PORTUGAL TELECOM SGPS SA
Form 6-K
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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 May 2015

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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Portugal Telecom, SGPS, S.A.

Consolidated

Annual Report

2014

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01

Macroeconomic Environment

1. International economic context

In 2014, the World Economy is expected to grow similarly to 2013, below the levels prior to the economic and financial crisis, and to those verified in the initial phase of recovery. This weaker than expected growth is largely associated with the behavior of advanced economies, with moderate domestic demand in a context of high unemployment. The geopolitical tension in Ukraine and the Middle East, a particularly harsh winter in the US, and the effects of a tax hike in Japan also contributed to a lower recovery of domestic demand in these economies. Many of the emerging economies continued significant activity growth rates, although they were also affected by declining demand in advanced economies, by a context of uncertainty and low levels of investment.

The euro area should maintain moderate growth, in a context where recovery of the labor market is weaker than in other advanced economies, where some countries maintain a process of fiscal consolidation and/or private sector deleveraging, and where the adoption of structural reforms, seen as crucial to promote competitiveness of economies, stimulate employment and thus stimulate economic growth, is not yet complete. This aspect is particularly important in that a large number of countries are adjusting the balance in several sectors of the economy. This is a long process with implications on aggregate demand. Inflation remains low worldwide. In the euro area, the inflation rate is currently close to zero percent (0.3 percent according to figures published by the European Central Bank, for September 2014), and medium to long-term inflation expectations have been decreasing.

Inflation rate (%)

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Growth of GDP (%)

Unemployment rate (%)

Source: OECD

Source: OECD

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2. Portugal

The Portuguese economy performed well during the year 2014, for the first time in three years. GDP in 2014 grew at a moderate rate of 1.1%, and was constant in the second and third quarters of last year. Although recent data suggests some loss of momentum in the fourth quarter, economic recovery appeared to be on track. There was also slight improvement in public accounts during the year 2014. The government deficit in 2014 was 4.6% of GDP, down from 4.9% in 2013. Exports and imports increased 3.8% and 4.6%, respectively. However, unemployment remains high, at 14.2%, while inflation was at 0.2%. On January 21 2015, the Minister of Finance announced that the Government had decided to make early repayment on the bailout involving IMF loans. The Government, which in May 2014 put an end to the European Bailout Program, in the amount of approximately 78 thousand million euros, wants to follow Ireland and repay its loan in advance in order to benefit from the low negotiated interest rates.

3. Brazil

In 2014, Brazil grew 0.3%, well below what was seen in the last 4 years when, on average, Brazil grew at a rate of 3.4% per year. However, the level of unemployment remains low, at around 5.5%, thus continuing to show favorable conditions in the labor market. The exchange rate has shown some volatility during the year compared to the euro, and reached its highest level in September, at 2.9 reais per euro. However, by December 31, the amounts were in line with those recorded in the same period in 2013, ending 2014 at 3.24 reais per euro.

Growth of GDP (%)

Source: World Economic Outlook, IMF

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Unemployment rate (%)

Source: World Economic Outlook, IMF

Inflationary pressures continued throughout 2014, with Brazil having reached annual inflation of 6.3%. The level of indebtedness has been declining, having reached 65% of the GDP in 2014.

Inflation rate (%)

Source: World Economic Outlook, IMF

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EUR/BRL Exchange rate (%)

Source: World Economic Outlook, IMF

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02

Analysis of consolidated results

Consolidated results

After signing the new agreement with Oi, S.A. (Oi) and the execution of the Exchange in March 30, 2015, PT SGPS holds a 27.5% direct and indirect stake in Oi. Additionally, Portugal Telecom SGPS (PT SGPS) holds the Rio Forte Instruments (see chapter 4) and the Call Option over 47,434,872 common shares and 94,869,744 preferred shares of Oi.

On May 5, 2014, PT SGPS subscribed for 1,045,803,934 common shares and 1,720,252,731 preferred shares issued by Oi through the contribution of the PT Assets defined as its 100% interest in PT Portugal, SGPS, S.A., which as of that date included all operational businesses of Portugal Telecom Group except for the subsidiaries Bratel BV, Bratel Brasil, S.A. (Bratel Brasil), PTB2, S.A. (PTB2) and Marnaz, S.A. (Marnaz) and the investments in Oi, Contax Participações S.A. (Contax) and its controlling shareholders. As a result of the contribution to the Oi share capital increase:

- PT SGPS increased its effective interest in Oi from 23.2%, previously held through Bratel Brasil, to an economic interest of 39.7%, held through a total direct interest of 35.8% (32.8% in PT SGPS and 3.0% in Bratel Brasil) and an indirect interest of 3.9% held through the controlling shareholders of Oi;

- As a result of all transactions that were required to be implemented in the context of the contribution of PT Assets in the capital increase of Oi (as described in detail in chapter 4), and the low book value of those assets in the consolidated accounts of PT SGPS, PT SGPS recorded a gain of approximately 699 million euros (included in the results of discontinued operations), in the context of the capital increase of Oi, which primarily reflects (1) the difference between the fair value of the shares that PT SGPS received for the subscription of the capital increase of Oi (1,854 million euros) and the carrying value of the PT Assets (negative 2,676 million euros) contributed in kind in the capital increase, which was partially offset by (2) the dilution effect on the previous investment in Oi held through Bratel Brasil and the effect of the remeasurement of the previous investment in Oi to the fair value implicit in the capital increase.

- The results from all businesses that were contributed in Oi s capital increase were presented as discontinued operations and, accordingly, the consolidated statements of income and cash flows for the year 2013 have been restated.

Included in the PT Assets contributed by PT SGPS in the Capital Increase of Oi were short-term investments in commercial paper of Rio Forte, held by its former subsidiaries PT Portugal SGPS, SA (PT Portugal) and Portugal Telecom International BV (PT Finance) amounting to 897 million euros (see chapter 4). On July 15 and 17, 2014, these instruments matured without the issuer having settled its obligations.

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Following the above events, on July 28 PT SGPS and Oi announced they had reached an agreement on the final terms following the new Memorandum of Understanding announced on July 16, 2014. As part of this agreement, it was stated that PT SGPS would exchange (Exchange) with Oi the Rio Forte Instruments amounting to 897 million euros, in exchange for 474,348,720 common shares and 948,697,440 preferred shares of Oi (Oi Shares Subject to the Exchange) - adjusting for the effect of grouping the shares of Oi (reverse stock split) on December 22, 2014, this corresponds to 47,434,872 common shares and 94,869,744 preferred shares - and PT SGPS would be granted an American type, non-transferable option (Call Option) to repurchase the Oi Shares Subject to the Exchange (with an exercise price for the common shares of 2.0104 reais and 1.8529 reais for the preferred shares) - adjusting for the effect of grouping the shares of Oi, the price corresponds to 20.104 Reais per common share and 18,529 Reais per preferred share, which would be adjusted by the Brazilian interest rate CDI plus 1.5% per year. The exchange was concluded on March 30, 2015.

The direct and indirect stake in Oi of 39,7% as of December 2014 will be reflected in PT SGPS accounts as follows: the stake that will not be object of the Exchange (22.8%) is classified as per IFRS 11 as a joint venture, and registered in accordance with the equity method. This interest is equivalent to 27.5% after the Exchange on March 30, 2015, since the shares delivered are considered treasury shares of Oi. The remaining stake (16.9%) is classified as a non-current asset held for sale.

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Consolidated Income Statement

Euro million

	2014	**2013 Restated**
Wages and salaries	(5.8)	11.9
Supplies and external services	26.2	3.2
Provisions and adjustments	(0.2)	(0.8)
Indirect taxes	6.4	2.9
EBITDA	**(26.6)**	**(17.3)**
Depreciation	0.1	0.2
EBIT	**(26.7)**	**(18)**
Other gains, net	(0.9)	(124.9)
Income (loss) before financial results and taxes	**(25.7)**	**107.4**
Net interest income	(11.7)	(18.5)
Net losses on financial assets and other investments	363.0	1.3
Losses in joint ventures	378.6	6.8
Net other financial losses	39.5	11.8
Income (loss) before taxes	**(795.2)**	**106.1**
Income taxes	(35.3)	(4.4)
Net income (loss) from continuing operations	**(759.9)**	**110.5**
Net income from discontinued operations	470.7	278
Net income	**(289.2)**	**388.0**
Non-controlling interests	13.6	57.0
Net income attributable to controlling interests	**(302.8)**	**331.0**

The consolidated operating costs amounted to Euro 27 million in 2014 and 17 million euros in 2013, reflecting higher costs with legal and financial consulting services related to the business combination between PT SGPS and Oi, and higher indirect taxes relating to these expenses. These effects were partially offset by the partial reversal of accruals for variable remuneration that had been recognized in prior years.

Other net gains of Euro 125 million in 2013 mainly include a gain of Euro 134 million resulting from the settlement of contractual obligations related to the acquisition of the investment in Oi in 2011 for Euro 16 million, less than the initially recognized liability.

Net interest income amounted to Euro 12 million in 2014 and Euro 19 million in 2013, which are mainly related to cash deposits held by PT SGPS and by Bratel Brasil, since the debt of PT SGPS following Oi s capital increase, was transferred to Oi as part of the PT Assets.

Net losses on financial assets and other investments, amounting to Euro 363 million for the fiscal year 2014, reflect the reduction between September 8 and December 31, 2014 of the value of the stake in Oi classified as non-current asset held for sale, and related to the Exchange Agreement entered into with Oi on September 8, 2014 (Rio

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Forte Instruments and Call Option on shares of Oi, as described in detail in chapter 4 below). This investment is recorded at fair value based on the price of Oi s shares as of December 31, 2014.

The losses in joint ventures amounted to Euro 379 million in 2014 and Euro 7 million in 2013, and correspond to PT SGPS s stake in losses of joint ventures, recorded according to the equity method. The change in this item reflects the share of PT SGPS in Oi s results, which include: (1) a loss of Euro 1.3 billion recognized by Oi in December 2014, to adjust the book value of the domestic operations of PT Portugal, which have been classified as discontinued operations by Oi, to their recoverable amount under the agreement with Altice S.A. (Altice) for the sale of these businesses, (2) the reduction of Oi s routine EBITDA in 2014, and (3) the increase in financial expenses of Oi in 2014.

Other net financial costs amounted to Euro 40 million in 2014, which essentially reflected the impact of the Euro 27 million provision related to the financial impact of the Exchange Agreement entered into with Oi. Additionally, this item also includes bank charges and other financial services incurred, following the business combination between PT SGPS and Oi, especially taxes paid on the transfer of funds to Brazil.

Income tax amounted to a gain of Euro 35 million in 2014, primarily reflecting (1) the reversal of provisions for tax contingencies amounting to Euro 27 million, and (2) the tax effect on operating costs and other financial expenses net of financial income. The change from the same period last year mainly reflects higher operating costs.

Net income from discontinued operations in 2014 mainly includes a gain recorded in the capital increase of Oi, totaling Euro 699 million, partially offset by the write-off of deferred tax assets relating to reportable tax losses, amounting to Euro 208 million, recorded on the same day due to the discontinuation of businesses in Portugal that supported the recognition of these deferred taxes. Excluding these effects, discontinued operations recorded a loss of Euro 20 million in 2014, compared with a profit of Euro 278 million in 2013, which mainly reflects the gain recorded in the disposal of the investment in CTM in the 2Q13 (Euro 310 million), partially offset by certain provisions and adjustments for the same period in order to adjust the carrying value of certain assets to their corresponding recoverable amounts.

The result attributable to non-controlling interests amounted to Euro 14 million in 2014 and Euro 57 million in 2013, primarily reflecting lower results in the Africa businesses in 2014 until May 5, when they were contributed to the capital increase of Oi.

The net loss amounted to Euro 303 million in 2014 compared to a net profit of Euro 331 million in 2013, primarily reflecting: (1) higher losses in joint ventures recorded under the equity method (Euro 379 million in 2014 and Euro 7 million in 2013); (2) net losses on financial assets (Euro 363 million in 2014 and 1 million in 2013), mainly reflecting the devaluation of Oi s shares associated with the Exchange Agreement that occurred between September 8 and December 31, 2014; (3) the provision (Euro 27 million) related to the financial impact as of December 31, 2014 of the Exchange Agreement entered into with Oi; (4) the gain of Euro 310 million recorded in the disposal of CTM in the 2Q13, and (5) other net gains recorded in 2013 (Euro 125 million). These effects were partially offset by the gain recorded in the context of the capital increase of Oi net of the write off of tax losses (Euro 491 million), the gains recorded in income tax in 2014 and by a greater share of non-controlling interests on 2013 income.

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Consolidated Financial Statement

Euro million

	31 Dec 2014	**31 Dec 2013**
ASSETS		
Cash and cash equivalents	109.5	1,659.0
Short-term investments		914.1
Accounts receivable	0.1	1,170.7
Non-current assets held for sale	388.4	4.7
Investments in joint ventures	714.2	2,408.2
Investments in associated companies		511.3
Goodwill		380.6
Intangible assets		717.7
Tangible assets	0.2	3,438.5
Deferred taxes		564.9
Other current assets	6.2	250.7
Total assets	**1,218.5**	**12,020.4**
LIABILITIES		
Gross debt	0.1	7,371.1
Accounts payable	9.0	587.7
Accrued expenses	23.4	534.7
Taxes payable	5.4	80.1
Post retirement benefits		960.9
Deferred taxes		243.8
Provisions	27.2	91.1
Other liabilities	0.9	284.2
Total liabilities	**66.0**	**10,153.6**
Equity excluding non-controlling interests	**1,152.5**	**1,641.3**
Non-controlling interests		225.5
Total equity	**1,152.5**	**1,866.8**
Total liabilities and shareholders equity	**1,218.5**	**12,020.4**

The reduction in total assets and total liabilities reflects the assets and liabilities of the businesses that were contributed in the capital increase of Oi on May 5, 2014, explaining the decrease in most items of the Consolidated Financial Statement.

Non-current assets held for sale as at December 31, 2014 correspond to the fair value of the shares of Oi delivered subsequently in March 2015 by PT SGPS to PT Finance under the Exchange Agreement. The fair value of these shares was determined based on the price of shares of Oi on December 31, 2014.

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Investments in joint ventures on December 31, 2014 correspond mainly to the effective stake of 22.8% of PT SGPS in Oi, net of the stake (16.9%) associated with the Exchange Agreement which was classified as non-current asset held for sale. These investments in joint ventures are measured using the equity method. This interest is equivalent to 27.5% after the Exchange on March 30, 2015, since the shares delivered are considered treasury shares of Oi.

Provisions as at December 31 2014, include an amount of Euro 27 million related to the financial impact of the Exchange Agreement entered into with Oi.

The equity, excluding non-controlling interests, amounted to Euro 1.153 billion as of December 31, 2014, compared to Euro 1.641 billion as of December 31, 2013, a decrease of Euro 489 million, reflecting mainly: (1) the loss generated in the period (Euro 303 million), (2) dividends attributable by PT SGPS to its shareholders on April 30, 2014 and paid on May 30, 2014 (Euro 86 million), and (3) the effective participation of PT SGPS in the net losses recorded by Oi directly in its shareholders equity (Euro 471 million). These effects were partially offset by (1) the positive currency conversion adjustments of Euro 160 million, primarily related to the appreciation of the Real against the Euro, (2) the positive effect on reserves arising from the transfer of negative currency translation adjustments to net income (Euro 40 million), as the net income above is negatively affected by this value, (3) the reversal of own shares in reference to the 10% share held by Oi in PT SGPS (Euro 159 million), and (4) actuarial gains related to post retirement benefits determined until May 5, 2014 (Euro 22 million).

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03

PT SGPS in the capital markets

Shareholder remuneration

In 2014, PT SGPS distributed 88 million euros to shareholders for the fiscal year 2013, corresponding to a dividend of 0.10 cents of euro per share, paid to shareholders on May 30, 2014.

Annual dividends per share - Dividends paid

On December 31, 2014 and on the publication date of this report, the total number of shares outstanding, excluding 20,640,000 treasury shares, amounted to 875,872,500 shares. The total shares in issue was 896,512,500.

