LF Tel, EDSP75 Participações S.A. and TmarPart, a right of first refusal over a non-control sale of AG Telecom and LF Tel and over any sale of TmarPart, and a right of first offer and tag-along rights in case of a control sale of AG Telecom and LF Tel and (2) the need for our approval on certain corporate governance matters, including: (i) amendments to bylaws, (ii) mergers and acquisitions and shareholders agreements, (iii) dissolution,

Table of Contents

(iv) capital increases or reductions, (v) issuances of debt securities above a specified ratio and (vi) the annual budget and investments.

In connection with the strategic partnership with Oi, on April 28, 2011, at TNL's annual general shareholders meeting, Zeinal Bava, at the time the Chief Executive Officer of Portugal Telecom, and Shakhaf Wine, an executive board member of Portugal Telecom, both nominated by Portugal Telecom, were elected as members of the board of directors of TNL, as we had announced on April 6, 2011. In addition, Mr. Bava was appointed a member of the board of directors of TmarPart, and Mr. Wine was appointed an alternate member of the board of directors of TmarPart.

After the Corporate Reorganization of Oi, Zeinal Bava and Shakhaf Wine were elected to serve on that board at the Oi shareholders meeting on April 30, 2012.

In addition, on April 6, 2011, Otávio Marques de Azevedo, then the Chairman of TmarPart and a member of the board of directors of TNL, and Pedro Jereissati, Chief Executive Officer, Investor Relations Officer and a member of the board of directors of TmarPart, were appointed to our board of directors and their appointment was ratified at Portugal Telecom's general meeting of shareholders held on May 6, 2011.

On October 25, 2012, Fernando Magalhães Portella, a member of the board of directors of Oi, was appointed to our board of directors to replace Pedro Jereissati, who submitted his resignation on the same day. Otávio Marques de Azevedo continues to serve on our board, though he is no longer a member of the board of Oi.

Our shareholder agreements in connection with our strategic partnership with Oi are described in more detail below. However, all the shareholder agreements are expected to be terminated in connection with the proposed Business Combination between Portugal Telecom and Oi.

Overview of TmarPart Shareholders' Agreements

On April 25, 2008, TmarPart's shareholders entered into two shareholders' agreements. The shareholders' agreement among AG Telecom, LF Tel, Asseca Participações S.A., or Asseca, BNDESPar, Fiago and FASS as parties, having TmarPart, PREVI, PETROS, FUNCEF and Andrade Gutierrez Investimentos em Telecomunicações S.A. as intervening parties, is referred to as the "Global Shareholders' Agreement." The shareholders' agreement among AG Telecom, LF Tel, Asseca and FASS as parties, having TmarPart and Andrade Gutierrez Investimentos em Telecomunicações S.A. as intervening parties, is referred as the "Control Group Shareholders' Agreement."

On June 20, 2008, Asseca assigned its 352,730,590 common shares of TmarPart to LF Tel and Andrade Gutierrez Investimentos em Telecomunicações S.A., which merged with and into AG Telecom (later Luxemburgo Participações S.A.). As a result, Asseca ceased to be a TmarPart shareholder and to have any rights under the Global Shareholders' Agreement or the Control Group Shareholders' Agreement.

In July 2009, Fiago assigned TmarPart shares it held to PREVI, PETROS, FUNCEF and FASS. As a result of such transaction, Fiago ceased to be a TmarPart shareholder and to have any rights under the Global Shareholders' Agreement.

On January 25, 2011, TmarPart's shareholders amended the Global Shareholders' Agreement and the Control Group Shareholders' Agreement, both effective as of March 28, 2011, to reflect our acquisition, through Bratel Brasil, of voting shares of TmarPart and to modify certain clauses of the Global Shareholders' Agreement and the Control Group Shareholders' Agreement, including increasing the quorum requirements to hold pre-meetings and approve certain designated matters. AG, BNDESPar, PREVI, FASS, FUNCEF, PETROS, LF Tel and Bratel Brasil are parties to the amendment to the Global Shareholders' Agreement, while TmarPart and Portugal Telecom executed

Table of Contents

the amendment as intervening parties. AG Telecom, Luxemburgo, LF Tel and FASS are parties to the amendment to the Control Group Shareholders' Agreement, while TmarPart executed such an amendment as intervening party.

Global Shareholders' Agreement

The initial term of the Global Shareholders' Agreement expires on the later of April 25, 2048 or the expiration date of the last to expire of the concessions or authorizations held by TmarPart or its subsidiaries (including any renewals thereto), subject to the agreement of the parties to the Global Shareholders' Agreement to terminate this agreement upon completion of the Business Combination. The term of the Global Shareholders' Agreement may be extended for successive periods of 10 years with the consent of each of the parties thereto.

The parties to the Global Shareholders' Agreement have agreed to the following provisions with respect to elections of members of the boards of directors and executive officers, and the voting of their shares of TmarPart, TNL, Telemar, Brasil Telecom and each of TmarPart's, TNL's or Telemar's material subsidiaries (*i.e*., subsidiaries having annual net operating revenues equal to or in excess of R$100 million):

- AG, LF Tel, and FASS will together have the right to designate a majority of the members of the board of directors of TmarPart and of each of the material subsidiaries;

- each increment of 7% of the voting share capital of TmarPart held by each party to the Global Shareholders' Agreement will entitle that party to designate one member of the board of directors of TmarPart and each of the material subsidiaries and his or her alternate;

- so long as we hold at least 7% of the voting share capital of TmarPart, we will be entitled to designate one member and the respective alternate of the board of directors of TmarPart, such appointees to be designated from the directors and executive officers of Portugal Telecom;

- PREVI, PETROS, FUNCEF and BNDESPar are entitled to aggregate their shares to determine their eligibility to exercise the rights described above;

- Bratel Brasil, PREVI, PETROS, FUNCEF and BNDESPar each have the right to designate one member of the board of directors of any other subsidiary, provided that AG, LF Tel and FASS have designated members of such board of directors;

- AG, LF Tel, BNDESPar, FASS, PREVI, PETROS, FUNCEF and we, through Bratel Brasil, will together select the chief executive officers of each of the material subsidiaries pursuant to the rules outlined in the Global Shareholders' Agreement;

- the chief executive officer of TNL will select the members of TNL's board of executive officers;

- the chief executive officer of TNL, together with the chief executive officer of each of the other material subsidiaries, will select the other executive officers of such material subsidiary;

- BNDESPar, PREVI, PETROS and FUNCEF, jointly, have the right to designate one member to the fiscal council of each of the material subsidiaries;

- AG, Luxemburgo, LF Tel, BNDESPar, FASS, PREVI, FUNCEF, PETROS and we, through Bratel Brasil, will hold pre-meetings prior to shareholders' and board of directors meetings of the material subsidiaries and will vote our TmarPart shares and instruct our representatives on the boards of directors of the material subsidiaries to vote in accordance with the decisions made at pre-meetings; and that approval of certain matters be subject to the supermajority vote of the shareholders (for instance, among other things, approval of changes to the bylaws of TmarPart or to the bylaws of

Table of Contents

any of its material subsidiaries, approval of donation policies, approval of investments of any kind not specifically foreseen in the budgets in excess of R$50 million and certain other matters are subject to a 75% majority; approval of, and amendments to, the annual budget of TmarPart and its material subsidiaries, capital reduction or increases, the issue of securities, proposals to pay or distribute dividends or interest on shareholders' equity in amounts below 25% of the net income, selection of auditors and certain other matters are subject to a 77% majority; sale or creation of any liens on the shares issued by the material subsidiaries, or the issue of convertible securities, the adoption of any procedure that would cause TmarPart to lose control of the material subsidiaries, any merger or spin-off transaction involving TmarPart or any of its material subsidiaries and certain other matters are subject to a 87.4% majority).

Under the Global Shareholders' Agreement, each of the shareholders party to it has agreed:

- not to enter into other shareholders' agreements with respect to its TmarPart shares, other than (1) the Global Shareholders' Agreement, (2) the Control Group Shareholders' Agreement and (3) the shareholders' agreement entered into among Bratel Brasil, Andrade Gutierrez Telecomunicações Ltda. and Jereissati Telecom;

- not to amend the Global Shareholders' Agreement, the Control Group Shareholders' Agreement or the shareholders' agreement entered into among Bratel Brasil, Andrade Gutierrez Telecomunicações Ltda. and Jereissati Telecom without the consent of all parties to the Global Shareholders' Agreement;

- to grant a right of first refusal and tag-along rights to the other parties to the Global Shareholders' Agreement with respect to any sale of its TmarPart shares, except that FASS must grant the right of first refusal for its TmarPart shares to AG and LF Tel, (ii) any sale of TmarPart shares among PREVI, PETROS and FUNCEP is not subject to the right of first refusal and (iii) PREVI, PETROS and FUNCEF must grant the right of first refusal for their TmarPart shares to BNDESPar;

- that the other parties to the Global Shareholders' Agreement have the right to sell, and Bratel Brasil has the obligation to buy, up to all of the other parties' shares of TmarPart in the event that Bratel Brasil acquires control of TmarPart;

- to offer its TmarPart shares to the other parties to the Global Shareholders' Agreement in the event of a transfer of control of such shareholder, including, without limitation, in the event that Bratel Brasil acquires control of AG or LF Tel;

- that the other shareholders have the right to purchase all of Bratel Brasil's TmarPart shares in the event of a change of control of Portugal Telecom; and

- Oi will use part of the proceeds received from our investment in Oi to acquire up to 10% of the outstanding shares of Portugal Telecom. Based on the most recent information available to us, the Oi Group currently holds 10% of our outstanding shares.

Control Group Shareholders' Agreement

The initial term of the Control Group Shareholders' Agreement expires on April 25, 2048 and may be extended for successive periods of 10 years with the consent of each of the parties thereto, subject to the agreement of the parties to the Control Group Shareholders' Agreement to terminate this agreement upon the completion of the Business Combination.

Table of Contents

Under the Control Group Shareholders' Agreement, each of the parties has agreed:

- to hold pre-meetings between themselves prior to the pre-meetings to be held pursuant to the Global Shareholders' Agreement and to vote their TmarPart shares in accordance with the decisions made at such pre-meetings;

- that any TmarPart shares sold by a party to the Control Group Shareholders' Agreement to any other party to this agreement will remain subject to this agreement; and

- that if a party to the Control Group Shareholders' Agreement sells all or part of its TmarPart shares to another party or to a third party, the purchaser(s) and the selling party, as the case may be, will be considered one voting block for the purposes of the Control Group Shareholders' Agreement (even if the purchaser(s) is/are already a party to the agreement) and that such voting block will hold pre-meetings prior to the meetings of the parties to the Control Group Shareholders' Agreement.

PASA Participações S.A. and EDSP75 Participações S.A. Shareholders' Agreements

Part of the structure we used in order to obtain our interest in Oi was to acquire an indirect 35% interest in AG Telecom and in LF Tel, through a direct investment in PASA Participações S.A. and EDSP75 Participações S.A., respectively. We have a 35% direct economic interest in PASA Participações S.A., and the remaining 65% economic interest in the company is held by Andrade Gutierrez Telecomunicações Ltda. Likewise, we have a 35% direct economic interest in EDSP75 Participações S.A., and the remaining 65% economic interest in the company is held by Jereissati Telecom. AG Telecom is wholly owned by PASA Participações S.A., and LF Tel is wholly owned by EDSP75 Participações S.A.

In connection with our investments in PASA Participações S.A. and EDSP75 Participações S.A., on January 25, 2011, we entered into two shareholders' agreements, one with Andrade Gutierrez Telecomunicações Ltda. (in relation to PASA Participações S.A.) and another with Jereissati Telecom (in relation to EDSP75 Participações S.A.). The initial terms of these shareholders' agreements expire on April 25, 2048 but may be extended for successive periods of 10 years with the consent of each of the parties, subject to the agreement of the parties to terminate these shareholders' agreements upon the completion of the Business Combination.

These shareholders' agreements serve the purpose of regulating corporate governance within PASA Participações S.A. and EDSP75 Participações S.A. and streamlining decision-making process between us, Andrade Gutierrez Telecomunicações Ltda. and Jereissati Telecom in connection with our investments in Oi. For instance, under these shareholders' agreements:

- pre-meetings are to be held between the shareholders to decide in advance the matters to be analyzed during pre-meetings to be held under the Global Shareholders' Agreement and the Control Group Shareholders' Agreement; and

- approval of certain matters are subject supermajority vote of the shareholders (*e.g*, approval of, and amendments to, the annual budget of PASA Participações S.A., EDSP75 Participações S.A., AG and LF Tel are subject to an 83% majority; the entering by PASA Participações S.A., EDSP75 Participações S.A., AG or LF Tel itno any loan agreements in excess of R$50 million, or the entering of any agreement imposing a pecuniary obligation on PASA Participações S.A., EDSP75 Participações S.A., AG or LF Tel in excess of R$50 million, or the granting of any guarantees by PASA Participações S.A., EDSP75 Participações S.A., AG or LF Tel in excess of R$50 million, are subject to a 90% majority; and any amendments to the Global Shareholders' Agreement or the issuance of preferred shares by PASA Participações S.A., EDSP75 Participações S.A., AG or LF Tel, the approval of any decision subject to supermajority vote under the Global Shareholders' Agreement (defined as a "material decision" under the PASA

Table of Contents

Participações S.A. and EDSP75 Participações S.A. shareholders' agreements), among other matters, are subject to the unanimous vote of the shareholders).

In addition, as long as we hold at least 17% of the voting and total share capital of each of PASA Participações S.A. and EDSP75 Participações S.A., we have the right to appoint one member to the board of executive officers of each of these companies. On the other hand, reduction in our interest in PASA Participações S.A. or EDSP75 Participações S.A. may change some of our rights under these agreements and in connection with the Global Shareholders' Agreement. For example, should our interest in PASA Participações S.A. or EDSP75 Participações S.A. be reduced to less than 20.5% of the voting share capital of either of these companies, approval of certain "material decisions," as defined in the preceding paragraph, subject to a 75% majority vote under the Global Shareholders' Agreement (for instance, approval of changes to the bylaws of TmarPart) would no longer require our consent.

These shareholders' agreements also contemplate:

- rights of first offer to the shareholders with respect to the transfer of the shares issued by PASA Participações S.A. and EDSP75 Participações S.A.;
- tag-along rights for our benefit in case of the sale of PASA Participações S.A. and EDSP75 Participações S.A. shares by Andrade Gutierrez Telecomunicações Ltda. or Jereissati Telecom, as the case may be;
- a general restriction on the sale of the shares issued by PASA Participações S.A. and EDSP75 Participações S.A. by Andrade Gutierrez Telecomunicações Ltda. or Jereissati Telecom, as the case may be, to our competitors; and
- a general right to PREVI, PETROS, FUNCEF and BNDESPAR, while they remain shareholders of TmarPart, or to any third parties which may acquire the shares held by these companies in TmarPart, to substitute Andrade Gutierrez Telecomunicações Ltda. or Jereissati Telecom in the exercise of their preemptive rights under the PASA Participações S.A. and EDSP75 Participações S.A. shareholders' agreements in case we decide to sell our shares in PASA Participações S.A. and/or EDSP75 Participações S.A.

BNDESPar, PREVI, PETROS and FUNCEF Shareholders' Agreement

On January 25, 2011, PREVI, PETROS, FUNCEF, BNDESPAR, Andrade Gutierrez Telecomunicações Ltda. and Jereissati Telecom entered into a voting bloc shareholders' agreement. The purpose of this shareholders' agreement is to regulate the exercise of voting rights with respect to, and general governance in connection with, PASA Participações S.A. and/or EDSP75 Participações S.A. in case of the sale of our interest in PASA Participações S.A. and/or EDSP75 Participações S.A. and the acquisition of such interest by any of PREVI, PETROS, FUNCEF or BNDESPAR, in which circumstance the purchaser, or purchasers, of our interest in PASA Participações S.A. and/or EDSP75 Participações S.A. will be deemed to be a single bloc and will succeed us in all our rights and obligations. We are not party to this shareholders' agreement, and no obligation or right is imposed or conferred upon us.

Amendments to the Shareholders' Agreements in Connection with the Business Combination

On February 19, 2014, the parties to the shareholders' agreements described above executed a series of amendments in connection with the Business Combination, as well as agreements to terminate the agreements upon the completion of the Business Combination. See "*Agreements Relating to the Business Combination Amendments to Shareholders' Agreements*" and "*Agreements Relating to the Business Combination Agreements to Terminate the Shareholders' Agreements*."

Table of Contents

Other International Operations

Concurrently with our investment in Oi, we acquired an interest in Contax, which provides contact center services, IT services and BPO services in Brazil and other Latin American countries. In addition, we have significant interests in telecommunications companies in Angola, Cape Verde, Namibia and São Tomé and Principe in Africa and East Timor in Asia. We describe these investments in more detail below.

Our wholly-owned subsidiary Portugal Telecom Investimentos Internacionais Consultoria Internacional, S.A. manages all of our international businesses other than our investments in Oi and Contax.

Contax

Prior to the consummation of the Capital Increase, we are expected to undertake a series of transactions with the purpose of disposing of our interests in CTX and Contax Participações. Below you may find information regarding our acquisition and activity as shareholders of CTX and Contax Participações.

Concurrently with our investment in Oi, we acquired a 16.2% economic interest in CTX, the controlling shareholder of Contax Participações and Contax. Even before our investment in Contax, we provided call center services in Brazil through our subsidiary Dedic, and Dedic's subsidiary GPTI provided IT/IS services in Brazil. On June 30, 2011, we merged Dedic and GPTI into Contax, and our economic interest in Contax increased to 19.5%. On April 2, 2013, in connection with Contax's corporate reorganization, we increased our economic interest in Contax to 21.1%. We record our interest in Contax for accounting purposes as an equity investment for periods since April 1, 2011, and Contax's results of operations have included the results of operations of Dedic and GPTI since July 1, 2011.

Dedic and GPTI had consolidated revenues of R$311.5 million (€133.9 million) from January 1, 2011 through June 30, 2011, the period before they merged with Contax. Dedic's revenues were R$479.4 million in 2010 (€205.6 million) and R$402.3 million in 2009 (€145.2 million), and GPTI's operating revenues were R$133 million in 2010 (€56.9 million).

In April 2011, Contax acquired 100% of Allus Global BPO Center, or Allus, for R$245 million. Consequently, the results of Contax include the results of Allus, one of the largest contact center service providers in Latin America and with commercial activities in the United States and Spain, as from May 1, 2011. With this acquisition, Contax took an important step towards becoming a global BPO (Business Process Outsourcing) provider, dedicated to supporting its clients throughout their customer relationship chain.

AG and LF Tel, two of the significant shareholders of TmarPart, are also the controlling shareholders of CTX, the parent company of Contax Participações and Contax. In connection with the Oi transaction, we agreed to merge Dedic and GPTI with Contax in return for common and preferred shares of Contax. In this transaction, we acquired a 16.2% interest of CTX for consideration of R$116 million. Following the exchange of our interest in Dedic and GPTI for an additional economic interest in Contax, we raised our interest in CTX to 19.9% through the contribution of a portion of the Contax preferred shares we had through this exchange. Also in connection with this transaction, we received net cash of approximately R$162 million from the reimbursement by Contax of shareholder loans we had granted to Dedic prior to this transaction.

Following the merger of Dedic and GPTI with Contax, we held a 19.5% economic interest in Contax through a 44.4% direct and indirect interest in CTX, which held 34.0% of Contax, and a 4.3% direct economic interest in Contax. Our direct economic interest in Contax consisted of 7.0% of Contax's outstanding preferred shares.

Table of Contents

On April 2, 2013, Contax undertook a corporate reorganization in connection with its migration to Level 2 Corporate Governance of the BM&FBOVESPA. In the corporate reorganization, CTX's shareholders, including Portugal Telecom, received a premium in shares of 25% of common shares held by them, and Contax absorbed CTX's total indebtedness. As a consequence of the corporate reorganization, we hold (1) a 21.1% economic interest in Contax through a 44.4% direct and indirect interest in CTX, which holds 27.5% of Contax, (2) a 35% direct stake in holdings AG and LF which each hold 3.9% in Contax and (3) a 6.2% direct economic interest in Contax.

Shareholders' Agreements

In connection with our initial investment in CTX and Contax, on January 25, 2011, we entered into a shareholders' agreement with the other CTX shareholders, that is, AG Telecom, Luxemburgo, LF Tel and FASS through our subsidiary Portugal Telecom Brasil S.A., effective as of March 28, 2011 and amended on March 11, 2013 in connection with Contax's corporate reorganization (the "Contax and CTX Shareholders' Agreement"). AG Telecom, Luxemburgo, LF Tel, FASS and Portugal Telecom Brasil S.A. are parties to the Contax and CTX Shareholders' Agreement, while CTX, Portugal Telecom, Andrade Gutierrez Telecomunicações Ltda., PASA Participações S.A., La Fonte Telecom S.A. (now known as Jereissati Telecom S.A.) and EDSP75 Participações S.A. are intervening parties in the Contax and CTX Shareholders' Agreement.

Under the Contax and CTX Shareholders' Agreement, we have similar rights to those contained in the Global Shareholders' Agreement and the other shareholders' agreements described above under " *Proposed Business Combination with Oi and TmarPart Strategic Partnership with Oi*," and, accordingly:

- pre-meetings are to be held among the shareholders to decide in advance the matters to be voted during any shareholders' or board of directors' meetings and the decisions taken during such pre-meetings shall be binding upon the shareholders and their representatives; and

- approval of certain matters are subject to a supermajority vote of the shareholders (for instance, approval of amendments to CTX's bylaws, of the execution of any agreements with Telemar and certain other matters are subject to a 66.67% majority; approval of CTX's annual budget and the investment plans of CTX and its subsidiaries, among other matters, are subject to a 70% majority; approval of the sale of the shares issued by CTX's subsidiaries and of any merger, spin-off, or initial public offering involving CTX, among other matters, are subject to an 84% majority).

