



Portugal Telecom International Finance B.V.

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

€7,500,000,000

Euro Medium Term Note Programme

With the benefit of a Keep Well Agreement given by
PORTUGAL TELECOM, SGPS, S.A.

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

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

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

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

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

The Issuer has the benefit of a Keep Well Agreement between PT and the Issuer and a Keep Well Agreement between PT Comunicações, S.A. ("PTC") and the Issuer (PT and PTC are each a "Keep Well Provider" and together, the "Keep Well Providers") as more fully described in "Relationship of the Issuer with Portugal Telecom".

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

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

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

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

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

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

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

The Issuer and the Programme have been rated Baa3 by Moody's Investors Service España SA and BBB- by Standard & Poor's Credit Market Services France SAS. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

As of the date of this Offering Circular, each of the rating agencies Moody's Investors Service España SA and Standard & Poor's Credit Market Services France SAS is established in the European Union and has applied for registration under Regulation (EC) No 1060/2009 (the CRA Regulation), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. Market participants can find the most up to date information on the status of the registration process on the website of the EU Commission http://ec.europa.eu/internal_market/securities/agencies/index_en.htm

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (the "CRA Regulation") will be disclosed in the Final Terms.

Global Arranger

BofA Merrill Lynch

Domestic Arrangers

**Banco BPI, S.A.
Espírito Santo Investment**

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

Dealers

**Banco Bilbao Vizcaya Argentaria, S.A.
Barclays Capital
BofA Merrill Lynch
Citi
Deutsche Bank
Goldman Sachs International
Morgan Stanley**

**Banco BPI, S.A.
BNP PARIBAS
Caixa Geral de Depósitos, S.A.
Crédit Agricole CIB
Espírito Santo Investment Bank
Millennium Investment Banking
UBS Investment Bank**

This Offering Circular comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “Prospectus Directive”).

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

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

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

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “Documents Incorporated by Reference”). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

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

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

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer and/or either Keep Well Provider or any of the Dealers or the Trustee that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and each Keep Well Provider. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer and/or either Keep Well Provider or any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

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

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

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

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

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

None of the Dealers, the Issuer, the Keep Well Providers and the Trustee makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws.

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

FORWARD LOOKING STATEMENTS

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

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although PT makes such statements based on assumptions that PT believes to be reasonable, there can be no assurance that actual results will not differ materially from PT’s expectations. Many of the factors that will determine these results are beyond PT’s ability to control or predict. PT does not intend to review or revise any particular forward-looking statements referenced in this Offering Circular in light of future events or to provide reasons why actual results may differ. Investors are cautioned not to put undue reliance on any forward-looking statements.

Any of the following important factors, and any of those important factors described elsewhere in this Offering Circular or in any of PT’s filings with the Commission, among other things, could cause PT’s results to differ from any results that might be projected, forecast or estimated by PT in any such forward-looking statements:

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

TABLE OF CONTENTS

	Page
Overview of the Programme.....	6
Documents Incorporated by Reference	11
Risk Factors	12
General Description of the Programme	29
Form of the Notes	30
Form of Final Terms.....	34
Terms and Conditions of the Notes	47
Use of Proceeds	73
Relationship of the Issuer with Portugal Telecom, SGPS, S.A. and PT Comunicações, S.A.	74
Portugal Telecom.....	80
Financial Statements of Portugal Telecom.....	146
Portugal Telecom International Finance B.V.....	151
PT Comunicações, S.A.	156
Book-Entry Clearance Systems	159
Taxation.....	160
Subscription and Sale	164
General Information	167

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

OVERVIEW OF THE PROGRAMME

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

Issuer:	Portugal Telecom International Finance B.V.
Keep Well Providers:	Portugal Telecom, SGPS, S.A. and PT Comunicações, S.A.
Risk Factors:	There are certain factors that may affect the Issuer’s ability to fulfil its obligations and/or each of the Keep Well Providers’ ability to fulfil its obligations under the Keep Well Agreements. These are set out under “Risk Factors” below and include risks related to the specific nature of the Issuer, shareholders remuneration, shareholder structure, ratings, market conditions, competition in the telecommunications industry, market development, European Commission’s decisions, regulatory framework, PT’s concession and licenses, exchange rates and interest rate fluctuations, investments in Brazil and other international investments. In addition, there are certain factors which are material for the purpose of assessing the Market Risks associated with the Notes issued under the Programme. These are set out under “Risk Factors” below and include the fact that the Notes may not be a suitable investment for all investors, certain risks related to the structure of a particular issue of Notes and certain market risks.
Description:	Euro Medium Term Note Programme
Global Arranger:	Merrill Lynch International
Dealers:	Banco Bilbao Vizcaya Argentaria, S.A. Banco BPI, S.A. Banco Comercial Português, S.A. Banco Espírito Santo de Investimento, S.A. Barclays Bank PLC BNP Paribas Caixa Geral de Depósitos, S.A. Citigroup Global Markets Limited Crédit Agricole Corporate and Investment Bank Deutsche Bank AG, London Branch Goldman Sachs International Merrill Lynch International Morgan Stanley & Co. International plc UBS Limited and any other Dealers appointed in accordance with the Programme Agreement.
Trustee:	Citicorp Trustee Company Limited
Principal Paying Agent:	Citibank, N.A., London office
Registrar:	Citibank, N.A., New York office

Programme Size:	Up to €7,500,000,000 (or its equivalent in other currencies calculated as described under “General Description of the Programme” below) outstanding at any time. The Issuer, PT and PTC may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Redenomination:	<p>Where (save for Sterling) the specified currency of an issue of Notes is a currency of one of the member states of the European Union (save for the United Kingdom) which is not participating in the third stage of European Economic and Monetary Union, the Issuer, with the prior written approval of the Trustee, may specify in the applicable Final Terms that such Notes will include provisions for the redenomination of the specified currency to euro in the event that such member state does so participate before maturity of those Notes. If so specified, the wording of the redenomination provisions will be set out in full in the applicable Final Terms.</p> <p>The Trustee may, without the consent of the Noteholders or Couponholders, on or after the date (if any) on which the United Kingdom becomes one of the countries participating in the third stage of European Economic and Monetary Union pursuant to the Treaty on European Union (the “Treaty”) or otherwise participates in European Economic and Monetary Union in a manner having a similar effect to such third stage, agree to such modifications to the Terms and Conditions, the Notes, the Coupons and the Trust Deed in order to facilitate payment of interest in euro and redemption at the euro equivalent of the Sterling principal amount of the Notes and associated reconventioning, renominalisation and related matters as may be proposed by the Issuer (and confirmed by an independent financial institution approved by the Trustee to be in conformity with the then applicable market conventions).</p>
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant specified currency.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer or registered form (respectively “Bearer Notes” and “Registered Notes”) as described in “Form of the Notes” below. Registered Notes will not be exchangeable for Bearer Notes or <i>vice versa</i> .
Fixed Rate Notes:	<p>Interest in respect of Fixed Rate Notes will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption.</p> <p>Interest on Fixed Rate Notes will, unless otherwise specified in the Final Terms, be calculated on an ICMA-Actual/Actual day count fraction.</p>
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <p>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant specified currency governed by an agreement incorporating the 2000 ISDA Definitions or if specified in the applicable Final Terms the 2006 ISDA Definitions (each as</p>

published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or

- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.

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

Index Linked Notes:

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

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

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

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

Dual Currency Notes:

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree, as indicated in the applicable Final Terms.

Zero Coupon Notes:

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

Redemption:

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

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

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

Denomination of Notes:

Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer, as indicated in the applicable Final Terms, save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant specified currency, see “Subscription and Sale – Notes with a maturity of less than one year” below and save that the minimum denomination of each Note admitted to trading on a regulated market within the European

	<p>Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be €100,000 (or if the Notes are denominated in a currency other than euro, the equivalent amount on such currency).</p>
Taxation:	<p>All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed within The Netherlands, subject as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.</p>
Negative Pledge:	<p>The Terms and Conditions of the Notes contain a negative pledge provision as further described in Condition 4.</p>
Cross Default:	<p>The Terms and Conditions of the Notes contain a cross default provision as further described in Condition 10.</p>
Status of the Notes:	<p>The Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.</p>
Rating:	<p>The Programme is rated by Moody's Investors Service España SA and by Standard & Poor's Credit Market Services France SAS. Notes issued pursuant to the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p> <p>Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 will be disclosed in the Final Terms.</p>
Listing and admission to trading:	<p>Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to each Series.</p> <p>Notes which are neither listed nor admitted to trading on any market may also be issued.</p> <p>The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets.</p>
Governing Law:	<p>The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.</p>
Selling Restrictions:	<p>There are restrictions on the offer, sale and transfer of the Notes in respect of the laws of the United States, the United Kingdom, Portugal, The Netherlands, Japan and Germany and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "Subscription and Sale" below.</p>

Notes with a maturity of less than one year

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

Contracts (Rights of Third Parties) Act 1999:

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

United States Selling Restrictions:

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

DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the auditors report and audited annual financial statements of the Issuer for the financial years ended 31 December, 2009 and 31 December, 2010;
- (b) the auditors report and audited consolidated annual financial statements of PT for the financial years ended 31 December, 2009 (except for the paragraph entitled “Credit Ratings” in note 34.9 (Covenants) in the notes to the consolidated annual financial statements), and 31 December, 2010 (except for the paragraph entitled “Credit Ratings” in note 35.8 (Covenants) in the notes to the consolidated annual financial statements), and unaudited consolidated financial statements of PT for the three months ended 31 March 2011;
- (c) the auditors report and audited annual financial statements of PTC for the financial years ended 31 December, 2009 and 31 December, 2010;
- (d) unaudited financial statements and the review report of Oi for the three months ended 31 March 2011; and
- (e) the Terms and Conditions of the Notes contained in previous Offering Circulars dated 4 February 2002, pages 25 – 50 (inclusive), 29 April 2003, pages 25 – 50 (inclusive), 12 July 2004, pages 25 – 51 (inclusive), 7 November 2006, pages 44 – 70 (inclusive), 20 December 2007, pages 44 – 70 (inclusive), 17 December 2008, pages 53 – 79 (inclusive) and 23 April 2010, pages 46-71 (inclusive) prepared by the Issuer in connection with the Programme.

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

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

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

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

RISK FACTORS

The Issuer and each of the Keep Well Providers believe that the following factors may affect each of their ability to fulfil their respective obligations under the Notes and/or the value of the Notes. All of these factors are contingencies which may or may not occur and none of the Issuer and the Keep Well Providers is in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer and the Keep Well Providers believe may be material for the purpose of assessing the market risks associated with Notes are also described below.

The Issuer and each Keep Well Provider believe that the factors described below represent the principal risks inherent in investing in the Notes, but none of the Issuer and the Keep Well Providers represents that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.

Risks relating to the Issuer and the Keep Well Providers

The Issuer is a funding vehicle for the PT Group

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

Risks that may affect the ability of the Keep Well Provider to fulfil its obligations under the Keep Well Agreements

The Portuguese State holds all of PT's A shares, which afford it special approval rights

All of PT's 500 A shares are held by the Portuguese state (“Portuguese State”). Under PT's articles of association, the holders of PT's A shares, voting as a class, may veto a number of actions of PT's shareholders, including the following:

- election of the chairman of the Audit Committee and the statutory auditor (as well as the members of the board of the General Meeting of Shareholders);
- authorisation for a dividend exceeding 40 per cent. of PT's distributable net income per year;
- capital increases and other amendments to PT's articles of association, as well as the limitation or suppression of pre-emptive rights;
- issuance of bonds and other securities;
- authorisation of a shareholder that performs an activity competing with PT to hold more than 10 per cent. of PT's ordinary shares;
- approval of the general goals and fundamental principles of PT's policies; and
- definition of PT's investment policies, including any requirements for the authorisation of acquisitions and transfers of shareholdings.

Additionally, the election of one-third of the directors of PT (the “Directors”), including the Chairman of the board of Directors (the “Board of Directors”), must be approved by the Portuguese State, as the holder of all the A shares.

PT's articles of association state that, among the members of the Executive Committee appointed by the Board of Directors, at least one or two appointed Directors out of the Executive Committee of five or seven members must be elected pursuant to the election rule described in the preceding paragraph.

On 8 July 2010, the European Court of Justice ruled that the Portuguese State's ownership of PT's A shares is illegal under European law.

The *Memorandum of Understanding on Specific Economic Policy Conditionality* agreed between the Portuguese government, the European Union and the International Monetary Fund on 3 May 2011 establishes that the Portuguese government will, by July 2011, eliminate "golden shares" and all other special rights established by law or in the statutes of publicly quoted companies that give special rights to the state.

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

The global economic and financial crisis, and the current economic recession in Portugal, have had, and are likely to continue to have, an adverse effect on the demand for PT's products and services and on PT's revenues and profitability. Recent economic rescue packages for Greece and Ireland, Portugal's recent request for an economic rescue package, and continuing concerns regarding the possibility of sovereign debt defaults by other European Union member countries affected access to funding by certain European governments, corporations and the financial sector, and dampened investor confidence. These concerns and concerns about continuing budget deficits in Portugal have required the Portuguese government to implement severe budget-cutting measures that could delay emergence from the recession and may weaken consumer demand.

Against this backdrop, Fitch Ratings, Standard & Poor's Rating Services and Moody's Investors Service, Inc. downgraded Portugal's sovereign debt.

On 6 April 2011, Portugal announced that it would seek an economic rescue package from the European Financial Stability Facility of the European Union. Since that date, Portugal has formally requested an economic rescue package from the European Union and the International Monetary Fund and has begun negotiating the terms of that package.

On 3 May 2011, the Portuguese government announced that it had agreed a Memorandum of Understanding (*Portugal: Memorandum of Understanding on Specific Economic Policy Conditionality*) (the "Memorandum") with the European Union and the International Monetary Fund on a EUR 78 billion financial rescue package. The Memorandum specifies objectives, measures to be taken and targets to be met in the next 3 years, aiming at achieving fiscal consolidation and increasing Portugal's growth potential.

Under this Memorandum, the objectives to be pursued by the Portuguese government in the telecommunications and postal services sectors are to increase competition in the market by lowering entry barriers, guarantee access to network/infrastructure, and strengthen the power of the National Regulator Authority. With respect to competition and sectoral regulators, the Memorandum establishes that the Portuguese government will, among others, eliminate "golden shares" and all other special rights established by law or in the statutes of publicly quoted companies that give special rights to the state by July 2011.

The three most representative Portuguese political parties (based on the results of the last general elections) have committed to the implementation of the measures included in the Memorandum. Currently, formal steps are being taken with respect to signing of the Memorandum by the Portuguese authorities and the approval by the European Union authorizing the rescue package from the European Financial Stability Facility.

As one of Portugal's largest companies and one of its largest employers, PT's financial condition, revenues and profitability are closely linked to circumstances in the Portuguese economy. The recession in Portugal has had a direct effect on demand for PT's products and services, contributing to a decline in its mobile revenues and, to a lesser degree, its wireline revenues in 2010.

PT must maintain liquidity to fund its working capital, service its outstanding indebtedness and finance investment opportunities. Without sufficient liquidity, PT could be forced to curtail its investments, or it may not be able to pursue new business opportunities. The principal sources of PT's liquidity are cash generated from its operations and equity and debt financing. Cash generated from operations is driven by PT's revenues and net income, which could be adversely affected by the economic crisis or the impact and consequences of the financial rescue package.

Also, notwithstanding its recent debt issuances that took place in 2011, PT may be unable to access the equity or debt markets to obtain additional financing or to refinance existing indebtedness.

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

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

Beginning in 2008, events in the global and European financial markets have increased the uncertainty and volatility of the financial markets, leading to a significant increase in execution and price risk in financing activities. Global financial markets and economic conditions were severely disrupted and volatile in 2008 and 2009 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. Credit markets and the debt and equity capital markets were exceedingly distressed in 2008 and 2009 and remained challenged in 2010. In 2010, the financial markets grew increasingly concerned about the ability of certain European countries, particularly Greece, Ireland and Portugal, but also others such as Spain and Italy, to finance their deficits and service growing debt burdens amidst difficult economic conditions. This loss of confidence has led to rescue measures for Greece, Ireland and Portugal by the European Union and the International Monetary Fund. These issues, along with the re-pricing of credit risk and the difficulties currently experienced by financial institutions have made it difficult, and will likely continue to make it difficult, for companies to obtain financing.

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

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

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

The effects of the economic and financial crisis described above, or any adverse developments in PT's business, could lead to downgrades in its credit ratings. Any such downgrades are likely to adversely affect PT's ability to obtain future financing to fund its operations and capital needs. Any downgrade of PT's ratings could have even more significant effects on its ability to obtain financing and therefore on its liquidity. For example, the pricing conditions applicable to PT's commercial paper programmes could be revised in the event its credit rating is changed. In addition, certain of PT's loan agreements, totalling €183 million as of 31 December 2010, contain provisions that require PT to provide certain guarantees if its ratings decline below specified levels. Any failure to provide those guarantees could enable the lender to accelerate the loans.

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

PT has unfunded post retirement benefit obligations that may limit its future use and availability of capital and adversely affect its financial and operating results. Although in December 2010, PT transferred to the Portuguese government the post retirement benefits obligations relating to regulated pensions of Caixa Geral de Aposentações ("CGA") and Marconi, PT retained all other obligations, including (1) salaries to suspended and pre-retired employees amounting to €924.3 million as of 31

December 2010 which PT must pay monthly directly to the beneficiaries until their retirement age and (2) €472.4 million in obligations related to pension supplements and healthcare as of 31 December 2010, which are backed by plan assets with a market value of €448.1 million, resulting in unfunded obligations of €24.3 million.

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

PT may not be able to pay its announced dividends

In connection with the sale of its interest in Vivo in September 2010, PT announced an extraordinary dividend to its shareholders of €1.65 per share, of which it paid €1.00 per share on 28 December 2010. PT will pay the remaining €0.65 per share of this dividend, as well as an ordinary dividend of €0.65 per share with respect to the year ended 31 December 2010 and 2011, following the approval of the General Shareholders' Meeting held on 6 May 2011. In addition, in November 2010, PT announced that its Board of Directors intends to propose to the General Shareholders' Meeting that it adopt a progressive dividend policy with the objective of raising the dividend per share every year between 3 per cent. and 5 per cent. for the period between 2012 and 2014. This proposal was approved by the General Shareholders' Meeting of 6 May 2011. Furthermore, for fiscal year 2011 onwards, the Board of Directors has the intention to approve the payment of an interim ordinary dividend based on the financial performance of the company, in order to allow for a smoother cash return to PT's shareholders throughout the year. The exceptional cash dividend and the remuneration package proposal are subject to market conditions, PT's financial condition, applicable law regarding the distribution of net income, including additional shareholder approvals, and other factors considered relevant by its Board of Directors at the time.

The payment of future dividends will depend on PT's ability to continue to generate cash flow in its businesses which is dependent not only on PT's revenue but also on its ability to further streamline its operations and reduce its costs. In addition, significant volatility in the Real/Euro exchange rate may impair PT's ability to pay dividends. The Real has fluctuated significantly in relation to the Euro in recent years and has worked in PT's favour, but PT cannot guarantee that this trend will continue going forward.

If any of the conditions described above is not adequately satisfied or if any other circumstances (including any risks described in this "Risk Factors" section) impede PT's ability to generate cash and distributable reserves, shareholders may not receive the full remuneration PT has announced, and the price of PT's ordinary shares and ADSs could be negatively affected.

Risks Relating to PT's Portuguese Operations

Competition from mobile telephony and from other wireline operators has significantly reduced PT's wireline revenues and is likely to continue to adversely affect its revenues.

During 2010, approximately 47.2 per cent. of PT's consolidated revenues were derived from services provided by its wireline services in Portugal, as compared to 48.1 per cent. in 2009. 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 wireline operators, PT has experienced, and may continue to experience, erosion of market share of both access lines and of outgoing domestic and international traffic. The number of active mobile telephone cards in Portugal has overtaken the number of wireline main lines. Some of PT's wireline customers are using mobile services as an alternative to wireline telephone services. Mobile operators can bypass PT's international wireline

network by interconnecting directly with wireline and mobile networks either in PT's domestic network or abroad. Competition is also forcing down the prices of PT's wireline telephone services for long distance and international calls. Lowering PT's international call prices has caused a decline in PT's revenues from international wireline telephone services. The decrease in wireline traffic and lower tariffs resulting from competition has significantly affected its overall revenues, and PT expects these factors to continue to negatively affect its revenues. See "*Portugal Telecom, SGPS, S.A.—Competition—Competition Facing PT's Wireline Business*".

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

PT operates in the highly competitive Portuguese mobile telecommunications market. PT believes that its existing mobile competitors, Vodafone and Optimus will continue to market their services aggressively. After PT launched its low-cost brand "Uzo" for example, Vodafone and Optimus quickly responded with similar products of their own. As another example, in 2010, PT launched a tribal plan as a reaction to similar plans launched by PT's competitors, and that plan provides for lower revenue per user than many of PT's other plans.

In 2007, CTT, the Portuguese postal company, launched a mobile virtual network operator, or "MVNO," operation supported by TMN's network. MVNOs do not have their own network infrastructure and thus do not have the fixed cost burdens facing PT's current GSM (Global System for Mobile Communications) and UMTS (Universal Mobile Telecommunications System) services. In 2008, ZON Multimedia ("ZON") launched an MVNO under the brand "ZON Mobile" after signing an agreement with Vodafone Portugal to operate using its mobile network.

PT expects competition from VoIP-based operators also to place increasing price pressure on voice tariffs and lead to reductions in mobile voice traffic. Competition from companies providing wireless local-area network, or "WLAN," services, which can deliver wireless data services more cheaply than UMTS in concentrated areas, may also affect the market and pricing for third-generation services. The prospect of LTE (Long Term Evolution) services may cause a disruption in the mobile data and voice markets, posing additional threats to and impairing TMN's current competitive position. See "*Portugal Telecom, SGPS, S.A.—Competition—Competition Facing TMN*".

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

PT's competitors have been improving their commercial offers in broadband Internet, with most of them offering triple-play bundled packages (voice telephony, broadband Internet and Pay-TV subscription). PT believes that with competition in Internet broadband access intensifying, and with the development of existing technologies such as broadband wireless access, mobile broadband through UMTS, and high speed broadband supported by the deployment of a fibre optic network, it may face additional pricing pressure on its services, which could result in the loss of revenues.

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

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

Reduced interconnection rates have negatively affected PT's revenues for its mobile and wireline businesses and may continue to do so.

In recent years, ANACOM has imposed price controls on interconnection rates for the termination of calls on mobile networks. These reductions have had a significant impact on

interconnection revenues of PT's mobile subsidiary, TMN—Telecomunicações Móveis Nacionais, S.A. ("TMN"), and consequently its earnings.

In January 2010, ANACOM issued a draft decision regarding fees for the termination of calls on mobile networks, proposing to reduce them to €0.035 by 1 April 2011. In May 2010 ANACOM imposed a new glide path that would reduce mobile termination rates by €0.005 per quarter, to reach €0.035 in August 2011. These new rates will have a negative effect on PT's cash flows.

In 2008, the European Commission started a public consultation process for its draft recommendation on voice calls termination rates (both in mobile and fixed networks), which are intended to harmonize regulation and drive down termination rates even further across all EU countries starting in 2012. This recommendation was published in 2009 and is expected to have a negative effect on PT's future revenues. ANACOM is currently consulting on the definition of a bottom-up long-run incremental cost (LRIC) cost model to regulate mobile termination rates. The expectation is that mobile termination rates will fall into the interval between 1.5 and 3.0 eurocents by the end of 2012.

In addition, in August 2008, ANACOM published a "reasoning" regarding mobile rates for originating calls, aimed at driving mobile operators to reducing their prices by the end of September 2008 to a level equal or close to the level of mobile termination rates. In the second half of 2008, the three mobile operators reduced their rates for originating calls but not to the extent desired by ANACOM. In February 2010, ANACOM chose to take the matter to the Portuguese national competition authority ("Autoridade da Concorrência"). Although PT cannot predict the outcome of this process, ANACOM's actions could negatively impact PT's revenues and results of operations.

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

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

ANACOM also issued a decision in 2006 requiring PT's wireline business to offer capacity-based interconnection rates (a flat-rate interconnection tariff), which had a negative effect on PT's wholesale wireline revenues in 2007 and 2008.

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

PT's competitors have been improving their commercial offers in broadband Internet, with most of them offering triple-play bundled packages (voice telephony, broadband Internet and pay-TV subscription). PT believes that with competition in Internet broadband access intensifying, and with the development of existing technologies such as broadband wireless access and mobile broadband through UMTS and high speed broadband supported by the development of a fibre optic network, it may face loss of market share in the broadband market, which could result in a loss of subscribers and a loss in revenues.

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

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

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

In 2008, the European Commission launched a new consultation on roaming, proposing to carry over Regulation (EC) No. 717/2007, on roaming on mobile communications networks within the community (the “Roaming Regulation”), beyond 2010 and to extend it to data and Short Messaging Services (“SMS”), or text messaging. In 2009, Regulation (EC) No. 544/2009, amending the Roaming Regulation (the “New Roaming Regulation”) went into effect, limiting roaming charges. The European Commission expects the New Roaming Regulation to reduce roaming charges by up to 60 per cent. The European Commission also requested clarification from operators with respect to price differences between data services while roaming compared to prices in the domestic market.

Under the New Roaming Regulation, voice roaming rates in the retail market continue to be subject to a glide path (prices excluding VAT): from 1 July 2010, maximum rates of €0.39 per minute for outgoing and €0.15 per minute for incoming roaming calls; and from 1 July 2011, maximum rates of €0.35 per minute for outgoing and €0.11 per minute for incoming roaming calls. In the wholesale market, maximum rates are €0.22 and €0.18 as of 1 July 2010 and 1 July 2011, respectively. For SMS services, caps of €0.11 in the retail and of €0.04 in the wholesale came into force on 1 July 2009. For data services, maximum wholesale rates of €0.80 and €0.50 apply from 1 July 2010 and 1 July 2011, respectively.

These regulations have had, and will continue to have, an adverse effect on the revenues of PT’s mobile business and on the company as a whole.

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

The Portuguese electronic communications sector is fully open to competition. However, many regulatory restrictions and obligations are still imposed on PT. In the previous round of market analysis, carried out in 2004-2006, the Portugal Telecom group was found by ANACOM to have significant market power in all but one of the 16 markets analysed and consequently is subject to regulatory restrictions and obligations. Not all of these obligations and restrictions have been imposed on other telecommunications operators and service providers. Pursuant to the European Relevant Markets recommendation that significantly reduced the number of markets subject to regulation, ANACOM determined 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. In the case of wholesale broadband access, ANACOM alleviated regulatory obligations in 184 areas considered to be competitive, which represented 61 per cent. of broadband accesses. During 2011, ANACOM intends to revise markets numbers 4 and 5 to integrate the changes due to the development of Next Generation Networks. There is a risk that ANACOM may reduce the number of areas where it had alleviated regulatory obligations and impose additional regulatory obligations on PT’s fibre network. The substantial resources PT must commit to fulfill the remaining obligations could adversely affect PT’s ability to compete. See “*Portugal Telecom, SGPS, S.A.—Regulation—Portugal*”.

The Portuguese government could terminate or fail to renew PT’s wireline concession, its licenses and its authorisation for data and mobile services.

PT provides a significant number of services under a concession granted to it by the Portuguese government and under licences and authorisations granted to it by ANACOM. The concession runs until 2025, but the Portuguese government can revoke the concession if it considers the revocation to be in the public interest. It can also terminate PT’s concession at any time if PT fails to comply with its obligations under the concession. Even if the concession remains in force, its terms and conditions could be materially affected by the outcome of a public consultation process by the Portuguese government relating to the provision of universal service, which is expected to begin during 2011. A tender for the designation of the Universal Service Provider(s) is also expected during 2011. The Portuguese government can also terminate PT’s licences under certain circumstances. Through TMN, PT holds a renewable, non-exclusive licence to provide GSM digital mobile telephone services throughout Portugal, valid until 2022 and a renewable, non-exclusive licence to provide UMTS mobile telephone services throughout Portugal, valid until 2016. If the Portuguese government took such actions, PT would not be able to conduct the activities authorised by the concession or the relevant licences. This loss would eliminate an important source of PT’s revenues.

In July 2010, ANACOM decided, within the context of the 900/1800 MHz spectrum “refarming” process (a change to the conditions of use of that frequency range), to unify into a single title the conditions applicable to the rights of use of frequencies allocated to TMN for the provision of the land mobile service, in accordance with GSM 900/1800 and UMTS technologies. The authorisation is valid until 8 July 2025.

During 2011, ANACOM intends to launch an auction for allocation of rights of use of frequencies in the 450, 800, 900, 1800 MHz and 2.1 and 2.6 GHz bands. These frequencies allow the provision of electronic communications services and could be used to implement 4G mobile solutions. However, PT may face the risk of not being granted rights of use in those frequency bands. This loss would have a negative impact on PT’s ability to implement new mobile technologies, the existing mobile infrastructures, provide innovative services and develop new sources of revenue.

Regulatory investigations and litigation may lead to fines or other penalties

PT is regularly involved in litigation, regulatory inquiries and investigations involving its operations. ANACOM, the European Commission and the Autoridade da Concorrência (the Portuguese national competition authority) can make inquiries and conduct investigations concerning PT’s compliance with applicable laws and regulations. Current inquiries and investigations include several complaints before the Autoridade da Concorrência related to alleged anti-competitive practices in PT’s wireline business.

On 19 January 2011, the European Commission opened an investigation into an agreement between Telefónica and PT allegedly not to compete in the Iberian telecommunications markets. PT has developed various strategic partnerships with Telefónica in recent years. Although PT does not believe the existence of these partnerships has impeded its competition and ordinary activities with Telefónica, PT’s relationship with Telefónica is now subject to investigation. The European Commission has stated that the initiation of proceedings does not imply that the Commission has conclusive proof of an infringement but that the Commission will deal with the case as a matter of priority. PT cannot predict whether this investigation may lead to fines or other sanctions or whether it may have an adverse effect on its business.

If PT is found to be in violation of applicable laws and regulations in these or other regulatory inquiries, investigations, or litigation proceedings that are currently pending against it or that may be brought against it in the future, PT may become subject to penalties, fines, damages or other sanctions. Any adverse outcome could have a material adverse effect on PT’s operating results or cash flows.

Risks Related to PT’s International Operations

Although Telefónica S.A. acquired PT’s interest in Vivo, the Brazilian telecommunications company, on 27 September 2010, PT announced on 28 July 2010 that it intended to enter into a strategic partnership with Telemar Participações, S.A. and its subsidiaries (collectively, “Oi”), the Brazilian telecommunications company. On 26 January, 2011, PT announced that it had signed definitive documents relating to the transaction, and on 28 March 2011, PT completed the acquisition of a 25.3 per cent economic interest in Oi for a cash consideration of R\$8.32 billion. PT will have a role in the management of Oi and, as a result, will proportionally consolidate the results of operations of Oi in its results of operations. Based on 2010 financial statements, it is expected that Oi’s revenues will represent approximately half of PT’s consolidated revenues. Consequently, the risks described below relating to the Brazil and the Brazilian telecommunications markets will continue to be relevant to PT’s business. Additional risk factors that are specific to Oi are set forth below under “—Risks Related to PT’s Strategic Partnership with Oi.”

PT is exposed to exchange rate and interest rate fluctuations

PT is exposed to exchange rate fluctuation risks, mainly due to the significant level of PT’s investments in Brazil. On 28 March 2011, PT completed the acquisition of an economic interest of 25.3 per cent in Oi, Brazil’s largest telecommunications group. PT does not expect to hedge its economic exposure against exchange rate fluctuations. PT is required to make adjustments to its equity on its balance sheet in response to fluctuations in the value of foreign currencies in which PT

has made investments. Devaluation of the Brazilian Real in the future could result in negative adjustments to PT's balance sheet, which could limit its ability to generate distributable reserves.

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

The Brazilian Central Bank's Monetary Policy Committee (*Comitê de Política Monetária do Banco Central—COPOM*) establishes the basic interest rate target for the Brazilian financial system by referring to the level of economic growth of the Brazilian economy, the level of inflation and other economic indicators. As of 31 December 2006, 2007, 2008, 2009 and 2010, the basic interest rate was 13.3 per cent., 11.3 per cent., 13.8 per cent., 8.8 per cent. and 10.8 per cent., respectively. Increases in interest rates may have a material adverse effect on Oi by increasing its interest expense on floating rate debt and increasing its financing costs.

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

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

Adverse political and economic conditions.

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

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

Fluctuations in the Real and increases in interest rates.

The Brazilian currency has historically experienced frequent fluctuations relative to the Euro and other currencies. In 2007 and 2009, the Real appreciated against the Euro by 8.3 per cent., 29.2 per cent. and 13.2 per cent., respectively, and in 2008 depreciated against the Euro by 20.0 per cent. Any substantial negative reaction to the policies of the Brazilian government could have a negative impact, including devaluation. The devaluation of the Real could negatively affect the stability of the Brazilian economy and accordingly could negatively affect the profitability and results of PT's operations and its ability to distribute reserves. It would also increase costs associated with financing its operations in Brazil. In addition, a devaluation of the Real relative to the U.S. dollar may increase the costs of imported products and equipment. PT's operations in Brazil rely on imported equipment, and, as a result of such devaluation, such equipment would be more expensive to purchase.

In response to the global economic and financial crisis, the Brazilian government increased the SELIC basic interest rate to 13.75 per cent. as of 31 December 2008. In 2009 Brazilian Central Bank reduced the SELIC up to 8.75 per cent. as of 31 December 2009 and in 2010 increased it up to 10.75 per cent. as of 31 December 2010. An increase in interest rates could negatively affect PT's profitability and results of operations and would increase the costs associated with financing PT's operations in Brazil.

Inflation in Brazil.

Brazil has historically experienced high rates of inflation. Inflation, as well as governmental measures put in place to combat inflation, have had a material adverse effect on the Brazilian economy. Inflationary pressures persist, and actions taken in an effort to curb inflation, coupled with public speculation about possible future governmental actions, have in the past contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. According to the Broad Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo* (“IPCA”), published by the Brazilian Institute for Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*, (“IBGE”)), the Brazilian consumer price inflation rates were 3.1 per cent. in 2006, 4.5 per cent. in 2007, 5.9 per cent. in 2008, 4.3 per cent. in 2009, and 5.9 per cent. in 2010.

Since 2006, Oi’s telephone rates have been indexed to the Telecommunications Service Index (*Índice de Serviços de Telecomunicações* or IST), which is a basket of national indexes that reflect the Brazilian telecommunications sector’s operating costs. However, Brazilian monetary policy continues to use the IPCA as an inflation targeting system. The inflation target for 2011 is 4.5 per cent. If inflation increases beyond this official 2011 target, basic interest rates may rise, causing direct effects on Oi’s cost of debt and indirect effects on the demand for telecommunications goods and services.

The market value of securities issued by Brazilian companies is influenced by the perception of risk in Brazil and other emerging market countries, which may have a negative effect on the value of PT’s investment in Oi and may restrict Oi’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. In 2008, certain Brazilian and Mexican companies announced significant losses in connection with currency derivatives as a result of the depreciation of the *real* and the Mexican peso against the U.S. dollar, respectively. As a result, a number of these companies suffered financial distress and sought protection under various bankruptcy regimes. In addition, in October 2008, the Argentine government nationalised the Argentine private pension funds. 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’s preferred shares and ADSs. Any of these factors could adversely affect the market price of Oi’s preferred shares and ADSs and impede its ability to access the international capital markets and finance its operations in the future on terms acceptable to it or at all.

Substantial competition exists in the Brazilian telecommunications market

Competition is expected to continue to intensify for telecommunications operators in Brazil as a result of the strategies of existing competitors, the possible entrance of new competitors and the rapid development of new technologies, products and services. An operator’s ability to compete successfully will depend on its marketing techniques and on its ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions and discount pricing strategies by its competitors. If an operator does not keep pace with technological advances, or if it fails to respond timely to changes in competitive factors in its industry, it could continue to lose market share, and it could suffer a decline in its revenue. Competition from other Brazilian fixed-line service providers, Personal Mobile Service (*Serviço Móvel Pessoal*, or “SMP”) providers and data transmission service providers has affected, and may continue to affect, Oi’s financial results by causing, among other things, a decrease in its customer growth rate, decreases in prices and increases in selling expenses.

Oi’s competitors may be able to offer lower prices than it does and develop and deploy new or improved technologies, services and products more rapidly. Oi’s response to competition may require it to lower rates, extend higher subsidies to its customers, and/or increase marketing expenses, thereby adversely affecting its margins.

In addition, market participants in other areas of Brazil may also seek to operate in Oi's area, most likely through acquisitions. Recently, there has been consolidation in the Brazilian telecommunications market, and PT believes this trend may continue.

Consolidation may result in increased competitive pressures within Oi's market. Oi may be unable to respond adequately to pricing pressures resulting from consolidation, which would adversely affect its business, financial condition and results of operations. Oi could be negatively affected by antitrust limitations imposed by the Brazilian National Telecommunications Agency (*Agência Nacional de Telecomunicações* ("ANATEL")) and the Brazilian Administrative Council for Economic Defense (*Conselho Administrativo de Defesa Econômica* ("CADE")). Consolidation of other players in the Brazilian telecommunications market will increase the competitive pressure on Oi due to an increase in their economies of scale and a reduction in their operating costs.

Regulation may have a material adverse effect on Oi's results

Telecommunications service providers in Brazil are subject to extensive regulation, including certain regulatory restrictions and obligations relating to licences, competition, taxes and rates (including interconnection rates) applicable to telecommunications services. Changes in the regulatory framework in the telecommunications sector may have a negative impact on Oi's revenues and results of operations. Moreover, Oi is restricted from increasing some of the rates that they charge for services provided even if a devaluation of the Brazilian Real or an increase of interest rates by the Brazilian government increases their costs. Such circumstances may limit Oi's flexibility in responding to market conditions, competition and changes in its cost structure, which could have a material adverse effect on its results of operations and, in turn, adversely affect PT's results of operations.

Brazil's telecommunications regulatory framework is continuously evolving. The interpretation and enforcement of regulations, the assessment of compliance with regulations and the flexibility of regulatory authorities are all marked by uncertainty. Oi operates its fixed-line and personal mobile services under concession agreements and authorisations from the Brazilian government, and its ability to retain these authorisations is a precondition to its success. However, in light of the regulatory framework, ANATEL could modify the terms of the concession agreements and authorisations adversely. Furthermore, according to the terms of the concession agreements and operating authorisations, Oi is obligated to meet certain requirements and to maintain minimum network expansion, quality, coverage and service standards. Failure to comply with these requirements may result in the imposition of fines or other government actions, including the early termination of operating authorisations. Any partial or total revocation of any operating authorisations would have a material adverse effect on Oi's business, financial condition, revenues, results of operations and prospects. In recent years, ANATEL has also been reviewing and introducing changes in applicable regulation, especially regarding the interconnection fees among telecommunications service providers in Brazil. Interconnection fees, which are fees charged by telecommunications service providers to each other to interconnect to each others' networks, are an important part of Oi's revenue base. To the extent that changes to the rules governing interconnection fees reduce the amount of interconnection fees Oi is able to collect, businesses, financial conditions, revenues, results of operations and prospects could be adversely affected.

Certain legislative bills seeking to terminate monthly subscription fees charged by local fixed-line service providers have been submitted to the Brazilian Congress and remain pending. In March 2008, a special committee was formed in the Brazilian House of Representatives to discuss the various proposed bills on this issue. As of the date of this Offering Circular, no action had been taken by the committee.

In 2010, monthly subscription fees represented 24.0 per cent. of Oi's gross operating revenue. The enactment of legislation terminating the monthly subscription fees would have a material adverse effect on its results of operations.

PT's other international investments are subject to political, economic, regulatory and legal risk in those countries, which could adversely affect the value of its investments and its results of operations

In accordance with PT's strategy, PT continues to proactively manage its international businesses in selected markets and regions where it has a clear competitive advantage. This strategy

may be pursued either by investing alone or by developing partnerships and by acquiring existing companies or by investing in new projects.

These investments 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 licences and the evolution of regulated retail and wholesale tariffs. In addition, PT's ventures in international markets face risks associated with increasing competition, including due to the possible entrance of new competitors and the rapid development of new technologies.

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

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

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

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

Risks Related to PT's Strategic Partnership with Oi

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

The successful implementation of PT's strategy for its mobile operations in Brazil depends on the development of its strategic partnership with Oi. On 26 January 2011, PT announced that it had entered into agreements with Oi to acquire a significant economic stake of that company and on 28 March 2011, PT completed the acquisition of a 25.3 per cent. economic interest in Oi.

As in any strategic partnership, it is possible that PT and Oi will not agree on its strategy, operations or other matters. Any inability of Oi and PT to operate Oi jointly could have a negative impact on Oi's operations, which could have a negative impact on PT's strategy in Brazil and could have a material adverse effect on PT's results of operations. In addition, PT cannot be sure that Oi will be able to take advantage of its position in the Brazilian market to increase the scope and scale of its operations or that any anticipated benefits of the strategic partnership will be realised.

As part of its strategic alliance with Oi, PT plans to merge Dedic S.A. ("Dedic") and GPTI Tecnologia da Informação S.A. ("GPTI"), PT's contact center operations in Brazil, with Contax S.A. ("Contax") and increase PT's economic stake in CTX, Contax's indirect controlling shareholder, from 42.0 per cent. to 44.4 per cent. This merger is still subject to approval by the Board of Directors and shareholders and other conditions that are beyond PT's control.

In addition, because PT holds joint control of Oi, PT does not have free access to its cash flows. It will be necessary for PT and the other controlling shareholders of Oi to agree to approve distributions from Oi. See "*Portugal Telecom, SGPS, S.A.—PT's Businesses-Strategic Alliances—Strategic Partnership with Oi.*"

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

At 31 December 2010, Oi had total consolidated debt of R\$29,136 million. Oi is subject to certain financial covenants that limit its ability to incur additional debt. Its existing level of indebtedness and the requirements and limitations imposed by its debt instruments could adversely

affect its financial condition or results of operations. In particular, the terms of some of these debt instruments restrict Oi's ability, and the ability of its subsidiaries, to:

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

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

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

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

Oi is subject to numerous legal and administrative proceedings, which could adversely affect its 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. It classifies its risk of loss from legal and administrative proceedings as "probable," "possible" or "remote." It makes provisions for probable losses but does not make provisions for possible and remote losses. At 31 December 2010, Oi had recorded provisions of R\$6,793 million for probable losses relating to various tax, labor and civil legal and administrative proceedings against it.

At 31 December 2010, Oi had claims against it of R\$15,305 million in tax proceedings, R\$2,547 million in labour proceedings and R\$1,372 million in civil proceedings with a risk of loss classified as "possible" or "remote" and for which it had made no 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, its results of operations and financial condition may be materially adversely affected.

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

Oi's business significantly depends on its customers' ability to pay their bills and comply with their obligations to it. In 2010, Oi recorded provisions for doubtful accounts in the amount of R\$979 million, primarily due to subscribers' delinquencies. As a percentage of Oi's gross operating revenue, its provision for doubtful accounts was 2.1 per cent. at 31 December 2010.

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

subscriber delinquencies and bad debt will continue to adversely affect Oi's operating and financial results.

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

Risks Relating to the Notes issued under the Programme

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

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

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

Risks related to the structure of a particular issue of Notes

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

Notes subject to optional redemption by the Issuer

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

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

Index Linked Notes and Dual Currency Notes

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

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

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

Partly-paid Notes

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

Variable rate Notes with a multiplier or other leverage factor

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

Inverse Floating Rate Notes

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

Fixed/Floating Rate Notes

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

Notes issued at a substantial discount or premium

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

Risks related to Notes generally

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

Modification, waivers and substitution

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

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

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States including Belgium from 1 January 2010, are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

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

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

Change of law

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

Notes where denominations involve integral multiples: definitive Notes

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination (as defined in the Final Terms) plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

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

Risks related to the market generally

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

The secondary market generally

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

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

Credit ratings may not reflect all risks

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

Legal investment considerations may restrict certain investments

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

GENERAL DESCRIPTION OF THE PROGRAMME

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

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

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

FORM OF THE NOTES

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

Bearer Notes

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

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

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

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

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

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

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

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

Registered Notes

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

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

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

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

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

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

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

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

Transfer of Interests

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

General

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

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

Regulation S Global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly.

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

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

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

[Date]

Portugal Telecom International Finance B.V.

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

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

**with the benefit of a Keep Well Agreement given by
Portugal Telecom SGPS, S.A.
(incorporated with limited liability under the laws
of the Portuguese Republic)
and with the benefit of a Keep Well Agreement given by
PT Comunicações, S.A.
(incorporated with limited liability
under the laws of the Portuguese Republic)**

PART A – CONTRACTUAL TERMS

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

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

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

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

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

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

1. Issuer: []
2. (a) Series Number: []
 (b) Tranche Number: []
 (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified currency or Currencies []
4. Aggregate Nominal Amount
 (a) Series: []
 (b) Tranche: []
5. Issue Price of Tranche: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
6. (a) Specified Denominations: []
 (N.B. Following the entry into force of the 2010 PD Amending Directive on 31 December 2010, Notes to be admitted to trading on a regulated market within the European Economic Area with a maturity date which will fall after the implementation date of the 2010 PD Amending Directive in the relevant European Economic Area Member State (which is due to be no later than 1 July 2012) must have a minimum denomination of EUR 100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities. Similarly, Notes issued after the implementation of the 2010 PD Amending Directive in a Member State must have a minimum denomination of EUR 100,000 (or equivalent) in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State.)
 (Note – where multiple denominations above [€50,000] or equivalent are being used the following sample wording should be followed: “[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Notes in definitive form will be issued with a denomination above [€99,000].”)
 (Note – where multiple denominations above [€100,000] or equivalent are being used the following sample wording should be followed: “[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].”)

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

- (b) Calculation Amount: []
(If only one Specified Denomination, insert the Specified Denomination.
If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)
7. (a) Issue Date []
 (b) Interest Commencement Date; [specify/Issue Date/Not Applicable]
(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)
8. Maturity Date [Fixed rate – specify date/Floating rate — Interest Payment Date falling in or nearest to [specify month]]
9. Interest Basis:
 [[] per cent. Fixed Rate]
 [[LIBOR/EURIBOR] +/- [] per cent. Floating Rate]
 [Zero Coupon]
 [Index Linked Interest]
 [Dual Currency Interest]
 [specify other]
 (further particulars specified below)
10. Redemption/Payment Basis:
 [Redemption at par]
 [Index Linked Redemption]
 [Dual Currency Redemption]
 [Partly Paid]
 [Instalment]
 [specify other]
(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Commission Regulation (EC) No. 809/2004 of 29 April, 2004 (the “Prospectus Directive Regulation”) will apply.)
11. Change of Interest Basis or Redemption Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/ Payment Basis]
12. Put/Call Options
 [Investor Put]
 [Issuer Call]
 [(further particulars specified below)]
13. (a) Status of the Notes: [Senior/[Dated/Perpetual] Subordinated]

- (b) Date [Board] approval for issuance of []
Notes obtained:

(N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Notes)

14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate[(s)] of Interest [] per cent. per annum [payable [annually/semi-annually/quarterly/other (specify)] in arrear]
(If payable other than annually, consider amending Condition 5)
- (b) Interest Payment Date(s) [] in each year up to and including the Maturity Date/[specify other]
(N.B. This will need to be amended in the case of long or short coupons)
- (c) Fixed Coupon Amount[(s)]: [] per Calculation Amount
(Applicable to Notes in definitive form)
- (d) Broken Amount(s): [] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []
(Applicable to Notes in definitive form)
- (e) Day Count Fraction: [Actual/Actual (ICMA) or 30/360 or [specify other]]
- (f) [Determination Date(s): [] in each year
(Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)
N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration
N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))
- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
16. Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Specified Period(s)/Specified Interest Payment Dates: []
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention [specify other]]
- (c) Additional Business Centre(s): []
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]

- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (f) Screen Rate Determination:
- Reference Rate: []
(Either LIBOR, EURIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement)
 - Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET 2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
 - Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (g) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (h) Margin(s): [+/-] [] per cent. per annum
- (i) Minimum Rate of Interest: [] per cent. per annum
- (j) Maximum Rate of Interest: [] per cent. per annum
- (k) Day Count Fraction: [Actual/Actual (ISDA)
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
30E/360 (ISDA)
Other]
(See Condition 5 for alternatives)
- (l) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Terms and Conditions: []
17. Zero Coupon Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Accrual Yield: [] per cent. per annum
 - (b) Reference Price: []
 - (c) Any other formula/basis of determining amount payable: []

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

- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [] (need to include a description of market disruption or settlement disruption events and adjustment provisions)
- (d) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [[] per Calculation Amount/specify other/see Appendix]
- (c) If redeemable in part: []
- (i) Minimum Redemption Amount: []
- (ii) Maximum Redemption Amount: []
- (d) Notice period (if other than as set out in the Terms and Conditions): []
- (N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)
21. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [[] per Calculation Amount/specify other/see Appendix]
- (c) Notice period (if other than as set out in the Terms and Conditions): []
- (N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)
22. Final Redemption Amount: [[] per Calculation Amount/specify other/see Appendix]
(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)

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

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes:

(a) Form:

[Bearer Notes:

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

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

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

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

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

N.B. The exchange upon notice at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6(a) includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)

[Registered Notes:

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

(b) New Global Note:

[Yes][No]

* Include for Notes that are to be offered in Belgium.

25. Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable/give details]
(Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 16(c) and 18(g) relate)
26. Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]
28. Details relating to Instalment Notes:
- (a) Instalment Amount(s): [Not Applicable/give details]
- (b) Instalment Date(s): [Not Applicable/give details]
29. Redenomination applicable: Redenomination [not] applicable
[(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))][(if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms)]
30. Other final terms: [Not Applicable/give details]
[(When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)]
(Consider including a term providing for tax certification if required to enable interest to be paid gross by issuers)

DISTRIBUTION

31. (a) If syndicated, names of Managers: [Not Applicable/give names]
(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, include names of entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers.)
- (b) Date of [Subscription Agreement]: []
(The above is only relevant if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies).
- (c) Stabilising Manager(s) (if any): [Not Applicable/give names]
32. If non-syndicated, name of relevant Dealer: [Not Applicable/give name]

34. U.S. Selling Restrictions: [Reg. S Compliance Category/TEFRA D/TEFRA C/TEFRA not applicable]
35. Additional Selling Restrictions: [Not Applicable/*give details*]

PURPOSE OF FINAL TERMS

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

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By:

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i) Listing and Admission to trading:

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

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

2. RATINGS

Ratings:

The Notes to be issued have been rated:

[S & P: []]

[Moody's: []]

[[Other]: []]

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

[The Notes to be issued [[have been]/[are expected to be]] rated *[insert details]* by *[insert credit rating agency name(s)]*.]

[Insert credit rating agency] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[Insert credit rating agency] is established in the European Union and is registered under Regulation (EC) No. 1060/2009.]

[Insert credit rating agency] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009.]

[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. However, the application for registration under Regulation (EC) No. 1060/2009 of *[insert the name of the relevant EU CRA affiliate that applied for registration]*, which is established in the European Union, disclosed the intention to endorse credit ratings of *[insert credit rating agency]*.]

[Insert credit rating agency] is not established in the European Union and has not applied for

registration under Regulation (EC) No. 1060/2009. The ratings [[have been]/[are expected to be]] endorsed by [insert the name of the relevant EU-registered credit rating agency] in accordance with Regulation (EC) No. 1060/2009. [Insert the name of the relevant EU-registered credit rating agency] is established in the European Union and registered under Regulation (EC) No. 1060/2009.]

[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.]

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

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

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

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

[(i) Reasons for the offer []]

[(ii)] Estimated net proceeds: []

[(iii)] Estimated total expenses: []

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

5. YIELD (Fixed Rate Notes only)

Indication of yield: []

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

6. PERFORMANCE OF INDEX/FORMULA AND OTHER INFORMATION CONCERNING THE UNDERLYING (Index-Linked Notes only)

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

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

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

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

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

(N.B. This paragraph 6 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

7. PERFORMANCE OF RATE[S] OF EXCHANGE *(Dual Currency Notes only)*

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

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

(N.B. This paragraph 7. only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

8. OPERATIONAL INFORMATION

- | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|
| (i) ISIN Code: | [] |
| (ii) Common Code: | [] |
| (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): | [Not Applicable/give name(s) and number(s)] |
| (iv) Delivery: | Delivery [against/free of] payment |
| (v) Names and addresses of additional Paying Agent(s) (if any): | [] |
| (vi) Intended to be held in a manner which would allow Eurosystem eligibility: | [Yes] [No] |
- [Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper, [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is held under the NSS] [include this text for Registered Notes which are to be held under the NSS], and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] [include this text if “yes” selected in which case Bearer Notes must be issued in NGN form]*

TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a Series (as defined below) of Notes issued by Portugal Telecom International Finance B.V. (the "Issuer") and constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time (the "Trust Deed")) dated 23 April, 2010, between the Issuer, Portugal Telecom, SGPS, S.A. ("PT"), PT Comunicações, S.A. ("PTC") and Citicorp Trustee Company Limited (the "Trustee", which expression shall include any successor trustee).

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

- (i) in relation to any Notes represented by a global Note (a "Global Note"), units of the lowest Specified Denomination in the specified currency;
- (ii) any Global Note;
- (iii) any definitive Notes in bearer form ("Definitive Bearer Notes") issued in exchange for a Global Note in bearer form; and
- (iv) any definitive Notes in registered form ("Definitive Registered Notes") (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the "Agency Agreement") dated 23 April, 2010 and made between the Issuer, PT, PTC, Citibank, N.A., London office, as issuing and principal paying agent and agent bank (in such capacity the "Principal Paying Agent", which expression shall include any successor principal paying agent), the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression shall include any additional or successor paying agents), Citibank, N.A., New York office as registrar (in such capacity, the "Registrar", which expression shall include any successor registrar) and as a transfer agent, the other transfer agents named therein (together with the Registrar, the "Transfer Agents", which expression shall include any additional or successor transfer agents) and the Trustee.

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

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

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

The Trustee acts for the benefit of the holders for the time being of the Notes (the “Noteholders”, which expression shall, in relation to any Notes represented by a Global Note, be construed as provided below), the holders of the Receipts (the “Receiptholders”) and the holders of the Coupons (the “Couponholders”, which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

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

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

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

1. FORM, DENOMINATION AND TITLE

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

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

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

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not

applicable. References in these Terms and Conditions to Receipts, Coupons and Talons do not apply to Registered Notes.

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

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

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

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

2. TRANSFERS OF REGISTERED NOTES

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

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

(b) *Transfers of Registered Notes*

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

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

(c) *Registration of transfer upon partial redemption*

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

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

(d) *Costs of registration*

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

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

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

3. STATUS OF THE NOTES

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

4. NEGATIVE PLEDGE

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

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

For the purposes of these Terms and Conditions:

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

“Permitted Security” means:

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

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

5. INTEREST

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date.

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

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

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

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

- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount,

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

In these Terms and Conditions:

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

- (i) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:

- (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

- (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

- (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
- (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

- (ii) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360;

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

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

- (b) *Interest on Floating Rate Notes and Index Linked Interest Notes*

- (i) *Interest Payment Dates*

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

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

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

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

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

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

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

(ii) *Rate of Interest*

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

(A) *ISDA Determination for Floating Rate Notes*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (A) if “Actual/Actual (ISDA)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (D) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

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

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

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

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

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

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30;

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

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

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and in which case D₂ will be 30.

(v) *Notification of Rate of Interest and Interest Amounts*

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

(vi) *Determination or Calculation by Trustee*

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

(vii) *Certificates to be final*

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

(c) *Interest on Dual Currency Interest Notes*

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

(d) *Interest on Zero Coupon Notes*

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

(e) *Interest on Partly Paid Notes*

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

(f) *Accrual of interest*

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

6. PAYMENTS

(a) *Method of payment*

Subject as provided below:

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

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

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

Payments of principal in respect of Definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Definitive Bearer Notes, and payments of interest in respect of Definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due,

endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

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

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

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

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

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

(c) Payments in respect of Bearer Global Notes

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

(d) *Payments in respect of Registered Notes*

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

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

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

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

(e) *General provisions applicable to payments*

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons

shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

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

(i) if:

- (A) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on such Notes in the manner provided above when due;
- (B) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(C) such payment is then permitted under United States law, and/or

(ii) at the option of the relevant holder if the payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(f) *Payment Day*

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

(i) a day on which commercial banks and foreign exchange markets settle payments in:

- (A) the relevant place of presentation; and
- (B) any Additional Financial Centre specified in the applicable Final Terms; and

(ii) either (1) in relation to any sum payable in a specified currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant specified currency (if other than the place of presentation and any Additional Financial Centre so specified and which if the specified currency is New Zealand dollars shall be Auckland) or (2) in relation to any sum payable in euro, a day on which the TARGET 2 System is operating credit and transfer instructions in respect of payments in euro.

(g) *Interpretation of principal and interest*

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

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

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

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

7. REDEMPTION AND PURCHASE

(a) *Redemption at maturity*

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

(b) *Redemption for tax reasons*

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

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

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

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

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

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

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

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

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

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

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

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

If this Note is represented by a Global Note, to exercise the right to require redemption of this Note the holder of this Note must arrange for delivery (in accordance with the standard procedures

of Euroclear and/or Clearstream, Luxembourg) at the specified office of any Paying Agent (in the case of a Bearer Note) or, as the case may be, Transfer Agent (in the case of a Registered Note) of a Put Notice duly completed as referred to in the preceding paragraph.

(e) *Early Redemption Amounts*

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

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

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

“RP” means the Reference Price;

“AY” means the Accrual Yield; and

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

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

(f) *Instalments*

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

(g) *Partly Paid Notes*

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

(h) *Purchases*

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

(i) *Cancellation*

All Notes which are redeemed will forthwith be cancelled (together, in the case of Definitive Bearer Notes, with all unmatured Receipts, Coupons and Talons attached thereto or surrendered

therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to paragraph (h) above (together, in the case of Definitive Bearer Notes, with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and/or the Registrar and cannot be reissued or resold.

(j) *Late payment on Zero Coupon Notes*

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

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

8. TAXATION

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

- (i) presented for payment in The Netherlands; or
- (ii) to, or to a third party on behalf of, a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with The Netherlands other than the mere holding of such Note, Receipt or Coupon; or
- (iii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day, assuming that day to have been a Payment Day (as defined in Condition 6(f)); or
- (iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (v) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (vi) on account of any tax or duty that is imposed or withheld by reason of the failure by the holder or the beneficial owner of such Note, Receipt or Coupon to comply with a request of the Issuer or Paying Agent addressed to the holder to provide certification, information, documents or other evidence concerning the nationality, residence or identity of the holder or such beneficial owner or to make any declaration or similar claim or satisfy any other

reporting requirement relating to such matters, which is required by a statute, treaty, regulation or administrative practice of The Netherlands as a precondition to exemption from all or part of such tax or duty.

As used herein, the “Relevant Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent, the Registrar or the Trustee, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

9. PRESCRIPTION

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

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

10. EVENTS OF DEFAULT AND ENFORCEMENT

(a) *Events of Default*

If any one or more of the following events (each an “Event of Default”) shall occur, the Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders (subject in each case to being indemnified to its satisfaction) shall (but in the case of the happening of any of the events mentioned in sub-paragraph (ii), (iii), (iv), (vi), (vii) or (viii) below only if the Trustee shall have certified to the Issuer and the Keep Well Providers that the occurrence of such event is, in its opinion, materially prejudicial to the interests of the Noteholders), by written notice to the Issuer and the Keep Well Providers, declare the Notes to be, and forthwith upon such declaration the Notes shall become, immediately due and repayable at their Early Redemption Amount, together with accrued interest as provided in the Trust Deed:

- (i) if the Issuer fails to pay any amount of any principal or interest due in respect of the Notes or any of them and the failure continues for a period of seven days in the case of principal and 14 days in the case of interest; or
- (ii) if the Issuer or either Keep Well Provider fails to perform or observe any of its other obligations under these Terms and Conditions or the Trust Deed and the failure continues for the period of 30 days next following the service by the Trustee on the Issuer and the relevant Keep Well Provider of notice requiring the same to be remedied; or
- (iii) if any Indebtedness for Borrowed Money of the Issuer, either Keep Well Provider or any Relevant Subsidiary becomes due and repayable prematurely by reason of an event of default (however described) or the Issuer, either Keep Well Provider or any Relevant Subsidiary fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment as extended by any applicable grace period as originally provided or if the Issuer, either Keep Well Provider or any Relevant Subsidiary fails in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person, provided that no such event shall constitute an Event of Default unless the relative Indebtedness for Borrowed Money either alone or when aggregated with other Indebtedness for Borrowed Money relative to all (if any) other such events which shall have occurred shall amount to at least U.S.\$20,000,000 (or its equivalent in any other currency) and provided further that, for the purposes of this Condition 10(a)(iii), the Issuer, either Keep Well Provider and any Relevant Subsidiary shall not be deemed to be in default with respect to such

Indebtedness, guarantee or indemnity if it shall be contesting in good faith by appropriate means its liability to make payment thereunder and has been advised by independent legal advisers of recognised standing that it is reasonable for it to do so; or

- (iv) if a secured party enforces its security over the whole or a substantial part of the undertaking, assets and revenues of the Issuer or either Keep Well Provider; or
- (v) save for the purposes of reorganisation on terms previously approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders, if any order is made by any competent court or an effective resolution passed for the winding up or dissolution of the Issuer or any Keep Well Provider; or
- (vi) save for the purposes of reorganisation on terms approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders, if the Issuer or either Keep Well Provider ceases to carry on the whole or substantially the whole of its business (except for the purpose of a transfer of the whole or substantially the whole of its business to a Subsidiary which shall, within one business day upon the happening of such transfer, enter into a keep well agreement, in a form previously approved in writing by the Trustee, on substantially the same terms as the relevant Keep Well Agreement and shall comply with such other conditions as the Trustee may require including, but not limited to, taking steps to ensure the validity and enforceability thereof, making appropriate consequential modifications to the provisions of these Terms and Conditions and the Trust Deed, becoming a party to the Trust Deed and agreeing to be bound by the provisions thereof as fully as if such Subsidiary had been named therein as a keep well provider in place of either Keep Well Provider and giving the requisite notifications to Noteholders) or the Issuer or either Keep Well Provider stops payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (vii) if proceedings are initiated against the Issuer or either Keep Well Provider under any applicable liquidation, insolvency, bankruptcy, moratorium of payments, composition, reorganisation or other similar laws, or a receiver, administrator, manager or other similar official is appointed in relation to the whole or a substantial part of the undertaking, assets or revenues of the Issuer or either Keep Well Provider, or an encumbrancer takes possession of the whole or a substantial part of the undertaking, assets or revenues of either of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking, assets or revenues of any of them unless, in any such case, discharged within 45 days or contested in good faith by appropriate means by the Issuer or the relevant Keep Well Provider, and the Issuer or the relevant Keep Well Provider has been advised by recognised independent legal advisers of good repute that it is reasonable to do so; or
- (viii) if the Issuer or either Keep Well Provider initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, bankruptcy, moratorium of payments, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally; or
- (ix) if it is or will become unlawful for the Issuer or either Keep Well Provider to perform or comply with any of its material obligations under or in respect of the Notes, the Trust Deed or the relevant Keep Well Agreement; or
- (x) either Keep Well Agreement is terminated or any provision of either Keep Well Agreement is amended or waived in circumstances where such amendment or waiver would have, in the opinion of the Trustee, an adverse effect on the interests of the Noteholders or is not enforced in a timely manner by the Issuer or is breached by either Keep Well Provider provided that in the case of such non-enforcement or breach this has, in the opinion of the Trustee, an adverse effect on the interests of the Noteholders.

For the purposes of these Terms and Conditions:

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

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

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

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

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

(b) *Enforcement*

At any time after the Notes shall have become immediately due and repayable the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce repayment of the Notes together with accrued interest and against the Issuer and each Keep Well Provider to enforce the provisions of the Trust Deed and the Keep Well Agreements but it shall not be bound to take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding, and (ii) it shall have been indemnified to its satisfaction. No Noteholder, Receiptholder or Couponholder shall be entitled (A) to proceed directly against the Issuer unless the Trustee, having become bound so to do, fails so to do within a reasonable period and such failure shall be continuing, or (B) to take proceedings to enforce the provisions of the Keep Well Agreements.

11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

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

12. AGENTS

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

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

- (i) there will at all times be a Principal Paying Agent and a Registrar;

- (ii) so long as the Notes are listed on any Stock Exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent and (in the case of Registered Notes) a Transfer Agent with a specified office in such place as may be required by the rules and regulations of such Stock Exchange or other relevant authority; and
- (iii) the Issuer undertakes that to the extent reasonably practicable and where it is not inconsistent with market practice at the relevant time to do so, there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law, implementing or complying with, or introduced in order to conform to, such Directive.

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

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

13. EXCHANGE OF TALONS

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

14. NOTICES

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

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

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

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

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

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

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

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

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

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

If the specified currency is pounds sterling, the Trustee may, without the consent of the Noteholders or Couponholders, on or after the date (if any) on which the United Kingdom becomes one of the countries participating in the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union and as amended by the Treaty of Amsterdam or otherwise participates in European economic monetary union in a manner having a similar effect to such third stage, agree to such modifications to the Terms and Conditions, the Notes, the Coupons and the Trust Deed in order to

facilitate payment of interest in euro and redemption at the euro equivalent of the pounds sterling principal amount of this Note and associated reconventioning, renominatisation and related matters as may be proposed by the Issuer (and confirmed by an independent financial institution approved in writing by the Trustee to be in conformity with the then applicable market conventions).

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

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

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

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

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

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

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

17. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes. The Trust Deed contains provisions for convening a single meeting of the

Noteholders and the holders of notes of other Series in certain circumstances where the Trustee so decides.

18. SUBSTITUTION

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

19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) *Governing law*

The Trust Deed, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

(b) *Submission to jurisdiction*

Each of the Issuer and the Keep Well Provider agrees, for the exclusive benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with these Terms and Conditions, the Trust Deed, the Notes, the Receipts and the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons) and that accordingly any suit, action or proceedings (together referred to as "Proceedings") arising out of or in connection with these Terms and Conditions, the Trust Deed, the Notes, the Receipts and the Coupons may be brought in such courts.

Each of the Issuer and the Keep Well Providers hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer or either Keep Well Provider in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(c) *Appointment of Process Agent*

Each of the Issuer and the Keep Well Providers has appointed Clifford Chance Secretaries Limited at its registered office for the time being (being at the date hereof at 10 Upper Bank Street, London E14 5JJ) as its agent for service of process, and undertakes that, in the event of Clifford Chance Secretaries Limited ceasing so to act or ceasing to be registered in England, it will appoint such other person as the Trustee may approve (which approval shall not be unreasonably withheld) as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve process in any other manner permitted by law.

USE OF PROCEEDS

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

**RELATIONSHIP OF THE ISSUER WITH PORTUGAL TELECOM SGPS, S.A.
AND PT COMUNICAÇÕES, S.A.**

PT and PTC have each entered into a keep well agreement dated 7th November, 2006 with the Issuer (each a "Keep Well Agreement" and together the "Keep Well Agreements") governed by English law. The following is the text of the Keep Well Agreements:

"KEEP WELL AGREEMENT

This Agreement is executed by way of deed poll and is made the 7th November, 2006 by:

- (1) PORTUGAL TELECOM, SGPS, S.A., a company incorporated under the laws of Portugal ("PT" or the "Parent"); and
- (2) PORTUGAL TELECOM INTERNATIONAL FINANCE B.V., a company incorporated under the laws of The Netherlands (the "Issuer").

WHEREAS:

- (A) The Issuer is a direct wholly-owned subsidiary of the Parent;
- (B) Citicorp Trustee Company Limited (the "Trustee", which expression shall wherever the context so admits include any successor as trustee for holders of the Notes (as defined below)), the Issuer and PT have entered into a trust deed dated 17th December, 1998 relating to the Global Medium Term Note Programme of the Issuer as amended and/or supplemented and/or modified from time to time (the "Trust Deed");
- (C) The Issuer may issue Notes pursuant to its Global Medium Term Note Programme, as amended from time to time ("Notes", which expression as used herein shall include Notes whether in global or definitive form and any coupons, receipts or talons appertaining to such Notes) which will be constituted by the Trust Deed as supplemented or modified from time to time; and
- (D) The Issuer may also assume from time to time obligations under swap agreements which will be related to the Notes (any obligation of the Issuer in respect of each swap agreement entered into by the Issuer and any Note is referred to as a "Debt Obligation" and the obligations are together referred to as "Debt Obligations").

NOW, THEREFORE, the Parent and the Issuer hereby covenant and agree as follows:

1. The Parent shall, directly or indirectly, own all of the issued and outstanding share capital of the Issuer as long as any Debt Obligation is outstanding and shall not pledge, grant a security interest in, encumber or alienate any of such share capital.
2. The Parent shall, with effect on and from the date of this Agreement, cause the Issuer to maintain a Tangible Net Worth (as hereinafter defined), as determined in accordance with generally accepted accounting principles in The Netherlands applied on a consistent basis as shown on the Issuer's most recent audited balance sheet (commencing with the Issuer's audited balance sheet at 31st December, 2005), of at least one euro.

"Tangible Net Worth" shall mean the total assets of the Issuer less the sum of intangible assets and total liabilities of the Issuer. A certificate of the auditors of the Issuer as to the amount of Tangible Net Worth shall, in the absence of manifest error, be final and conclusive.

3. If the Issuer at any time shall have insufficient funds or other liquid assets to meet its payment obligations (including in respect of any Debt Obligations) or to repay borrowings then maturing or subsequently to mature, upon receipt of notice from the Issuer to such effect, the Parent shall make, or have made, available to the Issuer, before the due date of such payment obligations or borrowings, funds sufficient to enable the Issuer to meet such payment obligations or to repay such borrowings, as the case may be, in full as they fall due. The Issuer shall use the funds made available to it by the Parent hereunder solely for the fulfilment of its payment obligations and the repayment at maturity of its borrowings.

4. Any and all funds from time to time provided by the Parent to the Issuer pursuant to Clause 3 above shall be either (i) by way of subscription for and payment of share capital (other than redeemable share capital) of the Issuer, or (ii) by way of subordinated loan, that is to say, a loan which, and interest on which, is not permitted to be, and is not capable of being, repaid or paid unless all other debt of the Issuer has been fully satisfied and is subordinated on a winding-up of the Issuer to all of the unsecured and unpreferred creditors of the Issuer other than the Parent.
5. The Parent warrants and agrees that its payment obligations which may arise hereunder constitute unsecured and unsubordinated obligations of the Parent and rank *pari passu* with all other unsecured and unsubordinated obligations of the Parent other than those obligations which are preferred by law.
6. This Agreement is not, and nothing herein contained and nothing done by the Parent pursuant hereto shall be deemed to constitute, a guarantee, direct or indirect, by the Parent of any Debt Obligation or any other debt of the Issuer (or of any subsidiary of the Issuer) or of any instrument issued by the Issuer or of any subsidiary of the Issuer.
7. If the Issuer shall be in liquidation, administration or receivership or other analogous proceedings (including if the Issuer is declared bankrupt (“*faillissement*”) or is granted a moratorium of payment (“*surséance van betaling*”) or enters into winding-up proceedings (“*ontbinding*”)) and the Parent shall be in default of its obligations hereunder, the Parent shall be liable to the Issuer by way of liquidated damages for such default in an amount equal to the sum that the Parent would have paid had it performed in full all of its obligations hereunder, and the Issuer and any liquidator, administrator or receiver of the Issuer or other analogous officer or official shall be entitled to claim accordingly.
8. This Agreement may be modified, amended or terminated only by the written agreement of the Parent and the Issuer, provided, however, that no such modification, amendment or termination shall be made which may have any adverse effect upon the holders of any Debt Obligation taken as a whole while any Debt Obligation is outstanding.

The Parent and the Issuer each hereby covenants as follows:

- (i) it will not consent, either orally or in writing, to any modification or amendment to this Agreement which may have any adverse effect upon the Noteholders (as defined below) or the holders of any other Debt Obligation taken as a whole and it will not terminate this Agreement while any Debt Obligation remains outstanding;
 - (ii) it will give written notice to the Trustee on behalf of the Noteholders and to the holders of any other Debt Obligation at least 30 days prior to any proposed modification, amendment or termination of this Agreement;
 - (iii) it will fully and promptly perform its obligations and exercise its rights under this Agreement and, in the case of the Issuer, (without limitation to the foregoing) exercise its right to enforce performance of the terms of this Agreement by the Parent; and
 - (iv) it will consent to the giving of an order of specific performance or similar relief by any court of competent jurisdiction in the event that any action is brought in respect of this Agreement.
9.
 - (i) This Agreement shall take effect as a deed poll for the benefit of the Trustee on behalf of the Noteholders and the benefit of the holder of any other Debt Obligation other than any Note. No other person, firm, company or association (unincorporated or incorporated) shall be entitled to any benefit under this Agreement whatsoever whether under the Contracts (Rights of Third Parties) Act 1999 or otherwise.
 - (ii) The Parent and the Issuer hereby acknowledge and covenant that obligations binding upon it contained herein are owed to, and shall be for the benefit of:
 - (a) the Trustee on behalf of the Noteholders;
 - (b) each holder of any Debt Obligation other than any Note.

- (iii) The Parent and the Issuer hereby further acknowledge and covenant that the Trustee shall be entitled on behalf of the Noteholders and the holder of any Debt Obligation other than any Note shall be entitled on behalf of itself to enforce the said obligations against the Parent and the Issuer, if and only insofar as at the time the proceedings for such enforcement are instituted, any Notes or the other relevant Debt Obligation, as the case may be, which have become due and payable remain unpaid in whole or in part.
 - (iv) This Agreement shall be deposited with and held by the Trustee for so long as the Trust Deed is in force and, if thereafter, any other Debt Obligation remains outstanding it will be deposited with and held by a reputable financial institution on behalf of the holder(s) of such other Debt Obligation. The Parent hereby acknowledges the right of the holder of any Debt Obligation to obtain from the Parent a copy of this Agreement.
 - (v) “Noteholder” has the same meaning in relation to each Note as specified in the Terms and Conditions of such Note.
10. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument.
11. The Parent hereby irrevocably agrees that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and that accordingly any suit, action or proceedings (together “Proceedings”) arising out of or in connection with this Agreement may be brought in such courts. The Parent hereby irrevocably waives any objection which it may have to the laying of the venue of any Proceedings in any such courts and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agree that a judgment in any Proceedings brought in the English courts shall be conclusive and binding upon the Parent and may be enforced in the courts of any other jurisdiction. Nothing contained herein shall limit any right to take Proceedings against the Parent in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not. The Parent hereby appoints Clifford Chance Secretaries Limited at its registered office for the time being (being at the date hereof at 10 Upper Bank Street, London E14 5JJ) as their agent for service of process and agree that, in the event of Clifford Chance Secretaries Limited ceasing so to act, they will appoint another person as their agent for service of process in England in respect of any Proceedings.
12. This Agreement shall be governed by, and construed in accordance with, the laws of England.
13. If the Issuer is represented by an attorney or attorneys in connection with the signing and/or execution and/or delivery of this Agreement or any agreement or document referred to herein or made pursuant hereto and the relevant power or powers of attorney is or are expressed to be governed by the laws of a particular jurisdiction, it is hereby expressly acknowledged and accepted by the other parties hereto that such laws shall govern the existence and extent of such attorney’s or attorneys’ authority and the effects of the exercise thereof.”

“KEEP WELL AGREEMENT

This Agreement is executed by way of deed poll and is made the 7th November, 2006 by:

- (1) PT COMUNICAÇÕES, S.A., a company incorporated under the laws of Portugal (“PTC”); and
- (2) PORTUGAL TELECOM INTERNATIONAL FINANCE B.V., a company incorporated under the laws of The Netherlands (the “Issuer”).

WHEREAS:

- (A) The Issuer is a direct wholly-owned subsidiary of Portugal Telecom, SGPS, S.A. (“PT” or the “Parent”);
- (B) Citicorp Trustee Company Limited (the “Trustee”, which expression shall wherever the context so admits include any successor as trustee for holders of the Notes (as defined below)), the Issuer and PT have entered into a trust deed dated 17th December, 1998 relating to the Global Medium Term Note Programme of the Issuer as amended and/or supplemented and/or modified from time to time (the “Trust Deed”);
- (C) The Issuer may issue Notes pursuant to its Global Medium Term Note Programme, as amended from time to time (“Notes”, which expression as used herein shall include Notes whether in global or definitive form and any coupons, receipts or talons appertaining to such Notes) which will be constituted by the Trust Deed as supplemented or modified from time to time; and
- (D) The Issuer may also assume from time to time obligations under swap agreements which will be related to the Notes (any obligation of the Issuer in respect of each swap agreement entered into by the Issuer and any Note is referred to as a “Debt Obligation” and the obligations are together referred to as “Debt Obligations”).

NOW, THEREFORE, PTC and the Issuer hereby covenant and agree as follows:

1. PTC shall, with effect on and from the date of this Agreement, cause the Issuer to maintain a Tangible Net Worth (as hereinafter defined), as determined in accordance with generally accepted accounting principles in The Netherlands applied on a consistent basis as shown on the Issuer’s most recent audited balance sheet (commencing with the Issuer’s audited balance sheet at 31st December, 2005), of at least one euro.

“Tangible Net Worth” shall mean the total assets of the Issuer less the sum of intangible assets and total liabilities of the Issuer. A certificate of the auditors of the Issuer as to the amount of Tangible Net Worth shall, in the absence of manifest error, be final and conclusive.

2. If the Issuer at any time shall have insufficient funds or other liquid assets to meet its payment obligations (including in respect of any Debt Obligations) or to repay borrowings then maturing or subsequently to mature, upon receipt of notice from the Issuer to such effect, PTC shall make, or have made, available to the Issuer, before the due date of such payment obligations or borrowings, funds sufficient to enable the Issuer to meet such payment obligations or to repay such borrowings, as the case may be, in full as they fall due. The Issuer shall use the funds made available to it by PTC hereunder solely for the fulfilment of its payment obligations and the repayment at maturity of its borrowings.
3. Any and all funds from time to time provided by PTC to the Issuer pursuant to Clause 2 above shall be either (i) by way of subscription for and payment of share capital (other than redeemable share capital) of the Issuer, or (ii) by way of subordinated loan, that is to say, a loan which, and interest on which, is not permitted to be, and is not capable of being, repaid or paid unless all other debt of the Issuer has been fully satisfied and is subordinated on a winding-up of the Issuer to all of the unsecured and unpreferred creditors of the Issuer other than PTC.
4. PTC warrants and agrees that its payment obligations which may arise hereunder constitute unsecured and unsubordinated obligations of PTC, and rank *pari passu* with all other unsecured and unsubordinated obligations of PTC other than those obligations which are preferred by law.

5. This Agreement is not, and nothing herein contained and nothing done by PTC pursuant hereto shall be deemed to constitute, a guarantee, direct or indirect, by PTC of any Debt Obligation or any other debt of the Issuer (or of any subsidiary of the Issuer) or of any instrument issued by the Issuer or of any subsidiary of the Issuer.
6. If the Issuer shall be in liquidation, administration or receivership or other analogous proceedings (including if the Issuer is declared bankrupt (“*faillissement*”) or is granted a moratorium of payment (“*surséance van betaling*”) or enters into winding-up proceedings (“*ontbinding*”)) and PTC shall be in default of its obligations hereunder, PTC shall be liable to the Issuer by way of liquidated damages for such default in an amount equal to the sum that PTC would have paid had it performed in full all of its obligations hereunder, and the Issuer and any liquidator, administrator or receiver of the Issuer or other analogous officer or official shall be entitled to claim accordingly.
7. This Agreement may be modified, amended or terminated only by the written agreement of PTC and the Issuer, provided, however, that no such modification, amendment or termination shall be made which may have any adverse effect upon the holders of any Debt Obligation taken as a whole while any Debt Obligation is outstanding.

PTC and the Issuer each hereby covenants as follows:

- (i) it will not consent, either orally or in writing, to any modification or amendment to this Agreement which may have any adverse effect upon the Noteholders (as defined below) or the holders of any other Debt Obligation taken as a whole and it will not terminate this Agreement while any Debt Obligation remains outstanding;
 - (ii) it will give written notice to the Trustee on behalf of the Noteholders and to the holders of any other Debt Obligation at least 30 days prior to any proposed modification, amendment or termination of this Agreement;
 - (iii) it will fully and promptly perform its obligations and exercise its rights under this Agreement and, in the case of the Issuer, (without limitation to the foregoing) exercise its right to enforce performance of the terms of this Agreement by PTC; and
 - (iv) it will consent to the giving of an order of specific performance or similar relief by any court of competent jurisdiction in the event that any action is brought in respect of this Agreement.
8. (i) This Agreement shall take effect as a deed poll for the benefit of the Trustee on behalf of the Noteholders and the benefit of the holder of any other Debt Obligation other than any Note. No other person, firm, company or association (unincorporated or incorporated) shall be entitled to any benefit under this Agreement whatsoever whether under the Contracts (Rights of Third Parties) Act 1999 or otherwise.
 - (ii) PTC and the Issuer hereby acknowledge and covenant that obligations binding upon it contained herein are owed to, and shall be for the benefit of:
 - (a) the Trustee on behalf of the Noteholders;
 - (b) each holder of any Debt Obligation other than any Note.
 - (iii) PTC and the Issuer hereby further acknowledge and covenant that the Trustee shall be entitled on behalf of the Noteholders and the holder of any Debt Obligation other than any Note shall be entitled on behalf of itself to enforce the said obligations against PTC and the Issuer, if and only insofar as at the time the proceedings for such enforcement are instituted, any Notes or the other relevant Debt Obligation, as the case may be, which have become due and payable remain unpaid in whole or in part.
 - (iv) This Agreement shall be deposited with and held by the Trustee for so long as the Trust Deed is in force and, if thereafter, any other Debt Obligation remains outstanding it will be deposited with and held by a reputable financial institution on behalf of the holder(s) of such other Debt Obligation. PTC hereby acknowledges the right of the holder of any Debt Obligation to obtain from PTC a copy of this Agreement.

- (v) "Noteholder" has the same meaning in relation to each Note as specified in the Terms and Conditions of such Note.
9. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument.
10. PTC hereby irrevocably agrees that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and that accordingly any suit, action or proceedings (together "Proceedings") arising out of or in connection with this Agreement may be brought in such courts. PTC hereby irrevocably waives any objection which it may have to the laying of the venue of any Proceedings in any such courts and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agree that a judgment in any Proceedings brought in the English courts shall be conclusive and binding upon PTC and may be enforced in the courts of any other jurisdiction. Nothing contained herein shall limit any right to take Proceedings against PTC in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not. PTC hereby appoints Clifford Chance Secretaries Limited at its registered office for the time being (being at the date hereof at 10 Upper Bank Street, London E14 5JJ) as their agent for service of process and agree that, in the event of Clifford Chance Secretaries Limited ceasing so to act, they will appoint another person as their agent for service of process in England in respect of any Proceedings.
11. This Agreement shall be governed by, and construed in accordance with, the laws of England.
12. If the issuer is represented by an attorney or attorneys in connection with the signing and/or execution and/or delivery of this Agreement or any agreement or document referred to herein or made pursuant hereto and the relevant power or powers of attorney is or are expressed to be governed by the laws of a particular jurisdiction, it is hereby expressly acknowledged and accepted by the other parties hereto that such laws shall govern the existence and extent of such attorney's or attorneys' authority and the effects of the exercise thereof."

Portugal Telecom, SGPS, S.A.

Overview

Portugal Telecom's ("PT") legal and commercial name is Portugal Telecom, SGPS, S.A. and is a limited liability holding company, organised 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.

PT has its registered office at Avenida Fontes Pereira de Melo, 40, 1069-300 Lisboa, Portugal and is registered in the Lisbon Company Register, under the sole registration and tax number 503.215.058. PT's telephone number is +351 21 500 1701, and its facsimile number is +351 21 500 0800. PT's agent for service of process in the United States is Puglisi & Associates at 850 Library Avenue, Suite 204, Newark, Delaware 19711. PT's home page is located at www.telecom.pt. The information on PT's website is not part of this Offering Circular. The website address is included as an indicative textual reference only.

PT provides telecommunications services mainly in Portugal (its "Portuguese Operations") and through its significant strategic partnerships and investments in Brazil, certain countries in sub-Saharan Africa and Asia (its "International Operations"). In Portugal, PT provides services to the following customer categories:

- *Residential services*, which provide integrated networks inside the customer's home, enabling the simultaneous connection of multiple devices, including fixed line telephone, TV (including Internet Protocol Television and direct-to-home satellite Pay-TV services), game consoles, PCs, laptops, tablets and smartphones. PT provides these services through its subsidiaries, in particular PT Comunicações, S.A. ("PT Comunicações");
- *Personal services*, which provides mobile telecommunications services, such as voice, data and Internet-related multi-media services, in particular mobile phones, smartphones, tablets and laptops, through its subsidiary TMN—Telecomunicações Móveis Nacionais, S.A. ("TMN");
- *Enterprise services, including the Corporate and SME/SOHO segments*, which provide PT's corporate and medium and small business customers with data and business solutions, as well as IT/IS and business process outsourcing (BPO) services;
- *Wholesale services*, which includes leased lines, interconnection services, unbundled access to PT's local loops, broadband ADSL services, wholesale line rental, access to ducts, transmission of television and radio signals and international carrier services; and
- *Other services*, which primarily includes PT's directories business and portal services that are provided in Portugal as part of its comprehensive service offering.

Since the closing of its transaction with Oi on 28 March 2011, PT also holds a 25.3 per cent economic stake in Oi, which provides mobile, wireline, broadband and Pay-TV services in Brazil. As part of the same transaction, PT acquired a 16.2 per cent economic stake in CTX Participações S.A., ("CTX") the parent company of Contax Participações S.A. ("Contax Participações") and Contax S.A. ("Contax"), which provides contact centre services in Brazil. PT also agreed to merge Dedic S.A. and GPTI Tecnologia da Informação S.A., its subsidiaries that provide contact centre and IS/IT services in Brazil, with Contax, subject to approval by the Board of Directors and shareholders and other conditions.

In addition, PT has significant interests in telecommunications companies in Angola, Cape Verde, Namibia and São Tomé and Príncipe in Africa and in Macau and East Timor in Asia.

In Portugal, PT is the leading provider of all of these services, except for IPTV and DTH services, according to data provided by ANACOM, the Portuguese telecommunications regulator. The provision of residential and enterprise services through PT's wireline business in Portugal continues to account for a large proportion of its revenues (47.2 per cent during 2010) as compared to revenues derived from any other line of business.

Strategy

PT remains committed to discipline in its strategy, cost, operations and financial performance, and it aims to focus its resources on its core businesses and core regions, namely Portugal, Brazil and sub-Saharan Africa. PT's strategy continues to be guided by the five medium-term strategic objectives:

- grow its customer base to 100 million customers;
- increase its exposure to international businesses up to two-thirds of its revenues;
- seek and reinforce leadership in all domestic market segments;
- achieve performance in the top quartile of European companies in shareholder return and operating and financial results; and
- become a reference company in sustainability efforts.

Some of PT's specific strategies to achieve these goals include the following:

Portuguese Operations

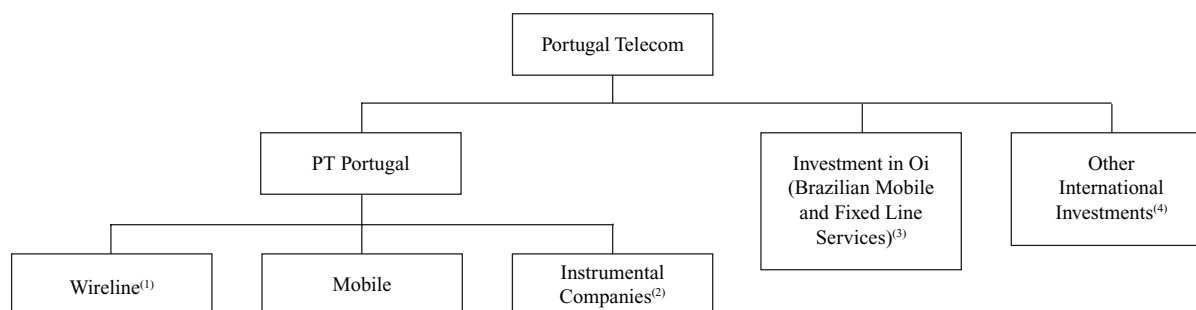
- reinforce leadership in all market segments where it operates and aims at offering broad and convergent products and services;
- continue to enhance its customer service;
- continue to engage in innovations using a structural approach and benefiting from its established strategic partnerships and
- continue to invest in technologically advanced fixed, mobile and integrated networks.

International Operations

- maximise the strategic value of its international assets and reinforce its focus on Brazil and sub-Saharan Africa; and
- focus on operational and commercial efficiency of all assets and promote the sharing of best practices among all businesses.

Corporate Structure

PT's market is characterised by increasing competition and rapid technological change. Its business unit subsidiaries are held directly and indirectly by PT in its role as holding company. PT has integrated certain functions across the company, in particular information systems (PT Sistemas de Informação), research and development capabilities (PT Inovação), back office activities (PT Pro), central purchasing capabilities (PT Compras) and call centre operations (PT Contact). The diagram below presents PT's different businesses as of the date of this Offering Circular.



(1) Providing wireline services in Portugal, including PT's fixed telephone service, Internet access services, wholesale services, data and business solutions services, portal and e-commerce solutions, and IPTV and DTH services.

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

(3) The acquisition of this investment was completed in March 2011, as explained in more detail below.

(4) Includes PT's investment in Contax, which is explained in "—Recent Developments—Strategic Partnership with Oi" below, PT's investments in global telecommunications operators in the Cape Verde Islands, São Tomé and Príncipe Islands and Macau, mobile operators in Namibia and Angola, and other investments.

The following table sets forth the operating revenues of each of PT's major business lines, on a standalone basis, for the years ended 31 December 2008, 2009 and 2010 and for the three months ended 31 March 2010 and 2011:

	<i>Year Ended 31 December</i>			<i>Three Months Ended 31 March</i>	
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2010</i>	<i>2011</i>
	<i>(EUR millions)</i>				
Wireline services (Residential and Enterprise Services):					
Retail	953.5	971.0	969.2	243.7	245.8
Wholesale	488.5	495.4	491.3	119.6	109.6
Data and corporate	286.5	300.7	287.7	77.3	67.7
Other	203.0	180.6	180.8	47.6	33.1
Total	1,931.5	1,947.8	1,929.0	488.2	456.2
Mobile services (Personal Services):					
Services:					
Customers	1,167.3	1,173.4	1,099.0	279.2	252.0
Interconnection	231.2	161.0	141.9	37.3	26.5
Roamers	26.4	25.5	23.7	4.2	2.9
Total services	1,424.9	1,360.0	1,264.7	320.7	281.5
Sales	159.4	144.1	112.4	22.9	17.6
Other	9.3	13.7	10.4	2.2	4.0
Total	1,593.6	1,517.8	1,387.5	345.9	303.0
Other Operations	794.7	873.9	1,088.3	231.9	267.8
Eliminations in consolidation	(558.4)	(606.0)	(662.5)	(159.1)	(155.8)
Total consolidated operating revenues	3,761.2	3,733.4	3,742.3	906.9	871.1

Recent Developments

Sale of Interest in Vivo

On 28 July 2010, PT signed an agreement with Telefónica for the acquisition by Telefónica of the 50 per cent. of the capital stock of Brasilcel N.V. PT owned. Brasilcel owned approximately 60 per cent of the total share capital of Vivo Participações, S.A. ("Vivo"). The acquisition price of that capital stock was €7,500 million, €4,500 million, of which was paid at the closing of the transaction on 27 September 2010 and 1,000 million of which was paid on 30 December 2010, with the remaining €2,000 million due on 31 October 2011 (though PT may request that this final payment be made on 29 July 2011, in which case such final payment, and correspondingly, the total price of the acquisition, would be reduced by €25 million). The agreement also provided for certain other commercial arrangements between Telefónica and PT that were subsequently rendered inapplicable. Upon closing of the transaction, the respective subscription and shareholders agreements entered into by Telefónica and PT in 2002 relating to Vivo were terminated.

Strategic Partnership with Oi

On 26 January 2011, PT announced that it had entered into a series of agreements with Oi, Brazil's largest telecommunications group, to acquire a significant stake in that company. In connection with its agreements to establish a strategic partnership with Oi, PT also agreed to merge Dedic and GPTI, its subsidiaries that provide call centre and IS/IT services in Brazil, with Contax,

one of the leading corporate services companies and the leader in contact centre services in Brazil. Contax is currently controlled by the controlling shareholders of Oi, through CTX and Contax Participações. The Oi transaction closed on 28 March 2011. PT also completed the acquisition of a 16.2 per cent. stake in CTX but has not yet completed the merger of Dedic and Contax, which is subject to the approval of the Board of Directors and shareholders and other conditions. Following the closing of the transaction, PT holds a 25.3 per cent. economic stake in Oi”, and PT expects to hold a 44 per cent. economic stake in CTX (42.0 per cent prior to the merger of Dedic and Contax).

Sale of Interest in Universo Online S.A.

On 29 December 2010, PT reached an agreement for the sale of its 28.78 per cent stake in Universo Online S.A. (“UOL”), a Brazilian internet provider to a Brazilian businessman. The total consideration for the sale was R\$356 million (€161 million as of 31 December 2010). The transaction closed on 27 January 2011.

PT’s Businesses

Portuguese Operations

PT’s Portuguese Operations are managed alongside two segments: wireline and mobile (TMN). Within each of the wireline and mobile segments, PT provides services to five key customer categories:

- *Residential services*, which provide integrated networks inside the customer’s home enabling the simultaneous connection of multiple devices, including fixed line telephones, TVs (including Internet Protocol Television and direct-to-home satellite Pay-TV services), game consoles, PCs, laptops, tablets and smartphones. Profits and losses related to services provided to residential customers are recorded under the wireline segment;
- *Personal services*, which provide mobile telecommunications services, such as 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 for internet access. Profits and losses related to services provided to personal customers are recorded under the mobile segment;
- *Enterprise services, including the Corporate and SME/SOHO services*, which provide PT’s corporate as well as media and small business customers with data and business solutions, as well as IT/IS and business process outsourcing (BPO) services:
 - *Corporate services*, which targets large companies and provides data, Internet, video and voice communications, services, fixed mobile convergence solutions and selected information technology services, network managing and outsourcing; and
 - *SME/SOHO services*, which targets (1) small and medium enterprises (“SMEs”), providing vertical data and business solutions that are similar to PT’s corporate segment and (2) small office/home office (“SOHO”) customers and provides cost-effective data and business solutions for those working in small businesses or at home;
 - Profits and losses related to services provided to Enterprise customers are recorded under both the wireline and mobile segments;
- *Wholesale services*, which includes leased lines, interconnection services, unbundled access to PT’s local loops, broadband ADSL services, wholesale line rental, access to ducts, transmission of television and radio signals and international carrier services. Profits and losses related to services provided to Wholesale customers are recorded under the wireline segment; and
- *Other services*, which primarily includes PT’s directories business and portal services that are provided in Portugal as part of its comprehensive service offering.

Residential Services (Included in PT's Wireline Business)

PT's residential segment provides fixed line telephone services, Pay-TV (IPTV and DTH satellite TV) services and Internet access services to residential customers. The table below sets forth the total number of retail lines (or accesses), net retail additions and other information as of the dates indicated. The wireline business, as reported, includes not only the services and products provided by PT's residential segment but also fixed telecommunications services provided to corporate and SME/SOHO customers. A relevant part of PT's retail business is to residential customers, but retail services provided to business customers (described under "*Enterprise Services*" below) are also reflected in the table below.

