PORTUGAL TELECOM SGPS SA
Form 6-K
April 05, 2012
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of the

Securities Exchange Act of 1934

For the month of March 2012

Commission File Number 1-13758

PORTUGAL TELECOM, SGPS, S.A.

(Exact name of registrant as specified in its charter)

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

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

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

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Telecommunications in Portugal

Customer segment		Revenues (Euro million)
Residential		682
Personal	> PT Comunicações 100%	768
Enterprise	> TMN 100%	982
Other		459

Telecommunications in Brazil(1)

Customer segment		Revenues (R$million, 100%)
Residential		10,501
Personal	> Oi 25.6%	8,190
Enterprise		8,470
Other		746

(1) For the 12 months ended 31 December 2011.

Other telecommunications businesses

			Revenues (Euro million)
Unitel 25% (a)(b)	> Angola	> Mobile	1,282
CTM 28% (b)	> Macao	> Wireline, mobile	356
MTC 34% (a)	> Namibia	> Mobile	159
CVT 40% (a)	> Cape Verde	> Wireline, mobile	84
Timor Telecom 41%	> East Timor	> Wireline, mobile	48
CST 51% (a)	> São Tomé e Príncipe	> Wireline, mobile	12

(a) These stakes are held by Africatel, which is controlled 75% by PT. (b) These stakes are consolidated by the equity method of accounting.

Other businesses

Systems and IT [PT Sistemas de Informação 100%]; Innovation, research and development [PT Inovação 100%];

Backoffice and shared services [PT PRO 100%]; Procurement [PT Compras 100%];

Call centres and telemarketing services [Contax in Brazil 44.4% and PT Contact 100%];

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01 Macroeconomic environment

1. International economic background

As in 2010, 2011 was a year clearly affected by the sovereign debt crisis distressing the Eurozone and, in a more pronounced way, the Southern European countries. The need of financial external support in Greece, in April 2010, and Ireland, in November 2010, was extended to Portugal, which requested financial external support to the European Union (EU), through the European Commission (EC) and the European Central Bank (ECB), and to the International Monetary Fund (IMF) in May 2011. The dissemination of this crisis was also clearly visible in other more peripheral economies like Belgium, Spain and Italy and, albeit to a lower extent, to economies considered core, like Austria and France. This crisis in the sovereign debt market clearly changed the market trends, increasing risk aversion across investors and reducing significantly liquidity in the credit and monetary markets.

Source: World Economic Outlook,IMF, September 2011

Europe policy setters responded by putting in place towards the end of the year clear policies promoting fiscal consolidation and budget control, while at the same time the ECB adopted a less restrictive policy, by reducing the reference interest rate (REFI) through two consecutive cuts of 25bp each in 4Q11, and by providing wide liquidity to the financial system.

The risk aversion referred to above materialised on: (1) declining yields of the so-called safe heaven countries like Germany or Switzerland the yield of the 10-year German bonds declined from 2.963% in December 2010 to 1.829% in the end of 2011; (2) increasing spreads of sovereigns perceived as riskier against the German bund the spread of the 10-year Spanish and Italian bonds against the German yield increased from 249bp and 185bp to 326bp and 520bp, respectively, and (3) depreciation of the Euro against the US dollar, -3% in full year 2011, but clearly more pronounced in 2H11 (-11%).

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Source: Bloomberg

The concerns around the sovereign debt crisis were also reflected in the equity markets, with the main European indexes showing relevant losses: DJ Euro Stoxx 50   17.1%, DAX -14.7%, CAC40 -17.0%, IBEX -13.1%, and PSI20 -27.6%. US markets were less penalised than its European equivalents, as they benefited from a more expansionary monetary policy by the Federal Reserve (FED) and better prospects for the US economy: DJones +5.5%, SPX 0.0%, and Nasdaq -1.8%. In China and Brazil, the focus of monetary authorities on the control of prices and inflation, namely in China, resulted in declining equity markets: Shanghai Composite -21.7% and Bovespa -18.1%.

Source: Bloomberg

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Source: Bloomberg

The relief of global inflationary pressures in late 2011 was supported by the trend of falling prices of raw materials. The price index ThomsonReuters / JeffereisCRB index declined 8.3% in 2011 and 17.8% from its annual peak in 2 May 2011. The Brent oil price per barrel rose from USD 94.91 on 31 December 2010 to USD 106.3 on 31 December 2011, having declined 12.7% from its annual maximum achieved on 29 April 2011, reflecting more moderate expectations concerning the evolution of global demand.

Source: Bloomberg

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Source: Bloomberg

1.1. United States

In 2011 the U.S. GDP grew 1.7%, decelerating from the 3% growth observed in 2010. Notwithstanding an increasing growth rate throughout the year, with annualised GDP growth up from 0.4% in 1Q11 to 2.8% in 4Q11, annual GDP growth in 2011 stood below initial expectations, reflecting the negative impacts of external shocks on the U.S. economy. These included the effects on production resulting from the earthquake in Japan, rising oil prices and the consequences of the debt crisis in Europe, which reflected in a less buoyant investment and a contraction in public consumption. Given the absence of support from equity and housing markets that traditionally support household consumption, the growth of this aggregate resulted mainly from (1) improvements in the labour market, which created more than 1.6 million new jobs in 2011 and reduced unemployment rate from 9.1% to 8.5% of the workforce between the first and last months of the year, as well as from (2) lower savings rate, which dropped from 5.2% to 4% of income available from the beginning to the end of the year.

Source: Bloomberg

Annual inflation ended the year at 3.0%, up from 1.5% in 2010 and above the 2% target set by the US monetary authority, but with a clearly downward trend in the last quarter of 2011. In this context, the Federal Reserve (FED)

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continued until the end of the first half of 2011, the second program of quantitative easing (QE2), completing the acquisition of USD 600 billion long-term Treasuries and kept the fed funds target rate at historically low levels (in the range from 0% to 0.25%). The weak traction of the recovery led the Federal Reserve to adopt additional monetary policy measures in 1H11. These included (1) the decision to keep the size of its balance sheet by replacing matured securities with the acquisition of new securities, and (2) the announcement of the intention to keep reference interest rates at exceptionally low levels until at least mid-2013. Finally, the FED announced the operation *twist*, which will be in place at least until mid-2012, in which the FED will increase the maturity of its balance sheet, involving the acquisition of up to USD 400 billion in Treasuries with maturities of between 6 and 30 years, by replacing instruments with maturities of 3 years or less.