In addition, (i) as long as we hold at least 10% of CTX's voting share capital, we have the right to appoint two members to the board of directors of both CTX and Contax Participações; (ii) as long as we hold at least 5% of CTX's voting share capital, we have the right to appoint one member to the board of directors of both CTX and Contax Participações; (iii) as long as we hold at least 11% of CTX's voting share capital, we have the right to appoint one member to the board of executive officers of CTX. Also, under the Contax and CTX Shareholders' Agreement, we have the right to veto one among three of the nominees appointed by AG Telecom, Luxemburgo, LF Tel and FASS to the position of chief executive officer of Contax.

The Contax and CTX Shareholders' Agreement also contemplates preemptive rights to the shareholders with respect to the transfer of CTX's shares and tag-along rights in case of the sale of CTX's shares by its shareholders. More importantly, however, (i) the corporate control in any of CTX's shareholders may not be transferred without such shareholder first offering its CTX's shares to the other CTX shareholders in accordance with the procedures contained in the Contax and Shareholders' Agreement concerning the rights of first offer; and (ii) should we cease to be a TmarPart shareholder, our interest in CTX may be redeemed or exchanged in accordance with the procedures established in the Contax and CTX Shareholders' Agreement.

Table of Contents

The first term of the Contax and CTX Shareholders' Agreement expires on March 11, 2053 or if and when Contax Participações migrates to the highest level of BM&FBOVESPA's levels of corporate governance, the New Market (*Novo Mercado*), whichever happens first. The term of the Contax and CTX Shareholders' Agreement may be extended for successive periods of 10 years with the consent of each of the parties thereto.

Impact of the Business Combination on Our Investment in Contax

In connection with our proposed Business Combination with Oi, we expect that we will cease to hold an interest in Contax. On October 1, 2013, Portugal Telecom and Bratel Brasil entered into a memorandum of understanding (the "CTX MOU") with AG Telecom, Andrade Gutierrez Telecomunicações Ltda., LF Tel, La Fonte Telecom S.A., PASA and EDSP75 relating to the interests held by those companies in the shares of CTX and Contax. The CTX MOU relates to certain of the steps of the Business Combination expected to occur immediately prior to the merger of PASA into AG Telecom, the merger of EDSP75 by LF Tel and the merger of AG Telecom, LF Tel and Bratel Brasil into TelPart described under " *Proposed Business Combination with Oi and TmarPart*."

As of the date hereof, AG Telecom (which is controlled by PASA) and LF Tel (which is controlled by EDSP75) hold shares of CTX in addition to the shares of TelPart and the preferred shares of Oi that they hold. Pursuant to the CTX MOU, AG Telecom, PASA, LF Tel and EDSP75 will undertake partial spin-offs such that the shares of CTX (and, indirectly, Contax) held by them will be held by newly formed entities, or the CTX Holdcos, whose shares will be held by the current shareholders of AG Telecom, PASA, LF Tel and EDSP75, including Bratel Brasil, in the same proportion as those shareholders' interests in AG Telecom, PASA, LF Tel and EDSP75.

Following the spin-offs described above, Portugal Telecom and its subsidiaries and the other shareholders of PASA and EDSP75 will undertake a series of exchanges of shares (the "CTX Share Exchanges") of CTX, Contax and the CTX Holdcos for shares of AG Telecom and LF Tel such that Portugal Telecom and its subsidiaries will cease to be shareholders, directly or indirectly, of CTX, Contax and the CTX Holdcos, and the other shareholders of PASA and EDSP75 will hold, directly or indirectly, all the shares of CTX and Contax formerly held by Portugal Telecom and its subsidiaries.

Assets in Africa and Asia

The table below provides the highlights of our main assets in Africa and Asia as of December 31, 2013, except for Unitel, for which information is given as of September 30, 2013. For information regarding the limited information available to us regarding Unitel's financial information as of and for the year ended December 31, 2013, see "*Risk Factors Risk Factors Relating to Unitel and Our Other International Investments The amounts recorded in our financial statements relating to our equity investment in Unitel are based on an estimate of Unitel's earnings for 2013*."

	Portugal Telecom Direct Interest	Portugal Telecom Effective Interest	Revenue in EUR (millions)(1)
Unitel, Angola(2)(3)(5)	18.75%	PT Ventures (25%)	1,202.3
MTC, Namibia(4)(5)	25.50%	Africatel B.V. (34%)	167.0
CVTelecom, Cape Verde(4)(5)	30.00%	PT Ventures (40%)	70.4
CST, S. Tomé & Principe(4)(5)	38.25%	Africatel B.V. (51%)	12.6
Timor Telecom, East Timor(4)	44.17%	TPT (54.01%); PT Participações (3.05%)	46.9

(1) Figures account for 100% of the company. We have management contracts with CVT, CST and Timor Telecom.

Table of Contents

(2) Equity accounting method.

(3) Revenue information on Unitel corresponds to the nine-month period ended September 30, 2013.

(4) Full consolidation method.

(5) These interests are held by Africatel, which is 75% controlled by us.

Africatel Holding Company

In 2007, we formed Africatel Holdings B.V., or Africatel, and contributed to Africatel our equity interests in (1) Unitel, S.A., or Unitel, which operates in Angola, (2) Mobile Telecommunications Limited, or MTC, which operates in Namibia, (3) CVTelecom, which operates in Cape Verde, and (4) CST Companhia Santomense de Telecomunicações S.A.R.L., or CST, which operated in São Tomé and Príncipe, among others. In 2007, Portugal Telecom sold 22% of the equity interests in Africatel to Samba Luxco S.à.r.l., or Samba, an affiliate of Helios Investors LP, or Helios, a private equity firm operating in sub-Saharan Africa, and entered into a shareholders' agreement with Samba regarding governance and liquidity rights relating to Africatel. In 2008, we sold an additional 3% of the equity interests in Aftricatel to Samba.

As of December 31, 2013, in addition to its interests in Unitel, MTC, CVTelecom and CST, Africatel owns Directel Listas Telefónicas Internacionais, Lda., or Directel, which publishes telephone directories and operates related data bases in Angola, Cabo Verde, Mozambique, Uganda and Kenya.

As a result of our internal reorganization, PT Portugal owns 75% of the equity interests in Africatel. PT Portugal's interest in the individual companies described below reflects the percentage of capital of those companies owned by Africatel.

In January 2014, we received a letter from Samba Luxco, asserting that the Business Combination triggers certain of its rights under the Africatel shareholders' agreement, without specifying those rights, and expressing its interest in achieving liquidity in the business combination. Initially in response to our request that Samba Luxco provide more details on the rights that it asserts, Samba Luxco has sent additional letters claiming that Samba Luxco has a put right under the Africatel shareholders' agreement at the fair market equity value of its Africatel shares because it believes the Business Combination would trigger a change of control under that agreement. In that regard, Samba Luxco has asserted a right to an independent valuation of Africatel but has indicated an openness to discussing the valuation process. We have advised Samba Luxco that we believe that even if a change of control were to be triggered, it would be triggered only if and when the Business Combination was completed. While reserving our rights and without agreeing that a change of control would be triggered, we continue our discussions with Samba Luxco and have indicated our openness to exploring alternatives for achieving liquidity with respect to Samba Luxco's investment in Africatel. See "*Item 3 Key Information Risk Factors Risks Relating to Our Proposed Business Combination with Oi The minority shareholder of Africatel has asserted that the Business Combination triggers its right to force TmarPart to purchase its shares of Africatel under the Africatel shareholders' agreement. If TmarPart is required to purchase this interest in Africatel, it will divert resources that could have otherwise been deployed to reduce indebtedness or make investments under the combined company's business plan after the Business Combination. If any such purchase is funded through the incurrence of additional debt of TmarPart, there would be a material adverse effect on the consolidated leverage of the combined company following the Business Combination."*

Unitel, Angola

In 2000, PT Ventures, our wholly-owned subsidiary, acquired 25% of the share capital of Unitel, a GSM mobile operator in Angola. Unitel's other shareholders are Sonangol, which holds 25%, and other local partners, which hold the remaining 50%. Unitel began operations in Luanda in 2001.

Table of Contents

Because of the 25% interest in our subsidiary Africatel held by Helios, we have an economic interest of 18.75% in Unitel. In connection with this investment, PT Ventures entered into a shareholders' agreement with the other shareholders of Unitel regarding governance and liquidity rights relating to Unitel, and dispute resolution provisions.

In December 2008, Unitel acquired 49.9% of Banco do Fomento Angola, or BFA, for US$475 million from Banco Português de Investimento, BPI, which continues to hold the remaining equity in BFA. According to KPMG Angola's October 2013 Angola Banking Survey, as of December 31, 2012, BFA was the fourth largest bank in Angola in terms of total assets and the second largest in terms of deposits.

As of September 30, 2013, Unitel had 9,537 thousand subscribers, of which 98.5% were holders of prepaid cards. During the nine-month period ended September 30, 2013, Unitel had 557 thousand net additions, with subscriber growth in Luanda, the capital of Angola, and in other districts.

Services. Unitel provides services in the following customer segments:

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

Enterprise services, including Corporate and SME/SoHo services, which are services provided to corporate and SME customers, to whom Unitel offers integrated data and business solutions.

Residential services, which include integrated networks inside the customers' homes, enabling the simultaneous connection of multiple devices, including PCs, tablets and smartphones.

Wholesale and other services, which primarily include wholesale telecommunications services.

During 2013, Unitel launched several initiatives, including successful marketing campaigns aimed at promoting voice usage and increasing penetration of the market for mobile broadband services. Unitel's marketing campaigns and offerings included:

several smartphone campaigns, with specific pricing plans, including internet use;

a wide range of handset choices for different categories of customers;

wifi routers, dongles, PCs and tablets;

voice stimulation campaigns, offering free calls during some hours of the day;

recharge campaigns, offering incentives to customers who recharge their prepaid cards;

expansion of voice and data roaming agreements;

campaigns allowing customers to transfer recharges of prepaid cards among Unitel subscribers;

development of 4G services in Luanda, since its launch in December 2012; and the enlargement of Unitel's portfolio of enterprise services.

Unitel also launched several initiatives aimed at strengthening both its direct and indirect distribution channels, increasing both its capillarity and efficiency. Unitel also developed institutional advertising of its different services, focusing on its functionalities and advantages.

Network. During 2013, Unitel continued its investments to expand its fiber optic network, both in Luanda, in other large Angolan cities and between them. Unitel also made investments in its 2G, 3G and 4G networks in order to improve its coverage and capacity, aiming to address the telecommunications needs of a larger number of customers and to improve the quality of its services.

Table of Contents

Competition. Unitel is a leading mobile operator in the Angolan mobile market. Movicel, the other mobile operator, also launched several marketing initiatives during 2013, including new pricing plans for different segments, voice and data promotions, handset campaigns and recharge campaigns. We expect that a third mobile license may be awarded in the future.

Financial Results. In this subsection we present certain summarized financial information regarding Unitel. Unitel's total gross operating revenues were US$2,225.2 million (€1,675.4 million) for the year ended December 31, 2013, US$2,043.0 million (€1,590.1 million) for the year ended December 31, 2012 and US$1,784.0 million (€1,281.8 million) for the year ended December 31, 2011.

Unitel's costs were US$1,326.6 million (€998.8 million) for the year ended December 31, 2013, US$1,067.8 million (€831.1 million) in 2012 and US$985.6 million (€708.0 million) in 2011. Unitel's net profit was US$631.1 million (€475.2 million) for the year ended December 31, 2013, US$964.5 million (€750.7 million) in 2012 and US$867.0 million in 2011 (€622.8 million). Unitel's costs generally rose in line with its revenues during this period. Over time, as Unitel expands into more remote areas of Angola, its costs are expected to increase and lead to a decrease in its margins, but Unitel expects to continue to record strong margins in the near future. Through the end of 2012, Unitel was not subject to corporate income taxes in Angola, and, consequently, its net income equaled its income before taxes. In 2013, for the first year, Unitel was subject to corporate income taxes in Angola at a rate of 35%.

Dividends. PT Ventures has not received dividends from Unitel since November 2012, including a portion of the dividends with respect to Unitel's 2010 fiscal year and all dividends with respect to Unitel's 2011 and 2012 fiscal years. As of December 31, 2013, 2012 and 2011, we had €238.2 million, €245.7 million and €134.7 million of accounts receivable, respectively, from Unitel (including €205.8 million, €215.1 million and €121.7 million of dividends receivable, respectively). As of December 31, 2013, these amounts receivable did not include the dividends declared with respect to Unitel's 2012 fiscal year in the amount of US$190.0 million (€137.8 million), which were recorded as part of the book value of our indirect investment in Unitel.

In 2012, PT Ventures received dividends of €49.9 million representing part of the dividend payable with respect to Unitel's 2010 earnings, and in 2011 PT Ventures received dividends of €125.9 million representing the full dividend payable with respect to Unitel's 2009 earnings. See "*Item 3 Key Information Risk Factors Risks Relating to Unitel and Our Other International Investments We cannot assure you as to when PT Ventures will realize the amounts receivable recorded with respect to the declared and unpaid dividends owed to PT Ventures by Unitel or when it will be able to obtain dividends that may be declared with respect to 2013 or succeeding fiscal years.*"

We account for this investment under the equity method. The carrying value of this investment in our financial statement as of December 31, 2013 was €494.3 million, excluding accounts receivable relating to declared and unpaid dividends.

For more information about our investment in Unitel, see Notes 33, 47(e) and 48(a) to our audited consolidated financial statements.

Other African Investments

MTC, Namibia. In 2006, we acquired 34% of the capital of MTC, a Namibian mobile operator, from Namibia Post and Telecom Holdings, a state-controlled entity, or NPTH. In connection with this transaction, we entered into an agreement with NPTH regarding governance and liquidity rights relating to MTC that allowed us to set and control the financial and operating policies of MTC. As a result, we fully consolidate MTC in our consolidated financial statements. In 2007, we contributed our shares of MTC to Africatel. As a result of this transaction and our internal reorganization, we fully consolidate MTC in our consolidated financial statements.

Table of Contents

As of December 31, 2013, MTC had 2,380 thousand customers, of which 94.4% were customers under prepaid plans. MTC's revenues were 2,142.9 million Namibian dollars (€167.0 million) in 2013, 1,901 million Namibian dollars (€180.2 million) in 2012, and 1,608.3 million Namibian dollars (€159.3 million) in 2011. MTC's net profit was €33.8 million in 2013, €34.3 million in 2012, and €32.1 million in 2011.

MTC was established in 1994 and provides mobile telecommunications services under the terms of a fifteen-year technology- and service-neutral concession granted in March 2012 that replaced its earlier licenses. Under the terms of this concession, MTC is permitted to offer 2G, 3G and 4G services. MTC commenced offering 4G services in Windhoek, the capital of Namibia, in May 2012 and, as of December 31, 2013, had expanded its coverage to eight additional cities, covering areas in which approximately 40% of the Namibian population live and work.

In 2006, a license was granted to Powercom to provide mobile telecommunications services in Namibia. Powercom commenced operations in 2007. In November 2012, Telecom Namibia, the incumbent provider of fixed-line telecommunications services in Namibia and a wholly-owned subsidiary of NPTH, acquired Powercom. Telecom Namibia re-launched Powercom's portfolio of service plans under the brand "TN Mobile" in August 2013. In November 2013, TN Mobile began offering 4G services in Windhoek and other urban areas.

In 2013, MTC focused its marketing efforts and commercial activity on: (1) boosting broadband revenue growth, underpinned by the use of 4G technology and its Netman brand; (2) promoting the upselling of new pricing plans aimed at increasing usage and revenues, and (3) selling Smartshare, a convergent internet/ mobile service that combines Netman home (internet router) with up to three smartphones.

We understand that NPTH may be in discussions regarding the sale of a 15% stake in MTC to a local investor, but we are not parties to that transaction and do not expect it to affect our rights with respect to MTC.

CVTelecom, Cape Verde. PT Ventures owns 40% of the share capital of CVTelecom. CVTelecom provides fixed and mobile services in the Cabo Verde Islands. In 2000, PT Ventures entered into an agreement with the other shareholders of CVTelecom, regarding governance and liquidity rights relating to CVTelecom, that allowed Portugal Telecom to set and control the financial and operating policies of CVTelecom. As a result of this transaction and our internal reorganization, we fully consolidate CVTelecom in our consolidated financial statements.

As of December 31, 2013, CV Telecom, had 66.2 thousand fixed lines in service, which represents approximately 13.3 fixed main lines per 100 inhabitants. CVTelecom had 363.5 thousand active mobile telephone cards as of December 31, 2013, of which 98.5% were prepaid customers.

CVTelecom's total gross operating revenues were €70.4 million in 2013, €75.6 million in 2012 and €83.7 million in 2011, and its net profit was €6.2 million in 2013, €12.3 million in 2012 and €20.5 million in 2011. Revenues were impacted by the international accounting rule IFRIC 12, *Service Concession Arrangements*.

CVTelecom was established in 1995 and provides fixed-line and mobile telecommunications services under the terms of a twenty five-year license granted in 1996. In December 2011, CVTelecom was granted a license to provide 3G services in Cabo Verde. In May 2012, CVTelecom's connection to the West African Cable System, a submarine cable which connects CVTelecom's network to networks in west Africa and Europe, began operating.

In 2006, the National Communications Agency (*Agência Nacional das Comunicações*) granted the second license to provide fixed-line and mobile telecommunications services in Cabo Verde to T Plus S.A., or T Plus, which commenced operations under the brand "T+" in December 2007. In

Table of Contents

December 2011, T Plus was granted a license to provide 3G services in Cabo Verde. In October 2012, a controlling interest in T Plus was acquired by Unitel International Holdings B.V., or Unitel Holdings, which is controlled by Mrs. Isabel dos Santos, one of the indirect shareholders of Unitel.

During 2013, CVT launched several commercial offers, both in mobile and fixed, aimed at promoting usage and customer loyalty, including (1) door-to-door and outbound campaigns, which contributed to fixed gross additions and migration from the basic fixed voice price plan to *Di Casa*, a new pricing plan; (2) *Powa Swag Total*, a new pricing plan aimed at young people and (3) *Zap Net sem limites*, the first unlimited pricing plan for broadband bundled with IPTV service. Broadband and IPTV customers, represent 27.9% and 9.5% of the fixed line customer base, respectively.

CST, São Tomé and Principe. Africatel owns 51.0% of the share capital of CST-Companhia Santomense de Telecomunicações, S.A.R.L., or CST, which provides fixed and mobile services in São Tomé and Principe. As of December 31, 2013, CST had 125.3 thousand mobile customers. CST's revenues were €12.4 million in 2013, €12.0 million in 2012 and €11.9 million in 2011, and its net profit was €0.02 million in 2013, €0.6 million in 2012 and €1.0 million in 2011.

CST was established in 1989 and provides fixed-line and mobile telecommunications services under the terms of a twenty-year license granted in 2007. CST began offering 3G services in São Tomé and Principe in March 2012 anticipating the connection of its network to the Africa Coast to Europe submarine cable which was inaugurated at the end of 2012. In March 2013, the General Regulatory Authority (*Autoridade Geral de Regulação*), the telecommunications regulator in São Tomé and Principe, granted the second license to provide fixed-line and mobile telecommunications services in São Tomé and Principe to Unitel Holdings. We understand that Unitel Holdings' subsidiary, Unitel STP, is expected to commence services in São Tomé and Principe in April 2014.

Asia

Sale of Interest in CTM. In 2013, we sold our participation in CTM, Macau to Citic Telecom International Holdings Limited. Upon the completion of the sale in June 2013, we received total proceeds of US$443.0 million, including consideration of US$411.6 million announced when we entered into the transaction in January 2013 as well as an additional US$31.4 million representing our proportional share of the net cash of CTM and certain working capital adjustments.

Timor Telecom, East Timor. We have a 76.1% interest in TPT Telecomunicações Públicas de Timor, S.A., or TPT. In 2002 we entered into a shareholders' agreement with the other shareholders of TPT regarding governance and liquidity rights relating to TPT (as amended in 2005). TPT owns 54.0% and PT Participações owns 3.05% of Timor Telecom, S.A., or Timor Telecom, a telecommunications provider of fixed and mobile services in East Timor. In 2005, TPT entered into a shareholders' agreement with the other shareholders of Timor Telecom regarding governance and liquidity rights relating to Timor Telecom.

As of December 31, 2013, Timor Telecom had a total mobile customer base of 624.5 thousand and 3.0 thousand fixed lines in service. Timor Telecom's revenues were US$62.3 million (€46.9 million) in 2013, US$74.6 million (€58.1 million) in 2012, and US$66.4 million (€47.7 million) in 2011, and its net profit was €6.1 million in 2013, €16.9 million in 2012 and €17.7 million in 2011. In 2013, data revenues accounted for 20.1% of mobile service revenues.

Table of Contents

In 2002, Timor Telecom was awarded a license to provide fixed-line and mobile telecommunications services in East Timor on an exclusive basis through the expiration of this license in 2017. In March 2012, Timor Telecom entered into a settlement agreement with the government of East Timor under which it waived the exclusivity provisions of this license, and the government of East Timor enacted new legislation to provide a framework for competition in the telecommunications sector, including the formation of a new regulatory body, the National Communications Authority (*Autoridade Nacional de Comunicações*). In July 2012, 15-year licenses to provide telecommunications services were granted to PT Telekomunikasi Indonesia International, or Telin, and Viettel Global Investment, or Viettel. Telin began providing mobile services in East Timor in January 2013 under the brand name "Telkomcel," and Viettel began providing mobile services in East Timor in April 2013 under the brand name "Telmor."