	<i>As of 31 December</i>			<i>As of 31 March</i>	
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2010</i>	<i>2011</i>
Retail accesses (thousands):					
PSTN/ISDN ⁽¹⁾ :					
Traffic-generating lines.....	2,668	2,612	2,600	2,610	2,597
Carrier pre-selection.....	174	134	95	122	87
Total PSTN/ISDN lines.....	2,843	2,746	2,695	2,732	2,683
Fixed broadband retail	710	862	1,001	901	1,019
TV customers	312	581	830	646	876
Total retail accesses.....	3,865	4,189	4,527	4,279	4,578
Net additions (thousands):					
PSTN/ISDN:					
Traffic-generating lines.....	(110)	(56)	(12)	(2)	(4)
Carrier pre-selection.....	(63)	(40)	(39)	(12)	(9)
Fixed broadband retail	73	152	139	39	18
TV customers	291	269	249	65	46
Total retail accesses.....	191	325	337	89	52
Retail RGU per PSTN/ISDN line ⁽²⁾	1.53	1.53	1.68	1.57	1.71
ARPU (Euros) ⁽³⁾	29.2	30.1	30.1	30.3	30.3
Retail traffic (millions of minutes) ..	4,990	4,713	4,581	1,166	1,138

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

(2) Revenue generating units ("RGUs") are individual subscribers of PT's services.

(3) The average revenue per user ("ARPU") is the monthly average service revenues per average number of users in the period.

Fixed Line Network

PT had approximately 4.9 million telephone and asymmetric digital subscriber line ("ADSL") access lines in service at 31 December 2010, excluding external supplementary lines, direct extensions and active multiple numbers. PT breaks its fixed line network down into retail accesses and wholesale accesses. Within retail accesses, PT reports:

- traffic-generating lines held by subscribing customers;
- carrier pre-selection lines, which are lines of competitors for which those customers have elected to use PT's services;
- fixed broadband retail lines; and
- Internet protocol television ("IPTV") customers.

The number of active mobile cards (the mobile equivalent of main lines) exceeds the number of fixed line main lines in Portugal, and traffic that once was transmitted in whole or in part on PT's fixed line network is now carried on its mobile network or on the network of other mobile operators. PT is addressing this trend by encouraging increased use of its fixed line network for bundled services, including not only fixed telephone services but also broadband internet access and Pay-TV services, primarily offered as triple-play packages.

All of PT's local switches in Portugal have been digital since 1999. Digital technology is used on all long distance and trunk connections. This level of digitalisation of its fixed line network permits PT to market and provide network-based value-added services, such as call waiting, call forwarding and voice mail, resulting in increased line usage. Moreover, in May 2009, PT announced its objective to cover one million homes with Fiber-to-the-Home ("FTTH"), which it achieved by the end of 2010. PT's FTTH network, which is developed in urban areas, is a strategic investment to improve its competitiveness in the market not only in the residential services, where PT can offer distinctive Pay-TV and bundled offers, but also for the enterprise services, where trends like cloud services, outsourcing of infrastructure and software applications are emerging rapidly.

PT measures volume on its network in terms of traffic, which is the number of minutes that its retail and wholesale accesses are used. Total traffic on the network has been decreasing since 2002, primarily because consumers have increasingly used mobile services instead of fixed line services and because of the migration of dial-up Internet users to ADSL. However, in the fourth quarter of 2010, positive net additions of fixed lines were achieved for the first time in seven years, primarily due to strong performance of Meo double-play and triple-play offers.

PT is required to provide carrier selection to its customers for all kinds of traffic. See "*Regulation—Portugal—Number Portability and Carrier Selection*" below. Carrier selection has been an additional factor that has contributed to the reduction in traffic on PT's network.

Except for customer pre-selection and Internet traffic, PT accounts for traffic originating on its network as fixed line telephone services, described below, and PT allocates the revenue billed to customers to those services. Traffic originating on other networks but terminating on PT's network, and the related revenue, is allocated to PT's wholesale services described under "*Wholesale Services*" below.

Fixed Line Telephone Services

PT provides public fixed line telephone services in Portugal to retail customers. This business area provided €969.2 million and €971.0 million during 2010 and 2009, respectively. PT distinguishes between two principal sources of revenue in the provision of fixed telephone services:

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

In recent years, fixed line traffic has continued to decrease primarily due to the trend toward the use of mobile services instead of fixed line services and strong competition from fixed and cable operators, though partially offset by the strong performance of PT's Meo double-play and triple-play offers.

Pay-TV Services

IPTV Services. In 2008, PT announced the launch of its nationwide Pay-TV offer, which includes DTH (satellite) and IPTV offers. PT's television strategy is based on a multiplatform concept that aims to provide similar content and user experiences across television, PCs and mobile phones. Meo is PT's TV brand across the various platforms, namely at home (through IPTV and satellite), through mobile handsets (through Meo Mobile) or through personal computers. Meo provides access to a comprehensive content offering, with more than 120 TV channels and over 2,500 video-on-demand titles. It offers tiered packages of channels, as well as on-demand availability that can be subscribed for directly through the TV set in real time. Meo also provides access to advanced features, such as digital recording and pause live-TV. The set-top boxes in the Meo service are all HD-compliant, using MPEG4. PT was the first operator in Portugal to introduce HDTV and have the most extensive video-on-demand offer in the market.

In 2008, Meo launched a "quintuple-play" offer, including Pay-TV, fixed broadband, voice, video-on-demand and mobile broadband.

In 2009, Meo further reinforced its position in the Portuguese market by launching several features to differentiate its offer, including (1) real video-on-demand (VoD) with DVD-like features

and a catalogue of more than 2,500 movies, including high definition (“HD”), (2) catch-up TV, (3) an electronic programming guide accessible remotely through the Internet and the mobile phone, (4) TV channel recording, which can be remotely programmed through the Internet or by mobile phone, (5) gaming, karaoke and several interactive content and service areas, (6) access to personal photo folders and (7) customised offers for children. In addition, Meo launched Meo@PC, allowing customers to have online access to Meo’s Pay-TV service through their personal computers, strengthening the mobility and convergence attributes of Meo.

Meo’s VoD offer, which includes movies from five Hollywood studios, is a key differentiating feature of the service, as more than 55 per cent of Meo’s IPTV customers have already used VoD on a paid basis, consuming on average 2.3 movies per month.

In 2010 and early 2011, PT continued to add to the channels and features available on Meo, including (1) several new channels, including FoxLife, Channel Q, Food Network HD, Mezzo Live HD and Travel Channel HD, (2) channel interactivity, including TVI Secret Story Interactivo, an exclusive interactive channel developed in partnership with TVI, a free-to-air broadcast channel, (3) Meo Online, which gives access to Meo’s VoD catalogues through PCs, (4) Meo Jogos, which offers games from leading game developers, (5) Music Box, an integrated service for mobile phones, PCs and TV; and (6) Meo Remote, an application allowing Meo customers to install a Meo remote control on their smartphones and tablets.

As of 31 March 2011 PT had 876 thousand TV customers.

DTT Services. In 2008, PT was notified of the final decision of ANACOM endorsing the Draft Final Decision of the Portuguese Committee of Evaluation to allocate to PT the frequency usage rights for Digital Terrestrial Television (“DTT”) associated with the system for combining more than one information stream into a single stream for transmission (“Multiplex” or “Mux”), namely Mux A (transport of free-to-air signal) and Muxes B to F (Pay-TV service). In 2009, the Portuguese Media Regulatory Entity (*Entidade Reguladora para a Comunicação Social*, or “ERC”), an independent regulatory authority for the Portuguese media, notified PT of its final decision to grant PT a licence to act as a TV distribution operator.

PT launched DTT (with DVB-T) in 2009, initially covering 29 municipalities and over 40 per cent of the population. By the end of 2009, this figure reached 80 per cent of the population. The switch-off of analogue television is foreseen for April 2012, although this may happen sooner given that by the end of 2010, coverage reached 100 per cent of the population.

On 22 December 2010, ANACOM approved a draft decision regarding the alteration of the operating channel Mux A of the DTT, assigned to PT Comunicações. In addition, on 22 December 2010, ANACOM approved the final decision on the identification of re-transmitters and respective dates of termination of broadcasts of the pilot phase provided in the detailed plan for the cessation of analogue terrestrial television broadcasts (*i.e.*, switch-off plan). On 27 December 2010, invoking reasons of public interest, ANACOM initiated a process to change the radio channels assigned to PT Comunicações with the goal of improving efficient spectrum management and harmonising the conditions of use of frequencies in the 800 MHz band.

PT requested that ANACOM revoke frequency usage rights associated with Muxes B to F and requested that ERC revoke the licence to act as a TV distribution operator.

ANACOM issued a draft decision on 29 January 2010, pursuant to which ANACOM stated that it intended to revoke the action granting PT Comunicações the right to use the frequencies associated with Muxes B to F, retroactive to 29 January 2010. This draft decision was submitted to a public consultation. On 12 July 2010, ANACOM made a final decision to revoke the granting of rights of use of the frequencies associated with Muxes B to F and, consequently, the five titles that document the rights assigned to PT Comunicações. The revocation decision was retroactive to the date of the draft decision issued by ANACOM on 29 January 2010. As a result, PT continues to use the Mux A (transport of free-to-air signal) for its DTT services but does not provide Pay-TV channels through its DTT services. PT provides its Pay-TV channels instead using FTTH, ADSL and DTH technologies.

As to the request submitted to ERC, this authority issued a draft decision, under which it stated that reasons of public interest prevented revoking the licence granted to PT Comunicações to operate

as a TV distribution operator using the frequencies allocated by ANACOM for that purpose. This draft decision was also submitted to a public consultation. The final decision, issued on 17 March 2010, maintained ERC's draft position. The decision process of the ERC is independent from that of ANACOM.

Fixed Broadband Retail Services

PT offers Internet access through the lines of its fixed line network.

As of 31 December 2010, PT had approximately 1.0 million fixed broadband retail customers, which represented an overall increase of 16 per cent over the previous year. The majority of these customers use PT's ADSL services. However, PT also offers dial-up paid and free Internet access services.

How PT Reports Its Residential Segment in Its Financial Statements

PT reports all of its residential segment within the wireline business in its financial statements.

Personal Services (Included in PT's Mobile Business)

PT provides telecommunications and data mobility services for a variety of personal devices, including traditional mobile phones, smartphones, tablets and laptops through its mobile business. PT conducts its mobile business in Portugal through its wholly-owned subsidiary TMN. TMN is the leading provider of mobile voice, data and Internet services in Portugal in terms of the number of active mobile telephone cards connected to its network, as well as by revenues, margins and profits.

Operating revenues from TMN amounted to €1,387.5 million in 2010 compared to €1,517.8 million in 2009. At 31 December 2010, there were approximately 159.9 active mobile telephone cards per 100 Portuguese inhabitants according to ANACOM. The table below provides statistical information relating to TMN.

	<i>As of 31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
Number of subscribers (thousands) ⁽¹⁾	6,933	7,252	7,419
Subscriber growth per annum (%).....	11	5	2
Number of subscribers per 100 inhabitants (including competitors' subscribers) ⁽²⁾	140.4	149.9	159.9
Estimated market share by number of subscribers (%) ⁽³⁾	46.6	45.5	45
Number of employees.....	1,082	1,004	1,029

(1) Including mobile virtual network operators, or "MVNO," customers.

(2) Source: ANACOM.

(3) Sources: ANACOM and TMN; calculated as TMN's total number of subscribers divided by the mobile market in terms of subscribers, as disclosed by ANACOM.

Services

TMN provides mobile telephone services using the GSM and UMTS technologies. GSM and UMTS are European and worldwide standards using digital technology. Through roaming agreements, TMN's subscribers can use GSM and UMTS services to make and receive mobile calls throughout Europe and in many other countries around the world.

TMN provides GSM mobile telephone services in the 900 MHZ and 1800 MHZ band spectrums. TMN's strategy has been to use GSM 1800 services to offer an increased number of channels in high traffic density areas without compromising the quality of the network. Dual-band handsets, which select available channels from each frequency band, enable users to benefit from the wider range of available channels.

At the end of 2010, TMN's UMTS population coverage was approximately 93 per cent, and its geographic coverage was about 68 per cent, or 4,194 municipalities out of a total of 4,252 in Portugal, including every municipality with over five thousand inhabitants.

TMN paid spectrum fees in 2010 and 2009 of €21 million and €24 million, respectively, for the use of its 900 MHZ and 1800 MHZ GSM network and its UMTS network. These spectrum fees are recorded as an operating expense in PT's financial statements.

During 2010 and 2011, TMN introduced the following new services in Portugal:

- an internet tablet service offer allowing mobile data access from tablet personal devices;
- “tribal plans,” which are pricing plans targeted at the youth customers;
- new unlimited mobile broad band tariff plans to increase penetration;
- new “TMN unlimited” and “all net unlimited” postpaid pricing plans aimed at the high value customers;
- a new “e nunca mais acaba” prepaid pricing plan aimed at the mass market, including free and unlimited communications with TMN customers; and
- “Music Box,” a new cross-platform music service for mobile phones, computers and TVs, with sharable playlists across all devices;
- a new handset application store and a Facebook store; and
- “Car Control,” a new location-based security service for cars.

During 2010 and 2011, in order to support PT's innovative service offering and distinguish it from the market, TMN launched the following new products in Portugal:

- the Samsung Galaxy-S, an advanced smartphone based on the Android operating system;
- the Samsung Galaxy Tab, a tablet PC based on the Android operating system;
- an exclusive arrangement to market the Samsung Omnia 7, the first mobile phone in Portugal to integrate the Windows 7 operating system;
- the i-Phone 4;
- the Sapo a5, a low-cost smartphone using the Android operating system; and
- the Sony Ericsson Xperia™ Play, the first smartphone worldwide to integrate the Playstation.

In 2011, TMN has been reinforcing its strategy to target the youth segment. Following the launch of Music Box, and benefiting from its presence in the Swtmn, one of the major summer festivals in Portugal, in March 2011, TMN launched Swtmn Radio, to extend the festival alignment throughout the year. Swtmn Radio is available through a multi-platform strategy, based on radio, PC, mobile equipment and TV through Meo.

Peer-to-peer (“P2P”), messaging services via Short Messaging Services (“SMS”) or Multimedia Messaging Services (“MMS”) continue to account for a significant portion of TMN's data revenues and are an area where TMN continues to experience significant growth. In addition, TMN offers a wide range of other services in its data service portfolio, such as a multimedia mobile portal (I9-Inove) and a standard mobile portal (myTMN), multimedia content services (including Logos & Ring Tones or Java games), access to third-party branded content, corporate solutions and mobile payment services. TMN also offers an m-payment service called Telemultibanco that allows the payment of utility bills by mobile phone.

TMN also offers a variety of services for access to e-mail or Internet through Wi-Fi, GPRS and UMTS. GPRS is a mobile data service standard for GSM handsets. Currently, TMN offers speeds up to 21.6 Mbps. TMN also provides internet access through more than 600 hot spots.

In 2010, TMN continued to strengthen its mobile broadband offerings, increasing the speed and download capacity to its customers. As part of its efforts to maintain its strong market position in innovative products, TMN performed a long-term evolution (“LTE”) technical trial. TMN has been investing significantly in new services, such as (1) Music Box, an integrated service for mobile phones, PCs and TV that provides access to a catalogue of millions of music tracks, with immediate access to unlimited streaming from the main global music companies; (2) TMN's application store making available sports, news, entertainment, games, books and utility apps, which leverages on the wide experience and presence of PT's portal Sapo in the online world and partnerships with third parties;

(3) Meo Mobile, which makes available 40 TV channels, in various areas such as information, sports, entertainment, children and other, on the mobile phone, and (4) Pond, an aggregation service that enables the access to multiple personal accounts and aggregation of social network accounts. This service and applications offering is complemented with the internetnotemóvel service, which offers internet access on mobile phones in any place at any time and also access to TMN's innovative mobile portal.

As part of its innovation strategy, TMN recently launched its internet Pad service offering, a new mobile data access offer specifically designed for tablet PCs, aimed at establishing a leading position in this high-growth market. The internet Pad offer was recently further reinforced with the integration of the Samsung Galaxy Tab, based on the Android operating system.

TMN offers data services specifically focused on the corporate customer category, such as SMS Express and the POS Mobile service. SMS Express allows users to send messages to a mailing list in a quick, automatic and easy form. POS Mobile allows TMN corporate clients to use POS (point of sale) mobile equipment to receive debit or credit payments at any place with total security. TMN also launched Localizz, which is a location-based service that allows mobile management and localisation of a company's resources (such as handsets, cars, machines and containers) through an Internet website.

TMN has a low-cost brand "Uzo" that targets low-cost subscribers and uses TMN's GSM network. Uzo offers a very simple service to its customers with no obligatory recharges and one tariff for voice calls and SMSs to all networks. Uzo focuses primarily on selling SIM cards and low-cost mobile phones to its customers. Uzo's products and services are offered through the Internet, Uzo's call centres (which are separate from TMN's call centres) and independent news stands and shops located throughout Portugal.

Subscribers and Traffic

TMN is the market leader in mobile services in Portugal, according to ANACOM. At 31 December 2010, TMN had approximately 7,419 million subscribers, representing an increase of 2.3 per cent from 31 December 2009. At 31 December 2010, TMN's subscribers represented 45 per cent of the total mobile subscribers in Portugal. During 2010, TMN's share of new mobile subscribers (net additions) was 39.5 per cent according to ANACOM. As at 31 March 2011, TMN had approximately 7,414 million subscribers.

In addition to the increase in the number of subscribers, mobile usage grew during 2010. TMN's voice traffic in terms of minutes grew by 7.1 per cent to 10.54 billion minutes in 2010, compared to 9.84 billion minutes in 2009. In the three months ended 31 March 2011, voice traffic grew to 2.59 billion minutes, compared to 2.51 billion minutes in the three months ended 31 March 2010. Average monthly usage per subscriber increased by 3.0 per cent to 121 minutes in 2010, compared to 117 minutes in 2009, primarily because a greater proportion of subscriber growth was in the lower sections of the market. In the three months ended 31 March 2011, average monthly usage per subscriber was 116 minutes, compared to 115 minutes in the three months ended 31 March 2010.

Prices and Revenue Breakdown

PT believes that mobile services in Portugal are priced lower than the European average and are among the lowest in Europe. Mobile telephone charges are not regulated. Traffic charges, sales of handsets and connection and subscription fees represented approximately 91.4 per cent., 8.1 per cent. and 0.5 per cent., respectively, of TMN's revenues in 2010 and approximately 90.1 per cent., 9.5 per cent. and 0.4 per cent., respectively, of TMN's revenues in 2009.

Fixed-to-mobile and mobile-to-mobile interconnection charges are regulated by ANACOM and have a significant impact on TMN's business. Since 2005, when ANACOM declared all mobile operators to have significant market power in call termination in mobile networks market, ANACOM has accordingly imposed price controls on interconnection rates for the termination of calls on mobile networks. Interconnection rates have been reduced steadily since then. These reductions have had, and are expected to continue to have, a significant impact on TMN's interconnection revenues and consequently its earnings. In 2010, termination rates followed the new glide path defined by ANACOM on 21 May 2010. Pursuant to this decision, the maximum wholesale prices to be applied

by mobile operators with significant market position in the termination of voice calls in individual mobile networks (market 16) are as follows: (1) €0.06 as of 24 May 2010; (2) €0.055 as of 24 August 2010; (3) €0.05 as of 24 November 2010; (4) €0.045 as of 24 February 2011; (5) €0.04 as of 24 May 2011 and (6) €0.035 as of 24 August 2011.

Products and Marketing

TMN offers a variety of innovative products. It was the first operator in the world to offer pre-paid services, and its prepaid and discount products are popular. PT estimates that as at the end of 2010, approximately 69 per cent of its subscribers were using TMN's prepaid products. TMN has been expanding its subscriber base through increased advertising and the use of its own distribution network. In recent years, TMN has focused on encouraging the use of mobile services by young people through SMS incentive packages.

TMN markets its services through more than 2,573 points of sale, including TMN's sales force, PT retail shops, TMN shops, supermarket chains and independent dealers.

Network and Capital Investment

In recent years, TMN has made significant investments in its second and third generation networks. As a result of its investments, TMN has a technologically advanced high capacity network that provides extensive coverage across Portugal. As at 31 December 2010, TMN's digital network had 4,706 GSM base stations, including 72 base stations added during 2010, and 3,678 UMTS B nodes, including 160 B nodes added during 2010. As of 31 December 2010, these GSM base stations covered more than 98 per cent of continental Portugal and 99 per cent of the Portuguese population, and the UMTS B nodes covered approximately 68 per cent of continental Portugal and 93 per cent of the Portuguese population.

Roaming. Roaming agreements between operators allow their subscribers to make and receive voice calls automatically, send and receive data, or access other services when traveling outside the geographical coverage area of the home network, by using a visited network. As of the end of 2010, TMN had entered into GSM roaming agreements with a total of 461 operators (in 219 countries), 301 GPRS roaming agreements (in 173 countries) and 170 3G roaming agreements (in 94 countries).

Equipment Sales

TMN sells mobile phones and related equipment in Portugal. Equipment sales contributed €112.4 million, €144.1 million, and €159.4 million to TMN's operating revenues in 2010, 2009 and 2008, respectively.

TMN's Commitment to the Portuguese Information Society

Under the terms of its UMTS licence, TMN is committed to invest in the development of the Portuguese information society. TMN's outstanding commitments were determined in May 2007 to be approximately €355 million. As part of these commitments, TMN was required to co-invest with the Portuguese government in providing laptop computers with wireless broadband connectivity, at a discount, to teachers, students and certain other individuals through 2015. In 2007, PT recorded an intangible asset and a corresponding liability on its balance sheet in the amount of €233 million, equivalent to the present value of the contributions related to those information society initiatives that are not in the ordinary course of TMN's business. In addition, in 2007 TMN assumed the payment of one-third of the commitment of Oniway, a mobile operator that withdrew from the market, in the amount of €8 million and in 2009 TMN was required to co-invest with the Portuguese government in providing laptop computers to young students, in the amount of €11.5 million. As of 31 December 2010 and as of 31 March 2011, PT's expenses relating to the liabilities recorded in 2007 and 2009 had been fully reflected in its financial statements, and the only liabilities on its balance sheet relating to its commitments under the terms of TMN's licence were liabilities in the ordinary course of its business.

How PT Reports Its Personal Services in Its Financial Statements

PT reports all its personal services customer category revenues within the mobile business in its financial statements.

Enterprise Services (Included in both PT's Wireline and Mobile Businesses)

PT provides enterprise services to corporate and SME/SOHO customers that need diversified telecommunications solutions and integration with IT services. These services include:

- *Network services*, namely fixed voice services, fixed and mobile convergence services, broadband data, Ethernet services, digital leased lines and VSAT services, business high band Internet accesses and applications, and global services for multinational customers;
- *IT services*, namely data centre services (housing and hosting), storage, application servers, private virtual servers and systems administration, desktop management services, security managed services based on a Security Operations Center, business continuity services and disaster recovery, IT infrastructure outsourcing and IT and security consultancy; an'tpdel 100
- *Business solutions and applications*, namely unified communications, IP Centrex and voice servers, digital signage—Corporate TV, business videocommunications and telepresence solutions, business process outsourcing (BPO), vertical solutions for special business market customer categories (health care, the public sector), special bundling services for small and medium-size enterprises, using the “Office Box” brand name, and outsourcing.

In addition to the service offerings described above, PT provides its customers with sector-specific solutions, especially in the health, education and public sectors. PT is maintaining its focus on the developing convergent offers for SMEs for specific sectors, such as “Office Box Cafés e Restaurantes” (for coffee shops and restaurants) and “Office Box Médicos e Clínicas” (for physicians and medical practices).

Services.

PT has developed a full range of telecommunications services for businesses, and it integrates these services (together with other services it offers, such as fixed line services and mobile services) to provide its customers with service packages. By combining its communications capabilities with its software-based integrated systems and applications, PT offers integrated voice, data and image solutions, virtual private networks, convergence solutions, consultancy and outsourcing. PT believes it is the primary service provider in Portugal capable of offering customers a full range of integrated and customised services.

PT offers services in partnership with leading operators and service providers such as Telefónica, British Telecom, Orange and BT Infonet. PT uses systems and networks in partnership with Siemens, Alcatel, Cisco Systems, Motorola, Nortel Networks, Critical Software and Matra/EADS Telecom.

PT leases lines and broadband capacity to large businesses for data communications and other private uses and provides related services. PT also provides integrated voice and data services to corporate customers. PT offers X.25/X.32 synchronous services and X.28 asynchronous services and other switched and non-switched data communications services, such as frame relay, virtual private networks over IP for data communications, Ethernet broadband services, security/firewall services and VSAT satellite communications services. In addition, PT offers a new range of data, voice and Internet services, such as Intranet, Extranet and managed services, including VoIP and ToIP. These solutions enable customers to integrate voice, video, and data services in a flexible cost-effective manner with add-on capacity. The offering of web contact centre solutions represents an evolution of the classic call centre for customers. PT uses IP-based solutions to improve interconnections between companies and their employees and between customers and commercial partners through remote access. PT provides a range of Ethernet broadband solutions to corporate customers. The type of solution depends on the type of service (voice, data or image), volume, priority level, and stability of information flow required by its customers.

PT also provides reporting services targeted to special customers to control service level agreements and the overall performance of the network. In addition, PT provides outsourced corporate network services for its customers. For example, it operates and manages the SIBS network, as well as the corporate networks of its strategic partners Caixa Geral de Depósitos, Banco Espírito Santo and CATT.

In 2010, PT launched several vertical offers targeting the corporate services customer category, including (1) Menu Box, an integrated multi-media service targeted at the food and beverage sector, leveraging a combination of leading software tools and hardware bundles, (2) Lex Box, a solution oriented for customers in legal services integrating fixed, mobile voice and broadband services with specialised software which enables access to legal content and (3) Corporate Fiber, a television service for customers in the health and hotel sectors with customised corporate channel, content and remote control of channel selection.

In September 2010, PT announced that it had entered into a partnership with Cisco towards the development, implementation and launch of new services of cloud computing, which include virtual services and unified communications, intended to help companies adopt more efficient business models by reducing costs related to information technology.

In December 2010, PT signed a collaboration agreement with SingTel, the Singapore telecommunications company. This agreement provides for: (1) sharing best practices and benchmarks in operational and commercial areas related to fibre and IPTV, (2) cooperation in research and development, including the joint creation of multiplatform applications and solutions, (3) development of innovative applications for fixed and mobile high speed networks, (4) leveraging economies of scale through joint procurement and (5) promotion of internship programs allowing the employees of both companies to share best practices and experiences.

Networks.

PT provides services over the largest IP/MPLS backbone in Portugal. PT has points of presence in all major cities throughout Portugal, and PT links its network to its customers' premises through switches and access points that it owns. This broadband data transmission network provides high capacity, flexibility and security and can progressively incorporate current voice and data infrastructures at lower costs than alternative networks. PT also provides high speed Internet access through ADSL and Ethernet.

When PT receives revenues from services offered through lines leased by its subsidiary, PT Prime, from PT Comunicações, PT typically divides the revenues between PT Prime's own direct billings to its customers and leased line revenues from the wholesale business of PT Comunicações. Revenues from fixed line voice services for corporate customers are not reflected in PT Prime's revenues, as they are included in retail revenues.

Data Centres and Systems Integration Services.

PT offers an integrated range of telecommunications and information technology services to the business market. PT's goal is to service all of its customers' telecommunications needs and to leverage the traditional offering of products and services which it provides.

PT has a strong and competitive position in the development of information technology solutions where communications are an integral part of the services provided. To reinforce its position as a leader in this area, PT is pursuing a partnership strategy with the primary information technology suppliers in the market, particularly software and hardware providers. To support these new services and to respond to the increasing demand of e-business integrators, PT has opened Data Centres in Lisbon and Oporto as well as in Funchal and Ponta Delgada, in the Madeira and Azores Islands, respectively. These facilities allow PT to provide services, such as co-location, sophisticated web hosting, ISP services, data storage, disaster recovery and ASP services.

In February 2011, PT announced the construction of a new Data Centre in Covilhã, Portugal, which will be a 45,000-square meter facility with installation capacity for over 50,000 servers. The Data Centre has been designed to be energy efficient, including a wind park with an expected 28 towers. The Data Centre will be supported by a fibre network to connect it to major global communications networks and is expected to focus on providing data storage capacity to customers outside Portugal and cloud computing services. PT expects that the Data Centre will become operational in 2012.

PT also offers services focused on the integrated management of networks ranging from local area networks ("LANs"), to software applications, including PC management.

Marketing and Customer Care.

PT focuses significant resources on marketing and customer care. Account managers are given clear incentives to meet and exceed sales targets. PT seeks to compete in Portugal on the basis of the quality of its services as well as its position as the leading supplier of integrated telecommunications and IT services. PT prices its various service offerings on the basis of volume, the duration of service agreements and the scope of the services offered to each customer.

PT offers its corporate customers services available from other companies in the PT Group. Its subsidiary PT.com, for example, provides significant support for product development and the marketing of Internet and ADSL access.

How PT Reports Its Enterprise Services in its Financial Statements

PT reports revenues from fixed telecommunications services including fixed line data and corporate services, provided to corporate and SME/SOHO customers within its wireline business. PT reports mobile services provided to corporate and SME/SOHO customers within PT's mobile business.

Wholesale Services (Included in PT's Wireline Business)

Wholesale services provided €491.3 million and €495.4 million to PT's wireline operating revenues in 2010 and 2009, respectively. The table below sets forth the total number of wholesale lines (or accesses), net wholesale additions and other information as of the dates indicated.

	<i>As of 31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
Wholesale accesses (thousands):			
Unbundled local loops.....	305	281	242
Wholesale line rental.....	76	63	62
Fixed broadband wholesale	53	54	52
Total wholesale accesses	434	398	356
Net additions (thousands):			
Unbundled local loops.....	14	(25)	(38)
Wholesale line rental.....	(65)	(12)	(2)
Fixed broadband wholesale	(8)	1	(2)
Total wholesale accesses	(59)	(36)	(42)
Wholesale traffic (millions of minutes).....	6,898	6,512	6,286

In the three months ended 31 March 2011, wholesale services provided €105.6 million to PT's wireline operating revenues, compared to €119.6 million in the three months ended 31 March 2010.

PT's wholesale services consist of:

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

- transmission of television and radio signals for major broadcast television companies in Portugal;
- narrowband Internet access origination services, which PT provides to ISPs;
- international carrier services (transport, transit and/or termination) for international switched traffic; and
- other services provided to telecommunications service providers and operators, such as IP international connectivity.

Interconnection Traffic.

Interconnection traffic comprised about 42 per cent of PT's wholesale business in terms of revenues in 2010. The service providers who purchase interconnection services include fixed and mobile network operators, voice and data communications service providers, ISPs, value-added service providers and service providers whose international calls are terminated on or carried by PT's network. Providing interconnection services means allowing third parties to connect their networks to PT's network, and vice versa. PT has interconnection rates namely for call termination, call origination, transits and international interconnection.

Wholesale traffic is generated by the interconnection portion of PT's wholesale business and increased by 1.6 per cent in 2010 compared to 2009 and decreased by 5.0 per cent in 2009 compared with 2008. This increase in 2010 was primarily due to increases in national terminated traffic and in wholesale operators' outgoing traffic.

Prices.

Domestic interconnection revenue per minute for calls terminated on PT's network declined by 6 per cent in nominal terms in 2010 compared to 2009 and by 7 per cent in 2009 compared with 2008. International interconnection revenue per minute for wholesale operators' outgoing traffic decreased 13 per cent in nominal terms in 2010 compared with 2009, and by 5 per cent in 2009 compared with 2008. In accordance with EU and Portuguese regulations, PT's national interconnection prices are cost-oriented (with costs audited by ANACOM) plus a margin.

Leased Lines.

PT leases lines to other telecommunications providers for fixed, mobile and data communications services, including its own subsidiaries and competitors. Leased line services involve making a permanent point-to-point connection with dedicated and transparent capacity between two geographically separate points. PT offers both national terminating segments and trunk segments at the wholesale level. PT also leases international circuits to national and international operators to allow them to complete their circuits (often circuits that pass through Portugal linking other countries), and it sells segments of international circuits to international operators.

The three current mobile telephone operators in Portugal, which include PT's subsidiary TMN, Vodafone Portugal and Optimus, are among PT's wireline business's largest leased line customers.

How PT Reports Wholesale Services in Its Financial Statements

PT reports substantially all of its revenues from wholesale services in the "wholesale" line item within the wireline business in its financial statements.

Other Services

PT also generates revenues from its telephone directories business and from sales of telecommunications equipment.

Directories.

Operating revenues from PT's directories business amounted to €66.2 million and €80.1 million in 2010 and 2009, respectively. PT subcontracts to Páginas Amarelas (an affiliated company 25 per cent owned by PT) for the publication and distribution of telephone directories throughout Portugal in return for an annual payment of approximately 72 per cent of its gross revenues from the sale of advertising space.

Sales of Telecommunications Equipment

Revenues from sales of telecommunications equipment amounted to €46.6 million and €43.2 million in 2010 and 2009, respectively, including the sale of handsets, modems and other telecommunications equipment.

Other

PT also records revenue from advertising on sapo.pt, its Internet portal, contractual penalties imposed on customers and rentals of equipment and other infrastructure.

How PT Reports Other Services in Its Financial Statements

PT reports revenues from its other services within the wireline business in its financial statements. PT reports its directories business as a separate line item within its wireline business and reports its revenues from sales of telecommunications equipment as the “Sales” line item within its wireline business. PT reports the remaining revenues as “Other.”

Marketing

PT has increased its marketing efforts aimed at customer loyalty and promoting increased use of its wireline telephone services. PT aggressively promotes the sale of products and services targeted to specific customers through, among other things, the rollout of flat-rate pricing plans.

PT uses market research programs to evaluate customer satisfaction and service quality and to help develop new products. PT focuses its marketing on different sections of the residential and business market. PT has an advanced billing and customer information system and a marketing information database that combines usage and other relevant data.

To provide support and marketing services to its residential and business customers, PT has developed a network of regional organisations and retail service centres. In addition, PT has separate call centres dedicated to increasing services to its residential and business customers. The call centres are interconnected and cover the whole country. This system allows PT’s customer service representatives to access the history of customers’ telephone use and commercial dealings with PT.

PT has developed a distribution network through its retail service centres and agents such as supermarkets and other retail outlets. PT’s customer support system allows it to develop and implement strategies to sell new and expanded services to its customers. PT often uses telemarketing to both the residential and small and medium-sized enterprise market categories to develop closer relationships with its customers.

PT has continued to pursue its strategy of market segmentation, namely its residential and business market customer categories, and has established partnerships between its subsidiaries to offer integrated telecommunications solutions to corporate customers, including simpler voice services and integrated website solutions. PT has also executed agreements with corporate associations to benefit small businesses.

PT continues to aggressively market Meo, its Pay-TV service. Meo is an integrated offer of voice, internet and Pay-TV services and is a key component of PT’s strategy, strengthening and differentiating its offers to residential customers. PT has continued to launch innovative features to encourage subscriptions to Meo, including: (1) real video on demand, with DVD-like functionalities and a catalogue of more than 2,500 movies, (2) catch-up TV, (3) an electronic programming guide accessible through the Internet and by mobile phone, (4) TV channel recording, which can be remotely programmed through the Internet or by mobile phone, (5) gaming, karaoke and several interactive content and service areas, (6) access to personal photo folders and (7) customised offers for children. PT continues to add channels, features and functionalities to Meo. See “—Retail—IPTV Services” below.

International Operations

Brazil

Sale of Interest in Vivo

On 28 July 2010, PT reached an agreement with Telefónica to sell its 50 per cent interest in Brasilcel N.V., a joint venture that held its interest in Vivo, to Telefónica. The sale was concluded on 27 September 2010. PT reflected Vivo in its statements of income and cash flows for 31 December 2010 and prior periods as a discontinued operation. As of 31 December 2010, none of the assets or liabilities of Vivo are reflected on PT's balance sheet.

Oi Transaction

On 26 January 2011, PT announced that it had entered into a series of agreements with Oi, Brazil's largest telecommunications group, to acquire a significant stake in that company. In connection with its agreements to establish a strategic partnership with Oi, PT also agreed to merge Dedic and GPTI, PT's subsidiaries that provide call centre and IS/IT services in Brazil, with Contax, one of the leading corporate services companies and the leader in contact centre services in Brazil. Contax is currently controlled by the controlling shareholders of Oi, through CTX and Contax Participações S.A. The Oi transaction closed on 28 March 2011. PT also completed the acquisition of a 16.2 per cent. stake in CTX but has not yet completed the merger of Dedic and Contax, which is subject to the approval of the Board of Directors and shareholders and other conditions. Following the closing of the transaction, PT holds a 25.3 per cent. economic stake in Oi, and it expects to hold a 44 per cent. economic stake in CTX (42.0 per cent. prior to the merger of Dedic and Contax). See “—Strategic Alliances—Strategic Partnership with Oi” below for more information about this strategic partnership.

Other Brazilian Investments

Dedic/GPTI. PT's subsidiaries Dedic and GPTI provide call centre and IS/IT services in Brazil. Dedic's operating revenues were R\$479.4 million in 2010 (€205.6 million); R\$402.3 million in 2009 (€145.2 million) and R\$307.8 million in 2008 (€115.1 million). GPTI's operating revenues were R\$133 million in 2010 (€56.9 million). As of 31 December 2010, PT's participation in Dedic was 87.5 per cent, and Dedic had 100 per cent ownership of GPTI. As described above, PT has agreed to merge Dedic and GPTI with Contax, subject to the approval of the Board of Directors and shareholders and other conditions.

UOL. On 29 December 2010, PT reached an agreement for the sale of its 28.78 per cent stake in Universo Online S.A., Brazil's largest internet provider by revenue to a Brazilian businessman, for R\$356 million. UOL's total operating revenues were R\$816.7 million in 2010 (€350.5 million) R\$726.4 million in 2009 (€262.2 million) and R\$577.2 million in 2008 (€216.2 million).

Africa and Asia

PT's subsidiary Portugal Telecom Investimentos Internacionais-Consultoria Internacional, S.A. manages all of PT's international businesses other than its investment in Oi described above.

Operations in Africa

PT has several investments in Africa, including investments in Angola, Cape Verde Islands and Namibia. In 2007, PT established a strategic partnership with Helios Investors LP (“Helios”), a private equity firm operating in sub-Saharan Africa. Under the terms of the agreement, Helios acquired a 22 per cent stake in Africatel, the holding company formed to hold all of PT's interests in sub-Saharan Africa and whose main assets are Unitel, Cabo Verde Telecom, MTC and CST. In 2008, Helios increased its stake in Africatel to 25 per cent. PT's interest in the individual companies described below reflects the percentage of capital of those companies owned by Africatel.

Unitel in Angola. In 2000, PT acquired 25 per cent of the share capital of Unitel, a GSM mobile operator in Angola. Unitel's other shareholders are Sonangol, which holds 25 per cent, and other local partners, which hold the remaining 50 per cent. Unitel began operations in Luanda in 2001. As of 31 December 2010, Unitel had 6,128 thousand subscribers, of which 99 per cent were prepaid cards.

Unitel's total gross operating revenues were US\$1,502.0 million in 2010 (€1,133.8 million), US\$1,562.1 million in 2009 (€1,119.9 million) and US\$1,269.4 million in 2008 (€863.1 million), and US\$396 million for the three months ended 31 March 2011 (€290 million), and US\$353 million for the three months ended 31 March 2010 (€255 million).

Cabo Verde Telecom. Africatel owns 40 per cent of the share capital of Cabo Verde Telecom. Cabo Verde Telecom provides fixed, mobile and data services in the Cabo Verde Islands.

At 31 December 2010, Cabo Verde Telecom had 72 thousand fixed lines in service, which represents approximately 13.9 fixed main lines per 100 inhabitants. Cabo Verde Telecom had 308 thousand active mobile telephone cards at 31 December 2010, of which 99 per cent were prepaid customers.

Cabo Verde Telecom's total gross operating revenues were €84.0 million in 2010, €76.9 million in 2009 and €73.1 million in 2008, and €17 million for the three months ended 31 March 2011, and €17 million for the three months ended 31 March 2010.

MTC in Namibia. In 2006, PT acquired 34 per cent of the capital of MTC, the Namibian mobile operator. In connection with this transaction, PT entered into an agreement with the other shareholders of MTC that allows it to set and control the financial and operating policies of this company. As of 31 December 2010, MTC had 1,666 thousand customers, of which 94 per cent were customers under prepaid plans. MTC's revenues were 1,444.0 million Namibian dollars (€148.9 million) in 2010, 1,443.8 million Namibian dollars (€123.7 million) in 2009 and 1,277.0 million Namibian dollars (€105.9 million) in 2008, and 362 million Namibian dollars for the three months ended 31 March 2011 (€38 million), and 344 million Namibian dollars for the three months ended 31 March 2010 (€33 million).

CST in São Tomé and Príncipe. Africatel owns 51.0 per cent of the share capital of CST – Companhia Santomense de Telecomunicações, S.A.R.L. ("CST"), which provides fixed, mobile and data services in São Tomé and Príncipe. As of 31 December 2010, CST had more than 102.7 thousand mobile customers. CST's revenues were €12.7 million in 2010, €11.9 million in 2009 and €9.1 million in 2008, and €3 million for the three months ended 31 March 2011, and €3 million for the three months ended 31 March 2010.

Operations in Asia

PT has investments in Asia in CTM and in Timor Telecom.

CTM. PT has a 28 per cent interest in Companhia de Telecomunicações de Macau ("CTM"), a provider of fixed and mobile telephone services in Macau. Macau, situated near Hong Kong on the coast of Guangzhou Province, China, was a territory administered by the Portuguese government until December 1999, when it was transferred to the People's Republic of China. The other shareholders of CTM are Cable & Wireless plc and CITIC 1616.

At 31 December 2010, CTM had 178 thousand fixed main lines in service. This figure represents approximately 32.2 fixed main lines per 100 inhabitants. CTM's mobile telephone services were 515 thousand customers at 31 December 2010.

CTM's total gross operating revenues were 2,760.2 million Patacas (€260.1 million) in 2010, 2,439.2 million Patacas (€219.2 million) in 2009 and 2,442.0 million Patacas (€206.9 million) in 2008, and 906 million Patacas (€83 million) for the three months ended 31 March 2011, and 648 million Patacas (€59 million) for the three months ended 31 March 2010.

Timor Telecom. PT also has a 41.12 per cent interest in Timor Telecom, S.A. ("Timor Telecom"), a telecommunications provider for fixed and mobile services in East Timor. As of 31 December 2010, Timor Telecom had a total mobile customer base of 473 thousand and 3 thousand fixed lines. Timor Telecom's revenues were US\$57.2 million in 2010 (€43.2 million), US\$48.6 million in 2009 (€34.9 million) and US\$38.5 million in 2008 (€26.2 million), and US\$15 million (€11 million) for the three months ended 31 March 2011, and US\$13 million (€9 million) for the three months ended 31 March 2010.

Shared Services Companies

PT SI. PT SI is the group unit responsible for data centres, information systems and information technology activities of PT's business units in Portugal. PT SI provides integrated information systems and information technology services to PT's business units in Portugal, as well as to its existing and new customers. PT holds 100 per cent of the share capital of PT SI.

PT Inovação. PT Inovação is PT's unit responsible for research and development activities. PT's research and development programs focus on intelligent networks, network management systems, advanced services and systems and network integration and have led to the introduction of innovative products and services. PT Inovação's activities have been a driving force behind the development of new products and services, telecommunications infrastructure and information systems.

PT Contact. PT Contact is the group unit responsible for call centre operations in Portugal. PT Contact takes advantage of economies of scale and process alignments to reduce costs in PT's call centre operations.

PT Pro. PT Pro aggregates all PT's back-office activities in Portugal. PT Pro takes advantage of economies of scale and process alignments throughout PT's group to reduce costs in back-office activities. The creation of PT Pro has also allowed for a reduction of the execution risk of PT's financial reporting function through standardisation of processes and implementation of best practices.

PT Compras. PT Compras optimises PT's purchasing function on an integrated basis, taking advantage of scale and specialisation.

Strategic Alliances

Strategic Partnership with Oi

On 26 January 2011, PT announced that it had entered into a series of agreements with Oi, Brazil's largest telecommunications group, aimed at acquiring a significant stake in that company. In connection with its agreements to establish a strategic partnership with Oi, PT also agreed to merge Dedic and GPTI, its subsidiaries that provide call centre and IS/IT services in Brazil, with Contax, one of the leading corporate services companies and the leader in contact center services in Brazil. Contax is currently controlled by the controlling shareholders of Oi through CTX and Contax Participações. The Oi transaction closed on 28 March, 2011, except for the merger of Dedic and Contax. Following the closing of the transaction, PT currently holds a 25.3 per cent. direct and indirect economic stake in Oi and it expects to hold a 44 per cent economic stake in CTX (42.0 per cent. prior to the merger of Dedic and Contax).

Background and History

PT uses the term "Oi" to refer, collectively, to Telemar Participações S.A. ("TmarPart"), its subsidiary Tele Norte Leste Participações S.A., ("TNLP") a Brazilian company whose ADRs are listed on the New York Stock Exchange, and TNLP's subsidiaries, including Telemar Norte Leste S.A. ("Telemar"), mentioned above, a Brazilian company with shares traded on the São Paulo Stock Exchange (BM&FBOVESPA S.A.—Bolsa de Valores, Mercadorias e Futuros (BM&FBOVESPA)). TNLP and its subsidiaries provide telecommunications services in Brazil using the brand name *Oi*, including

- fixed-line telecommunications business in Regions I and II of Brazil, which include local and long-distance services, network usage services (interconnection) and public telephones;
- mobile telecommunications services throughout Brazil (Regions I, II and III); and
- other miscellaneous services, which include operating a fibre optic cable system that connects the United States, Bermuda, Brazil and Venezuela; an internet portal under the brand name "iG"; subscription television services and broadband internet access to the residential, commercial and corporate market categories in the cities of Belo Horizonte, Poços de Caldas, Uberlândia and Barbacena in the State of Minas Gerais through its subsidiary WAY TV Belo Horizonte S.A.; and subscription television services using DTH, satellite technology in the States of Minas Gerais, Paraná, Rio Grande do Sul, Rio de Janeiro and Santa Catarina.

On 28 July 2010, AG Telecom Participações S.A. (“AG Telecom,”) and LF Tel S.A. (“LF Tel”), companies that are part of the controlling group of TNLP, and with TmarPart, TNLP and Telemar as intervening parties, entered into a letter of intent with PT to establish the main terms that would serve as a framework for the negotiation of PT’s strategic partnership with Oi. On 25 January 2011, PT and its subsidiary, Bratel Brasil S.A., (“Bratel”), entered into agreements with TmarPart, AG Telecom, Luxemburgo Participações S.A. (a subsidiary of AG Telecom (“Luxemburgo”) and, together with AG Telecom, “AG”) LF Tel, BNDES Participações S.A. (“BNDESPar”), Fundação Atlântico de Seguridade Social (“FASS”), Caixa de Previdência dos Funcionários do Banco do Brasil—PREVI (“PREVI”), Fundação Petrobrás de Seguridade Social—PETROS (“PETROS”), and Fundação dos Economistas Federais—FUNCEF (“FUNCEF”), to implement PT’s strategic partnership with Oi. Under these agreements, the transactions described below have been completed.