Source: Bloomberg

1.2. Economic and monetary union   Eurozone

Following a significant acceleration in the beginning of 2011, as a result of a strong expansion in investment, particularly in construction investment, benefiting from favourable weather conditions, the Eurozone economy has slowed down gradually over the year, registering a contraction in activity in 4Q11. Against this backdrop, the annual GDP growth in the Eurozone stood at 1.5% in 2011, decelerating from the 1.9% registered in 2010. Notwithstanding the strong growth in Germany, the Eurozone largest economy (3% throughout the year), the performance was very heterogeneous among the various countries. In effect, Southern European economies were much weaker, with negative annual GDP growth in Greece and Portugal and subdued growth in Spain and Italy, as the sharp fiscal consolidation effort had a more restrictive effect on the activity in these economies. In effect, the deterioration of sentiment and tightening of fiscal policy was reflected in an activity contraction in 4Q11. This slowdown observed throughout the year was due to (1) fiscal consolidation efforts across the Eurozone, with the aggregate Eurozone deficit declining from 6.2% of GDP in 2010 to 4.1% in 2011; (2) deceleration of private consumption and investment against a backdrop of increasing unemployment, and more difficult access to credit, and (3) a slowdown in exports, reflecting primarily lower demand in emerging economies.

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Source: World Economic Outlook,IMF, September 2011

Notwithstanding such sluggish growth, the annual average inflation rate stood at 2.7% (2.7% observed in December 2011) having increased from 1.6% in 2010 (2.2% observed in December 2010), primarily reflecting the increasing energy and food prices, whereas average core inflation in the Eurozone stood at 1.4%, relatively stable throughout the year, reflecting the absence of inflation pressures. As a result, in 2H11 the European monetary authority (ECB-European Central Bank) decreased the reference interest rate to 1.0%, through two consecutive declines of 25bp each in November and December, after having increased twice the reference interest rate in 1H11(1). Additionally, against a backdrop of lack of confidence of economic agents and low liquidity in the inter bank markets, the ECB also implemented non-conventional measures, including (1) liquidity injections in the banking system, (2) acquisition of sovereign debt securities in the secondary market, particularly of those countries in the peripheral economies, and (3) suspension of the minimum rating threshold needed for the ECB to accept Portuguese sovereign debt securities as collateral in funding operations, as it was the case for Greece and Ireland.

Source: Bloomberg

(1) ECB increased the reference interest rate in April by 25bp to 1.25% and by 25bp to 1.50% in June.

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As a result of the different economic trends and expectations in 1H11 and 2H11, as discussed above, the Euro strengthened against the US dollar in 1H11 and devalued in 2H11, having closed the year at 1.296 Euro/USD, broadly stable versus 2010 (1.337 Euro/USD), after having peaked on 4 May 2011 at 1.494.

Source: Bloomberg

2. Economic activity in PT s main geographies

2.1. Portugal

2011 was affected by a deterioration of the economic growth in Portugal and by the request for the financial external support following the deterioration of the funding conditions in the primary market and the increased risk aversion of investors in what concerns Portugal s sovereign debt. This increased risk perception was also translated into the consecutive downgrades of the Portuguese sovereign debt by the rating agencies. In effect, in 2011(2) Portugal was downgraded: (1) by 4 notches at Moody s, from A1 in 21 December 2010 to Ba2 in 5 July 2011; (2) by 3 notches at S&P from A- in 30 November 2011 to BBB- in 5 December 2011, and (3) by 6 notches at Fitch from A+ in 23 December 2010 to BB+ in 24 November 2011. As a result, the yield of the Portuguese sovereign 10-year bonds increased significantly throughout the year from 6.6% in 31 December 2010 (spread of 3.64pp against the 10-year German bonds) to 13.36% in 31 December 2011 (spread of 11.54pp against the German 10-year bonds).

Following elections in June 2011, Portugal s new government has been implementing the measures agreed as part of the Euro 78 billion financial support package agreed with the European Union / European Commission (EU/EC), the European Central Bank (ECB), and the International Monetary Fund (IMF). This financial adjustment program began to be implemented in May 2011, having already been the subject of three(3) favourable reviews by creditors officers. At the level of fiscal consolidation, the deficit fell from 9.8% of GDP in 2010 to a value near 4% of

GDP in 2011. Notwithstanding benefiting from extraordinary measures, namely the partial transfer of pension funds from

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(2) As at 15 March 2012, the local currency long term credit ratings of the Portuguese Republic were (1) Ba3 at Moody s; (2) BB at S&P, and (3) BB+ at Fitch

(3) The third quarterly review of Portugal s economic program by the EC, ECB and IMF took place in 15 to 27 February.

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banks, fiscal consolidation also results from (1) a major effort to reduce government expenditure, with a growth rate lower than budgeted, and (2) a favourable evolution of tax revenues, in line with forecast. It is expected that Portugal will achieve a primary surplus of 0.3% of GDP in 2012 and a structural deficit of 2.6% of GDP.

Source: Ministry of Finance

There has also been significant progress at the level of structural reforms in an environment of political and social stability, including changes in the labour market, reforms in the rental market and other reforms aimed at increasing competition in several markets. In the labour market significant changes have been implemented, aimed at increasing flexibility and reducing unitary costs, with clear positive impacts on competitiveness. The housing sector is also to benefit from the reforms implemented in the rental market, favouring mobility, debt reduction and absorption of the supply of housing. Finally, there are several measures aimed at increasing the competitive environment, including the privatisation program, the end of the golden shares, changes in the competition framework and a justice reform that is to introduce greater flexibility in cases of insolvency and business recovery.

The fiscal consolidation measures and the deterioration of credit conditions contributed to a contraction in domestic demand in 2011, leading to declines in public and private consumption (around 3% in annual average terms) and investment (close to 11%). Exports of goods and services maintained, however, a solid growth (close to 7% in real terms), with an increasing proportion of sales to emerging markets in Africa, Latin America and Asia. This favourable evolution of exports mitigated the impact of the factors referred to above in the GDP evolution, declined 1.5% in 2011.

The growth of exports also contributed alongside with the continuing deleverage process that is translating into lower imports led to a significant reduction in the external deficit of 8.8% of GDP to a value near 6.5% of GDP. It is expected that this process will continue in 2012, which should lead to a further reduction to around 2% of GDP.

The stock of net external liabilities of the Portuguese economy also decreased, reaching an estimated amount near 103% of GDP, compared to a maximum of 110% of GDP observed in 2009.