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Shareholder structure

As of December 31, 2014, the holdings of qualified shareholders represented more than 51% of the share capital of PT SGPS, as follows:

Qualified holdings

Date of report	Institutions	No. of shares	% of capital	% of voting rights
12-Nov-14	Novo Banco **(a)**	112,702,533	12.60%	12.60%
10-Jul-12	RS Holding **(a)**	90,111,159	10.05%	10.05%
31-Mai-12	Telemar Norte Leste S.A.	89,651,205	10.00%	10.00%
6-Fev-12	Norges Bank	44,442,888	4.96%	4.96%
5-Dez-14	UBS Group AG **(b)**	31,888,104	3.56%	3.56%
2-Jan-14	Grupo Visabeira	23,642,885	2.64%	2.64%
3-Fev-10	Controlinveste International Finance, S.A **(c)**	20,419,325	2.28%	2.28%
6-Mai-14	Instituto de Gestão de Fundos de Capitalização da Segurança Social **(d)**	20,260,743	2.26%	2.28%
18-Nov-14	Morgan Stanley **(e)**	19,400,557	2.16%	2.16%

(a) PT SGPS Bylaws include a limitation on the counting of votes, whereby any votes in excess of 10% of the total voting rights corresponding to the share capital cast by a single shareholder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, shall not be counted (article 13,10). As such, the voting rights that may be effectively exercised by Novo Banco, on the one hand, and RS Holding, on the other hand, should be considered as limited to 10%. (b) On 17 April 2015, PT SGPS informed that UBS Group AG became the holder of less than 2% of PT SGPS share capital and corresponding voting rights. (c) On 24 February 2015, PT SGPS informed that Olivedesportos Publicidade, Televisão e Media, S.A. became the holder of less than 2% of PT SGPS share capital and corresponding voting rights. (d) On 17 March 2015, PT SGPS informed that Instituto de Gestão de Fundos de Capitalização da Segurança Social, IP became the holder of less than 2% of PT SGPS share capital and corresponding voting rights. (e) On 3 February 2015, PT SGPS disclosed that Morgan Stanley owned a qualified holding in PT SGPS equivalent to 30,566,011 shares, representing 3.41% of its share capital social and voting rights.

PT SGPS has a diversified shareholder structure, with around two-thirds of its share capital held by foreign shareholders, essentially divided between Europe and North America (US and Canada), representing 27.3% and 14.2% respectively of the shareholder base. The Portuguese market represents around 39.3% of the shareholder basis.

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Main events

Businesses Combination of PT SGPS and Oi

Following the memorandum of understanding, disclosed in a timely manner to the market on October 2, 2013 (Memorandum of Understanding), PT SGPS, Oi and the major shareholders of both companies announced their intention to proceed with a business combination of PT SGPS and Oi (the Business Combination) merging them into a single listed entity under Brazilian law, it having been decided that such company would be TmarPart.

The Business Combination, as initially envisioned, involved three main phases:

- A first phase, involving a capital increase of Oi (the Capital Increase of Oi), settled on May 5, 2014, with the issuance of common shares and preferred shares in an offering for an aggregate amount of 8,250 million reais in cash, including the exercise of a greenshoe, and common shares and preferred shares in favor of PT SGPS, in exchange for the contribution, by PT SGPS to Oi of (i) all of the operating assets of PT SGPS, except the shares held directly or indirectly - through Bratel Brasil and PTB2 in Oi, Contax and Bratel BV, and (ii) substantially all of PT SGPS s liabilities on the date of the contribution, valued in net terms (assets less liabilities) in accordance with their respective appraisal reports at 5,709.9 million reais. Simultaneously with the Capital Increase of Oi, PT SGPS, through its subsidiaries in Brazil, subscribed to debentures convertible into shares of companies belonging to the control groups of AG Telecom Participações S.A. (AG Telecom) and of LF Tel S.A. (LF Tel), and these entities subscribed to debentures convertible into shares of TmarPart, which have been fully converted. As a result of such conversion, PT SGPS came to hold an additional shareholding stake in companies belonging to the control groups of AG Telecom and of LF Tel, and indirectly in TmarPart and Oi;

- A second phase, involved the merger of shares, under Brazilian law (the Merger of Oi), under which, subject to approval of holders of common shares of Oi and of CorpCo, all shares of Oi not belonging to CorpCo would be exchanged for common shares of CorpCo, with Oi becoming a wholly owned subsidiary of CorpCo and, at the same time, the latter would be listed on the Novo Mercado segment of BM&FBOVESPA S.A. (Bolsa de Valores, Mercadorias e Futuros BM&FBOVESPA). Simultaneously with the Merger of Oi, a simplification of the corporate structure of CorpCo was planned, by means of the corporate reorganization of several direct and indirect shareholder *holding* companies of CorpCo, by which, among other things, PT SGPS would come to directly hold shares of Oi corresponding to its indirect stake in CorpCo (Corporate Reorganization); and

- A third phase, involving the subsequent merger under Portuguese and Brazilian law, of PT SGPS with and into CorpCo (the PT SGPS Merger), and under the terms of which the shareholders of PT SGPS would receive a total number of CorpCo shares equal to the number of shares of such company held by PT SGPS immediately prior to the PT SGPS Merger. The shares of CorpCo, the surviving entity of the above referenced transactions, would be listed on the Novo Mercado segment of BM&FBOVESPA, on the regulated market NYSE Euronext Lisbon (Euronext Lisbon) and the New York Stock Exchange (NYSE).

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The transaction was thus agreed to, leaving execution thereof to the management of both companies (which included common members amongst themselves, by designation, by virtue of the reciprocal stake company had in the share capital of the other), subject to the approval at a general shareholders meeting. In the specific case of PT SGPS, the first and third stages were subject to approval at a general shareholders meeting.

Phase 1 - Capital Increase of Oi

As part of the process leading to the Business Combination, the Capital Increase of Oi was carried out, and as planned, part of the newly issued shares of Oi were subscribed by PT SGPS and paid by means of a contribution in kind corresponding to all of the shares held by PT SGPS in PT Portugal, a company that then owned all of the operating assets of the business of the companies of the PT SGPS group (with the exception of shares directly or indirectly held in Oi, Contax and Bratel BV) and the respective liabilities at the date of its contribution (PT Assets). The PT Assets were contributed at a value based on a proposal by the Oi Board of Directors at a general shareholders meeting of Oi, supported by an appraisal report conducted by an independent research company - Banco Santander (Brazil) S.A., hired for such purpose by Oi - in accordance with applicable Brazilian law, said report was approved at a general shareholders meeting of Oi, held on March 27, 2014.

As mentioned above, PT SGPS s participation in the Capital Increase of Oi, given to the importance of the matter, was submitted to approval by a meeting of PT SGPS s general shareholders.

On March 27, 2014, the shareholders of Oi approved the appraisal report referred to above and the contribution of PT Assets to Oi, valued at 5,709.9 million reais - corresponding to the equivalent of 1,750 million euros, applying the real to euro exchange rate on February 20, 2014 (i.e., 3.2628 reais per euro), as provided for in previous agreements - an amount which the shareholders of PT SGPS, at a meeting also held on March 27, 2014, approved for contribution such PT Assets under the Capital Increase of Oi.

On May 5, 2014, said capital increase was settled, with PT SGPS subscribing for 1,045,803,934 common shares and 1,720,252,731 preferred shares representing the share capital of Oi received in return for the contribution of the entire share ownership of PT Portugal, holder of the PT Assets. In this manner, PT SGPS came to hold on such date, as its only significant asset, a direct and indirect stake of 39.7% in the share capital of Oi, including a stake of 39.0% of the voting share capital (excluding the indirect stake held by TmarPart, AG Telecom and LF Tel in Oi).

Among the PT Assets, contributed under the Capital Increase of Oi, was a creditor position on the company Rio Forte a company in the Espírito Santo Group (GES) which corresponded to short-term investments subscribed or acquired by two entities that were at the time, of the wholly owned subsidiaries of PT SGPS - namely PT Portugal and PT Finance - with a par value of 897 million euros, identified as Rio Forte Instruments .

Shareholder agreements

TmarPart shareholder agreements (TmarPart Shareholders Agreements) are in effect, having been entered into or amended on January 25, 2011, February 19, 2014 and September 8, 2014, the quorums laid down in the agreements having been adjusted to take into account the percentage of stakes held by AG Telecom, LF Tel, by BNDES Participações S.A. - BNDESPAR (BNDESPAR), the Caixa de Previdência dos Funcionários do Banco do Brasil (PREVI), the Fundação Atlântico de Seguridade Social (FATL), Fundação Petrobras de Seguridade Social PETROS (PETROS), the Fundação dos Economiários Federais FUNCEF (FUNCEF) and Bratel Brasil, to ensure that the

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voting rights of these shareholders will be identical to those held on February 19, 2014, and provided that such shareholders have not reduced their respective stakes through the sale of shares to third parties who are not original signatories of the Global Shareholders Agreement (as defined below) or their related parties.

The TmarPart Shareholders Agreements comprise (a) a general shareholders agreement, signed by all of the shareholders of TmarPart - AG Telecom, LF Tel, FATL, Bratel Brasil, BNDESPAR, PREVI, PETROS and FUNCEF - as parties, and by TmarPart and PT SGPS, as intervening parties (Global Shareholders Agreement) and (b) a shareholders agreement entered into only by AG Telecom, LF Tel and FATL as parties and by TmarPart as an intervening party (Control Group Shareholders Agreement).

The TmarPart Shareholders Agreements provide for the following relevant rights and obligations:

(1) Global Shareholders Agreement:

(i) The initial period of the Global Shareholders Agreement expires on April 25, 2048, or on the date on which the last concession or authorization to lapse, held by TmarPart or any of its subsidiaries, expires, whichever is later, subject to the agreement of the parties of the Global Shareholders Agreement. The duration of the Global Shareholders Agreement may be extended for successive ten year periods with the consent of all of the respective parties.

(ii) The following rules apply to the election of members of the board of directors and officers, and to the vote of the respective shares of TmarPart and each of the subsidiaries of TmarPart that have net operating income equal to or greater than 100 million reais, which will be referred to as controlled subsidiaries :

a. The Board of Directors of TmarPart shall be composed of eleven members and an equal number of alternates;

b. AG Telecom, LF Tel and FATL shall together hold the right to appoint the majority of members of the Board of Directors of TmarPart and of each of the controlled subsidiaries;

c. Each increment of 7% of the share capital with voting rights of TmarPart held by a party to the Global Shareholders Agreement, will assign to such party, the right to appoint a member of the board of directors of TmarPart and of each of the controlled subsidiaries and the respective alternate;

d. While it holds at least 7% of the share capital with voting rights of TmarPart, PT SGPS will have the right to appoint a member of the board of directors of TmarPart and two members of the Board of Directors of Oi and their respective alternates, from among executive administrators and executive officers of PT SGPS;

e. Each increment of 7% of the share capital with voting rights of TmarPart held together by BNDESPAR, PREVI, PETROS and by FUNCEF, shall give these entities the right to collectively appoint (a) a member of the Board of Directors of TmarPart and each of the controlled subsidiaries and the respective alternate; and (b) one member and respective alternate of the Board of Directors of Oi;

f. The executive board of TmarPart will be composed of four directors;

g. AG Telecom, LF Tel and FATL will, together, be entitled to appoint the CEO of TmarPart and another executive board member of TmarPart;

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h. While they together hold at least 12% of the share capital with voting rights of TmarPart, PREVI, PETROS and FUNCEF, they shall together hold the right to appoint a board member of TmarPart;

i. While PT SGPS holds at least 12% of the share capital with voting rights of TmarPart, it will have the right to elect a board member of TmarPart;

j. AG Telecom, LF Tel, BNDESPAR, Bratel Brasil, FATL, PREVI, PETROS and FUNCEF will jointly elect, pursuant to the rules of the Global Shareholders Agreement, the CEO of each of the controlled subsidiaries;

k. BNDESPAR, PREVI, PETROS and FUNCEF hold the right to together appoint a member of the Audit Committee of TmarPart, when functioning, and of each of the controlled subsidiaries; and

l. AG Telecom, LF Tel, BNDESPAR, Bratel Brasil, FATL, PREVI, FUNCEF and PETROS will hold prior meetings before shareholder meetings and the Board of Directors of TmarPart and the controlled subsidiaries, and will exercise their voting rights at TmarPart and the controlled subsidiaries and instruct their representatives on these Boards of Directors to vote, in accordance with the decisions made at previous meetings. Said parties may not exercise their votes, including the shares held directly in Oi and other relevant subsidiaries, to prevent the approval of matters previously approved at a prior meeting held under this Shareholders Agreement.

(iii) Under the Global Shareholders Agreement, each of the parties agreed:

a. Not to enter into other shareholders agreements relating to shares of TmarPart, other than (i) the Global Shareholders Agreement, (ii) the Control Group Shareholders Agreement, (iii) the shareholders agreements entered into by Bratel Brasil, Andrade Gutierrez S.A. (AGSA) and Jereissati Telecom S.A. (Jereissati Telecom), and (iv) the shareholders agreement entered into by BNDESPAR, PREVI, FUNCEF and PETROS;

b. Not to change the Global Shareholders Agreement, the Control Group Shareholders Agreement, the shareholders agreements entered into by Bratel Brasil, AGSA and Jereissati Telecom, nor the shareholders agreement entered into by BNDESPAR, PREVI, and FUNCEF PETROS, without the consent of all parties to the Global Shareholders Agreement;

c. Not form any burden on the shares they hold in TmarPart, except for pledge or collateral, in accordance with the Global Shareholders Agreement;

d. Assign certain rights of first refusal and monitoring in the event of sale (*tag along*) to other parties to the Global Shareholders Agreement in relation to any transfer of shares that they hold in TmarPart and to any transfer of the controlling shares of TmarPart;

e. That other parties of the Global Shareholders Agreement have the right to sell, and PT SGPS (through Bratel Brasil) have a duty to buy, all of the shares held in TmarPart by the other parties, if Bratel Brasil acquires control of TmarPart;

f. Offer shares that it holds to other parties to the Global Shareholders Agreement, if the shareholder suffers a change of control; and

g. That the other shareholders have the right to acquire all shares of TmarPart held by Bratel Brasil in the event of a change of control of PT SGPS.

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(2) Control Group Shareholders Agreement

(i) The initial period of the Control Group Shareholders Agreement expires on April 25, 2048 and may be extended for successive ten year periods with the consent of all of the respective parties.

(ii) Under the Control Group Shareholders Agreement, each of the parties agreed:

a. To have prior meetings before the prior meetings to take place under the Global Shareholders Agreement, and exercise the voting rights attached to their common shares in TmarPart in accordance with the decisions taken at such previous meetings;

b. That any common shares of TmarPart sold by a party to the Control Group Shareholders Agreement to any other party of the same agreement shall remain subject to this agreement; and

c. If a party to the Control Group Shareholders Agreement sells all or part of their shares in TmarPart to any other party or a third party, the buyer (s) and the seller, as appropriate, shall be considered a block for purposes of exercising voting rights under the Control Group Shareholders Agreement (even if the buyer (s) is (are) already party (ies) to this Agreement) and such block will have prior meetings before the prior meetings of the parties to the Control Group Shareholders Agreement.

Rio Forte debt instruments

As mentioned above, included in the PT Assets contributed by PT SGPS in the capital increase of Oi were short-term investments in commercial paper of Rio Forte, held by PT SGPS s former subsidiaries, PT Portugal and PT Finance, in the amount of 897 million euros, which have been reinvested in Banco Espirito Santo, as follows:

a) On April 15, 2014, PT Finance subscribed 647 million euros in notes (Notes), which matured on July 15, 2014. The terms and conditions of this operation define the notes as unsecured and unsubordinated debt, pari passu in terms of payment with the issuer s other unsecured and unsubordinated indebtedness. The defined yield was 3.75% per annum (Current Base/360). The designated jurisdiction for any dispute is Luxembourg.

b) On April 15, 2014, PT SGPS subscribed for 200 million euros in notes (Notes), which matured on July 15, 2014. On May 5, 2014, the Notes were transferred to PT Portugal as part of the process of transferring all assets and liabilities directly held by PT SGPS to PT Portugal, for the purpose of the latter s contribution in the Capital Increase of Oi. These issuances were made through a private placement under the prospectus prepared by the issuer and dated December 21, 2012, entitled Eur 1,000,000,000 Euro Medium Term Note Programme, which was approved by the Luxembourg Commission de Surveillance du Secteur Financier. The terms and conditions of this operation defined the notes as Senior unsecured and unsubordinated debt, pari passu in terms of payment with the issuer s other unsecured and unsubordinated indebtedness. The defined yield was 3% per annum (Current Base/360). The designated jurisdiction appointed for any dispute is Luxembourg and.

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c) On April 17, 2014, PT Finance subscribed for 50 million euros in notes (Notes), which matured on July 17, 2014. This issuance was made through a private placement under the prospectus prepared by the issuer and dated September 21, 2012, entitled Eur 1,000,000,000 Euro Medium Term Note Programme, which was approved by the Luxembourg Commission de Surveillance du Secteur Financier The terms and conditions of this transaction defined the notes as Senior unsecured and unsubordinated debt, pari passu in terms of payment with the issuer s other unsecured and unsubordinated indebtedness. The defined yield was 3.75% per annum (Current Base/360). The designated jurisdiction for any dispute is Luxembourg.

These debt instruments were contributed by PT SGPS in the Capital Increase of Oi, and reached their maturity on July 15 and 17, 2014, without having been settled by the issuer.

This GES holding company requested that a system of controlled management be adopted in accordance with Luxembourg law, even though it is recognized that it did not have the financial capacity to meet its financial commitments, it understood that the best protection for its creditors would be the adoption of this legal regime, a request that was denied by a Luxembourg court. Following this rejection, Rio Forte went into liquidation and was declared bankrupt a the Luxemburg Court on December 8th 2014. According to the last public announcement of the liquidation curators, the deadline for claiming their debts within this lawsuit ends on June 1st 2015.