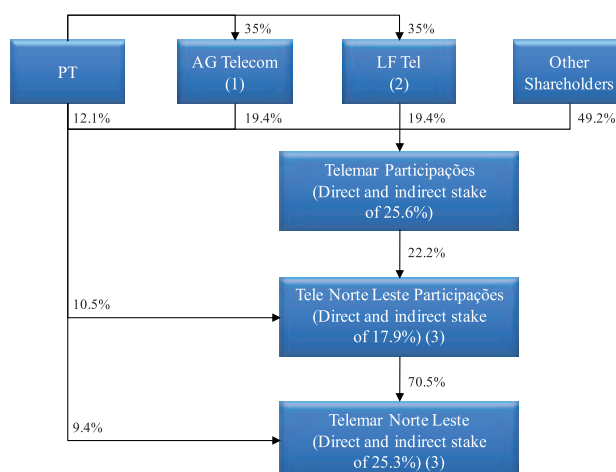
On 28 March 2011:

- Bratel acquired from BNDESPar, PREVI, PETROS and FUNCEF an aggregate of 261,631,051 common shares issued by TmarPart, representing 9.6 per cent of TmarPart’s total outstanding common shares;
- Bratel acquired from Andrade Gutierrez Telecomunicações Ltda. and La Fonte Telecom S.A. a 35 per cent. stake in each of Pasa Participações S.A. and EDSP75 Participações S.A., respectively, holding companies that own 100 per cent. of the share capital of AG Telecom and LF Tel.
- TmarPart increased its share capital through the issuance of 186,664,449 common shares, in which transaction (1) Bratel subscribed for an aggregate of 91,225,537 common shares issued by TmarPart, representing 3.1 per cent of TmarPart’s total outstanding common shares, (2) AG Telecom and its subsidiary Luxemburgo subscribed for an aggregate of 36,784,491 common shares issued by TmarPart, representing 1.3 per cent of TmarPart’s total outstanding common shares, (3) LF Tel subscribed for an aggregate of 36,784,491 common shares issued by TmarPart, representing 1.3 per cent of TmarPart’s total outstanding common shares, and (4) FASS acquired an aggregate of 21,869,930 common shares issued by TmarPart, representing 0.7 per cent of TmarPart’s total outstanding common shares;
- TNLP 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 TNLP from this capital increase amounted to R\$2,978 million. In this capital increase, TmarPart and its wholly-owned subsidiary Valverde Participações S.A. subscribed for 35,309,502 common shares issued by TNLP, and Bratel acquired an aggregate of 20,752,270 common shares and 28,298,549 preferred shares issued by TNLP. Following this capital increase, TmarPart owned, and owns as of the date hereof, 22.4 per cent of TNLP’s total share capital, including 50.5 per cent of its voting share capital, and Bratel owned, and owns as of the date hereof, an aggregate 10.5 per cent of TNLP’s total share capital, or 11.3 per cent of its voting share capital;
- 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 this capital increase amounted to R\$5,969 million, of which R\$4,624 million represented the purchase price for the shares issued by Telemar subscribed for by TNLP. In this capital increase, TNLP acquired 46,743,149 common shares issued by Telemar and Bratel acquired an aggregate of 32,475,534 class A preferred shares issued by Telemar. Following such capital increase, TNLP owned, and owns as of the date hereof, 70.4 per cent. of Telemar’s total share capital, including 98.0 per cent of its voting share capital, and Bratel owned, and owns as of the date hereof, an aggregate of 9.4 per cent. of Telemar’s total share capital.

In light of the transactions mentioned above, PT currently holds a 25.3 per cent. economic stake in Telemar on a consolidated basis. PT holds this stake through (1) an indirect 35 per cent. stake; AG; (2) an indirect 35 per cent. stake in LF Tel; (3) a 12.1 per cent direct stake in TmarPart, (4) a

10.5 per cent. direct stake in TNLP and (5) a direct 9.4 per cent. Telemar. Given PT's economic stake and its rights to participate in the management of Oi as described below, PT will proportionally consolidate 25.6 per cent. of TmarPart in its consolidated financial statements, which fully consolidates TNLP and Telemar.

Set forth below is a simplified corporate chart showing PT's investment in Oi.



- (1) Includes holding companies, namely Luxemburgo Participações S.A. (controlled 100 per cent. by AG Telecom) and Pasa Participações S.A. (controls 100 per cent. of AG Telecom).
- (2) Includes EDSP75 Participações S.A. (controls 100 per cent. of LF Tel).
- (3) Reflects the direct and indirect stakes included in this chart and also stakes held directly by AG Telecom and LF Tel in Tele Norte Leste Participações S.A. (2.4 per cent. each), Telemar Norte Leste S.A. (3.3 per cent. each) and Telemar Participações S.A. directly in Telemar Norte Leste S.A. (3.8 per cent.).

The purpose of PT's strategic partnership with Oi is to develop a global telecommunications platform that will allow for cooperation in diverse areas, with a view to, among other things, sharing best practices, achieving economies of scale, implementing research and development initiatives, developing new technologies, expanding internationally, particularly in Latin America and Africa, diversifying the services provided to PT's customers, maximising synergies and reducing costs, and seeking to offer constant high quality services to PT's corporate and individual customers, while creating and adding value for its shareholders.

In this context, it is envisaged for example that, amongst other purposes, Oi will use part of the proceeds received from share capital increases to acquire up to 10 per cent. of PT's outstanding shares. As of 28 April 2011, Oi had purchased 62,755,860 shares of PT, representing 7.0 per cent. of PT's outstanding shares through broker transactions.

Regulatory and Antitrust Matters

In October 2010, ANATEL approved PT's strategic partnership with Oi without imposing any conditions other than a requirement that Oi pay all pending administrative taxes assessed until that moment, in the amount of R\$218 million approximately, and, accordingly, that Oi waive all rights it was pleading in certain administrative proceedings instituted with a view to contesting such administrative taxes. Oi sought, and has been granted, injunctive relief that has allowed it to make judicial deposits of the amounts of such taxes while preserving its rights to continue litigating the fines assessed by ANATEL. ANATEL has appealed the injunctions benefitting Oi, but such appeals have not yet been heard as of the date hereof and thus remain pending decision.

In addition, in accordance with Brazilian antitrust laws, PT and Oi have jointly submitted the formation of PT's strategic relationship to the CADE for final approval, which remains pending, and subject to review by the CADE of two submissions by regulatory agencies relating to the strategic partnership: (1) one applicable to regulated markets, submitted by ANATEL, and (2) another applicable to non-regulated markets, submitted by the Secretariat for Economic Defense of the Brazilian Ministry of Justice (*Secretariado de Defesa Econômica* ("SDE")). Brazilian law allowed Oi

and PT to complete PT's strategic partnership prior to receiving final approval from the CADE. In its review of the agency submissions, the CADE will determine whether or not the partnership formed with Oi has an adverse impact on the underlying competitive conditions in the markets in which Oi operates or whether or not the partnership adversely affects consumers in the markets in which Oi operates.

Corporate Governance

In connection with the formation of its strategic partnership with Oi, PT has entered into various shareholders' agreements with Oi's current shareholders, in order to regulate corporate governance practices within Oi, establish the rules, procedures and quorums for the approval of certain matters by Oi's board of directors, board of executive officers and within Oi's shareholder structure, rights of first offer or first refusal in the sale of Oi's shares by its shareholders, tag-along rights, and other provisions, and these rights allow PT to play an active role in Oi's corporate governance. For example, PT's shareholders' agreements contemplate, amongst other things, (1) a lock-up period of five years with respect to AG Telecom, LF 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 PT's approval on certain corporate governance matters, including: (i) amendments to bylaws; (ii) mergers and acquisitions and shareholders agreements; (iii) dissolution; (iv) capital increases or reductions; (v) issuances of debt securities above a specified ratio; or (vi) the annual budget and investments.

PT will also participate in several management committees in place or to be created as the material subsidiaries within Oi's corporate structure, including committees dedicated to finance, human resources, risks and contingencies, and will appoint the President of the Committee of Engineering & Network, Technology & Innovation and Product Offering that will be created as part of the framework agreement.

On 28 April 2011, at TNLP's annual general shareholders' meeting, Zeinal Bava, PT's Chief Executive Officer, and Shakhaf Wine, an executive board member, both nominated by PT, were elected as members of the board of directors of TNLP, as PT had announced on 6 April 2011. In addition, Messrs. Bava and Wine were appointed members of the board of directors of TmarPart. Mr. Bava will also be designated to head Oi's Committee of Engineering & Network, Technology & Innovation and Product Offering, which will be created. On 6 April 2011, PT also announced that Otávio Marques de Azevedo and Pedro Jereissati, who are respectively, Chairman and Chief Executive Officer of TmarPart, were appointed to complete the 2009-2011 term office as non-executive members of the Board of Directors.

Described below are some specific aspects of the shareholders' agreements PT has entered into in the context of the formation of PT's strategic partnership with Oi.

TmarPart Shareholders' Agreements

On 25 April 2008, TmarPart's shareholders entered into two shareholders' agreements: (1) the shareholders' agreement among AG Telecom, LF Tel, Asseca Participações S.A. ("Asseca"), BNDESPar, Fiago, and FASS as parties, having TmarPart, PREVI, PETROS, FUNCEF and Andrade Gutierrez Investimentos em Telecomunicações S.A. as intervening parties (the "Global Shareholders' Agreement"); and (2) 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, (the "Control Group Shareholders' Agreement").

On 20 June 2008, Asseca assigned the TmarPart shares it held to LF Tel and Andrade Gutierrez Investimentos em Telecomunicações S.A. (currently Luxemburgo Participações S.A.). As a result, Asseca ceased to be a TmarPart shareholder and to have any rights under the Global Shareholders' Agreement or the Control Group Shareholders' Agreement.

In July 2009, Fiago assigned TmarPart shares it held to PREVI, PETROS, FUNCEF and FASS. As a result of such transaction, Fiago ceased to be a TmarPart shareholder and to have any rights under the Global Shareholders' Agreement.

On 25 January 2011, TmarPart's shareholders amended the Global Shareholders' Agreement and the Control Group Shareholders' Agreement, both effective as of 28 March 2011 to reflect PT's acquisition, through Bratel, of voting shares of TmarPart and to modify certain clauses of the Global Shareholders' Agreement and the Control Group Shareholders' Agreement. AG Telecom, Luxemburgo, BNDESPar, PREVI, FASS, FUNCEF, PETROS, LF Tel and Bratel are parties to the amendment to the Global Shareholders' Agreement, while TmarPart and PT executed the amendment as intervening parties. AG Telecom, Luxemburgo, LF Tel and FASS are parties to the amendment to the Control Group Shareholders' Agreement, while TmarPart executed such an amendment as intervening party.

Global Shareholders' Agreement

The initial term of the Global Shareholders' Agreement expires on the later of 25 April 2048 or the expiration date of the last to expire of the concessions or authorisations held by TmarPart or its subsidiaries (including any renewals thereto). The term of the Global Shareholders' Agreement may be extended for successive periods of 10 years with the consent of each of the parties thereto.

The parties to the Global Shareholders' Agreement have agreed to the following provisions with respect to elections of members of the boards of directors and executive officers, and the voting of the shares of TmarPart, TNLP, Telemar, Brasil Telecom and each of TmarPart's, TNLP's or Telemar's material subsidiaries (i.e., subsidiaries having annual net operating revenues equal to or in excess of R\$100 million):

- AG, LF Tel, and FASS will together have the right to designate a majority of the members of the board of directors of TmarPart and of each of the material subsidiaries;
- each increment of 7 per cent of the voting share capital of TmarPart held by a party to the Global Shareholders' Agreement entitles that party to designate one member of the board of directors of TmarPart and each of the material subsidiaries and his or her alternate;
- so long as PT holds at least 7 per cent of the voting share capital of TmarPart, PT will be entitled to designate one member and the respective alternate of the board of directors of TmarPart and two members and the respective alternates of the board of directors of TNLP, such appointees to be designated from among the directors and executive officers of Bratel;
- PREVI, PETROS, FUNCEF, and BNDESPar are entitled to aggregate their shares to determine their eligibility to exercise the rights described above;
- Bratel, PREVI, PETROS, FUNCEF and BNDESPar each have the right to designate one member of the board of directors of any other subsidiary, provided that AG, LF Tel and FASS have designated members of such board of directors;
- AG, LF Tel, BNDESPar, FASS, PREVI, PETROS, FUNCEF and PT, through Bratel, will jointly 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 TNLP will select the members of TNLP's board of executive officers;
- the chief executive officer of TNLP, together with the chief executive officer of each of the other material subsidiaries, will select the other members of the board of executive officers of such material subsidiary;
- BNDESPar, PREVI, PETROS, and FUNCEF, jointly, have the right to designate one member to the fiscal council of each of the material subsidiaries;
- AG, Luxemburgo, LF Tel, BNDESPar, FASS, PREVI, FUNCEF, PETROS and PT, through Bratel, will hold pre-meetings prior to shareholders' and board of directors meetings of the material subsidiaries and will vote PT's TmarPart shares and instruct PT's representatives on the boards of directors of the material subsidiaries to vote in accordance with the decisions made at pre-meetings; and

- that approval of certain matters be subject to the supermajority vote of the shareholders (for instance, among other things, approval of changes to the bylaws of TmarPart or to the bylaws of any of its material subsidiaries, approval of donation policies, approval of investments of any kind not specifically foreseen in the budgets in excess of R\$50 million and certain other matters are subject to a 75 per cent majority; approval of, and amendments to, the annual budget of TmarPart and its material subsidiaries, capital reduction or increases, the issue of securities, proposals to pay or distribute dividends or interest on shareholders' equity in amounts below 25 per cent of the net income, selection of auditors, and certain other matters are subject to a 77 per cent majority; sale or creation of any liens on the shares issued by the material subsidiaries, or the issue of convertible securities, the adoption of any procedure that would cause TmarPart to lose control of the material subsidiaries, any merger or spin-off transaction involving TmarPart or any of its material subsidiaries, and certain other matters are subject to a 87.4 per cent majority).

Under the Global Shareholders' Agreement, each of the shareholders party to it has agreed:

- not enter into other shareholders' agreements with respect to its TmarPart shares, other than (1) the Global Shareholders' Agreement, (2) the Control Group Shareholders' Agreement and (3) the shareholders agreement entered into among Bratel, Andrade Gutierrez Telecomunicações Ltda. and La Fonte Telecom S.A.;
- not to amend the Global Shareholders' Agreement, the Control Group Shareholders' Agreement or the shareholders agreement entered into among Bratel, Andrade Gutierrez Telecomunicações Ltda. and La Fonte Telecom S.A. without the consent of all parties to the Global Shareholders' Agreement;
- to grant a right of first refusal and tag-along rights to the other parties to the Global Shareholders' Agreement with respect to any sale of its TmarPart shares, except that 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 FUNCEF is not subject to the right of first refusal and (iii) PREVI, PETROS and FUNCEF must grant the right of first refusal for their TmarPart shares to BNDESPar;
- that the other parties to the Global Shareholders' Agreement have the right to sell, and Bratel has the obligation to buy, up to all of the other parties' shares of TmarPart in the event that Bratel acquires control of TmarPart;
- to offer its TmarPart shares to the other parties to the Global Shareholders' Agreement in the event of a transfer of control of such shareholder, including, without limitation, in the event that Bratel acquires control of AG or LF Tel;
- that the other shareholders have the right to purchase all of Bratel's TmarPart shares in the event of a change of control of PT; and
- Oi will use part of the proceeds received from PT's investment in Oi to acquire up to 10 per cent. of the outstanding shares of PT. As of 28 April 2011, Oi had purchased 62,755,860 shares of PT representing 7.0 per cent. of PT's outstanding shares through broker transactions.

Control Group Shareholders' Agreement

The initial term of the Control Group Shareholders' Agreement expires on 25 April 2048 and may be extended for successive periods of 10 years with the consent of each of the parties thereto.

Under the Control Group Shareholders' Agreement, each of the parties has agreed:

- to hold pre-meetings between themselves prior to the pre-meetings to be held pursuant to the Global Shareholders' Agreement and to vote their TmarPart shares in accordance with the decisions made at such pre-meetings;
- that any TmarPart shares sold by a party to the Control Group Shareholders' Agreement to any other party to 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 bloc for the purposes of the Control Group Shareholders' Agreement (even if the purchaser(s) is/are already a party to the agreement) and that such voting bloc will hold pre-meetings prior to the meetings of the parties to the Control Group Shareholders' Agreement.

PASA Participações S.A. and EDSP75 Participações S.A. Shareholders' Agreements

PT currently holds a 25.3 per cent economic stake in Telemar, on a consolidated basis. Part of the structure PT used in order to obtain such an interest in Oi was to acquire an indirect 35 per cent stake in AG Telecom and in LF Tel, through a direct investment in PASA Participações S.A. and EDSP75 Participações S.A., respectively. PT has a 35 per cent direct economic stake in PASA Participações S.A., and the remaining 65 per cent economic interest in the company is held by Andrade Gutierrez Telecomunicações Ltda. Likewise, PT has a 35 per cent direct economic stake in EDSP75 Participações S.A., and the remaining 65 per cent economic interest in the company is held by La Fonte Telecom S.A. AG Telecom is wholly owned by PASA Participações S.A., and LF Tel is wholly owned by EDSP75 Participações S.A.

In connection with PT's investments in PASA Participações S.A. and EDSP75 Participações S.A., on 25 January 2011, PT entered into two shareholders' agreements, one with Andrade Gutierrez Telecomunicações Ltda. (in relation to PASA Participações S.A.) and another with La Fonte Telecom S.A. (in relation to EDSP75 Participações S.A.). The initial terms of these shareholders' agreements expire on 25 April 2048, but may be extended for successive periods of 10 years with the consent of each of the parties.

These shareholders' agreements serve the purpose of regulating corporate governance within PASA Participações S.A. and EDSP75 Participações S.A. and streamlining decision-making process between PT, Andrade Gutierrez Telecomunicações Ltda. and La Fonte Telecom S.A. in connection with PT's investments in Oi. For instance, under these shareholders' agreements:

- pre-meetings are to be held between the shareholders to decide in advance the matters to be analysed during pre-meetings to be held under the Global Shareholders' Agreement and the Control Group Shareholders' Agreement; and
- approval of certain matters are subject to a supermajority vote of the shareholders (e.g. approval of, and amendments to, the annual budget of PASA Participações S.A., EDSP75 Participações S.A., AG and LF Tel are subject to an 83 per cent majority; the entering by PASA Participações S.A., EDSP75 Participações S.A., AG or LF Tel of any loan agreements in excess of R\$50 million, or the entering of any agreement imposing a pecuniary obligation on PASA Participações S.A., EDSP75 Participações S.A., AG or LF Tel in excess of R\$50 million, or the granting of any guarantees by PASA Participações S.A., EDSP75 Participações S.A., AG or LF Tel in excess of R\$50 million, are subject to a 90 per cent majority; and any amendments to the Global Shareholders' Agreement or the issuance of preferred shares by PASA Participações S.A., EDSP75 Participações S.A., AG Telecom or LF Tel, the approval of any decision subject to supermajority vote under the Global Shareholders' Agreement (defined as a "material decision" under the PASA Participações S.A. and EDSP75 Participações S.A. shareholders agreement), among other matters, are subject to the unanimous vote of the shareholders).

In addition, as long as PT holds at least 17 per cent of the voting and total share capital of each of PASA Participações S.A. and EDSP75 Participações, PT has the right to appoint one member to the board of executive officers of each of these companies. On the other hand, reduction in PT's interest in PASA Participações S.A. or EDSP75 Participações, may change some of PT's rights under these agreements and in connection with the Global Shareholders' Agreement. For example, should PT's interest in PASA Participações S.A. or EDSP75 Participações S.A. be reduced to less than 20.5 per cent of the voting share capital of either of these companies, approval of certain "material decisions", as defined in the preceding paragraph, subject to a 75% majority vote under the Global Shareholders' Agreement (for instance, approval of changes to the bylaws of TmarPart) would no longer require PT's consent.

These shareholders' agreements also contemplate:

- rights of first offer to the shareholders with respect to the transfer of the shares issued by PASA Participações S.A. and EDSP75 Participações S.A.,
- tag-along rights for PT's benefit in case of the sale of PASA Participações S.A. and EDSP75 Participações S.A. shares by Andrade Gutierrez Telecomunicações Ltda. or La Fonte Telecom S.A., as the case may be;
- a general restriction on the sale of the shares issued by PASA Participações S.A. and EDSP75 Participações S.A. by Andrade Gutierrez Telecomunicações Ltda. or La Fonte Telecom S.A., as the case may be, to PT's competitors; and
- a general right to PREVI, PETROS, FUNCEF, and BNDESPAR, while they remain shareholders of TmarPart, or to any third parties which may acquire the shares held by these companies in TmarPart, to substitute Andrade Gutierrez Telecomunicações Ltda. or La Fonte Telecom S.A. in the exercise of their preemptive rights under the PASA Participações S.A. and EDSP75 Participações S.A. shareholders' agreements in case PT decides to sell its shares in PASA Participações S.A. and/or EDSP75 Participações S.A.

BNDESPAR, PREVI, PETROS and FUNCEF Shareholders' Agreement

On 25 January 2011, PREVI, PETROS, FUNCEF, BNDESPAR Andrade Gutierrez Telecomunicações Ltda. and La Fonte Telecom S.A. entered into a voting bloc shareholders' agreement. The purpose of this shareholders' agreement is to regulate the exercise of voting rights with respect to, and general governance in connection with, PASA Participações S.A. and/or EDSP75 Participações S.A. in case of the sale of PT's interest in PASA Participações S.A. and/or EDSP75 Participações S.A. and the acquisition of such interest by any of PREVI, PETROS, FUNCEF or BNDESPAR, in which circumstance the purchaser, or purchasers, of PT's interest in PASA Participações S.A. and/or EDSP75 Participações S.A. will be deemed to be a single bloc and will succeed PT in all its rights and obligations. PT is not party to this shareholders' agreement, and no obligation or right is imposed or conferred upon it.

Acquisition of the Interest in Contax in Connection with the Implementation of PT's Partnership with Oi

AG and LF Tel, two of the significant shareholders of TmarPart, are also the controlling shareholders of Contax Participações S.A. In connection with the Oi transaction, PT agreed to merge Mobitel S.A. ("Dedic") and its subsidiary GPTI Tecnologia da Informação S.A. ("GPTI") with Contax S.A. ("Contax"), in return for common and preferred shares of Contax. In this transaction, PT acquired a 16.2 per cent. stake of CTX Participações S.A. ("CTX"), the parent company of Contax Participações S.A. and Contax, for consideration of R\$116 million. To complete the transaction, PT expects to raise its stake in CTX to 19.9 per cent through the contribution of a portion of the Contax preferred shares PT will receive following the merger of Dedic and GPTI with Contax. Also in connection with this transaction, PT will receive net cash of approximately R\$162 million from the reimbursement by Contax of shareholder loans PT had made to Dedic and GPTI and from the sale to CTX of a portion of the Contax common and preferred shares PT will receive in the merger of Dedic and GPTI with Contax.

Following the completion of the entire Contax transaction, including the merger of Dedic and GPTI with Contax, PT will hold a 19.5 per cent economic stake in Contax through a 19.9 per cent direct stake in CTX, which will hold a 34.2 per cent of Contax, and a 4.3 per cent direct economic stake in Contax. PT's direct economic stake in Contax consists of 7.0 per cent of Contax's outstanding common and preferred shares, which it is free to sell at any time.

In connection with this transaction, on 25 January 2011, PT entered into a shareholders' agreement with the other CTX shareholders, that is, AG Telecom, Luxemburgo, LF Tel and FASS through PT's subsidiary Portugal Telecom Brasil S.A., effective as of 28 March 2011 (the "Contax Shareholders' Agreement"). AG Telecom, Luxemburgo, LF Tel, FASS and Portugal Telecom Brasil S.A. are parties to the Contax Shareholders' Agreement, while CTX, PT, Andrade Gutierrez Telecomunicações Ltda., PASA Participações S.A., La Fonte Telecom S.A. and EDSP75 Participações S.A. are intervening parties in the Contax Shareholders' Agreement.

Under the Contax Shareholders' Agreement, PT has similar rights to those contained in the Global Shareholders' Agreement and the other shareholders' agreements described above and accordingly:

- pre-meetings are to be held among the shareholders to decide in advance the matters to be voted during any shareholders' or board of directors' meetings and the decisions taken during such pre-meetings shall be binding upon the shareholders and their representatives; and
- approval of certain matters are subject to a supermajority vote of the shareholders (for instance, approval of amendments to CTX's bylaws, of the execution of any agreements with Telemar and certain other matters are subject to a 66.67 per cent majority; approval of CTX's annual budget and the investment plans of CTX and its subsidiaries, among other matters, are subject to a 70 per cent majority; approval of the sale of the shares issued by CTX's subsidiaries and of any merger, spin-off, or initial public offering involving CTX, among other matters, are subject to an 84 per cent majority).

In addition, (i) as long as PT holds at least 10 per cent of CTX's voting share capital, it has the right to appoint two members to the board of directors of both CTX and Contax Participações; (ii) as long as PT holds at least 5 per cent of CTX's voting share capital, it has the right to appoint one member to the board of directors of both CTX and Contax Participações; (iii) as long as PT holds at least 11 per cent of CTX's voting share capital, it has the right to appoint one member to the board of executive officers of CTX. Also, under the Contax Shareholders' Agreement, PT has the right to veto one among three of the nominees appointed by AG Telecom, Luxemburgo, LF Tel and FASS to the position of chief executive officer of Contax.

The Contax Shareholders' Agreement also contemplates pre-emptive rights to the shareholders with respect to the transfer of CTX's shares and tag along rights in case of the sale of CTX's shares by its shareholders. More importantly, however, (i) the corporate control in any of CTX's shareholders may not be transferred without such shareholder first offering its CTX's shares to the other CTX shareholders in accordance with the procedures contained in the Contax Shareholders' Agreement concerning the rights of first offer; and (ii) should PT cease to be a TmarPart shareholder, its interest in CTX may be redeemed or exchanged in accordance with the procedures established in the Contax Shareholders' Agreement.

The Contax Shareholders' Agreement was executed on 25 January 2011, and its first term expires on 25 April 2048. The term of the Contax Shareholders' Agreement may be extended for successive periods of 10 years with the consent of each of the parties thereto.

Developments Relating to PT's Share Capital

During the years ended 31 December 2010 and 2009, there was no change in PT's share capital.

Employees

PT had a total of 10,985 employees in its Portuguese Operations as at 31 December 2010 and 10,978 employees as at 31 December 2009.

The table below sets forth the breakdown in the total number of PT's employees in the years 2009 through 2010. It does not include employees seconded to other entities, but does include temporary workers with fixed-term contracts.

	<i>As at December 31</i>	
	<i>2009</i>	<i>2010</i>
Wireline.....	6,450	6,177
TMN.....	1,004	1,029
Other Businesses ⁽²⁾	3,524	3,779
Total ⁽³⁾	10,978	10,985
International Operations.....	20,744	22,537
Total Group Employees	31,722	33,522

PT has not experienced material work stoppages over the last five years. Management believes that relations with labor unions and most of PT's employees are good.

In the wireline business, the total number of employees decreased as a result of the integrated management of the Portuguese Operations.

Properties

PT's principal properties consist of buildings and telecommunications installations. These include various sizes of exchanges, transmission equipment, cable networks, base stations for mobile networks, equipment for radio communications and a nationwide network of ducts. They are located throughout Portugal and internationally.

Following the transfer to the Portuguese government of some of PT's pension funds as described in "*Risk Factors—Risks that may affect the ability of the Keep Well Provider to fulfil its obligations under the Keep Well Agreements—Unfunded post retirement benefit obligations may put PT at a disadvantage*" PT acquired several buildings previously owned by the pension funds in question. PT and its subsidiaries own several office buildings in Portugal. PT's main proprietary office space is located at the following addresses:

- R. General Humberto Delgado, 342/368, Coimbra, Portugal (13,321 square meters);
- Largo do Carmo, Faro, Portugal (11,452 square meters);
- R. Postiguiinho Valadares, 12, Castelo Branco, Portugal (9,464 square meters);
- Av. Carvalho Araújo, 629, Vila Real, Portugal (9,030 square meters);
- Av. Doutor João Martins Azevedo, 21, Torres Novas, Portugal (7,112 square meters);
- Av. de Zarco, Funchal, Portugal (7,025 square meters);
- Rua 9 de Julho, Beja, Portugal (5,331 square meters);
- R. D. Estefânia 78/82, Lisboa, Portugal (4,441 square meters);
- Praceta Nuno Rodrigues dos Santos, 9, Lisboa, Portugal (5,735 square meters);
- R. Maria Veleda, 1, Lisboa, Portugal (4,333 square meters);
- Rua Ricardo Jorge, 131/135, Porto Portugal (3,320 square meters); and
- Rua Passos Manuel, 2, Lisboa, Portugal (1,395 square meters).
- R. José Ferreira Pinto Basto, Aveiro, Portugal (36,030 square meters);

- R. Tenente Valadim, 431/453, Porto, Portugal (21,400 square meters);
- R. Afonso Costa, 4, Lisboa, Portugal (13,266 square meters);
- R. Andrade Corvo, 10/14, Lisboa, Portugal (10,300 square meters); and
- Av. Fontes Pereira de Melo, 38/40, Lisboa, Portugal (61,534 square meters).

PT has registered its important trademarks, such as “Portugal Telecom,” “PT Comunicações,” “PT Prime,” “Telepac,” “Sapo,” “Meo,” “TMN” and their related logos, in Portugal. PT has also applied for a European Community trademark for “Portugal Telecom” and its logo. PT does not own any registered patents or copyrights which are material to its business as a whole.

Competition

PT faces substantial and increasing competition. The Portuguese telecommunications’ sector has been fully open to competition since 1 January 2000. The competitive conditions of each of PT’s business segments are described below.

Competition Facing PT’s Portuguese Operations

Fixed Market

PT faces heavy competition from various telecommunications operators. PT’s primary competitors in the wireline voice market include ZON (with financial institutions as the main shareholders, as well as Kento Holding Limited with a qualified participation of 10 per cent and Telefonica with 5.5 per cent), Sonaecom (which is 53.2 per cent owned by Sonae, SGPS, S.A. and 20 per cent owned by France Telecom), Vodafone Portugal (a Vodafone Group subsidiary), Oni Telecom-InfoComunicações, S.A. (60.9 per cent owned by Riverside Europe Telecom LLC fund and 34.6 per cent owned by Gestmin SGPS), Cabovisão (100 per cent owned by Cogeco Cable, the fourth Canadian cable operator), AR Telecom and Colt.

Due to their shareholder structures, Vodafone Portugal and Optimus have access to substantial resources, cost synergies (*e.g.*, network and equipment costs) and best practices (*e.g.*, product development processes). 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.

ZON, the newest telecommunications operator, was born in November 2007, after the failure of Sonaecom’s attempt to take over PT and its subsequent spin-off of PT Multimedia. ZON is the leader of the Pay-TV business in Portugal. Nevertheless, and due to increasing competition in its core business, ZON has been aggressive in expanding into new business areas, including the fixed voice and Internet businesses.

The competitive environment has been becoming more challenging for several reasons, such as the expansion of mobile operators that entered in the fixed market, as well as the diversification of existing fixed operators that previously were more focused on one service, through the launch of bundle offers with strong focus on 3P commercial configurations. This strategy has been followed by several players, namely *Meo* (PT’s own brand), ZON, Cabovisão, Vodafone and Sonaecom. Among these players, Both PT and ZON have a strong 3P customer base (PT with 440 thousand customers in 2010, a growth of 58 per cent vis-à-vis 2009 and ZON with 642 thousand customers, 33 per cent up from 2009), with PT having 27 per cent of its historically large fixed-line customers already with 3P, and ZON carrying 55 per cent of its cable TV customers with 3P, according to its press release. PT competes with respect to content, as well as with respect to price through the launch of bundle offers. Due to this competitive environment, PT’s domestic consumer market has been, and will likely continue to be very challenging.

Fixed Voice

PT’s wireline business faces increasingly strong competition from fixed line operators as well as from mobile players, including PT’s own mobile service provider, TMN. By December 2010, the number of mobile subscribers in Portugal was almost four times the number of fixed lines.

Currently, all mobile network operators have commercial offers that are a direct alternative to PT’s wireline telephone services, competing for the same customers. Residential services supported by

mobile networks are offered by TMN, Optimus and Vodafone Portugal through their “Casa t fixo,” “Optimus Home” and “Vodafone Casa” products, respectively.

In addition, the low-cost brands launched by TMN (Uzo), Optimus (Rede 4) and Vodafone Portugal (Directo) are designed to reach the lower-end segment of the mobile market and have also had an effect on PT’s fixed line retail service, exacerbating the trend among consumers toward switching from fixed line to mobile service.

According to ANACOM figures, as of 31 December 2010, PT Comunicações, which provides retail services as part of PT’s wireline business, had an estimated 60.4 per cent market share of access lines (63.4 per cent in 2009 and 68.5 per cent in 2008). Using the same source and PT’s own estimates, PT Comunicações had an estimated 59.5 per cent market share of total outgoing traffic in 2010, a decrease of 2.6 percentage points when compared to 2009.

Measures such as call-by-call selection (introduced in January 2000) and carrier pre-selection (introduced in October 2000), as well as number portability (introduced in 1 July 2001), make it easier for PT’s competitors to attract PT’s customers to their services. As of 31 December 2010, according to ANACOM data, there were approximately 117 thousand lines in pre-selection, the lowest figures since 2001. This has resulted from operators being more focused on direct access commercial offers and putting strong efforts on customer migration from pre-selection configurations.

PT is losing revenues from its international telephone services because large telecommunications users lease lines through which they connect to networks outside Portugal. In addition, mobile operators establish direct international interconnections with mobile or fixed-line networks outside of Portugal, enabling them to offer international telephone services without using PT’s network. PT also faces indirect competition in international fixed line telephone services from calling cards and rerouting of calls by other international operators. Furthermore, VoIP increasingly enables cheaper communications than traditional public switched telephone networks. Together with falling international call prices worldwide, these factors put significant pressure on PT to reduce international fixed line telephone prices. According to ANACOM data and PT’s estimates, PT Comunicações had a 62 per cent market share of international traffic in 2010, a decrease of 5.5 percentage points when compared to 2009.

The overall effect of full competition partly depends on the prices that other mobile and wireline network operators pay PT to terminate communications in its network. PT’s termination rates are subject to regulatory review. See “—*Regulation—Portugal—Interconnection*” below.

Pay-TV

Pay-TV has been at the core of the 3P bundles launched by the fixed telecom operators in the Portuguese market.

According to ANACOM, the Pay-TV market has a total of 2,775 thousand customers, representing a 48.5 per cent penetration on homes. ZON is the current market leader with a 57.9 per cent market share, representing a 6.5 per cent decrease from 2009. PT’s *Meo* brand has been steadily gaining market share, reaching 29.9 per cent in less than three years after its launch, representing a 6.9 per cent increase from 2009. Cabovisão has struggled to maintain its market share, with 9.4 per cent in 2010, a 0.8 per cent decrease from 2009, while the remaining players have not been able to rise above their insignificant positions.

PT has committed to an ambitious FTTH roll-out strategy in the past few years, reaching more than 1 million homes by the end of 2010. Zon and Cabovisão have leveraged on their coaxial cable networks to upgrade to the DOCSIS 3.0 standard. Sonaecom and Vodafone have based their offers mainly on IPTV, relying on lines leased by from PT. Recently, the two joined forces to share the fibre-based networks, reaching more than 400 thousand homes.

Fixed Broadband Internet

By the end of 2010, fixed broadband Internet surpassed two million customers in Portugal, with market penetration at 19.5 per 100 inhabitants, which still shows a significant upside potential.

According to ANACOM figures, PT is the market leader in this service, with 46.8 per cent, an increase of 2.3 per cent from 2009. ZON is the second player with 33 per cent of market share, up 0.8 per cent from 2009.

Data and Corporate

PT faces significant competition from several operators, namely ZON, Vodafone Portugal, Sonaecom, Oni Telecom, AR Telecom and Colt. These companies compete with PT in providing data communications, voice services and Internet services to business customers. Customers tend to have large volumes of traffic and complex virtual private network services with data, voice and video integration.

PT's competitors may use satellite-based networks, public network operators' infrastructure, leased lines and their own infrastructure to provide telecommunications services to customers. These are all alternatives to PT's leased lines offer. As a result of competition, PT has reduced its prices for leased lines and is focusing on value-added solutions based on Internet Protocol Virtual Private Networks ("IP VPN").

PT's strong investment in its FTTH network, as well as its commitment to the investment in a top-European level Data Center, allow PT to take advantage of the cloud services business opportunity. Cloud services are considered to be an attractive growth point in the telecommunications industry and PT intends to position itself ahead of the competition to provide such services that will be an additional source of revenue as well as a retention and loyalty tool in its data and corporate customer category.

Wholesale

Fixed and mobile operators, other than TMN, are establishing direct international interconnections with mobile or wireline operators outside Portugal, enabling them to offer international telephone services without using PT's network. This is decreasing PT's wholesale revenues generated from connecting mobile operators in Portugal to operators abroad.

PT's interconnection business faces more direct competition now that operators are focused on installing and operating their own public wireline telephone networks, pushing more 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.

Mobile Market

TMN competes with Vodafone Portugal and Optimus, the two other mobile network operators licensed to provide mobile telephone services in Portugal. In 2005, Optimus introduced the low-cost brand "Rede 4" in response to PT's new brand "Uzo". Vodafone Portugal also launched a similar product called Directo in 2005 targeting the same market as Uzo and Rede 4. The second wave of low cost offers emerged when virtual operators entered the Portuguese market, namely Phone-ix and ZON Mobile in 2007 and 2008, respectively.

In 2007, CTT, the Portuguese postal company, launched "Phone-ix," an MVNO (Mobile Virtual Network Operator) supported by TMN's network. In 2008, ZON launched an equivalent structure under the brand "ZON Mobile," a mobile virtual operation hosted by Vodafone Portugal's network.

In 2008, the Portuguese mobile market experienced an important development, the launch of aggressive on-net differentiated pricing plans. According to ANACOM data, on-net traffic increased 23.2 per cent and 17.5 per cent in 2009 and 2010, respectively. This trend is partially explained by the success of the attractive tribal plans led by Optimus (with "Tag") and followed by TMN ("Moche") and Vodafone Portugal ("Extreme" and "Extravaganza"). In addition to the tribal plans, some on-net oriented bundles of "voice+internet" were launched by the three major mobile operators, namely TMN (tmn unlimited), Optimus (Smart) and Vodafone (Best). The focus on on-net oriented flat rate plans and bundles of "voice+internet", where operators explore the concept of unlimited on-net voice calls, led to an increase of minutes of usage and an erosion of Average Revenue per Minute.

According to figures from ANACOM, at the end of 2010, TMN had a 44.1 per cent market share in terms of mobile stations in the Portuguese market. Market share leadership is and will continue to be TMN's priority. PT believes that its main mobile competitors, Vodafone Portugal and Optimus, will continue to market their services aggressively. As described above, Vodafone Portugal and Optimus each have major shareholders that provide them with substantial resources, cost synergies and best practices to compete aggressively against PT in the Portuguese mobile telephone market.

By the end of 2010, there were approximately 155 active mobile cards per 100 inhabitants in Portugal, making it one of the European countries with the highest adoption rate of mobile services. This performance derives from an extremely dynamic market, where operators are devoted to providing an extended product portfolio in order to address all communication needs of all customers.

Mobile operators also undertake aggressive marketing efforts. These initiatives often offer a subscription fee that allows the access to cheaper communications during a certain period. These actions aim to increase usage in the medium term, while usually having a negative impact on retail revenues in the short term. Aggressive pricing structures and campaigns contributed to a 14.4 per cent decrease in retail voice revenue per minute between 2009 and 2010. Additionally, voice revenues have also been threatened by changes in mobile termination rates, which declined approximately 55 per cent (from €0.11 to €0.05) between December 2007 and December 2010. Further reductions are expected in the near future.

Given the voice service framework, mobile operators are focused on alternative revenue streams, particularly broadband services, which have been the main engine of growth in recent years. According to ANACOM data, mobile broadband customers using dongles/modems reached 1,279 thousand by the end of 2010. This movement is largely explained by e-initiative programs launched by operators under the "information society" commitments they undertook in connection with the award of UMTS licences. The operators' efforts to strengthen data services have resulted in growing data revenues as a percentage of service revenues, which have already reached 25 per cent on average.

Competition Facing Oi in Brazil

Since the closing of the Oi transaction on 28 March 2011, PT holds a 25.3 per cent economic stake in Oi. Now that Telefónica S.A. has acquired Vivo from PT, Vivo will be the largest competitor of its Brazilian mobile business. Vivo is now controlled by Telefónica S.A., a large Spanish telecommunications company with significant resources. The other principal competitors of Oi are Claro, which is controlled by a consortium led by Telecom Américas Ltd. (controlled by América Móvil S.A. de C.V., a large Mexican telecommunications company), and TIM, which is controlled by Telecom Italia, a large Italian telecommunications company.

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 telecommunication services market, competition is focused on corporate customers. In addition, competition from other telecommunication services has been increasing, particularly from mobile telecommunication services, which has led to traffic migration from fixed-line traffic to mobile traffic and the substitution of mobile services in place of fixed-line services, encouraged by offers of aggressively priced packages from some mobile telecommunication service providers. Finally, the decrease in interconnection rates has discouraged the construction of new fixed-line networks and has led to decreases in market prices for telecommunication services by enabling telecommunication service providers that use the local fixed-line networks of incumbent fixed-line providers to offer lower prices to their customers.

Oi is the leading provider of local fixed-line services in Regions I and II. As of 31 December 2010, it had 12.8 million fixed lines in service and an estimated market share of 77.5 per cent in

Region I and 7.2 million fixed lines in service and an estimated market share of 78 per cent in Region II, based on information available from ANATEL. Oi's principal competitors in Region I for fixed-line services are (1) Embratel (an affiliate of Telecom Americas Group, which is a subsidiary of América Móvil, an affiliate of Telmex), which had an estimated market share of 17.8 per cent in Region I and 6.7 per cent in Region II, and (2) GVT (an affiliate of Vivendi S.A.), which had an estimated market share of 3.2 per cent in Region I and 15.3 per cent in Region II, in each case, based on information available from ANATEL.

Oi also expects competition from Embratel and GVT to increase in certain cities, such as Rio de Janeiro, Belo Horizonte and Salvador, where they continue to expand their respective local fixed-line network.

Oi expects to continue to face competition from mobile services providers, which represent the main source of competition in the local fixed-line service market. The increase in the number of mobile users, in addition to reduced mobile services rates, is expected to continue to adversely affect the number of fixed-line subscribers and the volume of local fixed-line traffic. In addition, because mobile providers offer promotions and service plans that permit subscribers to make calls within the mobile provider's network at rates that are less than those charged for calls from a fixed-line telephone to a mobile telephone, Oi believes that it may be vulnerable to traffic migration as customers with both fixed-line and mobile telephones use their mobile devices to make calls to other mobile subscribers.

PT believes that major technological innovations, such as instant messaging services and VoIP, may impact local fixed-line traffic in the future. In Brazil, those services have been increasing in popularity, which could put further pressure on the local fixed-line telecommunications market.

Long-Distance Services

The long-distance services market is highly competitive. For the year ended 31 December 2010, based on information available from ANATEL, of the total number of long-distance minutes originated in Region I, Oi had a market share of 15 per cent ranking behind TIM with 65.1 per cent and Embratel with 15.4 per cent, of the total number of long-distance minutes originated in Region II, Oi had a market share of 28.1 per cent, ranking behind TIM with 47.1 per cent and ahead of Embratel with 15.9 per cent, and of the total number of long-distance minutes originated in Region III, Oi had a market share of 12.7 per cent, ranking behind TIM with 32.3 per cent, Telesp with 29.7 per cent and Embratel with 19.4 per cent.

Oi's principal competitor for long-distance services is TIM, which in 2010 began aggressively promoting its long-distance services with significant discounts. Historically, Oi's principal competitor for long-distance services has been Embratel.

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 telecommunication services market in Brazil is characterized by intense competition among providers of mobile telecommunication services. Oi competes primarily with the following mobile services providers, each of which provides services throughout Brazil:

- (1) Vivo;
- (2) TIM, which is a subsidiary of Telecom Italia S.p.A. and markets its services under the brand name "TIM"; and
- (3) Telecom Americas Group, which markets its services under the brand name "Claro."

In December 2010, Nextel Brazil acquired licenses to provide 3G services throughout Brazil. Nextel has announced that it expects to launch commercial services on its 3G network in certain markets between December 2011 and June 2012. Oi expects that Nextel's entrance in the market will increase competition for mobile services.

Competitive efforts in the Brazilian mobile telecommunication services market generally take the form of handset subsidies in the post-paid market and traffic subsidies in both the pre-paid and post-paid market. The aggressiveness of promotions is generally driven by the desire of the provider

offering the promotion to increase market share; however, these promotions generally are for a short duration as the pricing terms offered are not sustainable over the long-term.

As of 31 December 2010, based on information available from ANATEL, Oi had a market share of 24 per cent of the total number of subscribers in Region I, followed by Vivo with 26.9 per cent, TIM with 26.2 per cent and Claro with 22.2 per cent, and Oi captured 4.8 per cent of all net additions of mobile subscribers in Region I (calculated based on the number of mobile subscribers at the end of a period less the number of mobile subscribers at the beginning of that period) during 2010. In Region II, Oi had a market share of 15.1 per cent, ranking behind Vivo with 30.9 per cent, Claro with 28.7 per cent and TIM with 25 per cent, and Oi captured 9.3 per cent of all net additions of mobile subscribers in Region II during 2010. In October 2008, Oi launched its mobile services in Region III, which represents a new competitive environment for it. As of 31 December 2010, Oi had a market share of 14.2 per cent of the total number of subscribers in Region III, ranking behind Vivo with 34.1 per cent, Claro with 28.5 per cent and TIM with 23.1 per cent. Based on information available from ANATEL, Oi captured 29.8 per cent of all net additions of mobile subscribers in Region III during 2010.

Data Transmission Services

Cable television providers that offer broadband services, particularly Net, represent Oi's principal competition in the broadband market. Oi faces competition from these providers that offer integrated packages, consisting of subscription television, broadband and voice telephone services to cable television subscribers who, in general, have more purchasing power than other consumers.

Oi's principal competitors in the commercial data transmission services market are Embratel, GVT and Intelig. Because the commercial data transmission services market is significantly less regulated than the fixed-line, long-distance and mobile services markets and, therefore, presents fewer barriers to entry, this market is subject to competition from a large number of competitors, including fixed-line telecommunication service providers and specialized services companies competing in this high-growth market and focused on large- and medium-sized business customers. Along with growth in traffic volume and increasing demand for broadband capacity, Oi expects significant price reductions in data transmission services as competitors expand their networks. Oi also anticipates a shift in competition towards value-added services provided over IP platforms.

DTH Services

In Brazil, the high quality programming of television broadcasters has resulted in aggregate ratings for these broadcasters of approximately 90 per cent of viewers and has limited the perceived value of subscription television. As a result, the subscription television market in Brazil has a low penetration compared to developed countries and even to other South American countries such as Argentina, Chile and Mexico. Penetration rates by subscription television have grown from 8 per cent of Brazilian households in 2005 to 16.7 per cent in 2010. According to information available from ANATEL, the Brazilian subscription television market grew by more than 30.7 per cent in 2010.

The primary providers of subscription television services in Regions I and II in Brazil are Embratel, which provides DTH service under the "Via Embratel" brand, SKY, which provides DTH services, and NET, which provides subscription television services using coaxial cable. Oi commenced offering DTH subscription television services to the low-income residential market in the State of Rio de Janeiro in July 2009, in the State of Minas Gerais in August 2009, in the State of Rio Grande do Sul in October 2009 and in the States of Paraná and Santa Catarina in November 2009. In 2010, Oi expanded this service to the Distrito Federal and the states of Bahia, Sergipe, Pernambuco, Ceará, Paraíba, Rio Grande do Norte, Alagoas and Goiás. In 2011, Oi expects to offer this service to all states of Regions I and II.

Regulation

In addition to the descriptions of regulatory matters set forth below, see the description of certain legal proceedings, including judicial and administrative proceedings relating to regulatory matters, set forth in "*General Information – Litigation*".

The telecommunications industry has traditionally been heavily regulated in most countries of the world, including Portugal and Brazil. Over the last several years, both countries (Portugal beginning in 1990 and Brazil in 1998) have substantially privatized their state-held telecommunications operators and have been opening their telecommunications markets to competition. Portugal, a member of the European Union, opened its telecommunications market to full competition as of 1 January 2000. Portugal is pursuing further EU-led initiatives aimed at increasing the competitiveness of its market. Brazil has also been introducing further measures designed to increase competition.

Portugal

In the increasingly competitive Portuguese telecommunications market, the regulatory measures which most affect PT's operations, its revenues and its costs, relate to:

- restrictions on the products PT offers and the prices it charges in its wireline retail business;
- restrictions on PT's broadband retail products, application of retail-minus rules in those Areas considered non-competitive;
- price controls on PT's wholesale reference offers, such as local loop unbundling, wholesale line rental, interconnection offers, ADSL bitstream offers (in those Areas considered non-competitive), access to ducts, leased lines trunks and local segments;
- obligations to allow PT's competitors to interconnect with and use PT's wireline network;
- certain wireline services that PT is obliged to provide to the public under its "universal service obligation";
- measures that are intended to make it easier for PT's customers to migrate to PT's competitors' services, including carrier pre-selection, number portability, unbundling of the local loop, and wholesale line rental; and
- the terms of PT's concession and licences, including the third generation mobile licence that TMN received at the end of 2000.