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Real growth rates (%), except when indicated.	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
GDP	1.6	0.8	1.4	2,4	0.0	-2.9	1.4	-1.6
Private Consumption	2.7	1.7	1.8	2.5	1.3	-2.3	2.1	-3.9
Public Expenditure	2.4	3.4	-0.6	0.5	0.3	4.7	0.9	-3.9
Investment	3.7	-0.9	-0.6	2.1	-0.1	-13.3	-3.6	-10.7
Exports	4.1	0.2	11.6	7.5	-0.1	-10.9	8.8	7.4
Imports	7.6	2.3	7.2	5.5	2.3	-10.0	5.4	-5.5
Inflation (Consumer Price Index)	2.4	2.3	3.1	2.5	2.6	-0.8	1.4	3.7
Budget Deficit (% of GDP)*	-3.4	-5.9	-4.1	-3.1	-3.6	-10.1	-9.8	-4.0
Public Debt (% GDP)	57.6	62.8	63.9	68.3	71.6	83.0	93.3	101.6
Unemployment Rate (% of active population)	6.7	7.6	7.7	8.0	7.6	9.5	10.8	14.0
Current Accounts Deficit(% of GDP)	-6.0	-8.2	-9.1	-8.9	-11.1	-10.1	-8.8	-6.1

Sources: INE, Bank of Portugal, Ministry of Finance, European Commission, OECD, ES Research. * In 2011 assuming the efects of the integration of Banks Pension Funds

2.2. Brazil

In 2011, the Brazilian economy continued to show a solid resilient performance, notwithstanding the difficult international environment. In effect, GDP grew 3.0% in 2011, after having grown 7.5% in 2010. Growth in 2011 was driven by private consumption, which continues to be leveraged in the income redistribution and surge of the middle-income class. In effect, 2011 continued to exhibit favourable conditions in the Brazilian labour market, which recorded the lowest average historic annual unemployment rate, at 6% of the workforce, while at the same time registered an increase of 5.2% of wages in real terms.

Source: World Economic Outlook,IMF

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Source: Bloomberg

The Brazilian economy also registered a favourable evolution in terms of exports and external trade balance that reflected higher commodities prices and benefited from buoyant emerging economies and from the liquidity made available by central banks in developed economies. As a result, Brazil s 2011 trade surplus increased 47.8% y.o.y to nearly USD 30 billion, the highest since 2007, with record exports (+26.8% y.o.y to USD 256 billion) and imports (+25.7% y.o.y to USD 226 billion), clearly a sign of the dynamism of foreign trade. This soundness of fundamentals, coupled with the opportunities derived from the sporting events to be hosted in the coming years as well as the initiatives related to the necessary infrastructure will continue to drive economic opportunities and attracting foreign investment. Reflecting this performance, the BRL/USD exchange rate observed in 2011 (average of BRL/USD of 1.675 in 2011) improved versus 2010 (average of BRL/USD of 1.759 in 2010), albeit on closing prices the BRL/USD moved from 1.660 in 31 December 2010 to 1.863 in 31 December 2011.

Source: Bloomberg

As a result of the economic strength, both internal and external, inflation closed the year at 6.5%, in line with the maximum threshold defined for inflation. Notwithstanding this, the Brazilian Central Bank reverted the trend of tightening monetary policy and decreased the SELIC reference rate from its peak of 12.5% in July and August 2011 to 11.0% in December 2011 (as compared to 10.75% in December 2010). Meanwhile, since the end of 2011, the SELIC rate was decreased further twice to 9.75%, reflecting a continued expansionary policy and a focus of monetary authority on the defence of economic activity.

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Source: Bloomberg

2.3. Africa

African economies have rebounded quickly following the slowdown caused by the global recession. In 2010, Africa s average economic growth amounted to 4.9%, up from 3.1% in 2009 and in 2011 it is expected a growth around 3.7%. Particularly, the Sub-Saharan Africa is showing solid macroeconomic performance, with many economies already growing at rates close to their pre-crisis averages. The global slowdown has not significantly affected the region thus far, but downside risks have risen, namely increasing inflation and exposure to commodity price swings.

2.3.1. Angola

The intensification of economic activity growth in Angola during 2011, which is expected to have grown 3.7%(4), was primarily driven by better performance of the oil sector, leveraged on the recovery of oil prices and its global demand, with Angola consolidating its position as the second largest producer in sub-Saharan Africa, having increased volumes throughout 2011: 1.8 million barrels per day in December 2011, which compares to an average of 1.7 million barrels per day in 2011.

Beyond the oil sector, Angola s economy also performed well as investments in infrastructure continued to progress at a swift pace and in diversified areas, including roads, railways, housing and other national recovery projects. These factors continued to lead external investment in Angola, and the country is now of the bigger receivers of foreign investment in Africa.

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(4) IMF estimate 24 January 2012

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Source: World Economic Outlook,IMF

On the credit front Angola also registered a good evolution in 2011, as the country sovereign rating has been upgraded at the three main rating agencies: (1) S&P, from B+ to BB- with stable outlook; (2) Moody s, from B1 to Ba3 with stable outlook, and (3) Fitch, from B+ to BB- with stable outlook. These upgrades clearly confirm the confidence that is being steadily built in the country.

On the currency front, since the Angolan authorities decided to abandon the peg against the US dollar after an initial devaluation, the kwanza has been broadly stable against the USD. In 2011 it has fluctuated in the range USD / AOA 92-95, and actually valued against the Euro. The price inflation remained high throughout 2011 with average annual inflation having increased at circa 15%, primarily conditioned by prices of food and beverages. This performance of food prices also continued to be underpinned by the difficulties at the level of logistics and distribution capabilities. At the level of monetary policy, the National Bank of Angola considering the need to promote national economic growth reduced in April the discount rate from 25% to 20%, having remained at this level until the end of the year, and the re-discount rate decreased by 5 percentage points from 30% to 25%.

Source: Bloomberg

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2.3.2. Namibia

Following a 0.7% contraction in 2009, the Namibian economy grew by 4.2% in 2010 and 3.6% (5) in 2011, leveraging on (1) a rapid recovery in diamond and uranium mining activities; (2) sustained improvement in global demand for mineral products, and (3) credit extension. In effect, the IMF expects Namibia to grow faster in 2012 at 4.2%, while the fiscal deficit to gross domestic product (GDP) ratio should shrink to 4.7% from 8.9% (estimated for 2011). The average consumer inflation rate is forecast to ease to 5.5% from 5.7%.

Source: World Economic Outlook,IMF

Unemployment and income inequality are high(6). Against this backdrop, fiscal policies expanded significantly with the government introducing a new program, in last years, aimed at increasing long-term growth and reducing unemployment by: (1) increasing infrastructure spending; (2) creating and temporary jobs within the public sector, and (3) introducing new measures targeted on the sectors of agriculture, tourism, transport, and housing and sanitation. The Bank of Namibia has maintained its policy rate at 6% since December 2010, 50 basis points above that of the South African Reserve Bank. Conditions in the banking sector have improved as the economy recovers, and supervision of the rapidly growing sector of non-bank financial institutions is being strengthened.