Agreement on the terms to proceed with the Business Combination

Following the above events, on July 28, PT SGPS and Oi announced that they had reached an agreement on the definitive terms of the main agreements to be signed following a new Memorandum of Understanding announced on July 16, 2014 (see the sub-chapter Subsequent Events). The main terms of these contracts established that:

- PT SGPS was going to exchange (Exchange) Rio Forte Instruments amounting to 897 million euros with Oi, in exchange for 474,348,720 common shares plus 948,697,440 preferred shares of Oi (Oi Shares Subject to the Exchange) - adjusting for the effect of the reverse split of Oi shares on December 22, 2014, corresponding to 47,434,872 common shares and 94,869,744 preferred shares;

- PT SGPS would be assigned an American-type non-transferable call option (Call Option) to reacquire the Oi Shares Subject to the Exchange (with the strike price of 2.0104 reais for common shares and 1.8529 reais for preferred shares) which, adjusting to the effect of the reverse split of Oi shares, corresponds to 20.104 reais for common shares and 18.529 reais for preferred shares, after the reverse split, which would be adjusted by the Brazilian CDI rate plus 1.5% per year;

- The Call Option on the Oi Shares Object of the Option would enter into force on the date of the Exchange and mature in six years, the possibility of PT SGPS exercising this option expiring by 10% at the end of the first year and 18% at the end of each following year;

- Any amount received as a result of the monetization of the Call Option by issuing derivatives would have to be used to exercise the Call Option;

- PT SGPS could only acquire shares of Oi or CorpCo by exercising the Call Option;

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• The Call Option would be canceled if (i) the bylaws of PT SGPS were voluntarily changed to remove the voting limitation of 10%, (ii) if PT SGPS acted as a competitor of Oi, or (iii) PT SGPS violated certain obligations arising from the final documentation, and

• The contracts would be concluded as soon as all corporate approvals were obtained and the Exchange, which should be completed by March 31st 2015, would be subject to approval by the Comissão de Valores Mobiliários no Brasil (CVM).

The terms of the agreements also included an alternative agreement to the previously announced merger of PT SGPS by CorpCo, in order to achieve the following objectives:

• Allow the merger of Oi into CorpCo and the migration to the Novo Mercado be implemented as soon as possible, with the listing of CorpCo on BM&F Bovespa, Euronext Lisbon and NYSE;

• Subject to approval by the Board of Directors and at a general shareholders meeting convened specifically for this purpose, the implementation of an alternative structure to the PT SGPS Merger which would allow for the goal to be reached in the fastest and most efficient possible way, unifying the shareholder pools of both companies, and attributing the shareholders of PT SGPS all of the CorpCo shares held by PT SGPS, after executing the Exchange and before exercising the Call Option, corresponding to a stake of 25.6% in CorpCo, adjusted by treasury shares, and

• PT SGPS would continue to be listed, its sole significant assets being those relating to the share of the Rio Forte Instruments and the Call Option.

The terms of the agreements, as described above, were approved on September 8, 2014 at the general shareholders meeting of PT SGPS, and the definitive agreements were signed on the same day. Implementation of the Exchange would subsequently be approved by the CVM.

Public offering for the purchase of shares representing the share capital of PT SGPS

On November 9, 2014, a preliminary announcement of a public tender offer was published, for all common and Class A shares, representing the total share capital and voting rights of PT SGPS (including shares corresponding to the capital of PT SGPS underlying the ADRs traded on the NYSE), by the company Terra Peregrin - Participações, SGPS, S.A. (Terra Peregrin), an entity whose voting rights were entirely attributable to Isabel dos Santos and/or one or more companies (headquartered in Portugal or abroad) under common control or in a group relationship with the offering party and/or Isabel dos Santos.

The offering presented was general and voluntary, and the consideration offered, to be paid in cash, corresponding to 1.35 euros per share, representing a premium of about 11% over the closing price of the shares of PT SGPS on November 7, 2014 (1.217 euros). The effectiveness of the offering was conditional on the acquisition of at least 50.01% of the voting rights of the share capital of PT SGPS.

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Under a notice dated November 10, Oi considered the offering conditions unacceptable , the adoption of which would entail amending the terms of the Business Combination, nevertheless renegotiated between PT SGPS and Oi, indicating no changes would be made to the corporate documents, definitive agreements and other instruments signed to satisfy any of the conditions for issuing the offering.

After Oi adopted its position, on November 17, 2014, Terra Peregrin issued a statement by which it expressed its initial willingness to waive a number of conditions previously included in the issue of the offering of shares representing the share capital of PT SGPS.

On the same date, the CMVM issued an announcement on the change of the conditions by the offeror and stated that (i) the offeror had announced its willingness to waive or amend certain conditions included in the preliminary announcement for the launch of the offer, and that any definitive decision should be formalised through an alteration of the conditions established in said preliminary announcement and be included in the request for registration to be presented to the CMVM until 1 December 2014; and (ii) since the consideration mentioned in the preliminary announcement does not comply with the weighted average price in the six-month period prior to the preliminary announcement, the CMVM would evaluate, at the time of the registration of the offer, the justification and equity of the consideration proposed, to be duly explained by the offeror in its request for the registration of the offer, and then decide whether the offer should be deemed as derogating the duty to launch the subsequent takeover bid as a result of the acquisition of more than 50% of the voting rights of PT SGPS.

The Board of Directors of PT SGPS, at its meeting to examine the report on the opportunity and conditions of the Terra Perregriin tender offer, announced that it was opposed to the terms of this tender offer.

The CMVM informed the market, on December 17, 2014, that the offering of Terra Peregrin should meet the price obtained by applying the weighted average price, having assessed such factors as i) the high liquidity of the PT SGPS security, and ii) the listing not being affected, as a criterion of evaluation, by events that have distorted the mechanisms underlying its formation. Under these provisions, the CMVM has considered that the Terra Peregrin tender offer was not derogating the duty to launch the subsequent takeover bid, should more than 50% of the PT SGPS voting rights be acquired as a part of the Tender Offering. For that reason, one of the conditions for the effectiveness of the Tender Offering was not fulfilled.

On December 23, 2014, Terra Peregrin announced to the market the withdrawal of its tender offer for the shares representing the share capital of PT SGPS, given the decision to not grant the application for derogation by CMVM.

Arbitration proceedings against Africatel GmbH

In November 2014, Africatel GmbH and PT SGPS were informed that Samba, which holds the remaining 25% of Africatel Holdings B.V. (BV), had initiated arbitration proceedings against Africatel GmbH and PT SGPS in the International Court of Arbitration of the International Chamber of Commerce regarding its alleged put right to sell stake in Africatel BV, among other allegations. Samba alleges that its right to such put option, as per the agreement between Africatel BV shareholders, was triggered by the operation between PT SGPS and Oi, which includes Oi s capital increase. These other alleged rights and claims include claims relating to purported rights of first offer, first refusal and tag-along that Samba believes were also triggered by the foregoing transactions. If the arbitration tribunal were to agree with Samba s claims, among other things, an independent valuation of Africatel could be

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required, and any liability with respect to a purchase of Samba s interest in Africatel and/or damages could be significant. Both Africatel GmbH and PT SGPS intend to vigorously defend this arbitration proceeding.

Under the Subscription Agreement entered into by PT SGPS and Oi, in relation to the capital increase of the latter, Oi agreed to succeed to PT SGPS, any rights or obligations contracted by the latter, provided that the agreements provided that the agreements giving rise to that right or obligation were listed in the documentation of the global offering that was part of the Capital Increase of Oi, as is the case with the Samba arbitration. It was disclosed in the prospectus relating to the Oi Capital Increase that, among other things, Samba had stated that the business combination between Portugal Telecom and Oi had triggered, under the Africatel shareholders agreement, a put option concerning the stake of Samba in Africatel Holdings BV. However, it is not possible to guarantee that Oi will succeed to any and all liabilities and/or losses pertaining to the Arbitration proceeding against Samba.

Reverse stock split Oi shares

On November 18, 2014, at a special shareholders meeting of Oi, the reverse split of all common and preferred shares issued by Oi was approved at a ratio of 10:1, so that each tranche of ten shares of each class was grouped into one share of the same class, with the consequent amendment of Article 5 of Oi s Bylaws.

As a result of the reverse split, 2,861,553,190 common shares and 5,723,166,910 preferred shares now represent 286,155,319 common shares and 572,316,691 preferred shares, respectively. Thus, at the special shareholders meeting held on November 18, 2014, Oi s shareholders also approved the amendment of the first paragraph of Article 5 of Oi s Bylaws to reflect the changes to the share capital and number of shares issued by Oi, approved by the Board of Directors, so that the share capital was represented by 858,472,010 shares, of which 286,155,319 are common shares and 572,316,691 preferred shares, registered and without par value.

External auditor

In a letter date of December 18th 2014, Deloitte & Associados, SROC, S.A. (Deloitte) have presented their letter of resignation as external auditors for the company, for the year of 2014, given Oi s decision, on October 2014, to name a different auditor for PT Portugal and its relevant Portuguese subsidiares. As a result, Delloitte was directily auditing an small part of the assets and income of consolidated PT SGPS, and therefore concluded that they no longer had the technical conditions to continue to take responsibility for certifying the 2014 consolidated accounts of PT SGPS.

In March 2015, the Audit Committee approved a contract with BDO & Associados, SROC, Lda. (BDO) to perform the integrated audit of PT SGPS for 2014.

Sale of the share capital of PT Portugal by Oi

On November 2, 2014, Oi received a firm offer to acquire the assets of PT Portugal from Altice, related to its operating activities. The amount of the offer was 7.025 billion euros, excluding cash and debt, including and earn-out of 500 million euros dependent on the generation of future revenue, and a 2nd earn-out of 400 million euros dependent on the future generation of operating free cash flow. This offer excludes the investments of PT Portugal in Africatel GmbH and Timor Telecom, S.A., the debt of PT Portugal, and the Rio Forte Instruments.

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Oi received a 2nd offer to acquire the assets of PT Portugal on November 11, 2014, presented as a joint offer by Apax Partners LLP (Apax) and Bain Capital Funds (Bain). This proposed acquisition amounted to 7.075 billion euros, excluding cash and debt, contemplating earn-outs identical to the Altice offer. Apax and Bain did not offer to acquire the business of PT Portugal in Africa, the debt of this entity or the Rio Forte Instruments.

On December 1, as a result of the evaluation of the offers submitted, Oi signed an exclusive agreement with Altice, S.A., effective for a period of 90 days, to allow Oi and Altice to negotiate and agree to the final terms of the sale of PT Portugal, and for Oi to obtain corporate authorizations necessary to sell the entity.

On December 8, the Board of Directors of Oi resolved in favor of the general terms and conditions of the sale of all of the shares of PT Portugal in favor of Altice, which essentially involves the operations carried out by PT Portugal in Portugal and Hungary. The approved transaction involves the sale of shares of PT Portugal, at an enterprise value corresponding to 74.4 million euros, with cash adjustments and debt, including the provision of an earn-out of 500 million euros related to future generation of revenue of PT Portugal. Completion of the transaction will be preceded by an act of corporate reorganization, in order to delimit the business to be sold, and businesses that will be segregated of PT Portugal, described above. Subsequently, the decision to sell the shares of PT Portugal, was approved at the general sharehodlers meeting of PT SGPS on January 22, 2015, which was a condition precedent for the effectiveness of the PT Portugal share purchase agreement.

On April 22, 2015, the preceding conditions were met, pertaining to (i) the approval, by the European Commission, and (ii) no opposition by Autoridade de Supervisão de Seguros e Fundos de Pensões (former Instituto de Seguros de Portugal) to the indirect qualified holding by Altice Portugal S.A. representing of 82.05% of the share capital of Previsao Sociedade Gestora de Fundos de Pensoes, S.A.. According to the press release by the European Commission of April 20, 2015, to which the above mentioned notification from Altice Portugal S.A. refers, the approval by the Commission is subject to the sale of current businesses of the French group in Portugal, namely Cabovisão and ONI.

Previously to the effectiveness of the sale and as condition precedent to the sale, the contract stipulates that certain acts of restructuring in the company should be performed, which are currently under way, with the purpose of outlining the businesses which are to be sold and segregating PT Portugal s investments which are not to be sold by Oi, including the investments in Africatel GmbH, Timor Telecom S.A., as well as a part or the whole of PT Portugal s debt.

Shareholder remuneration

At the general shareholders meeting of PT SGPS, held on April 30, 2014, the Company s shareholders approved the use of the net income of 341,808,031 euros for the 2013 fiscal year, as follows:

- Payment to the shareholders of the overall amount of 89,651,250 suros, corresponding to 0.10 euros per share in respect of the total number of issued shares. The amount of 0.1 euros per share referred to above was paid to shareholders on May 30, 2014; and

- Transfer of the remaining amount of the net profit to the retained earnings account of the fiscal year.

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Governing bodies

The following changes were made to the governing bodies of PT SGPS, throughout the year 2014:

- Termination of duties because of resignation of members of the Board of Directors:
- Otávio Marques de Azevedo, on June 30, 2014
- Fernando Magalhães Portella, on June 30, 2014
- Amílcar Carlos Ferreira de Morais Pires, on July 30, 2014
- Joaquim Anibal Brito Freixial de Goes, on August 4, 2014
- Carlos António Alves Duarte, on November 28, 2014
- Manuel Francisco Rosa da Silva, on November 28, 2014
- Pedro Humberto Monteiro Durão Leitão, on November 28, 2014

- Termination of duties because of resignation of the Chairman of the Board of Directors and Executive Committee:
- Henrique Manuel Fusco Granadeiro, on August 7, 2014

- Appointment by co-optation of the following members of the Board of Directors:
- Francisco Ravara Cary, on September 18, 2014
- Rolando António Durão Ferreira, on September 18, 2014
- Marco Norci Schroeder, on October 16, 2014
- Eurico de Jesus Teles Neto, on October 16, 2014
- Jorge Telmo Maria Freire Cardoso, on November 5, 2014

- Appointment of the Chairman of the Board of Directors:

- João Manuel de Mello Franco, on September 18, 2014

- Appointment of the Chairman of the Audit Committee:

- José Guilherme Xavier de Basto, on November 13, 2014

- Appointment of members of the Audit Committee:

- Alfredo José Silva de Oliveira Baptista, on November 13, 2014

Subsequent events

- The Board of Directors of Oi reported the cancellation of the Shareholders Remuneration Policy for the 2013-2016 fiscal years, on January 29, 2015, a policy that was reported on August 13, 2013. In view of the decision made, Oi is only subject to the provisions of Law 6,404/76, and the Company s Bylaws. The canceled policy provided for dividends for the 2013-2016 fiscal years, an estimated amount of 500 million reais, an amount representing the minimum dividend that met the following objectives: i) payment of dividends corresponding to the greater of 25% of net income for the fiscal year, adjusted, 3% of Net Assets or 6% of the Share Capital; and ii) to ensure equitable payments among the classes of common and preferred shares.

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- On March 9, 2015 the Board of Directors of PT SGPS approved the delisting of *American Depositary Shares* (ADS) of the company, from the New York Stock Exchange (NYSE). After the delisting of ADS from the NYSE, the trading of PT SGPS shares will continue on Euronext Lisbon. The decision made occured following i) the NYSE notification dated February 6, 2015, regarding the negotiation of ADS of PT SGPS, not complying with the criteria of the NYSE Listed Company Manual, i.e. the average closing price for these instruments was below USD 1.00 for a consecutive trading period of 30 days, and ii) the possibility of reducing the burden of PT SGPS, by eliminating the costs associated with maintaining the trading of ADSs on the NYSE. The last trading day for PT s ADS s on NYSE was March 27th 2015. PT SGPS intends to maintain its American Depositary Receipt program, allowing investors to hold their ADSs and trade them in the United States, in OTC (over-the-counter) transactions (over-the-counter). This decision has no impact with regard to PT SGPS information reporting requirements, as established by the US Securities Exchange Act of 1934, including the obligation to submit annual reports on Form 20-F and reports on Form 6-K.

- On March 24 2015, PT SGPS signed an agreement with Oi, PT Portugal, PT Finance and TmarPart - Private Agreement for the Assignment of Rights and Obligations and other Fees (Assignment Agreement), by means of which PT Portugal transfers the Rio Forte Instruments they held to PT Finance, and cedes all pertaining rights and obligations to PT Finance, in the terms of the Exchange (Assignment). The Assignment Agreement also stipulated that the delivery of the Oi s shares in the Exchange could be implemented by means of the transfer, by PT SGPS, of Oi s shares object of the Exchange, or ADSs (American Depositary Shares), representative of Oi s shares subject to the Exchange, at PT SGPS s criteria. Oi s ADR Program is regulated by (1) the Depositary Agreement (Ordinary Shares), signed on February 17th 2012, as amended, between Oi, the Bank of New York Mellon, acting as depositary (Depositary), and all periodical holders of ADSs (American Depositary Shares) (ADSs ON), issued in the terms of the abovementioned Agreement; and (2) by the Depositary Agreement (Preferential Shares) signed on February 27th 2012, as amended, between Oi, the Depositary, and all periodical holders of ADSs (American Depositary Shares) (ADSs PN), issued in the terms of the abovementioned Agreement.