Timor Telecom responded to the introduction of a competitive environment in East Timor in 2013 by launching several initiatives, including (1) segmented mobile broadband and data offers, (2) new pricing plans with more competitive tariffs for different segments (such as *Diak* for youth customers and closed user groups for business customers, (3) improvements in call center services, (4) development of its distribution network, including the launch of new commercial contact points, the upgrade of existing contacts and the strengthening of indirect distribution channels.

Shared Services Companies

PT SI. PT Sistemas de Informação, S.A., or PT SI, is the group unit responsible for data centers, information systems and information technology activities of our business units in Portugal. PT SI provides integrated information systems and information technology services to our business units in Portugal, as well as to our existing and new customers. We hold 100% of the share capital of PT SI.

PT Inovação. Portugal Telecom Inovação, S.A., or PT Inovação, is our unit responsible for research and development activities. Our research and development programs focus on intelligent networks, network management systems, advanced services and systems and network integration and have led to the introduction of innovative products and services. PT Inovação's activities have been a driving force behind the development of new products and services, telecommunications infrastructure and information systems.

PT Contact. PT Contact Telemarketing e Serviços de Informação, S.A., or PT Contact, is the group unit responsible for call center operations in Portugal. PT Contact takes advantage of economies of scale and process alignments to reduce costs in our call center operations.

PT Pro. PT Pro aggregates all our back-office activities in Portugal. PT Pro takes advantage of economies of scale and process alignments throughout our group to reduce costs in back-office activities. The creation of PT Pro has also allowed for a reduction of the execution risk of our financial reporting function through standardization of processes and implementation of best practices.

For a list of our significant subsidiaries, see Exhibit 8.1 to this annual report, which is incorporated herein by reference. For further details on our percentage interest in our subsidiaries and their business activities, see the exhibits to our audited consolidated financial statements.

Properties

Our principal properties consist of buildings and telecommunications installations. These include various sizes of exchanges, transmission equipment, cable networks, base stations for mobile networks, equipment for radio communications and a nationwide network of ducts. They are located throughout Portugal and internationally.

Table of Contents

Following the transfer to the Portuguese government of the pension funds described in "*Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Post Retirement Benefits*," Portugal Telecom acquired several buildings previously owned by those funds. Portugal Telecom and its subsidiaries own several office buildings in Portugal. Our main proprietary office space with over 5,000 square meters is located at the following addresses:

Av. Fontes Pereira de Melo, 38/40, Lisboa, Portugal (68,994 square meters);

R. José Ferreira Pinto Basto, Aveiro, Portugal (11,668 square meters);

R. Tenente Valadim, 431/453, Porto, Portugal (23,300 square meters);

R. Afonso Costa, 4, Lisboa, Portugal (13,901 square meters);

R. General Humberto Delgado, 342/368, Coimbra, Portugal (13,380 square meters);

Largo do Carmo, Faro, Portugal (8,770 square meters);

R. Andrade Corvo, 10/14, Lisboa, Portugal (12,128 square meters);

R. Postiguinho Valadares, 12, Castelo Branco, Portugal (5,206 square meters);

Av. Carvalho Araújo, 629, Vila Real, Portugal (7,599 square meters);

Av. Infante D. Henrique/Praça Vasco da Gama, Ponta Delgada, Açores, Portugal (6,295 square meters);

Av. Doutor João Martins Azevedo, 21, Torres Novas, Portugal (7,112 square meters);

Av. de Zarco, Funchal, Portugal (7,025 square meters); and

Rua Conselheiro Veloso Cruz, 532, Vila Nova de Gaia, Portugal (6,044 square meters).

We are not aware of any material environmental issues that may affect our use of these properties.

We have registered our important trademarks, such as "Portugal Telecom," "PT Comunicações," "Telepac," "Sapo," "*Meo*," "*Moche*" and their related logos, in Portugal. We have also applied for a European Community trademark for "Portugal Telecom" and our logo. We do not own any registered patents or copyrights which are material to our business as a whole.

For information regarding our current and historic principal capital expenditures and divestitures, see "*Item 5 Operating and Financial Review and Prospects Capital Investment and Research and Development.*"

Competition

We face substantial and increasing competition. The competitive conditions of each of our business segments are described below.

Competition on a Global Level

Globally, as telecommunications operators strive to cope with network investments, the sector is facing a significant increase in competition in mature markets in both fixed and mobile communications. In the wireline market, traditional telecommunications companies are threatened by both cable and mobile operators. Cable companies are placing a significant bet on DOCSIS 3.0, a next-generation access technology that enables cable to compete with fiber solutions. In Europe alone, the number of DOCSIS 3.0 households is expected to grow 44% annually through 2015. On the other hand, 4G is being rolled out around the world, and its high speed and low latency create an opportunity for mobile operators to compete in the residential arena.

Table of Contents

In the mobile market, competition has also intensified, due largely to regulators pushing for aggressive decreases in mobile termination rates. These decreases, in turn, create opportunities for aggressive offerings of all-net bundles that can significantly change completion dynamics, based on the major operators' network externalities. These offers are being launched in several countries with strong customer acceptance.

The broad telecommunications sector is expected to continue to expand at a global level, but an increasing market share is now occupied by adjacent sector players such as equipment manufacturers, internet service providers and media players. These players are taking advantage of improved connectivity and platform-agnostic technologies to offer over-the-top and cloud-based services. Telecommunications operators are expected to maintain traditional access services and billing relationships over which users' access services from adjacent players such as well-known companies offering music, video, photos, applications and retail. These adjacent competitors are building strong global brands. The expansion of the competitive boundaries is creating additional pressure for telecommunications operators, but also creating significant opportunities. In fact, in recent years there have been hundreds of transactions in which telecommunications operators acquired adjacent competitors, such as cloud providers, internet companies or software developers.

Competition Facing Our Portuguese Operations

We face heavy competition from various telecommunications operators. In 2013, our primary competitors in Portugal included ZON-Optimus, Vodafone Portugal (a Vodafone Group subsidiary), Cabovisão/Oni Telecom (100% owned by Altice, a European private equity group that owns Numericable, the leading cable operator in France, in early 2012), AR Telecom and Colt.

The competitive landscape changed significantly in Portugal with the merger that was approved by the Portuguese Competition Authority in August 2013 of ZON, the largest cable operator, and Optimus, the third-largest mobile operator, which created a new integrated telecommunications operator in Portugal. According to information made public by ZON Optimus, Mrs. Isabel dos Santos is one of the indirect controlling shareholders of ZOPT, SGPS, S.A. (which holds a majority of the voting and total share capital of ZON Optimus). Mrs. Isabel dos Santos is also an indirect shareholder of Unitel, in which we have an indirect investment, and controls Unitel International Holdings B.V., an entity that competes with Portugal Telecom in Cabo Verde and São Tomé and Principe.

This transaction further increased the focus on bundled offers and the evolution from triple-play to quadruple-play services as ZON and Optimus leveraged their position as an integrated telecommunications operator by launching ZON4i in October 2013. This quadruple-play service is now competing with our M_4O service, the first quadruple-play service in Portugal, which was launched in January 2013. We have since then launched M_4O for satellite TV customers (adding to fiber and xDSL launch offers) and M_3O (triple play bundle offer with television, fixed voice and mobile voice).

The merger between ZON and Optimus illustrates a broader trend towards consolidation in the Portuguese telecommunications market. Even prior to the merger, ZON had acquired the residential business of AR Telecom (approved by the Competition Authority in March 2012), as well as several regional cable TV players (TV Tel, Bragatel and Pluricanal, approved in November 2008).

Altice also followed this trend by deciding to consolidate their stake of Cabovisão, a regional residential Pay-TV operator, with Oni, a telecom company mostly focused on serving enterprise and corporate customers.

Another major trend in recent years is the launch of bundled offers with a strong focus on triple-play services. This strategy has been followed by several telecommunications operators, including us (through our *Meo* brand), ZON Optimus, Cabovisão and Vodafone Portugal. Among these companies, both Portugal Telecom and ZON Optimus have a strong triple-play customer base (Portugal

Table of Contents

Telecom with 876 thousand customers at the end of 2013, an increase of 16% from the end of 2012, and ZON Optimus with 788 thousand customers at the end of 2013, a slight increase of less than 1% from the end of 2012). Of our fixed line customers, 34.0% have triple-play services at the end of 2013, and 66.6% of ZON Optimus's subscribers with fixed access have triple-play services at the end of 2013. We compete in terms of content and price through the launch of bundled offers combining several services.

In the fixed voice market, Portugal had a penetration of 43.2 per 100 inhabitants at the end of 2013, the same penetration that it had at the end of 2012.

According to ANACOM, we held an estimated 56.4% market share of access lines in the fourth quarter of 2013 (compared to 57.2% in the third quarter of 2012). The fixed voice market in Portugal is mainly a direct access market, which resulted from operators being more focused on direct access commercial offers and placing strong emphasis on customer migration from pre-selection configurations. According to ANACOM, at the end of 2013, there were approximately 103 thousand clients in pre-selection, the lowest figures since 2001. Using the same source, we had an estimated 52.7% market share of total outgoing traffic in 2013, a small decrease of 0.7 percentage points compared to the same period of 2012.

At the end of 2013, fixed broadband internet reached 2,563 thousand customers in Portugal, with market penetration at 24.4 per 100 inhabitants, up from 22.8 per 100 inhabitants in the fourth quarter of 2012, and still showing a significant upside potential. According to ANACOM, we are the top providers of these services, with 51.1% market share, a decrease of 0.6% compared to the fourth quarter of 2012.

The Pay-TV market has a total of 3,171 thousand customers, according to ANACOM data as of the fourth quarter of 2013, representing a 53.7% penetration of Portuguese households. ZON Optimus was the market leader with a 47.8% market share. Our brand, *Meo*, has gained market share, reaching 41.5% in the fourth quarter of 2013, representing an increase of 2.3 percentage points from the fourth quarter of 2012. Cabovisão's market share was 7.1% in the fourth quarter of 2013, a decrease of 0.7 percentage points from the fourth quarter of 2012. Vodafone's market share was 3.5% in the fourth quarter of 2013, representing an increase of 2.1% from the fourth quarter of 2012. The remaining competitors have not achieved significant market shares.

We have committed to an ambitious FTTH roll-out strategy in the past few years, reaching approximately 1.6 million homes by the end of 2013. ZON Optimus and Cabovisão have leveraged their coaxial cable networks to upgrade to the DOCSIS 3.0 standard. Vodafone has based its offers mainly on IPTV, relying on PT's wholesale offer (ULL) and on its own FTTH network, which is being rolled out. ZON Optimus is obligated to negotiate its fiber network with Vodafone Portugal, as part of a remedy imposed by the Competition Authority after the merger of the two companies (ZON and Optimus). ANACOM is analyzing the creation of a wholesale fiber offer outside Greater Lisbon and Greater Oporto, which would enable our competitors to access any FTTH network rolled out by us outside the designated "competitive areas". We are currently considering the possibility of a further roll-out to an additional one million households to reach 2.6 million FTTH households and launching a wholesale offer that would be available to our competitors.

At the end of 2013, there were approximately 159.8 active mobile cards per 100 inhabitants in Portugal, making it one of the European countries with the highest adoption rate of mobile services. This level of penetration derives from a dynamic market, mostly based on prepaid services, where operators are focused on providing an extended product portfolio in order to address an extensive range of communication needs for their customers.

In the mobile market, MEO (our mobile operation) competes with Vodafone Portugal and ZON Optimus, the two other mobile network operators licensed to provide mobile telephone services in

Table of Contents

Portugal. In 2007, CTT (the Portuguese postal company) launched "Phone-ix," an MVNO (Mobile Virtual Network Operator) supported by MEO's network, and in 2008, ZON launched an equivalent structure under the brand "ZON Mobile," a mobile virtual operation hosted by Vodafone Portugal's network. After the merger with Optimus, ZON decided to migrate its ZON Mobile customers to Optimus' network, which most likely ended the MVNO agreement with Vodafone Portugal. In 2012, an international MVNO, Lycamobile, was launched in Portugal, supported on Vodafone's network, focusing on offering low-cost international voice and data services targeting a niche market mainly composed of immigrant communities. In early 2013, Vectone, another low-cost MVNO targeting ethnic minorities, was launched, hosted by Optimus' network. Neither MVNO has, so far, been able to gain relevant market share. In 2013, following the merger with Onitelecom, Cabovisão announced that it intended to enter the mobile telephone services by late 2013, in order to compete with our and ZON Optimus quadruple-play offers, and that is was engaging in negotiations with the three mobile network operators to that effect. To date, Cabovisão has not launched its MVNO operation.

Due to their shareholder structures, MEO's competitors, namely Vodafone Portugal have access to substantial resources, cost synergies (*e.g.*, network and equipment costs) and best practices (*e.g.*, product development processes) to compete aggressively against MEO in the Portuguese mobile telephone market. In addition, by strengthening their position in the mobile business, these assets enable them to compete more directly and aggressively in the fixed line services.

According to ANACOM, at the end of 2013, MEO had a 46.8% market share in terms of active mobile cards in the Portuguese market, up 2.3 percentage points from the previous year, reflecting the success of the M_4O offer. Market share leadership is and will continue to be MEO's priority, as the main mobile competitors, Vodafone Portugal and ZON Optimus, are expected to continue to market their services aggressively. All operators are leveraging new convergent fixed-mobile offers to reduce churn and secure their market shares in both the residential and personal markets.

With respect to mobile broadband service, according to ANACOM data, there were 759 thousand customers using dongles/modems at the end of 2013, down from 978 thousand customers at the end of 2012. This decrease is primarily the result of (1) the growth in fixed broadband internet access, enabling wireless access at home through wifi routers, (2) the increased penetration of smartphones and tablets that enable email and internet access and (3) the challenging economic backdrop.

All mobile operators launched 4G commercial offers in early 2012, both in the form of smartphones and dongles, and they have been marketing them aggressively. Operators have also been focusing on extending 4G network coverage as quickly as possible, with MEO reaching 93% of the population at the end of 2013.

In the mobile broadband market, the competitive landscape has been challenging. Both in 3G and 4G tariff plans, Vodafone Portugal and ZON Optimus have promoted their services aggressively through pricing campaigns under which they decrease the monthly fee during a certain period, as well as subsidize USB dongles.

In early 2012, MEO launched a multi-SIM offer that can be used both in 3G and 4G tariff plans. This multi-SIM offer allows both MEO mobile broadband and smartphone users to share their data tariff allowance with more than one device.

Mobile revenues have been under pressure not only from the competitive dynamics but also from the regulatory framework in Portugal. Mobile termination rates decreased approximately 82% from €0.07 in 2008 to €0.0127 in 2012, where they remain. Roaming revenues have also been a subject of regulation, as caps both for retail voice and data roaming services have been implemented. In the first half of 2013, the retail voice cap per minute originated and per minute received were €0.29 and 0.08, respectively, and the retail data cap was €0.70 per megabyte. From July 1 2013, the retail voice caps per minute originated and received are €0.24 and €0.07, respectively, and the retail data cap is €0.45 per

Table of Contents

megabyte. From July 1, 2014, the retail voice and data caps will be €0.19 per minute originated, €0.05 per minute received and €0.20 per megabyte.

Residential Services

We face strong competition from both fixed line operators and mobile operators. Currently, all mobile network operators have commercial offers that are a direct alternative to our fixed line telephone services, competing for the same customers. Residential services supported by mobile networks are offered by all mobile operators. In addition, these have also launched low-cost brands that are designed to reach the lower-end segment of the mobile market and have also had an effect on fixed line retail service.

More recently, operators have been offering unlimited voice communications to all national and up to 50 international fixed destinations, whenever the fixed voice service is purchased as part of a fixed service bundle. This competitive movement aimed to respond to the eroding revenues from international telephone service due to falling international call prices, extensive usage of lease lines by large users through which they connect to networks outside Portugal and aggressive competition from calling cards, rerouting of calls by other international operators and VoIP, which increasingly enables communications at lower prices than traditional public switched telephone networks. These factors put significant pressure on us to reduce international fixed line telephone prices.

Personal Services

In 2008, an important development occurred in the Portuguese mobile market with the launch of aggressive on-net differentiated pricing plans, known as "tribal plans," led by Optimus (with "Tag") and followed by MEO (with *Moche*) and Vodafone Portugal ("Extreme" and "Extravaganza"). These tribal plans, targeting the youth segment through strong marketing campaigns, reached beyond this segment and became mass market plans with a strong relative presence in the personal mobile market.

In addition to the tribal plans, some postpaid, on-net oriented bundles of "voice+internet" were launched by the three major mobile operators, namely MEO (with *tmn unlimited*), Optimus (with "Smart") and Vodafone (with "Best"). The focus on on-net oriented flat rate plans and bundles of "voice+internet," which offer unlimited on-net voice calls, led to an increase in minutes of usage and an erosion of average revenue per minute.

In early 2011, MEO expanded its pricing plan portfolio with the launch of *e nunca mais acaba*, a prepaid flat-fee, on-net pricing plan that expands the tribal plan concept to all MEO customers, a move later followed by Vodafone (with "Vita 0") and Optimus (with "Zero").

In April 2012, MEO launched a tribal plan, *moche sub-25*, specifically designed for the youth segment, restricting new additions to those able to prove they are 25 years old or younger. This under-25 tribal plan has a different monthly fee and includes additional services that are appealing to this segment, such as music streaming, unlimited all-net SMS and an internet data allowance. This movement was followed by Optimus with the launch of "TAG sub-25." Vodafone Portugal chose not to launch an under-25 tribal plan, decreasing instead the monthly fee and adding internet data allowance to its mass market tribal plans. MEO and Optimus followed Vodafone Portugal's movement in their mass market tribal plans.

Mobile operators are also undertaking aggressive marketing efforts, often offering a subscription fee that allows access to cheaper communications during a limited period. Aggressive pricing structures and campaigns have stimulated usage at the expense of eroding retail revenues. MEO has recently launched marketing campaigns focused on its under-25 tribal plan, using its new tariff plan to better segment the market and target its efforts more efficiently.

Table of Contents

Enterprise Services

We face significant competition from several operators in the enterprise services market, namely ZON Optimus, Vodafone Portugal, Cabovisão/Oni Telecom, AR Telecom and Colt. These companies compete with us in providing data communications, voice services and internet services to business customers. Customers tend to have large volumes of traffic and complex virtual private network services with data, voice and video integration.

Our competitors may use satellite-based networks, public network operators' infrastructure, leased lines and their own infrastructure to provide telecommunications services to customers. These are all alternatives to our leased lines offer. As a result of competition, we have reduced our prices for leased lines and are focusing on value-added solutions based on Internet Protocol Virtual Private Networks, or IP VPN.

In September 2013, we launched a Tier 3 top-European level data center in Covilhã (central Portugal). The first block was inaugurated with six IT rooms of 520m^2 each and a PUE (power usage effectiveness) of 1.25. This new infrastructure will allow us to further take advantage of the cloud services business opportunity. Cloud services are considered to be an attractive growth point in the telecommunications industry, and we intend to position ourselves ahead of the competition to provide such services, which will be an additional source of revenue as well as a retention and loyalty tool in our data and corporate customer category.

Other Services

We also face competition in our wholesale services. Fixed and mobile operators, other than MEO, are establishing direct international interconnections with mobile or wireline operators outside Portugal, enabling them to offer international telephone services without using our network. This is decreasing wholesale revenues generated from connecting mobile operators in Portugal to operators abroad.

The interconnection business faces more direct competition now that operators are focusing on installing and operating their own public wireline telephone networks, pushing for direct access offers.

Some international operators are now providing wholesale services in Portugal, including international telephone services, network interconnection, data services, and broadband access to Portuguese ISPs.

Competition Facing Oi in Brazil

Oi's industry is highly competitive. The competitive environment is significantly affected by key trends, including technological and service convergence, market consolidation and combined service offerings by service providers. Oi faces intense competition in all the areas in which it operates from other mobile service and fixed line operators. Many of these competitors are part of large, national or multinational groups and have access to financing, new technologies and other benefits that are derived from being a part of such a group. Fixed line operators generally charge much lower tariffs than mobile service providers.

Local Fixed Line Services

In the local fixed line telecommunications services market in Brazil, competition has historically been focused on corporate customers. However, recently competitors have begun compete in the consumer market with bundles or services targeted to the needs of lower income customers. In addition, competition from other telecommunications services has been increasing, particularly from mobile telecommunications services, which has led to traffic migration from fixed line traffic to mobile traffic and the substitution of mobile services in place of fixed line services, encouraged by offers of aggressively priced packages from some mobile telecommunications services providers. Finally, the

Table of Contents

decrease in interconnection rates has discouraged the construction of new fixed line networks and has led to decreases in market prices for telecommunications services by enabling telecommunications services providers that use the local fixed line networks of incumbent fixed line providers to offer lower prices to their customers.

As of December 31, 2013, Oi was the leading provider of local fixed line services in Region I and Region II with 11.6 million fixed lines in service in Region I and 6.7 million fixed lines in service in Region II. Based on the most recent information available from ANATEL, as of April 30, 2013, Oi had an estimated market share of 67.8% of the total fixed lines in service in Region I and an estimated market share of 62.4% of the total fixed lines in service in Region II. Oi's principal competitors for fixed line services are (1) Embratel, which had an estimated market share of 20.3% of the total fixed lines in service in Region I and an estimated market share of 13.0% of the total fixed lines in service in Region II as of April 30, 2013, based on the most recent information available from ANATEL, and (2) GVT (an affiliate of Vivendi S.A.), which had an estimated market share of 6.9% of the total fixed lines in service in Region I and an estimated market share of 20.7% of the total fixed lines in service in Region II, as of April 30, 2013, based on the most recent information available from ANATEL.

Embratel provides local fixed line services to residential customers through fixed devices that receive wireless signals from a single transmission tower located near the subscriber's residence and through the cable network owned by its subsidiary Net in the portions of Region I and Region II where Net provides cable television service. As a result, Net is able to offer cable television, broadband and telephone services as a bundle at a very competitive price. Competition from Embratel is expected to increase in certain large cities, such as Rio de Janeiro, Belo Horizonte and Salvador, where it continues to expand its local fixed line network.