The IMF said the economic outlook appears promising, although facing important downside risks, including (1) a fragile external climate that poses risks for commodity demand and prices, and (2) upward pressures on prices of non-tradable services against a backdrop of expansionary fiscal stance. These risks could weaken efforts to strengthen Namibia s external competitiveness and economic diversification. However, there are good prospects for further investment and growth in the natural resource sector, and ongoing growth is expected in such areas as construction, manufacturing, and services.

2.3.3. Cape Verde

GDP growth is maintaining resilience, despite the economic and financial exposure of the archipelago, to some European countries, in which the financial debt crisis has been a major cause of the current turmoil.

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(5) IMF estimate in January 2012 World Economic Outlook.

(6) 2008 Labour Force Survey, IMF. Unemployment rate using the expanded measure stands at 51.2% and the narrow measure, which only includes those who have looked for work in the past few weeks before the survey stands at 37.6%

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Macroeconomic performance in Cape Verde is solid but has weakened in 2011. GDP growth is projected to have slowed to about 5% in 2011 (down from 5.4% in 2010), reflecting the negative external environment due to the adverse and yet to be resolved European economic and financial conditions. Notwithstanding this slowdown in growth momentum, tourism and public investments have been underpinning economic activity. Turism activity has been positively influenced by the turbulence in some countries in the Middle East and Northern Africa. On another hand, consumer price inflation rose to 4.5% in 2011 (end of period, up from 2.1% in 2010), reflecting global food and fuel price shocks. Core inflation remains restrained.

The fiscal target for calendar year 2011 was met, as tax revenues held up well, notwithstanding certain shortfalls in nontax, and the spending execution was held below the budget. Fiscal overall deficit including grants stood at CVE 15 billion, or 9.9% of GDP.

Source: World Economic Outlook,IMF

Monetary conditions began tightening after mid-2011 as the BCV adopted a more restrictive monetary stance by (1) broadening and raising reserve requirements; (2) restarting open market operations to absorb escudo, and (3) raising intervention interest rates. The exchange rate is pegged against the Euro.

2.3.3. São Tomé & Príncipe

São Tomé & Príncipe s economy is gradually recovering after a marked slowdown in 2009 that reflected a decline in foreign direct investment as a result of the global financial crisis. GDP growth is estimated to have rebounded to nearly 5% in 2011 as externally financed projects helped drive activities in construction, trade, tourism, and agriculture. Growth momentum is expected to increase as exploratory drilling for oil continues. The public authorities expect oil production to start in 2015. Inflation has declined substantially since 2008 but still remains high (2011: 12.0% end of period and 12.4% average of period). The exchange rate is pegged against the Euro, since January 2010.

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Source: World Economic Outlook,IMF

2.4. Other geographies

2.4.1. East Timor (Timor-Leste)

In 2011, growth is estimated to have remained strong at about 10% on the back of government spending. Inflation in Dili remained high, having increased to 13.4% in December 2011, due to high food prices, a weak U.S. dollar, and strong demand from rising government spending.

The government launched its Strategic Development Plan targeted at transforming Timor-Leste into an upper-middle-income country by 2030 by increasing public investment to improve the country infrastructures. Against this backdrop, capital expenditure increased in 2011: total government spending is estimated to have risen to USD 1.2 billion, from USD 0.8 billion in 2010. Owing to rising petroleum revenue, however, the overall fiscal balance is expected to have continued to record a large surplus of 50 percent of GDP in 2011, and the Petroleum Fund to have risen to about USD 9 billion. Most of the Petroleum Fund is invested in US government bonds. The current account surplus is estimated to have remained large at over 50 percent of GDP in 2011 due to high oil revenue.

Given the buoyant petroleum demand and rising prices, the outlook for economic growth and poverty reduction is promising.

Source: World Economic Outlook,IMF

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02 Regulatory background

Portugal

Number Portability. Pursuant to the transposition, on September, of the new regulatory framework for the electronic communications sector, on 28 October 2011, ANACOM launched a public consultation on the regulation project amending the Number Portability Regulation. The changes proposed by ANACOM focus mainly on the need to ensure implementation of number portability (fixed and mobile) within 1 working day and reinforcement of subscribers rights within number portability.

The document was subject to public consultation until 14 December 2011. A final decision of ANACOM is now pending.

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

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

On 24 March 2011, ANACOM issued a decision on the granting of subsidies for the purchase of DTT equipments by citizens with special needs, population groups with low incomes and institutions with a certain social relevance. PT Comunicações is granting subsidies in accordance with this decision.

On 31March 2011, ANACOM approved the Information and Promotion Plan to fulfil by PT Comunicações, within the scope of the DTT process. PT Comunicações has carried out the television campaign it was bound to (ceased on November 2011) which was followed by the television campaign promoted by ANACOM.

On 7 April 2011, ANACOM decided on the reimbursement procedures regarding the costs of instalation and equipmentsincurred populations resident in areas covered with complementary means (DTH). PT Comunicações is also fully fulfiling this decision.

Within the context of preparing migration to DTT, during 2011, three pilots were carried out in Alenquer, Nazaré and Santarém.

Wholesale Reference Offers. By determination of 20 October 2011, ANACOM approved a project decision on the procedures to be carried out in order to evaluate quality of service within wholesale reference offers.

This project decision determines that PT Comunicações shall amend the several reference offers that establish deadlines for repairs (local loop unbundling, leased lines, Ethernet accesses, bitstream and wholesale line rental)

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within 30 business days after notification of ANACOM s final decision, in accordance with several criteria. In said determination, ANACOM also has determined to PTC to send to the regulator information on service failures within the local loop unbundling reference offer, since January 2011, as well as on the measures already adopted, or envisaged, in the context of said offer, to minimize service failures generally associated to months with more rainfall.

The project decision was subject to public consultation until 19 December 2011, and is pending ANACOM s final decision.

Leased Lines Reference Offer (ORCA) and Ethernet Accesses Reference Offer (ORCE). On 17 November 2011, ANACOM approved its project decision on the leased lines reference offer (ORCA) and the Ethernet Accesses Reference Offer. ANACOM is proposing to determine, among others, to PT Comunicações to decrease, in the ORCA, the price of all components included in its pricing list (including CAM lines) for 2 Mbps, 34 Mbps and 155 Mbps lines, in 35%, 40% and 45%, respectively.