- On March 30, 2015, the Exchange was concluded, by means of which PT SGPS (1) deposited Oi s shares object of the Exchange with the Depositary; and (2) instructed the Depositary to register the transfer of 47.434.872 ADSs ON and 94.896.744 ADSs PN (as a whole, the ADSs Subject of the Exchange) to PT Finance, representing Oi s shares object of the Exchange.

Therefore, on March 30th 20115, PT SGPS transferred the ADSs Subject of the Exchange to PT Finance, and PT Finance transferred to PT SGPS the Rio Forte Instruments in the total main amount of 897 million Euros.

Still on March 30th 2015, the Stock Option was in force and effective.

- Negotiations between PT SGPS and the remaining major shareholders of Oi were concluded on March 31, 2015. Such negotiations were aimed at arriving at a new agreement between the parties concerning the Oi corporate structure and governance model, given the impossibility of migrating TmarPart to the Novo Mercado segment of BM&FBovespa as of March 31, 2015. The drafting of a new agreement took on greater importance in order to anticipate the main benefits to Oi, disclosed to shareholders at the time of the Capital Increase of Oi, settled on May 5, 2014, without implicating the the proper were not being made to achieve listing on the Novo Mercado.

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The parties have agreed to a new corporate structure and governance model for Oi (the New Structure), as well as the benefits and objectives disclosed following the Memorandum of Understanding, thus allowing Oi to create a new governance model that will cover the main characteristics of the Novo Mercado .

All these significant alterations to Oi s corporate structure will be submitted for approval at a general shareholders meeting of Oi and will be implemented as quickly as possible, after approval from ANATEL. Considering the consummation, on March 30th 2015, of the exchange between PT SGPS and PT Finance of ordinary and preferential shares of Oi s capital, for Rio Forte Instruments (the Exchange), the Share Purchase Option Agreement and Other Measures, signed on September 8th 2014 (Call Option Agreement), came into effect. An amendment (Amendment) to the Call Option Agreement was enetered into, as was disclosed at the time, which will grant PT SGPS liquidity with respect to its Call Option through sales on the market, independent of having to obtain previous consent from Oi, with Oi having a right of first refusal, if PT SGPS decides to transfer the Call Option to third parties. The Amendment is subject to approval by a general shareholders meeting of Oi by August 31, 2015, and, if applicable, approval by the CVM, and Oi has committed to calling a general shareholders meeting in order to vote on the Amendment and the primary shareholders of Oi have committed to vote in favor of approving the Amendment.

Corporate Bodies

The following alterations have been made to the composition of the Corporate Bodies of PT SGPS in the 2015 fiscal year to date:

- Termination of duties due to resignation of the members of the Board of Directors:
- Francisco Teixeira Pereira Soares, on February 27, 2015
- Paulo José Lopes Varela, on March 16, 2015
- Luís Pacheco de Mello, on March 18, 2015
- Maria Helena Vaz de Carvalho Nazaré, on March 31, 2015

- Designation, by appointment, of the members of the Board of Directors:
- João Manuel Pisco de Castro, on March 17, 2015

- Designation of a new representative for investor relations and interfacing with the Portuguese Securities and Exchange Commission:
- Luis Manuel da Costa de Sousa de Macedo, on January 26, 2015

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05

Main risks and uncertainties

PT SGPS defined the implementation of mechanisms for assessing and managing risks that may affect operations as its priority commitment. These mechanisms are based on an integrated and cross-wide risk management model that, among other features, seeks to ensure the implementation of best corporate governance practices, and transparency in communications with the market and shareholders.

Risk Management is promoted by the Board of Directors in order to identify, assess and manage uncertainties, threats and opportunities that may affect its operations. The entire process is monitored and supervised by the Audit Committee, an independent supervisory board consisting mainly of independent board members. Within the scope of this board, with regards to the inspection of the efficacy of the risk management system, the following attributions stand out:

- To supervise the adoption of principles and policies for identifying and managing the main financial and operational risks, or other relevant risks linked to PT SGPS activities, as well as measures destined to monitor, manage and disclose such risks;

- To assess internal procedures pertaining to the detection of risks and the safeguard of corporate assets, on an annual basis;

- To supervise the analysis, revision and implementation of measures and plans intended to monitor, improve and/or correct the internal management system and the measures and plans proposed under the corporate risk management systems.

Amongst the various risks that may adversely affect PT SGPS activities, the following stand out:

Relevant Risks

[redacted]

[redacted]

Financial Risks	**Exchange rates**	Foreign currency exchange rate risks relate mainly to PT SGPS investments in foreign operations, particularly in Oi (Brazil). Any

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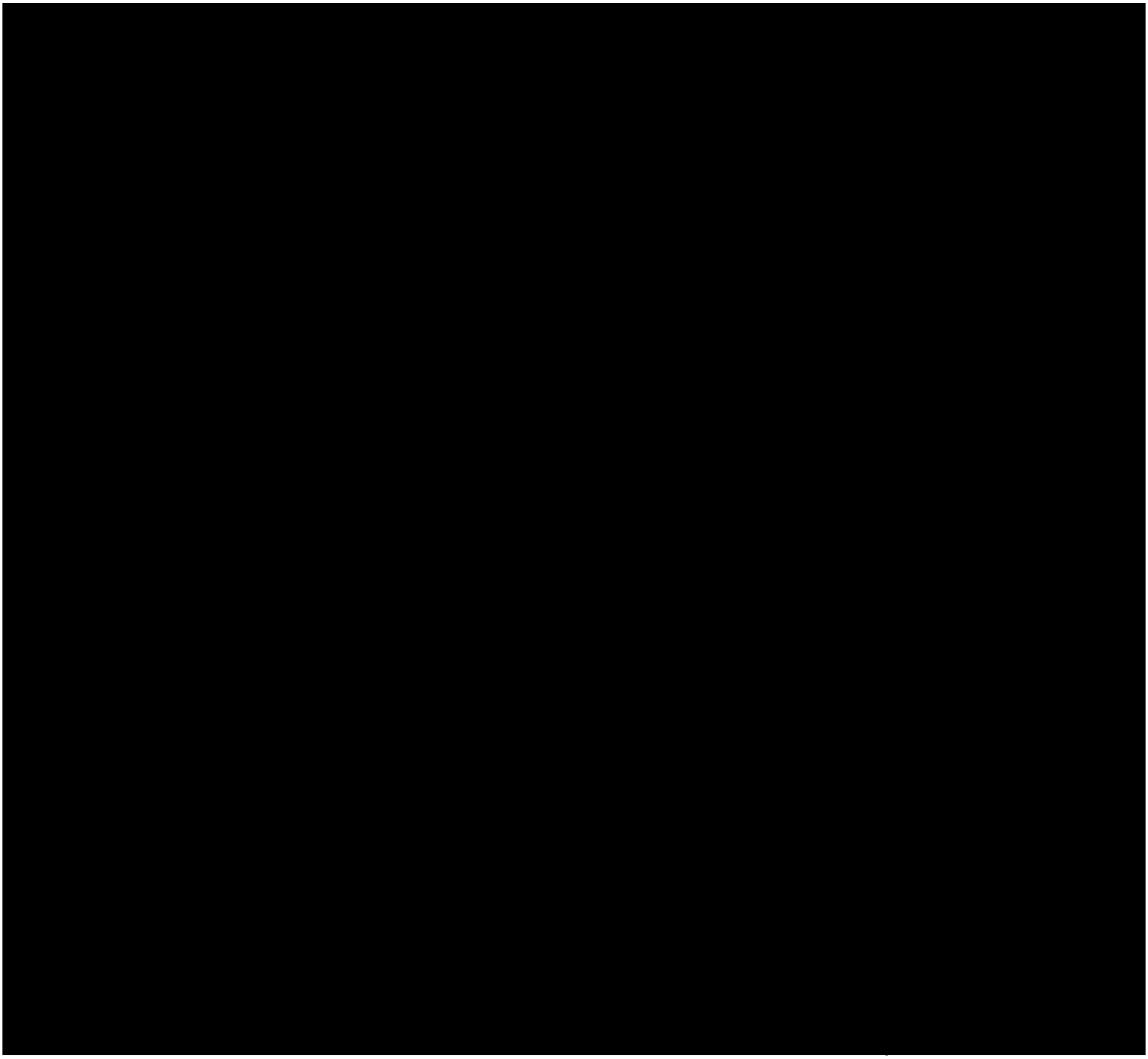
[redacted]



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06

Strategic profile and outlook

After signing the new agreement with Oi and the execution of the Exchange on March 30, 2015, PT SGPS holds a 27.5% direct and indirect stake in Oi. Additionally, PT SGPS holds the Rio Forte Instruments (see chapter 4) and the Call Option over 47,434,872 common shares and 94,869,744 preferred shares of Oi.

PT SGPS and Oi s reference shareholders have agreed on a new corporate governance model for Oi (New Structure), which, in addition to the benefits and objectives that have already been disclosed, is characterized by the following:

• All changes in the company structure and governance model will be carried out within Oi, eliminating the need for CorpCo.

• Approval of new Oi Bylaws, as well as a voting agreement of the reference shareholders, which will last until the implementation of the New Structure (Voting Agreement), which will allow for:

• The implementation of a voluntary Oi preferred to ordinary shares conversion program, at a rate of 0.9211 ordinary shares per preferred shares, conditional to a minimum subscription of 2/3 of the preferred shares, in order to grant all shareholders the possibility of exercising their voting rights, and maximizing the possibility of a single class of shares;

• The implementation of the Principle of 1 share, 1 vote. However, and in order to preserve the balance between shareholders and the desired dispersion of control at the time of the capital increase, a voting limitation of 15% will be introduced in Oi s Bylaws, applicable to all shareholders. This limitation will cease to exist, contingent on certain events taking place, namely, in the case of a capital increase, company restructuring, or a public offering for the purchase of shares, which, in any case, results in a dilution of the current shareholders pool (or purchase of stake, as the case may be), of more than 50%.

• increase liquidity, eliminating lock-up agreements of all shareholders;

• The election of a new Board of Directors for Oi, with significant participation of independent members, in which the parity previously announced in CorpCo between PT SGPS and Brazilian shareholders will be maintained;

• The extinction of TmarPart through incorporation in Oi, which will determine the end of TmarPart s and other controlling holdings shareholders agreements, ensuring the dispersion of control in Oi; and

- The crystallization of financial synergies achieved by incorporating Oi s controlling companies.

The New Structure should be implemented as soon as possible, and before October 31, 2015. As a result, Oi will be able to anticipate a new governance model which will include the main characteristics of the Novo Mercado .

It is the understanding of PT SGPS that the agreed measures acknowledge and crystallize PT SGPS as a relevant shareholder in the new Oi, and allow for the necessary conditions for the consummation and anticipation of the

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benefits disclosed on Oi s Capital Increase, while maintaining the intention to secure Oi s migration to the Novo Mercado .

Oi has implemented a significant cost reduction and investment optimization program, based on a higher focus on its investments and opportunities for growth and return. The Brazilian market still has significant opportunities for growth in broadband, Pay TV and mobile data services. PT SGPS intends to contribute, in the appropriate forums, to aid Oi in the execution of its turnaround plan and in seeking consolidation opportunities in the Brazilian market, so that Oi can increase its liquidity position, manage its debt and generate returns for its shareholders.

PT SGPS will consider which measures to take in order to maximize the settlement of the Rio Forte Instruments. Among the possible scenarios, there is the possibility to trigger legal proceedings against Rio Forte, the relevant related parties and others.

PT SGPS will monitor the value of its Call Option on Oi shares and analyze the alternatives that enable the maximization of value either by monetizing the aforementioned instruments, or through its exercise, in order to increase its stake in Oi.

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07

Business performance

The information within this chapter 7 originates from the following documents published by Oi (i) the Annual Report of Oi SA 2014, as filed on form DFP for the year ended December 31, 2014, filed with the CVM on March 25, 2015, and (ii) Oi Relevant Fact, published on March 31, 2015, regarding the approval by the shareholders of TmarPart of measures to anticipate the objectives of the operation disclosed on February 20, 2014.

1. Strategic Priorities

Oi identified four key strategic priorities:

- Continue the operational turnaround, improving the control of COPEX (OPEX+CAPEX) and the commitment to reducing the cash burn rate;
- Improve the profile of its balance sheet;
- Improve corporate governance to the highest level in Brazil;
- Participate in the consolidation process, seeking to maximize the generation of shareholder value.

Continue the turnaround, improving the control of COPEX (OPEX+CAPEX) and the commitment to reducing the cash burn rate

Although the results for the third quarter in 2014 have been below market expectations, the management of Oi pointed out this quarter as the turning point for Oi s operational turnaround. Several operational improvement initiatives were planned and some of them even implemented in 2014. Oi reduced its executive staff to make the structure more efficient and the decision-making more agile. Among the changes, the commercial and market areas were unified under a single director, as well as the directors of the Corporate and Business segments, which have also been integrated.

Oi also decided to release the preliminary results for October and November of its operations in Brazil, reaffirming the position that the third quarter of 2014 would be the turning point of their business. In fact, the final results for the fourth quarter of 2014 show a growth of 7.4% in the routine EBITDA of the Brazilian operations compared to the third quarter, confirming the start of Oi s turnaround process. It should be noted that the net revenue in Brazil also showed a sequential evolution, with a growth of 4.8% in the fourth quarter of 2014 compared to the previous quarter.

In addition, in line with the commitment to the operational improvement and focus on the profitability of the business, Oi disclosed the routine EBITDA forecast of the Brazilian operations, which should be in the range of R$ 7.0 billion to R$ 7.4 billion in 2015, representing an increase of approximately 9% compared to 2014. All these figures presented at the end of 2014 strengthen the confidence in the commitment of Oi to achieve this important goal.

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In order to reduce the cash burn rate, Oi also set a goal for 2015 of improving its operating cash flow (EBITDA routine CAPEX) from R$ 1.2 billion to R$1.8 billion for its operations in Brazil and is already implementing initiatives towards the profitability and productivity of its business, reducing operating costs and optimizing the allocation of capital.

In this sense, in order to ensure that gains will be captured throughout the year, Oi has included in its budget for 2015, a plan based on cost reduction. In this context a department was created, responsible for the follow-up, monitoring and support to the implementation of the Plan 2015 (Transformation Department). At this moment there are more than two hundred and fifty mapped initiatives, with a focus on increasing productivity and operational efficiency. This process is supported by external consultants specialized in this type of project, with tools and methodologies focused on implementing the initiatives and cash generation.

Improving the profile of its balance sheet

Oi continues to implement its strategy of strengthening its balance sheet with the sale of assets. In 2014, Oi completed the sale of two lots of mobile towers, one in March and another one in December, totaling 3,648 towers for a total value of R$ 2.7 billion.

The conclusion of the sale contract of PT Portugal by Oi was an important step towards significantly reducing its leveraging, increasing its financial flexibility and allowing the participation of Oi in a potential consolidation movement of the sector in Brazil. The sale to Altice considers a enterprise value of 7.4 billion euros, excluding cash and debt, and includes an earn-out of 500 million euros related to the future generation of revenue of PT Portugal, as well as price adjustments normal in transactions of this nature. These resources will be available to Oi after the sale of PT Portugal is fully completed, which Oi expects to occur by the end of first half of 2015. The use of these resources will be used exclusively for the payment of Oi s debt and the participation in a possible consolidation process in Brazil. In both cases, Oi will be able to significantly reduce its level of leveraging and improve the profile of its balance sheet.

It is important to mention that due to the conclusion of the sales contract to Altice, the operations of PT Portugal had to be treated as discontinued operations. This treatment led to an accounting adjustment of R$ 4,164 million in Oi net income, which thus recorded a consolidated net loss of R$ 4,408 million in 2014, despite the continuing operations having generated a net income of R$ 8 million in the same period.

On September 16, 2014, the Board of Directors authorized the sale of the stake of Oi in Africatel B.V. and Oi initiated a formal process for this operation, which is still ongoing.

In addition, Oi continues to explore opportunities to monetize non-strategic assets in order to strengthen its balance sheet and maximize the value for its stakeholders.

Improve corporate governance to the highest level in Brazil

The adoption of an alternative structure was unanimously approved by the shareholders of TmarPart after analyzing options and taking into consideration the current obstacles for a registration of TmarPart shares with the SEC, that would be necessary to allow the incorporation of shares of Oi in TmarPart, as described in the Relevant Fact of March 26, 2015. The alternative structure to be adopted allows for the achievement of the main objectives of the operation, with the adoption by Oi of the best corporate governance practices required in the rules of the

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Novo Mercado of BM & FBovespa, the dispersion of voting rights in Oi, keeping the ultimate goal of timely implementing a transaction which results in the migration of shares currently held by the shareholders of Oi and subsequently PT SGPS, to the Novo Mercado .

Participate in the consolidation process, seeking to maximize the generation of shareholder value.