GVT has been increasing its competitive activities in Region I and Region II, expanding its fiber optic network in high-income residential areas and increasing its services to small- and medium-sized businesses. Competition from GVT is expected to increase in certain large cities, such as Rio de Janeiro, Belo Horizonte and Salvador, and in some medium size cities with population in the range of 350,000 to 1,000,000, where GVT continues to expand its local fixed line network.

We expect Oi to continue to face competition from mobile services providers, which represent the main source of competition in the local fixed line service market. As of December 31, 2013, there were 137.4 million mobile subscribers (including Oi's mobile customers) in Region I, a 3.91% increase over December 31, 2012, and there were 68.3 million mobile subscribers (including Oi's mobile customers) in Region II, a 2.7% increase over December 31, 2012, based on information available from ANATEL. The increase in the number of mobile users, in addition to reduced mobile services rates, is expected to continue to adversely affect the number of fixed line subscribers and the volume of local fixed line traffic. In addition, because mobile providers offer promotions and service plans that permit subscribers to make calls within the mobile provider's network at rates that are less than those charged for calls from a fixed line telephone to a mobile telephone, Oi may be vulnerable to traffic migration as customers with both fixed line and mobile telephones use their mobile devices to make calls to other mobile subscribers.

Long-Distance Services

The long-distance services market in Brazil is highly competitive. As of December 31, 2012, based on the most recent information available from ANATEL, of the total number of national long-distance minutes originated nationwide, Oi had a market share of 11.0%, ranking behind TIM with 50.1% and Embratel with 27.7% and ahead of Telefônica Brasil with 8.44%.

Oi's principal competitors for long-distance services are TIM and Embratel, which are currently offering long-distance services throughout Brazil at rates that are charged on a per-call, rather than per-minute, basis. As a result of its commencement of mobile services in Region III, Oi has also begun to compete with Telesp, which is the incumbent fixed line service provider in Region III.

Increased competition from long-distance service providers has resulted in pressure on Oi's long-distance rates and adversely affected Oi's revenue from these services. In addition, the proliferation of new types of service plans, such as "same network" subscription plans that offer unlimited long distance calls and data combination plans are impacting the long-distance services market in Brazil. Competition in the long-distance market may require Oi to increase its marketing expenses and/or provide services at lower rates than those Oi currently expects to charge for such services. Competition in the long-distance market has had and could continue to have a material adverse effect on Oi's revenues and margins.

Furthermore, the offering of plans by other mobile services providers that include free minutes for calls to other subscribers of those mobile services providers may adversely impact Oi's revenues from mobile long-distance calls if Oi's mobile customers migrate to its competitors to remain within the network of the people to whom they plan to place long-distance calls. However, as a result of the increased use of SIM card-only strategies by other mobile service providers, there is a trend among Brazilian prepaid customers to purchase SIM cards from multiple mobile service providers to maximize the number of calls that they can make which are covered by these promotional offers.

New technologies that serve as an alternative to traditional long-distance telephone calls, such as VoIP, may start to capture part of Brazil's long-distance traffic.

Mobile Services

The mobile telecommunications services market in Brazil is characterized by intense competition among providers of mobile telecommunications services. Oi competes primarily with the following mobile services providers, each of which provides services throughout Brazil:

- Telefônica Brasil, which is a subsidiary of Telefónica S.A., and which markets its personal services under the brand name "Vivo";

- TIM, which is a subsidiary of Telecom Italia S.p.A.; and

- Claro, which is a subsidiary of América Móvil.

In December 2010, Nextel Brazil acquired licenses to provide 3G services throughout Brazil. Nextel launched commercial services on its 3G network in December 2012. Nextel's entrance in the market could increase competition for mobile services as it expands its network.

As of December 31, 2013, based on information available from ANATEL, Oi had a market share of 18.5% of the total number of subscribers in Brazil, ranking behind Telefônica Brasil with 28.5%, TIM with 27.1%, and Claro with 25.3%, and Oi captured 10.5% of all net additions of mobile subscribers in Brazil (calculated based on the number of mobile subscribers at the end of a period less the number of mobile subscribers at the beginning of that period) during 2013.

Competitive efforts in the Brazilian mobile telecommunications services market generally take the form of handset subsidies in the postpaid market and traffic subsidies in both the prepaid and postpaid market. The aggressiveness of promotions is generally driven by the desire of the provider offering the promotion to increase market share; however, these promotions generally are for a short duration as the pricing terms offered are not sustainable over the long term.

Data Transmission Services

Cable television providers that offer broadband services, particularly Net, represent Oi's principal competition in the data transmission services market in Brazil. Oi faces competition from these providers that offer integrated packages, consisting of Pay-TV services, broadband and voice telephone services to cable television subscribers who, in general, have more purchasing power than other consumers.

Table of Contents

Oi's principal competitors in the commercial data transmission services market are Embratel, GVT and Telefônica Brasil. The commercial data transmission services market is significantly less regulated than the fixed line, long-distance and mobile services markets. Along with growth in traffic volume and increasing demand for broadband capacity, significant price reductions in data transmission services are expected, as competitors expand their networks. In recent years, there has been a shift in competition towards value-added services provided over IP platforms and VPN services.

Pay-TV Services

In Brazil, the high quality programming of television broadcasters has resulted in aggregate ratings for these broadcasters of approximately 90% of viewers and has limited the perceived value of Pay-TV services. As a result, the Pay-TV market in Brazil has a lower penetration rates as compared to developed countries, and even to other Latin American countries, such as Argentina, Chile and Mexico. Penetration rates for Pay-TV services have grown from 8.0% of Brazilian households in 2005 to 28.9% in 2013. According to information available from ANATEL, the Brazilian Pay-TV services market grew by more than 9.8% from December 31, 2012 to December 31, 2013.

The primary providers of Pay-TV services in Region I and Region II in Brazil are SKY, which provides DTH services, and América Móvil, which provides DTH services through Embratel under the "Claro TV" brand and provides Pay-TV services using coaxial cable through Net. Oi commenced offering DTH Pay-TV services to the low-income residential market in the states of Rio de Janeiro, Minas Gerais, Rio Grande do Sul, Paraná and Santa Catarina. In 2010, Oi expanded this service to the Federal District and the states of Bahia, Sergipe, Pernambuco, Ceará, Paraíba, Rio Grande do Norte, Alagoas, Espírito Santo and Goiás. In 2011, Oi expanded this service to the remaining states of Region I and Region II.

In December 2012 and January 2013, Oi began to deliver *Oi TV* through its fiber optic network using IP TV in the city of Rio de Janeiro and Belo Horizonte, respectively. Oi plans to gradually expand its IP TV service to other cities.

Regulation

Portugal

As a telecommunications provider, we are subject to a variety of regulations as well as general competition law and other laws. Such laws and regulations are promulgated and enforced to varying degrees by supranational regulators such as the EC and national, state, regional and local authorities. This section describes the regulatory frameworks and key regulatory developments at the regional level and in the selected countries in which we operate.

Regulatory Institutions

European Commission. The EC ensures that EU member states fully and correctly implement EU requirements in national law. The EC routinely monitors the status of EU member states in implementing EU directives. Most of the EU rules on competition and sector-specific regulation have the force of law in all EU member states and therefore apply to us in Portugal. The Directorate-General for Competition of the EC is responsible for considering potential claims that our business activities or Portuguese government regulations are inconsistent with the key provisions of the Treaty of Lisbon relating to competition in the EU. Among other things, the Treaty of Lisbon prohibits (1) agreements or coordinated action between competitors that may affect trade between EU member states and have as their objective or effect the prevention, restriction or distortion of competition within the EU and (2) any abuse of a market-dominant position within the EU that may affect trade between EU member states. The Directorate-General for Competition enforces these rules in cooperation with the national competition

Table of Contents

authorities. In addition, national courts have jurisdiction over violations of EU competition law. The Directorate General for Communications Networks, Content & Technology (DG Connect) of the EC is responsible for, among others, coordinating the regulatory framework for competition and growth over the entire range of issues in the telecommunications field: economic analysis, impact assessment, policy development, regulatory compliance.

ANACOM. The *Autoridade Nacional das Comunicações,* or ANACOM, is the Portuguese telecommunications regulator. It advises the Portuguese government on telecommunications policy and legislation and monitors compliance with concessions, licenses and permits granted to telecommunications networks and services providers in Portugal. The Portuguese government has substantially increased the autonomy of ANACOM and has allowed it to become a more effective and independent regulatory body. ANACOM acts on complaints against us by our competitors, our customers and other interested parties. It can impose fines on us if we do not meet our obligations under the law or its determinations. ANACOM's decisions are subject to judicial review.

Portuguese Competition Authority. Our activities are also overseen by the *Portuguese Competition Authority* (*Autoridade da Concorrência*), which is responsible for enforcement of competition law in Portugal. It is also responsible for considering complaints relating to our business practices or other business arrangements. Under Portuguese law, we and our subsidiaries are permitted to appeal any adverse decision of the Portuguese Competition Authority to the courts. The Portuguese Competition Authority's decisions are subject to judicial review.

ERC. The *Entidade Reguladora para a Comunicação Social*, or the ERC, is the independent regulatory authority for the Portuguese media. ERC's primary responsibilities are the regulation and supervision of all entities that undertake media activities in Portugal. ERC is a legal entity endowed with administrative and financial autonomy. ERC oversees compliance with respect to fundamental rights such as freedom of the press, right to information, independence from political and economic power and freedom of speech. It is also responsible for monitoring compliance by all companies operating in the media sector, with standards for media and broadcast content, as well as for promoting the proper and effective functioning of the market where such companies operate. ERC's decisions may affect, among others, news agencies, periodicals, radio or television operators, and radio and television distribution operators.

EU Regulatory Framework and Relevant Markets

The European Union regulatory framework for electronic communications networks and services consists of five directives governing procedures, authorizations, access, universal service and data protection; a recommendation on relevant product and service markets within the electronic communications sector subject to "ex ante" regulation under a common regulatory framework for electronic communications networks and services; and two regulations: one concerning the Body of European Regulators for Electronic Communications (BEREC) and one other concerning roaming on public mobile communications networks. EU directives, regulations and recommendations, which adopt competition law principles such as market dominance for the designation of significant market power and the definitions of relevant product and geographic markets, which may be subject to "ex ante" regulation, have involved constant changes and refinements to this framework. The framework focuses on issues such as reinforcing consumer rights, encouraging competitive conditions among operators to increase consumer choice, promoting investment in new communications infrastructure (such as by freeing spectrum for the provision of broadband services) and ensuring network security and integrity. Under the current regulatory framework, obligations can be imposed on operators having significant market power in any of the one retail and six wholesale markets identified by the EC. Because we are active in all of these markets, these regulatory measures have and will continue to affect our businesses and operations.

Table of Contents

Within the EU framework, ANACOM has identified, in the first round of analysis initiated in 2004, 19 retail and wholesale markets in Portugal. In a process it is required to undergo periodically, ANACOM has found Portugal Telecom to have significant market power in all but one of the analyzed markets, where ANACOM determined that no operator had significant market power (wholesale transit services). These markets included: (1) retail markets access to the public telephone network at a fixed location (residential and business), publicly available local and/or national telephone services provided at a fixed location (residential and business), publicly available international telephone services provided at a fixed location (residential and business), telephone services at a fixed location using non-geographic numbers, such as toll-free numbers and leased lines; and (2) wholesale markets call origination on the fixed telephone network provided at a fixed location, call termination on individual public telephone networks provided at a fixed location and wholesale unbundled access to local metallic loops, wholesale leased lines (trunk segments and terminating segments) and wholesale broadband access.

In its second round of analysis, ANACOM conducted a market analysis to determine the regulatory obligations that should be imposed on operators with significant market power in the provision of wholesale (physical) network infrastructure access and wholesale broadband access. With respect to Wholesale Markets 4 and 5 (for the provision of wholesale (physical) network infrastructure access and wholesale broadband access), ANACOM has segmented the broadband market geographically between "C" (competitive) areas and "NC" (non-competitive) areas. In the "NC" areas we are obligated to provide a wholesale local loop unbundling reference offer (in relation to Market 4) and to provide a wholesale broadband (bitstream) reference offer (in relation to Market 5). Market 5 was deregulated in "C" areas, and hence all obligations in this market, including the wholesale bitstream reference offer, no longer apply. Nevertheless, while our obligation to provide a bitstream reference offer (*Rede ADSL PT*) in "C" areas expired after a transitional period, we have decided to maintain the bitstream reference offer. See "*Areas of Recent Regulation and Updates Next Generation Access Networks*."

In addition to Portugal Telecom, all other fixed line operators in Portugal were determined to have significant market power in the call termination on individual public telephone networks provided at a fixed location wholesale market. Likewise, all mobile network operators were found to have significant market power in the call termination on individual mobile networks. ANACOM has found Portugal Telecom to have significant market power in the wholesale leased lines terminal market and segmented the transit segments between "C" and "NC" routes. In these wholesale markets, ANACOM included Ethernet connections and imposed the retail-minus rule over Ethernet solutions. In the "C" routes, Portugal Telecom has no significant market power. We expect that ANACOM will provide further analysis of the other relevant markets in the near future.

In December 2013, ANACOM launched a public consultation on a draft decision regarding the re-analysis of the retail markets for fixed access and telephony services and of the wholesale market for call origination at a fixed location. ANACOM is proposing to withdraw the existing retail regulation on those markets while continuing to fully regulate the wholesale call origination market.

Our Concession and Existing Licenses and Authorizations

General

The EU prohibits any limitation on the number of new entrants in telecommunications markets, except as required to ensure efficient use of radio frequencies. Pursuant to this directive, which is part of the EU electronic communications framework, an operator must have a general authorization for the provision of electronic communications networks or services. A license for individual rights of use can be required for the use of radio frequencies or numbering resources. The objective of this authorization regime is to introduce more flexibility into the licensing framework.

Table of Contents

Currently, we have a concession for the provision of universal service and it permits us to provide public switched fixed line telephone services in Portugal. We have entered into an agreement with the Portuguese government for the revocation of that concession, as described under " *Our Fixed Line Concession*" below.

We also operate a DTT platform and provide mobile telephone services, data communications services and television distribution services under the licenses granted and authorizations issued to our subsidiaries by the relevant authorities (the Portuguese government and ANACOM). The subsidiaries holding the licenses and authorizations are subject to separate financial reporting and other requirements.

The Ministry of Finance is responsible for monitoring financial issues with respect to our concession. The Ministry of Economy is responsible for all other issues under our concession. Disputes concerning the application and interpretation of our concession are resolved through arbitration. ANACOM is responsible for issuing regulations and is authorized to monitor and assess penalties up to a maximum of €5 million if we fail to fulfill our obligations under our concession or other obligations imposed by law.

Our Fixed Line Concession

The Portuguese government granted us a concession, currently held by our subsidiary, PT Comunicações, with an initial term expiring in 2025, which was terminated early after PT Comunicações and the Portuguese government reached an agreement in November 2013 on revoking that concession, following the designation of ZON and Optimus as the universal service provider of access to a publicly available electronic communications network and telephone services at a fixed location. On March 7, 2014, Decree-Law 35/2014 was published in the Portuguese official gazette, formally revoking our concession agreement pursuant to the November 2013 revocation agreement signed by us and the Portuguese government. In addition, Decree-Law 35/2014 provides that the revocation will become effective by June 1, 2014, at the latest, which corresponds to the deadline for commencement of the provision of the universal services by ZON and Optimus.

Our concession granted us the right to install, manage and operate the infrastructure that forms part of the basic telecommunications network. It also stipulated the provision of maritime mobile service, fixed telex service, fixed switched data transmission service and telegraph service, as services of public interest. Under the Electronic Communication Law of 2004, as the Universal Service Provider, PT Comunicações was also obligated to provide a comprehensive directory and directory inquiry services. However, other than our ceasing to be the Universal Service Provider (except with respect to public payphones), as described in " *Areas of Recent Regulation and Updates Universal Service Obligations*" below, the revocation of our concession will not cause any material change in the telecommunications services we are able to provide.

By resolution of the Council of Ministers of January 10, 2013, the Portuguese government determined that the maritime mobile service should cease to be provided as a service of public interest from April 30, 2013. After informing the subscribers of this service of the termination in advance, PT Comunicações proceeded to terminate it. In addition, pursuant to the Resolution of the Council of Ministers published on October 18, 2013, fixed telex service, fixed switched data transmission service and telegraph service (telegrams) no longer had the nature of public services as of January 31, 2014, thus terminating PT Comunicações' legal obligation to assure their provision. The clients of the first two services were informed of such discontinuation in advance. PT Comunicações opted commercially to continue the provision of fixed telegraph service as of February 1, 2014.

Furthermore, on July 20, 2013, the Portuguese 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 six months. PT Comunicações

Table of Contents

was the only company to submit a proposal under this procedure, whereby the Portuguese government awarded it the provision of these services, in November, 2013.

We are subject to a rights-of-way regime in Portugal, whereby each municipality may establish a fee, up to a maximum of 0.25% of each wireline services bill, to be paid by the customers of those wireline operators whose network infrastructures are located in each such municipality. Our exemption from municipal taxes is currently being challenged in court. See "*Item 8 Financial Information Legal Proceedings Claims for Municipal Taxes and Fees in Our Portuguese Telecommunications Business*."

DTT Services

For a summary of our usage rights for DTT, see "*Areas of Recent Regulation and Updates DTT Services*" below.

Our Fixed Line and Data Licenses

We also hold the following licenses: (1) a non-exclusive license to provide fixed line telephone services; (2) a non-exclusive license to be a "Public Telecommunications Networks" operator; and (3) all the licenses formerly held by Telepac, including a data communications license. Our current data communications license authorizes us to provide X.25/X.32 synchronous services and X.28 asynchronous services and other switched and non-switched data communications services, including frame relay and virtual private networks for data communications. The license also authorizes us to provide value-added services such as electronic data interchange and videotext services. In addition, the license authorizes us to construct certain network infrastructure in connection with licensed services. Licenses have also been granted to other providers of data communications and internet access services, including companies associated with major international telecommunications providers. However, companies are not required to have a license to provide data communications services and internet access. Instead, it is sufficient to register their intended services with ANACOM under its service registration scheme. Since 1997, we have also held a license to provide data communications services using satellite infrastructure and a license to offer voice services to corporate networks and other closed groups of users.

MEO's Mobile Service License

Portuguese mobile telephone service licenses are valid for 15 years and are issued by ANACOM. These licenses authorize the use of radio spectrum and the installation of base stations, base station controllers and control switching centers and require the licensee to construct networks capable of reaching at least 75% of Portugal's population within a specified period. Charges for the provision of mobile telephone services are not subject to regulation.

Through MEO, we hold a renewable license to provide traditional and GSM digital mobile telephone services throughout Portugal. The authorization for the use of GSM radio spectrum is valid until March 16, 2022. We are required to comply with a number of mobile telephone service criteria, including satisfying minimum quality standards regarding blocked call rates, network effectiveness and servicing time, and providing certain services. We are also required to provide ANACOM with information about our mobile telephone operations, including the number of customers, number and average duration of calls on a quarterly basis, and annual information about the development of infrastructure.

ANACOM also issues UMTS licenses, which are the European version of the globally accepted technical standards for 3G mobile communications. The broadband capacity of the frequency spectrum allocated under the UMTS licenses enables operators to supply video and internet content to mobile telephones at higher transmission speeds. On January 5, 2012, ANACOM issued a final report on an auction for the allocation of rights of use of frequencies in the 450, 800, 900, 1800 MHz and 2.1 and 2.6 GHz bands. Following that auction, on March 9, 2012, ANACOM issued the final renewable license to MEO, allowing the provision of electronic communications services based, among others, on LTE technology. This license is valid until March 2027, and it also unifies the previous GSM and UMTS licenses issued by ANACOM.

Areas of Recent Regulation and Updates

Number Portability and Carrier Selection

Number portability allows a subscriber at a specific location to change service providers without having to change telephone numbers. Under ANACOM regulations, we are required to allow number portability for both fixed line and mobile services within one working day, save for in exceptional circumstances duly identified. ANACOM requires call-by-call carrier selection to be offered by us for long distance and international calls. Call-by-call carrier selection enables customers to select the carrier of their calls by dialing a code connecting them to the selected carrier. All fixed line network operators with significant market power must offer carrier pre-selection. Carrier pre-selection allows customers to select the carrier that will be their default carrier. This removes the need for customers to dial any code to connect to their selected carrier when making calls.

DTT Services

PT Comunicações holds frequency usage rights for DTT associated with the transport of the signal of free-to-air television channels (the RTP, SIC and TVI broadcast channels), the so-called "*Multiplex A*" or "*Mux A*." PT Comunicações fulfilled all of its obligations with respect to the usage grant and successfully concluded the channel update process. PT Comunicações is entitled to receive compensation or reimbursement, to be provided pursuant to a governmental ordinance, for the costs related to the channel update process.The switch-off of the analog television network in Portugal occurred on April 26, 2012. Designed to ensure equal access to DTT, the DTT usage rights require PT Comunicações to subsidize the installation and purchase of DTT-related equipment for individuals with special needs (e.g., the elderly, low income groups, etc.).

Wholesale Reference Offers (Unbundling the Local Loop)

The EC requires fixed line network operators found to have significant market power in the relevant wholesale market for physical network infrastructure access at a fixed location to make the local loops between their customers and the local switches on their networks available to competitors. This allows such competitors to connect their networks to the copper "local loop" and use it to provide their services directly to those customers without having to invest in the local loop or to rely upon the network operator's relationship with the customers. Under this regulation, we are required to maintain a reference offer for unbundled access to our local loops and related facilities and to meet reasonable requests for unbundled access to our local loops and related facilities under transparent, fair and non-discriminatory conditions. Prices charged must be cost-oriented. The conditions under which the local loop unbundling services are provided are set forth in a published reference offer for unbundled access to our local loops in accordance with terms established by ANACOM. This reference offer covers all of our main distribution framework buildings where technical and space conditions allow co-location. Co-location means providing space and technical facilities to competitors to the extent necessary to reasonably accommodate and connect the relevant equipment of the competitor.