This decision project was submitted to a preliminary hearing and to a public consultation, ANACOM having established a term of 20 business days for submission of contributions, which ended on 30 December 2011; the project is now pending for a final decision by ANACOM.

RIO and RIAO 2011. On 22 December 2011, PT Comunicações published new versions of the Interconnection Reference Offer (RIO) and the Reference Internet Access Offer (RIAO). The modifications did not include price changes.

Wholesale market for voice call termination on individual mobile networks. On 1 April 2011, ANACOM submitted to Public Consultation the text about the Methodological Definition concerning the Development and Implementation of a Mobile Termination Cost Model. The option was for a pure LRIC bottom-up model, developed in collaboration with Analysis Mason. The consultation closed on 13 May and the corresponding report was approved on 1 July. ANACOM gave indication that a new consultation would follow, this time about the implementation of the LRIC model and, consequently, the definition of a new glide path applicable to mobile termination rates (MTRs).

On 3 October 2011, ANACOM approved the Draft Decision on the Price Control Obligation, within the market of Voice Call Termination on Mobile Networks. In this Draft Decision, ANACOM incorporated its understanding derived from the Consultation of April and the cost accounting model - based on the pure LRIC option - pointed to MTRs of 1.25 cent. per minute.

To reach this value, ANACOM proposed a glide path with duration of 4 quarters: from the existing 3.5 cent. per minute, applied since August 2011, MTRs would drop to (i) 2.75 cent. per minute on February 2012; (ii) 2.25 cent. per minute on May 2012; (iii) 1.75 cent. per minute on August 2012; and, finally, (iv) 1.25 cent. per minute on November 2012.

This consultation took place until 22 November 2011 and, up to this date the final conclusions of ANACOM are not known.

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Spectrum. By determination of 10 February 2010, ANACOM approved the final decision on the provision and use of electronic media in procedures which involve communication between this Authority and radio network or station licensees, as well as all requirements which apply in this context, under the terms of Decree-Law No. 264/2009 of 28 September.

By determination of 31 March 2010, ANACOM approved the National Frequency Allocation Plan (NFAP) to have effect in 2009/2010. Approval was likewise given to the report on the respective public consultation, launched on 23 December 2009.

By determination of 8 July 2010, ANACOM decided, in the context of the 900/1800 MHz spectrum refarming, to unify into a single title the conditions applicable to the exercise of 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.

By determination of 16 December of 2010, ANACOM approved the final decision on the designation and availability of 790-862 MHz sub-band for the provision of electronic communication services, in accordance with the Decision 2010/267/EU, including the corresponding amendment to the QNAF - Quadro Nacional de Atribuição de Frequências (National Frequency Allocation Table). By determination of 6 January 2011, ANACOM approved the final decision on the introduction of mobile communication services on board vessels (MCV services).

By determination of 17 October 2011, after a pubic consultation auctioning regulation was published at the official journal (Regulation n.º 560-A/2011, of 19 of October 2011), and for the provision of publicly available terrestrial electronic communication services, using any technology, without prejudice to the obligations set forth in the Radiocommunications Regulation of the International Telecommunication Union (ITU) and in the National Table of Frequency Allocations (NTFA), rights of use for frequencies in bands of 450 MHz, 800 MHz, 900 MHz, 1800 MHz, 2,1 GHz and 2,6 GHz were allocated by means of a multiband auction.

A maximum of 39 rights of use were auctioned, 6 of which in 800 MHz band and 14 of paired spectrum plus 2 of unpaired spectrum in the 2,6 GHz band. The auction model was simultaneous, ascending, open and with multiple rounds. Spectrum caps were established in the allocation of spectrum.

The 800 MHz frequency band may only be used after 26 April 2012, subsequent to the switch-off of the analogue television network, concluding (3rd phase) on 26 April 2012, in accordance with ANACOM decision of June 2010 approving the Plano para o Switch-Off (Switch-off Plan) pursuant to Resolution of the Council of Ministers no. 26/2009 of 17 March and is subject to the establishment of technical and geographic conditions which provide for the compatibility of usage, including between Morocco and Spain.

According to Regulation 560-A/2011, the auction regulation, the holders of rights of use of frequencies which, upon conclusion of the auction, become holders of 2 x 10 MHz in the 800 MHz frequency band or holders of at least 2 x 10 MHz in the 900 MHz frequency band, are subject to an obligation to allow access to their networks according to non-discriminatory. They shall, upon request and in good faith, negotiate access agreements with third parties. Namely, they shall negotiate agreements which allow their networks to be used for the mobile virtual operations of third parties, in the different modes that range from full MVNO to light MVNO, for the provision to end-users of electronic communication services which are equivalent to the services which they offer to their own customers.

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On 6 January 2012, ANACOM approved the final report of the auction for the allocation of rights of use of frequencies in the 450 MHz, 800 MHz, 900 MHz, 1800 GHz, 2.1 GHz and 2.6 GHz bands.

The multiband auction raised a final amount of 372 million euros from the winning bidders, as follows: 113 million euros (Optimus), 113 million euros (TMN) and 146 million euros (Vodafone).

Cost Accountig System ANACOM approved, by deliberation on 7 April 2011, the Draft Decision on the revision of the weighted average cost of capital (WACC) of PT Comunicações, applicable to the years 2010 and 2011. This Draft Decision was submitted to public hearing of the interested parties until 26 May.

By deliberation of 26 August 2011, ANACOM approved the Final Decision on this subject, determining a WACC of 11,6% and 11,0% for 2010 and 2011, respectively.

Regulation on the settlement and collection of regulatory fees. On 31 May, ANACOM corrected the value of the fees owed for the exercise of the activity of supplier of networks and electronic communications services, in the years 2009 and 2010, after computing the actual administrative costs in 2010, and revising the value of provisions in both years. After these corrections, operators were reimbursed.

By deliberation of 25 November 2011, ANACOM settled the contributory percentage t2 (applicable in the case of PT Comunicações) in 0.5714% . This calculation was based on an amount of administrative fees of approximately 30 million euro.

Universal Service. By deliberation of 11 November 2010, ANACOM decided not to oppose the proposal for the fixed telephone service residential tariffs, within the scope of the Universal Service (US), as presented by PT Comunicações on 22 October 2010. Prices were implemented as from 1 January 2011.

By determination of 19 November 2010, ANACOM decided not to oppose the proposal for the tariffs to be applied to calls originated on PT Comunicações network and terminated on other operators networks, as presented by PT Comunicações on 8 November 2010, and implemented as from 1 January 2011.