EU Regulatory Framework and Relevant Markets

In February 2002, the European Union agreed upon a new regulatory framework for electronic communications networks and services, consisting of five directives governing procedures, authorisations, access, universal service and data protection; one decision on the availability and use of radio spectrum; and a recommendation on relevant product and service markets within the electronic communications sector subject to "ex ante" regulation in accordance with Directive 2002/21/EC of the European Parliament and Council on a common regulatory framework for electronic communications networks and services. Four of the five directives that make up the new EU framework were adopted into law in Portugal on 10 February 2004 as part of Law 5/2004, the Basic Law of Electronic Communications, or "Law 5/2004." The fifth directive was adopted into law on 18 August 2004. In 2006, the European Commission began a review of the new EU framework for electronic communications services and networks. The new regulatory package has been approved on 25 November 2009 and published in the Official Journal of the European Union of 18 December 2009 (OJ – L377, 18.12.2009). The new EU Framework is due to be transposed into national law by 26 May 2011.

The implementation of the new EU framework is changing the current regulatory framework applicable to us. The new EU directives and recommendations, which adopt competition law principles such as market dominance for the designation of significant market power and the definitions of relevant product and geographic markets which may be subject to "ex ante" regulation, will result in significant changes and refinements to the current regulatory regime applicable to PT in Portugal.

Under the new regulatory regime, regulatory obligations can be imposed on operators having significant market power in any one of the relevant retail and wholesale markets identified by the European Commission. The European Commission issued on 17 December 2007 its European Relevant Markets Recommendation in 2007, which defines one retail market and six wholesale

markets. Since PT is active in all of these markets, any new regulatory measures could affect its businesses and operations.

Prior to the release of the European Relevant Markets Recommendation, ANACOM had analysed 16 of 18 retail and wholesale markets (as defined under a prior European Commission Recommendation). ANACOM found PT Group to have significant market power in all the markets it has analysed except for one in which it did not find any operator to have significant market power (wholesale transit services). These markets include the following: (1) retail markets – access to the public telephone network at a fixed location (residential and business), publicly available local and/or national telephone services provided at a fixed location (residential and business), publicly available international telephone services provided at a fixed location (residential and business), and leased lines; and (2) wholesale markets – call origination on the fixed telephone network provided at a fixed location, call termination on individual public telephone networks provided at a fixed location and wholesale unbundled access to local metallic loops, wholesale leased lines (trunk segments and terminating segments) and wholesale broadband access. ANACOM notified the European Commission regarding its conclusions about the markets it analysed. In addition, ANACOM added a nineteenth market, covering telephone services at a fixed location using non-geographic numbers, such as toll-free numbers, and has declared the PT Group to have significant market power in this area. Now, under the new European Commission Recommendation on Relevant Markets, ANACOM will be required to re-analyse the retail and wholesale markets and identify which electronic communications operators and service providers it considers to have significant market power in such markets in Portugal and notify the European Commission with respect to its findings. ANACOM conducted a market analysis to determine the regulatory obligations that should be imposed on operators with significant market power in the provision of wholesale (physical) network infrastructure access and wholesale broadband access.

Wholesale markets numbers 4 and 5 (for the provision of wholesale (physical) network infrastructure access and wholesale broadband access) were analyzed by ANACOM in 2008 and early 2009. ANACOM decided to segment the broadband market geographically between “C” (competitive) areas and “NC” (non competitive) areas. ANACOM also removed the regulation that was imposed on PT regarding wholesale broadband access in “C” areas, namely the retail-minus rule. Additionally, the obligation imposed on PT to provide a bitstream reference offer (Rede ADSL PT) expired after a transitional period of one year from the date of the final decision in January 2009. However PT decided to maintain the bitstream reference offer (Rede ADSL PT). During 2011, ANACOM intends to revise relevant markets numbers 4 and 5 to integrate the changes due to the development of Next Generation Networks.

In addition to the PT Group, all other wireline 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. PT expects that, in the near future, ANACOM will provide further analysis on the relevant markets, which are leased line terminal segments, leased line transit segments, roaming services and access and call origination on mobile telephone networks. In 2010, ANACOM conducted a market analysis on the wholesale leased lines terminal and transit segments, on minimum sets of retail leased lines and on mobile termination rates. ANACOM eliminated the minimum set of retail leased lines and the retail-minus rules with respect to this set of leased lines. ANACOM found PT to have significant market power in the wholesale leased lines terminal market and segmented the transit segments between “C” (competitive) routes and “NC” (non competitive) routes. In these wholesale markets, ANACOM included Ethernet connections and imposed the retail-minus rule over Ethernet solutions. In the “C” routes, PT has no significant market power. PT expects that, in the near future, ANACOM will provide further analysis on the other relevant markets.

On 7 January 2009, a protocol was signed between the Portuguese government and four operators, including Portugal Telecom, on the roll-out of next-generation networks. Under this protocol, the operators committed to bring forward during 2009 the allocation of resources needed to connect 1.5 million users to a fibre optic network, working with the Portuguese government and with

the national regulatory authority in the identification of existing barriers to investment in next generation networks and actively disseminating the benefits of broadband.

Moreover, with respect to the roll-out of optic fibre networks, on 21 May 2009, Decree-Law No. 123/2009 was published. This law, as amended by Decree-Law No. 258/2009, of 25 September 2009, establishes a legal framework for the construction of and access to infrastructures suitable for the accommodation of electronic communications networks and the construction of infrastructures for telecommunications in housing developments, urban settlements and concentrations of buildings. As for rights of way-especially access to the public domain, expropriation and the constitution of public easements-this law reinforces the rights already given to electronic communications undertakings under Law No. 5/2004 by introducing a new level of harmonization and transparency in procedures. In particular, Decree-Law No. 123/2009 sets forth several obligations in order to allow electronic communications operators to enjoy better conditions necessary for the installation and development of electronic communications networks.

Decree-Law No. 123/2009 also foresees the implementation of a Centralized Information System (“SIC”) to be managed and operated by ANACOM and whose main objective is to make available information on infrastructure appropriate for the installation of electronic communications networks based on information provided by the Portuguese government, autonomous regions, municipalities, publicly held companies or concessionaires, other entities owning or using infrastructure in the public domain of the State, autonomous regions or municipalities and electronic communications undertakings.

On 16 December 2009 ANACOM approved the launch of a public consultation process on the format providing information within the SIC.

On 11 November 2010, ANACOM approved the final decision regarding the registration of objects in the SIC and the terms and formats for providing information for the SIC. In the final report, ANACOM set forth, in particular, the objects and the defining elements that are required to be included in the SIC. Other elements, such as the terms upon which objects will be geographically defined through the combination of their administrative location and georeferencing, are also determined.

Since PT Comunicações already has a reference offer under which it is obligated to provide a substantial amount of information to operators that wish to use its ducts and associated infrastructure, PT is paying close attention to the implementation of the SIC, since PT does not wish for the SIC to compound PT Comunicações’s obligation to provide information regarding its ducts and associated infrastructure.

Decree-Law No. 123/2009 also contained a rule regarding installing wiring in existing buildings, in which it was set forth that the first operator entering an existing building to adapt its telecommunications infrastructure to optic fibre is obligated to adapt the infrastructure to allow sharing with other electronic communications companies that wish to provide electronic communications services based on fibre. This rule ceased to be in effect on 1 January 2010 with the entering into force of the second edition of the technical rules and norms for infrastructure of telecommunications in buildings (ITED 2nd Edition). Under the ITED 2nd Edition, the first electronic communications undertaking entering a building with fibre remains obligated to install fibre optic wiring in order to allow sharing with other operators. However, ITED 2nd Edition only sets forth the technical rules that apply to installing wiring and does not solve other problems, such as those related to cost sharing, relationships of operators with the buildings’ owners or management and technical harmonisation needed within the sharing of the infrastructure.

Regulatory Institutions

ANACOM

The Autoridade Nacional das Comunicações, or “ANACOM,” created in January 2001 (formerly the Instituto das Comunicações de Portugal, or “ICP”), is the Portuguese telecommunications regulator. Since it commenced operations in 1989, it has been closely involved in developing the telecommunications regulatory framework in Portugal. It advises the Portuguese government on telecommunications policy and legislation and monitors compliance with concessions, licences and permits granted to telecommunications providers in Portugal.

ANACOM is accountable to the Ministry of Public Works, Transport and Communications. The Ministry of Public Works, Transport and Communications retains basic responsibility for telecommunications policy in Portugal. Together with the Ministry of Finance, it has ultimate responsibility for monitoring PT's compliance with its concession. It also has certain supervisory powers with respect to PT's activities. The Portuguese government delegated a significant number of those powers and functions to ANACOM in PT's concession agreement.

Over the past several years, the Portuguese government has substantially increased the autonomy of ANACOM and allowed it to become a more effective and independent regulatory body. ANACOM acts on complaints against PT by its competitors, PT's customers and other interested parties. It can impose fines on PT if it does not meet its obligations under its concession, including its obligations to supply public switched wireline telephone services, leased lines and other services to its competitors on a timely basis. ANACOM has, from time to time, addressed complaints against PT by its competitors. However, such complaints have been resolved in a manner that has not had a material adverse effect on PT's businesses or operations. ANACOM's decisions are subject to possible reconsideration and can be submitted for judicial review.

European Commission

Most of the EU competition rules have the force of law in all EU member states and therefore apply to PT in Portugal. The current priority of the European Commission is to ensure that EU member states fully and correctly implement EU requirements in national law. The European Commission routinely monitors the status of EU member states in implementing EU directives.

The Directorate-General for Competition of the European Commission is responsible for considering, on its own initiative as well as in response to complaints by interested parties, potential claims that PT's business activities or Portuguese government regulations are inconsistent with the key provisions of the Treaty of Lisbon, also known as the TFEU Treaty, relating to competition in the EU. Article 101 of the treaty prohibits agreements or coordinated action between competitors that may affect trade between EU member states and have as their objective or effect the prevention, restriction or distortion of competition within the EU. Article 102 of the treaty prohibits any abuse of a market-dominating position within the EU, or a substantial part of the EU, that may affect trade between EU member states. The Directorate-General for Competition enforces these rules in cooperation with the national competition authorities. In addition, national courts have jurisdiction over violations of EU competition law.

PT understands that at the end of 2001, the Directorate-General for Competition and the Directorate-General for Information Society of the European Commission requested information from the Portuguese government regarding the telecommunications rights-of-way regime in Portugal, which provided PT Comunicações with the exclusive right to use public rights-of-way free of municipalities' fees and taxes. However, the rights-of-way regime was modified in 2004 through Law 5/2004, as described below in "*—Summary of Its Concession and Existing Licences.*" Since PT has not been party to the communications between the Directorates-General and the Portuguese government, it is unable to assess whether or not Law 5/2004 has resolved any concerns the Directorates-General may have had regarding the regulation of rights-of-way in Portugal. PT further understands that the Directorate General for Information Society of the European Commission requested information from the Portuguese government regarding the designation of the universal service provider (currently, PT Comunicações) and regarding the Portuguese government's intention to launch a transparent procedure in order to appoint the universal service provider. PT understands that in January 2009, the European Commission referred the case to the European Court of Justice. On 7 October 2010, the European Court of Justice ruled that by failing to correctly transpose into national law the provisions of European Union law governing the designation of universal service providers, the Portuguese Republic failed to fulfill its obligations under Articles 3(2) and 8(2) of Directive 2002/22/EC of the European Parliament and of the Council of 7 March 2002 on universal service and users' rights relating to electronic communications networks and services (Universal Service Directive).

In April 2006, the European Commission sent to the Portuguese government a formal request to abandon the special rights the Portuguese State holds as the sole owner of PT's A shares. The European Commission believes that the special powers granted to the Portuguese State through the

sole ownership of PT's A shares act as a disincentive for investment by other EU member states in a manner that violates European Community Treaty rules. The Portuguese authorities have taken the position that these special rights are justified in order to protect relevant public interests. In January 2008, the European Commission referred the case to the European Court of Justice, and on 2 December, 2009, the Advocate General in charge for the case issued an opinion stating that the Portuguese State's ownership of PT's A Shares does not comply with the European Rules on the free movement of capital. At an Extraordinary Shareholders' Meeting held on 30 June 2010, the Portuguese State used its A shares to reject an offer by Telefónica S.A. to purchase PT's interest in Brasilcel N.V., the joint venture that held PT's interest in Vivo, even though 73.9 per cent of the ordinary shareholders present at the meeting voted in favour of Telefónica's offer. On 8 July 2010, the European Court of Justice ruled that the Portuguese State's ownership of PT's A shares is illegal under European law.

On 19 January 2011, the European Commission opened an investigation into an agreement between Telefónica and PT allegedly not to compete in the Iberian telecommunications markets. PT has developed various strategic partnerships with Telefónica in recent years. Although PT does not believe the existence of these partnerships has impeded its competition and ordinary activities with Telefónica, PT's relationship with Telefónica is now subject to investigation. The European Commission has stated that the initiation of proceedings does not imply that the Commission has conclusive proof of an infringement but that the Commission will deal with the case as a matter of priority.

Autoridade da Concorrência

PT's activities are also overseen by the Autoridade da Concorrência (formerly Direcção Geral do Comércio e da Concorrência ("DGCC")), which is responsible for enforcement of Portuguese competition law. It is also responsible for considering complaints relating to PT's business practices or other business arrangements. PT and its subsidiaries are permitted under Portuguese law to appeal any adverse decision of the Autoridade da Concorrência to the courts. Such an appeal suspends the decision of the Autoridade da Concorrência pending a decision by the courts.

On 10 and 11 February 2004, the Autoridade da Concorrência conducted an unannounced search of the offices of PT Comunicações and PT Prime, seizing several documents, in order to investigate alleged abusive practices, including predatory pricing, price discrimination at the wholesale level, price discrimination at the retail level in the wireline telephone market and margin squeezes. In March 2004, PT appealed to the courts regarding the seizure of certain documents by Autoridade da Concorrência, and in July 2007, the Commerce Court confirmed that Autoridade da Concorrência is obliged to immediately return all the documents illegally seized and ruled that the potential proof obtained by those documents is null. The Autoridade da Concorrência returned those documents to PT on 20 August 2007. PT believes the investigation has been closed.

To PT's knowledge, there are also several other complaints related to its alleged anti-competitive practices in its wireline business pending before the Autoridade da Concorrência.

In 2004, the Autoridade da Concorrência initiated a proceeding against PT Comunicações, referred to as a "statement of objections," alleging that PT Comunicações was denying access to the ducts in which the basic telecommunications network is installed. In 2005, the Autoridade da Concorrência issued a revised statement of objections on this matter. However, on 1 August 2007, the Autoridade da Concorrência imposed a fine of €38 million on PT Comunicações. PT Comunicações appealed the fine to the Commercial Court (*Tribunal do Comércio*) later that month. On 2 March 2010, PT Comunicações was cleared by the Commercial Court of Lisbon of the fine imposed in 2007. On 12 March 2010, the Autoridade da Concorrência appealed the decision of the Commercial Court to the Lisbon Court of Appeals (*Tribunal da Relação*). On 22 December 2010, the Lisbon Court of Appeals confirmed the judgment of the Lisbon Commercial Court, which judgment is non-appealable.

In 2007, the Autoridade da Concorrência also accused PT Comunicações of alleged abuse of its dominant position for granting discriminatory discounts on lease lines. In September 2008 PT Comunicações was notified by the Autoridade da Concorrência of its decision imposing a fine of €2.1 million for PT Comunicações' alleged abuse of its dominant position in the lease line segment. PT Comunicações considers these allegations unfounded and appealed the fine to the Commercial Court

(Tribunal do Comércio) later that month. The appeal suspended the decision of the Autoridade da Concorrência pending a decision by the court.

In 2003, the Autoridade da Concorrência initiated a proceeding against PT Comunicações alleging that Telepac and TV Cabo, which were then part of the PT Group, abused their dominant position. Specifically, the Autoridade da Concorrência alleged that PT's "Rede ADSL PT" wholesale offer of broadband services between 22 May 2002 and 30 June 2003 did not allow the remaining competitors to generate a sufficient profit margin. In September 2009, PT announced that it had been notified by the Autoridade da Concorrência that it had concluded its investigation and had decided to impose a fine of €45.0 million on PT. PT strongly disagrees with this ruling and appealed the decision to the Commercial Court of Lisbon later that month. PT believes, among other things, that the wholesale offer was permitted under the competition law then in force (DL 371/2003) and was supervised by ANACOM. In addition, PT has argued that the wholesale offer was maintained in place for 14 days after the new competition law was approved (Lei 18/2003) only to permit ANACOM to determine the terms of the new offer and that the fine imposed exceeds the maximum €1 million fine allowed under the prior competition law. PT intends to defend against these proceedings vigorously. The appeal suspended the decision of Autoridade da Concorrência pending a decision by the higher court.

ERC

The Entidade Reguladora para a Comunicação Social ("ERC") is the independent regulatory authority for the Portuguese media. It was established by Law 53/2005 of 8 November 2005 and began activity on 17 February 2006. 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 is responsible for ensuring respect for fundamental rights such as freedom of the press, right to information, independence from political and economic power and freedom of speech. It is also responsible for monitoring compliance by all companies operating in the media sector, with standards for media and broadcast content, as well as for promoting the proper and effective functioning of the market where such companies operate.

ERC's decisions may affect, among others, news agencies, periodicals, radio or television operators, and radio and television broadcasters. PT Comunicações and TMN are usually considered television broadcasters, and as such must pay ERC supervisory and regulatory fees, which are calculated based on the amount of work ERC does related to PT Comunicações and TMN, the technical complexity of matters, the geographic range of networks used by the broadcasters, and the impact of the activity developed by each broadcaster.

Pricing of Wireline Services

ANACOM established a new pricing regime for wireline services in 2004 in accordance with the terms of the new EU regulatory framework. This pricing regime created the following regulatory obligations for the retail market for telephone services at a fixed location:

- The price cap applying to a basket composed of residential access and domestic calls is the Portuguese Consumer Price Index ("CPI") minus 2.75 per cent.;
- The fixed component of fixed-to-mobile calls (residential and non-residential) is required to be cost-oriented, and price controls are in place in the form of a cap of €0.063 on the amount retained by the fixed operator with respect to fixed-mobile calls;
- The tariffs for domestic payphone calls are required to correspond to a maximum of three times the tariff for a residential phone call; and
- Also, since January 2007, PT has been required to grant a 50 per cent discount on its monthly fee for retired people, a price accessibility obligation that was included under the Universal Service.

In 2006, PT Comunicações submitted to the regulator a new pricing scheme that included a flat-rate plan with unlimited off-peak calls on weekdays. This new price plan was approved and came into effect in 2007. Since September 2008, off-peak calls on weekends have also been unlimited.

In addition, general regulatory obligations of transparency, non-discrimination, cost orientation, cost accounting and account separation apply to access to the fixed line network and to the telephone services at a fixed location.

Prices for Leased Lines

In July 2010, following ANACOM's final decision on the leased lines markets, the retail leased lines market was deregulated, which meant that PT's prices in this market ceased to be subject to a 26 per cent retail-minus rule. However, for the wholesale leased lines markets, in which PT was declared as the SMP operator, ANACOM decided to make Ethernet circuits subject to a retail-minus rule that is still to be defined by ANACOM.

See also “– *Interconnection*” below.

Universal Service Obligations

Law 5/2004 and PT's concession impose universal service obligations on PT in Portugal. These obligations include providing connection to the public telephone network at a wireline location. They also include providing access to public switched wireline telephone services, including enabling users to make and receive local, national and international telephone calls, facsimile communications and data communications. They also include providing public pay telephones, publishing directories and making available at least one telephone directory enquiry service covering all public voice telephone subscribers' numbers.

According to Law 5/2004, if ANACOM determines that the provision of universal service obligations has become an excessive burden, it may compensate PT accordingly. Since 2004, it has been the responsibility of ANACOM to calculate the costs of providing the universal service. PT believes that obtaining significant compensation under this provision of the law will be very difficult and may not be possible.

In 2008, ANACOM issued a decision in which it refused to accept PT's calculations related to the costs of universal service for 2001, 2002 and 2003. ANACOM proposed to define a methodology to calculate the net costs of universal service (“NCUS”) and to provide definitional clarity on the concept of “excessive burden.” During 2009, with assistance from its consultants, PT Comunicações developed a methodology to calculate the NCUS for 2008, and several meetings occurred between PT Comunicações and ANACOM regarding the results obtained and the methodological choices that were made. ANACOM was expected to launch a consultation on these issues during the first half of 2010, but both consultations (on excessive burden and on the methodology to calculate the NCUS) were launched in February 2011 and continued until 22 March 2011. In the consultations, ANACOM proposed to acknowledge the existence of an excessive burden in the universal service provision from 2007 forward and to calculate the NCUS using historical cost accounting data. A final decision is expected in the coming months.

Interconnection

The Interconnection Framework

The EU Access and Interconnection Directive requires that interconnection services be made available in a non-discriminatory manner. The EU Access and Interconnection Directive encourages commercial negotiations among operators but requires national regulatory authorities to establish mechanisms for effective dispute resolution. According to the EU Access and Interconnection Directive, all telecommunications companies with significant market power in the call origination or termination markets must:

- make interconnection access to their networks available to other network operators;
- not discriminate between interconnection customers;
- provide to those requesting interconnection the information and technical specifications necessary for them to interconnect their networks;
- offer interconnection prices that are transparent and cost-oriented and do not discriminate between interconnection customers; and
- maintain a separate accounting system for interconnection activities.

Law 5/2004 implemented the EU Access and Interconnection Directive in Portugal and established the general conditions for access and interconnection among telecommunications operators in competitive markets. It guarantees the rights of new entrants to obtain interconnection from telecommunications operators with significant market power.

Pursuant to Law 5/2004, ANACOM is entitled to review and modify PT's proposed interconnection rates and arrangements in its reference interconnection offer. ANACOM has established in Portugal an overall interconnection framework based on cost and consistent with the EU legal framework for both wireline and mobile services.

Wireline Interconnection

As a result of the enactment of Law 5/2004, ANACOM adopted a measure in 2004 on call origination on fixed telephone networks provided at a fixed location, call termination on individual public telephone networks provided at a fixed location and on significant market power designation in these fixed locations, declaring the PT Group to have significant market power in these markets. As a result, PT is subject to price controls in these markets based on its costs and other factors and must publish a reference offer that includes these prices and quality of service standards.

Mobile Interconnection

In 2005, all mobile operators were declared to have significant market power in call termination in mobile networks market. ANACOM has imposed price controls on interconnection rates for the termination of calls on mobile networks. These reductions have had, and are expected to continue to have, a significant impact on TMN's interconnection revenues and consequently its earnings.

In May 2010, ANACOM imposed a new glide path that would reduce mobile termination rates by €0.005 per quarter, to reach €0.035 in August 2011. Following the EC Recommendation on fixed and mobile termination rates in May 2009, which requires national regulatory authorities (NRAs) to develop bottom-up long-run incremental cost (LRIC) cost models to regulate mobile termination rates, ANACOM is consulting on the definition of a cost model to regulate mobile termination rates. This consultation will run until 13 May 2011, and a further consultation is expected in June regarding the implementation of the cost model and the definition of a new glide path to be set from November 2011 onwards. This expected new glide path will bring the mobile termination rates by the end of 2012 to the interval defined by the EC (€0.015 – €0.030).

Internet Access

As a result of past ANACOM decisions, PT offers two access regimes to ISPs: (1) the Reference Offer for Internet Access, which includes two alternative pricing methods, namely a monthly flat rate and a per minute origination charge, and under which the connection of the ISP's infrastructure to PT's wireline network is based on DSS1 signalling, and (2) the Reference Interconnection Offer, which includes a pricing method based on call origination, and under which the connection of the ISP's infrastructure to PT's wireline network is based on SS7 signalling. The ISPs determine which regime will apply to their arrangements to connect with PT's wireline network.

Next Generation Access Networks

In 2008, ICP-ANACOM launched a public consultation on the regulation of Next Generation Access Networks ("NGA"), which addressed several issues, namely market and technological issues, the impact of NGAs on existing networks, the development models, public policy considerations and regulatory models. In a decision announced in February 2009, ANACOM defined a segmented approach: in areas designated "C Areas," the main obligation is access to ducts, and in areas designated "NC Areas," obligations are access to ducts, access to fibre and advanced bitstream, subject to conditions.

In September 2008, the European Commission launched a consultation on a draft recommendation on the regulated access to NGAs, which intends to define general regulatory principles, as well as regulatory solutions for FTTH and FTTN, including access to ducts, the unbundling of fibre and bitstream solutions. In June 2009, the European Commission launched a second consultation on a draft recommendation on the regulated access to NGAs. In September 2010, The European Commission approved the recommendation on the regulated access to NGAs,

maintaining the primary regulatory principles. During 2011, ANACOM intends to revise markets numbers 4 and 5 to integrate the changes due to the development of Next Generation Networks.

Following the public tenders for the installation, management, operation and maintenance of high-speed electronic communication networks in the Centre, North, Alentejo and Algarve Zones of Mainland Portugal, as well as in Azores and Madeira, on 6 February 2010, the Minister of Public Works and Communications announced the decision on the public tenders for the installation, management, operation and maintenance of high-speed electronic communication networks in the Centre, North, Alentejo and Algarve Zones of Mainland Portugal.

On 19 January 2011, the European Commission determined that the state aid was compatible with the EU Treaty.

Number Portability and Carrier Selection

Number portability allows a subscriber at a specific location to change service providers without having to change telephone numbers. PT Comunicações introduced number portability for wireline services in July 2001. Number portability for mobile services was introduced in January 2002.

On 18 August 2005, ANACOM approved Regulation 58/2005, which sets out the rules applicable to number portability proceedings. Due to the increase of competition and the need to promote mobile number portability, on 4 February 2009, ANACOM approved Regulation 87/2009, which amends Regulation 58/2005, as well as the respective final consultation report. Regulation 87/2009 came partially into force on 4 March 2009, and on 20 July 2009, the rules concerning technical aspects and new deadline for number portability within mobile telephone services came into effect. On 8 July 2009, ANACOM approved Regulation 302/2009, implementing an additional amendment to the number portability regulation, which clarified the method for calculating the terms applicable to the prior notice for submission of the electronic portability request and maximum response time to that request by the donor operator.

These rules are expected to be amended in the near future following the transposition of the new regulatory package into national law, particularly with respect to the term for implementation of portability, either of mobile or fixed numbers.

ANACOM has required call-by-call carrier selection to be offered by PT for long distance and international calls since 1 January 2000. PT has been offering it for local and regional calls since 1 January 2001 and for fixed-to-mobile calls since 1 October 2000. Call-by-call carrier selection enables customers to select the carrier of their calls by dialling a code connecting them to the selected carrier.

Law 5/2004 requires that all wireline network operators with significant market power must offer carrier pre-selection. Carrier pre-selection allows customers to select the carrier that will be their default carrier. This removes the need for customers to dial any code to connect to their selected carrier when making calls. Full carrier pre-selection has been available throughout Portugal since 15 October 2000. Regulations for carrier pre-selection were published in early 2006, extending carrier pre-selection to some non-geographic services. These regulations were revised in 2007, reinforcing contractual relations between pre-selection carriers and consumers.

Unbundling of the Local Loop

In 2000, the European Commission approved a regulation requiring wireline network operators to make the local loops between their customers and the local switches on their networks available to competitors. Such a requirement also exists in Law 5/2004. This allows such competitors to connect their networks to the copper “local loop” and use it to provide their services directly to those customers without having to invest in the local loop or to rely upon the network operator’s relationship with the customers. According to the regulation and Law 5/2004, PT is required to maintain a reference offer for unbundled access to its local loops and related facilities and to meet reasonable requests for unbundled access to its local loops and related facilities under transparent, fair and non-discriminatory conditions. Prices charged must be cost-oriented. The conditions under which the local loop unbundling services are provided are set forth in a published reference offer for unbundled access to PT’s local loops in accordance with terms established by ANACOM. This reference offer covers all of PT’s main distribution framework buildings where technical and space

conditions allow co-location. Co-location means providing space and technical facilities to competitors to the extent necessary to reasonably accommodate and connect the relevant equipment of the competitor.

Other Requirements

The regulatory framework requires PT Comunicações to submit periodic reports on quality of service and comply with specified indicators. Penalties may occur if PT does not achieve such indicators. PT must also provide white page directories and certain other facilities to certain specified categories of subscribers free of charge.

Internet and Related Services

Various regulatory developments may affect PT's Internet business. A Data Protection Directive was adopted by the European Commission in 2006, imposing data-retention obligations on operators. A law implementing this directive was published in July 2008 and requires Internet service providers and other electronic communications providers to preserve data for a specified period of time and imposes other obligations in this field. Although at present there are no specific initiatives regarding these matters, PT could also be subject to other self-regulation and content monitoring requirements that could affect its Internet business.

EU Competition Directive

The European Commission issued a directive on 16 September 2002 (Directive 2002/77/EC) that requires member states to enact legislation directing incumbent telecommunications operators to separate their cable television and telecommunications network operations into distinct legal entities. PT believes that the spin-off of its interest in ZON Multimedia in November 2007 satisfied the requirements of the directive as implemented in Portugal.

Licensing Framework

The EU Authorisation Directive (Directive 2002/20/EC of 7 March 2002) prohibits any limitation on the number of new entrants in telecommunications markets, except as required to ensure an efficient use of radio frequencies.

Pursuant to this directive, which is part of the EU electronic communications framework, Law 5/2004 has established a new authorisation regime, whereby an operator must have a general authorisation for the provision of electronic communications networks or services. A licence can be required for the use of radio frequencies or numbering resources. ANACOM is responsible for issuing regulations to implement this authorisation regime. The objective of this new authorisation regime is to introduce more flexibility into the licensing framework.

Summary of PT's Concession and Existing Licences and Authorisations

PT's concession is for the provision of universal service and for the operation of the terrestrial broadcasting network in Portugal, and it permits PT to provide public switched wireline telephone, packet switched data (the rights to which were transferred to its subsidiary PT Prime) in X.25 mode, leased lines and telex and telegraphy services in Portugal. PT also operates a digital terrestrial television platform and provides mobile telephone services, data communications services and television distribution services under the licences granted and authorisations issued to its subsidiaries by the relevant entities (the Portuguese government and ANACOM). The subsidiaries holding the licences and authorisations are subject to separate financial reporting and other requirements.

PT Comunicações Wireline Concession

The Portuguese government granted PT a concession on 20 March 1995. The concession had an initial term of 30 years, expiring in 2025. As part of a reorganisation of its business, PT transferred the concession to its subsidiary PT Comunicações in 2000. The concession granted PT the right to install, manage and operate the infrastructure that forms part of the basic telecommunications network and the terrestrial broadcasting network for a fee of up to 1 per cent. of its operating revenues from the services provided under the concession, after certain deductions. Some of PT's assets that are part of the basic telecommunications network (as defined in Portuguese legislation)

were treated as being within the “public domain” under the terms of the concession. During the term of the concession, PT was permitted to receive economic benefits from the use of public domain assets as if it owned them completely. However, such public domain assets would have reverted to the Portuguese government without compensation when the concession expired.

On 11 December 2002, PT agreed to prepay the future rental payments due under the concession in exchange for full ownership of the basic telecommunications network and to ensure that there will be no reversion of the assets related to the provision of concession services to the government in 2025. PT acquired full ownership of the basic telecommunications network for €365 million, which included the 2002 concession fee of €16.6 million. As a result of this acquisition, the terms of the concession have been modified so that PT Comunicações is no longer obligated to pay a concession fee to the Portuguese government, and ownership of the network and assets related to the concession will not revert back to the Portuguese government in 2025. In February 2003, Decree Law 31/2003 was enacted, establishing the basic regulatory principles supporting the terms of its modified Concession. In April 2003, PT entered into an agreement formally modifying the terms of its concession with the Portuguese government.

The Portuguese government retains the ability to suspend or terminate PT’s rights under the concession. In cases of serious non-fulfillment by PT of its obligations under the concession, the Portuguese government may, on a provisional basis, take over the development and operation of services authorised under the concession. The concession may also be terminated in cases of “severe, continual or unremedied” failure to perform its obligations. PT believes that it has the resources to fulfil all of its obligations under the concession.

In addition, after 2010 the Portuguese government may revoke the concession upon at least one year’s notice if it deems such action to be justified in the public interest. If this occurs, PT would be entitled to compensation equalling its annual average net profits for the five years prior to notification of revocation multiplied by the number of years remaining before the concession expires.

PT’s modified concession provides that PT is exempt from all taxes, fees and charges with respect to the usage of public rights-of-way for its telecommunications infrastructure. However, Law 5/2004 establishes a new rights-of-way regime in Portugal whereby each municipality may establish a fee, up to a maximum of 0.25 per cent. of each wireline services bill, to be paid by the customers of those wireline operators whose network infrastructures are located in each such municipality. This regime was implemented in 2005. The new regime replaces Law 91/97, which granted PT an exemption from municipal taxes and rights-of-way and other fees with respect to access to and installation and use of its telecommunications network in connection with its obligations under the Concession. PT’s exemption from municipal taxes prior to the enactment of Law 91/97 is still being challenged in the Portuguese courts by the Municipality of Oporto.

PT is required to provide a special 50 per cent. discount on the monthly line rental fee to certain eligible retired and pensioner Portuguese citizens. Until 31 December 2006, the costs of providing this special discount were directly reimbursed by the Portuguese State. In May 2007, ANACOM determined that PT Comunicações should bear the costs of providing this special discount, as part of its universal obligations, a decision that applied retroactively from January 2007. In addition, in the past, PT voluntarily offered supplementary discounts to eligible senior citizens in the form of an additional 10 per cent. discount on the monthly line rental fee and a special discount on telephone calls. PT phased out these supplementary discounts in July 2007 as it became burdened with the cost of the mandatory 50 per cent. discount.

The concession imposes a universal service obligation on PT. See “*-Universal Service Obligations,*” above.

The Ministry of Finance is responsible for monitoring financial issues with respect to the concession. The Ministry of Economy is responsible for all other issues under the concession. ANACOM is authorised to monitor and assess penalties up to a maximum of €5 million if PT fails to fulfil its obligations under the concession or other obligations imposed by law or stemming out of ANACOM’s determinations. Disputes concerning the application and interpretation of the concession are dealt with by arbitration.

PT Prime's Data Licences and Registrations

PT's subsidiary, PT Prime holds:

- a non-exclusive licence to provide wireline services;
- a non-exclusive licence to be a "Public Telecommunications Networks" operator; and
- all the licences formerly held by Telepac, including a data communications licence.

PT's data communications licence authorises PT to provide X.25/X.32 synchronous services and X.28 asynchronous services and other switched and non-switched data communications services, including frame relay and virtual private networks for data communications. The licence also authorises PT to provide value-added services such as electronic data interchange and videotext services. In addition, the licence authorises PT to construct certain network infrastructure in connection with licenced services. With respect to packet switched data, the data communications licence is valid for 30 years, unless PT's wireline concession is terminated earlier. Licences have also been granted to other providers of data communications and Internet access services, including companies associated with major international telecommunications providers. However, under Law 5/2004, and in accordance with the EU licensing regime, companies are not required to have a licence to provide data communications services and Internet access. Instead, it is sufficient to register their intended services with ANACOM under its service registration scheme.

In April 1997, ANACOM granted PT Prime a licence to provide data communications services using satellite infrastructure and a licence to offer voice services to corporate networks and other closed groups of users.

TMN's Mobile Service Licence

Mobile telephone service licences are valid for 15 years and are issued by ANACOM under Law No. 5/2004. These licences authorise the use of radio spectrum and the installation of base stations, base station controllers and control switching centres and require the licensee to construct networks capable of reaching at least 75 per cent. of Portugal's population within a specified period of time. Charges for the provision of mobile telephone services are not subject to regulation.

Through TMN, PT holds a renewable, non-exclusive licence to provide traditional and GSM digital mobile telephone services throughout Portugal. The authorisation for the use of GSM radio spectrum was renewed in March 2007 and is now valid until 16 March 2022. Two other operators hold licences to provide GSM digital mobile telephone services on substantially the same terms as those applicable to TMN. Vodafone Portugal was awarded its licence in 1991. Optimus was awarded a licence in 1997 and began operations in September 1998.

PT is required to comply with a number of mobile telephone service criteria. These include satisfying minimum quality standards regarding blocked call rates, network effectiveness and servicing time, and providing certain services. PT is also required to provide ANACOM with information about its mobile telephone operations, including the number of customers, number and average duration of calls on a quarterly basis. PT is also required to provide annual information to ANACOM about the development of infrastructure.

ANACOM began issuing UMTS licences in January 2001. UMTS services are the European version of the globally accepted technical standards for "third-generation" mobile communications. UMTS constitutes a significant advance over the "second-generation" digital GSM mobile services currently provided. The "first-generation" services were traditional analogue mobile services. The broadband capacity of the frequency spectrum allocated under the UMTS licences enables operators to supply video and Internet content to mobile handsets at higher transmission speeds. The licences cover all of Portugal and are valid for 15 years. The licence fee was €100 million per licence. TMN and the other two main mobile operators in Portugal were each awarded one of these licences at the beginning of 2001, and TMN's licence expires in January 2016.

In April 2004, TMN launched UMTS in Portugal with an emphasis on new services, such as video telephony and high-speed data. Since then, TMN has pursued a strategy of gradual improvements to network coverage, using existing GSM sites where possible in order to minimise the need to install costly new sites.

In addition, in 2000, TMN and the other mobile operators assumed commitments to make contributions to the information society during the period through the maturity of the licence in 2016. In May 2007, pursuant to an agreement between TMN and the Portuguese government, and based on contributions already made, the outstanding commitments were valued at €355 million. Under the agreement, €260 million of this amount is to be spent on “E Initiatives,” an initiative led by the Portuguese government to offer to school teachers and students laptops and discounted broadband services. The remaining €95 million is to be spent on subsidies for equipment, service discounts and network investments. The amount related to the “E Initiatives” was recognised as a licence cost in 2007 in the amount of its net present value (€233 million), and the remaining €95 million have been and will continue to be recorded when incurred, as it is expected that these investments will be made in the ordinary course of business of TMN. In addition, TMN assumed the payment of one-third of the commitment of Oniway, a mobile operator that withdrew from the market, in the amount of €8 million, and in 2009 TMN was required to co-invest with the Portuguese government in providing laptop computers to young students, in the amount of €11.5 million. As of 31 December 2010, PT’s expenses relating to the €233 million liability recorded in 2007 had been fully reflected in its financial statements, and the only liabilities on its balance sheet relating to its commitments under the terms of TMN’s licence were liabilities in the ordinary course of its business.

In July 2010, ANACOM decided, within the context of the 900/1800 MHz spectrum refarming process, to unify into a single title the conditions applicable to the rights of use of frequencies allocated to TMN for the provision of the land mobile service, in accordance with GSM 900/1800 and UMTS technologies. The authorisation is valid until 8 July 2025.

DTT Services

In 2008, PT was notified of the final decision of ANACOM endorsing the Draft Final Decision of the Portuguese Committee of Evaluation to allocate to it the frequency usage rights for Digital Terrestrial Television (“DTT”) associated with the system for combining more than one information stream into a single stream for transmission (“Multiplex” or “Mux”), namely Mux A (transport of free-to-air signal) and Muxes B to F (pay-TV service). In June 2009, the ERC notified PT of its final decision of granting a licence to act as a TV distribution operator.

Due to changes in the process of implementation of Muxes B to F and due to the evolution of Pay TV market, PT asked ANACOM to revoke frequency usage rights associated with Muxes B to F and asked ERC to revoke the licence to act as a TV distribution operator.

ANACOM issued its draft decision on 29 January 2010, according to which ANACOM intended to revoke the act granting PT Comunicações the right to use the frequencies associated with Muxes B to F, retroactive to 29 January 2010. As to the request submitted to ERC, this authority also issued a draft decision, under which it considered that reasons of public interest prevented revoking the licence granted to PT Comunicações to operate as a TV distribution operator using the frequencies allocated by ANACOM for that purpose. This draft decision was also submitted to a public consultation. The final decision, issued on 17 March 2010, maintained ERC’s draft position.

On 12 July 2010, ANACOM decided to revoke the granting of rights of use of frequencies associated with Muxes B to F and, consequently, of the five titles that substantiate the rights assigned to PT Comunicações without forfeiture of the guarantee bond. It was likewise determined that the decision of revocation is retroactive and in effect from the date of the draft decision issued by ANACOM on 29 January 2010.

On 22 December 2010, ANACOM has approved the draft decision regarding the alteration of the operating channels Mux A of the DTT, assigned to PT Comunicações. Additionally, on 22 December 2010, ANACOM approved the final decision on the identification of re-transmitters and respective dates of termination of emissions of the pilot phase, provided in the detailed plan for the cessation of analogue terrestrial television emissions (switch-off plan). On 27 December 2010, citing reasons of public interest, ANACOM initiated a proceeding to change the radio channels assigned to PT Comunicações with the goal of improving efficient spectrum management and harmonise the conditions of use of frequencies in the 800 MHz band.

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 General Telecommunications Law and a comprehensive regulatory framework for the provision of telecommunication services promulgated by ANATEL. Oi provides fixed-line, domestic and international long-distance and mobile telecommunication services under concessions, authorisations and licences 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.

Concessions and Authorisations

Under the General Telecommunications Law and ANATEL regulations, the right to provide telecommunication services is granted either through a concession under the public regime (as discussed below) or an authorisation under the private regime (as discussed below). A concession is granted for a fixed period of time following a public auction and is generally renewable only once. An authorisation is granted for an indeterminate period of time and public auctions are held for some authorisations. These concessions and authorisations 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.

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 modernisation. Additionally, the rates that public regime service providers may charge customers are subject to ANATEL supervision.

Regulation of Fixed-Line Services

Public Regime Concessions

Each of the public regime service providers operated under a concession agreement that expired at the end of 2005. Each of these providers entered into new concession agreements in December 2005 that extended its concessions for an additional 20-year period expiring in December 2025. Under these new concession agreements, each of the public regime service providers is required to comply with the provisions of (1) the General Plan on Universal Service that was adopted by ANATEL in June 2003, (2) the General Plan on Quality Goals that was adopted by ANATEL in June 2003, and (3) the General Plan on Competition Targets which, as of the date of this Offering Circular, has not yet been adopted by ANATEL.

The concession agreements provide that ANATEL may modify their terms in 2010, 2015 and 2020 and may revoke them prior to expiration under some specific circumstances provided for by law and the concession agreements. The modification right permits ANATEL to impose new terms and conditions in response to changes in technology, competition in the marketplace and domestic and international economic conditions. ANATEL is obligated to engage in public consultation in connection with each of these potential modifications. The amendments of Oi's concession agreement that were expected to become effective at the end of 2010 have been delayed. ANATEL may also terminate the concessions upon the occurrence of certain events, such as an extraordinary situation jeopardising the public interest, a provider's material failure to comply with its universalisation targets or insurance requirements. In the event a concession is terminated, ANATEL is authorised to administer the provider's properties and its employees in order to continue rendering services.

Rate Regulation

Public regime service providers must offer a basic service plan comprised of the following basic services: (1) installation; (2) monthly subscription; and (3) switched local minutes. Modifications of the rates charged for these basic services are determined by reference to a local rate basket that represents the weighted average of the rates for monthly subscriptions and switched local minutes. Rates for long-distance services originated and terminated on fixed lines vary in accordance with specified criteria. Modifications of the rates charged for these long-distance services are determined by reference to a long-distance rate basket that represents the weighted average of the rates for long-

distance calls. The rates for international long-distance services charged by long-distance service providers other than Embratel, including Oi, all of whom provide these services under authorisations 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 is analysing the adoption of a new Factor X regulation under which a new model of rate adjustments that is based on projected improvements in service costs may be adopted in 2011. If ANATEL were to pursue the adoption of this new model, Oi expects that public consultations regarding the new Factor X regulation would begin in 2011.

Unbundling of Local Fixed-Line Networks

On May 2004, ANATEL issued an order establishing rules for partial unbundling of the local fixed-line networks of the public regime service providers, which Oi refers to as "line sharing," and requiring the eventual full unbundling of local fixed-line networks, which will entail these providers making their entire networks available to other telecommunication service providers.

As of the date of this Offering Circular, ANATEL has not yet adopted final unbundling rules or rates for full unbundling, although Oi expects that the rates that it would receive from other telecommunication services providers accessing its fixed-line networks will be lower than the rates it currently charges its customers for providing fixed-line and broadband internet services. As of the date of this Offering Circular, no unbundled lines had been used by competitors in Regions I or II.

Service Restrictions

Pursuant to regulations in effect as of the date of this Offering Circular, public regime providers are subject to certain restrictions on alliances, joint ventures and mergers and acquisitions with other public regime providers, including:

- a prohibition on holding more than 20 per cent of the voting shares of more than one other provider of public regime services;
- a restriction on mergers between regional fixed-line service providers and mobile services providers (a prohibition that also applies to private regime companies); and
- a restriction on offering cable television services, unless the company offering public regime services has won a public auction to provide cable television services in the relevant region and no other bidders participated.

In November 2010, ANATEL announced the opening of the market for subscription television services. The pending amendments to Oi's concession agreements are expected to remove the restrictions that currently prohibit it from offering subscription television services over its fixed-line networks, permitting it to offer IP TV. Under the new regulations, ANATEL will no longer limit the number of authorisations that it will grant to provide subscription television services and will permit companies that control public regime providers to also provide subscription television services.

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 authorisations to provide mobile telecommunication services under the personal mobile service regime. For purposes of the personal mobile service regulations, Brazil is divided into three service regions covering the same geographic areas as the concessions for fixed-line telecommunication services.

Auction of Personal Mobile Services Spectrum

Prior to the establishment of the personal mobile services regime, ANATEL had granted licenses to mobile services providers to operate in each region of Brazil using Bands A and B. In 2001 and 2002, ANATEL successfully auctioned authorisations and licences to operators in Band D and Band E in each region. Oi was granted its initial authorisation to provide personal mobile services in Region I and a licence to operate in Band D in March 2001. Brasil Telecom Mobile was granted its initial authorisation to provide personal mobile services in Region II and a licence to operate in Band E in December 2002.

ANATEL conducted additional auctions of radio frequency licences in 2004 and 2006. In April 2004, Brasil Telecom Mobile acquired an additional licence 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, Oi acquired (1) an authorisation to provide personal mobile services in the State of São Paulo and licences to operate using Band M throughout the State of São Paulo and Band E outside of the city of São Paulo, and (2) licences 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 licences to operate on each of these frequency bands in each of the nine regions and the related licences to use these frequency bands. In this auction, Oi acquired the radio frequency licences necessary to offer 3G services in six of the nine regions delineated by ANATEL for 3G services (corresponding to Regions I and III under the personal mobile services regime, other than an area that consists of 23 municipalities in the interior of the State of São Paulo that includes the city of Franca and surrounding areas), and Brasil Telecom Mobile acquired the radio frequency licences necessary to offer 3G services in two of the nine regions (corresponding to Region II under the personal mobile services regime).

Interconnection Regulations

Under the General Telecommunications Law, all telecommunication service providers are required, if technically feasible, to make their networks available for interconnection on a non-discriminatory basis whenever a request is made by another telecommunication service provider. Interconnection permits a call originated on the network of a requesting fixed-line or personal mobile services provider's network to be terminated on the fixed-line or personal mobile services network of the other provider. ANATEL initially adopted General Rules on Interconnection (Regulamento Geral de Interconexão) in 1998, which were amended and restated in July 2005.

Interconnection Regulations Applicable to Fixed-Line Providers

Interconnection fees are charged at a flat rate per minute of use of a fixed-line provider's network. Interconnection rates charged by a fixed-line provider to terminate a call on its local network (the TU-RL rate) or intercity network (the TU-RIU rate) are subject to a price cap established by ANATEL. The price cap for interconnection rates varies from service provider to service provider based on the underlying cost characteristics of such service provider's network and whether such service provider has significant market power.

Fixed-line service providers must offer the same TU-RL and TU-RIU rates to all requesting providers on a nondiscriminatory basis. The price caps on interconnection rates are adjusted annually by ANATEL at the same time that rates for local and long-distance rates are adjusted.

Fixed-line service providers are only required to pay interconnection fees to another fixed-line service provider for traffic in the same local area in the event that the ratio of the outbound traffic generated by that provider (measured in minutes) to the inbound traffic terminated by that provider (measured in minutes) exceeds 55 per cent or was less than 45 per cent. This system is designated the "bill-and-keep" system.