Leased Lines Reference Offers and Ethernet Access Reference Offers

Our Leased Lines Reference Offer (*oferta de referência de circuitos alugados*), or ORCA, sets forth the characteristics and the technical and commercial conditions associated with the provision of leased circuits by our subsidiary PT Comunicações in the wholesale markets. Our Ethernet Accesses Reference Offer (*oferta de referência de circuitos Ethernet*), or ORCE, sets forth the characteristics and the

Table of Contents

technical and commercial conditions associated with the provision of Ethernet circuits by PT Comunicações in the wholesale markets.

Following a decision by ANACOM on leased line markets, the retail leased line market was deregulated, which meant that our prices in this market ceased to be subject to a 26% retail-minus rule. However, for the wholesale leased line markets, in which we were declared an operator with significant market power, ANACOM decided to make Ethernet circuits subject to a retail-minus rule (which remains undefined by ANACOM). On July 14, 2012, ANACOM approved a final decision amending our ORCA and ORCE, the draft decision of which has been provided to the EC (which has subsequently stated it had no comment to the action), BEREC and national regulatory authorities of other Member States of the European Union. We have challenged this decision before the courts, arguing that the decision was illegal in certain respects.

Wholesale Market for Voice Call Termination on Individual Mobile Networks

The regulation of the market for wholesale voice call termination establishes a price control obligation on wholesale voice call termination services. Following EC recommendations on the regulatory treatment of fixed and mobile termination rates in the EU, this price control results in a cost-oriented price cap determined by a pure Long-Range Average Incremental Cost, or LRIC, bottom-up cost model.

On April 30, 2012, ANACOM set the termination rates to be applied in the wholesale market for voice call termination on individual mobile networks. In accordance with ANACOM's decision, the cost model for mobile termination set the maximum prices to be applied by the three mobile operators considered to have significant market power at €1.27 per minute, to be billed per second from the first second and independent of the origin of the call.

Next Generation Access Networks

ANACOM provides a segmented approach on the regulation of Next Generation Access Networks, or NGAs, which addresses several issues, including market and technological issues, the impact of NGAs on existing networks, applicable development models, public policy considerations and regulatory models. In areas designated "C" (competitive) areas, the main obligation is access to ducts, and in areas designated "NC" (non-competitive) areas, the obligations are access to ducts, access to fiber and advanced bitstream, subject to conditions. On February 6, 2012, ANACOM approved a draft decision related to the definition of the markets of wholesale (physical) network infrastructure access ("Market 4") and wholesale broadband access ("Market 5"), evaluation of significant market power and the imposition, maintenance, modification or suppression of regulatory obligations. ANACOM proposes to maintain the national scope of Market 4 and the geographic segmentation in Market 5, which is divided into "NC" Areas and "C" Areas (the latter unregulated). According to this draft decision, we will continue to be considered to have significant market power in Markets 4 and 5.

According to the draft decision concerning access obligations in the market of wholesale (physical) network infrastructure access, in addition to the obligation of granting unbundled access to copper loops and subloops and to ducts and poles at the national level, ANACOM intends to impose a geographically differentiated obligation to grant virtual access to optical fiber (advanced bitstream). This obligation would not be imposed in 17 municipalities that are considered to have conditions for other operators to invest in fiber. In addition, we would also be required to demonstrate to ANACOM that the difference between our retail prices and the prices of the wholesale offers made available to other operators does not result in a margin squeeze. The review was not concluded, due to the changes that took place in the domestic market during 2013 (merger between Zon and Optimus and investments initiated by Vodafone and Altice, for expansion of their fiber networks) and the publication, in September 2013, of the EC's recommendation on NGA non-discrimination and costing

Table of Contents

methodologies. In light of these developments, a new ANACOM consultation on Markets 4 and 5 is expected during the first half of 2014.

With respect to the roll-out of optic fiber networks, current Portuguese law establishes a legal framework for the construction of and access to infrastructure suitable for the accommodation of electronic communications networks and the construction of infrastructure for telecommunications in housing developments, urban settlements and concentrations of buildings. The law addresses access to the public domain, expropriation and the constitution of public easements, and amendments to existing law in 2009 introduced a new level of harmonization and transparency in procedures. In particular, the 2009 changes set forth several obligations in order to allow electronic communications operators to enjoy better conditions necessary for the installation and development of electronic communications networks.

The current legal framework also foresees the implementation of a Centralized Information System, or SIC, to be managed and operated by ANACOM and whose main objective is to make available information on infrastructure appropriate for the installation of electronic communications networks based on information provided by the Portuguese government, autonomous regions, municipalities, publicly held companies or concessionaires, other entities owning or using infrastructure in the public domain, autonomous regions or municipalities and electronic communications undertakings. Other elements, such as the terms upon which objects will be geographically defined through the combination of their administrative location and georeferencing, are also set forth.

Since PT Comunicações already has reference offers under which it is required to provide a substantial amount of information to operators that wish to use its ducts, poles and associated infrastructure, we are paying close attention to the implementation of the SIC, since we do not wish for the SIC to compound PT Comunicações's obligation to provide information regarding its ducts and associated infrastructure.

Between April 27, 2012 and July 20, 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 NGAs 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 November 22, 2012 and proposed a draft regulation on March 26, 2013. On November 28, 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.

Negotiations between the European Parliament and the European Council took place in early 2014. On April 15, 2014, the European Parliament plenary adopted the measures proposed in these negotiations to reduce the costs of deploying high-speed broadband networks with no substantial amendments to the final report published by the ITRE Committee of the European Parliament on March 20, 2014. No further amendments to this report are expected and the formal adoption by the European Council is expected during the first half of 2014. If adopted, Member States will be required to transpose the directive into national law by January 1, 2016 and these national laws will enter into force by July 1, 2016.

Table of Contents

On December 5, 2012, the EC sent its draft recommendation on NGA non-discrimination and costing methodologies to BEREC. The draft recommendation expands on the principles set out by Commissioner Kroes, in July 2012, that price orientation to costs could be more flexible in certain circumstances, in return of a tighter control of non-discrimination at the wholesale level. BEREC issued its opinion on this draft recommendation on March 26, 2013, endorsing the objectives of the EC but criticizing and asking for amendments of some aspects of the draft recommendation. According to BEREC, the recommendation should 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 July 11, 2013, the favorable opinion of COCOM (Communications Committee), enabling the final adoption of the recommendation.

On September 9, 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 Connected Continent package. The (non-binding) recommendation aims at promoting investment and innovation in new network infrastructures, while ensuring effective competition. The recommendation seeks to (i) 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 and (iii) increase regulatory certainty as to the circumstances that should lead to the non-imposition of regulated prices for wholesale access to next generation networks. The Connected Continent package was approved by the European Parliament on April 3, 2014 and this recommendation may have an adverse effect on our business.

Cost Accounting System, or CAS

PT Comunicações runs an activity-based, fully distributed historical cost model, first developed following the privatization of the company in 1995. The CAS is also a regulatory obligation imposed on us within the scope of our concession and relevant market regulations.

Following a set of ANACOM's determinations and recommendations concerning the improvement of PT Comunicações' CAS and the review and resubmission of the results of the CAS for 2007, and subsequently for 2008 and 2009, PT Comunicações sent the revised results of the CAS for these years to ANACOM (in February, April and May of 2013).

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

Following a request submitted by PT Comunicações and a public consultation, ANACOM approved on December 5, 2013 the final decision concerning the methodology for the calculation of PT Comunicações' Weighted Average Cost of Capital applicable from 2012.

In a letter dated August 29, 2013, ANACOM informed PT Comunicações of the schedules for the auditing processes to the CAS and the Net Costs of the Universal Service, or NCUS, for 2010 to 2012, and for the works concerning the revision of the CAS.

Compensation for the Negative Operating of the Mandatory Services

Until our concession is terminated, PT Comunicações has the right to be directly compensated by the Portuguese government for the negative operating margins resulting from the mandatory provision of fixed telex service, fixed switched data transmission service, telegram service, broadcasting and distribution service of telecommunications broadcasting signals and maritime mobile service.

ANACOM notified PT Comunicações of 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 (in its letter of April 8, 2013) and for 2008 and 2009 (in its letter of June 7, 2013); the

Table of Contents

corresponding notifications were sent by ANACOM to the General Inspection of Finance. In its letter of December 9, 2013, PT Comunicações submitted to ANACOM information on the operational margins of fixed telex service, telegram service and maritime mobile service, for 2012.

Currently, there is a proceeding with the arbitral court, convened by us in 2012, in which we have challenged the Portuguese government (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.

Regulation on the Settlement and Collection of Regulatory Fees

According to the Administrative Rule 1473-B/2008 of December 17, 2008, all providers are subject to the payment of a regulatory fee for the provision of electronic communications networks and services, through which they cover the administrative regulatory costs of ANACOM.

By a deliberation dated July 11, 2013, 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 to reimburse to the suppliers of networks and electronic telecommunication services a total amount of €334,316.04 for 2012, and €22,426.21 for a correction for 2011. As a result of this last correction, the contributory percentage was set at 0.5505% for 2011. For 2012, the contributory percentage was set at 0.5475%.

By a deliberation dated July 25, 2013, ANACOM determined the value of the administrative costs, to be considered for purposes of the settlement of the fees due for the exercise of the activity of supplier of networks and electronic telecommunication services, in the amount of €24,5 million in 2013.

In its letter of October 1, 2013, in reply to a request by ANACOM, PT Comunicações submitted to ANACOM the rectified declarations of the relevant profits for 2007 to 2009, following the adjustments resulting from the auditing process and calculation of the final NCUS values for those three years.

ANACOM, by a deliberation dated October 19, 2013, approved the revision of the settlement of the fees due for the exercise of the activity of supplier of publicly available networks and electronic communication services for 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 2007 to 2009. The upwards revision of PT Comunicações' relevant revenues resulted in an increase of the total amount of relevant revenues of the companies at "level 2", with an impact in the value of the contributory percentages for 2009 and 2010, which was set at 0.4827% and 0.4908%, respectively.

On October 31, 2013, ANACOM approved the revision of the settlement of fees due 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 October 16, 2013, in accordance with Article 9, paragraph 1 of Ordinance No. 1473-B/2008 of December 17, 2008, revised by Administrative Rule No. 296-A/2013, of October 2, 2013.

By a decision dated November 21, 2013, 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 at 0.4880% for 2013.

Table of Contents

Universal Service Obligations

For the past several years, we have had obligations as a universal service provider under a concession for public telecommunications service that will cease to be effective in the first half of 2014. Universal services are divided into three functions: (1) connection to a public telecommunications network at a fixed location and the provision of public telephone services, (2) publicly available telephones and (3) comprehensive directory and directory inquiry services. Under the tender for designation of the Universal Service Provider described below, these functions are further divided into three geographic regions: North, Center and South and Islands. On October 12, 2012, following ANACOM's decision on the designation of a universal service provider, the Portuguese Ministries of Finance, Economy and Employment launched a public tender to designate universal service providers for each of the three functions described above (referred to as Tender 1, Tender 2 and Tender 3), which included a compensation fund for universal service providers, as described below, and a related renegotiation of our concession. To select the company responsible for providing a comprehensive directory and a directory inquiry service, the criterion was the highest remuneration payable to the Portuguese government. The granting period for each of the services was set at five years. Pursuant to the qualifying report issued on February 2, 2013, PT Comunicações qualified for each of the Tender 1, Tender 2 and Tender 3 categories. The deadline for the submission of proposals for each of these tenders was March 15, 2013. PT Comunicações, ZON and Optimus presented bids for Tender 1, PT Comunicações presented the only bid for Tender 2, and no bids were presented for Tender 3.

On April 18, 2013, ANACOM published a preliminary report regarding the bids for Tenders 1 and 2, as there was no bidder in Tender 3. In accordance with this report, PT Comunicações did not present the lowest bid in Tender 1 (which was the relevant criterion for this tender) and, as such, will not continue to be the universal service provider of access to a public telecommunications network at a fixed location. PT Comunicações's services in this regard will cease on June 1, 2014, at the latest. See " *Our Concession and Existing Licenses and Authorizations Our Fixed Line Concession*" above.

However, PT Comunicações did submit the lowest bid for Tender 2 and will continue to be the universal service provider of publicly available telephone (payphones).

On October 18, 2013 the Portuguese government confirmed these results and determined the designation of Optimus and ZON as the universal service providers for the connection to a public electronic communications network at a fixed location and the provision of publicly available telephone services, and of PT Comunicações as the universal service provider for publicly available telephone (payphones).

In addition, on July 29, 2013, the Portuguese government decided to initiate a direct award procedure in respect of the provision of comprehensive directory and directory inquiry services for a period of 12 months, with the possibility of such period being extended for an additional 6 months. As the only company that presented a proposal, on November 7, 2013, PT Comunicações was awarded by the Portuguese government with the right to provide these services.

In addition, even in the cases where PT Comunicações is the universal services provider, we will be required to contribute to the compensation fund for universal services providers according to our share of the revenues of the national telecommunications sector.

By a deliberation dated August 1, 2013, ANACOM approved the draft decision on the final results of the audit to NCUS resubmitted by PT Comunicações for 2007 to 2009: €23,584,976.93 in 2007, €20,168,431.93 in 2008 and €23,057,573.48 in 2009. This draft decision was submitted to prior hearing of the interested parties and public consultation. On September 19, 2013, ANACOM approved the final decision having maintained the values proposed on the draft decision.

On August 19, 2013, following a deliberation by ANACOM dated June 20, 2013 regarding the decision on the results of the audit to NCUS for 2007 to 2009, PT Comunicações sent to ANACOM

Table of Contents

new values for the NCUS in 2010 and 2011, according to the final methodology settled. According to Law 35/2012, which established the compensation fund for the universal service of electronic communications, for the financing of the NCUS, on October 31, 2013 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 for 2007-2009.

Network Security

On December 12, 2013, ANACOM approved a decision on the circumstances, format, and procedures applicable to reports regarding security breaches or loss of integrity with a significant impact on the functioning of electronic communications networks and services available to the public. This decision also sets forth the conditions under which ANACOM considers there is a public interest in disclosing information regarding those events to the public. Further to this decision, we will have to implement all the necessary measures to comply with the same by June 12, 2014, which will require implementing new procedures and adapting information systems to produce the relevant information to notify to ANACOM.

Cloud Computing

The EC issued a review of cloud computing in Europe with the goal of enabling and facilitating its adoption throughout all sectors of the economy with the goal of cutting ICT costs and boosting productivity, growth and jobs. The EC put forward a set of measures that, in its view, are key to promoting cloud computing and ensuring users' rights.

On December 12, 2012, the Directorate-General for Justice organized a workshop on cloud computing contracts, with the purpose of exploring stakeholders' experiences and views on cloud computing contracts with the EC. The EC and stakeholders discussed possible future developments of the market, issues relating to cloud computing contracts, based on existing practice, the economic impact of these issues in cloud computing contracts and the possible ways forward. The EC considered the workshop a first step to find precise feasible mandate for an expert group that was formed in September 2013 to address cloud computing issue pertaining to fair and balanced contract terms, trust of costumers and users and increased legal certainty.

Cinema Law

Following the publication on September 6, 2012 of the Law No. 55/2012 (Cinema Law) that establishes the Portuguese government action principles in the promotion, development and protection of the art of cinema and cinematographic and audiovisual activities, which imposes obligations on television distributers and operators of video-on-demand services, two regulations of the Cinema Law were published.

Firstly, Decree-Law No. 9/2013 of January 24, 2013, which foresees, among other issues, the obligation to reverse charge the annual fee for each subscription of television services by July 1 of the following year to which the data reported relates as well as the obligation to provide to the Portuguese Cinema and Audiovisual Institute (*Instituto do Cinema e do Audiovisual*), or ICA, with the reports that were sent to ANACOM regarding the number of television services subscribers.

Secondly, Decree-Law No. 124/2013 of August 30, 2013, which foresees, among other issues, 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 June 30 of each year, the video-on-demand services revenues earned in the previous year, the obligation to report to ICA until January 31 of the following year to which the investment relates (1) the title, type and gender of each creative national film work object of investment; (2) the identification of the independent producers and other author and neighboring rights holders over such works; (3) the amount and type of investment made in each work; and (4) 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 October 17, 2013, we were notified by ICA of the official settlement regarding the above mentioned annual fee. Given that we believe such annual fee to be unconstitutional, we have decided not to make any payment and to provide a bank guarantee under the tax enforcement process of which it was notified on December 5, 2013. We will also file a complaint.

On January 2, 2014, the Portuguese government has made public the intention to propose to the European Parliament some changes regarding the Cinema Law, including (i) the reduction of the annual fee for TV subscriptions to €1.75 (to be increased up to a maximum of €2 from 2020 on) and (ii) the transfer of funds from ANACOM to ICA in an amount to be set between 75% and 100% of the total annual fee mentioned herein. The above-mentioned amendments were approved by the European Parliament on February 14, 2014.

Roaming

The EC regulates the roaming charges that may be charged in the wholesale market and the retail market in Europe. These regulations extend to data and SMS, or text messaging. On July 1, 2012, the previous roaming regulations were replaced by a new version, known as "Roaming III," which will expire on June 30, 2022. In addition to setting maximum voice roaming rates (subject to a glide path) that may be charged with respect to the wholesale market, retail market, data and SMS, Roaming III also features (1) extended transparency and consumer-protection measures ("bill-shock") that go beyond the EU territory, (2) a cap on retail data roaming communications, (3) the introduction of an obligation for mobile operators in the wholesale market to provide reasonable network access in order to allow roaming services and (4) the decoupling of roaming services from other services, while enabling a consumer to use the same number, no later than July 1, 2014.

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

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

As of July 1, 2014 the price caps, valid until June 30, 2017 (retail level) and June 30, 2022 (wholesale level), if not revised before, shall be of:

- For voice calls, at the retail level: €0.19/min for outgoing calls and €0.05/min for incoming calls. At the wholesale level: €0.05 for incoming calls;
- For outgoing SMS, €0.06 (retail) and €0.02 (wholesale); and
- For data traffic: €0.20/MB (retail) and €0.05/MB (wholesale).

On March 18, 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 September 27, 2012, and the separate roaming services (single IMSI and LBO Local break-out) sale was also object of specific guidance, published on July 5, 2013.

Table of Contents

In addition, the EC's proposed "Connected Continent" legislation could lead to the elimination of roaming charges for calls within the EU, as discussed in the next paragraph. The EC has stated that it believes roaming charges within the EU should end.

"Connected Continent" Legislative Package

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

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

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

Pricing of Fixed Line Telephone Services

ANACOM has established a pricing regime for fixed line telephone services. This pricing regime creates the following regulatory obligations for the retail market for telephone services at a fixed location:

- Under the universal service obligation, the price cap applies, based on a basket composed of residential access and domestic calls is the Portuguese Consumer Price Index, or CPI, minus 2.75%.

- The price of fixed-to-mobile calls (residential and non-residential) is required to be cost-oriented, and a price control is in place in the form of a cap of €0.063 on the amount retained by the fixed operator with respect to fixed-mobile calls.

- The price of off-net fixed calls is also subject to a cap corresponding to the on-net prices, corrected for the existing asymmetry between the wholesale voice calls termination rates of Portugal Telecom and other operators.

- The tariffs for domestic payphone calls are required to correspond to a maximum of three times the tariff for a residential phone call.

- A requirement to grant a 50% discount on our monthly fee for retired people, a price accessibility obligation that was included under our universal service obligations.

In addition, general regulatory obligations of transparency, non-discrimination, cost orientation, cost accounting and account separation apply to access to the fixed line network and to the telephone services at a fixed location.

Interconnection

The Interconnection Framework. The EU Access and Interconnection Directive requires that interconnection services be made available in a non-discriminatory manner. The EU Access and

Table of Contents

Interconnection Directive encourages commercial negotiations among operators but requires national regulatory authorities to establish mechanisms for effective dispute resolution. According to the EU Access and Interconnection Directive, all telecommunications companies with significant market power in the call origination or termination markets must:

- make interconnection access to their networks available to other network operators;
- not discriminate between interconnection customers;
- provide to those requesting interconnection the information and technical specifications necessary for them to interconnect their networks;
- offer interconnection prices that are transparent and cost-oriented and do not discriminate between interconnection customers; and
- maintain a separate accounting system for interconnection activities.

The EU Access and Interconnection Directive established the general conditions for access and interconnection among telecommunications operators in competitive markets. It guarantees the rights of new entrants to obtain interconnection from telecommunications operators with significant market power. ANACOM is entitled to review and modify our proposed interconnection rates and arrangements in our reference interconnection offer. ANACOM has established an overall interconnection framework based on cost and consistent with the EU legal framework for both wireline and mobile services.

Wireline Interconnection. ANACOM regulates call origination on fixed telephone networks provided at a fixed location and call termination on individual public telephone networks provided at a fixed location within the scope of market analysis and significant market power designations. ANACOM has declared the Portugal Telecom group to have significant market power in these markets. As a result, we are subject to price controls in these markets based on our costs and other factors and must publish a reference offer that includes these prices and quality of service standards.

Mobile Interconnection. All mobile operators are considered to have significant market power in call termination in mobile networks market. ANACOM has imposed price controls on interconnection rates for the termination of calls on mobile networks. These reductions have had, and are expected to continue to have, a significant impact on MEO's interconnection revenues and consequently its earnings.