Oi believes that a consolidation movement is positive for the telecommunications sector in Brazil, in as far as it would provide important synergies and economies of scale, allowing the remaining operators to increase their investments and thus accelerate the digital agenda in Brazil, increasing penetration and the quality of services, and bringing clear benefits for the economy, consumers and society in general.

In this respect, in 2014, Oi contracted BTG Pactual to act as Commercial Commissary in accordance with Article 693 of the Civil Code, acting on its own behalf and on behalf and instructed by Oi, in order to develop alternatives to facilitate the consolidation of the telecommunications market in Brazil. However, it should be highlighted that, until the present day, there is no decision regarding a formal proposal for the consolidation.

2. Telecommunications Sector in 2014

According to ANATEL, at the end of December 2014, the total number of accesses of the telecommunications services in Brazil added up to approximately 396.2 million, represented by 45.0 million operating land lines, 280.7 million mobile subscribers, 24.0 million broadband internet accesses and 19.5 million pay TV subscribers. The 3.7% evolution which corresponds to millions of accesses compared with 2013 was mainly motivated by the significant net additions to the mobile broadband segment (SCM) and pay TV.

Fixed Telephony

The Brazilian telephony market reached 45.0 million operating lines in 2014, according to ANATEL data, a 0.3% evolution comparing with December, 2013. This segment is now mature with only marginal growths, since there is a global trend to migrate from fixed telephony to mobile telephony.

Fixed telephony concessionaires represented 60% of the total operating fixed accesses in 2014.

Mobile Telephony

With 208.7 million subscribers on December 2014 and a 138.0% teledensity. The net additions in 2014 added 9.6 million subscribers, reflecting a 3.6% growth when comparing with the previous year. Prepaid represented 75.8% of the total of mobile subscribers on December 2014 (78.0% in 2013), while post-pay subscribers represented 24.2% of the total mobile base.

Fixed Broadband (SCM)

According to ANATEL data, the broadband internet access (SCM) market remained as a growth leverage for the sector in 2014. By the end of 2014, the subscribers base reached approximately 24.0 million accesses, demonstrating a 8.0% growth when comparing with 2013, which represented 2.4 million new subscribers.

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Pay TV (TV Subscription Service)

On December 2014, the base of subscribers to pay TV services showed an evolution of 1.5 million, an 8.4% growth in the year 2014 (11.3% in 2013). By the end of December 2014, the pay TV accesses totalized 19.5 million subscribers.

Such evolution for another year was boosted by the growth of packages focused to Brazilian population layers of least purchasing power, where there is still a strong market potential in the country. The penetration rate in relation to the total number of households reached 29.8% (28.4% in 2013), which proves the growth potential of this market in the country.

Accesses by DTH (Direct to Home) technology were responsible for 54.0% of new subscribers, followed by cable technology with 40.3%. It should be noted that the new market players, such as Oi, use the DTH technology.

Regulatory Landscape

Concession Contracts, PGMU and related instruments

In 2013 ANATEL launched a Public Consultation with questions to society about issues that are relevant to the assessment of the economic and regulatory environment of the *Serviço Telefônico Fixo Comutado* (STFC) in order to collect subsidies for the revision of Concession Contracts for the period of 2016 to 2020, which closed on January 31st, 2014. A new Public Consultation was made on June 2014, to deal specifically with the revision of Concession Contracts per se, whose deadline for contributions ended on December 26, 2014, and the revision of Universalization (also included in the Public Consultation) and Quality Goals of STFC (which should be included in Public Consultation in 2015) should also take place, rendered in public domain.

General Plan to Update the Regulation

Two years have passed from the PGR edition (General Plan to Update the Regulation) on October 2010, which is when the completion of the short term actions set forth in that Plan was due, including new regulations regarding very important issues for the sector. Not all these actions were completed. The status of the main issues in the schedule is presented below.

LTOG (Mandatory and Free Telephone Directory) Regulation: provides rules for the distribution of the Telephone Directory and the offer of the Directory Support Service. Public Consultation (11/2010) already completed, but the regulation was not yet published.

Numbering Regulation: The Resolution no. 533, from December 14, 2010, changed the Personal Mobile Service Numbering Regulation, standardizing the use of nine digits for the User Access Code. Currently, the measure is implemented in the States of Amapá, Amazonas, Espírito Santo, Maranhão, Pará, Rio de Janeiro, Roraima and São Paulo. For the year 2015, the change will take place on May 31st, 2015 in the States of Alagoas, Ceará, Paraíba, Pernambuco, Piauí and Rio Grande do Norte and on October 11th, 2015 in the States of Bahia, Minas Gerais and Sergipe. Finally, until December 31, 2016, the change will take place in the South, Central-West and Acre regions.

Supervision and Administrative Sanctions Regulations (CP 21 and 22/2010): Completed Public Consultations and published regulations (Sanctions - Resolution 589/2012 and Supervision - Resolution 596/2012). The regulations allowed for a decrease in fines, the possibility of replacement agreements (Conduct Adjustment Term - TAC) and predicted the creation of a new methodology for fines. During the year 2014, after the Public Consultation procedure, decrees with new calculation methodologies for some of the types of fines were published, as a right and guarantee for the users. Throughout 2015, it is expected that methodologies for fines that were not addressed in 2014 are placed under public consultation, among which we can highlight the Universalization and Interruptions fines.

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New Regulation of Local Areas (CP 23/2010): new Regulation published on January 2011 through the Resolution 560/2011, extends the geographical coverage of local areas, causing a change in the volume of Long Distance calls and the remuneration of networks associated to those calls.

New Regulation for the Industrial Exploration of Dedicated Line (EILD): Submitted to CP 50/2010 by the end of 2010 and the regulation was approved, in accordance with Resolution 590/2012. The new regulation kept the possibility of charging the Special EILD, even though it reduced the figures in the ANATEL reference table by an average of 17%, and included the possibility of a discount per term and volume. It should be noted that there are new obligations for the EILD offer arising from the approval of the General Plan of Competition Goals (PGMC) - Resolution 600/12, such as the obligation to disclose the Public Offer for Wholesale Products (ORPA) and the commercialization through the Wholesale Offer Negotiation System (SNOA).

Revision of the Regulation for the Special Class Individual Access AICE: CP 11/2011 launched on March 1st, 2011 and regulation published according to the Resolution 586/2012. The new regulation sets the basic rules, the demand requirements and the characteristics of the offer, pricing, quality and payment methods for the Special Class Individual Class - AICE, from the Fixed Switched Telephone Services intended to be used by the general public - STFC, under public regime. Those benefited by the AICE are low-income subscribers included in the Single Register for Social Programs of the Federal Government (which include families with an income of up to three minimum wages).

General Regulation for the Quality of Fixed Switched Telephone Services Providers - RGQ-STFC, replacing the General Plan of Quality Goals for the Fixed Switched Telephone Services, approved by the Resolution no. 341, from June 20, 2003, and the Regulation of Fixed Switched Telephone Services Quality Indicators, approved by the Resolution no. 417, from October 17, 2005: CP 16/2011 launched on March 31, 2011, and Regulation approved by the Resolution no. 605/2012. The Regulation changed the conditions of measurements over the quality of services provided by the STFC, allowing for the collection of data from indicators of call termination through other means other than the pricing files. A new Public Consultation may take place in 2015, with the purpose of unifying all services quality regulations in a single document.

Methodology Rule for the Calculation of the Transfer Factor X Applied in the Readjustment of Pricing of the STFC: CP 39/2011 launched on July 18, 2011, by the Regulation was not yet published (it is likely that ANATEL will perform a new Public Consultation due to the time elapsed). The purpose of this Rule is to establish criteria and the methodology for the calculation of the X Transfer factor, foreseen in the contract rules for the readjustment of pricing in the STFC categories, in accordance with §2 of Clause 12.1 of the STFC Concession Contracts, in force after May 2, 2011, in compliance with Article 7, subparagraph II, of the Decree-Law no 4733, from June 10, de 2003.

Regulation for Reversible Property: CP 52/2010 launched by the end of 2010, but the Regulation was not yet published. Disciplines the concession of prior consent for the replacement, lending or disposal of reversible property. Also foresees tougher conditions for the control of property of the Concessionaire.

Other Issues

MVNO (mobile virtual network operator): approved on November 2010, Resolution 550 allowing the service provision of the SMP by virtual operators (MVNO). There are still no MVNO providers in partnership with Oi. Porto Seguro and Datora established partnerships with TIM.

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SCM Regulation: CP 45/2011 launched on August 8, 2011, after countless contributions from society, gave rise to the new SCM Regulation, approved by the Resolution no. 614, from May 28, 2013. The new Regulation brought, as an innovation, the consent for the SCM providers to provide Internet connections and the consent to implement the restricted mobility function, whose conditions are foreseen in the regulation for the use of radiofrequency.

SCM Quality Management Regulation RGQ-SCM: CP 46/2011 launched on August 9, 2011, whose Regulation was edited on October 31, 2011. The Regulation establishes quality goals and the assessment criteria, data collection and quality monitoring to the SCM providers.

Conditioned Access Service Regulation (SeAC): CP 65/2011 launched on December 19, 2011, whose regulation was published in accordance with the Resolution 581/2012. The Regulation enforces the provisions set forth by the Law 12485, from September 12, 2011, regarding the audiovisual communication of conditioned access. Presents the rules for this new service (SeAC), including provisions regarding the granting of service, installation and licensing of stations, programming channels of mandatory distribution and others, in order to reduce any barriers to the entry of new providers.

New Regulations:

Telecommunication Costs Modeling CP 26/2012, launched on July 4, 2012, and regulation approved, according to resolution 639/14. The model proposes to comprise the costs of regulated wholesale services in Brazil, including fixed interconnections, mobile interconnections and dedicated lines (EILD). ANATEL published the Resolution 639/14, which defines the methodology and changes the method to deliver information to calculate amounts Simultaneously, it published the deeds with the amounts from 2016 to 2019 for the fixed and mobile interconnection.

Regulation of the service provision of the STFC outside of the ATB (STFC FATB): CP 08/2012, launched on February 15, 2012 and regulation approved by the Resolution no. 622/2013. The purpose of the Regulation is to discipline the support conditions of the STFC in rural areas, both for the individual and group access, by creating offers with service plans for the entire rural areas / FATB.

General Plan of Competition Goals (PGMC): foreseen in the PGR as a short term actions, PGMC Regulation was approved by the Resolution 600/2012. PGMC settled the relevant markets for the Telecommunications Sector, the rules for the identification of Company Groups which include companies with Significant Market Power (PMS), and obligations designed to encourage the competition.

Joint Resolution ANATEL and ANEEL no. 04, which approves the reference price for the sharing of poles and establishes rules for the use and occupation of Fixation Points. The monthly amount to be paid for the use of a pole cable fixation point shall be R$ 3.19 and, for case of a concessionaire providing the telecommunications service, the amount may be adjusted in the areas where there is competition, gradually in up to 10 years. The rule is the free negotiation, in case of disagreements the discussion shall be taken to the Conflict Resolution Commission. The adaptation cost shall be shared with the new entry party.

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3. Oi Profile

Oi is one of Brazil s foremost providers of telecommunications, gathering approximately 74.5 million Revenue Generating Units (RGU). Oi operates in the entire Brazilian territory and offers a variety of integrated telecommunication products which include fixed and mobile telephony, use of networks (interconnection), data transmission (including broadband) and pay TV (also offered through double-play, triple-play and quadruple-play packages), internet services and other telecommunication services, for residing customers, companies and government agencies. Oi has approximately 347 thousand km of fiber optics installed, having the largest backbone in Brazil. Furthermore, its mobile coverage encompasses approximately 88.5% of the Brazilian population. Oi has approximately 18.1% of the market share in mobile telephony and approximately 36.5% in fixed telephony. Oi also provides, as part of its converging offers, more than 1 million wifi hotspots, including public locations, such as airports and shopping centers.

4. Operating Performance

Oi closed 2014 with 74.5 RGUs and, from those, 17.463 thousand are from the residential segment, 48.462 thousand from the Personal Mobile segment and 7.917 thousand from the Corporate / SME segment, in addition to e 653 thousand public phones.

Residential (Fixed Telephony, Broadband and Pay TV)

For the Residential segment, Oi closed 2014 with 17.463 thousand RGUs, from which, 10.957 thousand fixed lines, 5.259 thousand fixed broadband and 1.247 thousand Pay TV.

Since the Residential segment is based in the multi-product approach, Oi focuses in the integrated residence, in order to increase its share in the households budget. Regarding the fixed telephony product, the cross selling and retention initiatives were responsible for maintaining the disconnection levels under control. Furthermore, the offers Oi Conta Total (Total Account) and Oi Voz Total (Total Voice) were two examples of converging package used to maintain the loyalty of these clients, increase the ARPU and reduce the churn (disconnection rates). Oi Conta Total (also known as OCT) is a triple-play offer which includes fixed telephony, broadband and post-pay mobile service, to which the pay TV can be added (quadruple-play) as well as mobile data packages, while Oi Voz Total is an offer that includes fixed line and prepaid mobile with the purpose of improving the fixed-mobile convergence. In 2014, new features were launched for the Voz Total package. In addition to unlimited calls from prepaid to fixed and mobile phones from Oi, the Voz Total client also received the option to have unlimited calls DDD from the prepaid to fixed and mobile phones from Oi and a 100MB/month data package, access to the Oi Wi-Fi network (with over 1 million hotspots) and a package with 100 SMS/month for any carrier.

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Personal Mobility

Oi ended 2014 with 48.462 thousand RGUs in the Personal Mobility segment, a 1.5% growth when comparing to 2013. In the last twelve months, this growth represents 735 thousand net additions, with 15 thousand RGUs from prepaid and 721 thousand from post-pay.

The prepaid segment was marked by the focus in recharges and the consumption of data, reaching a record of recharges and revenue from data in the 4T14 supported by the bundle offer SMS + Internet and also by the use of the active marketing tools.

As for the post-pay, Oi launched the Connected plans, which included Voice, Data and SMS, assuring an offer with a more comprehensive experience for its clients in addition to improve other quality and churn indicators. The Oi Control plan, with credit card charging, was also a strategic focus of the company, since it is a pre and post hybrid plan that does not have the failure to pay, however the clients have consumption profile and ARPU that is closer to postpaid.

Companies/Corporate

Oi closed 2014 with 7.917 thousand RGUs in the Corporate / SME segment, an annual decrease of 4.0%, a result from the focus in the quality of sales and the continuous cleaning of the base.

Oi adjusted the B2B strategy in 2014 with the integration of the Corporate, Company and Wholesale segments, operating in the simplification of products portfolio, restructuring the sales channels and focusing on the growth of T1 and Data services, strengthening its strategy to support clients, increasing its revenues and reducing its costs by using innovative technology. It is worth noting that in the fourth trimester of 2014 Oi presented the Oi Smart Office for the corporate and SME market, which offers the control of working hours and productivity of the employee working in remote work, including with the use of biometrics, in accordance with what was established in the CLT, the solution includes internet connectivity and also offers a secure connection between the residential environment and the corporate network, unified communication (chat, voice, video, conference and documents sharing) and corporate applications in the cloud such as e-mail and sharepoint. As a reinforcement for the strategy to focus in TI solutions and improve the Clients experience, we have launched in the third trimester of 2014 the first integrated showroom oriented to the sector of large companies. The purpose of the space is to present innovative ICT solutions (Information and communication technology) so that the Clients can experience the use of these solutions in their daily life, according to the global and local needs of their business.

5. Financial-Economic Performance

The consolidated net revenue totaled R$28,247 million for the whole of 2014. From which R$9,995 million belong to the Residential segment, R$ 9,011 million from Personal Mobility and R$ 8,311 million form Corporate/SME.

Despite the annual fall of net revenue, the greatest highlights in 2014 were (1) the broadband products and Oi TV, which mitigated the fall of net revenue and contributed for the increase of households with converging packages levering the ARPU and maintaining the base of the Residential segment; and (2) the growth of revenue from the Personal Mobility boosted by the data services and the increased amounts of recharges.

The operating costs and expenses (excluding depreciation and amortization) totaled R$ 18,037 million in 2014, and the main costs were as follows: R$ 6,259 million with services from third parties, R$ 3,120 million from rentals and

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insurances, R$ 2,829 million from personnel, R$ 2,690 million from interconnection costs and R$ 1,923 million in network maintenance services. The operating costs of 2014 were also affected by non-recurring costs, in the value of R$ 3,246 million.

The Company s EBITDA totalized R$10,210 million in 2014 with a 36.1% margin, a 6.7% increase in comparison with 2013 due to the increase in non-recurring revenue. The annual net loss was R$ 4,406 million for the period ending in December 31, 2014, mainly due to the result from discontinued operations.