In 2008, ANATEL announced that the method used to determine the TU-RL rates would be based on a cost methodology, known as long-run incremental costs. However, ANATEL has not established a definitive timetable for the completion of the project. Therefore, Oi cannot predict when this new methodology will be proposed.

In 2006, the TU-RIU rates that fixed-line service providers could charge each other to use a portion of their long-distance networks to complete long-distance calls were reduced to 30 per cent of the applicable domestic fixed line-to-fixed line long-distance rates for calls of more than 300 km.

Interconnection Regulations Applicable to Personal Mobile Services Providers

Interconnection fees are charged at a flat rate per minute of use of a personal mobile services provider's network. The terms and conditions of interconnection agreements of all personal mobile services providers, including the rates charged by the operator of the network to terminate a call on its mobile network (the VU-M rate), commercial conditions and technical issues, are freely negotiated between mobile and fixed-line telecommunication service providers, subject to compliance with regulations established by ANATEL relating to traffic capacity and interconnection infrastructure that must be made available to requesting providers, among other things.

In July 2006, ANATEL adopted new regulations under which personal mobile services providers recognise interconnection revenues (and costs) for traffic in the same registration area on a gross basis based on the total traffic between personal mobile services providers' networks. This system is designated the "full billing" system.

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 and Brasil Telecom Mobile began offering personal mobile services, ANATEL set the ignition VU-M rate for each of them. Personal mobile services providers also negotiate annual rate increases for their VU-M charges with the fixed-line telecommunications providers. If the providers cannot agree upon the terms and conditions of annual rate increases, ANATEL may determine the annual rate increases by arbitration. Personal mobile services providers must offer the same VU-M rate to all requesting providers on a nondiscriminatory basis. Interconnection agreements must be approved by ANATEL before they become effective, and they may be rejected if they are contrary to the principles of free competition and the applicable regulations.

ANATEL has proposed new regulations under which the VC-1, VC-2 and VC-3 rates would be reduced from current levels, after giving effect to an inflation adjustment based on the IST, by 10 per cent in 2012 and 10 per cent in 2013. These proposed regulations also provide procedures for determining the reference value for VU-M rates in the event that providers cannot agree upon the VU-M applicable in their interconnection agreements. Oi expects these new regulations, as they may be modified as a result of ANATEL's further analysis, to be adopted in the second quarter of 2011.

Regulation of Interconnection Rates Charged by Providers with Significant Market Power

In 2005, ANATEL issued regulations defining a series of cost-based methods, including the fully allocated cost methodology, for determining interconnection fees charged by telecommunication service providers belonging to economic groups with significant market power based on their fixed-line or personal mobile services interconnection networks. All incumbent fixed-line service providers and all personal mobile services providers are deemed by ANATEL to belong to economic groups with significant market power in their respective service areas until ANATEL finalises its evaluation of each provider under published criteria to determine significant market power.

In July 2006, ANATEL issued regulations regarding the fees that may be charged for the use of mobile networks by personal mobile services providers with significant market power in the mobile interconnection market. The date on which these regulations will become effective has not yet been established by ANATEL. Under these regulations, ANATEL will determine, based on a fully allocated cost model, a reference value for VU-M rates of providers that are deemed to hold significant market power, which is determined based on a number of factors. This reference value will be reassessed every three years.

ANATEL is expected to begin public consultations regarding a proposed General Plan on Competition Targets in the second quarter of 2011. Oi expects that ANATEL's proposal regarding the General Plan on Competition Targets will address a variety of matters including criteria for the evaluation of telecommunications providers to determine which providers have significant market power, regulations applicable to the wholesale markets for trunk lines, backhaul, access to internet backbone and interconnection services, and regulations related to partial unbundling and/or full unbundling of the local fixed-line networks of the public regime service providers.

Regulation of Data Transmission and Internet Services

Under Brazilian regulation, ISPs are deemed to be suppliers of value-added services and not telecommunication service providers. Telecommunication service providers are permitted to render value-added services through their own networks. In addition, ANATEL regulations require all telecommunication service providers and cable television operators to grant network access to any party interested in providing value-added services, including internet access, on a non-discriminatory basis, unless not technically feasible.

ANATEL has adopted regulations applicable to fixed-line service providers with significant market power. Under these regulations, these providers are required to make the forms of agreements that they use for EILD and SLD services publicly available, including the applicable rates, and are only permitted to offer these services under these forms of agreement. Following publication of these forms of agreement, the rates under these agreements may be increased on an annual basis by no more than the rate of inflation, as measured by the IST. ANATEL also publishes reference rates for these services, and if a customer of one of these providers objects to the rates which that provider charges for these services. ANATEL is expected to begin public consultations regarding a proposed General Plan on Competition Targets in the second quarter of 2011. Oi expects that ANATEL's proposal regarding the General Plan on Competition Targets will address a variety of matters including criteria for the evaluation of telecommunications providers to determine which providers have significant market power, regulations applicable to the wholesale markets for trunk lines, backhaul, access to internet backbone and interconnection services, and regulations related to partial unbundling and/or full unbundling of the local fixed-line networks of the public regime service providers.

Management

Management Structure

The Board of Directors is responsible for its management and affairs. PT's officers are either in charge of its various business and administrative departments and report directly to the Executive Committee or are in charge of its subsidiaries.

According to PT's articles of association, the Board of Directors may be composed of 15 to 25 directors, including the Chairman.

The directors are elected at a shareholders' meeting by a majority of the votes cast. In addition, a majority of votes cast by holders of A shares is required to elect one-third of the members of the Board of Directors, including the Chairman of the Board. A minority of the shareholders representing, in the aggregate, at least 10% of PT's share capital, has the right to elect a director to substitute for the director elected by the fewest number of votes provided that they voted against the winning proposal in the election of the Board of Directors. The term of office of the directors is three calendar years, with the year of election or appointment considered a full calendar year. There is no restriction on the re-election of directors.

A quorum for a meeting of the Board of Directors is a simple majority of directors. All directors have equal voting rights, and all resolutions of the Board of Directors are adopted by a majority of the votes cast. The Chairman has the deciding vote in the event of a tie.

The articles of association provide for an Executive Committee of the Board to which the Board of Directors can delegate the day-to-day management of PT's affairs and the monitoring of PT's daily operations. However, the Board of Directors remains responsible for PT's overall management and operations. The Executive Committee may be comprised of five or seven directors selected by a majority of the Board of Directors. From among the directors elected with the approval of a majority

of holders of A shares, at least one or two must be appointed to the Executive Committee (depending on whether the Executive Committee is composed of five or seven directors). The vote of a majority of the members of the Executive Committee is necessary for the taking of an action by the Executive Committee. All members have equal voting rights, and the Chief Executive Officer has the deciding vote in the event of a tie.

The articles of association also provide for an audit committee composed of three members of the Board of Directors. The responsibilities of the audit committee are described below under “–*Board Practices.*”

Board of Directors and the Executive Committee

As of 31 December 2010, the Board of Directors consisted of 20 directors, and the Executive Committee was composed of five directors.

Rui Pedro Soares and Fernando Soares Carneiro resigned from their offices as executive directors on 17 February 2010 and 22 February 2010, respectively. António Manuel Palma Ramalho, who was a non-executive director, resigned on 25 March 2010. In addition, José Maria Alvarez-Pallete and Santiago Fernandez Valbuena resigned on 27 September 2010 in connection with the closing of the sale of PT’s interest in Vivo to Telefónica S.A. Messrs. Alvarez-Pallete and Valbuena had been appointed by Telefónica S.A. to serve on the Board of Directors when Telefónica held a significant interest in the company.

The names and offices of current members of the Board of Directors, their principal past affiliations and certain other information are set forth below.

The following directors are members of the Executive Committee:

Zeinal Abedin Mahomed Bava. First elected 2000. Age 45. Chief Executive Officer of Portugal Telecom, SGPS S.A. since 28 March 2008; Chairman of the Board of Directors of PT Portugal, SGPS S.A.; Chairman of the Board of Directors of PT Comunicações, S.A.; Chairman of the Board of Directors of TMN—Telecomunicações Móveis Nacionais, S.A.; Chairman of the Board of Directors of Portugal Telecom Inovação, S.A.; Chairman of the Board of Directors of PT Prime-Soluções Empresariais de Telecomunicações e Sistemas, S.A.; Chairman of the Board of Directors of PT Móveis—Serviços de Telecomunicações, SGPS S.A.; Chairman of the Board of Directors of Portugal Telecom—Investimentos Internacionais, Consultoria Internacional, S.A.; Chairman of the Board of Directors of PT Participações, S.A.; Chairman of the Board of Directors of Fundação Portugal Telecom; Member of the Board of Directors of Tele Norte Leste Participações S.A.; Member of the Board of Directors of Telemar Participações S.A.; Member of the Board of Directors of CTX Participações S.A.; Member of the Board of Directors of Contax Participações S.A.; Member of the Council of Founders of Fundação Casa da Música; Member of the Board of Directors of Fundação Luso Brasileira; Member of the Board of Directors of Fundação Portugal África; Member of the General Council of Fundação Portuguesa das Comunicações; Member of the General Council of Universidade Técnica de Lisboa; Member of the General Council of COTEC Portugal—Associação Empresarial para a Inovação; Chairman of the Board of Directors of PT Ventures, SGPS, S.A. from November 2008 until July 2010; Chief Executive Officer of TMN—Telecomunicações Móveis Nacionais, S.A. from December 2005 until May 2006; Chairman of the Board of Directors of PT Centro Corporativo, S.A. from March 2006 until April 2009; Chairman of the Board of Directors of PT—Sistemas de Informação, S.A. from September 2007 until April 2009; Member of the Board of Directors of PT Rede Fixa, SGPS S.A. from March 2006 until June 2009; Chairman of the Board of Directors of PT PRO, Serviços Administrativos e de Gestão Partilhados, S.A. from February 2003 until June 2008; Chairman of the Board of Directors of Previsão—Sociedade Gestora de Fundos de Pensões, S.A. from March 2003 until October 2007; Member of the Board of Directors of Brasilcel, NV from December 2002 until October 2007; Chief Executive Officer of PT Multimédia—Serviços de Telecomunicações e Multimédia, SGPS, S.A. from May 2003 until September 2007; Chairman of the Board of Directors of TV Cabo Portugal, S.A. from March 2004 until September 2007; Chairman of the Board of Directors of PT Conteúdos—Actividade de Televisão e de Produção de Conteúdos, S.A. until September 2007; Vice-Chairman of the Board of Directors of PT Multimédia—Serviços de Telecomunicações e Multimédia, SGPS S.A. from November 2002 until September 2007; Chairman of the Board of Directors of Lusomundo Cinemas, S.A. until September 2007; Chairman of the Board

of Directors of Lusomundo Audiovisuais, S.A. until September 2007; Chairman of the Board of Directors of PT Televisão por Cabo, SGPS, S.A. until September 2007; Member of the Board of Directors of Portugal Telecom Investimentos Internacionais, S.A. from April 2004 until April 2006; Chairman of the Board of Directors of PT Prestações—Mandatária de Aquisições de Gestão de Bens, S.A. from March 2004 until 2006; Member of the Board of Directors of PT Sistemas de Informação, S.A. from May 2004 until April 2006; Member of the Board of Directors of PT Corporate—Soluções Empresariais de Telecomunicações e Sistemas, S.A. from June 2003 until April 2006; Executive Vice-Chairman of the Board of Directors of PT Comunicações, S.A. from January 2004 until December 2005; Member of the Board of Directors of Páginas Amarelas, S.A. from January 2004 until May 2005; Member of the Board of Directors of PT Compras—Serviços de Consultoria e Negociação, S.A. from May 2003 until 2005; Member of the Board of Directors of CRT Celular Participações, S.A. from 2003 until 2005; Member of the Board of Directors of Tele Sudeste Participações, S.A. from 2003 until 2005; Member of the Board of Directors of Tele Leste Participações, S.A. from 2003 until 2005; Member of the Board of Directors of Tele Centro Oeste Celular Participações, S.A. from 2003 until 2005; Member of the Board of Directors of Portugal Telecom Brasil, S.A. from July 2002 until March 2004; Member of the Board of Directors of BEST—Banco Electrónico de Serviço Total, S.A. from May 2001 until October 2004; Member of the Board of Directors of Telesp Celular Participações, S.A. from April 2001 until December 2003; Vice-Chairman of the Board of Directors of PT Ventures, SGPS, S.A. from 2000 until 2002; Merrill Lynch—Executive Director and Relationship Manager for Portugal Telecom, from 1998 until 1999; Deutsche Morgan Grenfell—Executive Director and Relationship Manager for Portugal Telecom from 1996 until 1998; Warburg Dillon Read—Executive Director from 1989 until 1996.

Alfredo José Silva de Oliveira Baptista. First elected April 2011. Age 59. Executive Member of the Board of Directors of PT Portugal, SGPS, S.A.; Executive Member of the Board of Directors of PT Comunicações, S.A.; Executive member of the Board of Directors of TMN—Telecomunicações Móveis Nacionais, S.A.; Chief Operating Officer of PT Sistemas de Informação, S.A. in 2003; Executive Director (*Administrador Delegado*) of PT Prime, SGPS, S.A. from 2001 to 2002; Vice President of PT Prime (Portugal), S.A. from 1999 to 2000; General Director of Enterprise Businesses of PT Comunicações, S.A. from 1996 to 1999; Member of the Board of Directors of PT International from 1996 to 1997 and of Portugal Telecom, SGPS, S.A. from 1994 to 1996; held several positions at Telefones de Lisboa e Porto from 1979 to 1994, including Director of the Large Business Client Unit from 1992 to 1994; Director of Planning and Control from 1987 to 1992 and Commercial Director from 1985 to 1986.

Luis Miguel da Fonseca Pacheco de Melo. First elected 2006. Age 44. Chief Financial Officer and Executive Director of Portugal Telecom, SGPS S.A. since April 2006; Chairman of the Board of Directors of PT Centro Corporativo, S.A.; Chairman of the Board of Directors of Portugal Telecom Imobiliária, S.A.; Chairman of the Board of Directors of PT Prestações—Mandatária de Aquisições de Gestão de Bens, S.A.; Chairman of the Board of Directors of Previsão—Sociedade Gestora de Fundos de Pensões, S.A.; Chairman of the Board of Directors of PT Compras—Serviços de Consultoria e Negociação, S.A.; Vice-Chairman of the Board of Directors of PT Móveis—Serviços de Telecomunicações, SGPS S.A.; Vice-Chairman of the Board of Directors of Portugal Telecom Investimentos Internacionais, Consultoria Internacional, S.A.; Vice-Chairman of the Board of Directors of PT Participações, S.A.; Chairman of the Board of Directors of PT Ventures, SGPS S.A.; Alternate Member of the Board of Directors of Tele Norte Leste Participações S.A.; Director of Africatel Holdings B.V.; Member of the Board of Directors of Unitel, SARL; President of the Management Board of Portugal Telecom Ásia, Limitada; Non-Executive Director of BEST-Banco Electrónico de Serviço Total, S.A. until 2007; Non-Executive Director of PT PRO, Serviços Administrativos e de Gestão Partilhados, S.A. from February 2003 until May 2008; Chairman of the Board of Directors of PT PRO, Serviços Administrativos e de Gestão Partilhados, S.A. from May 2008 until March 2009; Member of the Board of Directors of PT Compras—Serviços de Consultoria e Negociação, S.A., from April 2008 until March 2009; Member of the Board of Directors of Previsão—Sociedade Gestora de Fundos de Pensões, S.A. from May 2006 until October 2007; Chairman of the Board of Directors of Previsão—Sociedade Gestora de Fundos de Pensões, S.A. from October 2007 until May 2009; Chairman of the Board of Directors of PT Contact—Telemarketing e Serviços de Informação, S.A. from July 2008 until March 2009; Chairman of the

Board of Directors of PT-ACS-Associação de Cuidados de Saúde from May 2007 until April 2009; Member of the Board of Directors of PT Centro Corporativo, S.A. from November 2006 until April 2009; Member of the Board of Directors of PT Rede Fixa, SGPS, S.A. from November 2007 until June 2009; Member of the Board of Directors of Telemig Celular Participações, S.A. from August 2008 until November 2009; Member of the Board of Telemig Celular, S.A. from August 2008 until July 2010; Member of the Board of Directors of Vivo Participações, S.A. from July 2006 until July 2010; Member of the Board of Directors of UOL, S.A. until January 2011; Executive Director of PT Multimédia—Serviços de Telecomunicações e Multimedia, SGPS, S.A. from June 2002 until April 2006; Director of Cabo TV Madeirense, S.A. from April 2004 until September 2006; Chairman of the Board of Directors of Cabo TV Açoreana, S.A. from December 2004 until October 2007; Director of TV Cabo Portugal, S.A. from 2002 until 2006; Director of Lusomundo Audiovisuais, S.A. from 2002 until 2006; Director of Lusomundo Cinemas, S.A. from 2002 until 2006; Director of Lusomundo—Sociedade de Investimentos Imobiliários, SGPS S.A. from March 2006 until March 2007; Director of Lusomundo Imobiliária 2, S.A. from March 2006 until March 2007; Director of PT Conteúdos S.A. from 2002 until 2006; Director of PT Televisão por Cabo, SGPS S.A. from 2002 until 2006; Director of Sport TV from June 2002 until November 2005; Director of Lusomundo España, SL from February 2003 until April 2006; Central Manager and invited member of the Executive Committee of BES Investimento from 1998 until 2002; Associate and Director of UBS Warburg from 1994 until 1998.

Carlos António Alves Duarte. First elected March 2009. Age 50. Member of the Board of Directors of PT Portugal, SGPS S.A.; Member of the Board of Directors of PT Prime—Soluções Empresariais de Telecomunicações e Sistemas, S.A.; Member of the Board of Directors of PT Comunicações, S.A.; Member of the Board of Directors of TMN—Telecomunicações Móveis Nacionais, S.A.; Chairman of the Board of Directors of PT Sistemas de Informação, S.A.; Vice-Chairman of the Board of Directors of CaixaNet S.A.; Chairman of the Board of the General Meeting of the Inesc—Instituto de Engenharia de Sistemas de Computadores; Chairman of the Board of Directors of PT Prime Tradecom—Soluções Empresariais de Comércio Electrónico, S.A. from October 2007 until January 2011; Member of the Board of Directors and Executive Director (*Administrador Delegado*) of PT Corporate—Soluções Empresariais de Telecomunicações e Sistemas, S.A. from July 2003 until March 2008; Member of the Board of Directors of PT Prime—Soluções Empresariais de Telecomunicações e Sistemas, S.A. from May 2003 until February 2009; Member of the Board of Directors of BEST-Banco Electrónico de Serviço Total, S.A. from January 2006 until October 2007; Chief Executive Officer of Oni Telecom from June 2000 until March 2003; Chief Executive Officer of Oni Açores from June 2000 to March 2003; Chief Executive Officer of EDS Ibéria from November 1996 until May 2000; Global Services General Manager of IBM from December 1986 until October 1996; Chairman of the Board of Directors of Rigorsoft from 1995 to November 1996; Executive Director of Comferna, S.A. from 1995 to November 1996.

Pedro Durão Leitão. First elected April 2011. Age 41. Executive Member of the Board of Directors of PT Comunicações, S.A.; Executive Member of the Board of Directors of PT Portugal, SGPS, S.A. from 2007 to the present; Member of the Board of Directors of TMN—Telecomunicações Móveis Nacionais, S.A.; Member of the Board of Directors of PT Prime—Soluções Empresariais de Telecomunicações e Sistemas, S.A.; Executive Member of the Board of Directors of PT Sales, S.A.; Alternate Member of the Board of Directors of Tele Norte Leste Participações S.A.; Member of the Board of Directors of Páginas Amarelas, S.A. from 2007 to the present; Executive Member of the Board of Directors of PT Multimédia, SGPS, S.A. from 2004 to 2007; Delegate Member of the Board of Directors of PTM.com, SGPS, S.A. from 2002 to 2004; Director of Strategy and Business Development of Portugal Telecom, SGPS, S.A. from 2000 to 2002; previously held various positions at McKinsey & Company, including Engagement Manager from 1998 to 2000, Associate from 1997 to 1998 and Business Analyst from 1993 to 1996.

Manuel Rosa da Silva. First elected March 2009. Age 43. Member of the Executive Committee of Portugal Telecom, SGPS S.A.; Member of the Board of Directors of PT Comunicações; Member of the Board of Directors of TMN—Telecomunicações Móveis Nacionais, S.A.; Member of the Board of Directors of PT Prime—Soluções Empresariais de Telecomunicações e Sistemas, S.A.; Member of the Board of Directors of Sportinveste—Multimédia, SGPS, S.A.; Member of the Board of Directors of Sportinveste—Multimédia, S.A.; Member of the Board of Directors of PT Prime Tradecom—

Soluções Empresariais de Comércio Electrónico, S.A. from October 2007 until January 2011; Member of the Board of Directors of PT Multimédia from 2006 until 2007; Member of the Board of Directors of PT Comunicações, S.A. from 2004 until 2006; Group Director Corporate Finance at PT from 2002 until 2003; Director Investor Relations of PT Group from 2001 until 2002; executive Director of PTM.com, Serviços de Acessos à Internet, SGPS S.A. from 2000 until 2002; Vice-President of Merrill Lynch, London; Director Morgan Grenfell Londres; Associate in SG Warburg London; Consultant at KPMG Consulting, London.

Shakhaf Wine. First elected March 2009. Age 41. Member of the Executive Committee of Portugal Telecom, SGPS S.A.; Chairman and Chief Executive Officer of Portugal Telecom Brasil S.A.; Member of the Board of Directors of Tele Norte Leste Participações S.A.; Alternate Member of the Board of Directors of Telemar Participações S.A.; Member of the Board of Directors of CTX Participações S.A.; Member of the Board of Directors of Contax Participações S.A.; Vice-Chairman of the Board of Directors of Brasilcel N.V., until September 2010; Chairman of the Control Committee of Brasilcel N.V., until September 2010; Vice-Chairman of the Board of Directors of Vivo Participações, S.A., until September 2010; Chairman of the Board of Directors of Mobitel S.A.; Member of the Board of Directors of Universo Online S.A., until September 2010; Member of the Board of Directors of PT Investimentos Internacionais—Consultoria Internacional S.A. from 2006 until 2009; Member of the Board of Directors of PT Participações, SGPS, S.A. from March 2008 until March 2009; Member of the Board of Directors of PT Móveis—Serviços de Telecomunicações, SGPS, S.A. from May 2006 until March 2009; Member of the Board of Directors of PT Ventures SGPS S.A. from March 2008 until March 2009; Member of the Board of Directors of Tele Centro Oeste Celular Participações, S.A. from March 2004 until October 2006; Member of the Board of Directors of Tele Sudeste Celular Participações, S.A. from March 2004 until February 2006; Member of the Board of Directors of Tele Leste Participações S.A. from July 2005 until February 2006; Member of the Board of Directors of Celular CRT Participações S.A. from March 2004 until February 2006; Member of the Board of Directors of Bancol.net S.A. from April 2003 until July 2004; Member of the Board of Directors of PT Multimédia.com Participações Ltda. from April 2005 until November 2007. Director of Investment Banking and a Relationship Manager for European corporate clients in the Global Telecommunications Group of Merrill Lynch, from 1998 until 2003. Senior Associate Director at the Latin American and Telecommunications groups of Deutsche Morgan Grenfell from 1993 until 1998. Foreign exchange trader and dealer for the Brazilian Central Bank at Banco Icatu S.A. between 1991 and 1993.

The following directors are not members of the Executive Committee:

Henrique Manuel Fusco Granadeiro. First elected 2003. Age 67. Chairman of the Board of Directors of Portugal Telecom, SGPS S.A. since April 2006; Chief Executive Officer of Portugal Telecom, SGPS S.A. from April 2006 until March 2008; Chairman of General Council of Fundação Portugal Telecom; Chairman of General Council of Universidade de Lisboa; Member of the Strategic Council of Banco Finantia; Member of the General Council of the Board of Trustees of Fundação Luso-Brasileira; Member of the of COTEC Portugal—Associação Empresarial para a Inovação until October 2009; Non-executive Director of Fundação Eugénio de Almeida; Member of the Council of Founders of Fundação Casa da Música until February 2009; Member of the Board of Directors of Fundação Portugal África until November 2009; Vice Chairman of the Board of Directors of ELO—Associação Portuguesa para o Desenvolvimento Económico e a Cooperação until November 2009; Chairman of the Board of Directors of Africatel Holdings B.V. from 2007 until 2008; Chairman of the Board of Directors of PT Rede Fixa, SGPS S.A. from 2006 until 2009; Chairman of the Board of Directors of PT Centro Corporativo, S.A. from 2006 until 2008; Chairman of the Board of Directors of PT Portugal, SGPS S.A. from 2006 until 2007; Chairman of the Board of Directors of Fundação Portugal Telecom from 2006 until 2008; Non-executive Member of the Board of Directors of OPCA—Obras Públicas e Cimento Armado, S.A. from 2005 until 2007; Member of the Board of Directors of Espírito Santo Resources from 2005 until 2007; Chairman of the Board of Directors of PT Multimédia—Serviços de Telecomunicações e Multimédia, SGPS S.A. from 2006 until 2007; Executive Member of the Board of Directors of PT Multimédia—Serviços de Telecomunicações e Multimédia, SGPS S.A. from 2002 until 2006; Non-executive Member of the Board of Directors of PT Multimédia—Serviços de Telecomunicações e Multimédia, SGPS S.A. in 2001; Chief Executive Officer of Lusomundo Media, SGPS, S.A. from 2002 until 2004; Chief Executive Officer of Diário de

Notícias from 2002 until 2004; Chief Executive Officer of Jornal do Fundão from 2002 until 2004; Chief Executive Officer of Jornal de Notícias from 2002 until 2004; Chief Executive Officer of TSF from 2002 until 2004; Chief Executive Officer of Açoreano Oriental from 2002 until 2004; Chief Executive Officer of DN da Madeira from 2002 until 2004; Chairman of the Board of Directors of Aleluia—Cerâmica Comércio e Indústria S.A. from 2000 until 2004; Member of the Board of Directors of Aleluia—Cerâmica Comércio e Indústria S.A. from 2004 until 2007; Member of the Board of Directors of Parfil, SGPS S.A. from 2001 until 2004; Chairman of the Board of Directors of Margrimar—Mármore e Granitos, S.A. from 1999 until 2005; Chairman of the Board of Directors of Marmetal—Mármore e Materiais de Construção, S.A. from 1999 until 2005; Member of the Board of Directors of Controljornal, SGPS S.A. from 1990 until 2001; Member of the Board of Directors of Sojornal—Sociedade Jornalística e Editorial S.A. from 1990 until 2001; Member of the Board of Directors of Marcepor—Mármore e Cerâmicas de Portugal, S.A. in 1990; President of Fundação Eugénio de Almeida from 1989 until 1992; President of IFADAP—Instituto Financeiro de Apoio ao Desenvolvimento da Agricultura e Pescas from 1987 until 1990; Managing Director of Fundação Eugénio de Almeida from 1981 until 1987; Member of the Board of Directors of M.N. Tiago, Construções S.A. during 1981; Member of the Board of Directors of Standard Eléctrica during 1981; Portuguese Ambassador to the O.E.C.D. from 1979 until 1981; Head of the Civil House of the President of the Republic of Portugal from 1976 until 1979.

Otávio Marques de Azevedo. First elected April 2011. Age 59. Chairman of Andrade Gutierrez Telecomunicações Ltda. and Executive Chairman of Andrade Gutierrez S.A., the controlling holding company of the Andrade Gutierrez Group; Chairman of the Board of Directors of Telemar Participações S.A., the controlling holding company of Oi; Member of the Board of Directors of Contax Participações S.A. and Tele Norte Leste Participações S.A.; Chairman of the Board of Directors of CTX Participações S.A., the parent of Contax Participações S.A.; Member of the Strategic Council of the Federação das Indústrias do Estado de Minas Gerais (FIEMG); Member of the Board of the Associação Comercial do Rio de Janeiro (ACRJ); Member of the Superior Council of Infrastructure of the Federação das Indústrias do Estado de São Paulo (FIESP); formerly the first Chairman of the Board of Directors of Telemar, Chairman of Telemig and Executive Vice Chairman of Telebrás.

Francisco Manuel Marques Bandeira. First elected 2008. Age 53. Member of the Board of Directors of Portugal Telecom, SGPS S.A.; Vice-Chairman of the Board of Directors of Caixa Geral de Depósitos, S.A.; Chairman of the Board of Directors of Banco Português de Negócios S.A.; Chairman of the Board of Directors of Banco Efisa, S.A.; Vice-Chairman of the Board of Directors of Banco Nacional de Investimento S.A. (Moçambique); Non executive Chairman of the Board of Directors of Banco Caixa Geral Totta Angola, S.A.; Chairman of the Board of Directors of Parbanca, SGPS S.A.; Member of the Board of Directors of Partang, SGPS, S.A.; Member of the Board of Directors of Parcaixa, SGPS S.A.; Non Executive Vice-Chairman of the Board of Directors of Banco Comercial e de Investimentos, SARL (Moçambique); Non Executive Chairman of Directive Council of Caixa Geral de Aposentações, I.P.; Non Executive Member of the Board of Directors of Visabeira, SGPS, S.A.; Member of the Compensation Committee of REN—Redes Energéticas Nacionais, SGPS S.A.; Non-Executive Member of the Board of Directors of Grupo Pestana Pousadas from January 2007 until March 2009; Non-Executive Member of the Board of Directors of AdP—Águas de Portugal, SGPS S.A. from October 2006 until March 2009; Chairman of the Board of Directors of Banco Caixa Geral from January until December 2008; Chairman of the Board of Directors of Locarent—Companhia Portuguesa de Aluguer de Viaturas, S.A. from October 2006 until March 2008; Member of the Board of Directors of Caixa Geral de Depósitos S.A. from 2005 until 2008; Non-Executive Member of the Board of Directors of RAVE from 2001 until 2002; Non-Executive Member of the Board of Directors of FIEP from 1997 until 2001; Vice-Chairman of the Board of Directors of ICEP from 1996 until 2000; Member of the EXPO 98 and Commissary of Pavilhão de Portugal from 1996 until 1999; Associate Manager, Adjunct—Manager and Coordinator Manager of Banco de Fomento e Exterior from 1988 until 1996; Assessor of the Região Centro Committee in PIDR for Baixo Mondego from 1986 until 1988; Manager of IFADAP from 1981 until 1986; Teacher in the special teaching from 1975 until 1979.

José Guilherme Xavier de Basto. First elected 2007. Age 72. Member of the Board of Directors and of the Audit Committee of Portugal Telecom, SGPS S.A.; Member of the Center of Studies at

the Chamber of Chartered Accountants; Member of the Financial Matters Committee of Millennium BCP, S.A. since April 2009; Tax Consultant; Retired lecturer at the Faculty of Economics of Coimbra University.

João Manuel de Mello Franco. First elected 1997. Age 64. Member of the Board of Directors and Chairman of the Audit Committee of Portugal Telecom, SGPS S.A.; Member of the Board of Directors and Chairman of the Audit Committee of EDP Renováveis, S.A.; Member of the Board of Directors of José de Mello Participações, SGPS, S.A. from 2002 until 2006; Vice-Chairman of the Board of Directors of José de Mello Imobiliária from 2001 until 2004; Chairman of the Board of Directors of José de Mello Residências e Serviços from 2001 until 2004; Chairman of the Board of Directors of Imopólis (SGFII) from 2001 until 2004; Chairman of the Board of Directors of Engimaís from 2001 until 2004; Member of the Board of Directors of International Shipowners Reinsurance Company from 1998 until 2005; Member of the Superior Board of Portugal Telecom from 1996 until 1997; Chairman of the Board of Directors of Soponata—Sociedade Portuguesa de Navios Tanques, S.A. from 1997 until 2001; Chief Executive Office and Vice-Chairman of the Board of Directors of LISNAVE from 1995 until 1997; Chairman of the Board of Directors of Marconi from 1994 until 1995; Chairman of the Board of Directors of Guiné Telecom from 1994 until 1995; Chairman of the Board of Directors of Companhia Santomense de Telecomunicações from 1994 until 1995; Member of the Board of Directors of CN—Comunicações Nacionais, S.A. from 1993 until 1995; Chairman of the Directorate of the Portuguese Association for the Development of Communications from 1993 until 1995; Chairman of the Board of Directors of TMN—Telecomunicações Móveis Nacionais, S.A. from 1991 until 1994; Chairman of the Board of Directors of TLP—Telefones de Lisboa e Porto, S.A. from 1989 until 1994; Director of TDC—Tecnologia das Comunicações, Lda. from 1986 until 1989.

Joaquim Anibal Brito Freixial de Goes. First elected 2000. Age 44. Member of the Board of Directors of Portugal Telecom, SGPS S.A.; Member of the Board of Directors of Banco Espírito Santo, S.A.; Member of the Board of Directors of E.S. VENTURES, SCR, S.A.; Member of the Board of Directors of BES—Companhia de Seguros, S.A.; Member of the Board of Directors of Glintt, Global Intelligent Technologies, SGPS S.A.; Member of the Board of Directors of PT Multimédia—Serviços de Telecomunicações e Multimédia, SGPS, S.A. from August 2002 until September 2007; Member of the Board of Directors of ESDATA, Espírito Santo Data, SGPS S.A. from 1999 until 2009; Member of the Board of Directors of Companhia de Seguros Tranquilidade—Vida, S.A. from 2002 until 2006; Chairman of the Board of Directors of E.S. Interaction, Sistemas de Informação Interactivos, S.A. from 2000 until 2006; Member of the Board of Directors of BEST-Banco Electrónico de Serviço Total, S.A. from May 2001 until July 2007; Head of the Strategic Marketing Department of Banco Espírito Santo, S.A. from 1995 until 1999; Head of the Strategic Planning Department of CIMPOR—Cimentos de Portugal, S.A. from 1994 until 1995; Senior Consultant at Roland Berger & Partner, Munich from 1991 until 1993; Consultant at Roland Berger & Partner, Portugal from 1989 until 1991.

Mário João de Matos Gomes. First elected March 2009. Age 63. Member of the Board of Directors and Audit Committee of Portugal Telecom, SGPS S.A.; Chairman of the Supervisory Board of Previsão—Sociedade Gestora de Fundos de Pensões, S.A.; Founding Partner and Director of the Portuguese Statutory Auditing Firm Ascensão, Gomes, Cruz & Associado—SROC; Vice-Chairman of the Registrations Board (Comissão de Inscrição) of the Portuguese Statutory Auditing Institute (OROC); from 1985 until 2001, Adjunctive Professor at ISEG—Technical University of Lisbon; from 1971 until 1983, staff member of Arthur Andersen & Co., with managing responsibilities in the audit and tax departments in Lisbon; from 1983 until 1987, management consultant to the Board of an industrial company for issues relating to the improvement of management reporting and control systems. Mr. Gomes was also a member of the Professional Training Working Party (Comissão de Estágio) and of the Education Working Party (Comissão de Formação Profissional), as well as Chairman of the Insurance Working Party (Comissão Técnica das Entidades Seguradoras) of the OROC, with a relevant role in the preparation of the Portuguese Audit Statement (DRA) 830.

Pedro Jereissati. First elected April 2011. Age 33. Chief Executive Officer of Telemar Participações S.A., the controlling shareholder of Oi; Executive Vice President of the Jereissati Group; Member of the Board of Directors of the Jereissati Group, Tele Norte Leste Participações S.A., Contax Participações S.A. and Iguatemi Empresa de Shopping Centers S.A. (“Iguatemi”); Chief

Financial Officer of Iguatemi from 2005 to 2008; nominated as a Member of the the Brazilian Council for Economic and Social Development by Brazilian President Luis Inácio Lula da Silva in 2003.

Gerald Stephen McGowan. First elected 2003. Age 64. Member of the Board of Directors of Portugal Telecom, SGPS S.A.; Member of the Board of Directors of the Virginia Center for Innovative Technology from 2004 until 2007; Ambassador of the United States to Portugal from 1998 until 2001; Member of the Board of Directors of “Overseas Private Investment Corporation” (OPIC) from 1996 until 1997; Member of the Board of Directors of Virginia Port Authority from 2002 until 2003; Member of the Board of Directors of Cellular Telecommunications Industry Association from 1992 until 1994.

Rafael Luís Mora Funes. First elected 2007. Age 45. Member of the Board of Directors of Portugal Telecom, SGPS S.A.; Vice Chairman of the Board of Directors / COO of Ongoing Strategy Investments, SGPS S.A.; Vice Chairman of the Board of Directors of Grupo Económica, SGPS S.A.; Member of the Supervisory Board of INDEG—ISCTE Business School; Member of the Board of Directors of Automóvel Clube de Portugal; Managing Partner of Heidrick & Struggles Portugal; Member of the Sustainability and Governance Committee of Millennium BCP Group until 2007.

Maria Helena Nazaré. First elected 2009. Age 61. Member of the Board of Directors of Portugal Telecom, SGPS S.A.; Principal of the University of Aveiro (Portugal) since 2002 until 2010; Vice-Chairman of European University Association (EUA) since March 2009; Chairman of the Steering Committee of the Institutional Evaluation Programme at the European University of Association until 2009; Chairman of the Internationalization Working Group of the EUA; member of the Institutional evaluation Group of the EUA since 2004 Member of the Research Working Group of the EUA, since 2004; Chair of the Committee of the Portuguese Rector’s Conference for Research and Knowledge- transfer; Member of the European Commission Expert Group for the European Research Area; Chairman of the João Jacinto de Magalhães Foundation; Member of the Executive Council of Fundação das Universidades Portuguesas (Portuguese Universities Foundation); Member of the Steering Committee of the Institutional Evaluation (EUA) since 2005; Dean of the Health School of the University of Aveiro from 2000 until 2002; Member of the Board of the Aveiro Maritime Harbour (1999-2000); President of Columbus Association: Network of European and Latin-American Universities; Head of the research Lab in “Física de Semicondutores em Camadas, Optoelectrónica e Sistemas Desordenados” (1996-1999); Vice Rector of the University of Aveiro (1991-1998); Head of the Research Institute of the University of Aveiro (1995-1998); Chair of the Executive Council of the João Jacinto de Magalhães Foundation (1993-1998); Member of the Steering Committee of the International Conference of Defects in Semiconductors (1997); Vice President of the Scientific Council of the University of Aveiro (1990-1991); Head of the Department of Physics of the University of Aveiro (1978-1980; 1986-1988).

Amílcar Carlos Ferreira de Morais Pires. First elected 2006. Age 49. Member of the Board of Directors of Portugal Telecom, SGPS S.A.; Member of the Board of Directors of Banco Espírito Santo, S.A.; Member of the Board of Directors of BES—Vida, Companhia de Seguros, S.A.; Member of the Board of Directors of Banco Espírito Santo de Investimento, S.A.; Chairman of the Board of Directors of Bank Espírito Santo (International) Limited; Chairman of the Board of Directors of BIC—International Bank, Ltd (BIBL); Member of the Board of Directors of ESAF—Espírito Santo Activos Financeiros, SGPS, S.A.; Member of the Board of Directors of Espírito Santo PLC (Dublin); Member of the Board of Directors of Banco Espírito Santo Oriente, S.A.; Member of the Board of BES Finance Limited; Member of the Board of Directors of ES Tech Ventures, Sociedade de Participações Sociais, S.A.; Member of the Board of Directors of Espírito Santo—Empresa de Prestação de Serviços, ACE; Chairman of the Board of Directors of AVISTAR, SGPS, S.A.; Member of the Board of Directors of BES Africa SGPS, S.A. Engaged to Banco Espírito Santo, Finance Department, in 1986; Appointed Sub-Manager and Head of the Financial Markets and Securities Department in 1989; Member of the Board of Directors of Soginpar, Sociedade de Gestão de Fundos de Investimento Mobiliário, S.A. from July 1991 until February 1992; Assistant Manager of the Financial Markets and Securities Department and Member of the Board of Directors of ESER, Soc^a until 1995; Coordinating Manager of the Finance, Markets and Studies Departments and person responsible for the management of the treasury department of BES; Adviser of the Board of

Directors of Banco Espírito Santo, S.A., in July 2000; General Manager of Banco Espírito Santo, S.A. in March 2003; Director of Banco Espírito Santo, S.A. since March 2004.

Francisco Teixeira Pereira Soares. First elected 2006. Age 61. Member of the Board of Directors of Portugal Telecom, SGPS S.A.; Chairman of the Environment Committee of CEEP—European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest—(“Centro Europeu de Empresas com Participação Pública e de Interesse Económico Geral, Brussels”); Consultant of Parpública, S.A.; Member of the Board of Directors of Gadsa—Arquivo e Depósito, S.A. from October 2006 until October 2008; Economic Consultant at the Civil House of the President of the Republic of Portugal, from 2001 until 2006; Chairman of Member of the Board of Director and Chief Executive Officer of I.P.E.—Tecnologias de Informação, SGPS S.A. from 2000 until 2001; Executive Member of the Board of Director of I.P.E.—Investimentos e Participações Empresariais, S.A. from 1996 until 2000; Chairman of the Board of Directors of I.P.E. Capital, Sociedade de Capital de Risco, S.A. from 1996 until 2000; Director of Ambelis—Agência para a Modernização Económica de Lisboa, S.A. from 1994 until 1996.

Jorge Humberto Correia Tomé. First elected 2002. Age 56. Member of the Board of Directors of Portugal Telecom, SGPS S.A.; Member of the Board of Directors of Caixa Geral de Depósitos, S.A.; Chairman of the Board of Directors of Caixa—Banco de Investimento, S.A.; Chairman of the Board of Directors of Gerbanca, SGPS, S.A.; Member of the Board of Directors of Banco Comercial e de Investimentos, S.A.; Chairman of the Board of Directors of TREM—Aluguer de Material Circulante, ACE; Chairman of the Board of Directors of TREM II—Aluguer de Material Circulante, ACE; Chairman of the Board of Directors of CREDIP—Instituição Financeira de Crédito, S.A.; Member of the Committee of “Acompanhamento e Estratégia” of Fomentinvest, SGPS S.A.; Vice-Chairman of the Board of Directors of Banco Caixa Geral—Brasil, S.A.; Member of the Board of Directors of Parcaixa, SGPS, S.A.; Member of the Board of Directors of Cimpor—Cimentos de Portugal, SGPS, S.A. Chief Executive Officer of Caixa—Banco de Investimento, S.A. from 2001 until 2007; Non—Executive Director of Caixa Gestão de Patrimónios from 2001 until 2005; Member of the Board of Directors of Insurance Companies of Banif Group: “Açoreana”, “O Trabalho”, “O Trabalho Vida” and of the companies managers of pensions funds and of investments funds from 1996 until 2001; Partner of Coopers & Lybrand in Portugal from June 1995 until November 1996; Manager of the international department of Banco Pinto & Sotto Mayor, S.A. in 1995; Member of the Board of Directors of Banco Pinto & Sotto Mayor from March 1994 until January 1995; Member of the Executive Committee of SULPEDIP, S.A. (currently PME Investimentos, S.A.), from June 1989 until March 1994; Technical Officer at the Securities Directorate of Banco Pinto & Sotto Mayor in 1985; Securities sub-manager and Manager of Banco Pinto & Sotto Mayor from 1986 until 1994; Technical Officer of Coopers & Lybrand Lda. from 1980 until 1982.

Paulo José Lopes Varela. First elected March 2009. Age 42. Member of the Board of Directors of Portugal Telecom, SGPS S.A.; Chief Executive Officer of Visabeira Global, SGPS, S.A. since 2007; Chairman of the Board of Directors of Visabeira Global, SGPS S.A.; Chairman of the Board of Directors of Vista Alegre Atlantis, S.A.; Chairman of the Board of Directors of V.A.Grupo—Vista Alegre Participações, S.A.; Chairman of the Board of Directors of Real Life Technologies, S.A.; Chairman of the Board of Directors of Visabeira Investimentos Financeiros, SGPS S.A.; Chairman of the Board of Directors of Naturenergia, Agro-Energias, S.A.; Chairman of the Board of Directors of Visagreen, S.A.; Chairman of the Board of Directors of Visabeira Estudos e Investimentos, S.A.; Chief Executive Officer of Grupo Visabeira, SGPS S.A.; Director of Grupo Visabeira, SGPS S.A.; Director of Ambitermo—Engenharia e Equipamentos Térmicos, S.A.; Director of Gevisar, SGPS S.A.; Director of Parque de Ciência e Inovação, S.A.. Started his Professional career at Grupo Visabeira, in 1992, lived many years in Mozambique and Angola; Chairman of the Board of Directors of Visabeira Moçambique and Visabeira Angola. His responsibility was the institutional representation, the general coordination in all the Visabeira’s affiliates, within the country, as well as to represent the associated Grupo Visabeira in the administrative boards of its affiliates and also planning and strategical definition of the group businesses, including its integrated financial management; Since November 2009 he was appointed Chairman of the Board of Directors of Vista Alegre Atlantis, S.A.

Milton Amilcar Silva Vargas. First elected March 2009. Age 54. Member of the Board of Directors of Portugal Telecom, SGPS S.A.; Member of the Board of Directors of Cielo S.A. since July 2009; Effective Member of the Board of Directors of CPM Braxis S.A. since July 2009; Effective Member of the Board of Directors of Fleury S.A., since July 2009; Member of the Board of Directors of Monteiro Aranha S.A., since December 2009. In Banco Bradesco, S.A.: Department Director from December 1997 until March 2000, Managing Director from March 2000 until March 2002 and Executive Vice-President from March 2002 until June 2009; He also participates in the Administration of other Companies of Bradesco Organization. He was Member of the Managing Body and Managing Director of Fundação Bradesco and Member of the Board of Directors and Managing Director of the Foundation Institute for Digestive System and Nutrition Diseases (FIMADEN), Member of the Board of Directors of the Investor Relations Brazilian Institute—IBRI, Member of the Fiscal Council of the Credit Guarantor Fund (FGC) and Member of the Board of Directors of the Brazilian Association of Publicly—Held Companies (ABRASCA) and Member of the Auto Regulation Board of FEBRABAN. He was also a Bradesco representative at the Managing Council of the Brazilian Institute of Accounting, Actuarial and Financial Research (IPECAFI).

Nuno Rocha dos Santos de Almeida e Vasconcellos. First elected 2006. Age 46. Member of the Board of Directors of Portugal Telecom, SGPS S.A.; Chairman of the Board of Directors of Rocha dos Santos Holding, SGPS S.A.; Chairman of the Board of Directors of Ongoing Strategy Investments, SGPS S.A.; Chairman of the Board of Directors of Ongoing TMT; Chairman of the Board of Directors of Ongoing Telecom; Chairman of the Board of Directors of Ongoing Technology; Chairman of the Board of Directors of Ongoing Media; Chairman of the Board of Directors of Económica SGPS, S.A.; Chairman of the Board of Directors of Rocksun, S.A.; Chairman of the Board of Directors of Insight Strategic Investments, SGPS S.A.; Non-Executive Member of the Board of Directors of Heidrick & Struggles; Member of the General Council of ISCTE; Director of the Automóvel Clube de Portugal. From 1995 until 2006, Managing Partner in Portugal for consulting field of Heidrick & Struggles; Member of the Compensation Committee of a banking entity until 2007; Director of Andersen Consulting (currently Accenture) from 1987 until 1995.

Executive Officers

In addition to its Executive Committee, PT has certain other officers who are in charge of its various businesses and administrative departments and report directly to the Executive Committee or who are in charge of PT's subsidiaries. The names, offices, relevant past affiliations and certain other information for PT's key executive officers are set forth below:

Guy Patrick Guimarães de Goyri Pacheco. Head of the Planning and Control Department of Portugal Telecom, SGPS, S.A.. Appointed 2011; Age 33; Head of the Continuous Improvement and Transformation of Portugal Telecom, SGPS S.A.'s Domestic Operations from 2009 until 2011; Head of the Business Processes and Continuous Improvement of PT Comunicações from 2007 until 2009; Head of the Business Processes and Continuous Improvement of ZON Multimedia (then PT Multimédia) from 2006 to 2007; Manager of the Commercial Planning and Control Department of ZON Multimedia from 2005 to 2006; Internal Consultant at the Business Development Department of PT Comunicações from 2004 to 2005; Internal Consultant at the Corporate Finance Department of Portugal Telecom, SGPS S.A. from 2003 to 2004; Advisor to the Chief Financial Officer of ZON Multimédia from 2002 to 2003; Analyst at the Planning and Control Department of ZON Multimédia from 2001 to 2002; Analyst at Arthur Andersen in 2000.