Pay Phones. On 18 March 2011, ANACOM launched a consultation on the provision of the Pay Phone service, within the scope of the Universal Service (US).

According to the report of the consultation, approved on 7 July 2011, ANACOM stated that: (i) the maintenance of the Pay Phone service as one of the provisions of the US is justified; (ii) the present conditions for the provision of the Pay Phone service, within the scope of the US, should be altered in order to allow a significant reduction of the number of pay phones functioning.

ANACOM also manifested the intention of, in due time, ensue the revision of the present conditions associated to the provision of the US.

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Net Cost of the Universal Service. Between 1 February and 22 March 2011, ANACOM launched two public consultations, one on the definition of the concept of excessive burden, and another on the methodology for the calculation of the NCUS.

By deliberation of 9 June 2011, ANACOM approved the decisions on the definition of excessive burden and on the methodology for the calculation of the NCUS. PT Comunicações submitted an appeal to ANACOM defending the need to correct the methodology and a final decision on this matter was adopted on 18 August, attending the plea presented by PT Comunicações.

By the end of 2011, PT Comunicações submited to ANACOM the calculation of the NCUS pertaining the period between 2007 and 2010. ANACOM will have to submitt these results to an independent auditing process, which did not yet begin, but that should be concluded by the end of 2012, according to the Strategic Plan 2012-2014 of ANACOM.

Designation of the Universal Service Providers. Between 16 November and 30 December 2011 a Public Consultation concerning the process of designation of the Universal Service Provider(s) (USP) took place, which was divided in three allotments: (i) Telephone Service; (ii) Pay Phones; (iii) Directory and Enquiry Services. Beside this division, the provision of Telephone Services and Pay Phones was further divided in 3 geographic areas.

According to the text submitted to consultation, the process of seletion of the USP consists of designating that/those which, ensuring quality and price accessibility, present the lower NC associated to the provision of the service, or, in the case of Directory and Enquiry Services, the highest remuneration being paid to the State. Emphasis was also placed in the respect for the principle of net neutrality, and the concept of functional access to the Internet remaining as a connection which allows a transmission velocity of 56 kbps, although contributions in this matter are expected, relating to the possibility of the market in assuring higher debit rates.

ANACOM took a final decision on this topic on 14 February 2012, and issued its recommendations to the Government. ANACOM announced that it will launch a consultation on the compensation fund after which the Government will be expected to launch the tender for the designation of the company (ies) responsible for the provision of the US.

Reanalysis of the leased lines retail market and of the wholesale markets of terminating and trunk segments of leased lines. On 16 December 2009, ANACOM approved the draft decision on the definition of product markets and geographic markets, the evaluation of SMP and the imposition, maintenance, amendment or withdrawal of regulatory obligations in relation to the market for the retail provision of leased lines and of the wholesale markets for the provision of terminating and trunk segments of leased lines.

On 28 September 2010, ANACOM approved the final decision regarding this market. The main innovation regarding the previous decision is the introduction of Ethernet segments, with the segmentation of the transit market in Competitive and Non Competitive Areas. The leased lines retail market has been eliminated.

New Regulatory Framework for electronic communications. On 26 May, 2011, the provisions amending the electronic communications regulatory package came into force in the EU. In Portugal, said provisions came into effect on September 2011, pursuant to the publication of

Law No. 51/2011, of September 13.

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The main changes introduced to the regulatory framework are in respect of:

- Reinforcement of consumers rights
- Reinforcement of competitive conditions between operators, in order to allow consumers more choices
- Promotion of investment in new communications infrastructure, namely by freeing spectrum for the provision of broadband services
- Networks security and integrity.

Consumer. In 2011, ANACOM adopted a set of measures envisaging reinforcing consumers rights.

By determination of 13 January, ANACOM approved its project decision on the amendment of its decision of 21 April 2006, regarding the object and form to render available to the public the conditions on the offer and use of electronic communications services. This decision project proposed a relevant number of modifications in respect of providing pre-contractual information.

This project decision was submitted to a public consultation, which lasted until 16 February 2011.

By determination of 10 October 2011, ANACOM issued its final decision in this matter, having granted to providers of electronic communications networks and services a period of 120 business days to implement the changes approved. In respect of standardized offers to the public (including citizens with special needs). This determination imposes to operators the obligation to disclose, in their selling points, including in door-to-door sales, a set of information regarding electronic communications services they provide.

Operators are also required in distance and door-to-door sales to provide the information detailed in ANACOM s determination and the contacts through which the consumer may obtain said information.

On 1 June 2011, ANACOM launched COM.escolha, a new tool to consult/compare prices and simulate consumption within internet, mobile and fixed telephone and television services, and envisaging providing help to residential consumers in choosing electronic communications services best suited to their needs. Each operator should provide at is decision, the information that is uploaded into the comparison tool.

In addition, by determination of 27 October 2011, ANACOM approved a draft decision on the required procedures for subscribers to settle contracts relating to the provision of publicly available electronic communications networks and services.

ANACOM also proposed that operators should implement the measures adopted in ANACOM s final decision and amend their general terms/contracts within 90 business days from the final decision. According to ANACOMs draft decision, contracts should explicit the content of the termination declaration issued by the subscriber, the documents to submit with said declaration, form, means and contacts to submit the termination request.

This draft decision was submitted to a public consultation, which ended on 28 November 2011.

Network security. ANACOM approved, by determination of 22 December 2011, a draft decision on the circumstances, format, and procedure applicable to the report of security breaches or loss of integrity with a

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significant impact on the functioning of electronic communications networks and services available to the public. This draft decision also contains the conditions in which ANACOM considers there is a public interest in disclosing said information to the public, as well as its content, means and deadlines.

This draft decision was submitted to a public consultation until the 27 January 2012 and is now pending a final decision by ANACOM.

Value Added Services based on messages (premium messages). Law No. 51/2011, of 13 September, which is in force from 14 September, introduced block by default of access to value added services based on messages.

Roaming. On 11 February 2011 ended the deadline for submitting contributions to the EC Public Consultation, which had been launched on 8 December 2010, on the revision of Regulation 544/2009 (Roaming II).

Considering that the market for the provision of roaming services is not yet competitive, the EC proposed, within the scope of the future Roaming III , innovative measures, when compared to those present in the current Roaming II, which is due to expire on 30 June 2012.

Beside the maintenance of the dispositions already in place concerning the mechanisms of transparency and expenditure control; price caps applicable to wholesale voice, sms and data tariffs; and maximum prices applicable to retail voice and sms tariffs, the EC proposes introducing: (i) a cap on the retail data tariff (July 2012); (ii) the obligation for mobile operators to provide network access, in order to allow the provision of roaming services (July 2012); and (iii) the decoupling of roaming services, while ensuring maintenance of the client number (July 2014).