6. Indebtedness

R$ million

Debt	Dec-14	Dec-13
Short term	4,647	4,116
Long term	28,648	30,231
Total debt	**33,295**	**34,347**
Local currency	21,068	21,287
Foreign currency	14,781	14,566
Swap	(2,555)	(1,507)
(-) Cash	**(2,732)**	**(3,931)**
Net debt	**30,563**	**30,416**

The consolidated gross debt of Oi ended the year 2014 with R$ 33,295 million, a 3.1% reduction, when compared with 2013. The main fundraising events that took place until December 2014 were as follows: disbursement of ECAs for the financing of investments ONDD (US$ 97 million) and EDC (US$ 104 million), rotating credit line through a Bank Credit Bill (CCB) worth R$ 1,300 million, besides the fundraising in BNDES worth R$ 836 million.

As a result of the approval from the sale of PT Portugal to Altice, until the sale is completed, the assets and liabilities of PT Portugal are classified as Assets Held for Sale and Liabilities Associated to Assets Held for Sale, correspondingly, and these are not a part of the consolidated debt of Oi as of December 31, 2014.

The share of the debt in foreign currency represented 44.4% of total debt by the end of 2014, with practically no exposure to currency fluctuations (below 0.1%). The average debt term remained stable around 4.0 years, by the end of December 2014.

Oi ended the quarter with a cash balance of R$ 2,732 million, resulting on a net debt of R$ 30,563 million, a 2,5% reduction when compared with 2013.

Oi calculates the net debt as a balance of loans and financing, which considers the balance of derivatives and debentures (convertible and non-convertible) financial instruments, reduced by the cash balance, cash equivalents and financial applications. Other companies may calculate the net debt differently from Oi.

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7. Investments (*)

R$ milhões

Capex	**2014**	**2013**
Network	4,029	4,678
ITservices	354	348
Other	691	1,224
Total	**5,074**	**6,250**

(*) Only considers investments in Brazil

Investments made throughout 2014 total R$ 5,074 million, an 18.8% decrease when compared with 2013, demonstrating the financial discipline that Oi is pursuing to rationalize the application of its resources, using more granular analyses, prioritizing investments and new supplier contracting models.

In the year 2014, Oi invested 79.4% of the total amount representing R$ 4,0 thousand million distributed mainly in (i) the improvement of the 3G mobile network quality, (ii) the improvement of the fixed network for the broadband service, (iii) optimization of the Oi TV product platform, (iv) implementation and expansion of the 4G network, and (v) infrastructure required for the demand of the World Cup.

Investment in Research and Development

Since its creation, Oi seeks to differentiate itself and maintain the leadership in the national market through its innovative actions and attitude.

In 2014, aiming to achieve its innovation objectives, Oi intensified the process of prospecting innovative services and developed innovation activities, research and development, promoting and extending its innovation ecosystem, through the Inova Program.

Investments made in Innovation and R&D in projects developed in 2014 totalled approximately R$ 125 million in 53 projects, and 37 of those were carried out in partnership with Science and Technology Institutes and companies.

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08

Statement from the Board of Directors

For the purposes of the provision in number 1, paragraph c) of article 245 of the Portuguese Securities Code, the members of the Board of Directors of PT SGPS identified hereunder hereby declare, in the capacity and within their functions as described therein, that, as far as they are aware, and based on information that they have had access to, through the Board of Directors, as applicable, while in office:

- The information featured in the management report, financial statements, legal certification of accounts and other accountability documents required by law or regulations concerning the financial year ended December 31, 2014, was prepared in accordance with the applicable set of accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of Portugal Telecom, SGPS, SA, and companies included in the respective consolidation perimeter;

- The management report concerning such financial year faithfully outlines the progress of the business activities, the performance and position of Portugal Telecom, SGPS, SA and companies included in the respective consolidation perimeter, and it contains a correct description of the main risks and uncertainties that these entities face.

Lisbon, April 30, 2015

João Manuel de Mello Franco, Chairman of the Board of Directors

Alfredo José Silva de Oliveira Baptista, Board Member

Eurico de Jesus Teles Neto, Board Member

Francisco Ravara Cary, Board Member

Gerald Stephen McGowan, Board Member

João Manuel Pisco de Castro, Board Member

Jorge Freire Cardoso, Board Member

José Guilherme Xavier de Basto, Board Member

Marco Norci Schroeder, Board Member

Maria Helena Nazare, Board Member

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Mário João de Matos Gomes, Board Member

Milton Almicar Silva Vargas, Board Member

Nuno Rocha dos Santos de Almeida e Vasconcellos, Board Member

Rafael Luís Mora Funes, Board Member

Rolando Antonio Durao Ferreira de Oliveira, Board Member

Shakhaf Wine, Board Member

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Portugal Telecom

Consolidated Financial Statements

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PORTUGAL TELECOM, SGPS, S.A.

CONSOLIDATED INCOME STATEMENT

YEARS ENDED 31 DECEMBER 2014 AND 2013

Euro

	Notes	2014	2013 Restated
CONTINUING OPERATIONS			
COSTS, LOSSES AND (INCOME)			
Wages and salaries	6	(5,798,825)	11,927,717
Supplies, external services and other expenses	7	26,227,560	3,219,891
Indirect taxes	8	6,371,322	2,934,415
Provisions and adjustments	36	(246,771)	(810,627)
Depreciation	30	101,060	237,289
Losses (gains) on disposal of fixed assets, net		30,063	(21,290)
Net other gains	9	(979,372)	(124,871,144)
		25,705,037	**(107,383,749)**
Income (loss) before financial results and taxes		**(25,705,037)**	**107,383,749**
FINANCIAL LOSSES AND (GAINS)			
Net interest income	10	(11,672,391)	(18,545,241)
Net foreign currency exchange losses		554,757	1,769,952
Net losses on financial assets and other investments	24	363,039,733	1,251,787
Equity in losses of joint ventures	25	378,609,792	6,799,413
Net other financial expenses	11	38,994,208	10,014,653
		769,526,099	**1,290,564**
Income (loss) before taxes		**(795,231,136)**	**106,093,185**
Income taxes	12	(35,336,473)	(4,372,879)
Net income (loss) from continuing operations		**(759,894,663)**	**110,466,065**
DISCONTINUED OPERATIONS			
Net income from discontinued operations	13	470,658,610	277,510,541
NET INCOME		**(289,236,053)**	**387,976,606**
Attributable to non-controlling interests	14	13,554,384	56,995,651
Attributable to equity holders of the parent	14	**(302,790,437)**	**330,980,955**
Earnings per share from continuing operations			
Basic	15	(0.87)	0.13
Diluted	15	(0.87)	0.13

Earnings per share			
Basic	15	(0.35)	0.39
Diluted	15	(0.35)	0.39

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

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PORTUGAL TELECOM, SGPS, S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEARS ENDED 31 DECEMBER 2014 AND 2013

Euro

	Notes	2014	2013
Net income recognised in the income statement		**(289,236,053)**	**387,976,606**
Income (expenses) recognised directly in shareholders equity			
Items that may be reclassified subsequently to the income statement			
Foreign currency translation adjustments			
Translation of foreign investments (i)		157,121,551	(630,656,625)
Transfers to income statement (ii)		38,988,764	3,129,234
Hedge accounting of financial instruments			
Change in fair value			2,539,935
Tax effect			507,925
Share in other comprehensive income (loss) of joint ventures (iii)		10,788,796	(9,908,933)
Items that will not be reclassified to the income statement			
Post retirement benefits			
Net actuarial gains (losses)	31	28,349,892	(139,474,542)
Tax effect	12	(6,520,475)	21,431,258
Gains (expenses) recorded in shareholders equity related to joint ventures (iv)		(481,565,956)	4,884,395
Other expenses recognised directly in shareholders equity, net (v)		(8,347,628)	(13,468,740)
Total earnings recognised directly in shareholders equity		**(261,185,056)**	**(761,016,093)**
Total comprehensive income		**(550,421,109)**	**(373,039,487)**
Attributable to non-controlling interests		12,336,053	25,599,439
Attributable to equity holders of the parent		**(562,757,162)**	**(398,638,926)**

(i) Gains recorded in 2014 and losses recorded in 2013 relate mainly to the impact of, respectively, the appreciation and depreciation of the Real against the Euro on the investments in Brazil.

(ii) In 2014, this caption corresponds to the cumulative amount of foreign exchange conversion adjustments related to discontinued activities, which was transferred to net income on the date that these gains were achieved through the contribution of PT Assets in the Capital Increase of Oi on May 5 2014 (note 1). In 2013, this caption corresponds to the cumulative amount of foreign exchange conversion adjustments on investment in CTM, which was reclassified on the income statement after the disposal of this investment in June 2013.

(iii) This caption includes fair value variations of Oi s derivative hedge instruments.

(iv) In the fiscal year 2014, this item primarily includes the Company s effective participation in the following losses incurred by Oi directly in equity: (1) a loss of 2,895 million reais (373 million euros corresponding to the Company s effective participation) on the recognition of investments in debt securities of Rioforte Investments as treasury shares, following the agreement between Oi and PT SGPS for the exchange of Oi shares held by PT SGPS; and (2) a loss of 656 million reais (85 million euros corresponding to the Company s effective participation) on actuarial losses determined by Oi in connection with its benefit plans, which since May 5, 2014 include the plans of PT Comunicações, consolidated by the Company on such date (Note 31).

(v) For 2014 and 2013, this item refers to other registered gains and losses directly in equity until May 5th 2014, by the entities in which the Company held an interest until this date, since these shares were delivered as a contribution in kind for the Capital Increase of Oi on May 5, 2014 (Note 1).

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

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PORTUGAL TELECOM, SGPS, S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2014 AND 2013

Euro

	Notes	31 Dec 2014	31 Dec 2013
ASSETS			
Current Assets			
Cash and cash equivalents	40.e	109,511,599	1,658,950,514
Short-term investments	17		914,128,757
Accounts receivable - trade	18		762,936,473
Accounts receivable - other	19	67,430	406,451,496
Inventories	20		85,872,948
Taxes receivable	21	6,135,935	70,932,459
Prepaid expenses	22	11,997	65,244,104
Other current assets	23		3,985,415
Non-current assets held for sale	24	388,380,655	4,653,741
Total current assets		**504,107,616**	**3,973,155,907**
Non-Current Assets			
Accounts receivable - trade			204,316
Accounts receivable - other			1,080,306
Taxes receivable	21	3,440	24,739
Investments in joint ventures	25	714,177,448	2,408,246,860
Investments in associated companies	26		511,316,161
Other investments	27		22,243,652
Goodwill	28		380,616,265
Intangible assets	29		717,703,676
Tangible assets	30	163,866	3,438,479,384
Post retirement benefits	31		1,834,000
Deferred taxes	12		564,894,918
Other non-current assets	23		594,998
Total non-current assets		**714,344,754**	**8,047,239,275**
Total assets		**1,218,452,370**	**12,020,395,182**
LIABILITIES			
Current Liabilities			
Short-term debt	32	54,084	1,491,976,460
Accounts payable	33	8,961,143	568,270,540
Accrued expenses	34	23,449,284	534,656,119
Deferred income	35		246,784,244
Taxes payable	21	5,356,014	80,107,942
Provisions	36	27,186,177	88,789,844
Other current liabilities	37	856,549	13,980,981
Total current liabilities		**65,863,251**	**3,024,566,130**

Non-Current Liabilities			
Medium and long-term debt	32	49,523	5,879,161,433
Accounts payable	33		19,470,144
Taxes payable	21	38,593	
Provisions	36		2,271,075
Post retirement benefits	31		960,880,069
Deferred taxes	12		243,824,693
Other non-current liabilities	37		23,406,523
Total non-current liabilities		**88,116**	**7,129,013,937**
Total liabilities		**65,951,367**	**10,153,580,067**
SHAREHOLDERS EQUITY			
Share capital	38	26,895,375	26,895,375
Treasury shares	38	(178,071,827)	(337,520,916)
Legal reserve	38	6,773,139	6,773,139
Reserve for treasury shares	38	185,042,147	6,970,320
Other reserves and accumulated earnings	38	1,111,862,169	1,938,201,459
Equity excluding non-controlling interests		**1,152,501,003**	**1,641,319,377**
Non-controlling interests	14		225,495,738
Total equity		**1,152,501,003**	**1,866,815,115**
Total liabilities and shareholders equity		**1,218,452,370**	**12,020,395,182**

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

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PORTUGAL TELECOM, SGPS, SA

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEARS ENDED 31 DECEMBER 2014 AND 2013

Euro

	Share capital	Treasury shares	Legal reserve	Reserve for treasury shares	Other reserves and accumulated earnings	Equity excluding non-controlling interests	Non-controlling interests	Total equity
Balance as at 31 December 2012 (restated)	**26,895,375**	**(337,520,916)**	**6,773,139**	**6,970,320**	**2,601,464,678**	**2,304,582,596**	**232,674,346**	**2,537,256,942**
Dividends (Notes 22 and 44.5)					(277,884,293)	(277,884,293)	(31,985,263)	(309,869,556)
Acquisitions, disposals and share capital increases/decreases							(792,784)	(792,784)
Corporate reestructuring at Contax					13,260,000	13,260,000		13,260,000
Remeasurement of the deferred tax liability related to the revaluation reserve of assets (Note 12)					12,879,404	12,879,404		12,879,404
Income (expenses) recognized directly in equity					(742,499,285)	(742,499,285)	(31,396,212)	(773,895,497)
Income recognized in the income statement					330,980,955	330,980,955	56,995,651	387,976,606
Balance as at 31 December 2013	**26,895,375**	**(337,520,916)**	**6,773,139**	**6,970,320**	**1,938,201,459**	**1,641,319,377**	**225,495,738**	**1,866,815,115**
Dividends (Note 39)					(85,510,302)	(85,510,302)	(101,991)	(85,612,293)
Acquisitions, disposals and share capital increases/decreases (Note 1)							(237,729,800)	(237,729,800)
Treasury shares relating to the Company s share in Oi s 10% interest in Portugal Telecom (Note 38.2)		159,449,089				159,449,089		159,449,089
Physical exercise of equity swaps over own shares (Note 38.2)				178,071,827	(178,071,827)			
Income (expenses) recognized directly in equity					(259,966,724)	(259,966,724)	(1,218,331)	(261,185,055)
Income recognized in the income statement					(302,790,437)	(302,790,437)	13,554,384	(289,236,053)
	26,895,375	**(178,071,827)**	**6,773,139**	**185,042,147**	**1,111,862,169**	**1,152,501,003**		**1,152,501,003**

Balance as at 31 December 2014

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

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PORTUGAL TELECOM SGPS, S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED 31 DECEMBER 2014 AND 2013

Euro

	Notes	2014	2013 Restated
OPERATING ACTIVITIES			
Payments to suppliers		(15,756,645)	(4,770,646)
Payments to employees		(17,322,789)	(7,885,179)
Payments relating to income taxes		(13,350,645)	(14,406,962)
Other cash receips (payments), net		1,366,526	(3,974,826)
Cash flows from operating activities from continuing operations (1)		**(45,063,553)**	**(31,037,613)**
Cash flows from operating activities from discontinued operations	13	**158,484,843**	**884,711,196**
Cash flows from operating activities (1)		**113,421,290**	**853,673,583**
INVESTING ACTIVITIES			
Cash receipts resulting from:			
Short-term financial applications	40.a	213,981,292	917,069
Financial investments			109,410
Tangible and intangible assets		985,068	45,070
Interest and related income		14,761,387	22,238,237
Dividends	40.b	514,654	86,482,004
		230,242,401	**109,791,790**
Payments resulting from:			
Short-term financial applications	40.a	(27,608,212)	(75,333,996)
Financial investments	40.c	(1,554,545,455)	
Tangible and intangible assets		(54,381)	
Other investing activities	9		(16,000,000)
		(1,582,208,049)	**(91,333,996)**
Cash flows from investing activities related to continuing operations (2)		**(1,351,965,647)**	**18,457,794**
Cash flows from investing activities related to discontinued operations	13	**(241,193,564)**	**(382,577,946)**
Cash flows from investing activities (2)		**(1,593,159,211)**	**(364,120,152)**
FINANCING ACTIVITIES			
Payments resulting from:			
Loans repaid	40.d	(73,246,846)	
Interest and related expenses		(4,048,528)	(2,329,982)
Dividends	16	(87,587,250)	(284,658,563)
Cash flows from financing activities related to continuing operations (3)		**(164,882,624)**	**(286,988,545)**
Cash flows from financing activities related to discontinued operations	13	**467,018,223**	**(477,679,920)**
Cash flows from financing activities (3)		**302,135,599**	**(764,668,465)**
Cash and cash equivalents at the beginning of the period		1,658,950,514	1,988,797,138
Change in cash and cash equivalents from continuing operations (4)=(1)+(2)+(3)		(1,177,602,322)	(275,115,034)

Effect of exchange differences		9,161,091	(54,731,590)
Cash and cash equivalents of discontinued operations as of 5 May 2014	1	(380,997,683)	
Cash and cash equivalents at the end of the period	40.e	**109,511,599**	**1,658,950,514**

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

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Portugal Telecom, SGPS, S.A.