Luís Manuel da Costa de Sousa de Macedo. Secretary-General and Company Secretary of Portugal Telecom, SGPS S.A. Appointed 2002. Age 62. Member of the Board of Directors of PT Centro Corporativo, S.A. since 2006; Member of the Board of Fundação Portugal Telecom since 2003; Member of the Board of Directors of Portugal Telecom Investimentos Internacionais—Consultoria Internacional S.A. from 2004 until 2006; Member of the Board of PT Ventures, SGPS, S.A. (ex-Portugal Telecom International, SGPS S.A.) from 2000 until 2006; Non-executive Member of the Board of Directors of CST—Companhia Santomense de Telecomunicações, SARL from 1999 until 2009; Manager of Image and Communication Department of Portugal Telecom group from 1999 until 2003; Member of the Board of Directors of Banco Espírito Santo do Oriente S.A. from 1996

until 2005; Member of the Board of Directors of AMSCO—African Management Services Company from 1996 until 2006; Member of Management and Executive Board of Portuguese—Angolan Chamber of Commerce and Industry from 1996 until 2005; Chairman of ELO (*Associação Portuguesa para o Desenvolvimento Económico e a Cooperação*) from 1996 to 2004; Assistant Senior Manager of the Board of Directors of Marconi responsible for the Company's Communication Office from 1995 until 1999; Secretary of State of Portuguese Communities from 1992 until 1995; Chief of Staff of Minister of the “Quality of Life” from 1981 until 1982; Management Consultant, Manager of Human Resources, General Secretary and Manager of Central International Corporate Department of Marconi from 1988 until 1992; Legal Advisor of CIP—Confederation of Portuguese Industry and several other companies and employers' associations from 1974 until 1982.

Bruno Miguel Saraiva Pinheiro dos Santos da Costa Saldanha. Age 35. Member of the Board of Directors of PT Centro Corporativo since 2009; Member of the Board of Directors of PT Finance BV since 2009; Chief Accounting Officer of Portugal Telecom SGPS, S.A. and Manager of Financial Reporting and Consolidation since 2009; Member of the Board of Directors of Janela Digital since 2008; Member of the Board of Directors of PT Prestações from 2006 to 2008; Deputy Manager for the Financial Reporting and Consolidation Team from 2002 to 2009; Audit and Risk Management of Arthur Andersen from 1998 to 2002.

José Carlos Alfaia Mimoso. Manager of the Corporate Taxation of Portugal Telecom, SGPS S.A. Appointed 2008. Age 58. Chief Accounting Officer and Manager of the Financial Reporting of TMN—Telecomunicações Móveis Nacionais, S.A. from 2006 until 2008 and from 1994 until 2001; Chief Accounting Officer and Manager of the Financial Reporting of PT Multimédia from 2002 until 2006; Board Member of TV Cabo Portugal from 2001 until 2002; Manager of the Financial Reporting, Audit Department and Planning and Control in Associated Companies of Centralcer—Central de Cervejas from 1984 until 1990 and from 1992 until 1994.

Nuno Maria Macedo Alves Mimoso. Secretary-General Deputy and Company Secretary Suplent of Portugal Telecom, SGPS S.A. Appointed 2002. Age 52. Company Secretary and Secretary of General Shareholders' Meetings of PT Centro Corporativo, S.A. reelected in April 2009; Secretary of General Meeting of PT Centro Corporativo, S.A. reelected in April 2009; Company Secretary and of PT Compras—Serviços de Consultoria e Negociação, S.A. reelected in March 2009; President of Ethics Committee, since January 10, 2007; Company Secretary of PT Imobiliária, S.A. reelected in March 2009 until January 2011; Secretary of General Meeting of Previsão—Sociedade Gestora de Fundos de Pensões, S.A. reelected in May 2009; Chairman of General Meeting of PT Ventures, S.A. since April 2007; Chairman of General Meeting of PT Móveis, S.A. reelected in April 2009; Secretary of General Meeting of APOR reelected in April 2009; Chairman of General Meeting of PT Prestações, S.A. reelected in May 2009.

Carlos Manuel Mendes Fidalgo Moreira da Cruz. Manager of the Financial Department of Portugal Telecom, SGPS S.A. Appointed 2001. Age 44. Managing Director of Portugal Telecom International Finance BV since 2002; Executive Board Member of Portugal Telecom Investimentos Internacionais—Consultoria Internacional since 2006; Member of the Board of Directors of MTC—Mobile Telecommunications Limited since 2007; Member of the Board of Directors of CTM—Companhia de Telecomunicações de Macau since 2007; Member of the Supervisory Board of Brasilcel since 2008; Member of the Management Board of Africatel Holding, BV since 2008; Member of the Board of Directors of Previsão—Sociedade Gestora de Fundo de Pensões, SA since 2007.

Nuno Bernardo Ramires Leiria Fialho Prego. Chief of Staff to the CEO and Manager of the Human Resources Department of Portugal Telecom, SGPS SA. Appointed 2008. Executive Board Member of PT Investimentos Internacionais since April 2011. Age 38. Manager of the Investor Relations Department of Portugal Telecom from 2004 until 2008. Head of Equity Research and Telecoms Analyst at BCP Investimento from 2001 until 2004; Portfolio Manager at BPI Fundos from 1999 until 2000; Deputy Director of the Research Department at Banco Finantia from 1996 until 1999.

Pedro Guimarães e Melo de Oliveira Guterres. Manager of Corporate Finance Department of Portugal Telecom, SGPS S.A. Appointed 2008. Age 35. Member of the Board of Directors of Previsão—Sociedade Gestora de Fundo de Pensões, S.A. since 2009; Manager of Planning and Control of PT Portugal since 2009; Manager of Planning and Control of PT Comunicações S.A. from

2007 until 2008; Manager of Planning and Control of PT Multimedia from 2003 until 2007; Business Development of Portugal Telecom SGPS, S.A from 2000 until 2003; Merrill Lynch Investment Banking from 1997 until 2000.

Nuno Manuel Teiga Luis Vieira. Manager of the Investor Relations Department of Portugal Telecom, SGPS S.A. Appointed 2008. Age 39. Telecoms, Media and Technology Analyst at Millennium Investment Banking from 2000 until 2008; Account and Marketing Manager at Ericsson Telecomunicações from 1997 until 1999; Pre-marketing and Head of Customer Support of International Telecom Services at Connexo, Redes de Comunicação from 1995 until 1997.

Marta Maria Dias Quintas Neves. Head of the Regulatory Department of PT Portugal, SGPS, S.A. Appointed 2008. Age 39. Head of the Corporate Legal Department of PT Multimédia from 2006 until 2007; Deputy of the Minister of Economic Activities and Labour from 2004 until 2005; Deputy of the Secretary of State Assistant of the Ministry of Economy from 2003 until 2004; Head of the Legal Department of Lusomundo SGPS, S.A. from 2002 until 2003; Head of the Legal Department of Lusomundo Audiovisuais, S.A. from 2000 until 2002; Legal Advisor of the Legal Department of Lusomundo Audiovisuais, S.A. from 1999 until 2000; Lawyer at Fernando de Souza de Brito—Law Firm from 1995 until 1999.

Rita de Sampaio Nunes. Manager of the Competition Department of Portugal Telecom, SGPS S.A. Appointed 2004. Age 47. Board Member of TPT—Telecomunicações Públicas de Timor, S.A., since May 2008; Chief Legal Officer of Portugal Telecom Investimentos Internacionais—Consultoria Internacional since April 2008; Head of European Community Affairs of ANACOM from 2003 until 2004; Member of the Regulatory Department of Portugal Telecom, SGPS S.A. from 2000 until 2003; Member of the Regulatory Department of Portugal Telecom, S.A. from 1998 until 1999; Seconded National Expert in the European Commission—DG Enterprise and DG Information Society from 1995 until 1998; Internal Legal Adviser of the Board of Directors of CN—Comunicações Nacionais, SGPS, S.A. from 1993 until 1995.

Ana João de Castro Dias Vieira Figueiredo. Manager of the Internal Audit and Risk Management Department of Portugal Telecom, SGPS S.A. Appointed 2008. Age 36. Senior Manager of the Internal Audit Department of Portugal Telecom, SGPS S.A. from 2004 until 2007; Supervisor of Business Risk Services Practice of Ernst & Young from 2001 until 2003.

Abilio Cesário Lopes Martins. Manager of the Corporate Communications Department of Portugal Telecom, SGPS, S.A. Appointed 2002. Age 39. Board Member of PT Comunicações, S.A., TMN—Telecomunicações Móveis Nacionais, S.A. and PT Prime—Soluções Empresariais de Telecomunicações e Sistemas, S.A. since 2007. Board Member of Portugal Telecom Brasil, S.A. since 2000. Board Member of PT.COM—Comunicações Interactivas, S.A. from 2006 until 2008. Chairman of the Board of Directors of PT Contact, Telemarketing and Services of Information, S.A. since 2009; Manager of Integrated Communication of PT Comunicações, S.A. from 2004 until 2008; Media Relations Advisor for Portugal Telecom's Chief Executive Officer from 2000 until 2002; Communication and Media Relations Consultant from 1998 until 2000.

In addition, the names, principal past affiliations and certain other information for the Chief Executive Officers of PT's major subsidiaries, PT Comunicações, TMN, PT Compras, PT Investimentos Internacionais, S.A., PT Inovação S.A., PT Sistemas de Informação S.A., PT PRO, S.A. and PT Compras, S.A. are set forth below:

Zeinal Abedin Mahomed Bava. Chairman of the Board of Directors of PT Comunicações, S.A., TMN—Telecomunicações Móveis Nacionais, S.A. and PT Investimentos Internacionais, S.A. See “—Board of Directors and the Executive Committee.”

Luis Miguel da Fonseca Pacheco de Melo. Chairman of the Board of Directors of PT Compras—Serviços de Consultoria e Negociação, S.A. See “—Board of Directors and the Executive Committee.”

Pedro Manuel Brandão Rodrigues. Executive Director (*Administrador Delegado*) of PT Investimentos Internacionais. Appointed 2009. Age 59. Also Executive Board Member of PT Móveis, PT Participações, Directel, PT Ventures, CST and Africatel Holdings BV. From 2006 until 2009 he was CEO of PT Compras and also a member of the Supervisory Board of Brasilcel NV (2003-2010), formerly a Board Director and Member of the Executive Committee of TMN (2003-2006) and of PT

Móveis, S.G.P.S., S.A. (2000-2003). Member of the Board of Mediatecom (2000-2004) and Mascom Wireless (2002-2003). He was elected to the Portuguese Parliament for Lisbon in the General Election of March 2002, re-elected in September 2009. He was a member of the Portuguese National Education Council elected by Parliament (2000-2005). From 1993 until 2000 he was also a member of the Board and of the Executive Committee of Banco Mello and Banco Mello de Investimentos. In 2002 he was appointed a member of the Committee for the Definition of the Television Public Service. He was CEO of Promindústria SA from 1987 until 1993 and before that Manager Product and Business Development at Alusuisse—Lonza in Zurich (1980-1987).

Alcino José Rito Lavrador. Executive Director (*Administrador Delegado*) of PT Inovação, S.A. Appointed 2008. Age 49. Software engineer at CET from 1985 until 1988; Member of the SS7/ISDN Protocols National Specification Experts Group from 1989 until 1992; Chief of Signalling department at CET, implementing signaling protocols for digital switches and Intelligent Networks, from 1992 until 1997; Chief of Intelligent Networks Services Development department at CET from 1998 until 2001; Director for Systems Integration at PT Inovação from 2002 until 2003; Executive Director at PT Inovação Brazil in São Paulo, Brazil, from 2003 until 2006; Member of PT Inovação's Executive Board from July 2006 until February 2008.

Miguel Nuno Piedade Moreira. Executive Director (*Administrador Delegado*) of PT Sistemas de Informação, S.A. Appointed 2009. Age 50. Executive Director of PT PRO S.A. from 2003 until 2009. Team Leader for Shared Services Initiative at Portugal Telecom, SGPS, S.A. from 2002 until 2003; Senior Manager at PricewaterhouseCoopers Lisbon from 2000 until 2002; Senior Manager at PricewaterhouseCoopers Madrid from 1997 until 2000; Manager at Coopers & Lybrand Lisbon from 1992 until 1997; Consultant at Andersen Consulting Lisbon from 1988 until 1992; Industrial Engineer at General Motors from 1983 until 1988.

Gonçalo Pinto Coelho. Executive Director (*Administrador Delegado*) of PT PRO, S.A. Appointed 2009. Age 40. Chief Financial Officer of PT PRO, S.A. from 2004 until 2009; Executive Director (*Administrador Delegado*) of PT Contact, S.A. from 2008 until 2009; Board Member of PT Imobiliária, S.A. from 2006 until 2009; Executive Board Member of Pro Share S.A. from 2007 until 2008; Executive Director (*Administrador Delegado*) of PT Compras, S.A. from 2003 until 2004; Senior Manager at Deloitte Lisbon from 2002 until 2003; Manager and Senior Manager at Arthur Andersen Lisbon from 1999 until 2002; Manager at Arthur Andersen Chicago, U.S. from 1998 until 1999; Auditor at Arthur Andersen Lisbon from 1994 until 1998. Degree in Business Management (Instituto Superior de Economia e Gestão—Universidade Técnica de Lisboa).

The business address of each member of the Board of Directors, the Executive Committee and Executive Officers of PT is Avenida Fontes Pereira de Melo, 40, 1069-300, Lisbon.

There are no potential conflicts of interests between the duties to PT of the members of the Board of Directors, the Executive Committee and the Executive Officers and their private interest or duties.

Compensation

Board of Directors, Including Executive Committee

In the year ended 31 December 2010, PT paid aggregate compensation of €8.4 million to its directors (including members of its Executive Committee). The total amount of compensation paid to directors in 2010 includes: (1) €4.9 million in fixed compensation, (2) €3.5 million in variable compensation based on performance and the ability to reach certain pre-defined goals that contribute to the strategic goals of the PT Group. The table below sets forth the compensation for PT's directors for 2009 and 2010.

	2009		2010	
	Fixed	Variable	Fixed	Variable
	(EUR Millions)			
Executive board members.....	3.3	2.2	2.9	3.5
Non-executive board members.....	1.5	—	1.4	—
Audit committee.....	0.6	—	0.6	—
	5.3	2.2	4.9	3.5

The Executive Committee increased in March 2009 from four executive board members to seven executive board members and decreased in March 2010 to five executive board members.

Under the terms of the remuneration policy established by the Remunerations Committee, executive board members are entitled to receive annual variable remuneration related to the performance achieved in the year and payable in the following year, and multi-annual variable remuneration for the performance achieved during the term of office and payable at the end of that period. On an annual basis, Portugal Telecom recognizes an accrual for the annual and multi-annual variable remuneration. At the end of the term of office 2006/2008 and considering the performance achieved during the period, executive board members and the Chairman, who served as an executive board member during 2006 and 2007, received in total €3.8 million of multi-annual variable remuneration.

In addition to the above mentioned remunerations, executive board members are also entitled to fringe benefits that are primarily utilized in their daily functions, in connection with a policy defined for the Group. As at 31 December 2010, there were no board members entitled to post retirement benefits under the plans of PT Comunicações, and there was no share based payment programme or termination benefit in place.

During the years ended 31 December 2010 and 2009, fixed remuneration of key employees of PT's management amounted to €6.9 million and €7.0 million, respectively, and variable remuneration amounted to €3.4 million and €4.1 million, respectively.

Four of PT's key employees also participate in the PT Comunicações pension plan. For these key employees, amounts were accrued in respect of post-retirement benefits. The total amount accrued to provide benefits under the plan for these directors and officers as at 31 December 2010 was €0.5 million. As at 31 December 2010, there was not in place any share based payment programme.

PT has a compensation committee that is elected by the shareholders at a General Meeting and serves the purpose of defining the remuneration policy of the members of the corporate bodies, determining the remunerations applicable taking into consideration the duties assigned, the performance (notably taking into account the evaluation made by the evaluation committee) and the economic position of the Company.

For the completion of this task, the compensation committee continuously follows up and evaluates the directors' performance, checking the extent to which the proposed targets have been achieved. The compensation committee meets whenever necessary.

As of 31 December 2010, the members of the Compensation Committee, are Álvaro João Duarte Pinto Correia (Chairman of the Compensation Committee), Francisco Adelino Gusmão Esteves de Carvalho, and Francisco José Queiroz de Barros Lacerda.

Board Practices

At the General Meeting of Shareholders held on 22 June 2007, changes were made to PT's bylaws in order to adapt its corporate governance structure to the new legal framework established by Decree-Law 76-A/2006 of 29 March 2006, which amended the Portuguese Companies Code. At this meeting, the shareholders approved the adoption of the "Anglo Saxon" model. Under this model, the audit committee and the statutory chartered accountant are its corporate supervisory bodies.

As of 31 December 2010, João Manuel de Mello Franco, José Guilherme Xavier de Basto and Mário João de Matos Gomes were the members of PT's audit committee responsible for the oversight of its management.

The Statutory Auditor, who, pursuant to Decree-Law 76-A/2006 dated 29 March 2006, is not a member of the audit committee, is responsible for examining PT's accounts. As of 31 December 2010, P. Matos Silva, Garcia Jr., P. Caiado & Associados SROC, Lda., represented by Pedro João Reis de Matos Silva, was PT's effective Statutory Auditor. As permitted by law, no Alternate Statutory Auditor was appointed at PT's last general shareholders' meeting.

PT is required by its articles of association and Portuguese law to maintain an audit committee consisting of three non-executive board members. In addition to the authority established in Portuguese laws, the audit committee has specific authority granted by PT's articles of association.

The audit committee schedules its meetings at least once every two months of each financial year at the time and place determined by its Chairman, and additional meetings may be convened by the Chairman or at request of the majority of its members. The audit committee may not meet without the attendance of the majority of its members, provided that the Chairman may, in cases of recognised urgency or justified impossibility, permit a meeting without the attendance of a majority if a majority is assured by vote by correspondence or by proxy (provided, however, that each member does not act on behalf of more than one audit committee member). The resolutions of the audit committee are adopted by the majority of votes cast and its Chairman has a deciding vote.

In its annual budget, PT provides the financial resources required for the audit committee to pay the compensation of the independent auditor and of any advisors of the audit committee and to cover the expenses required for the audit committee to perform its powers and duties.

PT has a compensation committee, which is described under "*—Compensation*" above. In addition, see "*—Compensation*" for information about contracts to which certain of PT's directors are party.

FINANCIAL STATEMENTS OF PORTUGAL TELECOM

The selected condensed consolidated balance sheet data as of 31 December 2009 and 2010 have been derived from PT's audited consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union. The selected condensed consolidated balance sheet data as of 31 March 2011 have been derived from PT's unaudited consolidated financial statements prepared in accordance with IFRS.

The information set forth below is qualified by reference to, and should be read in conjunction with, PT's consolidated financial statements and the notes thereto.

Given the sale on 27 September 2010 of PT's interest in Vivo to Telefónica, the selected consolidated statement of income for Vivo is presented under the caption "Discontinued Operations" for all periods through the completion of the sale, and the selected consolidated balance sheet as of 31 December 2010 and as of 31 March 2011 no longer include the assets and liabilities related to Vivo, following the completion of the sale on 27 September 2010.

Following the acquisition on 28 March 2011 of a 25.3% stake in Oi and a 14.1% stake in Contax and PT's Rights to participate in the management of Oi as described under "Strategic Alliances – Strategic Partnership with Oi, Background and History", the selected condensed consolidated balance sheet data as of 31 March 2011 proportionally consolidates the assets and liabilities of these stakes.

CONDENSED CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2009, 31 DECEMBER 2010 AND 31 MARCH 2011 (Amounts stated in thousands of Euros – EUR)

	<i>31 December</i>		<i>31 March</i>
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>
	<i>(restated)</i>		
Current assets	3,699,052.6	8,855,403.3	9,328,901.8
Non-current assets	11,141,440.1	6,314,528.8	14,175,664.4
Investments in group companies	597,210.0	361,517.6	373,757.3
Other investments	16,885.9	17,680.6	20,105.7
Intangible assets, net	4,074,303.2	1,111,692.6	4,916,376.4
Fixed assets, net	4,843,868.2	3,874,613.4	6,430,107.5
Post retirement benefits	67,588.6	1,928.0	12,447.6
Deferred taxes	1,019,511.1	653,075.2	1,319,500.6
Other non-current assets	522,073.0	294,021.4	1,103,396.3
Total Assets	14,840,492.7	15,169,932.2	23,504,566.2
Current liabilities	3,398,406.7	2,683,679.2	6,469,236.1
Non-current liabilities	9,054,639.6	7,877,107.9	11,791,052.5
Medium and long-term debt	6,551,516.1	6,254,380.3	8,638,983.0
Taxes payable	59,217.4	3,805.3	316,258.4
Provisions	102,629.8	40,947.2	660,901.1
Post retirement benefits	1,558,341.5	968,792.6	1,023,666.1
Deferred taxes	483,112.3	311,597.3	655,509.1
Other non-current liabilities	299,822.4	297,585.1	495,734.7
Total liabilities	12,453,046.3	10,560,787.0	18,260,288.6
Net assets	2,387,446.5	4,609,145.1	5,244,277.5
Shareholders' equity before minority interest	1,318,311.2	4,392,448.6	4,315,447.7
Minority interests	1,069,135.2	216,696.6	928,831.8
Shareholders' equity	2,387,446.5	4,609,145.1	5,244,277.5
Total liabilities and shareholders' equity	14,840,492.7	15,169,932.2	2,354,566.2

CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2009 AND 31 DECEMBER 2010
AND FOR THE THREE MONTHS ENDED 31 MARCH 2010 AND 31 MARCH 2011
(Amounts stated in thousands of Euros – EUR)

	<i>Year Ended 31 December,</i>		<i>Three Months Ended 31 March</i>	
	<i>2009</i>	<i>2010</i>	<i>2010</i>	<i>2011</i>
	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>
	<i>(restated)</i>		<i>(restated)</i>	
REVENUES				
Services rendered	3,491,970.1	3,516,024.0	859,015.9	836,773.5
Sales	197,167.9	165,615.9	31,516.4	23,824.1
Other revenues	44,266.8	60,614.0	16,346.3	10,520.5
	3,733,404.8	3,742,253.8	906,878.6	871,118.1
COSTS, EXPENSES, LOSSES AND INCOME				
Wages and salaries	546,689.5	637,115.6	149,635.7	156,770.8
Direct costs	522,353.6	547,559.1	133,702.4	124,858.8
Costs of products sold	207,256.0	179,893.9	38,260.3	23,418.7
Marketing and publicity	78,608.9	81,096.9	17,496.7	16,634.4
Supplies and external services	733,310.9	724,519.7	168,939.1	174,921.2
Provisions and adjustments	30,505.5	34,951.9	10,748.6	5,311.3
Indirect taxes	57,816.6	45,418.2	10,999.3	11,766.5
Depreciation and amortisation	716,851.8	758,567.8	172,406.1	196,360.0
Net post retirement benefits costs	89,630.5	38,209.8	17,822.6	12,046.0
Curtailment and settlement costs	14,804.7	145,513.3	5,178.2	4,403.2
Gains on disposals of fixed assets, net	(1,955.8)	(5,542.8)	(610.9)	(86.2)
Other costs, net	45,610.0	141,194.0	4,490.8	2,814.6
	3,041,482.2	3,328,497.4	729,068.9	729,219.4
Income before financial results and taxes	691,922.6	413,756.4	177,809.6	141,898.7
Net interest expense	227,491.2	185,044.9	59,087.0	(17,317.5)
Net foreign currency exchange losses	212.9	6,814.2	(2,809.1)	15,704.6
Net gains on financial assets and other investments	(8,067.6)	(1,860.3)	(370.5)	972.9
Equity in earnings of associated companies, net	(456,043.5)	(141,709.1)	(38,764.6)	(80,180.6)
Net other financial expenses	35,715.6	33,300.5	8,057.0	25,229.5
	(200,691.5)	81,590.3	25,199.7	(55,591.0)
Income before taxes	892,614.2	332,166.1	152,609.9	197,489.7
Minus: Income taxes	185,890.2	77,525.8	38,718.2	47,968.1
Net income from continuing operations	706,724.0	254,640.3	113,891.7	149,521.6
DISCONTINUED OPERATIONS				
Net income from discontinued operations	82,462.2	5,565,426.5	15,254.8	—
NET INCOME	789,186.2	5,820,066.8	129,146.5	149,521.6
Attributable to non-controlling interests	104,452.0	147,871.8	28,830.8	19,792.6
Attributable to equity holders of the parent	684,734.1	5,672,195.0	100,315.7	129,729.0

The following unaudited *pro forma* consolidated income statement of PT for the three months ended 31 March 2011 has been prepared for illustrative purposes only, in order to represent the consolidated income statement of PT for the three months ended 31 March 2011 had PT's stake in Oi, been proportionally consolidated as from 1 January 2011. Thus, this *pro forma* financial information addresses a hypothetical situation and does not represent the actual financial results of PT.

The unadjusted information in the following *pro forma* consolidated income statement of PT for the three months ended 31 March 2011 has been derived from the unaudited consolidated income statement for the three months ended 31 March 2011 of PT. The adjustments in the following *pro forma* consolidated income statement of PT for the three months ended 31 March 2011 have been derived from the unaudited income statements for the three months ended 31 March 2011 of Oi.

All *pro forma* financial adjustments are directly attributable to the acquisition of PT's stake in Oi. No *pro forma* adjustments have been made to reflect any matters not directly attributable to such acquisition. All *pro forma* adjustments that have been made are expected to have a continuing impact on PT.

The *pro forma* information below has been prepared in accordance with IFRS.

**PRO FORMA CONSOLIDATED INCOME STATEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2011
(Amounts stated in thousands of Euros - EUR)**

	<i>Unadjusted information⁽¹⁾ EUR</i>	<i>Pro forma adjustments⁽²⁾⁽³⁾⁽⁴⁾ EUR</i>	<i>Pro forma information EUR</i>
REVENUES			
Services rendered	836,773.5	775,731.0	1,612,504.4
Sales	23,824.1	3,287.1	27,111.2
Other revenues	10,520.5	29,220.5	39,741.0
	871,118.1	808,238.6	1,679,356.6
COSTS, EXPENSES, LOSSES AND INCOME			
Wages and salaries	156,770.8	52,428.0	209,198.8
Direct costs	124,858.8	177,249.0	302,107.8
Costs of products sold	23,418.7	6,147.6	29,566.3
Marketing and publicity	16,634.4	15,515.6	32,150.0
Supplies and external services	174,921.2	205,656.3	380,577.5
Provisions and adjustments	5,311.3	62,826.3	68,137.6
Indirect taxes	11,766.5	55,824.5	67,591.0
Depreciation and amortisation	196,360.0	163,593.5	359,953.5
Net post retirement benefits	12,046.0	1,521.9	13,567.9
Curtailment and settlement costs	4,403.2	—	4,403.2
Gains on disposals of fixed assets, net	(86.2)	2,052.6	1,966.4
Other costs, net	2,814.6	6,690.9	9,505.5
	729,219.4	749,506.1	1,478,725.5
Income before financial results and taxes	141,898.7	58,732.5	200,631.2
Net interest expense	(17,317.5)	59,824.2	42,506.7
Net foreign currency exchange losses (gains)	15,704.6	(5,185.9)	10,518.7
Net gains on financial assets and other investments	972.9	—	972.9
Equity in earnings of associated companies, net	(80,180.6)	—	(80,180.6)
Net other financial expenses	25,229.5	82,069.4	107,298.9
	(55,591.0)	136,707.7	81,116.7
Income before taxes	197,489.7	(77,975.2)	119,514.5
Minus: Income taxes	47,968.1	(34,194.6)	13,773.5
NET INCOME	149,521.6	(43,780.6)	105,741.0
Attributable to non-controlling interests	19,792.6	(25,341.6)	(5,549.0)
Attributable to equity holders of the parent	129,729.0	(18,439.0)	111,290.0

(1) Extracted from the unaudited consolidated income statement for the three months ended 31 March 2011 of PT.

(2) Pro forma adjustments consist of 25.6% of Oi's unaudited income statement for the three months ended 31 March 2011, as PT will consolidate 25.6% of Oi in its consolidated financial statements, given PT's economic stake and its rights to participate in the management of Oi as described under "Strategic Alliances - Strategic Partnership with Oi, Background and History". These are the only *pro forma* adjustments directly attributable to the acquisition of PT's stake in Oi.

(3) Oi's income statement is expressed in Brazilian Reais. Translation to Euro was made using the exchange rate of 2.2800 Brazilian Reais to the Euro, as this was the average exchange rate for the three months period ended 31 March 2011.

(4) As both the unaudited consolidated income statements for the three months ended 31 March 2011 of PT and Oi have been prepared in accordance to IFRS and there are no material differences between accounting policies of PT and Oi, no adjustments related to accounting policies needs to be made.

PORTUGAL TELECOM INTERNATIONAL FINANCE B.V.

Portugal Telecom International Finance B.V. (the “Issuer”) is a direct wholly-owned subsidiary of PT. The Issuer was incorporated on 26th November, 1998 under the laws of The Netherlands as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) having its corporate seat in Amsterdam, The Netherlands and is registered with the Amsterdam Commercial Register under No. 34108060. The Issuer has its registered office at Locatellikade 1, 1076 AZ Amsterdam, The Netherlands (Telephone: + 31205 755600). The Issuer’s principal activity is to act as a finance company for the Portugal Telecom group. The Issuer has no subsidiaries.

Management

The Directors of the Issuer, all of which are Managing Directors, at the date of this Offering Circular are:

<i>Name</i>	<i>Business Address</i>	<i>Outside Activities</i>
Carlos Manuel Mendes Fidalgo Moreira da Cruz	Av. Fontes Pereira de Melo, 40 Lisbon, Portugal	Executive Board Member of Portugal Telecom Investimentos Internacionais – Consultoria Internacional, S.A. since May 2006; Manager of the Financial Department of Portugal Telecom, SGPS, S.A. since 2001; Managing Director of Portugal Telecom International Finance BV since 2002; Member of the Portuguese Privatisation Commission from 1999 until 2001; Advisor to the Secretary of State for Treasury and Finance from 1996 until 1998; Lecturer of Financial Strategy from 1996 until 2001 at IEP/EGP MBA Program; Assistant Lecturer of Corporate Finance and Macroeconomics at Oporto University from 1987 until 1996; Assistant Lecturer of Firm Valuation from 1994 to 1997 at IESF; Analyst in the Mergers and Acquisitions Department of BPI from 1990 until 1994; Author of <i>Obrigações: Mercado, Avaliação e Risco de Taxa de Juro</i> published by Instituto do Mercado de Capitais/ Euronext Lisbon (1995-1999).
Bruno Miguel Saraiva Pinheiro da Costa Saldanha	Av. Fontes Pereira de Melo, 40 Lisbon, Portugal	Managing director A of Portugal Telecom International B.V. since May 28, 2009. See “Portugal Telecom – Management”.
Petrus Joseph Gerardus de Reus	Locatallikade 1 1076 AZ Amsterdam The Netherland	Managing director B of Portugal Telecom International B.V. since May 28, 2009. Attorney-in-fact of TMF Management B.V. since June 2, 2006. Supervisor accounting department at TMF Group since 2003. Managing director Fiduciaire de l’Alliance TMF Sarl from 2000 to 2003. Manager accounting at TMF Nederland from 1995 to 2000. Audit manager international business practice at Coopers & Lybrand from 1989 to 1995. Audit supervisor international business practice at Treuhand Vereinigung AG, Germany from 1987 to 1989. Audit senior and assistant international business practice at Coopers & Lybrand from 1984 to 1987.
Ilaria de Lucia	Locatellikade 1 1076 AZ Amsterdam The Netherlands	Managing director B of Portugal Telecom International B.V. since May 28, 2009. Attorney-in-fact of TMF Management B.V. since July 11, 2008. Supervisor legal department at TMF Group from 2007. Account Manager Legal at TMF Nederland BV from 2002 to 2007. Account Receivables Manager at Jolly Hotel Carlton from 2001 to 2002. Internet Editor at LookSmart from July 2000 to December 2000. Export Area Manager on behalf of Grandi Sapori Italia S.p.a.

<i>Name</i>	<i>Business Address</i>	<i>Outside Activities</i>
TMF Management B.V.	Locatellikade 1 1076 AZ Amsterdam The Netherlands	and Italian Institute for foreign trade from September 1999 to July 2000. Managing director B and attorney-in-fact of Portugal Telecom International B.V. since August 12, 2006. See below list of signatories of TMF Management B.V.

Signatories TMF Management B.V.

<i>Name</i>	<i>Outside Activities</i>
Maria Christina van der Sluijs-Plantz	Chief Executive Officer of TMF Group since June 1, 2003. Managing director TMF Nederland B.V. 1995-2003. Managing Director/ Group General Counsel of LET Europe N.V. (present name Alecta Real Estate Europe/Pacific B.V.) from 1989-1995. Managing director of German City Estates N.V. (renamed European City Estates N.V.) from 1990-1992. Corporate lawyer at Price Waterhouse Vooren (present name PriceWaterhouseCoopers) from 1986-1989. Consultant at U.N.D.P./I.L.O./ Department for Development Co-operation Netherlands Antilles from 1981-1983.
Baron Jan Reint de Vos van Steenwijk	Member of the Board of Directors of the Confederation of Netherlands Industry and Employers (VNO-NCW) since November 2007. Managing Director of TMF Group since August 2004. Chairman of the Board of VIMS (Vereniging International Management Services) since January 2004. Treasurer of the Board of the branch organisation of Dutch Trust and Finance companies (VIMS). Managing director of ABN AMRO Trust Company (Nederland B.V. from 1999-2004. Regional director of ABN AMRO Bank Region Maastricht from 1997-1999. Senior Vice President and member Dutch Credit Committee of ABN AMRO Bank Credit Department from 1994-1997. Director of ABN AMRO Treasury Management Consultants from 1994-1995. Director of NV Consultas - Actuarial and Employee Benefits Consulting firm. Director of Amro Bank Apeldoorn, district manager Corporate Clients from 1988-1991. Global relationship manager of Corporate Banking Division, Amro Bank from 1985-1988. Head of Representative Office of Amro Bank Moscow from 1983-1985. Account manager Dutch clients of Corporate Finance department Amro Bank from 1982-1983. Account manager of Export finance department Amro Bank from 1980-1982.
Timo Johannes van Rijn	Managing Director of TMF Management B.V. since June 2, 2006. Managing Director of Netherlands Management Company B.V. (group company TMF group) since June 2, 2006.
Robert Willem de Koning	Managing Director of TMF Management B.V. since June 2, 2006. Managing Director of Netherlands Management Company B.V. (group company TMF group) since June 2, 2006.
Sandra Reintje Lombert	Attorney-in-fact of TMF Management B.V. since August 14, 1992. Managing Director of Netherlands Management Company B.V. (group company TMF group) since December 19, 2001.
Johannes Fredericus Verhaert	Attorney-in-fact of TMF Management B.V. since January 1, 1991. Account manager legal at TMF Group.
Johannes Jacobus Schellingerhout	Attorney-in-fact with title director of TMF Management B.V. since April 18, 1998. Managing Director of BFT Nederland B.V. (group company TMF group) since September 26, 2005.

<i>Name</i>	<i>Outside Activities</i>
Danny Timmers	Attorney-in-fact of TMF Management B.V. since April 7, 2000. Supervisor accounting department at TMF Group.
Alexander Sylvester Verheijen	Attorney-in-fact of TMF Management B.V. since April 7, 2000.
Theresia Francisca Cornelia Wijnen	Attorney-in-fact of TMF Management B.V. since February 9, 2005. Managing Director TMF Structured Finance Services B.V. since February 26, 2002.
Rémi Hermanus Hyacinthus Maria Smits	Attorney-in-fact with title director of TMF Management B.V. since June 2, 2006. Supervisor legal department at TMF Group.
Petrus Joseph Gerardus de Reus	Attorney-in-fact of TMF Management B.V. since June 2, 2006. Supervisor accounting department at TMF Group.
Robertus Hendrikus Lukas de Groot	Attorney-in-fact of TMF Management B.V. since June 2, 2006. Supervisor accounting department at TMF Group.
Saskia Antonia Johanna Engel	Attorney-in-fact of TMF Management B.V. since June 2, 2006. Attorney-in-fact of Netherlands Management Company B.V. (group company TMF group) since August 1, 1989.
Myrthe Marie Louise Görtzen	Attorney-in-fact of TMF Management B.V. since June 2, 2006. Supervisor legal department at TMF Group.
Arthur Weglau	Attorney-in-fact of TMF Management B.V. since August 30, 2007. Working for the Structured Finance department.
Steffen Engelbertus Johannes Ruigrok	Attorney-in-fact of TMF Management B.V. since August 30, 2007. Working for the Structured Finance department.
Hubertus Petrus Cornelis Mourits	Attorney-in-fact of TMF Management B.V. since August 30, 2007. Managing Director TMF Structured Finance Services B.V. since October 19, 2007.
Ilaria De Lucia	Attorney-in-fact of TMF Management B.V. since July 11, 2008. Supervisor legal department at TMF Group.
Benjamin de Koe	Attorney-in-fact of TMF Management B.V. since October 16, 2008. Supervisor accounting department at TMF Group.
Lucas Jules Marie Duijsens	Attorney-in-fact of TMF Management B.V. since August 25, 2009. Supervisor legal department at TMF Group.
Dennis Beets	Attorney-in-fact of TMF Management B.V. since January 29, 2010. Supervisor legal department at TMF Group.
Paulus Cornelis Gerhardus van Duween	Attorney-in-fact of TMF Management B.V. since January 29, 2010. Supervisor legal department at TMF Group.
Adrianus Simon Jacobus Maria Baijens	Attorney-in-fact of TMF Management B.V. since January 29, 2010. Supervisor accounting department at TMF Group.
Stefanie Joanne van der Duijs	Attorney-in-fact of TMF Management B.V. since January 29, 2010. Account manager legal at TMF Group.

<i>Name</i>	<i>Outside Activities</i>
Paul Zwagerman	Attorney-in-fact of TMF Management B.V. since January 29, 2010. Account Manager legal at TMF Group.
Roland van de Pavverd	Attorney-in-fact of TMF Management B.V. since January 29, 2010. Account Manager accounting at TMF Group.
Casper Jacobus Horstmanshof	Attorney-in-fact of TMF Management B.V. since January 29, 2010. Supervisor accounting department at TMF Group.
Robbert Hendrik van der Werff	Attorney-in-fact of TMF Management B.V. since February 23, 2010. Account Manager legal at TMF Group.
Ronald Platen	Attorney-in-fact of TMF Management B.V. since February 23, 2010. Account Manager accounting at TMF Group.
Elena Maria Quarles van Ufford-Gonzalez-Sicilia de Ascanio	Attorney-in-fact of TMF Management B.V. since September 30, 2010. Account Manager legal at TMF Group.
Nicoolas Jacobus Petrus Tetteroo	Attorney-in-fact of TMF Management B.V. since September 30, 2010. Account Manager accounting at TMF Group.
Sebastiaan Jacobus Charles Adrianus Pijnenburg	Attorney-in-fact of TMF Management B.V. since September 30, 2010. Supervisor legal department at TMF Group.

The business address of each of the TMF Management B.V.'s signatories is Locatellikade 1, 1076 AZ Amsterdam, The Netherlands.

There are no potential conflicts of interest between the directors of the Issuer or the TMF Management B.V.'s signatories listed above in respect of the Issuer and their private interests or duties.

PT COMUNICAÇÕES, S.A.

PT Comunicações, S.A. (“PTC”) is a direct wholly-owned subsidiary of PT Portugal, SGPS, S.A., which is a direct wholly-owned subsidiary of Portugal Telecom. PTC was incorporated as a Sociedade Anónima under the laws of the Portuguese Republic. PTC has its registered office at Rua Andrade Corvo, no. 6, Lisbon (telephone: +351215001000) and is registered in the Lisbon Company Register, under the sole registration and tax number 504.615.947. PTC’s principal activity is to hold and operate Portugal Telecom’s wireline network. Its business is described above under “*Portugal Telecom, SGPS, S.A. – Portuguese Operations*”. Its business is subject to regulation as described above under “*Portugal Telecom SGPS, S.A. – Regulation – Portugal*”.

Management

The following sets out the names, functions and outside activities of the board of directors of PTC:

Board of directors

<i>Name</i>	<i>Function</i>	<i>Outside Activities</i>
Zeinal Bava	Chairman	See “ <i>Portugal Telecom, SGPS, S.A. – Management</i> ”
Manuel Francisco Rosa da Silva	Board Member	See “ <i>Portugal Telecom, SGPS, S.A. – Management</i> ”
Pedro Humberto Monteiro Durão Leitão	Board Member for Residential Business	See “ <i>Portugal Telecom SGPS, S.A. – Management</i> ”
Francisco José Meira Silva Nunes	Chief Financial Officer and Board Member of Human Resources and Legal Affairs	Board Member of PT Sales since June 2009; Board Member of PT Comunicações, S.A., PT Prime, PT Prime Tradecom, PT SI and PT ACS since 2007; Board Member of PT Imobiliária from 2007 to 2009; Board Member of PT Portugal and TMN since 2008; Member of the Board of Directors of Previsão – Sociedade Gestora de Fundos de Pensões, S.A. since 2004; Board Member of PT Prestações since 2004; Member Chief Accounting Officer and Manager of the Financial Reporting and Consolidation Department of Portugal Telecom, Appointed 2003; Member of the Board of Directors of PT Compras – Serviços de Consultoria e Negociação, S.A. since 2003; Manager of DCSI from 2007 to 2008; Board Member of PT.com from 2007 to 2008; Board Member of PT Multimédia from April 2006 to September 2007; Member of the Board of Directors of PT PRO, S.A. from 2003 to 2008; Partner of Audit and Business Advisory Services of Andersen from 1999 to 2002; Manager of Audit and Business Advisory Services of Andersen from 1992 to 1999.
Alfredo José Silva de Oliveira Baptista	Board Member for Infrastructures and Wholesale	See “ <i>Portugal Telecom, SGPS, S.A. – Management</i> ”
Carlos Antonio Alves Duarte	Board Member for Corporate Business	See “ <i>Portugal Telecom, SGPS, S.A. – Management</i> ”
Abílio Cesário Lopes Martins	Board Member	Member of the Board of PT Portugal and TMN since 2008. Executive Member of the Board of PT Comunicações and PT Prime, responsible for customer care and portal SAPO, since 2007. Member of the Board of Portugal Telecom Brasil, since 2000. Member of the Board of PT.Com, responsible for internet and portal SAPO, from 2006 until 2008. Corporate Communication Director, PT SGPS, since 2002. Integrated Communication Director, PT Comunicações, from 2004 until 2008. Portugal

<i>Name</i>	<i>Function</i>	<i>Outside Activities</i>
Rui Alexandre Ramos Gonçalves Pereira	Board Member	Telecom President's communication and media assessor and adviser, from 2000 until 2002. Communication and Media Relations Consultant, from 1998 until 2000. Board Member of PT Portugal, PT Comunicações, PT Prime and PT Contact since 2008; Board Member of TMN since 2006; Partner at Europraxis from 2003 until 2006; Partner at Diamond DiamondCluster from 2002 until 2003; Principal at DiamondCluster from 2000 until 2002; Project Manager at Mckinsey from 1998 until 2000; Consultant at McKinsey from 1996 until 1998
Luís Filipe Saraiva Castel- Branco de Avelar	Board Member for Marketing and Service Development;	Board Member of PT Portugal since November 2007. Board Member of PT Comunicações and PT Prime since March 2008; Board Member of TMN since 2006, responsible for Marketing and Service Development; Marketing and Innovation Vice-President of Vivo, Brazil, from August 2001 to December 2005; Personal advisor to the President of Telesp Celular, São Paulo, Brazil from October 1998 to August 2001 for Strategy, Marketing and Commercial matters; Director of Portugal Telecom Brazil from March 1998 to October 1998; Director of Strategic Marketing of Portugal Telecom from June 1997 to March 1998; Member of Portugal Telecom's International affairs office from September 1995 to June 1997; Director of Strategy and Regulation of the Holding Comunicações Nacionais from March 1994 to September 1995; Technical Expert to the General Dept XIII of the European Commission from October 1991 to March 1994; responsible for development of new services, commercial strategy and large account director of Telefones de Lisboa e Porto, from January 1982 to October 1991.
José Carlos de Oliveira Baldino	Board Member for Television Business	Board Member of PT Portugal, PT Comunicações, PT Prime, and Fundação PT since 2008; Board Member of PT WiFi since 2007; Board Member of TMN since 2004; Board Member of PT.Com from 2000 until 2004; CEO of SAPO from 1998 until 2000; Board Member of Texto Editores SA from 1990 until 1998; Attorney at Law from 1988 until 1990;
David José Ferreira Lopes	Board Member for Network Operations	Board Member of PT Portugal, PT Comunicações and PT Prime since 2008, Board Member of TMN since 2004; Board Member of PT WiFi since 2006 until 2008; Board Member of PT Prime from February 2004 to June 2004; Board Member of PTC since 2003 until 2004; Chairman of TT and Board Member of TPT since 2003 until 2004; General Director of Networks of PTC and PT Prime since 2002 until 2003; General Manager of Infonet Portugal since 2003 until 2004; Director of Engineering of Telesp Celular-São Paulo-Brazil since 2000 until 2002; Manager of Network Quality Department of Telesp Celular-São Paulo-Brazil since 1999 until 2000; Director of Network of PT since 1994 until 1999; Member of "Conselho Fiscal" of TV Cabo Portugal in 1994; Director of Network of TP since 1993 until 1994; Director of Network of DGT/CTT since 1989 until 1992; Sub-Director of Digital Network of DGT/CTT in 1989; Head of Transmission Systems Department of DGT/CTT since 1987 until 1989;

<i>Name</i>	<i>Function</i>	<i>Outside Activities</i>
		Engineer of Transmission Systems of DGT/CTT since 1984 until 1987; Engineer of Switching Systems of DGT/CTT since 1979 until 1984.

The business address of each member of the board of directors of PTC is Rua Andrade Corvo, no 6, Lisbon.

There are no potential conflicts of interest between the duties to PTC of the persons listed above and their private interest or duties.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg (together, the “Clearing Systems”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and PT believe to be reliable, but none of the Issuer, each Keep Well Provider nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, each Keep Well Provider nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry System

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note will be effected in accordance with the customary rules and operating procedures of Euroclear and Clearstream, Luxembourg, as the case may be.

Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, any Keep Well Provider, the Agents or any Dealer will be responsible for any performance by Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

Portugal

The following is a summary of the Portuguese tax laws in relation to certain current relevant aspects, as of the date of this Prospectus, to Portuguese taxation of payments made under the Notes. The statements relate only to the position of persons who are absolute beneficial owners of the Notes and considered as residents in Portugal or as non residents with a permanent establishment to whom income is imputable. It is not exhaustive and holders who are in doubt as to their tax position should consult their professional advisers.

The summary below assumes that such Notes would be treated by the Portuguese tax authorities as corporate bonds (“*obrigações*”) as defined under Portuguese law, but no assurance can be given that such position would be taken or maintained by such authorities.

The references to “investment income”, “interest” and “capital gains” in the paragraphs below mean “investment income”, “interest” and “capital gains” as treated in Portuguese tax law. The statements below do not take any account of any different definitions of “investment income”, “interest” or “capital gains” which may prevail under any other law or which may be created by the Conditions or any related documentation.

Investment income derived from the Notes and capital gains realised with the transfer of the Notes by corporate holders resident for tax purposes in Portugal and by foreign corporate holders with a permanent establishment in Portugal to whom such income or gains is attributable are included in their taxable income and taxed in Portugal at the normal corporate tax rate of 12.5 per cent. for taxable income up to €12,500,00 and 25 per cent. for taxable income in excess of said amount plus a municipality surcharge (“*derrama*”) of a maximum of 1.5 per cent. A state surcharge (“*derrama estadual*”) of 2.5 per cent. is applicable to the taxable income in excess of €2 million.