Fixed Interconnection. On March 7, 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, or FTR, at €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 the EC.

On July 12, 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 2013, but proposing therein an average termination rate of €0.001114, which resulted from an update to the benchmark. In the draft decision notified to the EC, ANACOM imposed on PT Comunicações an obligation to submit, within 12 months, a proposal for access and IP interconnection.

Table of Contents

However, on August 14, 2013, 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 imposed upon all operators with significant market power operators. Having taken into consideration the EC comments, on August 27, 2013, 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 October 1, 2013: 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); and

From July 1, 2014: price 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 to adopt new and urgent provisional measures on November 27, 2013, with effect from December 1, 2013, clarifying that if operators choose to define a simplified tariff with only one price level, that 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 November 29, 2013, ANACOM launched a public consultation concerning the methodological definition regarding the development and implementation of a cost model for fixed termination, which ran until January 15, 2014. This consultation will be followed by another consultation, to take place during the second quarter of 2014, about the practical implementation of the costing model. During the second quarter of 2014, it is also expected that ANACOM will launch a new consultation about the review of the relevant market 3, this time including a (symmetric) obligation to ensure IP interconnection.

ANACOM has issued successive decisions that have reduced mobile termination rates over time. The reductions in mobile termination rates have had and will continue to have a negative effect on our cash flows and revenues.

Pricing for Mobile Origination Rates

In January 2012, the Portuguese Competition Authority completed an analysis on mobile rates for originating calls, finding origination rates to be excessive and stating that mobile operators must reduce their rates to the level of their costs by July 2012 or face the possibility of being sanctioned. All three mobile network operators decided to reduce its mobile originating rates between €0.07 and €0.0975 and no subsequent action from the Authority is expected.

Internet Access

As a result of past ANACOM decisions, we offer two access regimes to ISPs: (1) the Reference Offer for Internet Access, which includes two alternative pricing methods, primarily a monthly flat rate and a per minute origination charge, and under which the connection of the ISP's infrastructure to our fixed line network is based on DSS1 signaling, and (2) the Reference Interconnection Offer, which includes a pricing method based on call origination, under which the connection of the ISP's infrastructure to our fixed line network is based on Signaling System No. 7 (SS7) protocols. The ISPs determine which regime will apply to their arrangements to connect with our fixed line network.

Internet and Related Services

Various regulatory developments may affect our internet business. A Data Protection Directive was adopted by the EC in 2006, imposing data-retention obligations on operators. The law implementing

Table of Contents

this directive requires internet service providers and other electronic communications providers to preserve data for a specified period of time and imposes other obligations in this area.

Regulatory Proceedings

We are regularly involved in regulatory inquiries and investigations involving our operations. In addition, ANACOM, the EC, the Portuguese Competition Authority and ERC regularly make inquiries and conduct investigations concerning our compliance with applicable laws and regulations. These investigations are described in more detail in "*Item 8 Financial Information Legal Proceedings*."

Brazil

Overview

Oi's business, including the nature of the services it provides and the rates it charges, is subject to comprehensive regulation under the Brazilian General Telecommunications Law (*Lei Geral das Telecomunicações*) and a comprehensive regulatory framework for the provision of telecommunications services promulgated by ANATEL. Oi provides fixed line, domestic and international long-distance and mobile telecommunications services under concessions, authorizations and licenses that were granted by ANATEL and allow it to provide specified services in designated geographic areas, as well as set forth certain obligations with which it must comply.

ANATEL is a regulatory agency established pursuant to the General Telecommunications Law and the *Regulamento da Agência Nacional de Telecomunicações*. ANATEL oversees Oi's activities and enforces the General Telecommunications Law and the regulations promulgated thereunder. ANATEL is administratively independent and financially autonomous. ANATEL is required to report on its activities to the Brazilian Ministry of Communications. ANATEL has authority to propose and issue regulations that are legally binding on telecommunications services providers. ANATEL also has the authority to grant concessions and licenses for all telecommunications services, other than broadcasting services. Regulations and actions proposed by ANATEL are subject to a period of public comment, which may include public hearings. ANATEL's decisions may be challenged, administratively before the agency itself, or through the Brazilian judicial system.

Regulation of Fixed Line Services

General Policies for the Regulation of the Fixed Line Telecommunications Sector

Decree No. 4,733, which was intended to consolidate several changes in the regulation of Brazil's fixed line telecommunications sector, sets forth general declarations of policy regarding, among other things:

- universal access to telecommunications services;
- stimulation of employment and development of the Brazilian telecommunications sector;
- promotion of competition and adoption of rate readjustment policies that take into account Brazilian socioeconomic considerations; and
- the financial equilibrium of existing concession agreements.

This decree also defined certain changes that are reflected in the concession agreements entered into by providers of public regime services that became effective on January 1, 2006.

A number of bills affecting telecommunications policy have been submitted to the Brazilian Congress with an aim to make telecommunications services more accessible to Brazil's low-income population. These bills have proposed to eliminate the monthly subscription fee (*assinatura mensal*) that compensates telecommunications companies for extending and maintaining fixed line

Table of Contents

telecommunications services for their customers. If approved, this proposal is expected to affect the overall margin of telecommunications providers.

Rate Regulation

Public regime service providers must offer a basic service plan comprised of the following basic services: (1) installation, (2) monthly subscription, and (3) switched local minutes. Modifications of the rates charged for these basic services are determined by reference to a local rate basket that represents the weighted average of the rates for monthly subscriptions and switched local minutes. Rates for long-distance services originated and terminated on fixed lines vary in accordance with three basic criteria: (1) physical distance separating callers, (2) time of the day, and (3) day of the week on which the call is placed. Modifications of the rates charged for these long-distance services are determined by reference to a long-distance rate basket that represents the weighted average of the rates for long-distance calls. The rates for the provision of services through payphones and installation rates are treated separately. The rates for international long-distance services provided by Embratel, the incumbent international long-distance concessionaire, are regulated by ANATEL. However, the rates for international long-distance services charged by other long-distance service providers, all of whom provide these services under authorizations rather than concessions, are not subject to ANATEL regulation.

The concession agreements establish a price-cap mechanism for annual rate adjustments for basic service plans and domestic long-distance rates based on formulas set forth in each provider's concession agreement. The formula provides for two adjustments to the price cap based on the local rate basket, the long-distance rate basket and the use of a price index. The price cap is first revised upward to reflect increases in inflation, as measured by an index, then ANATEL applies a productivity discount factor, or Factor X, which reduces the impact of the rate readjustment provided by the index.

ANATEL calculates the sector's weighted average productivity rate. As of the date of this annual report, Factor X is equal to (1) 50% of the increase in the weighted average productivity rate of public regime providers, plus (2) 75% of a factor calculated by ANATEL that is designed to reflect cost optimization targets for the telecommunications industry as a whole. If the weighted average productivity rate is negative, ANATEL will not allow an annual adjustment in excess of the IST inflation index.

ANATEL has proposed new regulations under which it would modify the Factor X applicable to the determination of rate increases available to public concessionaires providing fixed line services. These regulations were submitted for public consultation in July 2011 and the public consultation period ended on September 1, 2011. These new regulations, as they may be modified as a result of ANATEL's further analysis, are expected to be adopted in 2014.

In April 2014, ANATEL approved increases of (1) 0.651%, on average, in the rate baskets that Oi is permitted to charge for regulated fixed-line local and long-distance services, and (2) 10.69% in the rates that Oi is permitted to charge for local fixed-line network usage (interconnection) under its concession agreements.

A provider may increase rates for individual services within the local rate basket or the long-distance rate basket by up to 5% more than the IST so long as the rates for other services in that rate basket are reduced to the extent necessary to ensure that the weighted average increase for the entire rate basket does not exceed the permitted annual rate adjustment.

A provider may also offer alternative plans in addition to the basic service plan. Alternative plans must be submitted for ANATEL's approval. The rates offered under the alternative plans may be adjusted annually based on the IST.

Table of Contents

General Plan on Universal Service

The General Plan on Universal Service sets forth the principal network expansion and modernization obligations of the public regime providers, such as providing public telephones in localities with a population in excess of 100 and installing residential fixed lines within seven days of a request in localities with a population in excess of 300. In addition, public regime providers must comply with the Special Individual Access Class (*Acesso Individual Classe Especial*) rules, which are designed to require service for economically disadvantaged people. Under the Special Individual Access Class rules, a qualifying customer may subscribe to a service plan, limited to one fixed line per household, and pay lower monthly fees for service than under basic service plans.

Public regime providers are also subject to network expansion requirements under the General Plan on Universal Service, which are revised by ANATEL from time to time. No subsidies or other supplemental financings are anticipated to finance Oi's network expansion obligations. Oi's failure to meet the network expansion and modernization obligations established by the General Plan on Universal Service or in its concession agreements may result in fines and penalties of up to R$50 million, as well as potential revocation of its concessions.

On June 30, 2011, the General Plan on Universal Service was amended. Among other things, these amendments:

- expanded the obligations of local fixed line service providers to provide individual access to fixed line voice services to economically disadvantaged segments of the Brazilian population within their service areas through programs to be established and regulated by ANATEL;
- reduced the density requirements applicable to the obligations of local fixed line service providers to provide public telephones in urban areas within their service areas; and
- expanded the obligations to provide universal service in rural and remote areas of local and long-distance fixed line providers that obtain authorizations to use radio spectrum in the 450 MHz band, including increased obligations to provide individual and group access to fixed line voice services.

Service Restrictions

Pursuant to regulations in effect as of the date of this annual report, public regime providers are subject to certain restrictions on alliances, joint ventures and mergers and acquisitions with other public regime providers, including:

- a prohibition on holding more than 20% of the voting shares of more than one other provider of public regime services; and
- a restriction on mergers between regional fixed line service providers.

ANATEL has adopted regulations eliminating the limitation on the number of authorizations to provide Pay-TV services. Law No. 12,485 creates a new legal framework for Pay-TV services in Brazil, replacing and unifying the previously existing regulatory provisions that governed various forms of Pay-TV services, such as cable television, Multichannel Multipoint Distribution Service, or MMDS, and DTH. The principal provisions of Law No. 12,485:

- allow fixed line telephone concessionaires, such as Oi, who previously were allowed to provide Pay-TV services using only MMDS and DTH technologies, to enter the cable television market in Brazil;
- remove existing restrictions on foreign capital investments in cable television providers;
- establish minimum quotas for domestic content programming on every television channel;

Table of Contents

- limit the total and voting capital held by broadcast concessionaires and authorized providers, and in television programmers and producers, with headquarters in Brazil to 30%; and

- prohibit telecommunications services providers with collective interests from acquiring rights to disseminate images of events of national interest and from hiring domestic artistic talent.

The framework established by Law No. 12,485 is expected to increase the availability and lower the price of Pay-TV services in Brazil, through increased competition among providers, and improve the quality, speed and availability of broadband internet services as a result of the expected proliferation of fiber optic cables used to transmit cable television.

In March 2012, ANATEL adopted new regulations under which the authorizations to provide various existing Pay-TV services have been consolidated into authorizations to provide a newly defined service called Conditional Access Service. Under these regulations, authorizations to provide Conditional Access Service apply to private telecommunications services, the receipt of which are conditioned on payment by subscribers, for the distribution of audiovisual contents in the form of packages, individual channels and channels with required programming by means of any communications technology, processes, electronic means or protocols. An authorization granted by ANATEL to provide Conditional Access Service is valid for the entire Brazilian territory. However, the provider must indicate in its application for an authorization the localities that it will service. In December 2012, ANATEL granted Oi's request to convert its DTH authorization agreement into a Conditional Access Service authorization. Although Oi has not yet signed the Conditional Access Service authorization agreement, the act by which ANATEL granted Oi's request authorized the company to begin offering the services to be governed by that agreement, including IP TV.

General Plan on Quality Goals

Fixed line service providers operating under the public regime or the private regime must comply with the provisions of the General Plan on Quality Goals. All costs related to compliance with the quality goals established by the General Plan on Quality Goals must be borne exclusively by the service provider. The General Plan on Quality Goals establishes minimum quality standards with regard to:

- modernization of the network;
- responses to repair requests;
- responses to change-of-address requests;
- rate of call completion;
- operator availability;
- availability of services to customers;
- personal services to customers;
- issuance of bills;
- responses to mail received from customers; and
- quality of public telephones.

These quality standards are measured according to definitions and quality indicators established by ANATEL. Every month, fixed line service providers are required to report their compliance with quality goals to ANATEL. Additionally, they are obligated to provide ANATEL with an in-depth report and analysis on each quality goal that is not satisfied. ANATEL may also collect such data from fixed line service providers at any time without prior notice. Fixed line service providers that fail to meet

Table of Contents

quality goals established by ANATEL may be subject to warnings, fines, intervention by ANATEL, temporary suspensions of service or cancellation of their concessions and authorizations.

ANATEL measures the performance of fixed line service providers in each individual state in which they operate. As a result, the performance of fixed line service providers in any particular state may not meet one or more quality performance targets even if such service provider's overall performance is satisfactory. Therefore, fixed line service providers, including Oi, could be subject to fines or penalties as a result of the failure to meet the quality performance targets in one or more particular states.

Oi's failure to meet the quality of service obligations established by the General Plan on Quality Goals or in its concession agreements may result in fines and penalties of up to R$40 million.

General Plan on Competition Targets

The General Plan on Competition Targets, which became effective in November 2012, contemplates the creation of one entity to manage information about telecommunications networks, act as an intermediary in contracts between telecommunications providers and supervise the offering of wholesale data traffic services. The General Plan on Competition Targets also addresses a variety of other matters relating to both fixed line and mobile service providers, including criteria for the evaluation of telecommunications providers to determine which providers have significant market power, regulations applicable to the wholesale markets for trunk lines, backhaul, access to internet backbone and interconnection services, and regulations related to partial unbundling and/or full unbundling of the local fixed line networks of the public regime service providers.

The General Plan on Competition Targets imposes stricter restrictions on providers that are deemed to have significant market power in a particular geographic area, ranging from a neighborhood within a municipality to the entire national territory. In order to determine whether a provider has significant market power, ANATEL established criteria that consider:

- the provider's market share in particular mobile interconnection and personal services market;
- the economies of scope and scale available to the provider;
- the provider's dominance over infrastructure that is not economically viable to duplicate; and
- that provider's concurrent operations in the wholesale and retail markets.

Infrastructure Sharing

Prior to the adoption of the General Plan on Competition Targets, ANATEL established rules for partial unbundling of the local fixed line networks of the public regime service providers, which Oi refers to as "line sharing," and which (1) limited the rates service providers can charge for line sharing, and (2) addressed related matters such as co-location space requirements. Co-location means that a service provider requesting unbundling may place its switching equipment in or near the local exchange of the service provider whose network the requesting service provider wishes to use and may connect to the network at this local exchange.

The General Plan on Competition Targets requires public regime service providers that have significant market power share their fixed line network infrastructure with other providers, including local fixed line access networks. Providers that are deemed to have significant market power must offer (1) full unbundling of copper wire or coaxial cable access networks, and (2) partial unbundling of broadband networks to accommodate bitstreams of up to 10 Mbps. The methodology by which the wholesale prices for these services will be determined will be established by ANATEL. ANATEL is expected to commence a public consultation process with respect thereto in 2014.

Table of Contents

Providers with significant market power must also share their passive infrastructure, such as telecommunications towers, with other service providers at prices determined by bilateral negotiations between the providers.

Interconnection Regulations Applicable to Personal Services Providers

The General Plan on Competition Targets established regulations for the rates charged by mobile service providers to terminate calls on their mobile networks, or VU-M rate. The General Plan on Competition Targets established a reference value for VU-M rates of providers that are deemed to hold significant market power and determined that beginning in 2016, VU-M rates will be determined on the basis of costs. Under the General Plan on Competition Targets:

- until February 2015, mobile service providers with significant market power will be able to charge service providers without significant market power for calls originating from or terminating on their network only if the outgoing traffic in a given direction of transmission is higher than 80% of the total traffic between such providers;

- between February 2015 and February 2016, mobile service providers with significant market power will be able to charge service providers without significant market power for calls originating from or terminating on their network only if the outgoing traffic in a given direction of transmission is higher than 60% of the total traffic between such providers; and

- beginning in February 2016, mobile service providers with significant market power will be able to charge service providers without significant market power for calls originating from or terminating on their network at all times.

Roaming

Under the General Plan on Competition Targets, a mobile service provider with significant market power must offer roaming services to other mobile providers without significant market power at the maximum rate that the mobile service provider with significant market offers such services to its retail customers.

Regulation of Mobile Services

In September 2000, ANATEL adopted regulations that established operating rules for providers under the personal mobile service (*Serviço Móvel Pessoal*) regime. The regulations permitted ANATEL to grant authorizations to provide mobile telecommunications services under the personal mobile service regime. For purposes of the personal mobile service regulations, Brazil is divided into three service regions covering the same geographic areas as the concessions for fixed line telecommunications services.

Under the personal mobile services regulations:

- Band A and Band B service providers can apply for an additional frequency range;

- each service provider may apply to provide domestic and international long-distance services originating from its service region;

- existing service providers, as well as new entrants into the Brazilian telecommunications market, may bid for new licenses in all frequency bands, other than Band A and Band B;

- personal mobile services providers are required to offer a basic service plan to their customers containing certain prescribed features;

personal mobile services providers are required to establish interconnection rates for the use of one provider's network by another provider;

Table of Contents

- the number of regions in which a personal mobile services provider may offer services is not limited; and

- a personal mobile services provider, or its controlling shareholders, may not hold more than one personal mobile services authorization covering any specific region.

Auction of Personal Mobile Services Spectrum

Prior to the establishment of the personal mobile services regime, ANATEL granted licenses to mobile services providers to operate in each region of Brazil using Bands A and B. Subsequently, ANATEL successfully auctioned authorizations and licenses to operators in Band D and Band E. ANATEL granted TNL PCS, S.A. (which has since merged with Oi Mobile) initial authorization to provide personal mobile services in Region I and a license to operate in Band D. ANATEL granted Oi's initial authorization to provide personal mobile services in Region II and a license to operate in Band E. ANATEL conducted additional auctions of radio frequency licenses in 2004 and 2006, whereby Oi acquired an additional license to operate in Region II.

In December 2007, ANATEL auctioned the remaining spectrum of Bands A, B, C, D and E to existing service providers as extension blocks and auctioned additional spectrum in Band M (1.8 GHz) and Band L (1.9 GHz). In these auctions, TNL PCS, S.A. acquired (1) an authorization to provide personal mobile services in the State of São Paulo and licenses to operate using Band M throughout the State of São Paulo and Band E outside of the city of São Paulo, and (2) licenses to use additional spectrum in 12 states in Region I.

Auction of 3G Spectrum

In preparation for auctions of spectrum in Bands F, G, I and J (2.1 GHz), the use of which allows personal mobile services providers to offer 3G services to their customers, ANATEL issued regulations that divide the Brazilian territory into nine regions for purposes of operations using these frequency bands. In December 2007, ANATEL auctioned radio frequency licenses to operate on each of these frequency bands in each of the nine regions and the related licenses to use these frequency bands. In this auction, Oi acquired the radio frequency licenses necessary to offer 3G services in two of the nine regions delineated by ANATEL for 3G services (corresponding to Region II under the personal mobile services regime) and TNL PCS, S.A. acquired radio frequency licenses necessary to offer 3G services in six of the nine regions delineated by ANATEL for 3G services (corresponding to Region I and Region III under the personal mobile services regime, other than an area that consists of 23 municipalities in the interior of the State of São Paulo that includes the city of Franca and surrounding areas).

Authorizations to Use 450 MHz Band and 2.5 GHz Band

Under Executive Decree 7,512, dated June 30, 2011, ANATEL granted authorizations to telecommunications providers to use radio spectrum in the 450 MHz band radio spectrum and the 2.5 GHz radio spectrum, the latter of which allows telecommunications providers to offer 4G services to their customers. Among other obligations, licensees of radio frequencies in the 450 MHz band radio spectrum must agree to provide individual and collective voice and data services in rural and remote areas, in accordance with the provisions of Executive Decree 7,512 and the General Plan on Universal Service. In June 2012, Oi acquired radio frequency licenses necessary to offer 4G services in 5,564 municipalities in Region I, Region II and Region III.

Personal Mobile Services Rate Regulation

Rates for personal mobile services are regulated by ANATEL. Personal mobile services providers are required to offer a basic service plan that consists of a monthly subscription, local calls and

Table of Contents

roaming. Basic service plans were approved by ANATEL for each of the personal mobile services providers following the grant of personal mobile services authorizations to each of these providers.

Following the effectiveness of the basic service plans, annual adjustments of the rates under these plans have been subject to a price-cap mechanism. Through 2005, rates were adjusted annually by no more than the rate of inflation, as measured by the IGP-DI. In 2006, ANATEL replaced the IGP-DI with the IST to calculate annual rate adjustments.

Personal mobile services providers are permitted to offer non-discriminatory alternative plans to the basic service plan. The rates charged under these plans (*e.g*., monthly subscription rates, charges for local calls and roaming charges) are subject to ANATEL approval prior to the time that these plans are first offered to mobile customers. Following the approval of these plans, the rates under these plans may be increased up to an annual adjustment that is approved by ANATEL and is no more than the rate of inflation, as measured by the IST.

Although subscribers of a plan cannot be forced to migrate to new plans, existing plans may be discontinued as long as all subscribers receive a notice to that effect and are allowed to migrate to new plans within six months of such notice. Discounts from the rates set in basic service plans and alternative service plans may be granted to customers without ANATEL approval.

In November 2012, ANATEL adopted revisions to the personal mobile services regulations that became effective in February 2013. Under these revised regulations, successive telephone calls originating from one telephone number to the same prior destination are considered one single call if the time elapsed between calls is equal to or less than 120 seconds, regardless of the duration of each individual call.