The final decision of the EC concerning the content of Roaming III should only be known in May 2012.

Net Neutrality. The European Commission released its findings of the public consultation on Net Neutrality, which took place between 30 June and 30 September 2010. Summarily concluded that the EC measures under the 2009 Regulatory Framework are sufficient to address issues related to NN.

Throughout 2011 the BEREC (Body of European Regulators for Electronic Communications) undertook several initiatives:

- On 15 April BEREC asked Internet stakeholders to answer a set of questions regarding the application of net neutrality principles, including any limitations on Internet access likely to affect the end user. Namely, access to VoIP applications for mobile access networks and access restrictions on applications and content distribution.

- In October launched a public consultation on its proposed guidelines on network neutrality and transparency. PT Group expressed its comments in a common position with other operators.

- In December, BEREC asked operators to complete a questionnaire regarding IP traffic. With this questionnaire BEREC intended to measure any blocking processes or constraints on access to applications, as well as traffic management measures used by ISPs that may impact on the degradation of service. PT Comunicações and TMN sent their answers to ANACOM, on 20 January 2012.

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The EC will decide by the first quarter of 2012, and according to the conclusions of BEREC s studies, it must adopt stricter measures to guarantee a more open internet and the neutrality of networks.

Statistical Information. ANACOM approved, by determination of 3 March 2011, the final decision regarding the new questionnaire in respect of the provision of electronic communications services at a fixed location and nomadic VoIP services. This new questionnaire has replaced some questionnaires previously adopted, and has allowed integration of some information that was sent in other questionnaires.

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03 Strategic profile

Business context: a sector in rapid change with the emergence of multiple players

Global telecommunications sector

Transformation of consumer habits driven by technology. The proliferation of new and innovative players in the telecommunications, media and technology space and the emergence of global players is driving the appearance of new and innovative applications matching and creating additional needs for the end user. This proliferation of new apps and services is also driving the transformation of consumer habits, by promoting the interactivity with peers through social networks, increasing the propensity to multi-tasking and fostering the usage of multi screens for various applications.

Technological evolution and development of new access technologies. The development of new access technologies and networks continues to be an overriding trend, with operators announcing plans, trials and investments in Next Generation Access Networks (NGAN), namely Fibre-To-The-Home (FTTH) networks in the fixed business and Long Term Evolution (LTE / 4G) in the mobile business. The investments that are being carried out in new access technologies, which are significantly more efficient for data transmission will enable operators to increase access speeds at lower costs.

Source: Screen Digest; Cisco VM Global IP traffic forecast, 2010-2015; Yankee

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The availability of increasingly faster access speeds, both in fixed and mobile, is underpinning an explosion in data consumption as the high connectivity and capacity of terminal equipments, enabling voice, data and video, sets the background for the emergence of new services. Accordingly, worldwide data consumption will see exponential growth in the medium term, increasing by 5x in the wireline to 32 Exabytes/month and by 65x in the wireless to 2 Exabytes/month between 2009 and 2014.

Change in consumption patterns led by new access devices. The fast development and availability of new access devices are leading to a significant growth of Internet users, which are becoming increasingly more individual, and to more frequent usage thus catalysing an explosion in bandwidth consumption. Access devices like the PC, TV and mobile handset are also becoming increasingly convergent, enabling the emergence of a triple-play multi-screen trend in the sector. Examples of this trend are smartphones, tablet PCs and Internet pads, e-books. In effect, the proliferation of these devices that are connected to the Internet, added to the computer and the laptop, is increasing significantly the ability to be always online.

Source: Screen Digest; Yankee

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695 thousand status updates per second in Facebook

Processed information per hour equivalent to more than **1.5 million movies**

More than **20 hours** of **contents uploaded per minute**

2.9 million e-mails sent per second

Source: Powering growth through digital advantage , McKinsey & Company

New competitive boundaries being set at a global level. The broad telecommunications sector will continue to expand, but increasingly overlapped with equipment manufacturers, Internet service providers and media players, a trend led by growth in connectivity and higher access speeds that will enable the emergence of cloud-based services. Telecom operators are expected to maintain traditional access services and a billing relationship over which users access a myriad of services like music (iTunes), video (YouTube), photos (Facebook, Picasa, Flickr), apps (Google, App Store) and retail (Amazon, Ebay). As a result, there is an increasing consolidation trend in the telecommunications sector with the emergence of new and global players and brands. Cloud computing services are not only emerging as a solid reality in all consumer segments, such as personal and residential, as discussed above, but also for corporates, SMEs and SOHOs, with new offerings like software or infrastructure as a service becoming increasingly popular.

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A new growth paradigm: emerging markets as the growth engine. Emerging markets are leading the growth of the telecommunications sector having grown twice as fast as developed markets (CAGR 2005-07 of 11.7% in Africa, LatAm and Asia as compared to 5.8% in Western Europe and North America). This trend is expected to intensify in the future, as the sector was broadly flat in Western Europe and North America in the period 2007-09 when compared with a 6.9% CAGR over the same period for countries in Africa, LatAm and Asia. With the sector becoming more mature in developed markets, the focus on execution will be key as a lever of differentiation and, ultimately, success.

Telecommunications context in Portugal

Consolidation of bundled offers. 2008-11 was marked by the development, marketing and subsequent proliferation of bundled offers among the several market players, with triple-play packages (bundling TV, voice and broadband) becoming increasingly popular and attractive. The major transformation initiated in 2008 continued throughout 2011 with the consolidation of the presence of cable operators in the voice segment and of copper operators in the TV segment. As a result of its relentless and focused investment in pay-TV and bundled offers, PT has significantly improved its dynamics in voice and data, whilst being able to achieve a position of co-leadership in the pay-TV market.

Increased competitiveness in urban areas. 2008-11 was also marked by a significant change in the landscape of the Portuguese telecommunications market, with operators investing in fibre, namely PT that covered 1.6 million households with FTTH, available and under construction. This trend benefited from increased regulatory visibility,

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with a new regulation concept that followed a geographical segmentation approach, removing some restrictions on PT s broadband offer.

PT s positioning: a customer-oriented innovative company

PT is an international operator focused in three main geographies, Portugal, Brazil and Africa. In addition, PT also has investments in Asia, namely in Macao and in East Timor. PT has more than 93 million customers worldwide and generates 58% of its revenues(8) outside Portugal, including 53% from Brazil.