Investment income earned by resident individuals on the Notes is subject to Portuguese individual income tax at the rate of 21.5 per cent. unless an option for aggregation is made in which case it will be taxed at progressive rates, up to 46.5 per cent. In the case of zero coupon Notes, the difference between the redemption value and the subscription cost is regarded as investment income and is also subject to Portuguese individual income taxation.

Capital gains realised by resident individuals from the disposal of the Notes are subject to Portuguese individual income tax at the rate of 20 per cent. unless an option for aggregation is made in which case it will be taxed at progressive rates up to 46.5 per cent.

In respect of individuals or legal persons resident in Portugal for tax purposes, if the Programme or the Notes are treated as “Loans” instead of corporate bonds (“*obrigações*”) by Portuguese tax authorities, certain differences may apply. In particular, although the regime referred to above relating to income tax on interest would also be generally applicable, stamp duty (at a rate of 0.04 per cent. for each month or fraction on loans with a period of less than one year, 0.5 per cent. on loans with a period of one to less than five years and 0.6 per cent. on loans with a period of five years or more) will apply on the amount of the loan. In addition, stamp duty at the rate of 4 per cent. on the interest would apply if the transaction is considered to be carried out between or with the intermediation of credit institutions, financial entities or similar entities.

Payments made on the Notes by the Issuer to an individual or legal person, either resident or non-resident in Portugal for tax purposes, are in general not subject to Portuguese withholding tax. However, if the payment of interest or redemption of zero coupon Notes are made available to Portuguese resident individuals through a Portuguese resident (specially mandated or not) they are subject to a final withholding tax at a current rate of 21.5 per cent. unless an option for aggregation is made in which case the withheld tax is creditable against the recipient’s final tax liability.

Capital gains realised on the transfer of a Note by a holder who is neither resident nor engaged in business through a permanent establishment in Portugal to which that gain is attributable are not Portuguese-source income and therefore are not subject to Portuguese taxation.

Tax Considerations in The Netherlands

The following summary of certain Dutch taxation matters is based on the laws and practice in force as of the date of this Offering Circular and is subject to any changes in law and the interpretation and application thereof, which changes could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of a Note, Coupon, Talon or Receipt, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules.

For the purpose of this summary it is assumed that no holder of a Note has or will have a substantial interest, or – in the case of a holder of a Note, Coupon, Talon or Receipt being an entity – a deemed substantial interest, in the Issuer and that no connected person (*verbonden persoon*) to the holder of a Note, Coupon, Talon or Receipt has or will have a substantial interest in the Issuer.

Generally speaking, an individual has a substantial interest in a company if (a) such individual, either alone or together with his partner, directly or indirectly has, or is deemed to have or (b) certain relatives of such individual or his partner directly or indirectly have or are deemed to have (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of such company, or (ii) the ownership of, or certain rights over, profit participating certificates (*winstbewijzen*) that relate to 5 per cent or more of either the annual profit or the liquidation proceeds of such company.

Generally speaking, a non-resident entity has a substantial interest in a company if such entity, directly or indirectly has (I) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of the Issuer, or (II) the ownership of, or certain rights over, profit participating certificates (*winstbewijzen*) that relate to 5 per cent or more of either the annual profit or the liquidation proceeds of such company. An entity holding a Note, Coupon, Talon or Receipt has a deemed substantial interest in a company if such entity has disposed of or is deemed to have disposed of all or part of a substantial interest on a non-recognition basis.

For the purpose of this summary, the term “entity” means a corporation as well as any other person that is taxable as a corporation for Dutch corporate tax purposes.

Where this summary refers to a holder of a Note, Coupon, Talon or Receipt, an individual holding a Note, Coupon, Talon or Receipt or an entity holding a Note, Coupon, Talon or Receipt, such reference is restricted to an individual or entity holding legal title to as well as an economic interest in such Note, Coupon, Talon or Receipt.

Where this summary refers to “The Netherlands” or “Dutch”, it refers only to the European part of the Kingdom of the Netherlands.

Investors should consult their professional advisers on the tax consequences of their acquiring, holding and disposing of a Note, Coupon, Talon or Receipt.

1. WITHHOLDING TAX

All payments made by the Issuer of interest and principal under a Note, Coupon, Talon or Receipt can be made free of withholding or deduction of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein, unless the Notes qualify as debt that effectively functions as equity for purposes of article 10, paragraph 1, sub d of the Corporate Tax Act (*Wet op de vennootschapsbelasting 1969*).

2. TAXES ON INCOME AND CAPITAL GAINS

Residents

Resident entities

An entity holding a Note, Coupon, Talon or Receipt which is, or is deemed to be, resident in The Netherlands for corporate tax purposes and which is not tax exempt, will generally be subject to corporate tax in respect of income or a capital gain derived from a Note, Coupon, Talon or Receipt at the prevailing statutory rates.

Resident Individuals

An individual holding a Note, Coupon, Talon or Receipt who is, is deemed to be, or has elected to be treated as, resident in The Netherlands for income tax purposes will be subject to income tax in respect of income or a capital gain derived from a Note, Coupon, Talon or Receipt at rates up to 52 per cent if:

- (i) the income or capital gain is attributable to an enterprise from which the holder derives profits (other than by way of securities as a shareholder); or
- (ii) the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor (ii) applies, an individual holding a Note, Coupon, Talon or Receipt will be subject to income tax on the basis of a deemed return, regardless of any actual income or capital gain derived from a Note, Coupon, Talon or Receipt. The deemed return amounts to 4 per cent. of the average value of the individual's net assets in the relevant fiscal year (including the Note, Coupon, Talon or Receipt). Subject to application of certain allowances, the deemed return will be taxed at a rate of 30 per cent.

Non-residents

A holder of a Note, Coupon, Talon or Receipt which is not, is not deemed to be, and – in case the holder is an individual – has not elected to be treated as, resident in The Netherlands for the relevant tax purposes will not be subject to taxation on income or a capital gain derived from a Note, Coupon, Talon or Receipt unless:

- (i) the income or capital gain is attributable to an enterprise or part thereof which is either effectively managed in The Netherlands or carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) in The Netherlands and the holder of a Note, Coupon, Talon or Receipt derives profits from such enterprise (other than by way of securities); or
- (ii) the holder is an individual and the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in The Netherlands as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

3. GIFT AND INHERITANCE TAXES

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of a Note, Coupon, Talon or Receipt by way of gift by, or on the death of, a holder of a Note, Coupon, Talon or Receipt unless:

- (i) the holder of a Note, Coupon, Talon or Receipt is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or
- (ii) the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in The Netherlands for the purpose of the relevant provisions.

4. VALUE ADDED TAX

The issuance or transfer of a Note, Coupon, Talon or Receipt, and payments of interest and principal under a Note, Coupon, Talon or Receipt, will not be subject to value added tax in The Netherlands.

5. OTHER TAXES AND DUTIES

The subscription, issue, placement, allotment, delivery or transfer of a Note, Coupon, Talon or Receipt will not be subject to registration tax, stamp duty or any other similar tax or duty payable in The Netherlands.

6. RESIDENCE

A holder of a Note, Coupon, Talon or Receipt will not be, or deemed to be, resident in The Netherlands for tax purposes and, subject to the exceptions set out above, will not otherwise be subject to Dutch taxation, by reason only of acquiring, holding or disposing of a Note, Coupon, Talon or Receipt or the execution, performance, delivery and/or enforcement of a Note, Coupon, Talon or Receipt.

EU COUNCIL DIRECTIVE ON TAXATION OF SAVINGS INCOME

In accordance with EC Council Directive 2003/48/EC on the taxation of savings income, The Netherlands will provide to the tax authorities of another EU member state (and certain non-EU countries and associated territories specified in said directive) details of payments of interest or other similar income paid by a person within The Netherlands to, or collected by such a person for, an individual resident in such other state.

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Belgium has replaced this withholding tax with a regime of exchange of information to the Member State of residence as from 1 January 2010.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

SUBSCRIPTION AND SALE

The Dealers have in a programme agreement (the “Programme Agreement”) dated 16 June 2011 agreed with the Issuer and the other Keep Well Providers a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “Form of the Notes” and “Terms and Conditions of the Notes”. In the Programme Agreement, the Issuer, PT and PTC have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period, a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) at any time to legal entities which is a qualified investor as defined in the Prospectus Directive;

- (b) at any time to fewer than 100 or, if the relevant Member State has implemented the Relevant Provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Keep Well Providers; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Portugal

No document, circular, advertisement or any offering material in relation to any Notes has been or will be approved by Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*, the “CMVM”).

Each Dealer represents, warrants and agrees and each further Dealer appointed under the Programme will be required to represent, warrant and agree that it has not offered or sold, and it will not offer or sell, any Notes in Portugal or to residents of Portugal otherwise than as stated in the applicable Final Terms and in accordance with applicable law.

Under Portuguese law, placement of Notes to residents of Portugal made through a private placement by a public company or a company issuer of securities admitted to trading must be, for statistical purposes, disclosed to CMVM within the period of ten business days after the issue.

The Netherlands

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme Agreement will be required to represent and agree that Zero Coupon Notes (as defined below) in definitive form may only be transferred and accepted, directly or indirectly, within, from or into The Netherlands through the mediation of either the Issuer or a member firm of Euronext Amsterdam N.V., admitted in a function on one or more markets or systems held or operated by Euronext Amsterdam N.V., in accordance with the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) of 21 May 1985 (as amended) and its implementing regulations.

No such mediation is required: (a) in respect of the transfer and acceptance of rights representing an interest in a Global Note; (b) in respect of the transfer and acceptance of Zero Coupon Notes in definitive form between individuals who do not act in the conduct of a business or profession; (c) in respect of the initial issue of Zero Coupon Notes in definitive form to the first holders thereof; or (d) in respect of the transfer and acceptance of such Zero Coupon Notes within, from or into The Netherlands if all Zero Coupon Notes (either in definitive form or as rights representing an interest in a Zero Coupon Note in global form) of any particular Series or Tranche are issued outside The Netherlands and are not distributed into The Netherlands in the course of initial distribution or immediately thereafter.

In the event that the Savings Certificates Act applies, certain identification requirements in relation to the issue and transfer of, and payments on, Zero Coupon Notes have to be complied with.

As used herein “Zero Coupon Notes” are Notes that are in bearer form and that constitute a claim for a fixed sum against the Issuer and on which interest does not become due during their tenor or on which no interest is due whatsoever.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “FIEA”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

General

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, PT, PTC and any of the other Dealers shall have any responsibility therefor.

None of the Issuer, PT, PTC and any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes were duly authorised by a written resolution of the Board of Managing Directors of the Issuer dated 15th December, 1998 and the Executive Committee of PT dated 8th October, 1998. The increase in the amount of the Programme to €4,000,000,000 was duly authorised by a written resolution of the Board of Managing Directors of the Issuer dated 30th November, 2000, the Executive Committee of PT dated 10th November, 2000 and the Executive Committee of PTC dated 15th November, 2000. The increase in the amount of the Programme to €5,000,000,000 was duly authorised by a written resolution of the Board of Managing Directors of the Issuer dated 25th January, 2002, the Executive Committee of PT dated 17th January, 2002 and the Executive Committee of PTC dated 11th January, 2002. The increase in the amount of the Programme to €7,500,000,000 and the entering into of the Keep Well Agreements were duly authorised by a written resolution of the Board of Managing Directors of the Issuer dated 3rd November, 2006, the Executive Committee of PT dated 26th October, 2006 and the Executive Committee of PTC dated 31st October, 2006. Update of the Programme on 20th December, 2007 was duly authorised by a written resolution of the Board of Managing Directors of the Issuer dated 13th December, 2007, the Executive Committee of PT dated 7th December, 2007 and the Board of Directors of PTC dated 3rd December, 2007. The update of the Programme on 17th December, 2008 was duly authorised by a written resolution of the Board of Managing Directors of the Issuer dated 15th December, 2008, the Executive Committee of PT dated 11th December, 2008 and the Board of Directors of PTC dated 10th December, 2008. The update of the Programme on 31 March, 2010 was duly authorised by a written resolution of the Board of Managing Directors of the Issuer dated 29 March, 2010, the Executive Committee of PT dated 25 March, 2010 and the Board of Directors of PTC dated 24 March, 2010. The update of the Programme on 16 June, 2011 was duly authorised by a Written Resolution of the Board of Managing Directors of the Issuer dated 9 May 2011, the Executive Committee of PT dated 5 May 2011 and the Board of Directors of PTC dated 27 April 2011.

Listing of Notes

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange's regulated market will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Programme in respect of the Notes is expected to be granted on or before 21 June 2011.

Notes may be issued pursuant to the Programme which will not be admitted to the Official List or trading by the UK Listing Authority or the London Stock Exchange or any other stock exchange (or other relevant authority) or which will be admitted to listing or trading by such stock exchange (or other relevant authority) as the Issuer and the relevant Dealer(s) may agree.

Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered offices of the Issuer and PT and from the specified office of the Paying Agent for the time being in London:

- (i) the constitutional documents of the Issuer and the constitutional documents (with an accurate and direct English translation thereof) of PT and PTC;
- (ii) the consolidated audited financial statements of PT in respect of the financial years ended 31st December, 2009 and 2010 (with an accurate and direct English translation thereof);

- (iii) the most recently published audited annual and semi-annual financial statements (if any) of the Issuer, PT and PTC and the most recently published unaudited consolidated interim financial statements (if any) of the Issuer, PT and PTC (in each case with an accurate and direct English translation thereof);
- (iv) the Programme Agreement, the Agency Agreement, the Trust Deed (which contains the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons) and the Keep Well Agreements;
- (v) a copy of this Offering Circular;
- (vi) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (vii) in the case of each issue of Notes which have been admitted to trading on the London Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

PT currently prepares audited consolidated and non-consolidated accounts on an annual and semi-annual basis and unaudited consolidated and non-consolidated accounts on a quarterly basis. The Issuer prepares annual audited accounts and also prepares semi-annual and interim unaudited financial statements. PTC prepares annual audited accounts and also prepares unaudited semi-annual financial statements.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

Significant or Material Change

Save as specified on page 16 of this Offering Circular under "Risk Factors – Risks Relating to PT's Portuguese Operations – Reduced interconnection rates have negatively affected PT's revenues for its mobile and wireless businesses and may continue to do so" and on page 82 of this Offering Circular under "Recent Developments", there has been no significant change in the financial or trading position of each of PT and PT Group since 31st March, 2011 and of PTC, PTC Group and of the Issuer since 31st December 2010, and there has been no material adverse change in the financial position or prospects of PT, PT Group, PTC, PTC Group and of the Issuer since 31st December, 2010.

Litigation

Save as disclosed in the paragraphs from "Claims for Municipal Taxes and Fees" on page 167 to "Labour Claims" on page 176, there are no, nor have there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which each of the Issuer, PT and PTC is aware) during a period covering at least the previous 12 months which may have, or have had in the past, significant effects on the Issuer, PT, PT Group, PTC and PTC Group's financial positions or profitability:

Claims for Municipal Taxes and Fees

Pursuant to a statute enacted on 1 August 1997, as an operator of a basic telecommunications network, PT was exempt from municipal taxes and rights-of-way and other fees with respect to its

network in connection with its obligations under the concession. The Portuguese government has advised PT in the past that this statute confirmed the tax exemption under PT's concession. The Portuguese government has advised Portugal Telecom it will continue to take the necessary actions in order for PT Comunicações to maintain the economic benefits contemplated by the concession. However, PT cannot be sure that the Portuguese courts will accept that this statute resolves claims for municipal assessments and taxes for the period prior to its enactment.

In 1999, the municipality of Oporto filed a lawsuit claiming the payment of taxes and other fees in connection with the use by PT Comunicações of public rights-of-way in 1998. The Lower Tax Court of Oporto ruled in favour of PT Comunicações in March 2003, declaring the regulations of the Municipality of Oporto, under which such taxes and other fees were deemed to be owed by PT Comunicações, to be unconstitutional. The Municipality of Oporto subsequently appealed this decision to the Administrative Central Court, and then PT Comunicações submitted its response to the appeal. The decision on appeal was partially favourable to PT Comunicações, but the Municipality of Oporto appealed to the Supreme Administrative Court and that court's decision is pending.

If this claim is upheld against PT Comunicações, other municipalities might seek to make or renew claims against PT Comunicações. Portuguese law provides for a four-year statute of limitations for claims for taxes or other similar governmental charges. The statute of limitation for taxable events that occurred prior to 1 January 1998 is five years. Since the statute of limitations for these claims has expired, PT does not expect that any further claims will be made against PT Comunicações, but PT cannot be certain about this.

Law 5/2004 of 10 February 2004 established a new rights-of-way regime in Portugal whereby each municipality may establish a fee, up to a maximum of 0.25 per cent of each wireline services bill, to be paid by the customers of those wireline operators whose network infrastructures are located in each such municipality. This regime was implemented in 2005 but does not affect the lawsuit described above pursuant to the former statute. Some municipalities interpret Law 5/2004 as having no effect on their authority to establish other taxes but rather interpret Law 5/2004 as affecting only federal and regional taxing authorities. In 2009, Decree-Law 123/2009, of 21 May 2009, clarified that no other tax should be applicable by municipalities in addition to the regime established by Law 5/2004 of 10 February 2004. On 6 October 2010, in Case 0363/10, this interpretation was confirmed by the Supreme Administrative Court of Portugal.

Some municipalities, however, continue to hold the position that the Law 5/2004 does not expressly revoke other taxes that the municipalities wish to establish, because Law 5/2004 is not applicable to the public municipality domain, as well as to the private municipality domain, but instead it is applicable to the public federal domain. Currently, there are legal actions filed by some municipalities against PT Comunicações regarding this matter.

Regulatory Proceedings

Portugal Telecom Group companies are regularly involved in regulatory inquiries and investigations involving their operations. In addition, ANACOM, the European Commission, and the Autoridade da Concorrência regularly make inquiries and conduct investigations concerning compliance with applicable laws and regulations. Current inquiries and investigations include several investigations by the Autoridade da Concorrência related to:

- PT Comunicações for alleged abuse of dominant position in the access to telecommunications ducts. In 2004, Autoridade da Concorrência issued a "statement of objections," alleging that PT Comunicações was denying access to the ducts in which the basic telecommunications network is installed. In 2005, Autoridade da Concorrência issued a revised statement of objections. In August 2007, Autoridade da Concorrência imposed a fine of €38 million on PT Comunicações. PT Comunicações appealed to the Commercial Court later that month. On 2 March 2010, PT Comunicações has been cleared by the Commercial Court of Lisbon of the fine imposed in 2007. On 12 March 2010, the Autoridade da Concorrência appealed the decision of the Commercial Court before the Lisbon Court of Appeals (the *Tribunal da Relação*). On 22 December 2010, the Lisbon Court of Appeals confirmed the judgment of the Lisbon Commercial Court, which judgment is non-appealable;

- PT Comunicações regarding alleged anti-competitive practices in the broadband Internet market (this complaint was formerly against Telepac, which merged with a PT affiliate that later merged into PT Comunicações and TV Cabo, which PT spun off as part of PT Multimedia in 2007). Specifically, the Autoridade da Concorrência alleged that PT's "Rede ADSL PT" wholesale offer of broadband services between 22 May 2002 and 30 June 2003 did not allow the remaining competitors to generate a sufficient profit margin. In September 2009, PT announced that it had been notified by Autoridade da Concorrência that it had concluded its investigation and had decided to impose a fine of €45.0 million on PT. PT strongly disagrees with this ruling and appealed the decision to the Commercial Court of Lisbon later that month. PT believes, among other things, that the wholesale offer was permitted under the competition law then in force (DL 371/2003) and was supervised by ANACOM. In addition, PT has argued that the wholesale offer was maintained in place for 14 days after the new competition law was approved (Lei 18/2003) only to permit ANACOM to determine the terms of the new offer and that the fine imposed exceeds the maximum €1 million fine allowed under the prior competition law. PT intends to defend against these proceedings vigorously. The appeal suspended the decision of Autoridade da Concorrência pending a decision by the higher court; and
- PT Comunicações for alleged anti-competitive practices in the public wireline telephone market and for granting discriminatory discounts on leased lines. In 2007, the Autoridade da Concorrência, accused PT Comunicações of alleged abuse of dominant position for granting discriminatory discounts on leased lines. In September 2008, PT Comunicações was notified by Autoridade da Concorrência of its decision imposing a fine of €2.1 million for PT Comunicações' alleged abuse of its dominant position in the lease line segment. PT Comunicações considers these allegations unfounded and appealed the fine to the Commercial Court (Tribunal do Comércio) later that month. The appeal suspended the decision of Autoridade da Concorrência pending a decision by the court.

PT believes that the PT Group has consistently followed a policy of compliance with all relevant laws. PT continually reviews its commercial offers in order to reduce the risk of competition law infringement. PT believes that most of the complaints that have resulted in such investigations should be dismissed due to the nature of the alleged abuses and the novelty of the relevant competition laws. However, if PT is found to be in violation of applicable laws and regulations in these or other regulatory inquiries and investigations, PT could become subject to penalties, fines, damages or other sanctions. See "*—Portugal Telecom, SGPS, S.A.—Regulation—Portugal—Regulatory Institutions*" and "*Risk Factors—Regulatory Investigations and Litigation May Lead to Fines or Other Penalties.*"

On 19 January 2011, the European Commission opened an investigation into an agreement between Telefónica and Portugal Telecom allegedly not to compete in the Iberian telecommunications markets. PT has developed various strategic partnerships with Telefónica in recent years. Although PT does not believe the existence of these partnerships has impeded its competition and ordinary activities with Telefónica, its relationship with Telefónica is now subject to investigation. The European Commission has stated that the initiation of proceedings does not imply that the Commission has conclusive proof of an infringement but that the Commission will deal with the case as a matter of priority. See "*Portugal Telecom, SGPS, S.A Regulation—Portugal—Regulatory Institutions.*"

On 8 June 2005, PT was informed through the press that Sonaecom had filed a complaint against it with the European Commission, under Article 82 of the EU Treaty, alleging abuse of dominant position in the Portuguese market in connection with PT's provision of both cable television and fixed line services through its then-subsidiary PT Multimédia and its subsidiary PT Comunicações, respectively. Sonaecom requested that the European Commission require PT to separate its cable television and fixed line telecommunications operations—a so-called "structural remedy." However, on 2 February 2006, the Commission responded that the complaint should be addressed to Autoridade da Concorrência. To PT's knowledge, proceedings before the European Commission related to this complaint are now closed. PT has not received further information about whether Sonaecom intends to pursue this matter with Autoridade da Concorrência. After the Commission's response, Sonaecom and its parent Sonae, SGPS, S.A. announced an unsolicited tender offer for all the outstanding ordinary shares of PT, but this tender offer has lapsed.

Sonaecom has also submitted a complaint to the European Commission alleging illegal “state aid” in connection with the Portuguese government’s sale of the basic telecommunications network to PT in 2002 and the exemption from the payment of municipal taxes granted to PT Comunicações as part of its concession agreement. Sonaecom is claiming that the purchase price for the basic network was below market value, thereby adversely affecting the Portuguese government. Sonaecom also claims that the absence of a public tender offer and the absence of independent valuations to set a minimum disposal price constituted “state aid.” Pursuant to its concession agreement, PT Comunicações was exempt from the payment of municipal tax from 1995 until this exemption was revoked by Law 5/2004, of 10 February 2004. This is in contrast to the situation affecting new telecommunications operators after the liberalisation of the telecoms market in 2000. In order for new operators to build their infrastructure, they were required to pay municipal taxes for the use of municipal sub-soil. Sonaecom claims this discrimination against new operators represents a case of illegal “state aid” which harmed both new operators and the municipalities. PT has not received information from the European Commission or the Portuguese authorities regarding this complaint.

In April 2006, the European Commission sent to the Portuguese government a formal request to abandon the special rights the Portuguese State holds as the sole owner of PT’s A Shares. The European Commission believes that the special powers granted to the Portuguese State through the sole ownership of the A Shares act as a disincentive for investment by other EU member states in a manner that violates European Community Treaty rules. The Portuguese authorities have taken the position that these special rights are justified in order to protect relevant public interests. In 2008, the European Commission referred the case to the European Court of Justice and in 2009, the Advocate General in charge for the case issued an opinion stating that the Portuguese State’s ownership of PT’s A shares does not comply with the European rules on the free movement of capital. At an Extraordinary Shareholders’ Meeting held on 30 June 2010, the Portuguese State used its A shares to reject an offer by Telefónica S.A. to purchase PT’s interest in Brasilcel N.V., the joint venture that held PT’s interest in Vivo, even though 73.9 per cent of the ordinary shareholders present at the meeting voted in favor of Telefónica’s offer. On 8 July 2010, the European Court of Justice ruled that the Portuguese State’s ownership of PT’s A shares was illegal under European law.

Legal Proceedings Related to the Provision of Telecommunications Services

PT provides several telecommunications services in Portugal, such as the lease of circuits, the lease of pipes, the lease of posts and unbundled local loop services, among others, to telecommunications operators doing business in Portugal. PT’s services are instrumental to the development of the business of such operators, and some of such services are regulated by ANACOM in connection with pricing and quality levels. PT provides its services in accordance with the agreements entered into with each user and, in the case of regulated services, pursuant to the applicable legal requirements. Nonetheless, PT Comunicações has in some cases resorted to litigation due to delays in the payment of invoices or other invoicing disputes with certain telecommunications operators. On 31 December 2010, the amounts under dispute in such litigation were €0.6 million in the case of Sonaecom and €9.8 million in the case of ZON Multimédia.

Other PT Legal Proceedings

In March 2004 TVTEL Grande Porto – Comunicações, SA, (“TVTEL”), a telecommunications company based in Oporto, filed a claim against PT Comunicações in the Lisbon Judicial Court. TVTEL alleged that PT Comunicações, since 2001, has unlawfully restricted and/or refused access to the telecommunication ducts of PT Comunicações in Oporto, thereby undermining and delaying the installation and development of TVTEL’s telecommunications network. TVTEL alleges that PT Comunicações intended to favour both itself and TV Cabo. TVTEL is claiming an amount of approximately €15 million from PT damages and losses allegedly caused and yet to be sustained by that company as a result of the delay in the installation of its telecommunications network in Oporto. In addition, TVTEL has demanded that PT Comunicações be required to give full access to its ducts in Oporto. PT Comunicações submitted its defence to these claims in June 2004, stating that (1) TVTEL did not have a general right to install its network in PT Comunicações’s ducts, (2) all of TVTEL’s requests were lawfully and timely responded to by PT Comunicações according to its general infrastructure management policy, and (3) TVTEL’s claims for damages and losses were not

factually sustainable. The preliminary hearing in this proceeding has been completed and the parties wait for the new dates for trial.

In December 2008, Oni SGPS, SA (“Oni”) filed an arbitral claim against TMN in the Centre of Commercial Arbitration of the Chamber of Commerce and Industry of Lisbon for the reimbursement of more than €36 million, as a result of the non fulfillment of the national roaming agreement between TMN and Oni Way – Infocomunicações, SA. TMN had argued that it fulfilled all of its obligations under the roaming agreement. In February 2010, the Centre of Commercial Arbitration ruled a final decision, and TMN was ordered to pay an amount of €6.9 million. PT had recorded a provision for this legal action as at 31 December 2009, and in 2010 paid this amount.

Total Provisions for Legal Proceedings

PT is a party to a number of other pending legal proceedings whose outcomes, individually or in the aggregate, are not expected to have a material impact on PT's consolidated financial position. As at December 2010, PT's provisions to cover probable losses in civil, labour and other legal proceedings (other than tax contingencies) totalled €27.3 million. In addition, PT estimates that its potential liability in civil, labour and other legal proceedings (other than tax contingencies) in which a loss is considered possible (but not probable) in accordance with International Accounting Standard No. 37 was €122.0 million as of 31 December 2010. In addition as of 31 December 2010, PT had recorded provisions for probable losses relating to tax contingencies of €54.8 million, and PT estimates that its potential liability for tax contingencies in which a loss is considered possible (but not probable) was €43 million as of the same date.

Oi Legal Proceedings

Although PT did not complete its investment in Oi until 31 March 2011, PT includes below a description of certain of Oi's legal proceedings because some of the proceedings involve material amounts.

General

Oi is a party to certain legal proceedings arising in the normal course of business, including civil, administrative, tax, social security, labor, government and arbitration proceedings. Oi classifies its risk of loss in legal proceedings as “remote,” “possible” or “probable,” and it only records provisions for reasonably estimable probable losses, as determined by its management. As of 31 December 2010, the total estimated amount in controversy for those proceedings in respect of which the risk of loss was deemed probable or possible totalled approximately R\$26,016 million, and Oi had established provisions of R\$6,793 million as of that date relating to these proceedings. Oi's provisions for legal contingencies are subject to monthly monetary adjustments.

Tax Proceedings

As of 31 December 2010, the total estimated contingency in connection with tax proceedings against Oi in respect of which the risk of loss was deemed probable or possible totaled R\$16,216 million and Oi had recorded provisions of R\$912 million relating to these proceedings.

The Brazilian corporate tax system is complex, and Oi is currently involved in tax proceedings regarding, and has filed claims to avoid payment of, certain taxes that it believes are unconstitutional. These tax contingencies relate primarily to value-added tax, service tax and taxes on revenue. Oi records provisions for probable losses in connection with these claims based on an analysis of potential results, assuming a combination of litigation and settlement strategies. Oi currently does not believe that the proceedings that it considers as probable losses, if decided against it, will have a material adverse effect on its financial position. It is possible, however, that Oi's future results of operations could be materially affected by changes in its assumptions and the effectiveness of its strategies with respect to these proceedings.

Value-Added State Taxes (ICMS)

Under the regulations governing the ICMS, in effect in all Brazilian states, telecommunications companies must pay ICMS on every transaction involving the sale of telecommunication services they provide. Oi may record ICMS credits for each of its purchases of operational assets. The ICMS

regulations allow Oi to apply the credits it has recorded for the purchase of operational assets to reduce the ICMS amounts Oi must pay when it sells its services.

Oi has received various tax assessments challenging the amount of tax credits that it recorded to offset the ICMS amounts it owed. Most of the tax assessments are based on two main issues: (1) whether ICMS is due on those services subject to the Local Service Tax (Imposto Sobre Serviços de Qualquer Natureza), or ISS; and (2) whether some of the assets Oi had purchased are related to the telecommunication services provided, and, therefore, eligible for an ICMS tax credit. A small part of the assessments that are considered to have a probable risk of loss are related to: (1) whether certain revenues are subject to ICMS tax or ISS tax; (2) offset and usage of tax credits on the purchase of goods and other materials, including those necessary to maintain the network; and (3) assessments related to non-compliance with certain ancillary (non-monetary) obligations.

As of 31 December 2010, Oi deemed the risk of loss as possible with respect to approximately R\$4,645 million of these assessments and had not recorded any provisions in respect of these assessments. As of that date, Oi had recorded provisions in the amount of R\$622 million for those assessments in respect of which it deemed the risk of loss as probable.

Local Service Tax (ISS)

Oi has received various tax assessments claiming that it owes ISS taxes on supplementary services. Oi has challenged these assessments on the basis that ISS taxes should not be applied to supplementary services (such as, among others things, equipment leasing and technical and administrative services) provided by telecommunication service providers, because these services do not clearly fit into the definition of “telecommunication services.”

As of 31 December 2010, Oi deemed the risk of loss as possible with respect to approximately R\$1,992 million of these assessments and had not recorded any provisions in respect of these assessments. As of that date, Oi had recorded provisions in the amount of R\$75 million for those assessments in respect of which it deemed the risk of loss as probable.

Contributions to the INSS

Pursuant to Brazilian social security legislation, companies must pay contributions to the National Social Security Institute (Instituto Nacional do Seguro Social), or INSS, based on their payroll. In the case of outsourced services, the contracting parties must, in certain circumstances, withhold the social contribution due from the third-party service providers and pay the retained amounts to the INSS. In other cases, the parties are jointly and severally liable for contributions to the INSS. Assessments have been filed against Oi primarily relating to claims regarding joint and several liability and claims regarding the percentage to be used to calculate workers' compensation benefits and other amounts subject to social security tax.

As of 31 December 2010, Oi deemed the risk of loss as possible with respect to approximately R\$1,442 million of these assessments and had not recorded any provisions in respect of these assessments. As of that date, Oi had recorded provisions in the amount of R\$16 million for those assessments in respect of which it deemed the risk of loss as probable.

IRRF, IRPJ, CSLL, PIS and COFINS

In July 2005, TNL received a tax assessment notice from the Federal Revenue Service, in the amount of R\$2,230 million, mainly related to the corporate restructuring effected in 1998, which included Oi's accounting for the goodwill resulting from the Telebrás system's privatisation auction. The goodwill amortisation and respective deduction for tax purposes are set forth in Law No. 9,532/1997, Article 7, which states that the result of the goodwill amortisation should be calculated as part of a company's taxable income resulting from an amalgamation, spin-off or merger, in which one of the companies has investments in the other, and acquired with premium based on the expectation of profitability of the investor. The goodwill amortisation and respective deduction for tax purposes was in compliance with the provisions set forth by CVM Instruction No. 319/1999. Based on the advice of its outside legal counsel, Oi believes that its use of this goodwill was proper. Oi properly contested the tax assessment notice and obtained a partial favorable decision by the lower administrative court, which removed the fine assessed on Oi and reduced the amount of the tax assessment notice by

R\$579 million. Oi believes that its risk of loss is remote in relation to the fine and possible in relation to the amount of R\$1,651 million. As of 31 December 2010, Oi had not recorded any provisions in connection with this claim.

PIS and COFINS

On 30 June 2006, the Brazilian federal tax authorities filed a claim in the amount of R\$920 million related to the basis for the calculation of PIS/COFINS. Oi obtained a partially favorable decision in a lower court that reduced the monetarily adjusted amount of this claim of R\$920 million to R\$397 million. As of 31 December 2010, Oi deemed the risk of loss as possible with respect to approximately R\$397 million of these assessments and had not recorded any provisions in respect of this claim.

IRRF

Telemar was fined by the federal tax authorities in connection with claims that it did not withhold corporate income tax allegedly due on gains arising from loan agreements entered into with TNLP. As of 31 December 2010, the amount of this fine was R\$231 million. The lower courts have reduced the amount of the fine. The Brazilian government filed an appeal of the lower court's decision, and, as of the date of this annual report, the appeal is pending. Oi believes that its risk of loss is remote in relation to the R\$89 million reduction of this fine and possible in relation to the amount of R\$142 million. As of 31 December 2010, Oi had not recorded any provisions in connection with this claim.

ILL

Oi has used credits from the Tax on Net Profit (Imposto sobre Lucro Líquido or ILL) to offset certain other taxes based on decisions rendered by the Brazilian Federal Supreme Court in cases brought by other taxpayers that have held this tax unconstitutional. No final administrative or judicial ruling has been rendered setting forth the criteria by which to calculate the amounts permitted to be offset. As of 31 December 2010, Oi had recorded provisions in the amount of R\$55 million for those assessments in respect of which it deemed the risk of loss as probable.

FUST and FUNTTEL

The FUST is a fund that was established to promote the expansion of telecommunication services to non-commercially viable users. The FUNTTEL was established to finance telecommunications technology research. Oi is required to make contributions to the FUST and the FUNTTEL. Due to a change by ANATEL in the basis for calculation of its contributions to the FUST and the FUNTTEL, Oi made provisions for additional contributions to these funds. With respect to the calculation of the contribution to the FUST, the Brazilian Association of Fixed-Line Companies (Associação Brasileira das Empresas de Telefonia Fixa) of which Oi companies are members filed a lawsuit to request a review of the applicable legislation.

As of 31 December 2010, Oi deemed the risk of loss as possible with respect to approximately R\$735 million of these assessments and had not recorded any provisions in respect of these assessments. As of that date, Oi had recorded provisions in the amount of R\$108 million for assessments of the FUNTTEL.

Other Federal Tax Claims

There are various federal taxes that have been assessed against Oi, largely relating to (1) assessments of taxes against it that Oi does not believe are due and which it is contesting, and (2) its use of tax credits to offset certain federal taxes, which the federal tax authorities are contesting. As of 31 December 2010, Oi deemed the risk of loss as possible with respect to approximately R\$3,981 million of these assessments and had not recorded any provisions in respect of these assessments. As of that date, Oi had recorded provisions in the amount of R\$35 million for those assessments in respect of which it deemed the risk of loss as probable.

Civil Claims

As of 31 December 2010, the total estimated contingency in connection with civil claims against Oi, including ANATEL proceedings, in respect of which the risk of loss was deemed probable or

possible totalled R\$5,429 million, and Oi had recorded provisions of R\$4,057 million relating to these proceedings.

Administrative Proceedings

Almost every week, Oi receives notifications from ANATEL requesting information about its compliance with the various services obligations imposed on it by virtue of its concession agreements. When Oi is not able to comply with these requests or with its concession obligations, ANATEL may initiate administrative proceedings to impose sanctions on Oi. Oi has received various notifications, mainly for not meeting certain goals or obligations set out in the General Plan on Universal Service or the General Plan on Quality Goals, such as responding to complaints relating to billing errors, requests for service repairs on a timely basis and requests from locations with collective or individual access. As of 31 December 2010, Oi deemed the risk of loss as possible with respect to approximately R\$153 million of these claims and had not recorded any provisions in respect of these claims. As of that date, Oi had recorded provisions in the amount of R\$826 million for those claims in respect of which it deemed the risk of loss as probable.

As a condition to ANATEL's approval of the Portugal Telecom Alliance, ANATEL required Oi to pay all pending administrative fines, amounting to approximately R\$228 million, regardless of the procedural posture of the proceedings which Oi had initiated to contest these fines. Oi sought and has been granted injunctive relief which has permitted Oi to make judicial deposits of these amounts while preserving its rights to contest these fines. ANATEL has appealed these injunctions, which appeals remain pending.

Brazilian Antitrust Proceedings

Oi is subject to administrative proceedings and preliminary investigations conducted by the Brazilian antitrust authorities with respect to potential violations of the Brazilian antitrust law. Such investigations may result in penalties, including fines. According to the Brazilian antitrust law, fines may range from 1 per cent to 30 per cent of Oi's gross operating revenue in the year prior to the initiation of the respective administrative proceeding. Oi deemed the risk of loss as possible that it will be fined in one or more of such proceedings and has not recorded any provisions for those claims.

Sale of Oi (TNL PCS S.A.) to Telemar

On 30 May 2003, TNLP sold to Telemar all of its shares in TNL PCS S.A., a company incorporated in November 2000 by TNLP to provide personal mobile services (*Serviço Móvel Pessoal*) in Region I ("Oi"), representing 99.99 per cent of the share capital of Oi. The sale price was fixed at R\$1.00, which was equal to the net equity value of Oi at market price on the base date of 31 March 2003, as determined by a fair value appraisal evaluation conducted by an independent public accounting firm in accordance with Brazilian Corporation Law.

In response to a complaint filed with the CVM by one of Telemar's non-controlling shareholders, the CVM initiated an administrative proceeding to investigate the terms of the sale of Oi (TNL PCS S.A.) to Telemar. On 28 December 2006, the investigation committee of the CVM determined that the appraisal report contained certain technical mistakes which caused certain assets and liabilities on Oi's (TNL PCS S.A.) balance sheet to be overvalued, and as a result the investigation committee of the CVM determined that Oi and its senior management and Telemar's senior management abused their powers and breached their fiduciary duties. Oi, its senior management and Telemar filed their respective administrative defenses and, on 25 March 2008, the CVM rendered a judgment absolving the defendants of any liability and imposing a warning on the defendants for their purported lack of diligence as members of their respective board of directors and executive boards. The members of each of the board of directors and the executive board of TNL and Telemar filed a voluntary appeal with the Board of Appeals of the National Financial System (*Conselho de Recursos do Sistema Financeiro Nacional* ("CRSFN")), and the CVM filed a mandatory appeal with the CRSFN. As of the date of this document, the appeal is pending before the Office of the Attorney General of the National Treasury, which will render a decision accepting or denying the appeals. After the issuance of the Attorney General's decision, the action will be finally determined by the CVM. Oi cannot predict when a final decision will be rendered.

Claims Relating to the Sale of Oi (TNL PCS S.A.) to Telemar

In September 2004, the Attorney General's Office and the State Attorney's Office of Rio de Janeiro filed a claim against TNLP, Telemar, Oi (TNL PCS S.A.) and the Brazilian federal government, requesting the annulment of the transfer of Oi (TNL PCS S.A.) to Telemar, as well as indemnification for damages allegedly suffered by non-controlling shareholders of TNLP and capital markets generally. TNLP and Telemar presented their defense and, as of the date of this Offering Circular, the judge responsible for the proceeding has not yet issued a decision on the matter. Oi deems the risk of loss in these proceedings to be possible.

Financial Interest Agreement (CRT and Community Telephone Program)

As successor to CRT, which was acquired in July 2000, Oi is subject to various civil claims. The claims, filed in 1998 and 1999, allege: (1) error in the sale of CRT's share capital; (2) the illegality of bidding procedure No. 04/98; (3) errors in the calculation of the number of shares offered; (4) procedural nonconformities in the shareholders' meeting that approved the sale of shares of CRT; and (5) errors in the valuation of the shares of CRT.

Oi is also a defendant in several claims filed by users of telephone lines in the State of Rio Grande do Sul. Prior to Oi's acquisition of control of CRT in July 2000, CRT entered into financial interest agreements with its fixed-line subscribers. Under these financial interest agreements, customers subscribing to CRT's fixed-line service had the right to subscribe to a number of CRT shares. The number of shares to be issued to such subscribers was determined based on a formula that divided the cost of the fixed-line subscription by the book value of CRT's shares.

Beginning in June 1997, certain of CRT's fixed-line subscribers began to file suits in which they claimed that the calculation used by CRT to arrive at the number of shares to be issued pursuant to the financial interest agreements was incorrect and resulted in the claimants receiving too few shares.

In addition, as successor to Telecomunicações do Mato Grosso do Sul S.A. — Telem, Telecomunicações de Goiás S.A. — Telegoiás and Telecomunicações do Mato Grosso S.A. — Telemat, which were operating companies that Brasil Telecom Holding acquired in the privatisation of Telebrás and which were subsequently merged into Oi, Oi is subject to various civil claims in connection with telephone programs (Community Telephone Programs) established in the States of Mato Grosso do Sul, Goiás and Mato Grosso.

In 2009, two court decisions significantly changed the assumptions underlying Oi's estimate of the potential losses relating to these suits.

On 30 March 2009, the Superior Court of Justice ruled that for suits that had yet to be adjudicated, the number of shares to be issued must be calculated using CRT's balance sheet at the end of the month in which the shares were issued. However, for those lawsuits that have already been adjudicated, the number of shares to be issued must be calculated according to the most recent judicial decision, which, in most of the cases, used the balance sheet at the end of the year prior to the date on which the shares were issued.

On 28 May 2009, a member of the Brazilian Supreme Court published a decision ruling that the financial interest agreements are not subject to a statute of limitations, which resulted in a change in the likelihood of an unfavorable outcome in these pending cases to probable.

As of 31 December 2010, we had recorded provisions in the amount of R\$2,416 million for those claims in respect of which Oi deemed the risk of loss as probable.

Customer Service Centres

Oi's a defendant in 69 civil class actions filed by the Attorney General of the National Treasury jointly with certain consumer agencies demanding the re-opening of customer service centers. The lower courts rendered decisions unfavorable to Oi in 24 of these civil class actions, and Oi has appealed these decisions. As of 31 December 2010, Oi had recorded provisions in the amount of R\$182 million for those claims in respect of which Oi deemed the risk of loss as probable.

Customer Service

Oi's a defendant in a civil class action lawsuit filed by the Federal Prosecutor's Office (Ministério Público Federal) seeking recovery for alleged collective moral damages caused by its alleged non-compliance with the Customer Service (Serviço de Atendimento ao Consumidor) regulations established by the Ministry of Justice (Ministério da Justiça). Oi presented its defense and asked for a change of venue to federal court in Rio de Janeiro, where Oi is headquartered. Other defendants have been named and await service of process. The amount involved in this action is R\$300 million. However, Oi has not made any provisions with respect to this action since it is awaiting the court's initial decision.

Labour Claims

Oi is a party to a large number of labour claims arising out of the ordinary course of its businesses. Oi does not believe any of these claims, individually or in the aggregate would have a material effect on its business, financial condition or results of operations were they to be decided unfavourably to Oi. These proceedings generally involve claims for: (1) risk premium payments sought by employees working in dangerous conditions; (2) wage parity claims seeking equal pay among employees who do the same kind of work, within a given period of time, and have the same productivity and technical performance; (3) indemnification payments for, among other things, work accidents, occupational injuries, employment stability, child care allowances and achievement of productivity standards set forth in Oi's collective bargaining agreements; (4) overtime wages; and (5) joint liability allegations by employees of third-party service providers.

As of 31 December 2010, the total estimated contingency in connection with labour claims against Oi in respect of which the risk of loss was deemed probable or possible totaled R\$4,371 million and Oi had recorded provisions of R\$1,825 million relating to these proceedings.

Auditors

The auditors of PT are Deloitte & Associados, SROC S.A., who have audited PT consolidated accounts in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union, for the financial years ended 31st December, 2009 and 2010 and have issued unqualified audit reports on those accounts.

The auditors of PTC are Deloitte & Associados, SROC S.A., who have audited PTC accounts in accordance with Portuguese accounting standards for the financial years ended 31st December, 2009 and 2010 and have issued unqualified audit reports on those accounts.

The auditors of the Issuer are Deloitte Accountants B.V., who have audited the accounts of the Issuer, in accordance with Dutch accounting standards without qualification for the financial years ended 31st December, 2009 and 2010, and have issued unqualified audit reports on those accounts.

The auditors of PT, PTC and the Issuer have no material interests in PT, PTC and the Issuer.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to any issuer of Notes.

Dealers transacting with the Issuer and the Keep Well Providers

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, the Keep Well Providers and their affiliates in the ordinary course of business.

ISSUER

**PORTUGAL
TELECOM INTERNATIONAL FINANCE B.V.**
Locatellikade 1
1076 AZ Amsterdam

KEEP WELL PROVIDERS

PORTUGAL TELECOM, SGPS, S.A.
Av. Fontes Pereira de Melo, no. 40
1069-300 Lisboa

PT COMUNICAÇÕES, S.A.
Rua Andrade Corvo 6,
1050-009 Lisboa

TRUSTEE

Citicorp Trustee Company Limited
14th Floor
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

PRINCIPAL PAYING AGENT

Citibank, N.A.
14th Floor
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

REGISTRAR

Citibank, N.A.
111 Wall Street
New York
New York 10043

LEGAL ADVISERS

*To the Keep Well Providers and the Issuer as to
Portuguese law*
**Serra Lopes, Cortes Martins & Associados –
Sociedade de Advogados, R.L.**
R. Gen. Firmino Miguel, nº 3, Torre 2 – 12º A e B
1600-100 Lisboa

To the Issuer as to Netherlands law
Clifford Chance LLP
Droogbak 1A
1013 GE Amsterdam

*To the Keep Well Providers and the Issuer
as to English law*
Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ

*To the Dealers and the Trustee
as to English and United States law*
Allen & Overy LLP
One Bishops Square
London E1 6AD

AUDITORS

*To Portugal Telecom, SGPS, S.A. and
PT Comunicações, S.A.*

Deloitte & Associados, SROC S.A.
Edifício Atrium Saldanha
Praça Duque de Saldanha, 1-6
1050-094 Lisboa

To Portugal Telecom International Finance B.V.

Deloitte Accountants BV
Orlyplein 50
1043 DP Amsterdam

DEALERS

Banco Bilbao Vizcaya Argentaria, S.A.
Via de los Poblados s/n – 2ª
28033 Madrid

Banco BPI, S.A.
Largo Jean Monnet, n.º 1, 4.º
1269-067 Lisboa

Banco Comercial Português, S.A.
Av. José Malhoa, No. 27-1
1099-010 Lisboa
Portugal

Banco Espírito Santo de Investimento, S.A.
Rua Alexandre Herculano 38
1269-161 Lisboa

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB

BNP PARIBAS
10 Harewood Avenue
London NW1 6AA

Caixa Geral de Depósitos, S.A.
Av. João XXI, 63
Apartado 1795
1017 Lisboa

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

Crédit Agricole Corporate and Investment Bank
9, quai du Président Paul Doumer
92920 Paris-la-Défense Cedex

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB

Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA

UBS Limited
1 Finsbury Avenue
London EC2M 2PP