Obligations of Personal Mobile Services Providers

As a telecommunications services provider, Oi is subject to requirements concerning network expansion and quality of service, as established in applicable regulations and in its personal mobile services authorizations. If Oi fails to meet these obligations it may be fined, subject to a maximum penalty of R$50 million, until it is in full compliance with its obligations. While it is possible for an authorization to be revoked for non-compliance with these obligations, there is no precedent for such a revocation.

Network Expansion Obligations

The personal mobile services authorizations set forth certain obligations and targets that must be met by a personal mobile services provider.

Quality of Service Obligations

Oi's personal mobile services authorizations impose obligations to meet quality of service standards relating to its network's ability to make and receive calls, call failure rates, capacity to handle peak periods, failed interconnection of calls and customer complaints. ANATEL defines these quality of service standards, and Oi must report information in connection with such standards to ANATEL.

Additional Obligations

ANATEL has adopted revisions to the personal mobile services regulations. These regulations impose additional obligations on personal mobile services providers, particularly in connection with customers' rights. These obligations require personal mobile services providers to:

- establish at least one customer service center in each registration area served that has more than 100,000 inhabitants;

Table of Contents

upgrade customer service centers to improve access by people with hearing disabilities;

increase the term applicable to prepaid cards from 90 days to 180 days or more;

deliver to prepaid customers a detailed report of service use upon request;

reimburse unused prepaid credits;

limit the duration of contracts with prepaid customers to 12 months;

permit customers to change service plans without penalties; and

unblock mobile handsets, allowing a customer who purchased a mobile handset from any personal mobile services provider to use it on the network of another personal mobile services provider.

Interconnection Regulations

Under the General Telecommunications Law, all telecommunications services providers are required, if technically feasible, to make their networks available for interconnection on a non-discriminatory basis whenever a request is made by another telecommunications services provider. Interconnection permits a call originated on the network of a requesting fixed line or personal mobile services provider's network to be terminated on the fixed line or personal mobile services network of the other provider. ANATEL initially adopted General Rules on Interconnection (*Regulamento Geral de Interconexão*) in 1998, which were amended and restated in July 2005.

Interconnection Regulations Applicable to Fixed Line Providers

Interconnection fees are charged at a flat rate per minute of use of a fixed line provider's network. Interconnection rates charged by a fixed line provider to terminate a call on its local network, or the TU-RL rate, or intercity network, or TU-RIU rate, are subject to a price cap established by ANATEL. The price cap for interconnection rates varies from service provider to service provider based on the retail prices of each service provider.

Fixed line service providers must offer the same TU-RL and TU-RIU rates to all requesting providers on a non-discriminatory basis. The price caps on interconnection rates are adjusted annually by ANATEL at the same time that rates for local and long-distance rates are adjusted. Fixed line service providers are only required to pay interconnection fees to another fixed line service provider for traffic in the same local area in the event that the ratio of the outbound traffic generated by that provider (measured in minutes) to the inbound traffic terminated by that provider (measured in minutes) exceeds 75% or was less than 25%. This system is designated the "partial bill-and-keep" system.

In 2006, ANATEL established that (1) the TU-RL rates that fixed line service providers could charge each other to terminate a call on their respective networks was 50% of the rate included in their Basic Plan per Minute for a local fixed line call, and (2) the TU-RIU rates that fixed line service providers could charge each other to use a portion of their long-distance networks to complete long-distance calls was 30% of the applicable domestic fixed line-to-fixed line long-distance rates for calls of more than 300 km. In 2007, the TU-RL rates of the fixed line service providers were reduced to 40% of the rate included in their Basic Plan per Minute for a local fixed line call.

ANATEL announced that beginning in 2008, the method used to determine the TU-RL rates would be based on a cost methodology, known as long-run incremental costs, or LRIC. However, in October 2007, ANATEL published an official letter delaying this change until the end of 2010. In September 2010, ANATEL commenced the bidding process to engage an international consultant to assist with the development of the long-run incremental cost methodology. We expect that in the first half of 2014, ANATEL will announce rates based on a long-run incremental cost methodology that will be applicable beginning in 2016.

In May 2012, ANATEL adopted revisions to the regulations relating to TU-RL rates and TU-RIU rates that became effective in August 2012. Under the revised regulations (1) between August of 2012 and December of 2013, fixed line service providers will be able to charge other fixed line service providers for local fixed line calls originating on their local fixed line networks and terminating on the other provider's local fixed line networks only if the outgoing traffic in a given direction of transmission is higher than 75% of the total traffic between such providers, and (2) beginning in January 2014, fixed line service providers will no longer be able to charge other fixed line service providers for local fixed line calls originating on their local fixed line networks and terminating on the other provider's local fixed line networks.

In August 2012, the TU-RIU rates were reduced to 25% of the applicable domestic fixed line rates for calls with more than 300 km, and in January 2013, TU-RIU rates were reduced to 20% of the applicable domestic fixed line rates for such calls.

Interconnection Regulations Applicable to Personal Mobile Services Providers

Interconnection fees are charged at a flat rate per minute of use of a personal mobile services provider's network. The terms and conditions of interconnection agreements of all personal mobile services providers, including the VU-M rate (the rate charged by the operator of the network to terminate a call on its mobile network), commercial conditions and technical issues, are freely negotiated between mobile and fixed line telecommunications services providers, subject to compliance with regulations established by ANATEL relating to traffic capacity and interconnection infrastructure that must be made available to requesting providers, among other things.

Personal mobile services providers must offer the same VU-M rate to all requesting providers on a non-discriminatory basis. Interconnection agreements must be approved by ANATEL before they become effective, and they may be rejected if they are contrary to the principles of free competition and the applicable regulations. If the providers cannot agree upon the terms and conditions of interconnection agreements, ANATEL may determine terms and conditions by arbitration. Since no agreement with fixed line service providers could be reached regarding VU-M rates when Oi began offering personal mobile services, ANATEL set the initial VU-M rates. Personal mobile services providers negotiate annual rate increases for their VU-M charges with the fixed line telecommunications providers. If the providers cannot agree upon the terms and conditions of annual rate increases, ANATEL may determine the annual rate increases by arbitration.

In November 2011, ANATEL adopted new regulations under which ANATEL was authorized to reduce the then-current VC-1, VC-2 and VC-3 rates by as much as 18% in 2011, 12% in 2012 and 10% in 2013, after giving effect to an inflation adjustment based on the IST measured from June 2009. In February 2012, ANATEL ordered Oi to reduce its VC-1, VC-2 and VC-3 rates by approximately 10%, although Oi is appealing the timing of the application of this rate reduction, as its VC-1 rate was increased in Region I by 1.54% in accordance with Oi's application for this increase in February 2012. In March 2013, ANATEL reduced Oi's VC-1 rates in Region I and Region II by approximately 18.6% and 8%, respectively. These regulations also provided procedures under which ANATEL adopted a maximum VU-M rate that is applicable in the event that providers cannot agree upon the VU-M applicable in their interconnection agreements. Under the General Plan on Competition Targets, in February 2014, the VU-M rate was reduced to 75% of the maximum VU-M rate established by ANATEL in December 2013, and in February 2015 will be reduced to 50% of the maximum VU-M rate established for 2013. The maximum VU-M rate established by ANATEL is R$0.33 per minute.

Table of Contents

Number Portability Regulations

Number portability is the ability of a customer to move to a new home or office or switch service providers while retaining the same fixed line or mobile telephone number. The General Regulation of Portability (*Regulamento Geral de Portabilidade*) established general rules regarding portability of fixed line and mobile telephone numbers. These regulations permit fixed line customers to retain their telephone numbers if they become customers of a different fixed line service provider in the same municipality or if they move to a new home or office in the same municipality. Personal mobile services customers are permitted to retain their telephone numbers if they change their service plan or if they become customers of a different personal mobile services provider within the same registration area. Each telecommunications provider has been required to contract a third-party management entity to manage all procedures relating to number portability. Service providers are permitted to charge a migrating customer that elects to retain its telephone number a one-time fee of no more than R$4.00. This amount is intended to compensate the customer's current provider for the costs associated with managing the portability process. The new provider may elect to absorb this fee on behalf of the customer.

Regulation of Data Transmission and Internet Services

Under Brazilian regulations, ISPs are deemed to be suppliers of value-added services and not telecommunications services providers. Value-added services are activities that add features to a telecommunications services supported by such value-added services. Telecommunications services providers are permitted to render value-added services through their own networks. In addition, ANATEL regulations require all telecommunications services providers and cable television operators to grant network access to any party interested in providing value-added services, including internet access, on a non-discriminatory basis, unless not technically feasible.

ANATEL has adopted regulations applicable to fixed line service providers with significant market power. Under these regulations, these providers are required to make the forms of agreements that they use for EILD and SLD services publicly available, including the applicable rates, and are only permitted to offer these services under these forms of agreement. Following publication of these forms of agreement, the rates under these agreements may be increased on an annual basis by no more than the rate of inflation, as measured by the IST. ANATEL also publishes reference rates for these services, and if a customer objects to the rates a provider charges for these services, the customer is entitled to seek a reduction in the applicable rate through arbitration before ANATEL.

Multimedia Communications Service Quality Management Regulations

In June 2011, the President of Brazil issued Executive Decree No. 7,512/11, which mandated ANATEL to take the necessary regulatory measures to establish quality standards for broadband internet services. In compliance with such decree, on October 31, 2011, ANATEL published a resolution approving the Multimedia Communications Service Quality Management Regulations (*Regulamentação de Gestão da Qualidade do Serviço de Comunicação Multimídia*), which identify network quality indicators and establish performance goals for multimedia communications service providers, including broadband internet service providers, with more than 50,000 subscribers. Such providers will be required to collect representative data using dedicated equipment installed at the site of each network connection and be subject to periodic measurements to ensure their compliance with these regulations, including:

- individual upload and download speeds of at least 20%, 30% and 40% of contracted speeds per measurement for at least 95% of all measurements, during the first year, second year and thereafter, respectively, following implementation of the regulations;

Table of Contents

- average upload and download speeds of at least 60%, 70% and 80% of contracted speeds for all measurements during the first year, second year and thereafter, respectively, following implementation of the regulations; and

- individual round-trip latencies for fixed line connections of up to 80 milliseconds per measurement for at least 95% of the measurements.

To increase transparency, customers must be provided with specialized software at no cost to measure their own network quality, although such customer-generated measurements will not be included in official calculations. In addition to ensuring network quality standards, service providers must hire specialized companies to measure customer service and customer satisfaction indicators, including complaint resolution, customer service personnel competence, customer perceptions relating to billing and quality of technical support staff. Service providers must comply with the above-mentioned quality standards beginning on the thirteenth month following implementation of the regulations. Failure to meet such standards will subject non-compliant service providers to sanctions. Oi has met these standards for 2013.

Concessions, Authorizations and Licenses

Under the General Telecommunications Law and ANATEL regulations, the right to provide telecommunications services is granted either through a concession under the public regime or an authorization under the private regime. A concession is granted for a fixed period of time following a public auction and is generally renewable only once. An authorization is granted for an indeterminate period of time and public auctions are held for some authorizations. These concessions and authorizations allow service providers to provide specific services in designated geographic areas, set forth certain obligations with which the service providers must comply and require equal treatment of customers by the service providers.

The three principal providers of fixed line telecommunications services in Brazil (Oi, Telesp and Embratel) provide these services under the public regime. In addition, CTBC and Sercomtel, which are secondary local fixed line telecommunications service providers, operate under the public regime. All of the other providers of fixed line telecommunications services and all providers of personal mobile services and data transmission services in Brazil operate under the private regime.

Providers of public regime services, such as Oi, are subject to more obligations and restrictions than providers of private regime services. Under Brazilian law, providers of public regime services are subject to certain requirements with respect to services such as quality of service, continuity and universality of service, network expansion and network modernization. Additionally, the rates that public regime service providers may charge customers are subject to ANATEL supervision.

With the goal of introducing competition in fixed line telephone services in Brazil, the federal government has granted four private-regime authorizations to permit fixed line service providers to compete with the incumbent fixed line concessionaires. The number of authorizations that the federal government may issue is unlimited. Providers of private regime services, although not generally subject to the requirements concerning continuity and universality of service and network modernization, are subject to certain network expansion and quality of service obligations set forth in their respective authorizations.

Oi operates under:

- a concession to provide local fixed line services in Region I (other than the 57 municipalities in the State of Minas Gerais that are excluded from the concession area of Region I) and a concession to provide local fixed line services in Region II (other than the nine municipalities in the States of Goiás, Mato Grosso do Sul and Paraná that are excluded from the concession area of Region II);

Table of Contents

- a concession to provide domestic long-distance services in Region I (other than the 57 municipalities in the State of Minas Gerais that are excluded from the concession area of Region I) and a concession to provide domestic long-distance services in Region II (other than the nine municipalities in the States of Goiás, Mato Grosso do Sul and Paraná that are excluded from the concession area of Region II);

- authorizations to provide personal mobile services in Region I, Region II and Region III;

- radio frequency licenses to provide 3G mobile services in Region I, Region II and Region III (other than 23 municipalities in the interior of the State of São Paulo that include the city of Franca and surrounding areas);

- radio frequency licenses to provide 4G mobile services in Region I, Region II and Region III;

- authorizations to provide local fixed line services and domestic long-distance services in (1) the 57 municipalities in the State of Minas Gerais that are excluded from the concession area of Region I, (2) the nine municipalities in the States of Goiás, Mato Grosso do Sul and Paraná that are excluded from the concession area of Region II, and (3) Region III;

- authorizations to provide international long-distance services originating anywhere in Brazil;

- authorizations to provide Multimedia Communication Services (*Serviço de Comunicação Multimídia*) throughout Brazil; and

- an authorization to provide Pay-TV services throughout Brazil.

These concessions and authorizations allow Oi to provide specific services in designated geographic areas and set forth certain obligations with which Oi must comply.

Termination of a Concession

ANATEL may terminate the concession of any public regime telecommunications services provider upon the occurrence of any of the following:

- an extraordinary situation jeopardizing the public interest, in which case the Brazilian government may render the services set forth under the concession in lieu of the concessionaire, subject to congressional authorization and payment of adequate indemnification to the holder of the terminated concession;

- termination by the provider (through an agreement with ANATEL or pursuant to legal proceedings) as a consequence of an act or omission of the Brazilian government that makes the rendering of the services excessively burdensome to the provider;

- annulment of the concession due to a contractual term, which is deemed by subsequent law to be illegal;

- material failure to comply with the provider's universalization targets;

failure to meet insurance requirements set forth in the concession agreement;

a split-up, spin-off, amalgamation, merger, capital reduction or transfer of the provider's control without ANATEL's authorization;

the transfer of the concession without ANATEL's authorization;

the dissolution or bankruptcy of the provider; or

an extraordinary situation in which Brazilian government intervention, although legally permissible, is not undertaken, as such intervention would prove to be inconvenient, unnecessary or would result in an unfair benefit to the provider.

Table of Contents

In the event a concession is terminated, ANATEL is authorized to administer the provider's properties and its employees in order to continue rendering services.

Fixed Line Services Concession Agreements

Oi has entered into concession agreements with ANATEL that govern its concessions to provide fixed line services in the Federal District and each of the states of Region I and Region II. Each of Oi's concession agreements:

- expires on December 31, 2025;
- sets forth the parameters that govern adjustments to its fixed line services rates;
- requires compliance with the network expansion obligations set forth in the General Plan on Universal Service;
- requires compliance with certain quality of service obligations set forth in the concession agreements as well as the quality of service obligations set forth in the General Plan on Quality Goals;
- requires payment of biannual fees equal to 2.0% of Oi's net operating revenue derived from the provision of local fixed line services (excluding taxes and social contributions) during the immediately preceding year, while allowing Oi to apply the amount of such fees to finance the expanded service obligations created by the amended General Plan on Universal Service in lieu of making payment to ANATEL;
- allows Oi to offer Pay-TV services such as IP TV, over its fixed line networks;
- requires the implementation of electronic billing systems;
- sets forth the conditions under which ANATEL may access information from Oi;
- requires the payment of fines for systemic service interruptions; and
- requires Oi to rescind its contracts if ANATEL determines they are contrary to any rules or regulations, economic order or public interest.

These concession agreements also required Oi to provide transmission lines connecting its fiber-optic internet backbones to municipalities in Oi's concession areas in which it did not provide internet service, which Oi refers to as "backhaul." Under these concession agreements, Oi was obligated to set up backhaul in 3,252 municipalities in Region I and Region II. The facilities that Oi constructed to meet these obligations are considered to be property that is part the concessions and will therefore revert to the Brazilian government on January 1, 2026.

These concession agreements provide that ANATEL may modify their terms in 2015 and 2020 and may revoke them prior to expiration under the circumstances described above. The modification right permits ANATEL to impose new terms and conditions in response to changes in technology, competition in the marketplace and domestic and international economic conditions. ANATEL is obligated to engage in public consultation in connection with each of these potential modifications.

Domestic Long-Distance Services Concession Agreements

Oi has entered into concession agreements with ANATEL that govern its concessions to provide domestic long-distance services originating from the Federal District and each of the states of Region I and Region II. Each of Oi's concession agreements:

- expires on December 31, 2025;
- sets forth the parameters that govern adjustments to its domestic long-distance services rates;

Table of Contents

- requires compliance with certain quality of service obligations set forth in the concession agreements as well as the quality of service obligations set forth in the General Plan on Quality Goals;

- requires payment of biannual fees equal to 2.0% of Oi's net operating revenue that is derived from the provision of domestic long-distance services (excluding taxes and social contributions) during the immediately preceding year;

- requires the implementation of electronic billing systems;

- sets forth the conditions under which ANATEL may access information from Oi;

- requires the payment of fines for systemic service interruptions; and

- requires Oi to rescind its contracts if ANATEL determines they are contrary to any rules or regulations, economic order or public interest.

These concession agreements provide that ANATEL may further modify their terms in 2015 and 2020 and may revoke them prior to expiration under the circumstances described above. The modification right permits ANATEL to impose new terms and conditions in response to changes in technology, competition in the marketplace and domestic and international economic conditions. ANATEL is obligated to engage in public consultation in connection with each of these potential modifications.

Personal Mobile Services Authorization Agreements and Radio Frequency Spectrum Licenses

Oi has entered into authorization agreements with ANATEL that govern its authorization to provide personal mobile services in Region I, Region II and Region III. These authorizations permit Oi to provide personal mobile services for an indeterminate period of time, but do not provide Oi with the right to use specific radio frequency spectrum.

Oi holds five licenses to use radio frequency spectrum to provide 2G services in Regions I and II and four licenses in Region II. These licenses grant permission to use the applicable radio spectrum for 15 years from the date of the authorization agreement under which they are granted and are renewable for 15-year terms. Upon renewal of any of these licenses and on every second anniversary of such renewal, Oi will be required to pay an amount equal to 2.0% of its prior year's net operating revenue from personal mobile services. The initial terms of Oi's radio frequency spectrum licenses expire between 2016 and 2022.

Oi's authorization agreements are subject to network scope and service performance obligations. Specifically, Oi is required to (1) service all municipalities in Region I and Region II with a population in excess of 100,000, and (2) service all municipalities in Region III with a population in excess of 200,000. In addition, by the fifth anniversary of the date of the authorization agreement for Region III, Oi will be required to service all municipalities in Region III with a population in excess of 100,000. A municipality is considered "serviced" when the covered service area contains at least 80% of the urban area in the municipality. Oi's failure to meet these targets may result in the imposition of penalties, in extreme circumstances, in termination of Oi's personal mobile services authorizations. As of the date of this annual report, Oi has satisfied the network scope and service performance obligations set forth in the authorization agreements. However, Oi has not yet received ANATEL's inspection report.

3G Radio Frequency Licenses

Oi holds five licenses to use radio frequency spectrum to provide 3G services in Region I, Region II and Region III. Each of these licenses grants permission to use the applicable radio spectrum for 15 years from the date of grant and is renewable for 15-year terms. Oi will be required to pay an amount equal to 2.0% of its prior year's net operating revenue from personal mobile services upon renewal of the license and on every second anniversary of the renewal. The initial terms of these licenses expire in 2023.

These radio frequency licenses include network scope obligations. Under these obligations, Oi is currently required to (1) provide service to 168 municipalities in Region II that did not have mobile services at the time these licenses were granted with either 2G or 3G mobile telecommunications services, (2) provide 3G service to all state capitals in Region II, the Federal District and all municipalities with a population in excess of 200,000 inhabitants, (3) provide 3G service to all of the municipalities covered by these licenses with a population in excess of 100,000 and (4) provide 3G service to 50% of all of the municipalities with a population between 30,000 and 100,000. In addition, Oi will be required to provide 3G service to 60% of the municipalities, including 641 specified municipalities, covered by these licenses with a population less than 30,000 by the eighth anniversary of the date of these licenses.

A municipality is considered "serviced" when the covered service area contains at least 80% of the urban area in the municipality. Oi's failure to meet these targets may result in the imposition of penalties, and in extreme circumstances, in the termination of the 3G frequency licenses. As of the date of this annual report, Oi has satisfied the network scope and service performance obligations set forth in the licenses. However, Oi has not yet received ANATEL's inspection report.

4G Radio Frequency Licenses

Oi holds three licenses to use radio frequencies in 2.5 GHz sub-bands to provide 4G services in Region I, Region II and Region III. Each of these licenses grants permission to use the applicable radio spectrum for 15 years from the date of grant and is renewable for 15-year terms. Oi will be required to pay an amount equal to 2.0% of its prior year's net operating revenue from 4G services upon renewal of the license and on every second anniversary of the renewal. The initial terms of these licenses expire in 2027.