In the Portuguese market, PT is a customer-oriented company focused on innovation and execution, managing its business along customer segments: (1) Residential: consolidate the inflection of the historical trend in the wireline business, by leveraging its successful TV strategy (having already achieved a market share of 30% in the Portuguese pay-TV market); (2) Personal: continue to develop innovative data and Internet access products and convergent services and apps, leveraging on strong online presence of the SAPO web portal, and on key partnerships, while simultaneously redesigning its tariff structure to improve the underlying trends in the mobile business, and (3) SMEs and Corporate: launch leading edge convergent cloud-based solutions supported by the recently announced next generation Data Centre.

At an international level, PT is focused on improving the operational performance of its assets and on the sharing of best practices across the various businesses. The expansion of international operations to multiple geographies is one of the most important catalysts of value creation in the telecommunications sector and PT has built a relevant portfolio of international operations as referred to above.

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Consolidate leadership in the Portuguese market, while developing an international growth agenda. PT remains committed to a cost, operational, financial and strategic discipline, aiming at focusing on the development of its resources in its core businesses and in its core regions, Portugal, Brazil and sub-Saharan Africa. PT continues to pursue the five key ambitious objectives defined for the medium-term: (1) grow the customer base to 100 million customers; (2) increase its exposure to international operations up to two thirds of revenues; (3) reinforce leadership in all market segments; (4) achieve a top-quartile performance in shareholder return and results, and (5) be a reference in terms of sustainability.

Portuguese operations

Residential: providing a differentiated and sophisticated multi-screen pay-TV experience. The growing connectivity available on next generation access networks will continue to be an overriding trend in the residential segment enabling the simultaneous connection of multiple devices through wireless and wireline networks inside the customer home (TVs, games consoles, PCs, laptops, tablets, smartphones). Multi-screen TV is a key lever for differentiation and Meo is already converging towards a seamless offering on the TV, PC and smartphone. Cloud-based services are becoming an increasingly popular reality allowing easy access to software and technology and higher security in the storage of key information. PT is following this trend having launched over the recent past several innovative applications and services, including (1) Meo Go, a live-TV service available on Wi-Fi and 3G/4G mobile networks; (2) Meo Kanal, an innovative application aiming at bringing the social media features to the TV set; (3) Meo Games, an on-demand advanced gaming service.

Personal: mobile data and convergence as key growth levers. The increased penetration of smartphones, laptops and other mobile data devices, coupled with an explosive growth and proliferation of data services and apps, sets a favourable background for mobile data services. TMN is clearly in the forefront of mobility data services, offering TV (Meo Mobile), music (Music Box) and access to social networks through innovative aggregator and convergent services, which leverage the know-how and brand of Sapo. TMN also leverages on partnerships with key suppliers, using own brand or third party brands, to maintain a distinctive and attractive offering for smartphones, tablets and laptops.

Additionally TMN remains focused on designing new tariff plans, like the e , an innovative prepaid plan, or the Unlimited post-paid plan, which are simpler and customisable and aimed at catalysing the upselling of

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Internet and lock-in of high value customers, shifting way from pricing competition. As a result, TMN commands circa 50% of market share in mobile broadband, according to a Marktest study, and 48% in smartphones, according to a GfK study, clearly ahead of its overall market share.

Enterprise: new services for both corporates and small/medium business leveraging on PT s unique transport and access networks. Through investments in infrastructure and telecom-IT convergence, PT intends to develop and market advanced integrated solutions for the corporate and SME segments aimed at promoting the penetration of IT/IS and BPO services, thus increasing customer share of wallet and loyalty in these competitive market segments. PT will also leverage its new leading-edge data centre and cloud computing offering, in partnership with Cisco and Microsoft, in order to supply new and distinctive services to the market.

Reinforce leadership in all market segments where PT operates. With the entrance in the pay-TV business, PT is turning around its residential business, starting from an attacker position and, simultaneously, leveraging its position as a major integrated operator, aiming at offering broad and convergent products and services. In a converging world where individuals increasingly need to contact, communicate and consume seamless data services through all types of devices everywhere at their workplace, at home or on the move , PT s unique skills and ability to offer integrated services are proving to be a true competitive advantage in Portugal.

To make the difference in customer service. In a context of major market transformation and economic uncertainty, understanding customer needs throughout their life cycle and addressing these needs by ensuring world-class execution is a distinctive factor. This trust-based relationship makes it possible to successfully encourage customers to adhere to increasingly complete products and service packages for longer periods, allowing PT to increase its share-of-wallet.

International operations

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

Brazil: data growth and convergence. In Brazil, through its investment in and partnership with Oi, PT will focus its efforts on leveraging its successful experience in developing innovative and technologically advanced solutions for corporate customers, fixed-mobile convergent offers, mobile broadband, pay-TV and triple-play services to contribute significantly to improve further Oi s operational and financial performance, considering its strong presence in the Brazilian market and the potential for future growth.

Africa and Asia: Opportunistic M&A and consolidation. PT continues to focus on improving the efficiency of international operations through sharing of best practices amongst all its subsidiaries and through an increased proximity that is being achieved by having top management contacting in person or by video-conference frequently to PT s operations around the world to better follow-up key developments in each geography.

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

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Focus on innovation and execution

Innovation: structured approach and partnerships. PT has a structured approach to innovation aimed at establishing a balanced portfolio of projects focused on two key variables: risk level and maturity. Three main categories are defined under this structured approach: (1) incremental innovation (business as usual, low-risk and short-term optimisations); (2) planned innovation (business development, medium-term and medium-risk developments), and (3) exploratory innovation (structural projects, which are long-term and high-risk by nature). Additionally, PT s innovation approach leverages on a network of partnerships with key institutions that are worldwide leaders and a reference in their respective fields. These partnerships are categorised as follows: (1) technological partnerships for the development of new solutions and services (e.g., agreements with Cisco, Corning, Samsung, LG, Huawei and ZTE); (2) partnerships, aimed at sharing best practices and establishing joint collaboration in innovation and R&D (e.g. protocol signed with Singtel); (3) protocols with universities, in order to foster joint R&D and knowledge-building efforts (e.g. partnership with CMU and several Portuguese universities), and (4) R&D partnerships, aimed at developing new technological solutions (e.g. agreements with INESC Inovação and Instituto de Telecomunicações).

Functional merger of the wireless business (TMN) with the wireline business (PTC), with stronger focus on the specific needs of the different customer segments in the Portuguese market. The functional merger of TMN with the wireline business represents a milestone for the organisation, as well as a turning point in efficiency and effectiveness in the way business areas operate. The new organisation is based on two principles:

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