Notes to the Consolidated Financial Statements on December 31, 2014

(Amounts expressed in euro unless otherwise indicated)

1. Introduction

After signing the new agreement with Oi, S.A. (Oi) and the execution of the Exchange on March 30, 2015, PT SGPS held as a main asset, 27.5% (direct and indirect interest) of Oi. PT SGPS still holds Rio Forte Instruments (see chapter 4) and the Call Option of 47,434,872 common shares and 94,869,744 preferred shares.

Until May 5th 2014, PT SGPS and its subsidiaries and joint ventures were operating mainly in the telecommunications and multimedia sectors in Portugal, Brazil and other countries in Africa and Asia.

On May 5, 2014, PT SGPS subscribed and paid 1,045,803,934 common shares and 1,720,252,731 preferred shares issued by Oi, by contribution in kind of the PT Assets , defined as a stake of 100% of the Company in PT Portugal, which on that date included all the operating businesses of the PT SGPS group with the exception of the subsidiaries Bratel BV, Bratel Brasil, PTB2, and Marnaz and of the investment in Oi, Contax and their controlling shareholders. As a result of the contribution for the capital increase of Oi:

- PT SGPS increased its effective stake in Oi from the 23.2%, previously held by Bratel Brasil, to an effective stake of 39.7% held through a direct stake in the total of 35.8% (32.8% in PT SGPS and 3.0% in Bratel Brasil) and an indirect stake of 3.9% held through the controlling shareholders of Oi;

- Consequently, PT SGPS stood to hold only the above-mentioned investment in Oi, stakes in the controlling shareholders of Oi (which essentially hold only shares of Oi) and 100% of the holding companies Bratel BV, Bratel Brasil, PTB2 and Marnaz.

Capital increase of Oi

On October 1, 2013, PT SGPS, Oi, AG, LF, Bratel Brasil, Pasa Participações S.A. (Pasa), EDSP 75 Participações (EDSP75), (which jointly with Tmarpart are referred to as Oi Holdings), Banco Espírito Santo, S.A. (BES) and Nivalis Holding B.V. (RS Holding) signed a memorandum of understanding outlining the key principles for a proposed merger between PT SGPS, Oi and the Oi Holdings (the Business Combination), in order to constitute a single, integrated Brazilian listed company.

On February 19, 2014, PT SGPS and Oi signed final contractual instruments related to the Business Combination between the parties. These documents defined and regulated the stages necessary to complete this Business Combination, that include the main transactions described below, some of which have since been concluded:

- On May 5, 2014, Oi made effective a capital increase with a total issue of 2.142.279.524 common shares at 2.17 reais per share and 4.284.559.049 preferred shares at 2.00 reais per share, and, on that same date, BTG Pactual, acting as the Stabilizing Agent of the Public Offering and in accordance with the provisions of Article 24 of the CVM Instruction 400, partially exercised the option to place more than 120,265,046 common shares and 240,530,092 preferred shares issued by Oi; the total amount of the capital increase, including the option exercised by Banco Pactual, amounted to 13,960 million reais, consisting of (1) 5,710 million reais (1,750 million euros at the exchange rate on February 21, 2014) carried out in assets contributed by PT SGPS, based on the evaluation of the PT Assets made by Banco Santander (Brasil), S.A., and PT SGPS subscribed 1,045,803,934 common shares and 1,720,252,731 preferred shares issued by Oi, and (2) 8,250 million reais in cash obtained from other investors who subscribed the remaining 1,216,740,636 common shares and 2,804,836,410 preferred shares issued by Oi; the stake of PT SGPS in the capital increase of Oi carried out through the contribution of all the operating assets directly or indirectly held by the PT SGPS Group and of the corresponding liabilities, except for the shares of Oi, of Contax and of Bratel BV (PT Assets), in the amount of 5,710 million

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reais (1,750 million euros), it was approved by a majority of 99.87% of the votes present in the General Shareholders Meeting of PT SGPS held on March 27, 2014.

- On May 5, 2014, PT SGPS, through its subsidiaries Bratel Brasil and PTB2, subscribed 4,788 million reais (1,555 million euros at the exchange rate on 5 May, 2014) of bonds convertible into shares of certain companies that control directly or indirectly AG and LF, amount which in the end was used by AG and LF to repay their debt and to subscribe convertible bonds to be issued by TmarPart, which, in turn, also used these funds to repay their own debt; also on May 5, 2014, PT SGPS exchanged their shares in CTX and Contax for an additional stake in the companies that control directly or indirectly AG and LF, which at that time held only shares of Oi and Telemar Participações; as a result of these transactions, PT SGPS increased its economic stake in AG and LF from 35% to 85.1% in TmarPart from 25.6% to 68.4%, thus it indirectly obtained an additional stake in Oi of 2.4%.

- Pending the approval of the holders of common shares of Oi and TmarPart , the Oi shares not held by TmarPart would be exchanged for common shares of TmarPart and Oi would become a wholly owned subsidiary of TmarPart .

Within the scope of this the above-mentioned capital increase of Oi, the PT SGPS Group had previously carried out a number of internal restructuring transactions in order to concentrate all of their operating assets and their corresponding liabilities, except for the investments in Oi and Contax, (PT Assets), in PT Portugal, wholly owned by PT SGPS. This internal restructuring involves only entities under common control, and as such no gains or losses were recognized in the consolidated financial statements. Prior to the capital increase of Oi, the following main corporate transactions were carried out within the scope of this internal restructuring:

- On March 31 2014, PT SGPS sold to PT Portugal, for the amounts of 1.5 million euros and 4.7 million euros, the 100% stakes in PT Centro Corporativo and PT SGPS Investimentos, respectively.

- On April 30, 2014, PT Móveis, SGPS, S.A. (PT Móveis) subscribed a capital increase in Bratel BV amounting to approximately 1,303 million euros, which, along with the cash and cash equivalents that Bratel Brasil already held previously, was used, after the acquisition of Bratel BV, to subscribe 4,788 million reais (1,555 million euros) of bonds convertible into shares of certain companies that control directly or indirectly AG and LF, as mentioned above.

- On May 2, 2014, PT Móveis, a company 100% owned indirectly by PT Portugal, sold to PT SGPS for a total amount of 4,195 million euros, their 100% stake in Bratel BV, the company that indirectly held through Bratel Brasil the investment in Oi, since this investment was not part of the net assets to be transferred to Oi in the capital increase.

- On May 2, 2014, PT SGPS sold to PT Móveis, for a total amount of 2,240 million euros, its 100% stake in PT Participações, SGPS, S.A., the company that indirectly owned the Group s stake (of 75%) in Africatel BV.

- On May 5, 2014, PT SGPS sold to PT Portugal, for a total amount of 255 million euros, its 100% stake in PT Finance.

- On May 5, 2014, PT SGPS transferred to PT Portugal most of their loans owed at the respective nominal values, since these loans had been included in the evaluation of PT Portugal for the purpose of the capital increase of Oi.

As mentioned above, on May 5, 2014, following the completion of the internal restructuring, PT SGPS participated in the capital increase of Oi through the contribution in kind of the 100% stake it held in PT Portugal, which on that date held only the PT assets, given that the investments in joint ventures (Oi, TmarPart, AG and LF) were held directly by Bratel Brazil and PTB2, both fully owned by Bratel BV, which in turn was wholly owned by PT SGPS . In addition to the investments in joint ventures, other assets and liabilities of PT SGPS were not transferred to PT Portugal as part of the PT assets and as such continued to be fully consolidated in the consolidated financial statements of PT SGPS, including essentially the dividends payable to their shareholders, the financing associated with the equity swap contract on the treasury shares, certain tax liabilities and certain accrued expenses, as well as the amounts of cash required to settle those liabilities and other costs that are expected to be incurred. In addition, as PT SGPS failed to control the PT Assets from May 5, 2014, the respective gains and losses up to that date were presented as results from discontinued operations, for which reason the consolidated statements of income and of cash flow for the year 2013 have been restated (Note 4).

Following the aforementioned capital increase and the option exercised by Banco Pactual, PT SGPS came to hold an effective stake of 39.7% in the issued share capital and floating stock of Oi, including (1) a stake of 35.8 % held directly in Oi by PT SGPS (32.8%) and Bratel

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Brasil (3.0%), and (2) a stake of 3.9% held indirectly through the Oi shares held by TmarPart, AG and LF. Additionally, as a result of the capital increase of Oi, PT Portugal became a wholly owned subsidiary of Oi.

PT SGPS recorded a gain of approximately 699 million euros (Note 13) within the scope of the capital increase of Oi, which reflects primarily (1) the difference between the fair value of the shares that PT SGPS received by the subscription of the increase of capital of Oi (1,854 million euros) and the carrying value of the PT Assets (negative by 2,676 million euros) delivered as a contribution in kind to this capital increase, which was partially offset by the (2) Dilution effect in the former investment in Oi by Bratel Brasil, since the latter did not participate directly or indirectly in the capital increase, and the remeasurement effect of that investment in Oi to the fair value implicit in the capital increase. The breakdown of the total gain recorded within the scope of the capital increase is as follows:

	Euro million
Fair value of shares obtained in the Oi share capital increase (i)	1,854
Minus: Carrying value of the net assets contributed to Oi share capital increase (ii)	(2,676)
Plus: Remeasurement of the previous investment in Oi to fair value and other effects (iii)	(3,831)
Total gain (Note 12) (iv)	**699**

(i) This caption corresponds to the fair value of the shares obtained by PT SGPS in the capital increase of Oi on May 5, 2014, based on the price of these shares (2.17 reais per common share and 2.00 reais per preferred share), in the amount of 5,710 million reais, equivalent to 1,854 million euros at the exchange rate on that date.

(ii) On May 5, 2014, the carrying value of the net assets contributed in the capital increase of Oi was negative by 2,676 million euros, the breakdown of which is shown below. It should be mentioned that this amount reflects approximately the total equity attributable to the controlling shareholders of the Company prior to this transaction, net of (a) the carrying value of the investment in Oi, Contax and in their controlling shareholders, (b) the amount of 1,555 million euros which was used by Bratel Brasil and by PTB2 to subscribe the aforementioned convertible bonds in order to obtain additional shares of the controlling shareholders of AG and LF and indirectly of Oi and (c) of deferred tax assets related to the tax losses.

(iii) As mentioned above, this caption reflects (1) the dilution effect on the previous investment in Oi held through Bratel Brasil; (2) the impact of remeasuring this very same investment based on the price of the Oi shares in the capital increase (2.17 reais per common share and 2.00 reais per preferred share); (3) a loss of 160 million euros related to the Company s stake in the investment of 10% held by Oi in PT SGPS that was classified as treasury shares in the Consolidated Statement of Financial Position, and (4) a loss of 39 million euros as cumulative amount of the foreign currency translation adjustments related to the activities discontinued, which was transferred to net income on the date of the contribution of the PT Assets to the capital increase of Oi carried out in May 5, 2014. On this date, following Oi s capital increase, the Company valued at 2,244 million euros (6,914 million reais) the effective stake in Oi, calculated in accordance with the equity method and based on the price of the above-mentioned shares, including 1,855 million corresponding to the direct stake held by PT SGPS and 169 million euros and 221 million euros corresponding to the direct and indirect stake through Bratel Brasil. Additionally, on the same date, the effective stake of the Company in the net assets of the controlling shareholders of Oi, excluding the stake in Oi amounted to 36 million euros.

(iv) This caption represents (1) the gain attributable to the difference between the fair value of the shares acquired (positive value of 1,854 million euros, as mentioned above) and the carrying value of the net assets contributed (negative value of 2,676 million euros, as detailed below) in the capital increase of Oi, (2) net of the negative effects related to the remeasurement of the previous investment to fair value on that date and the dilution effect on the same previous investment, as well as the other above-mentioned effects.

Additionally, as a result of Oi s capital increase, PT SGPS derecognized deferred tax assets related to tax losses of 208 million euros (Note 12) as a result of the discontinuation of the business in Portugal that supported these same tax losses resulting thus a total net gain of 491 million euros on May 5, 2014 directly related to the capital increase of Oi.

The following table presents the breakdown of the carrying value of the Pt Assets on May 5, 2014, the date from which these assets are no longer fully consolidated in the consolidated financial statements of PT SGPS:

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	Euro million
ASSETS	
Cash and cash equivalents	381
Short-term investments	904
Accounts receivable	1,375
Inventories	93
Prepaid expenses	69
Investments in associated and other companies	438
Intangible assets	1,088
Tangible assets	3,345
Post retirement benefits	2
Deferred taxes	341
Other assets	95
Total assets	**8,130**
LIABILITIES	
Gross debt	8,051
Post retirement benefits	873
Deferred taxes	229
Accounts payable	549
Accrued expenses	484
Deferred income	207
Taxes payable	95
Provisions	54
Other liabilities	26
Total liabilities	**10,569**
Non-controlling interests	238
PT (Net) Assets	**(2,676)**

Short-term investments on May 5, 2014 in the above table include a total amount of 897 million euros related to debt securities issued by Rio Forte Investments, S.A. which were contributed in the capital increase of Oi as part of PT Assets. The composition of the outstanding amount as of May 5, 2014 was as follows:

- 200 million euros subscribed by PT SGPS on April 15, 2014, and transferred to PT Portugal on May 5, 2014, the maturity of which occurred on July 15, 2014;

- 647 million euros subscribed by PT Finance on April 15, 2014, the maturity of which occurred on July 15, 2014;

- 50 million euros subscribed by PT Finance on April 17, 2014, the maturity of which occurred on July 17, 2014.

In July 15th and 17th the maturity of these instruments occurred, but the issuer did not settle their obligations.

Rio Forte requested the adoption of the controlled management regime in accordance with the Luxembourg legislation, although it was their understanding that they did not have the financial capacity to meet their financial commitments, a situation which was thought to be the most protective of their creditors interests, and that was rejected by the Luxembourg court. As a result of that rejection, Rio Forte was declared insolvent by the Luxemburg Court on December 8th 2014, and went into liquidation on the same date.

On July 28, 2014, following the default by Rio Forte, PT SGPS and Oi agreed on the main terms for the exchange of debt securities of Rio Forte held on that date by PT Finance and PT Portugal, amounting to 897 million euros for 47,434,872 common shares and 94,869,744 preferred shares of Oi (after the reverse stock split done by Oi in December 2014) held on that date by PT SGPS. On September 8, 2014, this agreement was approved in the General Shareholders Meeting of PT SGPS and following such approval the parties involved concluded the respective final contracts, the terms of which established that:

- PT SGPS would exchange with Oi in Rio Forte in exchange for 47,434,872 common shares plus 94,869,744 preferred shares of Oi, representing 16.9% of its share capital;

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- An American non-transferable purchase option (Call Option) would be attributed to PT SGPS in order to reacquire the Oi Shares that are the Objective of the Exchange (with the exercise price of $20.104 reais for common shares and $18.529 reais for preferred shares after Oi share grouping), which would be adjusted by the Brazilian CDI (Certificado de Depósito Interbancário) [Interbank Deposit Certificate] plus 1.5% per year;

- The Purchase Option on the Oi Shares that are the Objective of the Option would enter into effect on the data of the Exchange, would have a maturity of six years, with the possibility of exercising the option by PT SGPS terminating at 10% at the end of the first year and 18% at the end of each subsequent year;

- Any amount received as a result of monetization of the Purchase Option through issue of derived instrument would have to be used for the exercise of the Purchase Option;

- PT SGPS could only acquire Oi or TmarPart shares through exercise of the Purchase Option;

- The Purchase Option would be canceled if (i) the bylaws of PT SGPS were to be voluntarily altered to remove the 10% vote limitation; (ii) PT SGPS were to act as a competitor of Oi or (iii) PT SGPS were to violate certain obligations arising from definitive documentation; and

- The contracts were signed on September 8, 2014, subject to approval by the CVM and would be executed by March 31, 2015.

On December 31 2014, as stated above, execution of the exchanges and the purchase option were pending approval by the CVM in Brazil. On March 4, 2015, the CVM approved the above contracts, conditional upon approval of them at Oi s General Shareholders Meeting, which occured on March 26, 2015, since the exchange had been executed on March 30, 2015. On March 24, 2015, PT SGPS came to an agreement with Oi, PT Portugal, PT Finance and TmarPart for the Private Instrument of Assignment of Rights and Obligations and Other Fees (Assignment Agreement), by means of which PT Portugal transferred the Rioforte Instruments to PT Finance, and ceded to PT Finance all pertaining rights and obligations in the terms of the Exchange Agreement (Assignment).

The Assignment Agreement also stipulated that the delivery of the Oi s shares in the Exchange could be implemented by means of the transfer, by PT SGPS, of Oi s shares object of the Exchange, or ADSs (American Depositary Shares), representative of Oi s shares object of the Exchange, at PT SGPS s criteria. Oi s ADR Program is regulated by (1) the Deposit Contract (Ordinary Shares), signed on February 17th 2012, as amended, between Oi, the Bank of New York Mellon, in the quality of depositary, and all periodical holders of ADSs, issued in the terms of the abovementioned Agreement; and (2) by the Deposit Contract (Preferential Shares) signed on February 27th 2012, as amended, between Oi, the Depositary, and all periodical holders of ADSs, issued in the terms of the abovementioned Agreement.