These radio frequency licenses include network scope obligations. Under these obligations, Oi will be required to:

- provide 4G service in all of the host municipalities of the 2013 FIFA Confederations Cup by April 30, 2013 and all of the host municipalities of the 2014 FIFA World Cup by December 31, 2013, an obligation with respect to which we are awaiting ANATEL's final inspection report to be considered accomplished;
- provide 4G service in all state capitals, municipalities with a population in excess of 500,000 and the Federal District by May 31, 2014;
- provide 4G service to all of the municipalities covered by these licenses with a population in excess of 200,000 by December 31, 2015;
- provide 4G service to all of the municipalities covered by these licenses with a population in excess of 100,000 by December 31, 2016;
- provide 4G service to all of the municipalities covered by these licenses with a population between 30,000 and 100,000 by December 31, 2017;
- provide 4G service to 30% of the municipalities covered by these licenses with a population less than 30,000 by December 31, 2017;
- provide 4G service to 60% of the municipalities covered by these licenses with a population less than 30,000 by December 31, 2018;
- provide 4G service to all of the municipalities covered by these licenses with a population less than 30,000 by December 31, 2019;

Table of Contents

- provide voice services in the 450 MHz spectrum and data services at minimum upload speeds of 128 kbps and download speeds of 256 kbps and a minimum monthly allowance of 250 MB in 289 municipalities in the States of Goiás, Mato Grosso, Mato Grosso do Sul, Rio Grande do Sul and the Federal District by June 30, 2014, and in 384 such municipalities by December 31, 2015 and offer voice services in the 450 MHz spectrum and data services at minimum upload speeds of 256 kbps and download speeds of 1Mbps and a minimum monthly allowance of 500 MB in 962 such municipalities by December 31, 2017;

- provide unlimited data services at minimum upload speeds of 256 kbps and download speeds of 128 kbps to rural schools in 289 municipalities in the States of Goiás, Mato Grosso, Mato Grosso do Sul, Rio Grande do Sul and the Federal District by June 30, 2014, in 384 such municipalities by December 31, 2015 and in 962 such municipalities by December 31, 2017; and

- make Oi's fixed line network available to other telecommunications services providers to allow them to comply with their obligations under the General Plan on Universal Service in 289 municipalities in the States of Goiás, Mato Grosso, Mato Grosso do Sul, Rio Grande do Sul and the Federal District by June 30, 2014, in 384 such municipalities by September 30, 2014 and in 962 such municipalities by September 30, 2015.

In addition, the 4G radio frequency licenses impose minimum investment obligations in domestic technologies. At least 60% of the cost of all goods, services, equipment, telecommunications systems and data networks that Oi purchases to meet its 4G service obligations must developed in Brazil. This minimum requirement will increase to 65% between January 1, 2015 and December 31, 2016 and 70% between January 1, 2017 and December 31, 2022.

Oi's failure to meet these targets may result in the imposition of penalties, and in extreme circumstances, in termination of the 4G frequency licenses. As of the date of this annual report, Oi has satisfied the network scope and service performance obligations set forth in the licenses.

Fixed Line Services Authorization Agreements

Oi has entered into authorization agreements with ANATEL that govern authorizations to provide local fixed line services in and domestic long-distance services originating from (1) the 57 municipalities in the State of Minas Gerais that are excluded from the concession area of Region I, (2) the nine municipalities in the States of Goiás, Mato Grosso do Sul and Paraná that are excluded from the concession area of Region II, and (3) Region III. These authorizations do not have termination dates and require compliance with certain quality of service obligations set forth in the General Plan on Quality Goals.

Oi has also entered into authorization agreements that govern authorizations to provide international long-distance services originating from anywhere in Brazil. These authorizations do not have termination dates and require compliance with certain quality of service obligations set forth in the General Plan on Quality Goals.

Multimedia Communication Services Authorization Agreements

Oi holds Multimedia Communication Services authorizations, which superseded its prior Telecommunications Network Transportation Services (*Serviço de Rede de Transporte de Telecomunicações*) authorizations, permitting Oi to provide high-speed data service. The Multimedia Communication Services authorizations became effective in May 2003 and cover the same geographical areas as Oi's concession agreements. In April 2008, in connection with the amendments to Oi's fixed line services concessions, it agreed to provide internet service free of charge until December 31, 2025 to all urban schools in the areas of its concession agreements.

Table of Contents

Pay-TV Authorization Agreement

In November 2008, Oi entered into an authorization agreement with ANATEL that governs its use of satellite technology to provide DTH satellite television services throughout Brazil. The authorization agreement permits Oi to provide DTH satellite television services for 15 years and is renewable for a 15-year term in exchange for a fee to be agreed upon between Oi and ANATEL.

Under this authorization, Oi is required to furnish equipment to certain public institutions, to make channels available for broadcasting by specified public institutions, and to comply with certain quality of service obligations set forth in applicable ANATEL regulations.

In December 2012, ANATEL granted Oi's request to convert its DTH authorization agreement into a Conditional Access Service authorization, allowing Oi to provide nationwide Pay-TV services through any technology, including satellite, wireline and coaxial cable. Although Oi has not yet signed the Conditional Access Service authorization agreement, the act by which ANATEL granted Oi's request authorized it to begin offering the services to be governed by such agreement, including IP TV. In accordance with the ANATEL resolution that approved the Conditional Access Service regime, Oi's Conditional Access Service authorization will prohibit it from creating television content or owning more than 30% of a company that creates content. Oi will also be required to carry a certain percentage of Brazilian programming, including open and public access channels.

Term of Commitment to Adhere to National Broadband Plan

On June 30, 2011, Oi entered into a Term of Commitment (*Termo de Compromisso*) with ANATEL and the Ministry of Communications to formalize its voluntary commitment to adhere to the terms of the National Broadband Plan, created in May 2010 by Executive Decree No. 7,175/10 with the goal of making broadband access available at low cost, regardless of technology, throughout Brazil. Pursuant to the Term of Commitment, Oi is required to offer (1) broadband services with minimum upload and download capabilities to retail customers in certain sectors of Region I and Region II for a maximum price of R$35 per month (or R$29.90 in ICMS-exempt states), plus fees, and (2) access to Oi's broadband infrastructure to certain wholesale customers, including small businesses and municipalities, in certain sectors of Region I and Region II for a maximum price of R$1,253 per 2 Mbps per month and a one-time installation fee, while observing all quality standards under ANATEL regulations. Both retail and wholesale services are subject to certain network capacity limits and only need to be provided upon demand of the customer. Pursuant to the Term of Commitment, Oi has offered the required services to all eligible retail and wholesale customers since the date of its execution and has gradually increased the capacities offered to wholesale customers since November 2011. Oi is obligated to provide the maximum capacities established by the Term of Commitment to eligible wholesale customers by June 30, 2015. In addition, the Term of Commitment requires that Oi:

- provide one public internet access point for the first 20,000 inhabitants and one additional access point for each subsequent 10,000 inhabitants, with a limit of six access points, at a speed of 2 Mbps, in each municipality that has only satellite service, free of charge and upon demand of such municipality;

- adequately advertise the services contemplated by the Term of Commitment and present to the Ministry of Communications semi-annual reports detailing its marketing efforts; and

- use its best efforts to offer broadband services to retail customers at speeds of up to 5 Mbps, reaching the largest possible number of municipalities by 2015.

The Term of Commitment will expire on December 31, 2016.

Table of Contents

Disclosure Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Exchange Act. Section 13(r) requires an issuer to disclose in its annual or quarterly reports filed with the SEC whether the issuer or any of its affiliates has knowingly engaged in certain activities, transactions or dealings with the Government of Iran, relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction during the period covered by the annual or quarterly report. Disclosure is required even when the activities were conducted outside the United States by non-U.S. entities and even when such activities were conducted in compliance with applicable law.

The following information is disclosed pursuant to Section 13(r).

We, through our subsidiary MEO, have entered into roaming agreements with MTN Irancell. Pursuant to such roaming agreements, our customers are able to roam on the particular Iranian network (outbound roaming), and customers of such Iranian operators are able to roam on our relevant subsidiary's network (inbound roaming). For outbound roaming, we pay the relevant Iranian operator roaming fees for use of their network by our customers, and for inbound roaming the Iranian operator pays us roaming fees for use of our network by its customers.

In 2013, in connection with the above mentioned roaming agreements entered into with MTN Irancell, MEO recorded gross revenues of €846 and operating costs of €1,234, corresponding to a net loss after tax of €266. In addition to the above-mentioned transactions, MEO also incurred in expenses amounting to €1,258 in 2013 with the Mobile Company of Iran, corresponding to a net loss after tax of €862. We do not maintain any bank accounts in Iran. All payments in connection with our international roaming agreements are effected through Portuguese bank accounts.

In addition, we hold a 23.2% direct and indirect economic interest in our joint venture Oi. Oi has reported to us that it has also entered into roaming agreements with MTN Irancell. Oi has reported that its inbound and outbound roaming services with MTN Irancell were launched commercially in October and November 2012, respectively. During 2013, Oi recorded revenues of US$117 and expenses of US$237 in connection with this roaming agreement. Oi does not maintain any bank accounts in Iran. All payments in connection with its international roaming agreements are effected through its bank account in London.

The purpose of all of these agreements is to provide our customers with coverage in areas where we do not own networks. For that purpose, we intend to continue maintaining these agreements.

We also provide telecommunications services in the ordinary course of business to the Embassy of Iran in Lisbon, Portugal. We recorded gross revenues and net profits of less than €10,000 from these services in 2013. As one of the primary providers of telecommunications services in Lisbon, Portugal, we intend to continue providing such services, as we do to the embassies of many other nations.

ITEM 4A UNRESOLVED STAFF COMMENTS

None.

ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion in conjunction with our audited consolidated financial statements and the accompanying notes included elsewhere in this report.

Our audited consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB.

Table of Contents

Overview

Our Segments and Customer Categories

Portugal Telecom, SGPS, S.A. is a group holding company. Our business operations are conducted by our subsidiaries and joint ventures, which are classified for financial reporting purposes according to the manner in which our management views and manages our operations.

We provide telecommunications services in Portugal, in Brazil through our strategic partnerships with Oi and Contax, and in certain countries in sub-Saharan Africa and Asia. We review and assess the performance of the group's businesses through two operating segments: (i) Telecommunications in Portugal; and (ii) Telecommunications in Brazil Oi. However, with our adoption of IFRS 11, *Joint Arrangements*, we now report our interest in Oi using the equity method of accounting. See " *Recent IFRS Accounting Pronouncements.*" As such, we provide below a summarized analysis of the results of this operating segment, to the extent of its contribution to our consolidated net income, under the caption "Equity in the earnings of joint ventures," but the detailed analysis of each caption that composes net income does not include any explanation regarding Oi, as we no longer proportionally consolidate the results of operations of this business.

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

Telecommunications in Portugal. We generate revenues by providing services in the following customer categories:

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

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

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

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

Other International Telecommunications Businesses. We also generate revenue from our other strategic partnerships in Africa and Asia:

MTC, Namíbia. We have a 34.0% direct interest in MTC (through our 75% owned subsidiary Africatel), which provides mobile telecommunications services in Namibia and which we consolidate in our consolidated financial statements.

CVTelecom, Cape Verde. We have a 40.0% direct interest in CVTelecom (through our 75% owned subsidiary Africatel), which provides fixed and mobile telecommunications services in the Cabo Verde Islands and which we fully consolidate in our consolidated financial statements.

CST, São Tomé and Príncipe. We have a 51.0% interest in CST (through our 75% owned subsidiary Africatel), which provides fixed and mobile telecommunications services in the São Tomé and Príncipe Islands and which we fully consolidate in our consolidated financial statements.

Timor Telecom, East Timor. We have a 57.06% direct interest in Timor Telecom (54.01% of which is held through its 76.14%-owned subsidiary TPT Telecomunicações Públicas de Timor and 3.05% of which is held through Portugal Telecom's wholly owned subsidiary PT Participações, SGPS S.A.), which provides fixed and mobile telecommunications services in East Timor and which Portugal Telecom fully consolidates in its consolidated financial statements.

Equity Investment in Oi. As of December 31, 2013, we held a 23.2% economic interest in Oi, and we account for this investment using the equity method of accounting. Oi is one of the largest telecommunications companies in Brazil, and we are parties to a series of shareholder agreements with other shareholders of Oi that allow us to jointly control Oi. We completed our investment in Oi on March 28, 2011 through the acquisition of a 25.6% effective interest in TmarPart, the parent company of Oi, and the acquisition of a subsidiary of TmarPart that merged into Oi as part of the 2012 corporate reorganization.

In our consolidated financial statements reported in our Annual Reports on Form 20-F for the years ended on December 31, 2011 and December 31, 2012, we proportionally consolidated 25.6% of TmarPart for the period beginning April 1, 2011, following IFRS as issued by IASB. However, in May 2011, the IASB adopted IFRS 11, *Joint Arrangements*, which requires that joint ventures be accounted for using the equity method of accounting rather than proportional consolidation. Because we have voluntarily adopted IFRS 11, *Joint Arrangements*, before we were required to do so in the EU, there were no differences between EU-IFRS and IFRS as issued by the IASB as applied by Portugal Telecom. Our consolidated financial statements as of and for the years ended December 31, 2011 and 2012 included in this Annual Report on Form 20-F have been restated to present our interest in Oi using the equity method in compliance with IFRS 11. See " *Recent IFRS Accounting Pronouncements.*"

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

Oi generates revenues by providing services in the following customer categories:

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

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

Enterprise services, which include, among others, fixed line telecommunications services, mobile telecommunications services, advanced voice services, such as 0800 (toll free) services, customized infrastructure and storage capacity and access to advanced data centers, in each case to corporate and medium and small businesses.

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

Other International Equity Investments. We also hold equity interests in strategic partnerships and investments in Africa:

Contax, Brazil. Concurrently with our investment in Oi, we acquired a direct economic interest of 16.2% in CTX, the controlling shareholder of Contax Participações and Contax, a provider of corporate services (primarily contact services) in Brazil. Even before our investment in Contax, we provided call center and IT/IS services in Brazil through our subsidiaries Dedic and GPTI. On June 30, 2011, we exchanged our interest in Dedic and GPTI for an additional interest in Contax, as a result of which Dedic and GPTI became wholly owned subsidiaries of Contax and our economic interest in Contax increased from 14.1% to 19.5%. On April 2, 2013, in connection with Contax's corporate reorganization, we increased our economic interest in Contax to 21.1%. In our consolidated financial statements reported in our Annual Reports on Form 20-F for prior years, we proportionally consolidated the results of operations of Contax in our results of operations beginning April 1, 2011, and Contax's results of operations were included the results of operations of Dedic and GPTI beginning July 1, 2011. However, for the same reason described above with respect to our interest in Oi, our consolidated financial statements as of and for the years ended December 31, 2011 and 2012 included in this Annual Report on Form 20-F have been restated to present our interest in Contax using the equity method in compliance with IFRS 11.

Unitel, Angola. We have a 25.0% direct interest in Unitel (through our 75% owned subsidiary Africatel), which provides mobile telecommunications services in Angola and which we account for using the equity method.

Business Drivers and Measures

The businesses of each of our segments are affected by a number of significant industry trends. In operating our businesses and monitoring their performance, we also pay attention to a number of operational and other factors. We summarize some of these trends and factors for each of our business segments below.

Global Telecommunications Sector

Changing consumer habits. A surge of new devices and faster networks, coupled with the proliferation of new innovative players in the telecommunications, media and technology markets, are creating new needs and changing consumer habits. Consumers are demanding digital content, a full mobility experience and access to data everywhere. Content is increasingly digital, with usage time of online content growing faster than that of offline content, especially in gaming, video and music. Mobility has become the norm as consumers have more personal devices and spend an increasingly higher share of their online time using these devices, especially for data services. This new consumer demand for uninterrupted access to data and content across several devices is transforming the expectations that we must meet to remain competitive, which translates into a need to transform our business model. In response to these changes, telecommunications companies are becoming increasingly dependent on information technology and searching for more efficient and effective solutions. We are endeavoring to

Table of Contents

address these new needs by delivering integrated solutions, encompassing communications, networks and information technologies, and by offering flexible, scalable and secure cloud services.

Increasing network investment. The increasing digitalization of consumers and companies is leading to a surge in the 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. This new paradigm of network scarcity places a premium on network investment as operators strive to enhance customer experience for increasingly more demanding customers. The deployment 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, or NGAN, especially FTTH networks in the fixed business and 4G in the mobile business. Both technologies offer more speed, lower latencies and higher reliability. FTTH improves customer experience by providing higher and guaranteed speed, download and upload symmetry and lower latency. Moreover, fiber investment also supports an enhanced mobile network, with high-quality fiber connections for mobile base stations. Mobile 4G technology is also critical to the ability to offer a seamless connectivity experience everywhere, addressing the increasing need for mobility with a high quality connection. Both FTTH and 4G improve efficiency of data transmission, enabling cost reduction for operators.

Challenges in mature markets. As operators strive to cope with network investments, the sector is facing an increase in competition in mature markets, in both fixed and mobile communications. In the wireline market, traditional telecommunications companies are threatened by both cable and mobile operators. Cable providers are placing a bet on DOCSIS 3.0, a next-generation access technology that enables cable to compete with fiber solutions. In Europe alone, the number of DOCSIS 3.0 households is expected to grow rapidly in the medium term. In the mobile market, 4G technology is being rolled out at a global level, and its high speed and low latency create an opportunity for mobile operators to compete in the residential arena. In addition, regulators are pushing for a decrease in mobile termination rates. These changes provide opportunities for aggressive offerings by new entrant operators, including low-cost all-net bundles that dilute incumbent operators' network externalities. Such offers are being launched in several countries with strong customer acceptance.

Continued growth in emerging markets. Emerging markets continue to appeal to telecommunications operators as they remain sources of scale and growth. Simultaneous growth in population and GDP per capita is driving the emergence of new consumers, translating into new demand and thus new potential for traditional telecommunications services providers. Generally, penetration of most services in emerging markets has yet to reach levels of mature markets. In general, emerging markets are accounting for a significant portion of the revenue growth in both fixed line and mobile service segments. This trend is expected to persist in the medium term.

Shifting competitive boundaries. The broader telecommunications sector is expected to continue to expand at a global level, but an increasingly large share is now occupied by adjacent sector players such as equipment manufacturers, internet service providers and media players. These players are taking advantage of improved connectivity and platform-agnostic technologies to offer over-the-top and cloud-based services. Telecommunications operators are expected to maintain traditional access services and a billing relationship through which users access a myriad of services from adjacent players, such as music, video, photos, apps and retail. These adjacent competitors are often able to build strong global brands. For example, in the equipment manufacturers market, Apple and Samsung have rapidly increased their share of total global revenues. The expansion of the competitive boundaries is creating additional pressure for telecommunications operators.

Table of Contents

Telecommunications in Portugal

Increasing Competitive Pressure. Our residential and enterprise businesses face increasingly strong competition from fixed line operators (including VoIP providers) as well as from mobile players. We face aggressive competition from ZON Optimus, Vodafone and other corporate solutions operators in the Portuguese telecommunications sector. Our major competitors compete through their respective multi-play offers, which include traditional voice services as well as Pay-TV and broadband internet services and, on the corporate side, complex telecom and IT/IS solutions. The competitive landscape changed significantly in Portugal in 2013 with the merger of ZON and Optimus to create ZON Optimus, a new integrated telecommunications operator. This transaction has further increased the focus on bundled offers and the evolution of triple-play to quadruple-play services as a way to satisfy perceived consumer appetite for bundles that provide them with simplicity, convenience and economy.

Traffic Trends. In recent years, we have experienced a decrease in traffic on our fixed line network, primarily as a result of the trend among consumers to use mobile phones rather than fixed line service and increasing competition from mobile operators, other fixed line operators and, more recently, cable and VoIP providers. This decrease in traffic has negatively affected both our residential and wholesale revenues.

Changes in Revenue Mix. Our Pay-TV customers have increased since we introduced Pay-TV service in 2008. In addition, our ADSL residential accesses increased by 3.3% in 2013 due to our marketing of service packages that include Pay-TV and ADSL broadband services. The mix of the revenues of our residential business has shifted significantly in recent years, with Pay-TV related revenues partially offsetting the continued pressure on the traditional voice business. In each of the last three years, for example, we achieved positive net additions of fixed lines, primarily due to strong performance of *Meo* double-play and triple-play offers. We expect that Pay-TV and broadband services will continue to be an important driver of our fixed line business, and the architecture and regulation of the developing fiber optic network in Portugal will be an important factor affecting our business and revenues.

Decreasing Fixed Line Calling Prices and Greater Focus on Pricing Plans. Retail calling prices, particularly for regional, national and international calls, have been decreasing steadily in recent years, which have negatively affected our residential revenues. One of our strategies in response to this trend has been to aggressively market a variety of pricing plans to promote customer loyalty in our competitive market. Our pricing plans tend to increase our revenues from fixed charges but contribute to a decrease in our traffic revenues, particularly with respect to the growing percentage of pricing plans that offer calls at a flat rate. We aggressively use pricing plans for both our residential and personal services.

Decreasing Interconnection Charges. In 2005, ANACOM declared all mobile operators, including MEO, to have significant market power in call termination in the mobile networks market. As a result, ANACOM imposed price controls on interconnection charges that have caused both fixed-to-mobile and mobile-to-mobile interconnection rates to decrease steadily. ANACOM has issued successive decisions that have reduced mobile termination rates over time. These reductions have had, and will continue to have, a significant adverse impact on revenues and results of operations from our Portuguese mobile operations.

Continuing Introduction of New Products. The fast development and availability of new access devices are leading to significant growth in internet users and more frequent usage, leading to increased bandwidth consumption. Examples of this trend are smartphones, tablet PCs and internet pads. In January 2013, we announced the launch of a quadruple-play offer of converged fixed-mobile services by *Meo*, which includes TV, internet, fixed telephone and mobile telephone

Table of Contents

services. We describe several of our recently launched services in "*Item 4 Information on the Company Our Businesses Portuguese Operations.*"

Continuing Investm