On March 30th 2015, the Exchange was concluded, by means of which PT SGPS (1) deposited Oi s shares object of the Exchange with the Depositary; and (2) instructed the Depositary to register the transfer of 47.434.872 ADSs ON and 94.896.744 ADSs PN to PT Finance, representing Oi s shares object of the Exchange.

Therefore, on March 30th 20115, PT SGPS transferred the ADSs Object of the Exchange to PT Finance, and PT Finance transferred to PT SGPS the Rioforte Instruments in the total main amount of 897 million euros.

Still on March 30th 2015, the Stock Option was in force and effective.

On March 31, 2015, the Board of Directors of PT SGPS concluded negotiations with the other shareholders pertaining to Oi to the extent of signing a new agreement between the parties in relation to the company structure and the administration of Oi. In view of the impossibility of implementing migration from CorpCo to the segment called Novo Mercado [New Market] of the BM&FBovespa by March 31, 2015, the deadline stipulated in the agreements signed on September 8th 2014, and it became essential to sign a new agreement, which allowed Oi to anticipate the principal benefits distributed to the shareholders at the time that Oi s capital increase was realized on May 5, 2014, without, however, failing to make every effort to migrate to the Novo Mercado. Thus, the parties agreed to a new company structure model and administration of Oi (New Structure), that in addition to the benefits and objectives disclosed before, are characterized by the following:

- All company and corporate administration transformation will be done at Oi with elimination of the necessity of creating CorpCo.

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- Approval of new Corporate Bylaws for Oi, as well as signing of an amendment to the provisional voting commitment from its shareholders, in effect until implementation of the New Structure (Vote Commitment) that will enable: (i) implementation of a voluntary conversion program for preferred shares to ordinary shares issued by Oi at a rate of 0.9211 ordinary share per each preferred share, subject to a minimum buy-in of 2/3 of the preferred shares in order to give all of the shareholders the possibility of exercising the voting right and to maximize the possibility of existence of a single class of shares; (ii) implementation of the principle of one share, one vote. However, to preserve the equilibrium between shareholders and the distribution of desired control at the time of the Capital Increase of Oi, inclusion of a 15% limit on the voting right in Oi s Corporate Bylaws, applicable to all of its shareholders was agreed upon; this limitation will cease to exist through verification of certain events, namely in the case of capital increase, operation of company reorganization or public offering of shares, in any case that results in the dilution of the current shareholder base (or acquisition of a stake, where applicable) greater than 50%; (iii) leveraging increase in liquidity, eliminating subjection to lock-up agreements of any shareholder; (iv) the election of a new Board of Directors at Oi with significant participation of independents, where the previously existing parity in CorpCo between the PT SGPS representatives and those of the Brazilian shareholders will be maintained; (v) extinction of TmarPart by incorporation into Oi, which will determine the end of the TmarPart and other controlling companies shareholders agreements, thus ensuring-the distribution of Oi s shareholder control; (iv) possibility of using financial synergies through incorporation of Oi s controlling companies, directly and indirectly; and (vii) the New Structure must be implemented as soon as possible and before October 2015. Thus, Oi will anticipate a new administration model that will cover the principal characteristics of the Novo Mercado.

- All of these significant changes will be subject to the approval at Oi s general shareholders meeting and will be implemented as soon as possible after approval of ANATEL.

A change (Amendment) was signed to the Share Purchase Option Contract and Other Agreements entered into on September 8, 2014 such as the above, that will enable PT SGPS to liquidate its Oi share purchase option through sale on the market, giving Oi the right of first refusal in the acquisition of the Option if PT SGPS decides to sell it to third parties without previous consent by Oi. The Amendment is subject to approval of Oi s general shareholders meeting and, if applicable, to the CVM s approval. Oi is committed to call a general meeting to decide on the Amendment and Oi s benchmark shareholders are committed to vote favorably for approval of the Amendment until August 31st 2015, to be completed until September 30th 2015.

After signing the new agreement with Oi and the execution of the Exchange on March 30, 2015, PT SGPS has as main asset investment 27.5% (direct and indirect interest) in Oi. PT SGPS still holds the Rioforte Instruments, and the Call Option on 47,434,872 common shares and 94,869,744 preferred shares of Oi.

2. Bases of Presentation

The consolidated financial statements for the financial year ending on December 31, 2014 were approved by the Board of Directors and authorized for issue on April 30th, 2015.

The consolidated financial statements are presented in Euros since this is the operating currency of PT SGPS. The financial statements for the investing companies given in foreign currency were converted to Euros according to the accounting policies described in Note 3.

The PT SGPS consolidated financial statements were prepared according to the International Financial Reporting Standards (IFRS) as adopted by the European Union, including all interpretations of the International Financial Reporting Interpretation Committee (IFRIC) that were in effect on December 31, 2014, approved by the European Union (EU). Differences between the IFRS adopted by the European Union and applied by PT SGPS on December 31, 2014 and the IFRS published by the International Accounting Standards Board in effect on that same date were not identified.

The consolidated financial statements were prepared on the assumption of continuity of operations.

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As referred to in Note 1, after May 5, 2014, PT SGPS stopped fully consolidating the majority of the business that it had held at that date, which were contributed to Oi s capital increase. Income, costs and cash flow from this business up to that date were presented as discontinued operations, which is why the Consolidated Income and Cash Flow Statements for the financial year ending December 31, 2013 were restated (Note 4).

In the preparation of the consolidated financial statements in compliance with the IFRS, the Board of Directors adopted certain assumptions and estimates that affect the reported assets and liabilities as well as profits and costs relating to the reported periods (Note 3).

a) Principles of consolidation

Subsidiaries (Appendix A)

PT SGPS fully consolidated the financial statements of all controlled companies. A company is considered to be controlled when the Group is exposed, or has rights, to variable returns resulting from its involvement with the investee and has the ability to affect those returns through the same power it exercises over that company. In situations where the Group has, in substance, control of other entities established for a specific purpose, even if it does not possess a majority of the voting rights, they are consolidated using the full consolidation method.

The participation of third parties in the equity and net income of the consolidated companies is presented separately in the Consolidated Statement of Financial Position and the Consolidated Income Statement, respectively, in the Non-controlling Interests caption (Note 14).

The assets, liabilities and contingent liabilities of a subsidiary are measured at their respective fair value at the acquisition date. Any excess of the cost of acquisition over the fair value of identifiable net assets is recorded as goodwill. In cases when the cost of acquisition is less than the fair value of identifiable net assets, the difference is recorded as a gain in the consolidated statement of results for the year. The interests of non-controlling shareholders are presented by the respective proportion of the fair value of identifiable assets and liabilities.

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

Transactions and balances between subsidiaries are eliminated on consolidation. Capital gains arising from transactions between Group companies are also eliminated in the consolidation process.

Where necessary, adjustments are made to the financial statements of subsidiaries with a view to standardizing their accounting policies with the Group.

Joint ventures (Annex A)

The classification of investments as joint ventures is determined based on the existence of agreements that clearly demonstrate the existence of joint control. According to IFRS 11, investments in joint ventures are recognized using the equity method.

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

Where necessary, adjustments are made to the financial statements of joint ventures with a view to standardizing their accounting policies with the Group.

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3. Principal Accounting Policies, Judgments and Estimates

Principal Accounting Policies

Some accounting policies described below ceased to be directly applicable to the Company as of May 5, 2014, the date on which PT SGPS contributed the majority of the business that it controlled to Oi s capital increase (Note 1). However, these policies were applicable until that date, namely, in the preparation of the 2013 financial statements.

a) Classification of the Consolidated Statement of Financial Position

Assets realizable up to one year from the date of the Consolidated Statement of Financial Position are classified as current. Liabilities are also classified as current when they are due in less than one year or when there is no unconditional right to defer their liquidation for a period of at least 12 months after the date of the Consolidated Statement of Financial Position.

b) Inventory

Inventory is appraised at the average purchase cost. Inventory is adjusted for technological obsolescence or low turnover.

c) Tangible Assets

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

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

On December 31, 2014, the Company only applied the purchase cost method since the Company did not have any asset from the classes mentioned above.

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

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

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

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

d) Intangible Assets

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

Until 05/05/2014, intangible assets basically included the acquisition of the Basic Network held by PT Comunicações, licenses held by Meo, S.A. and software user licenses, and amortized by the straight line method at the beginning of the month in which they are available for use during their estimated useful life or, if lower, the contract period (including additional renewal periods, where applicable), as follow:

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

The license renewal period basically depended on the companies meeting certain objectives and predefined obligations in the agreements through which these licenses were initially attributed.

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e) Investment Properties

Investment properties included in the heading Other Investments (Note 30) essentially include property and real estate held to obtain income and/or capital gain or both and not for use in the course of current business activity (operating, services provided or sales).

Investment properties are registered at purchase price plus purchasing expenses and record of ownership, net of accumulated amortization (straight line method) and accumulated impairment losses, when applicable. Incurred costs (maintenance, repairs, insurance and property taxes) along with income and rents obtained with investment properties are registered in the Consolidated Income Statement for the financial year.

Investment properties are amortized during the expected life by the straight line method (Note 3.c).

f) Impairment of Tangible and Intangible Assets

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

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

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

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

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

g) Non-current assets held for sale

Non-current assets and groups for sale are classified as held for sale when their carrying amount is recovered primarily through a sale and not through continued use. It is considered that this condition is met only when the sale is highly probable and the non-current asset or groups for sale are available for immediate sale in their present condition. The corresponding sale must be completed within one year from the date of classification of assets as held for sale.

Non-current assets and groups for sale are classified as held for sale and are accounted for at the lower of their carrying amount and fair value less selling expenses.

h) Provisions, Liabilities and Contingent Liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the

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obligation. Where any of the above mentioned criteria does not exist, or is not accomplished, the Group discloses the event as a contingent liability, unless the cash outflow is remote.

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

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

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

i) Responsibilities with Pension Supplements

Under several defined benefit plans, PT Comunicações and PT Sistemas de Informação, S.A. (PT SI) are responsible to pay pension supplements to a group of employees. In order to finance these obligations, various funds were incorporated by PT Comunicações (Note 31).

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

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

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

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

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

j) Responsibilities with Healthcare

Under a defined benefit plan, PT Comunicações and PT SI are responsible to pay, after the retirement date, health care expenses to a group of employees and its relatives. This health care plan is managed by Portugal Telecom Associação de Cuidados de Saúde (PT-ACS). In 2004, the Group established PT Prestações Mandatária de Aquisições e Gestão de Bens, S.A. (PT Prestações) to manage an autonomous fund to finance these obligations (Note 31).

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

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

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

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

k) Pre-retirement and Suspensions of the Work Contract

In connection with the programs related to employees that are under a suspended contract agreement or that have been pre-retired, the Group recognizes a liability in the Consolidated Statement of Financial Position equivalent to the present value of salaries payable up to the retirement age. The correspondent cost is recorded in the Consolidated Income Statement under the caption Curtailment costs (Note 31).

l) Subsidies

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

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

m) Financial Assets and Liabilities

Financial assets and liabilities are recognized in the Consolidated Statement of Financial Position when the Group becomes a party of the respective contractual relationship.

(i) Accounts Receivable (Notes 18 and 19)

Accounts receivable, loans granted and other accounts receivable that have fixed or defined payments and that are not quoted in an active market are classified as accounts receivable or loans granted.

Accounts receivable do not have implicit interest, are presented at the respective nominal value deducted from estimated losses in yield, calculated essentially based (a) on the age of the balance receivable and (b) on the credit profile of the specific debtor.

(ii) Financial liabilities and Equity Instruments

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

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

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

(iii) Bank Loans (Note 32)

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

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(iv) Accounts Payable (Note 33)

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

(v) Treasury Shares (Note 38)

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

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

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

(vi) Cash and Cash Equivalents and Short-Term Investments (Note 40)

The amounts included under Cash and Cash Equivalents correspond to the cash values, bank deposits, terms deposits and others, maturing in three months or less and that may be immediately callable with insignificant risk of change in value. The heading Cash and Cash Equivalents also includes deposits from clients and other entities that were not yet compensated. For the purposes of the Consolidated Cash Flow Statement, the heading Cash and Cash Equivalents also includes bank overdrafts included on the Consolidated Statement of Financial Standing under the heading Short-Term Debt, where applicable.

Short-term investments include investments made with the objective of generating income, which is why they were not classified as cash equivalents.

n) Own work capitalized

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

- the tangible assets are identifiable;

- the tangible assets will generate future economic benefits which can be reliably estimated; and

- development expenses can be reliably measured.

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

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

o) Leases (company as lessee)

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

Assets acquired under finance leases and the corresponding liability to the lessor are accounted for using the finance method, in accordance with the lease payment plan (Note 30). Interest included in the rents and the depreciation of the assets are recognised in net income in the period they occur.

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

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p) Income tax

Income tax for the period is recognized in accordance with IAS 12 Income Taxes (IAS 12) and is comprised of current tax and deferred tax.

In 2013, PT SGPS was taxed under the consolidated tax regime (currently known as the special regime for the taxation of groups of companies), which encompassed all the companies in which PT SGPS held, directly or indirectly, at least 75% of the respective equity capital and which were also domiciled in Portugal and subject to Corporate Income Tax (IRC). The remaining Group companies not covered by the tax consolidation regime of the PT SGPS Group were taxed individually based on their respective taxable incomes and at the applicable tax rates. In 2014, following PT SGPS s in-kind contribution to the Oi capital increase (Note 1), the tax consolidation regime was transferred to PT Portugal and the Company was taxed on an individual basis.

Within income tax for the period, in addition to current tax, the effect of the deferred tax is also recognized, calculated based on the difference between the carrying amount of the assets and liabilities at a given time and the corresponding amount for tax purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are only recognized when there is reasonable assurance that they may be used to reduce future taxable profit, or when there is an offset with deferred tax liabilities that are expectd to reverse in the same period. Deferred tax assets are reviewed at the date of the Consolidated Statement of Financial Position and are reduced when it is no longer probable that they will be used in the future.

Tax amounts, either in respect of current or deferred tax, resulting from transactions or events recognized directly in shareholders equity are recorded directly in those captions. The impact of changes in the tax rate is recognized in net income, except when it relates to items recognized directly in shareholders equity, in which case the impact is also recognized directly in shareholders equity.

q) Foreign currency transactions and balances

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

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

- Assets and liabilities at exchange rates prevailing at the date of the Consolidated Statement of Financial Position;

- Profit and loss items at average exchange rates for the reported period;

- Cash flow items at average exchange rates for the reported period, where these rates approximate the effective exchange rates (and in the remaining cases, at the rate effective on the day the transaction occurred); and

- Share capital, reserves and retained earnings at historical exchange rates.

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

PT SGPS adopted the exception under IFRS 1 relating to cumulative translation adjustments as of 1 January 2004 and transferred this amount from Foreign currency translation adjustments to Accumulated earnings . As from 1 January 2004, the Group has been

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recognizing all translation adjustments directly in shareholders equity and therefore these amounts are transferred to net income only if and when the related investments are disposed off or there is a repayment of the investment made.

r) Borrowing costs

Borrowing costs are recognized as an expense when they are incurred. The Group does not capitalize borrowing costs, even those related to loans to finance the acquisition, construction or production of an asset, when the construction period of the tangible and intangible assets is relatively short.

s) Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows is prepared under IAS 7, using the direct method. PT SGPS classifies as Cash and cash equivalents all highly liquid investments, with original maturity of up to three months and an insignificant risk of change in fair value. The Cash and cash equivalents item presented in the Consolidated Statement of Cash Flows also includes overdrafts, classified in the Consolidated Statement of Financial Position under Short-term debt .

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

Subsequent events (Note 44)

Events occurring after the date of the Consolidated Statement of Financial Position that could influence the value of the assets and liabilities existing on the date of said statement are considered when preparing the financial statements for the period. These events, if significant, are disclosed in the notes to the consolidated financial statements.

Judgments and estimates

When preparing the consolidated financial statements in accordance with IFRS, PT SGPS s Board of Directors uses estimates and assumptions that affect the application of accounting policies and reported amounts. Estimates and judgments are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be probable under the circumstances on which the estimates are based, or as a result of new information or more experience. The main accounting estimates reflected in the consolidated financial statements are as follows:

(a) Post-retirement benefits The present value of post-retirement obligations is calculated based on actuarial methods, which use certain actuarial assumptions. Any changes in those assumptions will impact the carrying amount of the obligations.

(b) Goodwill impairment analysis PT SGPS tests *goodwill* annually to determine whether it is has suffered any impairment. The recoverable amounts of cash-generating units were determined based on the value-in-use method. The use of this method requires the estimate of future cash-flows expected arising from the operations of each cash generating unit, the choice of a growth rate to extrapolate the expected cash-flow projections and the estimate of a suitable discount rate for each cash generating unit.

(c) Valuation of the investment in Oi On May 5, 2014, the Company valued its new stake in Oi based on Oi s reference share price in the capital increase on that date, having as of that date, appropriated its stake in Oi s income using the equity method.

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